Earned Income and American Museums: The Perils of Privatization

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Abstract: The basis of the American approach to culture eschews any collective state intervention. Cultural institutions, such as museums, originated as the beneficiaries of private donors. Such philanthropy benefits from a tax code that provides financial incentives for contributions to private organizations. For institutions, funds raised from ancillary activities, such as gift shops, also enjoy significant tax exemptions. Yet, despite these publicly financed tax deductions, cultural visions are privately conceived, and reflect the agendas of the donors. This attitude represents the basic principle of the American patronage system: one that is facilitated by a tax policy, not a cultural policy.

Keywords: privatization, merchandizing, museums, American patronage, philanthropy

Résumé : Le fondement de l'approche américaine en matière de culture évite toute intervention collective de l'État. Les institutions culturelles, telles que les musées, ont émergé en tant que bénéficiaires de donateurs privés. Une telle philanthropie profite d'un système fiscal qui prévoit des incitations financières pour les contributions à des organisations privées. Pour les institutions, les fonds provenant d'activités annexes, comme les boutiques de cadeaux, bénéficient également d'importantes exonérations fiscales. Pourtant, malgré ces déductions fiscales octroyées par l'État, les visions culturelles sont conçues de manière privée et reflètent les agendas des donateurs. Cette attitude représente le principe de base du système de patronage américain: un principe qui est facilité par une politique fiscale, et non une politique culturelle.

Mots clé : Privatisation, marchandisage, musées, mécénat américain, philanthropie

Introduction

The basis of the American approach to culture eschews any collective state intervention. Cultural institutions, such as museums, originated as the beneficiaries of private donors, whose philanthropy emanates from the desire for social capital, civic pride, personal altruism and an obligation to broaden the vistas of the working class (Adam, 2009). Such cultural patronage benefits from a tax code that provides financial incentives for contributions to nonprofit organizations. For institutions, funds raised from ancillary activities, such as gift shops, also enjoy significant tax exemptions.

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Yet, despite these publicly financed tax deductions, cultural visions are privately conceived of, and reflect the agendas of the donors. This attitude represents the basic principle of the American philanthropic system: one that is facilitated by a tax policy, not a cultural policy. As Cummings observed, “until the 1960s, at least, the indirect effects of policies designed primarily for other purposes had a greater influence on the art world than did government actions which were consciously designed for their impact on the arts” (Cummings, 1995, p. 75). Moreover, the necessity for operating funds drives both public and private museums to cater to philanthropists by providing personalized naming opportunities, to solicit corporate sponsorships with prominent signage for popular exhibitions and increasingly, to promote commercial ventures such as large gift shops with mail-order catalogues. As an overall reality, these commercial activities can be termed ‘Merchandising Museums.’

Alongside any effort to justify public culture must be the realization that success is predicated upon political acceptance and that such culture be consonant with the basic values of the particular political system. American cultural patronage reflects a general skepticism of public involvement in social policies. The basic model for cultural funding is one that rests heavily on non-public subvention, in that limited public funding demands the generation of private philanthropy and earned income for museums and other organizations in the cultural sector. The concomitant argument is that such market management ensures greater efficiency and better reflects individual preferences. This ideological viewpoint, which may be termed a ‘laissez-faire’ model, has become enshrined as the conventional American wisdom in essentially ceding pride of place to the private sector as *primus inter pares,* if not dominant. Necessarily, any argument for public culture will be of a ‘laissez-faire’ variety that uses tax incentives to stimulate private philanthropy and earned income while assuming limited public subsidy (Mulcahy, 2003)

What will be explored herein is a study of the implications of a ‘laissez-faire cultural policy’ for museums in the United States, especially as museums need to buttress philanthropic support with income earned by ancillary activities. Associated with these activities is a need for a significant public presence that heightens institutional visibility and attractiveness. What follows are some examples of the ways in which museums seek to accomplish the above. What can be noted is that these activities are as much about marketing as curatorial aesthetics.

