

Abstract

FINANCIAL AND POLITICAL ASPECTS OF STATE INTERVENTION IN THE BRITISH FILM INDUSTRY, 1925-1939

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St. Peter's College

Thesis submitted for degree of Doctor of Philosophy

Trinity Term, 1985

During this period the state's interest in the film industry took several different forms. The area of films policy explored in this thesis is the economic protection of the commercial film industry against the high percentage of American films screened in Britain and the Empire. I begin in 1925 because it was not until then that active steps were taken by the government, in response to agitation from producers and those who saw film as a bond of Empire and advertisement for British goods and 'way of life', leading to the Cinematograph Films Act, 1927. This proposed, for political, cultural, moral and economic reasons, that renters and exhibitors should acquire and show a percentage of British films. There was no subsidy for producers or a heavy duty levied on American film imports.

The origins, impact and character of official film policy are explored in the thesis with particular attention to financial and political aspects. An attempt is made to explain why policy was limited to film quotas together with an assessment of their impact on the industry's economic development. Details are also given on how the film industry's affairs became caught up in wider debates on tariff policy in the 1920s and in Anglo-American relations ten years later.

The first three chapters deal with the evolution, promulgation and initial impact of the Cinematograph Films Act, 1927. Chapter 4 examines the deliberations of the Moyne Committee, established in 1936 to review the film industry's progress. The last three chapters analyse the three major influences on policy during the making of the 1938 Films Act: the campaigns of British film trade interests; the state of Anglo-American relations and film finance. In the final assessment the major influences that shaped policy are outlined together with conclusions on the industry's position and problems on the eve of the Second World War.

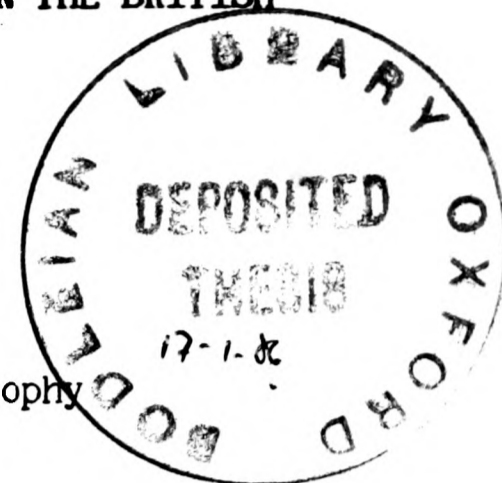
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During this period the state's interest in the film industry took several different forms, but the area of the film policy examined in this thesis is the economic protection of the commercial film industry against the high percentage of American films screened in Britain and the Empire.

In the 1920s American motion pictures monopolised the cinema screens of Britain and the Empire to such an extent that the British government, concerned about the economic, cultural, political and moral impact, sought to counter 'the Hollywood invasion' by attempting to foster the growth of an indigenous film industry. The 1927 Cinematograph Films Act forced film renters and exhibitors to acquire and show an increasing number or 'quota' of British films. The Act approached the problem of how to resuscitate the moribund film industry from the perspective of exhibition rather than production. Producers were not subsidised and American movies were not subject to heavy import duties. But the Films Act represented a limited but significant departure from the government's 'laissez faire' economic policy, and was partly responsible for the recovery and expansion of British film production until the end of 1936. Many new companies mushroomed in the wake of state protection but were soon forced into liquidation because they could not finance the production of expensive 'talkies'. The Films Act

did, however, boost native production, attract capital to the major companies and ease their transition to the coming of sound in the late 1920s. By 1933 two 'giants' had emerged - Gaumont-British and Associated British - both vertically integrated companies amalgamating producing, renting and exhibiting interests in a single concern along the lines of the Hollywood 'majors'.

When the 1927 Films Act, due to expire in 1938, was reviewed by a Departmental Committee chaired by Lord Moyne in 1936, it was clear that the industry was plagued with problems. Although the number of British films screened had increased, the legislation did little to enhance their quality and serious loopholes prevented many of the Act's clauses from being effective. American renters were accused of sponsoring or producing 'quota quickies', cheap films with little cinematic quality made solely for purposes of quota registration. Returns from the home market were poor because the majority of films shown were still American, exhibitors consequently made profits while British producers, often precariously financed by short-term capital, barely broke even, and many made losses. Potentially lucrative overseas markets proved almost impossible to penetrate.

The Moyne Committee's main recommendation was for the establishment of a Films Commission, independent from the film trade, with powers of initiative and control. One argument in favour of such a body was that it would force the film trade to abolish harmful commercial practices that stood in the way of making production an economic proposition. The divergent interests of the trade (exhibitors depended on American films whereas British producers desperately wanted to break Hollywood's stranglehold), had prevented reorganisation in the past and therefore the Committee concluded that an independent body was the best solution. But the trade's hostile reaction and the Board of

Trade's unwillingness to impose a Films Commission prevented it from being established.

The Moyne Committee also warned against the dangers of American control and stressed the need for a Films Bank to help the industry recover from a severe financial crash in 1937, a possibility that was investigated by the Bank of England. But the industry had to wait until 1949 for such an institution when a Labour government established the National Film Finance Corporation.

The 1938 Films Act extended protection for another ten years and modified many of the provisions of its predecessor. But some of the Moyne Committee's major recommendations were not enacted. Instead the new Films Act encouraged American companies to come to Britain to produce 'British' films, in an attempt to solve the industry's chaotic financial problems, ease quota burdens for American renters and avoid establishing a Films Bank. As the 1927 Films Act played a part in the free trade versus protection controversy, its successor was caught up in wider Anglo-American political relations because the debates on the Act coincided with negotiations for an Anglo-American trade agreement. Since Britain was the American film industry's most lucrative overseas market, US film interests were determined to oppose any measures that might threaten their profitability. Both sides, however, were anxious that a dispute over film should not prejudice more important issues. The fact that the US market was heavily protected by tariffs did not prevent American interests, especially agricultural, from resenting the introduction of British imperial preferences in 1932. A trade agreements programme was duly launched by the US Secretary of State, Cordell Hull, as part of his campaign to reduce international tension via 'economic appeasement', and an agreement with Britain was seen as the keystone of this policy. On the British side, the situation was delicate because some politicians (e.g. Anthony Eden) wanted American support against the

dictators while others (e.g. Neville Chamberlain) were reluctant to abandon trade defences for uncertain political support. The American film interests encouraged Hull to use the film dispute as a lever in the trade negotiations. by exploiting the international context in this way, the Americans were able to win some concessions in the 1938 Films Act, and a relaxation of imperial preferences in the Anglo-American Trade Agreement of 1938.

Within the above chronological framework several key issues are highlighted. The Board of Trade's attitude towards the film industry was primarily commercial, despite rhetoric emphasising the cultural importance of film. Second, the film trade played a dominant role in the formulation of policy. Thus the Board of Trade was not in a position to impose reforms necessary to help production pay its way. Third, film emerges as an important bargaining-counter in wider debates on Anglo-American relations in the late 1930s. Finally, policy influenced the industry's structural development and the Quota Act did little to prevent a polarisation between the combines and independent exhibitors and producers in the 1930s.

Six major influences shaped policy: debates on tariff policy in the 1920s, the government's understandable reluctance to follow Russia, Germany and Italy's examples of state control; the film trade's opposition to excessive state interference and the conflict between exhibitors' vested interest in showing a high percentage of American films and film-makers' desire to boost native production; the Board of Trade's reluctance to become embroiled in the industry's internal affairs or film financing; the need to maintain good relations with America on the eve of the Second World War and finally the Americans' willingness to participate in financing production in Britain.

The state's interest in regulating the British film industry's economic affairs has received far less attention from film historians

than censorship or official sponsorship of documentaries. In America more headway has been made in the direction of studying film as an industry as well as an art form or propaganda machine. Film companies in the States have started to open up their business and studio records to researchers who want to discover how films have been influenced and constrained by economics, technology, finance, distribution and exhibition practices.

Rachael Low's work on the politics of the British film trade and the industry's structure ends in 1929 and primary research material has remained untouched. But this study of the British government's attempt to resuscitate the film industry is based on previously unexplored documentation at the Public Record Office, the Bank of England, the Prudential Assurance Company, the National Archives in Washington D.C. and the Film and Theatre Research Centre at the University of Wisconsin, Madison. It examines the origins, character, development, influence and limitations of the Board of Trade's film policy.

Thesis Outline:

1. Before the Quota: This chapter deals with the expansion of the American film industry, showing why it was able to dominate the world's film markets while British production was moribund.
2. Lobbying for Reform, 1925-26: An examination of the origins of the first Films Act against the background of wider debates on tariff policy. The chapter explains the failure of the film trade to agree on a scheme of reform and its abortive attempt to reach a reciprocal agreement with the Americans. Many subsequent criticisms of the Act were voiced before it reached the statute book, and several interesting protectionist schemes were

submitted before the government decided to enact quotas instead of financial incentives for producers. The question of film, Empire and the 'Hollywood invasion' is also examined.

3. The Films Act, 1927 and its aftermath: This deals with the Films Bill's Parliamentary career before focussing on the Act's impact and role in attracting finance to the industry in the boom of 1927-29. It is argued that the legislation played a significant part in accelerating the growth of vertically integrated combines in the industry - a process already underway in the 1920s with the expansion of cinema circuits - and that the Films Act was important in the industry's transition to the coming of sound in the late 1920s.
4. Reviewing of the Films Act: Chapter 4 deals with the Moyne Committee. It relates the Committee's recommendations for new film legislation and explains how and why its proposals were made. This provides an opportunity to examine the industry's most urgent problems in the mid-1930s.
5. In Search of a Policy: An examination of the demands put forward by the British trade interests - producers, exhibitors and the trade unions. During the months leading up to the passing of the 1938 Films Act the film trade, divided over fundamental issues as in 1925-27, could not agree on a scheme of reform. Independent exhibitors were concerned about the increasing power of the circuits, high rentals and the maintenance of film supplies; producers wanted their films to yield bigger returns so that subsequent productions could be financed, and British renters did not want to be crushed out of existence by American distributors in Britain. The trade unions resisted any threat to

employment and pressed the Government for the inclusion of a 'fair wages' clause in the new Films Act. Often the trade's various objectives were in conflict, but during the complicated stages of lobbying alliances between the groups were forged, even if only on a temporary basis. In this context, the Board of Trade had to formulate policy and at the same time pay attention to the demands of the American renters who, as Chapter 6 shows, had powerful commercial and diplomatic support and a precarious international situation in their favour.

6. American diplomacy and the Films Act: The American film industry's campaign to prevent restrictions on American film exports. The focus is on how the issue of Anglo-American relations became intertwined with Anglo-American political-economic relations because the debates on the Films Act coincided with negotiations for an Anglo-American trade agreement.
7. Film Finance in the 1930s: This outlines the problems of obtaining stable finance and examines the origins, nature and limitations of support for British film production in the 1930s. Other topics relevant to the question of constraints on production finance are considered: box-office returns, the debate on markets, the City's attitude and the costs of film-making. The Bank of England's enquiry into the film industry's financial affairs in 1937 is outlined together with the Westminster Bank Case of 1939 as a study of the role of the insurance companies in film finance.

Conclusion: The film industry on the eve of war. Assessment of the origins, aims, impact and limitations of state intervention in the film industry during this period.

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ABBREVIATIONS

[Abbreviations of documents are given in the Bibliography, p. 300]

ACT	Association of Cine-Technicians
ABPC	Associated British Picture Corporation
BBFC	British Board of Film Censors
BFI	British Film Institute
CEA	Cinematograph Exhibitors' Association
CFC	Cinematograph Films Council
ETU	Electrical Trades Union
FBI	Federation of British Industries
GBPC	Gaumont-British Picture Corporation
GCFC	General Cinema Finance Corporation
GFD	General Film Distributors
KRS	Kinematograph Renters' Society
LFP	London Film Productions
MBT	Metropolis and Bradford trust
NATKE	National Association of Theatrical and Kinematograph Employees
T-K	Tobis-Klangfilm

INTRODUCTION

Many European countries attempted to come to terms with Hollywood in the inter-war years by protecting their native film industries. Fears of 'Americanisation' and official recognition of the propaganda value of feature films produced screen quotas, dubbing taxes and import restrictions. In addition the totalitarian régimes used the cinema as a propaganda weapon. The Soviet government monopolised film distribution in 1919, the Italians followed suit in 1938 and by 1942 the German film industry was fully nationalised. Although Britain, as a liberal democracy, had no such designs and never attempted to ban American films, they could not ignore the results of 'the Hollywood invasion'.

The state's intervention in the film industry was not as extensive as many critics would have liked and British producers had to wait until the late 1940s for state financial assistance. A recurring demand was for some form of public control along the lines of the British Broadcasting Corporation. But film and broadcasting policy followed distinctly different paths. Marconi, the company that made experimental broadcasts in the early 1920s, did not object when the Post Office exercised its control over wireless by proposing the British Broadcasting Company monopoly in 1922 instead of an unregulated system as in America. Under John Reith's guidance and insistence on broadcasting as a 'public service' responsible for educating as well as entertaining its listeners, the company became a public corporation after its licence expired at the end of 1926. The film industry, by contrast, remained commercial and independent. The trade would not have tolerated interference and in any case the Board of Trade opposed schemes to introduce a measure of public control in the 1930s.

Until 1927 the British government's involvement with the industry was limited to safety, taxation and some influence over censorship.

America's conquest of the cinema screens was seen by many politicians and organisations as the cultural reflection of its increasingly dominant role in the world economy and a constant reminder of Britain's relative decline. The impact of Hollywood's movies aroused anxiety because 40% of the population visited a picture-palace at least once a week and the majority of cinema-goers were 'the most impressionable sections of the community', young and working class.

The following chapters describe why, how and with what consequences the British government intervened in the film industry's economic affairs, with special attention to how debates on film policy played a part in the free trade versus protection controversy in the mid-to late 1920s and in wider Anglo-American relations ten years later. I have chosen to examine financial and political aspects of film policy rather than its impact on film content and style.

Although film, as Tino Balio has pointed out, has been influenced more than any other art form by 'the predilections of the business world', the British film industry's economic history has been under-researched and existing work on the subject makes no use of primary sources. Film companies have either lost their business records or are unwilling to open them up to researchers, but I have consulted documents at the Public Record Office, the Bank of England, the Prudential Assurance Company, the Film and Theatre Research Centre in Wisconsin and at the National Archives in Washington D.C. to help fill the gap.

The story begins with an explanation of why and how the American film industry was able to dominate the world's film markets whereas British production was moribund. Chapter 2 examines the origins of the 1927 Films Act against the background of wider debates on tariff policy. The following chapter deals with the Films Bill's parliamentary career before focussing on the Act's impact and role in attracting finance to the industry. It is argued that the legislation played a significant

part in accelerating the growth of vertically-integrated companies and eased the industry's transition to the 'talkies'. Chapter 4 explains how and why the Moyne Committee's recommendations for new film legislation were made in 1936 and what they revealed about the industry's most urgent problems. The last three chapters analyse the three major determinants of policy in 1937-38: demands put forward by British trade interests, the American film industry's campaign to prevent restrictions on their film exports against the background of wider Anglo-American relations and finally the origins, nature and limitations of obtaining stable financial support for British film production in the 1930s.

The main conclusions are that although official policy helped the industry adjust to the coming of sound and win back screentime from the Americans, it was powerless to cure its chronic financial problems. Six major influences shaped policy: debates on tariff policy in the 1920s; the government's understandable reluctance to follow Russia, Germany and Italy's examples of state control; the film trade's opposition to excessive state interference and the conflict between exhibitors' vested interest in showing a high percentage of American films and film-makers' desire to boost native production; the Board of Trade's reluctance to become embroiled in the industry's internal affairs or film financing; the need to maintain good relations with America on the eve of the Second World War and finally the Americans' willingness to participate in financing productions in Britain.

These factors limited the government's role. The Moyne Committee's proposal for an independent Films Commission with powers of 'initiative and control' to act as a watchdog over the industry might well have encouraged the trade to regulate harmful trade practices and prevented the combines from squeezing-out independent producers and exhibitors. A carefully managed Films Bank might have given producers the financial security they lacked. But with or without state assistance the

industry's major problem has never been solved - the limited size of the British market. When producers commanded at the most 25% of this restricted home market and earned negligible sums abroad, it is hardly surprising that we could never support a major film industry. The following chapters show how whereas in America film business was big business, unfortunately, more often than not, in Britain it was bad business.

Chapter 1

BEFORE THE QUOTA

1. The British film industry and American competition

From the very beginning of the twentieth century British film producers have had to struggle for survival against European and American competition. In 1910 only 15% of the films shown in Britain were British, whereas 36% came from France, most of them from Pathé-Frères, 28% were American, 17% Italian and 4% were imported from countries including Denmark and Germany.¹ By the outbreak of the First World War there had been some recovery as films became longer, cinema-building accelerated and distribution was being revolutionised. In 1910 few British films lasted longer than ten minutes, but a year later Will Barker produced Henry VIII that ran for over half an hour.² The development of the feature film was influenced by the gradual replacement of 'open market' distribution whereby pictures were sold outright to exhibitors at a fixed price per foot, by the 'exclusive' system. The latter created a competitive price-scale: an exhibitor who had hired a popular film could prevent rivals from showing the same picture until it had completed its 'first run'. Production companies like Hepworth, British and Colonial Kinematograph, Gaumont and the London Film Company started to produce more ambitious films. But unfortunately the pre-war revival was short-lived and did little to prevent conquest by Hollywood.

In 1914 native films accounted for 25% of screenings in British cinemas. After the First World War the situation deteriorated. In 1923

1. Political and Economic Planning, The British Film Industry (PEP, 1952), p. 28.
2. Ibid., p. 27.

British films occupied only 10% of the home market, and by 1926 the figure had slumped to 5%.¹ By contrast, throughout the period between the end of the war and the Cinematograph Films Act 1927, the vast majority of pictures exhibited were made in Hollywood. 56 British features were 'trade shown' to exhibitors before hiring in 1924, 45 in 1925 and a year later only 37.² The 'British film weeks' arranged by the British National Film League in 1924 were a dismal failure. Production reached its lowest ebb in November 1924 and many feared that there was no hope of recovery without some form of government intervention. Producers lobbied for state support when their efforts to thwart Hollywood's export drive failed miserably. What were the origins of America's domination of the British film market? Why was the British film industry unable to counter the challenge posed by 'the Hollywood invasion'?

The reasons were mainly economic. British film-makers could barely recoup production costs, let alone make profits, since their share of the home market was small and returns from foreign sales were negligible. The combination of excellent production facilities and a vast home market gave American producers a head-start. By 1925 there were 20,000 cinemas in the United States with an average weekly attendance of 80 million. Britain's 4,000 cinemas were visited by 20 million picture-goers a week. California's climate and varied natural scenery were definite advantages while British producers had to contend with interruptions because of bad weather and generally poor conditions. Assured returns from the home market gave American producers confidence and crucial financial backing to operate on a large and lavish scale, develop export strategies, establish the studio system that distinguished American cinema from the rest of the world, and to make

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1. Report of the Committee on Cinematograph Films (HMSO, 1936) Cmd. 5320, p. 5.
 2. Rachael Low, The History of the British Film, 1918-29 (Allen & Unwin, 1971), p. 156.

pictures on a more or less continuous basis.¹ Hollywood's producers earned about £100,000-120,000 per feature in the United States, but their British counterparts could expect to earn only £7,000-10,000 from the United Kingdom.² Table 1 shows the decline of British production in the 1920s.³ At the same time Hollywood's average annual output was 700 features.

Table 1

British Feature Films Trade Shown

1919	103	1924	56
1920	145	1925	45
1921	136	1926	37
1922	95	1927	45
1923	75	1928	72

These considerable advantages, together with the American industry's consolidated structure and commercial practices, reduced the high risk normally associated with film finance. The Bioscope remarked as early as 1908 that in the United States

the numerous capitalists and syndicates have been quietly watching the business for a good long time, and now, having gleaned satisfactory proof of the profits, they are putting heart and soul into it as only the American speculator knows how.⁴

Reputable financiers like Kuhn Loeb, Dillon Read, J.P. Morgan, A.H. Giannini and Goldman, Sachs and Co. supported American film companies whereas British bankers refused to contemplate investment in the movies. Quick to recognise the profits to be made, the American business community was far more responsive to the commercial development of the motion picture.

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1. Tino Balio (ed.), The American Film Industry (University of Wisconsin, 1976), p. 116.
 2. Cinematograph Exhibitors' Diary, 1928.
 3. R. Low, op. cit., p. 156.
 4. The Bioscope, 20 Nov., 1908.

In Britain it was not until the 1920s that businessmen like Lord Beaverbrook and Sir Edward Hulton showed an interest in backing the film industry. Even then, support was never sustained enough to give producers confidence to make films that would challenge Hollywood's output in scale and technique. Exhibitors were reluctant to use the profits they had made from showing American movies to finance native production. Lord Beaverbrook, a large shareholder in the Provincial Cinematograph Theatres circuit, recognised that exhibition was more lucrative than production.

There was an aggressiveness about Hollywood that the British lacked. Rachael Low has linked the reluctance of financiers to sponsor producers with the general conservatism of the British entrepreneur at the time:¹

The bustling enterprise which had once led the world was also the first to become set in its ways. There was a strong class structure, to which those who succeeded in industry and trade tended to become traditionalists themselves, and adopt the ways of the upper classes. Because of the extra economic difficulties, far more capital and salesmanship would have been needed in this country. Film adventurers in America might make their fast buck, put it back into films and proudly graduate to being film tycoons. But in England big business did not consider the film industry as a suitable field of activity until the twenties.²

Lack of capital was the major reason British production lurched from one crisis to the next while the American film industry expanded and conquered the world's markets.

The First World War is usually identified as the decisive period when the American film industry's supremacy was established.³ The French industry, Hollywood's strongest European competitor, was devastated by its

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1. Sidney Pollard, The Development of the British Economy, 1914-80, 3rd edition (Edward Arnold, 1983), p. 7.
 2. R. Low, op. cit., p. 302.
 3. Commission on Educational and Cultural Films, The Film in National Life (Allen & Unwin, 1932), p. 46, para 72: 'Before the war Continental and British production led the field'.

impact.¹ Germany was more resilient because it was largely cut off from America by the British blockade. In their anxiety to win state support many observers in the mid-1920s played-down the deficiencies of British production before 1914, but it is clear that it suffered from poor scripts, rising costs, a chronic shortage of capital, a parochial outlook and general lack of commercial flair. As Rachael Low has commented:

British inferiority, both commercial and artistic, was openly recognised some years before the war, and the myth that the British led the world until 1914 and lost their lead through no fault of their own must be recognised as a convenient excuse.²

The First World War exacerbated trends already underway by 1914 and despite a slight revival in production from 1911 to 1913, the industry's long-term problems remained unsolved.

Before 1914 London was the world's clearing house for films, but the conflict dislocated the international film trade and Britain never regained its position as the centre of the world's film distribution network. One reason was the imposition of import duties by the British government on cinematograph films as part of the 1915 McKenna duties on 'luxury' items. Since the duties fell more heavily on positive than on negative films the latter were retained in New York and exported direct to each market instead of being shipped to London for the printing of positives. In 1917 The Bioscope was indignant when an American trade paper had boasted about London's demise:

For many years London has enjoyed the distinction of being the acknowledged film centre of the world, but to-day its position is assailed by America, we find the principal organ of the cinematograph industry in that country avowedly confessing that now is the time for Americans to corner the world's film markets.³

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1. Richard Abel, French Cinema: The First Wave, 1915-29 (Princeton University Press, 1984), pp. 7-14.
 2. Rachael Low, The History of the British Film, 1906-14 (Allen & Unwin, 1949), p. 133.
 3. The Bioscope, 12 July 1917.

That is exactly what happened. The vacuum created by the war gave American movies the chance to flood European markets, a task that was accomplished so successfully by the mid-1920s that it was difficult to challenge Hollywood's international hegemony.

One of the most significant developments in this period was America's usurpation of film markets previously supplied by European product. Before 1914 most of South America's film imports came from Europe, mainly France, and Hollywood's pictures accounted for only a small percentage.¹ American exports to South America increased dramatically from 1.5 million feet in 1913 to a staggering 48 million feet by 1924. Whereas exports to the Far East (including Australia and New Zealand) had been 4 million feet in 1913, by 1923 they had risen to 40 million feet. Europe imported 18 million feet from Hollywood in 1913, but by 1925 the figure reached 86 million feet. Britain was the most lucrative outlet. In 1927 it remitted £3 million abroad, mostly for American films shown in British cinemas. Britain imported 36 million feet of American film in 1925 but managed to export only 1 million feet to the States. Exports were a vital part of the business and Sidney Kent, the managing director of the Paramount Famous-Lasky Corporation, informed a symposium on film at the Harvard Business School in 1927 that 'out of every dollar received, about 75c still comes out of America and 25c out of all the foreign countries combined ... of course, the profit in these pictures is that last 25%'.² Tables 2-4 show Hollywood's international supremacy and the importance of the British film market.

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1. Gaizka, S. de Usabel, The High Noon of American Films in Latin America (UMI Research Press, 1982).
 2. S.R. Kent, 'Distributing the Product' in J.P. Kennedy (ed.), The Story of the Films (A.E. Shaw & Co., Chicago, 1927), p. 226.

Table 2

The American Film Industry's Major Foreign Markets, 1925

Source: V. Strauss, 'Foreign Distribution of American Motion Pictures' Harvard Business Review, April 1930, p. 309. For information on France see Film Daily Year Book, 1927, p. 937 and Richard Abel, op. cit., p. 50. On Germany, see Film Daily Year Book, 1927, p. 940.

Table 3

Total Film Imports to Britain (negative and positive)
thousand linear feet

Source: Parliamentary Debates (Commons), Hansard, 5th Series, Vol. 204, 5 April 1927, Cols. 1947-48.

Table 4

**US Film Exports (Negative and Positive)
million feet**

Source: Film Daily Year Book, 1927, the figure for exports to the UK in 1923 is from H.C. Deb. ibid. This is probably more accurate than the figure 14 million cited in the Film Daily Year Book. Film industry statistics are often inconsistent and before the Board of Trade began to register films in 1927 there was no uniform set of figures relating to British production. Figures often vary, for example, concerning films 'trade shown' and films released and produced.

The defence of overseas markets was the responsibility of the Foreign Department of the Motion Picture Producers and Distributors of America (MPPDA), or as it was commonly known, the Hays Office. The latter was established in 1922 after a wave of Hollywood scandals prompted the formation of a trade organisation to censor films. The chairman was Will H. Hays who had been involved in the Republican Convention in 1920 and went on to become Postmaster General during the Harding Administration. The Foreign Department, headed by Major Frederick L. Herron, a former US Military Attaché, assisted companies in securing fair treatment in distributing American films abroad. The organisation had contacts in the U.S. State Department and in the Department of Commerce. Its work was instrumental in maintaining Hollywood's dominance abroad, as Will Hays later declared:

Among most of America's industrial enterprises the 'foreign' or export side is a comparatively minor factor in relation to gross income... but not so with motion pictures. Aside from the fact that from 35 to 40% of the industry's income is normally derived from foreign sources, the global

ramifications of the screen make foreign relations a vital and integral part of the business.¹

The Americans were quick to exploit film for export purposes. Almost the entire cost is incurred in the making of the first copy and marketing costs are, by comparison, very cheap. Pictures sold abroad could be 'dollar earners' and facilitate the financing of subsequent films. In 1923 Will Hays visited Britain and announced that the American film industry's aim was 'to Americanise the world'. Why were British producers in no position to counter the challenge? A New York Times article in 1925 entitled 'John Bull faces the American peril' stressed the problems facing British producers:

The British Isles are not large enough... to guarantee an expensive film's paying. With an entire continent at their disposal, American producers can afford to spend a million or more on a film, assured that their money will come back, with profit, in the home market. In England it is an exceptional film indeed that will bring more than a few hundred thousand dollars... To secure returns sufficient to justify a reasonable expense in production, British producers must compete in the foreign fields.²

But this proved to be more or less impossible. The American market was virtually a closed one because of the structure of its major companies.

As one study explained in 1926:

This market can now be reached only through one or more of a group of not more than ten national American distributors... each of which is busily engaged in marketing its own brand of pictures through the theatres owned, controlled or operated by one or more of this group.³

By the late 1920s the 'majors' - MGM, Paramount, Warner Brothers, the Fox Film Corporation and RKO-Radio ('the big five') and Universal, Columbia and United Artists ('the little three') - were all, with the exception of United Artists, vertically integrated companies amalgamating production, distribution and exhibition into a single business

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1. Will H. Hays, The Memoirs of Will H. Hays (Garden City, New York, 1955), pp. 505-506.
 2. The New York Times, 16 August, 1925.
 3. W.M. Seabury, The Public and the Motion Picture Industry (Macmillan, New York, 1926), p. 195.

unit. The advantages of this form of economic concentration were that it reduced the risk of film finance because the production end of a combine was assured an outlet for all its pictures. Once producers realised that they needed to establish their own distribution networks the formation of a vertically integrated company seemed the best way to operate.¹ After the collapse of the Motion Picture Patents Company in 1918, 'fewer and fewer companies had come to assume more and more power with their studios, national systems of distribution and large chains of theatres... By the twenties, the movies ranked as a major industry'.² How 'major' was often exaggerated by the Hays Office and the trade press often ranked it as high as the fourth largest industry in terms of capital invested. More impartial estimates place it much lower.³ Even so, movies made money. The American industry's structure tempted financial support and the total capital invested in 1926 was £308 million (\$1.5 billion).⁴ By comparison, £35 million was invested in the British film industry in 1925.⁵

British producers did try to penetrate the American market in the 1920s but their efforts came to nought. During the debates before the Films Act was passed there were important discussions about reciprocity, the attempt to secure release through one of the American 'majors' for British pictures.⁶ The Americans argued that British films did not do well because they were inferior rather than because of booking advantages enjoyed by American pictures. Indeed, the low quality of most British films made success in America an unrealistic hope.

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1. H.T. Lewis, 'Distributing Motion Pictures', in Harvard Business Review, April 1929, pp. 270-273.
 2. T. Balio, op. cit., p. 114.
 3. Richard Abel, op. cit., p. 532.
 4. T. Balio, op. cit., p. 116. £1 = \$4.86 in 1925.
 5. Simon Rowson's statistics in Kinematograph Weekly, 2 July 1925, p. 41.
 6. R. Low, The History of the British Film, 1918-29, pp. 77-80 and see part 4 of chapter 2.

To market their films in Britain many American companies established renting subsidiaries. Control over UK distribution proved to be the keystone of America's dominant position. By 1919 Vitagraph, Fox and Famous Players-Lasky had distribution offices in Britain. Tables 5 and 6 show how by 1926 the leading renters in Britain were American, but the number of British films they handled was negligible. In 1920 Famous Players-Lasky offered 89 films for hire, but only 3 were British. The native firms, Stoll and Butchers, offered between them 45 films, and of these 31 were British. In 1926 Famous Players-Lasky offered 64 films, but none were British. Stoll and Butchers acquired 49 but because production was so weak only 7 of these were British.

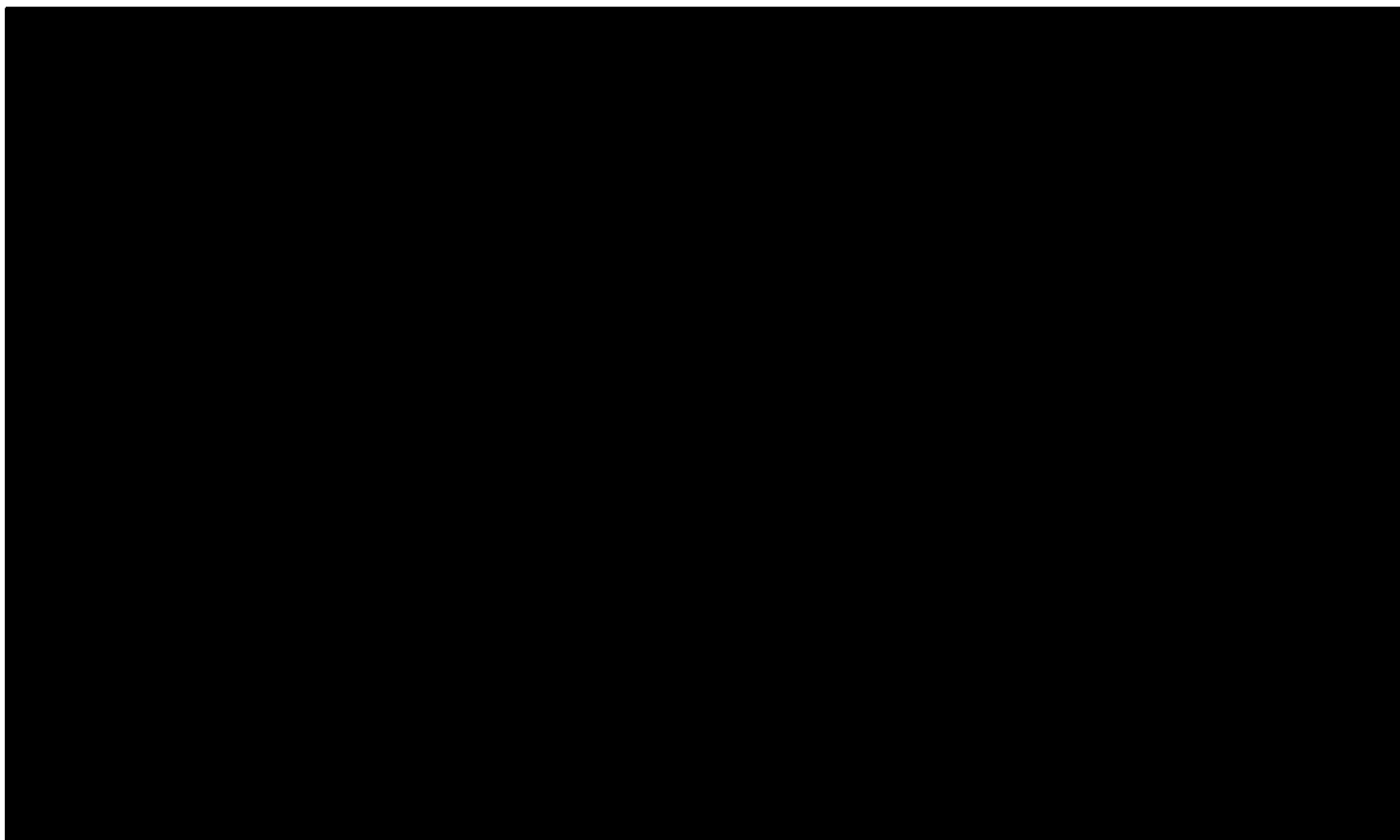
Table 5
Films Offered for Hire by Leading Distributors in Britain, 1920

* Names in brackets denote subsequent titles.

** The total number of films offered for hire in 1920 was 878, 144 were British. The 14 companies in the table distributed 66% of the total number of features, and 50% of the British films. The number of films offered for hire is no indication of the amount of screentime devoted to any film.

Source: Political and Economic Planning, op. cit., p. 40.

Table 6
Films Offered for Hire by Leading Distributors in Britain, 1926



Source: Political and Economic Planning, op. cit., p. 41.

Vertical integration, the foundation of American domination, did not develop in Britain until the late 1920s, under the impetus of circuit expansion, state protection and the coming of sound. A report by Political and Economic Planning explained why:

Any large-scale vertical integration in the British industry could only have come prior to 1927 by an alliance between British and American interests. There was no British producing company with a sufficiently large and stable output to constitute the production end of an integrated group.¹

American producers could rely on British exhibitors to show their films which were generally cheaper to rent. While producers suffered from Hollywood's competition exhibitors made profits. Ironically, the main sector that expanded in the British film industry did so because it thrived on a plentiful supply of American pictures. In 1917 there were 90 circuits in Britain with 429 cinemas, 157 with 787 cinemas in 1920 and by 1926 there were 139 with 856 halls. The largest circuit was

1. Political and Economic Planning, op. cit., p. 49.

Provincial Cinematograph Theatres, formed by the financier Sir William Bass in 1909, which had 33 halls in 1920 and 75 by 1925.¹ In the mid-1920s of the £35 million invested in the British film industry £30 million was invested in exhibition, £3-4 million in renting and under £500,000 in production. In America profits from exhibition were ploughed back into production, but in Britain this was not the case. After the deduction of Entertainments Tax exhibitors received £23 million from the UK box-office. Renters were left with £5 million but only £2 million was available for producers.² When exhibition interests linked with production units in the 1930s there was always conflict between the patriotic urge to boost British production and the temptation to profit from American pictures.

American producers consolidated their hold over the British market by operating booking practices that discriminated against native films. The report by Political and Economic Planning explained how 'blind and block booking' effectively barred native pictures from our screens:

Block booking meant that an exhibitor could only hire a film from an American company if he agreed to take a whole series. The blocks reserved screen-time for months ahead and the system was often known as advance booking. Blind booking made the exhibitor enter into a similar commitment, except that in this instance he had to agree to take films which he had never seen and some of which had not even been made at the time of the contract. Because of the shortage of other suitable products the exhibitor was in no position to resist the American demands, and once established these practices automatically kept themselves alive. British films had small chance of finding their way on to British screens, which were booked up for months ahead with American products.³

But in France the popularity of native serials (long films divided into several episodes and released in consecutive weeks over a period of months) prevented complete domination of the distribution sector. According to Henri Fescourt, director of serials for the French company Cinéromans,

1. R. Low, op. cit., pp. 41-42.

2. Kinematograph Weekly, 2 July 1925, p. 41.

3. Political and Economic Planning, op. cit., p. 33.

the serial episodes offered exhibitors the guarantees of a long series of huge returns from a faithful mass public hooked on the formula. Thus assured of a program base for three-quarters of the year, the cinema owners could resist the foreign film salesmen...¹

Unfortunately there was no such protection in Britain.

Against these odds producers found it difficult to make any headway. At the beginning of the 1920s older, small-scale companies - Hepworth, Gaumont, Welsh-Pearson, Ideal and Stoll - made an unsuccessful attempt to revive the industry. Although Welsh-Pearson struck lucky for a time with their star discovery Betty Balfour, Stoll and Ideal's output fell and in 1923 Cecil Hepworth went bankrupt after overspending on Comin' Thro' the Rye. These firms soon gave way to newer companies and by the middle of the decade the leading producers were H. Bruce Woolfe, Herbert Wilcox and Michael Balcon who made the successful Woman to Woman with Victor Saville in 1923 starring the American actress Betty Compson. Before going on to co-produce with Erich Pommer, head of the German conglomerate Ufa, Balcon formed Gainsborough Pictures in 1924 with Graham Cutts who had directed Woman to Woman. This period also saw the emergence of two major directors - Alfred Hitchcock (The Lodger) and Anthony Asquith (Shooting Stars). Unfortunately the new generation 'realised the need for bigger capital resources and better distribution, but found that British film production was only just economically viable'.² Their own shortcomings together with American domination prevented continuous and economical production. Hollywood's pictures had a classless appeal and British films tended to be too dependent on the London stage and theatrical world. Actors and actresses despised their film work and considered it an 'embarrassing necessity' rather than the development of a new art.³

1. Richard Abel, op. cit., p. 44.
 2. R. Low, op. cit., p. 107.
 3. Ibid., p. 302.

British producers were represented by several organisations. The Kinematograph Manufacturers' Association had been formed in 1906, but the two bodies involved in the quota debates were the British Association of Film Directors (BAFD), formed in 1922, and the Film Producers' Group of the Federation of British Industries. Before 1933, when the Association of Cine-Technicians (ACT) was formed, labour in the film industry was represented mainly by the National Association of Theatrical Employees (NATE) and the Electrical Trades Union (ETU).

Exhibitors were represented by the Cinematograph Exhibitors' Association (CEA), formed in 1912. It was a large and powerful body, with many regional branches and a membership of 2,882 by 1928. The CEA conducted vigorous campaigns against Entertainments Tax, which gave it experience in lobbying MPs that was put to use during the debates on quota. The organisation's other main aim was to reduce rental charges while maintaining the level of film supply. This led to frequent clashes with the powerful Kinematograph Renters' Society (KRS), formed in 1915 and whose membership, numbering 48 in 1923, included American as well as British renters.

2. The government and the film industry before 1927

Hollywood's pictures posed a challenge that required a special response and inaugurated a new relationship between the government and the British film industry. Central and local government had first been involved in regulating the affairs of the commercial film industry for reasons of safety; censorship and taxation followed later.

The 1909 Cinematograph Films Act was designed to protect audiences from fire hazards and all cinemas exhibiting 35mm inflammable films to the public had to acquire a licence from their local authority. But authorities soon began to attach other conditions, including restrictions on Sunday opening and refusing licences to exhibitors who

wished to show films considered to be 'unsuitable' on moral grounds. The multiplicity of local authorities made the film trade fear that hopeless confusion would result if some banned a picture while others allowed it to be shown.

Anxious to avoid state censorship, the trade established the British Board of Film Censors (BBFC) in 1912 as 'a purely independent and impartial body whose duty it will be to induce confidence in the minds of the licensing authorities and of those who will have in their charge the moral welfare of the community generally'.¹ Although the BBFC never had the official standing of the Lord Chamberlain who operated censorship for London's theatres and music-halls, at last a uniform system existed for cinemas and local authorities were encouraged by the Home Office and the CEA to accept its rulings. Authorities soon began to grant licences on condition that all films to be shown had BBFC certificates. The exceptions to this rule were if a film had been made with 16mm non-inflammable stock introduced in 1923, if a sympathetic local authority sanctioned a picture's exhibition even if the BBFC had refused to grant it a certificate and if a film was shown exclusively to a private club.² As a non-statutory body the BBFC was autonomous from the government but at the same time susceptible to official influence because its president had to be approved by the Home Office.³

Another element of regulation was taxation. When the Entertainments Tax was imposed as a wartime measure in 1916, it was bitterly resented by exhibitors, being additional to normal admission prices. The exhibitors formed an Entertainments Tax Abolition League,

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1. The Bioscope, 21 November, 1912.
 2. Don Macpherson (ed.), Traditions of Independence (BFI, 1980), p. 97.
 3. N. Pronay, 'The political censorship of films in Britain' in N. Pronay and D. Spring (eds), Propaganda, Politics and Film, 1918-45 (Macmillan, 1982).

and conducted many campaigns to have the onerous tax reduced or abolished. Table 7 shows how remission was granted in 1920 and 1924.¹

Table 7
Entertainments Tax, 1916-1924

Year	Seat Prices up to	Tax
1916	2d	½d
	2d - 6d	1d
	6d - 2s 6d	2d
	2s 6d - 5s	3d
1920	2d	no tax
	2d - 2½d	½d
	2½d - 4d	1d
	4d - 7d	2d
1924	6d	no tax
	1s 3d	reductions

The total yield from the tax was considerable. In 1917 the figure was £3 million. In 1921 it was £11.7 million, and in 1925 £10.2 million. After the remission had taken effect in 1926 the tax yielded £5.7 million, and by 1928 the amount taken from cinemas averaged £3 million a year or half the total. For the Exchequer, film business was becoming big business.²

3. British economic policy

American films, jazz and popular music invaded Europe along with other exports and the debate on the protection of the film industry reflected a desire to come to terms with American cultural and economic domination.

In the mid-1920s the British film industry got caught up in the battle being fought to end free trade and introduce protection. The 1927 Films Act represented a limited but significant departure from laissez-faire before its official abandonment in 1932. Critics of free trade argued that protection was vital for Britain's industrial recovery. The

1. 1916 figures are from Kine Year Book, 1917, p. 57. Those for 1920 and 1924 are from R. Low, op. cit., pp. 48-49.

2. Cinematograph Exhibitors' Diary, 1928.

rise of competing industrial economies meant Britain gradually lost its role as 'the workshop of the world' to Germany and the United States. Unfortunately the protracted decline of Britain's staple industries - coal, iron and steel, shipbuilding and textiles - was not sufficiently offset by the rise of newer growth industries - electrical goods, chemicals, motorcars and scientific instruments. Germany and America protected their industries with high tariffs and began to supply markets, especially in the British Empire, previously dominated by British goods. Consequently, Britain's share of world trade in manufactured goods fell from 35% in 1890 to 28% by 1900, and in 1921-25 was only 23%.¹ The trade deficit widened and Britain exported capital to Australia, Canada and Latin America instead of investing it in ailing native staple industries or new technology.²

The Conservatives failed to win electoral support for tariff reform in 1906 and 1923. But the pressures eroding free trade increased and Stanley Baldwin, Sir Philip Cunliffe-Lister, Leopold Amery and Sir Arthur Steel-Maitland sympathised with manufacturers who were pressing the case for protection. Many hoped the existing limited inroads into the free trade system would be extended to cover 'basic' industries such as iron and steel. The 1915 McKenna duties imposed a 33.3% ad valorem duty on some imported luxury goods including films (1s 3d on blank film, 1d on positives and 5d on negatives). The duties were repealed in 1924 by the Labour government, but once the Conservatives were back in office the following year Winston Churchill had them reimposed and extended in 1926 to cover commercial vehicles and parts. The 1919 Finance Act introduced a limited system of imperial preferences for some goods and the first peacetime protectionist measure restricted the importation of

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1. W.A. Lewis, 'International competition in manufactures' in American Economic Review, papers and proceedings, XLVII (1957), p. 579 and Sidney Pollard, op. cit., p. 116.
 2. P. Cain, 'The Political Economy of Edwardian England' in A. O'Day (ed.), The Edwardian Age: Conflict and Stability, 1900-14 (Macmillan, 1979), p. 48.

dyestuffs in 1921. In the same year the German Reparation (Recovery) Act sanctioned import duties on German goods in part payment of reparations. The Safeguarding of Industries Act 1921 shielded 'key industries' against unfair competition by a 33.3% ad valorem duty for goods such as dyestuffs, glassware, scientific instruments and optical goods. The Act was extended in 1925 to include cutlery and lace and duties were soon imposed on silk and hops. But although some precedents had been set for a break with free trade the majority of imports paid little or no duties. In 1930 protective duties affected only 2-3% of imports.¹ It was against this background that film producers campaigned for protection. The following chapter describes how their agitation started a chain of events that led to the passing of the Films Act in 1927.

1. Sidney Pollard, op. cit., p. 120.

Chapter 2

LOBBYING FOR REFORM 1925-1926

By 1925 the depressed state of the British industry was causing general concern. Apart from the purely industrial aspect of the matter, it was felt that from the point of view of British culture and ideals it was unwise to allow the United States to dominate the cinemas of this country. At that period nearly every film shown represented American ideas set in an American atmosphere, and the accessories were American houses, American materials, American manufactures, etc. Whatever the position to-day, cinematograph audiences then were made up of the most impressionable sections of the community, and it was felt to be of the utmost importance for our prestige, for our trade and it was even asserted, for our morals that they should see at least some proportion of British films. In other words, it was felt that a British film industry was a national asset.¹

Film producers originally envisaged that the government might be encouraged to help the ailing film industry by sanctioning a 'safeguarding of industries' enquiry. In the 1920s this was about the only possible route to protection because of Britain's commitment to free trade. The issue, however, was soon thrust into the Board of Trade's hands, and since the requirements for an enquiry included that the industry had to be of 'national importance', the film trade and its supporters elaborated persuasive arguments focussing on film as an agent of trade and cultural propaganda. The case for protection had to be based largely on cultural grounds because in economic terms film production was small beer. And by the mid-1920s there was no prospect of its matching Hollywood's capacity to earn profits and generate employment.

Lord Newton's agitation in the House of Lords in May 1925 publicised the major arguments supporting the claim that a strong British film industry had great economic and cultural significance: the

1. R.D. Fennelly, Board of Trade, Minutes of Evidence to the Committee on Cinematograph Films, 1936 (HMSO, 1936), p. 1.

importance of motion pictures for trade advertisement; their role in projecting the British 'way of life' and as a bond of Empire.

While a laissez-faire policy prevented serious measures restricting Hollywood's imports, at an early stage in the campaign the Federation of British Industries (FBI) proposed that exhibitors should be obliged to show a percentage, or 'quota', of British pictures and that a state-supported film bank should be established. But some sectors of the business were wary of government interference. Producers bitterly resented criticism from patriotic but uninformed observers who failed to appreciate their acute economic difficulties, often accusing the industry of allowing British culture to be monopolised by Hollywood without putting up a fight.

Exhibitors responded to the FBI's initiative by devising plans to regulate booking practices and became closely involved with the abortive attempt to hammer out a joint-industry manifesto at the end of 1925. The FBI was disappointed at the beginning of 1926 when Sir Philip Cunliffe-Lister, the President of the Board of Trade, gave the film industry a second chance to come up with a voluntary scheme instead of producing a Films Bill based on the organisation's quota recommendation. He was reluctant to legislate because it was becoming clear that imposing quotas on unwilling and suspicious exhibitors might be riddled with impossible complications.

An unsuccessful but significant attempt was made to thrash out a deal to encourage the Americans to co-finance and/or distribute British pictures in the States. Cunliffe-Lister's hopes for trade unity were dashed in the summer when it was announced that producers, renters and exhibitors could not agree on a suitable formula for resuscitating the business. When the Imperial Conference convened at the end of 1926 Cunliffe-Lister had accepted the inevitability of legislation. But far from helping him to select the best course of action, the Conference

and Sir Philip Cunliffe-Lister, were sympathetic towards imperial preference and a general tariff. The disastrous 1923 election left a bitter legacy but although Prime Minister Stanley Baldwin pledged not to introduce a general tariff in his election address the following year, he condoned a minimal degree of intervention along the lines of the Safeguarding of Industries legislation:

We are determined to safeguard the employment and standard of living of our people in any efficient industry in which they are imperilled by unfair foreign competition, by applying the principle of the Safeguarding of Industries Act or by analogous measures.¹

To steer clear of controversy over economic policy Cunliffe-Lister approached the problem of affording some protection for certain industries without appearing to contradict Baldwin's pledge by confining 'all discussion and debate to the actual duties we intend from time to time to impose'.² To a confirmed protectionist this was extremely frustrating, as Cunliffe-Lister recalled in his autobiography: 'We reached the paradoxical position that, while we could protect industries of moderate size, the largest... even though they were still more in need of protection, must not benefit'.³

The Safeguarding of Industries Act 1921, protected certain 'key industries' by a 33.3% ad valorem tariff. The items it covered tended to be goods previously supplied by Germany like optical glass, electrical instruments and chemicals. Part II of the Act gave industries a chance to put their case before the Board of Trade. To qualify for 'safeguarding' an industry had to prove that competition was unfair

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1. Baldwin quoted in Lord Swinton, I Remember (Hutchinson, 1949), p. 36.
 2. Public Record Office (PRO), CAB 24, 171, CP 18, 14 January, 1925. Quoted in J.A. Cross, Lord Swinton (Clarendon Press, Oxford, 1982), pp. 69-70.
 3. Swinton, op. cit., p. 37.

offered few guidelines and simply reinforced growing doubts about the merits of a quota plan. The government opposed subsidies for producers but realised (somewhat reluctantly), that once a Films Bill was published the trade would press for amendments designed to make the quota both tolerable and workable.

Nearly every subsequent criticism of the Films Act was anticipated before it reached the statute book. Financial schemes to aid producers first proposed in 1925-26 were not executed until the late 1940s. This chapter outlines and examines the events in detail, drawing attention to the difficulties facing the Board of Trade when legislating for an industry consisting of three disparate interest groups. On the other hand, the film trade experienced its first dealings with a government department clearly far more qualified to cope with trade and industry than with culture. The 1927 Films Act and the debate preceding it reflected rather than resolved both problems.

1. An enquiry for the film industry?

'One and all believe that the British film needs protection, but as to the nature and degree of that protection there are still almost as many opinions as persons'.¹ Various ideas were mooted: the reimposition of the McKenna Duties that the Labour government had allowed to lapse in 1924 coupled with additional tariffs on film imports, or that exhibitors should show a quota of British films. In desperation, the trade began to hope for an official enquiry into the slump in British production.

Protection was a sensitive political issue, and the Conservatives had lost the 1923 'tariff' election when voters firmly supported free trade² The party was back in office at the end of 1924 and it was known that some members, particularly the Colonial Secretary, Leopold Amery,

1. Kinematograph Weekly, 12 February, 1925, p. 45.

2. J. Barnes and K. Middlemas, Baldwin (Weidenfeld and Nicolson, 1969), Ch. 10.

because foreign goods undersold native ones or owing to the depreciation of a foreign currency.¹

Cunliffe-Lister presented a memorandum to the Cabinet in August 1923 on the possibility of extending Part II that was due to expire the following year.² He argued that if foreign competition resulted in unemployment a general duty should be imposed. The proposal, however, was deferred and Cunliffe-Lister had to wait until the Conservatives resumed office to continue his campaign. Treading extremely carefully to avoid criticism that he was advancing too far towards a general tariff, he wrote a Cabinet paper in January 1925 explaining that the best way to proceed was to impose duties through the budget, or by means of a supplementary Finance Bill rather than via a new Safeguarding of Industries Act. The merits of this even more indirect approach were that 'public attention is focused on the facts of a particular industry... whereas in a preliminary Bill attention is... diverted to a hundred and one difficulties and dangers'.³

The Safeguarding of Industries procedure was modified in February 1925 when the Board of Trade's White Paper set out new rules for applications. Industries, excluding food and drink, suffering from unfair foreign competition could lodge a complaint with the Board of Trade. If the latter agreed, a committee of enquiry investigated the case. Five considerations would be taken into account: the industry had to be of 'national importance'; the items competing with native products had to be imported in abnormal quantities or sold at prices far below the fair price for British manufactures; it had to be proved that foreign competition could cause unemployment; the industry had to be efficient and the imposition of duties should not cause unemployment in

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1. S. Pollard, The Development of the British Economy, 1914-18 (Edward Arnold, 1983), 3rd Edition, pp. 119-120.
 2. Cross, op. cit., pp. 54-55.
 3. PRO, CAB 24, 171, CP 18, 14 January, 1925, Quoted in Cross, ibid., p. 70.

any other home industry. Duties imposed after an investigation were to be incorporated in a Finance Act.¹ Film production played a minor role in the national economy and employed only a few thousand people, mainly in the relatively prosperous South-East. But because of the government's inability to help staple industries newer enterprises were more likely to succeed in gaining protection by using the 'safeguarding' procedures. At the end of 1925 the iron and steel industries were refused an enquiry.²

Despite its limitations, it was hoped that an indirect strategy would nevertheless advance the protectionist cause, a point made by Cunliffe-Lister's biographer:

All of this ad hoc protection seemed to provide a spring-board for those who advocated its widespread extension to cope with the slump and unemployment, whatever might be the long-term effects of that on the general health of international trade on which any permanent hope of Britain's economic prosperity depended. But the new movement had learnt some of the lessons of the pre-war tariff reform battles. The edges of conflict were softened by euphemistic changes such as the substitution of 'safeguarding' for 'protection', 'key industry' for 'home industry', and 'dumping' for price competition by foreign rivals. And the process was to be gradual and specific, not the application of a comprehensive nostrum.³

In his dealings with the film industry Cunliffe-Lister adhered to this method. He was anxious, however, to prevent extreme action over film from jeopardising his campaign for the protection of more important basic industries. Free trade was much more of a constraint on the Board of Trade's film policy in the 1920s than fear of American retaliation or of alienating an electorate that preferred American films to British. The popularity of American films had little real impact on policy because many politicians believed that if audiences were given the chance of

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1. Barnes and Middlemas, op. cit., p. 291.
 2. Cross, op. cit., p. 71. See also S. Tolliday, 'Tariffs and steel, 1916-34: the politics of industrial decline' in J. Turner (ed.), Businessmen and Politics: Studies of Business Activity in British Politics, 1900-45 (Heinemann Educational Books, 1984).
 3. Cross, op. cit., p. 25.

seeing more British pictures they would naturally forget their allegiance to Hollywood.¹ A cautious Cunliffe-Lister sanctioned a statutory quota system only after the film trade had failed to devise a voluntary solution to the production crisis.

As early as June 1922 the Kinematograph Weekly had pressed for an investigation into the affairs of the ailing film industry. At the end of 1924, in anticipation of the extension of 'safeguarding' by the Conservatives, the paper was even more optimistic. The first national newspaper to agitate for an enquiry was the Morning Post. The latter's film correspondent conducted a campaign for protection in the paper's columns. One article asked in February:

Would it not be possible for the government to set up an impartial enquiry into the prospects and possibilities of film production in this country? Among the items of reference might be the feasibility of some form of protection for British producers, the cultivation of British films by British renters and exhibitors, the possibility of insisting on British screens showing a proportion of British films, limitation of import of foreign films into the British Empire, and the efficiency of British producers. The excuse for such an enquiry would be simply public policy, for it seems most unlikely that any section of the film industry... will make any move.²

The same article claimed that the Labour leader, Ramsay MacDonald, in conversation with film producer George Pearson, remarked that it would take 'fifty years of good government to undo the harm done by ten films in misrepresenting the Englishman on foreign screens'. The publicity aroused a great deal of interest, and the paper reported a few days later that the British Association of Film Directors (BAFD) had summoned a meeting to consider the plight of the British film industry.

The BAFD was established in 1922 to represent producers as well as the Kinematograph Manufacturers' Association formed before the First

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1. See P. Stead, 'Hollywood's message to the world: the British response in the 1930s' in Historical Journal of Film, Radio and Television, 1, no. 1, 1981, p. 22. Stead underrated the constraints of economic policy in the 1920s and politicians' assumptions about the superiority of British films.
 2. Morning Post, 10 February, 1925.

World War.¹ The meeting called by the BAFD was chaired by the association's first president, Percy Nash, and amongst those present were Cecil Hepworth and the honorary secretary, Sidney Morgan. They decided to ask the Board of Trade to receive a deputation pointing out that the film industry was a suitable candidate for Safeguarding of Industries enquiries.²

Miles Mander, general manager of Atlas Biocraft, was also in the forefront of the campaign for an investigation. The Morning Post published a letter by Mander emphasising the 'potentialities of the screen as a national asset', and suggesting the establishment of an 'Imperial Distributing Corporation' to supply exhibitors with a constant flow of British pictures. He stressed an argument which became part and parcel of subsequent debates on the protection of the film industry: film was no ordinary commercial item and the rationale for state intervention was to be found in the medium's unique power to influence its audience. Mander explained why he had chosen the Morning Post as an outlet for his views:

They have been conducting a campaign for British films... with a Conservative government in great strength, the organ which most of the Conservative members are likely to read is that journal, and these are the people we must first convince.³

The Morning Post was sympathetic and had already supported the Conservatives' tariff-reform nostrum in 1923. Mander's letter deliberately intended to play on Tory instincts when it commented: 'How can one expect excessive patriotism from the working classes if the only entertainment they can afford shows them nothing of their own country, its ideals, and characteristics?'. The strategy was fruitful and

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1. R. Low, The History of the British Film, 1918-29 (Allen & Unwin, 1971), p. 87.
 2. Morning Post, 18 February, 1925.
 3. Kinematograph Weekly, 5 March, 1925, p. 42.

encouraged others to take part in what was rapidly becoming a controversial debate.

Not all were as convinced that state protection was the answer. The Bioscope was particularly sceptical about the merits of government interference for an industry it believed had the ability to save itself from extinction:

We have the actors, we have the actresses, we have the men and machines, the stories and the studios. We have the men, and the money will be found, and British film productions will take their place, but official charity, protection, or coercion, or the wailing of our daily newspapers will not help. The salvation of the British film producing industry will come from within the industry itself - and we are confident that every day is bringing us nearer the realisation of our hope.¹

The article was written in response to a flurry of agitation in the national daily press about the film situation. The Daily Express was patriotic:

The British film could be, almost literally, the nation's 'shop window', and our best ambassador, working day and night on behalf of British prestige on the world's 60,000 cinema screens. The truth is that the British film, with rare exceptions, is a national humiliation, and the weakest point in the whole of our commercial and Imperial outlook.²

The Daily Mail was even more critical of the film industry calling it

A ramshackle affair, characterised by self-pity and self-delusion, lacking ordinary commercial vision, and not seldom ordinary commercial honesty, having no real policy and but few ideals, pleading poverty and craving charity, neither understanding nor wishing to understand the meaning of patriotic impulse, shrieking for what it calls encouragement when what it needs is resurrection.³

Some producers naturally resented such savage recrimination, especially since the call for state intervention exposed embarrassing weaknesses and drew attention to their pathetic struggle against Hollywood.

There was some relief when Winston Churchill, the normally anti-protectionist Chancellor, announced that the McKenna Duties would be

1. Bioscope, 23 April, 1925.
 2. Daily Express, 21 April, 1925.
 3. Daily Mail, 16 April, 1925.

reimposed from July 1925. In March Lord Newton proclaimed his intention to initiate a debate on film production in the House of Lords drawing attention to

the present position of the British film industry; and to ask if His Majesty's Government will consent to appoint a Departmental Committee to inquire into the causes of the present depression of the industry and to make recommendations as to the best means of re-establishing this industry having regard to the industrial, commercial, educational and Imperial interests concerned.¹

The debate was postponed until 14 May because Lord Peel, the First Commissioner of Works, revealed that the Board of Trade, anxious about 'Imperial and educational' facets of the film production crisis, was already investigating the problem. When the debate finally took place, Newton emphasised the increasing importance of cinema-going by quoting figures relating to attendance, box-office takings and Entertainments Tax.² He claimed that 95% of films screened in Britain and 99% of those in the Empire were American. Reference to the crucial role played by film as a bond of Empire and an ambassador for trade anticipated arguments subsequently repeated in the press and Parliament. Domination by Hollywood was singled-out as the root of the problem and the Americans were accused of having exploited the motion picture in their quest for economic and cultural supremacy:

The Americans realised almost instantaneously that the cinema was a heaven-sent method of advertising themselves, their country, their methods, their wares, their ideals, and even their language, and they have seized upon it as a method of persuading the whole world, civilised and uncivilised, into the belief that America is really the only country which counts.³

This was considered to be all the more threatening because film was

one of the most, if not the most, important instruments at present for the furtherance of trade and of education and,

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1. Parliamentary Debates, Hansard, 5th Series (Lords) Vol. 61, 14 May, 1925, col. 273.
 2. Some of the figures quoted by Newton were the same as those presented by Simon Rowson to the CEA's Annual Conference in July. See Kinematograph Weekly, 2 July, 1925, p. 41.
 3. Lords Debate, op. cit., col. 275.

more than anything else perhaps, of political propaganda, and the younger and the more undeveloped the people are who frequent the cinemas the greater is the effect on their minds.¹

It was no coincidence that three months later the Conservatives introduced their mobile cinema vans for party political propaganda.²

Newton was also acutely concerned about the harmful 'denationalising' impact of American movies:

Imagine what the effect must be upon millions of our coloured fellow citizens in remote parts of the world who perpetually have American films thrust upon them which frequently present the white man under the most unfavourable conditions.³

He was appalled when Armageddon, a film produced for the purpose of showing 'what the Australians had done in the war' was seldom exhibited in Australian cinemas because they were fully booked with Hollywood's pictures. The loosening of links between Britain and the Empire was connected with the decline of the British film industry.⁴

'Trade follows the film', an argument gleaned from American experience, was another major theme of the Lords debate:

Manufacturers of clothing and boots in the Midlands and Yorkshire have been obliged to alter their plant because the races in the Near East have been so impressed by the films they have seen that they desire to be clothed in the fashion of the American cinema actors.⁵

No one seems to have questioned the validity of this claim, and it seems unlikely that demand for western styles was affected dramatically by motion pictures. Since a great variety of costumes, historical or at least not distinctly American, were used in pictures, it is more likely that 'trade follows the film' was a result of over-zealous publicity on

1. Lords Debate, op. cit., col. 277.

2. T.J. Hollins, 'The Conservative Party and film propaganda between the wars', English Historical Review, April 1981, p. 362.

3. Lord Debate, op. cit., col. 277.

4. See section 6 of this chapter for a fuller discussion of film and Empire.

5. Lords debate, op. cit., col. 277.

the part of the Motion Picture Division of the US Bureau of Foreign and Domestic Commerce.

Lord Gainford, representing the FBI, disclosed that the industrialists' organisation was studying the film problem as well as the Board of Trade. When Lord Peel answered for the government it was clear that this news made an immediate enquiry unlikely:

I think it would be unfortunate if the Government, by rushing in at the present, were to disturb... these fruitful conversations... it would probably be better to allow this development to go on and see if these people are able to deal with the subject and, by rousing public opinion, to make the public and the trade insist upon British films being exhibited both here and throughout the Empire.¹

Obviously disappointed, Lord Newton closed the debate by saying that despite Lord Peel's negative reply he would persist in his agitation for an enquiry because 'it is inevitable in the long run'. But the film industry's case had been clearly stated in Parliament for the first time.

