Art, Culture & the National Agenda

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NATIONAL INVESTMENT IN THE ARTS

CENTER FOR ARTS AND CULTURE

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Issue Paper

ART, CULTURE AND THE NATIONAL AGENDA

The Center for Arts and Culture is an independent not-for-profit organization dedicated to examining critical issues in cultural policy. The Center initiated, in the Spring of 2000, a project called Art, Culture and the National Agenda. With generous support from a number of foundations, the Center solicited background papers on arts and cultural issues from dozens of scholars and practitioners over an 18-month period. The aim of Art, Culture and the National Agenda is to explore a roster of cultural issues that affect the nation's well-being -- issues that should be on the horizon of policymakers, public and private, and at national, state and local levels.

This issue paper, *National Investment in the Arts,* is the sixth in the Art, Culture and the National Agenda series. Written by Dr. Bruce A. Seaman from Georgia State University, *National Investment in the Arts* looks at the ways in which the public sector supports the arts in America through direct grantmaking, tax policies, and other public policies. This issue paper, like others in the series, reflects the opinions and research of its author, who was informed by commissioned background papers and the assistance of the Center's Research Advisory Council. The paper does not necessarily represent the views of all those associated with the Center.

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Additional information about the Center and the *Art, Culture and the National Agenda* project, as well as resources on cultural policy, can be found on the Center's web site at www.culturalpolicy.org.

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EXECUTIVE SUMMARY

For more than a decade, discussions of the condition of the arts in America and the future of public arts policy have been tortured by the high decibel controversies surrounding the role of the National Endowment for the Arts (NEA). Such debates have occurred in the context of a longer historical experience that has stressed distinctions concerning economic support systems for the arts that tend to force people into opposing camps. Such traditional distinctions include: (1) private vs. public funding; (2) "earned" vs. "unearned" income; (3) public national vs. state vs. local funding that is endemic to the complex "division of labor" that characterizes a federal system; (4) for-profit vs. non-profit arts organizations; and (5) successful and financially wealthy producers of "popular" culture and mass entertainment vs. financially vulnerable producers of live, high quality, "real" art.

As the dust settles on the "NEA wars," with the agency locked into a consensus political compromise whose most measurable manifestation is a budget seemingly set indefinitely (in "real," not nominal, dollars) at approximately $100 million per year[1] an even more fundamental "academic" consensus has slowly emerged that is both surprising and compelling. In simplified form, this new consensus is that these common, important, and useful distinctions have lost their power to adequately explain the realities of the arts sector in America, or to provide sufficient guidance regarding public arts policy.

The boundaries between private and public, for-profit and non-profit (plus the increasingly appreciated "voluntary" sector), federal, state and local, high culture and "low brow," "innovative and dynamic," and "conservative and docile" seem to be blurring. All arts organizations face surprisingly similar challenges. Many are developing often complementary strategies. As argued in a recent study (McCarthy et al., *Rand*, 2001), instead of the usual bifurcation between the non-profit "high" arts and the for-profit "mass" arts, the major future distinctions may be between large vs. small organizations serving "broad" vs. "niche" markets. In what is sometimes viewed (perhaps too dramatically) as a new "paradigm" (Cherbo and Wyszomirski, 2000), we are reminded that our definition of the problem of the arts and culture in America is at times based on somewhat faulty premises.

Some of these observations are actually not particularly new, but are useful clarifications of known realities. Other points are much more novel and reflect more fundamental changes taking place in the arts sector in the United States. One example of an elaboration on an old theme is the ongoing clarification of the actual degree of public, tax-financed investment in the arts in the United States. For example, it is well known that there has been substantial indirect national public support for the arts via the oft-studied (but poorly quantified) "tax expenditures" linked to the deductibility of contributions to qualifying non-profit organizations (initiated in 1917). What is less well known is that the total *direct* spending for the arts at the federal level is at least 5.2 times higher than the highly "visible" and substantially reduced NEA

budget (even ignoring education spending that flows to arts programs). Furthermore, total federal direct spending is over 13.75 times higher than the NEA budget if the definition of the arts is extended to include the often closely related spending on the humanities. (see e.g., Mulcahy, 2000).

There are also surprising developments regarding the relationship among the different levels of government. The debate has raged about the proper role of government in the arts (viewed by some as simply "none"), and the proper *level* of government support (if indeed tax financing can be justified at all). Meanwhile, the sometimes contentious relationship among the NEA and state and local arts agencies has entered a period of full cooperation that stresses the complementary aspects of their roles.

State and local governments have quietly but dramatically demonstrated apparent voter support for the concept of public arts funding by providing more than 10 times the funding of the NEA to their state arts councils and local arts agencies. Furthermore, this state and local funding increased at a compound annual rate of 5.49% over the five-year period 1992 to 1997 - a "real" growth rate adjusted for inflation of over 2.66% per year. In fact, the growth in state arts agency funding from state appropriations was even more striking from 1996 to 2000, growing at the compound annual rate of 9.71%, far exceeding inflation over this period. There have also been advances in state and local off-budget financing of the arts and culture, as noted in the *Novel Approaches to Government Support* section of this paper.

These "optimistic" figures hardly reverse the correct perception regarding "American exceptionalism" (a term often used by Mulcahy to reflect the different approach to public arts support in the United States vs. other developed Western nations). In terms of absolute dollars or percentage of spending relative to gross domestic product or other measures, direct government arts spending remains low. However, while many of the "high investment" countries experienced declines in public arts support in recent years, the substantial decline in NEA funding from its nominal peak in 1992 is *not* reflective of the broader investments being made by governments at all levels in the United States. This investment is not merely indirect in the form of "privatized" support via tax deductions. It includes some modest but expanding direct budgeted support from general tax revenues, as well as some novel approaches that governments use to encourage expansion of arts activity. In this sense, a discussion of the challenges facing the arts in America cannot simply be premised on the notion that there is no sentiment in this country for a government role in investing in the arts.[2]

Yet there is no denying that the NEA debate was a wake-up call to arts and cultural organizations and artists. They correctly perceived that different and creative solutions had to be found to ensure their future survival. Fear of diminished government support (even if excessively focused on the NEA) was not the only challenge. Other trends were equally daunting. These included dramatic and ongoing technological developments, shifting legal climates regarding the protection of intellectual property, and demographic adjustments with potentially serious

ramifications for audience size. Audience growth has been further limited by the seemingly endless increase in peoples' perceived "opportunity cost of time" that made lengthy artistic performances a potentially "unaffordable" luxury for both non-profit and for-profit producers alike.

In the face of this wider array of threatening developments, arts groups have formed expanded alliances of surprising diversity, in many cases suppressing long-held suspicions between for-profit and non-profit organizations. The "voluntary" arts sector (always present, but barely visible) has emerged as a critical component of the local arts infrastructure, and is increasingly the subject of academic attention. The measured importance of the arts would increase even more substantially if we could accurately measure the value of non-money contributions made to the arts ('in-kind transfers') and the value of the time that is voluntarily contributed to the arts.

Giving and Volunteering in the U.S. reports that from March 1997-1998, some 390,000 "full-time volunteers" lent their time to "the arts, culture, and the humanities." Given that a full-time equivalent volunteer is defined in that document as 1,700 hours per year, this yields roughly 663 million hours. This is nearly equivalent to assuming that five percent of the U.S. population (about 12.5 million people) donate an average of one hour per week to the arts for an annual total of about 650 million voluntary hours. Valuing that contribution at the rate of the current minimum wage ($5.15) would yield an additional $3.348 billion from the voluntary arts sector.[3]

Non-profits have joined their for-profit colleagues in finding increasingly creative managerial approaches to generating revenues from alternative sources. There have been striking successes in these efforts. But there have also been new tensions and differential rates of success among different arts organizations and art forms. It is important to recognize, as described in the *For-Profit/Non-Profit* sections of this paper, that most for-profit cultural activities, like non-profit cultural activities, also lose money. And, in the actual productions of for-profit and non-profit cultural organizations, the legal distinctions inherent in their corporate organization are often significantly blurred. Despite this checkered record of success, the developing consensus that we are facing a fundamental change in how to conceptualize both the arts problem and its potential solutions has not been weakened.

