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## Government Policy Toward Art Museums in the United States

Charles T. Clotfelter

Governments since antiquity have taken an interest in the arts and often have provided significant support for the creation and preservation of works of art. It is not surprising, therefore, that government policies have had an impact on art museums in the decades since their emergence as major arts institutions. In this country, the principal form of governmental support for art museums has been the various tax provisions exempting them from certain taxes and providing for contributions to them to be deductible. But in the last 25 years, other forms of government support in this country have become prominent as well. This paper focuses on government policy other than the federal tax provisions related to charitable contributions and the treatment of income of tax-exempt organizations; these tax provisions are treated separately in Don Fullerton's paper (chap. 8 in this volume).

The first section of the current paper presents some background on public policy toward the arts in general and art museums in particular, beginning with a brief history of government support of the arts in America. The background section continues with a discussion of the major issues in the perennial debate over arts policy—the debate over whether it is desirable for the government to support the arts and, if so, in what form. The last part of the section examines the specific political context of arts policy at the federal level since 1965, the year Congress established the National Endowments for the Humanities and the Arts. The second section of the paper presents some sum-

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many measures useful in assessing the extent and composition of government support for art museums. The third section deals specifically with federal policies and programs toward art museums, including federally sponsored museums, the major granting agencies, and certain indirect subsidies other than the tax provisions noted above. The section also discusses the likely effects of these federal programs. The paper's fourth section examines the policies of state and local governments toward art museums, including direct support and indirect aid via exemption from taxes. A final section concludes the paper.

## 9.1 Arts Policy and Politics

It is impossible to separate the consideration of public policy toward art museums from that of arts policy in general, or from the theoretical and political debates that have surrounded arts policy. I begin with a short history of government support for the arts and then turn to the contemporary debate over arts policy, focusing where appropriate on art museums in particular.

### 9.1.1 The Antecedents of U.S. Arts Policy

Government support for the art museums and other forms of art in the United States is often compared unfavorably with that provided by European countries. Symbolized by such renowned institutions as the Louvre, the countries of Europe are said to have carried on a tradition of government support for the arts dating from ancient Egypt and Greece. First, through the court patronage of numerous kings and princes, support for the arts was carried on by the succeeding national governments.<sup>1</sup> In contrast, governments in the United States, before the 1960s, provided little direct support for the arts, relying instead on favorable treatment under the property and income taxes. So complete was the absence of direct government support that, as late as 1966, Boston's famed museum could proclaim in gold letters in its central rotunda:

Museum of Fine Arts.  
Founded, Built and Maintained  
Entirely with the Gifts of  
Private Citizens.<sup>2</sup>

The reliance on tax subsidies to support art museums and other arts institutions is typical of the more general American pattern of allowing charitable

1. See Lee and Henning (1975, 5) and Schlesinger (1988, 1) for discussions of the history of government support of the arts in Europe.

2. Rathbone (1984, 46). The inscription was removed when the museum received a grant from the Commonwealth of Massachusetts of \$100,000 to pay for school children to enter the museum free of charge.

donations to support many services that are largely provided by government in Western Europe.<sup>3</sup>

To be sure, there were isolated instances of government support of the arts before the 1960s. President James Buchanan appointed a National Art Commission in 1859, but it was disbanded two years later. In 1910, Congress established the National Commission of Fine Arts, as an advisory body to deal with such questions as the location of statues and monuments in Washington, D.C. (U.S. Commission of Fine Arts 1953, 7). Later, to oversee works of art in federal buildings, the government set up a Section of Fine Arts in the Treasury Department. The federal government provided its first direct support for the arts during the Depression, through the Arts Project of the Works Progress Administration. By 1938, this program had funded some 17,000 pieces of sculpture and over 100,000 easel paintings.<sup>4</sup> Then in 1941 came a significant turning point in the government's support of art museums, the dedication of the newly built National Gallery of Art, paid for by and filled with the collection of Andrew Mellon.<sup>5</sup> Whereas the Smithsonian had previously been the repository for some artwork, the National Gallery would become the flagship of a group of federal art museums in Washington, which by their existence constitute a not insubstantial component of the entire federal policy towards art museums in the United States today.

But the acknowledged turning point in federal policy toward the arts came in 1965, with the passage of the law setting up the National Foundation on the Arts and Humanities. Championed by Presidents Kennedy and Johnson, the idea of a national arts administration was the subject of several years of spirited debate in Washington. What emerged were two separate funding agencies, the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH), authorized to make grants to individuals and institutions. From its beginning, the NEA's mission has included making the arts more widely available to the public and strengthening arts organizations.<sup>6</sup> Both of the endowments 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, not general institutional 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. Congress also went to lengths to limit the possibility that bureaucrats might exert undue control over the creative pro-

3. Several European countries allow a tax deduction for charitable contributions, but most of these are limited in scope. See Schuster (1986) and Don Fullerton's paper in this volume (chap. 8) for international comparisons of tax provisions affecting contributions.

4. See Netzer (1978, 53–54) and Banfield (1984, 42–47).

5. Taylor (1975, 44); Schlesinger (1988, 19).

6. See National Foundation of the Arts and the Humanities Act of 1965 (PL89-209: 29 Sept. 1965), *U.S. Statutes at Large* 79, 845.

cess. The bill stated: "No department, agency, officer, or employee of the United States shall exercise any direction, supervision, or control over the policy determination, personnel, or curriculum or the administration or operation of any school or other non-Federal agency, institution, organization, or association."<sup>7</sup> In addition, both of the endowments have operated from the beginning under another important institutional control: the use of peer review panels to evaluate grant proposals. This structure, like that used in the National Science Foundation, was looked to as an important safeguard against the possibility that politicians or bureaucrats might seek to impose their artistic preferences on the arts community.

### 9.1.2 Issues in the Arts Policy Debate

Basic to a consideration of government policy towards art museums and other arts institutions is an awareness of several perennial issues that arise in one form or another in most discussions of arts policy. A fundamental question, of course, is whether the arts merit any government support at all. Related to this basic question are two rather specific issues that deserve separate consideration. One is the alleged elitist character of the arts and support for the arts. The other is the fundamental question of what constitutes art and what that implies about the use of reproductions.

*Should the government support the arts?* That the arts are deserving of government support is, for some, an unarguable truism,<sup>8</sup> but in describing government policy it is important to consider the specific arguments pro and con. Among the arguments offered to justify the public support of the arts, perhaps the most familiar to economists is the notion that art and arts institutions produce beneficial externalities, or that they have the character of public goods. It is a widely accepted conclusion of welfare economics that, when the number of people an activity can serve can be increased at little or no additional cost, such goods tend to be undersupplied by the market, presenting one justification for government intervention.<sup>9</sup> A second but related argument for government support is based on the idea that art is an essential element of our cultural heritage and that government must act on behalf of future generations to protect it. Arthur Schlesinger makes the analogy to another realm in which the government is heavily involved: "Surely government has as strong [an] obligation to preserve the cultural environment against dissipation and destruction as it has to preserve the natural environment against pollution and decay."<sup>10</sup> A third justification for supporting the arts is the "merit good" argu-

7. *Ibid.*, 846.

8. For example, former NEA chairman Livingston Biddle (1984, 90) wrote, "Of course our government should support the arts!"

9. For discussion of the public goods justification for government support for the arts, see Austen-Smith (1980) and Abbing (1980).

10. Schlesinger (1980, 19). Also see Netzer (1978, 23) for a discussion of this argument.

ment, the notion that art is among that special group of commodities that society deems of such importance that they ought to be provided by government.<sup>11</sup> All of these justifications find expression in the 1981 statement of a task force appointed by Ronald Reagan: "There is a clear public purpose in supporting the arts and the humanities: the preservation and advancement of America's pluralistic cultural and intellectual heritage, the encouragement of creativity, the stimulation of quality in American education, and the enhancement of our general well-being."

To these justifications, critics have raised several objections. Some argue that the public goods argument does not apply to arts institutions, especially not to art museums. Museums clearly have some characteristics of public goods, but it is doubtful that excludability is a serious problem in their case.<sup>12</sup> Regarding the notion of cultural heritage, van den Haag maintains that classical art and music have no more justification for subsidy than many elements of popular culture:

We have marvelous things in our museums. But they did not get there through government activities and did not celebrate those activities or our national history, cultural or political. The contents of our museums have nothing to do with our national life. . . .

Tin pan alley, jazz, rock, or baseball are more important in the celebration of American values, not only in the working classes and among adolescents, but also in the upper classes and even among educated groups. They need no subsidy. (1979, 66)

Similarly, Banfield (1984, 11–15) compares art to religion; although both affect the public interest, supporting either one, he argues, is simply not a proper role of government. Another argument against government support of the arts is that the support itself will harm the arts. The "deadening hand" (Netzer 1978, 59) of government will harm the creative enterprise, it is argued, by inserting bureaucratic meddling into artistic decisions. Van den Haag (1979, 68) argues that government support of the arts must inevitably become indiscriminate, ultimately reducing potential support for the best artists. Another argument that is often made against government support for the arts is that the distribution consequences of such support is undesirable. Because of its importance, this argument is worth considering in somewhat more detail.

*Are the arts necessarily elitist?* One of the central recurring issues that arises in debates over public support for the arts is the tension between the perceived elitist nature of the arts and the populism that is embedded in American politics. Sometimes this issue is stated quite baldly, as in the statement that "arts-

11. See Rosen (1988, 55–56) for a discussion of this concept and Netzer (1978, 16) for a discussion of the idea in the context of arts policy.