The Lords debate attracted considerable publicity. The Board of Trade had been making some tentative enquiries because Sidney Morgan revealed that although the BAFD had not been connected with Lord Newton's quest, the association suggested a 25% exhibitors' quota to officials on 11 May. There was much speculation in the trade press about the FBI's so-called 'investigations', and whether the organisation was advising the Board of Trade. Simon Rowson, co-founder of the renting firm Ideal and statistician of the film industry, was sceptical about the Board's information and its source:

I have the greatest possible admiration for the skill and capacity and efficiency of the officials of the Board of Trade; but not even that great department can be expected to reach definite conclusions on so complex an issue without consultation or conference with the members of the trade.²

1. Lords debate op. cit., col. 290.
2. Kinematograph Weekly, 14 May, 1925, p. 46.

Why was the FBI concerned about the slump in British film production? Rachael Low argues that the organisation was more anxious about the industrial and political repercussions of poor British production than the survival of producers: 'the FBI was interested solely because the disappearance of British films affected the prestige of Britain, and therefore of British industry as a whole'.¹ In 1925, however, the organisation was certainly concerned about producers and film content as well as the need to increase output. It was particularly keen to align itself with those who were worried about the national and cultural aspects of the film problem. The FBI devised some innovative plans to create production finance and it was not until later, when the government declared its opposition to subsidies, that its schemes focussed more narrowly on quotas. The organisation was always quick to make it clear that its interest in film should not be attributed to purely commercial motives. In October 1926 Charles Tennyson, the FBI's deputy director, made a typical statement along these lines:

It is, of course, the duty of the Federation to take what steps they can to assist in the revival of any trade - and particularly of one so important as the moving picture industry - but in this case the national aspect far outweighs the industrial consideration.²

In his autobiography Tennyson admitted that because of the political constraints facing protectionist campaigners a special case had to be made for film:

I confess that I had little hope of success in this attempt to secure protection for what might be described as a decaying industry, for Baldwin had only two years before sent the Conservative Party out of office by his unexpected declaration for tariff reform, which was now regarded as political dynamite. The result showed how wise we had been to base our claim on cultural grounds, for Sir Philip Cunliffe-Lister seized this point at once and showed himself strongly sympathetic.³

1. R. Low, *op. cit.*, p. 98.

2. *Kinematograph Weekly*, 1 October, 1925, p. 64.

3. Sir Charles Tennyson, *Stars and Markets* (Chatto and Windus, 1957), p. 162.

Expediency apart, the FBI's undoubted concern for the prestige of British industry as a whole did lead it to consider producers' financial problems and it was influenced by its connections with cultural organisations.

The FBI's Film Manufacturers' Committee was established in 1925 and the following year, as membership increased, it became known as the Film Producers' Group. But the agitation for assisting the British film industry began before the Committee was formed with the organisation of a conference on 6 May 1925.¹ In attendance were the FBI's president, F. Vernon Willey and Charles Tennyson; Captain Arthur Applin and Edgar Jepson of the Society of Authors; Claude Friese-Greene (son of the inventor) who was himself involved in the development of colour films; Lord Newton and representatives from the Victoria League, the Stage Guild, the League of Empire, the British Empire League, the Royal Colonial Institute, the Overseas League, the British Drama League and the National Union of Teachers. Also present was William Borradaile, a former exhibitor and the FBI's expert on contracts and company law. According to Tennyson, it was Borradaile who first persuaded the FBI to take up the cause of resuscitating British film production:

One morning in the spring of 1925, Mr. Borradaile came to me in a more than usual gloomy mood, and said that the time had really come when something must be done to save British production from complete extinction, and that the FBI must take the lead.²

The conference appointed a sub-committee to formulate a possible scheme of reform and its work soon bore fruit.

Tennyson sent a memorandum to Austin Earl at the War Office on 28 May outlining the options.³ The first was a quota scheme, based on the German 'kontingent', but applicable to exhibitors rather than renters.

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1. Modern Records Centre, Warwick University, Confederation of British Industries Archive, Film Committee Conference, 6 May, 1925.
 2. Tennyson, *op. cit.*, p. 161.
 3. PRO, CAB 27, 198, CU 752.

During the First World War the German film industry had not suffered from an overwhelming influx of Hollywood imports. The larger film companies, Ufa and Emelka-Konzern, attracted financial support from big business and in 1921, once American films began to swamp the market they persuaded the German government to pass a film import law. This stipulated that the maximum scale of imports should be 15% of the number of German films produced. In 1924 the system was revised, and from January 1925 renters had to handle one German feature for each imported one of equal length. In effect this was a high renters' quota.¹ The German model was frequently cited in the quota debates in Britain, but the 'kontingent' had been enacted to support an industry with a far more stable financial base than the British. From this point of view the comparison was somewhat unrealistic. The FBI's memorandum concluded that the 'kontingent' would be difficult to operate in Britain because there were not enough native pictures to match the American imports. It was also feared that 'the tendency of the scheme might be to put a fictitious value upon any British film that could be produced, no matter how low a standard'. It was well known that in Germany the Americans acquired or financed cheap films so that they could continue to import their own films. In 1928 the Germans abandoned the kontingent system, and an import permit was substituted.

The next possible remedy was an ad valorem duty. It was decided that if this was to be levied on film bookings the number of American films would not fall unless the duty was impractically high. Exhibitors in any case would have objected to a strict curtailment of American movies, and there were practical problems involved in levying an import

1. Kinematograph Weekly, 21 January, 1926, p. 50, and see also report by Sir Robert Donald after a visit to Germany: 'Unless European countries get together it will be impossible in a few years' time to make a breach in the American monopoly. Protective measures are absolutely necessary. Stricter censorship and the quota system are the best weapons to fight the American strangle-hold', ibid., 8 July, 1926, p. 32.

duty because a film's value could only be assessed after it had been exhibited. A licence duty was rejected by the FBI because exhibitors were unlikely to agree unless it was accompanied by the abolition of Entertainments Tax. The FBI favoured a subsidy plan which was duly recommended as the best solution.

A special finance corporation was to support and distribute approved films designed to create a supply of British films 'of British character, and utilising the special assets which the British Empire possesses, both historical, scenic, literary and otherwise, in a way in which an industry of more or less small and struggling independent units can never do'. Government participation was encouraged:

It is suggested that the state might readily undertake this responsibility both on the ground of the benefits to employment which would result, and also from the point of view of the great benefit which would be anticipated to our national prestige.

Each project submitted to the corporation had to reach a certain standard of 'genuine entertainment value' and special arrangements were to be made for sponsoring films 'of special artistic value'. Although the corporation's board was to include representatives of private capital, a government nominee and nominees from national bodies, representatives of production companies were excluded and not allowed to become shareholders. Thus in May 1925 the FBI opted for a films bank rather than a quota. But the film industry had to wait another twenty-four years for the establishment of the National Film Finance Corporation.

Pressure on the government to make a statement about the industry escalated in June when a letter was published in the Daily Telegraph and elsewhere making yet another appeal for an official enquiry on patriotic grounds.¹ It was signed by eminent figures in the art, music and literary worlds including poet laureate Robert Bridges, Lord Burnham and

1. Ibid., 25 June, 1925, p. 40.

Lord Newton, Thomas Hardy, Sir Robert Donald, J.R. Clynes and Sir Edward Elgar.

Anti-Americanism reached considerable heights at the end of the month when the agent, James V. Bryson, of Universal's UK subsidiary, the European Motion Picture Company, duped a detachment of Hampshire Heavy Artillery Territorials into providing a guard of honour and a band to play The British Grenadiers in Southampton to welcome the arrival from the States of a print of The Phantom of the Opera before making its journey to Wardour Street. The detachment had no knowledge of the 'stunt' and had been led to believe that the purpose of the film shot by Bryson's employees was to encourage the Territorials' latest recruiting drive. There were questions in the Commons about the incident, and the Secretary of State for War, Sir Laming Worthington-Evans, had to explain that

No mention was made to them of an American film to be met and escorted, and nothing was said to make them suspect the real purpose for which they were required. The officer commanding the brigade was the more easily persuaded to fall in with the proposal because he was engaged at the time in a recruiting campaign in Southampton, where the first part of the film was to be taken, and further he was informed that London territorials would take part in the march in London.¹

Bryson argued that Universal had been concerned about the expensive film's safety and special terms in their insurance policy had stipulated that the film should be guarded at all stages of transportation.² When the Foreign Office was asked whether it might be possible to prevent the film of the event from being exported, an official commented:

It is, of course deplorable that the Army should have been trapped into making of itself a humorous advertisement for an American motion picture company, but in view of the amount of publicity the affair will already have got in America, the suppression of the film would be to some extent not only a case of shutting the door after the disappearance of the horse, but also of giving fresh advertisement to the

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1. Parliamentary Debates (Commons), vol. 185, 29 June, 1925, col. 2017.
 2. Kinematograph Weekly, 2 July, 1925, p. 2.

American company and to American ingenuity. We should also run the risk of a controversy with Washington.¹

In the end Bryson insisted that the War Office should keep the copy of the film of the 'stunt' to save further embarrassment. He also sent the negative to Whitehall. The CEA banned members from showing The Phantom of the Opera until November 1928 when the restriction was lifted after a special plea from Carl Laemmle, the head of Universal.

On the same day, during a debate on unemployment, Baldwin hinted that the government might, after all, initiate an enquiry:

I think the time has come when the position of that industry in this country should be examined with a view to seeing whether it be not possible, as it is desirable, on national grounds, to see that the larger proportion of the films exhibited in this country are British, having regard... to the enormous power which the film is developing for propaganda purposes, and the danger to which we in this country and our Empire subject ourselves if we allow that method of propaganda to be entirely in the hands of foreign countries.²

In July the trade was the subject of the first debate on the production crisis in the House of Commons.³ It was initiated by the Liberal MP, Lt. Cmdr. Kenworthy, during a debate on national trade prospects. Kenworthy's views about the need for greater financial backing for the film industry were well known to the trade press⁴ and in the Commons he pressed the case for an enquiry 'above vested interests'. Just after the debate a letter by Kenworthy focussing on the questionable role of the Board of Trade was published. He revealed that

It was only the result of diligent inquiry that it was discovered that the department responsible... for the welfare of the British Cinematograph Industry, is the Board of Trade. Even then, the responsibility of this department is somewhat shadowy, and the impression created was that this responsibility was assumed at the last moment in view of the fact that notice had been given that the question would be raised.⁵

1. PRO, FO 371/10651/A 3269/25.
2. Commons debate, *op. cit.*, Col. 2084.
3. Commons, vol. 186, 6 July, 1925, cols. 152-158 and 184-185.
4. Bioscope, 11 and 18 June, 1925.
5. Ibid., 9 July, 1925.

Cunliffe-Lister's autobiography also gives the impression that the Board of Trade was hardly qualified to deal with film problems:

British industry was the business of the Board of Trade, and though in the Board of Trade none of us knew much about the film industry, I thought it was up to us to do something about it... though I had always been what is now called a 'film fan', I knew little about the structure of the industry.¹

This telling confession of ignorance explains the Board's willingness to rely on the trade for advice. The latter, always ready to emphasise the complexities of the industry, obviously wanted to exert as much influence on policy-making as possible. It seems likely that agitation by the press and Newton's motion in the Lords forced the issue into the Board of Trade's hands. In any case, since the production crisis had first been considered in connection with the new rules for 'safeguarding' enquiries, it is not surprising that the Board assumed responsibility for the film industry's affairs and the Home Office was traditionally associated with censorship. But in the long-term, the Board of Trade proved to be an inappropriate department for the industry because it tended to treat film like any other commercial commodity.

There was some collaboration within the film trade. At the end of July the FBI met the CEA's recently established committee on the production crisis. A few days later the FBI presented Cunliffe-Lister with a memorandum based on its earlier one, but this time with much more detail. The text, leaked by the Kinematograph Weekly in August,² outlined schemes that were to be offered many more times in the future, including a quota for exhibitors. But it was also consistent with the FBI's earlier concentration on the need for production finance and indirectly encouraged the rest of the film trade to come up with a plan at the end of the year.

The FBI stated the dilemma in patriotic terms:

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1. Lord Swinton, op. cit., p. 51.
 2. Kinematograph Weekly, 6 August, 1925, pp. 31-33.

That this powerful influence should be directed from foreign countries and convey the ideas and customs of those countries instead of those that are British is deplorable... it is argued that steps should be taken with Government assistance to ensure that British peoples shall be educated in British ideas for the sake of British prestige.

Current plans to revive the industry concentrated on opening up more of the home market for British films and supplying production finance and better facilities. Possible ways of achieving the first aim included an import duty on foreign films shown in Britain to be levied on the production company; or taxing exhibitors who showed foreign pictures or rebates for those who patriotically screened British ones, and finally a 'quota' system analogous to the German 'kontingent'. Out of these options the FBI favoured an exhibitors' quota: one British film in eight in the first year and three in eight for the next three years. The maximum quota was to be 37.5%, and topical news films were not to be subject to quota. But the keystone of the FBI's plan was still the creation of a film finance body called 'the Imperial Cinematograph Corporation' to administer a production fund and build and supervise a national studio.¹ Credit was to be granted under the Trade Facilities Act which allowed the Treasury, after consulting an advisory committee, to guarantee the payment of interest and principal loans for 'any capital undertaking and the purchase of articles manufactured in the UK required for such undertaking - which must be calculated to promote employment'.

It was to be organised as a public joint stock company with an advisory committee 'including leading names who could give the best advice in the direction of literary work, scenarios, stage construction,

1. At the CEA's Annual Conference in July, T.A. Welsh proposed a national studio financed from private sources: 'Strictly speaking, the Government should be called upon to disgorge a million or two of the monies they have collected in entertainment tax from kinema theatres. But how proud we should be if we could find the money without the necessity of calling upon the Government at all!', Ibid., 2 July, 1925, p. 41.

scenery, film production, period costumes etc.'. Financial assistance was to be given only to projects considered suitable 'in national interests' and which had attained an undefined standard of excellence. The FBI wanted to encourage the production of pro-Imperial films illustrating 'the potentialities of the nation', and it calculated that a reasonable annual production target to provide continual employment for over 5,000 workers was 104 features at an average cost of £8,000 a film.

The FBI's memorandum unleashed a lively debate. The trade press was deluged with letters from a variety of figures in the business. A.C. Bromhead,¹ managing director of Gaumont-British, wanted a moderate quota system, while C.M. Woolf, of the W. & F. Film Service, opposed state intervention. H. Bruce Woolfe of British Instructional Films, was also sceptical about looking to the government for salvation:

I think that if a business is not strong enough to stand on its own legs it had better by far be killed right out. Where I think the government could help without interfering with the inner workings of the business would be to insist that British productions get a square deal in the markets of the world, and to endeavour to come to some arrangement with the Dominions whereby we could be assured of the open door.²

But problems in the home market remained unsolved, and producers were clearly in no position to shun state aid.

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1. A.C. Bromhead was co-founder of the Gaumont Company in 1898. During the First World War he was sent to Russia by the War Propaganda Bureau to supervise the distribution by Gaumont of propaganda films like Be Prepared. See M.L. Sanders, 'British Film Propaganda in Russia, 1916-18', Historical Journal of Film, Radio and Television, 3, no. 2, 1983.
 2. Kinematograph Weekly, 13 August, 1925, p. 49.

The Kinematograph Weekly anticipated the notorious 'quota quickie' when it focussed on the crucial question of the definition of a British film.¹ Americans could easily abuse an unregulated quota:

We know already that several American producers have ... laid their plans for the production of 'British' films of their own immediately they are likely to be wanted for 'quota'... We know that no good feeling for British production, that the simple instinct of self-preservation, is behind these enterprises.²

The paper went on to argue that British films should be made by companies with majority British control, and that pictures made in this country by Americans should be disqualified. There was, however, a dilemma as to how far American assistance should be spurned:

What is needed is a definition wide enough to cover productions in which a majority British control is associated with financial and even production assistance from America, and narrow enough to exclude any subject, however British in detail, in which the commercial control is American. It will not meet the case if it fails automatically to exclude films made by, or under the control of, American concerns from any quota... imposed. It will go too far if it deprives British producers of the brains of American producers or the box-office appeal of American stars.

The problems of defining a British film and company were to persist throughout the debates, as did the realisation that a quota without adequate safeguards could well be a mixed blessing.

2. Towards trade agreement?

The FBI's memorandum pushed the rest of the film trade to think seriously about reforming itself. Thomas Ormiston, the CEA's president, welcomed an invitation from Cunliffe-Lister to the trade to devise its

1. A 'quota quickie' was a cheap British film made purely for registration purposes after the 1927 Films Act was passed. One of the main criticisms of the Act was that in the absence of a 'quality clause' American renters openly abused the spirit of the law by sponsoring or acquiring 'quickies' with little regard to cost or cinematic quality so that they could continue to import their own films.

2. Kinematograph Weekly, 29 October, 1925, p. 37.

own scheme.¹ In September the CEA announced its policy for release-reform and agreed with the FBI about the need to establish a central studio.² A special sub-committee had been appointed to investigate the thorny problem of blind and block booking. Its report recommended that all films should be trade shown and block booking outlawed by making it compulsory for contracts to stipulate that the pictures booked should be exhibited within six months. The plan was severely criticised by the KRS chairman who argued that the CEA's legislative solution was 'contrary to all the precedents of this country'.³ The FBI also preferred that exhibitors and renters should hammer out a voluntary policy to eliminate booking abuses.

In November the joint trade committee considered a report by its sub-committee, commonly known as the 'Ormiston plan'. The document outlined the three main objectives of any scheme:

1. To increase the quantity and proportion of British films screened in the United Kingdom and elsewhere.
2. To establish an industry under British control in the UK for the production of these films.
3. To encourage the production of such films as will, directly or indirectly, give employment to British labour at home, and increase the prestige of the British name, British institutions and British manufactured goods at home and abroad.⁴

It proposed a quota of 10% rising to 25% by 1929 for both renters and exhibitors. Should it appear likely that there would not be enough good British films available, the starting dates of October 1926 for renters and three months later for exhibitors would be postponed. Quotas were to apply to all British films except 'news, scenic and advertisement' pictures. One safeguard related to quality: 'if any British film offered is not deemed of sufficiently good standard of production and

1. Ibid., 20 August, 1925, p. 105.

2. Ibid., 17 September, 1925, p. 69 and pp. 73-74.

3. Ibid., 24 September, 1925, p. 68.

4. Ibid., 5 November, 1925, p. 28.

entertainment value it may be disallowed for quota purposes'. Such matters were to be decided by an authority including exhibitors and renters to be established by the Board of Trade. Exhibitors were to be granted quota concessions provided that they could prove that rentals were too high and small renters were to be allowed to combine for quota purposes.

To qualify as 'British', a picture had to be produced by a British-owned and controlled company. As far as possible, all the studio scenes had to be shot in a British studio and 75% of the total labour costs, excluding payments to the producer and to one artist, had to be paid to persons domiciled in Great Britain. A variation on this definition was included in the Films Act.

The section dealing with block booking stipulated that on and after 1 January 1926 booking contracts had to refer to films available for exhibition with BBFC certificates. Finally, the 'Ormiston plan' recommended that the central studio scheme should be investigated 'as soon as the Government signifies its willingness to give effect to the other proposals outlined in this report for the revival or establishment of a British film producing industry'.

A week later, however, the plan was revised with some significant modifications.¹ The point dealing with quality was altered so that any film disallowed for quota on the grounds that it was 'not deemed of sufficiently good standard of production and entertainment value' could be resubmitted to the Board of Trade. If the latter decided that 'the film had been bona-fide made to be exhibited, and that a reasonable sum was expended on its production' it could count as a quota picture. This was a weaker 'quality clause', and the Kinematograph Weekly lamented that the amended report opened the door to abuse: 'It knocks the bottom out of the pretence that there will be any guarantee whatsoever that the

1. Ibid., 12 November, 1925, p. 54.

films which the British exhibitor will get under the quota will be any better than those which he has received in the past'.¹

In the first report the authority to judge film standards was to be created by the Board of Trade, but in the revised version the task was allotted to the film trade, subject to the Board's approval. The section dealing with exhibitors' safeguards was modified so that quota concessions could be granted on two grounds, if exhibitors could prove that British films were unavailable or if their rentals were exorbitant. Renters could receive exemptions on the same grounds. An important addition gave the Board of Trade

the power to deal promptly and effectively, by regulations, with any attempt by foreign companies or individuals through their agents in this country to defeat the purpose of the scheme by effecting a corner in British films, kinemas, studio facilities, artistes or authors.

Another new point was that news, scenic or advertisement films could qualify for quota provided that they showed 'a special British interest' and if the number of pictures in question did not form more than one-tenth of the total length of British product handled by the renter. The section defining a British film was amended so that studio scenes could definitely include a certain amount of foreign location work.

The CEA's general council approved the revised report by 22 votes to 10, but rank and file members had to give their verdict before it could be ratified. The renters were said to have supported it, but it was revealed later that when the report had been discussed only a minority of the KRS had been present. Thomas Ormiston saw Cunliffe-Lister who by now had firmly put his faith in a trade-devised plan. Ormiston told CEA members that Cunliffe-Lister

explained to me that all his colleagues in the Cabinet are keenly interested in stimulating the production and exhibition of British films, and he hopes the trade will

1. Ibid., 19 November, 1925, p. 33.

reach agreement amongst themselves upon a scheme. Failing such agreement he will be compelled to take definite action on his own lines.¹

With each ballot paper Ormiston sent a covering letter stressing this point and also implying that Cunliffe-Lister would use the FBI's scheme as a basis for a Films Bill if the CEA rejected the plan recommended by the general council. After all, the 'Ormiston plan' proposed a 10% quota whereas the FBI's starting figure was 12.5%. But in a 50% poll the plan was thrown overboard by 679 votes to 609. The Kinematograph Weekly blamed the general council for refusing to allow the report to be amended a second time, and was highly critical of the weaker quality clause. Once the referendum was over, the CEA's general council resolved that the joint trade committee should broaden its membership to include figures such as the President of the BBFC and eventually submit yet another report.²

At the end of 1925 it seemed that an impartial enquiry was unlikely. Cunliffe-Lister's reaction to the failure of the trade's plan was to urge it to produce an alternative quickly: 'I feel in no way bound to delay formulating proposals for the consideration of the Government until such time as the industry would agree on the submission of a scheme'.³

The Daily Mail reported the referendum result with characteristic fervour as 'a vote against British films'. The Observer interpreted the result as an example of trade interests thwarting the national interest and argued that the government must intervene to by-pass such trade anarchies:

This fact only underlines the strength of the case for public action, by proving how strongly entrenched is the non-British interest in the kinema theatre... Since the exhibitors decline to cooperate it only remains to prepare

1. Ibid., 26 November, 1925, p. 39.
 2. Ibid., 17 December, 1925, p. 19.
 3. Ibid., 14 January, 1926, p. 49.

an adequate scheme for thwarting their boycott of British industry.¹

The Times adopted an unusual stance that was not to alter throughout the quota debate. It urged the recognition of the artistic potential of film:

The films are not, and cannot be regarded as, an ordinary commercial product, but are, at least potentially, works of art... the 'quota' system, however many 'safeguards' were attached to it, would always be in danger of encouraging the unjust and the just alike... It is good to encourage British films; it is vastly more important to encourage better films... we cannot compete, on their own ground of spectacular luxury, with the great foreign combinations. The success, even the commercial success, of British films depends on their power to establish an exceptional prestige.²

The trade remained suspicious of state intervention, except perhaps to regulate block booking. The Kinematograph Weekly went so far as to suggest that exhibitors might retaliate and 'make their halls definite centres of anti-Government activity immediately a General Election comes along or whenever a bye-election occurs'.³ At the end of 1925 the trade's main problem was that it had not been able to offer a viable alternative to the FBI's detailed memorandum. The Board of Trade was prepared to let the trade write its own prescription but the conflict of interest between its three branches made this a remote possibility. In 1926 another attempt was made to reach agreement, but after the dismal failure of the 'Ormiston plan' subsequent efforts became desperate.

3. Towards legislation?

At the beginning of 1926 the FBI hoped that Cunliffe-Lister would take its advice and introduce a Films Bill to Parliament during the coming session. The FBI sent a patronising letter to the CEA on the eve

1. Observer, 6 December, 1925.

2. The Times, 15 December, 1925.

3. Kinematograph Weekly, 24 December, 1925, p. 15.

of the new trade talks stating that legislation was not a distant prospect:

No action will be taken in regard to the Federation's scheme until that Committee has had a reasonable opportunity of considering the position... action cannot be long delayed if anything is to be done during the next Parliamentary session. However much, therefore, we may desire to facilitate the deliberations of your Committee, we cannot undertake to delay our representations indefinitely. ¹

The joint trade committee's first meeting in January considered a proposal by E.E. Lyons of the Biocolour circuit to establish a British Film Board with control over a production fund. Exhibitors were to subscribe over £100,000 on a voluntary basis, and the fund was to be used for assisting British producers for up to 50% of the cost of a picture. When the Board considered sponsoring a project it was to take into account the producer's reputation; the chances of the film being completed; the story and actors together with the picture's potential entertainment value. The Board's chairman was to be T.P. O'Connor, the BBFC's President and films financed by the scheme were to be assured better booking prospects. The idea received a cool reception at the meeting even though it was an attempt by an exhibitor to help producers find financial backing. But as Simon Rowson pointed out, it was no use because the government already seemed set on a plan which approached the problem from the exhibition rather than the production angle.²

Exhibitors were dead set against quotas and their dominant influence on the joint trade committee made the chances of agreement remote. In a poll conducted by The Cinema exhibitors voted 733 to 24 in favour of encouraging British production, 420 to 328 against a quota.³ This attitude was confirmed at the joint trade committee's second meeting when after a debate and by a vote of 14 to 3, it was agreed that although proposals for curbing block booking and a central studio should

1. Ibid., 14 January, 1926, p. 45.
 2. Ibid., 28 January, 1926, p. 50.
 3. The Times, 12 January 1926.

be presented to the government, talks about quotas should be adjourned until the impact of the other two measures could be assessed.

Trade agreement suffered another setback at the end of January when the KRS refused to consider proposals for release-reform or a central studio unless they were accompanied by a comprehensive scheme to increase the output of British films. The London County Council meanwhile endorsed a report by its Theatres and Music Halls Committee urging immediate legislation to deal with block booking, and in the absence of a viable alternative, legislation to ensure the exhibition of 'a fair proportion of British films'.¹

Early in February the FBI, trying to exploit the joint trade committee's continuing indecision, saw Cunliffe-Lister. Soon after the organisation published a draft bill proposing quotas for renters and exhibitors.² The percentages were 12.5 rising to 37.5 by 1929.³ The registration authority's chairman was to be nominated by the President of the Board of Trade. Other members were to be a person of legal experience and a nominee from the Board of Education who were to be advised by 'assessors', selected by the Board of Trade from four panels of authors, manufacturers, renters and exhibitors. All authority members and assessors had to be British subjects and one of their main functions was to determine the nationality of films. In this respect the FBI adopted a similar definition to the 'Ormiston plan': a British film had to be made by British subjects domiciled in the Empire or by a British-controlled company. The majority of company directors and shareholders

1. The Times, 3 February, 1926.

2. Kinematograph Weekly, 11 February, 1926, pp. 42, 46.

3. In January Tennyson had chaired an FBI meeting with the expanded Film Producers' Group: Bromhead, Elder, Welsh, Rowson and Hepworth were joined by representatives from nine production companies including Michael Balcon (Gainsborough), H. Bruce Woolfe (British Instructional) and Claude Friese-Green (FG Colour Films). It was calculated 12.5% quota meant a minimum of 90 British films would be needed (total annual film requirement was 720 films). The meeting decided that 10 studios had a capacity of 109 films so that 12.5% could easily be met. CBI Archive, Film Committee meeting, 4 January, 1926.

or stockholders with voting control had to be British: 'the company must not by any means be under the control of foreigners or of any foreign government or corporation'. For the first two years after the Bill became law two foreigners could be included in the production team as long as 75% of the salaries and wages were paid to British subjects. All studio scenes had to be shot in the Empire unless the authority sanctioned otherwise. News, scenic and advertisement films were not to qualify for quota, and the authority could refuse to register a film if 'there does not exist a bona-fide intention that the picture shall be publicly exhibited in Great Britain or rented for public exhibition therein'.

The Times hoped that the functions of the registration authority proposed by the FBI might be widened to empower it to assess 'the quality of the work of British producers... to discriminate between those whom they should encourage and those whom they should leave alone'.¹ The CEA and the influential trade paper the Kinematograph Weekly were not, however, impressed with the scheme. Exhibitors were opposed to the high quota figure of 37.5% by 1929 and criticised the bill for not providing them with any safeguards. Supporters of the 'Ormiston plan' regretted its rejection by CEA members, pointing out that Cunliffe-Lister might be tempted more than ever to use the FBI's latest draft bill as the basis of legislation.

On 16 February Cunliffe-Lister presented the Cabinet with a memorandum.² He claimed to have consulted the trade since mid-1925, 'so far as it is possible to consult such loosely organised and incoherent bodies', together with groups like the Society of Authors, the Stage Guild and the London County Council'. Although he was convinced that a film industry was a national asset he was still cautious: 'I am anxious

1. The Times, 8 February, 1926.

2. PRO, CAB 24/ 178, CP 69, Board of Trade memorandum, 16 February, 1926.

not to underrate the difficulties, and not to undertake ambitious measures which might overweight an infant industry'.

Cunliffe-Lister was impressed by a letter written by Lord Ashfield, chairman of the PCT circuit and former head of London Transport, encouraging the trade to reorganise itself and come up with a voluntary solution.¹ Ashfield persuaded Cunliffe-Lister to put his faith in the idea, assuring him that he would do his best to 'bring the exhibitors into line'. Thus the memorandum concluded by rejecting immediate legislation on the following grounds:

1. We should not have the general goodwill of the exhibitors; and we ought not to compel them to do what they may be prepared to do voluntarily.
2. Public opinion is still growing, and if the exhibitors are allowed to try voluntary methods, and fail, we shall be in a far stronger position to enforce the compulsory system.
3. An immediate compulsory quota would encourage the inefficient or unscrupulous producers (who are numerous) to raise a little money in the old way and produce bad films to force upon the exhibitors - which might damn the whole scheme.
4. Parliamentary time would not admit of a contentious measure.

Cunliffe-Lister wanted to announce that although the government recognised the 'national importance' of a film industry, it was prepared to give exhibitors a year to show more British pictures voluntarily. He hoped that producers would establish a body to settle any disputes and inform the Board of Trade of the number of British films actually exhibited. If a reasonable quota had not been attained after a year the government would legislate and, subject to the exhibitors' approval, it was ready to devise a bill to deal with blind and block booking immediately. Cunliffe-Lister proposed that the government should bless the idea of a national studio with a guarantee under the Trade Facilities Act 'provided a scheme with proper financial backing is put

1. Kinematograph Weekly, 28 January, 1926, p. 49.

forward'. The Cabinet agreed but revised the last point so that it would be open to organisers of a studio to apply for the guarantee, leaving the initiative entirely up to the trade.¹

A financier, Sir Edward Beddington Behrens, envisaged a 'British Hollywood' at Brighton. To reduce producers' overhead expenses by establishing a central unit with stocks of scenery, advanced lighting installations, adequate floor space, etc., Behrens argued that the exchange of talent and ideas was essential:

Only by creating a centre, a home for the industrial art of the cinema, will it be possible by study and experiment to try out the economic, aesthetic and technical issues and the social, political and moral values implicit in them... to place the industry on a footing of equality with its foreign competitors we must contribute something of our own... there can be no national tradition of the film until there is an ideological nucleus.²

Ivor Montagu, recently returned from Russia, was enthusiastic about a national studio, as reported by The Times:

Speaking of the schemes which were being discussed for reforming the British film industry, Mr. Montagu said the idea seemed to be that all those people by their incompetence, lack of taste, lack of intelligence, and lack of sense of what the public wanted had brought the British industry to its bankrupt and inanimate condition should be safeguarded by legislation in [the] future from the consequences of their own stupidity... A measure which would promote the introduction of new blood and intelligence into film producing was the establishment of a national studio... If there was a national studio in this country, with a continuous technical staff and apparatus, there would be reduced costs and the possibility of a certain amount of experiment.³

In January Behrens appeared before the general purposes committee of the Brighton Corporation. The Council was favourably disposed towards his scheme provided that the government supplied financial assistance. At the next joint trade committee meeting however, it was decided that discussion of Behrens' plan should be deferred until 'other proposals for improving the general condition of the industry are taken into

1. PRO, CAB 23, 52.

2. The Times, 25 February, 1926.

3. Ibid., 25 January, 1926. Ivor Montagu was a founder member of the Film Society in 1925.

consideration by the trade'.¹ This lukewarm reception was prompted by Ormiston's incorrect announcement that 'the government clearly stated that no funds were available to support this scheme'. But as revealed by the Cabinet memorandum, the government was prepared to contribute on condition that most of the finance came from the trade. Ormiston's statement made this unlikely and from then on the central studio plan was overshadowed by discussions about quotas and release-reform.

Cunliffe-Lister and Lord Peel announced the new policy in March. At a meeting with an informal trade deputation Cunliffe-Lister confirmed that there was no question of a subsidy for the industry:

The answer is definitely no... the last thing in the world that I would suggest or countenance would be the entry of the Government into this business. If it were really said to me, and if the Government were convinced that the British film industry could be put on its feet by the Government undertaking the production of films, then I would say... there will not be any production of British films. You cannot take Government money without also subjecting yourselves to Government control, and that would be absolutely fatal to any industry in my opinion, but especially to an industry where initiative, enterprise, and risk - one thing a Government can never take - are essential.²

Thus even without the constraints of a free trade economic policy Cunliffe-Lister was opposed in principle to state funding for producers. The FBI had been premature to expect legislation in February and it was clear that the government was wary of becoming too involved in the industry's complex affairs. At this point yet another option was discussed: a reciprocal plan with the Americans.

4. The Reciprocity Plan

Tom Ormiston and Simon Rowson hoped that the Americans, in an attempt to persuade the British government that a high quota was unnecessary, might arrange for more British pictures to be shown in the States. They believed that this would enable producers to recover costs

1. Kinematograph Weekly, 4 March, 1926, p. 51.

2. Ibid., 18 March, 1926, p. 38.

quickly and make ambitious and successful films. Rachael Low and Simon Hartog briefly mention the attempt to reach an agreement, but offer scant detail or analysis of the causes and implications of its failure.¹

The first meeting between the joint trade committee and representatives of American film companies took place on 16 March. The British side regarded two aims as essential in any plan involving American distribution of British pictures: an increase in the number of films produced in British-controlled studios but utilising American technical assistance, and that for a period of five years the Americans should help British films either by contributing a large part of the negative costs in cash or by releasing them in the States.

The American representatives agreed to consult with their principals, but some British producers were doubtful from the start. Sidney Morgan was sceptical and regretted that 'they were negotiating to introduce American stars, film directors, and staffs'.² Tennyson predicted that it would result

in the production of American films under British disguise. In many ways this would be even more harmful to our prestige than the present virtual absence of British films from the screen... the establishment of such a scheme might effectively prevent British production ever re-establishing itself.³

A stern warning such as this did not bode well for a rapprochement with Hollywood, especially since it came from a member of the FBI's Film Producers' Group. Exhibitors seemed to be much keener on the idea, probably because it might have taken the spotlight off the quota scheme.

The joint trade committee met to hear the details in June. The objective was to obtain an undertaking from American companies to acquire British films for American release. Each firm had to take at

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1. R. Low, op. cit., p. 94 and Simon Hartog, 'State protection of a beleaguered industry', in J. Curran and V. Porter (eds.), British Cinema History (Weidenfeld and Nicolson, 1983), p. 63.
 2. Kinematograph Weekly, 1 April, 1926, p. 21.
 3. Ibid., p. 20.

least one British feature a year for every 25 American pictures offered for hire in Britain, and in certain circumstances two or more companies could combine for this purpose. Before, or on delivery of the negative, the producer was to receive one-third of the gross estimated receipts from the film's exploitation in the States and Canada, or the equivalent of one-third of the negative cost. The five-year scheme applied to pictures costing over £10,000 and a contract between members and non-members of the MPPDA, a British company, the CEA and a special new firm to supervise British films under the plan, was to operate the Anglo-American deal. The reciprocity committee's report stated that if its proposals were accepted it would also recommend the establishment of some large modern studios to be used by British and foreign companies. But crucial details, including special provisions to make sure that the Americans kept their word, were left for future discussion.

The plan received a cool reception from the joint trade committee and several members continued to voice their scepticism. Sidney Morgan wanted a safeguard that the films in question would employ largely British labour. T.A. Welsh argued that the Americans might secure world distribution of the films unless a strong British sales organisation was established. T.C. Elder's comments drew attention to the financial implications: he feared that the plan 'would tend to limit the financial support that would be necessary, as an investing firm would probably not consider giving its backing to any film outside the 25 which were assured of American release'. But an optimistic Simon Rowson answered this criticism by claiming that production units would continue to make cheaper films likely to make a profit from the British market and that financiers would want to support these as well as more lavish ventures. He estimated that under the reciprocity agreement the value of studio work would amount in the first year to about £400,000. At the end of the meeting the joint trade committee welcomed the principle behind the plan

to increase the output of good British films but felt 'further consideration should be given to expressed fears and apprehensions in order to discover whether these cannot be removed'.¹

According to Simon Rowson, who had corresponded with the Board of Trade about reciprocity, Cunliffe-Lister was sympathetic towards American participation in British production and the need for British films to win overseas markets, but he was also extremely anxious that the trade should not be diverted from devising a method of securing wider exhibition of British films in the home market.² In other words, he did not want reciprocity to lead to the abandonment of a quota plan.

What was the American view on reciprocity and the British film crisis? Back in August 1925 the US Bureau of Foreign and Domestic Commerce was alerted to the danger of protective film legislation in Britain by Major Solbert, an observer for the Hays Office who had recently visited British producers at the FBI.³ The spectre of quota legislation was conjured up in an attempt to persuade the Americans to distribute British films in their home market. Solbert had written in confidence to the acting commercial attaché in London:

Will Hays, and the more thinking of the American picture producers, realise that the virtual monopoly which American pictures have in the cinema theatres of the world is unhealthy, and that they want above all things to see good exhibitable British pictures produced... but that they do object most strenuously to legislation in this or other countries on the German contingent plan... He says that, with the influence which they wield in the American press, the American picture industry will, or at least may, start a vigorous anti-British campaign, if legislation of an undesirable type is enacted here.⁴

Even though serious discussions for a reciprocity plan did not begin until a year later, in October 1925 the Americans were definitely

1. Ibid., 17 June, 1926, p. 51.

2. The Times, 22 June, 1926.

3. National Archives, Washington D.C. (NA), RG 151, US Bureau of Foreign and Domestic Commerce, general records UK, 281, motion pictures, Letter to North dated 1 August, 1925.

4. Ibid. See chapter 6 for 1937-38 Anglo-American film crisis.

worried about Britain. F.L. Herron, head of the foreign department of the Hays Office, wrote to J.S. Connolly, their representative in Washington, of the deteriorating situation:

the agitation in England has reached the point where the British government should have some word from our government to the effect that we do not approve of the present or past anti-American outbursts relative to our films... It is simply a small group of producers who are instigating all this trouble... I think the Embassy in Washington could be prevailed upon to quietly express to the British government that our own government is interested in this question.¹

C.J. North of the Bureau of Foreign and Domestic Commerce instructed their commercial attaché in London to call at the Board of Trade

for the ostensible purpose of learning the details of the proposed plan but incidentally to indicate that the Department is naturally interested and somewhat concerned... At the same time a hint might be dropped that the virulent campaign being directed against American films by a certain section of the British press is also a subject of considerable concern... It should be brought home to the Board of Trade that the American government, through that branch of it charged with the promotion of our foreign trade, by its interest in the details of the proposed plan and also the anti-American press propaganda is by inference concerned over the situation.²

Like the FBI's memorandum, the 'Ormiston plan' caused the Americans great concern at the end of the year. But by 1926 a more complacent mood set in.

In January Hugh Butler, the acting commercial attaché, informed Washington that one American expert had assured him that in the long-term a quota might open the way for US control of the British film industry. Whereas in 1925 the German 'kontingent' had been held up as a dangerous example, its more recent history reassured the Americans that it might not be so objectionable after all:

The American industry, having before it the precedent of the German quota system and its outcome in the past year - namely - the purchase of the control of Ufa by American interests, feels it is most likely that the British situation

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1. (NA) RG 151, general records, 281/MP, Herron to Connolly, 31 October, 1925.
 2. (NA) RG 151, general records, 281/MP, North to Mitchell, 5 November, 1925.

would develop along similar lines in case a quota was established, in which case the American producers have nothing to fear in as much as they could eventually control British production.¹

In spite of the 'kontingent' Ufa, the large German conglomerate, was in financial difficulty in 1924-5. Encouraged to invest in the German film industry by the 1924 Dawes Plan, Paramount and MGM loaned Ufa \$4 million but demanded that the German company put its 'kontingent' certificates and cinemas at their disposal.² As the American trade paper, Variety, put it: 'the Deutsche Bank has tired of a yearly deficit and demanded the Ufa be made self-supporting. And so the capitulation to America'.³ Ufa also received a loan of \$275,000 from Universal and agreed to distribute its films in Germany. In 1927, however, Ufa was reorganised and the leader of the Nationalist Conservative Party (DNVP), Hugenberg, who was also a press baron, bought out the American interests.⁴

Although the Hays Office had been extremely anxious about events in Britain, in the end it seems to have totally miscalculated about the quota. Just after the publication of the Films Bill in April 1927 C.J. North wrote to an American trade commissioner in Paris:

The Hays people come in for a certain amount of underground criticism that their representative abroad should have returned to this country just about the time that the film bill was introduced. Of course Herron laughs it off by saying after all there is nothing further which can be done as the situation is out of hand... the said representative did not believe that there would be a quota.⁵

Clearly the Americans shared in the general confusion about whether there would be a quota in 1926, but the US government did not intervene directly as in 1937-38 just before the 1938 Films Act was passed. The US Consulate general reported early in 1926 that the anti-American press

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1. Ibid., Butler to North, 19 January, 1926.
 2. Richard Abel, French Cinema: The First Wave, 1915-29 (Princeton University Press, 1984), p. 30.
 3. Variety, 20 January, 1926.
 4. J. Petley, Capital and Culture: German Cinema, 1933-45 (British Film Institute, 1979), pp. 36-37.
 5. (NA) RG 151, general records, 281/MP, North to Canty, 14 April, 1927.

had little impact on Hollywood because its pictures were so popular in England.¹ In any case, the Americans could afford to be complacent. In the 1920s their film export trade was booming: exports rose from 146 million feet in 1923 to 178 million feet in 1924, and a year later they soared to 235 million feet. Even so, by the late 1920s they were becoming more and more concerned about the protection of European film industries. In 1928 Will Hays sailed to France in an attempt to revise the Herriot decree and the coming of sound placed more stress on the importance of the British market.²

Although the MPPDA's representative left London at the very time when the agitation for the quota intensified, it is possible that the recent formation of the Motion Picture Division of the US Bureau of Foreign and Domestic Commerce lulled the Hays Office into a false sense of security. The Kinematograph Weekly referred to the establishment of the Division as 'America's counter-move', and J.S. Connolly gave a full report of its functions. He argued that the 'majors' needed an official body to keep them in touch with developments in the international film trade, especially as it was feared that the protectionist trend in Europe might accelerate:

this movement once started, unless checked by counter-action on our part, bids fair to become so widespread as to constitute a serious menace to the continued maintenance of our foreign film trade. The aid which the Department of Commerce can give the industry during the next few years in fighting off these tendencies will be of great importance.³

But this concern did not prompt the Americans to intervene directly to alter or postpone the British legislation. Exports, however, were a vital source of income: Connolly claimed that American returns from abroad had leaped from \$2.25 million in 1913 to \$5.50 million in 1921. By 1925 foreign earnings had climbed to the vast sum of \$75 million. One

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1. Report from US Consulate General, London, 2 February 1926 to US State Department.
 2. Abel, op. cit., pp. 47-48 and see chapter 6.
 3. Kinematograph Weekly, 22 July, 1926, p. 28.

or two of the 'majors' received over 40% of their total revenue from abroad and in the 1920s Britain was their most important overseas market, Canada taking second place, Australia third and Argentina fourth.

Just before the Division was formed Dr. Julius Klein, director of the Bureau of Foreign and Domestic Commerce, claimed that motion pictures were responsible for an expansion of American trade in South America.¹ The Division sent trained commissioners abroad to argue the case for free trade in film. But in the 1930s the foreign department of the Hays Office was more important as a representative of the 'majors' overseas.

The reciprocity plan of June 1926 was sent to the States for examination, but when a formal reply was not forthcoming the talks ground to a halt. The formation of the Motion Picture Division made the British more sceptical about Anglo-American cooperation and in July the joint trade committee resolved that 'in the absence of any message from America... no useful purpose would be served by giving detailed consideration to them at the time'.² J.C. Graham of Famous-Players-Lasky reported that although the MPPDA representative in London had tried to persuade the American firms to accept the reciprocity plan, Will Hays remained unconvinced by it because the British film trade was so divided over the issue.³

In August British National Films, a company established in London by an American, J.D. Williams, completed a film started by Herbert

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1. Julius Klein, 29 January, 1926. Hearing before sub-committee of House Committee of Appropriations in charge of US Department of State, Justice, Commerce and Labour Appropriations Bill for 1927. Appendix to Cunliffe-Lister's memorandum for Imperial Conference, PRO, CAB 32/59, October 1926. Klein claimed to have been shipwrecked on the coast of South America in 1919. He found no difficulty in finding American ready-made clothing and 'upon enquiry I learned that the cause for the stock of American goods in their stores might be traced directly to the influence of pictures of American styles upon natives'.
 2. Kinematograph Weekly, 5 August, 1926, p. 32.
 3. Morning Post, 29 June 1926.

Wilcox entitled Nell Gwynn, starring Dorothy Gish. Wilcox had run into financial problems and British National performed the rescue operation. Williams managed to sell the film to Paramount for American distribution, and Paramount agreed to finance British National's next three films in exchange for their world rights. Oswald Stoll, who for a long time had advocated a reel tax of 1s a day on the exhibition of foreign films, was extremely angered by the deal:

The American company will reimburse the British company its expenditure on British pictures, so that it may continue to make British pictures with certain sums, revolving in this manner until all the other British production companies are driven out of business, and thus by means of so-called British pictures, the American control will be made absolute.¹

The Kinematograph Weekly dismissed Stoll's fears and The Times heralded the deal as 'the beginning of the way out of the present difficulties of the British film industry'. But on a wider basis the reciprocity scheme had come to nought. The discussions had temporarily shifted attention away from the advantages and disadvantages of quotas, and the failure of the talks was as much the result of British doubts as American indifference. The threat of quota legislation in Britain was not enough to force the Americans to distribute British films in the States. Making inroads into the very base of Hollywood's profitability proved to be an uphill struggle and subsequent attempts were similarly fraught with difficulties. But Cunliffe-Lister's plea to the trade to come up with its own scheme still stood and a final attempt was made to reconcile conflicting views in the summer.

5. Failure to reach trade agreement

The joint trade committee dissolved in August 1926 because its second attempt to arrive at a voluntary strategy had failed miserably. A lengthy report explained why.² Exhibitors and renters were still

1. Kinematograph Weekly, 2 September, 1926, p. 47.
2. Ibid., 5 August, 1926, pp. 29-31.

unconvinced about a quota because it did not ensure that the films produced under the system would be good. The reciprocity plan had failed and a 'kontingent' was rejected on the grounds that British production was too weak to supply a sheltered market on this scale. One scheme mentioned in the report was remission of Entertainments Tax for exhibitors who showed entire British programmes and the trade declared its willingness to prepare a more detailed plan if the government was interested. Other possibilities such as import duties, a reel tax and a finance corporation were ruled out because of international treaties; a reel tax would fall unfairly on small cinemas and the government had already refused to subsidise the industry. Without state support the City was unlikely to participate in the establishment of a film bank. The conflict of interest between the three parts of the trade had proved to be the major stumbling block:

Exhibitors would be satisfied to participate in a scheme which would secure for them a certain and sufficient supply of British films of suitable quality and price, but the safeguards to any compulsory scheme your committee has so far proposed have failed to remove the apprehensions of the general body of exhibitors.

Genuine doubts about a quota persisted and it is remarkable that the government pressed on with its desire to help British films in the face of such indecision.

The FBI submitted another memorandum to Cunliffe-Lister on 6 October recommending a 12.5% quota (90 British films).¹ The CEA's general secretary, W.R. Fuller, was quick to point out that this was ridiculously over-optimistic because only 28 British features were trade shown between August 1925 and July 1926. Whereas the FBI calculated that the output of twelve studios was 115 features, Fuller estimated that in the following year there would be only about 40 British films available:

A 12.5% quota would give the British pictures produced to fill that artificially created demand a monopoly value that

1. Ibid., 4 October, 1926, pp. 71-72.

exhibitors would be compelled to pay. As there would not be any guarantee as to quality, exhibitors foresee themselves forced to book at high prices pictures that might be entirely unsuitable to their patrons... Obviously a solution on these lines from a body of industrialists primarily concerned with the advertisement of their industrial wares, cannot command itself to a body of exhibitors whose function is to retail entertainment to the public.¹

Tennyson defended the FBI's position, pointing out that at the end of 1925 the CEA had had no qualms about a 10% quota and that since legislation would not come into operation until after July 1927 a 12.5% quota was hardly unreasonable. Thus, before the Imperial Conference it seemed that the FBI's quota was winning the arguments. The trade had failed twice to produce a scheme and attention began to move away from its internal wranglings to the Imperial Conference.

6. Film, Empire and the Hollywood Invasion

The conflict of British and American interests was evident in almost all the main issues of the day - naval power, trade policy, access to raw materials, the containment of Japan, and so on. But its most characteristic expression was a topic rarely dealt with in subsequent histories, but which is littered throughout the British records, public and private: the export of American culture and its head-on clash with 'British values'. Post-war imperial rhetoric reached its most strident note when it focused on these cultural questions. Predictably, it was around Hollywood and its near-monopoly of the popular film market that these fears crystallised... whilst the British and Australian publics were bitterly divided by their common love of cricket... the Australian and British publics were united in their mutual adulation of Jean Harlow.²

The 'denationalising' effects of the American film had already been lamented many times by 1926. One of the major themes of the Lords debate in May 1925 was the role of film as a bond of Empire and that the impact of American movies seriously threatened commercial and cultural relations between Britain and the Empire. Hollywood's films were often cited as attempts to discredit the British. In 1926 an American company

1. Ibid., 11 November, 1926, p. 59.

2. R.F. Holland, Britain and the Commonwealth Alliance, 1918-1939 (Macmillan, 1981), p. 36.

produced a film about Australian convict life based on a novel by Marcus Clark that dwelled on 'English brutality'. The impact on Australian audiences was feared and an English visitor wrote home with alarm about potentially dangerous repercussions overseas: 'if this film does get abroad it will be used to condemn England in the blackest possible manner, and do more towards smashing up the Empire than anything so far attempted.'¹ The BBFC's attitude was not dissimilar. Pictures considered to 'misrepresent' British imperial rule were banned.² Fifty years later the Australian-made Breaker Morant indicting the British execution of Australian 'irregulars' fighting against the Boers in 1900 was received with critical and commercial acclaim in the U.K.

The pro-imperial press was full of articles about the alleged dangers of the decline in British production. The Referee welcomed the news that the Imperial Conference was to discuss film, commenting that this was extremely appropriate and important because

the influence of the screen is harmful to the moral and material stability of the Empire... the havoc being wrought within the Empire by the rank and file of American films is such that their number must be drastically lessened and the number of Empire films greatly increased. It is an event of the utmost importance that the Imperial Conference should consider the American film menace from an Empire point of view, because, while we are fully capable of fighting off America in Britain, it is the aim of all decent citizens that the cinema should become a real bond of Empire.³

The Referee's comments on the need to revive British production could, at times, reach hysterical proportions: one piece referred to the American film in Britain as 'an army of occupation... this unclean thing which is striking at the very roots of our Empire's stability'.⁴ Aldous Huxley was quoted in the Catholic Times when he commented on the film crisis:

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1. PRO, DO 35/14, E.T. Miller to H.S. Martin, 24 August, 1926.
 2. Jeffrey Richards, The Age of the Dream Palace: Cinema and Society in Britain 1930-39 (Routledge and Kegan Paul, 1984), p. 137.
 3. Referee, 4 July, 1926.
 4. Ibid., 8 August, 1926.

The colonial peoples think a great deal less of us than they did, even though they may be too cautious to act upon their opinions. For this state of affairs the motion pictures are not, of course, alone responsible. The spread of native education, the unedifying spectacle of the World War, the talk about self-determination and the sacredness of nationality, with the promises of liberation made and never carried into effect - these have done much, perhaps most. But the share of Hollywood in lowering the white man's prestige is by no means unconsiderable.¹

The link between Britain's economic decline, America's increasingly dominant role in the world economy, and the slump in British film production was often referred to in Parliament and by the press. If the film industry was allowed to perish, the effects were feared to be far-reaching. As Britain's staple industries languished American domination of the cinema screens was perceived as the cultural face of economic domination. Thus the struggle of the British film industry to combat the 'Hollywood invasion' became a symbol of national survival. There was an element of pomposity and jingoism throughout the debates and politicians often assumed that any British film, regardless of quality, would automatically be superior to an American picture. It was taken for granted that British films represented 'British values', and an unspoken assumption about the pre-eminence of the British 'way of life' meant that in the end little heed was paid to the content and quality of films to be produced by a protected British industry. Attention tended to focus on the differences between the American and British film industries.

7. The Empire Marketing Board

The heightened awareness of the trade and propaganda value of the film expressed by the Conservative Party, the Board of Trade, the FBI and by many speakers at the Imperial Conference influenced the birth of the Empire Marketing Board (EMB) in May 1926 'to further the marketing

1. Catholic Times, 15 August, 1926.

in the UK of Empire products, including home agricultural produce'.¹ There were also more specific political reasons for its foundation. In 1923 Cunliffe-Lister had been chairman of the Imperial Economic Conference, and it was agreed some new duties would be introduced as well as preferences on articles already paying tariffs. In all, the programme would have meant a considerable increase in Imperial Preference, but after Baldwin's 1924 election pledge the Conservatives could not implement it in full, as Leo Amery, the Colonial Secretary, remembered:

When we came into office we were confronted by some loose remarks made by Baldwin in one of his election speeches which were held, by the Cabinet, to preclude even the most modest additional preferences on anything that was edible or potable. I protested as best I could against the idea that a formal agreement between Governments should have to be repudiated simply because of a stray and really ambiguous phrase in a speech. But the panic complex left by the unlucky 1923 election was still too strong.²

As a compromise, reluctantly agreed to by Amery, Cunliffe-Lister suggested £1 million, the amount of revenue that would have been raised by the new duties, should be set aside a year to promote 'the better marketing of Empire produce in this country'. Amery established the EMB and under the leadership of Stephen Tallents it encouraged scientific research to improve the quality of Empire goods; investigated market conditions, and publicised Empire produce. In the latter field the Board was particularly innovative, especially in its use of film. Tallents recruited Walter Creighton as film officer, and John Grierson to prepare memoranda on film propaganda and conditions in America.³ Cunliffe-Lister was most impressed with his reports, but when it came to the question of the Board producing its own films, the Treasury was obstructive. Although Cunliffe-Lister was responsible for the idea to set aside the

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1. P.M. Taylor, The Projection of Britain. British Overseas Publicity and Propaganda, 1918-1939 (Cambridge University Press, 1981), p. 104, EMB Annual Report 1928-29, emb 19, p. 5.
 2. L.S. Amery, My Political Life, Vol. 2 (Hutchinson, 1953), p. 346.
 3. PRO, BT 64/86/5511/28, Grierson memorandum, April 1927.

£1 million, his later attitude towards the EMB was ambiguous. He did little to promote its survival when it was threatened by Churchill's Treasury cuts.¹ When Grierson's first venture for the EMB, Drifters, was considered in 1928 the subject of the herring industry was deliberately chosen by Tallents because the Financial Secretary to the Treasury, Arthur Michael Samuel, had written a book on the topic. Amery recalled:

At the decisive interview at my office his weighty official objections to the whole fantastic idea of our film product were successfully countered by the judicious suggestion that his personal expert knowledge might be invaluable to us for the particular film.²

The Unit attracted talented people like J.D. Davidson, Edgar Anstey, Arthur Elton, Basil Wright and, for a time, Paul Rotha and John Taylor. The Canadian documentary film maker, Robert Flaherty, shot Industrial Britain, a film edited by Anstey and Grierson that was completed in 1933. A film library was established in October 1931, and by the autumn of 1933 it distributed 800 films to schools and institutions. However, costs rose - whereas in 1926 film absorbed £1,217 out of the EMB's total expenditure of £134,804, by 1929 it swallowed up £17,748 out of £222,361.³ The films did not do well in the commercial cinema, and the Unit was not able to convert to sound until 1933 when Ideal Films agreed to buy 6 films to which soundtrack was added. A report of the Imperial Committee on Economic Consultation and Co-operation recommended that the EMB should be dissolved in 1933, not because of the performance of the Film Unit, but because of the generally unfavourable economic climate of the early 1930s. Sir Stephen Tallents became the Public Relations Officer of the General Post Office (GPO), under the Postmaster General, Sir Kingsley-Wood. When the EMB was disbanded its Film Unit was transferred to the GPO providing an outlet for the work of the Documentary film movement.

1. Cross, op. cit., p. 69, footnote 46.
 2. Amery, op. cit., p. 354.
 3. PRO, DO 35/203 (A).

Although a Colonial Film Unit was not established until 1939, there were experiments in the use of film for educational propaganda purposes in the colonies in the 1930s, e.g. the Bantu Educational Kinema Experiment that produced films in 1935-7.¹ The Colonial Office also helped to produce the influential report that led to the foundation of the British Film Institute, The Film in National Life. It is clear that these developments were central to the debates on the protection of the British film industry, the revival of which the Colonial Office depended on to counter the 'denationalising' and harmful commercial influences of the American film.

8. The Imperial Conference, 1926

The FBI's overseas committee had asked Cunliffe-Lister in April to put the film question on the agenda of the forthcoming Imperial Conference² Three Imperial Conferences had been held at irregular intervals since 1911. This gave the British government and the Dominions an opportunity to discuss imperial relations. The 1926 Conference was held in London in November. An Economic Sub-Committee was appointed to prepare reports on various problems, including film, for submission to the main gathering. The Board of Trade supplied it with relevant data and a secret draft quota Bill.

The first memorandum written by Cunliffe-Lister in June 1926 drew attention to the 'quasi-monopolistic control of the market' by Hollywood and the dangerous consequences for imperial relations. The Economic Sub-Committee learned of exhibitors' objections to a quota system and of the government's dilemma:

It is clearly undesirable that so very large a proportion of the films shown throughout the Empire should represent modes of life and forms of conduct which are not typically British.... The problem... is to develop the industry in this

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1. R. Smyth, 'Movies and Mandarins: the official film and British colonial Africa' in Curran and Porter, op. cit.
 2. Kinematograph Weekly, 22 April, 1926, p. 31.

country on a sound economic basis, and this can only be by the production of films which shall be British in character and atmosphere and also be of such entertainment value as will enable them to obtain a remunerative market. The solution of this problem is primarily a task for those directly concerned, but there is room for State action to encourage and facilitate their efforts.¹

In October Cunliffe-Lister presented the Sub-Committee with a more detailed memorandum giving some basic data about the extent of American domination throughout the Empire.²

The rate of customs duty on films entering Britain was 1d per linear foot on positives and 5d on negatives, but films made in the Empire were granted preferential rates of $\frac{2}{3}$ d and $3\frac{2}{3}$ d. In Australia British films entered duty free and in 1925 the total length of imported film was 26 million feet: 25 million, or 95.9% of the total, came from the States, but only 836,371 feet came from Britain. Apart from the sheer volume of American films entering Australia British films had a poor record there because American films were cheaper to hire and block booking was well established. The absence of a British organisation to inform the Dominions about the major film companies and the latest pictures did little to help the situation.

In Canada British films received a tariff preference but in 1925 only 303,569 feet, or 1.3% of the total 22 million feet of film imported were British. But this low figure could well be misleading because some British producers sold the Canadian and American rights of their films to American distributors, so that when the pictures were imported by Canada they appeared on the trade returns as American rather than British. Nearly all Canadian cinemas were controlled by American interests, and the Famous-Players-Canadian Corporation dominated 80% of 'first run' cinemas in the Dominion. The senior Trade Commissioner in Canada warned of the dangers of this unhealthy state of affairs:

1. PRO, CAB 32/48.
2. PRO, CAB 32/59.

United States films appear to serve in large measure as a continuous means of US propaganda. Therein are depicted the US flag, US soldiers, police, important personages, advertisements, motor cars, fashion styles, products... US industrial and commercial firms recognise the value of US story films as trade and general propaganda, and contribute very substantial sums annually to the maintenance and extension of the work of the MPPDA... Mr. W. Hays... addressing the New York Advertising Club early in the year said: 'The advertising that we do for our pictures is but a small part of the advertising that we actually do. We are advertising America itself'.¹

When the Quebec censor tried to discriminate against American movies the 'majors' retaliated immediately by threatening to boycott the Province.

In New Zealand British films fared badly: of 10 million feet imported in 1925 only 495,609 feet, or 4.6% of the total, were British. The fact that British films did not have to pay import duties did not prevent them from being swamped by competition from Germany and America. In India British films did not enjoy tariff concessions but they accounted for 36.1% of the total 9 million feet imported in 1925. The figures for South Africa show a similar proportion of British pictures but both were deceptively high because trade returns included re-exports which were not British.

Cunliffe-Lister outlined the various possibilities for aiding British production. A special tax on foreign films was ruled out because it would contradict 'the most favoured nation' clause in commercial treaties. The idea that exhibitors who showed British films might be entitled to a rebate of Entertainments Tax was rejected on the grounds that it might encourage other forms of entertainment to demand similar concessions. An ad valorem duty on film rentals was discarded because of the problems of estimating a picture's probable earnings at the time of importation.

Cunliffe-Lister also presented the Economic Sub-Committee with a confidential draft Bill recommending a renters' quota of 7.5% to

1. Ibid.

increase by stages to 25% by 1935. The definition of a British film was similar to that suggested by the FBI and there were several safeguards for renters who found the system too exacting. Rachael Low claims that the Films Bill was based on the report of the Imperial Conference in November,¹ but the draft Bill presented to the Economic Sub-Committee in October shows that Cunliffe-Lister had decided on the quota long before. In any case, the Imperial Conference was doubtful about whether a quota would really solve the industry's problems and did not recommend a definite plan.

Just before the Economic Sub-Committee published its report, the FBI, eager to take the opportunity to air its views, publicised its latest scheme for cooperative distribution of Empire films.² A limited company should purchase the Dominion rights of Empire-made films and share the gross takings equally between producers and the sales organisation. Producers who used the new company were to be guaranteed quicker cash returns from the exhibition of their pictures than the customary rate. One of the problems for producers was the long delay between spending money making a film and receiving the returns from exhibition. The FBI calculated that the organisation would need capital of £200,000 and that it should handle 40 features in its first year and 60 in its second. A quota was considered to be essential to encourage investors to finance the plan. In the meantime, the FBI suggested a provisional scheme involving reciprocal arrangements with any Dominion in which an adequate local organisation could be established. The FBI's Film Group agreed to urge members to make full use of any such company. Producers were to receive a variable sum, according to the value of each film, in advance of their fixed percentage of the gross receipts. The Film Group was to have a nominee on the board of the Dominion company

1. R. Low, *op. cit.*, p. 96.

2. Kinematograph Weekly, 18 November, 1926, pp. 59-60.

and the FBI's cooperation even extended to an offer of co-production if the distribution company wanted to engage in film-making.