This issue paper provides further documentation of these developments in how we invest in the arts in the United States. Overall, the arts sector in this country has emerged surprisingly strong over the past decade, but with notable and serious vulnerabilities that often defy conventional categorization. Some non-profit organizations are thriving with *both* artistic *and* managerial savvy, while for-profit "status" does not guarantee success in a world with diminished "entry barriers" via the Internet and a diminishing "mass" in the concept of "mass entertainment."

It is clear that such changes also require greater diversity in the creation and manipulation of the levers of public policy. While battles over budgets will never cease to be important, the scope of public policy for culture will never again occupy so limited a domain.

This paper recommends:

A. Organizational Initiatives

1. Possible creation of a cabinet-level post of Secretary of the Arts or Secretary of Cultural Resources to coordinate better the many federal cultural efforts and dramatically increase the visibility of cultural affairs in the national agenda.

2. Publication of an annual *Cultural Report of the President*, similar in scope to the annual *Economic Report of the President*, on cross-government cultural issues, policies, and programs and their results.

3. A White House Conference to explore ways of fostering collaboration among the non-profit and the for-profit parts of the arts and cultural sector and the technology industries to broaden the availability of the arts and culture to the general public.

4. Improved research activities related to the arts and culture, including revisions in how artists are identified and studied by the Census Bureau and the Bureau of Labor Statistics and mandated research on how proposed changes in tax policy, and legal and regulatory constraints would affect the cultural industries.

B. New Funding Source Initiatives

1. Information on novel "off-budget" public arts funding initiatives should be expanded and shared more widely across the states so that the most appropriate approaches might be considered and adapted for additionl jurisdictions.

2. A federal level trust fund should be considered, financed by diverting revenues from some existing excise tax, with the funds accumulating for up to five years prior to any grants being authorized.

C. Encouragement of Non-Profit/For-Profit Partnerships: Tax and Other Policies

1. Non-profits should be encouraged to adopt more creative ways of generating earned revenue and collaborating with for-profit organizations without losing valuable tax advantages. Similarly, for-profit organizations with significant collaborations with non-profit organizations might be given more favorable tax treatment despite their overall for-profit status.

2. Proposals for elimination and / or reform of the income and estate taxes must also be monitored by tax experts knowledgeable in the arts and culture so as to ensure that policy-makers are aware of potential adverse consequences.

3. "Moral"encouragement with possible funding and programmatic support should be lent to initiatives that are being taken by private sector groups like The American Assembly, which has identified five categories of initiatives to overcome existing barriers to for-profit and non-profit cooperation and partnerships.

D. Technology Initiatives

1. Limitations on the usage of the Internet to transmit art and cultural information are viewed by some as a critical policy issue. The development of public telecommunications policies that weigh the relative risks of accepting more monopoly power in exchange for potentially faster and more extensive fiber optic cable access should be further elevated on the national agenda.

2. As with all new technologies that have the potential to be partly substitutes as well as complements to "traditional" distribution systems such as the live performing arts, policies should be explored that allow electronic communication to complement and strengthen arts organizations rather than further weaken the growth in arts audiences.

3. Development of electronic communication and the Internet will further elevate the importance of developing a coherent policy to both protect intellectual property and allow the expansion of access to arts and cultural products.

National Investment in the Arts

Clarifying the American Public Commitment to the Arts

The conventional wisdom about investment in the arts in the United States, especially among international observers, includes three propositions of dubious validity. (1) Artists and arts organizations are forced to function as near castaways in hostile seas with virtually no governmental assistance. (2) The for-profit arts sector, so frequently associated with what some claim to be American "cultural imperialism," is so competitively successful that its future dominance and financial strengths are virtually assured without facing significant challenges. (3) The creatively successful (but economically vulnerable) non-profit arts sector is endangered by its own inability to seek novel solutions to its many challenges, than by any changes in the political climate, or the increasingly skeptical demands for "accountability" by its many diverse public and private patrons. A closer examination of these propositions reveals that they are more gossip than gospel. Rational and effective public policy requires first understanding the degree to which this conventional wisdom is misleading.

There is one aspect of the conventional wisdom about investment in the arts in the United States that holds true, despite the important changes that are occurring: compared to other countries, the United States supports the arts through a complex mix of funding sources that are pluralistic, diverse, and largely decentralized. Prior to the establishment in the 1960s of the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) and the proliferation of the related state and local agencies and state humanities councils, the private sector was clearly the dominant direct investor in the cultural sector in the United States.

Significant funding cutbacks for both of those federal agencies led many to conclude that the U.S. is losing some of the richness of its mixed funding system and reverting back to that earlier era. While it is a myth that a government role in arts funding is unimportant, government will always remain a decidedly limited partner as a source of support for arts organizations in this country. The most basic reflection of this reality is the overall summary of the proportionate sources of support for arts organizations in the United States in 1997 provided in Table 1.

Table 1

Sources of Support for Non-Profit Arts Organizations in the United States, 1997

Arts Type	Source of Support		
	Government	*Philanthropy*	*Earned Income*
Performing Arts	6%	36%	58%
Museums	30%	23%	47%

Source: Research Division of Americans for the Arts

Of course, even though Table 1 largely confirms this conventional wisdom, there are still surprises for the casual observer. For example, few non-specialists would guess that total government funding would constitute nearly one-third of the support for one of the most well-attended types of arts institution: museums. Furthermore, given that the performing arts continue to be dominated by non-profit organizations, most would not realize that they are generating nearly 60% of their revenue from earned income.

The summary data in Table 1 do confirm the important role played by philanthropic contributions, especially in the performing arts. But, of course, this is an expected consequence of the uniquely American emphasis on decentralized decision-making in resource allocation, encouraged in this case by the critically important indirect government support provided by the tax-exempt treatment of contributions to non-profit organizations (or 501(c)(3) organizations using the Internal Revenue Service designation). While this favorable tax treatment greatly encourages private philanthropic support of the arts, the obviously large resulting indirect government support provided by those "foregone revenues" is not reflected in the government column in Table I (and is, in fact, notoriously difficult to measure precisely). Thus, even as simple a summary as that provided by Table 1 contains multiple surprises.

Annual data sources such as *Giving USA* (American Association of Fund-Raising Council (AAFRC) Trust for Philanthropy), *Giving and Volunteering*, *Foundation Trends*, and the *BCA Report* (Business Committee on the Arts) provide further insight into the important role played by private philanthropy, not just in the performing arts and museum sectors, but more broadly in the "arts, culture and the humanities" (ACH). Despite the close relationships among them, the arts and humanities differ in their particular funding structures, with more funding available to the arts from all public and private sources, while the humanities rely significantly on higher education and a few foundations, along with some federal support (see Cobb, 2000).

Notwithstanding the important changes occurring in the cultural sector, there is relative stability in some aspects of the pattern of its funding. For example, the percentage of all funding to ACH going to museums and the performing arts remained at 70% between 1993 and 1998. However, for the first time, museums surpassed the performing arts in "funding rank" with 31.4% of all arts funding. Museums' share of overall *foundation* giving rose from 3.5% ($217.4 million) in 1994 to 4.9% ($479.4 million) in 1998. The performing arts' share of foundation giving dropped modestly over that period from 4.9% to 4.6%. Music and theater remained the dominant recipients of foundation performing arts support.

Luckily, unusually strong corporate profits in the 1990s led to significant increases in corporate arts contributions, which grew from $875 million in 1994 to $1.16 billion in 1997 (resulting in an increase in the ACH share of corporate philanthropy from 19% to 24% over that period). A potentially troubling aspect in corporate giving is that the *percentage* of firms who contributed dropped from 45% to 39% between 1994 and 1997, but the increase in the average size of a donation from $2,000 to $3,000 (still a modest sum) was able to more than offset the decline in the "participation rate."

If the overall sources of tax financed direct government support are examined more closely, another important fact emerges that is not evident in Table 1: the critical and growing role being played by state arts agencies and local arts funding. Table 2 contrasts the magnitude of such funding to that of the NEA itself for the years 1992, 1997 and 2000.

