

# National Endowment for the Arts



## HOW THE UNITED STATES FUNDS THE ARTS



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## PREFACE

### The Role of a Federal Arts Agency

**T**he role of a federal agency in funding the arts is often misunderstood—and for very good reasons. The American system of arts philanthropy is complex and ever changing. As Chairman of the National Endowment for the Arts, I have constantly been impressed by the ingenious diversity and endless creativity of ways in which the arts are funded in the United States. I thought it might be useful to provide—for both Americans and an international audience—a concise overview of how America’s unique system of arts philanthropy works.

In order to understand how the National Endowment for the Arts—and arts funding in the United States—operate, it is helpful to have some basis for comparison. By looking abroad, we can see how other nations manage similar cultural institutions. In countries like France, Germany, Mexico, or China, most arts funding comes from the government—either at a federal or local level. For the most part, these systems tend to be centralized, often located in a large ministry of culture. These organizations are also typically political, as arts personnel are usually either members of civil service or political appointees from the ruling party. These systems provide smooth and stable planning for arts organizations, but they run the risk of dividing the cultural world into insiders and outsiders. The insider institutions tend to be well subsidized with large annual grants while the

outsiders survive on the margins of the culture, if they survive at all.

The subsidies awarded by ministries of culture are enormous by American standards. For example, the government subvention for Italy’s major opera houses is nearly ten times larger than the annual Arts Endowment working budget. This support allows major Italian companies to present opera at the highest artistic standards. And yet, some of these lavishly supported houses do not stage a single production in some years because of organizational problems, labor issues, or reconstruction. Government support, therefore, does not solve all artistic and organizational problems, or guarantee that an institution serves its local community.

In contrast to the European models, the U.S. system of arts support is complex, decentralized, diverse, and dynamic. It combines federal, state, and local government support with private subvention from individuals, corporations, and foundations, as well as box office receipts. The financial statistics differ by art form and change from year to year, but in 2004 about 44 percent of the income generated by American arts organizations came from sales or the box office. The rest was donated—overwhelmingly from the private sector.

Only about 13 percent of arts support in the U.S. came from the government, and only about 9 percent from the federal government, of which



Photo by Vance Jacobs

Dana Gioia, Chairman  
National Endowment for  
the Arts

less than 1 percent came from the National Endowment for the Arts. (The figures on government support exclude the enormous indirect subsidy the federal government provides by making cultural contributions tax-deductible.) The amount of federal government support is miniscule by European standards, and yet the American system works. How can this be?

### Decentralization and Diversity

Like most free market or mixed market systems, American arts philanthropy is complex precisely because it is decentralized and dynamic. Similar institutions often have wildly differing results because of their locations, artistic talent, cultural philosophies, and management. Likewise, the dynamic nature of the system means that one decade's high-flying leader can suffer huge reversals in the next—just as in corporate America. While no one relishes the ups and downs of the cultural economy, it does have the healthy effect of keeping artists and institutions realistically focused on their goals and

Jazz at Lincoln Center, featuring the Lincoln Center Jazz Orchestra (pictured), the world's largest nonprofit jazz organization.  
Photo by Keith Major



communities. The best institutions make themselves irreplaceable in their chosen fields.

This cultural dynamism also provides new groups the chance to grow. Chicago's Steppenwolf Theater did not exist 35 years ago. Now it is one of the nation's leading theater companies. Jazz at Lincoln Center is even more recent. Just 20 years old, it has become the world's largest nonprofit jazz organization. It is worth noting that the NEA played an important role in fostering the growth of both organizations.

Some of these new institutions are quite amazing. Rimrock Opera of Billings, Montana, for example, is the only opera company on the 750-mile route between Bozeman, Montana, and Fargo, North Dakota. Only eight years old, Rimrock now not only brings opera to its own community but also tours rural Montana and Wyoming from Glendive and Miles City to Cody and Casper, the sparsely populated high plains and mountain territories where the deer and the buffalo still roam. These are places where Verdi, Puccini, and Donizetti have never before been performed. As my Italian grandfather used to say in astonishment, "Only in America!"

If the American arts system is remarkably complex, decentralized, and dynamic, it is also uniquely effective—producing a cultural landscape of enormous size and unmatched diversity. No one—not even the NEA—has exact statistics on American cultural institutions because they change so rapidly, but an expert estimate of different fields leads us to some astonishing numbers.

There are now more than 1,500 professional theaters, large and small, operating in the U.S. There are also more than 1,200 symphony orchestras, plus another 600 youth orchestras, as well as roughly 120 opera companies. Meanwhile, there are approximately 500 writers' conferences now offered around the nation.

Nonprofit organizations such as the Poetry Society of America in New York or the Writers Place in Kansas City present public readings of authors on a regular basis.

These groups display enormous variety. Among the 1,200 symphony orchestras, some are huge professional organizations like the Boston Symphony that offer year-round concerts and international tours. Others are small amateur groups like the Cotati Philharmonic (in my home county of Sonoma, California) that gather to produce a few local performances each year. Some orchestras focus exclusively on modern and contemporary music. Others cover the entire symphonic repertory. Smaller groups specialize in Baroque and Renaissance music.

That diversity, size, and scope is confusing to anyone trying to summarize the field, but they reflect the vitality of American classical music.

In such a rich and dynamic artistic culture, what meaningful role can the National Endowment for the Arts play? The NEA's 2006 appropriated budget, excluding private donations and federal partnerships, was only \$124 million—of which slightly more than \$100 million was distributed after agency overhead was taken into account. In other words, what role can be played by an institution that provides less than 1 percent of total arts funding? This situation is further complicated by the NEA's public mandate to support all of the arts, as well as arts education, in all 50 states and the six U.S. territories.

### **Multiplying Effects**

From a European perspective, the NEA would seem doomed to perpetual marginality. The institution is surely too small and too stretched to make a difference. As reasonable as that verdict sounds, I would maintain that this defeatist perspective is wrong. It



Chen Shi-Zheng's complete 18-hour production of *The Peony Pavilion*, a 55-scene Kunju opera, at the 2004 Spoleto Festival USA.

Photo by William Struhs

misunderstands both the nature of the U.S. arts world and the Arts Endowment. It also ignores the remarkably productive history of the NEA and its well-documented, if not equally well-known, record of transforming American culture. Finally, this perspective reckons NEA effectiveness purely in terms of dollars without any recognition of how that money is spent.

The National Endowment for the Arts has a proven ability to initiate and sustain powerful trends. During the 1970s and 1980s, under the leadership of Nancy Hanks, Livingston Biddle, and Frank Hodsoll, the NEA slowly transformed American cultural life. It consciously created the vast system of regional theaters, opera and dance companies, and orchestras that America now enjoys.

During this time, certain laws of what we might call American cultural microeconomics emerged. In case after case, the NEA learned that its grants had a powerful multiplying effect. Every dollar that the NEA gave in grants typically generated seven to eight times more money in terms of matching grants, further donations, and earned revenue. A \$100,000 grant, therefore, delivered \$800,000 in eventual funds to an organization. The reason for this multiplying effect is obvious: NEA funding has the power to legitimize a new organization

and further validate an existing one. Such endorsements attract further support. As the old saying goes, “Nothing succeeds like success.” In this way, early NEA support helped create major ongoing arts organizations as diverse as the American Film Institute, the Spoleto Festival USA, and the PBS series *Great Performances*.

Although the Arts Endowment represents less than 1 percent of total arts philanthropy in the U.S., it nonetheless remains the largest annual funder of the arts nationwide. This fact demonstrates the radical decentralization—and therefore diversity—of the American system. Just because a system is decentralized, however, does not mean that it lacks leadership, trends, or direction. Consider the stock market, where a single company’s earning results can trigger a rise or fall in overall market results.

An astonishing amount of the media discussion of the NEA overlooks an obvious fact about its past, current, and presumably future situations—namely that the Arts Endowment cannot and has never operated like a centralized ministry of culture. It has never possessed the resources to impose its will on the American arts world. It cannot command or control the policies of individual institutions.

