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Adding Up the Arts: The Great Recession and the Public-Private Debate in the Funding of America's Art and Art Museums

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ADDING UP THE ARTS:
THE GREAT RECESSION AND THE PUBLIC-PRIVATE DEBATE IN THE
FUNDING OF AMERICA’S ART AND ART MUSEUMS

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**Introduction**

The Great Recession dramatically reframed the debate on funding for the arts from a social one to a fiscal one. Instead of social ideology, economics came to the forefront; and fiscal conservatives replaced social conservatives as the loudest voice criticizing government funding for the arts. Under the shadow of an expanding government and staggering national debt, both supporters and critics argue in terms of the economic costs and benefits that the arts impose. These arguments against public funding for the arts are multi-tiered. Critics contend that the government arts agencies are ineffective, that federal arts funding is inefficient, and that government funding as a whole is an unjustified overreach of government. Fiscal conservatives also argue that private philanthropy is sufficient to sustain the arts independently without government involvement. But because public and private funding for the arts respond to recessionary impacts so differently and decreases in private philanthropy impact the arts disproportionately, public arts funding is absolutely justified on an economic basis.

With the inclusion of social and political considerations, however, the final conclusion is that neither private nor public funding can or should independently provide a complete solution to the issue.

This paper focuses primarily on the NEA, an independent federal agency, in its analysis of government support for the arts. The NEA is the largest single arts funder in the nation; it is required to distribute 40% of its grants among state and local arts councils and thus serves as a bellwether for the state of government funding. As scholars Paul DiMaggio and Becky Pettit put it, “the NEA (with its sister agency, the
NEH) has been the foci of legislative cultural politics for almost thirty years…Because the NEA has employed the most discretion with the least direct control and the greatest public visibility, it has been the point around which the hopes of the ‘arts community’ and the opponents of government arts aid have crystallized.”

DiMaggio and Pettit are referring to the NEA-supported exhibitions in 1989 featuring Andres Serrano’s photograph of a crucifix submerged in urine, *Piss Christ*, and graphic homoerotic and BDSM-related photographs from Robert Mapplethorpe’s *X Portfolio*, most notably *Man in Polyester Suit*, that ignited a storm of political and social controversy about the appropriate role of government in the arts that would lay at the center of the 1990s culture wars. Social conservatives and the Christian Coalition railed against public funding for “pornographic…morally reprehensible trash” and the violation of “community standards of decency,” while liberals criticized the attack on freedom of expression. While the NEA is no longer the lightning rod for controversy it was in the 1990s, the debate surrounding government funding for the arts is as yet unresolved.

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1 DiMaggio, Paul, and Becky Pettit. “Public Opinion and Political Vulnerability: Why Has the National Endowment for the Arts Been Such an Attractive Target?” 3-4.


3 A note on my use of the term “public”: unless quoted from a source, I use the term “public” to denote government involvement, not the American public.


5 In 1997, the House of Representatives voted to abolish the agency at the same time the Republican chair of a Senate committee introduced bipartisan legislation to almost double its appropriation. In 1998, a House subcommittee came within a single vote of recommending the NEA’s elimination, while Senators with whom they shared constituencies voted to increase its appropriations. In the end, the Agency’s budget was unchanged. DiMaggio and Pettit, “Public Opinion and Political Vulnerability: Why Has the National Endowment for the Arts Been Such an Attractive Target?” 3-4.
As economic downturns are a regular, cyclical occurrence in America’s capitalist, free-market system, a secondary aim of this thesis is to help art museum administrators better understand the impact of recessions on arts-related funding in preparation for the next, inevitable recession. This thesis promotes the argument that maintaining diverse funding sources is important not only for organizational sustainability but also for limiting the influence of any single constituent group. It is this author’s belief that art museums are the most influential organizations that shape the public perception of art and art historical canons, because their primary activities—exhibition, research, and conservation—largely determine the extent of public access to art and shape art historical discourse.

Data on the NEA, private philanthropy, and the Irvine and Mellon Foundations come from the NEA website, Giving USA, and the foundations’ annual reports, respectively. When possible, data pertaining specifically to art museums and the visual arts are presented.

The first chapter of thesis presents a picture of public and private funding and establishes trends in how the two respond to recessions, finding that private giving and public funding both display negative responses to economic contractions, but differences in terms of the timing, severity, and length of the impact enable each to offset fluctuations in the other. This thesis also argues that while the public-private debate tends to focus on direct government funding for the arts, indirect support in the form of the charitable contribution deduction contribute greatly to the scale of government funding. This chapter also refutes the argument that self-financing is a sufficient solution to the issue, as the IRS Tax Code imposes a cap on the proportion of
revenue non-profits may receive in the form of earned income. Because art museums rely more than other non-profit organizations on public and private support, anticipating how these sources of funding interact with each other and respond to recessions is key to improving their organizational stability.

The second chapter challenges the typically dichotomous framework of the public-private debate by exploring how the two sources are fundamentally related. Though researchers have yet to reach a consensus on whether increases in public support cause an increase or decrease in private giving—the question of the “crowding-out effect,” the issue is critical to developing effective public policy related to the arts, as well as evaluating and improving fundraising efficiency. This thesis finds that arguments in favor of a positive relationship between public and private funding are most convincing, in particular those related to unrestricted gifts and the charitable contribution deduction—which provides an excellent defense for the economic efficacy of government support for the arts.