12. See Hendon, Shanahan, and MacDonald (1980, 21) for a discussion of this point.

**Table 9.1** Attendance at Art Museums and Art Galleries by Income and Education, 1985

|                            | % of Adults Who Attended<br>in Previous 12 Months |
|----------------------------|---|
| Income                     |   |
| Less than \$5,000          | 16  |
| \$5,000–9,999              | 11  |
| \$10,000–14,999            | 15  |
| \$15,000–24,999            | 19  |
| \$25,000–49,999            | 28  |
| \$50,000 or more           | 45  |
| Education                  |   |
| Grade school               | 4   |
| Some high school           | 11  |
| High school graduate       | 14  |
| Some college               | 29  |
| Four-year college graduate | 45  |
| Graduate school            | 55  |

*Source:* Survey of Public Participation in the Arts 1985, cited in Schuster (1988, 12).

funding is in practice an income-transfer program for the upper-middle class” (Bethell 1978, 136). More often, the elitist-populist issue manifests itself in ways less obviously class-oriented, such as the forms of art that should be supported (e.g., the “fine arts” vs. folk art), the kinds of institutions that should be supported (established vs. “emerging”), and the regions where support should go (the urbanized Northeast vs. the hinterlands). That arts patrons tend to be educated and affluent are facts that are confirmed by most surveys of arts attendance. For example, table 9.1 summarizes the findings of a 1985 household survey regarding visits to art museums and art galleries in the previous year. For income classes above \$5,000, the percentage of respondents attending museums rises with income, with those in the highest income class three times as likely to attend as those with incomes between \$10,000 and \$15,000. The pattern for education is even clearer, with attendance rising steadily with years of school.<sup>13</sup>

The geographical distribution of museums is also decidedly nonuniform: there are both more museums and more museum-goers in cities and in the more urbanized regions of the country. As an illustration of attendance patterns, in 1982 the percentage of adults who visited an art museum during the

13. Other survey data confirm the positive correlation between art museum attendance and income. See National Research Center of the Arts (1981), for example, and Schuster’s (1988) discussion of it.

A complete assessment of the distributional impact of government policy towards art museums would require an examination of tax subsidies as well as direct government expenditures. For relevant studies of tax expenditures, see Fullerton (chap. 8 in this volume) and Feld, O’Hare, and Schuster (1983). See also Wyszomirski (1982, 18).

year was 25 percent in urban areas, compared to just 16 and 17 percent in rural farm and nonfarm places, respectively.<sup>14</sup> Not surprisingly, such differences translate into regional differences in museum use. The differences among regions are less striking, but noticeable nonetheless. A survey conducted in 1985 showed that 31 percent of adults in the West had visited an art museum or gallery in the previous year, while only 19 percent of those in the South had made such visits. These differences may reflect regional differences in demand as well as supply.<sup>15</sup>

Differences such as these appear to underlie, or at least correspond to, much of the debate over arts policy in this country. To begin with, regional and economic differences in any class of public funding are certain to catch the attention of some members of Congress, and arts funding is no exception. It is no accident that the NEA's original mission statement contained the explicit goal to make the arts more widely available. Indeed, this outreach objective can be seen in most public programs supporting the arts. But the populist spirit manifests itself not only in the audiences to whom the programs will be targeted, but also in what kinds of art will be supported. In 1976, Senator Claiborne Pell, although a supporter of federal arts programs, took up the populist mantle in attacking NEH chairman Ronald Berman for funding esoteric projects that smacked of "mandarin culture" and praising the NEA for funding projects "at the grassroots level."<sup>16</sup> When argued along these lines, however, debate over arts policy can become nasty, with appeals to populism being rebutted with charges of "philistinism."<sup>17</sup> Defending Berman, William F. Buckley (1976) asserted that there is "no affirmative action for mediocrity." Indeed, the NEA was accused of "subsidizing mass entertainment and criticized for draining funds from elite arts organizations. Put crudely (but not untypically), the NEA has been funding 'cultural clambakes' at the expense of 'national treasures'" (Mulcahy and Swaim 1982, 318). When considering public support of art museums, arts institutions that serve relatively affluent patrons, it is important to understand the powerful political tensions that pull in the opposite direction.

*What is art?* One other issue that, in contrast to the previous one, is rarely discussed is the basic question of what constitutes art. For the case of art museums, the specific application of this question centers on the virtually universal acceptance of the principle that only *original* works of art are worthy of display. Another, heretical view has been put forth by Banfield (1984),

14. U.S. National Endowment for the Arts, *Public Participation in the Arts by Urban and Rural Residents*, Research Division Note no. 16, 27 May 1986.

15. Schuster (1988, 13). Similar findings for 1975 are reported in National Research Center of the Arts (1975, 16).

16. Mulcahy (1987, 325) and Will (1976). See also U.S. Senate (1976, 11) and Wyszomirski (1982, 22).

17. See discussion by Will (1976).



who argues that high-quality reproductions carry much of the aesthetic value (but not the historical value) of the original. If art museums were to display such reproductions, one could argue that there would be a much wider distribution in certain benefits of museum attendance. It is also possible that such dissemination would act to drive down the price of original works of art, though this would depend on the degree to which this practice were accepted by museums. At present, the notion of showing reproductions inspires little more than contempt in the museum world, so a consideration of a change in policy is purely academic. As one museum director told me, this view is "a travesty of what art is about." But whatever the effect of so legitimizing the use of reproductions, one unmistakable characteristic of government policy toward art museums in this country is the tacit acceptance of the principle that only originals can constitute art.<sup>18</sup>

### 9.1.3 The Politics of Arts Support Since 1965

As a political issue, the government's support of the arts surely receives much more public airing than one would guess by looking only at the share of public budgets devoted to the arts. One reason, as illustrated in recent controversies, is that the populist-elitist conflict inherent in arts policy debate often pits artistic expression on the one side against revered symbols and deep-seated beliefs on the other. Such debates influence government policy toward the arts at all levels of government.

*Federal.* At the federal level the "modern era" of government policy towards the arts began in 1965 with the creation of the NEA and NEH. Despite the built-in structural features designed to insulate the NEA and NEH from political manipulation, the charge has often been made that the endowments have become "politicized"; whatever the precise definition of that term, there is little doubt that arts support at the federal level has become entwined with politics.<sup>19</sup> One sign of the growing political activity surrounding arts funding was the creation of an arts lobbying organization, the American Arts Alliance, which brought together several national arts organizations, including the Association of Art Museum Directors (Wyszomirski 1980, 31). The elitist-populist conflict arose in various forms, among which was an alleged anti-New York bias in funding.<sup>20</sup> Populist policies were also pointed to as a threat

18. For a sympathetic commentary on Banfield's proposals on originals and reproductions, see Walzer (1984, 35).

19. See, for example, John Friedman, "A Populist Shift in Federal Cultural Support," *New York Times*, 13 May 1979.

20. See, for example, Richard F. Shepard, "New York Called a Principal Victim of U.S., State Arts-Financing Policies," *New York Times*, 29 January 1980 or Banfield (1984, 52). In one congressional hearing, Senator Ted Stevens of Alaska questioned the NEA director, Nancy Hanks, about what he viewed as a large percentage of NEA grants going to New York, Massachusetts, the District of Columbia, and California. He noted: "I do hope you urge your council to keep in mind the national aspect of this" (Carter 1977, 46).

to established arts institutions.<sup>21</sup> If the NEH's Berman met resistance in Congress, one of those who headed the NEA during the same period, Nancy Hanks, is credited with outstanding success in the politics of arts funding. During her tenure at the NEA, Hanks deflected the charge of elitism and generated support in Congress by distributing grants widely—including to state arts agencies—and by emphasizing outreach programs such as the Art in Public Places program.<sup>22</sup> Some in the Reagan administration wanted to do away altogether with the NEA and NEH, but the task force appointed by Reagan came back with a ringing endorsement of federal support for the arts and humanities.<sup>23</sup> Since its establishment in 1965, the NEA has been a bellwether for judging the government's disposition toward funding the arts. Table 9.2 summarizes the agency's appropriations over its history. In real terms, its budget grew rapidly over the first decade and a half of its existence, growing at an annual compounded rate of 18 percent from 1967 to 1979. But this growth was reversed in the wake of increased inflation and the Reagan retrenchments. Between 1979 and 1988, the real value of the budget declined by more than one-fourth. Even at its peak, however, direct federal funding for the arts in the United States has remained significantly smaller on a per capita basis than government support in Western Europe.<sup>24</sup>

The debate over government support of the arts leaves the realm of everyday politics when publicly supported art becomes offensive to vocal groups or legislators. Reauthorization hearings in Congress have often provided the forum for conservatives to attack what they view as wasteful, pornographic, or otherwise objectionable artwork supported by federal grants. But an especially bitter debate erupted in 1989 over the NEA's support of the work of two photographers—one whose work featured homoerotic themes and one whose photographs included the image of a crucifix immersed in urine. Conservatives in Congress denounced the artwork, and the Corcoran Gallery of Art in Washington decided to cancel a scheduled show containing some of these photographs. The Senate then voted to prohibit the NEA from supporting "obscene or indecent materials" and placed a five-year ban on federal support for

21. Michael Straight, deputy chairman of the NEA under Nancy Hanks, said, "Jimmy Carter's concept of the endowments is political. In the past, the endowments were apolitical, like the National Science Foundation and the National Institute of Health. Under the populous ethic of this Administration, the needs of the large organizations won't be met" (Friedman, "A Populist Shift").

