

Public and/or private support for the arts

Artistic institutions earn income by selling tickets to performances or, in the case of museums, by charging for admission. But in every economically advanced country, they also receive substantial additional support (the unearned income referred to in Chapter 8) either from the government in the form of grants or from private individuals and businesses in the form of charitable donations. In Western Europe, Canada, and Australia, most of the additional funding comes from the government, whereas the private sector contributes very little. The situation in the United States is quite different: additional support comes about equally from the public and private sectors. There is a lot of history behind this last statement, and it is worthwhile sketching it briefly to explain how we got to where we are now.

Traditional opposition to public support in the United States

Until the early 1960s, the federal and state governments in the United States offered virtually no continuous, direct financial support either to artists or to arts institutions, not to the performing arts, not to the fine arts.¹ Although government support for the arts was commonplace in Europe, opinion in the United States was quite hostile to the idea. First of all, until the period of the New Deal in the 1930s, a majority of Americans accepted the philosophy of laissez-faire, according to which government intervention in economic matters should be kept to a minimum. A government that did not subsidize agriculture or

¹ See Dick Netzer, *The Subsidized Muse* (Cambridge University Press, 1978), pp. 53–59, 79–80; and Milton C. Cummings, Jr., "Government and the Arts: An Overview," in Stephen Benedict, ed., *Public Money and the Muse* (New York: Norton, for the American Assembly of Columbia University, 1991), pp. 31–79.

housing, provide unemployment insurance to workers, or offer a subsistence income to the poorest of its poor was not going to be asked to subsidize operas, symphony concerts, or ballets. Second, the high arts of the sort discussed here were thought to be "elitist" and therefore not important to the masses, a further reason why the government need not concern itself with them. Finally, the tradition in the United States was that institutions like museums and symphony orchestras relied on wealthy private individuals for gifts to supplement their earned income. (In the case of museums, earned income was negligible, since admission was usually free.) And the traditional system seemed to work well enough, according to the standards of those times. Indeed, the institutions themselves generally opposed the idea of state or federal government support.² Probably, they were moved not only by strongly held philosophic convictions, but also by fear that government aid would lead inexorably to government meddling, if not to outright control.

Support from local government was another matter. When arts institutions like museums or symphony orchestras were first established in the latter part of the nineteenth century, the local government often helped out by donating land on which the museum or concert hall could be built by its rich patrons. When the "City Beautiful" movement began around 1900, many cities built so-called civic centers that typically included a large auditorium usable for concerts and perhaps operas. In addition, local governments have always exempted religious, educational, and other nonprofit organizations from liability for the local property tax. This amounts to a substantial benefit: in 1978, Dick Netzer estimated its value to the arts sector as \$150 million "at most."³ At 1992 prices it would be worth somewhat more than twice that figure. Tax exemption of any kind is usually referred to as a form of "indirect" support.

A change of heart in the 1960s

Before World War II high art and culture in the United States were dominated by European practitioners and traditions. (Theater and modern dance were the principal exceptions.) During the interwar period, there was hardly an American to be found among the famous pianists, violinists, or singers who toured the country in recital. Few if any of the country's symphony orchestras had a U.S.-born conductor.

² See Milton C. Cummings, Jr., "To Change a Nation's Cultural Policy: The Kennedy Administration and the Arts in the United States, 1961-1963," in Kevin V. Mulcahy and C. Richard Swaim, eds., *Public Policy and the Arts* (Boulder, Colo.: Westview, 1982), 141-68, cited at 157.

³ Netzer, *The Subsidized Muse*, p. 44.

Opera in the United States was composed, produced, directed, and sung by Europeans. Art museums were dominated by European painting and sculpture. Ballet was seen principally when European companies came over on tour, for there were very few U.S. groups. This state of affairs was largely taken for granted.

After World War II, however, Americans became increasingly self-conscious about their country's cultural standing. No longer satisfied to boast that the United States was the home of Henry Ford, Thomas Edison, and Charles Lindbergh, they now wanted to be taken seriously as participants in the world of high art and culture as well. Before the end of the 1950s the Ford Foundation took up the banner of culture when it began a massive program of grants to support U.S. symphony orchestras.

Birth of the New York State Council on the Arts and the National Endowment for the Arts

Two charismatic political leaders took advantage of the new mood of the country at the beginning of the 1960s to introduce for the first time a policy of direct, ongoing state and federal support for the arts.⁴ In 1960 under the leadership of Governor Nelson Rockefeller, who was an important patron of the arts in his own right, New York State established the New York State Council on the Arts (NYSCA). The first year appropriation was only \$50,000, but by 1976 the council had an annual budget of \$35 million and was a major source of funding for arts activity in the state. NYSCA's administrative structure became the model that the federal government and many of the other states later adopted in establishing their own programs in support of the arts.⁵

A year or two after NYSCA was established, President John F. Kennedy began to take an interest in the federal government's relationship to the arts. In 1962 he appointed the philanthropist August Heckscher to the position of special consultant on the arts. Among other things, Heckscher recommended the establishment of a national arts foundation with the power to offer grants to arts institutions and to state arts councils. Shortly afterward, President Kennedy was assassinated, and it fell to President Johnson (in this case as in so many others) to carry the Kennedy proposal to fruition.

At first there was a good deal of congressional opposition to the idea

⁴ Accounts of these developments in much greater detail can be found in *ibid.*, chap. 4; and in Cummings, "To Change a Nation's Cultural Policy."