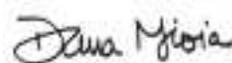
### **Leadership through Collaboration**

Rather than being disappointed about the lack of central control, I consider this realization of our limits in purely neutral terms. Objective self-assessment is the proper and inevitable basis on which any truthful vision of the NEA’s future must be built. I feel, therefore, absolutely no disappointment in the fact that the Arts Endowment cannot dictate the terms of American culture. That putative weakness is actually one of the agency’s basic strengths.

To build on the implied metaphor of

“dictate,” let me offer a more democratic verbal formulation of the Arts Endowment’s role in American culture. The NEA does not dictate arts policy to the United States; instead, it enters into an ongoing series of conversations about our culture, out of which emerge thousands of collaborations, large and small, national, regional, and local. NEA leadership cannot work by centralized fiat. It operates effectively only by fostering and sustaining partnership. A decentralized and constantly evolving system of private and public support for the arts is more than just a political practice. It goes to the heart of artistic freedom, experimentation, and diversity. With resources and funding spread across a variety of agencies, foundations, and other institutions with different values and goals, no single power sets the cultural agenda and no single creed or outlook dominates. The result is an energetic mix of traditional and experimental approaches, Western and non-Western inspirations, populist and elitist perspectives, folk and fine arts.

The following report provides a brief but comprehensive overview of how the arts are funded in the United States. It also addresses the role of the National Endowment for the Arts and other public agencies in this decentralized and protean process. American arts funding is complex, with many direct and indirect sources, both private and public, playing a part. This report attempts to clarify some of those relationships. Although the American model may be difficult to understand, the extraordinary vitality of our artistic culture demonstrates that it works remarkably well.



Dana Gioia  
Chairman

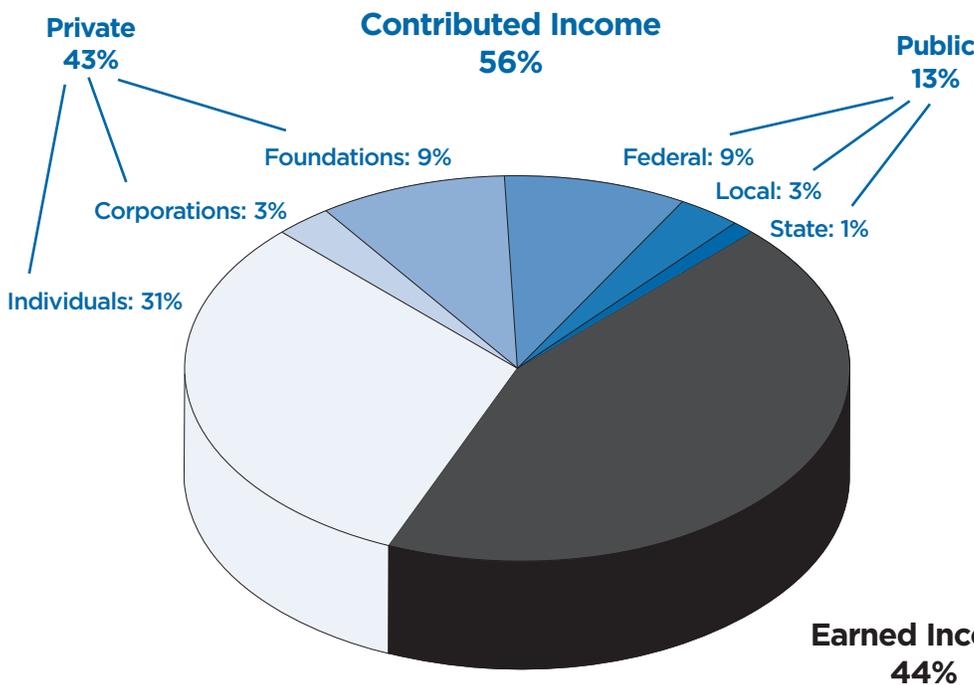
# I.

## OVERVIEW

The world of arts and culture in the United States is extraordinarily complex and fertile. Citizens who enjoy the arts can choose from a wide array of drama, visual art, dance, music, and literature available in local theaters, museums, libraries, universities, performance halls, and nightclubs, as well as on radio and television. In the last 20 years, the arts and culture sector has boomed as the number of performing arts groups and the revenues from sales and attendance have risen to all-time high levels.

### Three Broad Categories Of U.S. Arts Funding

1. Direct public arts appropriations (NEA; state or regional or local arts agencies)
2. Other public subsidies for arts and culture (direct or indirect support by various federal agencies; legislation, including earmarks)
3. Private donations (individuals; firms; foundations)



### Financing Nonprofit Arts Organizations in the U.S.

*Estimates are based on an analysis of 2004 data, stemming from various sources, including: The Urban Institute's National Center for Charitable Statistics, The Conference Board, The Foundation Center, National Assembly of State Arts Agencies, and Americans for the Arts.*



Alaska's Perseverance Theatre's production of *Macbeth*, part of the NEA's Shakespeare in American Communities initiative, featured an all-Native Alaskan cast and set the play in the context of the indigenous Tlingit culture.  
Photo by Eric Torgerson

To achieve and sustain such prosperity, U.S. artists and arts institutions must rely on a network of allied but independent funding sources. In the following chapters, this monograph identifies three basic types of financial support for the arts: 1) direct public grants awarded by the National Endowment for the Arts and by state and local arts agencies; 2) arts and culture subsidies from federal agencies other than the NEA; and 3) private donations,

which make up the lion's share of contributed income for arts organizations. This third revenue stream flows from individual and corporate donors and from charity foundations, and it flows more smoothly because of incentives in the U.S. tax system.\*

Together, these public and private sources account for roughly 56 percent of total funding of U.S. nonprofit arts organizations. In aggregate, nonprofit arts groups realize the other 44 percent of their revenue through earned income (ticket sales, subscriptions, etc.). Earned or contributed, both means of income are unpredictable. Consequently, arts directors face a two-sided challenge. On the one hand, they must cope with rising expenditures for artists, artworks, productions, and educational projects. On the other, they must forecast the revenue needed to support their program goals.

Given this dual responsibility, it is easy to understand how, for people outside the American art world, the nation's funding system might appear labyrinthine in scope. After all, the U.S. system is comprised of public and private entities, tax policies, legislative allocations, donated bequests, restricted endowments, education mandates, and social agendas. The hierarchy of government agencies, composed of city, county, state, regional, and federal strata, is itself a dizzying scheme, especially to people whose own nations have highly centralized, state-directed systems. Small wonder, then, that the financial mechanisms of American arts policy and practice are poorly understood.

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\* The amount of revenue foregone by the U.S. Treasury, as a function of tax benefits, constitutes a separate type of arts subsidy—this one indirect—from the federal government. See Chapter IV.

## II.

### DIRECT PUBLIC SUPPORT FOR THE ARTS

**T**he United States arts system has no single benefactor, no overarching arbiter or agency, no Ministry of Culture. Instead, a variety of public subsidies compose roughly 13% of the nation's total investment in nonprofit arts groups. The National Endowment for the Arts (NEA) is the largest single funder of the arts across America, but the majority of direct public funding still flows from a combination of other federal, state, regional and local agencies.

Direct public support is not used to impose arts policy. Instead, government decisions on arts funding tend to be driven by experts within a given field or discipline. Candidates for those funds are almost always subject to rigorous peer review, which ensures that the award is based on merit, and not on a policy aim or on political favoritism. In any case, direct grants never finance the bulk of artistic activity in the U.S.; they fill gaps, enhance arts education, spread new creations, and enable preservation. Direct grants thus complement, and do not replace, other means of arts funding. Most of the NEA's grants, for example, require the recipient organization to couple the award funds with other, non-federal donations, as will be seen from a brief examination of the Arts Endowment.

#### A. National Endowment for the Arts

Established by Congress in 1965 as an independent federal agency, the National Endowment for the Arts is the designated arts

organization of the United States government. The Arts Endowment is dedicated to supporting excellence in the arts—both new and established—bringing the arts to all Americans, and providing leadership in arts education. It awards more than \$100 million annually—investing in every state and jurisdiction—which in turn is estimated to generate more than \$700 million in additional support. The Arts Endowment has played a substantial role in the development and preservation of folk arts, dance, theater, literature, opera, and other arts that Americans now enjoy.