The third and fourth chapters focus on the public-private funding debate as it relates to art and art museums. The third chapter analyzes grant data from the Irvine Foundation and the Mellon Foundation. Because these private foundations have long histories of supporting the arts as well as other fields, analyzing these institutions’ giving patterns offers insights into the relative importance of the arts compared to other giving areas in private philanthropy. The data support the finding that decreases in total grant making impact the arts disproportionally. The severity of the two foundations’ reductions to an already small funding category affirms that the arts’ tenuous position is made all the more so in times of recession—further strengthening the argument that
philanthropy alone cannot provide both the stability and scale required to support a resilient non-profit arts sector.

Whereas the first chapter presented NEA appropriations data between 1998 and the present to affirm that public funding moves in ways that offset the impact of recessionary fluctuations in private philanthropy, the fourth chapter assesses NEA grant data pertaining specifically to museums and the visual arts. The data suggest that during recessions, funding for events and programming tends to decrease, but funding for areas in organizational support will rise to compensate. In times of economic expansion, grants for the Artwork Creation, Professional Development and Training, and Arts Instruction (art classes and scholarships for students) categories typically rise. These findings may prove useful to art museum administrators attempting to ensure a measure of financial stability.

The fifth and final chapter turns to the public-private debate as it is framed in social and political terms. This thesis argues that the NEA and other direct government funding help enable diverse representation and limit the undue influence of any single constituent in art, art historical scholarship, and art museum—all fields which have long been dominated by the white capitalist patriarchy. But it also concedes that there is a valid social and political argument for eliminating the NEA’s function of creating artwork, as direct government funding for artworks like *Piss Christ* enable or magnify certain viewpoints while indirectly silencing others. The chapter also touches on the complex ethics of government-funded artwork and argues that the funding the creation of art constitutes the formation of a national identity—a function that is unjustified in a heterogeneous nation with no national identity per se.
This thesis ultimately concludes that while public funding for the arts is justified on an economic basis, the necessary inclusion of social and political considerations mean that neither private nor public funding can or should independently provide both the stability and scale required to support a resilient non-profit arts sector.
Art museums’ sources of revenue differ drastically than other types of non-profit organizations. While non-profits typically receive about 75% of their revenue from fees for goods and services, museums receive just 29% from earned income—private gifts, government funds, and endowment (investment) income constitute about 60% of museum funding. Because these institutions rely much more than other non-profit organizations on public and private support, anticipating how these sources of funding interact with each other and respond to recessions is key to improving organizational stability.

Private funding for the arts comes from sources not related to the government: individuals, foundations, bequests, and corporations; and government funding for the arts comes at all levels: federal, state, county, and city. The largest single grant-makers are independent federal agencies: the NEA and the National Endowment for the Humanities (NEH). The NEA awarded $145.9m (2,300 grants) in FY 2014; the NEH awarded $117.5 million (762 projects) in FY 2014. They rely upon federal funding and must submit annual budget requests to Congress every February for the coming fiscal year, though whether or not the budgets are approved is another matter entirely.

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In 2011, private contributions to the arts\(^\text{10}\) amounted to $13 billion per year,\(^\text{11}\) while federal funding for the whole suite of federal arts agencies amounted to just $1.8 billion per year.\(^\text{12}\) Critics of public funding often point to this massive discrepancy in scale as proof that federal agencies like the NEA are “either unnecessary or ineffective…or both.”\(^\text{13}\) The general insinuation is that federal funding for the arts ought to be scaled back or cut completely.\(^\text{14}\)

However, calling for the elimination of the NEA because of its limited appropriations budget fails to recognize that government support for the arts is intentionally organized according to federal principles of government. Charles Clotfelter explains the constraints on direct federal support in \textit{Economics of Art Museums}:

“Both [the NEH and the NEA] were set up so that their scope and their power would be limited. Congress made it clear that it was not interested in sustaining the operating costs of arts institutions. Grants were to be made only for specific projects with a limited scope and established timeline, not general institutional

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\(^{10}\) Giving USA treats arts, culture, and the humanities as a single nonprofit sector—lumping together the visual, literary, and performing arts. When I cite data from Giving USA on this sector, I simply refer to the related organizations as arts- or arts-related organizations in this chapter. Though I focus on visual arts instead of performing arts later on in my thesis, the distinction is not so important in this chapter.


support, and all grants would have to be matched by private funds, with no more than half of the support for any project coming from the federal grants.”\textsuperscript{15}

On the other hand, state and local funds can be used for operating expenses and support non-profits’ day-to-day existence. Because the $1.8 billion estimate ignores arts funding at the state and local level, it is especially inaccurate in gauging the importance of government funding to museums, which receive approximately two-thirds of public dollars from non-federal sources.\textsuperscript{16} Though the aggregate figure for funding from county and city government is not readily available, in FY 2012, state arts agencies received $260.1 million from state legislative appropriations.\textsuperscript{17}

The $1.8 billion estimate also fails to consider the massive impact of indirect support—forgone tax revenue due to the charitable contribution deduction for private gifts and non-profit revenues not being subject to income tax, as earnings are for private individuals and businesses. These omissions result in a drastic underestimate of the economic value of government support for the arts. The importance of this tax deduction cannot be overstated, especially in international comparisons of government support for the arts. As the U.S. government forgoes $0.33 to $0.35 for every $1 donated to a tax-exempt organization,\textsuperscript{18} an estimated $4.42 billion in forgone revenues\textsuperscript{19} from charitable donations to tax exempt arts organizations must also be considered as

\textsuperscript{16} “Art Museums by the Numbers 2015.”
\textsuperscript{18} Ibid.
\textsuperscript{19} Multiplying $1.8 billion in contributions by $0.34 in forgone revenues per dollar contribution yields the $4.2 billion figure.
public support. Scholars of politics or history may argue that direct and indirect funding are fundamentally different for constitutional reasons, but Arthur Brooks argues that “from an economic perspective, they are clearly comparable: one subsidy collects and disposes of tax revenues; the other simply does not collect them in the first place.”