Franchising

The most famous example of museum franchising is the international distribution of the Guggenheim Museum brand. The Guggenheim Bilbao, the premier offshoot with an iconic building by Frank Gehry, put this economically depressed city in the Basque region of coastal northeastern Spain on the international cultural map. Since its opening in 1997, this museum has been discussed not just aa a new building, but as an iridescent structure and a “cultural extravaganza” (*New York Times*, September 23, 2007). The ‘Bilbao effect’ has been a much-desired phenomenon for numerous cities with poor economies that see becoming a cultural mecca as a solution to their problems and/or for cities to achieve international culture stature.

The Guggenheim franchise has since been extended to Abu Dhabi and most recently to a proposed location in Helsinki. A demonstration of the power of this American model is the cultural accord forged between the U.A.E. and the Louvre, where a Louvre Abu Dhabi opened in 2017 as part of a planned $27 billion cultural district. This accord included a $500 million payment for the use of the Louvre name and $800 million for support services relating to curatorial and acquisition practices as well as a newly formed French museum agency.

The licensing and franchising of the Guggenheim identity was pioneered by Thomas Krens. As the Guggenheim director, he emphasized the concept of museums as spaces for broad public participation rather than only for aesthetic reflection and cultural education. This style of museum management has been frequently criticized for its blatant commercialization. On the other hand, it can be argued that Krens tapped into a model of American pragmatism that accurately reflects the realities of contemporary culture. For Krens, his job description was to "manage a brand and that brand is the Guggenheim" (*New York Times*, June 30, 2002). And, as with the blockbuster exhibitions to be discussed presently, large audiences attracted by a strong marketing campaign do enhance earned income and can increase philanthropy. Both benefit from association with a notable franchise.

Branding

Overall, a successful museum brand provides institutional identity resulting in recognition and recall of the brand by the public. Traditionally, the acquisition, display and education about a collection reflected the normative values and professional practices of the curatorial staff. Special exhibitions, while once rarer than today, also subscribed to cultural norms, and their purpose focused on the advancement of scholarship.

Three things have changed these criteria. First, the norms of organizing and displaying museum collections have changed from abstract scholarship to pleasing an audience and promoting its growth. Second, audio-visual media has led audiences to expect a more stimulating museum experience rather than one that is highly specialized. Third, public funding has become increasingly dependent on enhancing museum attendance as well as developing sources for raising money and increasing earned income. Traditionally, museums invested little or nothing in marketing and advertising, and made few efforts to maximize earned income. Compared to commercial businesses, museums operated in the 'little league' of promotion and marketing. Now, however, more museums believe that brands can be highly effective in building audiences and generating alternative sources of revenue. When in possession of a positive brand name, museums can find it easier to augment membership programs, merchandising, licensing, franchising, and private/corporate giving. Moreover, brand recognition can realize an increase in public awareness, loyalty, and consequently earned income.

The criticism of museums whose policies have been deemed inappropriately commercial, gives way to the sense of museums as corporate entities with highly marketable inventories that can stimulate growth (Wu, 2002). Concerns that commercial interests might override public interest are persistent and reflective of museological traditions. In particular, the belief that ancillary activities should not presume to usurp the museum's core education vision. From this point of view, a museum's history is not a marketable brand but an aesthetic badge of honor. Nevertheless, no museum can afford to ignore financial realities.

Blockbusters

Not surprisingly, corporations like to be associated with popular productions and exhibitions; that is, those with wide audience appeal. To the extent that their budgets permit, art organizations are increasingly in pursuit of a strategy for enhanced earned income with 'blockbusters' that can be heavily promoted to a wide audience and equipped with a broad array of merchandise (McCarthy, 2001, p. 95). There are obvious limitations that come from an over-emphasis on income generation that puts crowd-pleasing over curatorial value. In the United States, there have been a number of blockbuster exhibitions that are heavily concentrated on Impressionism/Post-Impressionism and Egyptology or that have a 'Treasures of…' approach. Such exhibitions can unquestionably accommodate first-rate art, but typically within a decidedly entertainment-oriented mode.

As noted, blockbusters must be crowd pleasers in order to guarantee the strong attendance necessary to justify the marketing costs as well as to reassure corporate sponsors to be approached for future philanthropy and/or sponsorships (Hell may indeed be an ill-attended blockbuster). Contemporary works, as well as those with reputations for being 'difficult', are less likely to be presented for fear of diminishing the large audiences and the external support necessary to justify the expense of the exhibition. The result is a Cultural Darwinism, where only large institutions are capable of mounting shows that maximize attendance and assume the attendant financial risk.