#### A Peer Review System

Grant applications submitted to the Arts Endowment generally receive three independent levels of review. First, the proposals are vetted by panels of nationally recognized artists and arts experts. Each panel is organized around a specific discipline (e.g., Literature, Museums/Visual Arts, Dance, Musical Theater, Arts Education), and panel members are chosen to reflect diversity with respect to artistic expression, ethnicity, geography and gender.

In conducting their reviews of grant applications, NEA panelists are bound by considerations of the proposal's quality, its potential impact, and the ability of the applicant to execute the project. Panel members read an applicant's proposal well in advance of any scheduled meeting; they also review artistic work samples such as slides, videos, or CDs.

The panels rate each project on a scale of 1



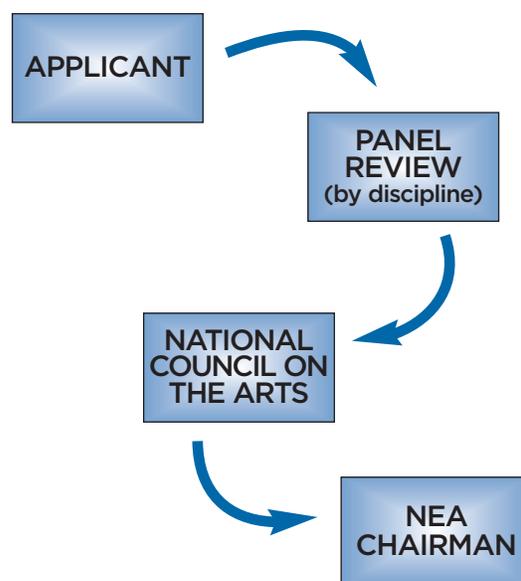
2006 NEA National Heritage Fellows: Treme Brass Band from New Orleans, Louisiana.  
Photo by Tom Pich

## NEA NATIONAL HERITAGE FELLOWSHIPS

The Arts Endowment recognizes the contributions of outstanding practitioners of traditional art forms in the United States with NEA National Heritage Fellowships. More than 325 exemplary folk and traditional artists have been selected for the U.S. government's highest cultural honor, accompanied by an award of \$20,000. The NEA National Heritage Fellows represent the best achievements of diverse artistic traditions across the nation. A partial list of award-winners reveals the breadth of the program: Native American basket weavers, potters and storytellers; African American blues, Cajun, Hmong, Sephardic and Mariachi musicians; Basque cowboy poets; Swedish, Irish, and Appalachian fiddlers; a Guamanian blacksmith; an Eskimo mask maker; a German American Bobbin lacemaker; an Arab American oud player; a Tibetan sand mandala painter; a Bonsai sculptor; African American and Appalachian quilters; Lebanese and Puerto Rican musical instrument makers; Cambodian traditional dancers; Appalachian songwriters; and Orthodox Byzantine icon and Santos woodcarvers.

to 10. A computer generates a ranked list of grant applicants, which prompts further discussion from the panels. Only then do the panels recommend applicants deemed worthy of NEA support.

Next, the panel recommendations are forwarded to the National Council on the Arts, the NEA's advisory body comprised of 14 renowned artists, distinguished scholars, and arts patrons appointed by the President and confirmed by the U. S. Senate. Six members of Congress serve as *ex officio* members of the National Council on the Arts. The Council convenes three times a year to review individual panel findings and vote on which proposals should be recommended for funding. The Council's recommendations are sent to the NEA Chairman, who reviews them and makes the final decision on all grant awards. In Fiscal Year (FY) 2006, the agency awarded 2,292 grants, ranging from \$5,000 to \$1.39 million per grant; the most commonly awarded amount was \$10,000.



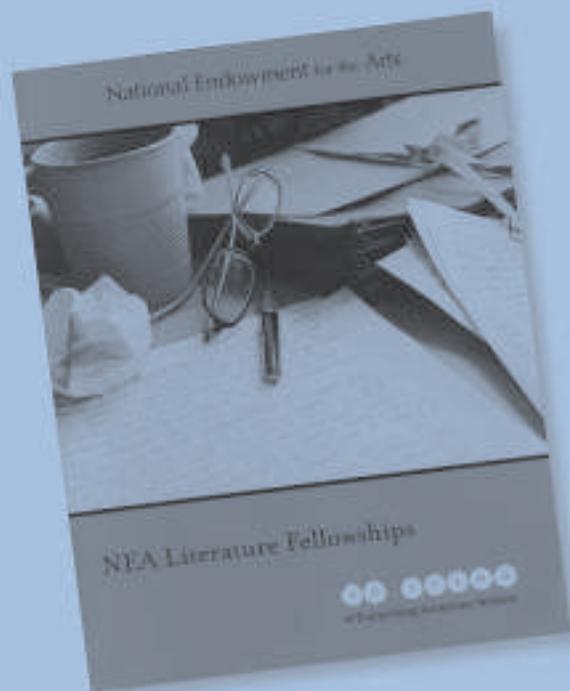
**NEA Grant Review Process**

### Types of NEA Funding

The Chairman of the Arts Endowment, appointed by the President with the advice and consent of the Senate, serves a four-year term. Congressional consideration of the agency's annual funding begins each spring when the House and Senate Appropriations Committees initiate hearings at the subcommittee level—specifically, in the two subcommittees overseeing the U.S. Department of the Interior and “related agencies.” In FY 2006, the final appropriation for the NEA was \$124.4 million, of which 81 percent went toward direct grants, cooperative agreements, and interagency agreements.

As its primary function, the Arts Endowment awards partial funding of projects undertaken by nonprofit organizations. The applicant must demonstrate that the project's remaining costs will be covered by other, non-federal sources. (Applicants may request NEA funds to support up to half of a project's cost.) The role of nonprofits in U.S. arts funding will be discussed later in this monograph; in general, support is provided to projects that nurture creativity and promote accessibility to the arts. For instance, the Arts Endowment awards matching grants to small presses to help literary works reach American readers. Part of the NEA's mission, after all, is to ensure availability of the arts outside the major cities and to help preserve indigenous and regional cultures.

To advance that aim, the Arts Endowment has increasingly teamed with a variety of stakeholders to help fund so-called National Initiatives, which stimulate community investments in programs such as nationwide poetry recitation contests, touring Shakespeare productions in small and midsized towns, opera on military bases, and regional choices of great American novels to be read, discussed, and celebrated.



## NEA LITERATURE FELLOWSHIPS AND GRANTS

The National Endowment for the Arts nurtures a multiplicity of literary traditions through fellowships to emerging writers and incentive grants to nonprofit literary magazines and independent and university presses to publish, distribute, and promote poetry, fiction, translation, and creative nonfiction by contemporary writers.

Through the Translation Fellowship program, established in 1981, the U.S. government has helped support the translation of 246 literary works into English, providing access to foreign literature not generally available to American readers. In Fiscal Years 2005 and 2006, the NEA program supported the translation of writers from Argentina, Chile, Cuba, Egypt, France, Germany, Greece, Holland, Hungary, Iceland, Indonesia, Israel, Italy, Libya, Mexico, Peru, Poland, Romania, Russia, Spain, and Turkey.

In addition to funding National Initiatives and awarding grants to nonprofit arts organizations, the NEA bestows non-matching individual fellowships in literature and lifetime achievement awards in jazz and folk and traditional arts. Since 1996, literature fellowships and the lifetime achievement awards have represented the Endowment's sole means of recognizing individual artists through financial gifts.

As a further sign that the Arts Endowment's grants portfolio is diversified, it is important to note that 40 percent of the agency's funds are required by law to go to the 50 state arts agencies and the six jurisdictions and territories, providing indirect support of arts projects in thousands of communities nationwide.