Incorporating the value of indirect support as well as direct non-federal funding to give a more accurate figure for the amount of government support for the arts in FY 2012 then becomes a simple matter of arithmetic.

Even with the exclusion of funding from county and city government, data for which is not readily available, the calculated value of direct and indirect public funding for the arts totals about $6.48 billion for FY 2012. While this amount is only half of private giving’s $13 billion, it is enough to invalidate arguments that philanthropic giving can easily replace government support. Regardless, these critiques raise the question—what difference does government money make when it is a fraction of private giving?

The answer lies in the differing factors governing public and private funding, and the resulting variations in their behavior. A graphical comparison of NEA funding and private arts giving with recession years affirms that private giving and public funding both respond negatively to economic contractions, but differ in terms of the timing, severity, and length of the impact (see Figures 3 and 4). In the past thirty years, the U.S. has experienced five recessions: January 1980-July 1980, July 1981-November 1982, July 1990-March 1991, March 2001-November 2001, and December 2007-June

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2009. Figure 3 documents an evident disjuncture between NEA appropriations and recession years; Congress’ steepest cut to NEA funding in 1995, from $162.3 million to $99.5 million (a reduction of 40%) occurred during a period of economic expansion. Following the 2008 recession, NEA appropriations experienced a delayed, but sustained decrease. At the time of this writing, it is almost seven years after the recession’s end in 2009, and appropriations have not yet returned to pre-recession levels—further proof that the economy is not the only factor influencing public funding.

Given the legislative rigmarole surrounding NEA appropriations, it is obvious that political conflict shapes public funding decisions. Federal agencies’ grant-making ability can be constrained by sequestration—an automatic, across-the-board reduction of funding implemented when Congress and the White House fail to reach an agreement on schedule—such as when the NEH’s funding was suddenly and forcibly reduced by 5% in March 2013. In 1999, Princeton scholars sought to explain the NEA’s history of “volatile legislative treatment…and [evolution] from Congress’s bipartisan darling to its controversial scapegoat between the mid-1970s and the late 1980s,” despite stable majorities endorsing government support for the arts. They concluded, “support for the principle of federal aid for the arts is broad but shallow” and that “a mobilized, consistently opposed minority of 15 to 20 percent of the public became more effective during the late 1980s and early 1990s, thus exerting a disproportionate influence on

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24 Ibid., 6.
policy." Their findings affirm that the important role of arts advocacy groups, which enable arts advocates to mobilize together and lobby effectively for the defense of public arts funding.

Private giving on the other hand is fundamentally tied to the economy, as contributions most commonly take the form of liquid assets—cash or readily marketable securities that have increased in value. In real, or inflation-adjusted terms, the 2008 recession caused a 20.7% decline in private giving to the arts—the largest decline since 1982, when giving plummeted 59.9% from the previous year. Though the Great Recession technically ended in 2009, private philanthropy did not return to pre-recession levels until 2013, when the total of $16.66 billion topped the pre-recession high of $16.52 billion. Since the price of a share of stock simply reflects investors’ assessment of that company’s future performance and there is a time lag between when an economic shock occurs and when it is recognized by economists and investors, pessimistic outlooks can cause and sustain depressed stock prices well after the recession has technically ended.

Figure 3 reveals that private philanthropy’s response to recession is uniformly immediate and negative. Decreased household income and business profits during recessions negatively impact not only discretionary spending but also accumulated wealth to the extent investments consist of stocks, leading to reduced philanthropy. On

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25 Ibid., 6.
26 Museums have varying policies regarding gifts of artwork; the issue of valuation is a complex one and lies outside the scope of this thesis.
28 Ibid.
the bright side, the recessionary decreases are relatively short-lived, as philanthropy rebounds to pre-recession levels sooner than public funding.

In summary, private giving and public funding display negative responses to economic contractions; but differences in terms of the timing, severity, and length of the impact enable each to offset fluctuations in the other. While arts funding is not produced in a market, per se, the behavior of the government and of private donors can be loosely compared to two competing firms. Neither public funding nor private philanthropy alone can provide both the stability and scale required to support a resilient non-profit arts sector.

Within public funding, the distinction between federal restricted and non-federal unrestricted grant making also has important ramifications for organizational stability. While a decrease in federal funds would simply mean an exhibition or lecture series does not occur, a sustained decrease in state or local funds may threaten the institution’s very existence. One possible solution for non-profit administrators is the adoption of a diversification strategy, an important component of any personal wealth management plan. Just as investors allocate their money in a way that diversifies their portfolios across asset classes and industry sectors to minimize their exposure to risk, non-profit administrators can allocate their fundraising resources to public and private efforts to achieve a measure of financial stability.