Museums must spend heavily to acquire and promote blockbuster shows, a strategy that requires an even bigger audience to pay for the resulting cost increases and creates an upward spiral of financial risk. In such an environment, only the largest institutions can survive, and survival is predicated upon existing institutional strength (McCarthy, 2001). The process resembles a self-destructive arms race in which the quest for an end is compromised by the means.

Overall, it is the mid-sized arts organization that would seem to have the bleakest future in such a Cultural Darwinism. Decreases in public funding require cultural organizations to retain traditional programming and mainstream artistic endeavors to maintain their existing level of attendance and philanthropy. It becomes reckless to gamble that new attendees will be attracted absent a heavily promoted hit show of 'oldies and goodies' and some that are contemporary 'hip'. Since mid-size city museums lack the resources to take big risks, it is unclear how well they can compete successfully with the well-established institutions located in major metropolitan areas (McCarthy, 2001, p. 105).

It should be remembered that these mid-size city institutions make up the essential building blocks of a nation's cultural infrastructure. As the guarantors of cultural diversity, the training ground for future artistic leaders, the venues for aesthetic experimentation and development, centers of community pride and symbols of cultural excellence, mid-size city arts organizations have a vital role to play in any nation's artistic mosaic. Since greatly increased earned-income is limited and/or counter-productive, medium-size cultural institutions must hope for increased, or at least stabilized, public subvention if they are to survive; and such a hope is not well-founded.

The blockbuster phenomenon has come to represent a dramatically new role for museums as well as marks a line crossed in what has traditionally defined the mission and responsibility of a museum. The issue has, of course, a broad scope, but this discussion can only summarize the acknowledged funding event involving the National Gallery of Art in Washington, DC, and the Metropolitan Museum of Art in New York City.

It all started with mummies. The 1976, *King Tut* exhibition was for the museum world what *Jaws* (1975) was for Hollywood. Both were marketed as blockbusters with great success and both sold numerous ancillary products. Both reaped large profits and both altered the public's expectations of what could be realized in museology and cinematic productions. As 'productions' featuring popular subject matter, high-level conceptual and technical value, and elaborate marketing campaigns, the *Tut* exhibition and *Jaws* movie brought about a paradigm shift in their respective business models.

Franchises, technical wizardry, international appeal, major production and significantly larger marketing budgets provide very little shelf space for the 'small movie' that might explore complex social and emotional issues. For large exhibitions museums choose subjects that are easily digestible crowd-pleasers in order to generate heightened attendance and advertising return for the corporate sponsor underwriting the exhibition. This requires high-end production values to enhance the visual experience, and special, expanded gift shops filled with tie-ins to the exhibition ranging from lavish catalogues to bespoke key chains. This quest for ever-greater earned income challenges the traditional ethos of curatorial connoisseurship that would explore little known, emerging or marginalized expressions.

A note of caution is necessary to preclude an overly stereotypical conclusion. Plenty of high quality, small budget movies that may be financially unprofitable win awards, industry accolades and provide self-congratulation to the artists.

Similarly, scholarly shows, reinterpretations of canonical works, exhibitions of new and often provocative art continue to distinguish museum activities. Yet, the museum's shift to spectacle, the celebration of the familiar and the commodification of social values is undeniable and has come to imitate the business model of the entertainment industry. Hollywood knows it is not in the business of providing education and edification, but of creating popular experiences for mass consumption. Museums, along with all cultural institutions, however, are very much about providing cultural instruction and insight. It is their *raison d'être* and the basis for a 501(c)(3) designation.

The *King Tut* show is judged to be the start of the Blockbusters phenomenon, and it was not accidental. From its inception, this exhibition was designed for maximum visual impact in the display of its unquestionably fine (if limited), collection of Egyptology. *Tut* was meant to be a crowd-pleaser and, with its associated merchandise, a profitable one. There was unquestioned success in the realization of both objectives. The *King Tut* show was the first real demonstration of what has become the platinum standard for museum success: the blockbuster show. This is one designed for maximum attendance with special admission tickets, major earned income from gift shop sales, and high community visibility with associated prestige for the museum. For many, *Tut* came to stand for a decisive moment in the history of American museum exhibitions, a moment when curators surrendered – or at least compromised – their commitment to real scholarship in favor of crowd appeal (Harris, 2013, p. 216).