The Texas Commission on the Arts supports projects such as the Encinal Community Quilts program, developed by nonprofit organization Hecho En Encinal, an arts education program that uses the design of quilts to instill in children an appreciation for the heritage and cultural background of South Texas. Photo courtesy of Hecho en Encinal

## B. State/Regional Arts Agencies

The Arts Endowment and the state and regional agencies are partners in funding the arts. When the Arts Endowment was established in 1965, five states had official arts agencies or councils. But from the beginning, the Arts Endowment supported the development of state arts agencies and, by the mid-1970s, gave at least 20 percent of its program funds to state arts agencies and regional arts organizations. The potential for grants induced states to set up arts programs and councils; it is no coincidence that most state arts agencies were founded shortly after 1965.

The New York State Council on the Arts (NYSCA) is the largest state agency; its FY 2006 budget was \$45.3 million. New York State had arts relief programs during the Great Depression, starting as early as 1932. NYSCA was founded in 1960 and provided an early model for the Arts Endowment in terms of its funding patterns and system of peer review.

Those practices, in turn, have influenced other state art agencies. For example, all state arts agencies convene expert panels to review grant proposals and to make recommendations to a council, similar to the Arts Endowment's system. This council or commission, with approximately 15 members, sets funding policy for the state. Governors appoint council members in a staggered fashion.

Although most state arts agencies came into being in the late 1960s and early 1970s, much of their financial growth occurred in the 1980s. In 1979, the Arts Endowment funds allotted to state arts agencies were 80 percent greater than state legislative appropriations to those agencies; by 1989, the reverse was nearly true: state appropriations exceeded the Arts Endowment funds by 60 percent.

State arts appropriations are dependent



Image by SpotCo, courtesy of TCG

## AMERICAN THEATER

Today, more than 1,500 professional theaters across the 50 states offer live performances, education and professional training. In 2005, American theater gave 70,000 professional artists the opportunity to share their creative work with more than 32 million audience members nationwide. The activities of regional and local institutions show that development of new theatrical productions does not take place only within large established theaters in major cities. New works are supported through initiatives such as the National Endowment for the Arts/Theatre Communications Group Theater Residency Program for Playwrights, which helps playwrights produce new plays in small and mid-sized venues. For example, playwright Nilo Cruz crafted a new play, *Anna in the Tropics*, at New Theatre in Coral Gables, Florida. His play about cigar makers in 1929 Tampa whose lives were transformed by literature was recognized with a 2003 Pulitzer Prize for Drama. *Anna in the Tropics* has been presented on Broadway and at numerous professional regional theaters across the country.

upon state tax revenues, which are tied to the general economic conditions in the state. In aggregate, state arts agencies received \$327.5 million from FY 2006 state legislative appropriations. The amount represented more than 90 percent of the agencies' total annual funding. For the same time period, the Arts Endowment's contribution to the agencies was \$32.9 million, which accounts for the remaining 10 percent.

NEA support for state arts agencies is allocated through a combination of competitive awards and funding that is distributed equally to each state and on a per-capita basis. In FY 2006, approximately 91 percent of the Arts Endowment's contribution to the states was driven by a formula—whether funding the states in equal proportions, or based on state population—and the remaining 9 percent was awarded competitively.

To ensure appropriate use of the state agency grants, the Arts Endowment collects an 18-page narrative from each state arts agency every three years. The document addresses such topics as planning, evaluation, arts education strategies, communications, and accessibility. Prior to sending the document to the NEA, the state agency is required to hold public hearings to elicit arts needs from constituents and to allow underserved communities to voice their views.

In contrast to the Arts Endowment's spending patterns, state arts agencies tend to support smaller and more local organizations, and younger, less established artists. State agencies support community groups, whereas the Arts Endowment typically does not. State programs are also more likely to support arts applications in the fields of health, penology, and gerontology.

To better leverage their appropriations and Arts Endowment grants, several states

collaborate via six regional arts organizations: Arts Midwest, Mid-America Arts Alliance, Mid Atlantic Arts Foundation, New England Foundation for the Arts, Southern Arts Federation, and Western States Arts Federation. In 2006, the total budget of these groups was \$21 million.

### C. Local Arts Agencies

Individual artists, projects and foundations are not the only recipients of state arts agency grants.

Quite often, a state arts agency will award funds to local arts agencies for sub-granting to other entities. For that matter, sometimes a local arts agency is the state's official grantsmaking body. Most local arts agencies are privately funded; approximately 35 percent are public.

Perhaps nowhere is the decentralization of the U.S. arts funding system better reflected than in the range and influence of local arts agencies. Currently, there exist about 4,000 local arts agencies, either at the city or county level. They function as councils or commissions, as centers or city departments, and are funded by various sources: the National Endowment for the Arts, state arts agencies, private donations, or municipal budgets. The NEA typically receives 200 grant applications from local arts agencies per year, and in FY 2006 awarded slightly more than \$1 million to such entities.

As with state-level grants, local and city-level grants have a scattered history. After the success of the Chicago World's Fair in 1893, many American cities set up art commissions as part of their urban planning policies. Often their budgets were no more than a few thousand dollars, but they had authority to commission public improvements and artworks. In some cases, these institutions provided independent support for the arts, rather than just

commissioning works for public buildings and spaces.

The first American city to support an art collection (later discontinued) was Chicago in 1914. The following year, Baltimore became the first American city to have a municipally supported orchestra. The Detroit Museum of Art was turned over to the city in 1919, in return for a new building. Philadelphia made the first American municipal opera grant in 1923. Between 1870 and 1910, local and state governments accounted for 40 percent of the funds available for museum building. By 1930, municipalities were spending \$2.5 million a year on art museums.

New York City support for the arts dates from nineteenth-century commissions of public sculptures. In the 1890s, the New York Art Commission was founded; its mission was to oversee the attractiveness of public buildings and parks. The city already had played active roles in the Metropolitan Museum of Art, the New York Public Library, and the Brooklyn



Project Row Houses in Houston, Texas, began with seed money from the NEA, attracting local public support and private support, including funds from a local arts agency: the Cultural Arts Council of Houston. Photo courtesy of Project Row Houses

Museum of Art. These discretionary interventions date as far back as the 1860s.

Urban involvement in the arts grew steadily after the Second World War. In the late 1940s, three private groups became recognized as the nation's first local arts agencies: Colorado's Canon City Arts Council, Illinois' Quincy Society of Fine Arts, and North Carolina's Winston Salem Arts Council.

Then, in the latter part of the twentieth century, many American cities decided to expand their presence as regional arts centers and magnets for tourists. This tendency gained momentum when, in 1974, the NEA invited "governmental units, including cities, counties and villages" to apply for a grant to participate in an American Bicentennial initiative called "City Spirit." Gradually, city governments moved towards subsidizing a wide variety of artistic institutions including museums, art spaces, historic buildings and neighborhoods, and symphony orchestras.

The importance of local arts agencies lies especially in their ability to provide advocacy and support services that artists and organizations cannot obtain elsewhere. Thus, local arts agencies might host professional development workshops for artists, or publish Internet- or print-based media announcing arts events and opportunities. Alternatively, such agencies may coordinate fund drives or box office functions.

A national group representing local arts agencies, Americans for the Arts, estimates total arts expenditures at the local government level at \$778 million in 2006. The U.S. Urban Arts Federation, which includes only the 50 largest local arts agencies, forecasted 2006 expenditures of \$350 million by its members. The single largest urban funder is the New York City Department of Cultural Affairs; in 2005 this agency funded local arts at a level of \$123.3

million. By contrast, the second largest urban funder in 2005 was the San Francisco Arts Commission and the city's Grants for the Arts program, with combined expenditures of \$20.4 million.

Overall, the distribution of direct grants by numerous public sources—whether by the NEA or by state or regional or local arts agencies—ensures no single institution is responsible for the well-being of a particular art form. Even if one program or agency makes bad decisions, its impact is limited in size and scope. At the same time, the large number of independent programs allows for experimentation and learning. Over time, the best ideas and practices can spread to many different institutions, both private and public.