Table 2

NEA/State/Local Arts Spending[4]: 1992, 1997 and 2000

	1992	*1997*	*2000*
NEA	$176 million	$ 99 million	$105 million
State	$213 million	$305 million	$447 million
Local	$600 million	$700 million	$800 million

Sources: Executive Budget of the U.S., 1999; NASAA, 1998; State Arts Agencies Legislative Appropriations; Research Division of the Americans for the Arts, 2001

These summary data confirm that while the NEA itself was suffering its highly controversial 43.75% cut in annual funding over this period, the overall growth in the state and local funding was at the compound annual rate of + 5.49% (a resulting annual *real* growth of about 2.66% per year). In fact, state appropriations for state arts agencies increased even more dramatically over the period 1996-2000 – at a compound annual rate of 9.71%, far exceeding inflation over that period.

But Table 2 actually "hides" two important aspects of the existing structure of the national commitment to investing in the arts in the United States: (1) the surprising diversity of funding sources for many of the local arts agencies (LAA); and (2) the relatively small role of the NEA (and the NEH) in overall federal government investment in culture.

The LAAstory is a classic reflection of what makes the American model of arts support so unique. While no one would blame an observer for assuming that an LAA is simply the local level equivalent of a national government agency whose "portfolio" is the local arts sector, the reality is much more complex. The NEA "Local Program Guidelines" define a local arts agency as either a non-profit 501(c) (3) corporation, or a direct administrative unit of a city or county government. However, even if the LAA is a non-profit corporation, it is required to operate "on behalf of its local government unit," and thus is correctly viewed as the equivalent of a government agency.[5] Perhaps surprisingly, about 75% of the approximately 4,000 local arts agencies operate in this "uniquely American" form as non-profit corporations (especially when they are located in less urban areas).

Mulcahy noted that while the more "standard" public local arts agencies receive the vast proportion of their funding (87%) from direct local government appropriations, LAAs that operate as private non-profit corporations (75% of all LAAs) have a classically American mix of funding support. In fact, as seen in Table 3,

Table 3

Proportional Sources of Funding for Local Arts Agencies: 1998

	Government	Philanthropy	Earned Income
All LAAs	50%	19%	31%
Non-Profit LAAs	38%	24%	38%

Source: Americans for the Arts 1998, Local Arts Agency Facts

despite their being "quasi-governmental agencies," the non-profit LAAs are fairly similar to the museums in Table 1 in terms of their mix of funding.

Thus, while local arts agencies are designated as governmental type agencies in Table 2, the 4,000 LAAs in the United States as a group receive no more than 50% of their total budgetary allocations from local tax revenues. And the non-profit segment of LAAs receive only 38% of their funds from local governments (compared to 30% for museums from Table 1), 24% from philanthropy (compared to 23% from that source for museums), and a surprising 38% from "earned income" (vs. 47% in the museum case).

Clearly these private local arts agencies, particularly those outside major metropolitan areas, do not operate as traditional government entities. In fact, while traditional "grant-making" does constitute their primary function, Mulcahy reports that 87% of them manage festivals and art exhibitions. Over 70% of these LAAs provide services such as newsletters, advocacy, volunteer referrals, and arts calendars; 57% work closely with convention and visitors bureaus, and 33% administer programs for art in public places.

As noted above, by focusing only on the NEA as the most visible federal source of direct support for the arts, Table 2 also provides a misleading impression regarding the ongoing commitment at the national level for support for the arts. Public attention has been understandably focused on the battle for the NEA and its eventual survival – although at substantially lower budgetary levels and with noteworthy limitations on its program flexibility (such as the elimination of its direct support for visual artists).[6]

The notion that there is no remaining mandate for a federal government role in the arts is mocked by the remarkable array of "non-controversial" federal support for the arts and humanities.

Anyone trying to uncover all of this federal support faces a daunting task indeed. Spending on arts, culture, and the humanities comes through a number of appropriations bills, although the lion's share is in the Department of Interior and Related Agencies Appropriations. Researchers (see, e.g., Cherbo) have identified the following examples of some of these less well-known (or at times "obvious" but somehow overlooked) sources of federal arts support:

* The Library of Congress;

* the Bureau of Educational and Cultural Affairs in the State Department;

* the Department of Justice's "Arts for At-Risk Youth" program, and the "Arts for Juvenile Offenders in Detention and Corrections" program

* several Arts Education programs within the Department of Education and in partnership with the John F. Kennedy Center for the Performing Arts;

* the Corporation for Public Broadcasting;

* cultural heritage programs that are housed in as many as ten different agencies, including the National Park Service; and

* the Federal Reserve Bank painting collection overseen by its "Fine Arts Director" (a budgeted position at the Bank since 1975).

The major programs and agencies at the federal level providing ongoing cultural support (arts plus humanities) are identified in Table 4. (see p. 26)

The estimate of $1.72 billion for cultural programs is still a very small proportion of the total federal budget, and of course, an even smaller proportion of measures of national wealth such as the gross domestic product. It is clear, nonethless, that debate over the NEA has obscured the broader "non-controversial" commitment of the federal government to American cultural institutions and programs.

Perhaps even more noteworthy than the $1.72 billion figure reported in Table 4 are the indirect subsidies to the arts from "tax expenditures" linked to the tax deductibility of private contributions to the non-profit cultural sector. This is the most important single source of understatement of federal support.

In addition to federal tax deductibility, there are other indirect subsidies for the arts that stem from "tax policy" support for the arts (which while allowed under federal law, actually have revenue consequences at the state and local levels): (1) freedom of non-profit organizations from the obligation to pay local property taxes (viewed, however, by some commentators as being of minimal importance given the absence of substantial property holdings by most non-profit arts organizations); and (2) freedom of non-profit organizations from the obligation to pay sales taxes on income related to their mission. An even more

Table 4

Major Sources of Direct Federal Government Support for the Arts and Humanities: FY 2001

Agency/Department or Program	*2001 Appropriation*
Advisory Council on Historic Preservation	$ 3,189,000
Commission of Fine Arts	1,078,000
Corporation for Public Broadcasting[a]	340,000,000
Department of Education	
Arts in Education[b]	10,000,000
Department of State Educational and Cultural Exchange Programs[c]	205,000,000
Institute of American Indian and Alaska Native Culture and Arts Development	4,125,000
Institute of Museum and Library Services Office of Museum Services	24,900,000
John F. Kennedy Center for the Performing Arts[d]	34,000,000
Library of Congress[e]	282,838,000
National Capital Arts & Cultural Affairs	7,000,000
National Endowment for the Arts	105,000,000
National Endowment for the Humanities	116,260,000
National Gallery of Art[f]	75,652,000
National Park Service Historic Preservation Fund[g]	79,347,000
Smithsonian Institution[h]	387,755,000
U.S. Holocaust Museum	34,439,000
Woodrow Wilson Center	7,310,000
Total Direct Federal Funding[i]	$1,717,893,000

[a] Includes all funding, not just arts, humanities and cultural programming.
[b] The Arts in Education Model Development and Dissemination Program.
[c] FY 2000 estimate from the annual report.
[d] Includes $20 million for repairs.
[e] Includes funds for non-cultural functions.
[f] Includes $10.871 million for repairs.
[g] Includes funds for Save America's Treasures program.
[h] Includes funds for non-cultural functions.
[i] Does not include additional funds available for arts initiatives through federally-funded national, state and local programs.

important source of "hidden" government support for the arts that is clearly a federal level source of support is the 60% discount from the customary third-class postage rate that is given to all non-profit organizations, including non-profit arts and cultural organizations. Similar to the support offered by the favorable tax treatment of private contributions, this postal rate subsidy is believed to offer substantial financial benefits to arts organizations, even though the accurate measurement of such benefits is complicated.

For some commentators (e.g. Cowan), perhaps the most significant source of the gross understatement of the existing public sector commitment to investing in the arts stems from the failure to fully appreciate the role of government in subsidizing higher education. It is a little appreciated fact that about 80% of college students attend state supported institutions. Further, many private universities receive significant funding from various kinds of government grants (Cowan estimates that "first tier" private schools receive as much as 20% of their budgetary funding in this way). While obviously programs in the arts and humanities constitute only a part of the academic agenda of colleges and universities (and in some cases, a declining part as schools shift their focus toward expansion of their information technology and related capabilities – which interestingly may themselves have critical effects on the long run future of the arts), the fact is that art, theater and music programs at local colleges often serve as an important source of community arts entertainment and "bricks and mortar" cultural facilities. In this context, it can truly be said that "educational policy is also cultural policy." A full accounting of the magnitude of the role of the different levels of government in supporting the arts and humanities via investments in education would clearly further substantiate the American public sector commitment to the arts, even in the face of the international perception that such a commitment is utterly lacking.