That appraisal is surely too hyperbolic as an accurate statement of what would be a 'new normal' for museological policy. Yet, there have been decided changes in these policies that, if not a direct consequence of *Tut*, have rapidly accelerated. Museum merchandising of licensed reproductions, holiday catalogues, expanded gift shops not requiring museum entrance (restaurants also), and a 'Shopper's Guide to Museum Gift Stores' had preceded the *Tut* show. "*Tut* dramatically expanded the commodification of exhibitions but did not invent it" (Harris, 2013, p. 217). It was the unprecedented product development in museum gift shops (trinkets and reproductions rather than just posters and guide books) "that may have been the museum's most influential legacy" (Harris, 2013, p. 215).

What for many cultural critics, however, was the greatest negative of the *Tut* show was not its huge popularity and attendant commercialization, but the commodification of the museum experience where the paucity of the objects on display was offset by high-concept exhibition spaces and lighting effects. Although the term was not in use at that time, the 'Disneyfication' of the museum values has since been judged a consequence of the blockbuster concept. Yet, there were also large increases in museum memberships as well as an expansion in the demographics of those attending the blockbusters. Unquestionably, the museum experience as an exclusively uncrowded space for the serene contemplation of an ensemble of objects reflecting curatorial scholarship was no longer a defining museological characteristic.

The museum's commitment to 'scholarship and connoisseurship' can be compatible with 'instructive and popular.' Such a museological tightrope, however, may not be so easily mastered. For example, in 1985, nine years after the National Gallery's fabled *Treasures of Tutankhamen*, it is even more heavily attended *Treasure Houses of Britain*, a particularly prized show of its star director J. Carter Brown, ran into sharp criticism that as an installation, it was "devoid of substantive ideas" and made no significant contribution to aesthetic knowledge (Harris, 2013, p. 396). In the view of the British tabloid *Private Eye,* "the world's most expensive blockbuster exhibition was displayed in a ridiculous pastiche of a country house built into the Gallery" (Harris, 2013, pp. 382-383).

The debate about the value of blockbusters is not easily resolved especially when serious retrospectives (admittedly favoring the Impressionists and Picasso) have been popular successes. The financial problems of many museums must be considered. There is, however, the inescapable problem of the 'Cultural Darwinism' that deters a museum from taking the financial risk of a blockbuster that cannot guarantee wide popularity and ensure the necessary corporate sponsorship. Such economic realities favor powerful institutions in big cities capable of producing mega-events. Yet, there are the mini blockbusters with popular appeal for more specialized communities, perhaps those typically unrepresented in the museum's collections. This niche, if helped by public-private partnerships, and good marketing strategies, can hold successes that yield monetary rewards as well as heightened communal recognition.

Corporate Sponsorship

Corporate sponsorships that underwrite a special exhibition can provide an important source of a museum's financial viability. There is, however, an important caveat to keep in mind: when a company makes a charitable gift, it is acting as a socially responsible member of the community by granting some of its profits as philanthropy to a cultural organization. A corporate sponsorship, on the other hand, comes from the marketing and advertising budgets as a form of corporate public relations (Dorfman, 1998, p. 51). Whereas philanthropic gift is made to a cultural organization as an institution, sponsorship associates itself with a particular exhibition. In the former case, grateful acknowledgement is made by the cultural organization along with all other donors. In the latter case, the placement, size and reproduction of corporate logos in signage and announcements is a central consideration. Corporate sponsorships are considered to be earned income for a cultural institution, rather than philanthropy, since there is a *quid pro quo* involved.

Cultural organizations are increasingly hard-pressed to develop activities that will enhance ancillary revenue without compromising aesthetic standards. In reality, aesthetic compromises by cultural organizations are inevitable in a market-driven environment. As has been noted, only the strongest organizations will be able to make the investments in institutional loans, production values, and marketing to succeed in the entertainment business. The predicate for such success shows what is unquestionably popular rather than that which is essentially scholarly. What must be decisively avoided is putting museums, the non-commercial media and performing arts on the same continuum as the commercial fare of Hollywood, Disney, and Broadway, as if these were all part of the same 'leisure-time sector.'