To be sure, levels of accountability are present. Arts programs and agencies are accountable for the grants they make. But no one holds the Arts Endowment responsible if American dance is not very good in a particular year. Its mission is to improve our cultural life and heritage, not to take responsibility for America's entire creative output.

# III.

## OTHER PUBLIC SUPPORT FOR THE ARTS AND CULTURE

Independent of the Arts Endowment and its state and regional partners, other public agencies also support arts and culture. Some have the ability to offer direct funding to artists and arts-related or cultural organizations, but many others specialize in producing, archiving, or exhibiting artworks or performances for the public’s benefit. Because of federal sponsorship, those exhibits and performances often appear in an array of public spaces, including national forests, military bases, and government office buildings.

As if the sources of public arts support were not varied enough, there is one more to be considered. Here the benefactor is not a government agency, but a legislator. The method, to be discussed later in this chapter, is the time-honored practice of “earmarking”—the designation of government funds by a legislator for specific arts institutions or projects.

### A. Direct Funding Sources

Apart from the NEA, there are a few other federal agencies and programs whose primary mission is to fund nonprofit groups conducting artistic or cultural activities. An example is the Arts Endowment’s sister agency, the National Endowment for the Humanities (NEH), which promotes and provides funding for scholarly research and public programs in history, philosophy, literature, religion, ethics, and jurisprudence.

Together with the Library of Congress, the

### 2006 Budgets for Selected U.S. Federal and Quasi-Governmental Organizations or Programs Funding Arts and Culture (dollar amounts in millions)

Smithsonian Institution*	\$517
Corporation for Public Broadcasting	\$460
Institute of Museum and Library Services	\$247
National Endowment for the Humanities	\$142
National Endowment for the Arts	\$124
National Gallery of Art	\$95
Department of Interior (Save America’s Treasures)	\$28
Kennedy Center for the Performing Arts	\$18
Department of Education (Arts in Education Model Development Program)	\$13
National Capital Planning Commission	\$8
General Services Administration (Art-in-Architecture Program)	\$7
Advisory Council on Historic Preservation	\$5
Department of State (Bureau of Education and Cultural Affairs’ cultural exchanges, presentations, and diplomacy)	\$5
Commission of Fine Arts	\$2

\*Exclusive of buildings and facilities capital

NEH funds a National Digital Newspaper Program, as well as efforts to preserve old books by protecting the paper from deterioration. It also funds literary programs for public television, makes grants to museums for exhibits, supports scholarly seminars for teachers, and subsidizes low-price editions of American literary classics. Most NEH programs



The National Gallery of Art is supported by the federal government, but its world-famous collection has come from private donations.

Photo courtesy of the National Gallery of Art

concern “the humanities” rather than “the arts,” but the two concepts overlap in literature and museum support.

Indeed, text preservation and museum support coincide with the role of another agency, the Institute of Museum and Library Services (IMLS). Created in 1976 as the Institute of Museum Services, IMLS funds institutions as varied as museums, zoos, botanical gardens, and libraries, and in FY 2006 it operated with a \$247 million budget. Of this total, \$36.5 million was allocated to museums; most of the remainder went to libraries.

Cultural programming, meanwhile, is made available to the American people on public television and public radio. The Corporation for Public Broadcasting (CPB) supports noncommercial radio and television programs. The CPB, founded in 1967, is a private nonprofit corporation whose board members are chosen by Presidential appointment. By law, the

governing board of 10 may not contain more than six members from any single political party.

CPB provides funds to local public television and radio stations as well as to content producers and distributors, such as the Public Broadcasting Service (PBS), National Public Radio (NPR), and Public Radio International (PRI). Almost three-quarters of CPB funds are given directly to individual local television and radio stations, as required by law. More than 330 local stations carry National Public Radio programs on both popular and high culture. Each station is locally owned and operated, and each makes its own decisions about programming.

As for PBS, an estimated 28 percent of the programs deal with culture. The programming comes from many different sources, including from other countries such as Great Britain. *Sesame Street*, produced by the Sesame Workshop (formerly known as the Children’s

Television Workshop), is the best-known children's show to have appeared on public television. Three large PBS stations—Boston, New York, and Washington—produce slightly more than half of the programs broadcast nationwide, with the remainder being either a local product or one imported from abroad.

The CPB appropriation for FY 2006 was \$396 million. (In addition, CPB received \$30 million to enable local stations to transition to digital broadcasting, and \$35 million to pay for a public television satellite interconnection system.) Yet public broadcasting draws the majority of its funding from non-federal sources. In a typical year, the federal government supplies only approximately 15 percent of the overall funding for public broadcasting. State and local governments, combined with public universities, provide 30 percent or so. The remainder comes from viewer memberships and subscriptions, and from private corporate and foundation support.

In addition to awarding direct grants and contracts, some federal programs offer resources or services to arts organizations. For example, the Federal Council on the Arts and the Humanities—administered by the National Endowment for the Arts—oversees the Arts and Artifacts Indemnity Program insuring foreign objects exhibited in American museums.

The Indemnity Program was created by Congress in 1975 for the purpose of minimizing the cost of insuring international exhibitions. Since its inception, the program has indemnified more than 800 exhibitions, saving U.S. museums more than \$185 million in insurance premiums. The Arts and Artifacts Indemnity Program was substantially increased in recent years to provide up to \$10 billion in total coverage. Risk management for this program has been so successful that it has never created any costs for U.S. taxpayers.

## B. Federal Museums and Theaters

Still other agencies and programs operate their own public libraries, museums, or performing arts venues. Some of the more prominent ones are listed in this section.

The Library of Congress and its American Folklife Center are active in gathering the records of diverse cultures and, through technology, providing public access to a growing archive of 3 million items ranging from photographs and manuscripts to audio recordings and moving images. As the country's largest archive of ethnographic field recordings, it preserves materials from around the world that date from the very first sound recordings of 1880 to the present. The Center is developing an ethnographic thesaurus of cultural archives and collections worldwide that can eventually link and be interrelated via database technology, enabling scholars—and the public—access throughout the world.

The Smithsonian Institution runs 15 museums, maintains research centers, and manages the National Zoo. Affiliated with the National Gallery of Art, the Smithsonian is an independent institution within the federal government. A Board of Regents, with members drawn from the United States government and the citizenry at large, governs the institution. Regular appropriations come from Congress, and in FY 2006 the Smithsonian's net budget authority (excluding capital for buildings and facilities) was approximately \$517 million. Its private endowment, while it fluctuates in value, has stood as high as \$779 million.

The Smithsonian includes the Hirshhorn Museum (sculpture and modern art), the National Portrait Gallery, the National Museum of American Art, the Renwick Gallery, and the Cooper-Hewitt Museum of Decorative Arts and Design. The newest addition to the Smithsonian

museums is the National Museum of the American Indian, which opened in September 2004. A National Museum of African American History and Culture is in development.

The National Gallery of Art, one of the world's premiere art museums, received an appropriation of \$97 million in 2006 from the U.S. Congress. The history of the Gallery exemplifies the private/public partnerships that are the hallmark of American arts institutions. The museum was initially conceived in the 1920s when Secretary of the Treasury Andrew Mellon envisioned a national art museum in the nation's capital. In 1936, Mellon offered to donate his art collection to the nation and to personally finance the construction of a museum to house the collection on public land.

Shortly afterward, Congress passed legislation to establish the National Gallery of Art as an independent bureau within the Smithsonian Institution. With construction well under way in 1939, Samuel Kress added almost 400 art works to the project, and after the National Gallery opened on the National Mall in 1941, further private giving arrived with the Widener, Dale, Rosenwald, and O'Keefe donations.

The Art-in-Architecture program is administered by the General Services Administration (GSA). This program, originally modeled after the New Deal's Treasury Department Section of Painting and Sculpture, commissions and funds art for public buildings. In 2006, the program had 85 projects in progress with a collective budget of \$7 million. The program has completed 313 commissions since its inception in the early 1970s. Since 1979, GSA has spent one-half of one percent of construction costs for federal buildings on artwork, which then becomes property of the federal government.