Despite the public/private binary in the debate on funding for the arts, art museums do have other sources of revenue. Given diminishing public support and the challenges associated with private philanthropy, one might ask why art-related non-profits do not simply try to earn more money independently. Scholars have previously
explored the various sources of income earned by private non-profits in the Slovak Republic and argue that self-financing—which include membership fees, investment income, and the sale of products through a museum store—offers a highly desirable alternative to seeking private or public funding from donors or the government, as it enables non-profits to achieve greater independence and financial stability than is otherwise possible.29

Their conception of self-financing does not include conventional financing, such as a loan from a private bank or the issuance of company shares; non-profits are by definition devoted to providing goods and services that are public benefits from which there is little or no profit to be had. Therefore, non-profits cannot rely on self-financing through private or investment banking, as typical for-profit businesses do, because non-profits do not exist to generate the future cash flows which traditional banks use to price their loans and which investors use to value a business.

Non-profit art organizations such as LACMA have, however, financed capital projects through tax exempt financing: privately placed or publicly offered bonds that offer investors interest payments that are not subject to income tax. As one news article reported:

“Before 1986, only nonprofit hospitals were allowed to float tax-exempt bonds, which they used to build new facilities. Then Congress amended the tax code to allow all charities access to the credit markets…The number of charities issuing such bonds more than doubled from 1993 to 2006, according to figures

compiled by the Internal Revenue Service, and the amount of debt linked to those bonds rose to $311 billion from $98 billion (adjusted for inflation to 2006 dollars).”

The major challenge to the argument for self-financing comes from the US Tax Code. Section 501(c)(3) of the Code, which sets forth the criteria an organization must meet in order to qualify as a non-profit and receive tax benefits, states that a non-profit:

“must normally receive more than one-third of its support from any combination of gifts, grants, contributions, membership fees, and gross receipts from permitted sources [the one-third support test], and it must not receive more than one-third of its support from gross investment income and unrelated business income less tax [the one-third gross investment and unrelated income test].”

It is unclear why the IRS limits non-profits’ income from gross investment and unrelated business activities, and the reasons for the IRS’ mandate are not explained within the body of the Manual. The pursuit of profitable activities allows non-profits more financial independence, and non-profits pay taxes on this income; it seems to be a win-win situation for all concerned. Perhaps the reason the IRS mandates this revenue structure is simply to prevent the non-profit from allowing its profit-producing segments to overtake its non-profit activities.

Interestingly, a 2014 survey of 220 AAMD museums across the US, Canada, and Mexico conducted by the Association of Art Museum Directors (AAMD) found

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that while these organizations easily met the one-third support test, receipts from gross investment income and unrelated business income were 32%--dangerously close to exceeding the one-third investment and unrelated income limit (“Art Museums by the Numbers 2014”). A likely possibility is that data from museums in Mexico and Canada—where these revenue restrictions are not in effect—skew the results, and that American museums are not as close to the threshold as might appear from the survey. Regardless, the survey findings confirm that investment and unrelated business income come close to reaching the one-third limit for North American museums as a whole.

Because of the one-third investment and unrelated income limit, art museums’ ability to self-finance is constrained; and the public-private funding issue remains of paramount importance. The following chapter will further explore the issue of fundraising efficiency at arts nonprofit organizations by attempting to identify the key ways in which public funding and private philanthropy interact.

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32 Receipts from permitted sources were an average of 50%, safely over the 33% benchmark. On the other hand, receipts from investment and unrelated business income—endowment income (21%), museum store (8%), facility rentals (1%), and restaurants/catering (2%)—were an average of 32%, barely under the 33% limit (Art Museums by the Numbers 2014).
Chapter 2

Public & Private Arts Funding: Exploring the Crowding-Out Effect

Despite public and private support for the arts demonstrating asynchronous behavior over the past three decades and the dichotomous framework presented in the previous chapter, it is all but certain that the two are fundamentally linked. The question of whether or not public support crowds out private funding—hence the term, “crowding-out effect”—is critical to developing effective public policy related to the arts, as well as evaluating and improving fundraising efficiency. However, researchers have yet to reach a consensus on whether increases in public support cause an increase or decrease in private giving.33 Again it is essential to consider the impact of federal and non-federal funding, as well as direct and indirect support.

Scholars who argue there is a positive relationship between public and private giving in the arts tend to cite reasons related to direct federal funding, for example the matching requirement accompanying grants from the NEA, NEH, and IMLS. For NEA and NEH grant applications the matching requirement, also known as a cost-sharing requirement, is a ratio of 1:1 in non-federal to federal funds; for IMLS, the requirement is 1:2. The basic rationale for the requirement is that the applying institution ought to be financially invested in the project’s success, and that the organization can use the prospect of the additional funds to stimulate private support for the project. In its 2014 Annual Report, the NEA states that its grants for that year “will generate more than $600 million in matching support …the ratio of matching to federal funds will approach

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33For a summary of previous scholarship on the subject, see Hughes, Patricia Nold, and William A. Luksetich. “The Relationship Among Funding Sources for Art and History Museums.” Nonprofit Management & Leadership 10, no. 1 (September 1999): 21–37.
10:1, far surpassing the required non-federal match of at least one to one.”34 The matching fund requirement is lauded, “as if the NEA grants are in some way responsible for the generation of 10 times as much in non-NEA donations.”35 This estimate for the NEA’s effective matching ratio likely overestimates the multiplier effect associated with NEA grants. Unfortunately the NEA offers no further explanation as to how the 10:1 figure was calculated. Without denying NEA grants stimulate at least equal matching support from the private sector, the estimated ratio warrants skepticism.

Another argument related to direct federal funding is that the receipt of federal funding can serve as a signal not only of financial need to private donors, but also of the attainment of a “certain level of financial accountability and responsibility, which private donors find attractive…[However] subsidies to arts firms might appear to be a bailout of arts firms in dire straits. Although this may attract some donors, others may be driven away by the prospect of a failed project.”36 Researchers might be able to assess the importance of this signaling function in the decision-making process by surveying donors. But since deciding how much to give is so complex, it would be hard to extricate how much of the gift was attributable to one factor or another.