Acknowledging the memorable 'crossovers,' the commercial entertainment business is concerned with profitable commodities that appeal to the broadest possible spectrum of those with the optimal demographic and consumption characteristics. As when Alan Horn, head of Warner Brothers, pronounced with refreshing directness: "Our job is to make money for our shareholders. I like to think we are producing entertainment. These are not teaching tools. We're providing mass entertainment for mass consumption" (*New York Times*, February 11, 2002). The non-commercial cultural sector, by contrast, is distinctly 'mission-driven' rather than 'profit-maximizing.'

None of this is to denigrate the entertainment business, but to recognize its fundamental accountability to the fiduciary well-being of its investors. Public and nonprofit cultural institutions, on the other hand, have an overriding commitment to their aesthetic mission (albeit in a cost-effective manner) and the general public to whom they are responsible. Museums, the fine arts, and public broadcasting would do better to align themselves with likeminded educational institutions such as universities, libraries, and public museums, as part of a public culture that enjoys a principled exemption from the vagaries of popularity and the necessities of commercialization reflected in their 501(c)(3) designation.

The potential corporate sponsor and philanthropic donor is understandably interested in reaching an audience with desirable marketing demographics that will be pleased by seeing familiar favorites. This audience satisfaction will presumably rebound to the sponsor's benefit. In the search of mega-success, the safe and familiar is pursued and the risky and innovative eschewed. It is not accidental that in the absence of a management model that can account for vagaries of entertainment choices, Hollywood hedges its bets by relying on franchise movies and remakes, which at least offer proof of past popularity. Similarly, museums will rely on past success when taking the risk associated with a blockbuster, reliant on extensive corporate sponsorships.

Gift Shops

The development of gift shops has been a particularly striking development in the commercialization of museums. Sometimes in large retail operations, with the biggest museums having mail-order catalogues, the gift shops are important sources of earned income. No longer restricted to posters, post cards, and books in small spaces off the lobby, the merchandising has become more aggressive and freewheeling. It has become commonplace for gift shops to be structured so that they constitute the only means of exit from the museums; for a blockbuster show, there will be several merchandizing outlets to navigate. On the other hand, gift shops are often placed so that entrance to the museum is not required in order to optimize retail opportunities.

This merchandising activity by museums has been criticized as peddling expensive *tchotchkes*. Regardless, the money-making opportunities have proved extremely lucrative and led to expanding existing retail spaces, the opening of offsite stores, and the development of products derived from the museum's collections and special exhibitions. In all this merchandising, gift shops seek to avoid the special federal tax on unrelated business operations insured later. As will be seen below, museum merchandise must have some relation to its collection, however tenuous.

Earned Income and Tax-Exempt Status

The earned income of 501(c)(3)s can be divided into two categories, related and unrelated income. Earned income can be considered unrelated if it is: Essentially a trade or business, an activity that is regularly carried on, or one that is not substantially related to the exempt organization's purpose, which is peculiar to nonprofits. If earned income is labeled 'unrelated', it is subject to the Unrelated Business Income Tax (UBIT). This tax is peculiar to nonprofits.

Museums go to great lengths to avoid the UBIT in the conduct of earned income operation. For example, the Smithsonian meticulously relates every item in its catalog back to one of its museum collections. This is a common practice of museums with retail operations. In general, museum sales must have an artistic connection, such as a tie with Monet's water lilies.

The question is the relationship between earned income and institutional purpose that justifies a 501(c)(3) designation. The Internal Revenue Service (IRS) seeks to determine whether an activity furthers a nonprofit's mission that is the basis for the tax-input status. If not, the income is subject to the UBIT.

With ancillary activities, the IRS does not take an 'all or nothing' approach. For example, a museum restaurant may not fulfill the educational purpose of a museum, but it can still be exempt from the UBIT if it operates for the convenience of its members. If a museum restaurant is judged larger than necessary or is accessible without entering the museum, it may be subject to the UBIT (Internal Revenue Service Publication 598). As a cultural institution's quest for earned income becomes more aggressive, the likelihood of taxation necessarily increases.