To summarize, the data documenting the diverse types of financial support for the arts broadly confirms that the United States does indeed have a unique approach to investing in culture. However, the notion that there has been a significant change in the "mandate" for a noteworthy governmental role in the arts is not consistent with the facts. It is not consistent with the remarkably diverse sources of federal direct support for the arts and humanities, nor is it consistent with the significant increases in state and local arts funding in the wake of the highly visible NEA budget cuts. This is not to dispute the clear reality that no matter how much government support for the arts is "unearthed" by seeking a more complete accounting, such support still represents a puny proportion of both total government resources and the total wealth generating capacity of the economy. In that sense, even "neutral" observers could conclude that we are still dramatically under-investing in the arts. However, reaching that conclusion requires a full appreciation of the ongoing apparent consensus in this country that despite periodic NEA "bashing", there is an important role to be played by government in supporting the arts.[7]

Even a cursory review of the aggregate data shows that performing arts groups and museums have successfully developed ways to exploit earned revenue sources as well as the more traditional philanthropic resources of their state and local communities. Thus, simple dichotomies between the for-profit and the

non-profit parts of the arts sector have always been misleading. More recent developments that further obscure the distinction between the for-profit and non-profit parts of the sector will be stressed below.

Novel Approaches to Government Support

One way to view the alternatives for investing in the cultural sector involves the creativity being exhibited by the public sector at the state and local levels. In addition to the considerable success of state and local arts agencies in obtaining sizeable "real net of inflation" increases in tax financed government appropriations, they are also very influential when seeking new sources of revenue for the arts in their jurisdictions.

Four types of strategies are indicative of these new approaches:

1. The implementation of modest (hence rarely controversial) fee increases for the provision of customary government services linked to expanding overall business activity. Revenues from those fees then become earmarked for general operating support for the arts. Examples include the state of Florida's increase of $10 in the standard filing fee required of businesses operating in the state – an approach also utilized by Arizona. A more voluntary approach linked to a familiar requirement is the creation of attractive cultural license plates for vehicles, with the supplemental fees generated being channeled into arts support. While this approach requires some

marketing expenditures to ensure that the public is aware of the option, Tennessee, Florida and California have had success with this approach.

2. While there are prominent proponents for the creation of a "trust fund" for the arts at the national level (e.g., Netzer, 2000), such an approach is, in fact, already utilized at the state level. For example, Delaware, Connecticut, Texas, and Missouri have each taken the lead in experimenting with this approach, which is generally used to support capital construction and building projects. Netzer and Joseph Ziegler propose that a modest portion of the revenues from an existing federal excise tax be channeled into a federal trust fund (with an initial period, perhaps five years, during which no grants could be made from the fund while the principal accumulates). States like Missouri have already adopted a similar approach by tapping existing funding sources such as its income tax on out-of-state entertainers and athletes. Arizona, for its part, has utilized a portion of its amusement tax revenues to support its cultural trust.

Of course, both of those particular examples contain elements of a redistribution of the wealth *within* the arts sector as opposed to a reallocation of outside resources to create *net increases* in arts funding. However, such a redistribution could generate net favorable consequences -- by transferring some resources from the more successful and highly paid artists toward new facilities and programming for less wealthy local community theater and opera groups – a relative shift of resources that most arts proponents would approve. The commercial amusement tax in Arizona will have some of the same impacts, generating a net increase in cultural resources available to

local communities. In both cases, a considerable portion of the funding comes from outside the arts and humanities sector (i.e. from sports or amusement parks), creating a clear net expansions of facilities and operations within the more narrowly defined cultural sector.

3. An increasingly popular approach for lending governmental support to the arts is the creation of "cultural districts" (Brooks and Kushner, 2000). About 30 cities currently have adopted one of the several models for such districts with a high variability in success. An Arizona State University survey of "state and jurisdictional arts agencies" (Mankin et. al., 2000) identified Denver and Utah as being highly successful in generating an infusion of stable annual support for the arts through citizen-approved revenues from new sales taxes that can be authorized in these geographically specified districts. Furthermore, the survey uncovered significant cases in which the arts partnered with other types of cultural organizations (historical, scientific, and zoological) to successfully champion these initiatives.

4. Another example of creative partnership is the effort of many states to incorporate the arts in programs regularly provided by education, juvenile justice, transportation, tourism, and commerce agencies. These efforts are actively championed by the National Endowment for the Arts, which provides useful information about these programs and opportunities on its own web site. An example of a state going beyond "intra-governmental partnerships" is Wyoming, which created a studio map of artists in the state that was printed and distributed by the statewide natural gas company.

The ability of governments to influence arts activity and expand arts resources increasingly extends to "policy levers" -- whether traditional or novel -- beyond budgetary revenue flows. For example, technological developments have greatly increased the importance of how governments establish and protect intellectual property rights. In addition, government policy affecting the adoption of high-speed broadband internet access could have dramatic consequences for the delivery of the arts to the general public. The ongoing blurring of the boundaries between the for-profit and non-profit parts of the arts sector presents new challenges for how governments choose to enforce existing tax policies that are favorable to non-profits that increasingly act like for-profits. These and other examples of new challenges for public policy that go beyond "mere budgets" will also be discussed in the "Conclusions and New Challenges to Public Policy" section below.

But the essential message provided by the above description of existing public funding of the arts in the United States is that the public sector commitment to the arts is surprisingly diverse and strong compared to the common perception. New initiatives, as well as recent favorable trends in line item appropriations at the state and local levels, promise to further incorporate the public sector into the fabric of the arts and humanities communities in the United States. The highly publicized fear that the nation has lost its public commitment to the arts is without foundation.

The Eroding Distinction Between the Non-Profit and For-Profit Arts Sectors

The distinction between non-profit and for-profit organizations has never been as clear as one might think. Economists and others who have studied the behavior of both types of organizations often found surprising similarities. While non-profits "by definition" cannot generate "profits" in an accounting sense, this legal distinction generates behavioral differences that are more cosmetic than substantive. The "surplus revenues" may be distributed differently, but both types of organizations face similar competitive challenges and related labor and other input market conditions. Both also exhibit similar agency conflicts between managers and "owners," battle similar tendencies toward inefficient operations, and are required to make similar adjustments to a world dramatically changed by new technologies and shrinking geographical boundaries.

It should hardly be surprising that the boundary between these traditionally separate sectors would be blurring in the arts. After all, many other industries reflect a similar blurring. For example, in the health care sector, studies have often failed to find significant differences between for-profit and non-profit hospitals in their degree of indigent care provision and other indicia of "public service orientation." Some non-profit hospital groups are among the most aggressive in merging and expanding into new markets and adopting controversial business practices, such as exclusive dealing arrangements with HMOs and other insurers. Or look at the electricity industry where pressures toward deregulating retail markets have exacerbated existing concerns that non-profit electrical membership cooperatives (EMCs) are unfairly taking advantage of their non-profit legal status (regarding taxation and favorable financing terms) to enter markets for appliances, home repair, security alarm systems, tree trimming, financial advisement and a host of other areas, in direct competition with for-profit firms who lack such tax and financing advantages.

Arts organizations have to some extent exhibited behavior similar to that in other industries. For example, non-profit museums have demonstrated considerable marketing sophistication in presenting blockbuster exhibitions, operating larger and higher quality restaurants, expanding their gift shops, and aggressively promoting catalog order sales, while at times joining other arts organizations in sponsoring expensive traveling tours.[8] On the other hand, there are aspects of arts markets, historical suspicions, and recent technological developments that have generated a unique "arts version" of this blurring distinction between the for-profit and non-profit.