⁵ However, Arthur Svenson points out that Utah established the first state arts agency as early as 1899. See his "State and Local Arts Agencies," in Mulcahy and Swaim, *Public Policy*, pp. 195-211, cited at 196.

of federal financial support for art and culture. Netzer reports that southern Democrats and conservative Republicans (there were also liberal Republicans in those days) expressed the usual fear that government subsidies would lead to government control. Opponents also argued that government funding would reduce the incentive for the private support that was a justly cherished U.S. tradition.⁶ Nevertheless, in 1965 Johnson obtained from Congress and signed legislation establishing not one foundation but two: the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH). The legislation authorized initial funding of \$10 million to each of the endowments, but actual appropriations were well below that level in the first few years. By 1979, however, appropriations for the NEA had climbed to \$149.6 million. As we shall see in a later chapter, when adjustment is made for inflation, that was to be the endowment's largest annual appropriation.

The manner in which NEA and the state councils operate to support the arts, the division of funding among the federal, state, and local governments, and the many issues of economic and political policy that arise in connection with public support will be taken up in Chapter 13. At this point we wish to pursue the question of how much donational support to the arts is given by the public sector as a whole and how much by the private sector in the United States and in other industrially advanced countries.

An international comparison of arts support

The most meticulous and comprehensive international comparison of the level of public and private donational support for the arts that has yet been carried out is Mark Schuster's study for the NEA.⁷ At the outset Schuster realized that the data would have to be adjusted to take account of differences among countries in what arts policy comprehends. For example, in some European countries money spent caring for historical monuments is counted as an outlay for art and culture. In other places, assistance to libraries, to professional training for artists, or even to art education in grade schools is included in the arts budget. In the United States, however, the arts universe to which the NEA devotes itself is limited to the performing arts, the fine arts, and mu-

seums. The U.S. definition is, in fact, the narrowest among the eight Schuster examined. For the sake of comparability, he therefore adjusted all other country's arts expenditures to eliminate funds spent on objects beyond the reach of the U.S. definition. His study therefore tells us how much financial support other countries give to the arts when that term has the scope implied by U.S. policy.

Schuster's study deals systematically with two other complications. First of all, in every country support for the arts is provided not only by the national government but also by states (or other regional governments) and by localities. Schuster tabulated funding at all three levels. Second, government assistance to the arts can take the form not only of "direct" support, for example, by means of a cash grant, but also of "indirect" support. The latter occurs when a government forgoes potential tax revenue through some provision favorable to arts institutions. Examples in the United States are the exemption of arts institutions from the local property tax and, even more important, provisions in the tax code that create an incentive for taxpayers to make charitable contributions to nonprofit arts organizations. In both cases, the forgone revenue is equivalent to an expenditure by government. Indeed, in the United States the sums lost through these provisions have sometimes been called "tax expenditures."

Too often in casual international comparisons of subsidies to the arts, the writer mentions only direct expenditures, and then only those of the central government, resulting in a very distorted picture. Schuster's study avoids these pitfalls. His results are summarized in Table 12.1, which shows expenditure per capita in the United States, Canada, and six Western European countries. It must be emphasized that while their orders of magnitude are probably correct, all the figures in Table 12.1 contain at least some elements that are estimated.⁸

Several things stand out in this table. First of all, at the time of the study the United States gave only \$3.00 of direct aid to the arts per capita as compared with a range of \$9.60 to \$35 per capita in the other advanced industrial nations. But second, the United States provided \$10.00 per capita of indirect aid in the form of tax benefits, whereas indirect aid was small or negligible elsewhere. Taking direct and indirect aid together puts the level of total U.S. assistance (\$13 per capita) within the range for the other seven countries (\$10 to \$35 per capita), thus rebutting the crude charge that the U.S. grossly neglects the arts. However, these comparisons also show that the United States was 46 percent

⁶ Netzer, *The Subsidized Muse*, pp. 58-59.

⁷ J. Mark Davidson Schuster, *Supporting the Arts: An International Comparative Study* (Washington, D.C.: U.S. Government Printing Office, 1985). Also see John Michael Montias, "Public Support for the Performing Arts in Europe and the United States," in Paul J. DiMaggio, ed., *Nonprofit Enterprise in the Arts* (New York: Oxford University Press, 1986), pp. 287-319.

⁸ See Schuster, *Supporting the Arts*, for technical and methodological details and caveats.

Table 12.1. Public support for the arts in selected countries (per capita expenditure)

Country	Year	Direct (dollars)	Indirect (dollars)	Total
United States	1983-84	3.00	10.00	13.00
Canada	1981-82	32.00	Small	32.00 +
Fed. Rep. of Germany	1982	27.00	Small	27.00 +
France	1983	32.00	Very small	32.00 +
Great Britain	1983-84	9.60	.40	10.00
Italy	1983-84	14.00	Very small	14.00 +
The Netherlands	1984	29.00	Very small	29.00 +
Sweden	1983-84	35.00	0	35.00

Source: J. Mark Davidson Schuster, *Supporting the Arts: An International Comparative Study* (Washington, D.C.: U.S. Government Printing Office, 1985), tables 3 and 4.

below the eight-country average. It ranked seventh among the eight countries - only Great Britain was lower - and lagged substantially behind Canada and most of the continental European countries.

The mathematics of indirect aid, or tax expenditures

Private donations to nonprofit institutions are encouraged in the United States by provisions in both the federal income tax code and the state codes in states that levy an income tax. Under the federal code, taxpayers who "itemize" their deductions are allowed to include as a deduction from their taxable income the amount of their cash contributions to such institutions, up to a limit that varies from 20 percent to 50 percent of adjusted gross income, depending on the circumstances. Although these provisions were originally adopted as a matter of tax equity (if a taxpayer donates part of his or her income to charity, then that part is no longer available to be spent or saved at the individual's discretion, and it might be regarded as unfair to count it as "income"), they have been retained as a matter of deliberate policy to foster private support of charitable undertakings.