Merchandising Museums

Is Merchandising Museums the unanticipated consequence of the American system of cultural patronage? The question can be answered simply as NO. By contrast, it is the logical result of the tripartite American system of cultural policy that accords so much importance to earned income and philanthropy. There is certainly much to recommend in the American model of cultural patronage. However, it must also be remembered that a predominately privatized cultural sphere is less disposed to address questions of aesthetic representativeness and broader accessibility. In particular, any cultural organization must be wary of emulating the values of the entertainment sector. Whatever the promise of enhanced income, success can prove extremely problematic and is most likely achieved by the financially strongest, best-known institutions. Most important, an over-emphasis on commercialization endangers a museum's *raison d'être*: aesthetic integrity, promoting public accessibility, and cultural representativeness.

There is a strong movement in almost all countries to privatize their state-run, high-cultural institutions and to reconstitute them as nonprofit organizations along American lines. A market-based approach to financing the arts becomes more necessary as governments end the traditional practice of direct subsidy for operating expenses. The cultural sector is increasingly counseled to put more emphasis on the management and marketing aspects of their operations such as fundraising, corporate sponsorship, expanded gift shop, and restaurant operations. That the MBA is seen as a major resumé enhancement reflects a business approach to museum management. This is the result of a seemingly inexorable demand that the arts 'carry their own weight' rather than rely on a public subsidy to pursue art for art's sake. This 'Cultural Darwinism' is most pronounced in the United States where the arts and culture have long been managed like a business. But cultural institutions everywhere are increasingly market-driven in their need for operational funds.

The cultural sphere, however, is not simply the money-losing end of the entertainment business. The corporate sector, whatever its concerns about social responsibility, must be primarily concerned with profitability. The cultural sector, on the other hand, can support activities that are important aspects of individual self-worth and community definition even if these are not profitable as measured by the economic bottom-line. This is not to suggest imposing a taste hierarchy, but to maintain the distinction between the commercial and non-commercial milieu. Where the former is predicated upon profit, the latter seeks artistic excellence, widely interpreted and broadly available.

These goals become increasingly different as culture becomes predominantly commodified and commercialized. Popular culture requires mass entertainment products that cannot be too obscure or esoteric. This market can be configured as a normal distribution curve in which the placement of entertainment products must be no more than one standard deviation on either side of the statistical mean of the target audience. As one moves to either penumbra, or statistical tail, the risk of failure (that is, not profitable) increases exponentially. This is a risk that cannot be the basis of a business model in the entertainment industry. It is the cultural sphere, as enabled by indirect subsidies, direct subvention and tax-exemption, that takes these risks. Yet an ever-escalating demand for earned income, corporate sponsorship and revenues from ancillary activities (gift shops and private galas among others) can divert cultural institutions from their primary purpose which is to serve the public's interest. Typically, this mission is realized through a commitment to artistic excellence and aesthetic diversity without an exclusive concern for profitability and popularity. A public cultural policy exists to mitigate the distortions in representation and deficiencies in availability associated with an exclusively market-determined cultural system. To compensate for the commodification of culture that virtually defines the entertainment business, cultural valuation is addressed by public culture through policies of cultural democracy and the democratization of culture. Public support can make possible the existence of more spheres of discourse that allow the voices of the marginalized to be heard than would be possible with an exclusively privatized culture.

If earned income becomes important, there is the decided risk that commercialization will dictate the aesthetic decisions of cultural enterprises. Yet, what emerges forcefully, if disconcerting by those espousing the traditional protocol of curatorial autonomy and artistic scholarship, is the increasing importance of enhancing earned income and the implications that this has for the founding missions of museums as cultural institutions.

Educational, cultural and scientific spheres, which are neither legitimized nor validated by profitability, provide opportunities for the expression of values that are often resolutely at variance with that which is commercial and commodified. In a sense, the entertainment business gives us what we 'want' in large part because of its familiarity (and profitability), while the cultural sphere provides opportunities to consider what we may 'need' which may be unfamiliar and transgressive. This sphere provides spaces for the articulation of a variety of values that are not possible to represent in mainstream entertainment, but which are necessary for the diversity of expression associated with a healthy civil society. These include expressions of the contrarian, contentious, avant-garde and adversarial aesthetics as well as those of people who are marginalized because of class, ethnicity, gender, sexual orientation, and geographic location.

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