Cross-Sector Arts Partnerships: Manifestations and Motivations

There are numerous examples of partnerships between the non-profit and for-profit parts of the arts sector that are so common and pervasive as to go largely unnoticed. Some of those identified by Cowan (2000) and Pankratz (2000) include:

> Classical music is sold through non-profit symphony orchestras, non-profit opera companies, and for-profit retail music superstores, which sell the products of decidedly for-profit recording companies.
>
> The for-profit movie *Amadeus* led to a dramatic increase in the demand for Mozart performances, happily provided largely by non-profit orchestras.
>
> The music of the for-profit Beatles built in part upon the innovations of Cage and Stockhausen. These composers were originally insufficiently popular to be marketed commercially and so were first nurtured by non-profit universities and even government grants.
>
> Non-profit contemporary art museums frequently utilize the works of pop artists like Andy Warhol, Robert Rauschenberg and Jasper Johns. These artists had roots solidly in the for-profit commercial sectors of fashion illustration and commercial art, or advertising, shop window displays, and stationery and greeting card design, and later became commercially successful as "fine artists."

It has often been noted that the non-profit arena frequently develops talent, ideas, and new "product" for the commercial sector, prompting comparisons to "farm systems" in sports, or to the relationship between "basic" science and "applied science" that is increasingly observed as universities ally themselves with for-profit research centers. For example, Julie Taymor (*The Lion King*) and Kenny Leon (*Elaborate Lives: The Legend of Aida*) were "discovered" by Walt Disney Theatrical Productions following extensive careers in the non-profit theate. It is the dream of most obscure playwrights to have their productions move from small amateur theaters to the "big screen."

But this talent-sharing is hardly unidirectional as witnessed by the highly popular musician Bobby McFerrin leading the St. Paul Chamber Orchestra, or Lynne Taylor-Corbett choreographing pieces for such diverse organizations and projects as the Pennsylvania Ballet, the movie *Footloose*, and the for-profit Broadway musical *Titanic*.

While such examples alert us to the fact that, despite the well-known fears that popular culture will slowly strangle the classical arts, there has always been a strong symbiotic relationship between the "high" arts and the "commercial" arts. However, cooperation between these two arenas goes well beyond subtle interaction to include explicit coordination, resulting in an even more dramatic blurring of their boundaries in the creation, distribution, and marketing of cultural products. (see Cowan, *In Praise of Commercial Culture*)

Such developments have significant implications for: (1) the broader distribution of cultural choices to the consuming public; (2) the ability of arts organizations to weather the challenges of changing customer demographics and variations in the enthusiasm of governments toward investing in the arts; (3) the longer term structure of the American economy as new technologies, mergers and expanding partnerships obscure the distinction between the entertainment, communications, and information industries; and (4) the development of public policies that are capable of complementing these "self-sufficiency" efforts and avoiding the inadvertent creation of roadblocks to their success.

While there is hardly any comprehensive source of information about the expanding array of arts partnerships, Pankratz (2000) has compiled some examples from American Assembly and Americans for the Arts meetings. These can be divided into seven general categories:

Funding Experiments: program related investments such as "Creative Capital" of the Andy Warhol Foundation, which funds artistic projects that may return proceeds to the foundation if they are commercially successful.

Artist Pipelines: programs to foster the career development of young artists, such as that of the Sundance Institute, which offers young filmmakers training and apprenticeship job opportunities

Joint Ventures: arrangements that generate new products to the for-profit sector and its audiences, as well as enhanced distribution of the works of non-profit organizations, such as the Showtime Networks, Inc. partnership with the Center Theatre Group / Mark Taper Forum in Los Angeles for a series of commissions, readings, and workshops that might generate marketable properties for Showtime television.

"Incubators" for Artists: content development opportunities such as the University of Southern California's (USC) "School of Cinema Television," which offers internships with film and television companies and seminars on the changing nature of the industry, and it sponsors "First Look" – a festival of USC projects attended by industry "scouts" searching for new talent.

Redevelopment and Community Building: normally urban joint non-profit / for profit projects such as "The New 42nd Street," in which six abandoned publicly-owned historic theaters were revitalized through leasing and other cooperative arrangements.

Technology: the use of new technologies for audience development, such as the "Culture Finder," a commercial web-site that lists schedules and information with respect to over 2,200 non-profit and for-profit arts organizations.

Cultural Preservation: projects developed by non-profits and then distributed by commercial entities such as the American Film Institute's (AFI) identification of the "100 Best American Films," which earned revenues for CBS, Turner Broadcasting, and Blockbuster Video, in addition

to generating earned income, contributions, and important brand recognition for AFI.

There is also increasing appreciation of the ways in which government supported organizations can create joint ventures with both the for-profit and non-profit private sector. Examples include:

"Smithsonian Showcase," a franchise of television movies based upon stories gathered from the resources of the Smithsonian Institution (such as movies regarding the African-American experience), to be produced by Mandalay Television and shown by Showtime Networks, Inc.

The Ken Burns documentary on Frank Lloyd Wright and companion interactive programming via Digital TV, which was a collaboration between Intel Corporation and the Public Broadcasting Service.

"Open Studio: The Arts Online" – a five-year project launched in 1996 designed to encourage artists and cultural organizations to expand their utilization of electronic communication, sponsored jointly by the Benton Foundation, the NEA, and Microsoft.

An agreement between Ovation, a commercial cable network devoted to arts programming, and PBS affiliates to air selected Ovation arts programming.

A wide range of cooperative arrangements between PBS and commercial manufacturers to market music products, gifts and toys, computer software, and video cassettes related to PBS programming and fund-raising initiatives.

To develop a greater appreciation of initiatives such as these and to stimulate actions beyond the discussion and proposal phase, the American Assembly has convened a number of meetings involving the for-profit, non-profit, and "voluntary" parts of the arts sector. A further Assembly project, "Art, Technology and Intellectual Property," is involving representatives of both the for-profit and non-profit parts of the arts sector in a series of meetings that may lead to the development of policy recommendations in this vital area. Also, Americans for the Arts initiated an 18-month "action plan," called *Building Creative Alliances Between the Non-Profit and For-Profit Arts in America*, which included an "Entertainment Summit" on June 12, 2000 that discussed ways to further cultivate cross-sector collaboration, cope with conflicting perspectives on missions and values, and foster new leadership and options for financial interaction among the sectors.

Developments in the American theater provide a more detailed concrete example of non-profit/for-profit partnerships, and the forces motivating such cooperation (Cameron, 2000). Unfortunately, this "case study" also provides warnings about the potentially hidden dangers in such partnerships.

When the national service organization for the non-profit professional theater, Theatre Communications Group (TCG), surveyed its members in 1999, the results were encouraging: (1) 65% of theaters had surpluses for the year; (2) aggregate unrestricted net assets had grown by 5.3%; (3) total income growth had exceeded inflation by 13.9% over the past three years; (4) total attendance for 313 theatres was nearly 18 million; and (5) artist compensation had grown, along with the cast size for theater productions.

However, indicative of the continuing vulnerability of the performing arts even in the face of such successes,[9] the statistics also showed that a strikingly large 35% of the theaters continued to have operating deficits. Further, despite the increases in net assets, problems with overall capitalization remained severe. For example, only three theaters had endowments that reached the targets established by the National Arts Stabilization task force for financial "stability," and an astonishing 46% of the theaters had no endowment at all.

Non-profit theaters, as other non-profit performing arts groups, already use creative business strategies to expand their earned income potential beyond that of "mere" performance ticket revenues.[10] For example, (1) educational and outreach programs have grown in the aggregate to represent 3.7% of theater expenses; and (2) gift shops, cafes and restaurants, and space rentals on "dark nights" have combined to cover another 3.1% of expenses. While seemingly modest, such innovations have, in fact, grown to exceed other "traditional" non-ticket revenue sources such as federal grants (.6% of expenses), state grants (2.6% of expenses), united arts fund drives (1.6%) of expenses, and in-kind gifts (2.2% of expenses). And they closely rival city and county support levels (which cover 3.2% of expenses). Yet despite success in tapping new revenue sources, theaters in TCG's fiscal survey reveal that, given ongoing increases in the costs of theater production, the ability of earned income to cover total expenses had actually declined 3.3% over the period 1997-1999.