On 18 November the General Economic Sub-Committee finally issued its report.¹ After summarising the drawbacks of duties the report gave a serious warning about the dangers of an unregulated quota:

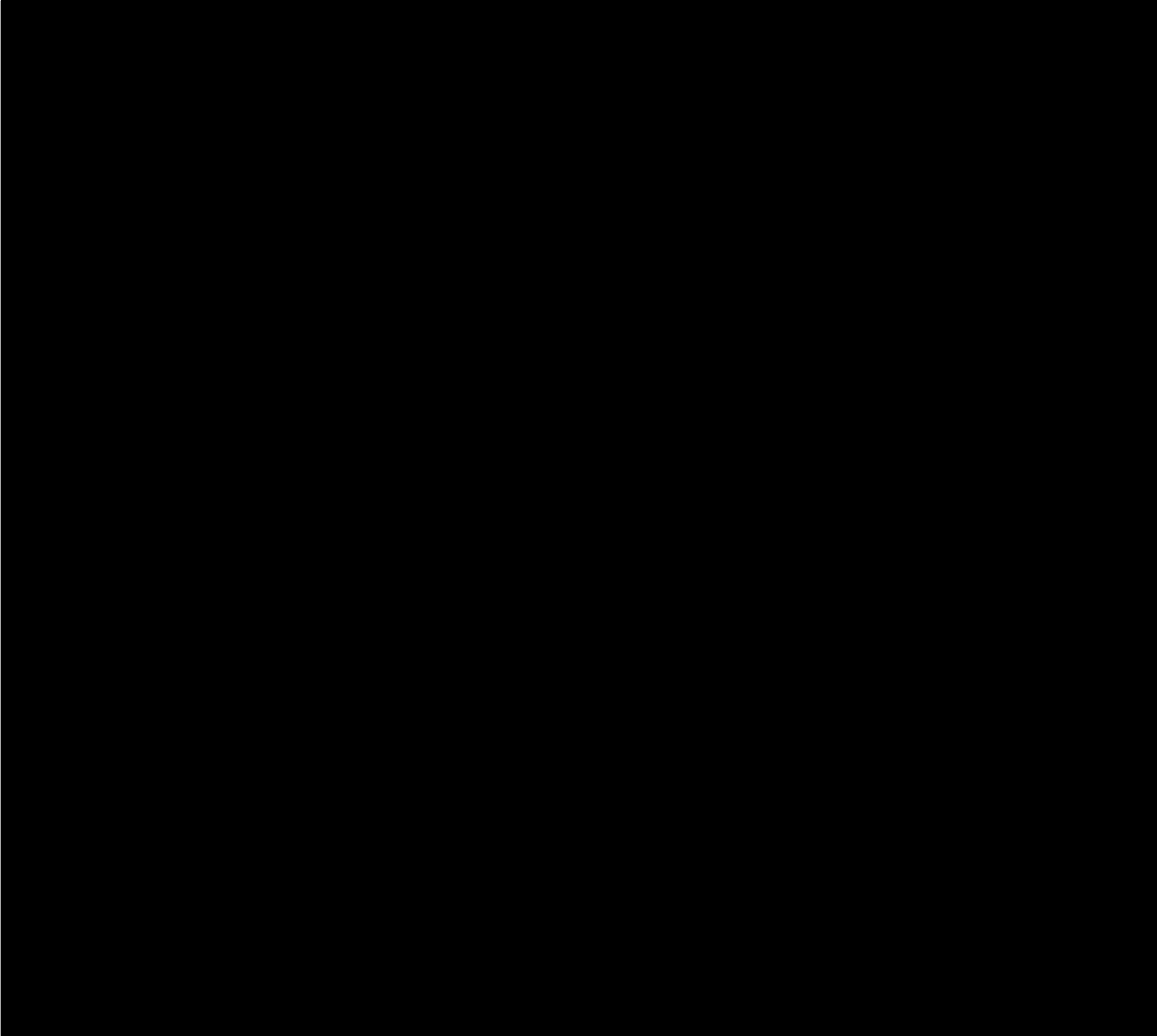
State action cannot be effective... so far as any quota system is concerned... unless two conditions are fulfilled. The first is that there shall be a substantial output of films which not only conform to such requirements as to production within the Empire as may be prescribed in any case, but are also of real and competitive exhibition value.

Britain was left to take the initiative and the Conference was wound-up with an indecisive resolution:

The Imperial Conference, recognising that it is of the greatest importance that a larger and increasing proportion of the films exhibited throughout the Empire should be of Empire production, commends the matter and the remedial measures proposed to the consideration of the Governments of the various parts of the Empire with a view to such early and effective action to deal with the serious situation now existing as they may severally find possible.

The Kinematograph Weekly blamed the report for 'sitting on the fence', but The Times approved of its warning that a quota must provide safeguards to ensure that films would be good enough to encourage exhibitors to treat them equally with American product. Cunliffe-Lister had hoped that the Conference would help him decide on the best way to revive British production. Instead he was left with the prospect of having to introduce a quota scheme which by the end of 1926 had already been hotly criticised in many quarters.

1. PRO, CAB 32/59.

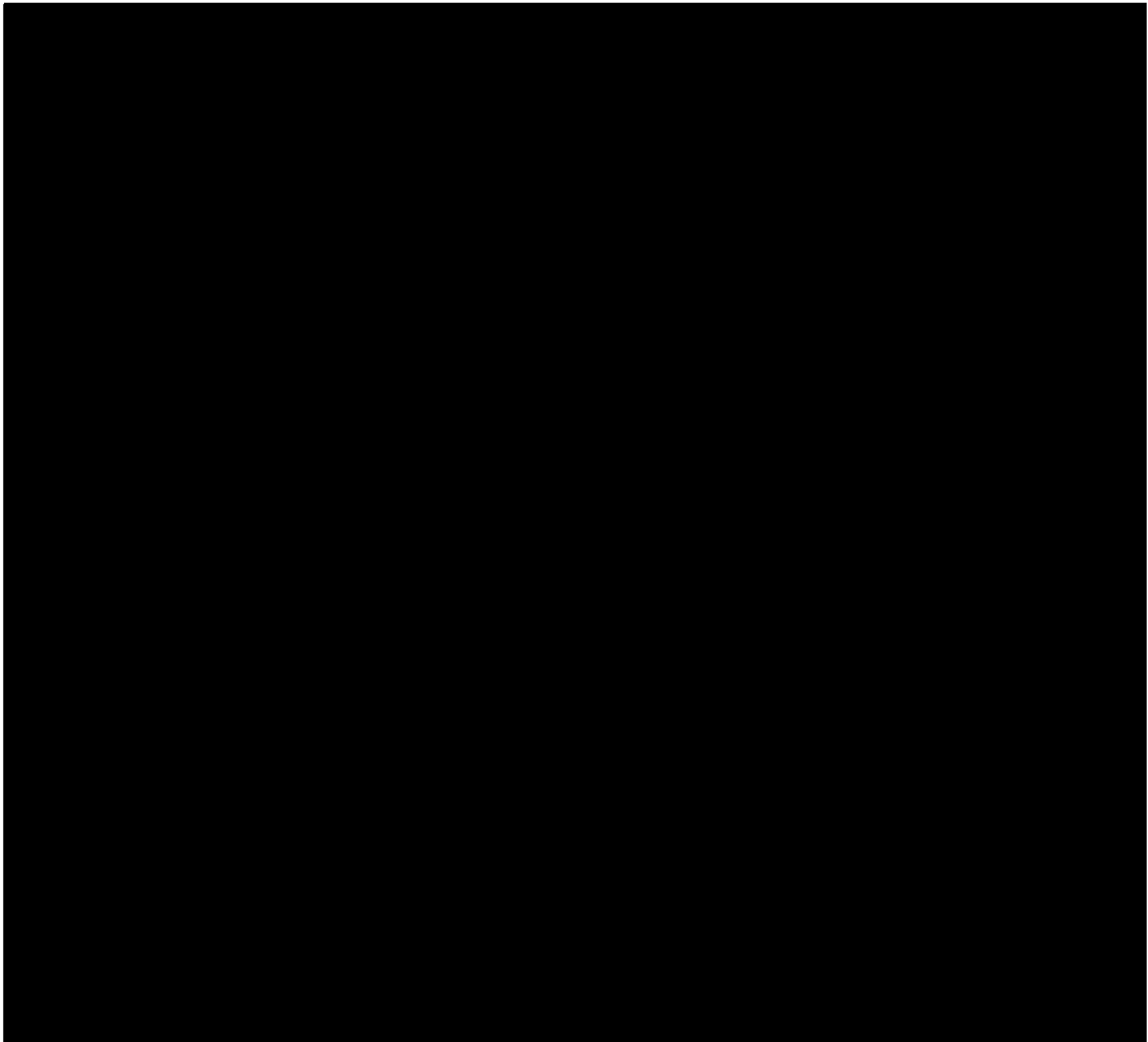


State protection for the film industry?

The producers look to Westminster.

Kinematograph Weekly, 19 March 1925

Table 8
CEA Annual Conference



Source: Kinematograph Weekly, 2 July, 1925, p. 41.

Chapter 3

THE CINEMATOGRAPH FILMS ACT 1927 AND ITS AFTERMATH

1. The Eve of the Films Bill

In January 1927 the CEA, KRS and FBI had separate meetings with Cunliffe-Lister. According to the FBI's first public statement since the Imperial Conference, the path was clear for legislation. Tennyson reassured exhibitors that films produced under the impetus of a quota system would not be bad because British films had recently improved 'under the stimulus of public demand'.¹ But at that time exhibitors were more preoccupied with the 'key theatres' problem, or attempts by American renters to control the best cinemas in London's West End and in other major cities. The thorny issue came to a head when the CEA's general council recommended a boycott against Famous-Lasky for its proposed purchase of two Birmingham cinemas. The dispute was not settled until March when Famous-Lasky agreed that one hall would be operated by a British exhibitor, while the other was to be used solely as a 'shop window' for Paramount films and would not compete unduly with other halls in the area.² But exhibitors were temporarily distracted by the incident from launching a final anti-quota campaign.

As soon as it became clear that a Films Bill was imminent, a succession of last-minute schemes abounded which concentrated on the need to secure a sound financial base for the industry. Oswald Stoll continued to press the case for a 'reel tax' and the British Empire Review publicised A.C. Bromhead's plan for a private film bank. Bromhead argued that although the film industry would benefit from a quota, 'companies of proven stability and capable of producing first-class

1. Kinematograph Weekly, 13 January, 1927, p. 49.

2. The Times, 26 January, 1927 and 23 March, 1927.

films' were desperately short of capital.¹ The bank was to be funded by British manufacturers who might be 'induced to take a more direct and profitable interest in British films', and all applicants for loans had to have secured preliminary finance and a distributor's guarantee. The terms were stringent: loans had to be repaid within six months of the picture's first showing and the bank was to hold the negative as collateral security.

The Times welcomed a suggestion from Sir Sidney Low, a member of the committee established in 1923 by the Imperial Education Conference which produced a report on The Use and Value of Cinematograph in Education. Low urged the FBI to prompt financiers and bankers to either engineer an amalgamation of leading British film companies, or form a completely new vertically integrated combine with a capital of £2-3 million.² Sir Max Muspratt, the FBI's president, confirmed that his organisation dearly wanted this to happen but so far its efforts had come to nought, 'owing to the state of the film market and the dominating position of foreign interests. It is our conviction that until some protective legislation is passed adequate finance will not be forthcoming'.³ This 'conviction' proved to be correct.

The press took sides on the quota. The Times and the FBI welcomed Sir Sidney Low's scheme, but their views were diametrically opposed as far as a quota was concerned. The Times warned that an 'undiscriminating quota' opened the door to all sorts of dangerous abuses:

The advantage of a quota to manufacturers is likely to be but temporary and to be counter-balanced by a loss to renters and exhibitors who may be forced to offer second-rate work to the public... because a 'British film' cannot be easily defined, and the result of the measure may well be not to give assistance to genuinely British makers, but to encourage an invasion of foreigners anxious to establish 'British' branches on British soil and to evade the law's intention by fulfilling its verbal requirements.⁴

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1. Kinematograph Weekly, 20 January, 1927, p. 59.
 2. The Times, 26 January, 1927.
 3. Ibid., 29 January, 1927.
 4. Ibid., 19 January, 1927.

The Morning Post, keen to stress the benefits of a quota for imperial unity, published a letter by Reginald Wilson, the general secretary of the British Empire Union:

Certain reforms are undoubtedly necessary, not only to establish the British film industry, but to prevent the exhibition of films alien to British traditions, and which are unhealthy in tone and might subconsciously stimulate and encourage thoughts and ideas detrimental to British patriotism.¹

The Daily Telegraph welcomed the prospect of a Films Bill:

We have always been cold friends to any form of censorship or restriction upon art. Such interference, as we hold, is to be justified only as a matter of practical convenience for particular conditions. A statute to regulate the exhibition of films, however, would not be interference with the freedom of the picture-houses, but their liberation from restrictions.²

The Daily Mail urged that the films question should be settled once and for all:

We have repeatedly urged the importance of giving all possible support to the British film industry... It is impossible on national grounds for the government of this country to leave that medium of influence here in foreign hands. It is a moral rather than a commercial question.³

The pressure was on the government to issue its Bill. At the end of January The Times published an FBI-inspired letter advocating a 12.5% quota which had also been sent to Cunliffe-Lister and Winston Churchill by groups including the Navy League, the National Union of Manufacturers, the British Association of Film Directors and the British Empire Film Institute.⁴

2. The Films Bill

Cunliffe-Lister claimed in his autobiography that 'for the first and last time I drafted practically the whole of the [Films] Bill

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1. Morning Post, 27 January, 1927.
 2. Daily Telegraph, 31 January, 1927.
 3. Daily Mail, 24 January, 1927.
 4. The Times, 29 January, 1927.

myself'.¹ But when it was published on 11 March it was clear that he had drawn heavily on the FBI's memoranda and the CEA's draft Bill on release-reform.² The quota percentages were lower than those recommended in the 'Ormiston plan' or by the FBI. The renters' quota was to start operating on 1 January 1928 at 7.5%, rising by stages to 25% by 1935. The exhibitors' quota was also to begin at 7.5% but not until a year later to ensure that renters would be able to supply them with a reasonable selection of films, and their quota was to reach 25% by 1936. According to Cunliffe-Lister, exhibitors who were anxious that the Act's administration should be in the Board of Trade's hands, welcomed the news that the Board was to register the films.³ And as the CEA suggested in 1925, all films had to be trade shown and delivered not more than six months after the booking contract.

Cunliffe-Lister's main personal contribution to the Bill was the Advisory Committee to assist the Board with administering the Act. Consisting of two representatives of film-makers,⁴ two renters, four exhibitors and three independent members including the chairman, the body was to be trade-dominated with a conspicuously large number of exhibitors. The FBI and the 'Ormiston plan' had proposed very different advisory bodies: the FBI's consisted of non-trade members, two to be chosen by the Board of Trade and one by the Board of Education. They were to be assisted by four non-voting 'assessors' representing the film trade. The 'Ormiston plan' envisaged a committee with equal trade and independent membership. Clearly the Board of Trade intended from the

1. Lord Swinton, I Remember (Hutchinson, 1949), p. 53.

2. Kinematograph Weekly, 17 March, 1927, pp. 46-49.

3. Swinton, op. cit., p. 54.

4. In the Bill's terms a film-maker was defined as 'the person by whom the arrangements necessary for the production of the film are undertaken', i.e. what we call today 'the producer'. The Bill defined 'the producer' as 'the person responsible for the organisation of the scenes depicted on the film', i.e. what we call today 'the director'.

start to seek advice primarily from within the industry, more so than the trade itself had originally envisaged.

To rank as 'British' a picture had to be made by a British subject or British-controlled company. The latter, in keeping with the FBI's stringent definition, had to have majority British voting power. Unless the Board of Trade authorised the use of foreign studios because of special circumstances connected with the story, all studio scenes had to be shot in the Empire. The author of the scenario, or of the original work on which it was based, had to be British and 75% of labour costs, excluding payments for copyright, to the producer and to one actor or actress, had to be paid to British subjects or persons domiciled in the Empire.

There were various penalties for non-compliance, but if renters and exhibitors were able to prove that they could not honour their quota obligations for reasons beyond their control, the Board of Trade could award them exemption certificates. One unusual clause granted renter-producers the privilege of 'transferable quota': if a renter-producer had managed to exceed the minimum quota any surplus could be passed on to another renter.

Reactions to the Bill were mixed. T.A. Welsh of Welsh-Pearson, anxious that British films should achieve their 'place in the sun', highlighted the need for greater cooperation with America as well as for a quota.¹ Oswald Stoll was highly critical: 'A non-British combine is free to form a subsidiary company here with British capital, and in that guise to make the British pictures which will constitute the necessary quota'. On the other hand, Michael Balcon of Gainsborough Pictures thought the Bill was 'inevitable, for we must admit the trade's failure to solve its own problems unaided'. Jeffrey Bernard, of the W. & F. Film

1. Kinematograph Weekly, 17 March, 1927, p. 59.

Service, claimed the potential legislation was 'the finest opportunity yet for firms like Gaumont, W. & F. and Stoll'.

The Times was unhappy with the trade-dominated Advisory Committee and continued to damn 'undiscriminating protection' which would only attract 'men of straw eager to obtain a quick profit by any means that lie at hand'.¹ The paper also argued that the definition of a British film encouraged the development of what it considered to be an unhealthy 'star system' along American lines which militated against a genuinely British film industry. If 25% of a production team could be foreigners and a major foreign star headed the cast, The Times doubted whether the films would appear to be British except on paper.

The Labour press came out against the Bill. The Daily Herald reported George Bernard Shaw's disparaging comments: 'My contempt for it deprives me of the power of speech'.² The paper went on to assert that 'the quota arrangements will open the way for filling the screen with propaganda under the guise of British film production'. Col. Harry Day, the Labour MP for Central Southwark who was also an exhibitor, argued that the Bill did little to encourage the production of better British pictures. According to the Daily Herald, one film correspondent believed that the movement for state aid had been pioneered by 'the captains of industry' who were purely interested in trade. Labour MP Arthur Greenwood wrote an article on the government's so-called 'movie muddle'.³

The Daily Express opposed the Bill for different reasons. Its proprietor, Lord Beaverbrook, had extensive cinema interests in the large PCT circuit. Exhibitors were willing to show more native pictures but only if they had the same drawing power as Hollywood's offerings. Although the paper lamented that the Bill did little to promote the

1. The Times, 14 March, 1927.
2. Daily Herald, 15 March, 1927.
3. Ibid., 16 March, 1927.

production of distinctively British films, it is more likely that its objections sprang from Lord Beaverbrook's self-interest than out of purely patriotic motives:

From beginning to end of these quota negotiations, not one word has been said about producing the kind of film which the British public wishes to see... The plain truth about the film situation is that the bulk of our picture-goers are Americanised to an extent that makes them regard a British film as a foreign film, and an interesting interlude in their favourite entertainment. They go to see American stars; they have been brought up on American publicity. They talk American, think America, and dream America. We have several million people, mostly women, who, to all intent and purpose, are temporary American citizens.¹

3. The Films Bill in Parliament

You cannot treat the film industry as if it were an isolated industry or trade, the activities and the success or failure of which affect only those who are engaged in it. On the success or failure of the British film industry much more depends than its own future. It inevitably involves great interests, national and Imperial, and the anxiety which was expressed at the Imperial Conference, and the determination which was registered there to remedy an intolerable position, are shared, I believe, by the majority of British people throughout the whole Empire. That determination must be translated into action, and I commend this Bill to the House as the only constructive proposal which has yet been put forward to achieve that end. (Cunliffe-Lister).²

I am quite certain that when it is operating we shall find that all the disastrous consequences which we, from this side of the House, have stated as certain to happen will be realised, to the great disadvantage of the industry as a whole. (Snowden, Labour).³

Sir Philip Cunliffe-Lister moved the Bill's Second Reading in the Commons on 16 March. He fully employed the by now familiar arguments in favour of encouraging the growth of a British film industry and the need to combat 'the Hollywood invasion': trade, culture, morals and Empire.⁴ He cited an interesting incident of anti-Films Bill propaganda,

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1. Daily Express, 18 March, 1927.
 2. Parliamentary Debates (Commons) Vol. 203, 16 March, 1927, Cols. 2049-50.
 3. Ibid., vol. 204, 22 March, 1927, Col. 246.
 4. Ibid., Vol. 203, 16 March, 1926, Cols. 2039-2112; Vol. 204, 22 March, 1927, Cols. 237-310.

obviously hoping to inflame patriotic feeling in the House. Cunliffe-Lister had received a telegram which had also been sent to exhibitors signed by 'Unfilman', instructing the Bill's opponents to wire their MPs.¹ He soon discovered that the mysterious 'Unfilman' was none other than the telegraphic address of the European Motion Picture Company (Universal's UK subsidiary), a name that was familiar to MPs in another context:

The House may remember a certain incident which filled everyone with disgust in which a territorial officer in command of a brigade was brought out with his brigade under false pretences, put into an entirely false position, and made to escort a foreign film. The House will be surprised to learn that the company which sent this telegram was the same company which perpetuated that outrage on British troops.

The facts of the story were revealed by the trade press after the debate.² The telegram had been written by John Harrison, a Manchester exhibitor who was a leading figure in the anti-quota campaign led by the CEA's Manchester branch. Harrison devised the telegram plan without official CEA backing because he wanted to make sure that MPs were fully aware of the views of CEA and non-CEA members. He explained that the idea was his alone and that he had simply used European's mailing list to send the telegrams. J.V. Bryson, who claimed never to have expressed an opinion on the quota, informed the Kinematograph Weekly that European had sent Harrison's telegrams purely as a personal favour. The CEA's general secretary, W.R. Fuller, quickly disassociated his organisation from the telegrams but at the same time mentioned the continuing ban on showings of The Phantom of the Opera.³

1. Ibid., Col. 2043.

2. Kinematograph Weekly, 24 March, 1927, p. 39.

3. In September 1927 the European Motion Picture Company released Universal's War Hawks in Britain. The picture was about the RAF in France in the First World War and although passed by the BBFC it was severely criticised for inaccuracies and misrepresentation. The Air Ministry objected strongly to the film.

The Labour Party's case against the Bill was based largely on exhibitor opinion. Ramsay MacDonald was in favour of proposals to restrict blind booking, but violently opposed a Bill 'which compels British traders to supply goods irrespective of their comparative merits and the demands of their customers'.¹ MPs including Walter Runciman (Liberal) and Col. Harry Day (Labour) acknowledged the technical superiority and undoubted popularity of American films, arguing that a Bill without a 'quality clause' would inevitably force bad British films on an unwilling public. But the main thrust of MacDonald's argument was that a surfeit of American culture was unhealthy and that the production of good British films should be encouraged. He applauded the promotion of a characteristically British cinema but considered that the quota was the wrong way to achieve this aim. In his view the Bill was a sham because the definition of a British film did not touch film content or stipulate that a film should look British by using distinctive costume and settings.² MacDonald was particularly critical of Cunliffe-Lister's Advisory Committee:

In a Committee like this it is not the interests that you want represented, it is the people who are interested in the cinema industry not merely from a production point of view but from its social and artistic point of view. What is wanted on the Committee is a representation of educational people, who understand the political implications... people who will bear the same relation to the film industry that the Broadcasting Corporation bear to broadcasting.³

In subsequent years many critics of film policy advocated a similar body to that described by MacDonald to stand above trade conflicts and regulate the industry. He also suggested some sort of subsidy in a letter published by the Kinematograph Weekly just after the debate:

1. The assistance should only be for a time, sufficient to enable British film production to root itself.

1. Parliamentary Debates , Vol. 203, col. 2050.
 2. Ibid., col. 2051.
 3. Ibid., Col. 2058.

2. It should be of a kind to bring pressure to bear upon producers to give us quality both in subject and technique.
3. The Committee or commission which must be set up under any form of assistance to watch the working of the system must not be one of financial interests mainly, but of what - for want of a better expression - I would call film policy, and must be capable of viewing production from a large national, artistic and entertainment point of view.¹

It is not clear who advised MacDonald, but his views were similar to those expressed by the The Times. An article as far back as February 1926 defined the film problem in national and artistic terms rather than from the trade's point of view: 'the enforcing of a quota... would actually debase the standard... the doubtful advantage to the manufacturing section of the trade would be no compensation whatever for the resultant damage to the public interest'.²

The crux of the opposition's case was that the Bill approached the problem of reviving the film industry from the wrong perspective of exhibition rather than production. The definition of a British film company was severely criticised by Col. Day as an inadequate bulwark against American financial and cultural infiltration.³ Like his colleague Lieut. Cmmdr. Kenworthy, Col. Day emphasised that above all producers needed greater financial assistance to put them back on their feet.⁴ Kenworthy warned MPs that the German example should be heeded:

There is no guarantee that American capital will not come here and control firms established in this country... America controls 50% of the German film producing firms. The Ufa company, the German company that produced Metropolis... is controlled by American capital... as that has been the result of the quota in Germany, it may well be the result of the quota here... The definition of a British film could be met by any acute American businessmen acting as agents for the American capitalists over here... What guarantee is there that if you have these so-called British supervising companies they will make any real attempt to force their way into the foreign market?⁵

1. Kinematograph Weekly, 24 March, 1927, p. 38.
2. The Times, 8 February, 1926.
3. Parliamentary Debates, Vol. 203, Col. 2080.
4. Ibid., Col. 2073.
5. Ibid., Cols. 2094-5.

Labour MPs scrutinised specific flaws in the Bill. It was alleged that the government's desire to reform booking practices was hypocritical because a picture recently sponsored by the Admiralty entitled The Falkland had been blind booked in many cinemas before it was even completed.¹ The CEA's warning that there would not be 60 good British films available in the first quota year was repeated by Philip Snowden together with similar comments to those made by The Times about the high number of foreign workers allowed to contribute to a British production.² Mr. Beckett argued that film should be treated as an art rather than as a commercial commodity,³ and Mr. Maclaren wanted the Department of Education to receive state funding to encourage schools to develop the art of the cinema.⁴ Philip Snowden accused Cunliffe-Lister of being a tool of the FBI.⁵

The Liberals, as a party of free-trade, opposed the Bill. Unusually, Capt. Garro-Jones supported it, but he did not think that he deviated from the Liberal Party line because he regarded 'it primarily as an educational question'.⁶ Sir F. Meyer was a Conservative MP who came out against the Bill, probably because as a former exhibitor he was sympathetic to their case. He echoed the familiar criticism that the Bill failed to give producers the financial support they desperately needed.⁷ But the Conservatives remained undeterred and were optimistic that once British films cornered a larger slice of the home market audiences would clamour for more. MPs who spoke for the Bill apart from Cunliffe-Lister included Sir Charles Oman, Col. Applin and Lieut. Col. Howard-Bury. The Bill passed its Second Reading by 243 votes to 135 before proceeding to its Committee Stage for amendment.

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1. Ibid., Col. 2112.
 2. Ibid., Vol. 204, Col. 245.
 3. Ibid., Col. 263.
 4. Ibid., Vol. 203, Col. 2094.
 5. Ibid., Vol. 204, Col. 251.
 6. Ibid., Vol. 203, Col. 2106.
 7. Ibid., Vol. 204, Col. 269.

The Kinematograph Weekly correctly predicted that the major point of contention would be the vexed question of quality: 'the period immediately before us may bring forth such pictures as will force exhibitors to risk their licences... by refusing bookings, and staking all on an appeal to the Board of Trade'.¹ Oswald Stoll referred to the Bill as 'a callous, not to say unscrupulous betrayal of British interests',² while the Referee compared film and broadcasting policy:

The Films Bill is an advance upon broadcasting legislation, which enforced Government programmes, but did not make it a punishable offence not to listen to them. Broadcasting legislation now seems to have been a kite flown to indicate how much dragooning the general public will stand.³

The Sunday Express, in line with its previous anti-quota stance, referred to the Bill as 'blundering legislation, designed to alienate the man whose business is to show the best films, no matter what their country of origin'.⁴

The Committee stage of the Bill was long and arduous. A Parliamentary record was created when it sat from the beginning of April until the end of July 1927 for a total of 96 hours during which over 300 divisions were taken.⁵ The Labour opposition tabled hundreds of amendments and Cunliffe-Lister was eventually forced to rely on strict 'closure' tactics to hurry the proceedings along.

Some important amendments were passed and defeated. Early on in the proceedings some Labour MPs, in an unusual alliance with Conservatives associated with Viscount Sandon who wanted the Bill to encompass censorship functions, proposed an amendment making it compulsory for the Board of Trade to approve films offered for quota. Sandon's comments about the dire consequences of the 'Hollywood invasion' had appeared several times in the press:

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1. Kinematograph Weekly, 24 March, 1927, p. 32.
 2. Ibid., 7 April, 1927, p. 25.
 3. Referee, 27 March, 1927.
 4. Sunday Express, 20 March, 1927.
 5. The Times, 23 July, 1927.

Children and young men and women, who pour almost nightly into the cinemas... see perpetually stories of divorce, of running away with other men's wives, distorted home life, burglaries, murders, revolvers, produced as a matter of course by all and sundry... evidence of police, judges, school teachers, all accumulates to prove the disastrous effect on the rising generation, (a) as to inciting to crime and violence (b) as to Bolshevism in associating certain types of living with the so-called upper classes, which does not exist, or in any case is very exceptional.¹

The Labour MPs were more concerned about quality than censorship,² but Cunliffe-Lister was able to quash the amendment on the grounds that it

would be an impossible and unfair thing to ask any Government Department to attempt either to combine a moral and an aesthetic censorship or an aesthetic and commercial censorship divorced from morality... You can only decide after the event, when the film has been approved by the box-office receipts, whether a film has justified the expectations of its producers. We should only be justified in differentiation between British and foreign films if it were true that all foreign films were good and that all the British films were of a much lower quality. A great deal of nonsense has been talked about that. If any Hon. Member says that all British films are always down at the bottom and foreign films are always at the top, I say he knows very little about it!³

In the end the controversial amendment was defeated because of the unfortunate confusion between a 'quality test' and censorship.

After considerable pressure from the CEA the transferable quota concessions for renter-producers were omitted since they would invite evasions of the law and give unfair advantages to one section the trade. The Bill placed no time limit on the Act's operation, but the CEA wanted it to run for five years and a group of Conservatives pressed for eight years. In the end it was decided that the Act should be limited to twelve years. Changes were also made to the quota figures: the exhibitors' quota was reduced from 7.5% to 5% and the final quotas from 25 to 20% for renters and exhibitors. The starting dates were altered so that the renters' quota commenced on 1 April 1928 and the exhibitors' on 1 October, six months apart rather than a year. Certain categories of

1. Ibid., , 25 January, 1927.

2. Kinematograph Weekly, 14 April, 1927, p. 30.

3. Ibid.

film were excluded from quota: newsreels, films depicting mainly natural scenery, advertisements, educational films, films depicting mainly industrial or manufacturing processes, scientific and natural scenery films. These exclusions were intended to prevent foreigners from making cheap 'on location' films with little or no studio work. But in Committee it was decided that these films, other than newsreels, could qualify for exhibitors' quota provided that they could demonstrate 'special exhibition value'.

Cunliffe-Lister managed to omit the word 'controlled' from the definition of a British company. He argued that he did not want to prevent the cooperation of foreign capital with British interests for quota films.¹ Despite severe criticism from the CEA and FBI Cunliffe-Lister would not change his mind. Shortly after the debate Simon Rowson wrote a memorandum pointing out that the retention of the word 'controlled' was essential because

what we want is films inspired in their subject matter and treatment by British traditions, British characters and, generally by British culture.

Rowson argued that without an assurance that a British company would be controlled by native interests 'it will not be possible to secure the development of a bona-fide British industry inspired by a cultural conception easily regarded as typically British'.² The Daily Express however made the point that the American film industry employed many foreigners, including British subjects, and that restrictions on foreign capital might be a 'political error'.³ Exhibitors grudgingly accepted Cunliffe-Lister's decision, as did the renters after several policy changes.⁴ Cunliffe-Lister believed that American technical and financial

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1. Ibid., p. 33.
 2. Morning Post, 18 October, 1927.
 3. Daily Express, 10 November, 1927.
 4. The Times, 9 November, 1927.

assistance did not contradict the overall aim of producing films of British 'character and spirit'.

One Conservative amendment was for the 'producer' (in the Bill's terms what we call the director) to be British. Cunliffe-Lister left the amendment to a free vote and he suggested that because there were probably not enough good British directors available the provision should not come into operation for five years. The Committee however rejected his advice and the amendment was passed without restriction. It was felt by many that this would ensure that quota films really were British in outlook and atmosphere.¹

The Advisory Committee's role was somewhat strengthened. The body had to be consulted by the Board of Trade concerning cases of non-compliance. A clause was added giving renters and exhibitors a chance to opt out of quota requirements if there was a shortage of British films or if those available were excessively expensive.² The Times interpreted this addition as clear evidence of a 'dawning realisation by the Government... that a quota Bill which does nothing to encourage high quality in the privileged and enforced supply is not defensible on any commercial principle'.³ The Advisory Committee's membership was increased from three to five independents, one of whom had to be a woman.

Discussion about the film crisis had been voluminous since the Bill's Second Reading. Optimism about the future of British films abounded and the idea of a national studio cropped up again. Ralph J. Pugh, managing director of British Incorporated Pictures, announced plans for a 'British Hollywood' at Wembley.⁴ Pugh had secured financial backing from Rupert Mason, the Lancashire cotton manufacturer, and negotiations were started for the purchase of the Palace of Engineering

1. Yorkshire Post, 26 July, 1927.

2. Kinematograph Weekly, 30 June, 1927, p. 49.

3. The Times, 6 August, 1927.

4. Ibid., 16 March, 1927.

for £147,500. The project was ambitious and Pugh claimed that once completed the studio would facilitate the production of thirty features simultaneously, or about 150 films a year. The Manchester Guardian opposed Pugh's scheme because it was an attempt to develop the British film industry along American lines, 'which means the frequent subjection of the artist to a galling discipline of flashy mediocrity'.¹ As The Times deplored the American 'star system', the Manchester Guardian was against a 'studio system' as in Hollywood. The architect for Pugh's project was to be Ramsay MacDonald's son,² but in the end the backing fell through and so the Wembley property never became a large studio. A year later, however, an exhibitor purchased it and used it as a smaller studio.³

In the summer the FBI announced a plan to encourage the training of directors, actors and technical staff by forging links between the film industry, educational institutions and firms with equipment that could be used for training purposes. The scheme also involved the establishment of a clearing-house for information and a library.⁴ Schemes such as this and plans for a 'British Hollywood' at Wembley, convinced many politicians that the quota would work without a 'quality clause'. It was optimistically assumed that British films would improve - an idea that was influenced by reports of a 'British film revival' while the Films Bill was in Parliament. The Referee cited four films, Easy Virtue, directed by Hitchcock, A Woman Redeemed by Sinclair Hill, The Somme by M.A. Wetherall for New Era Pictures and Mumsie by Herbert Wilcox as proof 'that the film war is over and that we have won it'.⁵ The Westminster Gazette reported a return of British stars from Hollywood, and that The Somme attracted 100,000 cinema-goers in just

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1. Manchester Guardian, 18 June, 1927.
 2. Daily Herald, 4 July, 1927.
 3. R. Low, The History of the British Film, 1918-29 (Allen & Unwin, 1971), p. 227.
 4. The Times, 22 June, 1927.
 5. Referee, 4 September, 1927.

five weeks when it was shown at the Marble Arch Pavilion.¹ The Daily Express had issued an open challenge to Cunliffe-Lister to name any good British films and in Parliament Col. Applin answered by naming several including Graham Cutts' The Triumph of the Rat and Hitchcock's The Lodger.² In October 1927, the Daily Mail quoted Herbert Wilcox as saying: 'I think that in five years' time British films will lead the world... already the average British picture is infinitely superior the to average American film'.³ The next day the paper's headline read: 'British films boom - exhibitors rush to get them - US pictures shelved'. The manager of the Astoria in Charing Cross Road told the Daily Mail that after the British film The Glad Eye drew 29,000 people in its first week, he was convinced that the public wanted British films.⁴ Such news was encouraging but it tended to make some politicians complacent about the films and dismissive of those who pressed the case for a 'quality clause'.

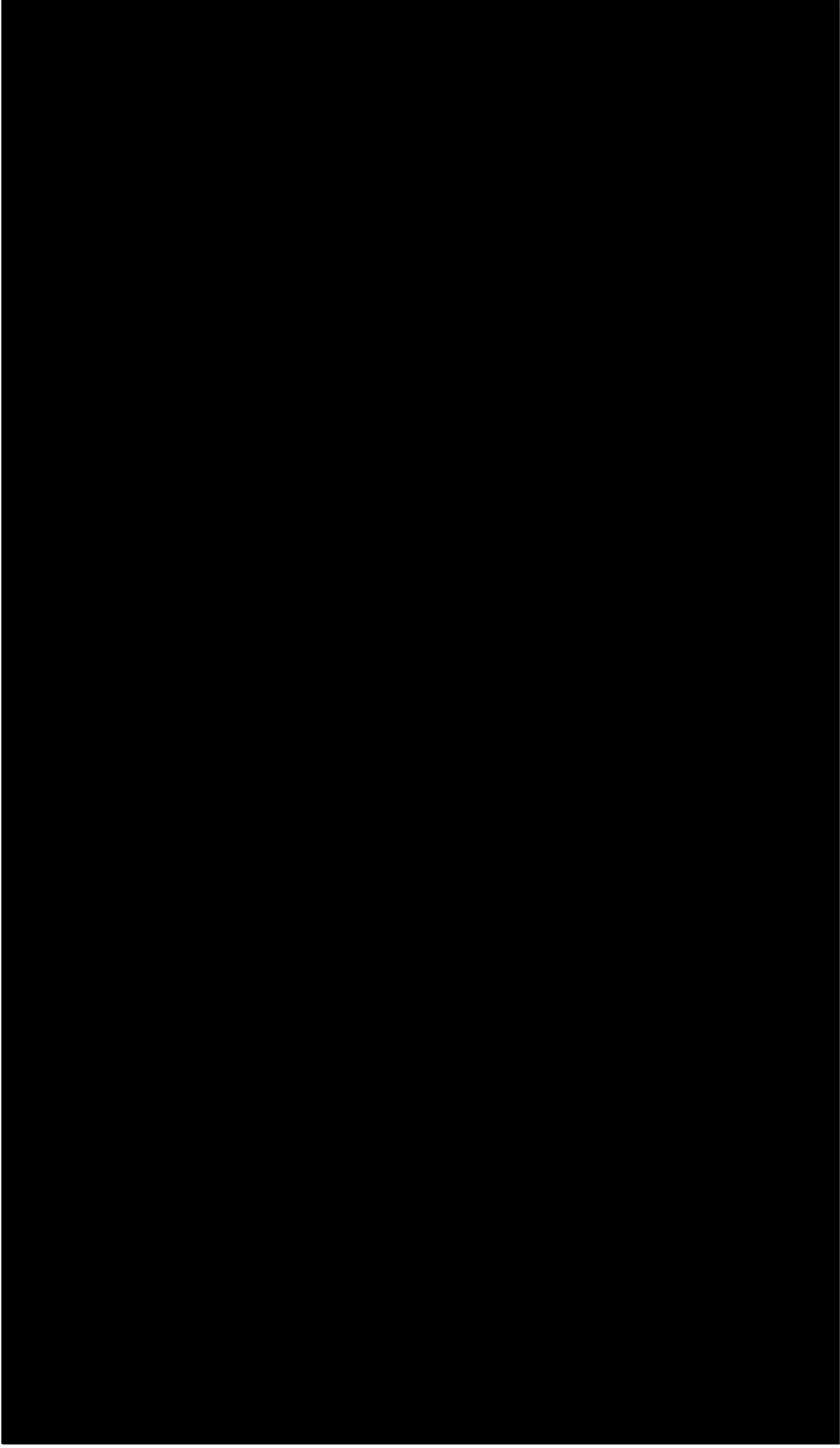
The main issues that were debated during the Report stage of the Bill in November concerned booking restrictions, the tide of speculation since the Bill was issued and the definition of a British film. Col. J. Wedgwood, a Labour MP, foresaw that the legislation would encourage the formation of vertically integrated companies to circumvent the booking restrictions: blind booking could continue undetected in such companies as an internal concern rather than a contract between two parties.⁵ Herbert Williams (Conservative) noticed that since March new companies had been formed⁶ and a Labour MP mentioned the appearance of Whitehall Films, a company which was allegedly backed by some Conservative MPs.⁷

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1. Westminster Gazette, 21 October, 1927.
 2. Parliamentary Debates, Vol. 204, Col. 259.
 3. Daily Mail, 7 October, 1927.
 4. Ibid., 8 October, 1927.
 5. Parliamentary Debates (Commons) Vol. 210, Col. 664, 14 November, 1927.
 6. Ibid., Cols. 681-2.
 7. Ibid., Col. 694. See later section on post-quota boom.

Cunliffe-Lister made a major concession when he agreed to limit the Act's operation to ten years. A 'quality clause' was rejected again on the grounds that a viewing committee was impractical.¹ Col. Applin (Conservative) moved an amendment to leave out the requirement that the director should be British.² Col. Day thought that a British director would ensure that British films looked British,³ and according to the BAFD there were more than enough British directors to satisfy the clause.⁴ Lieut. Cmmdr. Kenworthy thought that the work of a director 'creates the whole atmosphere of the film',⁵ but others argued that the most important person to stamp 'Britishness' on a film was the scenario author.⁶ When the vote was finally taken on this controversial issue the amendment passed in Committee was thrown out. Thereafter only the scenario author had to be British and not the director. If it had become part of the Act Alexander Korda, a Hungarian, might not have got started, but the scenario author provision in any case made his The Private Life of Henry VIII technically not qualified for quota.

During the Committee stage Cunliffe-Lister had removed the word 'controlled' from the definition of a British film company. He finally agreed to a compromise whereby a British company was defined as one 'registered under the laws of any part of British Empire, the majority of the directors of which are British subjects'. Other minor amendments were that provincial pre-releases were allowed and some minor adjustments made the booking provisions more flexible. The Bill's Second Reading in the Lords was uneventful and Royal Assent for the Cinematograph Films Act was duly announced. There had been many indications in the debates that problems would arise, but in the end little had been done to provide safeguards. Although the Films Act was

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1. Ibid., Col. 772.
 2. Ibid., 17 November, 1927, Col. 1182.
 3. Ibid., Col. 1183.
 4. Ibid., Col. 1195.
 5. Ibid., Col. 1187-8.
 6. Ibid., Col. 1192.



Audience response to Sir Philip's new venture.

formulated in a context of heightened official awareness of and concern about the propaganda value of film and its general importance in national life, the mechanism adopted to combat 'the Hollywood invasion' was not really appropriate as a means of establishing a flourishing British film industry which would be independent of American economic and cultural influence.

Adjusting to Protection

The late 1920s and early 1930s were crucial years in the development of the British film industry. The long-awaited influx of capital and the production revival promoted by the Films Act accelerated the trend already underway towards the growth of vertically integrated companies. At the same time Hollywood, hit severely by the Depression and increasingly disturbed by protective legislation for European film industries, was forced to formulate new marketing strategies in an attempt to maintain its domination of overseas outlets. The following sections will outline the structure of the industry in the early years of the quota and the financial results of the boom of 1927-1929. An attempt will be made to assess the role of the Films Act during the industry's transition to the coming of sound and the significance of the domination of the British 'talkie' apparatus market by two American companies.

4. The Reorganised Film Industry

In the 1920s the outstanding development in the structure of the British film industry was the growth of cinema circuits. The optimism created by the prospect of quota legislation accelerated the trend towards vertical integration. By 1933 two combines dominated the industry: the Gaumont-British Picture Corporation (GBPC) with 287 cinemas and the Associated British Picture Corporation (ABPC) with a

total of 147 cinemas.¹ Other important companies emerged in the late 1920s: British and Dominion, British Lion, British Talking Pictures and Twickenham Film Studios.

The Gaumont Company was founded in 1898 by A.C. and R.C. Bromhead as a distribution subsidiary in Britain for the films of the French firm, Léon Gaumont.² In 1922 the Bromheads bought out the French interests and started to produce films. In March 1927, when the Films Bill was presented to Parliament, Gaumont-British was reorganised as a public company with a capital of £2,500,000. The new company was an amalgamation of concerns including the renting firms Ideal and the W. & F. Film Service. It was backed by the Ostrer brothers, financiers who had bought the Biocolour circuit in 1926 and who had helped finance the Bromhead brothers' acquisition of Gaumont in 1922. This merger added about 24 'first-run' cinemas to the Gaumont chain, and in 1928 expansion continued when the Denman Picture House and the General Theatres Corporation halls were purchased.

The most lucrative acquisition by Gaumont in these years was the purchase of the Provincial Cinematograph Theatres (PCT) circuit in December 1928. Lord Beaverbrook had formed the Standard Film Company as a holding company for PCT and First-National Pathé. Isiodre Ostrer paid Beaverbrook £2 million for PCT - large sum of money especially since Beaverbrook had invested only £400,000 in the company. Another hundred cinemas were thus added to the growing Gaumont circuit bringing the total to nearly three hundred. GBPC dominated the 'first-run' outlets in London's West End where it had five 'key theatres', the remainder being controlled by American interests. The production side was strengthened when GBPC bought a substantial interest in Gainsborough, the company

1. Political and Economic Planning, The British Film Industry (PEP, 1952), p. 56.
 2. R. Low, op. cit., p. 43.

founded in 1924 by Michael Balcon which had been reorganised in April 1928 with a capital of £262,500.

The other major British combine, ABPC, was formed by the Scottish solicitor John Maxwell. He entered the film business in 1912 as an exhibitor, but broadened his interests to distribution in 1923 when he became chairman of Wardour Films Ltd. In January 1927 the private company he had formed in March 1926 was refloated as a public concern called British International Pictures (BIP) with a capital of £1 million. This company was the most successful of the 'quota' companies to emerge under the impetus of the Films Act, and it absorbed the studio and plant of British National Pictures. In November 1927 BIP made a public issue of £350,000 and Wardour Films amalgamated with the new organisation. Maxwell also acquired the distribution company First-National Pathé from Lord Beaverbrook after the battle for control of PCT had been lost to GBPC. The role of the Films Act in these mergers was acknowledged by the shrewd and ambitious Maxwell in January 1928:

Financial support can be secured in a way that was impossible a very few months ago. The City is certainly more inclined to look kindly on the film trade than ever before, and thus a considerable weight that had handicapped us in the past is removed.¹

In November 1928 Maxwell registered Associated British Cinemas (ABC) as a public concern with a capital of £1 million. The new company took control of BIP and absorbed the Scottish Cinema and Variety Theatres chains. In 1933 the ABPC was formed as a holding company, taking over the entire capital of BIP, British Instructional Films, Wardour Films, Pathé Pictures and ABC. Large combines along the lines of the American 'majors' were developing in Britain, based largely on profits from exhibition and the impetus to production provided by the 1927 Films Act.

1. Kinematograph Weekly, 5 January, 1928, p. 38.

Vertical integration had not developed in Britain before 1927 because production was not strong enough to supply a large cinema-circuit. As the PEP report noted in 1952: 'There was no British production company with a sufficiently large and stable output to constitute the production end of an integrated group'.¹ In 1913 PCT had started production, and as early as 1909 Electric Theatres tried to create a combine. These attempts were however isolated and unsuccessful. Before 1927 there were no British 'majors' in the American sense. Exhibitors made profits from showing Hollywood's films and showed little interest in engaging in production. If a major combine had been formed in Britain it is likely that the production end would have been American. In the 1920s, with their domination of distribution and of British cinema screens, the Americans did not need to produce in Britain to maintain their monopolistic position. By the time that the Americans did show an interest in establishing production subsidiaries in Britain ABPC and GBPC were consolidating their power. Attempts to control Gaumont-British by the Fox Film Corporation were, as Chapter 4 will show, unsuccessful.

Cinema-building accelerated during the early years of the Quota. Between 1927 and 1932 715 new cinemas were built adding 921,228 seats.

Table 9
New Cinemas Built in Britain and Seats Added, 1927-32

Year	Number of New Cinemas	Seats Added
1927	100	95,000
1928	70	90,000
1929	171	200,000
1930	195	292,000
1931	100	142,919
1932	79	101,309
Total	715	921,228

Source: See Reports for the US Department of Commerce by the Motion Picture Division of the Bureau of Foreign and Domestic Commerce, 1927-1932.

1. PEP, *op. cit.*, p. 49.

During these years approximately 950 new exhibition companies were registered.¹ In 1930 about £35 million was invested in British exhibition, of which £15 million was accounted for by Gaumont-British and ABC.² In 1930 large, luxurious 'super' cinemas were constructed, but in the following years cinemas with a seating capacity of 1,450-2,500 were considered the most successful. Smaller exhibitors suffered from this expansion as the combines were able to obtain the best British product and circumvent the blind and block booking restrictions of the Films Act because of the close link between the renting and exhibiting sectors in a combine. The combines were also able to secure the capital necessary to wire their cinemas for sound. At the end of 1931, the total number of cinemas in circuits was 1,416, or 30% of the total.³ Once sound films became standard the double-feature was introduced to eat up supplies of silent films. Percentage instead of flat-rate rental terms were instituted, and these changes made exhibitors more dependent on renters to maintain film supply and increased the power of the combines at the expense of the independents.

Exhibitors feared for a long time that American companies would seek exhibition outlets in Britain. As mentioned above, they did not attempt to penetrate exhibition before the quota because their domination of renting ensured that they monopolised the British market. The Films Act and the coming of sound changed the Americans' perception of the situation in Britain and forced them to consider more direct involvement in production and exhibition. These years were important for the American industry as well as for the British. The Motion Picture Division of the US Bureau of Foreign and Domestic Commerce produced detailed reports on the European film market, and monitored legislative

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1. F.D. Klingender and S. Legg, Money Behind the Screen (Lawrence and Wishart, 1937), p. 53.
 2. Economist, 16 August, 1930, p. 312.
 3. Motion Picture Division of US Bureau of Foreign and Domestic Commerce. Report on the film industry in the UK, 1931, p. 17.

and other changes abroad. Once the Hollywood 'majors' were hit badly by the Depression in 1931,¹ and the coming of sound placed a new emphasis on the British market because of the common language, the Hays Office in particular expressed great anxiety about the future of Hollywood's overseas markets. The complacent attitude of the 1920s gave way to concern about quota protectionism, rival European production and the prospect of diminishing returns from abroad.

5. The post-quota boom, 1927-1929

The twenties ended with the bustle of company formation, much of it involving grand schemes and impressive financial arrangements but little actual production. There were optimistic estimates of the proposed capital, rumours of dazzling distribution arrangements and much name-dropping of celebrities from all spheres supposed to be behind the latest company, often followed by indignant denials. Studios were hastily built or acquired and described enthusiastically as a new British Hollywood. And before long potential shareholders were taking fright and the old contemptibles of British production, the hack professionals, were gathering like vultures.²

The late 1920s were characterised not only by the emergence of two vertically integrated combines, but also by a proliferation of new inexperienced independent production companies - 'bubble' promotions - anxious to attract capital in a context of heightened optimism about the fortunes of a protected British film industry.

In July 1928 the Economist published the results of an investigation into public issues by eleven companies (excluding Gaumont-British and PCT) since March 1927. The capital involved was £2,408,000, of which £1,936,750 was subscribed in cash. Most of this money, the survey revealed, was wasted on untried, speculative ventures whose directors tricked the public into buying their shares during a stockmarket boom. The study compared par and present values of shares

1. T. Balio (ed.), The American Film Industry (University of Wisconsin Press, 1976), p. 160.
 2. R. Low, op. cit., p. 160.

held by the public and by the vendors on July 6th 1928. The public made a loss of £436,365, whereas the vendors made total profits of £388,897.¹ A similar study, published in April 1929, showed that the situation had deteriorated. This time the loss to the public was £784,627.² The blame was placed squarely on the Films Act:

The late Government cannot evade a share of moral responsibility for the consequences of the flotation of £2,322,200 worth of new securities which are now valued in the market at £613,255. The business of producing films is, by its very nature, speculative, complex and specialised. Unfortunately the Films Act deluded the public into thinking that British films had only to be made, irrespective of quality, to bring in money.³

Many of these companies had collapsed by 1931 - in 1930 alone fifty corporations were liquidated. One such company, Whitehall Films, was formed in November 1927 with support from some Conservative MPs. When it was wound-up in 1929 it showed a net trading loss of £31,245. The Official Receiver's report attributed the company's failure to a lack of knowledge of the industry by the directors, mismanagement and over-expenditure on studios.⁴ A combination of factors sealed the fate of such precarious concerns: the costs required to buy sound recording and reproducing equipment, general mismanagement and inexperience and the emergence of the major combines. By 1931, the Economist commented:

Most of the 'bubble' promotions have disappeared or no longer count - the advent of the 'talkies' gave them their coup de grâce - and the few survivors, together with the pre-Act companies, namely Gaumont-British and BIP and a few fleeting private enterprises, are now beginning to show results of quality, even if the quality of British films has not yet reached the level of the best American productions.⁵

The debate on the quality of British films will be considered in Chapter 4, but during these years criticism of 'quota quickies' became wide

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1. Economist, 14 July, 1928, pp. 74-75.
 2. Ibid., 20 April, 1929, pp. 859-860.
 3. Ibid., 30 November, 1929, p. 1027.
 4. Bioscope, 11 December, 1929. The Daily Chronicle claimed the company had never produced a film in its Elstree studio (7 June 1929).
 5. Economist, 15 August, 1931, p. 314.

spread. In quantitative terms, however, British films increased their percentage of the home market and in 1931 BIP produced 28 films.¹ Before the performance of the British industry is considered it is necessary to assess the impact of the coming of sound which coincided with the first years of quota protection and the aftermath of the financial boom.

6. The Coming of Sound

...the revolution of the talking film has thrown the British film industry's prospects back into the realm of the gamble. By creating an artificial demand for British films, the Films Act was intended to set the British industry on its feet. If British companies were called upon to make pictures for Great Britain, it seemed only a matter of time before they would be making pictures for the international market... But the talking film has entirely transformed the outlook... British companies are now called on to start afresh and to master a new technique. The established companies such as Gaumont-British will, no doubt, be able to adapt themselves to the new situation, but the talking film will probably administer the coup de grâce to some of the companies whose issues were a feature of the promotion 'rush' last year.²

Some of the 'quota companies' collapsed because of the coming of sound. The average cost of a silent film production was £5,000-£12,000 whereas a 'talkie' cost £12,000-£20,000. Hitchcock's Blackmail cost £24,000 to produce and many of the new concerns did not have the capital to make films on that scale. At the same time sound recording equipment was expensive as was the apparatus required to wire cinemas for sound. The quota helped the larger companies like BIP to adjust to the change, but could not save many of the 'bubble' promotions of 1927-29.

Despite initial scepticism about the potential of the sound film, British exhibitors were the first in Europe to convert their cinemas. 22% of British exhibitors had wired by 1929, and by 1930 the number had risen to 63%.³ An American report of 1928 commented that the 'talkies'

1. US Report on UK film industry, 1931, op. cit., p. 2.

2. Economist, 20 April, 1929, p. 860.

3. Douglas Gomery, 'Economic Struggle and Hollywood Imperialism: Europe converts to sound' in Yale French Studies, 60, 1980, p. 82.

had done their best to 'stampede both the British exhibitor and the British producer into scrapping existing methods and plunging into large commitments'.¹ 980 cinemas had converted in 1929, but by the end of 1932, 4,314 were wired.² In September 1927 Warner Brothers' The Jazz Singer and a month later The Terror were shown in Britain causing many to welcome the advent of the 'talkies', especially when Warners' profits for 1928 were estimated to be £1,600,000.³ The table below illustrates how quickly 'talkies' superseded silent films in the late 1920s and early 1930s.

Table 10
Average Weekly Length of Films Registered in the U.K.

Source: Economist, 31 December, 1932, p. 1234.

The proportion of British films to the total rose from 14.7% in 1930 to 16.7% in 1931. The average weekly length of silent films registered in 1931 showed a decline of 81% on the 1930 figures, while the proportion of silents to 'talkies' fell from 47% to 8%.

The table below illustrates how the major towns wired first, and how the cinema-building boom was concentrated in the south and in the major northern towns.

1. US report, 1928, p. 19.
2. Ibid., 1932, p. 4.
3. Low, op. cit., p. 203.

Table 11
Regional Divisions: Number of Cinemas Wired and Silent:
New Houses built 1930

Source: US Report, 1930, p. 19.

Although the American film industry was becoming increasingly concerned about the impact of European protectionism and the onset of the Depression, two American companies, Western Electric and the Radio Corporation of America (RCA)¹ were not prevented from supplying most British cinemas and studios with sound apparatus. There were British manufacturers of sound systems - British Acoustic, British Photofilm and the most successful, British-Thompson-Houston - but at an early stage the Americans more or less cornered the market. This has been interpreted as another example of Hollywood's increasing domination of the British market,² but it is important to note that the availability of American equipment enabled Britain to wire its cinemas and equip its studios quicker than any other European country. This, in turn allowed producers to concentrate on adapting to the new conditions of sound

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1. Western Electric owned the Vitaphone (sound-on-disc) and the Movietone (sound-on-film) system and RCA owned the Photophone (sound-on-film) system. See D. Gomery, 'The Coming of the Talkies: Invention, innovation and diffusion' in Balio (ed.), op. cit.
 2. R. Murphy, 'The coming of sound to the cinema in Britain' in Historical Journal of Film, Radio and Television 4 (2), 1984, p. 151.

production and the relatively smooth transition to sound by companies like BIP enabled British production to advance and take advantage of the Films Act.

As an American report noted at the end of 1929:

Great Britain was the only European country whose motion-picture industry made any progress during the year. All other countries, either through legislative difficulties, patent litigations, credit stringencies, or a caution resulting from the uncertainties of sound-film entertainment failed to keep pace with the world development in this new field of sound films... One outstanding feature of the European situation was the readiness with which the British film organisations grasped the significance of the sound film as their possibility of achieving a leading place in the industry, after a distinctly unsuccessful 1928 season, when an over-production of silent features was quite suddenly faced with a greatly restricted outlet as first and second run cinemas were demanding sound films.¹

Both BIP and ABC used the RCA systems, and Oswald Stoll was quick to equip his cinemas with Western Electric apparatus. British Sound Film Productions, a subsidiary of British Talking Pictures, used the British Photophone system but although Gaumont-British had developed the British acoustic apparatus, it also used Western Electric. In Britain many feared that the domination of the British market by the two American sound-equipment companies might lead to their obtaining 'a stranglehold on all of the best cinema theatres... before the British talking film industry can develop to a point where it can compete'.²

American firms insisted that their films should be shown in conjunction only with Western Electric sets, claiming that they gave the best reproduction. There were questions in the Commons in 1929 about the American monopoly over sound equipment, but the Board of Trade did nothing to ensure that more British systems were developed and installed. In the spring of 1929 the CEA and FBI protested, and asked Western Electric to agree that 'films produced under your licence may be

1. US Report for 1929, p. 1.

2. National Archives, Washington D.C., US State Department records, 841.4061 Movietone/2.

projected and reproduced upon apparatus other than that supplied by your company'.¹ On 24th April, the CEA and FBI attended two performances of the same film, one using American equipment, and the other British. There was no appreciable difference in the quality of reproduction, and it was pointed out that British sets were much cheaper. It cost £5,000 for a single American installation whereas the British cost an average of £1,000-£1,500. On the other hand, the Americans claimed that their sets were popular because the initial agreement usually included servicing whereas the British did not. In June United Artists, MGM and Paramount agreed to the running of their sound films on British 'talkie' apparatus, and this forced Western Electric to drop its prices.² Later, in their evidence to the Moyne Committee in 1936, exhibitors pointed out that in their anxiety to acquire apparatus the Americans had exploited them:

The best talking set that we had the opportunity of securing was the Western Electric and the RCA... the British sets were then indifferent... When the talking phase took place there was a rush on the part of the exhibitor to get a talking set, and many of us signed these documents without thinking or realising what we were signing... a service charge which we regard as excessive is still being imposed on us.³

By mid-1929 American apparatus accounted for over half the installations. In December 1931 about 4,000 cinemas were wired for sound in Britain, and the five main installations - RCA, Western Electric, British-Thompson-Houston, British Talking Pictures and British Acoustic - supplied 3,103.⁴ British companies did recover ground in 1932: in that year 233 cinemas were wired and of these about 40 used American equipment, the rest using mainly British Acoustic, Morrison's and

1. Kinematograph Weekly, 4 April, 1929, p. 21.

2. Ibid., 5 September, 1929, p. 21.

3. Minutes of Evidence to the Committee on Cinematograph Films (HMSO, 1936), p. 88. [Hereafter referred to simply as Mins. of Evidence.]

4. US Report on UK film industry, op. cit., p. 14.

British Talking Pictures.¹ In 1929 10 British studios were equipped for sound, but by 1932 the number had increased to 17.

At that time the only European country to develop sound equipment that seriously rivalled that of Western Electric and RCA was Germany. The cartel Tobis-Klangfilm (T-K) was established in 1929, and claimed the sole right to sound patents in Germany. This, however, slowed down the conversion of German films to sound, and from this point of view British exhibitors were able to wire much faster because there was no patent litigation to retard the process. T-K obtained a court injunction against the use of American equipment and managed to obtain the support of the German government. Exhibitors had to suffer a boycott of the German market by American companies in retaliation, and the episode made them hesitant to install German equipment for fear of prolonging the boycott. T-K often helped foreign countries wanting to use native sound equipment, and in November 1929 a large sound-film company was formed called Associated Sound Film Industries, amalgamating the patent interests of T-K and British Talking Pictures. There were some international agreements between the Americans and T-K carving up markets. These however led to numerous disputes and did not work effectively. Although T-K supplied all German cinemas and studios with equipment, the German concern could not penetrate the British market and RCA had a holding in T-K.

How far did the quota ease the adjustment to sound in Britain? The Americans thought that the advent of the 'talkies', more than the quota, rescued the British film industry. Particular styles of film were more suited to British audiences, especially British comedy-farces, and sound gave British producers a chance to exploit a certain antipathy towards American accents. A study of films in 1931 revealed that a higher proportion of farces and murder mysteries made by British companies were

1. US report 1932, p. 39.

exhibited than American. The report went on to state: 'The farces were among the most successful of British pictures, while most of the American were relatively unsuccessful... farce is a form of humour more appreciated on its native heath than elsewhere'.¹ Sound gave British producers the chance to develop certain types of films, and in the early 1930s British comedies were very popular, starring Tom Walls, Ralph Lynn, etc.

The quota helped in the process of adjustment because the influx of capital it encouraged enabled the larger companies to oust their rivals and maintain a dominant position in the industry. BIP is the prime example of a company that converted to sound quickly, and it is doubtful if the industry, in its moribund state before the quota, could have attracted the capital necessary to finance the changeover. The fact that Western Electric and RCA dominated the 'talkie' apparatus market helped rather than hindered British producers. Combined with the optimism created by the quota, the coming of sound enabled the combines and the more successful smaller companies to adapt to the new conditions of the 1930s. The advances made by British producers are illustrated by table 12.²

Table 12
US and UK Percentage of British Film Market, 1926-32

Year	Total Features shown in UK	No. of US films shown	US percentage of market	UK percentage of market
1926	742	620	83.5	4.8
1927	892	723	81.0	4.4
1928	778	558	71.7	12.2
1929	663	495	74.6	13.1
1930	747	519	69.5	19.0
1931	647	470	72.6	21.5
1932	641	449	70.0	24.0

1. US report on UK film industry, *op. cit.*, p. 8.

2. Figures compiled from reports by US Bureau of Foreign and Domestic Commerce, Motion Picture Division.

The Board of Trade continued to shun the idea of a film policy in addition to the quota. After the collapse of the 'bubble' promotions in 1928-9, the City was far less willing to invest in new film companies. The Liberal MP Geoffrey Mander saw the 'talkies' as 'a unique opportunity for building up on a permanent basis the multi-lingual film industry... The Americans have to come to Europe now to get into close touch with the foreign artists whom they must have for speaking purposes. Paris is a possible centre, but London is a far better centre'.¹

In March 1930, the Board of Trade was asked by Sir Frederick Maurice, chairman of the Committee on Adult Education, to advise on whether the Lord Privy Seal should write a letter, which could be presented to potential financial backers, expressing his approval of the establishment in Britain of a centre for the production of international talking pictures. The scheme had been proposed by Sir Gordon Craig, of New Era Films, a company associated with the EMB's Film Unit, who had told Maurice that 'the City is generally prejudiced against the British film industry but the Midland Bank are prepared to underwrite the scheme if the Government would give the kind of encouragement involved'.² The idea was that an 'encouraging letter' would be written, not mentioning the specific scheme, but merely to serve as an inducement for the public to participate when the company issued an appeal for £2.5 million. The Board of Trade's reply, however, was negative, showing that it regarded film production as a risky business despite the quota:

It may well be sound policy when making pictures for an English-speaking market, at the same time to make versions in other languages, and this course is being adopted by some of the established film production concerns in this country. But to set up a huge studio and embark upon the production of a large number of films annually in this country is another matter. Even leaving the US out of account, the English-speaking market is more important than any other.