Contributions are tax deductible by the donor only if made to nonprofit organizations that qualify under guidelines set by the Internal Revenue Service. Among these are the requirement that there be no distribution of net income or "profit" to any party and the rule that the organization may not engage in political activity or attempt to influence legislation. Obviously, nonprofit organizations in the fields of art and

Table 12.2. Mathematics of charitable deductions

	(A) Pre-1986	(B) Current
T = taxable income (dollars)	100,000	100,000
t = marginal (or bracket) tax rate	.50	.31
G = deductible gift (dollars)	1,000	1,000
iG = tax saved by donor = revenue loss to government (dollars)	500	310
$(1-t)G$ = cost of gift to donor (dollars)	500	690

culture take care to abide by the rules so that they can continue to receive contributions that are tax deductible by the donor. Individual artists, of course, are not eligible to receive such contributions, since for tax purposes they are treated as profit-making sole proprietors. But for that reason they are permitted to testify or lobby in legislative matters, just like other citizens, and in fact, they often provide important support for legislation favoring the arts.

Although the terminology of this subject may be complex, it is important to bear in mind that donations are deductible not from tax liability but from taxable income. Arithmetically, what happens under U.S. tax law is that the donor's tax liability is reduced by an amount equal to the donation multiplied by the tax rate in that person's marginal tax bracket. The higher the individual's marginal tax rate, the greater the tax reduction per dollar given away, hence the less the cost of the gift to the donor and the stronger the tax-based incentive to make donations.⁹ The amount of tax saved by the individual is also the amount of revenue lost by the government on account of the charitable deduction. It is this lost revenue that constitutes the *indirect* support given by government to the nonprofit sector.

These relationships are clarified in Table 12.2. Algebraic definitions of terms are given at the left. The two columns at the right show the outcome for (A), a donor in the 50 percent bracket, which was the highest just before the Tax Reform Act of 1986, and for (B), a donor in the 31 percent bracket, the highest current rate. (Under the 1986 act, the top rate had been 33 percent, but modifications introduced by the

⁹ Since 1990, aggregate itemized deductions have been reduced by 3 percent of the taxpayer's adjusted gross income above \$100,000 for a married couple filing jointly. However, since this take back "comes off the bottom," it does not reduce the marginal incentive effect of the provision allowing charitable deductions.

Revenue Reconciliation Act of 1990 lowered the top rate on ordinary income to 31 percent and the rate on capital gains to 28 percent.)

The table allows us to examine the economics of charitable deductions from two different perspectives. Looked at chronologically, it shows that when marginal tax rates were reduced under the Tax Reform Act of 1986, the cost to donors of making gifts rose. In other words, the tax incentive to give money away was *weakened*: a gift of \$1,000, which would have cost a donor only \$500 under the old law, costs \$690 under the new. This aspect of the matter raised some puzzling questions for the Reagan Administration. On the one hand, President Reagan tried (not very successfully, one must add) to *reduce* federal appropriations for the arts, relying on the justification that if the government withdrew support, private donors would respond by taking up the slack — an argument clearly implying that when government assistance to the arts grows, it displaces private donations. On the other hand, he also endorsed the 1986 act that cut marginal tax rates and therefore *weakened* the incentive to make private donations. (We will return to these issues later.)

The table can also be used to illustrate the effect a progressive tax rate structure has on incentives to donate. Assume now that in Column B the top row shows taxable income of \$50,000 instead of \$100,000. Then the table can be interpreted as showing that when an individual's income rises from \$50,000 (Column B) to \$100,000 (Column A), he or she rises into a higher marginal tax bracket (50 percent instead of 31 percent), and the tax saving achieved by making a charitable donation accordingly rises from 31 cents to 50 cents on the dollar. In other words, under a progressive income tax structure, the higher your income, the stronger your incentive to make charitable donations.

The rate structure of the U.S. federal income tax is not now very progressive, but that was not always the case. Before passage of the 1986 reform, rates ranged from 14 percent to a maximum of 50 percent. From 1965 until 1980, the top rate (not including occasional surtaxes) had been 70 percent.¹⁰ That meant that a charitable gift cost the donor only 30 cents on the dollar, or even less if the donor lived in a state or city that also levied an income tax. Keeping in mind the fact that benefactors of museums, symphony orchestras, hospitals, and universities sometimes have the pleasure of seeing galleries, auditoriums, clinics, or

¹⁰ For a chronology of U.S. personal income tax rates from the inception of the tax in 1913 through the Tax Reform Act of 1986, see Joseph A. Pechman, *Federal Tax Policy*, 5th ed. (Washington, D.C.: Brookings Institution, 1987), table A.1, pp. 313-14.

dormitories named after them (and/or their spouses), it is easy to see why a strong tradition of giving away 30-cent dollars developed in the United States. It is also plausible that once the habit of charitable giving was in place, subsequent reductions in the progressivity of the income tax, which raised the donor's cost of giving, did not necessarily or immediately bring a cutback in donations.

Donating works of art

For museums in the United States, private support takes the form of donations not only of cash but also of works of art, and these, too, have been heavily influenced by tax considerations. For many years the donor was allowed to claim as a charitable deduction the market value of the work at the time the donation was made. That provided a powerful incentive to make donations-in-kind to museums, especially since the prices of high-quality works of art have risen sharply in recent years (see the discussion in Chapter 9). Consider the alternatives faced by a potential donor. Suppose that he or she had paid \$10,000 for a painting in 1950 and that by 1980 its market value has risen to \$200,000. If the owner then sells it and donates the proceeds to the museum, he or she is entitled to a charitable deduction of \$200,000 but is also liable for tax on the \$180,000 capital gain realized at the sale. In 1980 a donor in the top income tax bracket of 70 percent would have paid capital gains tax at the rate of 25 percent (since long-term capital gains were taxed at lower rates than ordinary income), amounting to \$45,000 on the gain from the painting. On the other hand, if the owner simply gave \$200,000 market value as a charitable deduction, while altogether avoiding payment of income tax on its gain in value. Thus, the incentive to donate works of art that had appreciated in value was even stronger than the incentive to make gifts of cash. By claiming a deduction at market value, a donor could often save in taxes far more than the work of art had actually cost.