The commercial theater sector is also facing complex challenges, as acknowledged by TCG's for-profit counterpart, the League of American Theatres and Producers (consisting largely of Broadway theaters, urban counterparts, commercial road houses, dinner theaters, and summer stock companies across the country). Despite selected blockbuster Broadway successes, there are great concerns about the development of young audiences, the dramatic expansion of home entertainment and electronic options, increasingly complicated relationships with theatrical unions, uncertainties created by shifts in generational leadership, difficulties in generating new work and talent, and fears (founded or unfounded) about the potential for a decline in the public appreciation of the cultural sector in general in the wake of the often hostile debates about government and the arts. The theater community is also concerned with ongoing demographic changes that promised a further splintering of audiences into ever more specialized "niche" markets.

The simple truth is that regardless of art form (e.g. theater, music, dance, literature, etc.), or organizational structure (for-profit, non-profit, or even "voluntary"), there is a problem that is common to all parts of the arts sector: the percentage of creative works that recoup their initial investments (defined in dollars expended, and even more compellingly in the opportunity cost of time) is very small. Similar to the general public's consistent overestimate (derived from surveys and opinion polls) of the magnitude of profits earned in such traditional industries as automobiles, electronics, and financial services, most people would be shocked to learn that most movies never earn a profit, that most new books are returned from retail outlets unsold, and that only 20-25% of all Broadway shows recover their initial investment during their Broadway run.

While a 20% "success" rate for Broadway shows (already based on the very select few plays that ever reach those lofty canyons) is about double the success rate for new American operas (only 12 of 125 of which ever had a second production during the 1990s), it is clear that from a private "rate of return" perspective, investing in the arts is a risky enterprise. Artistic creation, like scientific research and development, generates many failures for every high profile success. Yet, while few would deny the critical role played by traditional R&D in the future growth of any economy, the arts continue to struggle to find the right formula to ensure a stable future for "artistic R&D."

Theater had always seemed to be an art form in which for-profit / non-profit cooperation could be exploited. There are well-established practices of transferring production of shows from their initial non-profit venues to the commercial arena, and enhancement arrangements by which commercial funds are invested in a non-profit production to enhance its chances of success, and potential for later commercial distribution. Informal partnerships between for-profit and non-profit theaters have increased significantly. These include discussions and information sharing, joint public advocacy, loaning of building materials, pro bono technical assistance, joint facility utilization, among other activities. For a small group of theaters, more formal financial cooperation has become increasingly significant. For the 98 theaters who participated in the TCG survey for three consecutive years, enhancement income from commercial producers grew by 240% (although affecting only 19 theaters), with total dollar amounts ranging from an average of $111,728 for 8 theaters in FY '97, to an average for 5 theaters of $370,254 in FY '98, and an average of $307,064 for 10 theaters in FY '99. However, such funds were quite concentrated, with three theaters alone accounting for 80% of the FY '99 allocations.

In the face of their mutual challenges and expanding cooperation, at Harvard University in June 2000, the TCG and the League of American Theatres and Producers held the first national meeting of the two groups since 1974. That earlier meeting at Princeton University had been fractious and non-productive, resulting in a 26-year hiatus between such meetings.

The expansion of collaboration between the non-profit and for-profit parts of the arts sector – in theater and more broadly across the performing arts – as well as the continued creativity of non-profit organizations in mimicking some of the successful business strategies of their for-profit counterparts, is important to the development of economic resources in the arts sector in the United States. It is another reflection of the unique way that investments are being made in our cultural future, and provides a different environment for the development of government policy. However, despite such seemingly favorable developments, some observers actually view these shifting relationships as posing the "next great crisis" for the non-profit arts sector (Cameron, 2000). Thus, it is important to understand both the promises and the pitfalls of these new approaches to the way in which Americans invest in the arts.

The Strengths and Limitations of For-Profit/Non-profit Partnerships in the Arts

It is surprising that in a country where "partnerships" are an integral part of the rhetoric of finding uniquely American solutions (as seen in the enthusiasm for "public sector / private sector joint ventures" as a way to address all sorts of complex problems), the fostering of partnerships *within* the private sector has not received more attention as a key component of national cultural policy. This is even more puzzling, given the relatively small (although larger than generally believed) role that has been "assigned" to the public sector in investing in the arts and humanities, compared to other Western democracies.

In such an environment, exploiting the opportunities for cross-sector partnerships that do not require significant public sector funding would appear to be a natural focus of attention. Yet, in the authorizing and the re-authorizing language of both the National Endowment for the Arts and the National Endowment for the Humanities, there is no mention of how these agencies might encourage cooperation between the for-profit and non-profit arts and humanities communities. As noted above, research in such arrangements has largely come from the arts service organization community.

The late 1980s, however, provided some evidence that this might be changing. In the 1988 NEA *Arts in America* report, then Chairman Frank Hodsoll identified "commercial / not-for profit linkages" as a key policy issue, noting that one of the unique strengths of

American culture was the range of product and service offerings provided by these two different sectors. While modest, the NEA made grants to non-profit organizations with close ties to the commercial entertainment industry, such as the Sundance Institute (see the brief discussion of "artist pipeline" programs above). And, the President's Committee on the Arts and Humanities in its 1997 report *Creative America* urged a "greater dialogue" between the two parts of the arts sector to "explore their common interests" and possibly form new partnerships to broaden the distribution of the arts to a wider public. More recently, NEAChairman Bill Ivey stressed that the non-profit and for-profit arts are on a "continuum," and called for a clarification of their commonalities and differences so as better to identify opportunities for their mutually beneficial interaction. Unfortunately, NEA budgetary support for private sector partnerships did not increase, nor has a specific analysis of this "continuum of characteristics" ever been published.

However, Chairman Ivey's suggested "typology" of the characteristics on this continuum is an excellent reflection of the forces that have both nurtured and threatened these private sector partnerships: stability; community expectations; vision; financial flexibility; risk taking; corporate self-image; sources of revenue; and the external, including regulatory, environment. For example, while the expanded cross-sector partnerships in the theater sector show great promise in helping both non-profit and for-profit organizations cope with their related challenges, the following six significant problems limit their success and restrain further expansion of such partnerships:

Community expectations: Non-profit organizations are an integral part of their local communities and must be sensitive to ongoing relationships and community norms. By contrast, for-profit producers are frequently just visitors who collaborate on selective projects. Failures in such projects (either financially or in terms of alienating important segments of local audiences) require the resident non-profit arts group to deal with those consequences, while the for-profit "carpetbaggers" can more easily move on to other projects in other communities.

Financial flexibility and legal external environment: Non-profits are poorly positioned to enforce contractual agreements, and have in fact, failed in the aggregate to collect hundreds of thousands (perhaps millions) of dollars they are owed by commercial partners. Commercial / non-profit theater collaborations often are scheduled as part of the local non-profit organization's subscription series, so that in those cases in which the commercial partner has breached the contract in some way, the non-profit organization often prefers to proceed with the program rather than alienate local audiences. If the production then fails financially, the local organization is normally lacking in the financial and legal resources to seek "compensatory damages" from the commercial partner, and is forced to suffer those losses alone.

"Corporate" self-image: Enhancement programs underwritten by the for-profit sector, while providing desperately needed funding, can place excess demands on the non-profit organization – overtaxing staff energies, endangering relations

with other "less generous" collaborators who may receive less artistic attention, and confusing the public image of the organization in the local arts community.

Vision and stability: Despite a general sharing of basic objectives (e.g., a "successful" new production), underlying differences in motives and values often generate a fundamental conflict in the meaning of "success." For example, in a public forum at ACT 2, George Wolfe described the essential non-profit interest as "process" in contrast to the for-profit obsession with "product." The resulting tension can lead to artistic confusion and more tangible conflicts in marketing strategies, as the resident non-profit organization strives for longer term stability in the community while the commercial interest focuses on maximizing ticket sales and profits from a particular collaboration.

Risk Taking: Non-profit strategies with respect to both artistic and financial risk can easily become skewed by the perception that non-profit theaters that have failed to generate projects with a significant "commercial after-life" are somehow inferior, and lacking in the creativity necessary to survive in a world with less clear boundaries between high art and mass entertainment. Boards of Directors and other overseers may begin to urge non-profit organizations to seek ever-wider cooperation with for-profits, or modify their own perception of their mission to stress external visibility through commercial "transfer" rather than primarily "artistic merit." A gradual elimination of "artistic risk-taking" in order to minimize financial risk-taking can have significant adverse consequences for both the organizations, and for the diversity of cultural products provided to American audiences.