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1. Parliamentary Debates (Commons) Vol. 241, 22 July, 1930, Cols. 1949-50.
 2. PRO, BT 56/28/CIA/1428/30.

The enterprise could hardly be a success unless the English versions succeeded in competing in the home market with American producers, and it is very much to be doubted whether the sudden throwing upon the market by a new organization of a greatly increased number of British films would be good either for the new organization or for the British industry in general... In any case, the enterprise is bound to be a speculative one. Neither the trade nor the public have yet forgotten the heavy losses sustained by investment in various new film-production companies about the time of the passing of the Films Act, and the Government would expose themselves to criticism for which there might be a good deal of justification if they attempted to encourage the now less willing public to repeat the experiment.¹

Thus one plan to replace a proportion of American with British and European films was dashed.

British producers adapted to the early years of the Films Act and the coming of sound surprisingly well. Independents were assured 'quickie' contracts even if BIP and Gaumont-British were beginning to dominate the industry. It soon became clear, however, that the advances made in the early 1930s were based on unstable foundations: the industry suffered from fundamental economic problems and a poor financial base, factors that were revealed by the Moyne Committee established in 1936 to review the progress of the industry under protection and to recommend a future policy.

1. Ibid.

Chapter 4

REVIEWING THE FILMS ACT

After an unsuccessful attempt by the Advisory Committee to produce a unanimous report on future film policy the Moyne Committee was appointed in 1936 to examine the workings of the 1927 Films Act. Its report was the fruit of the most detailed study to date and proposed that the government should involve itself more directly in the industry's complex affairs. This chapter outlines events leading to the Committee's birth, explaining why the Board of Trade was initially unconvinced by complaints that the Films Act needed to be amended; how and why the Moyne Committee came to make its recommendations and what they revealed about the industry's most urgent economic problems in the mid-1930s.

1. The Board of Trade's response to early criticism of the Films Act

The major issue to dominate discussions was the scourge of 'quota quickies' - British films sponsored or made by American renters purely for registration purposes with little regard to cost or cinematic quality. Many argued that 'quickies' damaged the reputation of British films and were little more than a deliberate attempt by resentful Americans to offset the protected industry's progress.

The FBI's earliest response to 'quickies' was to suggest that quota films should cost a statutory minimum sum to produce. One of the Moyne Committee's main tasks was to decide if this would solve the problem.¹ 'Quickies' were cheap. According to Simon Rowson whereas American companies spent about £50-100,000 on a Hollywood production

1. See section 4(iii) for a full discussion of 'quickies'.

their expenditure on a British quota picture was often as low as £3-4,000. He lamented that a slur against British films was inevitable:

The public who are drawn into the theatres to see the major films are compelled... to be forever contrasting these British films with the best, most expensive and most lavishly produced American films. A more insidiously effective method of cultivating a conviction of the definite inferiority of British films it is impossible to have developed.¹

Geoffrey Mander, a Liberal MP who introduced an unsuccessful amending Bill to Parliament in 1930, wanted the quota to reach 50% by 1934 and British films to be made for at least £12,000.² But in the early 1930s the Board of Trade ignored criticism of the Act and suggestions for a 'cost test'. Why?

R.D. Fennelly of the Industries and Manufactures Department's film section, feared that a 'cost test' might alienate American renters who held the key to the American market that was proving difficult to penetrate even with their goodwill and assistance. On the other hand, as Simon Rowson argued, because a test would give the Americans a greater financial stake in British film-making they would naturally want the films to show profits by distributing them in Britain and America.³ But Fennelly pointed out that because the Americans were showing signs of welcoming British pictures in 1933 they should not be deterred by the additional burden of a 'cost test'. That year Be Mine Tonight, Rome Express and The Private Life of Henry VIII made more money in America than the twenty-two British films it had imported in 1932.⁴

The Board of Trade thought 'quickies' were a regrettable but temporary consequence of the post-quota boom, but by 1933 Fennelly hoped that American renters were becoming more interested in acquiring and producing good British films. This, he argued, was because quota

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1. PRO, DO 35/204/5. TUC/FBI deputation to the Board of Trade, 25 April, 1932.
 2. Parliamentary Debates (Commons), Vol. 241, 22 July, 1930, Cols. 1947-51.
 3. PRO, DO 35/204/5, op. cit.
 4. Daily Telegraph, 13 January, 1934 (figures quoted from Variety).

requirements were rising and 'quickies' made less commercial sense when the American industry, after having over-extended itself in the late 1920s, was in the midst of the Depression. Apart from the false economy of backing losers American exhibitors were more likely to give good British films a sympathetic reception when Hollywood's product was scarce. The depreciation of the pound (1931, £1 = \$4.53, in 1932 £1 = \$3.50) was also considered to make a difference to the American attitude towards quota production because the costs of making films in Britain had become cheaper than usual. These arguments gave Fennelly grounds for optimism, even though he acknowledged that some American renters showed little enthusiasm for reform.¹

His judgments were based on CEA film 'quality markings' rather than on personal experience of watching 'quickies' or studies made by the Board of Trade.

CEA Film Ratings

Source: Minutes of Evidence to the Committee on Cinematograph Films (HMSO, 1936), p. 8.

In the year ending 31 March, 1933 159 British films were registered and of these 93 scored over 8, 44 over 7 and 16 over 6. Of these 159 British films, foreign renters acquired 84 of which 36 were rated over 8, 34 over 7 and 9 over 6. Whereas 75% of the pictures distributed by British renters were good, only 45% of those handled by American renters reached the same standard. Despite his overall optimism about the Films Act, Fennelly was forced to conclude that British renters had distributed much better British films than the Americans. But when he examined the

1. PRO, BT 97/7749/33.

individual American companies' performance in meeting their quota obligations he claimed the situation was improving:

Table 13
CEA Ratings: 1932 - 1933

Company	British Films Distributed	Number Reaching Over 8
United Artists	9	6
Fox*	11	8
MGM	9	2
Paramount*	12	7
Radio Pictures	10	7
Warners-First-National*	20	3
Universal	13	3

*production unit in the UK

United Artists was the most successful company because it handled the product of London Films and British and Dominions. The company had contracted with British and Dominions in 1932 to make its quota pictures at a time when it was searching for good quality pictures for American and British distribution. Later Alexander Korda's London Films also was recruited after United Artists had been impressed by Korda's 'quickie' for Paramount, Service for Ladies.¹ Fox, Paramount and Radio Pictures were also beginning to make or sponsor better films. But Warners had a bad reputation and Universal 'acquired rubbish', mainly looking to Australia for a supply of cheap 'quickies' since the Films Act defined a 'British' film as one produced in the Empire. Fennelly concluded that the improvement should not be disturbed and he saw no reason to amend the Act:

The present Act works exceedingly well and under the protection afforded by it British production has made far more progress than the sponsors of the Act dared to expect. Where an Act is clearly fulfilling its main function and no overwhelming case has been made for amending it, there is everything to be said for leaving it untouched.²

1. Tino Balio, United Artists. The Company Built by the Stars (University of Wisconsin Press, 1976), pp. 132-3.
2. PRO, BT 64 97/7749/33.

But by November 1934, in response to representations from exhibitors for a lower quota, Fennelly had changed his mind:

In view of the possibility of renewed pressure from exhibitors and of the fairly short period for which the Act has yet to run, it is suggested that it would be useful to appoint an independent Departmental Committee to examine the working of the Act and to recommend a long term policy for the industry.¹

What explains this change of heart? The anticipated improvement by the American renters had not been maintained. Relations had deteriorated between Basil Dean's Associated Talking Pictures and his American distributor RKO. The American company looked on their contract purely as a way to fulfil quota obligations, whereas Dean wanted his films to be given world distribution. None of the pictures made while Dean's RKO contract was operating were successful in America and their exhibition was confined to 'art theatres'.²

The CEA 'marked' British films registered by native and American renters from July 1933 to the end of June 1934. Of the films handled by the major British renters (Associated British Film Distributors, British Lion, Butchers, Gaumont-British, Pathé, PDC, the Sterling Film Company and Wardour Films), 74% scored 8 and above, compared with only 9% by American renters. United Artists was again the exception: all of the films it distributed were rated at 8 and above. 23% of the films released by the British renters were awarded 7-8 ratings and 72% of those handled by the Americans. This time Fennelly's conclusion was pessimistic:

There is now no indication that any of the US renters intend to take any real steps to improve the quality of their British films during the remainder of the term of the Act. There have been signs on occasion of a change of heart on their part, especially after we left the Gold Standard, but they now seem content to make their films as cheaply as possible, to obtain what bookings they can, and to count the

1. PRO, BT 64 99/7915/34.
 2. Basil Dean, The Mind's Eye: An Autobiography, 1927-1972 (Hutchinson, 1973), p. 169.

loss as an expense in distributing their films. If they do get good films it is fortuitous.¹

By that time the British 'majors' were starting to consolidate their hold over the booking situation and American renters complained that they were forced to sponsor 'quickies' because they could not obtain the best British films made by Gaumont-British and British International Pictures. Also by 1934-35 the American film companies were starting to come out of the Depression.²

The Board of Trade was influenced by other factors: it was deluged with complaints about the quota from independent exhibitors. The CEA was also involved in a vigorous campaign against Entertainments Tax on seats under 6d and this lobbying could not be ignored.³ Most cinemas were run by exhibitors owning only one or two halls, and in the scramble for good quota pictures they fared badly against the combines' superior booking strength. Dr. Leslie Burgin, the Parliamentary Secretary to the Board of Trade, received a deputation of exhibitors in October 1934. He was told that two types of exhibitor found quota most difficult to honour: a small number in areas 'where the public are unwilling to accept British films of any description', in London's East End and parts of Glasgow, and more importantly, independent exhibitors in competition with cir-

1. PRO, BT 64 99/7915/34.

2. In 1931 all the US 'majors' were hit badly by the Depression: the market value of their common stock fell from \$960 million in 1930 to \$140 million in 1934. Then the tide began to turn, and by the mid-1930s the readjustment process was complete. See Tino Balio (ed.) The American Film Industry (University of Wisconsin Press, 1976), pp. 214-219.

3. The tax on seats up to 6d was re-introduced after the 1931 financial crisis. In 1931 the net takings of 1,709 cinemas were £18,567,031 and in 1932 £16,013,750. In the same two years the amounts paid in Entertainments Tax were £2,310,261 and £3,156,350, with a decrease of £2,553,281 in the takings but an increase of £846,089 in the tax. See Kinematograph Weekly, 8 February, 1934, p. 5. The tax on seats up to 6d, labelled the 'tax on the unemployed' by Mark Ostrer, was eventually removed in April 1935 after a vigorous campaign led by the CEA's deputations to the Chancellor. See Daily Herald, 26 February 1934. The dispute meant that exhibitor-government relations were strained when the quota was being considered in 1934.

cuits. This problem was growing more serious. A Scottish exhibitor lamented in April 1934:

90% of the British films I have trade reviewed lately are unfit to be shown in any kinema. Week after week I have had to sit through long-winded and turgid volubility designed solely for quota footage... almost every time we show a British film our drawings go down 100%.¹

The Films Act was maligned as 'the greatest fraud ever perpetuated on any industry... Gaumont-British, British and Dominions, British International Pictures and London Film Productions have put out some masterly pay-box films, but the independent exhibitors do not get them'. Writing in a similar vein P.L. Mannoek, the Kinematograph Weekly's studio correspondent, explained how the combines monopolised the best British films:

No serious rival to the two largest... film entertainment combines.. is likely to arise... the result has been to some extent a concentration of the best resources of production in comparatively few hands, which has afforded those in control a preference as exhibitors and a whip-hand as purchasers of independent product for distribution.²

Independent cinemas usually needed about eighteen films a year for quota purposes. According to the CEA there were only 34 good British films available for hire in 1933-34 apart from those made by Gaumont-British and British International Pictures. Few independents managed to get hold of them but the number of defaulting exhibitors in the year ended September 1933 was only 40-50, a smaller figure than might have been expected. But exhibitors argued that showing 'quickies' was preferable to prosecution. Fennelly recognised their problems and feared that it would not be long before 'they decide to take the bit between their teeth and go into default'.³

The persistence of booking abuses was the major cause of the trouble. Blind and block booking forced exhibitors to hire good and bad

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1. Kinematograph Weekly, 19 April, 1934.
 2. Ibid., 11 January, 1934, p. 100.
 3. PRO, BT 64 99/7915/34. The problems of the independent exhibitor will be considered more fully in section 4 (iii).

films together, many of which had not been seen or made. The law was not broken because initially exhibitors and renters made verbal agreements rather than written contracts. Neither party to the verbal agreement was willing to confess and exhibitors feared that giving evidence against renters might deprive them of essential pictures. The abuse was a natural part of vertically integrated combines' everyday business methods.

The pressure was on the Board of Trade to reduce the exhibitors' quota or somehow force American renters to acquire better films. Although a 'cost test' had been broached as a possible solution, the problem was complicated by the activities of the British combines. The situation could not be allowed to drift and so the Advisory Committee appointed a sub-committee to investigate complaints about the Act's malfunctioning.

2. Report of the Cinematograph Films Advisory Committee, 1935

The sub-committee reviewed the period April - December 1934 and submitted its report to the Board of Trade on 29 October 1935. Since there was 'considerable divergence of opinion... on matters which might be regarded as more or less fundamental',¹ the report contained recommendations by the majority, Mrs. H.A.L. Fisher, wife of the historian; P. Guedalla, a historian and essayist; G.R. Hall Caine whose novels were used as the basis of film scripts; J. Hallsworth, a member of the TUC's General Council and general secretary of the National Union of Distributive and Allied Workers; exhibitors E. Hewitson and E. Trounson; S.W. Smith of the renting firm British Lion and C.M. Woolf of British and Dominions, together with separate reservations by the dissenters A.B. King who owned a circuit of cinemas in Glasgow; John

1. PRO, BT 64 88/7411/35, minute by Patterson, 15 November, 1935.

Maxwell; C.P. Metcalfe, an independent exhibitor and finally F.W. Baker of Butchers' Film Service.¹

Two major problems dominated the discussions: the need to curb blatant contraventions of the booking clauses and to abolish 'quickies'. The majority's solution to the first was for applications for quota registration to be accompanied by a renter's declaration that the film had not been illegally booked. After a third conviction for a booking offence they suggested that licences should be cancelled. But C.P. Metcalfe did not agree. Ideally he wanted all booking restrictions withdrawn, but if retained he argued that they should apply only to renters. In recognition that some safeguards would be necessary Metcalfe proposed that all film hire contracts should be registered and inspected.

In an attempt to thwart the 'quickie' the majority recommended a 'cost test' of £2 a foot, as suggested by the FBI in 1930. Films costing £4 a foot were to be entitled to count twice for quota purposes as a further inducement tempting American renters to back more expensive British films.² Pictures costing less than the minimum could qualify for quota only if they satisfied a tribunal that they merited registration on the grounds that they reached a 'production standard... not necessarily based solely on box-office value'. Categories of film excluded from quota in the 1927 Act were not to be subject to a 'cost test' but still could be registered if they were of 'special exhibition value'. To offset criticism from small renters about the difficulties of complying with a 'cost test' the majority proposed that they could apply

1. Ibid.

2. This was based on 'production cost', i.e. excluding (1) cost of the copyright of the story, (2) cost of music copyright, (3) payment to director(s), (4) payment to author(s) of the scenario; but including (1) rent and location, (2) artistes, (3) technicians, (4) sets and decoration, (5) furniture and equipment, (6) costumes, (7) stock, (8) electric current, (9) musicians and (10) any other expenses including overhead expenses of the production company. Mins. of Evidence, p. 154. The 'double quota' became the key American demand in 1937-38.

for an individual assessment of cost-quota liability based on gross receipts from foreign films in the previous year.

C.P. Metcalfe was strongly opposed to a 'cost test':

It would put a premium on extravagance, put some of the smaller producers out of business, would restrict expansion and would tend to create monopolies by preventing new production units from coming into existence unless they were very heavily financed.¹

F.W. Baker wanted the test to be calculated on a 'Form C' labour costs basis rather than on the 'production cost' favoured by the majority.²

Both Metcalfe and A.B. King objected to the 'double quota' because they were worried that it might mean fewer films would be available for hire. On these grounds King pressed for an exhibitors' quota of 10% rather than 15% as recommended by the majority. He was also in favour of giving the Board of Trade powers to vary the quota 'as conditions in the industry might render desirable'.

John Maxwell, thinking of the desirability for British films to storm America, wanted the 75% British labour clause relaxed:

In view of the enlarged scale on which British production is embarking, in order to secure distribution in the American market, it is now recognised as necessary to introduce important foreign stars into British pictures to make them saleable all over the world. Even if two important foreign star artists and a director were included it would not make a film any the less a British picture if it were made here, but to widen this clause would make it possible for American companies to bring over outstanding stars without endangering the possibility of the picture being entitled to quota.³

Geoffrey Mander had argued for the same changes in 1930, but Labour did not agree because of the threat to employment and the cultural implications: how could British films represent British 'life and

1. PRO, BT 64 88/7411/35.

2. This was eventually incorporated into the 1938 Act as the simplest method of calculating cost. Labour costs were estimated to be 50% of total production costs.

3. During the 1930s there were several attempts to break into the US market. Early in 1936 Korda, usually accused of encouraging others to make lavish 'international' pictures, wrote a memorandum declaring 'before our industry can think of conquering foreign markets it must conquer its own', Bank of England, SMT/2/31 doc. 6, 18 February 1936.

manners' if the major stars and the director were American? Surely the result would be films that were technically British but to all intent and purpose American movies made 'on location'? The majority disagreed with Maxwell and advised that the clause be left untouched. Their other recommendations were that the renters' quota should be 20%; the British scenario author clause should be dropped and to assist short film producers quotas should be limited to long films.¹

Out of this inconclusive and indecisive report was born the Moyne Committee. W.H.L. Patterson and Fennelly at the Board of Trade realised that an independent enquiry was the only answer. Patterson's verdict on the Advisory Committee's work was dismissive:

It is clear that it will be very difficult, if not impossible, for the Board of Trade to frame satisfactory legislation based on a report such as this, in which certain recommendations are made by inter alia, some individual members of the film industry whilst divergent recommendations were made by other members of the trade and none of those making the recommendations were apparently empowered to express views on behalf of their representative sections of the industry.²

The report had pinpointed some of the major issues to be considered in more detail by the Moyne Committee. Its indecision highlighted inter-trade conflicts that had been exacerbated by growing tension between the combines and independents. The Board of Trade hoped that an independent Committee would produce a more helpful report recommending how future policy should develop.

3. The Moyne Committee

The Moyne Committee was appointed by Walter Runciman, the President of the Board of Trade, on 25 March 1936 'to consider the position of British films, having in mind the approaching expiry of the Cinematograph Films Act 1927, and to advise whether any, and if so what,

1. For a full discussion of 'shorts' see section 4 (ii).
2. PRO, BT 64 88/7411/35.

measures are still required in the public interest to promote the production, renting and exhibition of such films'.¹ The Home Office was assured that censorship would not be investigated. members of the Committee 'had a background knowledge of the industry without being financially interested in it or having a particular axe to grind, moral or otherwise'.²

The Board of Trade's first choice as chairman of the film committee was Lord Kennet, a former Financial Secretary to the Treasury who was Minister of Health, 1931-35. But the post was offered to Lord Moyne after Kennet refused on the grounds that he 'had to recapture a living'. This was just as well because the Board of Trade was unaware that Kennet's position as a director of the Equity and Law Life Assurance Company, a major sponsor of film production in the 1930s, rendered him hardly independent or without an 'axe to grind'.³

The Committee comprised of three political figures: Lord Moyne; J. Stanley Holmes and Sir Arnold Wilson. Lord Moyne was a member of the Guinness family and a Conservative MP for Bury St. Edmunds, 1907-31. He served in South Africa and in the First World War before being called to the Bar. Lord Moyne had been Under-Secretary for War in 1922-23 before his appointment as Financial Secretary to the Treasury in 1923-25 and in 1933 and 1934 chaired the Departmental Committee on Housing and the Royal Commission on the University of Durham. J. Stanley Holmes, MP for the Harwich division of Essex, was an accountant and director of public companies. Sir Arnold Wilson, Conservative MP for the Hitchin division of Hertfordshire, entered Parliament in 1933 after being chairman of the Industrial Health Research Board since 1926. Wilson was a retired army officer and colonial administrator who had worked for the Anglo-Persian

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1. Report of the Committee on Cinematograph Films (HMSO, 1936), Cmd. 5320, P. 4.
 2. PRO, BT 64 88/7411/35, minute by Fennelly, 20 January, 1936.
 3. F.D. Klingender and S. Legg, Money Behind the Screen (Lawrence and Wishart, 1937), p. 58.

Oil Company, 1921-32. Although he did not appear to condone anti-semitism, Wilson is probably best known as a sympathiser with Fascism, travelling several times to Germany and Italy in the 1930s and sending back enthusiastic reports to the high-Tory publication, The English Review.¹ He was chairman of the Cinematograph Films Advisory Committee and therefore had some familiarity with the film industry's problems. When he was offered a place on the Moyne Committee Wilson was anxious that it should consider the question from a broad viewpoint, encompassing documentary and commercial feature films:

The cinema industry as a whole regards itself as catering solely for amusement: the sole criterion of a film is universality of appeal - to the lowest common denominator. There are practices now current in the industry which are in my belief detrimental to the national interest. We cannot ignore the immense effect of films on the public mind, nor the growth of systems of ownership which place in the hands of a very few men the final decision as to what films will be seen from end to end of the United Kingdom.²

Wilson's contribution to the Committee's report reflected these ideas.

The three 'social' members, J.J. Mallon, A.C. Cameron and The Hon. Eleanor Plumer, had non-financial connections with film and broadcasting. J.J. Mallon had served on a number of official committees and founded the Toynbee Theatre at Toynbee Hall where he was Warden. He went on to become a governor of the BBC in 1937. There was no official labour voice on the Committee because the Board of Trade considered that the questions it had to consider were 'not trade union questions but rather questions of an economic and cultural nature'.³ But Mallon's work as an early member of the Workers' Educational Association's executive committee and as chairman of the London Council for Voluntary Occupation during Unemployment in the 1930s made up to some extent for the omission. A.C. Cameron had been Secretary for Education for the City of Oxford and

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1. R. Griffiths, Fellow Travellers of the Right: British Enthusiasts for Nazi Germany, 1933-39 (Constable, 1980), pp. 158-162.
 2. PRO, BT 64 88/7411/35, Wilson to Runciman, 14 March, 1936.
 3. Ibid., Sir Horace Hamilton, 29 January, 1936. ACT, NATKE and the ETU submitted memoranda to the Committee.

was in charge of the BBC's school broadcasting section. He wrote practically all of the influential report, The Film in National Life, and was a governor of the British Film Institute. Cameron was married to the novelist, Elisabeth Bowen, and with Sir Arnold Wilson was aware of the need to broaden the scope of the Board of Trade's film policy. The Hon. Eleanor Plumer, daughter of Field Marshall Plumer, had just become an independent member of the Cinematograph Films Advisory Committee but had not contributed to the 1935 report. She was Warden of St. Andrew's Hall at the University of Reading, 1929-31; the organising secretary to the Public Morality Council; a member of the BFI's Entertainments panel and went on to become Principal of St. Anne's College, Oxford.

The Board of Trade was anxious that the industry should not be directly represented on the grounds that it was more suitable for it to be in the witness box. As soon as the FBI heard about the Committee's appointment it suggested to Runciman that a producers' representative should be included to offer expert advice.¹ But the idea was firmly rejected: The Board of Trade thought that the FBI would suggest Simon Rowson whose intimate knowledge of the industry's economic ills would undoubtedly bring an undue amount of influence to bear on Committee members. In the end Rowson's written and oral evidence played an important role in the Committee's deliberations.

The CEA continued to hope that their quota might be reduced, while producers were anxious that the Committee should recommend a further dose of quota protection. Sight and Sound, published by the BFI, was optimistic that the Committee's brief would influence members in a useful and far-sighted direction:

While those directly engaged in the production, distribution, and exhibition of films will be most affected, the future of the Act is also a national matter of great importance to all cinemagoers. The Departmental Committee is

1. Ibid., FBI to Runciman, 14 March, 1936.

to advise on the measures which are required in the public interest.¹

Such comments implied that the Board of Trade was influenced far too much by vested trade interests and that the only hope for a long-term policy rested with proposals from outsiders. The Moyne Committee examined evidence and interviewed witnesses from May to July 1936. The witnesses and the organisations they represented were as follows: Paul Rotha (Associated Realist Film Producers); S.H. Cole, D. Dickinson and G.H. Elvin (Association of Cine-Technicians); F.D. Fennelly (Board of Trade); T.H. Fligelstone, W.R. Fuller (CEA); F.W. Baker, M.N. Kearney, A. Korda, N. Loudon and Capt. The Hon. R. Norton (FBI's Film Producers' Group); F. Green (Ace Films); J.S. Fairfax-Jones (Denning Films); Ivor Montagu (Film Society); S. Eckman, J.C. Graham, D.E. Griffiths, F. Hill and J. Maxwell (KRS); T. O'Brien and J. Rogers (NATE); John Grierson; Simon Rowson; H. Bruce Woolfe; G.R. Hall Caine (Advisory Committee). Written evidence was also received from S.F. Doyle (Electrical Trades Union); J.L. Greene (Incorporated Society of Authors, Playwrights and Composers); The Strand Film Company; the Theatrical Artists Film Society; TUC General Council; Wing-Commander W.E. Wynn; Julian S. Huxley; John Grierson and Paul Rotha. The final report was presented to the Board of Trade in November 1936.

4. The Moyne Committee's Report

The Cinematograph film is today one of the most widely-used means for the amusement of the public at large. It is also undoubtedly a most important factor in the education of all classes of the community, in the spread of national ideas and customs of the world. Its potentialities moreover in shaping the ideas of the very large numbers to whom it appeals are almost unlimited. The propaganda value of the film cannot be over-emphasised... from the commercial point of view the influence of the film is also very considerable and its advertising power for the fashions and products of particular countries is tremendous.²

1. Sight and Sound, Vol. 5, No. 17, Spring 1936.

2. Moyne Report (Cmd. 5320, op. cit.), pp. 4-5.

The report and its proposals will be examined under five main sections: American control and finance; quotas and 'shorts'; thwarting 'quickies': cost or viewing test? quotas and the Empire and clearing up anomalies.

(i) American control and finance

The Committee recommended that the government should scrutinise financial deals in all three sections of the British film industry 'with a view to taking such steps as may be practicable to prevent control passing abroad'.¹ Concern about the dangers of foreign infiltration was nothing new. As we have seen, there were fundamental debates about the definition of a British film company before the 1927 Act was passed. The Joint Trade Committee's November 1925 scheme included a similar provision giving the Board of Trade power to deal with attempts by foreigners to 'defeat the purpose of the scheme by effecting a corner in British films, kinemas, studio facilities, artistes or authors'.² But no such clause reached the statute book and throughout the 1930s many argued that the quota had forced American renters to consolidate their British interests.

The Moyne Committee's recommendation reflected widespread fears about the British industry's vulnerability to foreign control. World Film News, edited by Marion Grierson, absorbed Cinema Quarterly, a lively and respected film magazine in April 1936.³ It was unashamedly anti-American, as a typical editorial lamented:

The American drive to obliterate every vestige of a native British film industry is succeeding admirably. Cynics are comparing the situation with the Italian conquest of Abyssinia, and there are indeed certain resemblances. The Americans with their impressive supply of Hollywood pictures, have the necessary tank power to put native exhibitors at their mercy. They are using it remorselessly,. With their large financial powers, they have been able to set up their

1. Ibid., p. 12.

2. Kinematograph Weekly, 12 November, 1925, p. 54.

3. David Robinson, 'Read all about it' in Stars of the Silver Screen (Bloomsbury Books, an imprint of Godfrey Cave Associates Ltd., 1984) Chapter 12, p. 223.

own American production units here. By giving all their orders for Quota films - not unnaturally - to their own units, they have turned the independent British producer into a humble applicant at their factory gate... So far as films go, we are now a colonial people.¹

This cause was championed by the film trade unions and the TUC. In 1937 the TUC Congress at Norwich declared that 'a flourishing and efficient British film production industry is a national necessity... to protect British cultural and educational standards from alien disparagement'.² What inspired the Committee to make the recommendation? Was there any substance in the belief that American companies were trying to penetrate British production and exhibition?

The published minutes of evidence to the Moyne Committee do not show that American companies had substantial interests in Britain except in the renting sphere. R.D. Fennelly's memorandum stated that apart from Fox's holding in Gaumont-British (see below), little foreign capital was invested in production.³ Warners and Fox had studios at Teddington and Wembley, and the only recent financial deal between a British and an American company mentioned by Fennelly was Universal's decision to distribute its pictures through General Film Distributors.⁴ The Committee was concerned about American infiltration of British exhibition, especially since the growth of the two combines (Gaumont-British and ABPC) meant that it could no longer be taken for granted that American films would be shown in the best British cinemas. An American report commented in 1930:

It is obvious that the only sure way of stabilising American film interests in Great Britain is by the continuance of the acquisition or construction of cinemas, and direct control over the distribution and exhibition of American films.⁵

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1. World Film News, November 1937, supplement on independent exhibitors, p. iii.
 2. TUC Annual Reports, 69th Congress, 1937, pp. 336-371.
 3. Mins. of Evidence, 5 May, 1936, p. 5.
 4. Ibid., p.24.
 5. US Bureau of Foreign and Domestic Commerce: Report by Motion Picture Division on The European Motion Picture Industry, 1930 (Washington), p. 13.

Although some American film companies owned 'key theatres' in London's West End, the Committee was informed by the Board of Trade that Paramount was the only firm owning a number of cinemas in Britain.¹

The most controversial Anglo-American deal was between the Fox Film Corporation and Gaumont-British, and turbulent relations between the two companies in the 1930s strongly influenced the Moyne Committee when it made the 'foreign control' recommendation. Many feared that if Gaumont was absorbed by Fox the British film industry would wither away under Hollywood's tutelage. But Gaumont-British was desperate for extra working capital in 1929 to finance the purchase of the PCT circuit and to equip its cinemas for sound. William Fox hoped that a deal would give his company's pictures more lucrative British outlets, calculating that it would boost their income from Gaumont cinemas from \$500,000 to \$5 million. Although Fox owed the American Telephone and Telegraphic Company \$15 million after the recent purchase of Loew's Inc., he raised \$20 million to finance a deal with Gaumont. According to Upton Sinclair, Fox consulted John E. Otterson, a representative of Western Electric, the 'talkie' equipment firm controlled by the American Telephone and Telegraphic Company, before his deal with the Ostrers. Fox promised that once the latter had been completed he would make sure that the Ostrers equipped the Gaumonts with Western Electric apparatus. Previously they had not agreed to do this, and Otterson was understandably lenient towards the Fox debt because if all the Gaumont halls were installed with his company's equipment the sum involved was estimated to be as high as \$7,500,000.² What were the details of the Fox-Ostrer deal? Why did Fox fail to gain control of Gaumont-British?

In preparation for the deal the Metropolis and Bradford Trust, the company controlling Gaumont-British, was re-capitalised with 10,000

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1. In 1936 Paramount directly controlled only 12 cinemas, Mins. of Evidence, p. 8.
 2. Upton Sinclair, Upton Sinclair presents...William Fox (LA, 1933), p. 79.

voting 'A' shares and one million non-voting 'B' shares. In July 1929 the Fox Film Corporation paid £1,004,000 for 4,950 'A' shares, the same number being held by the Ostrers. Lord Lee of Fareham, an independent arbitrator in the event of conflicts between Fox and the Ostrers, held one hundred 'A' shares. Fox subscribed for 750,000 of the 'B' non-voting shares while the Ostrers had 250,000. But ultimate control rested with the Ostrers because unbeknown to Fox the Bromhead brothers resigned from Gaumont-British in the summer of 1929 on condition that Article 89A was inserted into the company's articles disenfranchising every shareholder who was not British. An American report commented bitterly on the deal:

This plan for the joint control of Gaumont-British failed from the beginning to work to the satisfaction of Fox... Its representatives were completely excluded from any voice in the Gaumont operations... The Fox pictures never got the best playing dates, unreasonably large numbers of its pictures were never played at all or were not played until they were old and then played only for short runs, in poor theatres, on bad days of the week.¹

But despite the protection of Article 89A many feared that Fox would try to gain the control it had been denied in 1929. The American company's stake in Gaumont was too large for it to accept the role of junior partner.

Soon after the controversial deal William Fox lost control of his corporation. But its new controllers instigated a series of lawsuits in an attempt to secure an equal footing with the Ostrers in Gaumont. Isidore Ostrer appealed to the Board of Trade in May 1931. The only way the Ostrers could dispose of their 'A' shares without Fox's consent was to give them to the state, or to a special voting trust recognised by the government.² This offer placed the Board of Trade in a dilemma and

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1. US State Department (National Archives, Washington D.C.), 841.4061/MP/474, Memo. on Fox, Loew's and Gaumont-British, pp. 4-5.
 2. PRO, BT 64 86/6267/31, Lawrance, Messer and Co. to President of BT, 22 May 1931.

the Permanent Secretary, Sir Horace Hamilton, advised the President to be wary of getting involved:

It is impossible not to suspect that the offer is in some way related to the rivalry between Gaumont-British and British International Pictures. The latter is admittedly a British concern, whereas the nationality of the former has been under considerable suspicion. We know that the leaders of BIP have considered how they could obtain some sort of State recognition in order to make borrowing more easy, and it may be that Mr. Ostrer has lighted upon an ingenious plan with the same aim... If the Government refuse his offer, he can say that he is no longer called upon to preserve British control... if the Government accepts the offer, he can use it for purposes of publicity... The Government would be expected to take part in the selection and appointment of Trustees... it would appear wise to have nothing to do with the project, but the difficulty is to give the real reasons in public.¹

At the end of May the Board officially rejected Ostrer's offer on the grounds that 'it would be extremely embarrassing for the Government to have, or appear to have, control of the policy of the big cinematograph concerns'.

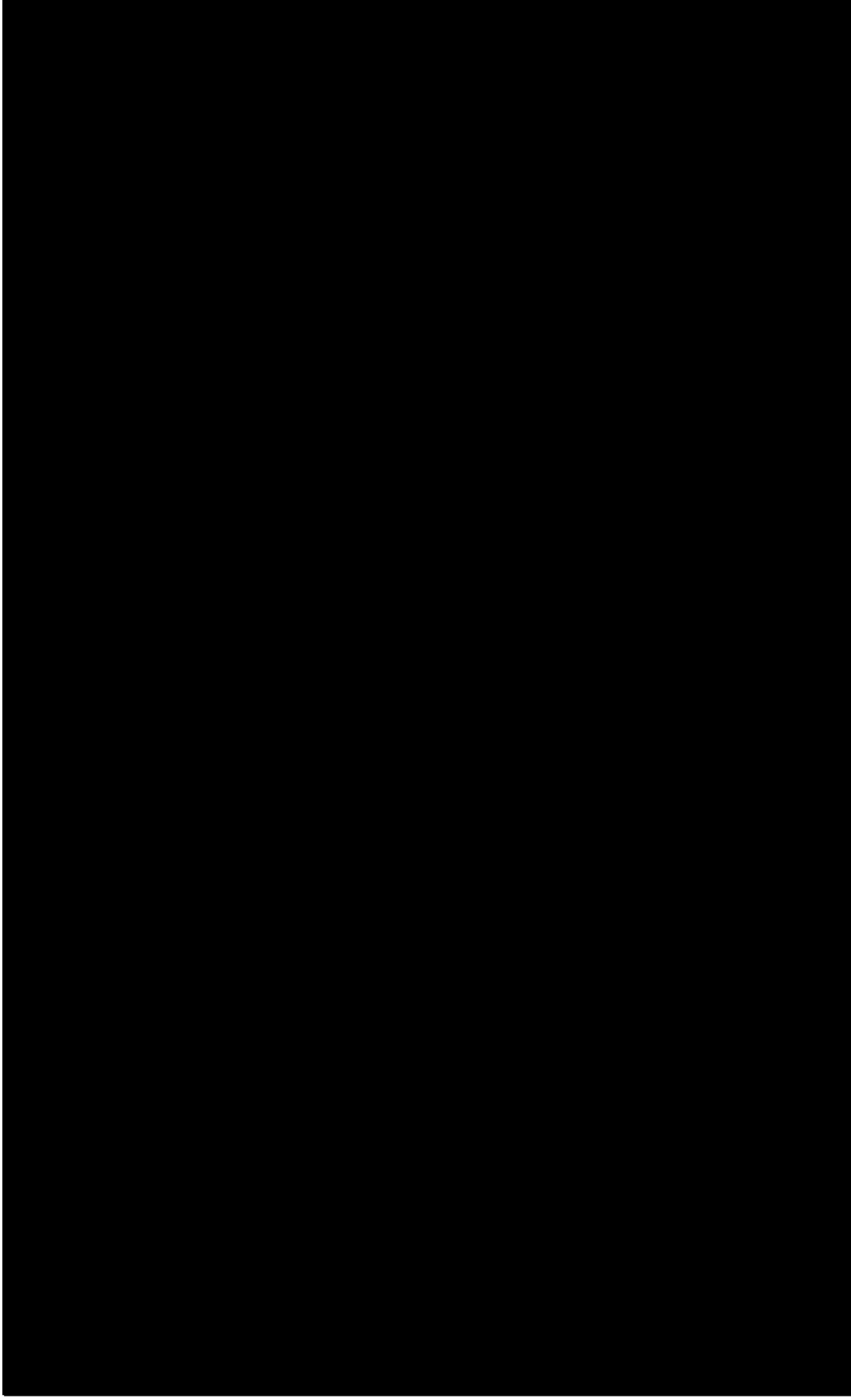
But in July 1931 Lord Lee intervened and declared that control should reside with the Ostrers. As he recalled in his autobiography, his motives were patriotic:

the over-riding argument in my mind was that, under no circumstances, should the control of the greatest of British film companies be allowed to fall into non-British hands... I cherished sincere hopes of being able to benefit and safeguard the British film industry in its internicine struggle with the Hollywood octopus.²

In 1933 Lord Lee's shares passed to the Ostrers, but in May-July 1936, while the Moyne Committee was receiving evidence, there was talk of a deal whereby Fox and MGM might buy the Ostrers' holding for a reported £1.5 million. Despite a premature announcement and even vague assurances that British control would be legally conserved, the deal was never con-

1. Ibid., minute by Hutchinson, 3 June, 1931.

2. Alan Clark (ed.), A Good Innings: The Private Papers of Viscount Lee of Fareham (London, 1974), pp. 297-8. Lord Lee was married to the daughter of the chairman of the Chase National Bank. The latter became the largest shareholder in Fox when William Fox lost control.



Is the film industry really British? World Film News, Aug. 1936

World Film News, November 1936 : Maxwell made an unsuccessful bid for control of Gaumont-British.

If the Fox Film Corp. had agreed to surrender its holding to Maxwell he would have monopolised

summed. Instead John Maxwell purchased the Ostrers' 'B' shares for over £620,000 in October together with an option on their crucial 'A' shares for £900,000. But the latter depended on Maxwell obtaining at least half of Fox's 'A' shares, a transaction which the American company was unwilling to sanction 'because of the obvious effect of such a merger on competition in England'.¹

While the protracted wranglings between Fox and the Ostrers provided the essential background to the Moyne Committee's 'foreign control' recommendation,² it was directly inspired by a confidential meeting between the Committee, Alexander Korda and Sir Connop Guthrie on 20 July 1936.³ Korda, a Hungarian who had produced 'quickies' for Paramount after an unsuccessful time in Hollywood, established London Film Productions in 1932. A year later he made The Private Life of Henry VIII, the first British film to break box-office records in America.⁴ Sir Connop Guthrie persuaded the Prudential Assurance Company to become

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1. US State Department. (NA) 841.4061/MP/474, p. 14. It was rumoured that a suitable price could not be agreed. See Chapter 7 for the subsequent financial history of Gaumont-British.
 2. Financial News, 20 July, 1936, commented on the desire of US companies to gain control of British ones and referred to the Gaumont-Maxwell-Fox controversy: 'It is interesting to note that in his recent advisory report to the Paramount board of directors, Mr. Joseph Kennedy, the ex-chairman of the Securities and Exchange Commission, emphasised the need for American film companies to acquire interests in foreign producing companies in order to offset the effects of quota restrictions and possible embargoes'. This is interesting in the light of his role in the 1937-8 Anglo-American film conflict when Kennedy was the American Ambassador to Britain in 1938.
 3. PRO, BT 64 92/6757/38, 10th meeting of the Moyne Committee, 20 July 1936.
 4. See Karol Kulik, Alexander Korda. The Man Who Could Work Miracles (W.H. Allen, 1975); Paul Tabori, Alexander Korda (Oldbourne, 1959); Michael Korda, Charmed Lives: A Family Romance (Random House, New York, 1979) and Tino Balio, United Artists, op. cit.

London Films' major backer in 1934, and he was made a director of Korda's company.¹

Guthrie and Korda gave evidence to the Committee 'with regard to finance in the film industry and attempts at American control'.² Both were extremely anxious that the meeting should be secret because of links between London Films and the American company United Artists (UA). The latter distributed Korda's films, and in September 1935 he had been made a partner of UA. Guthrie argued that if it was made public that they had given evidence against UA's interests 'such knowledge might have severe repercussions on London Film Productions'.

At that time UA was interested in forging closer links with British companies, not least because the British market accounted for nearly 80% of UA's profits. Holdings were acquired in the County circuit and Odeon Theatres in February 1935, although the Board of Trade's evidence to the Moyne Committee did not indicate that UA had any cinema interests.³ F.M. Guedalla, UA's legal counsel in Britain and Murray Silverstone, managing director of its British subsidiary, purchased a

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1. Guthrie had been the Ministry of Shipping's representative in America in the First World War. In the Second World War Guthrie led a mission to America before the latter entered the War, 'to develop, with generous American help, welfare organisations at US ports where British ships docked. This was, however, only Guthrie's overt role. His covert task was to run the Security Division of British Security Co-ordination which, under the formidable Canadian, William Stephenson, supervised all British secret service work in America, in close collaboration... with the FBI and the Office of Strategic Services. On Guthrie's advice, men with wide experience of merchant shipping as well as knowledge of local conditions were recruited as consular security officers in all the main US ports to supervise anti-sabotage precautions and the suppression of information about ships' cargoes, movements and convoys', J.A. Cross, Lord Swinton (Clarendon Press, 1982), pp. 230-231. See Ch. 7 for London Films' history.
 2. Daily Telegraph, 17 July 1936, reported that MGM had made a bid for London Films but that Korda announced he was not selling control.
 3. Mins. of Evidence, p. 24, although when Fennelly commented on the Moyne Report in March 1937 he did not seem to think the Odeon/UA deal was serious, PRO, BT 64 89/6551/37, Fennelly to Palmer, 16 March, 1937.

half interest in Odeon for a nominal £50. Tino Balio explains the circumstances:

The bigger circuits, by reason of their greater purchasing strength and prior claims as owners of first-run theatres, had been receiving the pick of the new pictures. Odeon, to put it simply, desperately needed a source of quality pictures to survive, let alone expand. Deutsch, as a result, welcomed the deal... A special clause in Odeon's Articles of Association gave Deutsch and his partners the right to elect the chairman and one-half of the directors; Deutsch, therefore, had the so-called casting vote and control.¹

Odeon was pleased to have access to the pictures distributed by UA, especially Korda's films, those made by British and Dominions and Samuel Goldwyn. Rene Clair's The Ghost Goes West was one of the first films to be exhibited when the Odeon-UA deal was operating. Deutsch also had links with First-National and was a director of Donada's circuit.²

Guthrie complained that

the American industry is designing to sabotage the British film industry. Exhibitors in certain circuits are prepared to give up 50% of their equity for a guaranteed programme supplied by United Artists... the Government should make it very clear to the American interests that they are not going to be allowed to control the British industry.³

He warned that some Americans were also interested in taking control of London Films, 'but the company do not wish to do so if the Government will help the industry'. Korda's employees were being offered high salaries to tempt them to work in America: London Films paid Robert Donat £6,000 to star in The Ghost Goes West, but the Americans offered him £35,000 to act in Hollywood. As a consequence, Korda was forced to pay Donat £25,000 in subsequent films to retain his services. Both Korda and Guthrie wanted the Americans to make worthwhile pictures in Britain, but Korda was anxious that native companies should not be engulfed:

If American interests obtained control of British producing companies they may make British pictures here but the pictures made would be just as American as those made in

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1. T. Balio, United Artists, op. cit., pp. 128-129.
 2. Allen Eyles, '"A Romance of Finance". Oscar and the Odeons' in Focus on Film, 22, Autumn, 1975.
 3. PRO, BT 64 92/6757/38.

Hollywood. We are on the verge of forming a British school of film making in this country.

So the Moyne Committee made its 'foreign control' recommendation because of Korda and Guthrie's fears and against the background of the Fox-Ostrer controversies. But their confidential evidence should be examined in the light of London Films' financial problems to be related in a later chapter. Both Korda and Guthrie had a vested interest in stressing the dangers of foreign infiltration and the need for a financial reorganisation of the film industry.

The Committee made no specific proposals as to how control could be prevented from 'passing abroad' and it did not seem to be aware that at about the same time another study of the film industry was being undertaken by Stuart Legg, the documentary producer, and F.D. Klingender, a Marxist art historian. Their findings were published as an article in World Film News followed by a book entitled Money Behind the Screen in January 1937. The latter gave a far more up-to-date, accurate and detailed picture of recent financial events in the British film industry than the Moyne Report.

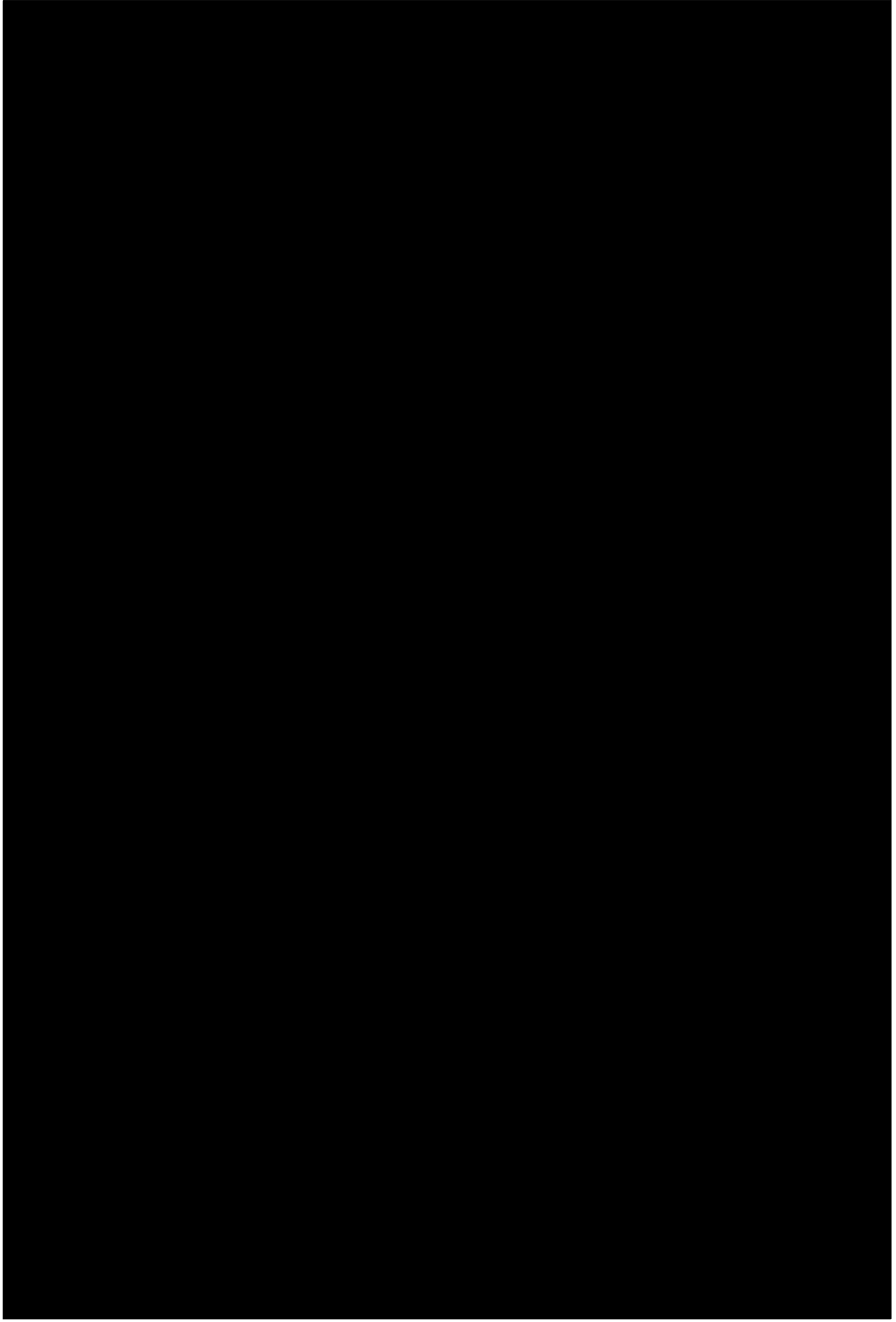
Klingender and Legg reported the UA-Odeon deal and a much fuller account of relations between General Film Distributors (GFD) and Universal. GFD had been formed by C.M. Woolf in June 1935 when he left Gaumont-British following a dispute with the Ostrers. Universal was in financial trouble and GFD acquired a 25% interest for £0.5 million and became the American company's distributor.¹ Numerous cross-directorships linked the two Anglo-American alliances: (i) UA-Odeon-County Cinemas-London Film Productions-British and Dominions and (ii) Universal-GFD. Klingender and Legg revealed that A.H. Giannini, a Californian banker, was President and Chairman of UA as well as being a member of

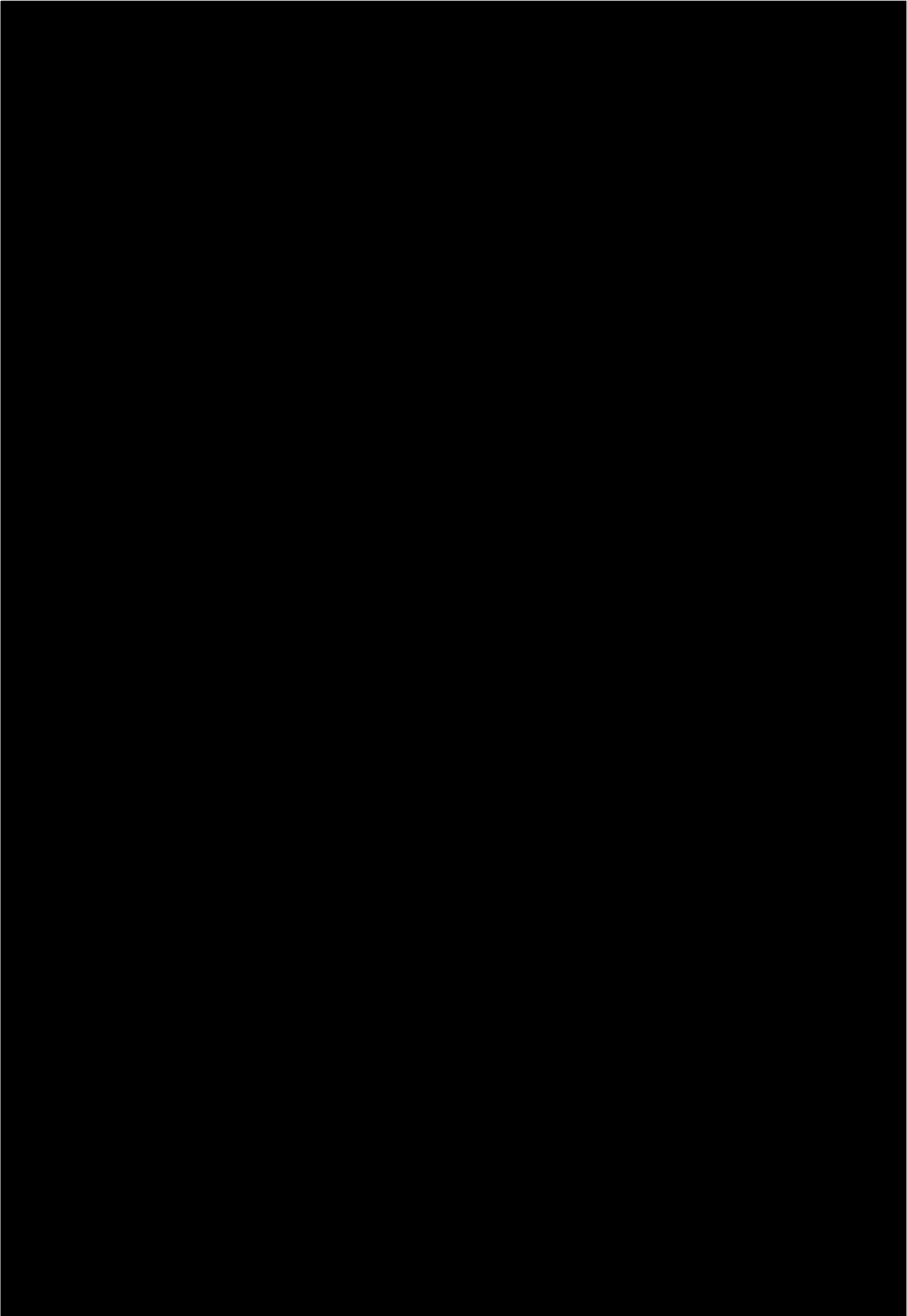
1. Alan Wood, Mr. Rank (Hodder & Stoughton, 1952), p. 75. See also Herbert Wilcox, Twenty-five Thousand Sunsets (Bodley Head 1967), pp. 104-110.

Universal's board. Several of the GFD executives were on the board of British and Dominions, a company linked to UA. Money Behind the Screen claimed that Paramount's influence in exhibition was more powerful than the Moyne Committee assumed: apart from its small circuit of cinemas the American company had joint management arrangements for all theatrical matters, excluding film bookings, with the Union group which controlled 250 cinemas. Although the British group was technically in control of film bookings, Klingender and Legg speculated that 'it would be curious if this tie-up were compatible with any degree of indifference in so far as Paramount film bookings are concerned'.¹ The following tables show the difference between the Board of Trade's analysis of Anglo-American links and that offered by Klingender and Legg. Although the Board's account of British companies equates with the table from Money Behind the Screen, its information about American concerns like MGM, Paramount, Columbia, UA and Universal is clearly incomplete.²

The Committee wanted the government to encourage 'financial interests to constitute one or more organisations to finance British film production'.³ Simon Rowson's evidence had revealed that production was under-capitalised by about £2 million, forcing film-makers to resort to short-term capital.⁴ He described how a plethora of such money had bombarded the industry, making it possible for a producer to arrange a loan from a bank with the help of an insurance policy to guarantee repayment.⁵ A report of September 1935 showed that of 67 companies registered in 1934 only 15, or 22.4% 'can be traced as having made pictures or are in the process of making a picture'.⁶ Total nominal capital of the companies amounted to £398,350 and that of functioning

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1. Klingender and Legg, op. cit., pp. 18-19.
 2. Mins. of Evidence, p. 24. Klingender and Legg, op. cit., pp. 19-20.
 3. Cmd. 5320, p. 37.
 4. Mins. of Evidence, Rowson 30 June, 1936, p. 115, para. 39.
 5. Ibid., p. 120, para 1233. See Chapter 7 on the role of insurance companies in financing film production.
 6. Kinematograph Weekly, 5 September, 1935, p. 3.





companies £79,000. This left a residue of £319,350 nominal capital either unissued or if issued earning no dividend. The same report noted that film producing ventures registered from January to August 1935 numbered 54, or 80% of the full total for 1934. A trend had begun that was to end in disaster in 1937.¹

When the Moyne Committee met Korda and Guthrie the latter said that the City of London was generally reluctant to sponsor production without large collateral security and high interest rates. He claimed that he was trying to encourage city interests to change their minds, warning that his efforts were likely to come to nought unless the government led the way.² At the next Committee meeting on 21 July Sir Arnold Wilson disclosed that he was being advised by Helbert, Wagg and Company about film finance - the City firm which played an active role in the Bank of England's 1937 enquiry. They had assured him that a film bank would probably materialise 'if the Committee recommend a long-term policy'. But J. Stanley Holmes was opposed to a central organisation, and in the end the Committee decided to let events take their course:

The creation of more than one organization of the kind we have in mind might tend, through normal competition, to ease the terms on which finance could be obtained by film producers. It would, however, in the absence of some degree of co-operation with regard to the approval of proposed schemes between the organizations concerned, render less complete the inhibitory effect on undesirable film company promotion that one central organization might be expected to have.³

(ii) Quotas and 'shorts'

The Committee recommended that quotas, 'as the most suitable method of protection', should be imposed for another ten years for long and short films. The following tables supplied by R.D. Fennelly

1. See Chapter 7 on film finance.
 2. PRO, BT 64 92/6757/38, 10th meeting, op. cit.
 3. Cmd. 5320, p. 13.

documented the quantitative increase in British films registered for quota.¹

Table 15
Number of films Registered for Renters' Quota 1929-36

Period *	LONG			SHORT			TOTAL FILMS		
	B	F	T	B	F	T	B	F	T
1929	128	550	678	150	663	813	278	1,213	1,491
1930	96	506	602	180	885	1,065	276	1,391	1,667
1931	122	556	678	53	976	1,029	175	1,532	1,707
1932	153	464	617	44	917	961	197	1,381	1,578
1933	159	481	640	41	741	782	200	1,222	1,422
1934	190	484	674	48	647	695	238	1,131	1,369
1935	189	474	666	67	697	764	256	1,174	1,430
1936	212	506	718	85	578	663	297	1,084	1,381

* year ended 31 March;

B = British; F = Foreign; T = Total

Table 16
Length of Films Registered for Renters' Quota (thousand feet)

Period *	LONG			SHORT			TOTAL FILMS		
	B	F	T	B	F	T	B	F	T
1929	904	3,400	4,304	170	922	1,092	1,074	4,322	5,396
1930	624	3,331	3,955	150	1,204	1,354	774	4,535	5,309
1931	789	3,649	4,438	60	1,160	1,220	849	4,809	5,658
1932	928	2,962	3,890	59	1,071	1,130	987	4,033	5,020
1933	961	3,057	4,018	47	893	940	1,008	3,950	4,958
1934	1,180	3,115	4,295	60	769	829	1,240	3,884	5,124
1935	1,183	3,116	4,299	68	891	959	1,251	4,007	5,258
1936	1,379	3,316	4,695	96	756	852	1,475	4,072	5,547

* year ended 31 March;

B = British; F = Foreign; T = Total

Simon Rowson gave the reasons for another dose of protection:

On educational, social and political grounds, the power of the film to serve important national interests has been fully established... the withdrawal of protection from the industry which has been built up would lead to its rapid extinction.²

In its evidence to the Committee the FBI proposed initial renters' and exhibitors' quotas of 22.5% and 20%, rising to 35% and 33.3% after six

1. Mins. of Evidence, p. 5 and 6.

2. Ibid., p. 113, para 27.

years. The Association of Cine-Technicians (ACT) was in favour of widening the gap between the two quotas arguing that a higher renters' quota would force them to supply exhibitors with better films. Simon Rowson felt that if a 'cost test' was introduced the number of films would drop. He therefore recommended initial quotas of 15% and 12.5% for renters and exhibitors, both to increase by 2.5% every two years until they reached 25%. In the end the Moyne Committee tried to compromise by recommending starting figures of 20% for renters and 15% for exhibitors, thereafter to be annually assessed instead of following a fixed schedule as in the 1927 Act. But although Lord Moyne wanted the maximum quota to be no more than 33.3%, the Committee eventually took Korda's advice by setting it at a high 50%.

To promote studio employment and prevent abuses, the 1927 Films Act excluded certain classes of film from protection: newsreels, scientific films and those depicting natural scenery, industrial and manufacturing processes. Unfortunately this barred most documentary films, giving renters and exhibitors little incentive to acquire and show them. The only way they could qualify for quota was if they could prove 'special exhibition value' to the Advisory Committee which was no easy task. Paul Rotha of the Association of Realist Film Producers explained to the Committee that the Advisory Committee's membership excluded documentary film-makers, so educational and cultural considerations were seldom taken into account when this special category was being assessed.¹ Consequently the footage of British short films registered with the Board of Trade fell from 170,000 feet to 68,000 feet between 1929 and 1935.

Since the passing of the 1927 Act documentaries had become more significant, largely because of John Grierson's work at the Empire

1. Ibid., Paul Rotha, 16 May, 1936, p. 60.

Marketing Board and at the General Post Office.¹ Despite critical acclaim few of these films were shown in commercial cinemas. They did not rank for quota and exhibitors claimed that audiences did not like them, as a CEA member told the Moyne Committee:

The public come into our cinemas to be amused, not educated. If their amusement can be so guided so that it is educational, that is all right, but they will not come in to be educated... No documentary film... has ever set the Thames on fire.²

Night Mail and North Sea did better than most, but this was because they were more commercial than many other documentaries. This attitude is understandable since the documentaries lacked the entertainment value that cinema audiences had come to expect. They were usually solemn and high-minded and often concentrated on aspects of industrial life that the British public went to the cinema to forget. For a time foreign 'shorts' offered by renters as part of a complete programme excluded British product. In the year ending March 1932 the total length of registered British 'shorts' amounted to 7.3% of all British films whereas the figure for foreign 'shorts' was 26.6%.³ As the 1930s progressed, the advent of the double feature began to exclude all 'shorts' from programmes. In 1939 cinemas showing double features, or two-thirds of the total, devoted only 2.25% of screentime to 'shorts'.⁴

But John Grierson's argument won the day, and the Moyne Committee recommended a separate quota for short films:

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1. Paul Swann, 'John Grierson and the GPO Film Unit, 1933-1939' in Historical Journal of Film, Radio and Television, vol. 3, No. 1, March 1983. Swann shows how the Post Office persuaded the Board of Trade to register films which 'did not really meet the criteria of box office appeal', p. 28, footnote 51, re. PRO, T 160/742 F13860/03/1, on the Weather Forecast group of GPO shorts, trade shown in October 1934. See also Forsyth Hardy, John Grierson, a documentary biography (Faber & Faber, 1979).
 2. Mins. of Evidence, p. 89.
 3. In America the double feature developed in response to the Depression. In Britain the practice was first introduced with the 'talkies' as exhibitors were anxious to use up supplies of silent films.
 4. PRO, BT 64/4501/1687, CFC (5) 14.

The short field is the logical training ground for directors and technicians... permits the exploitation of capital too small for large-scale production... provides for the trying out of new ideas... I would urge that the leavening of the average programme with a single short item of more serious intention either socially or culturally would have the effect of improving the relationship between cinemas and the public... The shorts field already in its documentary section demonstrated how different aspects of the national life can be described... if the ordinary working and traditions of the national life are to be presented, one must look mainly to the shorts field for their presentation.¹

Paul Rotha similarly argued that the documentary movement was 'the most creatively and nationally conscious section of British film production'.² Such sentiments, drawing on familiar aspirations for a distinctively British film industry, appealed to the Committee's patriotism. In this case, documentary producers had successfully sold themselves as the vanguard of British culture.

(iii) Thwarting Quickies: Cost or Viewing Test?