The John F. Kennedy Center for the

## SMITHSONIAN FOLKLIFE FESTIVAL

For the past 40 years on the National Mall, the Smithsonian Institution has celebrated the world's cultural traditions with a public arts festival. An estimated one million people attend each year. More than 18,000 musicians, performers, artists, craftspeople, and storytellers have participated. In 2006, Alberta became the first Canadian province to be showcased at the Smithsonian Folklife Festival. Topics and presentations ranged from cold-weather adaptation and mountain culture to the Royal Canadian Mounted Police; oral histories, acoustic roots music, and Canadian cuisine also were in abundance. Another theme of the 2006 festival was "Carriers of Culture," exhibits and activities related to the Native basket tradition of North America and Hawaii. Meanwhile, concert performances highlighted Latin-American musical traditions and the jazz and blues rhythms of New Orleans.

The annual two-week festival receives public, foundation, and corporate support. The Smithsonian event is one of hundreds of heritage events and festivals—such as mariachi festivals, exhibits of Native American art, African dance and music performances, and Chinese instrument youth orchestras—that take place every year and are made possible with federal and state government grants.

**1990 NEA National Heritage Fellow Nati Cano and his band Mariachi Los Camperos performing at the 2004 Smithsonian Folklife Festival.**

Photo by Jim Saah



## NATIONAL ENDOWMENT FOR THE HUMANITIES

Toward the end of 2006, NEH Chairman Bruce Cole announced a new category of grants that will offer up to \$1 million for the implementation of major traveling exhibits in the humanities. The initiative would support “compelling presentations of significant topics in history, art history, archaeology,” and other disciplines to “reach the largest possible audiences,” Chairman Cole explained.

NEH funds additional outreach measures through *We the People*, which President George W. Bush launched on Constitution Day 2002. Under this initiative, the NEH awards grants to state humanities councils in support of a range of public programming activities, including teacher seminars and institutes, lectures, student essay contests, reading and discussion groups, and radio or television broadcasts. As suggested by the initiative’s title—taken from the opening words of the U.S. Constitution—*We the People* grants are devoted to engaging the American public on significant events and themes from the nation’s history,

State humanities councils have used NEH awards to promote dialogues on a diversity of cultural and civic topics. In 2006, for example, Louisiana’s council invited the state’s residents to consider their experiences with Hurricane Katrina through a series of readings, locally published articles, and scholarly discussions. Texas’ humanities council convened teachers in the state to examine the role of the U.S.-Mexico border in American history. Councils for Idaho and Alaska used their awards to explore, respectively, the presidency of Abraham Lincoln and the transition to U.S. statehood.

Performing Arts receives a direct appropriation from Congress, currently about \$18 million, as do a few small programs that support the arts in the District of Columbia.

Many national parks house collections of artwork and support residency programs for artists, under the aegis of the Department of the Interior. Approximately 115 million objects, including artworks and artifacts, reside in park museum collections. In addition, the National Park Service collaborates with the Arts Endowment, NEH, and IMLS in funding a major preservation program, “Save America’s Treasures,” which conserves historic structures and collections. For that matter, many large-scale “earthworks” sculptures, such as those of Christo or Robert Smithson, have been created or placed on public lands. The U.S. Department of Agriculture’s Forest Service also funds demonstrations of folk arts and crafts, or performing arts activities in many national forests.

Some of the largest government arts programs are offered by the military. The budget for the military bands alone exceeds \$100 million dollars annually. The United States Armed Services, under the “morale, welfare, and recreation” programs, presents regular cultural programs for military personnel and their families. Libraries and movie showings are common. Through community theaters, the U.S. Army is responsible for more than 200 productions annually, and for more than 1,700 performances of plays and musicals worldwide. Such programs have a significant influence on the cultural lives of the 1.4 million Americans who serve in the military, and on the lives of their families.

The Army Art Collection, an extensive (10,000-plus) holding of paintings, drawings, sketches, and watercolors, records the history of America at war. The military art held by the

government includes such notable artists as Jacob Lawrence, Reginald Marsh, Horace Pippin, and Thomas Hart Benton.

Working with the Armed Services, the United Service Organizations, Inc. (USO) entertains soldiers by bringing in movie stars, musicians, and other celebrities, especially during wartime. For performances, USO relies on volunteer labor or pays its performers at reduced rates. During World War II, the USO employed 5,424 salaried entertainers and had total show attendance of 172 million. The USO is not part of the federal government, but it does receive its charter from Congress and relies on the U.S. military and private donations for its support. The President is typically the Honorary Chairman of the USO and formally endorses the agency. The USO today has 132 centers around the world that are visited by service members and their families more than 5.6 million times a year.

### C. International

The arts also receive support from the U.S. foreign affairs agencies, with diplomacy programs sponsoring the presentation of American arts abroad.

During the Cold War, politicians supported the performance of American artists abroad as a counter to Soviet communism. The Smith-Mundt Act of 1948 called for the spread of information abroad about American culture and government. The Office of International Information and Educational Exchange (OIE) and the United States Information Service (USIS) were both created at this time. The Voice of America (VOA) transmitted radio programs, often of a cultural nature, as did Radio Free Europe and Radio Liberty.

In 1953, the United States Information Agency (USIA) was created to spread a favorable American image around the world. USIA



Mayor Joseph Riley with participating Mississippi mayors at a November 14, 2005, press conference for a special Mayor's Institute on City Design meeting to discuss damage caused by Hurricane Katrina.

Photo by Aaron Koch

## MAYORS' INSTITUTE ON CITY DESIGN

The National Endowment for the Arts, in partnership with the American Architectural Foundation and the U.S. Conference of Mayors, conducts regular workshops for mayors to collaborate with design professionals on solutions to the design and environmental challenges of America's cities. Participation is limited to 20 persons, half mayors and half designers. At the meetings, mayors present their specific design issues, such as waterfront redevelopment and downtown revitalization, and designers help them draft solutions. Over the last 20 years, more than 700 mayors and 450 design professionals have participated in the Institute, which has been honored with the Presidential Award for Design Excellence, the Progressive Architecture Award from *Architecture Magazine*, and an Institute Honor Award from the American Institute of Architects.

## GLOBAL CULTURAL INITIATIVE

The NEA is working with the U.S. Department of State on two projects that bring high-quality art from other countries to the United States public. A partnership with the nonprofit organization American Film Institute—including the National Endowment for the Humanities, the Institute of Museum and Library Services, and the President’s Committee on the Arts and the Humanities—has created an international filmmaker and film exchange called AFI Project: 20/20. This project brings together American and foreign filmmakers to share their films, fostering cross-cultural understanding and respect while nurturing filmmaking excellence. The first program took place in November 2006 at the AFI FEST in Los Angeles, California, featuring films from Canada, China, Egypt, India, Iran, Israel, Japan, Nigeria, Pakistan, Rwanda, South Africa, the United Kingdom, the United States, and Venezuela.

The NEA is also involved in an International Literary Exchanges project with the State Department. Building on the Arts Endowment’s successful poetry anthology project with Mexico, International Literary Exchanges are designed to initiate literary translation projects between the United States and other countries, providing American readers access to literary works by contemporary foreign writers. At the same time, International Literary Exchanges provide foreign readers access to works by acclaimed American writers. The projects will be either publication of dual anthologies or specific translation projects. The NEA will work with literary and governmental organizations to complete the projects, currently in development with Pakistan, Russia, Mexico, Greece, and Spain. All literary exchange projects will focus on works by living writers.



**NEA Jazz Master Dave Brubeck participated in U.S. State Department tours to the Soviet Union, Poland, the Middle East, and South Asia in the 1950s and 1960s.**

Photo by Tom Pich

programs sent leading American orchestras, singers, jazz and folk musicians, musical shows, and instrumentalists on tours of the world. Jazz, modern dance, and avant-garde theater benefited in particular from federal patronage. The performers received financial support and a new air of legitimacy, and gained popularity with new audiences worldwide. Following the conclusion of the Cold War, USIA closed and some of its programs became the responsibility of the State Department.