Not surprisingly, both museum directors and potential donors of valuable art were delighted by these arrangements. However, the provision that allowed gains on appreciated works of art to escape taxation was widely regarded as inequitable and was effectively removed in the Tax Reform Act of 1986. But the story does not end there. In the 1980s, rapidly mounting prices for art had made it prohibitively expensive for museums to acquire worthwhile objects in the market. They became more than ever dependent on donated works to expand their collections. Soon after the 1986 act went into effect, museum officials complained that the flow of donated works was drying up. The Association of Art

Museum Directors in 1989 reported that for 119 major museums the value of donated works had risen from \$76.1 million in 1985 to \$143.0 million in 1986 (the last year before the new provisions took effect), then fallen to \$94.6 million in 1987 and \$67.2 million in 1988.¹¹ In 1990 Congress adopted a one-year restoration of the market-value tax deduction for appreciated works of art and manuscripts donated to museums, galleries, and libraries, later extended to June 30, 1992. Legislation containing a permanent extension was vetoed by President Bush the day after his defeat in November 1992, but might receive more favorable treatment at the hands of his successor.

Individual, corporate, and foundation support

Private donational support for the arts in the United States comes not only from individuals but also from private corporations and foundations. Corporate contributions are encouraged by tax provisions analogous to those for individual taxpayers: in calculating liability for the corporation income tax, the firm may deduct charitable contributions as an expense up to an amount equal to 10 percent of taxable income. The net cost of a donation is therefore $(1 - t) \times$ (amount of the gift), where t is the effective tax rate. The top-bracket income tax rate on corporations varied between 40 and 50 percent during the 1970s and early 1980s before being reduced to 34 percent by the Tax Reform Act of 1986. Thus, ironically, the tax incentive for corporate giving, like that for individual donations, was substantially weakened just at the time that a business-oriented Republican administration was calling for increased private-sector support for social, cultural, and educational endeavors.

How do the sources of private contributions rank in relative size? In his study for the NEA, Schuster found that, in 1982-83, individual contributions were by far the largest category, amounting to \$3.650 billion out of a total of \$4.365 billion. Corporations contributed \$263 million and foundations the remaining \$452 million.¹²

To put these numbers in perspective, bear in mind that total direct federal government support for the arts in fiscal 1983-84 came to only \$266 million. (See Table 13.1.) Moreover, in addition to making charitable contributions, corporations also provide support for the arts through expenditures charged to their advertising and promotion budgets. For example, a corporation might sponsor in that way a series of summer "concerts in the park." Like any other increase in costs, such

¹¹ Survey results are reported in *A Sourcebook of Arts Statistics: 1989* (Washington, D.C.: National Endowment for the Arts, 1990), table 7.26.

¹² Schuster, *Supporting the Arts*, table 5.

Table 12.3. Share of private donations in dance company budgets (percent)

	Ford Foundation (1971)		Dance/USA (1984)	
	Share of contributed income	Share of total operating income	Share of contributed income	Share of total operating income
Operating income	—	100.0	—	100.0
Contributed income	100.0	38.2	100.0	37.6
Total private	71.3	27.2	76.9	28.8
Individuals	27.0	10.3	23.0	8.6
Foundations	32.2	12.3	20.0	7.5
Corporations	4.3	1.6	14.9	5.6
Other private	7.8	3.0	19.0	7.1
Total government	28.8	11.0	23.1	8.7
Federal	12.1	4.6	11.1	4.2
State and local	16.7	6.4	12.0	4.5

Note: The number of companies in the samples were 17 for 1971 and 31 for 1984. Source: Dick Netzer, "Changing Economic Fortunes of Dance in the U.S.," in Grant, Hendon, and Owen, eds., *Economic Efficiency and the Performing Arts*, vol. 1 of the Proceedings of the Fourth International Conference on Cultural Economics (Akron, Ohio: Association for Cultural Economics). (The tables for this article were omitted in the published volume, but will be supplied.)

outlays also reduce profits and therefore cut corporate tax liability. Advertising and promotion outlays for the arts are *not* included in any of the contributions totals discussed in this section. In fact, the total value of such expenditures is simply unknown.

These comparisons probably understate the corporate share in private giving, since the individual and foundation totals include donations to a range of activity that comprises culture and the humanities as well as the arts, while the figure for corporations includes only the latter. Moreover, some corporate giving occurs through the corporations' own foundations and was therefore counted in the foundation total by Schuster.

Another perspective on private giving can be obtained by asking what percentage of recipients' income is accounted for by gifts from each category of sources. In this instance we have only sporadic data from disparate samples of performing arts firms. However, the numbers themselves are probably accurate for the samples and time periods covered. Table 12.3 presents data on dance companies assembled by Netzer from information collected by the Ford Foundation for 1971 and the service

Table 12.4. Total corporate donations and donations to the arts

Year	Total contributions (\$ billions)	Percent to the arts	Estimated amount to the arts (\$ millions)
1975	1.20	7.5	90
1980	2.36	10.9	257
1985	4.40	11.1	488
Percent change, 1975-85	+267		+442

Percent allocation of funds among beneficiaries, 1984	
Museums	19.6
Music	12.7
Public TV and radio	12.1
Cultural centers	9.5
Theaters	6.0
Employee matching gifts	5.8
Arts funds and councils	5.4
Dance	2.3
Libraries	1.6
Other	25.0

Source: Michael Useem, "Trends and Preferences in Corporate Support for the Arts," in Robert A. Porter, ed., *Corporate Giving in the Arts 4* (New York: American Council for the Arts, 1987), tables 1 and 5.

organization Dance/USA for 1984. The table shows that the share accounted for by private contributions was relatively stable - 27 percent of operating income in 1971 and 29 percent in 1984. (The dollar amount, not shown, of course increased sharply.) The makeup of private donations, however, did change: the share of foundations fell markedly, but that decline was offset by a sharp increase in corporate giving. The latter, in turn, was the product of two factors: an increase in corporate donations to the arts and, within the arts category, a rise in the proportion going to dance companies.

