INTRODUCTION

In the U.S. and a good many other advanced countries, the 1980s were marked by budgetary stringency and moves toward greater decentralization of public finances, often colored by strong ideological reactions against government intervention in social and economic affairs (although fiscal restraint and decentralization are not inherently characteristics of either right or left ideologies). In the U.S., the state governments in combination now provide considerably more direct cash support of the arts than does the Federal government and the disparity appears to be growing. In addition, the traditional major form of public financial support, Federal tax incentives for private giving, appears likely to be of declining importance.

Whether this more decentralized fiscal regime is a move toward or away from what economists would consider optimal depends, in practice, on the answers to two major questions. First, is the more decentralized public subsidy policy consistent with the traditional economic rationale for public support of cultural activities? That, of course, depends on the empirical content of the changed policy: just what it is that the central and local governments do when they subsidize cultural activities. Second, given that - in the real world - it is impossible to separate completely national, regional and local concerns, more decentralization will work best in the support of cultural activities (as in other spheres), if the regional and local capacity and willingness to finance public services is converging, or at least not increasingly divergent. The answers to these two major questions are the subject of this paper.

INCREASING DECENTRALIZATION OF PUBLIC SUPPORT

There was a considerable degree of fiscal decentralization in the U.S. during the 1980s, as in some other OECD countries. There were several reasons for this: budgetary stringency at the central government level; the political victory of conservatives with a strong ideological bent toward decreasing the size of the public sector (a goal that some thought best accomplished indirectly, by fiscal decentralization); and even a bit of economic theory - most American public finance economists, regardless of ideology, were convinced that the central government share of the finance of non-redistributive services was excessive by the end of the 1970s.

Whatever the reason, the change in the financing pattern was substantial. By the late 1980s, the federal government was financing only about one-third of civilian public expenditure exclusive of health and retirement benefits for the elderly, compared to 44 percent in 1980. The federal share was back to the level of 1965, in effect wiping out...
the fiscal centralization that had occurred along with the so-called "Great Society" programs of the 1960s and their extensions in the 1970s. (See Netzer, 1990, for a more adequate treatment of this.)

Federal direct support for culture was affected by the retrenchment - or at least, slow growth rate - in federal domestic programs aside from social security. The appropriations in current dollars for the two National Endowments - for the arts and for humanities - were virtually the same in 1990 as in 1980, implying a reduction in real terms of about 30 percent. Federal support of culture in other forms, notably for the national museums and other cultural activities in Washington itself and for public broadcasting, did increase more significantly, by about 10 percent in real terms. Combined federal spending for these cultural activities increased by about 35 percent in current dollars over the decade, but declined about 10 percent in real terms.

During the 1970s, state and local government spending for cultural purposes had increased rather slowly, in part because of the fiscal crisis in New York (the New York state and city governments in 1975 probably accounted for more than half of all state and local cultural spending), in part because many states that later became significant spenders were just entering the field. But in the 1980s, appropriations for state arts agencies nearly tripled in current dollars, and nearly doubled in real terms, while other state and local cultural funding also increased substantially, if not quite as rapidly, so that state and local funds in support of culture increased overall by about 30 percent in real terms and about 100 percent in nominal terms. At the beginning of the decade, the federal government had been providing about 60 percent of the total direct governmental support; currently, the Federal share is only 50 percent.  

Actually, the decentralization promises to be much more marked, because most of the public subsidy in the U.S. always has taken the indirect form of tax preferences, for nonprofit arts organizations themselves and, even more, for private gifts to them. Although state and local governments' tax preferences have mirrored the federal ones, the latter have been much larger in magnitude, simply because marginal federal tax rates were (and are) so much higher. However, the reductions in federal tax rates also have been much larger than those in state and local tax rates during the 1980s. Therefore, the reductions in indirect subsidies at the federal level have been much larger than the reductions at the subnational levels of government, and this should be visible in the data in time.

SUBNATIONAL GOVERNMENTS' CULTURAL POLICIES

Fifteen years ago, when the level of subnational government support was much lower, in most American states that support was used for very limited purposes: operating funds for a small number of institutions, mainly museums, that were governmental enterprises (and, in most cases, had been for many years); occasional touring programs for low-budget cultural attractions; sometimes, promotion of even lower budget quasi-professional activities; and, everywhere, financing of a small arts agency staff that administered some National Endowment for the Arts (NEA) programs and lobbied hard for additional state government funding (see Netzer, 1978).

In a very few states, notably New York, the state arts agency had sufficient funds to provide substantial support for major non-governmental cultural institutions. By now, that is much more common, as more agencies have appropriations sufficient to make nontrivial grants to major institutions. As in New York, several state agencies do make regularly recurring grants to major organizations for operating support, in some cases as a result of financial emergencies in specific organizations. A few have significant programs of grants to individual artists. The state agencies continue to emphasize geographic dispersion of cultural activities and experiences, sometimes using their grants to create new producing organizations, sometimes by extending what were brief