One of the Committee's most difficult but urgent tasks was to investigate the origin of 'quickies' and to recommend ways of eliminating them. The CEA's 'film markings' for the year ended 31 March 1935 showed that out of a total of 652 films (463 foreign and 189 British), 237, or over half of the foreign films, scored over 8, but only 63, or one-third of the British pictures attained the same standard. More than 25% of the British films trade shown received under 7 marks, compared with only 7.5% of the foreign films.³ In the year ended 31 December 1935 84% of the British pictures registered by the major British renters scored over 8 and 10% over 7 marks. The corresponding figures for the American were less impressive at 42% and 46%, but all the British films registered by United Artists were awarded over 8 by the CEA.⁴ The blame

1. Mins. of Evidence, pp. 33-34.

2. Ibid., , p. 60.

3. S. Rowson, 'The Future of the Films Act': Paper to the CEA's annual conference in Cardiff, 1935.

4. Mins. of Evidence, p. 26.

for 'quickies' was placed squarely on the American renters and Fennelly confirmed that British companies acquired a greater number of good British films than their American counterparts.¹

Table 17
Comparison of British Films Registered by Principal Companies
1933-34 and 1934-35 with their Minimum Quota Requirement

	Quota Liability		Length Reg. ('000 feet)	
	Liability	Length	Liability	Length
British Companies	1933-34		1934-35	
Associated British Film Dist. Assoc. Prod. & Dist. Co.	10 3.5	67 16	51 7	43 23
British Lion	11	39	12	42
Butchers Film Service	16	26	8	45
Gaumont-British Distributors	44	206	47	210
Pathé Pictures	32	33	38	39
Wardour Films	18	109	31	120
Foreign-controlled renters				
Columbia Pictures	37	37	68	68
First National Film Distribs.	45	46	49	49
Fox Film Corporation	65	66	69	69
MGM	98	98	89	89
Radio Pictures	88	89	78	78
Paramount	108	108	97	98
UA Corp.	59	90	27	52
Universal			113	113
Warner Brothers	49	50	47	47

In February 1937 an exhibitor from Bristol, F.G.W. Chamberlain, submitted data to the Board of Trade showing how the Americans seldom offered British films as first features.² In 1936 Warner Brothers, First-National, Radio Pictures, Paramount and Columbia between them offered 55 British films for hire, but of these only 8 were first features. As usual United Artists was the exception.

1. Ibid., , p. 8, table E. Figures for 1933-34 are from S. Rowson, 'A Statistical Survey of the Cinema Industry in Great Britain', Journal of the Royal Statistical Society (1936), vol. 99, p. 110.
2. PRO, BT 64 89/6551/37, Chamberlain to Board of Trade, 5 February, 1937.

Table 18
Films Trade Shown by MGM, Fox and United Artists, 1935-6
first and second features

Renter	Year	Total Films trade shown	First Features		Second Features	
			US	UK	US	UK
MGM	1935	54	36	1	7	10
MGM	1936	57	34	0	11	12
Fox	1935	58	28	0	19	11
Fox	1936	49	20	2	20	7
United Artists*	1936	23	8	14	0	0

* (1 French)

The Board of Trade's evidence, however, showed that despite 'quickies' there was a demand for British films, as shown by the following table giving details of the range of bookings of long films acquired by renters:¹

Table 19
Range in Days of Bookings for British and Foreign Films, 1932-4

Range in Days	British Films				Foreign Films			
	1932-3		1933-4		1932-3		1933-4	
	No.	%	No.	%	No.	%	No.	%
1-2,000	50	31.6	60	32.1	104	21.8	101	20.0
3,000-5,000	75	47.4	82	43.8	340	71.4	341	70.3
+5,000	34	21.0	45	24.1	32	6.8	43	8.9
Total	159		187		476		485	

1. Mins. of Evidence, p. 10.

Not only did it appear that British films were being shown, but that they were becoming more popular.¹ Exhibitors consistently exceeded their quota requirements, as illustrated by the following table:²

Table 20
Exhibitors' Quota Performance, 1932-5

Year Ending 30 September	Exhibitors' statutory quota %	Actual quota All Films	all films shown Long	Short
1932	10	21.6	24.2	5.1
1933	12.5	23.7	26.2	5.2
1934	15	26.1	28.4	6.2
1935	15	25.5	28.0	4.2

Yet exhibitors still claimed that their quota was too high and that many had no choice but to show 'quickies'. Why was this, and was there any truth in their complaints about the popularity and availability of British pictures?

Exhibitors argued that while not all British films were 'quickies', only the combines could be sure of obtaining the best pictures, as the Board of Trade discovered in 1934. Similarly, the Americans complained that it was unfair to blame them for 'quickies' because, as Sam Eckman of MGM told the Moyne Committee, the development of vertical integration in Britain had left them with no choice. The combines swallowed up the lion's share of good films:

The best producers are Mr. Maxwell's or Gaumont-British, or London Films, and they refuse to distribute through us. They feel the preponderance of our own films is so excessive that we could not lend our best efforts to the distribution of their films... Most good British films are controlled by

1. Tony Aldgate, 'Comedy, Class and Containment: The British Domestic Cinema in the 1930s' in J. Curran and V. Porter (eds.) British Cinema History (Weidenfeld and Nicolson, 1983). Aldgate quotes Variety, 3 January, 1933 as commenting, 'the one outstanding fact of the British film field of 1932 was the complete strangle-hold the home-made picture established on the local box-office'. The Motion Picture Division's report for 1932 made a similar statement: 'the trade... continued to make rapid strides; its production rose to a point within reach of the world leaders, while local market conditions probably surpassed those of any other country'.
2. Mins. of Evidence, p. 9.

companies that have their own West End cinemas, and that being the case, we have had no other alternative but to fall back to the less important films.¹

By the mid-1930s the two largest British combines between them controlled about 600 cinemas, or 13% of the total and 17% of all the cinema seats. The nine largest circuits owned a quarter of all cinemas, a third of the total seating capacity and half of the 'first-run' cinemas. Numerically the combines were dwarfed by independent exhibitors who formed a vociferous and influential section of the CEA's membership, but since renters refused to allow them to unite for booking purposes they were forced to pay high rentals. It was natural, on the other hand, for Gaumont-British and Associated British to show the pictures made by their production limbs in their 'key theatres' and circuits.

Part of the problem was distribution and exhibition practices linked with the growth of the combines. Since blind and block booking had not been successfully outlawed by the 1927 Act, American renters often offered their US films as a package along with British 'quickies'. The circuits were in a better position to bargain for better booking terms than independents, and in the 1930s there were numerous disputes between the KRS and CEA over film hire contracts. Before 'talkies' exhibitors booked films on a 'flat rate' basis, or fixed payments. But in the late 1920s renters demanded a proportion of box-office takings, or what was known as the 'percentage system': they took anything from 25-40% of a picture's gross receipts and independent exhibitors paid a much higher percentage to renters than the combines.² 'Barring' also created problems for independents as it meant that no two cinemas in the same area could show the same film concurrently or immediately after its prior run. When a circuit with a wide spread of cinemas hired a film the 'barring' process followed it all over the country so that independents

1. Ibid., pp. 105-106.

2. R. Low, The History of the British Film, 1918-1929 (Allen & Unwin, 1971), pp. 82-3.

were denied new films. Although Simon Rowson praised the Films Act for having saved the British film industry from extinction,¹ even he acknowledged exhibitors' difficulties:

The exhibitor... is not free to provide his patrons with the programmes of his choice. Owing to the growth and power of the circuits, he can only choose a programme from a fraction... of the films ready for showing... A one-theatre proprietor in a neighbourhood of theatres belonging to a group or circuit of theatres under the same ownership is often compelled to show only the least attractive films because the larger companies exert their greater booking power to reserve the better and best films for themselves...²

Thus opinions about the quality and popularity of British films varied according to local booking conditions and the availability of native pictures.

As for 'quickies', the overall impression is that they were poor but some of the low-budget comedies were popular, especially in the north of England. Often the distributors who financed 'quickies' made no stipulation as to cost or quality, but merely payment on delivery of the negatives. Few of these films enhanced the reputation of British films: one American commentator remarked in 1934 that 'in the high class theatres they hiss these pictures off and in the rough theatres they throw bottles at the screen'.³ 'Quickies' received disparaging remarks from British observers too: in April 1933 the Daily Mail maligned them as 'film junk - by Act of Parliament';⁴ the Observer advocated a 'cost test' and the Evening Standard referred to the 'scandal of the quota films'.⁵ But there is no doubt that until the Americans like Fox and Warners began to establish their own production units in Britain, their quota contracts provided British independent producers with valuable

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1. S. Rowson, 'The Future of the Films Act', op. cit.: 'A British film production industry of some importance and magnitude has come into existence since 1927... the Films Act is principally responsible'.
 2. Rowson, 'A Statistical Survey', op. cit., p. 88.
 3. T. Balio, United Artists, op. cit., Schenck to O'Brien, 11 January, 1934, p. 134.
 4. Daily Mail, 15 April, 1933.
 5. The Observer, 5 March, 1933 and Evening Standard, 8 March, 1933.

work. In 1931, the seven major American renters had their forty-four British quota films supplied by thirty-six different British producers.¹ Thus many independents were given birth and kept alive through the difficult transitional period of the coming of sound and adjusting to the Films Act. It can also be argued that 'quickies' gave many directors, technicians, actors and writers useful experience, a point made by Adrian Brunel, who worked for Fox-British:

For most British film makers it was this or nothing. Many experienced and promising directors, cameramen, editors and artists fell by the way, and were relegated to obscurity or went out of the industry... Gradually there was evolved a technique of production which avoided finesse, risky experiment and subtle touches; treatments were straightforward and simplified; many technicians and artists got continuity of employment for the first time and became expert performers in their various fields, a number of them graduating into big production.²

Another positive side of 'quickies' was that they drew official attention to the film industry's larger economic ills and did not prevent an increase in the popularity of British films in the 1930s.

On the other hand, Brunel's comments were often tinged with a caution because of the notoriously onerous terms of 'quickie' contracts. When he made The Prison Breaker, a picture that gave James Mason his first major role, the contract prevented the editor from making essential cuts that would have resulted in an 'acceptable' instead of a 'terrible' picture.³ And the ACT argued that 'quickies' were a poor training ground compared with more ambitious British films that tended to employ foreign 'ace' technicians who pioneered new methods.⁴ How did the Moyne Committee think that the deadweight of 'quickies' could be removed?

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1. Bureau of Foreign and Domestic Commerce, Motion Picture Division, 'The Motion Picture Industry in the UK, 1931', Trade Information Bulletin, no. 801, p. 11.
 2. Adrian Brunel, Nice Work (Forbes Robertson, 1949), p. 166.
 3. Ibid.
 4. Mins. of Evidence, p. 71 and see chapter 5 on ACT's history.

Although producers recognised that expensive films were not necessarily better than cheaper ones, they felt that a 'cost test' would encourage foreign renters to sponsor better British films.¹ The FBI proposed a minimum of £15,000 (total production costs), the ACT £12,000 and Simon Rowson £10,000. But the Moyne Committee rejected the idea on the grounds that it could be evaded and would be a serious hardship to smaller producers.² The CEA had been vehemently opposed to a 'cost test', fearing that the number of films available for hire would fall. Instead exhibitors opted for a test based on viewing films to assess their 'entertainment and exhibition merit'. The viewing committee suggested by the CEA was to consist of an independent chairman, a renter, a producer and two exhibitors. H. Bruce Woolfe wanted the BBFC to be granted additional quality-testing powers. In the end the Moyne Committee proposed a 'quality test' to be 'concerned normally only with the entertainment value and general merits of a film'.³

The exhibitors appeared to have got their way, but not over the question of the administering authority. The Moyne Committee's most radical recommendation was that this should be entirely independent of the film trade with considerable powers apart from viewing films:

The Commission should, in addition to exercising its normal administrative functions and acting as a tribunal to give impartial judgements on matters dividing the film industry, have powers of initiative and control... absolute independence from professional or any other pecuniary connection with any branch of the film industry is essential in all the members of the proposed Commission.⁴

The reason for strict independence was that most of the matters to be dealt with were tricky problems that the trade was clearly incapable of solving by itself: the overbuilding of cinemas (see chapter 5), the growth of the combines at independents' expense and producers' financial

1. Ibid., p. 38.
 2. Cmd. 5320, p. 21.
 3. Ibid.
 4. Ibid., pp. 35-36.

difficulties. On what basis did the Moyne Committee make the radical Films Commission recommendation?

Although the Commission was independent from the film trade its members were to be appointed by the government. Such a body was not unprecedented. The Import Duties Advisory Committee was established under the 1932 Import Duties Act, consisting of civil servants to advise on tariff-setting and report on the progress of protected industries. The sugar industry had an independent commission appointed by the government, and the livestock industry a similar body with somewhat reduced powers. These were all examples of the growing acceptability of a degree of state intervention in industry.

When the Moyne Committee discussed 'the nature of the official, or body, who might have power to vary the quota' A.C. Cameron feared that if the Board of Trade had the deciding voice 'the question would be considered from the trade point of view rather than from the public and national standpoint'.¹ He thought that the Board of Trade was unduly influenced by the film trade and that the government would be more impartial in its choice of committee members. A month later Sir Arnold Wilson produced a scheme for a body with three independents and seven trade members, but after opposition from Holmes drafted an independent alternative. The Committee initially decided that the Commission's constitution should be separate from the rest of their report

so that if the Government did not see their way to accept a Commission on the lines proposed it would nevertheless still be open to them to adopt the other recommendations of the Committee.²

But at the next meeting it was decided that the Commission should view films before quota registration. Thus the Commission became the central plank 'by which the whole of the report would stand or fall'.³ But by

1. PRO, BT 64 92/6757/38, 6th meeting, 23 June, 1936.
 2. Ibid. 12th Meeting, 6 October 1936.
 3. Ibid. 13th Meeting, 13 October, 1936.

linking the new body with the viewing test it was fairly easy for the film trade, anxious to avoid outside interference, to ensure its rejection on grounds of the impracticalities of a viewing test. Others supported it like John Grierson who thought financial recovery depended on a Commission, calling it a 'measure of government co-ordination'.¹ As soon as the Moyne Report was published the controversial proposal was praised and criticised.

(iv) Quotas and the Empire

Foreign renters used the Empire as a cheap hunting-ground for films because its pictures counted for British quota.² A second problem was that instead of passing legislation in favour of British films the Dominions had used the Films Act as a model for protecting their own film industries. With the American market virtually inaccessible, the Empire seemed the obvious outlet for British films. The Morning Post and Financial News campaigned vigorously for an 'Empire quota' for commercial and propaganda purposes. But the total export trade in British films was unsubstantial, estimated at £600,000 by Rowson in 1934.³ Unfortunately a company established in 1931 by the FBI failed to achieve its aim of acting as a central distributor of British films throughout the Empire.⁴

In 1928 New Zealand enacted legislation to assist the distribution of British pictures, and in 1932 an exhibitors' quota for British films was introduced in Southern Rhodesia.⁵ The FBI was in the forefront of the campaign to encourage similar measures elsewhere, but was thwarted

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1. Klingender and Legg, op. cit. (preface by Grierson).
 2. Mins. of Evidence, p. 40.
 3. S. Rowson, 'The value of remittances abroad for cinematograph films' in Journal of the Royal Statistical Society (1934), Vol. 97, Part IV, p. 640.
 4. PRO, CO 323/1168/90080, British United Film Producers' Company Report, 1932 and see Kinematograph Weekly 11 January, 1934, p.3.
 5. Mins. of Evidence, p. 29.

in Australia.¹ The latter was Britain's most lucrative Dominion outlet, although the coming of sound intensified American competition in English-speaking markets. British films entered Australia duty-free and in the early 1930s they were becoming more popular: Gaumont's Sunshine Susie grossed £30,000 in 1932 and Hoyt's Theatres, owned by Fox, put on a series of 'British film weeks'.² But a quota Bill to assist Australian film production was introduced to the Legislative Assembly of the New South Wales Parliament in December 1934. The FBI feared that it would encourage more Americans to make 'quickies' in Australia to qualify for British and Australian quota. The only concession granted to British films by the Bill was that exhibitors offered a package of Australian quota pictures together with foreign and British films could only reject the foreign films.

At first the Dominions Office was cautious. Officials felt that the FBI had presented a strong case badly since its representations threatened that it would press the British government to debar Australian films from qualifying for British quota. An official commented:

Even if we admit the possibility that threats (and a certain amount of sarcasm) are likely to secure the ends desired, it makes it very difficult for the UK to support a memorandum couched in such terms especially when the threats are that the FBI will bring pressure on the UK Government to retaliate.³

The FBI decided, with the Board of Trade's support, to press for the forthcoming Australian quota to become an 'Empire quota' so that British films would also qualify. The Board of Trade wrote to the Dominions Office:

It has become clear that any differentiation for quota purposes between films made in this country and films made in Australia, must react to the disadvantage of the film industry in the UK, since it would create an incentive for produ-

1. PRO, DO 35/205/1.

2. Kinematograph Year Book, 1933, p. 19.

3. PRO, DO 35/205/1, minute, 19 January, 1935.

cers in this country of films for quota purposes to transfer their operations to Australia.¹

But the Dominions Office was reluctant to back this more militant stance. In the end the Bill became law in April 1935, but the New South Wales authorities gave an understanding 'to reconsider the Act in the light of experience of its working'.²

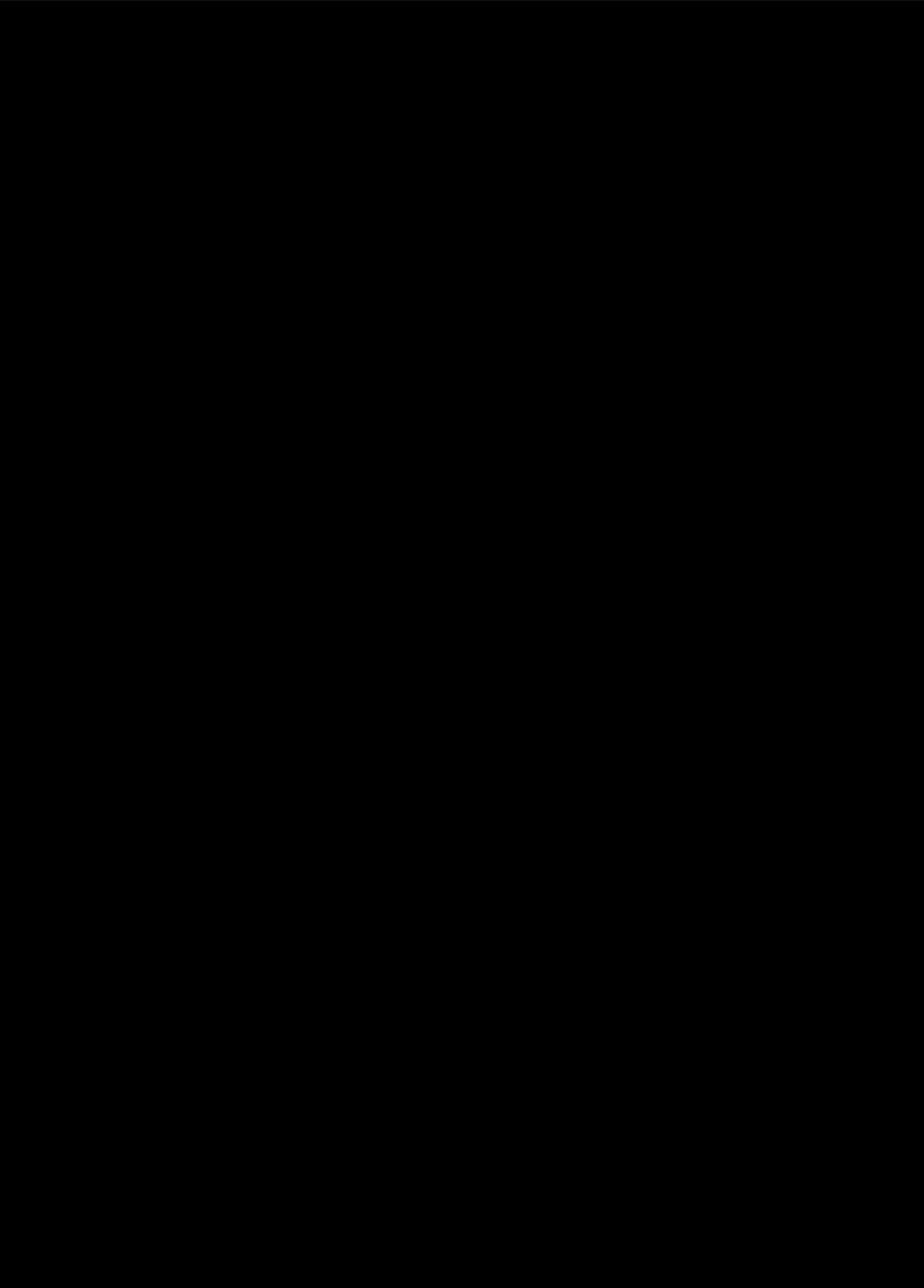
The consequences of the New South Wales legislation were not as disastrous as the FBI had feared, and British films continued to do well. In 1938 it was estimated that British producers received a net return of £100,000 a year from the exhibition of their films in Australia.³ The following table gives details of long dramatic features imported by Australia.⁴

Table 21
Long Dramatic Features Imported by Australia, 1928, 1932, 1934, 1936

Source	1928	1932	1934	1936
USA	512 (80.0%)	378 (76.4%)	345 (72.5%)	348 (76.8%)
UK	74 (11.5%)	112 (22.6%)	129 (27.1%)	103 (22.7%)
Other	54 (8.5%)	5 (1.0%)	2 (0.4%)	2 (0.5%)
Total	640	495	476	453

The Moyne Committee supported the FBI's anxiety that the New South Wales legislation should not be copied elsewhere. In December 1935 a similar law was passed in Victoria. The Committee duly recommended that Empire-made films should count for renters' quota if they had passed the viewing test. The government was also urged to press the Dominions to grant similar concessions for British pictures.⁵

1. Ibid., Board of Trade to Dominions Office, 18 February, 1935.
 2. Ibid., minute by C.R. Price, 25 January, 1936.
 3. PRO, BT 64 91/6024/38.
 4. PRO, DO 35/204/5 and BT 64 91/6024/38
 5. Cmd. 5320, p. 36.



The 'British scenario author clause' in the Films Act : comment by World Film News, November 1936

(v) Clearing-up anomalies

Except for the Incorporated Society of Authors, Playwrights and Composers who supported the British scenario author clause 'to secure adequate expression to British conceptions and ideology' and 'to safeguard spoken English from the influx of the less intelligent and less expressive of Hollywood idioms',¹ most observers saw little sense in its retention. The Board of Trade had found it very difficult to administer because since the coming of sound a larger number of people (e.g. continuity and treatment writers) worked on scenarios. Apart from there being a shortage of British scenario authors, the FBI assured the Moyne Committee that as long as a film was made in Britain a foreign author would not necessarily give it an alien atmosphere.² And in practice many British films like The Private Life of Henry VIII had been registered despite the fact that its scenario was written by foreigners. Thus the Moyne Committee proposed that the troublesome restriction should be dropped.

Ivor Montagu's evidence drew attention to the problems of distributing specialised foreign films.³ In the late 1920s there was a growing interest in the art of the film. One of the most important groups to promote the intellectual respectability of the medium was the Film Society, founded in 1925 by the film critic, Iris Barry; Sidney Bernstein, the owner of the Granada chain of cinemas; the actor Hugh Miller; Ivor Montagu, the son of Lord Swaythling, a Jewish philanthropist and foreign exchange banker; film critic Walter Mycroft and Adrian Brunel.⁴ The Society imported and exhibited French, German, Russian and other foreign films that were artistically and technically innovative, but unlikely to be shown in commercial cinemas. It acquired

1. Mins. of Evidence, p. 169.

2. Ibid., p. 48.

3. Ibid., p. 139.

4. See Caroline Moorehead, Sidney Bernstein, A Biography (Jonathan Cape, 1984), pp. 22-23.

a renters' licence but since it could not meet its British quota obligations was forced to rely on the Board of Trade's 'benevolent attitude'. Montagu explained:

Had the Society been obliged to face a prosecution, it would have been in a position to point out that its offence was committed to keep alive a cultural activity the Act had not intended to destroy.¹

While this worked well enough for London, the development of specialised theatres in the provinces was seriously curtailed. Montagu recommended that the foreign films should be taxed a certain percentage of their gross receipts 'which could be paid by their distributor to a fund for British production, as an alternative to the acquisition of British product'. The Moyne Committee decided on another remedy: if it so wished, the Films Commission was to sanction the renting of one copy of any foreign film for up to 12 weeks on condition that it had not been shown to the public in the current exhibitors' quota year and that half of the exhibitions took place outside the London area.

To discourage the 'gentlemen's agreements' between renters and exhibitors that had perpetuated blind and block booking, the Moyne Committee recommended that penalties should fall only on renters. They were singled out for harsh treatment when the Committee proposed that the maximum fine should be increased to £250 and that a renters' licence should be liable to cancellation or suspension on a second conviction. In a final attempt to curb booking abuses renters were to include a declaration with their quota returns to the Board of Trade that the pictures had been legally booked.

Other proposals were that films registered for exhibitors' quota did not have to pass the viewing test, but all films had to be trade shown. Allowance was made for a 'try out' to the public before a trade

1. Mins. of Evidence, p. 141.

show on condition that the event had not been advertised. Finally, news-reels and commercial advertisements were to be excluded from quota.

The Moyne report pinpointed the film industry's major problems, ranging from the perils of production finance to harmful commercial practices that were sabotaging its bid to win a larger slice of its own market. The report was later extolled by critics of film policy as the model which the Board of Trade should have used as the basis of the 1938 Films Act. Unfortunately the proposals for a Films Commission, Films Bank and official vigilance over foreign acquisitions were vague and easily discarded by critics as unworkable. The Committee's independence from the film trade and lack of commercial experience (with the exception of J. Stanley Holmes), gave grounds for charges that its recommendations were admirable, worthy and idealistic, but ultimately impractical and unrealistic.

The report reflected doubts whether the British film industry was really British. These doubts increased when Klingender and Legg published Money Behind the Screen and the Fox-Ostrer-Maxwell controversy reached its height. Although Korda and Guthrie's evidence was inextricably bound up with London Film Productions' problems, it exposed the industry's perilous financial health. The ACT's contribution signposted the increasing influence of trade unions in the film industry. The Moyne Committee clearly suspected the Board of Trade as being heavily influenced by the film trade so that the national interest was in danger of being overridden by commercial interests. The Committee's sympathy for the documentary movement and viewing-test idea reinforced the familiar aspiration that British films should look 'British'. The Films Commission reflected the growing acceptability of state intervention in industry by businessmen, civil servants and politicians in the 1930s. The debate on the Moyne report initiated serious discussions for the 1938 Films Act, and the events of 1937-38

reflected desperate attempts by the Americans and the British film trade to make sure the new Act did not incorporate the Moyne Committee's most threatening proposals.

Chapter 5

IN SEARCH OF A POLICY

Before examining the demands and quota campaigns of film trade unions, producers and exhibitors, the first section of this chapter will outline events from December 1936 to July 1937. As soon as the Moyne report was published the Board of Trade asked the film trade for comments and initiated discussions that eventually resulted in the 1938 Films Act. The Board received memoranda from FBI, CEA, KRS, and ACT at the beginning of 1937,¹ and in March, Dr. Leslie Burgin, the Parliamentary Secretary to the Board of Trade, pleaded with the industry to establish 'some body which can serve as a focussing point for matters affecting the trade as a whole and which can deal with some of the problems which arise between the various sections'.² The CEA, KRS and FBI duly met and the Board of Trade was informed of their deliberations on 26 May. Proposals for film legislation were finally announced on 11 June and after further consultation the Board issued a White Paper at the end of July.

During these months it became clear that the trade, divided over fundamental issues and pursuing different objectives, could not agree on a scheme of reform. Above all, pictures needed to show bigger profits to help their makers finance subsequent productions. Independent exhibitors were concerned about the circuits' tightening grip over booking opportunities and high rentals. British renters dreaded being crushed out of existence on their own soil by American distributors, but the latter, fearing that the Moyne report was the blueprint for a new Films Act, desperately wanted their quota obligations to be relaxed. Finally,

1. PRO, BT 64 89/6551/37.

2. Kinematograph Weekly, 11 March, 1937, p. 36.

the trade unions resisted threats to native employment and lobbied for a 'fair wages' clause.

Although these aims often conflicted with each other, the protracted and complicated lobbying period produced several tactical alliances between unlikely bedfellows. Against this background the Board of Trade had to formulate policy and at the same time pay attention to the demands of American renters who, as the following chapter will show, had powerful commercial and diplomatic support together with a precarious international situation in their favour. With the approach of the Second World War, Anglo-American film relations played a part in the creation of, and tensions within, the 'Anglo-American alliance'.

Although it was impossible to please everyone, the new legislation reflected and incorporated some of the key demands. In exchange for quota concessions American renters were encouraged to sponsor or produce fewer, but more expensive, British pictures and to distribute them abroad. Last-minute modifications reassured exhibitors that film supplies were unlikely to diminish as a result. The trade was relieved when Moyne's independent Films Commission was rejected, and the ACT secured a 'fair wages' clause. The evolution of the 1938 Films Act illustrates the varying degrees of influence sections of the trade were able to exert on the Board of Trade at a time when the industry, as described in Chapter 7, was experiencing the worst financial crisis in its history.

1. Reactions to the Moyne report: December 1936 - July 1937

Many of the Committee's recommendations were coolly received. Its more radical demands were feared by the Kinematograph Weekly to be

amazing and revolutionary... there is a spirit behind them that a few years ago would have been unthinkable. If the proposals - particularly those referring to the financing of the business and the supervision of an all-powerful Commission - had been made by a Labour Government, the whole of the industry would have risen in its wrath... We should have

heard talk of passive resistance; and all the powers would have been evoked to fight for the privilege of minding our own business.¹

Ivor Mongtagu, by contrast, welcomed the report as

A shining witness to the fact that any reasonably impartial batch of citizens, guided by a conscientious civil servant secretary, can come to sensible conclusions about subjects that the expert representatives of mutually conflicting interests would quarrel over till all's blue without reaching any conclusion... the Committee deserves congratulations on what is frankly, an unexpectedly good report.²

The trade, however, was unanimous in its condemnation of the independent Films Commission, although the idea was supported by the The Times, the Daily Telegraph, the Manchester Guardian, the Financial Times, the Daily Herald and the Observer. The CEA argued that it would be 'cumbrous, wasteful and expensive... we dissent strongly from the idea that people knowing nothing of our business are, because of that independence of this trade, peculiarly qualified to view and to judge'.³ But exhibitors condoned a viewing test on condition that the panel consisted of two exhibitors, one producer, one renter and an independent chairman to view poor quality films that might be referred to it shortly after a 'trade show'.

Similarly, the FBI favoured an advisory body of 'leading personalities actually engaged in the industry' to assist a trade-dominated Commission without powers to interfere in the running of businesses. But the producers' verdict on the viewing test was that it would be 'complicated and burdensome' and with the ACT proposed a cost test on the grounds that non-specialists were unqualified to judge a film's merits and production would probably fall.⁴ The FBI was prepared to tolerate a viewing test for films costing less than the minimum, but

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1. Kinematograph Weekly, 3 December, 1936, p.4.
 2. Sight and Sound, 5 (20) Winter 1936-37, pp. 120-122.
 3. PRO, BT 64 89/6551/37, CEA memorandum, 13 January, 1937.
 4. Ibid. FBI memorandum, 28 January, 1937.

only if it did not enforce a 'standard of artistic quality'. The KRS pointed out another drawback:

No producers or financiers... can be expected to plan in advance the expenditure of large sums of money if they are faced with the fact that, after spending such sums as are necessary for the making of what may be thought a worthwhile product, the same may be rejected by four or five persons outside the industry, who may think it has not sufficient entertainment value.¹

And for the American renters a Films Commission was potentially very threatening because without the inclusion of British exhibitors who relied on American pictures, they feared that the body might recommend tough measures against Hollywood imports.²

Although the Board of Trade's views were not made public, officials were clearly no more enamoured with the idea than the trade. According to Fennelly it 'would place executive powers in the hands of a body over which the President would have little control but for whose actions he would be answerable in Parliament'.³ The Board remained wary of being drawn into regulating the industry:

The film industry in this country is young and growing... it is essentially a type of industry with which the Government should interfere as little as possible. Any new Act like the present Act will impose restrictions on some parts of the industry which are necessary to ensure the growth of British production, but this being done the industry should be allowed to go its own way and solve its own problems.⁴

As for the viewing test, Fennelly sided with the FBI and KRS, fearing that a low standard would be adopted because 'many British films... though fairly cheap are reasonably good entertainment for certain areas and types of cinemas'.⁵

The Board of Trade favoured a cost test. After calculating that the Americans could not have registered as many quota films as their

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1. Kinematograph Weekly, 4 February, 1937, p. 39.
 2. National Archives, US Bureau of Foreign and Domestic Commerce, RG151, report by US Commercial Attaché (London), 2 August, 1937.
 3. PRO, BT 64 89/6551/37, Fennelly to Palmer, 16 March, 1937.
 4. Ibid.
 5. Ibid.

British counterparts if a minimum test of £6,000 in labour costs had been operating in 1935-36, Fennelly concluded that such a test would force American renters to increase expenditure on, and improve the quality of their quota pictures. To prevent cheap but popular British films from being excluded from quota because of their cost, Fennelly recommended that the Board should be able to vary the minimum sum.¹

Discussion of the Commission drew attention to the need for a regulatory body to settle the trade's internal disputes. The CEA suggested that conflicts unresolved by a joint trade committee should be referred to the President of the Board of Trade for submission to an arbitration court. The KRS reluctantly agreed, and for a time it seemed that Dr. Burgin's hopes for trade unity might be realised, even if for purely tactical reasons. The CEA took advantage of the threat to renters' interests posed by some of the Moyne report's more drastic suggestions by seeking a rapprochement: exhibitors demanded rental reductions in exchange for valuable support for some of the renters' complaints against Moyne.

In May a report to the Board of Trade of talks between the CEA and KRS suggested that agreement on the overbuilding of cinemas would be reached. According to Simon Rowson 302 new cinemas were built in 1932-34 adding 351,000 seats, or 10% of the total, and nearly half of the new seating capacity was in 'supers' with over 1,500 seats.² The expansion of cinemas was associated with the combines' growing power and their need to exploit the market as fully as possible rather than simply a reflection of increased cinema-going. Although on average cinemas were only about one-third full,³ each new hall enhanced a circuits' purchasing power, helped eliminate local competition and ensured quicker

1. Ibid.

2. Kinematograph Weekly, 9 January 1936, p. 36.

3. S. Rowson, 'A Statistical Survey of the cinema industry in Great Britain in 1934, Journal of the Royal Statistical Society, 1936 (99), p. 96.

returns from pictures. The table below shows how the trend was for smaller circuits to huddle together to compete with the booking strength of the larger groupings:¹

Table 22
Circuits in Britain and Number of Halls, 1935-1937

Size of Circuit (halls)	No. of Circuits		Total No. of Halls		Net Increase of Halls approx. 12mths 1936
	1935	1936	1935	1936	
2 - 9	128	138	615	824	209
10 - 19	22	27	288	333	45
20 - 49	4	5	130	151	21
50 - 99	1	2	53	106	53
100 - 199	2	2	24	320	78
+ 200	2	2	559	601	42
Total Circuits	159	176	1887	2335	448

As the CEA's report complained:

Present day building tends to become more associated with the circuits... their purchasing power disturbs the equilibrium of the distribution of films which has hitherto prevailed amongst the existing kinemas. If this process continues at the present rapid rate, it will probably mark the last stage towards the goal of the super - saturation point.²

In an attempt to check overbuilding the CEA and KRS agreed to form a committee to scrutinise plans for new cinemas. If, after the committee had decided that a district did not need a new hall, the company intending to build refused to accept the ruling, renters were encouraged to force its acquiescence by withholding films from its other cinemas. In the last resort the proposed arbitration court was to settle unresolved disputes.

The CEA was also anxious to stop the KRS refusing to hire films for more than one cinema unless the exhibitor had financial control of the halls.³ Unfortunately no solution to this problem could be devised

1. World Film News, November 1937.
2. Kinematograph Weekly, 5 March, 1936, p. 11.
3. Mins. of Evidence (1936), p. 81.

and relations between exhibitors and renters continued to be strained. The fragile accord that had been reached was shattered later in May when the CEA's general council, dominated by independent exhibitors who feared that a cost test would result in fewer British films, disregarded a sub-committee's advice and the wishes of circuit owners, and reaffirmed its preference for a viewing test. The overbuilding committee plans were jettisoned when renters refused to cooperate unless the CEA changed its mind and supported them in their quest for a cost test.¹ In any case it was unlikely that the scheme would have worked without the agreement of local authorities to whom formal applications had to be made for cinema-building.

The Board of Trade desperately wanted the trade to produce mutually acceptable proposals, but realised that the situation was precarious. Since opposition to the Films Commission gave exhibitors and renters a common cause, the Board's negative attitude towards it was kept secret in the hope that the trade talks would not break down.

Just before the trade was due to report to the Board of Trade on 26 May, the FBI announced two last-minute proposals: reciprocity and a scheme to limit American film imports. The latter was bitterly resented by the Americans and unfavourably received by the Board of Trade.² The FBI had been trying to devise a reciprocity plan since January because it believed that

A permanent and satisfying film production industry is only possible if films can be shown in all the natural markets and produced at a profit... the Act must contrive that it will be an infinitely better bargain for the US industry to distribute a genuine British feature in the USA than for them to produce and distribute quota films in England.³

The principle of most variations of reciprocity, including a scheme devised by Simon Rowson, was that quota concessions should be given to

1. PRO, BT 64 89/6551/37, Griffiths to Dr. Burgin, 25 May, 1937.
 2. Ibid., Kearney to Fennelly, 25 May, 1937.
 3. FBI memorandum, Basil Dean Special Collection, BFI Library.

renters who agreed to secure British films an American release.¹ No definite project had, however, been agreed upon, so that the Board of Trade was informed with no specific details. It was supported by the 'British Films Advancement Council', established by a group of MPs with Lord Strabolgi, the former Lieut. Cmmdr. Kenworthy, as its leading figure.² In April Lord Strabolgi stressed the need for reciprocity in the Lords on the same day that Walter Runciman announced in the Commons that a new quota Act was in the making.³

During the trade talks it emerged that exhibitors wanted initial quotas to be 15% for renters and 10% for exhibitors. The FBI proposed 20% and 15% and the KRS 10% and 5%. British renters disassociated themselves from the KRS because of its alleged pro-Americanism, preferring instead to be represented by the FBI for the duration of the quota discussions.⁴ All groups agreed that the 50% maximum quota proposed by the Moyne Committee was unfortunately no more than a 'pious hope'. The FBI wanted quota returns to be submitted to the Board of Trade three times a year in the hope that the release of British films might be accelerated. But the CEA and KRS disagreed, favouring the former, more convenient system of annual returns.

At the long-awaited meeting with the Board of Trade officials on 26 May, Dr. Burgin was accompanied by J.A.L. Duncan MP. The KRS was represented by F.W. Baker of Butchers' Film Service, Sam Eckman of MGM, J.C. Graham of Paramount, D.E. Griffiths of Warners-First National, Mr. Archibald representing United Artists and Frank Hill, secretary of the KRS. Attending for exhibitors were C.P. Metcalfe, the CEA's president, and its vice-president, Ken Nyman; R.S. Bromhead and W.R. Fuller. Arthur

1. Ibid., meeting of FBI's Film Producers' Group, 8 February 1937.

2. The Times, 9 July, 1937.

3. Parliamentary Debates (Lords), Vol. 104, Col. 1041, 22 April, 1937.

4. PRO, BT 64 89/6551/37, see letter sent by Tennyson to Dr. Burgin on 25 May enclosing copy of letter from KRS members (council) to Frank Hill.

Jarratt of Gaumont-British and Arthur Moss of Associated British refused to attend in protest against the CEA general council's viewing test recommendation and the collapse of the agreement reached with the renters.¹ Basil Dean of Associated British Film Distributors and its production affiliate, Associated Talking Pictures, represented the FBI together with the organisation's secretary, Neville Kearney and its chairman, Charles Tennyson. Others present were Norman Loudon of Sound City Studios, John Maxwell, Capt. Richard Norton of Pinewood Studios, Isidore Ostrer, S.W. Smith of British Lion, C.M. Woolf and finally E.H. George who represented Alexander Korda.

But despite the impressive array of film industry personalities, the meeting produced little but confusion. Dr. Burgin had no sympathy with the FBI's grandiose proposals for restrictions on American film imports: 'such a suggestion at the present time when there was a general movement towards free trade was ill-timed', noted the minutes of the meeting.² He promised to consider reciprocity even though disgruntled exhibitors claimed that the KRS was unwilling to cooperate. Whereas Tennyson favoured an advisory body to the Board of Trade with fairly wide powers, John Maxwell was violently opposed. At the end of the meeting Fennelly concluded: 'there is little hope of the divergent views being reconciled without a strong lead from outside... the Government must proceed to formulate their own proposals'.³

The Board of Trade's 'June proposals' set the renters' initial long film quota at 20% and the exhibitors' at 15%. Both were to increase by stages to 30% and 25% in ten years. A separate 'shorts' quota of 10% for renters and 5% for exhibitors was also recommended, rising to 20% and 15% over the same period. Despite opposition from the CEA and KRS the Board of Trade had realised that it would be difficult to resist

1. Motion Picture Herald, 12 June, 1937, p. 86.
 2. PRO, BT 64 89/6551/37.
 3. Ibid. Note by Fennelly, 29 May 1937.

'pressure on the government from cultural and educational interests out of all proportion to the importance of the subject'.¹

Long films were to be subject to a minimum cost test of £15,000 (total production costs), and those costing over £45,000 were to count twice for quota. The principle of multiple quota credit for expensive films had been suggested by the Advisory Committee in 1935 as a way to put an end to 'quickies'. American renters enthusiastically supported the idea since it meant an overall relaxation of their quota burdens. But when the Moyne Committee had quizzed Simon Rowson on its practicability, he was doubtful whether Britain could supply the technical staff for American companies to produce in this country. He also predicted that it would mean fewer films, an argument subsequently taken up by exhibitors.² When the Board of Trade included the principle in its 'proposals', the British film trade began to fear an invasion of native studios by American companies.³ Accusations of pro-Americanism against the Board became more vociferous when the 'double quota' clause was extended and coupled with reciprocity.

An element of flexibility was to be introduced. The Board was to be able to vary, at three yearly intervals, the amount of the quota and cost test. At the onset the test was confined to long films but if necessary, the Board was to have the power to impose one subsequently for 'shorts'. All British films were entitled to count for exhibitors' quota, and renters' quota was reserved for films costing over £15,000 or which merited registration on the grounds of 'special exhibition value'. Excluded from quota were newsreels and commercial advertisements, and the Board of Trade was to be assisted by a similar body to the Advisory Committee.⁴

1. Ibid.

2. Mins. of Evidence, pp. 114 and 117.

3. See section 3(b) of this chapter.

4. Kinematograph Weekly, 17 June, 1937, p. 5.

Although no details were given, the 'proposals', in response to pressure from Basil Dean, included the possibility of a reciprocity option. In May-June there was an interesting exchange of letters on the subject in The Times. Lord Strabolgi, Simon Rowson and Basil Dean fiercely supported a scheme, but John Grierson feared that instead of providing work for independent producers, the double quota clause and reciprocity would simply aid and abet the Americans and combines who had the financial resources to produce expensive films for world release.¹

At the CEA's summer conference the general council reaffirmed its controversial resolution to press for a viewing test by 53 to 20 votes.² The independents still had the upper hand, and the CEA launched an intensive campaign calling on members to lobby their MPs to oppose the cost test.³ The Kinematograph Weekly warned that some exhibitors might be tempted to use their screens to present their case to the public.⁴ Ken Nyman predicted that American distributors would probably import only forty films a year under the cost test régime, and instead of making eight British pictures at £15,000 apiece, they would import Hollywood personnel to produce four costing £45,000 each.⁵ But Fennelly at the Board of Trade was unconvinced. In the end, he thought that exhibitors would have to give in gracefully, and that they might be persuaded to do so if initial quotas were reduced and assurances given that films costing less than £15,000 would be scrutinised by a committee on which they were represented. Exhibitors were in a weak position because renters were unlikely to re-open negotiations about overbuilding and in any case the Board of Trade was unprepared to appoint a statutory arbitrator to settle unresolved disputes. Fennelly concluded: 'The

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1. The Times, 26 May, 1937, 21 June, 1937, 29 June 1937.
 2. Kinematograph Weekly, 29 June 1937, p. 3.
 3. Daily Film Renter, 1 July 1937.
 4. Kinematograph Weekly, 1 July 1937, p. 4.
 5. The Times, 2 July 1937.

exhibitors seem to be on a rather bad wicket as it can be argued that their agitation is one in support of foreign films against British'.¹

The trade submitted its views on the 'proposals'. Each organisation adhered to the quota percentages proposed in May. The ACT and CEA were totally opposed to the double quota clause and reciprocity, whereas the KRS wanted more concessions. Producers were divided over the amount of the cost test: smaller producers wanted the minimum reduced from £15,000 to £9,000.² The KRS disapproved of the 'shorts' quota, but the ACT and FBI pressed for the initial quotas to be 12.5% and 7.5% for renters and exhibitors. The American renters wanted to be represented on the new advisory committee, and the ACT was keen for employees to be included in its membership. Whereas the KRS favoured a relaxation of the 75% British labour qualification, the ACT pressed for restrictions on the number of foreign technicians working on British films together with a 'fair wages' clause.³ Exhibitors, still anxious about overbuilding and exasperated by their wranglings with KRS, pleaded for the Board of Trade to do something. The ACT was supported by the other main trade union, NATKE, in their opposition to the double quota clause.⁴

Concern about the proposals did not confine itself to trade circles. In July J.R. Remer asked for assurances in the Commons that the object of government policy was 'the development of British film production in Great Britain rather than the development of American film production in Great Britain'.⁵ The Motion Picture Herald astutely commented that this controversial issue would become a major feature of subsequent quota debates:

The section of opinion which sees American control as an inevitable sequel to the present Government proposals are unlikely to be placated by an assurance that American-controlled productions

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1. PRO, BT 64 89/6551/37, memo. by Fennelly, 2 July 1937.
 2. Kinematograph Weekly, 24 January, 1937, p.3.
 3. See Section 2 of this chapter.
 4. Kinematograph Weekly, 8 July 1937, p.3.
 5. Parliamentary Debates (Commons), Vol. 326, Cols. 15-16, 5 July, 1937.

comply with the letter of the law. Their argument is that, making pictures on an international scale in England, the American major companies will dominate the studio and distribution fields here even more completely than they do at present, and that their grip will be intensified in proportion to the extent to which they are allowed to escape from footage obligations into the super-feature field.¹

On 8 July Oliver Stanley presented the Cabinet with a memorandum on film legislation.² Walter Runciman had been replaced as President of the Board of Trade by Stanley at the end of May. Charles Tennyson was pleased with the change, writing to Basil Dean that he welcomed the arrival of a 'protectionist President'.³ Stanley had come into contact with the film industry as Under-Secretary to the Home Office when he piloted the Sunday Entertainments Bill through the Commons in 1932. The Cabinet agreed to his proposals in July,⁴ and a White Paper was issued on 29th.⁵ In some ways it represented a victory for exhibitors, since the long film quotas had been reduced to 15% for renters and 10% for exhibitors. In the second year of the Act they were to rise to 20% and 15%, and after ten years to 30% and 25%. The cost test was retained, together with the 'double quota' clause. It was, however, to be calculated on a 'Form C' labour costs basis, so that the minimum was £7,500. When at least £3 a foot with a minimum of £22,500 had been spent on a film, it could count twice for quota. The reciprocity option was detailed in the White Paper: if a renter acquired for not less than £20,000 the rights for one foreign country of a British long film on which at least £3 a foot and a minimum of £22,500 in labour costs had been expended, the film could be regarded as equivalent to the acquisition for renting in the UK of a British film of the same length. The 'shorts' quotas were the same as in the 'June proposals' and the

1. Motion Picture Herald, 24 July, 1937, p. 68.

2. PRO, CAB 24/270, CP 181 (37).

3. Basil Dean special collection, Tennyson to Dean, 1 June, 1937.

4. PRO, CAB 23/89.

5. Proposals for Legislation on Cinematograph Films (1937), Board of Trade, Cmd. 5329.

White Paper incorporated the other recommendations on flexibility and the advisory committee.

Comments on the White Paper were mixed. Isidore Ostrer thought the recommendations would 'undoubtedly result in more American pictures being made in Great Britain, but they will not help the establishment of a real British industry'.¹ Ken Nyman was of the opinion that all the independents could look forward to was a gradual strengthening of the combines. Sidney Bernstein regretted the rejection of the independent Films Commission: 'The Government's refusal to set up a Commission is a final blow to the hope of setting up a national picture-making community in this country. It means a surrender to the Hollywood machine'.² By contrast, Arthur Dent of British International Pictures and ABC, called the reciprocity proposal 'a fine step forward'. The Times, in favour of the Moyne proposals and consistent with the stance adopted by the paper before the 1927 Act was passed, labelled the White Paper a typical example of departmental policy:

Its primary object is to foster the film trade considered solely as a trade. It prolongs the quota, which is necessary if the industry is to survive, and it amends in certain particulars the provisions of the old Act... Mr. Stanley is doing what he can to bolster up what after ten years of protection is still pitifully spoken of as an infant industry. His modest introduction of the principle of a quality test may be accepted as a hint that the Government are aware that other interests than those of trade are involved.³

By July 1937 the main lines of the new legislation were clear. The trade arranged campaigns for amendments that again reflected the industry's problems and the conflict of interests between producers, renters, exhibitors and trade unions. The next two sections will examine the demands in an attempt to assess their impact on the Board of Trade. The campaigns also form an essential background for a full understanding of the American industry's bid to influence proceedings.

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1. Kinematograph Weekly, 5 August, 1937, p. 3.
 2. Ibid., p. 5.
 3. The Times, 30 July, 1937.

2. Trade Unions in the Film Industry in the 1930s

In the 1930s three main trade unions organised labour in the film industry: the National Association of Theatrical and Kinematograph Employees (NATKE), the Electrical Trades Union (ETU) and the Association of Cine-Technicians (ACT). NATKE catered for skilled and unskilled workers in the studios and cinemas including carpenters, electricians, plasterers, painters, scenic artists, mechanics, property makers, stage hands, riggers, make-up artists and projectionists. The ETU also organised projectionists, but its main membership from the film industry consisted of electrical craftsmen, the majority of these being sound engineers and recordists. The ACT represented cameramen, cutters, editors, art directors, production managers, assistant directors, still photographers and laboratory technicians.

The ACT was formed in the spring of 1933 by a group of technicians working at the Gaumont-British studios at Shepherd's Bush. The expansion of studio employment after the passing of the 1927 Films Act was one of the causes of the union's foundation. Whereas in 1928 British studios had only 19 stages, by 1937 there were 23 studios with 75 production stages.¹ As film production became more ambitious and films were made in an attempt to appeal to the American market, British technicians feared that more foreign talent would be imported, as explained by an article on the ACT's early history:

The first whispering of organization among technicians arose at the GB studios at Shepherd's Bush about January or February of 1933. Not long before that the new studios had been opened with a welter of publicity... The first of their productions was Rome Express with Esther Ralston (American) and Conrad Veidt (German), photographed by Gunther Krampf (Austrian), and edited by Fred Smith (American). About the same time London Films were beginning to reach the lime-light, with Georges Périnal (French cameraman), Hals Young (American cutter), Ned Mann (American trick expert), and Vincent Korda (at that time Hungarian art director). Ealing

1. Kinematograph Weekly, 13 January, 1938, p. 139.

also were importing foreign talent, such as John Boyle (American cameraman), and BIP followed suit, though to a lesser extent. Even a cursory examination of the production field showed that on the foundations of the 1927 Films Act the less ambitious type of film would be made by British workers and the supers by foreigners. Considerable uneasiness became manifest throughout the industry and came to a head at the Bush.¹

The poor conditions of 'quickie' production were also a major factor promoting the organisation of technicians. In its evidence to the Moyne Committee the ACT claimed that technicians working on 'quickies' were often forced to work 15 hours a day, 7 days a week for low wages.² In 1937 the Films Council published a series of investigations into studio and laboratory conditions in World Film News. The Council pointed out that workers in the British film industry were not protected against excessive hours and low pay as they were in France. In America the National Labour Relations Act, 1935, gave unions the right to bargain collectively and safeguarded pay and studio conditions, but in Britain there was no 'New Deal' for labour in the film industry. Employment was irregular, but when work was available British technicians worked long hours, especially when a new 'quickie' contract had been signed:

With pictures being produced like clock-work in standard periods of two or three weeks its is not surprising that work is carried on in a state of incessant rush, even when it is evenly spread over a year. But conditions are very much worse, when, as appears to be the case in the majority of studios, periods of mad rush alternate with times of slackness and, in many cases, unemployment. That this state of affairs is largely due to incompetent planning is shown by the fact that it is most prevalent in some of the large units producing only a few pictures a year. But it also occurs in the case of studios producing quota quickies on contract. Often a given number of films must be completed by a certain date and work proceeds fairly leisurely until about half or three-quarters of the allotted time has passed, when a terrific rush commences to complete the contract.³

The Films Council, the body that published revelations about British film finance in January 1937 in World Film News, turned its attention to

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1. Cine-Technician, July-August 1938.
 2. Mins. of Evidence, p. 72.
 3. World Film News, 2 (7) October 1937.

the question of British studio employment conditions because it believed that

...in a productive process in which so much depends on the judgement - artistic and technical - of the men on the job, quality is conditional upon the absence of strain and fatigue. The problem of British production quality is therefore to an even greater extent a problem of studio conditions, than it is one of British film finance.¹

When George Elvin, the ACT's Secretary, gave evidence to the Ministry of Labour's Holidays with Pay Committee, he reported that some union members' average weekly wages were as low as £2 or 30s and that 50% of technicians received less than £5.²

By 1936 the ACT had grown considerably. Membership had risen from 98 in 1933 to 605 in 1935 and to just over 1,000 in 1936.³ In 1936 the ETU's film membership numbered 1,000 and NATKE boasted 5,000.⁴ The ACT's journal, the Cine-Technician, was first published in May 1935 and an Employment Bureau was soon established. The union affiliated to the TUC in 1937 and its major campaigns in the 1930s were to press for a restriction on the use of foreign labour in British film studios and the inclusion of a 'fair wages' clause in the new Films Act.

The ACT was the most vociferous union during the debates on the renewal of the Films Act. NATKE tended to support the technicians' case, and in 1937 the union was primarily concerned with reaching agreements with and recognition from the CEA. In the summer of 1937 NATKE reached an agreement with the ACT that curtailed inter-union rivalry. Whilst the ACT maintained fairly cordial relations with the ETU, there was friction between the latter and NATKE over the organisation of projectionists. This came to a head in 1938 when NATKE refused to support an unsuccessful strike by ETU members.⁵

1. Ibid. (4), July 1937.

2. Kinematograph Weekly, 1 July, 1937, p. 5.

3. Cine-Technician, August-October, 1936.

4. Mins. of Evidence, pp. 169 and 151.

5. Michael Chanan, Labour Power in the Film Industry (BFI, 1976), Ch. 4.

The ACT was the first trade group to respond to the White Paper of July 1937.¹ The union objected strongly to the double quota credit clause, demanded a 'fair wages' clause and representation on the new advisory committee. It also pressed for a limit on the number of foreign technicians allowed to work on British quota films. In its evidence to the Moyne Committee the ACT complained that whereas British technicians were employed on 'quickies', foreign workers were imported for more ambitious British productions.²

Companies wishing to employ foreign labour had to apply for work permits to the Home Office. The latter took the Ministry of Labour's advice on permit applications, and under the Aliens Order, 1930, had to be satisfied that the proposed employment was reasonable and necessary, that the company applying for the permit had made an effort to find suitable British labour and that the wages to be paid the foreign worker were not less than those normally paid to their British counterparts.

Until 1935 the Ministry of Labour adopted a liberal policy towards permit applications for foreign technicians. In July 1935 the ACT first consulted the Ministry about the issue, and deputations were received in March and July 1936 and in July and November the following year.³ Between October 1936 and August 1937 the number of unemployed technicians registered with the ACT rose from 40 to 200, or one-sixth of the union's total membership. The ACT acknowledged the need for British labour to be trained by foreign 'ace' technicians, but only if a British technician of similar ability could not be found. There was certainly much to be learned in the way of new techniques, and one of the reasons for the advancements made by British film-makers in the 1940s was greater technical competence in British studios. In the 1930s, however, the problem was how to strike the right balance between learning from

1. Kinematograph Weekly, 12 August 1937, p. 7.
2. Mins. of Evidence, p. 71
3. PRO, LAB 8/75.

foreign experts, but at the same time preventing them from dominating studios and ousting British labour.

The ACT wanted to be consulted when permit applications were being considered by the Ministry of Labour, and an assurance that foreign technicians should be allowed to work only with all-British crews. A 'training clause' in work permits stipulated that a foreign technician should instruct a British worker, but the ACT claimed that in practice this was often ignored. The Ministry of Labour had no power to enforce the training policy, and when an ACT deputation was received by officials at the Ministry in July 1937, George Elvin claimed that Korda at Denham discriminated against British technicians. Data on the number of foreign workers at British studios does confirm that London Films and Technicolour Ltd. employed more foreign labour than other British companies. The first British film made in Technicolour was Fox's Wings of the Morning in 1937, produced by Robert T. Kane. In the same year Kane produced Under the Red Robe using the expert cameraman Georges Périnal.

After 1935 the Ministry of Labour adopted a more stringent policy:

Table 23
Work Permits for Foreign Technicians, 1935-1937

Year	Permits Granted	Permits Refused	Recommendations to Home Office	
			Favourable	Unfavourable
1935	84	3	26	9
1936	118	20	37	24
To Sept. 1937	49	7	17	15

The Ministry faced a dilemma: foreign technicians were needed because their British counterparts had not yet acquired the same skills or experience, but as long as 'key' jobs were filled by foreigners the chances of British workers taking their place were slim. When companies insisted that expensive productions needed certain technicians, the Ministry was in no position to order the employment of British labour.

From January 1936 the Post Office Film Unit was consulted on the matter. John Grierson classified foreign technicians into three categories: those who were good enough to justify indefinite retention; those who had been trained, and foreign technicians who should leave even though they had been granted permits. Since individual companies had to submit confidential reasons for the employment of foreign as opposed to British labour, the Ministry thought it would be improper to consult the ACT about individual permit applications. It was, however, claimed by an official at the Ministry of Labour that

every opportunity has been taken of putting film companies applying for a permit for a foreign technician in touch with the Association, with a view to the post being filled by a British technician, and the Association admit that this practice has helped to bring their Employment Bureau to the knowledge of the film companies, and has consequently led to a greater use being made of it than would otherwise have been the case.¹

In answer to the ACT's criticisms, the Ministry of Labour argued that since 1935 permits were normally refused for associate or assistant directors, assistant cameramen and assistant producers. No foreign students were allowed to work in British studios and despite the difficulties, increasing importance was attached to the training of British technicians. The Ministry decided that 'in operating the training conditions... it would appear reasonable to differentiate so far as possible between the essential creative artist who cannot be replaced, and the specialist technician who can'.

Matters came to a head when the White Paper included the double quota clause for films made for over £22,500 in labour costs. The ACT feared this would lead to an invasion of British studios by more foreign technicians. The union objected to their employment not because it did not welcome studio activity and the introduction of American techniques, but because there was no restriction on the use of foreign labour. The

1. Ibid.

ACT was also concerned that the White Paper sanctioned the exclusion of payments to one foreigner from the 75% wages and salaries due to British labour on quota films. The 1927 Act stipulated that the exclusion should apply to a foreign artist or producer, whereas the word 'foreigner' obviously included technicians.

World Film News took up the technicians' cause, and an article published in September 1937 entitled 'Aliens stifle British talent' linked the policy of making international films with the increased use of foreign labour in British studios:

One of the worst aspects of the policy of trying to break into the world market before conquering your own is that the pre-ponderance of aliens in key positions in the industry not only tends to produce a product lacking national character, but also develops an unhealthy inferiority complex in the rest of the technical staff, who are of local growth.¹

According to the Daily Herald, under the White Paper proposals, film workers would be employed for only ten weeks a year.² The TUC supported the ACT's general demands and made a special plea to the Board of Trade for the 75% British labour qualification to be raised.³ The Board consulted the Ministry of Labour and was informed in November 1937 that the TUC's request was reasonable.⁴ But Fennelly did not agree, arguing that there must be some latitude in the employment of foreign labour 'if we are ever to make films which can pretend to cater for a world market'.⁵ In an internal memorandum another official, R.C.G. Somervell, revealed the major reason for difficulty in granting the TUC's demand: 'The American representations have not made it any easier... on this point'.⁶ At that time the Americans were pressing for a reduction in the 75%, and this clearly conflicted with the Ministry of Labour's suggestion.

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1. World Film News, 2 (6), September 1937.
 2. Daily Herald, 1 November 1937.
 3. PRO, 64 90/7880/37.
 4. PRO, LAB 8/76, Besso to Fennelly, 16 November, 1937.
 5. Ibid., Fennelly to Besso, 3 December, 1937.
 6. PRO, BT 64 90/7880/37, minute by Somervell, 6 December, 1937.

When the Films Bill was being debated in Standing Committee A in December 1937 two amendments relating to the labour question were proposed. The first was introduced by G.R. Strauss (Labour, North Lambeth) and stipulated that not more than one foreign technician should be used on British quota film productions.¹ Oliver Stanley, on the other hand, was anxious that expensive productions should be encouraged: 'I want to see the maximum amount of employment given to British technicians and British workmen, but we want to combine that with the greatest opportunity for a film which is made in this country to be a good one'. The second amendment, proposed by Major Rayner and supported by Mr. Lawson, a director of Technicolour Ltd., was for British producers to be allowed to employ two foreign stars. Both amendments were withdrawn and left for re-consideration during the Report stage of the Bill. In the event neither was included in the final Act.

The Board of Trade suggested that film companies should be able to choose between complying with the 75% British labour qualification for films costing over £22,500 in labour costs, exclusive of payments to one foreigner, or excluding payments to two foreigners but with a higher (80%) percentage of British labour.² Both the Ministry of Labour and the trade showed little enthusiasm, but the alternative was included in the Act. R.A. Butler, the Parliamentary Secretary to the Ministry of Labour, wrote to Euan Wallace on 1st February that what was really needed was 'some statutory provision which will make companies look to the future and adopt methods of training and recruitment likely in a reasonable time, to make the foreign expert a luxury instead of a necessity'.³ How far did the 1938 Films Act achieve this aim and how successful was the ACT's quota campaign?

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1. Parliamentary Debates (Commons) Standing Committee A, 21 December, 1937, Cols. 359-360.
 2. PRO, BT 64 90/7880/37, BT letter 1 January, 1938.
 3. PRO, LAB 8/76.

In spite of not winning some of its demands the union had clearly achieved more than many had expected. George Elvin, commenting on the 1938 Act, wrote that although it 'failed in its fundamentals, the great campaign of organized labour has permitted many achievements and amendments which would otherwise have been outside the legislation'.¹ As we have seen, the demand for restrictions on the employment of foreign technicians was unsuccessful. However, an increase from 75 to 80% in British labour costs for double and triple quota films was possible in certain circumstances. The Board of Trade was also empowered to reject any films for quota registration on the grounds that certain payments to an artist or technician had been unjustifiably excessive. The Board could not meet the union's demands in full because the Americans would have refused to make use of the multiple quota credit clauses if they were restricted in their use of labour. Also, it was apparent that British technicians still had much to learn and needed to be trained under the supervision of American experts.