Table 12.4 presents a profile of corporate donational activity from 1975 to 1985. Contributions to all sectors, including health, education, and other areas in addition to the arts, rose by 267 percent, but the proportion going to the arts rose as well, so that total contributions to the arts increased by a very hefty 442 percent. Michael Useem, from whose study these data have been selected, cautioned that the sharp growth of corporate donations might not continue. He pointed out that corporate profits are the single most important determinant of the level of contributions. Donations rose when profits were increasing early in the 1980s. But profits leveled off later in the decade. In addition, the wave of mergers and takeovers that swept through the business world

in the late 1980s was probably unfavorable to corporate giving.¹³ The consolidated firm was likely to donate less than had been given previously by its separate parts. That is even more likely to be the case when strenuous "belt tightening" is required after the spending binge of a takeover, which typically leaves the taken-over firm heavily in debt. Nevertheless, corporate charitable donations in current dollars rose an additional 32 percent from 1985 to 1990 (corrected for inflation, the increase was 4.2 percent), and the proportion going to art and culture held steady at 11.1 percent.¹⁴

The table also shows the allocation of corporate support for the arts in 1984 among categories of beneficiaries. The three leading categories by a considerable margin were museums (19.6 percent), music (12.7 percent), and public television and radio (12.1 percent). We shall have more to say about this in the next section.

Motives for charitable giving

It seems entirely reasonable that those who are actively interested in the arts and can afford to give a little something to charity should make donations to one or more arts enterprises. And just as churchgoers will probably give to the church they attend and college graduates to their alma mater, so devotees of the arts are most likely to make donations to the museums or performing arts companies they regularly attend. Clearly, such support is not entirely disinterested. Donors hope to contribute, in however small a way, to the maintenance or improvement of enterprises that are a source of personal pleasure. In addition, most nonprofit arts organizations nowadays actively encourage donations by offering potential supporters a range of benefits that increases in scope with the size of the donation. In the case of a ballet company such as the New York City Ballet, a minimum \$60 donation may bring in return complimentary tickets to working rehearsals and demonstration programs, and a subscription to the company newsletter. At the other end of the scale, large donors will have priority in reserving choice seats and will be invited to an annual party, with the opportunity of meeting star members of the company. A museum will typically seek support through "memberships" that carry with them, for the lowest ranks, such privileges as free admission to ordinary events, a discount at the museum store, and a subscription to the ubiquitous

¹³ Michael Useem, "Trends and Preferences in Corporate Support for the Arts," in Robert A. Porter, ed., *Corporate Giving in the Arts 4* (New York: American Council for the Arts, 1987), pp. ix-xv, cited at ix-x.

¹⁴ Data are from *Giving USA*, 1991 edition (New York: American Association of Fund Raising Counsel, 1991), tables 3, 4, and 17.

newsletter. More expensive memberships will entitle donors to free lectures, preopening guided tours of special exhibitions, and so on. The benefits thus conferred on supporters are designed not only to give pleasure (which for the initiate they undoubtedly do), but also (consider the newsletter) to cultivate in donors a sense of "belonging to the family" or of being in the inner circle, which helps to perpetuate the charitable tie.

All of this costs a lot of money to carry out (mailing lists, direct mail solicitations, record keeping, paying for special events), but the motto is "You have to spend money to make money." In 1983 the Metropolitan Opera is reported to have employed a staff of 50 and spent \$3.5 million on fund-raising. By so doing, they raised about \$25 million from individuals, corporations, foundations, and government agencies.¹⁵ It is now taken for granted in the United States that fund-raising from the private sector is an important function within any nonprofit arts institution. Indeed, public agencies would probably be reluctant to make grants to a nonprofit that did not appear to be "pulling its weight" in private fund-raising.

It is not surprising that corporate motives for giving are somewhat different from those of individuals. Some corporate managers may, indeed, believe that it is morally important for their firms to be good corporate citizens, but one suspects that they believe it is even more important that they be seen in that light. Thus, corporations are attracted to forms of giving that are visible or even attention grabbing. That explains, for example, the prominence of corporate support for public television programming, as indicated in Table 12.4. (So great was the generosity of the major oil companies toward public TV during the profitable early 1980s that the joke went around that PBS really stood for Petroleum Broadcasting System.) "Special events" to which the company name can be attached, such as a blockbuster art exhibition or a series of summer concerts in the park, also attract generous corporate support. Hence, the large share of corporate donations going, respectively, to museums and to musical performances.

But one should not be too cynical in interpreting motives. Corporations claim that their single most important criterion in making gifts is "impact on the local community," and many of their donations are no doubt intended to make the local community a better place to live in by strengthening its artistic or other cultural institutions.¹⁶ Consider the

¹⁵ Simon Jenkins, "Paying for the Arts," *Economist*, 293, no. 7368 (November 17, 1984): 1-4, 13-16, cited at 13, 15.