The case for public unrestricted giving’s ability to attract major gifts from private sources is attributed to Mike Boehm and recalls the discussion of limitations on federal funding in the previous chapter. Boehm notes that using unrestricted state or local funding to “pay for mundane things that are vital to operations but have no sex appeal for wealthy private donors looking for public recognition… frees fund-raisers to

36 Ibid., 33.
dangle more glamorous philanthropic opportunities in front of prospective individual and corporate donors, including the big sums for new buildings.”

Though Boehm had in mind the Los Angeles County Museum of Art, the same is likely true at other museums receiving non-federal funds.

There is also concrete proof of a positive relationship between the charitable contribution deduction and private giving. The non-profit sector has demonstrated unified opposition to President Obama’s repeated attempts between to put a cap on itemized tax deductions for high-earning households. Though the proposed change is intended to reduce tax breaks for the wealthy, non-profit organizations cite surveys by the United Way and Dunham+Company showing widespread opposition to the proposed cap among the American population and argue that the cap would significantly inhibit high net worth individuals from making major gifts for charitable purposes. Furthermore, the issue received media coverage in the popular press at the time of the “fiscal cliff” negotiations in December 2012, spurring “a noticeable increase in charitable giving...[one financial advisor’s] clients accelerated the amount of charitable contributions by about 25%.”

support provided by government strongly affects donor decision-making. Currently, the deduction remains unchanged.

Reasons supporting crowding out theory generally depend on the individual’s political perspectives. Brooks provides three general reasons supporting the crowding out theory:

“First, the sense of responsibility and public enthusiasm to support a social cause might be diminished if the government takes responsibility for its funding…the conversion of private support into the payment of a tax [is] infinitely less delightful to us.”

“…Finally, to the extent that higher government subsidies are paid for with higher taxes, individuals have less disposable income and hence do not donate as much as they otherwise might.”

In 1999, Patricia Hughes and William Luksetich argued that reductions in federal support have a “multiplier effect on museum finances, the effects being more severe on art museums than history museums;” a claim that was directly contradicted in 2011 by Seongho Song and David Yi, who found that art museums, which depend more than other art organizations on government grants are less subject to the crowding out effect.

These arguments suggest that the crowding-out effect occurs in varying degrees

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42 Analyzing the effect of Obamacare’s implementation on private giving that supports health-related initiatives for the disadvantaged offers an excellent opportunity to evaluate the validity of this claim.

43 Brooks adds, “This is probably insignificant in the United States, where tax revenues at all levels of government allocated to the arts in 1987 amounted to just $3.30 per person.” Brooks, “Do Public Subsidies Leverage Private Philanthropy for the Arts? Empirical Evidence on Symphony Orchestras,” 33.


and is based on the extent to which an organization depends on government funding—which in turn depends on the size of the organization, the number of staff, and the type of work it does.

Although researchers are as yet unable to reach an agreement regarding the crowding-out effect, the arguments in favor of a positive relationship between public and private funding are most convincing, in particular those related to unrestricted gifts and charitable contribution deduction, and provide an excellent defense for the efficacy of government support for the arts. In any case, the existence of these studies indicates the business-minded pursuit of efficiency in non-profit management—maximizing impact given limited resources and the recognized necessity of adapting during times of financial distress.

Further, identifying the forms of government support that effectively incentivize subsequent private gifts enables policymakers to make a better case for or against particular types of funding. For example, if individuals respond positively to matching grants because their impact is doubled, then the government should transition towards offering more matching grants. Using public funds effectively would increase Americans’ support for the arts—or at least reduce their opposition to government involvement.

Moving forward, legislation concerning government support for the arts ought to strongly consider distinctions between restricted giving at the federal level and unrestricted giving at the state and local level, and between direct and indirect funding. Thanks to the vocal opposition of arts and other non-profit advocates, it is highly unlikely that Congress will revoke the charitable contribution deduction. So future
debates must focus on the tradeoffs between restricted giving at the federal level (which limits the size of government as well as benefits to organizations) and unrestricted at the state level (which requires the government to commit more funds, but increases organizations’ potential benefits).

Given the numerous ways in which public and private funding interact, it is interesting to note that existing studies only debate how public funding affects private dollars—the possibility of private dollars affecting public funding is ignored. Further research on fundraising efficiency could explore the question of whether the increased private philanthropy in a non-profit sector would encourage the government to reduce direct support, whether at the federal or state level.
Chapter 3

Trends in Private Giving: Allocations By Discipline

Any analysis of private support for arts museums must address the importance of foundations. Though 72% of philanthropic giving comes from individuals and 15% from foundations (bequests and corporations make up the remainder), art museums depend on foundation grants almost as much as individual gifts. Grant data from the James Irvine Foundation and the Andrew W. Mellon Foundation both support the conclusion that decreases in total grant making impact the arts disproportionally.

Because both foundations have long histories of supporting the arts as well as other fields, analyzing these institutions’ giving patterns offers insights into the relative importance of the arts compared to other giving areas. The Mellon Foundation was formed in 1969 through the consolidation of two existing foundations dating back to 1940 and offers grants across the country. Its current funding areas can be seen in Figure 1. The Irvine Foundation was created in 1937, and until January 2016, its three key funding areas were programs supporting the arts (promoting engagement in the arts for all Californians), democracy (researching and improving the California electoral system), and youth (increasing high school and postsecondary education among low-income individuals under 25). 2014 program allocation figures can be seen in Figure 2. Unlike the Mellon Foundation, it focuses on grant making in California.