Sources of Revenue: The historic "mixed funding system" that has uniquely characterized the arts in the United States can be endangered by a reinforcement of the already extensive public confusion between the enormously successful world of *The Lion King* and *Phantom of the Opera* and the "life and death' struggles of small off-Broadway productions of emerging playwrights (and their counterparts in the other performing arts). "Everyman" Minnesota governor Jesse Ventura addresses the issue that is even more commonly on the minds of millions (more often than "Mapplethorpe"-type controversies) when he criticizes the arts in general for being unable to survive in the marketplace. Why indeed, he asks, must the arts so frequently beg for subsidy in the face of such Broadway wealth? An expansion of non-profit and commercial partnerships may further confuse and complicate this issue for non-profit philanthropic donors and for advocates of expanded tax-financed subsidy.

In summary, the cultural sector in the United States is similar to many other sectors and industries (e.g., health care, energy, education) in blurring distinctions between for-profit and non-profit forms of organization. Unsurprisingly, these shifting distinctions and expanding alliances take unique forms in the arts and humanities. They must be an important component of the consensus regarding a "new emerging paradigm" in the way that we must think of both the problems and possible solutions confronting the arts in America.

Yet despite significant successes from such cross-sector collaboration among a small but growing group of arts organizations, the scope of such collaboration remains limited. Furthermore, while there is great optimism that such partnerships can be a key element of the "formula" for the future success and stability of the cultural community, the mixed experiences with such partnerships in the theater sector provide cautionary notes as to the ability of such collaboration to "save the arts without destroying them first." It is clear that the occasional interest of important policy-making bodies like the NEA in the future of such partnerships must be translated into carefully crafted public policies that can encourage this interaction without at the same time endangering what has been a surprisingly successful, unique American model for investing in the arts.

CONCLUSIONS AND NEW CHALLENGES TO PUBLIC POLICY

The private rate of return on investing in the creative industries is highly variable. There is significant risk, not dissimilar to that in more "tangible" pure and applied research and development. While the specifics of a public policy to encourage "scientific R&D" are subject to intelligent debate, raising such questions as: are patent lengths too long; can we structure "optimal" prizes for innovation; do joint ventures generate more research or less competition?, few deny the importance of crafting such policies. It is more difficult to generate a similar consensus for the importance of developing a comprehensive public policy toward "creative R&D," but it is clear that any such policy would be about more than just appropriations.

Other analogies can be drawn. The dramatic change in "property rights" in the wake of "free agency" and the expanded mobility of professional athletes has led to significant reductions in the investments that professional sports teams make in their "farm system" franchises (reminiscent of the changes that occurred upon the death of the movie "studio system"). This has resulted in noteworthy modifications in the way that athletic talent is nurtured and developed. The ongoing challenges to the for-profit theater in generating new "products," is one of the motivations for expanding partnerships between the non-profit and commercial theater communities, although these partnerships are hindered by imprecise property rights and weaknesses in the enforcement of contractual agreements. The dramatic expansion of academic research regarding "intellectual property rights" reflects the importance of government policy regarding copyrights and trademarks and the many issues related to the "transaction costs" of doing business in a world with shrinking product, organizational and geographic boundaries.

Revolutionary changes in access to information and products in the wake of the Internet and ever-expanding electronic commerce also present unique challenges to both the for-profit and non-profit parts of the arts sector. These changes also affect the entire economy. To some, the way in which public policy evolves to meet the challenge of ensuring high speed access to the information superhighway without allowing excess concentrations of economic power is "the most important issue in cultural policy facing us today." This policy has dramatic effects on how, how much, and at what price, culture is consumed for decades to come (Cowan, 2000).

Therefore, it is clear that while budgets will always be important, the challenges facing the cultural sector require solutions that go far beyond the traditional "old paradigm" battles for larger direct subsidies and more dependable "line-item appropriations."[11] Such highly politicized budgetary conflicts also placed the arts and the cultural sector at the disadvantage of frequently having to justify such explicit cultural investments on the basis of tangible "social rates of return" that are inherently difficult to measure.

The complexities include documenting the long-run returns to a more "creative, tolerant and diverse society" (see Leftwich, 2000), and the effects of the arts on productivity and economic growth. Even measuring the "consumption value" of products and services with significant public good dimensions has led to a renewed enthusiasm for the application to the arts of novel techniques such as "contingent valuation studies" (extensively, but controversially, used regarding "environmental public goods" *see Gray, 2000*). Such new approaches are especially necessary to supplement the often used, but methodologically flawed and inherently limited, local economic spending impact studies, whose frequently overstated claims in the hands of public relations enthusiasts have rendered them so highly suspect as to be nearly useless as a public advocacy tool.

These observations beg the obvious question: What types of public policy innovations should now be considered? Certainly, one traditional proposal should be mentioned first. Assuming that both the NEA and the NEH should remain as "keystone" federal cultural agencies (see below), their annual budgets should be restored to at least their peak 1992 levels in real terms. This would require about a doubling of the appropriations for both agencies. Also, the NEA should again be given the flexibility to support individual artists as opposed to only arts organizations and state arts agencies. While a 100% budgetary increase sounds aggressive, the actual dollars involved are, of course, still remarkably modest.

The "not strictly budgetary" suggestions that have been made by experienced arts observers can be divided into four general categories. Examples of particular options that were identified are then included in each general category. It is important to note that these examples should *not* be viewed as a coherent program for the arts and culture, but merely as a reflection of the types of proposals that are made. In fact, some of the specific proposals may be inconsistent (or even mutually exclusive) within or across the general categories. Without question, cultural advocates would themselves disagree about the relative merits of many of these proposals.

Finally, as documented above, arts communities exhibit considerable creativity in solving their own problems in the face of dwindling federal support (at least via the NEA and the NEH). Few would doubt that a large part of the solution to the future challenges faced by the cultural sector will come from private sector initiatives, many of which are already in place, especially regarding ways to further encourage cross-sector partnerships. The focus below on *public* sector policy merely reflects the fact that ill-conceived government policy can do a great deal of harm to such private sector initiatives. Public policy should at least be structured to be complementary and supportive to such “self-help” solutions, which -- despite the rhetoric to the contrary -- has not always been the case.

This paper recommends:

A. Organizational Initiatives

1. Given the wide diversity of federal government agencies with arts related spending programs (see Table 4, p. 26), a cabinet-level post of Secretary of the Arts or Secretary of Cultural Resources should be created to better coordinate these disparate efforts and

dramatically increase the visibility of cultural affairs in the national agenda. In *America’s Cultural Capital*, the Center for Arts and Culture recommended that a mechanism should be established in the Executive Office of the President to advise and coordinate cultural affairs across government.

2. A *Cultural Report of the President*, similar in scope to the annual *Economic Report of the President*, should be published to elevate the visibility of the research efforts already being conducted by the NEA, the NEH, and private sector arts research organizations. This Report should incorporate the many results of these research reports into a “coherent whole,” while also demonstrating that the Executive Branch views these issues as being of national importance.

3. The Office of the President, working with the President’s Committee on the Arts and the Humanities and existing cabinet level departments such as Education, Commerce, Housing and Urban Development, and Justice, in further collaboration with representatives from the non-profit and for-profit arts and technology sectors, should hold a White House Conference exploring ways of fostering collaboration among the non-profit and for-profit parts of the arts sectors, and also the technology industries, to broaden the availability of a variety of art and culture to the general public.

4. The President and the Congress could encourage important improvements in research activities related to the arts, including revisions in how artists are identified and studied by the Census Bureau and the Bureau of Labor Statistics, and mandate that research be conducted on how proposed changes in tax policy,

and legal and regulatory constraints would affect the cultural industries, and furthermore how tax, legal and regulatory changes can be specifically tailored to encourage for-profit / non-profit arts sector joint ventures.

B. New Funding Source Initiatives

1. Information on examples of novel "off-budget" arts funding initiatives at the state and local levels (identified in "Novel Approaches to Government Support" part of this paper) should be shared more widely across the states so that the most appropriate approaches might be considered and adapted in each jurisdiction.