¹⁶ Useem, "Trends and Preferences," table 6, p. xiii.

following example. The Pillsbury Company is a large food processing firm with headquarters in Minneapolis. In 1986 its total contributions came to \$7.1 million, of which \$931,000 were for art and culture. Recent recipients of major grants include the Minnesota Orchestra, the Minnesota Opera, the Guthrie Theater (in Minneapolis), and Twin Cities Public Television. Apparently there can be a coincidence of interests so that what is good for the community is also good for the company, and the company knows that. Of course, Pillsbury also makes grants in other localities, including one to the Dallas Symphony Orchestra.¹⁷

Corporations whose interests are more widespread than Pillsbury's will be less inclined to concentrate their donations locally. For example, United Technologies Corporation is a large aerospace manufacturer, with its head office in Hartford, Connecticut. In 1985 it contributed \$2.3 million in support of art and culture. Although major grants were given to the Connecticut Opera and the Hartford Ballet, even larger sums went to the National Museum of Women in the Arts (Washington, D.C.), to the Metropolitan Museum of Art to support a major exhibit of Degas's art in the United States, Canada, and France, and to the Denver Art Museum in support of a tour of Native American Art in France and Germany.¹⁸ One can infer from this list that United Technologies (a large exporter) is concerned with its image in many parts of the world.

Some observers worry that corporate support may eventually corrupt our culture by bending artistic production too much in the direction of whatever it is that corporations are willing to pay for and away from the more provocative and controversial forms of art that they admittedly try to avoid. It is well to be on guard against that threat, but the danger seems insufficient to justify shunning corporate support. Most arts institutions (and most of their audiences) probably would endorse a policy of "take the money and run."

Why so little private support for the arts in Europe?

As Mark Schuster's study (cited in Table 12.1) shows, private donational support for the arts is negligible in most European countries. Americans may find this puzzling, since European devotion to art in all its forms is well known. For many years U.S. economists believed that the explanation must lie in a difference in tax law. It was assumed that, in Europe, charitable contributions either were not deductible or were deductible only under severe restrictions. But Schuster's study included

¹⁷ *Corporate Giving in the Arts* 4, p. 306.

¹⁸ *Ibid.*, pp. 391-92.

an examination of income tax law in Europe and Canada, and he found, on the whole, that their tax codes were *not* unfriendly to charitable giving.¹⁹ Instead, he attributes the low level of private support in Europe to historical tradition. In the distant past, major European cultural institutions such as the Comédie Française or the Vienna State Opera owed their origins and subsequently their support to royal, or at least noble, patronage. In the nineteenth and twentieth centuries, these burdens were assumed by republican governments and municipalities. Private citizens, aware that "the government" was subsidizing arts institutions and that they as taxpayers were footing the bill, felt no obligation to make voluntary contributions. That is not to say that wealthy collectors might not sometimes donate valuable works of art to national or municipal museums, but a broad-based tradition of private charitable support for the institutions of art and culture never developed.

In the 1980s the climate of opinion began to change. After a long period of budgetary expansion, most European governments were trying to restrain public spending. Subsidies for the arts were either reduced or prevented from growing at their accustomed pace. For the first time both governments and the arts institutions themselves became seriously interested in what Schuster calls "the American model . . . with its heavy reliance on and encouragement of private sources of funding."²⁰ In 1990 the Policy Studies Institute published a detailed survey of arts funding in the United States, Canada, and five Western European countries.²¹ Although the data on private support in the European countries were very sketchy, the institute did find some evidence that donations there, especially by corporations, were increasing. But the Europeans are starting from a very low level: in the typical case, private support in the late 1980s accounted for no more than 1 or 2 percent of the income of performing arts companies and museums. By contrast, the authors found that U.S. private contributions ranged from 26 percent of income for theater companies up to 37 percent for companies producing opera, while in Canada the proportion varied from about 10 percent for theaters and museums to 20 or 25 percent for orchestras and opera companies. We take up next the advantages and disadvantages of both the U.S. model of support and the European.

¹⁹ Schuster, *Supporting the Arts*, pp. 48-54.

²⁰ *Ibid.*, p. 48.

²¹ *Cultural Trends 1990: Funding the Arts in Seven Western Countries*, no. 5 (March 1990). Andrew Feist and Robert Hutchison, eds. (London: Policy Studies Institute, 1990). The study contains copious data on attendance and performances, as well as on income, expenditures, and government support.

Advantages and disadvantages of private and/or public support

In debating the merits of the European as compared with the U.S. system of arts support, we are not suggesting that the nations in either camp should entirely abandon their own approach in favor of the other. Each system (and its local variations) is the expression of a long-standing cultural and political tradition that has to be understood in its own terms.²² Nevertheless, it is instructive to examine the claims made for each.

Philosophically, those who favor the European system in which arts institutions are supported primarily by government subsidies start from the premise that art and culture are a national heritage and therefore logically deserve to be supported by the nation acting collectively. At the practical level, an alleged advantage is that the government can provide whatever funds are needed and in so doing relieve the institutions of unremitting and distracting pressure to raise money from private sources. Government funding, it is also argued, would be relatively stable, providing a more reliable basis for long-run planning than does private support. Perhaps more fundamental, support from the public budget is seen as a way of insulating the arts from the potential threat to their artistic freedom associated with dependence on the marketplace. As Schuster puts it, "The Swedish National Council for Cultural Affairs is struck by the paradox of encouraging greater corporate funding when one of the important goals of their national cultural policy is to 'combat the negative effects of commercialism in the cultural sector.'"²³

Those who defend the "U.S. system" do not, of course, disparage government support. Rather, they argue that a combination of public and private funding, with heavy reliance on the latter, has some advantages over an almost exclusive reliance on the public budget. First of all, it diversifies the sources of income, which could make for greater stability than the European system under which arts budgets can be squeezed very hard during a period of public austerity. Second, diversity in funding sources also reduces the concentration of power over arts policy, which, in the European system, rests with government agencies. A secure base in private support gives institutions a freedom of action they lack when largely dependent on the government. Third, U.S. arts

²² See Milton C. Cummings, Jr., and Richard S. Katz, eds., *The Patron State: Government and the Arts in Europe, North America, and Japan* (New York: Oxford University Press, 1987).

²³ Schuster, *Supporting the Arts*, p. 56.