22. For descriptions of the politics of arts funding under Hanks, see Banfield (1984, 66–81), Mankin (1980, 25–26), Mulcahy (1987, 326–39), and Wyszomirski (1987). Carter (1977, 48) attributes Hanks's apparent success to her ability to obtain support from Republican members of boards of trustees of museums and symphonies to keep the pressure on the Nixon administration.

23. See "Obscenity or Censorship?" *Economist*, 5 August 1989, and Presidential Task Force on the Arts and Humanities (1981).

24. Figures on exchange rates and government cultural spending presented in various articles (Cummings and Katz 1987) suggest that per capita federal spending on cultural agencies in the United States was no more than one-third of the comparable amount in Italy in 1982 and no more than one-fifth of the total per capita government expenditure for the arts and culture in France and Sweden around 1980.

Table 9.2 National Endowment for the Arts Appropriations, 1966-87

| Fiscal Year | Appropriation in Millions of |              |
|-------------|------------------------------|--------------|
|             | Current Dollars              | 1987 Dollars |
| 1966        | 2.5                          | 8.5          |
| 1967        | 8.0                          | 26.1         |
| 1968        | 7.2                          | 22.4         |
| 1969        | 7.8                          | 22.9         |
| 1970        | 8.3                          | 23.1         |
| 1971        | 15.1                         | 40.0         |
| 1972        | 29.8                         | 75.2         |
| 1973        | 38.2                         | 90.8         |
| 1974        | 60.8                         | 132.5        |
| 1975        | 74.8                         | 148.4        |
| 1976        | 82.0                         | 153.0        |
| 1977        | 94.0                         | 164.4        |
| 1978        | 123.9                        | 201.9        |
| 1979        | 149.6                        | 224.0        |
| 1980        | 154.6                        | 212.3        |
| 1981        | 158.8                        | 198.8        |
| 1982        | 143.5                        | 168.8        |
| 1983        | 143.9                        | 163.0        |
| 1984        | 162.2                        | 177.3        |
| 1985        | 163.7                        | 173.7        |
| 1986        | 158.8                        | 164.1        |
| 1987        | 165.3                        | 165.3        |
| 1988        | 167.7                        | 163.7        |

Source: National Endowment for the Arts, *1987 Annual Report* (Washington, D.C.: Government Printing Office, 1988).

two institutions that had established the offending artwork.<sup>25</sup> In the words of the bill's sponsor, Senator Jesse Helms: "If someone wants to write ugly nasty things on the men's room wall, the taxpayers do not provide the crayons."<sup>26</sup> For their part, spokespersons for the art museum community warned of "de facto censorship."<sup>27</sup> Needless to say, the success of these sorts of challenges would imply a significant shift in government policy toward the arts in general and art museums in particular.

25. The artists were Robert Mapplethorpe and Andres Serrano. See Michael Oreskes, "Senate Votes to Bar U.S. Support Of 'Obscene or Indecent' Artwork," *New York Times*, 27 July 1989, 1. Specifically, the bill bars federal funding "to promote, disseminate or produce obscene or indecent materials, including but not limited to depictions of sadomasochism, homoeroticism, the exploitation of children, or individuals engaged in sex acts; or material which denigrates the objects or beliefs of the adherents of a particular religion or nonreligion."

26. Maureen Dowd, "Helms in Midst of Clash Between Art, Politics," *News and Observer*, 28 July 1989, 1.

27. Allan Parachini, "Helms and Arts Endowment: An Escalation," *Los Angeles Times*, 23 June 1989, sec. 6, p. 1. See also Anne Lowery Bailey, "Museum Officials Fear Outcries in Congress Will Stifle Arts Grants," *Chronicle of Philanthropy*, 27 June 1989, 5.

*State and local.* To consider the politics of arts policy at the federal level is to consider only part of the total picture, an assertion that is not very surprising once it is realized that state and local governments give art museums more aid than the federal government (see below). In a few states, where funding for the arts at the state level is comparatively generous, there have been debates over the distribution of state government grants not unlike those at the federal level. For example, the state with the first functioning state arts agency was New York, and grant making by that state's State Council on the Arts was criticized for having a New York City bias.<sup>28</sup> In apparent response to this kind of sentiment, the state legislature in fiscal year 1974 mandated that half of state arts funding be distributed among counties in proportion to population (Wyszomirski 1982, 14). As a result, the portion of state funds going to organizations in the city declined significantly over the next few years.<sup>29</sup> In Massachusetts, cuts in arts funding were denounced in part by representatives of relatively new arts institutions as having a disproportionate effect on their institutions as compared to well-endowed established institutions.<sup>30</sup>

As in the flap over NEA's support of controversial art, arts politics at the local level also offers examples of political fireworks. Two such examples are provided by the city of Chicago. In 1988, a heated political controversy with racial overtones arose when the School of the Art Institute of Chicago displayed a student's irreverent portrait of the late Mayor Harold Washington.<sup>31</sup> The next year, a controversy arose about another piece of art shown there, this time about a display which many considered to be a desecration of the American flag. In this instance, a committee of the Chicago Park District threatened to cut off support for the Art Institute of Chicago and seven other museums under its jurisdiction in connection with the flag controversy.<sup>32</sup>

## 9.2 The Extent of Direct Government Support

A useful beginning point in describing government policy toward art museums is to ask who actually runs the organizations. As noted above, the American experience in government support of the arts has been characterized by its indirect nature, in contrast to the European tradition of government-run museums. Most art museums are private, nonprofit organizations. A survey of the governing authority of art museums in 1979 showed that 60.2 percent of them were private, nonprofit organizations, and another 13.5 percent were

28. See, for example, Shepard, "New York Called a Principal Victim."

29. Grants from the State Council on the Arts to organizations in New York City fell from \$23.1 to \$16.9 million between 1976 and 1978 (Shepard, "New York Called a Principal Victim").

30. See William H. Honan, "Fight Is on in Massachusetts over Plan to Cut Arts Money," *New York Times*, 6 March 1989, 8.

31. For an account of this controversy, see the *Chicago Tribune*, 12 May 1988, and the following days.

32. See, for example, William Recktenwald and Robert David, "Park Funds Cutoff Threatened in Flag Flap," *Chicago Tribune*, 10 March 1989.

run by private educational institutions. The remainder were run by government or public institutions: 13.5 percent by public educational institutions, 8.6 percent by local governments, 1.8 percent by states, and 1.5 percent by the federal government (National Center for Educational Statistics 1981, table D.1). An earlier survey showed some regional differences in governing authority: New England had a particularly small portion of museums under the control of governments or state educational institutions, while regions outside of the Northeast were well above average in this regard.<sup>33</sup> Although private control is the rule, therefore, a few art museums are operated under the direct or indirect authority of government. At the federal level, the most prominent of these are the major federal art museums in Washington.<sup>34</sup> A comparable example at the state level is the North Carolina Museum of Art. Other museums, such as the Detroit Institute of the Arts and the Fine Arts Museums of San Francisco, receive the bulk of their support from state and local governments but are run by nongovernmental boards.

To measure the importance of government to art museums, it is necessary to do more than categorize institutions by governing authority. One reason is that virtually all museums receive some direct government support. Another reason is that museums differ enormously in size. As an illustration of this variation, in 1972 the largest 5 percent of all museums in the United States accounted for 46 percent of total operating budgets (National Research Center of the Arts 1975, 11). Among the art museums for which there are recent data—124 of the largest ones—similar diversity in size is evident. In 1988, the largest six out of that group (approximately 5 percent) accounted for 40 percent of the total operating income. Thus, if characteristics of museums vary systematically with size, it is important to note that variation.

Tables 9.3 and 9.4 present data on the sources of operating income of art museums in two different years. Table 9.3 shows the distribution of income for all public and nonprofit art museums in 1979. The largest source of income was clearly earned income, which included income from investments and net income from museum shops and restaurants, accounting for almost one-half of total income. Governments contributed a significant amount, however—over a fourth of the total. Despite the preponderance of the private, nonprofit form for art museums, direct government support far surpassed contributions as a source of income. Table 9.4 presents similar data for 1988, based on a

33. Percentages are based on 177 art museums surveyed out of an estimated universe of 340 art museums in 1972. National Research Center of the Arts (1975, xi, 14).

34. These are the National Gallery of Art, the National Museum of American Art, the National Portrait Gallery, the Hirshhorn Museum and Sculpture Garden, and the National Museum of African Art. While none of these museums is actually a line agency of the federal government, they receive appropriations from Congress and have government officials on their boards of directors. Of the National Gallery's nine trustee seats, four are reserved for the Chief Justice of the Supreme Court, the Secretary of State, the Secretary of the Treasury, and the head of the Smithsonian Institution. The other four museums are part of the Smithsonian, which is governed by a board of regents that also includes 8 government officials out of its 17 members. Both their governance and their dependence on federal funding set these museums apart from other major art museums.

**Table 9.3** Sources of Operating Income, Art Museums, Fiscal Year 1979, as Percentage of Total

|                            |       |
|----------------------------|-------|
| Federal government         | 8.4%  |
| State government           | 4.8   |
| Local government           | 14.3  |
| Foundations                | 5.4   |
| Corporations               | 4.6   |
| Individual contributions   | 6.3   |
| Earned income <sup>a</sup> | 48.4  |
| Other sources              | 7.7   |
| Total                      | 100.0 |

Source: National Center for Education Statistics (1981, 47).