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46 No data is readily available on private giving from individuals as a standalone group, but because they represent the majority of private support, these trends are largely captured in previous chapters’ discussions of private philanthropy and do not require further discussion.


48 “Art Museums by the Numbers 2014.”

49 In January 2016, the Irvine Foundation announced an “evolving focus…on expanding economic and political opportunity for families and young adults struggling with poverty.” Howard, Don. “Irvine’s
Historical grant data from the Mellon Foundation affirm that decreases in private grant making impact the arts more severely than other non-profit sectors. In 2001, when the recession reduced the Mellon Foundation’s grant-making by 17%, support for Museums & Conservation saw a decrease of 38%, while the Higher Education & Scholarship and Conservation & Environment categories fell by 18% and 25%, respectively.\textsuperscript{50} For Mellon Foundation grant data, see Figure 5. Museums & Conservation were also the hardest hit in 2009.\textsuperscript{51} When overall grant making was reduced by 29%, Museums & Conservation sustained a decrease of 40%, while Higher Education & Scholarship and Conservation & Environment fell by 23% and 29%, respectively. Although grant making to Higher Education & Scholarship suffered the greatest cuts on a numerical basis in 2001 and 2009, this sector has historically formed the core of the Mellon Foundation’s philanthropic efforts and receives the greatest amount of funding by far. Thus a percentage-based comparison is most appropriate for the purposes of this paper.

Though the Irvine Foundation does not provide allocation data prior to 2003, available grant data also support the conclusion that decreases in total grant making impact the arts disproportionately. Between 2008 and 2010 when total grant making was reduced 18%, Arts funding decreased by 25% while funding for the Democracy and Youth categories fell by 20% and 3%, respectively. Democracy programs did sustain

\textsuperscript{50} These and following statistics pertaining to Mellon Foundation grants are taken from Mellon Foundation Annual Reports, published annually and available online at https://mellon.org/about/annual-reports/.

\textsuperscript{51} Scholarly Communication is ignored as grants to this category provide general support for all disciplines.
the most severe reduction in 2009, but substantial increases the following year meant that over the two-year period Arts funding faced the greater decline.

Although private giving as a whole returned to pre-recession levels in 2013 (see figure 4), neither foundation has yet been able to offer grants at pre-recession levels, suggesting that foundations may recover more slowly from recessions than other sources of private giving. The lingering effects are most likely a result of foundations maintaining the majority of their assets in the form of investments.

It is worth noting that philanthropic giving to education, health, and human services is consistently greater than giving to arts-related organizations. Whereas these fields typically receive about 15%, 12%, and 10% respectively of total private contributions each year, arts related organizations typically receive just 5%. This proportion reflects the small size of the nonprofit arts sector as well as the prevailing belief that art is a social good of lesser urgency than education, health, and human services.

The severity of the two foundations’ reductions to an already small funding category further affirms that the arts’ tenuous position is made all the more so in times of recession. This conclusion is an unfortunate one, as that is when the arts’ capacity to

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52 Religious organizations claim the lion’s share of private giving and typically receive about 30% of contributions each year. The only nonprofit sectors that receive less than arts-related organizations are related to international affairs (about 4% of private giving) and the environment/animals (3%). *Giving USA 2014: The Annual Report on Philanthropy for the year 2013* (2014). Chicago: Giving USA Foundation.

53 The arts, cultural, and humanities sector constitutes just 1.9% of revenues, 1.9% of expenses, and 3.7% of expenses across the non-profit sector. Blackwood, Amy, Katie Roeger, and Sarah Pettijohn. “The Nonprofit Sector in Brief: Public Charities, Giving, and Volunteering 2012.”

provide both social and economic benefits\textsuperscript{55} is most greatly needed. The goal of private philanthropy is to provide goods and services that could not or should not be supplied in a commercial market; in instances when both the philanthropic and for-profit sectors are insufficient and/or incapable of providing a social good, the need for government support to offset the fluctuation becomes even more apparent.

Unfortunately, neither the Mellon Foundation nor the Irvine Foundation provide sufficient data to make any firm conclusions about how their funding within the arts has changed over the given time frame.

Chapter 4

Trends in NEA Funding: Allocations for Museums & Visual Arts

NEA grant data between 1998 and the present clearly affirm that public funding moves in ways that offset the impact of recessionary fluctuations in private philanthropy. This chapter will assess grant data pertaining specifically to museums and the visual arts. The following findings can also help museum professionals gain a better understanding of how recessions impact public funding for museums, allowing them to be more strategic about the timing of their project applications.

Organizing the thirty types of funded activities funded into three categories: Organizational Support, Knowledge Creation/Dissemination, and Events/Programming (see figures 7, 8, and 9) reveals a massive increase in the amount of funding providing organizational support (driven by Professional Support—Administrative and Professional Support—Artistic categories) when it was most severely needed in 2009; funding for the other two categories increased the following year.

In 1995, it was reported that the Serrano-Mapplethorpe controversy spurred the “perception that individual artists are the troublemakers,”\(^56\) leading to “new guidelines [that] eliminate fellowships to most individual artists by congressional mandate…and disallow general support grants, which have in the past been used by organizations to fund individuals.”\(^57\) One might conclude that the NEA does not support artists. However, the NEA grant data prove that is simply not the case. While the majority of NEA dollars goes towards funding exhibitions, the second largest category is in fact

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\(^{57}\) Ibid.
Artwork Creation (see figure 7), which provides artists with stipends, studio space, equipment, technical assistance, and the like. Of all the types of grants, Artwork Creation most closely follows economic patterns. The reason may be that unlike funding for exhibitions, artist residencies, publications, and scholarship, these grants do not generally require multi-year commitments.