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institutions, because of their reliance on the individual donor, cultivate the donor's attention, understanding, and goodwill. In the long run, that probably helps to broaden the constituency for the arts, which should, in turn, ultimately provide benefits in the political realm.

There is plenty of ammunition with which to criticize the arguments on both sides. As to the alleged sufficiency of government funding, Simon Jenkins in the *Economist* argued that government support during the austere Thatcher years, while "secure," did not give Britain's arts institutions an adequate rate of growth. They have been falling behind those in other Western nations because "they have not won the spectacular [government] resources which their European colleagues have gained," while also failing to press for policy changes "that might have unlocked private resources."²⁴

The question of stability

The alleged stability of government support must also be questioned in the light of sharp cutbacks by state and local governments in the United States in the early 1990s. Note also that the federal commitment to NEA, while stable in nominal dollars, was steadily eroded in real terms during the 1980s by rising prices. (See the discussion in Chapter 13.)

As for the stability of private giving, while individual donations appear to be a secure form of support in the United States, it remains to be seen whether corporate giving will be as reliable. We have pointed out that it is sensitive to changes in the level of profits (which can be quite volatile over the course of a typical business cycle) and also to changes in corporate structure resulting from mergers and takeovers. The record up to now is that corporate giving is much more variable year to year than are individual donations. We studied the variability in the four major categories of private giving—corporate, foundation, bequest, and individual—over the 30-year period from 1961 through 1990 by calculating the coefficient of variation (V) for the year-to-year growth rates in each category.²⁵ Individual giving displayed by far the most stable growth rate ($V = 0.44$) and bequests the least stable ($V = 1.83$), while corporate ($V = 1.27$) and foundation ($V = 1.17$) giving fell about midway between the extremes. *Total* donations ($V = 0.42$) were, of course, more stable than any of the components, clearly supporting the desirability of having diversified sources of support.

²⁴ Jenkins, "Paying for the Arts," p. 16.

²⁵ The coefficient of variation is defined as the standard deviation of a series divided by its mean. Data are from *Giving USA*, 1991 edition, table 3.

Interference with artistic freedom

Whether government agencies or powerful private donors are more likely to interfere with the artistic independence of arts institutions is an open question. Perhaps the word "interfere" is too dramatic (although we shall cite such a case). More often the donor's influence on artistic policy makes itself felt without direct interference: the recipient institution bends its policy to conform with the agency's or the donor's known preferences. Such effects are subtle and not easily demonstrated. However, no less an institution than the Metropolitan Opera offers a well-documented example. In 1983 as part of its centennial celebration, the Met commissioned new operas from two U.S. composers. One of these, "The Ghosts of Versailles" by John Corigliano and William Hoffman, was produced with considerable popular success in 1991–92. (It was the first *new* opera to have its premiere at the Met in 25 years.) However, it was reported in 1987 that the Met had cancelled the other commission from Jacob Druckman and also indefinitely postponed plans to produce Arnold Schoenberg's twentieth-century masterpiece "Moses and Aron." The Opera's general manager explained to the *New York Times* that it was impractical to try to fill the 3,800-seat auditorium by putting on contemporary works, and that influential members of the board of trustees are also opposed to new operas. As he put it, "The people who make contributions to opera are not too excited about contemporary work."²⁶ Thus do the tastes of private donors influence the artistic policies of their beneficiaries.

What about the influence of government donors? In Great Britain, Canada, Australia, New Zealand, and the United States, government grants for the arts are filtered through a semi-independent arts council (the Arts Council of Great Britain, founded in 1945, was the first and became the model) under arrangements that are intended to insulate arts policy from the tastes (or whims) of the politicians who vote the funds. Harry Hillman-Chartrand and Claire McCaughey explain the system as follows:

The government determines how much aggregate support to provide, but not which organizations or artists should receive support. The council is composed of a board of trustees appointed by the government. . . . Trustees are expected to fulfill their grant-giving duties independent of the day-to-day interests of the party in power. Granting decisions are generally made by the council on the advice of professional artists working through a system of evaluation. The policy dy-

²⁶ *New York Times* (John Rockwell), May 27, 1987.

namic . . . tends to be evolutionary, responding to changing forms and styles of art as expressed by the community.²⁷

Political controversy over controversial art

That this application of the "arm's length" principle does not always succeed in shielding the grant givers from political pressure was demonstrated in the United States in 1989 and 1990 by the widely publicized case of Senator Helms versus the NEA. In that famous battle, the senator took offense at two photography exhibitions that had received NEA support, arguing that one was pornographic and the other blasphemous.²⁸ Once he had pointed this out, with characteristic emphasis, on the Senate floor, it became difficult for other members to defend the NEA even if they disagreed with Senator Helms's judgment (and many of them clearly did not), since they were reluctant to stand accused of spending the taxpayers' money on indecent or blasphemous projects. The Senate voted to bar the NEA from supporting "obscene or indecent" work and also to cut off funds for the offending exhibitions. It was the first time since the endowment was founded in 1965 that Congress had violated the spirit of the legislation establishing it by attempting to intervene directly in its grant-determination process.²⁹ Later in the year, acting under the new guidelines, the chairman of the endowment first canceled and then restored a grant in support of an art exhibition entitled "Witnesses: Against Our Vanishing" that focused on the AIDS crisis.

Report of the independent commission

The position of the NEA was especially precarious at that time because its legislative authorization was due to expire in 1990, when its opponents would still be in full cry. In an attempt to obtain guidance on the issues of censorship, creative freedom, artistic merit, and public accountability in advance of reauthorization, Congress in 1989 approved the creation of the bipartisan, twelve-member Independent Commission to review the endowment's grant-making standards and procedures. The

²⁷ Harry Hillman-Chartrand and Claire McCaughey, "The Arm's Length Principle and the Arts: An International Perspective: Past, Present and Future," in Milton C. Cummings, Jr., and J. Mark Davidson Schuster, eds., *Who's to Pay for the Arts? The International Search for Models of Arts Support* (New York: American Council for the Arts, 1989), pp. 43-80, cited at 49-50.