The State Department administers several cultural exchanges, cultural presentations, and diplomacy initiatives that include performances by U.S. artists abroad. In FY 2006, the Department spent \$5.15 million on such programs. Cultural broadcasts continue through the Voice of America, Radio and Television Marti (aimed at Cuba), and World Net. Cultural diplomacy is now increasingly conducted in the Middle East.

For many years, the National Endowment for the Arts has supported international exchanges

through such programs as the U.S./Japan Creative Artists' Program and ArtsLink, an exchange program with Central and Eastern Europe, Russia, and the Baltics. The NEA has also initiated cultural exchange programs that support American artists performing in European festivals and has expanded the Open World program that brings Russian artists, arts journalists, and arts administrators to the United States.

Federal funding for cultural exchange programs has more than tripled since 2001. In September 2006, First Lady Laura Bush announced the "Global Cultural Initiative," coordinated by the State Department with the NEA and other entities, to "emphasize the importance of the arts as a platform for international engagement and dialogue."

#### **D. Legislative Earmarks**

All of the agencies in this chapter, and some of the programs, receive their appropriations directly from Congress. Those funding decisions are based on requests put forward by the executive branch of the U.S. federal government. In certain cases, however, a legislator may choose a different process.

Strictly speaking, an "earmark" refers to any amount or percentage designated by federal or state appropriations. More often, the term indicates a special financial provision that a lawmaker has had written into a government spending bill, with the intent of supporting a particular project or institution. This strategy allows lawmakers—who reside in the legislative branch of the government—to guarantee direct funding to an entity. This funding is designated as a "line item" of the appropriations bill, and, therefore, is not subject to agency review within the executive branch.

In FY 2006, 128 line items appeared in

legislative appropriations to state arts agencies. Those set-asides totaled \$37 million, according to the National Assembly of State Arts Agencies (NASAA), and ranged from \$500 to \$4.9 million. (The median line item was \$67,500.) NASAA says the line items "represented about 11 percent of aggregate appropriations" to all state arts agencies, "but nearly 18 percent of appropriations for the 18 agencies that received them."

NASAA further estimates that more than half of all state arts agency dollars earmarked in FY 2006 appropriations went to entities in Illinois, New Jersey and Puerto Rico. In Virginia—to take one example—the Art Museum of Western Virginia, the Sandler Center for the Performing Arts, and the Wolf Trap Foundation for the Performing Arts received earmarks of \$1.75 million, \$1.46 million, and \$1.25 million, respectively. Museums are not the only beneficiaries of arts-related earmarks; so are theaters, concert halls, symphonies, and opera houses.

In contrast to state earmarking strategies, the federal process has proved more difficult to track. There is no complete or even comprehensive accounting of total federal earmarks. Still, reviewing legislative appropriations for FY 2005, the association Americans for the Arts identified more than \$180 million in earmarks devoted to cultural organizations. Historically, budgets for government bodies such as the Department of Education, the Institute of Museum and Library Services, the Department of Housing and Urban Development, and the Department of the Interior have provided lawmakers with vehicles for awarding funds to constituent arts and culture organizations. Of late, however, the use of earmarks has been questioned as a budgetary tool, and is receiving greater scrutiny.

# IV.

## PRIVATE GIVING AND TAX INCENTIVES

**W**hen an individual or corporation donates to the arts, there are often two distinct acts of charity involved. First there is the donor's financial gift. If the recipient is a tax-exempt nonprofit group, however, one should consider—as a separate gift—the amount of additional revenue foregone by the U.S. government. This secondary benefit is realized as a tax deduction for the donor, and, along with the yearly tax payments waived for the nonprofits themselves, it represents the most significant form of arts support in the United States. As a term, “tax incentive” is singularly appropriate; for every dollar the U.S. Treasury foregoes per tax deduction, donors are motivated to give private nonprofits an additional donation in the range of 90 cents to \$1.40, according to recent estimates.

### A. Individual and Foundation Giving

Americans donated approximately \$13.5 billion to the category “Arts, Culture, and the Humanities” in 2005, the most recent year for which such data are available. In per capita terms, the total amounts to about \$45 for each individual in the United States. Individual donors account for about three-quarters of the total, with foundations and corporations providing the balance.

Since 1917, any donation to a tax-exempt nonprofit organization has qualified as a potential deduction for the tax-paying donor. It is required

only that the taxpayer itemize his or her deductions, rather than take the standard deduction allowed by law. Today about 60 percent of American taxpayers—most of all homeowners and the wealthy—itemize their tax deductions. For these individuals, the donation of a dollar to a nonprofit institution reduces taxes between 28 and 40 cents per dollar, depending on the individual's tax position. The tax incentive therefore applies to most giving to the arts. The estate tax provides further incentive to donate wealth rather than pass it along to heirs.

Donations to other tax-exempt, nonprofit institutions—such as charities and churches—are also deductible. The U.S. tax system thus favors decentralization of nonprofit activities, rather than any particular conception of art, or even any particular conception of what a nonprofit should do. Nonprofits with artistic programs may serve as talent spotters, direct producers of creative outputs, donors, marketers, educators, event organizers, or preservers of the past. Many nonprofits are small and informal, such as volunteer community groups.

More than 1.7 million nonprofit groups are registered with the U.S. Internal Revenue Service. They are the engines of philanthropy, both as donors and recipients. To claim tax-exempt status under the U.S. tax code, nonprofits must fit one of the following descriptions: “charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur



Symphony orchestras, such as the Seattle Symphony conducted by Gerard Schwarz (pictured), combine public support with private donations and earned income to cover the costs of producing a season of music.

Photo courtesy of HD Video/KCTS Television/Seattle

sports competition, and the prevention of cruelty to children or animals.” They cannot serve private interests, and are restricted in their amount of political lobbying. Because by definition they cannot operate for profit, such groups often devote considerable time and resources to fundraising.

Indeed, donations of volunteer time—equal in scope to 390,000 full-time volunteers—are a large part of philanthropy in the United States. As of the early 1990s, the average time donor had an income of more than \$56,000. The implicit dollar value of these time donations thus stands above \$20 billion, with some estimates going as high as \$25 billion.

Otherwise, cash donations fund American nonprofits to a considerable degree. Museums, symphony orchestras, opera companies, and other cultural organizations reap only part of their overall revenues from ticket or entrance fees. Many of America’s leading institutions would not exist if private citizens had not bequeathed their holdings and invested their resources.

Consider some broad estimates for American symphony orchestras. According to one set of figures, 39 percent of their income comes from private donations and 12 percent from endowments and related sources. Concert income generates 36 percent of revenue and other earned income provides 9 percent. Direct government support represents only 4 percent of revenue.

For purposes of contrast, a theater or orchestra in Germany will likely receive 80 percent or more of its budget from direct governmental support. In France and Italy, government support at various levels accounts for almost all of the funding for a typical museum. Even the Louvre, which was asked to find private funding as of 1993, raises less than half of its operating budget.

In the United States, however, direct government support accounts, on average, for 13 percent of the total budget of nonprofit arts organizations.

Individual private philanthropy to the arts is rare in most European nations. If we look at

individual donors, Americans give almost 10 times more to nonprofits on a per capita basis than do their French counterparts. This dramatic difference reflects distinctly American social and cultural traditions, which have become institutionalized in public tax codes. Historically, European governments have not offered comparable tax benefits to their arts, although the trend is toward offering more benefits.

Some European countries, such as France and Italy, have a few private foundations, but legal restrictions and unfavorable tax treatment tend to make these organizational forms very costly. Often it is Americans who serve as the leading donors to some European arts institutions. In the mid-1980s, J. Paul Getty donated \$62.5 million to the National Gallery in London, the largest donation the institution has received. The Tate has raised significant American funds as well. To capture such donations, many British nonprofits now have American affiliates with tax-exempt status in the U.S.

In the United States, American foundations are significant in their size and scope. Recent estimates put foundation assets at around \$400 billion. Furthermore, the flow of new money into foundations is ongoing. From 1981 to 1999, 84.5 percent of the increase in foundation assets (which rose almost threefold over that period) came from new donations and the creation of new foundations, rather than from returns on existing foundation assets.