The ACT, along with the CEA, opposed the multiple quota credit clauses and reciprocity, but failed to remove them from the legislation. However, Oliver Stanley introduced some last-minute amendments that made these clauses more acceptable to British interests. The original suggestion for the triple quota clause introduced during the Bill's Report stage, was that a film costing £30,000 in labour costs could be counted three times for quota purposes. This was altered so that the film had to have cost £37,500, or five times the minimum to receive the same concession. Renters were barred from fulfilling more than 50% of their quota obligations in this way.²

The ACT wanted the Government to establish an apprenticeship scheme within the film industry and an assurance was given in the Lords

1. Cine-Technician, May-June 1938.

2. Kinematograph Weekly, 31 March, 1938, p. 5.

that the Cinematograph Films Council (CFC) would look into the matter.¹ The union had successfully pressed for employee representation on the CFC, and the first members were George Elvin and A.M. Crickett of the Film Artistes' Association which had been formed in 1934. The actual quota percentages were lower than the ACT would have liked, but its major achievement was the inclusion of a 'fair wages' clause. This provided that makers and processors of films had to pay wages and provide conditions of employment not less favourable than those which would be required for the fulfilment of a Government contract. This stipulated that the employer had to pay rates of wages and observe working conditions not less favourable than those commonly recognised by trade union agreement, or 'such recognised wages and conditions as prevail amongst good employers'.²

Why were the technicians able to achieve some of their demands? Their campaign was well-organised and benefited from considerable support from other branches of the film industry, particularly the FBI. The ACT gained a certain respectability when Anthony Asquith became President in 1937, as described by Thorold Dickinson:

We rented a meeting-room in the Strand and informed all our members... They turned out in strength and poured into the committee-room in the House... We then marched up Whitehall and on to our meeting-room in the Strand to work out the next stage of our campaign. Anthony Asquith worked very hard... and the improved terms of the new Quota Act enabled us to survive the American invasion.³

In Parliament labour's interests were well represented by G.R. Strauss, Lord Strabolgi and Tom Williams. The Ministry of Labour also did much to enhance the ACT's reputation as far as Board of Trade officials were concerned when it pressed for a gradual increase in the stipulated percentage of British labour to be used in British productions. The ACT

1. Ibid., 17 March, 1938, p. 5.

2. Cine-Technician, May-June 1938.

3. T. Dickinson in the Evening Standard, quoted in R.J. Minney, Puffin Asquith (Leslie Frewin, 1973), pp. 91-92.

also gained useful support from NATKE and the British Association of Film Directors. Adrian Brunel wrote to Oliver Stanley in January 1938 stressing the need for a British film industry created by British labour:

It is my contention that if we are to develop a British film production industry that reflects in its pictures those qualities we are so anxious to have shown to our people and to the world, we must reserve a place for our key technicians in our studios; if we want to make pictures that will be profitable, we must avoid the over-paid and second-rate foreign technician as a proved danger to our industry; and we must remember that the foreign technician is not interested in building up a successful British film production industry.¹

When the Film Industry Employees Council (representing the ACT, BAFD, ETU, NATKE, the Film Artistes' Association and the Screenwriters' Association) was formed in 1937 the ACT's campaign benefited from the unions' united front. The TUC helped press the technicians' case. At the Norwich TUC in 1937 Tom O'Brien of NATKE proposed the following motion, seconded by George Elvin:

This Congress, having regard to all the issues involved by any foreign domination of this powerful medium of organised commercial entertainment, reasserts its desire that every means possible be utilised to protect the British film-producing industry from those influences designed to weaken it, and instructs the General Council, in association with affiliated organisations interested to press upon the Government that the new legislation... shall provide adequate safeguards of the principles to which this resolution calls attention.²

Although the ACT supported the FBI'S unsuccessful campaign for the separation of the renters' from the exhibitors' quota, the alliance did provide the union with valuable backing. The plight of unemployed technicians during the production crisis was well publicised by George Elvin. In the first week of 1938 only 8 British stages were occupied out of a total of 74. In February, when the Films Bill was being amended by the Commons, a demonstration of 200 unemployed technicians gathered in

1. PRO, LAB 8/76, Brunel to Stanley, 4 January 1938.
2. Cine-Technician, October-November 1937.

Westminster.¹ Public support was thus gained for their cause. On the other hand, the Board of Trade was anxious not to antagonise the Americans, and wanted to encourage American finance for British film-making. This aim meant that the technicians could not win all the concessions they hoped for. However, considering the obstacles, the ACT had done well, as Anthony Asquith concluded at the ACT's annual general meeting in 1938:

Unsatisfactory as the new Films Act is in many ways, it would have been very much worse but for the efforts of ACT and other interested unions. I am convinced that but for the long continuous pressure from us many of the improvements on the old Act would never have been obtained.²

3. The Quota Campaigns: Producers and Exhibitors

a: Producers

When the White Paper was issued one of the most controversial clauses was the double quota concession for films costing over £22,500 in labour costs. This, more than anything else, forced the FBI and CEA to formulate amendments and alternative strategies. As the Motion Picture Herald commented: '... in Quota discussions all roads lead more or less directly to the same problem; the degree of reduction or production to be expected under the White Paper proposals and the extent to which the reduced British footage will be under American control'.³ The trade paper predicted that the issue would push British trade interests to extreme lobbying tactics in a desperate attempt to remove it from the Bill:

It will be up against the British production interest's desire to maintain direct control of the studios and to see the floor space occupied by more rather than fewer films. It will be challenged by the exhibiting interest, fearful of a shortage of cheap films and nervous about a further exten-

1. Motion Picture Herald, 12 February, 1938, p. 58.
 2. Minney, op. cit., p. 92.
 3. Motion Picture Herald, 21 August, 1937, p. 62.

sion of trustification in the industry. It will be hotly attacked on political grounds by parliamentarians who want British films as missionaries of British trade, and want those films British in the most literal sense.¹

According to J.C. Graham of Paramount, the prospect of making fewer but costlier quota pictures was a welcome relief for American renters.²

British producers soon pressed for alterations in the reciprocity clause and for a 'separate quota' scheme. Both demands betrayed fears that unless returns from British films increased and the quota was made more effective, Britain might become a colony of Hollywood. Isidore Ostrer was the first to criticise the reciprocity clause in a letter to The Times in November 1937.³ He argued that it might 'sound the death knell of British film production' unless it kept American companies out of British studios and encouraged them to purchase the foreign distribution rights of pictures made by genuinely British companies. Ostrer recommended that the minimum cost of a British film should be increased and that American renters should be allowed to claim quota exemption on condition that they bought the American distribution rights of British pictures for a minimum of 40% of the amount they would have spent to produce or acquire quota films under the old system. According to Ostrer, if the £15,000 (total production costs) test was imposed an American company that normally acquired twelve quota films for £180,000 could alternatively purchase for £72,000 British films for American release, and at the same time be free of quota obligations. But if, as Ostrer advocated, the minimum test was doubled, the figures would be £360,000 and £144,000. In other words, he wanted Gaumont-British to be given the go-ahead to turn out 'international' pictures, but on the thorny problem of preventing the new high-cost market from being

1. Ibid., 31 July, 1937, p. 70.
 2. Ibid., p. 68.
 3. The Times, 6 November, 1937.

monopolised by subsidiaries of American companies, Ostrer was conspicuously silent.

John Maxwell agreed with Ostrer for once, and supported the plan.¹ On the other hand, Simon Rowson doubted whether their scheme would achieve the desired objective, arguing that it did little to overcome the major problems associated with securing an American release: 'The weakness of the scheme is that there is no assurance that the revenues from the sale of foreign rights will be employed to improve the quality of British pictures'. The crux of the question was that the American market was more or less inaccessible to British films for economic and cultural reasons:

the major producing companies control all the key theatres ... Fox Theatres on the West Coast, for example, will book Warner pictures in return for a booking of Fox pictures in Warner theatres... except in the rare cases of such pictures as Victoria the Great or Henry the Eighth, the American door is slammed, bolted and barred.²

Economic reasons apart, it is unlikely that even with free entry most British films in this period would have appealed to American audiences.

In this way producers, hopelessly divided over devising an acceptable alternative, failed to amend the reciprocity clause. The only alteration was for its extension to distribution rights purchased for £30,000 and their qualification for double quota. No assurances were given that the films should be produced by independent British companies. The Americans regarded it as a bonus: in conjunction with the double and triple quota clauses (the latter was inserted in the Bill in March 1938), it served to reduce their quota commitments and made the legislation generally more acceptable. Fears about how reciprocity might backfire were not without foundation. It was openly acknowledged in the American trade press that the proposals favoured companies like MGM, Fox

1. Kinematograph Weekly, 11 November, 1937, p. 17 and 25 November, 1937, p. 8.
 2. The Times, 9 November, 1937.

and Warners who had ambitious plans for production in Britain.¹ In the event, 75% of the pictures made in Britain in 1938 were American productions.²

The other unsuccessful proposal put forward by the FBI was for the separation of the renters' from the exhibitors' quota. The 1927 Films Act made the two quotas interdependent: renters' quota films could also rank for exhibitors' quota so that the protected market had been flooded with 'quickies' that undersold other British films. An early advocate of the new scheme was Norman Loudon, chairman and managing director of Sound City Films, described by Fay Allport to Will Hays as an influential member of the FBI's Film Producers' group who 'has long been noted for his almost fanatical opposition to all things American, and to the American film industry in particular'.³ Loudon presented a paper outlining his separate quota plan to a meeting organised by the British Films Advancement Council at the Commons. He wanted to bar films made or acquired by American renters from receiving the protection of the exhibitors' quota. Basil Dean explained the scheme in a letter to The Times:

When a picture is acquired by an American renter he may not sell it to the exhibitor simply in order to fulfil his obligation under the law, he must sell it in open competition with his own and all other pictures... The exhibitors' quota... must be provided quite separately from the renters' quota; it can be sold to him at the proper price, for it is now offered in a protected market... British producers will now be in direct competition the one with the other, knowing all the time that they can ask and obtain a fair price for their goods.⁴

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1. Motion Picture Herald, 14 August, 1937, p. 79.
 2. The Movies (Bloomsbury Books, an imprint of Godfrey Cave Associates Ltd. 1984), Ch. 14, p. 261.
 3. National Archives, 841.4061/MP/80, Allport to Hays, 6 November, 1937.
 4. See also Basil Dean special coll. (includes letter of support from such figures as Randolph Churchill) and Cine-Technician, December-January 1937-38.

The plan was supported by the film trade unions.¹ Three important people, however, had no faith in the 'eleventh hour' scheme - Maurice Ostrer, C.M. Woolf and John Maxwell. The CEA was also opposed, fearing that the protected exhibitors' quota market would do little more than harbour bad British films.² During the Standing Committee stage of the Bill in December 1937 Oliver Stanley, unconvinced by the FBI's scheme, asked the trade to consider an alternative which was similar but more flexible: renters could choose between registering films for their quota in the ordinary way, or for a special exhibitors' quota. To encourage the latter, films were to count as twice their length for exhibitors' quota.³

The trade was unenthusiastic. The FBI and trade unions thought it was no substitute for their scheme, and that if it was adopted the quota percentages for exhibitors would have to be raised considerably. American renters opposed both plans. The CEA was not as critical of Stanley's alternative as it had been of the FBI's version, but was prepared to agree on condition that their quota was not too high. Norman Loudon did not think 'underselling' would be abolished or 'quickies'.⁴

The New Statesman and Nation made the point that it would 'inflict on audiences... British films made without regard for quality, and would kill any hope of reciprocity with America'.⁵ After much deliberation the plan was dropped. The FBI's campaign to alter the quota mechanism had failed, as well as Stanley's alternative. The main reasons were lack of support from exhibitors and some producers; the hostile attitude of the American renters; Stanley's unwillingness to support the FBI's scheme and its late appearance in the quota debates. It would have been

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1. The Times, 18 November, 1937: Letter from Basil Dean, Tom O'Brien (NATKE) George Elvin (ACT), A.M. Crickett of the Film Artistes' Assn. and J.B. Williams (Screenwriters' Assn.).
 2. The Times, 18 November, 1937, letter from W.R. Fuller (CEA).
 3. PRO, BT 64 90/7863/37, Fennelly to interested parties, 28 December, 1937.
 4. Ibid., note by Fennelly on Loudon's visit to BT, 21 January, 1938.
 5. New Statesman and Nation, 3 December, 1937.

complicated to operate and would have resulted in British films made entirely for the British market. This, as the Board of Trade and John Maxwell pointed out, conflicted with the aim of securing a world market for British films.

b. Exhibitors

The CEA's quota campaign focussed on four major issues: low quota percentages for exhibitors; a quality-viewing test; an arbitration committee to resolve disputes with renters and opposition to the separate quota plan and multiple quota credits. These demands reflected the fears and economic plight of the independent exhibitor. Although exhibition was the most profitable part of the business, as shown by the following table, the independents suffered from high rentals, poor relations with the KRS, redundancy and competition from the circuits.

Table 24

Source: New Statesman and Nation, 3 December, 1937.

Overbuilding was still causing independents considerable concern. According to a survey by the Kinematograph Weekly, between January and August 150 new cinemas were opened in 1937. The major circuits were responsible for 40% of the new buildings: Odeon for 23, ABC 12, Gaumont 6 and Union Cinemas 19. Most were concentrated in London and the Home Counties, the North of England and in the Midlands.¹ During 1937 about 229 new cinemas were opened together with 60 reconditioned and rebuilt,

1. Kinematograph Weekly, 26 August, 1937, p. 3.

adding 380,000 seats. In the Midlands 65,439 seats were added, and Nottingham had 60 cinemas for a population of 300,000.¹ The CEA organised regional battles against new building by lodging objections with local licensing authorities when a provisional licence to build was under consideration. But in many cases 'saturation' was difficult to prove and despite strong opposition from the CEA a licence was granted for a new Odeon in Croydon in 1935 seating 1,700.² In 1937 a King's Bench judge decided that licences could be given only after a new cinema had been built, preventing vociferous objections at the planning stage. The Middlesex County Council pressed for powers to grant or refuse licences on the presentation of plans rather than when a new cinema was a fait accompli. These powers were not granted, and in 1937 Oscar Deutsch opened 36 new cinemas, and in that year the total cost of new constructions was £5.5 million.³

Some exhibitors pressed for the abolition of the double feature programme in an attempt to reduce film hire charges. As explained by the Motion Picture Herald, rentals were high:

The average rental paid by the British exhibitor... has been estimated at 40% as a minimum. The greater percentage of first features are played on percentages ranging from 25 to 50, or even 60. Second features and shorts are commonly bought on 'straight' rentals, or supplied with the first feature, but there are cases where the exhibitor pays a percentage of takings for each of two features. Rentals have shown an upward tendency ever since percentages were introduced with the talkies.⁴

The abolition of double features was, however, unlikely because ABC and Gaumont-British would not agree even though Oscar Deutsch introduced single features to many of his Odeon cinemas. Many feared that a single-feature policy would reduce available outlets for British features. In

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1. Motion Picture Herald, 5 February 1938, p. 86.
 2. Kinematograph Weekly, 1 October, 1936, p. 3.
 3. Motion Picture Almanac, 1938-39, p. 951 and see Allen Eyles, '"A Romance of Finance". Oscar and the Odeons', Focus on Film (22) Autumn 1975.
 4. Motion Picture Herald, 18 September, 1937, p. 65.

any case, some predicted the eventual demise of the double feature because the KRS wanted programmes restricted to no more than 3.25 hours and American features were becoming longer.¹

The major preoccupation of the CEA while the quota debates were taking place was the campaign against the KRS 'Grading Policy' instituted on 6th October 1937. When the renters' scheme to limit the cinema programmes to 3.25 hours was unsuccessful, the KRS attempted an alternative method. Another aim of the 'Grading Policy' was to prevent exhibitors from billing two 'super' features in the same programme. 'A' films had to be booked on a percentage basis, while those deemed 'B' features by a KRS viewing-committee could be booked on flat-rate terms. In other words, the KRS imposed its judgement on which terms should apply to all films without consulting exhibitors. Two 'A' pictures could not be played together in the same programme.² The leading figures in the KRS who inaugurated this policy were D.E. Griffiths of First-National, Sam Eckman of MGM, Max Milder of Warners, Murray Silverstone of United Artists, Joseph Friedman of Columbia, J.C. Graham of Paramount, Ralph Hanbury of RKO-Radio and Frank Hill, secretary of the KRS. There were some dissenters among the renters' ranks. Francis Harley, the managing director of Fox in Britain, had left the KRS after several policy disputes. John Maxwell, C.M. Woolf and the representatives of Pathé and Butchers would not agree to grading. This meant that some important films escaped being vetted by the KRS:

The disaffection of Messrs. Harley, Woolf and Maxwell... from the KRS phalange knocks a serious breach in the otherwise iron front; for do not Twentieth Century Fox control all the Shirley Temple pictures, the new Gracie Fields series, the famous Darryl F. Zanuck musicals starring Sonja Henie, Alice Faye and that rising young fan idol Tyrone Power? While to C.M. Woolf falls the unquestionable pleasure of selling the Deanna Durbin epics which must be among the biggest money-spinners in the current market, as well as the Hitchcock pictures, the Jessie Matthews' musicals, the Will Hay comedies and many other first-class

1. Kinematograph Weekly, 26 August, 1937, p.3.
2. World Film News, May-June 1938.

films. Then there are John Maxwell's productions with Charles Laughton as the ace star.

None of these films will be subject to the 'A' and 'B' grading...¹

The CEA, convinced that grading was an attempt to raise rentals rather than reduce the length of programmes, campaigned vigorously against the policy. Exhibitors argued that the public was used to two quality features and 'since American representatives are the backbone of the KRS, British films will not get a fair deal and will be placed in the 'B' category except for off-season bookings'.² Although the CEA had much to fear from grading, it was relieved that the KRS had eventually abandoned its onerous 'booking policy'.

The CEA made a plea to the Board of Trade in October 1937, drawing attention to how high rentals in Australia had forced a group of cinemas to become completely dominated by Fox, an allegation that was later refuted.³ Above all, the CEA wanted a watchdog body to stop the same problems developing in Britain:

Otherwise there is nothing to prevent a continuation by the Americans of a film rental squeeze so that we are just managers of our kinemas, drawing whatever small pittance they decide to leave us until they have absorbed our principal kinemas.⁴

In 1938 relations between the CEA and KRS became very bitter over grading. The CEA's campaign was led by Nyman, Gale, Jarratt and Bernstein, and it published the lists of films graded 'B' by the KRS. In May the renters agreed to abandon grading, but the rental issue dragged on as independents tried to work out special terms for small cinemas with little co-operation from the KRS.⁵

1. Ibid.

2. Ibid.

3. PRO, BT 64 90/7382/37, CEA to BT, 28 October, 1937. For the refutation of the CEA's allegation against Fox see Kinematograph Weekly, 6 June, 1938, p. 5.

4. PRO, BT 64 90/7382/37, CEA to BT, 28 October, 1937.

5. Motion Picture Herald, 28 May, 1938, p. 78 and 11 June, 1938, p. 52.

In September the Board of Trade thought that the CEA might agree to a compromise on the cost test. Fennelly wrote:

My own view is that they are not feeling very happy about the campaign which they started in the late summer as they may easily lay themselves open to the criticism that they are against British films. They are trying to find a way out and would, I think, be prepared to drop their agitation against the cost test if they could be assured of something in the way of a Films Commission, even of a voluntary nature.¹

On 5th October Neville Kearney and W.R. Fuller saw Fennelly and Patterson at the Board of Trade and Fuller said that the CEA was anxious to secure the appointment of a 'Films Commissioner' who could hold enquiries into matters which might be referred by the President of the Board of Trade. Fennelly wrote to Somervell after the meeting:

Both the FBI and CEA are still hankering after some sort of a Films Commission, but I think I persuaded them that the utmost they could hope for was a clause to the effect that the President might, if he thought fit, refer to the Advisory Committee for investigation and report any questions as film rentals, which were necessarily commercial matters to be settled by the trade itself.²

The CEA settled on pressing for the President of the Board of Trade to have powers to refer matters to the Advisory Committee as Fennelly outlined, and it also wanted an Appeal Committee to view films that had passed the cost test but were considered sub-standard by CEA members at a trade show. Fennelly disagreed:

It is quite clear that they hope by this method to get the President to intervene in some of their more difficult domestic problems, e.g. film rentals and possibly redundancy, and we might be constantly asked to intervene in the everyday affairs of the trade which they ought to settle between themselves. Moreover, with the opposing forces on the Advisory Committee, we would be unlikely to get anything in the way of a unanimous report. Even if we did, we could not apply sanctions except through legislation and there would be little hope of getting it. It might be taken as certain that any matter affecting the industry which really required legislation would be brought to the President's attention without the existence of this machinery.³

1. PRO, BT 64 90/7382/37, Fennelly's minute, 28 September, 1937.
 2. Ibid., Fennelly to Somervell, 7 October 1937.
 3. Ibid., note by Fennelly, 16 November, 1937.

The 1938 Films Act did not produce a Films Commission, but a trade-dominated body called the Cinematograph Films Council (CFC) consisting of eleven 'independents' and ten trade members - two producers, two renters, two employees and four exhibitors. John Grierson interpreted this as a victory of commercial over national interests:

The long-term service of creative and national interests is being sacrificed to short-term financial ones. The Moyne proposals took a long view and aimed at a wise government of the film industry. The prospect has disappeared with the vital omission of the Moyne proposals for a commission which would stand above the conflict of commercial interests. It is natural enough for the Board of Trade to be jealous lest another body usurp its functions, but the loss of the Film Commission must disappoint all who wish to see the anarchies of the trade abated, the interests of minorities preserved, the quality and personnel factors encouraged, and the fierce commercial interests of the trade geared to national purposes.¹

There had been attempts by Tom Williams (Labour, Don Valley), to introduce a Films Commission clause during the Bill's Committee stage, but these failed. The CFC was a compromise, and its brief was 'to keep under review the progress of the cinematograph industry in Britain and to submit annual reports to the President of the Board of Trade'. The CEA was optimistic about the CFC's future, but its powers were limited and it had no authority to settle trade disputes.

The CEA failed to remove the multiple quota credit clauses. Exhibitors feared they would reduce the number of films available for hire, and joined with the technicians to oppose the double and triple quota clauses. The common interest was commented on by the Motion Picture Herald:

The prospect which these interests fear, in common with exhibitors - though for quite other reasons - is that American companies will transfer production units to London which, so far as principals are concerned, and up to the limits of any 'foreign labour' percentage permitted in the Act, will be American.

This fear on the part of production personnel may, for the purposes of public propaganda and parliamentary agitation, prove a very potent ally of the CEA, which prophesies

1. The Fortnightly, July 1937.

'Americanization' as a result of reduction in both the American and the British output following the Government's acceptance of the minimum cost principle in place of the quality test.¹

The CEA was relieved when last-minute alterations to the triple quota clause were added so that it applied to films costing £37,500 instead of £30,000. Exhibitors also welcomed the restriction to 50% on the use of the clause by renters. When this safeguard was originally introduced Board of Trade proposed that if, after a year, the CFC so decided, the 50% limitation could be dropped. After intensive lobbying by the CEA, the latter amendment was withdrawn.

Producers and exhibitors had not fared as well as the trade unions in achieving their quota demands. The FBI failed to devise a reciprocity scheme that was acceptable to the Board of Trade or that safeguarded the interests of independent producers. The separate quota plan had failed miserably through lack of support and the subsequent rejection of Stanley's alternative. Exhibitors failed to win their main objectives of low quotas (their initial quota was 12.5% instead of 10% as they had demanded), the abandonment of the multiple quota clauses, the imposition of a quality-viewing test and a Commission to help regulate trade conflicts. When exhibitors pressed for low quotas and argued that a constant level of film supplies should be maintained, they were always open to the criticism that they favoured the American films that made their cinemas profitable. Their opposition to multiple quota credits conflicted with the demands of the American renters. Such divergent interests had to be assessed and accommodated by the Board of Trade, but in this case, the overriding factor was the need to appease American interests while not appearing to abandon protection for British producers. The next chapter will examine the demands of the American

1. Motion Picture Herald, 21 August, 1937, p. 62.

renters and how the diplomatic situation assisted their argument for quota concessions.

Chapter 6

AMERICAN DIPLOMACY AND THE FILMS ACT

The 1938 Cinematograph Films Act can be all too easily underestimated or overlooked since the war broke out just over 12 months after its promulgation. But the principle of multiple quota credit for expensive films gave a clear indication of the Board of Trade's anxiety to enlist American money to revive the moribund British film industry.

This anxiety, together with the hope that these Anglo-American films would be shown in the United States, remained for the next four decades. Britain wanted Hollywood dollars as well as Hollywood's films. In the 1940s the desire to hoard dollars meant that American film companies were induced by the Board of Trade to invest in British film-making rather than remit dollars to the States in respect of the large number of Hollywood's films screened in Britain. In fact the Americans did not invest in the British film industry on a large scale until the 1960s, and even then more as a result of changes taking place in the American film industry than a positive response to the Board of Trade's policy. The lure of American finance was, however, an important bargaining-counter for many years and proved to be instrumental in the continued domination of the British market by the American film industry.

Before the American film companies' campaign to win concessions in the 1938 Films Act is outlined it is necessary, for a full understanding of how the pro-American clauses came to be adopted, to focus on two crucial factors: the increasing importance of the British market to the American film industry in the 1930s and the state of Anglo-American relations. The third factor of considerable note, the shortage of production finance for British film-making and the government's

reluctance to provide state funding for producers, will be examined in the subsequent chapter on film finance.

1. The American film industry and the British market in the 1930s

The general importance of overseas markets to the US majors has already been noted in Chapter 1. The overseas managers of the major American film companies argued that the size of foreign markets determined whether a film would show a profit or a loss, and whether programmes of continuous production could be financed. An American study explained in 1933 that

To double the number of theatres in which a given picture may be booked may easily increase the net revenue 10 or 15 times... every showing that can be secured adds to the income without materially increasing the cost... For a great many - perhaps, indeed most - pictures, the real profit is realised from the foreign market.¹

By 1938 35% of the industry's gross income came from abroad. In the 1930s exports to Europe fell since many countries adopted protectionist policies for their native film industries. In 1925 Europe imported 86 million feet of American films and by 1937 this figure had fallen to 60 million feet.² Table 25 shows the figures for total US film exports, and exports to the UK.³

Table 25
US Film Exports: Total and to the UK, 1932-1938

Year	Total Exports	Exports to UK
1932	160.9	16.2
1933	164.5	13.8
1934	194.4	16.8
1936	209.6	17.6
1937	215.7	16.9
1938	202.5	15.7

The reduction of exports to Europe was partly offset by increased exports to South America. But Britain remained the most lucrative

1. Howard T. Lewis, The Motion Picture Industry, (NY, 1933), p. 394.
2. US Department of Commerce figures, and Film Daily Yearbooks.

overseas market. In 1935 Korda declared: 'American producers have admitted that they get 30% of their income from Britain. No American film company could exist without Britain'.¹ Remittances to the US in respect of films shown in Britain were high: in 1927 the total amount remitted for foreign films was £3 million, but by 1933 the amount remitted to America alone was £5.5 million. By 1936 this figure had increased to £6-6.5 million.² Since the coming of sound Britain was the natural recipient of American films because of the common language. This, as the Financial News noted in 1934, placed greater emphasis on Britain as a major importer of Hollywood's pictures:

Six or Seven years ago the British market provided Hollywood with a welcome source of additional profits, but the American industry could have carried on if our theatres had been entirely closed to its products. Since the coming of the talkie, the British market has become a vital necessity to the American producer, and if it were shut to him he would have to close down...³

Britain also provided important investment opportunities for American companies. The Americans had dominated the renting sphere for many years and distributed over 60% of all films marketed in Britain.⁴ United Artists and Fox were, as we have seen, interested in forging exhibition links in Britain. Once the new Films Bill promised quota concessions for companies that made or sponsored expensive British films, many American companies announced ambitious production plans in Britain.⁵ John Grierson feared 'an invasion of producers and directors which must... take control of a large part of British production'.⁶ When the US industry was threatened by anti-trust court action in 1938 the

1. Daily Mail, 7 June, 1935.

2. Figure for 1927 is from R. Low, The History of the British Film, 1918-29 (Allen & Unwin, 1971), p. 79. 1933 figure is from S. Rowson, 'The value of remittances abroad for cinematograph films', Journal of the Royal Statistical Society, Part 4, Vol. 97, p. 640 and that for 1936 is from Minutes of Evidence, p. 125.

3. Financial News, 10 December, 1934.

4. Political and Economic Planning (1952), The British Film Industry, p. 60.

5. Motion Picture Herald, 28 August, 1937, p. 35.

6. The Times, 21 August, 1937.

'majors' looked to Britain even more as a potentially lucrative investment field.

Why did American film exports to Britain in the 1930s fail to regain levels reached in the 1920s? The impact of the 1927 Films Act was partly responsible. The following table illustrates the impact of the quota in the 1930s and the increased showings of British pictures:¹

Table 26
UK Share of Domestic Film Market (Features and Shorts)
1926 - 1939

1926	4.8%	1931	21.5%	1936	27.4%
1927	4.4%	1932	21.6%	1937	27.9%
1928	12.2%	1933	23.7%	1938	25.7%
1929	13.1%	1934	26.1%	1939	23.2%
1930	19.0%	1935	25.5%		

The British film industry, once it had adjusted to the coming of sound and the major combines had consolidated their position, was given another boost by the American Depression.²

During the 1930s American exports were threatened by quotas, import duties, dubbing restrictions and censorship regulations. By 1936 the Germans had reduced Hollywood's share of their home market by 36%, the French by 24% and the British by 20%.³ The Hays Office instructed its Foreign Department, headed by F.L. Herron, to scrutinise conditions abroad. On several occasions the Hays office attempted to halt the protectionist tide in other countries. Official channels were used to add weight to its argument. Hays was keen to stress the economic importance of motion picture exports.

In 1936 an Italian decree limited the annual import of American films to 42 and companies were forbidden to withdraw more than eight million lire per annum, a cut of nearly 80%. Will Hays remembered how he was encouraged by the US State Department to intervene:

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1. Board of Trade Journal 1932-39; 1926-31 reports by Motion Picture Division, US Bureau of Foreign and Domestic Commerce.
 2. See Chapter 3.
 3. D. Gomery, 'Economic struggle and Hollywood Imperialism: Europe converts to sound', Yale French Studies, 60 (1980), p. 88.

It was the judgment of the State Department that I go over as soon as possible and seek to negotiate personally with the Italian Government. Because of the department's active support, I became a quasi-government representative. Although I had no official or formal recognition, an outsider would have thought I had, from the help given at every stage, both by Washington and by our Embassy in Rome. My visit was approved and encouraged by William Phillips, our Ambassador, and those in his Embassy who had long been working on the affair.¹

A formal protest was lodged with the Italian Government by the American Ambassador, and the American companies decided to retaliate by boycotting the Italian market. Will Hays went to Rome and persuaded Mussolini and his son-in-law, Ciano, to amend the decree. Will Hays' account of the incident claimed that his personal diplomacy had proved decisive:

Il Duce suddenly asked, 'What do you want?'... I answered as directly: 'We want to bring into Italy all the American motion pictures that the traffic will stand, and we want to take out enough money to enable us to live'. Mussolini said at once, 'That seems fair', and picked up his telephone... he was talking to Ciano... 'All right', he said, 'We'll give you twenty million lire... You can bring in all the American pictures you want and there will be no fraud in the exchange'.²

This triumph was short-lived. In 1938 Mussolini placed the distribution of films under a Government monopoly called 'Ente Nazionale Industria Cinematografica'. This prohibited American companies from operating their subsidiaries, and most had to abandon Italian operations and leave their earnings behind.

In 1928 Hays conducted successful diplomacy in France. He had managed to avert the enforcement of an onerous export clause in the French Film Decree of 1928. Similarly in 1929 the Hays Office managed to alter proposed legislation, and in October 1931 the French decided not to renew its quota law. In 1933, however, a revised law was passed that controlled the number of dubbed films for exhibition. This reduced the

1. Will H. Hays, Memoirs (Garden City, 1955), p. 513.
2. Ibid., p. 518.

number of American films shown, but enforcement of the law was somewhat lax because of pressure from the Americans and French exhibitors.

In Germany there was little Hays could do when the Nazis decided to exclude as many American films as possible in favour of German product. The German film industry was gradually nationalised, and the Reich Film Law, 1934, enforced strict censorship regulations that discriminated against Hollywood's films. In 1936 only 33 long American films were shown.¹ Remittances fell and eventually ceased from German-occupied territories by 1941.² At the end of 1939, German distributors had over 8,200 cinemas at their disposal and Germany dominated the Continental film market.³ American film imports to Japan were prohibited in September 1937 until a year later when an agreement was reached restricting imports and freezing all royalty payments to the US for three years.

Raymond Moley's book on the Hays Office touches on its attempts to influence the US Government to gain support for foreign concessions for the film industry. He concluded that on the whole, these attempts were successful, providing 'an effective service in the face of grim circumstances', and that in the British case when the 1938 Films Act became law 'the matter was brought to a reasonably satisfactory conclusion'.⁴ An examination of the official documents reveals that the issue of Anglo-American film relations was not so clear-cut. From January 1937 to June 1938 a series of protracted negotiations were conducted between the British Foreign Office, the Board of Trade, the US State Department, the Hays office and the British film trade. These show that the Hays Office failed to achieve many of its objectives, and

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1. N.D. Golden, Review of Foreign Film Markets in 1938 (US Department of Commerce, 1939), p. 75.
 2. Raymond Moley, The Hays Office (Bobbs-Merrill, NY, 1945), pp. 172-3.
 3. David Welch, Propaganda and the German Cinema, 1933-45 (Clarendon Press, Oxford, 1983), p. 305.
 4. Moley, op. cit., pp. 176 and 180.

indicate the close but uneasy relationship between the Hays Office and the State Department. From the British point of view, the story illustrates the complexities of legislating for the film industry when British production needed protection and capital, but the traditions of the Board of Trade's film policy and the international context did not permit the Government to be too hard on the American film interests.

2. The Diplomatic Context

The 1938 Films Act was caught up in Anglo-American political relations because the debates on the Act coincided with negotiations for an Anglo-American trade agreement. Both sides were anxious to reach an agreement over trade, but for different reasons. The Americans were determined to dismantle the system of Imperial Preference adopted at the Ottawa Conference in 1932. In 1929 16.1% of imports to the UK were of American origin, whereas by 1934 this figure had fallen to 11.2%.¹ In 1932 only 25% of Britain's imports entered duty-free, but in 1930 the figure had been 83%.²

In 1937 the outbreak of the Spanish Civil War and the German military reoccupation of the Rhineland threatened European economic and political stability. The Americans feared that these developments might further dislocate international trade and exacerbate the impact of the Depression. Even though the US market was protected by high tariffs the Americans resented Imperial Preference and the Board of Trade's policy of concluding bilateral trade agreements. The agricultural lobby in the US was particularly keen for concessions for exports. The American Secretary of State, Cordell Hull, inaugurated a series of trade agreements in the 1930s in an attempt to promote multilateral trade.

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1. R.N. Kottman, Reciprocity and the North Atlantic Triangle, 1932-8 (Cornell University Press, 1968), p. 117.
 2. David Reynolds, The Creation of the Anglo-American Alliance, 1937-41 (Europa, 1981), p. 14.

Most of the agreements had been with agricultural nations and did not benefit American farmers to a great extent:

While the sales abroad of American industrial products had been stimulated, farmers considered themselves the sacrificial agents making possible that growth. The political fringe benefits that would accompany an agreement with the UK help to explain why American officials labored many months to persuade Whitehall to modify the preference system.¹

Most of Hull's trade agreements provided for reciprocal concessions on American manufactured goods and threatened British exports. The Anglo-American Trade Agreement was the first agreement with an industrial nation.²

Apart from wishing to dismantle Imperial Preference, an agreement with Britain was sought by the Americans as the keystone of the policy of the related 'economic disarmament'. It was feared that Hitler's introduction of exchange control and autarky would push the Reich towards an aggressive foreign policy that could lead to another European war:

The State Department held that trade barriers and armaments led to war... Rearmament diverted national resources from normal trade, curtailing exports and thus leading to a falling level of foreign exchange with which to purchase imports. This situation necessitated the introduction of autarky. Autarky, however, could itself be only a temporary expedient which would fail in the long run, leaving the country concerned with the choice of massive unemployment or war to capture new sources of raw materials. The working out of this process in Germany was believed to be behind Nazi radicalism in foreign affairs.³

In 1936-7 the Americans placed stress on encouraging 'moderates' in Germany, led by Schacht, the Reichsminister of Economics, so that a European settlement could be reached with American participation in

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1. Kottman, *op. cit.*, p. 118.
 2. M. Ruth Megraw, 'Australia and the Anglo-American Trade Agreement', *Journal of Imperial and Commonwealth History*, 3, No. 2, January 1975, p. 193.
 3. C.A. MacDonald, *The United States, Britain and Appeasement, 1936-39* (Macmillan, 1981), p. 3.

economic aspects of appeasement, while leaving Britain to lead the crucial political bargaining.

'Economic disarmament', therefore, aimed to reduce international tension and curb Fascist expansion by creating a comprehensive trade agreements network. Hull believed that such an agreement would ultimately force Germany to accept compromises in the economic sphere and in foreign affairs. Germany was not to be included in the final agreement network but would gradually, as a recent study has explained, be induced to reform its economic and political system.¹ Hull's trade agreements programme gained acceptance in Congress from 1934, and Roosevelt gave his general support. The two main reasons for an agreement with Britain - to undermine Imperial Preference and to advance the related policy of 'economic appeasement' - have been summarised by MacDonald:

The US believed that political stability was dependent on prosperity and that prosperity meant persuading Britain and Germany, the largest European trading powers with the greatest internal markets, to abandon trade restrictions. The increase in trade which would follow would banish the depression not only in Europe, but also in the US which would gain access to flourishing new markets.²

From 1935 tentative discussions began on the subject of an agreement with Britain, but actual negotiations did not begin until 1938 after a series of exchanges of notes. Cordell Hull had not only to convince the British that an agreement was vital, but he had also to win the support of isolationists in Congress who feared that a trade agreement with Britain might drag the United States into another European war. The 1934 Trade Agreements Act gave Roosevelt power to conclude trade treaties without Senate's approval, and he feared Congress would try to have this reversed. Roosevelt

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1. Hans-Jurgen Schröder, 'The Ambiguities of Appeasement: Great Britain, the United States and Germany, 1937-9' in W.J. Mommsen and L. Kettenacker (eds.), The Fascist Challenge and the Policy of Appeasement (Allen & Unwin, 1983).
 2. C.A. MacDonald, op. cit., pp. 12-13.

had to operate in a very different political situation from Chamberlain, who enjoyed a built-in Commons majority and muted, fragmented opposition. The relatively placid political situation during Roosevelt's first term (1933-37) was almost unprecedented in twentieth-century history... After the Supreme Court crisis of 1937... Congress reasserted its independence, conservative Democrats revolted against the growing influence of the urban/labour wing of the party, and the Republicans re-emerged in the 1938 elections. By the time the 76th Congress met in January 1939, FDR faced an effective coalition of conservatives from both parties, capable of defeating the Administration on controversial New Deal legislation.¹

Criticism in Congress of Hull's programme increased in the late 1930s, and the film issue became intertwined with the trade question in 1937-8. The need to conclude an agreement with Britain as soon as possible was a factor influencing Hull's attitude towards the American film companies' demands for concessions in Britain.

Why did the British want an agreement with America? Some politicians believed in a strategy of 'economic disarmament' too, but this differed from the American in that

Whereas until 1939 British policy was aimed at finding a 'modus vivendi' with German methods of conducting foreign trade, with the hope that this would result in their gradual liberalisation, American diplomacy, by exerting economic pressure, tried to force the Reich to return to a liberal multilateral trade system.²

The Foreign Secretary, Anthony Eden, wanted American support against Hitler in Europe and Japan in the Far East:

Eden hoped to conclude an economic agreement because this would give American farmers, particularly in the Mid-West, a 'bread and butter' interest in the survival of the British Empire and thus would be conducive to a decline in isolationist strength.³

However, the Prime Minister, Neville Chamberlain, was reluctant to abandon trade defences in return for uncertain political support. Many were sceptical about US involvement in European affairs, fearing that it might prevent rather than encourage a political settlement with the

1. Reynolds, *op. cit.*, p. 55.
 2. Schröder, *op. cit.*, p. 393.
 3. MacDonald, *op. cit.*, p. 24.

dictators, or lead to Europe's ultimate dependence on America. Eden's resignation in February 1938 was the result of disagreements with Chamberlain about relations with America as well as Italy.¹

During the film dispute Hull, encouraged by Hays, saw the conflict as a matter of principle, illustrating Britain's attitude towards trade liberalisation. He insisted that if the British refused to make concessions over film the chances of a trade agreement were slim. Such a bargaining-counter was powerful, and at this delicate stage in Anglo-American relations the possibility of trouble over film was feared by both sides and seemed likely since the British were committed to protect the film industry, while the Hays Office was determined to win the State Department's support in defence of the lucrative British market. When Lord Strabolgi spoke to the London Cinema Luncheon Club about the Films Bill in September 1937, the report of his speech showed how he recognised the potentially explosive conflict of interests:

There was no doubt that the film industry was truly international. The people interested in the subject were not anti-American at all. At the present time, there was one of the most important instruments in negotiation, foreshadowing an Anglo-American Trade treaty, which might be the beginning of the end of American isolation. Anything that would hinder it should be discouraged. One of the most important exports of America was, of course, the film. The US drew from this country 9 or 10 million pounds' revenue from the hire of films and a great deal from the British Empire. He would be the last deliberately to annoy or irritate so important a section of American industry as the cinematograph industry, and they were certainly not desirous of discriminating against America unfairly or unduly. At the same time, they must look to the other side; and they thought it was highly desirable and necessary for Imperial and National reasons that there should be a flourishing industry in this country.²

Just as the 1927 Films Act was instrumental in the debates on tariff policy before free trade was abandoned in 1932, so its successor played a part in Anglo-American political and economic relations when both sides were threatened by the escalating European crisis.

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1. N. Rose, 'The Resignation of Anthony Eden', Historical Journal, 25, No. 4, 1982.
 2. To-day's Cinema, 23 September, 1937.

3. The American Film Companies' Quota Campaign

Although the State Department had been contacted by the Hays Office about conditions in Britain in 1933, the situation was considered to be serious only after the publication of the Moyne Report at the end of 1936.¹ Fearing that the Moyne Committee's recommendations might form the basis of the new quota legislation F.W. Allport, a former US commercial attaché in Paris and the European manager of the Hays office based in London, sent a memorandum to J.C. Dunn, chief of the State Department's Western European Division, in January 1937, interpreting most of the Moyne Committee's proposals as anti-American. Will Hays thought that the KRS, the only British trade body with American representation, had been unfairly treated in the final Report. Allport's memorandum defended the American renters against the charge that they had deliberately made or sponsored 'quickies' to discredit the British film industry. It argued that the British combines prevented the US renters from distributing the best British films: 'the American renting companies are forced to duplicate the combined output of all British producing companies with only the residue of the latter's artistic and technical resources'. The Moyne proposals for a high quota, an independent Films Commission, vigilance over companies' financial control, the viewing test and the suggestion of a Film Bank, were seen as serious threats to American interests in Britain:

If the recommendations of the Moyne Report were to be embodied in a renewal of the Films Act, the American renting companies would not only be required to fill a larger though unpredictable quota, but would be forced to do so with no assurance whatever that the pictures they spend money to produce... will be accepted. It is apparent that to attempt to operate successfully on a commercial basis in the face of such uncertainties is not... possible.

1. For the 1933 memorandum see RG 59, 500. S1, Agenda 77, Hays to State Department, 26 April, 1933 (National Archives, Washington D.C.).

This document was intended as a draft brief for the American Ambassador in London, Robert W. Bingham, and as a first plea by the Hays Office for State Department aid over the prospective Films Bill. At this time Walter Runciman, the President of the Board of Trade, was in America on an unofficial visit. In November 1936 the State Department had submitted to the British a list of desired commercial concessions to determine whether a basis existed for formal negotiations for a trade agreement. Runciman was not convinced that Britain should endanger links with the Commonwealth in an attempt to pursue better relations with the US. The 'essential demands' submitted by the US were designed to undermine Imperial Preference. Despite his policy of concluding bilateral trade agreements - usually with countries that exported more to Britain than vice-versa - by January 1937 Runciman was becoming more interested in the possibility of a trade agreement with the US. It was hoped that the visit might be the start of more cordial relations between the two countries over broader trade issues.¹ The film dispute coincided with a desire on both sides for greater co-operation. Will Hays contacted Cordell Hull and asked him to try to broach the film question if the occasion arose.² It seems that it did not, but it is significant that Hays did not miss the chance of trying to exploit the occasion for his own ends. Hull's reply to Hays made it clear that he took the film industry's plight seriously: 'I can assure you that if the opportunity arises I shall be glad to bring the difficulties of the industry to the attention of Mr. Runciman'.³ However, relations between Hull and Runciman were still clouded by "a legacy of suspicion and frustration". Runciman was reluctant to abandon Imperial Preference and refused to accept Hull's criticisms of British trade policy. As MacDonald has commented:

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1. Tony McCulloch, 'Anglo-American economic diplomacy and the European Crisis, 1933-39', Oxford D.Phil. 1978, Chapter 5.
 2. NA, 841.4061/MP/40, Hays to Hull, 22 January, 1937 (National Archives).
 3. NA, 841.4061/MP/38, Hull to Hays, 23 January, 1937.

In economic, as in political relations, the major criticism of the US was that it demanded too much while offering too little. Washington seemed determined to increase its foreign trade by attacking Imperial Preference without making sufficient reciprocal concessions which would assist British exports by reducing the high American tariff wall.¹

Early in February 1937, the US Chargé d'Affaires in London, Ray Atherton, forwarded the Hays memorandum to J.M. Troutbeck, head of the American department of the Foreign Office.² By this time the State Department had decided to back the American renters' claims. In mid-January the US Embassy in London had been instructed to give all possible assistance to Fay Allport who had been sent to London specifically to initiate discussions with the British Government about impending film legislation.³ The Foreign Office thought that the American case was 'sound', and passed the document on to the Board of Trade for advice.

In March, Patterson, a Board of Trade official, replied to Troutbeck. The Board of Trade advised the Foreign Office that Atherton should simply be told that the memorandum was receiving attention. Patterson did not take the veiled threats of American retaliation in response to increased protection for the British film industry seriously because, he argued:

after all, in spite of what they regard as our attempts to crush them out of existence, the American renters in this country still hold 75% of the UK market and manage to remit some £6 million to their principals in the States every year. On the other hand, our net revenue from exhibitions in the States is still small - probably not £500,000 a year.⁴

Most British films were not distributed in America, and when they were, as in the case of London Films, the returns were disappointing. Only

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1. MacDonald, *op. cit.*, pp. 21-22.
 2. PRO, FO 371/20669/A 878, Atherton to Troutbeck, 2 February, 1937.
 3. NA, 841.4061/MP/34, State Department to US Embassy, London, 15 January 1937.
 4. PRO, FO 371/20669/A 1714, Patterson to Troutbeck, 1 March, 1937.

Henry VIII grossed large profits in America, a point made by Tino Balio in his study of United Artists:

Of the ten pictures Korda delivered to the company after Henry VIII, only one, René Clair's The Ghost Goes West, could be considered a success... His two H.G. Wells fantasies, Things to Come and The Man Who Could Work Miracles, which cost £350,000, failed completely. Korda blamed United Artists... In truth, United Artists found it difficult to market British productions...¹

The Americans argued that British films did not do well in America because they were not as good as the Hollywood product. Probably the most important factor was, however, American commercial practices:

In effect, the United States became virtually a closed market, with vertical integration and horizontal cooperation assuring that theatres would exhibit products of the major Hollywood companies first, and those of independents second. The small number of foreign films played mostly in metropolitan centres.²

Thus American pictures did not need the protection of quota legislation at home against foreign competition. Although many argued that films with British themes were parochial without international appeal, pictures about English history and traditions often did well in America. In the 1930s historical films, however, made up only a small percentage of British producers' output. Herbert Wilcox concluded, after success in the States with Victoria the Great:

It is... a profound mistake to produce international pictures. We cannot compete with Hollywood's elaboration in musical subjects, and the true international value of our films lies in their being essentially British in subject and setting.³

Hull indicated his interest in the film issue when he wrote to the US Embassy in London in March:

At this time both Great Britain and the US are hopeful of worldwide trade liberalisation and are likewise hopeful that trade between the two countries themselves may be placed

1. Tino Balio, United Artists (University of Wisconsin Press, 1976), p. 144.
2. T.H. Guabck, 'Hollywood's International Market' in The American Film Industry, ed. T. Balio (University of Wisconsin Press, 1976), p. 391.
3. Kinematograph Weekly, 19 August, 1937, p.3.

upon a more liberal foundation, I would view with considerable regret any move which would lay greater burdens on an American interest as important to us as the motion picture industry.¹

On 19th March talks took place between Bingham, Allport, Atherton, Troutbeck and representatives from the Board of Trade. After the British made it clear that the quota would not be abandoned, the Hays Office concentrated on suggesting conditions under which restrictive film legislation would be tolerated by the American companies. The Hays Office had accepted the idea that although some form of protection was inevitable, changes could be insisted upon to minimise the threat posed to American interests. The specific points that the Hays Office wanted to see in the new Films Act were a renters' quota of not more than 10%; a cost test; no quota for short films and a clause that would permit companies to employ more foreign labour on British quota films.

When the British film trade met in April to discuss quota legislation, the Americans were annoyed at the FBI's 'blockading tactics' of trying to force them to agree to reciprocity. Fay Allport had attended the first meeting and Major Herron sent a copy of his report to Dunn at the State Department. Herron said that the producers' demand

establishes a new angle in trade relations between Great Britain and the US, and if they feel they can apply this to American motion pictures it is just possible that our Government may feel that they could apply the same procedure to British commodities or British investments in the US.²

In fact as the debates went on, the Americans began to accept reciprocity, but this was only in lieu of quota concessions. Further pressure was applied in April, when the American Ambassador held a luncheon for Allport and Sidney Kent, President of 20th Century Fox. The latter made an appointment to see Dr. Burgin so that he could defend the American position.

1. NA, 841.4061/MP/42, Hull to US Embassy, London, 16 March, 1937.
2. NA, 841.4061/MP/47, Herron to Hull, 26 April, 1937.

On 2nd June, a second informal approach was made by Atherton to Troutbeck, and another memorandum was submitted to the Foreign Office.¹ Since the British film trade could not produce a set of proposals the Board of Trade announced its own recommendations for film legislation on 11 June.² The Americans argued that a 20% quota was too high, but were relieved that there was not to be a Films Commission or a quality-viewing test. The US renters liked the idea of double quota for films costing over £45,000. The 'shorts' quota was not received well by the Americans, and at the meeting between US representatives and British officials to discuss the proposals, the Americans reiterated their previous demands.

Although relations between the two sides were fairly cordial, the differences in emphasis in the American and British proposals could not easily be reconciled. On 18 June, Herron sent a copy of an Allport cable to Dunn, informing him that

British officials are now thoroughly conversant with our position and are apparently not unsympathetic toward it. The principal opposition to the desired modifications of the Board of Trade's proposals comes from the top officials in the Board of Trade, who for reasons of political expediency are reluctant to introduce a more favourable measure, although admittedly desirable itself... we should now bring influence to bear directly on Stanley, if possible, and on the Cabinet as a whole through the Foreign Officer or otherwise, which only the Embassy can do.³

Influence was indeed brought to bear on the Foreign Office when Bingham called to see Anthony Eden on 15 June. Eden was sympathetic to the American viewpoint, and Bingham approached him with this in mind. Eden wrote to Sir Ronald Lindsay, the British Ambassador in Washington, the next day informing him that Bingham had said that

Proposals such as were now contemplated by us were of a serious and far-reaching character. They would inevitably be regarded in the US as a backward step from the policy of reducing the barriers to international trade, which Mr. Hull

1. PRO, FO 371/20669/A 4024, Atherton to Troutbeck, 2 June, 1937.
 2. See Chapter 5.
 3. NA, 841.4061/MP/53, Herron to Dunn, 18 June, 1937.

had so much at heart. The Ambassador therefore much hoped that before they were put into effect HMG would give them further consideration bearing in mind the representations he had made to me on instructions from the US Government.¹

Eden was particularly keen for a trade agreement with the US. He was, therefore, ready to respond to Bingham's case against film quotas. Although the decision as to whether formal negotiations would begin for an Anglo-American trade agreement had not yet been taken, the Imperial Conference had met in London in May and the Dominions had agreed in principle to a modification of some imperial preferences to facilitate an agreement with America. Eden hoped to persuade Chamberlain to press for closer collaboration with the US, and it is in this context that the Foreign Secretary's interest in the film issue should be considered. He felt that conflict over film should be avoided so that more important issues would not be prejudiced. On 10 June, Chamberlain had received an invitation from Roosevelt to visit Washington 'to coordinate the British and the American approaches to appeasement'. Chamberlain refused Roosevelt's proposals and would not allow Eden to go in his place. The Americans failed to obtain British support, and were concerned that the 'extremists' in Germany were gaining undue influence in the Reich.²

On 24 June Bingham called on Eden for a second time. he left a note for Eden to show to the Cabinet.³ On 13 July, Holman at the Foreign Office wrote a minute showing that the American grievances were being considered seriously by the Foreign Office. The Board of Trade had been asked to submit draft replies to the US representations, but these had not yet been received. This is consistent with the pro-American attitude at the Foreign Office, and Holman wrote that in his opinion the Secretary of State should obtain an assurance that American views were being considered, especially as the US Ambassador was likely to raise

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1. PRO, FO 371/20669/A 4337, Eden to Lindsay, 16 June, 1937.
 2. MacDonald, *op. cit.*, pp. 28-30.
 3. NA, 841.4061/MP/55, Bingham to Hull, 25 June, 1937.

the matter again.¹ At the end of this stage the Foreign Office was taking the claims of the American renters seriously, but the Board of Trade continued to be sceptical about Hull's desire for a trade agreement, and recognised the danger of allowing the European crisis to be exploited by him to dismantle Imperial Preference. As Troutbeck had put it in April: 'however great the importance of having a friendly America, a friendly Empire is of greater importance still. We cannot destroy the Commonwealth for the beaux yeux of the Middle West'.²

When the White Paper was published at the end of July Allport wrote a memorandum commenting on each of its proposals.³ The main point was that American companies should be allowed to produce expensive films in Britain in exchange for quota concessions. Thus he argued that the double quota clause should be extended to encompass triple quota:

Competent observers are of the opinion that if, through the operation of the quota law as amended, the American companies were to come into the market in GB for the studio space, equipment and technical services necessary to produce a reasonable number of films of the type suggested, it would put an end immediately to the present severe crisis that prevails in the larger studios, would unfreeze the present frozen channels of film finance, and would give the stimulus to British production as a whole without which recovery from the present crisis may prove impossible.⁴

Allport argued that the reciprocity proposal should also be extended so that it was worthwhile for American producers to distribute British pictures in the States. In other words, the cash incentives were not considered to be extensive enough for the US renters. Allport was, however, quick to point out the financial advantages of expanding the multiple quota credit clause.

Oliver Stanley began to argue that the British interest in film was cultural as well as commercial whereas the American attitude was

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1. PRO, FO 371/20669/A 5070, minute by Holman, 13 July, 1937.
 2. MacDonald, *op. cit.*, p. 25, PRO, FO 371/20651/A 2378.
 3. PRO, BT 64 90/7323/37, Allport memorandum sent to Fennelly 29 October, 1937, dated 3 August, 1937.
 4. *Ibid.*, pp. 9-10.

that it was purely an industrial commodity. This formed the basis of the British argument against the inclusion of film quotas in the forthcoming trade agreement negotiations. When Stanley wrote to Eden on 20 July he stressed out of expediency that cultural questions were essential to the British case for protection, and he thought the White Paper did meet some of the American demands, particularly regarding the double quota clause and the reciprocity option.¹ Stanley sent a confidential memorandum via Eden to Bingham on 30 July arguing that

On the whole, it is felt that an examination of the White Paper will show that every effort is being made to see that the achievement of the primary purpose of the proposed legislation, that is the maintenance of a British film industry, should not result in any hardship on any class of persons carrying on business in this country or impose any impediment to trade with other countries. It is felt important as a matter of national policy that cinema-goers in the UK should be given the opportunity of seeing some proportion of films in which they can expect to have portrayed the manners and life of their own country. But it is thought impossible to sustain a charge that the proposals of the Government involve the showing of an undue number of British films so that the proposals are calculated to injure the trade of any other country.²

The differences between the American and British viewpoints on whether film was a matter for international trade bargaining, or purely an internal cultural matter, were becoming increasingly marked. They formed the background to the more superficial debate about the legislation's details. They were, ultimately, crucial as the Board of Trade's argument helped it exclude film quotas from the trade agreement negotiations. As far as legislating for the film industry was concerned, as we have seen, the Board of Trade tended to treat it as an industry, and paid little attention to cultural considerations or ensuring that the films portrayed British 'manners and life'. In negotiating terms however, it proved fruitful and expedient to imply that the Government was concerned about cultural aspects.

1. PRO, FO 371/20669/A 5176.

2. NA, 841.4061/MP/63, Stanley to Bingham, 30 July, 1937.

In October the Films Bill had its first reading in the Commons. At the end of the month the New York Times reported that Hays had lunch with Roosevelt in New York and foreign quota restrictions were discussed:

In that connection Mr. Hays praised the State Department for its 'very fine' attitude toward motion pictures in negotiating reciprocal trade treaties, and expressed a hope that the proposed treaty with Great Britain might work for the reduction of quota restrictions by that nation.¹

At the beginning of November Allport met the US renters to discuss the next stage of their campaign. As we have seen in the previous chapter, the British trade groups were busy devising schemes like the separation of quotas. Allport was alarmed when this 'eleventh hour' proposal seemed to be receiving a considerable amount of attention and publicity, and because the FBI had the trade unions' support. He wrote to Hays:

I felt that this matter should be brought to your attention as promptly as possible, since it necessitated in effect the abandonment of our own attempt to obtain the desired amendments to the quota Bill through the cooperation of the FBI, and may eventually require us to alter not only our entire basis of procedure in this respect, but, perhaps, the specific objectives towards which we were working as well... Ordinarily, so radical a proposal at the eleventh hour would stand little or no chance of receiving serious consideration by the Government or Parliament. In this case, however, where the two controlling elements in the situation - the FBI and the labour groups - join hands, it is not impossible that they may be able to carry their point.²

Although the proposal did not succeed and Allport need not have feared for the American interests, the incident shows how he was in constant touch with Hays and that the situation was precarious because the British trade groups were lobbying for their own demands. Will Hays wrote to Hull about these recent developments and claimed that the US industry was considering retaliatory measures. Hull was alarmed and

1. New York Times, 29 October, 1937.

2. NA, 841.4061/MP/68, Allport to Hays, 6.

wrote to the American Embassy in London that the British Ambassador in Washington had been told:

We are now on the eve of trade negotiations, the importance of which cannot be over-emphasised... such negotiations cannot but be limited if either Government should take irrevocable action involving items of trade which are certain to come under discussion during the negotiations. This is the more important when there is involved an item of such outstanding importance as motion pictures.¹

During the second half of 1937 three events prompted the State Department to make further attempts to encourage a European diplomatic settlement: the Far Eastern crisis, the intensification of the economic recession in Britain and the US and the Anti-Comintern Pact.² On 18 November, after an exchange of the 'demands' both countries considered important in a trade agreement, the State Department announced that formal negotiations would be opened in 1938. The Americans wanted concessions on agricultural goods, but their list also included 'non-Ottawa' industrial items. Motion pictures were on the list, although the British had not agreed to their inclusion. These began in February 1938, and it was not until April that the Americans finally gave up the idea of including discussions about film quotas in the trade agreement. The Hays Office took the opportunity, throughout the negotiations, to threaten that restrictions on American films in Britain might endanger the success of the trade negotiations because the Films Bill represented discrimination against an important item of American trade at a crucial time for Anglo-American political relations.

On 4 November the Films Bill had its Second Reading in the Commons.³ The Americans feared that during the Committee stage Oliver Stanley might be forced to accept pro-British amendments, e.g. a Films Commission and the abandonment of the double quota. Hull urged the

1. NA, 841.4061/MP/70, Hull to US Embassy, London, 10 December, 1937.
 2. MacDonalld, *op. cit.*, Chapters 3 and 4.
 3. Parliamentary Debates (Commons), Vol. 328, Cols. 1159-1276, 4 November, 1937.

American Embassy to step up the pressure, and wrote that the Department was doing all it could in Washington:

We know you are doing all you properly can and the Hays Office has expressed keen appreciation of your work. Feeling that an approach from this end might be helpful Mr. Sayre talked with Ambassador Lindsay yesterday pointing out again the importance of this industry and the possibility of adverse effects of additional restrictive legislation just on the eve of the trade agreement negotiations.¹

Francis Sayre, the Assistant Secretary of State, shared Hull's view that the trade agreement should not suffer because of a dispute over film. When Sayre spoke to Sir Ronald Lindsay, the British Ambassador in Washington who was also keen for an Anglo-American trade agreement, he listed the Hays Office representations. On 29 November Hull wrote to Herschel Johnson, the US Chargé d'Affaires in London, and explained that Hays was worried about anti-American amendments to the Bill during the Committee and Report stages. Hull felt that the dispute had reached a dangerous stage and advised the Embassy to make representations to the British Government immediately. The text of the representations was sent to London, and a memorandum was left at the Foreign Office on 3 December pointing out that the Americans were keen to discuss film in the trade agreement negotiations, but

New legislation now under consideration would materially alter the 'status quo' with regard to the treatment accorded by the British Government to this particular industry. It has been the purpose of the American Government to seek the maintenance of the 'status quo' in connection with any trade agreement items... My Government feels that it would be very unfortunate if irrevocable legislation were adopted by the British Government which would preclude the possibility of discussing this important item in the British-American trade.²

When Herschel Johnson handed the memorandum to Vansittart at the Foreign Office he said that although the State Department did not want to become the film industry's spokesman, it backed the industry's claims because of the principle involved - limiting the field of negotiation in the

1. NA, 841.4061/MP/70, Hull to US Embassy, London, 21 November, 1937.
2. *Ibid.*, Hull to Johnson, 29 November, 1937.

trade agreement by prior British legislation.¹ On 9 December Sayre told Hays that the US Government wanted to get concessions for the industry in the trade agreement, and that the Embassy in London was taking the matter up with the British Government.² The next day Hays saw Hull and explained to him 'the very serious view which the industry takes with regard to British film proposals'.

Mr. Hays told me of the difficulties he is experiencing in keeping the industry from embarking upon a press and film campaign which would bring out the true facts involved in this whole situation. Of course we realize that once a campaign were launched even the industry itself would have no control over the extent to which it might be taken up by opponents of this trade agreement program and others.³

Hull was impressed by the American film industry's case, but perhaps even more feared that the industry would conduct an anti-British press and newsreel campaign that might play into the hands of critics of 'economic appeasement'. The latter argued that an agreement with Britain would increase the likelihood of American involvement if a major European war broke out. Hull's interest in the film dispute is, therefore, bound up with his desire for an agreement over trade. As Schröder has commented, the latter became the keystone of Hull's policy:

For the American government the Trade Agreement with Britain was not only the logical follow-up to its foreign trade policy; it was regarded as the climax of Washington's foreign policy, in particular as far as relations with Germany were concerned. In March 1937 US Under-Secretary of State William Phillips had already described a trade agreement of this kind as the most important step the State Department could at that time take in foreign affairs. Assistant Secretary of State Sayre also interpreted the Agreement as an outstanding American contribution towards economic and political stabilisation.⁴

Allport had formulated amendments to the Films Bill, and these were sent to Sir William Brown, the Permanent Under-Secretary at the Board of Trade. The most important were triple quota credit for films

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1. PRO, FO 371/20669/A 8773, Johnson to Foreign Office, 2 December, 1937.
 2. NA, 841.4061/MP/80 A.
 3. NA, 841.4061/MP/70, Hull to Johnson, 10 December, 1937.
 4. Schröder, *op. cit.*, p. 394.

costing four times the minimum; the employment of up to four non-British technicians on multiple quota credit films; the abolition of the 'shorts' quota; American representation on the Advisory Committee and that penalties for booking offences should fall on exhibitors as well as on renters.¹ Williamson, the Second Secretary of the American Embassy in London, and Allport met Brown who had promised to inform Stanley of the American demands. Johnson and Allport urged caution at this crucial stage. Johnson told Hull that

Allport is anxious that nothing more be done for the moment, fearing that further representations at this time would 'get their backs up' and jeopardise the intricate negotiations he has carried on with Brown.²

Johnson thought that Hays had over-reacted and that the prospect of impending legislation was not all bad: 'so far no amendment detrimental to the American industry had been adopted'.

