If you want to see the names driving Hollywood’s growth, you have to stay for the movie’s credits. The very end of the credits. After the actors and electricians — sometimes even after the people who serve the tacos on set — come the visual-effects artists. These are the people who make superheroes fly and cities fall into the ocean, and the effects-reliant films they work on, like Avatar and the Harry Potter franchise, are Hollywood’s biggest moneymakers. (See the 100 best movies of all time.)

Their place in the credits says something about visual effects (VFX) artists' place in the Hollywood pecking order. Ironically, just as they are peaking in creativity and propelling box-office hits, VFX companies are facing a crisis years in the making. Thanks to fierce global competition, the hangover from Hollywood labor unrest and a lack of negotiating power with studios, many VFX firms are closing up shop or outsourcing to stay afloat.

"Fundamentally, visual effects is a crappy business," James Cameron told me when I interviewed him for my book, The Futurist: The Life and Films of James Cameron. "You don't make much of a margin. A good year for us was 5%. Sure, we were doing huge volume but at a low margin." In 1998, after the VFX company he helped start, Digital Domain, won an Academy Award for its groundbreaking work on Titanic, Cameron resigned amid dispute about its direction. Since then, Digital Domain has emerged as one of Hollywood's leading VFX shops, alongside George Lucas' Industrial Light & Magic (ILM) in San Francisco; Peter Jackson's Weta Digital in Wellington, New Zealand; and Rhythm & Hues and Sony Pictures Imageworks, both in Los Angeles. (See the top 10 James Cameron moments.)

Yet the global VFX industry has been fragmenting. It encompasses everything from Lucas' 35-year-old state-of-the-art empire to months-old shops in India and China. Scott Ross, a former CEO of Digital Domain and general manager at ILM, estimates that VFX is a $1.35 billion industry, with the big five shops each pulling in $80 million to $100 million a year and the many smaller shops taking in as little as $1 million. Effects companies work on movies, TV shows, video games, commercials and music videos and are constantly hiring and firing, depending on their project loads.
The VFX business should be thriving. Nine of the 10 highest-grossing movies worldwide in 2009 relied heavily on special effects, making the industry more central to Hollywood's business model than movie stars are. As much as a third of the budget of the $200 million — to — $300 million movies that are the foundation of Hollywood studios' earnings are devoted to special effects. "It's no longer about Tom Hanks or Tom Cruise," says Ross. "It's about flooding New York or creating blue people."

But in the past 15 months, companies including Disney's ImageMovers Digital in Novato, Calif.; C.O.R.E. Digital Pictures in Toronto; and the Orphanage in San Francisco have shuttered. "It's pretty much an open secret in the business that you do feature-film visual effects for prestige — to get a great reel, to keep your artists happy — but they don't make money," says David Cohen, an associate features editor at Variety who covers the VFX industry. "If you're lucky, you break even on them. If you're not lucky, you're out of business."

See TIME's photo-essay "The Real Science of Avatar."

See the best movies of the decade.

The root of the industry's problems is in how the companies were formed, most of them in the go-go 1990s, when cash was plentiful and shops were treated like high-tech sandboxes for directors and artists. In 1993, Digital Domain was founded with $15 million, and 50% partner IBM provided dozens of $50,000 graphics workstations — a VFX company's costliest investment.

In the past three years, economic mobility spoiled that script. Generous tax incentives in Canada, Europe, Australia and New Zealand siphoned off much of Hollywood's VFX work and drove down prices. At the same time, U.S. companies began outsourcing the grunt work — unglamorous tasks like wire removal and rotoscoping (an animation process) — to India and China. (See pictures of James Cameron's best special effects.)

As technology got cheaper, the barriers to entry fell: a small shop can get up and running with $20,000 worth of hardware and software. The 2007-08 Hollywood writers' strike and the threat of an actors' strike in 2009 slowed the green-lighting of new films — a blow from which some companies haven't recovered. "We're starting to see even more dire competition, and it's getting harder to keep shops open," says Ross.

A major point of contention between VFX shops and studios is the issue of change orders. When a director revises what he wants to see in a shot, it can mean months of lost work. Under the current system, most VFX houses feel they have to eat the costs to maintain their relationships with studios and filmmakers.

Studios are simply getting the best work for the best price. "We're the ones that spend the money, demand innovation, take the risk," said Chris deFaria, executive vice president of digital production, animation and visual effects at Warner Bros., at an online town hall in March for the VFX industry. "We're the ones deeply invested in a thriving VFX environment."
The town hall was organized by writer and former effects artist Lee Stranahan, who has become something of a Norma Rae for the industry, thanks to the widely read "Open Letter to James Cameron" he wrote for the Huffington Post. In it, Stranahan called effects shops "the most fun and high-tech sweatshops on earth."

Traditional Hollywood trades such as animation and set building are unionized, a status VFX artists aren't likely to achieve, given that VFX is a global business. Companies will simply hire the cheapest labor force that can do the job. In the U.S., VFX artists' salaries start at $50,000 and can quickly reach the low six figures. Artists overseas earn as little as 10% of that.

For VFX houses, there may be a dramatic Hollywood ending. With effects-heavy movies like the forthcoming Batman sequel, The Hobbit, Thor and Green Lantern coming down the pike, the demand for VFX may overwhelm the industry's diminished capacity. The changing nature of the work could alter the balance of power too: being a gifted designer is becoming more important than being a technical whiz. Says analyst Alan Lasky: "The minute you see one of these movies not make its release date due to this capacity crisis, then you'll start to see some interesting changes in the industry." Who knows? Maybe someday an effects artist will even get star billing.

See the top 10 movie performances of 2009.

See the top 10 movies of 2009.

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