During recessions, funding for events and programming tends to decrease, but funding for areas in organizational support will rise to compensate. In times of economic expansion, Artwork Creation, Professional Development and Training, and Arts Instruction (art classes and scholarships for students) typically rise. By assessing trends in NEA grants to museums and the visual arts, art museum administrators may be able to ensure a measure of financial stability.
Chapter 5

Pluralism, Art Museums, and the Creation of Art

Though public funding is justified on an economic basis, ignoring the complexity of social and political arguments is simply not an option for practical policy. Although a fundamental rationale for the existence of the non-profit sector is the “promotion of the values of pluralism and freedom,” art, art historical scholarship, and art museums have long been bastions of the interlocking systems of domination that bell hooks termed “the imperialist white-supremacist capitalist patriarchy.” Another scholar asserts, “master narratives of elitism were established in the last century, when museums began organizing and building their collections. Because art museums were designed by the rich and subsequently forced to depend on the rich for financial support, stories of elitism and exclusion have been perpetuated over the years.”

Maintaining diverse funding sources is important to any institution that seeks to limit the undue influence of any single donor or constituent group. Therefore, another theoretical argument for protecting public funding is that it ensures the representation of all taxpayers, instead of only those whose incomes or accumulated wealth are sufficient to allow discretionary spending.

Since the 1990s, museums have made a concerted effort to research strategies for audience engagement and establish educational programs and outreach initiatives.

targeted at audiences they have historically neglected. One might argue that without a financial obligation to the general taxpaying population, museums may not continue to expand access to art for populations that they traditionally overlook and shape art historical discourse in a way that offers substantive challenge to master narratives of elitism.

Funding for these initiatives comes from both public and private sources. Between 1990 and 1999, the Lila Wallace-Reader’s Digest Fund funded initiatives at 29 fine art museums “to attract and serve a diverse mix of visitors through new activities and innovative programs.” In 2001, the (publicly funded) Smithsonian Institution published a report that surveyed museums’ efforts to increase audience engagement and established best practices that it hoped to apply at its three affiliated art museums. In 2010, the Dallas Museum of Art released the results of a seven-year study on engaging diverse audiences that had first been conceived in 2002; though the source of funds is not disclosed, the DMA announced in 2014 it had received an additional $250,000 gift from an individual for further research.

But philanthropy—itself an undertaking that many associate with the very wealthy—should not completely replace taxpayer support. Art museums depend

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significantly on large gifts: grants of $500,000 or more account for more than half of arts grant dollars. But again, neither public nor private funding can independently provide a solution. Replacing public funds entirely with private philanthropy will make it harder for areas that are either unpopular or of particular interest to a wealthy donor to receive funding.

Another issue raised in the public-private debate is the issue of transparency. Many donors are motivated by recognition for their giving—the creation of a visible legacy. But some may prefer anonymity, and private grant making institutions are not required to disclose their activities to the general population. As a result, it is difficult to firmly establish whether art museum initiatives like the ones at the DMA and Smithsonian receive more funding from public or private sources as a whole. Public direct funding decreases the possibility that a single wealthy donor is able to exercise undue sway over an organization, while giving taxpayers have a voice in what is and is not funded.

Increasing indirect government support via the charitable contribution deduction would theoretically enable more people to afford to make a gift, thereby broadening the base of support, but it would also extend those same advantages to the wealthy. And in practice, because only 30% of the population has deductible expenses that are high enough to itemize their charitable contributions ($5950 for individuals, $11,900 for

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couples), increasing the charitable contribution deduction would benefit the wealthy disproportionately.

While the NEA and other direct government funding make financial sense, there is a valid social argument for eliminating its function of creating artwork. The arts are a key vehicle for self-expression, and to the extent that money “talks” and constitutes support for one idea or another, direct funding for the creation of art enables or magnifies certain viewpoints while indirectly silencing others. Even if the government funded two opposing viewpoints, it would still disadvantage tangential perspectives. Government-funded artwork forms national identity in way that private philanthropy cannot, but that should only be possible when there is a consensus on what that identity is—and whether we are a melting pot or a stew, we are a heterogeneous nation with no national identity per se.

Art has long been used as a tool for social and political commentary, both to subvert and to promote particular viewpoints. Artists and art history scholars attempting to justify public funding for the arts traditionally fixate on art’s intrinsic value—its existence as a form of human expression that carries historical meaning, confers social prestige on its owners, and brings emotional pleasure to those who create or behold it. The arts are a key vehicle for self-expression, not only by the artist but also by the society from whence it came. Unfortunately, art has also been used to “offend, threaten, or insult groups based on race, color, religion, national origin, sexual orientation,
disability or other traits”—fulfilling the very definition of hate speech. Though hate speech is technically protected by the First Amendment, it is hard to argue that federal funds should be used to subsidize the cost of it. One could argue that art’s potential to disrupt society prevents it from fitting the economic definition of a public good—art, then, is the antithesis of what taxpayer dollars should fund. While Andrew Serrano’s *Piss Christ* was artwork and not verbal speech per se, it was still deeply offensive on the basis of religion. When the Serrano-Mapplethorpe controversy reached the floor of the Senate, Senator Jesse Helms echoed the sentiments of many when he stated, “I do not know Mr. Andres Serrano, and I hope I never meet him. Because he is not an artist, he is a jerk. . . . Let him be a jerk on his own time and with his own resources.”