²⁸ For a careful review of the entire episode, see Cummings, "Government and the Arts," *Public Money and the Muse*, pp. 63-79. In the same volume, see Kathleen M. Sullivan, "Artistic Freedom, Public Funding, and the Constitution," for a discussion of First Amendment implications of the controversy.

²⁹ *New York Times* (Michael Oreskes), July 27, 1989.

commission presented its report in September 1990.³⁰ Its most important recommendations were made under three broad headings.

First, in response to a specific charge from Congress, the commission decided that publicly funded art should, indeed, meet a higher standard than would apply to privately supported art. The commission agreed that as in the case of private support, artistic excellence should be the sole *aesthetic* standard, but it also suggested that since the endowment depends on public funds, it "must take into account the nature of public sponsorship" (p. 59). It recommended that language be added to the reauthorization act emphasizing that the arts belong to *all* the people of the United States and are expected by them to foster mutual respect for diverse values and beliefs. This was a none too subtle way of urging that the NEA not subsidize works of art that might strongly offend some part of the public.

Second, the commission called for major reforms in the NEA's grant-making procedures. These were intended to assure the president, Congress, and the people that the NEA would, in the future, carry out its mandate in a responsible and sensitive manner. These reforms will be discussed in detail in Chapter 13.

Third, the commission recommended that the NEA be reauthorized without *any* specific legislative restrictions on the content of art that it may fund and that it should rescind the requirement, adopted during the controversy with Senator Helms, that grantees certify that the works of art they propose will not be obscene. Determinations of obscenity, the commission argued, should be made by the courts under now well-established standards, rather than by the NEA, which is not equipped for such a task, and whose findings would, in any case, ultimately be challenged in court.

Thus, in the end the commission came down on what might be described as the side of "artistic freedom," and in opposition to "government censorship." From a political perspective, its findings and recommendations under the first two headings can be seen as the price it thought would have to be paid to gain acceptance for that final determination.

On the last day of the 1990 session of Congress, the NEA was reauthorized for three years in legislation that incorporated most of the

³⁰ The Independent Commission, *A Report to Congress on the National Endowment for the Arts* (Washington, D.C.: The Independent Commission, September 1990). Members of the commission were broadly representative of the lay public that has been actively involved with the arts. Four were appointed by President Bush and four each by the Democratic and Republican leadership in Congress. The cochairpersons were John Brademas and Leonard Garment.

Independent Commission's recommendations. There was one major exception: the commission had specifically rejected suggestions that the proportion of NEA funds passed through to state arts agencies be increased from the then mandated level of 20 percent. Congress turned down that advice and raised the state share substantially. We shall examine the logic, or otherwise, of that move in the next chapter.

In addition, the final legislation required the chairperson to ensure not only that artistic excellence and merit be the criteria on which applications are judged, but also that "general standards of decency" be taken into consideration. It has been suggested that this may conflict with the requirement elsewhere in the act that the final determination of obscenity rests with the courts. And the courts, it must be remembered, have *not* held that works of art must meet general standards of decency in order to avoid the charge of obscenity.

Nor did the controversy end with the 1990 reauthorization. In the spring of 1992, NEA Chairman John E. Frohnmayer, whose sometimes wavering defense of the endowment had pleased neither its friends nor its foes, was forced from office by an administration that was apparently fearful of the commotion the NEA's critics were likely to stir up during a presidential election year.

However one may evaluate the specific terms of the legislation reauthorizing the NEA, the whole controversy has undoubtedly had a chilling effect on the agency: it will be much more reluctant than in the past to back potentially controversial art projects. Some legislators will be pleased with that outcome, but most members of the arts community are alarmed. They point out that it is often the purpose of art to disturb our comfortable preconceptions, to be controversial, even outrageous. The *New York Times* reported that "Alexander Melamid, a Soviet artist now living in New Jersey, whose satirical anti-government work" was suppressed in Moscow in 1974, said: "The government is always the guardian of tradition, and art is the guardian of innovation. If there's no friction between the government and artists, it's abnormal."³¹

As one congressman who is very sympathetic to the cause of the arts explained: "There may be two irreconcilable forces here. One is the right of taxpayers to determine how their money is spent. The other is the absolute necessity to protect freedom of expression, particularly in the arts."³² How can this impasse be resolved? Members of the arts community do not deny that taxpayers have their rights. Rather, the art world asks the political world, in the interest of free art, not to insist

³¹ *New York Times* (Grace Glueck), November 19, 1989.

³² *Ibid.*, quoting Representative Pat Williams, Democrat from Montana.

on those rights. If that sounds like an elitist claim, so be it. In a prescient passage written in 1978, Lincoln Kirstein declared:

It is time for the inventive, lyric, poetic, creative elite to come out of their closets and declare themselves — their worth, their difference in kind, their capacity, their energy, and their strength. Most of all — their necessity . . . Elitism should be a rallying cry for that band of brothers and sisters who bear the culture of their country, for it is this cultivation of the only memorable residue that marks and outlives their epoch which justifies their permission to perform and produce as free agents, whatever the risk or cost to their countrymen.³³

Conclusion

Building on the somewhat more theoretical foundation of Chapter 11, this chapter has explored the practice of arts support in the United States. A historical review and an international comparison provided useful perspectives for a description and evaluation of both public and private support. The next chapter takes a closer look at governmental policy toward the arts in the United States.

³³ Lincoln Kirstein, "The Performing Arts and Our Egregious Elite," in W. McNeil Lowry, ed., *The Performing Arts and American Society* (Englewood Cliffs, N.J.: Prentice-Hall, 1978), pp. 181–97, cited at 197.

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