2. Proposals have also been made (e.g. by Joseph Ziegler and others) for a federal level trust fund financed by diverting revenues from some existing excise tax, with the funds accumulating for up to five years prior to any grants being authorized. Congressional oversight of resulting grant programs would no doubt be required, however, such a review should follow the precedent established regarding military plant closings – the entire package must be either approved, disapproved (or if not acted upon at all, presumed to be accepted), so as to avoid replicating the worst excesses of the NEA political wars. Consistent votes of "no confidence" would seemingly end Congressional approval of the diversion of new tax revenues into the trust fund.

C. Encouragement of Non-Profit/For-Profit Partnerships: Tax and Other Policies

1. In addition to studying ways in which tax, legal and regulatory policies can be tailored to encourage non-profit / for-profit partnerships (cited in the "Partnerships" section of this paper) it should be explicitly recognized that the gradual elimination of the clear distinction between non-profits and for-profits may lead to pressure to eliminate the special tax advantages enjoyed by current 501(c)(3) organizations. Whether related to exemption from state and local sales taxes, local property taxes, or the tax deductibility of private contributions, non-profits must be encouraged to adopt more creative ways of generating earned revenue and collaborating with for-profit companion organizations without losing these valuable tax advantages. Similarly, for-profit organizations with significant collaborations with non-profit organizations might be given more favorable tax treatment despite their overall for-profit status.

2. Proposals for elimination and / or reform of the estate tax and income tax proposals (e.g., shifting from tax deductions to tax credits, further reductions in marginal tax rates, limitations on personal deductions for high income persons) must also be monitored by tax experts knowledgeable in the arts and culture, so as to ensure that policy-makers are aware of potential adverse consequences of such proposals for the unique mixed funding system for the arts and culture in this country.

3. "Moral," and if possible funding and programmatic, encouragement should be lent to the initiatives that are being taken by private sector groups like

The American Assembly, which has identified five categories of initiatives to help overcome existing barriers in expansions of for-profit and non-profit cooperation and partnerships (see Pankratz 2000).

4. Consideration should be given to strengthening the ability of non-profit organizations to enforce contracts with their for-profit colleagues so as to reduce their risk in joining non-profit / for-profit ventures.

D. Technology Initiatives

1. Current Internet bandwidth is severely limited and has forced most individuals to connect using low-speed lines, making the downloading of music or complex visual images time-consuming and costly. These limitations on the usage of the Internet to transmit art and cultural information are viewed by some as a critical policy issue confronting the cultural sector. The development of public telecommunications policies that weigh the relative risks of accepting more monopoly power in exchange for potentially faster and more extensive fiber optic cable access should be further elevated on the national agenda (see Cowan, 2000).

2. Related telecommunications technology issues relate to the ongoing battles among cable TV companies, telephone, and satellite dish companies for primacy in expanding the infrastructure of the information superhighway, and policies regarding vertical and horizontal mergers, and access fees and universal access policies can have surprising effects on the ways in which culture will be consumed in the future. Obviously, as with all new technologies that have the

potential to be partly substitutes as well as complements to "traditional" distribution systems, policies should be sought that allow electronic communication to complement and strengthen arts organizations rather than weaken the growth in arts audiences.

3. As reflected in the proliferation of conferences dealing with copyright issues and the arts, the further development of electronic communication and the internet will further elevate the importance of developing a coherent policy to both protect intellectual property and allow the expansion of access to arts and cultural products. The differing views among music groups and constituencies as to whether Napster was a "threat" or a "savior" are indicative of the complexity of this public policy issue.

*

Indeed, public policy is always in large part about resource allocation, and resource allocation is about how much should be spent on culture vs. many other desirable goals. However, the changes that have occurred in the cultural sector, and the ways in which arts and humanities organizations and individuals have been adapting to them, highlight the importance of viewing public arts policy from a broader perspective than merely government budgetary line-items. Given the bruising appropriations battles of the 1990's, this broader approach should be both a challenge and a relief.

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N O T E S

[1]Congress appropriated $115 million for the National Endowment for the Arts for FY 2002.

[2] Another example of this under-reported governmental role is the non-recurring expenditure of state and local governments for special “bricks-and-mortar” projects. Such expenditures can be sizeable: such as the $65 million contribution made by New Jersey toward the construction of the New Jersey Performing Arts Center, and the multi-million dollar joint expenditure of the city of Philadelphia and the state of Pennsylvania for the new hall to house the Philadelphia Orchestra. While a comprehensive accounting of such one-shot funding on an annual basis is not available, this type of public sector support is often crucial to the success of such building projects, and can also include governmental guarantees for private sector bond issues that represent important off-budget support for cultural investments.

[3] See Carl M. Colonna, "The Economic Contribution of Volunteerism Toward the Value of our Cultural Inventory," *Journal of Cultural Economics*, Vol. 19, No. 4, 1995, pp. 341-350.

[4] Americans for the Arts estimates that total local government support of the arts is $800 million. This includes city or county money spent directly on the arts, such as local arts agency appropriations, public art, municipally owned museums, and local option taxes. Only one-quarter of the 4,000 local arts agencies are official public agencies of the city or county government, and re-granting public funds is only one of five key service areas (re-granting, cultural planning, facilities management, services to artists and arts organizations, and programming).

[5] By contrast, all state humanities councils are independent 501(c)(3) organizations, although they do raise non-federal money from both state and private sources to supplement the $28 million (in 1998) that they receive from the NEH (about 25% of the NEH annual budget)..

[6] With the notable exception of fellowship grants to individual creative writers. Honorary fellowship programs -- the Jazz Master Awards and the National Heritage Fellowships -- may also be awarded.

[7] Perhaps what we have is not really a broad consensus for a positive role of government in supporting the arts, but a fortuitous total lack of knowledge on the part of the American public of just how extensive that support really is. This "blessed ignorance" has prevented most of this support from becoming politicized, which was clearly the unfortunate fate of the NEA. The frequent "surprises" that were noted in the text regarding exactly what is happening in the arts sector are consistent with this less sanguine view regarding an American consensus for the merits of publicly investing in the arts. See also Cowan (2000).

[8] As in the case of the EMCs who have expanded well beyond their customary boundary of selling retail electricity to their "cooperative members," such activities have generated outraged cries of "unfair competition" from competing "for-profit" firms. Netzer (2000) is one who derides such complaints as lacking credibility in the face of his own evidence that many arts organizations report higher expenses than revenues from such activities, charge higher rather than lower prices than those charged by for-profit competitors, or as in the case of museum gift shops, sell items that are so uniquely tied to their exhibitions that they simply do not compete with non-museum gift shops.

[9] The generally favorable, but highly uneven, record of other performing arts organizations that reflect this vulnerability is exhibited by attendance growth figures from 1992-1997 that vary from the very low rates of 1.3% (jazz), 1.4% (opera), and 1.1% (ballet), to the intermediate successes of classical music (3.0% growth) and theater (2.3% growth). This contrasts with the ongoing good health of art museums (12.2% growth from 1992-1997 following the 4.6% growth rate from 1982-1992), and the dramatic turnaround in musicals' attendance (7.2% growth from 1992-1997 following a decline of 1.2% from 1982-1992). See Table 8.11 in Gray and Heilbrun, Ch. 8, from *The Public Life of the Arts in America*, edited by Cherbo and Wyszomirski, Rutgers University Press, 2000.

[10] For example, while the TCG reported that from 1991-1995, overall earned income among its members rose by 23.2% and private contributions by 20.5% (vs. a drop in overall government support of 2.6%), the comparable figures for the 65 companies reported by Opera America was 31.4% growth in earned income and 22.3% growth in private contributed income (as an offset to the 5.3% drop in government support). American Symphony Orchestra League data show an increase of 19.0% in earned income and an 18.0% increase in private contributions vs. a dramatic 15.8% reduction in overall government support over that period. See Table 8.12 from Gray and Heilbrun, *ibid.*

[11] After documenting the significant shift of performing arts organizations toward a greater reliance on earned income and private contributions in the face of diminished federal government support, Gray and Heilbrun (Ch. 8, p. 221, 2000) make the "silver-lining" observation that "those changes make them more sensitive to the **predictable** vagaries of the economy…. but on the other hand, leave them less dependent on the **unpredictable** vagaries of politics" (emphasis added).

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