The foundation sector consists of more than just a few major institutions. A 2004 estimate has the top 25 institutions accounting for roughly 40 percent of foundation arts funding; the rest comes from widely scattered sources. The Ford Foundation is the largest in terms of assets; in 2004, its \$10.7 billion endowment generated more than \$52.7 million for the arts, culture, and the humanities. Ranked by amount donated,

however, the American Art Foundation, Inc., in New York was the top arts foundation of 2004, giving \$193 million to this category.

The Ford, Carnegie, and Mellon Foundations, among many others, have supported a wide variety of high culture enterprises, most of all museums, orchestras, and libraries. The Ford and Rockefeller Foundations have also recognized less mainstream art forms, such as modern dance, Beat poetry, and Latino music.

In addition to these larger entities, small private or family foundations also give significant amounts to the arts. The legal and institutional environment of the United States supports the number and diversity of these foundations. Some institutions, such as the Bradley Foundation, foster traditionalist projects; others such as the Dia Art Foundation specialize in supporting the avant-garde. It can be worthwhile to start a foundation for sums smaller than a million dollars.

Particular kinds of foundations offer specific or targeted advantages. Legacy foundations allow an individual to make a gift during his or her lifetime and receive a tax deduction in the current year. The gift is not passed along until the individual dies; in the meantime the individual can receive income from the gift assets. Family foundations allow the board of directors to be comprised of family members only.

## **B. Corporate Giving**

Corporate giving also is more decentralized than is commonly believed. Three-quarters of arts spending comes from smaller companies with revenues of less than \$50 million. Ninety percent of that money goes to local arts organizations. Data from 2003 show that 36 percent of all businesses surveyed gave money to the arts, and that businesses devoted an average of 19 percent of their philanthropic budgets to the arts.

Corporate giving, like private and foundation giving, has been influenced by public policy decisions. Corporations have received tax breaks for supporting the arts since 1936. As with individuals, corporations give more to the arts when they receive tax benefits for doing so. Many of the tax benefits for the arts are piecemeal in nature; they are not easily measured in the aggregate. For instance, artistic institutions benefit from local tax breaks and legal provisions, often under the guise of urban renewal. Skillful artistic entrepreneurs can put together packages of direct and indirect subsidies, drawing on a wide variety of sources.

Consider one example. The Minneapolis Artspace organization wanted to renovate a decrepit warehouse and turn it into artists' apartments and studios. The organization

started by going to the State Housing Finance Agency and applying for Low Income Tax Credits available for renovation projects. These credits are paid for by the federal government but allocated through state governments.

The project had an estimated value of \$20 million, which meant that the available tax credit was about \$900,000 per year. This sum is paid out yearly for 10 years, or \$9 million in total. The Artspace used these tax credits to get a bank loan of \$7 million, and then set up a corporate partnership, in essence "selling" the tax credits to the corporate partner for cash.

Artspace also financed 20 percent of the \$20 million cost from the Historic Tax Credits available through the Department of the Interior, again "selling" these tax credits for 93 cents on the dollar. Of the \$20 million total, \$11 million

**Potter Brad Henry is a resident of St. Paul, Minnesota's Northern Warehouse Artists' Cooperative, a former warehouse turned into artists' studios by Minneapolis's Artspace.**

Photo by Jeffrey Hanson



was now in hand, and construction could begin. County and state tax programs served to complete financing, and the remainder was raised from private foundations, again with an implicit tax break for the donations. Other inventive designs for supporting the arts will surely follow in the coming years.

A particularly novel approach is that of the Arts Council Silicon Valley. The Council recognizes that organizations must work within an environment that provides financial incentives for businesses to donate to the arts. So, it has devised inventive programs for employers and corporations to create efficient donation strategies beneficial to their portfolios.

### C. Universities

As in many other nations, universities are significant conduits for government support of the arts. By subsidizing universities, federal and state governments provide employment for painters, writers, musicians, and other creative artists.

In the world of classical music, almost every composer serves as a “guest composer” at a university for some period of time. Many composers teach as full-time faculty and collaborate with campus-based musicians to premiere new music. Professional performing groups, such as the Cypress String Quartet at San Jose State University in California, use academic residencies as a base for regional and national touring.

Many universities periodically commission new artworks. Creative writing programs, often at state or state-subsidized universities, train American writers and help them connect with publishing houses. Hollywood relies on film schools, including the film school at UCLA—a state university—to educate and recruit future directors. Much of the American avant-garde

theater is based in drama workshops at colleges and universities. Architects look to universities for their basic training, as do many individuals in music technology and production. Universities also subsidize literary magazines.

University presses publish many works, including fiction, which commercial houses reject. Some of these books have won significant honors. John Kennedy Toole’s *A Confederacy of Dunces* was picked up by Louisiana State University Press after being rejected by numerous commercial publishers. The book won a Pulitzer Prize and is now considered a classic. American colleges and universities operate more than 700 art museums. College radio stations and the college tour circuit are critical to the success of independent rock bands and do much to foster musical diversity.

### D. How Nonprofit and For-Profit Sectors Interact

Although America started from an underdeveloped cultural base in the eighteenth century, it has become an acknowledged leader in abstract art, contemporary classical composition, modernist fiction and poetry, theater, jazz, and modern dance, to name just a few fields. Artistic nonprofits and the American tax system have supported each of these endeavors.

That being said, subsidies to artistic nonprofits benefit for-profit enterprises as well. Too frequently, commentators paint a picture of one subsidized cultural sector and another entrepreneurial cultural sector. In reality, popular culture often draws upon nonprofit culture for its “research and development” efforts (and, to some extent, vice versa). Indirect subsidies to the arts have made American popular culture much stronger. Hollywood, for instance, draws on stories and ideas produced by the nonprofit



The Repertory Theatre of St. Louis' 1991 production of Alfred Uhry's *Driving Miss Daisy*, starring Darrie Lawrence and William Hall, Jr.

Photo by Judy Andrews, courtesy of Repertory Theatre of St. Louis

sector. *Driving Miss Daisy*, *The Gin Game*, *On Golden Pond*, *Children of a Lesser God*, *Glengarry Glen Ross*, and *Prelude to a Kiss* all started as nonprofit theater. Over a recent 20-year period, 44 percent of the new plays produced on for-profit Broadway originated in the nonprofit sector.

The literary world blurs the nonprofit and for-profit sectors as well. Public libraries and university libraries put books in the hands of readers and boost the reputations of commercial authors. Libraries also provide a steady demand for low-selling works. This makes it easier for authors to market their ideas to publishers, provides modest royalty support, and gives authors a chance to find a larger reading audience.

## Conclusion

American arts funding is a complex and evolving system of entrepreneurial initiatives, philanthropic foundations, and government agencies. The public and private aspects of

support are ever in flux, and the mechanisms of delivery mingle the best of charitable giving with entrepreneurial ingenuity. Funding goes to artists, museums, theaters, orchestras, schools, presses, community centers, cities, and states, and the purpose of funding ranges from the creation of new art to the preservation of the old, from teaching children basic skills to providing master artists with needed resources.

The funding network is diverse and perplexing, to be sure, and sometimes arts organizations do not survive the vicissitudes of the economy. But, simultaneously, the flexibility of the American system may rightly be credited with fostering the substantial rise in art making and arts participation that we have seen in the last 40 years. New arts organizations are constantly emerging—bringing new styles and perspectives to cultural life. No single agency or individual can set an artistic agenda for the nation; the contrasting values and tastes of different funders ensure a rich diversity of art works; tax incentives promote innovative methods of private support; and decentralization helps regional heritages and local communities retain their integrity.

What we see today is the spirit of American enterprise—in the past so successfully applied to commerce, technology, and politics—increasingly applied to the art world. In its comparatively short existence in the life of civilizations, the United States has produced a grand legacy of lasting cultural achievements, and leaders are fast recognizing the centrality of artistic expression to a healthy society. “A great nation deserves great art” is the motto of the National Endowment for the Arts. The American system of free enterprise, coupled with public support, is a proven means of fulfilling it.

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