Note: The sample was weighted to represent all nonprofit art museums in 1978. Total operating income for all art museums was estimated to be \$294,443,204. Percentage figures do not add up to exactly 100 percent because of rounding.

<sup>a</sup>Includes net income from restaurants and museum stores.

smaller sample of museums and disaggregating in order to separate federal museums and the two largest private museums, the Metropolitan Museum of Art and the Art Institute of Chicago. Divided this way, art museums clearly differ markedly in the extent to which they rely on government funding. At one end of the spectrum are the large federal museums, most of whose funding comes from government. At the other extreme in this table are the two big museums, which together receive 17.5 percent of their operating income from government. The remaining 148 museums present perhaps the typical distribution, with 23 percent of their income derived from government, which is approximately the same share implied by the 1979 survey summarized in table 9.3.<sup>35</sup>

### 9.3 Federal Policies and Programs

Although it accounts for a smaller share of government support for art museums than the combined total for states and localities, the federal government appears to exert a much more pervasive influence on these institutions than any other level of government. Part of the reason is obvious: there is one federal government, with only a few agencies concerned with art museums, while there are many governmental units at lower levels, with disparate policies. Another reason for the importance of federal policies is that granting agencies at lower levels appear to have adopted criteria set by federal agencies in making their own grants and have in fact taken federal grants to be an indicator of quality in judging the worthiness of grant applications. This section deals with federal policies toward art museums. It begins with the most

35. Probably the most noticeable difference between the 1979 distribution and that for the 148 museums is the much lower share of income derived from earned income in 1979.

Table 9.4 Sources of Operating Income, Large Art Museums, 1988

|  | Big 2 Museums <sup>a</sup> | 5 Large Government Museums <sup>b</sup> | 148 Other Large Museums |
|--|----------------------------|---|-------------------------|
| Total operating income (\$ millions)     | \$101.1                    | \$65.1                                  | \$733.4                 |
| Sources of income as percentage of total |                            |   |                         |
| Federal                                  |                            |   |                         |
| NEA                                      | 0.4%                       | 0.0%                                    | 1.0%                    |
| NEH                                      | 0.0                        | 0.0                                     | 0.3                     |
| IMS                                      | 0.1                        | 0.0                                     | 0.3                     |
| Other federal                            | 0.0                        | 83.3                                    | 1.0                     |
| State                                    | 1.8                        | 0.0                                     | 9.9                     |
| County                                   | 0.0                        | 0.0                                     | 2.8                     |
| City                                     | 15.2                       | 0.0                                     | 6.4                     |
| Other government                         | 0.0                        | 0.0                                     | 1.6                     |
| Contributed income                       |                            |   |                         |
| Corporate                                | 3.9                        | 7.3                                     | 5.1                     |
| Foundation                               | 3.6                        | 0.8                                     | 7.0                     |
| Individual                               | 13.8                       | 0.2                                     | 11.4                    |
| Other private                            | 6.4                        | 0.3                                     | 4.0                     |
| Endowment                                | 20.8                       | 6.3                                     | 20.2                    |
| Earned income                            |                            |   |                         |
| Admissions                               | 9.3                        | 0.0                                     | 3.8                     |
| Auxiliaries and other earned income      | 24.7                       | 1.7                                     | 25.1                    |
| Total                                    | 100.0                      | 100.0                                   | 100.0                   |

Source: Association of Art Museum Directors (1990), Metropolitan Museum of Art, and Art Institute of Chicago.

<sup>a</sup>Metropolitan Museum of Art and Art Institute of Chicago. Budget data obtained directly from these two museums only.

<sup>b</sup>National Gallery of Art, National Museum of American Art, National Portrait Gallery, Hirshhorn Museum, and National Museum of African Art

direct form of support, museums run by the federal government. Then it turns to the three major federal programs that provide grants to art museums, and to indirect federal subsidies other than tax concessions. Finally, it concludes with a discussion of the effects of these policies.

### 9.3.1 The National Museums

There is no more tangible manifestation of federal policy toward art museums than the National Gallery of Art and the other federal museums in Washington, D.C. These museums are very much in the tradition of the European support of art; and, although this is not the primary model of support followed in the United States, these museums constitute the bulk of the direct expenditures of the federal government in this area. An illustration of this

importance can be seen by looking at the budgets for 124 large art museums in 1987. The total income this group of institutions received from the federal government was \$65.8 million. Of that total, over three-fourths, or \$50.4 million, was in the form of operating support provided to the five largest federal museums.<sup>36</sup> Although this share would be smaller if a larger group of museums were examined, it is clear that direct operating support to federal museums is a very large share of total direct federal support to art museums.

Two aspects of the national art museums deserve particular attention. The first is the obvious geographical concentration of these museums. They are all in the national capital. As will be emphasized in subsequent discussion, the geographical distribution of arts funding is every bit as much a political question as the distribution of military bases. Even though Washington is an exception to the general tendency to spread government programs into as many congressional districts as possible, the extreme concentration of this federal program may have an impact on the overall support for art museums. A second aspect of the federal museums is less a product of history as an explicit policy: these museums are open to the public free of charge. While this zero price policy may be efficient in an economic sense, when combined with the relative affluence of those who attend art museums the policy results in something of an upside-down subsidy.

### 9.3.2 Three Major Federal Programs

There are three federal programs that are responsible for the bulk of grants to museums: the NEA, the NEH, and the Institute of Museum Services (IMS). The National Endowments make most of their grants for specific projects through the process of submitted proposals and peer review. The grants are not intended for basic institutional support. As compared with the NEA, the NEH tends to support exhibits that emphasize the historical, as opposed to the aesthetic, aspect of art.<sup>37</sup> The IMS does make grants to museums for operating expenses and also devotes considerable attention to conservation efforts. Counting grants to all types of museums, the IMS spends slightly more than the NEA—\$20 versus \$19 million in fiscal year 1986—with the NEH third at \$11 million.<sup>38</sup> For arts museums alone, however, the NEA is by far the most important source of federal funding, as indicated in table 9.5. Its size and its prominence make the NEA the most important federal agency affecting art museums and thus an agency worth looking at in more detail.

The NEA's explicit aim is to support the arts without dictating artistic standards. In its published mission statement, the agency states that its goals are "to foster the excellence, diversity, and vitality of the arts" and to "help

36. Association of Art Museum Directors, *1988 Statistical Survey*, 166. For a list of these five federal museums, see note 34.

37. According to one quip, the distinction is this: If the object is bigger than the label, it's sponsored by the NEA; if the label is bigger than the object, it's sponsored by the NEH.

38. U.S. Institute of Museum Services (1988, table D).



**Table 9.5 National Endowment for the Arts and Institute of Museum Services  
Allocation of Funds for Art Museums, Fiscal Year 1987  
(in \$ millions)**

|                                   |      |
|-----------------------------------|------|
| NEA museum program                |      |
| Special exhibitions               | 5.3  |
| Presentation and education        | 1.4  |
| Conservation                      | 1.3  |
| Catalogue                         | 1.2  |
| Collection maintenance            | 0.9  |
| Other <sup>a</sup>                | 1.6  |
| Total                             | 11.7 |
| NEA challenge grants <sup>b</sup> | 4.1  |
| IMS programs <sup>c</sup>         |      |
| General operating support         | 4.2  |
| Conservation                      | 0.8  |
| Total                             | 20.8 |

*Source:* National Endowment for the Arts, *1987 Annual Report* (Washington, D.C.: Government Printing Office, 1988), 96–115, 206–7; Institute of Museum Services, unpublished data.

<sup>a</sup>Includes museum training, special artistic initiatives, fellowship for museum professionals, special projects, and visiting specialists.

<sup>b</sup>Round Nine Challenge Grants, obligated in fiscal year 1987.

<sup>c</sup>Includes Museum Assessment Program I appropriation of \$25,000.

broaden the availability and appreciation” of the arts. But the statement also stipulates that the agency “must not, under any circumstance, impose a single aesthetic standard or attempt to direct artistic content.”<sup>39</sup> For museums, these aims translate into support for four basic activities: presentation of art (which includes education programs and special exhibitions), documentation, conservation, and training of museum professionals. One way of gaining an idea of the NEA’s priorities is to examine the agency’s spending for art museums in a recent year. Most of the agency’s expenditures for art museums are included in two of its programs, the museum program and the challenge grant program, and table 9.5 summarizes fiscal year 1987 allocation of funds for these areas along with grants by the IMS to art museums. By far the biggest category of NEA spending for art museums is special exhibitions—short-term displays of related works of art, often obtained on loan from other institutions. For example, in 1987 the NEA made a grant to the Metropolitan Museum of Art to support the exhibition, “The Age of Correggio and the Carracci,” and the accompanying catalogue. Another went to the Virginia Museum of Fine Arts to support a touring exhibition and catalogue of late Neolithic and early Bronze Age sculpture from the Cyclades Islands in the Aegean Sea. The second biggest grant category was the challenge grant program, matching grants that are conditional upon the institution’s raising at least three times the amount from private sources. Among the other major categories of grants is

39. National Endowment for the Arts, *1987 Annual Report*, March 1988, 227.

conservation. The NEA, like the IMS, has emphasized conservation activities from the beginning. For example, the NEA has encouraged the development of regional conservation centers to serve the needs of several museums which might not otherwise be able to afford their own conservation staffs (Taylor 1975, 55). The agency's grants also emphasize storage, maintenance, and the cataloguing of collections. Among these functions, programs that increase the public's access to museum collections tend to be politically more popular than about anything else museums can do.<sup>40</sup> Special exhibitions have much the same appeal, but for the sponsoring museums they can have the added appeal (though never the guarantee) of profitability. Like the NEA, the IMS devotes a significant share of its budget for conservation, but the IMS's largest expenditure for art museums is for general operating support, a purpose to which no NEA funds are directed.