But if government should not fund the creation of artwork, and its “moral obligation to protect a citizen’s life, liberty, and property” means that it cannot tell people what to do with their money, what recourse do the poor have to create art that represents themselves? There is no perfect solution, but there are solutions that are more wrong than others, and to borrow another of part Senator Helms’ statement, “Americans

for the most part are moral, decent people and they have a right not to be denigrated, offended, or mocked with their own tax dollars.”\textsuperscript{69}

Conclusion

This thesis defends federal funding and the NEA on the basis that their function and scale reflect the federal principle of government and must be evaluated in conjunction with support given at the state and local levels. While public and private funding are often presented as dichotomous solutions, this thesis analyzes their responses to recession, finding that though both respond negatively to economic contractions, differences in terms of the timing, severity, and length of the impact enable each to offset fluctuations in the other. Though fiscal conservatives present private philanthropy as a perfect solution, data on private philanthropy by sector and grant making at the Irvine and Mellon Foundations make clear that recessionary decreases in private giving impact the arts disproportionately relative to other non-profit sectors. This conclusion is an unfortunate one, as that is when the arts’ capacity to provide both psycho-social and economic benefits is greatest.

This thesis also presents the social and political arguments in the public-private funding debate, which simply cannot be ignored. The limitations of private philanthropy revolve around issues of transparency and undue influence, while art’s function as a tool for social and political criticism establish a key challenge to economic arguments defending public funding.

This thesis concludes that neither public funding nor private philanthropy alone can or should provide both the stability and scale required to support a resilient non-profit arts sector. But by exploring how public and private funding interact,

policymakers can identify the forms of government support that effectively incentivize subsequent private gifts and make a better case for or against particular forms of government funding.

Without belittling the importance of cultivating culture and national pride, one must recognize how drastically the Great Recession reframed the debate surrounding government funding for the arts. While art historians might bemoan the decreased importance of the “arts for arts sake” argument, this evolution is actually a positive one for the future of arts in America. Art historians can debate the meaning of Mapplethorpe’s photographs of male genitalia all they want, but they are never going to convince social conservatives that the images are anything more than pornography. Because the responses to art are inherently subjective, the most meaningful defense for public funding for the arts lies in its economic value.

Further, the enduring environment of financial insecurity caused by this recession forced museum professionals to re-evaluate their approach to organizational financing. One director states,

“It’s become increasingly evident that the secret to long term financial health for nonprofit organizations is endowing programs and positions. Because temporary gifts or grants do not continue, an institution that spends more because of a grant or gift will not be able to sustain the program. Only an endowment, which gives you interest income every year will afford that security… An operating fund endowment would be the dream for any nonprofit officer.”

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71 MacNoughton, Mary. Personal Interview, April 19, 2016.
Any attempt to justify public or private funding for the arts must consider not only the economic, but also the social and political arguments for and against them.
### Figures

<table>
<thead>
<tr>
<th>Funding Program</th>
<th>Grants Appropriated</th>
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<tbody>
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<td>Higher Education and Scholarship in the Humanities</td>
<td>$109,893,850</td>
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<td>Arts and Cultural Heritage</td>
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<td>Diversity</td>
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<td>Conservation and the Environment</td>
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Figure 1. Mellon Foundation Program Allocations (Appropriated), 2014.  

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<td>Arts</td>
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<td>California Democracy</td>
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Figure 2. Irvine Foundation Program Allocations (Appropriated), 2014.

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Figure 3. NEH and NEA Appropriations, 1974-2015 (Millions).\textsuperscript{74}

Figure 4. Private Giving to the Arts, Culture, and Humanities, 1974-2014 (Billions).\textsuperscript{75} Graph from Giving USA 2014; red lines indicating recession years are author’s own.


Figure 5. Mellon Foundation Grant Allocations 2000-2013.\textsuperscript{76}

Figure 6. Irvine Foundation Grant Allocations 2000-2014. Values preceding 2004 are unavailable.

Figure 7. NEA Grants by Type.

<table>
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<th>Organizational Support</th>
<th>Knowledge Creation/Dissemination</th>
<th>Events/Programming</th>
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<tr>
<td>Facility Construction/Maintenance</td>
<td>Writing About Art</td>
<td>Exhibition</td>
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<tr>
<td>Repair/Restoration/Conservation</td>
<td>Fellowships</td>
<td>Concert/Performance/Reading</td>
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<tr>
<td>Professional Development/Training</td>
<td>Apprenticeship</td>
<td>Fair/Festival</td>
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<tr>
<td>Stabilization/Endowment/Challenge</td>
<td>Presenting/Touring</td>
<td>Audience Services</td>
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<tr>
<td>Technical Assistance</td>
<td>Publication</td>
<td>Arts Instruction</td>
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<tr>
<td>Professional Support-Administrative</td>
<td>Recording/Filming/Taping</td>
<td>Curriculum</td>
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<td>Distribution of Art</td>
<td>Development/Implementation</td>
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<td>Other Residency</td>
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Figure 8. Author’s Re-Categorization of NEA Funding Areas.
Figure 9. NEA Grants by Category.\textsuperscript{77}

\textsuperscript{77} Ibid.
Bibliography


MacNoughton, Mary. Personal Interview, April 19, 2016.