When Sayre saw Lindsay he was told that as far as the British were concerned the film issue had nothing to do with the trade agreement negotiations. Hull would not accept this position:

Motion pictures were included in the non-Ottawa list which we submitted to the British, and they have certainly been on notice that we would expect to include motion pictures in the trade agreement negotiations.³

Lindsay reported his interviews with Sayre to the Foreign Office and urged restraint:

The American industry has great power to influence public opinion here but whether it will be prepared to use it on a large scale and so alienate sympathies in the UK whence it draws such vast profits is a point on which I am dubious... It is unnecessary for me to urge that the industry be given the fullest fair treatment in pending legislation. I do urge that you give careful consideration to representations about to be made and that you answer fully not only the points made by the Embassy but if necessary those made by the industry... the State Department will I think be anxious to answer criticisms raised here in Congress and elsewhere, but

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1. NA, 841.4061/M/86, US Embassy London to State Department, 10 December, 1937.
 2. NA, 841.4061/MP/81, Johnson to Hull, 11 December, 1937.
 3. Ibid., Hull to Johnson, 13 December, 1937.

the only ammunition it will have will be what you supply to the US Embassy.¹

Although threats to damage Anglo-American relations by the film industry could not be proved at that time, both sides preferred not to take chances.

Herschel Johnson informed the State Department on 14 December about a serious dispute over tactics between Allport and Hays. Allport claimed that Hays - who later denied the charge - alleged that the British Ambassador in Washington had been warned by the State Department that unless the Films Bill was suspended the Americans would not open negotiations for a trade agreement. Hays was annoyed that Allport had not pressed harder for concessions and he tried to arouse Allport by telling him this story. Allport was astonished at Hays' ungrateful attitude and impetuous comments. Johnson agreed with Allport that the negotiations with Brown had been fruitful and that if the Americans had pushed harder the whole issue might have exploded.² The State Department, anxious to dissuade Hays from extreme action for political reasons, sided with Allport. Sayre wrote to Hays and urged caution:

It is my understanding that for the most part your industry has found the proposed legislation to be generally acceptable apart from a few specific provisions which you have felt would, if they were adopted, place your position in Britain in serious jeopardy. You told me when you were here that it is the industry's purpose to be reasonable and to go along with the British situation in so far as is practicable and feasible. In the light of the history of the whole case it would seem that the taking of too extreme a position now might prejudice your case.³

Sayre had been told by Lindsay that film legislation was a matter of internal regulation of an industry and was therefore outside the scope of the trade agreement. Hull did not accept this argument so the film and trade issues continued to be inextricably linked.

1. PRO, FO 371/20669/A 8988, 13 December, 1937.
 2. NA, 841.4061/MP/82, Johnson to State Department, n.d.
 3. *Ibid.*, , Sayre to Hays, 14 December, 1937.

The Board of Trade, anxious to appease the Americans and to attract US finance for British film-making, was prepared to accept some American amendments. The most important was triple quota credit for films costing over £60,000 in total (£30,000 in labour costs).¹ Even so, Stanley was mistrusted by the Americans because he was vulnerable to pressure in Parliament from British trade interests. By the end of 1937 the Hays Office campaign was fraught with difficulties. The trade press had learnt of US Embassy's actions and the threat to the trade agreement. Stanley had been forced to declare in the Commons that the action of the British Government was not hampered by pressure from foreign governments.² Herschel Johnson was annoyed about the leak to the trade press and wrote to the State Department:

This publicity came at a most inopportune moment, as it added one more to Mr. Stanley's many difficulties in connection with the Films Bill. The Embassy feels it should point out that it is just possible that, in trying to extricate himself from the political difficulties... Mr. Stanley may suddenly be impelled, in order to save his face, to take some firm stand on the question of the renters' quota... which may result in the framing of a Bill unsatisfactory to the American industry.³

The Americans felt vulnerable at the end of 1937 and feared an amendment raising the renters' quota percentage. However, the Board of Trade had already shown its willingness to be lenient towards the American demands and the chances of the triple quota clause being included in the Act were good. The Board was trying to reconcile three conflicting objectives: protection for the native film industry, a continuing supply of American films for British screens and Hollywood investment in British films. This dilemma gave Allport scope for bargaining, but made the Bill's Parliamentary career complicated.

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1. NA, 841.4061/MP/85, US Embassy, London to State Department, 14 December, 1937.
 2. Parliamentary Debates (Commons), 21 December, 1937, Vol. 330, Col. 1763.
 3. NA, 841.4061/MP/88, 17 December, 1937.

The Board of Trade's draft reply to the memorandum left by Johnson at the Foreign Office on 3 December was sent to F.T. Ashton-Gwatkin on 7 January 1938 and passed to Johnson on 13 January. It explained that there was no question that the legislation should be withdrawn because

HMG have never considered the position and influence of the UK film industry as primarily an industrial question; they feel it essential as a matter of national policy, that cinema-goers in the UK should be given an opportunity of seeing some proportion of films in which they can expect to have portrayed the manners and life of their own country.¹

The memorandum defended the right to protect the British film industry, but at the same time gave an assurance that Allport's amendments would be considered. No mention was made of the trade agreement negotiations. By that time the Foreign Office, influenced by Chamberlain, began to relax and believe that the film dispute would not have a serious effect on the trade negotiations. Holman's minute of 11 January made this point:

Personally I should think that the US film industry, who are being given a very fair deal, are simply trying to bluff and attempting to improve their position by frightening us with the possible failure of the Anglo-American trade discussions if their demands are not met. I cannot imagine for one moment that the US Government would allow the negotiations to break down on the film issue, nor do I think that having so much to lose the US film interests would ever dare to take retaliatory action... we should hold firm.²

At that time the Americans were very keen on closer relations with Britain. The trade agreement negotiations were to begin formally in February, and on 12 January Roosevelt proposed that an international agreement would ensure world peace. The plan involved a meeting of the smaller powers in Washington on the initiative of the Americans, and new rules of international law would be established as well as agreements on arms limitation, tariff reductions and equal access to raw materials. Roosevelt wanted British approval before he began the initiative.

1. PRO, FO 371/21530/A 175, Brown to Ashton-Gwatkin, 7 January, 1938.
2. Ibid., Holman's minute, 11 January, 1938.

Chamberlain gave the plan a cool reception without Eden's knowledge.¹ The Foreign Office's firmer stance on the film issue therefore was consistent with the Chamberlain's attitude towards American cooperation. The State Department was still under severe pressure from the Hays Office to insist that motion pictures should be discussed in the trade talks. The Department was willing to do this because it temporarily took the emphasis off the Films Bill and therefore was a way to pacify Hays.

On 12 January Hull sent Johnson the list of '14 points' submitted by Hays. These show what the Hays Office hoped to gain in the Committee stage of the Bill, and also how far the State Department supported the campaign.² Johnson sent them to Eden on 16 February to be passed on the Board of Trade for comment. The '14 points' were that for the first year of the new quota Act the percentages should be 10%, 'and under no circumstances exceed 12.5%, and should be decreased each year thereafter until completely eliminated'; that the renters' quota should not exceed the exhibitors'; that quota films could be used by both renters and exhibitors; that there should be no 'viewing test'; that multiple quota credits should be given to expensive films; that one quota credit should be given for each British non-quota film acquired for distribution in countries outside the British Empire for not less than £10,000; that one more quota credit in addition to the usual credits should be given for each film produced or acquired for world distribution and costing not less than £4 a foot in labour costs; that quota credits should be freely transferable; that the definition of a British film should be altered to permit the employment of more foreign labour on quota films; that the quota reduction granted to exhibitors until March 1938 should be extended to renters or the current Act extended for another year; that there should be no 'shorts' quota or Films Commission; that if a 'shorts' quota was instituted there should be no quality test and that

1. Reynolds, *op. cit.*, pp. 19-20.

2. NA, 841.4061/MP/91, Hull to Johnson, 12 January, 1938.

the quota percentages should be the same for renters and exhibitors and finally that the definition of a British film should include films made in the Empire. These points were an extension of Allport's demands, but this time the State Departemnt backed them decisively.

Allport discussed the 'points' unofficially with Sir William Brown. Some of the demands could not be granted - the abolition of the 'shorts' quota, the foreign labour requirement and decreasing quotas - but Brown was optimistic about the triple quota and reciprocity. He even indicated that the quota might remain at 15% for the duration of the trade agreement. However, the Americans continued to be suspicious of Oliver Stanley's vulnerability to pressure from the British trade groups:

Mr. Stanley considers himself to be in a tight political spot as the sponsor of this unpopular Bill. If it appears various proposals are disliked by different parliamentary groups... and Mr. Stanley consequently gives the impression of being unusually receptive to suggestions from any quarter, it would be a mistake to under-estimate the political influence of these groups whose interest in the Films Bill is based on their concern at the cultural influence of films. Many of these are... not particularly interested in the purely trade aspect of the film problem.¹

Johnson recommended that the Foreign Office should be contacted to put pressure on Stanley, but at the same time warned that any representations should be secret so that his difficulties in Parliament should not be increased.

At the end of January Hull declared that the American position was as follows:

We are now on the eve of trade agreement negotiations and the British Government cannot ignore the fact that motion pictures will necessarily be an important item of discussion... We do not accept as valid a refusal to take action based on the recent adoption of legislation in Great Britain. It seems to us that there would be only two satisfactory alternatives in this matter: (1) if any legislation is adopted prior to the trade agreement negotiations such legislation should come reasonably within the limits of our trade agreement demands or (2) the enactment of new legisla-

1. NA, 841.4061/MP/96, Johnson to Hull, 18 January, 1938.

tion should be delayed until such time as to afford full opportunity for discussion between the two trade agreement delegations or preferably by Ambassador Kennedy with the appropriate British authorities in London.¹

The new Ambassador to Britain was Joseph P. Kennedy, who after some delay arrived on 1 March. Kennedy had experience in the film business, as in 1919 he had invested in a chain of New England theatres. In 1926 he purchased the Film Booking Office of America Inc., a British-owned company that had run into financial problems, and began a series of low-budget productions. He had been persuaded by Hays that the film industry was a good source for investment, and in 1927 Kennedy invited Hays to contribute to a series of lectures he had arranged on the film industry at the Harvard Business School. These talks were reproduced in a book edited by Kennedy, The Story of the Films, published in 1927. Kennedy's most important role in the history of the American film industry was his part in the formation of the 'major' RKO-Radio. Taking advantage of the coming of sound, Kennedy instigated a series of mergers involving RCA, Westinghouse and General Electric. These were large sound-equipment companies that absorbed the Keith-Albee-Orpheum cinema circuit and Kennedy's company, the Film Booking Office. The result was the RKO-Radio company, a vertically integrated concern. After the merger was completed Kennedy left the motion picture business 'perhaps \$5 million richer'.² Hull was optimistic that Kennedy would use his experience and contacts in an attempt to resolve the film dispute.

Before he left Washington to take up his new post, Kennedy called on Lindsay on 1 February. Kennedy suggested that the films legislation should be postponed until he reached London. Lindsay informed London that Kennedy said

1. Ibid., Hull to Johnson, 31 January, 1938.

2. Richard J. Whalen, The Founding Father. The story of J.P. Kennedy (NAL World Book, 1964), p. 99. In 1936 Kennedy advised Paramount on finance, and then RCA.

United States industry in his view has asked for many concessions which should be flatly refused, but at present it draws large profits from Great Britain and it must realise that if it is to maintain anything like its present position it must pay for its footing... Kennedy knows the industry well and would be able to exercise great influence on American film managers. With his great energy and resourcefulness he would be at his best in attacking a complicated and difficult task like this and might well do wonders. Time element is the only factor which rouses my doubts and but for it I should urge the Board of Trade quite unhesitating to delay till Mr. Kennedy can have a try.¹

The State Department was prepared to back the industry's claims but not without reservations. When Sayre sent Johnson the Department's comments on Hays' '14 points', he wrote an accompanying note expressing doubts as to how far the US Government should go in its support of the film interests:

The position taken in this telegram commits the State Department to backing to a large degree the complaints of the moving picture industry. I do not have too great confidence in the leaders... and would regret to see the State Department too thoroughly committed to battle for the claims of the industry. On the other hand, Mr. Kennedy is prepared to take up cudgels on their behalf as soon as he reaches London.²

On 2 February, Johnson saw Sir Alexander Cadogan, the Permanent Under-Secretary at the Foreign Office. He left a memorandum stating the American position: either the legislation should be altered so that it was 'consistent with the trade agreement proposals' or the Bill's passage should be delayed. The Foreign Office was not sympathetic to the latter course of action even though Lindsay had recommended it. A telegram was sent to Lindsay reassuring him that 'certain amendments' would be passed to meet some of the American demands, e.g. triple quota credit and reciprocity concessions, and even that more foreign personnel might be allowed to work on multiple quota credit films. This was confidential information, and shows how far the British were prepared to

1. PRO, BT 64 91/6181/38, Lindsay's telgram no. 104, 1 February, 1938.
 2. NA, 841.4061/MP/100, Note by Sayre, 1 February, 1938.

go to appease the Americans. The end of the telegram illustrates the delicacy of the situation well:

This detailed information is for use in conversation with Mr. Kennedy at your discretion but he should be informed that it would be extremely embarrassing if news of these proposals reached either the industry here or the press before the President of the Board of Trade had had an opportunity to mention them either in Standing Committee... or in the Commons on the Report stage of the Bill. You should also bear in mind that any suggestion here that HMG were in receipt of formal representations from the US Government on the subject of the Bill while it was still under consideration by Parliament might well destroy any sympathy in Parliament for the proposals and might have a serious effect on the attitude of Parliament towards the impending trade negotiations.¹

On 3 February the Foreign Office sent a copy of the American plea for a delay on the Bill to Fennelly.² The reply to Lindsay, with its assurance that pro-American amendments would be proposed, was used as the basis of the formal British response. Johnson sent the British memorandum to Washington on 10 February.³

Lindsay had called on Pierrepont Moffat, the chief of the State Department's Division of European Affairs, on 9 February. He told Moffat the Bill could not be delayed until Kennedy's arrival in London. Moffat reported the conversation:

I told Sir Ronald that I was exceedingly disappointed... He replied that of course the industry would make out that it was seriously injured... He went into a long argument on the reason why one could not make a comparison between items of trade having a cultural interest and other items of purely mercantile value... I said that I would of course report what he had said to Mr. Hull, and would also tell Mr. Kennedy... the effective removal from any possible inter-governmental discussions of our principal non-agricultural export must in the nature of things affect our attitude toward some of their exports to us.

He shrugged his shoulders and said 'it was too bad'.⁴

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1. PRO, FO 371/21530/A 791, Telegram no. 105 to Lindsay, 7 February, 1938.
 2. PRO, FO 371/21530/A 833.
 3. NA, 841.4061/MP/103, Johnson to Hull.
 4. NA, 841.4061/M/107, memo. of conversation between Lindsay and Moffat, 9 February, 1938.

At this point an embarrassing incident illustrated the frustration felt by many at the US Embassy in London because of the film conflict. David Williamson, the Second Secretary of the American Embassy, made a speech at a dinner given by the Research and Discussion Committee of the English-Speaking Union at Dartmouth House. Williamson declared:

It is very difficult for my Government to negotiate a trade agreement with a country that passes a Bill like the Cinematograph Bill.... such an action makes Cordell Hull's policy almost impossible to carry out.¹

The Americans believed that the film dispute showed that Britain was still reluctant to come to an agreement over trade. When Johnson saw Alexander Cadogan early in February he intimated that if the film problem came to 'a satisfactory solution' the Americans would be surer of British support for Hull's aims for trade liberalisation and 'economic appeasement'.² Therefore when the Americans received the British reply to their representations they were unsatisfied and sent Hays' '14 points' on 16 February. The Foreign Office held firm and thought that the State Department was under severe pressure from the Hays Office and Alexander Cadogan wrote: 'I can't help feeling that the State Department is doing a bit of bluffing'.³ Johnson had telephoned Gladwyn Jebb at the Foreign Office and repeated the familiar threat to the trade agreement in an attempt to force the British to be more flexible over film matters.⁴ Despite these representations, however, the British confirmed that the legislative process would proceed as planned and that all the Americans could reasonably hope for were amendments favourable to their interests.

In the Commons the Government had been forced to withdraw two pro-American amendments: the first permitted films costing £30,000 in labour

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1. PRO, BT 64 91/6181/38, memo. by Ronald Tree sent to Board of Trade, 15 February, 1938.
 2. NA, 841.4061/MP/98, Johnson to Hull, 3 February, 1938.
 3. PRO, FO 371/21530/A 1288, Minute by Cadogan, 19 February, 1938.
 4. PRO, BT 64 91/6181/38, Beer to Hoyer Miller, 11 February, 1938.

costs to be counted as triple in valuation for renters' quota and the second proposed a reduction to £15,000 of the minimum cost of films eligible under the reciprocity option. The first reappeared in the Lords in March in a modified form, and in the end the reciprocity clause was extended so that films so acquired counted as double quota pictures. The Commons debate had not taken place at the best time. Stanley was ill, and Anthony Eden's resignation placed the Cabinet in turmoil. Johnson reported the precarious situation to Washington:

The fate of the amendments favourable to the American renters upset all calculations that Mr. Stanley, with the weight of the Government behind him, would easily be able to secure their adoption. Mr. Stanley's illness prevented him from bringing his prestige and intimate knowledge of the question to the defense of his proposals. Second, the Cabinet crisis resulting in Mr. Eden's resignation had robbed the Government temporarily of its ability to secure the adoption of an unpopular measure.¹

Eden resigned on 20 February. His disagreement with Chamberlain over Roosevelt's 'peace plan' was exacerbated by Chamberlain's desire to start talks with Italy, envisaging British recognition of the Italian conquest of Abyssinia. Although by mid-February Eden finally agreed that talks with Italy might begin on condition that Italian 'volunteers' withdrew from Spain first, the fundamental differences between the two could not be reconciled. The effect of the crisis on the Films Bill was that the government, weakened and irresolute, withdrew the pro-American amendments. The CEA had been shocked at the news that Stanley wanted a triple quota credit clause, calling it 'the greatest setback the industry has ever received'.² A letter was written by the CEA to Stanley pleading against the clause:

It is beyond dispute that if a renter by the expenditure of £30,000 in labour costs can thereby secure three quotas... he may be expected to take the fullest advantage. It is equally obvious that the effect is to reduce the renters' quota to a third of the present schedule. It will reduce the number of films that will be produced to satisfy the new Act, and we are

1. NA, 841.4061/MP/111, Johnson to Hull, 28 February, 1938.
 2. Kinematograph Weekly, 24 February, 1938, p. 3.

alarmed at the consequent depletion of our supplies... We submit to you that the institution of the treble quota at this stage is altogether too great a leap in the dark.¹

As we have seen, the exhibitors' lobbying was partly successful. The figure for treble quota films was raised to £37,500. However, the clause was still seen as a major threat to the number of British films available for hire and as being inconsistent with Stanley's Parliamentary rhetoric: 'I do not want our defences to be made in Hollywood. I want the world to be able to see British films true to British life, accepting British standards and spreading British ideas'.²

The Board of Trade could not accept most of Hays' '14 points'.³ When Kennedy finally met Stanley on 14 March, the latter agreed, however, to fight for the triple quota clause and reciprocity amendment. Kennedy thought that if Stanley was successful the Act would not be as disastrous for the American renters as they had originally feared. He also suggested that the Americans could legitimately press for concessions on other items in the trade agreement to compensate for the 'anti-American' film legislation. He wrote to Hull after his meeting with Stanley:

In my opinion the triple credit and reciprocity amendments should certainly be granted; if they are, my whole opinion of the Bill would be that we have a reasonable Bill from any American point of view but not so reasonable that we definitely should not consider that we have made substantial concessions to the British point of view. We therefore have certainly gained for ourselves a credit to be used on the trade agreement.⁴

While Kennedy was seeing Stanley a surprise amendment introduced in the Lords by Lord Moyne was passed, raising the renters' quota for long films from 15 to 20%. An alarmed Kennedy hurried to see Stanley,

1. Ibid.
 2. Parliamentary Debates (Commons), Vol. 328, Col. 1173, 4 November, 1937.
 3. PRO, BT 64 91/6181/38, 'Note on US Attitude'.
 4. NA. 841.4061/MP/114. Kennedy to Hull. 14 March. 1938.

Halifax and Cadogan. Stanley's position was fraught with problems, as Kennedy explained to Hull:

Parliament has got out of hand on this particular subject. The British have lost money on this industry and see it flowing to the Americans. On this basis you do not have to know much about the subject to make a convincing argument against any concessions to the American industry.¹

The FBI declared that 'all that the Bill secures is the making of American films in British studios'.² On the other hand, the exhibitors agreed with the Americans that Lord Moyne's amendment should be altered. Stanley told Kennedy that he would press for a reduction of the renters' quota to 15% and re-introduce the pro-American amendments as he had promised earlier. At a meeting on 23 March Kennedy saw Stanley again and promised to prepare a secret memorandum for Stanley's speech in the Commons.³ These tactics worked: on 28 March the Commons restored the 15% renters' quota and passed the pro-American amendments. On 30 March the Films Bill became law.

The Cinematograph Films Act, 1938, set the renters' quota for long films at 15% and the exhibitors at 12.5%. These were to increase by stages to 30 and 25% respectively by 1947. To register for renters' quota a film had to have a cost of £1 a foot in labour costs, with a minimum total of £7,500 per film. If a British film cost £3 a foot and £22,500, it could count twice its length for renters' quota, and a film of £5 a foot and £37,500 could count three times. This gave the Americans an incentive to produce expensive, but fewer quota films in Britain. There were also inducements to American renters who distributed British films abroad. A British film, costing more than £22,500 in labour costs, and acquired for foreign distribution for more than £20,000 could be counted as a quota picture. A film acquired in the same way counted as double quota credit. One safeguard introduced to appease

1. NA, 841.4061/MP/117, Kennedy to Hull, 16 March, 1938.
 2. Kinematograph Weekly, 31 March, 1938, p. 3.
 3. NA, 841.4061/MP/126, Kennedy to Hull, 23 March, 1938.

the exhibitors was that a renter was barred from making up more than 50% of footage on the basis of multiple quota films. Short film quotas were 15% for renters and 12.5% for exhibitors, but they were not subject to a cost test. As we have seen, there was a 'fair wages' clause to protect employess. The Cinematograph Films Council was an advisory body consisting of ten trade representatives and eleven independents. Films made in the Dominions qualified only for exhibitors' quota, and penalties for booking abuses applied only to renters. After months of intense debate and negotiation over complicated details, the basic method of quota protection was modified, and the crucial principle of quota concessions to attract American finance was established.

How far did the Films Act, 1938, satisfy the Hays Office and State Department? The Hays Office sent a memorandum to the State department concluding that 'the State Department's eifort to get the British Government to draft the new legislation in accordance with these recommendations (the '14 points') was unsuccessful in the main'.¹ The Hays Office approved of the multiple quota credit and reciprocity clauses, and was relieved that the independent Films Commission and viewing test had been excluded. Many of the other clauses - the quota percentages, the short quota, the amount of foreign labour permitted to work on British films, the clause that made renters solely responsible for booking abuses and the exclusion of Dominion-made films from renters' quota - were considered harmful to American interests. Hays argued that the State Department had not protested enough about the impending legislation because it was afraid of jeopardising the trade agreement negotiations. He was particularly upset when the State Department was unable to insist on the inclusion of film quotas in the trade agreement talks. The British 'cultural' argument had enabled the Board of Trade to hold firm.

1. NA, 841.4061/MP/147.

On 26 April the Americans had a draft trade agreement ready for submission to the British delegation, headed by Overton of the Board of Trade, in Washington. Motion pictures were excluded, but Kennedy suggested a separate agreement and Washington accepted his idea. Hull sent him a telegram on 3 May requesting him to initiate 'conversations' with the British

Looking to the conclusion of an understanding between the two countries regarding the treatment to be accorded American motion picture films and the American motion picture industry in the UK. I hope that your negotiations can begin at once and thus be conducted simultaneously with the Trade Agreement negotiations.¹

On 10 May Kennedy approved that Williamson should send a list of unofficial 'suggestions' to W. Palmer at the Board of Trade.² These were that the renters' quota for long films should not exceed 20% and 15% for 'shorts' during the life of the agreement; that there should be reductions in the minimum costs for multiple quota credits and for the sums paid for overseas distribution rights; that the Board of Trade should not apply a viewing or cost test for 'shorts'; that the Board should give sympathetic consideration in any decision regarding availability of British production facilities and labour to American interests and that import duty rates should be reviewed. The latter were extremely low at 5d a foot on negatives and 1d a foot on positives. In September 1937 the Americans requested that they should not be increased and Williamson hinted that the Board of Trade 'might explore the ground with a view to discovering what you might be willing to do in this connection'.

Fennelly was unsympathetic. He thought that the British would not accept a trade agreement if the 'assurances' desired by the Americans were a direct or an indirect part of the agreement. In almost every case

1. NA, 841.4061/MP/139, Hull to Kennedy, 3 May, 1938.
2. PRO, BT 64 91/6181/38.

the 'assurances' related to matters where the Board would have to consult the Cinematograph Films Council, who were unlikely to assent.

On 25 May Palmer replied to Williamson that the maximum likely concession was to keep the film duties at their present levels, a concession agreed to by the Treasury. The British would not go any further, and Kennedy informed Hull on 2 June that 'conversations with the Board of Trade convince me that the British Government, because of the Films Act, cannot give us assurances... I recommend therefore that conversation on this topic be dropped'.¹ Thus the second attempt by the Hays office to thwart the Films Act failed.

The State Department, on receipt of the Hays' memorandum, was prepared to give the industry a limited backing. Early in 1939, Johnson wrote to Hull that the memorandum had been a last attempt to persuade the State Department to insist on the inclusion of film quotas in the trade agreement negotiations. He pointed out that the Hays Office had been aware that the '14 points' could not be met in full, and that the trade talks with Britain would have been seriously jeopardised if the State Department had pressed for further film concessions:

The 14 recommendations were not based on any just appreciation of the practical possibilities in Great Britain. It may be said that the producers' motive in presenting them was to ask for the maximum possible in the hope of thereby improving their bargaining position... a juster appreciation of what the State Department accomplished for the motion picture industry can be reached by comparing the Bill... as introduced, and the Act, as finally passed.²

Johnson praised Allport's efforts, concluding that the Act was not nearly as bad as Hays contended.

Why did the Hays Office fail to gain more for the American industry? The basis of protection for the British film industry had already been established in 1927, and the Hays Office had not intervened in a decisive way to prevent or alter that legislation. Its attitude had

1. NA, 841.4061/MP/143.

2. NA, 841.4061/MP/152, Johnson to Hull, 4 January, 1939.

been complacent, as the Hays Office representative in London returned to America just at the point when agitation for a quota escalated.¹ By the 1930s the slump had changed the position and Herron's department was more experienced in trying to reduce restrictions abroad. However, once the initial legislation was in operation it was difficult for the Americans to press for the abolition of the renters' quota. The latter was not achieved until 1947 after the Americans pressed for film quotas be bound by a paragraph of the draft General Agreement of Trade and Tariffs treaty that banned 'regulations or requirements affecting sale, transportation, distribution, mixing, processing, exhibiting or other use'.² Back in the 1930s, however, once the Moyne Committee reported, it was clear that protection would not be abandoned.

The attitude of officials was crucial. The Foreign Office, especially the American department, was more likely to take the American representations seriously than the Board of Trade. In a context of the developing European crisis, improved relations with America were considered essential. During 1937 the Foreign Office was anxious that the film dispute should not endanger more important issues. By early 1938, influenced by Chamberlain's cooler attitude towards America, it was less worried by threats that unless the film demands were met the trade negotiations would be jeopardised. Officials were impressed by the Board of Trade's expedient argument that film need not be included in commercial treaties since quotas were not intended to be discriminatory against American pictures but were imposed

only to ensure a certain percentage of English films being shown for cultural reasons. The American film industry expects to have things too much its own way. Unfortunately... the US Government continues to look on films as a purely commercial item in the trade negotiations... while we regard them partly at least as a cultural responsibility.³

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1. See Chapter 2.
 2. PRO, BT 64/2229/2825/46.
 3. PRO, FO 371/21530/A 175, minute by Beith, 10 January 1938.

It was believed that there was a large element of 'bluff' in the State Department's threats, and at the same time the British were not convinced that the American film industry would retaliate because of its increasing dependence on the lucrative British market.

The American industry lacked muscle in Britain. Allport's work was invaluable, but there was a weakness in that none of the British trade groups had much time for the US renters. The KRS split at a crucial point when the British renters decided to side with the FBI's Film Group as a protest against pro-Americanism in the KRS. This left the Americans isolated, and Stanley was largely responsible for the Act's pro-American clauses. Even so, he could not resist pressure from British trade groups, and was anxious that Allport's dealings with the Board of Trade should not be disclosed. Public opinion was not in favour of the idea that American interests had been instrumental in the drafting of the Bill, as indicated by Stanley's embarrassment at the leak to the trade press at the end of 1937.

In January Klingender and Legg published a critical account of recent developments in the British film industry. It focussed on American interests and the financial instability of film production during the boom of 1936.¹ There were increasing doubts as to how 'British' the industry was, and if the sympathy Stanley showed for the American renters and his dealings with Kennedy had been made public, there would have been an outcry, especially in Parliament where the Films Bill had already been criticised for its leniency towards the American interests.

The Hays office was divided about the best tactics to gain the maximum concessions. Hays did not appreciate the delicate nature of Allport's negotiations with Brown or the opposition to American renters in Britain. Hays' bombastic approach did not encourage the State

1. See Chapters 4 and 7.

Department to offer more assistance, therefore it is remarkable that he was able to win so much support from Hull. The latter's interest in the film crisis is explained by his overall commitment to the 'crusade for economic sanity'. He was anxious that the British should realise the fundamental importance of closer collaboration with America:

We hope that the British seek this agreement, not primarily for the dollars and the cents immediately involved... We seek it primarily as a powerful initiative to help rectify the present unstable political and economic situation everywhere... Should this opportunity be lost, I am convinced... it would result in the American people turning this country in the other direction and moving definitely toward political and economic isolation.¹

Allied to these aims was, of course, the desire to reverse the Ottawa system established in 1932.

It is difficult to judge how far an anti-British campaign launched by the American film industry could have endangered Anglo-American cooperation. Hull seems to have been convinced by Hays' claim that the industry could unleash such propaganda, but this is explained by increasing criticism of the trade agreements programme in Congress and the isolationist stance of the Hearst press. Also the radio commentator, Boak Carter, among others expressed doubts about involvement in Europe, and Hull did not want the film industry's tale of woe to add fuel to the fire. The details of the British refusal to abolish the renters' quota could have been publicised and cited as an example of British reluctance to join an American crusade for multilateral trade and world peace. Lindsay reported Roosevelt's difficulties in March 1938:

Mr. Roosevelt... is no longer in a position to dictate his wishes to Congress which is becoming more and more independent and critical of his administration.²

In November 1937, the Hollywood Reporter declared in belligerent tones:

If Great Britain goes through with its present high quota on American films, the motion picture industry will petition Congress to pass retaliatory measures, directed particularly

1. Schröder, *op. cit.*, p. 398, quotes Hull to Kennedy, 2 July 1938.
2. PRO, FO 371/21530/A 175, 2357, 22 March, 1938.

against Britain's big export of Scotch whiskey to the US. The Hays Office here is authority for the statement that the 'American motion picture industry is getting tired of being the punching bag for all nations and is now ready to call the bluff of England and all other foreign markets on its restrictive measures pointed against our pictures. We will petition Congress to place a quota on Scotch whiskey, requiring England to buy one pint of American rye for every quart of Scotch landed on these shores and we have reason to believe Congress will look favourably on our request.'¹

The Americans chose to present the dispute as an issue of principle, as Johnson declared in February 1938: 'the proposed trade agreement envisaged a lessening of restrictions and that the Films Bill on the eve of these negotiations actually imposes additional restrictions on an important commodity'.² When Hull saw Hays in December 1937 he was given no proof that the film companies were about to begin an 'anti-British press and film campaign'. It is feasible that the industry could have incited isolationist propaganda in the press, but a film campaign is hard to imagine, especially when a number of Hollywood's films were pro-British in a romantic, idealised fashion, for example, Clive of India (1935), Lives of a Bengal Lancer (1935), The Private Lives of Elisabeth and Essex (1939), and The Charge of the Light Brigade (1936). From early 1937 Hull supported the Hays Office, and continued to do so as he became more vulnerable to criticism in Congress. He also had faith in Kennedy's ability to resolve the crisis from March 1938.

Why did the Board of Trade grant concessions to the Americans? Some provisions were definitely pro-American in spite of the dissatisfaction expressed by the Hays office with the overall legislation. These provisions were not, however, always the result of American pressure. The 'separate quota' plan, as we have seen, was rejected because it was opposed by the CEA, Maxwell, Ostrer, C.M. Woolf and the Board of Trade. The Films Commission was not established because

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1. Hollywood Reporter, 26 November, 1937, in Basil Dean Special Collection, BFI Library.
 2. NA, 841.4061/MP/101, Johnson to Hull, 8 February, 1938.

the Board of Trade feared an independent body might threaten its authority and the film trade would not accept one that would regulate trade practices. The multiple quota credit and reciprocity provisions were pro-American, but they also happened to accord with broader Board of Trade film policy. The Board wanted to encourage American capital and expertise to rejuvenate the ailing British film industry by producing expensive films in Britain.

From 1933, after the international success of The Private Life of Henry VIII, as the next chapter will explain more fully, large sums of money were invested in the industry. However, many producers suffered huge losses because of inexperience, extravagance, precarious short-term finance and rising costs. In 1937 financiers, joint-stock-banks and insurance companies withdrew their support, and the result was a financial crash and production slump. After the sponsors of British production had 'burnt their fingers' in this way, companies could not obtain finance to complete production programmes. In 1937 there was an enquiry by the Bank of England into the industry's financial position, but in June plans for a Films Bank were dropped because the Bank and the Board of trade did not want the Government to become involved in subsidising film production. It was decided the quota should be the main thrust of film policy (see Chapter 7). This explains Stanley's willingness to put forward pro-American amendments. As Euan Wallace, the Parliamentary Secretary to the Board of Trade, argued in the Commons when he introduced the triple quota clause in February 1938:

We have heard of the difficulty of securing finance at the present moment for the making of British films and if it is difficult to secure finance for the production of ordinary programme picture films... I think it is much more difficult to get finance for the more expensive films.¹

1. Parliamentary Debates (Commons), Vol. 332, Col. 426, 23 February, 1938.

Although Americans might make more films in the UK the Board of Trade decided they could be as 'British' as if they were made by native companies. When the quota return for MGM's A Yank at Oxford, the first film to be registered under the 1938 Films Act, was received by the Board of Trade, Fennelly remarked that although the cost of the production had been high - £112,000 in labour costs apart from £7,500 spent in Hollywood - the percentage of British labour, after the exclusion of two foreigners, was 92%. Fennelly wrote that this was 'a much higher figure than we were led to believe was possible in the course of our discussions with the American renters and is particularly noteworthy in view of the high quality of the film'.¹ Somervell replied: 'This is a good start for the new policy'.² During the war this policy was extended when restrictions were placed on the amount of dollars American companies could remit to America in the hope that the 'blocked earnings' in Britain would be used for production finance.³ Wartime difficulties prevented the money from being used in this way. When it was finally agreed that the blocked earnings could be released in 1943, the amount involved was 40-50 million dollars.⁴ The 'monetary quota' arrangement also was designed to encourage American production in Britain, and both the wartime Anglo-American film agreements and the bargaining before the adoption of the 'monetary quota' involved intense discussions between the Treasury, the Board of Trade and the State Department.⁵ Therefore if they wanted to show their films in British cinemas they had to be prepared to finance production in British studios.

1. PRO, BT 64/103, Fennelly to Somervell, 23 April, 1938.

2. Ibid., 25 April, 1938.

3. PRO, BT 64/94/7303; PRO, BT 64/61/12979; PRO, BT 64/94/12908; PRO, BT 64/95/4967 and NA, 841.4061/MP/182-314.

4. NA, 841.4061/MP/391, n.d.

5. The 'monetary quota' gave companies the option to spend an amount (equivalent to the monetary obligations they would have incurred during a period under the Films Act) on film production. See NA, 841.4061/MP/205, 18 November, 1939.

The Hays Office had not done as well as it had hoped in Britain, but many of its demands had been unrealistic. By the late 1930s the problems of defending overseas markets against the protectionist tide had multiplied. As long as the Hays Office could convince the State Department that film was an industrial commodity for inclusion in international trade treaties, pressure could be exerted on foreign governments. However, the British did not share this view and continued to see film, in negotiating terms at least, as a special commodity with cultural implications to be legitimately protected by internal regulations.

In 1937-8 the actions of the Hays Office thrust the issue into the field of trade bargaining. As the renewal of the Films Act coincided with negotiations for an Anglo-American trade agreement and a desire by some on both sides for greater cooperation because of the European crisis, the film dispute was seen by Hull as a test case for the British attitude towards trade liberalisation. He was disappointed that film quotas were excluded from the trade negotiations, and that the Anglo-American Trade Agreement, eventually signed in November 1938, was not as all-embracing as he had hoped: 'Had the British agreement been among our first instead of our last... its results would have been far greater'.¹ The Anglo-American Trade Agreement and negotiations represented the relaxation of imperial preferences on agricultural goods that the Americans had wanted so desperately, and signified 'the end of that economic nationalism which had governed world events since at least the 1920s. They represented a recognition by the two greatest international traders...that recovery could only be permanently stabilised on the basis of freer exchange. But the logic of the Anglo-American agreement necessitated a weakening of "Empire trade"'.² America's most important

1. Cordell Hull, Memoirs (Hodder & Stoughton, 1948), p. 530.

2. R.F. Holland, Britain and the Commonwealth Alliance, 1918-39 (Macmillan, 1981), p. 150.

industrial exports - machine tools, iron and steel, motorcars and films - gained little or no concessions.¹ In the 1940s it was also common to link Anglo-American film relations with wider political and economic issues, and on several occasions the Hays Office had to court the State Department's support in its attempt to maintain and expand the general level of profitability that had enabled the American film industry from the beginning of the 20th Century attempt to 'Americanise the world'.

1. Karl Kreider, The Anglo-American Trade Agreement. A Study of British and American Commercial Policies, 1934-9 (Princeton University Press, 1943), p. 135.

Chapter 7

FILM FINANCE IN THE 1930s

The last chapter argued that the Board of Trade was keen to encourage American finance for British film-making. The crash in 1937 made the City reluctant to risk more money on the film industry, while the government refused to subsidise production.

The crisis of 1937 was caused mainly by the precarious methods of short-term finance that had developed during the boom of 1933-36. Combined with rising costs, a proliferation of new, inexperienced production companies, diminishing returns from the British and American markets and the maldistribution of box-office receipts, unstable financial support that precipitated the crisis 'shook the City and terrified Wardour Street... It was a classic example of money madness in the movies, or how to get something for nothing'.¹

Some observers have cited the bitter memory of the 1937 financial crisis as a cause of the City's present-day reluctance to sponsor British film-makers.² The British film industry however, as explained in Chapter 1, has always found it difficult to attract sustained investment, therefore 1937 merely accelerated an established trend. Financial institutions, usually unable to assess a film's chances of yielding substantial box-office returns, tried to minimise the risk by insisting on distribution and other guarantees before loans were granted. In the 1930s, as will be shown, insurance brokers developed a method of film finance that proved to be disastrous. When the Bank of England investigated the film industry in 1937 the Government was asked to participate in the formation of a Film Bank to regulate the industry's chaotic financial condition. This solution was rejected, and

1. E. Betts, Inside Pictures (Cresset Press, 1960), pp. 11 and 13.
2. Alan Stanbrook, Stills, 7, July-August 1983, p. 47.

Table 27
British Feature Film Production, 1920-1940

Source : 1920-28 : features trade shown, R. Low The History of the British Film, 1918-29 (Allen & Unwin, 1971) p. 156
1929-40 : long films registered for renters' quota, Board of Trade

the quota remained the keystone of state film policy until the National Film Finance Corporation was established by a Labour government in 1949 to provide risk capital for film production.

This chapter will examine the boom, the causes of the 1937 crash and its impact on specific companies. The Westminster Bank case of 1939 will be outlined to illustrate the role of the insurance companies in film finance in the 1930s, together with an account and analysis of the Bank of England's enquiry in 1937. Finally, an assessment will be given of the film industry's structure at the end of the decade and the origins of J. Arthur Rank's combine that subsequently dominated the British film industry.

1. Boom and Slump

Although British production peaked in the years 1933-36 (see Table 27), this was after a build-up from 1927, temporarily disrupted by the coming of sound. New studios mushroomed. In 1928 there were 19 stages with a total area of 105,650 sq. ft., and by 1938 70 with 777,650 sq. ft.¹ Between 1925 and 1936 a total of 640 production companies were registered, but by 1937 only 20 were still operating.² According to figures compiled by Messrs. Jordan and Sons, the total capital involved in registrations of film and cinema companies 1931-36 was £26,069,839.³

In January 1937 Julius Hagen's Twickenham group of companies went bankrupt after an unsuccessful attempt to make pictures for world release. Hagen claimed that he had been promised £40,000 for the American sales of Scrooge (1935), but received only £1,200.⁴ Six films with total production costs of £210,000 had yielded only £182,000 from

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1. Political and Economic Planning, The British Film Industry (PEP, 1952), p. 67.
 2. Alan Wood, Mr. Rank (Hodder & Stoughton, 1952), p. 91.
 3. F.D. Klingender and S. Legg, Money Behind the Screen (Lawrence and Wishart, 1937), p. 53.
 4. Morning Post, 15 January, 1937.

World Film News,

January 1937 :

The impending storm.

Table 28
New Companies Registered, 1925-1936

Source: F.D. Klingender and S. Legg, Money Behind the Screen (Lawrence and Wishart, 1937), p. 53.

bookings and foreign rights.¹ The Assistant Official Receiver's report on Twickenham Films revealed that the company had been handicapped since its inception in 1929 by a lack of working capital, heavy overhead expenses and excessive directors' salaries. Most of the films produced by the company had been financed by loans and exceeded their original budgets by vast sums. The group's gross liabilities at the time of the receivership totalled £138,590.²

A receiver was appointed for National Provincial Film Distributors in June, and the following month British Lion announced losses of £14,016.³ S.W. Smith, British Lion's chairman, blamed the crisis on irresponsible financing of new, untried companies:

A large number of pictures were brought into existence by companies which had ceased to exist. These pictures were in competition with the productions of British Lion. They were financed by sources outside the industry, and forced prices

1. Kinematograph Weekly, 21 January, 1937, p. 37.
 2. Ibid., 2 September, 1937, p. 13.
 3. Kinematograph Year Book, 1938.

for artistes, technicians and other items in the cost of production, to an uneconomic level.¹

By July 1937 the Financial Times asserted that production losses were likely to be over one million pounds as financial support was being withdrawn from film production.² Why had the industry passed so quickly from boom to slump?

Many producers, like Julius Hagen, blamed their losses on lack of success in the American market. Alexander Korda's The Private Life of Henry VIII (1933), costing £93,710 to produce, earned over £500,000 on its first world run and scored a world box-office record of £7,500 on its first day's showing at the Radio City Music Hall in New York, and inspired others to make films for the American market.³ Many argued, however, that Korda had set a dangerous precedent because when a film failed to recoup production costs, losses could be catastrophic. This was particularly the case if the picture was a lavish, expensive venture built up to appeal to British and American audiences. With the American market virtually closed to most British productions successes like Henry VIII tended to be exceptional. As a consequence, many observers regarded Korda's achievement as an unfortunate example that encouraged inexperienced producers to make expensive and precariously-financed pictures in the hope that 'international films' would make their fortune. As Ernest Betts commented:

The success of Korda's The Private Life of Henry VIII, which took vast sums of money in New York, fostered the notion that with a proper show of stardom, spectacle and extravagance British films could lead the world... Successive Governments supported this view with the same well-chosen words. By forcing exhibitors to show a high quota of British films on their screens, the Quota Act did everything to promote a boom and entice the City

1. Kinematograph Weekly, 9 September, 1937, p. 9.

2. Financial Times, 13 July 1937.

3. Karol Kulik, Alexander Korda. The Man Who Could Work Miracles (W.H. Allen, 1975), p. 88. The cost of Henry VIII is from the Prudential Assurance Co. archive.

into disgorging its millions for scraps of celluloid.¹

Gaumont-British also embarked on a bid for the American market. Michael Balcon declared in 1936: 'In order to progress further we must pursue a production policy ever less and less parochial and more and more international in appeal'.² These hopes, as will be shown later, were unrealistic and unsuccessful.

Korda, however, was not the first producer to put faith in the American market, and the crisis cannot entirely be attributed to attempts by other producers to emulate Henry VIII. For producers like Hagen, poor returns from America tended to be a convenient excuse for irresponsibility and serious mismanagement. The costs of film-making had been rising since the coming of sound, and the optimism created by the quota and the cinema-building boom enticed the City to finance production on an unprecedented but precariously based scale. The timing of the crash was partly influenced by press reports. World Film News had anticipated problems in July 1936, predicting that a collapse was 'imminent' and that it could be expected 'any time within the next six months'. When Money Behind the Screen was published in January 1937, receiverships followed in the wake of its revelations about the basic instability behind the production boom.

Since film production was, and still is, a speculative venture, especially when the producer received by far the smallest share of box-office receipts, ordinary channels of finance had been wary, after the experience of the post-quota boom of 1927-9, of investing money in film-making. Although costs had risen and producers lost money when their pictures failed in America, the root of the problem in 1937 was the unstable method of film finance that had evolved during the boom period. Not all finance was precarious in the 1930s: some reputable institutions

1. Betts, op. cit., p. 6.

2. World Film News, 1, no. 3, June 1936.

and individuals backed production to a greater extent than ever before. The National Provincial provided overdraft facilities for Gaumont-British and owned holdings in Odeon and Associated British. Rank was co-partnered by Lady Yule, widow of Sir David Yule, a Calcutta jute magnate, when he established British National in 1934. When he co-founded the General Cinema Finance Corporation (GCFC) in 1936 he was joined by Lord Portal of Laverstoke, the paper magnate, Paul Lindenberg, the merchant banker and Lord Luke of Pavenham, chairman and managing director of Bovril Ltd. and chairman of Lloyds Bank. Some of the major sponsors of British film production in the 1930s were the Law Debenture Corporation, the Equity and Law Life Assurance Society, C.T. Bowring, the National Provincial Bank, the Prudential Assurance Company and Aldgate Trustees, the company established by a firm of brokers to arrange bank loans for production.

Between January and October 1936 the total amount secured in the form of guarantees by production companies was over £4 million.¹ The Kinematograph Weekly explained how these sums had been raised:

During recent months almost any would-be film producer has been able to form a small company with a capital of £200 and immediately raise, say, £30,000 - £50,000 in order to finance a picture. The system is interesting, and is made possible mainly because certain insurance companies facing a big loss of marine insurance business endeavoured to replace this by financing the film trade. Various syndicates were formed, and money borrowed from the bank and passed on to the clients. The client paid the insurance company a premium of approximately 4.5%, and also paid the bank interest at the rate of 4.5%. In return for the premium received the insurance company guaranteed to the bank that the money would be repaid. It was owing to the fact that films take a long time to produce and to realise that this business reached the proportions it did before its weaknesses were exposed, but as soon as the losses began to accrue the banks acted with commendable promptitude, and although further losses are to be expected from films still to be completed it is now believed that both the banks and the insurance companies have the situation well in hand. So serious have the losses become in recent months that the banks began to become really nervous regarding the financial position of some of the insurance syndicates. Not only had this form of film financing brought the industry into ill-repute financi-

1. Klingender, op. cit., p. 48.

ally, but it has also had a most disturbing effect on the business management of the sound concerns. Constant interruptions to the smooth running of business organisations have been brought about by the increased competition of the mushroom concerns which, complete with their easily obtained money, have been offering fabulous salaries to all classes of workers in the film trade.¹

The insurance companies were so concerned that a group of Lloyds underwriters appointed W.C. Crocker, an insurance solicitor, to investigate the situation in the summer of 1937. As Klingender and Legg reported in January, the boom was based almost entirely on expectation rather than results, and 'financed not by increases in the companies' own working capital, but by a spectacular increase in loans'.² In total the industry absorbed loans of nearly £13 million in the first ten months of 1936. Production finance was raised in the form of short-term loans based on guarantees, and the exhibition boom was mainly accounted for by mortgages and debentures. During the first ten months of 1936 the following sums were raised by the three sections of the industry:³

Table 29
Sums Raised by the Film Industry, 10 months 1936

Period	Financial Method	Sector	Total
10 months	1. Guaranteed advances, short-term loans.	Production	£4,050,000
1936	2. Mortgages and Debentures	Exhibition*	£7,806,642
	"	Studios	£ 382,250
	"	Distribution	£ 368,000
			£12,606,892

* the largest sum raised by an exhibition concern was £4,167,242 by the ABPC group. The other major British 'major', GBPC, secured only £711,500 to finance exhibition because of the exclusion of £1,340,000 debenture cover for bank overdrafts attributable to production losses.

All hoped the profits would materialise, and that the British industry would prove to be as lucrative as its American counterpart.

1. Kinematograph Weekly, 14 January, 1937, p. 13.
2. Klingender, op. cit., p. 54.
3. Ibid., pp. 48-51, table is compiled from these pages.

Independent producers were unable to obtain backing and the City forgot its traditional attitude of caution towards the film industry:

Banks, insurance companies, legal investment trusts, even motor manufacturers are falling over each other in their eagerness to stake a claim. Men and women who have scarcely given a thought to films all their lives are clamouring for posts in the studios, attracted by the rumour of high salaries and speedy promotion.¹

After the crash, however, British producers found financial support hard to obtain. The City had not entirely given up sponsoring production, but the reports in the trade press towards the end of 1937 and again in 1938 showed that this time the recipients were French producers rather than British. More than one million pounds of British money poured into the French industry, according to P.A. Harlé in the Cinématographie Française. In February 1938 a report in the Kinematograph Weekly estimated that about 75% of the films produced at the time in France were financed from London.² Apparently producers with good records and established companies received the money - the City had learnt the lesson in 1936 of failing to scrutinise the producers they had backed.

2. The Westminster Bank Case, 1939

In May 1939 the whole story of the precarious world of film finance was exposed when the Westminster Bank brought thirty-five court actions against fifteen insurance companies that had issued guarantee policies as security for bank loans.³ Most of the loans were advanced to the Capitol group of production companies, including the Capitol Film Corp., Cecil Films and the Trafalgar Co., that had been started by the

1. World Film News, January 1937.

2. Kinematograph Weekly, 24 February, 1938, p. 3.

3. The insurance companies concerned were the Liverpool Marine and General Ins. Co., Century Ins. Co., British Oak Ins. Co., London Assurance Co., General Accident Fire and Life Assurance Co., Switzerland General Ins. Co., Sea Ins. Co., Guildhall Ins. Co., Canton Ins. Co., Triton Ins. Co., Ralli Bros. Ins. Co., Indemnity Marine Assurance Co., Union Ins. Soc. of Canton, Northern Assurance Co., British General Ins. Co.

German refugee Max Schach in 1935 with a capital of £125,000. The case lasted six days during which it was revealed that the production companies concerned had been able to raise £1,711,000 and, according to Sir Stafford Cripps K.C. who appeared for the Westminster Bank, 'with the express approval of the Board of Trade as being a good way of financing British film productions'.¹ The losses made by the companies totalled over a million pounds. Many of the pictures had exceeded their original budgets, took much longer to produce than had been expected or were simply never completed. How had this chaotic state of affairs evolved?

Firstly, the general climate was favourable to investment in film-making. Sir Stafford Cripps explained on the first day of the case that in 1935

there was a good deal of talk of encouraging British film production as against American film production. Everybody apparently thought it was the easiest way in the world of making money, and that it did not very much matter how much money was spent on production, or how it was spent, because the inexhaustible resources of the people who went to see the films afterwards would be sufficient to reimburse whatever money was spent.²

But as we have seen, British films were not guaranteed extensive bookings at home or particularly abroad, so that producers seldom made profits that could be ploughed-back to finance subsequent pictures. Without sufficient knowledge of the constraints operating on British production - the maldistribution of box-office receipts, booking problems, inadequate returns from British and foreign markets, rising costs, the struggle between the combines and independent producers - potential sponsors could be misled into assuming that the boom in exhibition would ultimately benefit producers. Insurance companies, keen to offset losses recently incurred on the marine market, considered film production to be a potentially lucrative source of investment. Encouraged by a firm of

1. Financial Times, 4 May, 1939.

2. Ibid., 2 May, 1939.

brokers, guarantee policies were arranged so that production companies could obtain bank loans to finance their pictures. The other reasons, therefore, for the proliferation of short-term loan finance for film production in the 1930s were the willingness of the brokers and underwriters to provide guarantees, and the bank's decision to regard them as adequate security for loans. The Westminster Case shows how the system developed in detail, how it functioned and also provides an explanation for the industry's perilous financial condition in 1937.

A firm of brokers, Glanvill Enthoven and Co., described by Cripps as 'a much respected firm', were the main instigators of the guarantee policy scheme:

The film-producing company who desired to raise the money would get into contact with the brokers and tell them what their requirements were. It might be that they desired to raise two loans of £50,000 in order to produce two films. They would go to Glanvill's [sic] and say, 'We want to raise for His Majesty's Pyjamas and Monkey Business - the names of two films - £50,000 each'. A certain amount of preliminary work would have been done on the films. Very likely they would have bought the story rights and have retained some of the distinguished actors for very large sums of money, or it might be they had not yet started production of any sort.

In all cases... some amount of preliminary work had been done. Glanvill's having got this request would go to a number of underwriters in the marine underwriting market and ask them whether they would be prepared to issue guarantee policies for some share of the £50,000.

Then Glanvill's, armed with these policies, would persuade some bank to advance cash against the security of the underwriters' policies. Upon getting the slips signed setting out the conditions and the money to be raised by the various underwriters, Glanvill's would go to the bank with the directors of the producing company and ask for a specific loan of these two sums of £50,000. The bank, relying upon the security of the guarantees given by the marine underwriters, would advance the cash.¹

The production companies paid premiums of about 5% to the underwriters, 1 or 2% commission to Glanvill Enthoven, together with 'a further sum which was set aside in a reserve account to guarantee the payment of the interest bank upon the loan as and when it fell due'. The bank charges were at the rate of 4.5% interest, higher than the normal rate.

1. Ibid.

In July 1935 Glanvill Enthoven established Aldgate Trustees Ltd., a trust company for the underwriters. Two of the new company's directors, F.C. Ellis and L.H. Wilkins, were also directors of Glanvill Enthoven, and another director of Aldgate Trustees was S. Bayliss Smith, a chartered accountant who investigated the system in March 1937 when it became all too clear that serious problems had developed. Throughout the case it was alleged that Glanvill Enthoven had not thoroughly inspected the production companies' financial standing, and had failed to alert the underwriters or the bank to the existence of serious irregularities.

The main function of Aldgate Trustees was to 'take a charge from the producing company over all the receipts from the particular film in respect of which the loan was made'. Thus distributors, who normally remitted a proportion of receipts to the producer, instead paid the money via Aldgate Trustees direct to the bank to repay the loan. At first the charge on the receipts was a specific one, but later the system was standardised so that it was an 'umbrella charge', except when the distributor had part-financed the film. Capitol and Cecil Films distributed through GFD and Trafalgar via United Artists. The arrangement of charges over receipts had been devised by Aldgate Trustees so the bank had no automatic right to the money. The company attempted to take some precautions: when an agreement was signed with Aldgate Trustees producers 'guaranteed the due performance of the company of its agreement and thereby become personally liable in the event of the company failing to perform its agreement'. As the Westminster Case proceeded, however, it became all too clear that the production companies had not been adequately supervised or investigated by Glanvill Enthoven.

The first transaction involved Capitol Film Productions, the predecessor company to the group established by Schach in 1935. In August 1934, Mr. Austin of Glanvill Enthoven and L.A. Neal of Capitol

asked the Westminster Bank for a loan of £12,500 that was subsequently increased to £15,000, on the security of a guarantee policy to produce a film entitled Abdul the Damned. Its total budget was £50,000 and the distributors, BIP, had already advanced £25,000. In such cases, Cripps argued, it was Glanvill Enthoven's responsibility to make sure the production company was in a sound financial condition:

From the moment the slips were signed and the rest of the transaction carried through Glanvill's were acting as agents for the underwriters and whatever knowledge Glanvill's had was the knowledge of the underwriters.¹

For a while it appeared that the system was a success:

Glanvills were doing very well indeed out of it by reason of their commissions from underwriters and from the companies, and the bank was finding a safe use for its money at a decent rate of interest with a guarantee of most substantial insurance companies behind it.²

After a year, however, most companies could not pay off their loans as planned. When the trouble began the underwriters reinsured part or all of their risk, and even took the precaution of taking out insurance policies to protect themselves against liability to repay the loans. Two factors thwarted the system: 'quite inefficient management of the producing companies... Secondly, there was a complete failure by Glanvills to watch the interests of the underwriters'.³ Twenty-eight loans were made for 22 films: 14 were completed, 6 managed to obtain further loans and the rest were never finished. Many had to resort to 'salvage loans' received nominally by Cecil Films, but in effect by the underwriters from the bank 'when the mess was discovered and the underwriters tried to save what they could out of the wreck'. Most of the money was spent on completing pictures that had exceeded their original budgets:

What the producing companies had done... was to get a loan for a new picture before they had finished the old picture,

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1. Ibid., 3 May, 1939.
 2. Ibid., 2 May, 1939.
 3. Ibid.

thus leaving no resources with which to produce the new picture. Glanvills, as agents of the underwriters, had apparently been expected by them to keep a watch on the progress of events and to see that this money was properly used for the purpose for which it was raised.¹

In the spring of 1937 the underwriters' anxiety became more acute, but they were reassured by Glanvill Enthoven that the position was not serious. A report on the Capitol group by S. Bayliss Smith in March dispelled the brokers' optimism. The underwriters duly established a committee under the chairmanship of Mr. Templeton in April. Instead of recommending that the production companies should be liquidated, the committee decided that they should continue production in the hope that receipts from existing and projected pictures would yield substantial returns and resolve the crisis. In other words, there was still a degree of optimism about the fortunes of British film companies despite the adverse publicity since the onset of the crash in January 1937. The underwriters were also keen to recover as much money as they could and it was felt that if the production companies were liquidated the sales of their existing films would be affected. The committee's decision to give the Capitol group another chance meant that the bank had to be asked for a further £130,000. In this case the loans were raised in the name of Cecil Films because Mr. Bayliss Smith, who had formerly been appointed a director of Buckingham Films to watch Glanvill's interests, had recently taken control of Cecil Films. The insurers agreed to pay off the loans on films with no prospect of making money, and the bank reduced the rate of interest from 4.5% to 3% on new loans for 3-6 months in respect of pictures expected to show some profit.

Mr. Bayliss Smith made a second report in July 1937, and Sir John Mann, an accountant, investigated the Capitol group on behalf of the Equity and Law Life Assurance Co. The latter had made advances of £160,000 for film production, and Sir John Mann's reports in July and

1. Ibid.

October 'disclosed further irregularities of the same sort that Mr. Bayliss Smith had discovered'. These 'irregularities' were

the apparent absence of any effective investigation when finances were provided, or of proper control over the directors, who, it was alleged, were able to deal with the moneys with no apparent regard to the specific purpose for which the loans were made and to use it towards the excessive cost of pictures for which finance had been exhausted.¹

Until October 1937 the insurance companies paid off many of the loans, but the first companies to withhold payment were the Liverpool Marine and the Century. At the same time the underwriters' committee, chaired by Templeton, could not persuade the bank to reduce the rate of interest a second time on the new loans.

At the beginning of 1938 all the insurance companies refused to pay up under the guarantee policies on the grounds that

the bank owed them a duty to supervise the accounts of the film companies and that the bank ought to have known of the various irregularities which took place and ought to have warned the underwriters.²

In fact the insurance companies brought counterclaims in the case against the bank for £382,000, arguing that the bank should have warned them about the film companies' financial problems. The bank, on the other hand, replied that the underwriters should have made enquiries, and that since the loans had been guaranteed by insurance policies the companies were liable to repay the bank when the film companies proved incapable of so doing. Cripps argued that Glanvill Enthoven should have protected the underwriters' interests by making sure that when the bank was approached for a loan the film companies' accounts and prospects were sound. Whatever the case, it appears that no one monitored the film companies' affairs adequately, probably because each party thought it was the other's responsibility. The optimism surrounding the industry after Korda's success with Henry VIII also encouraged the City to be

1. Ibid., 6 May, 1939.

2. Ibid., 2 May, 1939.

'Money madness in the movies' : Capitol Films. World Film News, July 1936

less scrupulous than usual when it decided to embark on the system of guarantee policies to secure bank loans for production finance. The main fault lay with the brokers who failed to protect the underwriters' interests, but the bank was also wrong to assume that Glanvill Enthoven had thoroughly scrutinised the film companies before it approached the bank for a loan. The case was eventually settled out of court for an undisclosed sum. The episode confirmed the incredible state of confusion and basic instability in the financing of British film production in the 1930s that Klingender and Legg had exposed, and to which the Bank of England turned its attention in 1937.

3. Gaumont-British and the Crisis

During the 1937 crisis, Gaumont-British suffered to a greater extent than Associated British, largely because of internal financial and management problems that were exacerbated by the general crisis in the film world. In 1937 ABPC's profits soared to £1.25 million, whereas Gaumont's profits of £561,701 were offset by losses of £766,809 in respect of film production and distribution.¹ John Maxwell was far from satisfied with his recent association with Gaumont-British (see Chapter 4). Since his deal with the Ostrers in October 1936 it soon became clear that he would not obtain control of the company. The deal consisted of two parts: Maxwell paid £350,000 in cash for 300,000 ordinary 5s shares of 8s 3d each of the Metropolis and Bradford Trust (MBT), the company controlling Gaumont-British. The uncompleted and controversial half of the deal provided for the acquisition of the Ostrers' 5,100 of the 10,000 'A' shares in MBT. Maxwell took the Ostrers to court because the second part of the transaction had not been effected, lodging a claim for £50,000. While the litigation was in progress relations between Maxwell and the Ostrers continued to be strained, and the latter accused

1. PRO, BT 64 58/249.

Maxwell of taking his revenge by encouraging disgruntled shareholders to press for an official investigation into the affairs of Gaumont-British (see below). In July 1938 Maxwell resigned as a director of the company, relinquishing his difficult and unrewarding association with the British 'major' that had been his own company's most serious rival throughout the 1930s. The lawsuit was eventually settled out of court, but left behind a legacy of bitterness and recrimination between the two parties.¹

In January 1937 the production crisis exacerbated Gaumont's problems. The company had spent £9 million on production since its inception in 1898, but £4 million of this total had been exhausted since 1933.² In the summer of 1936 Gaumont-British had an overdraft with the National Provincial Bank of £1,149,785 and £247,904 of this was in respect of film production. Isidore Ostrer complained that 'unless we get a bigger return from the American market for British pictures Gaumont-British will be compelled to abandon production'.³ Gainsborough, a Gaumont production company, showed losses of £98,000 for 1935-6, and in March 1937 it was announced that the Shepherd's Bush studios would have to close and that in future all Gaumont's pictures would be distributed by C.M. Woolf's General Film Distributors (GFD). The two companies planned to produce eight films at a total cost of £420,000 on a joint basis at Pinewood and the Gainsborough studios.⁴

A group of Gaumont-British shareholders had become increasingly dissatisfied with the company's precarious financial position by February 1937. The directors announced that the dividend on the 5% cumulative preference shares would be paid for the six months ending 31 March, 1937. Maxwell and three other directors unsuccessfully opposed this because they felt that the company's profits and reserves were

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1. Financial News, 18 October, 1938.
 2. Kinematograph Weekly, 4 March, 1937, p. 4..
 3. PEP, op. cit., p. 70.
 4. Kinematograph Weekly, 4 March, 1937, p. 18.

insufficient to meet the payment. Gaumont's affairs were certainly in a serious condition, and no dividend had been paid on the ordinary shares since 1935. The Kinematograph Weekly argued that it was likely that the directors wanted the preference dividend paid to maintain their control of the company. Since a clause in the Gaumont-British articles stipulated that if the preference dividend was more than six months in arrears the preference shareholders were entitled to one vote for each £1 share, voting control would certainly have been affected if the dividend had not been paid. The company's preference capital was £2.25 million against an ordinary capital of £5 million voting shares. Of the latter, 2,915,000 were held by the MBT, and the Ostrers controlled the majority of the MBT's 'A' shares. If the dividend had not been paid, therefore, the preference shareholders would have become voters and swamped the MBT's voting control of Gaumont-British by 1,420,000 votes.¹

A Shareholders' Committee, chaired by W.H.J. Drown, took legal action to restrain payment of the dividend. It argued that the company had no reserves or available profits out of which the payment could legitimately be drawn. Gaumont's losses since March 1936 were estimated by the Committee to be as high as £623,000. The company's directors, however, successfully argued that losses made on film production and distribution were offset by profits of £520,000 made by other subsidiaries and a general reserve of £700,000.² In the end the court action failed and the dividend was paid on schedule.