In implementing policy, the NEA operates under three important constraints. One is the prohibition against ongoing institutional support noted above; support may be given only for specific projects. A second is that all grants must be made on a matching basis only, with the NEA providing no more than one-half of the total cost.<sup>41</sup> The third constraint, which is really almost a defining characteristic of the NEA, is the reliance on peer review for awarding grants. Most observers would agree that peer review has acted as an effective antidote against the possible centralization of power over artistic funding and has quieted fears that the NEA bureaucrats would become "cultural commissars."<sup>42</sup> Still, it is the NEA staff that puts the panel together, and some maintain that the review panels can be easily swayed by the views of the agency's permanent staff (Carter 1977, 38).

### 9.3.3 Indirect Subsidies

Counting the income and estate tax deductions for charitable contributions and the nontaxation of endowment income, the federal government's indirect subsidies for art museums are probably at least as large as its direct expenditures.<sup>43</sup> Besides the tax subsidies, however, there are only two that are worth mentioning. One is the postal subsidy given to all nonprofit organizations, the value of which is unknown, probably small in relation to the tax subsidies, but not inconsequential in light of the active mail-order trade engaged in by the largest museums. The other form of indirect subsidy is one designed primarily

40. The interest in outreach has extended to the support of subsidiary galleries and mobile galleries set up in some states (Taylor, 1975, 64).

41. For a discussion of NEA policies, see Netzer (1978, 63).

42. See *New Republic*, 1 February 1985, and Schlesinger (1988, 20).

43. Taking all contributions to 155 art museums in 1988, including works of art (\$235 plus \$77 million), and assuming an average federal marginal tax rate of 33 percent (see Don Fullerton's paper, chap. 8 in this volume), the indirect subsidy would be \$104 million. At the same rate, the tax exemption of endowment income accounts for an additional \$58 million in indirect subsidy. This compares to total direct federal support for those museums of \$96 million (Association of Art Museum Directors 1990).

for art museums—the federal indemnification program. Under this program, the federal government agrees to act as an insurer for works of art that are loaned, often by other governments, as part of special exhibitions. Although there is virtually no budgetary cost of the program, it has substantial value to art museums in terms of reduced insurance costs. A museum sponsoring an exhibition applies for indemnification for a portion of this value, specifying in detail how the works of art will be packaged, transported, and displayed. If the application is successful, the museum will typically be relieved of the need to purchase insurance on most of the exhibition's total value. There is presently a \$125 million limit on each award, and museums must insure an initial portion of each exhibition as a deductible. The National Gallery's Gauguin exhibition in 1988 provides an illustration of how the program works. For this exhibition, the National Gallery borrowed paintings valued at more than \$500 million from museums both here and abroad. The indemnification program provided insurance for any losses on the foreign loans over \$10 million, up to \$125 million. The museum had to buy insurance privately for the amounts not covered.<sup>44</sup> Table 9.6 summarizes the activity of the indemnification program from 1976 to 1987. In 1987 dollars, the face value of the art covered by the program increased from \$189 million to \$585 million over the period. In 1987, the program saved museums an estimated \$5.6 million in insurance premiums. By comparison, federal grants from the NEA, NEH, and IMS to 124 of the largest art museums in 1987 totalled \$11.8 million. In terms of economic value to art museums, therefore, the indemnification program is quite important.

#### 9.3.4 Effects of Federal Policies

What has been the effect of these various federal programs on art museums? Some critics of government support of the arts have charged that such support, by its very nature, has harmful effects on art and artists. Banfield (1984, 67), for example, argues that public funding inevitably encourages arts institutions to engage in activities that have little to do with art. Van den Haag (1979) believes that public support must necessarily become arbitrary, with decisions being made on inappropriate grounds. Indeed, a Heritage Foundation report (Joyce 1981, 1051) found the NEA to be lacking in just such a manner, charging that its leaders had a "flawed conception of art." Among schools of art, some observers would argue that NEA grants have favored avant-garde work at the expense of traditional schools of art. Yet the NEA's funding policies have also been criticized for seeking political support by pandering to the unsophisticated tastes of the public. The Heritage Foundation said of the projects receiving NEA support: "The best of these projects do no more than fos-

44. The amounts not covered included the \$10 million deductible, losses on foreign loans over \$125 million, and the U.S. loans. Estimates provided by Alice Whelihan of the NEA, 14 March 1989.

**Table 9.6** Art Objects Insured through Federal Indemnification Program, 1976–1987

| Fiscal Year | Number of<br>Objects Insured | Face Value of<br>Indemnities<br>Outstanding<br>(Millions of<br>1987 Dollars) | Amount They Would<br>Have Paid in<br>Insurance<br>(Millions of<br>1987 Dollars) |
|-------------|------------------------------|--|---|
| 1976        | 3,935                        | 189.3  | 1.35  |
| 1977        | 6,708                        | 230.2  | 2.65  |
| 1978        | 9,029                        | 299.4  | 1.89  |
| 1979        | 7,442                        | 242.0  | 5.11  |
| 1980        | 4,307                        | 315.7  | 1.22  |
| 1981        | 4,605                        | 240.4  | 1.26  |
| 1982        | 6,290                        | 343.4  | 2.89  |
| 1983        | 4,094                        | 362.4  | 1.75  |
| 1984        | 3,191                        | 389.8  | 3.20  |
| 1985        | 4,494                        | 405.7  | 2.03  |
| 1986        | 7,074                        | 420.1  | 5.66  |
| 1987        | 8,484                        | 585.3  | 5.64  |

*Source:* Annual reports on the Arts and Artifacts Indemnity Act, National Foundation on the Arts and the Humanities, Washington, D.C.

silize the popular culture of the past, and the worst are little more than high-flown welfare and employment schemes.” It is difficult for anyone, let alone an economist, to make supportable judgments regarding the effect of federal policies on the quality of art being produced or exhibited, but it is possible to make some observations about the patterns of support and the apparent effects of federal policies. In response to the claims that a populist instinct has dominated grants made by the NEA, one can examine the geographical distribution of grants and the distribution by size of institution. It is also useful to consider the impact of federal grants on the types of functions performed by museums and on their modes of operation.

*Geographical distribution.* What has been the regional distribution of federal support for art museums? Has this support been distributed according to the location of the already established museums or according to population? Are review panels heavily weighted toward the regions with established institutions? In order to answer questions such as these in a rough way, table 9.7 shows the distribution, by region, of membership in advisory panels and of population; it also shows—for a sample of 116 large art museums—federal support of the museums and two measures of their geographical distribution. To highlight the possible concentration in the two states with a relatively large number of established art museums, separate figures are given for New York and California. The table shows, for example, that among the group of large art museums, the Northeast region has 32 percent of the total number of mu-

**Table 9.7 Geographical Distribution of Government Support for Large Art Museums, Membership of Federal Advisory Panels, and Population**

| Percentage of U.S. Totals                              | Percentage of U.S. Total by Region |                  |       |         |      |     | Total U.S. | Detail: New York and California as % of U.S. Total |
|--|------------------------------------|------------------|-------|---------|------|-----|------------|--|
|  | Northeast                          | Washington, D.C. | South | Midwest | West |     |            |  |
| 116 Large museums                                      |                                    |                  |       |         |      |     |            |  |
| Operating expenses, 1988                               | 40                                 | 9                | 17    | 20      | 14   | 100 | 38         |  |
| Support, 1988  |                                    |                  |       |         |      |     |            |  |
| Federal  |                                    |                  |       |         |      |     |            |  |
| NEA  | 28                                 | 1                | 17    | 36      | 18   | 100 | 32         |  |
| NEH  | 37                                 | 0                | 16    | 29      | 18   | 100 | 42         |  |
| Other federal  | 2                                  | 97               | 0     | 1       | 0    | 100 | 2          |  |
| State  | 16                                 | 0                | 22    | 56      | 6    | 100 | 13         |  |
| County   | 5                                  | 0                | 10    | 23      | 62   | 100 | 66         |  |
| City   | 43                                 | 0                | 24    | 21      | 12   | 100 | 37         |  |
| All government   | 22                                 | 16               | 15    | 27      | 19   | 100 | 32         |  |
| Number of museums, as % of total                       | 32                                 | 5                | 25    | 22      | 16   | 100 | 24         |  |
| Total NEA grants, 1985                                 | 45                                 | 1                | 14    | 25      | 15   | 100 | 37         |  |
| All Museums  |                                    |                  |       |         |      |     |            |  |
| Challenge grants awarded, in constant dollars, 1978-87 | 38                                 | 2                | 15    | 24      | 21   | 100 | 34         |  |
| Membership in NEA advisory panels                      |                                    |                  |       |         |      |     |            |  |
| 1984   | 38                                 | 5                | 14    | 24      | 19   | 100 | 31         |  |
| 1988   | 32                                 | 4                | 19    | 21      | 25   | 100 | 25         |  |
| Membership in indemnification panels                   |                                    |                  |       |         |      |     |            |  |
| 1976   | 36                                 | 14               | 18    | 18      | 14   | 100 | 32         |  |
| 1984   | 28                                 | 21               | 13    | 18      | 21   | 100 | 44         |  |
| 1987   | 36                                 | 13               | 16    | 19      | 17   | 100 | 33         |  |
| Population as % of total                               | 21                                 | 0                | 34    | 24      | 20   | 100 | 19         |  |

Source: National Endowment for the Arts, unpublished printouts of panelists; annual reports on the Arts and Indemnity Act; Association of Art Museum Directors, unpublished tabulations of survey data for 116 art museums.

seums; the museums in that region are relatively large, accounting for 40 percent of total operating expenses. In contrast, the Northeast has only 21 percent of the nation's population. These three percentages offer three possible benchmarks for comparing the region's shares of federal support and membership in advisory panels. This same approach can be taken with the other regions as well.

Looking first at federal support, it is possible to see that NEA grants to art museums in both 1988 and 1985 were awarded more closely according to the distribution of art museums than to the distribution of population. The biggest deviations from that rule occurred in the Midwest and South. The Midwest, with 22 percent of the museums, received 36 percent of the NEA grants awarded to this group of museums in 1988, but only 25 percent in 1985. The South, containing one-fourth of the museums, received only 17 percent of NEA funds in 1988, which was its share of museum operating budgets. Comparing the distributions of NEA funds in the two years and the NEH grants in 1988, the most heavily concentrated toward the established areas (Northeast and New York/California) were the NEH and the 1985 NEA distributions. This would be consistent with both the elitist reputation of the NEH and a change in NEA between 1985 and 1988 favoring wider distribution of grants.

Another way to gauge the geographical bias, if any, in federal policy toward art museums is to examine directly the composition of the review panels selected to make awards. Information is available for two types of panels: the advisory panels used by the museum program of the NEA to judge grant applications and the panels used to make awards in the indemnification program. The geographical distributions of the membership of these two panels are shown in the table for selected years. These distributions closely parallel the distribution of expenditures for NEA and NEH grants, with the Northeast (and New York/California) being consistently overrepresented in comparison to their population but generally underrepresented in comparison to the region's museum expenditures. Over time, there appears to have been little trend in the pattern of representation. Even in the populist Carter administration, the Northeast continued to be represented on these panels in numbers far exceeding their share of the population, but less than the size of their art museums might justify.<sup>45</sup>

*Size of institution.* Do federal programs favor the large, established museums or do they favor smaller institutions? Table 9.8 addresses this question by examining NEA and NEH grants for a group of large art museums in 1988. As a percentage of the total income for these museums, both categories of federal aid are highest for museums having budgets between \$1 and \$2 million, with aid becoming relatively less important in the two higher budget categories. For the best-known museums, those in the highest budget cate-

45. See Netzer (1978, 73) for a discussion of the geographical distribution of NEA grants.

Table 9.8 Government Support by Budget Size, 144 Large Art Museums, 1988

|   | Operating Budget (\$ millions)   |                                |                                |                        |
|---|----------------------------------|--------------------------------|--------------------------------|------------------------|
|   | \$0.1 Million to<br><\$1 Million | \$1 Million to<br><\$2 Million | \$2 Million to<br><\$5 Million | \$5 Million<br>or More |
| Number of museums                           | 35                               | 35                             | 37                             | 35                     |
| Government support,<br>as % of total income |                                  |                                |                                |                        |
| Federal                                     |                                  |                                |                                |                        |
| NEA   | 1.7                              | 2.8                            | 1.4                            | 0.7                    |
| NEH   | 0.4                              | 0.9                            | 0.4                            | 0.2                    |
| Other federal                               | 0.5                              | 0.0                            | 1.1                            | 0.2                    |
| State                                       | 19.6                             | 10.5                           | 8.3                            | 8.5                    |
| City  | 9.0                              | 7.0                            | 5.7                            | 7.7                    |
| County                                      | 0.5                              | 3.1                            | 2.8                            | 2.5                    |
| Total government                            | 31.8                             | 24.4                           | 19.7                           | 19.7                   |

Source: Association of Art Museum Directors, unpublished tabulation of survey data.

Note: Sample excludes museums in the District of Columbia.

gory, grants from the endowments are quite small indeed in relation to all sources of income. Indeed, this table makes clear that for art museums other than the major federal museums the NEA and NEH are not large sources of income in comparison with states and local governments.

Table 9.9 examines the question of size effects by focusing on two particular federal programs, the NEA challenge grants and the indemnification program. In this table, museums are divided by size and governance, with the five largest federal museums shown separately. For the group of 142 large museums responding to the 1988 Association of Art Museum Directors survey, it is possible to compare measures of these two federal programs with the distribution of operating expenses, although awards under both programs were also made to museums outside this group. For the challenge grants program, the big two museums received much less than their share of total museum budgets and the federal museums received none, leaving the remaining 135 museums with relatively more in challenge grants compared to their budgets. In contrast, the indemnification program shows quite a different pattern, with the number of items insured being almost exactly proportional to operating budgets. This program therefore represents a boon to the larger museums. In fact, if the average value of items insured increases with the size of the museum, the program would be even more skewed in favor of the largest institutions. In any case, it appears that most federal programs tend to help the largest museums less than proportionately to their size, the one exception being the indemnification program. Given the importance of this program in making possible the lavish and often profitable exhibitions of recent years, it is clear that federal policy does not favor the small museums in every respect.

Table 9.9

## Distribution of National Endowment for the Arts Challenge Grants and Indemnification by Size and Governance of Museum

|   | Big 2<br>Museums   | Next 30<br>Private<br>Museums | 5 Large<br>Government<br>Museums | Remaining<br>105 Museums | Other Museums<br>and Organizations | Total  |
|---|--------------------|-------------------------------|----------------------------------|--------------------------|------------------------------------|--------|
| Total challenge grants awarded, 1978-87<br>(Millions of 1987 dollars) | 4.7                | 31.5                          | 0.0                              | 20.6                     | 11.6                               | 68.3   |
| As % of total for 142 museums   | 8                  | 55                            | 0                                | 36                       | —                                  | 100    |
| Indemnification program, number of items<br>insured                   | 9,215              | 22,429                        | 4,983                            | 11,724                   | 21,615                             | 69,966 |
| As % of total for 142 museums   | 19                 | 46                            | 10                               | 24                       | —                                  | 100    |
| Total operating expenses (millions of<br>dollars)                     | 101.2 <sup>a</sup> | 366.5                         | 57.8                             | 189.3                    | —                                  | 613.6  |
| As % of total for 142 museums   | 0                  | 60                            | 9                                | 31                       | —                                  | 100    |

Sources: National Endowment for the Arts, unpublished budget documents; annual report on the Arts and Indemnity Act; Association of Art Museum Directors (1989).

<sup>a</sup>Corrected figures based on 1988 fiscal year.



*Types of activities.* Do federal programs affect how museums go about their work and indeed what work they do? From the point of view of art museums, there is probably no more important question concerning federal policy than this. Yet there is little hard evidence with which to draw conclusions. Based on the comments of observers of museums and arts policies, there are several kinds of activities of art museums that one might think would have been stimulated by federal programs. Since the NEA and IMS have programs explicitly designed to support such functions as conservation, the cataloguing of permanent collections, and exhibitions, it is certainly possible that these activities are more prevalent than they would otherwise be. Another function that has probably been stimulated by the federal programs toward art museums is simply administration. Several commentators have remarked that the documentation required for federal funds has increased the size of museum bureaucracies.<sup>46</sup>

One of the most controversial, and visible, of these activities is the special exhibition, a few of which come to be "blockbusters" by virtue of their size. Bringing together works of art from different museums, often from abroad, these exhibitions have assumed a prominent role in the public perception of art museums as well as their finances by drawing visitors who would otherwise not visit museums as often or at all. Although the most highly publicized of these exhibitions have been undertaken by the largest museums, they have had a significant impact on other museums as well. For example, the "Rameses the Great" exhibit hosted by the Mint Museum in Charlotte had a budget which exceeded all of the museum's previous 50 budgets put together.<sup>47</sup> The trend toward such large exhibits is not without its critics, though. Such exhibitions have been dismissed as "show business" and criticized for the potential damage that transporting works of art may cause.<sup>48</sup> For better or worse, in the view of most observers of art museums, federal programs have fostered the use of special exhibitions.<sup>49</sup> Not only does the NEA's museum group award its biggest share of grants for such exhibitions, but the indemnification program exists primarily to enable them to be undertaken.

*Private donations.* A fourth set of possible effects of federal policies concerns the ability of museums to attract private donations. There are possible effects in two different directions. On the one hand, federal funding of museums may have the effect of decreasing private contributions, as contributors see that the government is providing a new source of funding for items that would otherwise be bought with donated funds. There is evidence from studies of chari-

46. See, for example, Joyce (198, 1052).

47. "Mint Says Rameses was Great," *News and Observer*, 27 January 1989, p. 4C.