Although the shareholders had not been able to restrain Gaumont-British from paying the preference dividend, they were not deterred from pressing the Board of Trade to investigate the company's affairs under section 135 of the Companies Act, 1929. The latter provided for an investigation on the demand of 10% of a company's shareholders. The Shareholders' Committee, led by C.L. Norden, claimed that Gaumont's

1. Ibid., 11 March, 1937, p. 15.

2. Ibid., 25 March, 1937, p. 3.

capital trading losses were as much as £3 million, and that 'there have been grave errors of judgment amounting to serious mismanagement. Owing to the peculiar arrangements regarding voting control, the Ostrer brothers, although now holding a relatively insignificant proportion of money value in the share capital, have been able to operate the assets without check'.¹ At the Gaumont-British annual meeting in October 1937 Isidore Ostrer however attributed the company's net loss of £568,809 to failure in the American market rather than to 'serious mismanagement':

The losses on production and distribution can be simply attributed to the fact that America has made no real contribution to the cost of any of our films. In common with all other British producers of quality films and probably any films, we have had to meet the fact that for British film companies to obtain revenue from America is an entirely different proposition from American film companies obtaining revenue from Britain. We have, therefore, decided to cease production at Shepherd's Bush and consolidate our position.²

In January 1938 an application was made to the Board of Trade for an investigation.³ Holders of 1,042,870 Gaumont-British shares pressed for an enquiry, exceeding the required statutory minimum number of shares by 17,870. The Kinematograph Weekly commented: 'this application is by far the heaviest for an inquiry ever received by the Board of Trade'.⁴ The Shareholders' Committee wanted certain matters elucidated including a deal between the Ostrers and the Fox Film Corporation of August 1932 when it was alleged the American company obtained control of Gaumont-British for £4 million; the Ostrers' share transactions and the salaries of members of their family; how much revenue from film hire was remitted to Fox each year and whether Fox films were accorded preferential treatment and film hire terms in Gaumont cinemas; how reserves accumulated to £2.5 million in 1931 had subsequently been

1. Motion Picture Herald, 29 May, 1937, p. 56.

2. Kinematograph Weekly, 21 October, 1937, p. 10a.

3. PRO, BT 64 58/249.

4. Kinematograph Weekly, 27 January, 1938, p. 3.

reduced to £85,000 by 1937 and how much of the company's issued share capital was represented by net assets.¹

Although the Ostrers claimed that out of malice Maxwell was behind the shareholders' application, he was not amongst those who had written to the Board of Trade requesting an enquiry on 19 January 1938.² Edgar Granville MP saw Euan Wallace at the Board of Trade on 16 February and said that he was personally acquainted with the Ostrers and that their only mistake had been to be 'too venturesome' in their efforts to capture overseas markets. In Granville's opinion, however, Maxwell was behind the shareholders' 'plot' against the Ostrers.³ Shortly after Maxwell resigned as a director of Gaumont-British in July 1938 his solicitors informed Oliver Stanley that their client had previously not associated himself with the application for an investigation, but was 'prepared to identify himself' with it since his resignation.⁴ The Treasury was informed that Maxwell had reason to believe that some of the Ostrers' transactions were open to 'grave suspicion', as an official wrote to E.H. Marker at the Board of Trade:

Maxwell's solicitor came to see me some little time ago and told me in strict confidence that, from investigations which had been made on Maxwell's behalf by a partner of Peat, Marwick, Mitchell & Co., there were indications of serious irregularities.⁵

The Board of Trade did not appoint an inspector, Russell Kettle, a chartered accountant, until February 1939. The delay was caused by the litigation between Maxwell and the Ostrers that was not settled until October 1938; objections made by the Ostrers and talk towards the end of 1938 of a deal involving the controversial shares Maxwell had been unable to wrest from the Ostrers with Philip Hill of Odeon. In any case,

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1. Motion Picture Herald, 8 January, 1938, p. 67.
 2. PRO, BT 64 58/249.
 3. Ibid. Note by Euan Wallace, 17 February, 1938.
 4. Ibid. Letter to Oliver Stanley from Messrs. Clifford Turner & Co., 14 July, 1938.
 5. Ibid. W.R. Fraser (Treasury) to E.H. Marker (Board of Trade), 31 December 1938.

the shareholders' allegations were difficult to prove: as we have seen in Chapter 4, Fox had not obtained control of Gaumont-British, and it was not clear that the American company's films received preferential treatment in the Gaumont circuit. The Board of Trade's enquiry was interrupted by further delays and overtaken by the outbreak of war. The Ostrers continued to withhold information,¹ and after an improvement in the financial health of Gaumont-British by the end of 1940,² many of the company's outstanding problems were solved when the combine was absorbed by Rank's growing empire and Isidore Ostrer finally resigned in 1941.

4. London Film Productions and the Bank of England's Enquiry, 1937

Sir Horace Wilson, the Chief Industrial Advisor to the Government and close associate of Neville Chamberlain, asked the Bank to conduct an enquiry into the affairs of the British film industry because of the rumours of the impending crash, and because the Board of Trade received information in December 1936 about the plight of London Film Productions (LFP). The Bank of England placed two of its officials at the head of the investigations, Messrs. Bunbury and Skinner, who were assisted by Gordon Munro, a director of the City firm Helbert, Wagg and & Company Ltd., that had advised the Moyne Committee in 1936. Research began for a report that was submitted to the Governor, Montagu Norman, in April 1937.³

At this time, E.H. Lever, the joint secretary of the Prudential Assurance Company, was trying to enlist Montagu Norman's support for a financial reorganisation of the film industry.⁴ This was, however, unlikely. Norman had little sympathy for 'non-basic' industries claiming

1. Kinematograph Weekly, 11 April, 1940, p. 16.

2. Ibid., 17 October, 1940, p. 11.

3. Bank of England's archive. SMT (Securities Management Trust) 2, files 33, 34 & 35. [Bank of England documents hereafter referred to as SMT.]

4. Claud Serocold tried, in January 1936, to persuade the Bank of England to use its influence to prompt the City to back Korda. SMT/2/31, doc. 2, dated 30 January, 1936.

assistance from the Securities Management Trust division of the Bank that conducted the enquiry.¹ He was particularly critical of the film industry, and expressed astonishment when his close friend Lord 'Wyndham' Portal of Laverstoke, whose paper firm, Wiggins, Teape and Co., supplied all banknotes, told Norman that the company he had recently formed with Rank and others, GCFC, was considering a deal with GFD/Universal. Herbert Wilcox, also associated with GCFC, was present at Portal's meeting with Norman and recalled the Governor's response:

Portal started to outline the Universal deal when Norman broke in with: 'Wyndham, you're surely not going to interest yourself with that awful film industry?'

Portal caught my eye, and tried to make out a case, but Norman was adamant. 'It's no good, Wyndham! It's unsound. And those dreadful people are not your class. Keep out of it'.²

The deal with Universal did take place despite Norman's hostile attitude. Portal later told Wilcox: '"Don't take the governor too seriously. He has a bee in his bonnet about the British film industry"'.³

Lever wanted the Bank to prompt the City to pump more capital into production because the crash had discouraged sponsors. As we have seen in Chapter 4, the Prudential was the largest shareholder in LFP. Korda's nephew commented in his book on the family, that 'exactly how Percy Crump and Sir Connop Guthrie were persuaded to gamble the Pru's hard-earned money on Alex remains something of a mystery'.⁴ Karol Kulik quotes Ian Dalrymple's remark that 'a Tory-dominated National Government

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1. SMT was established in 1929 by the Bank of England as 'an internal department to deal with industrial problems... The establishment of SMT at that time was in part a device to divert the newly-installed Labour government from nationalising the Bank'. John Turner, 'The Politics of Business' in John Turner (ed.), Businessmen and Politics. Studies of Business Activity in British Politics, 1900-45 (Heinemann, 1984), p. 12.
 2. Herbert Wilcox, Twenty-five Thousand Sunsets (Bodley Head, 1967), p. 107. See also R.S. Sayers, History of the Bank of England (Cambridge University Press, 1976), p. 550.
 3. Wilcox, op. cit., p. 107.
 4. Michael Korda, Charmed Lives. A Family Romance (Random House, New York, 1979), p. 106.

brought pressure to bear on the Prudential to make a substantial contribution towards the expansion of British film production' but there seems to be no evidence to support this assertion.¹ Tabori's biography of Korda provides a little more information, although again no real explanation for the Prudential's involvement is offered. Tabori claims that an Australian businessman based in America, Montagu Marks, came to Britain to meet Korda in 1934 to discuss a film project already under way in America. He gained an introduction via the London representative of Western Electric because Marks had connections with Westinghouse, the company that had helped to develop the Photophone sound system. Marks's business links with the Prudential led him to introduce Korda to Sir Connop Guthrie, and financial backing soon followed.²

It seems that what actually happened was that Marks came to Britain not just to meet Korda, but principally to investigate the new 'Hillman colour process' owned by Colourgravure Ltd., a subsidiary of Gerrard Industries, a company in which the Prudential owned shares. A successful producer was needed to buy and exploit the process, and Marks decided that Korda, a producer 'whose star had risen high', was the man, and introduced him to Sir Connop Guthrie.³ In the summer of 1934 a deal was hammered out whereby London Films reorganised its share capital, exchanged shares with Colourgravure, and the Prudential agreed to take up £250,000 worth of 6% participating preferred ordinary shares with the call on some ordinary shares. The Prudential was soon the largest shareholder in London Films. Korda welcomed the deal because previously his company had been backed by Lloyds Bank and Hambros Bank. They had advanced about £400,000 on the security of a debenture stock. The terms for this advance had been onerous with an interest rate of 4.5% as well

1. Karol Kulik, *op. cit.*, p. 119.

2. Paul Tabori, *Alexander Korda* (Oldbourne, 1959), pp. 140-41.

3. Montagu Marks' report to the Camera Committee on Gerrard Industries re. Hillman Colour Process, 19 July 1934, Prudential archive.

as a premium of 4% per annum to insurance companies to secure the bank loans against loss. All Korda's surplus profits had to be used to repay these two loans, and so in 1934 the company was severely in need of extra working capital. Korda had plans to build a studio as he found working at Elstree expensive and difficult.¹ On the Prudential's side, apart from the need to invest money and participate in the exploitation of the colour process, Korda was seen as a good choice because of his links with United Artists and his recent contract with them for 16 films.²

After the success of The Private Life of Henry VIII Korda was less fortunate with subsequent pictures. LFP lost £26,967 in the fiscal year 1934, but by May 1936 this figure had risen to £330,842.³ Since October 1935 the Prudential became more concerned about Korda's tendency to overspend,⁴ and the completion of Denham, the site of the large modern studios that cost just under one million pounds to build, was delayed partly because of the exceptionally harsh winter 1935-6 and a fire during construction. In October 1935 Lever identified several deficiencies in LFP's organisation and financial management: the lack of co-ordination between administrative units; ineffective financial control; an inadequate costing system; the need to accelerate the

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1. Memo. re. London Films, 28 November, 1934, Prudential archive. The cost of building the new studio was estimated in this memo. at £350,000. The actual cost turned out to be much higher at £993,817.
 2. J. Schenck of United Artists was enthusiastic about London Films in January 1934: 'We have... a wonderful business here in Great Britain... Korda will produce at least six pictures a year. You cannot conceive what these pictures are doing for us here'. Schenck to O'Brien, 11 January, 1934, quoted in T. Balio, United Artists, op. cit., p. 134.
 3. Paul Tabori, op. cit., p. 177.
 4. The Prudential always considered Korda to be a risk. In a memorandum dated 12 September 1938 on 'the personal factor of Mr. Korda' by E.H. Lever, the joint secretary of the Prudential, the following comment was made: 'on account of his temperament and his opportunism in financial matters Mr. Korda is a dangerous element in any business, more particularly if he is in a position of control'. Prudential Assurance Co. Archive.

release of films and excessive payments made by Korda for story rights.¹ In December 1935, the Prudential agreed to advance loans up to £500,000 to LFP on condition that the 'weaknesses that have revealed themselves in the administration and financial organization' of the company would be remedied. The agreement, signed on 6 December, proposed that LFP should employ a costing expert; that no more story rights should be acquired and that Korda was not to produce more than six pictures during 1936.²

In May 1936 Korda informed the Prudential that since Lever's criticisms a considerable effort had been made to rectify the company's shortcomings. Mr. C.H. Brand, representing the Prudential, was appointed as a member of LFP's board of directors in April 1936, and a costing system was introduced. Korda had not given up purchasing story rights, but pointed out that since October 1935 he had sold from LFP's stock of literary rights stories for over £30,000 to companies that wanted to use Denham. He boasted that he sold the story rights and then persuaded the buyers to make the films at Denham. During the same period Korda spent only £5,950 for new story rights so that the total profit made from the literary rights section was £24,000. Korda defended his management of LFP:

I realise that being the head of the Company means that I must accept full responsibility for whatever may happen, but I am sure that with your wide business experience, you would not overlook the tremendous and overwhelming difficulties with which we have had to contend in the building up of a company like LFP Ltd. In the short space of two years, to have built Studios such as we are in the process of building now and at the same time to produce motion pictures, to fight against keen foreign and domestic competition and to lay the foundation of a new industry in this country has been no easy task.³

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1. Prudential (henceforth referred to as Pru), Lever to Korda, 28 October, 1935.
 2. Pru. Agreement between LFP and Prudential, 6 December, 1935.
 3. Pru. Korda to P.C. Crump and E.H. Lever, 18 May, 1936, p. 5.

In June 1936 the Prudential agreed to advance LFP a further £250,000 to finance the 1936 production programme. The joint secretaries of the Prudential, P.C. Crump and E.H. Lever, were not without reservations and stressed the need for further reorganisation:

The primary cause of our uneasiness and the main direct cause of the strict measures of control which we now propose to institute is that in spite of all our attempts to prevent it, there has been too great a tendency on the part of the Company throughout its development to enter into commitments in all directions with little regard as to whether finance will be available to meet those commitments and as to whether reasonable value is being obtained. We say this after making full allowance for the peculiarly uncertain conditions in which the cinema industry operates and the consequent difficulty of making estimates with a close degree of accuracy.¹

Crump and Lever were right to stress caution. At the 14th meeting of LFP's executive committee in November 1936 Korda presented figures showing that the current year's programme could not be completed because estimated expenditure on the following items had been exceeded by £109,000 in total:²

Table 30
Figures presented by Korda to London Film Productions'
Executive Committee, 1936

Item	Budget Exceeded By
	£
Capital requirements	35,000
Re-purchase of <u>Scarlet Pimpernel</u> story	7,000
Credits to Capitol Films under cancellation agreement	10,000
<u>Elephant Boy</u>	17,000
<u>Knight without Armour</u>	40,000

TOTAL	£109,000

At the meeting it was recorded that

Mr. Lever expressed his concern that yet again an estimate put forward by the Company had been vitiated and after full consideration, it was resolved that no further productions

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1. Pru. Crump and Lever to Korda, 4 June, 1936.
 2. Pru. 14th meeting LFP executive committee, 19 November, 1936, pp. 39-40. Present at this meeting were Korda, Lever, C.W.A Ray and C.H. Brand.

should be commenced after Claudius until July 1937 and the position should then be reviewed in the light of the then existing circumstances.

It was agreed that Korda should formulate plans for the preparation of four stories with a view to producing one picture during the second half of 1937.

The financial strain was hardly eased, but by January 1937 Lever, anxious to convince the Bank of England that LFP was worth recommending as a sound company for the City to sponsor, claimed that a standard of economical production had been laid down and agreed to by Korda. He had, after all, voluntarily made a cut of 20% in his salary and agreed to waive his personal payments of £5,000 a film and his 5% of gross receipts until LFP showed a profit.¹ Lever wrote to Munro in March 1937 and said that although the situation at Denham was better, the crisis made tenants difficult to find. In most of Lever's correspondence throughout the Bank's enquiry this point was stressed. Writing in September 1938 however, Lever stated that three major problems had dogged the Prudential's association with LFP:

- (1) the fact that the studios were completed just before the period of depression in the film production industry became acute and that in the absence of outside renters 'London Films' was compelled to undertake a larger programme of picture production than was originally contemplated;
- (2) that no proper arrangements had been made to finance such production programme as proved necessary and
- (3) that the whole organisation, both technical and administrative had so many defects that drastic reforms were obviously necessary.²

Lever's letter to Munro outlined the precarious method of short-term finance, arguing that although it caused problems

This class of finance could, with proper supervision and adequate margins, be so organised that it is practically gilt-edged so far as the lender is concerned, but to achieve

1. Pru. Lever's memorandum, 12 September, 1938, p. 25.
2. Ibid., p. 4.

this it is essential... for the time being, it should be centralised in one institution.¹

In other words, he was advocating some sort of Film Bank, with possible support from the Bank of England. His idea was that a syndicate of bankers should provide short-term finance and that a permanent organisation should be established once the necessary experience had been gained. He also hinted that the Government might involve itself more directly:

Although ultimately such a bank should be a purely lending institution run on conservative and economical lines, it should in the early stages of the building up of the industry take some part of the real risk of film production and might in some form or other be the channel through which the Government could give the industry direct financial support if it decided so to do.

The Bank of England based its initial investigations on this report, together with one submitted by Helbert, Wagg and Co. in April. The latter concentrated on reforming the industry, rather than solely on the production sector. It agreed with Lever that the best productions were those that aimed to penetrate overseas markets, and that short-term finance, properly directed, was a suitable method. Munro wanted a Film Finance Corporation and an expert to be called in from abroad to reorganise the industry. This was part of a three-pronged strategy: an interim arrangement for the immediate crisis; reorganisation and the eventual establishment of a Film Bank. He hoped that in due course it would play a more ambitious role:

It is essential, however, to discriminate between its commercial prospects and its national possibilities. Venturing as it would into almost virgin territory, an institution of this kind would, at least at first, incline to extreme caution. This policy might well prove useless in furthering such nationally desirable objects as the immediate salvaging of the industry or the more remote task of directing its energies into approved channels. In the event of its being intended that such an institution should undertake these duties of a national character, it would be necessary for some

1. SMT/2/33, Lever's memorandum, doc. 7, sent to Norman by Munro, 18 June, 1937.

State agency to stand the cost of possible loss on these non-commercial activities, either by guarantee or by providing such part of the capital as was to be devoted to such purposes.¹

On 8 April, 1937 a meeting took place at the Bank between representatives from Helbert, Wagg and Co., the Bank and the Board of Trade. The latter was concerned, but would not commit the Government to direct financial involvement unless the Bank of England's enquiry showed that this was unavoidable. Sir Horace Wilson had expressed the view that 'while the Government would not wish to retrieve the position for people who had burnt their fingers in rash ventures, they would be glad if steps could be taken to assist production and keep it alive'.² There was talk, however, of the Government providing a guarantee for the interim period, when a syndicate would be established controlling about two million pounds. Before interviews with a selected number of individuals in the industry commenced, Munro submitted a memorandum outlining a possible scheme for the interim organisation.³ Its basis was extremely cautious: producers had to find 100% of the cost of a film, secure a distribution contract and guarantee and had to have completed the picture before the syndicate would contribute 75%. The aim was to force producers to work to realistic budgets and accelerate production. Although 'rather austere' it was considered that this sort of interim organisation would assist serious producers to revive and weather the crisis.

The information for the Bank's enquiry came from the minutes of evidence to the Moyne Committee, and a series of interviews with E.H. Lever; R.D. Fennelly from the Board of Trade's film department; Lord Portal of Laverstoke, a director of GCFC, the recently-formed holding

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1. Ibid. doc. 10. Report by Helbert, Wagg and Co., 2 April, 1937.
 2. Ibid. doc. 27. Note of meeting at Bank of England, 8 April, 1937, attended by Montague Norman, Bunbury, Skinner, Sir Horace Wilson, Mr. Browett, R.D. Fennelly, Alfred R. Wagg, Capt. Gordon Munro.
 3. SMT/2/33, doc. 45, Munro's draft scheme, 16 April, 1937.

company for the Rank empire; R.P. Baker of Associated British Film Distributors; F.W. Baker of Butchers' Film Service; C.M. Woolf who resigned from Gaumont-British in May 1935 and formed General Film Distributors (GFD), the distributing company that made a deal with Universal and was absorbed by the GCFC in 1936; S.W. Smith, managing director of the British Lion Film Corporation and Simon Rowson.

When Lever was interviewed on 21 April 1937 he claimed that at the end of 1936 the Prudential had about £2 million invested in LFP, and reiterated that it was difficult to find tenants for Denham because the financial crisis discouraged production.¹ To remedy this it was decided that LFP should embark on a production programme of twenty pictures a year to keep the studios going, but finance was only available until mid-1937.² At the time of the interview Lever said the Prudential had £800,000 locked up in completed, but undistributed films, and the total amount needed to keep LFP producing and Denham solvent was about £2 million. He was anxious that the Bank of England gave some lead for the formation of a Film Bank to persuade the Prudential to continue to back LFP. Bunbury commented on Lever's case, and tried to discover his motives for defending LFP:

He may have lost more than he cares to say and wants to lessen his commitments on the production side, hoping eventually to float the studios as a Public Company... He rather spoils his case for the independent producer in his anxiety for the Prudential and although the difficulties of Pinewood and Denham reflect the difficulties of the 'independent', a safe and satisfactory way of giving financial help to these people has not so far emerged... We may find... that there is much to be

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1. Ibid. doc. 60, memorandum on interview with Lever by Bunbury, 21 April, 1937.
 2. The restraints on production previously urged by Lever had been temporarily abandoned once it was decided that the studio problem was the crux of the matter rather than extravagance in film-making. The existence of an ambitious production programme was also an attempt to persuade the Bank of England to act on LFP's behalf since it necessitated an influx of new finance and at the same time drew attention to the general crisis in the film industry.

cut away: on the other hand there may be a number of first class people who've suffered through others.¹

On 26th April, Bunbury, Skinner and Munro saw R.D. Fennelly, and informed him about the interview with Lever.² Fennelly doubted whether LFP would have to close, but knew that the Schach group was in trouble and that Sound City studios could find few tenants. On the other hand, he said Maxwell's group was not about to collapse and other producers showed no symptoms of 'crisis'.

There was more news of LFP when Munro informed Skinner and Bunbury that Lever had failed to obtain money from Lloyds Bank, and that if no word came from the Government about film finance LFP would be forced to abandon operations.³ Munro had first learned about this from his partner, Sir Nigel Campbell. Campbell had recently seen Sir Joseph Ball, head of the research department at the Conservative Party's Central Office, who had been asked by Lever to use his influence to help.⁴

The next interview was with Lord Portal. He placed the blame for the crisis on the independent producer who obtained money through the insurance brokers. He opposed Korda's expansionist policies, and considered it wiser to concentrate on productions of not more than £60,000 a picture. He argued that if GFD did not have to finance production its distribution charges could be reduced to 15%. Portal said that C.M. Woolf was financially inept, so GCFC had been formed and £1.5 million deal made to shore up GFD's position with Universal. His view was that a Film Bank should, therefore, be wary of financing disreputable producers and that 'if we were to get into the industry men of substance' the producer should, at first, take most of the ultimate risk.

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1. SMT/2/33, doc. 60, memorandum on interview with Lever by Bunbury, 21 April, 1937.
 2. Ibid. doc. 61, interview with Fennelly, 26 April, 1937.
 3. Ibid. doc. 71, note by Munro, 27 April, 1937.
 4. Ibid. doc. 64, memorandum by Munro (n.d.).

R.P. Baker agreed with Portal that Wilcox and Korda had overspent, and the lure of the American market spelt disaster. According to Baker, the Associated Talking Pictures studios that were linked to Associated British Film Distributors, were paying their way: only one out of six of their own films were failures whereas an average eleven out of thirteen films made by independents did badly at the box-office.

C.M. Woolf said that the small independents were the cause of all the trouble, but was more sympathetic than Portal had been. Woolf commented that 'if the industry were to have another crash it would be the end... he would like to see the worthwhile independents continue as such if we could feel the way'. Simon Rowson submitted memoranda on the need for reciprocity with America:

It is probably impossible to contemplate the production of large scale pictures otherwise than under the protection of a reciprocal plan. Up to the present, however, no evidence exists that American interests are likely to agree any effective proposals for bringing it about.¹

The evidence so far showed that the 'crisis' affected LFP and many of the independent smaller companies. It was caused by three main factors: extravagance and rising costs; unstable financial support and the onerous terms of the distribution contract. Rowson's evidence showed that distributors rarely took any risk and left the burden of obtaining finance for production to the producers. When a distribution guarantee was provided it was usually merely a means for producers to obtain loans for the major cost of a picture. At the same time, distributors' costs were high and their share of box-office receipts was far higher than the sums received by producers.

The Bank of England was determined not to recommend intervention unless the case was 'exceptional'. Any remedy had to be permanent and self-sustaining, and the Bank thought some participation by the industry

1. Ibid. doc. 78, 'A policy for films' by Simon Rowson, 30 April, 1937.

in the financing of a Film Bank would be necessary. The enquiry was secret, and this meant that only the opinions sought were considered. Originally the investigation was intended to be more extensive and thorough; the list of people to be interviewed was much longer than those actually seen. Important representatives not examined but listed initially as important were Messrs. Crawley and Stevenson of C.T. Bowring Insurance Ltd., a major backer of film production in the 1930s; F.C. Ellis and L.H. Wilkins who were directors of Glanvill Enthoven Ltd. and Aldgate Trustees; representatives from the Westminster and National Provincial Banks and from the insurance companies. It seemed that the Bank of England wanted the enquiry to justify its instinctive stance of non-intervention, and so was selective when gathering the evidence.

The LFP situation deteriorated. It was disclosed that Lloyds Bank was asked to advance money on the following security: that of the film negative once completed, insurance policies covering 70% of the cost and the 30% balance - or 'risk money' - put up by the Prudential.¹ Lever revealed that not only had Lloyds refused to put up the money, but the National Provincial and the Midland Banks had also been unco-operative. He needed £400,000 to complete films on the floor, and Glyn Mills had been asked to supply £200,000. The total amount needed to pull LFP through the crisis was nearly £2 million, but Bunbury was ever-cautious:

There is a degree of unanimity amongst those we have seen of extravagance, irresponsible management and lack of control in LFP and amazement that the Pru should have done what they have done.²

Back in February 1937 F.M. Guedalla, United Artists' legal counsel in England, wrote a report on the increasingly precarious relationship between LFP and the Prudential:

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1. Korda used insurance companies as did many other producers in the 1930s. See letter to author from G.R.S. Allardyce, a member of Glanvill Enthoven's film department in the 1930s, 18 December, 1983: 'I think it is fair to say that Korda would not have existed without the City Insurance Finance'.
 2. SMT/2/34, doc. 86, Bunbury's minute, 6 May 1937.

Reverting to the Balance Sheet I should think Korda and LFP must be in a terrible way, but inasmuch as the Prudential are owed mortgages for £1 million and are stated to have another £900,000 invested in the business... I have thought and still think that the Prudential are bound to see Korda through his troubles. On the other hand, they are getting very sick of paying out month after month... If they decide to stop financing LFP, then the whole show blows up immediately.¹

In this context, Lever's pleas to the Bank of England to help LFP's perilous financial position were an integral part of his attempt to reduce the Prudential's commitments in LFP. While he stressed to the Bank that LFP's major problem was financing a production programme launched to resolve the studio crisis, it was not long before the company's administrative and other shortcomings came out into the open.

In May Lever sent Bunbury figures relating to films produced since The Private Life of Henry VIII by LFP:²

Table 31

Film	Cost of Production	£ Receipts to 24/04/37
The Private Life of Henry VIII	£ 93,710	£210,000
Catherine the Great	127,868	127,000
Don Juan	114,239	53,700
Scarlet Pimpernel	143,521	204,300
Sanders of the River	149,789	143,200
The Ghost Goes West	156,062	158,039
TOTAL	£785,189	£896,239

These figures were intended to show that LFP had reformed, and some newer productions, Moscow Nights and Men are not Gods were less extravagant:

1. United Artists Archive, Film and Theatre Research Centre, University of Wisconsin. Guedalla to Wright, 9 February, 1937.
2. SMT/2/34, doc. 97, 10 May, 1937.

Table 32
London Film Productions: Production Costs of Five Films

Film	Cost of Production
Things to Come	£241,028
The Man who Could Work Miracles	133,104
Moscow Nights	52,326
Rembrandt	138,945
Men Are Not Gods	93,362

Lever said that if no money was forthcoming the Prudential would be forced to wind-up LFP, or sell out to the Americans. Later Lloyds Bank agreed to advance against new films on the floor, but would go no further despite pressure from the brokers.

On 25 April, the Governor was presented with an interim report¹ arguing that the methods employed by the City over the last few years had been dangerous, and that a shakeout was needed. Any financial assistance, the report stated, should be given only to 'people of substance' and under 'stringent conditions'. The films produced with money from a new film finance organisation should be low-budget, aimed at the British market. Costs over the past years had risen by as much as 60%, LFP and its expensive 'international' films being one of the main companies responsible. In fact, the report reiterated points gleaned from the interviews with Portal and others. It was recorded that the enquiry had so far suffered because no impartial expert (except for Simon Rowson) on film financing had been seen, and the need for a permanent organisation had not so far been considered in the context of wider debates on the Films Act. The report stated that the enquiry had pre-supposed a crisis based on Lever's original memorandum, but that some of the people interviewed had not backed up his argument of a general crisis. The Bank, however, was not entirely unaware of the industry's general difficulties, as revealed by some notes made by officials on the interim report:

1. Ibid. doc. 104.

A large number of independent producers have been eliminated as the result of the curtailment of the sources of easy finance. This, and the possibility of changes in the Quota provisions of the new Films Act, combined with known and suspected difficulties of certain prominent British companies, is causing some anxiety about the future in the matter of the sufficiency of British production as affecting exhibitors and studio-owning companies dependent in varying degrees upon independent tenants to cover the standing charges of their studios.¹

Such considerations were, as will be shown, submerged by the argument that the film industry was not at that time a suitable recipient of state funding.

Before this position became clear, Lever continued to press the Bank of England about LFP's plight. In the meantime Korda sailed to America to seek financial backing and to discuss his own position with United Artists.² It was reported in the trade press that the future of Denham had been discussed recently at a conference held at the studios attended by Winston Churchill.³ Lever wrote to Dr. Burgin, the Parliamentary Secretary to the Board of Trade, and Fennelly described his letter as being 'in the nature of an ultimatum'. Lever argued that everything depended on the Government's attitude:

Rightly or wrongly I have so far been considerably influenced in dealing with the problem of Denham by the belief that it was not only a matter of national interest that an effort should be made to put the studios on a sound basis and to produce pictures there, but also that it was the desire of the Government that institutions such as the one with which I am connected should assist the industry... If the fate of the Denham studios is a matter of indifference to the Government I am at any rate relieved of any doubt as to the advice to tender to my company since in this event I must come to a decision on the basis of self-interest alone which must lead either to shutting down the studios immediately the current productions are finished and disbanding the organization or to selling the organization to an American group... it would be a very serious setback to the British film industry all the more so at it is not a question of the company having failed to deal with its problems but, through apathy or fright, the failure to provide temporary working capital on the part of those who ought to be help-

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1. Ibid. doc. 117, 22 May, 1937.
 2. See the following section.
 3. Motion Picture Herald, 8 May, 1937, p. 56.

ing... If that attitude is one of indifference my course is clear - if the contrary then I will willingly continue to help all I can and will do my best to persuade my directors not to take drastic action at this stage... I can only do this however if I have a definite assurance that other finance will very shortly be forthcoming. London Films has to expend money and enter into commitments now for productions many months hence and I obviously cannot advise my company to assist London Films to meet this expenditure unless I know that money will be available to see the programme through.¹

On 1 June, Bunbury wrote a personal note to Montagu Norman.² This warned the Governor about the dangers of extending the scope of the Bank's enquiry and proved to be an important influence on Norman's decision to halt the investigation. From then on the likelihood of the Bank becoming involved in a scheme to help production, or a Government subsidy, was more remote. Bunbury had decided that caution should prevail:

There is no evidence today of any breakdown in the fulfilment of quota... A decision on the Film Bank is complicated by a hangover from the Aide-Memoire position in the form of LFP and I see great danger in our being put into a false position through the insistent applications from one quarter... I think LFP must find their own solution... For the Bank to take any further steps by way of enquiries would imply that something was likely to be done and I have no confidence that any further enquiries would disclose a practicable basis for any worthwhile Film Bank on commercial lines.³

One possibility, however, was for the Bank to promise to induce commercial concerns to finance the more successful companies, and that the Government should establish a Films Commission to regulate the industry. In June Montagu Norman wrote to Sir Horace Wilson along these lines, but reflecting Bunbury's doubts about the Film Bank:

It would appear that the recommendations of the Moyne Report in the matter of financial organizations were made without sufficient appreciation of the practical difficulties of proceeding on commercial lines at the present time. It may, however, be a matter for consideration by HMG whether in the absence for the present of any central Film Finance Organization a Films Commission, as suggested in the Moyne

1. SMT/2/34, doc. 123, Lever to Burgin, 24 May, 1937.
 2. SMT/2/35, doc. 147, Bunbury to Norman, 1 June, 1937.
 3. Ibid.

Report, might combine with such other functions as might be allotted to it, the functions of watching the financial developments within the industry. To this end a Films Commission might be empowered by law to call for a subsidy or for financial assistance in some form or another should such be necessary at a later date.¹

At that time LFP's immediate problems were relieved. A small amount of money had been advanced by Lloyds Bank after pressure from Montagu Norman.² Korda managed to raise £100,000 through the Chase National Bank of America against the rentals from Knight Without Armour as well as some funds from the Bank of America.³ Lever had, however, suspicions that the Bank of England had 'influenced the Joint Stock Banks to slow down on finance for film production'. He told Sir Nigel Campbell that he had negotiated with Glyn Mills for finance, but a loan was refused after the potential sponsors had consulted the Bank of England despite the existence of 'gilt-edged security'.⁴ Lever wrote to Bunbury on 11 June informing him of the loan from the American banks and added bitterly: 'I think it is very regrettable that such help had to be obtained, but there was no alternative in view of the hostile attitude of the British banks'.⁵ In June 1937 it was confirmed that the Bank's enquiry was over, leaving behind a vague promise for a Films Commission and some financial aid in the future.⁶ In the meantime, the quota remained the mainstay of the Board of Trade's film policy.

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1. Ibid. Norman to Sir Horace Wilson, doc. 154, 7 June, 1937.
 2. Ibid. doc 148, note for Norman by Bunbury, 2 June, 1937.
 3. Ibid. doc. 178, Fennelly to Bunbury, 18 June 1937 and doc. 185, Fennelly to Bunbury, 22 June, 1937.
 4. Ibid. doc 155, Note for Norman, 10 June, 1937.
 5. Ibid. doc. 156.
 6. The Film Bank and Commission were both reconsidered and again rejected during the war. See PRO, BT 64/61/17793/40; BT 64/58/4660/40; BT 64/58/8906/40; BT 64/95/2974/40; SMT/2/40; SMT/2/43.

5. London Film Productions, the studio crisis and the United Artists deal

The fates of London Films and its distributor United Artists (UA) were linked between May 1937 and January 1939 because during that period several interlocking schemes were proposed to reorganise both companies. In May 1937 Sam Goldwyn and Alexander Korda made a bid to buy-out the other UA partners, Mary Pickford, Douglas Fairbanks and Charlie Chaplin, at \$500,000 for each interest. The three partners, however, refused to settle for less than \$2 million apiece, and Korda and Goldwyn were given until 21 December 1937 to raise the \$6 million.

Both Korda and Goldwyn's key motive in trying to secure control of UA was to ensure that their films were distributed more effectively and at a cheaper rate. For the first year after Korda became a partner in UA in September 1935 he lost \$200,000 on distribution and in America his pictures did not repeat the box-office triumph of Henry VIII. In March 1937, Korda sent a cable to UA wishing to terminate his distribution contract:

'Recent happenings convince me that it is contrary to vital interests of my company to be distributed in future by UA. When our basic agreement was made, I was led to believe... that my company's and my own position in [the] British market would be recognised and that UA would regard us as mainstay of their British interests... [The] basis of our agreement was equal duties and rights for every stockholder which obviously is not case in practice, as production burden is absolutely unequally divided. Other stockholders not even giving a fair hearing to our demands as regards British market'.¹

In a memorandum written in February 1938 Korda revealed that control over distribution had been his main motive, supporting Simon Rowson's evidence to the Bank of England's enquiry about the onerous terms of distribution contracts:

1. 10 March, 1937, microfilm 448 reel 19, Balio, op. cit., p. 144.

We are charged today with 32.5% of our gross revenue for distribution. This is about 10% too high if we consider the world-wide market, and our distribution charges in England amounting to 30% are about 15% higher than they should be. Our aim in trying to secure control of UA was chiefly to diminish these distribution costs.¹

At the same time Korda was anxious to solve Denham's studio problems and to maintain the Prudential's support. A deal with UA therefore served to create some optimism about the future fortunes of LFP after the dismal failure of Lever's attempts to raise British finance.

Korda and Goldwyn set out to raise the \$6 million. Pickford and Fairbanks agreed to lower their price to \$1,750,000 each, but Chaplin insisted on \$2 million. The most Goldwyn and Korda managed to secure was an insufficient \$4 million after reported attempts to raise the finance from Lehman Brothers; Kuhn, Loeb and Co.; the Rothschilds and the Prudential.² Korda and Goldwyn attempted to form a holding company that could borrow money to purchase the controlling interests of Pickford, Fairbanks and Chaplin. Plans were drawn up involving an exchange of the shareholdings held by Korda and Goldwyn in UA, leaving them in control of the new company. Goldwyn insisted that Murray Silverstone, head of UA in England, should become President, replacing Dr. A.H. Giannini who had recently taken the office. The management of the new company was to be in the hands of an executive committee headed by Silverstone, Goldwyn and Giannini. Another aspect of the scheme affected Korda's personal interests in UA: when he was made a partner in 1935 he was given until 1938 to pay the \$650,000 purchase price; the new deal, however, extended this date to 1943.

The Prudential was supposed to benefit from the deal through its association with London Films because British interests would have a greater voice in UA's affairs and therefore greater control over the

1. Pru. Memorandum by Korda, 1 February, 1938, p. 4.
2. Balio, *op. cit.*, p. 147.

distribution of LFP's films in the States. The projected deal was also supposed to help LFP's studio problem 'by giving greater freedom of action in the direction of linking up of the production side of one or other of the large American groups'.¹ UA was to merge for distribution purposes with one or more of the US majors' British renting subsidiaries and Korda would be allowed to produce for both UA and any companies involved in the merger.²

When Korda and Lever were in New York discussing the UA deal, approaches were made to them by MGM, Fox, Paramount, Warners and RKO for Anglo-American co-operation. Lever welcomed such proposals at that time because

In view of the continued absence of financial facilities in London for picture production it has become increasingly clear that the only immediate way of ensuring the full occupation of the studios is to enter into an arrangement with one of the large American film production groups. Quite apart from the particular problems of 'London Films' there is considerable merit in Anglo-American co-operation.³

Lever went on to outline the various 'approaches' from each American major. The most unacceptable from LFP's point of view came from Warners and RKO. MGM and Fox offered £1 million for the establishment of a new production company in which LFP would have an interest. Lever, however, decided to leave negotiations in abeyance because the two American 'majors' wanted to be in a position of 'complete domination' and were anxious that LFP should withdraw from UA because some of the moguls in Fox and MGM were 'in complete antagonism to Mr. Goldwyn'.⁴

The 'most promising of the approaches' from Paramount involved the formation of a new production company with a capital of £1 million. Paramount was to find one-half to two-thirds of the ordinary capital, and the new venture would merge the two distribution organisations (UA

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1. Pru. Report by E.H. Lever, 29 November, 1937, pp. 12-13.
 2. Pru. Memorandum 'A', 16 November, 1937 by Lever on UA deal.
 3. Pru. Lever's report, 29 November, 1937, pp. 13-14.
 4. Ibid. pp. 15-17.

and Paramount). Paramount's fifteen 'key theatres' in London were to be amalgamated with the Odeon circuit with which UA was linked. Lever argued that he would prefer LFP to remain 100% British, but with the absence of British finance or a lead from the Bank of England, this seemed unlikely. Above all, Lever was still pressing for an extensive reorganisation of LFP but kept his options open by declaring that the plans for Anglo-American co-operation in production and the deal to obtain control of UA with Sam Goldwyn were not necessarily linked or dependent on each other.

The American companies were especially interested in co-operating with LFP and producing at Denham because the multiple quota credit clause in the Films Bill encouraged them to embark on ambitious production programmes in Britain. To this extent, London Films with its large modern studios could bargain with the US 'majors' and hope to solve its own financial problems at the same time.

When Lever returned from America another possibility presented itself. The Rank group wanted to amalgamate Pinewood and Denham together with other cinema and distribution interests.¹ In the meantime, the UA deal failed. Guedalla opposed the formation of the holding company to acquire the interests of Pickford, Fairbanks and Chaplin, and the latter refused to agree to the establishment of the new committee. Goldwyn made a final attempt to buy-out the three partners, but this time with Jock Whitney's assistance.² They were offered \$750,000 each and \$750,000 in preferred stock. The finance was to come from British sources, but this was not forthcoming because Korda was not involved and it was felt that the Prudential would not approve. In any case British bankers 'were dissatisfied with UA's management, its meagre sources or product, and

1. Lever's Report, 23 December, 1937, p. 1.

2. In 1935 John Hay Whitney, a financier whose family was involved in Pan American Airways, became chairman of the board and invested in Selznick International Pictures that produced for UA. See Balio, *op. cit.*, p. 136.

the divided purposes of the owners. Money would be forthcoming only if UA was rehabilitated and put on a sound operating basis'.¹ In the end Whitney backed out of the proposed deal, and so Goldwyn turned his attention away from trying to obtain control of UA to securing the company's reorganisation headed by Murray Silverstone. The 'Silverstone Plan' was eventually agreed to in January 1939. It provided that 50% of UA's profits would be distributed as a super-rebate to producers whose films were distributed via UA. The main aim was to attract new producers, and Korda was not completely dissatisfied because during the negotiations for control he managed to secure reforms and slightly reduce distribution charges.²

After the failure of the UA deal LFP's problems persisted. In February 1938 Korda was considering various options in an attempt to solve the studio problem without recourse to more loans from the Prudential. The possibilities surveyed by Korda were varied: a studio deal with John Maxwell; a production amalgamation with Paramount; a production amalgamation with MGM and Fox; an amalgamation between Pinewood and Denham together with GFD and the Odeon circuit; remaining with UA; reviving the UA deal or the possibility of combining any of these transactions with a deal with UA. In his preamble Korda argued that LFP was an important company in the British film industry and that 'Denham, after 18 months of very hectic work with all the initial mistakes and complications of a great machinery, is now setting down to thoroughly efficient and economic work'.³ He claimed that at first the studio faced various obstacles: the lack of experienced British manpower; the high costs of distribution demanded by UA; 'a lack of solidarity in the industry, especially in the film producing side'. He went on to refer to the crisis of 1937:

1. Ibid. p. 154.

2. Ibid. pp. 152-154 for the Silverstone Plan. See also Kulik, op. cit., p. 203.

3. Pru. Korda memorandum, 1 February, 1938, p. 2.

Promoters with no experience made a mess of their business and produced one bad picture after the other, thereby doing great harm to other companies who, like ourselves, strived to maintain good quality in their output. The prolonged conversations in Parliament concerning the new Quota Act were another disadvantage to the industry, which made the public believe that British Pictures were without exception made only through a sort of Government subsidy; and, I am sorry to say, the Government's point of view regarding the British film industry has not been very helpful during the past few months... one of the greatest difficulties with which this Company has had to contend was the entirely unhelpful attitude of the Banks, and that we had to secure a proportion of our finance at too high a cost. ... during the general slump in the industry, our studio which had relied on important rental business from other producing companies, as well as producing our own pictures, did not see its hopes fulfilled, although whatever important pictures have been produced in England during the past two years were almost without exception produced at Denham.¹

Korda, however, claimed that things had improved. He was optimistic that the deals he was contemplating with the Americans, Maxwell and the Rank group/Odeon might finally bring Denham out of the crisis.

The first deal was with Maxwell of ABPC. Although some compromises were discussed, the main transaction that the two parties were considering was a deal whereby Maxwell would buy Denham and grant LFP a rental agreement and an option of the use of studio space in the future. Korda made the following observations:

We would face, although perhaps only momentarily, a loss of prestige, as Mr. Maxwell will probably ensure that the deal will be interpreted in such a way as all his previous deals have been interpreted... in the public press, i.e. that he has had to save the British Film Industry from a grave loss. But if I disregard this purely sentimental point of view and consider the matter on an objective basis, there is no question but that there are some advantages in this proposal.²

These were that the investment value of the studios would be enhanced, it would enable the Prudential to fill the studios without having to contribute additional funds and eventually withdraw its capital. On the other hand, Korda doubted that the deal with Maxwell would benefit the production side of LFP because 'instead of becoming a great production

1. Ibid., p. 5.
2. Ibid. pp. 6-7.

unit we would become more or less an individual production organisation similar to the Selznick or Goldwyn organisations'.¹ The deal was also thought to preclude any schemes for joint production with the American groups that Lever had been investigating.

The second alternative was the production amalgamation with Paramount. Korda was well disposed to the idea, especially as the American 'major' owned 1,200 cinemas in the States. The deal was potentially lucrative because British Paramount and UA could be merged for distribution purposes, and at the same time Paramount's 'key theatres' could be linked to the Odeon circuit. The disadvantages were that distribution costs would still be relatively high and Paramount, as a company with a reputation for producing 'poor quality British films' would hardly improve but 'impair the receipts of our mutual pictures'.² However, like the deal with Maxwell, the Paramount scheme would enable the Prudential to withdraw much of its capital from LFP.

The third possibility, a production amalgamation with MGM and Fox, was also considered to be promising because the two 'majors' were financially and artistically the two strongest companies in the business. The projected deal, according to Korda, should involve the American companies contributing a good deal of the capital for the formation of a new production company, as well as a reduction in distribution costs by about 12.5%. Korda weighed up the advantages and disadvantages. Although the new company would 'for every outward appearance' be operated as a British unit, he feared that in reality LFP would become 'more or less a branch of an American organisation'. Second, the UA connection would have to cease. On the other hand, Korda argued that the deal would help to consolidate the British film industry, especially if Fox and MGM swallowed-up Gaumont-British and the Odeon circuit, thus creating a huge film empire importing the best

1. Ibid., p. 7.

2. Ibid., p. 11.

American movies, producing the best British pictures and in control of about 650 British cinemas. Although in many respects this plan was desirable Korda warned that it would more or less mean selling-out to the United States: 'I do not believe that anything could be done on any other basis than by giving them the working and managing control of the whole organization'.¹ The danger of bargaining with Hollywood's 'majors' could not be ignored.

The next deal anticipated what actually happened to the studios. It involved an amalgamation of Pinewood and Denham with GFD and the Odeon circuit. Korda thought that such a deal would benefit the Rank-Portal-Odeon group more than LFP because he considered that the films produced at Pinewood were 'mediocre' and that GFD was a second-class distributor. The only deal that Korda envisaged as practicable and desirable involved the Rank-Portal-Odeon group putting up more or less the entire risk capital to finance the output of the production companies. At that time Odeon was contemplating buying control of Gaumont-British so the deal promised to be monumental.

Korda commented:

I must emphasize here that I am in no way against an American collaboration, but all my experience teaches me that one can do an infinitely better deal with an American concern if our own house is put in order, and they are not called, as in the case of the present moment, to save a sinking ship. We ought to be able to sit round the same table as equal partners with them. If this could be the case, in my opinion, we could make with them an exceedingly advantageous deal for our output in their territory, whether the Government will help us or not. After all, one should never forget that the profits of any American film corporation about equal their gross takings from England. So if a purely British combination could be arrived at, owning 650 theatres, having studios such as ours, a good production organization and its own distribution organization in this country, the deal to be made with the Americans would take on an entirely different complexion than the deal which we could make at present.²

1. Ibid. pp. 13-14.

2. Ibid. p. 16.

Finally, Korda considered the UA situation. If LFP was to remain with UA, Korda demanded reduced distribution charges; a reorganisation of LFP's finances; the creation of a new studio company and a great effort to find new tenants. If the deals with Maxwell and the American 'majors' could be combined with a scheme involving UA Korda thought the companies would be more interested in an amalgamation than if LFP was the sole participant. He made no specific recommendation in his February memorandum, but he concluded by outlining the financial position of Odeon, hinting that he favoured a deal with the expanding circuit. Since Odeon was linked with UA the combination was potentially lucrative:

In my opinion, a great strengthening of our corporation and indeed of the whole British Film Industry, would be effected if we could create in England a Company which through its ownership of a chain of cinemas, or through some sort of partnership with a cinema chain, would have not only a safety-valve in this market, but also a position of such power against American companies that it would be able to force its own product into the American market through the big American companies who are also owners in America of large circuits.¹

In the end, nothing came of the projected Anglo-American deals. They were, however, significant because at the time the offers were being considered, Anglo-American co-operation seemed the only viable solution to the problems of Denham and LFP and the British film industry generally. As American companies, encouraged by the multiple quota clauses in the Films Bill, were keen to produce in Britain, Denham was out to benefit by attracting the new units and solve its own problems. In the absence of British finance or the creation of a Film Bank or Film Commission, the trend at the end of the 1930s was towards a rapprochement with the American industry. But LFP was not forced to merge with an American major because the letting position gradually improved. In September 1938 Lever was able to declare: 'The present letting position and the prospects over the next year are sufficiently favourable to

1. Ibid., p. 19.

justify the hope that the studio problem is, for the time being, solved'.¹ American companies had wanted to use Denham, and so definite links with LFP had not proved necessary. Contracts with Columbia, MGM, and others relieved the studio crisis that had dogged Denham since it was opened in 1936. In 1938 the studios were merged with Pinewood to form D. & P. Studios Ltd., and the Prudential loaned Korda \$1.8 million to form Alexander Korda Film Productions Ltd.² Korda had thus lost control of the studios, but went on to begin the production of The Thief of Baghdad (1940). His association with UA continued until 1944 when he sold his shares for \$950,000.³

6. The Associated British Picture Corporation and Warner Brothers

Although Maxwell had failed to gain control of Gaumont-British, ABPC expanded in 1937 when the Union circuit was acquired, increasing the number of cinemas in the circuit to 450. In October 1941 Maxwell died, and his holding of 4,050,000 ordinary (voting) shares, out of a total of 8,000,000, passed to his widow. Mrs. Maxwell needed large sums to cover debts of £614,000 from estate duty and tax. In December 1940, ABPC's lawyer, Robert Clarke, approached the Bank of England proposing a scheme whereby a Film Finance Corporation, being considered again at the time by the Bank, the Treasury and the Board of Trade, would acquire a 50% interest in ABPC through the purchase of the Maxwell shares for £2 million. Skinner rejected this plan because it was not envisaged that a Film Bank should have fixed assets, and the deal might involve the Government in the affairs of the industry far more than officials intended.⁴

Warner Brothers, however, were interested in purchasing through their British subsidiary a 25% interest, or 2 million ordinary shares.

1. Memorandum by Lever, 12 September, 1938, p. 8.

2. Balio, op. cit., p. 154.

3. Ibid., p. 201.

4. SMT/2/44, doc. 1, Note by Skinner, 4 December, 1940.

The Board of Trade was not keen on the idea of another American company obtaining a substantial interest in a British concern, and did not want a repeat of the Fox/Ostrer wranglings. When the idea was first proposed, the Board of Trade wanted a delay so that an alternative purchaser could be found.¹ Max Milder, managing director of Warners' British subsidiary, tried to persuade the Board of Trade that the company's interest in the purchase of the ABPC shares was for greater co-operation with the British film industry and the promotion of British production:

It would have been quite possible for us to purchase the whole of Mrs Maxwell's interests, and in fact, her first thought was to secure an outright sale of her whole interests. It was partly because we understand and appreciate the national sensitiveness of these matters that we preferred to acquire only a 25% interest and not a 50% interest.²

Milder argued that the deal with ABPC was a logical consequence of past associations between the two companies. In 1931 Warners had acquired a studio at Teddington and in the 1930s spent over £350,000 on re-equipping and expanding their asset. In 1938 the company built a Warner Theatre in Leicester Square for over £350,000 and Milder claimed that ABPC's circuit 'relied on Warner Brothers' productions'. Both ABPC and the Warner subsidiary in Britain were partly financed by the National Provincial Bank, and Milder claimed that the Bank's manager, Ernest Cornwall, had agreed to extend Warners' existing credit facilities to facilitate the deal with ABPC.

The Treasury was anxious that the deal should go through because it provided an opportunity to bargain with Warners to pay for its share of ABPC in dollars. As Rendell, a Treasury official, wrote to Somervell at the Board of Trade in June 1941, the Treasury

might indeed find it difficult in certain circumstances to justify a reluctance to jump at several million dollars in return for an interest in

1. Ibid. doc. 21, Rendell to Skinner, 14 June, 1941.

2. Ibid. doc. 22a. Note from Max Milder to Oliver Lyttelton, 13 June, 1941.

a number of buildings that are liable to be demolished at any moment.¹

By August 1941, the deal was completed. The purchase was made mainly from sterling balances accumulated by Warners in Britain because of the wartime restrictions on remittable income. Max Milder was appointed joint managing director of ABPC, and although control rested formally in British hands it later became clear that when Milder took control of cinemas Warners had a more than effective voice in the company's management and booking policies. In September 1943 Robert Clarke informed the Bank of England that

Today for all practical purposes the Corporation is an American operated company... With but 25% of the ordinary voting stock of the Corporation worth at part, £500,000 and costing them £900,000. Warners have too great a preponderance of power in a Corporation of such potential National importance now that cinemas are accepted and recognised as an important source of entertainment, propaganda, education and general cultural value.²

On the other hand, as an official at the Bank pointed out, although Max Milder had been very active in ABPC the company had been managed well since the buy-in of 1941.³ Despite Clarke's protestations, Warners were not prevented from purchasing more shares in ABPC in 1945 so that the American company's interest was increased to 37.5% of the issued ordinary capital.⁴

7. The Rise of the Rank Organisation

In the late 1930s J. Arthur Rank was creating his empire. After establishing GCFC in 1936, and securing the deal with Universal, he acquired control of Gaumont-British in 1941. GCFC bought a controlling interest in the Metropolis and Bradford Trust, and in 1942 Rank acquired control of GCFC through a company called Manorfield Investments Ltd.

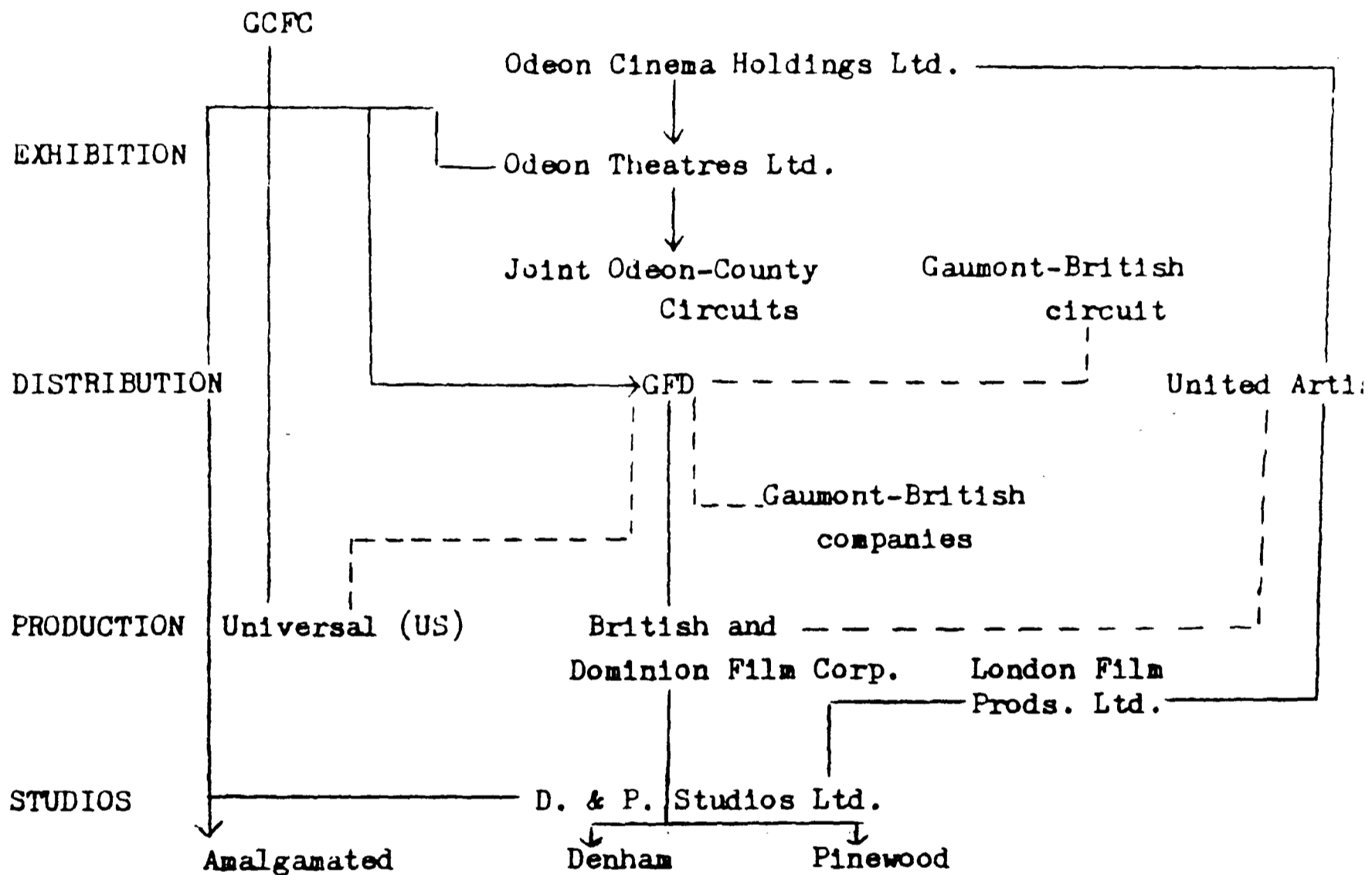
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1. Ibid. doc. 15, Rendell to Somervell, 4 June, 1941.
 2. Ibid., doc. 52, R. Clarke to Skinner, 1 September 1943.
 3. Ibid., doc. 60, note by 'Catto', 19 May, 1944.
 4. PEP, op. cit., pp. 94-5.

1941 was significant for Rank also because in that year he gained control of the Odeon circuit through a company called Foy Investments Ltd. that had been formed by Rank and Oscar Deutsch of Odeon. When the latter died in 1942 Rank took over his shares and thus controlled both Odeon's circuit and the company Odeon Cinema Holdings Ltd. The latter was linked with UA, and thus with Korda who had joined Odeon's board. The following table illustrates the structure of the British film industry and the origins of the Rank empire at the end of the 1930s.¹

The foundations of Rank's vast organisation were laid in the late 1930s when Anglo-American cooperation, encouraged by the new Quota Act, promised for a time to help the industry recover from the 1937 crisis. The 1938 Films Act did not have time to take root before the outbreak of war. Production fell in 1938-39 (see Table 27) and the repercussions of the financial crash were still being felt. Once again the field was left open for the combines to consolidate their power and for the emergence of Rank's empire. By 1942 he had created the biggest British film outfit ever and went on to make a determined bid to penetrate the American market. But that is another story.

1. Ibid., p. 65.

Table 33
The Origins of the Rank Empire



Controlling interest —————>

Shareholdings or cross directorships ———

Operating agreements - - - - -

CONCLUSION

Despite the economic orthodoxy of free trade the government felt compelled, for cultural, economic, moral and political reasons, to respond to 'the Hollywood invasion'. Cinema-going was the most popular form of mass entertainment and the government's desire to encourage an indigenous film industry illustrates the growing official recognition of the propaganda value of commercial feature films. The 1927 Films Act proposed that renters and exhibitors should acquire and show a percentage of British films. More extreme intervention was unlikely at that time because until 1932 Britain pursued a policy of free trade. But the Act inaugurated a new relationship between the industry and the state and was caught up in the battle being fought at the end of the 1920s to end free trade.

Under the impetus of state protection the film industry adjusted to the coming of sound and production made some headway in the 1930s. Major studios were built at Denham and Pinewood, cinema-building accelerated and British films began to be more popular. But the industry's fundamental problems remained unsolved, the major one being the limited size of the British market. Although British films won back a percentage of screentime from Hollywood throughout the period the majority of films seen by British audiences were still American. The American film industry had been able to dominate the world's film outlets because of its vast home market and the extremely low costs of manufacturing and exporting film prints. Britain was particularly vulnerable to American competition because of the common language and commercial practices employed by the US majors' UK subsidiaries. On the other hand, for economic and cultural reasons British films were not widely distributed or popular in the States.

Although quotas opened up a corner of the domestic market to British films they did little to ensure that film-makers recouped production costs. Serious obstacles prevented continuous and economical production - the absence of sustained financial support; harmful commercial practices; the inequitable division of box-office takings; overspending, high costs and mismanagement (problems common to any film industry) and the growth of the combines at the independents' expense. Other problems were the lack of creative opportunities for those who wished to make films that were more experimental than commercial and the Board of Trade's ambivalent attitude to Hollywood.

This thesis has highlighted the many contradictions in British film policy. Logically, any fully protectionist policy for film would have involved discriminating against Hollywood's movies. But in the 1930s this was not possible or realistic and would have been fiercely resisted by powerful forces: the American film moguls, British exhibitors and a large part of the audience who flocked to the Odeons and Plazas to see Gary Cooper, Clark Gable, Greta Garbo and Norma Shearer. Although British stars like Gracie Fields and Will Hay had become popular there is no doubt that for most cinema-goers the experience of 'going to the pictures' meant being transported to a world created by the Hollywood 'dream factory'.

The state's role remained a limited one partly because a more interventionist approach could easily have been identified with a desire for official control of the film industry for propaganda purposes as in Germany, Italy and Russia. Although many British politicians were in favour of commercial feature films depicting British 'life and manners' their encouragement was confined to parliamentary rhetoric and no restrictions were placed on Hollywood's exports.

The British film moguls, such as they were, consistently sabotaged plans for the state to adopt a more decisive role and tenaciously

guarded their control over the industry's internal affairs. If the independent Films Commission suggested by the Moyne Committee had been established the trade might have been forced to apportion a greater share of box-office receipts to producers and the combines' stranglehold over exhibition might have been challenged. But the Board of Trade was heavily influenced by the film trade's hostile and suspicious attitude towards external regulation and preferred to leave well alone. Although cultural arguments were invoked to justify protecting the film industry, in practice the Board of Trade tended to treat it like any other enterprise under its authority. It did not involve itself in film finance until the late 1940s mainly because the issue posed difficult questions that the Board of Trade, as a government department concerned with industry and commerce rather than with culture, was inexperienced and most reluctant to answer: What kind of industry is needed? Which producers should be supported? What size should the industry be and should its films cater for the British or world markets? At the end of the 1930s a less hazardous way out of the industry's financial ills seemed to lie in the direction of attracting American money for productions in Britain. Plans elaborated by the Bank of England for a Films Bank in 1937 were thus jettisoned in favour of a quota policy designed to entice American finance.

A final factor constraining the government's film policy was the possible impact on Anglo-American relations. British cinemas still needed Hollywood's movies and the US majors had the State Department's support in their quest to 'Americanise the world'. In the late 1930s, with the shadow of war just around the corner, we were not in a position to be Hollywood's reluctant and ungrateful customers. The Board of Trade was forced to steer a middle course and by 1939 the origins, nature and limitations of its dealings with Wardour Street were clear.

Such considerations became even more important during and after the Second World War when British survival depended on American military, political and financial support. Britain could not afford to aggravate political tension by discriminating against Hollywood's movies. At the same time, the large amount of dollars remitted to America in respect of films shown in British cinemas was severely criticised by the press and in Parliament. As in the late 1930s the desire to boost British film production conflicted with the need to cultivate the 'special relationship' with America. Thus the history of commercial film policy frequently impinged on questions of paramount economic and political importance.

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