48. On "show business," see Taylor (1975, 62). On transporting art, see for example, Carter (1977, 45).

49. See for example, Carter (1977, 45) or Taylor (1975, 62). An opposing view is expressed, however, by the head of the NEA's museum program, Andrew Oliver, who argues that the NEA has merely responded to the desire of museums to put on exhibitions.

table giving that government spending may indeed “crowd out” donations, and this phenomenon may well apply to museums as well.<sup>50</sup> There is, however, no statistical evidence of this kind of behavior, only reports that private donors appear to viewing the federal government increasingly as a primary supporter of art museums.<sup>51</sup> Despite this possibility, museums appear to welcome the increased support they have received from federal sources over the past two decades, in that this decreases their dependence on private donors, some of whom have attempt to exert unwelcome influence on museums’ artistic decisions.<sup>52</sup>

On the other hand, there is one federal program designed explicitly to stimulate private giving, the challenge grant program.<sup>53</sup> By requiring federal grant funds to be matched by private contributions, challenge grants can be seen as reducing a donor’s net cost of giving a dollar to a museum. For example, consider a donor who is in a 30-percent tax bracket who makes a \$1,000 gift to a museum. Normally, this taxpayer’s net cost of making such a gift would be \$700, reflecting the deductibility of charitable contributions for itemizers. However, if private donations are matched in a challenge grant program at a 1:3 ratio, the donor may realistically view his or her \$1,000 gift as having a value of \$1,333 to the museum. Counting this federal match, then, the donor bears a net cost of only 53 cents per dollar received by the institution. While there is no evidence on the effect of this kind of matching program on private giving, numbers such as these show the potential that the challenge grant program has for lowering the net cost of giving. Since there is quite a bit of evidence that donors are sensitive to the net cost of making contributions, it is likely that the challenge grant program does stimulate private giving to museums.<sup>54</sup>

## 9.4 State and Local Policies

Like the federal government, state and local governments have two sets of policies affecting art museums, those offering direct support and those working indirectly through tax exemptions.

### 9.4.1 Direct Support

All states and many localities give direct support to art museums. There are, as mentioned above, some state, municipal, and county art museums,

50. See Seaman (1980) and the discussion of these studies in Clotfelter (1985).

51. For discussions of individual and corporate donors, see Wyszomirski (1980, 29) and Carter (1977, 45).

52. Carter (1977, 47) reports that corporate contributors sometimes “try to throw their weight around.” In this connection, see also Feld, O’Hare, and Schuster (1983, chap. 5) for a discussion of donor influence on arts institutions.

53. Nancy Hanks expressed the view that matching stimulates private giving. See Carter (1977, 46).

54. For a discussion of issues related to the effectiveness of matching grants, see Schuster (1989).

some of them comparatively large. More commonly, state and local governments make grants to museums. Unlike federal support of private museums, some of this direct support is for basic operating expenses, not just specially funded projects. As shown in tables 9.3 and 9.4, state and local support amounts to more than that received from the federal government. The largest art museums receive significantly more from state and local governments than they receive from all federal sources.<sup>55</sup> As table 9.8 shows, state support is especially important for museums with budgets under \$1 million, while local support as a share of total budgets does not vary appreciably with size. Probably the most prominent form of state support of the arts is distributed through state arts agencies, of which there is one in every state. Table 9.10 presents information on appropriations to such agencies and other arts institutions, by state, in 1980 and 1989. In per capita terms, these appropriations ranged in 1989 from a low of \$18 in Mississippi to a high of \$623 in Hawaii. By far the largest state appropriation was in New York, with \$51 million. And in most of the states, the real value of these appropriations is increasing. As is the case with federal arts funding, art museums receive only a small portion of these funds. In fiscal year 1986, they received 8.3 percent of the total.<sup>56</sup> As an indication of what kinds of functions the states support, table 9.11 shows state grants to art museums by activity. By far the biggest item is institutional support, which contrasts sharply with the NEA/NEH prohibition on such support. Next in importance is funding for exhibitions, an activity also supported heavily by the federal government.<sup>57</sup>

#### 9.4.2 Tax Exemption

Most state and local governments exempt nonprofit institutions from income, property, and sales taxation, although practices vary.<sup>58</sup> Of these, surely the most important for art museums is the property tax exemption. Among arts institutions, art museums are exceptional for the value of their buildings and the contents of those buildings. The exemption of this property from taxation is the reason why Netzer (1978, 75) says that art museums get the most favored tax treatment among arts institutions. Indeed, from the perspective of

55. See table 9.2, based on a survey of all art museums in 1979. The 1988 survey of art museums conducted by the Association of Art Museum Directors (1989, 187) suggests that state and local support exceeds federal support by over 50 percent.

56. National Assembly of State Arts Agencies (58). The 8.3 percent figure would imply a total state appropriation for art museums of some \$22 million in 1989. However, the AAMD survey shows that 142 museums received \$67.1 million from states in 1987, so the NASAA data must not count all state support.

57. See Netzer (1978, 80–82, 247n) and Svenson (1980, 35–37) for discussions of state art agencies.

58. See L. Richard Gabler and John F. Shannon, "The Exemption of Religions, Educational, and Charitable Distributions from Property Taxation," in *Research Papers of the Commission on Private Philanthropy and Public Needs* (Washington, D.C., 1977), vol. IV, 2535–72. See also discussion of the property tax exemption for arts organizations in Feld, O'Hare, and Schuster (1983, 63–70).

**Table 9.10 State Legislative Appropriations for State Arts Agencies, Fiscal Years 1980 and 1989**

| State                | Appropriations* (\$ thousands) |        |                  |           | % Change | Per Capita 1989 |
|----------------------|--------------------------------|--------|------------------|-----------|----------|-----------------|
|                      | Current \$                     |        | Constant 1985 \$ |           |          |                 |
|                      | 1980                           | 1989   | 1980             | 1989      |          |                 |
| Alabama              | 525                            | 2,476  | 720.83           | 2,250.68  | 212      | 60.7            |
| Alaska               | 1,675                          | 1,695  | 2,299.78         | 1,540.76  | -33      | 322.9           |
| Arizona              | 233                            | 1,554  | 319.91           | 1,412.59  | 342      | 45.9            |
| Arkansas             | 846                            | 1,021  | 1,161.56         | 928.09    | -20      | 42.8            |
| California           | 7,891                          | 14,604 | 10,834.34        | 13,275.04 | 23       | 52.8            |
| Colorado             | 609                            | 1,041  | 836.16           | 946.27    | 13       | 31.6            |
| Connecticut          | 1,305                          | 2,137  | 1,791.77         | 1,942.53  | 8        | 66.5            |
| Delaware             | 123                            | 785    | 168.88           | 713.57    | 323      | 121.9           |
| District of Columbia | 356                            | 3,692  | 488.79           | 3,356.03  | 587      | 593.6           |
| Florida              | 2,378                          | 20,838 | 3,264.99         | 18,941.74 | 480      | 173.3           |
| Georgia              | 1,102                          | 3,248  | 1,513.05         | 2,952.43  | 95       | 52.2            |
| Hawaii               | 1,545                          | 6,747  | 2,121.29         | 6,133.02  | 189      | 623.0           |
| Idaho                | 86                             | 239    | 118.08           | 217.25    | 84       | 24.0            |
| Illinois             | 2,246                          | 7,509  | 3,083.76         | 6,825.68  | 121      | 64.8            |
| Indiana              | 1,277                          | 1,970  | 1,753.32         | 1,790.73  | 2        | 35.6            |
| Iowa                 | 313                            | 825    | 429.75           | 749.93    | 75       | 29.1            |
| Kansas               | 262                            | 1,072  | 359.73           | 974.45    | 171      | 43.3            |
| Kentucky             | 857                            | 2,368  | 1,176.66         | 2,152.51  | 83       | 63.5            |
| Louisiana            | 857                            | 990    | 1,176.66         | 899.91    | -24      | 22.2            |
| Maine                | 180                            | 622    | 247.14           | 565.40    | 129      | 52.4            |
| Maryland             | 1,345                          | 5,960  | 1,846.69         | 5,417.64  | 193      | 131.4           |
| Massachusetts        | 2,300                          | 19,539 | 3,157.90         | 17,760.95 | 462      | 333.7           |
| Michigan             | 6,076                          | 12,426 | 8,342.35         | 11,295.23 | 35       | 135.1           |
| Minnesota            | 2,845                          | 3,150  | 3,906.19         | 2,863.35  | -27      | 74.2            |
| Mississippi          | 307                            | 496    | 421.51           | 450.86    | 7        | 18.9            |
| Missouri             | 2,531                          | 4,913  | 3,475.06         | 4,465.92  | 29       | 96.3            |
| Montana              | 93                             | 726    | 127.69           | 659.93    | 417      | 89.7            |
| Nebraska             | 399                            | 943    | 547.83           | 857.19    | 56       | 59.2            |
| Nevada               | 87                             | 269    | 119.45           | 244.52    | 105      | 26.7            |
| New Hampshire        | 153                            | 462    | 210.07           | 419.96    | 100      | 43.8            |
| New Jersey           | 3,333                          | 22,685 | 4,576.21         | 20,620.67 | 351      | 295.7           |
| New Mexico           | 203                            | 710    | 278.72           | 645.39    | 132      | 47.3            |
| New York             | 33,285                         | 55,987 | 45,700.31        | 50,892.18 | 11       | 314.1           |
| North Carolina       | 1,379                          | 5,005  | 1,893.37         | 4,549.55  | 140      | 78.1            |
| North Dakota         | 101                            | 214    | 138.67           | 194.53    | 40       | 31.8            |
| Ohio                 | 4,709                          | 9,980  | 6,465.46         | 9,071.82  | 40       | 92.5            |
| Oklahoma             | 552                            | 2,670  | 757.90           | 2,427.03  | 220      | 81.6            |
| Oregon               | 335                            | 1,002  | 459.96           | 910.82    | 98       | 36.8            |
| Pennsylvania         | 2,594                          | 12,755 | 3,561.56         | 11,594.30 | 226      | 106.9           |
| Rhode Island         | 359                            | 1,440  | 492.91           | 1,308.96  | 166      | 146.1           |
| South Carolina       | 941                            | 3,119  | 1,291.99         | 2,835.17  | 119      | 91.1            |
| South Dakota         | 155                            | 338    | 212.82           | 307.24    | 44       | 72.2            |
| Tennessee            | 517                            | 3,506  | 709.84           | 3,186.95  | 349      | 19.7            |
| Texas                | 1,215                          | 3,310  | 1,668.20         | 3,008.79  | 80       | 95.4            |
| Utah                 | 1,088                          | 1,603  | 1,493.82         | 1,457.13  | -2       | 83.4            |

(continued)

**Table 9.10** (continued)

| State         | Appropriations <sup>a</sup> (\$ thousands) |         |                  |            | % Change | Per Capita 1989 |
|---------------|--|---------|------------------|------------|----------|-----------------|
|               | Current \$                                 |         | Constant 1985 \$ |            |          |                 |
|               | 1980                                       | 1989    | 1980             | 1989       |          |                 |
| Vermont       | 108  | 457     | 148.28           | 415.41     | 180      | 76.9            |
| Virginia      | 1,230                                      | 3,771   | 1,688.79         | 3,427.84   | 103      | 63.9            |
| Washington    | 579  | 1,756   | 794.97           | 1,596.20   | 101      | 38.7            |
| West Virginia | 1,563                                      | 1,845   | 2,146.00         | 1,677.11   | -22      | 97.2            |
| Wisconsin     | 719  | 1,881   | 987.19           | 1,709.83   | 73       | 39.1            |
| Wyoming       | 63   | 206     | 86.50            | 187.25     | 116      | 42.1            |
| Total         | 95,830                                     | 258,557 | 131,574.59       | 235,028.31 | 79       |                 |

Source: U.S. Bureau of the Census, Statistical Abstract of the United States, 1988; National Assembly of State Arts Agencies, unpublished data; *Economic Report of the President* 1989, 312.

Note: The GNP price deflator was used to adjust for inflation. That index was 85.7 in 1980 and 117.7 in 1987 and was assumed to be 129.5 in 1989.

<sup>a</sup>Includes line item appropriations for arts organizations passed through state arts agencies.

**Table 9.11** State Support for Art Museums, by Activity, All States, Fiscal Year 1986

| Activity                          | Number of Grants | Grant Amount (\$ thousands) |
|-----------------------------------|------------------|-----------------------------|
| Institutional support             | 137              | \$5,569                     |
| Exhibitions                       | 146              | 1,428                       |
| Audience services                 | 12               | 750                         |
| Repair, restoration, conservation | 22               | 433                         |
| Marketing                         | 4                | 69                          |
| Awards and fellowships            | 2                | 8                           |
| Other                             | 216              | 1,453                       |
| Total                             | 539              | 9,710                       |

Source: National Assembly of State Arts Agencies (1989, 58, 80-81).

local communities, museums are often an object of civic pride and may well hold economic value sufficient to justify such favored status. One tangible bit of evidence of the importance attached to museums is the significant number of private, nonprofit art museums housed in publicly owned buildings; in 1972, 17 percent of such museums were housed in buildings owned by local governments.<sup>59</sup>

All together the property tax exemption for art museums is undoubtedly quite large, although it is difficult to estimate the size of the exemption with much precision. Two back-of-the-envelope estimates suggest the likely magnitude of this exemption. First, if one assumes that art museums constitute

59. National Research Center of the Arts (1975, 370). For discussions of the role of civic boosterism in explaining favorable treatment of museums, see Banfield (1984, 93) and Parkhurst (1975, 88).

one-fourth of the property of arts organizations, Netzer's (1978, 44) estimates for 1975 imply a 1988 value of taxes foregone on the order of \$75 million for art museums.<sup>60</sup> A second approach is based on an estimate of the assessed value of charitable tax-exempt (noneducational) property of \$54 billion in 1987. If 10 percent of the property of such charitable property is assumed to be held by art museums, then applying the same 2 percent property tax rate would yield an estimate of the foregone property tax on art museums of about \$110 million.<sup>61</sup> Considering that art museums paid only about \$1 million in property taxes in 1988, the value of this tax exemption appears to be very large indeed.<sup>62</sup> Counting the likely value of the income tax deductions, indirect support of art museums is probably greater than the total of all direct government support.<sup>63</sup>

The effects of the property tax exemption have been the subject of some speculation. Following a line of reasoning familiar in economics, Netzer (1978, 34) and Feld, O'Hare, and Schuster (1983, 141) have speculated that the property tax exemption makes arts institutions more capital-intensive than they would otherwise be, in that construction is subsidized relative to other expenditures. In the case of museums, which are among the most capital-intensive of nonprofit institutions, let alone arts organizations, it is not hard to believe that this bias toward bricks and mortar has had a significant effect. If one considers as well the exemption from personal property taxation of the assets contained inside art museums—the estimated value of collections considerably exceeds that of museums' land and buildings—the bias inherent in local tax exemptions is probably large. There is, however, no evidence on the degree to which these exemptions have affected the holdings or construction decisions of art museums.

## 9.5 Conclusion

Government policy toward art museums certainly exists, but it is decentralized, diffuse, and elusive. One reason for this is the federal nature of our government, where in state and local jurisdictions join the federal government

60. Netzer applied a 2 percent tax rate on an estimated aggregate property value of \$7.5 billion around 1975. Considering the doubling of prices between 1975 and 1988 (203 percent increase in the GNP price deflator), and assuming 25 percent of arts property belongs to art museums, yields a figure of \$76 million.

61. Twelve states with 33.1 percent of the nation's total assessed property value had an estimated \$17.889 million in charitable (noneducational) property in 1986. Applying this ratio to the nation implies a total of \$54.04 billion in charitable property. U.S. Bureau of the Census, *1987 Census of Government*, vol. 2; *Taxable Property Values* (Washington, D.C.: Government Printing Office, March 1989), xx, 4.

62. Unpublished data provided by the AAMD. These estimates of property value apply only to land and buildings and ignore the considerable holdings of property inside museums. In 1988, 155 art museums had collections valued at \$22.5 billion. Needless to say, this property would yield a huge amount of revenue were it subject to taxation. Local governments also provide other indirect support in the form of auditing, accounting, payroll, building repair, and central purchasing (Parkhurst 1975, 88).

63. See Don Fullerton's paper, chap. 8 in this volume.

in exerting varied influences—through appropriations, tax exemptions, and other avenues of political influence. A second reason is the benign stand-offishness that has traditionally characterized the government's treatment of nonprofit organizations in this country. The United States has traditionally relied on the nonprofit sector to perform more public functions than is common in other developed countries, and it has provided tax incentives to encourage this to happen. Before 1965 government policy toward the arts was less clearly defined than that towards any part of the nonprofit sector other than religion because there was little legislation or administration at the federal level concerned with the arts. Certainly the United States had nothing in the way of a "cultural policy" to compare with the countries of Western Europe. The creation of the National Endowments for the Arts and Humanities in 1965 was undoubtedly a watershed event which, among other things, brought arts policy into prominence as an issue of public debate at the national level. But Congress has remained reluctant to establish a bureaucracy that would even appear to be able to impose artistic values. So there is great emphasis on peer review and matching grants in addition to the traditional reliance on tax exemptions. Stanley Katz has commented, "to have no policy is to have a policy. That we do not have a national cultural policy, in other words, means that we have made a decision . . . to leave to private and local institutions the determination of the decisions most overtly affecting the creation and conduct of cultural institutions" (1984, 36).

In general, then, the assumption that decentralization begets pluralism applies to our government's policy toward art museums. Art museums receive substantially more money in support from state and local governments than it does from the federal government. In addition, federal grants to museums are dwarfed by the implicit cost of the federal income tax deduction for contributions and by the value of the property tax exemption. Yet the federal programs are not without influence. Because of their visibility and their unity, they appear to have exerted an influence on how museums function. In part this may be due to the tendency of state agencies and private foundations to pay attention to the criteria and grants of the national endowments. Among the likely effects of federal policy has been to encourage special exhibitions. As has been pointed out, these exhibitions serve the financial aims of institutions while also serving the government's objective of wider accessibility. While the government's support for these exhibitions—through direct grants and the indemnification program—appears to have favored the large, established museums, the rest of the NEA's programs tend to favor smaller, less-established museums, at least as a percentage of their overall budgets. Taken together, the federal government's programs probably have increased the financial security of museums by giving them a new source of income, but it is also likely that the growth of this new source has probably reduced the growth in donative support for museums. Finally, it is possible to speculate on the effects of the forms in which the indirect subsidies have been given. Because of the favor-

able treatment, before 1987, of gifts of appreciated property, it seems highly probable that our museums have considerably more art in them—on display and in storage—than they would if all gifts had to be treated as cash gifts. As for the property tax exemption, it seems likely that this form of subsidy has probably encouraged museums to be more capital-intensive than they would otherwise have been. Needless to say, speculating about either of these effects is much easier than estimating their magnitudes.

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