Commentary

# The Culture Crash

James Panero 07.20.09, 12:00 AM ET

To understand the current condition of arts organizations in New York City, visit the Metropolitan Museum of Art. There, you will find one of Winslow Homer's most famous works, The Gulf Stream. Painted in 1899, the canvas depicts a solitary sailor lashed to his boat on a storm-tossed sea. The mast and bowsprit have snapped, the tiller and rudder are gone, and a school of sharks circles the boat in blood-red water. On the horizon are two images. On the left, through the fog, is the silhouette of a ship under full sail: a possible rescue. On the right, a looming waterspout presents a far more ominous outcome.

Homer was no allegorist, but his work serves, unfortunately, as an all-too-appropriate metaphor. Just as the storm has knocked out the boat's propulsion and steering, an initial wave--the downturn in the financial markets--has smashed the endowments of arts organizations. Now a second threat, the indirect effects of the downturn, is appearing on the horizon like the waterspout. Its full force will be felt by arts organizations in the months and years ahead.

The reductions in arts endowments reported over the past year have been significant, raising the question of how they have been managed. If the investment goal of arts endowments is the preservation of capital, how can they now face decreases of 35%, aside from the criminal actions of investors like Bernard Madoff?

For the answer, look to nonprofit money managers and "managers of managers," such as the Commonfund, which was started with seed money from the Ford Foundation in 1969 and now manages managers for hundreds of nonprofit institutions, with $40 billion in assets under management as of 2007. These managers, now used throughout the nonprofit world, have encouraged arts organizations to seek "total returns," including capital appreciation, from their endowments, rather than merely preserving capital and accruing dividend income.

"In the post–World War II decades," explained Commonfund in its 2005 report Principles of Nonprofit Investment Management, "the concept of prudence changed from one of avoiding risky investments altogether to one of balancing the risks of various kinds of investments against one another. ... If you aim to get the most out of your investments long term, you have to own some that have a higher degree of risk."

Endowment asset allocations thus moved away from the safety of fixed-income instruments, such as high-grade bond funds, to the volatility of domestic and foreign equities and even to "alternative investments," such as distressed debt and venture-capital equity. This investment strategy paid luxuriantly during the good times, resulting in bloated budgets and massive expansions. Yet with only quarterly meetings, arts boards proved too slow to navigate away from the hazardous investments once the bad times began. In short, arts organizations adopted bad habits.

"All of the charities, all of the institutions lost money, but they didn't have to lose 25% to 40%," says Frank Martucci, a financier who has sat on several arts boards and opposed their aggressive strategy. "Why weren't there some down only 10%? If you are all sharing the same strategy, it's not really a diversified approach. Advisors are all pretty much the same. They tell you 10% to 30% in bonds and the rest in private equity, stocks, foreign securities, distressed securities. There are times you take your chances, but with charities I don't think you ever do, and putting 85% of your money in equity and illiquid instruments is gambling. I hope this has taught people to be more conservative in their approach towards charity."

Martucci advocates an eventual shift in endowment allocation to 40% to 50% in conservative fixed-income investments and the rest in equities--and only 5% to 15% of that in alternative investments. He also suggests that arts endowments move away from relying on active management and use volunteer board members with financial expertise to oversee investments, which can largely be maintained through bond index funds. "Managers of managers are like funds of funds," says Martucci. "You can end up paying fees three times over."

In the early months of 2009, arts organizations began announcing their endowment losses and the measures they were taking to balance their budgets. The news reports became week-by-week blows to the city's cultural health. James R. Houghton, chairman of the Metropolitan Museum's board of trustees, announced in February that the museum's endowment had lost a staggering $700 million since the previous June--a decrease of 25%, leaving the endowment worth about $2.1 billion. Since investment income makes up 30% of the heavily endowed Met's annual operating revenue, the loss shook the museum at all levels. Adding to the Metropolitan's woes, the city announced that its operating support for the museum would be reduced by $1.7 million, with another cutback of $2.4 million announced for the next fiscal year.

Houghton identified a set of new cost-cutting measures, including a museum-wide hiring freeze, the elimination of temporary staff and travel curtailment. He also flagged the museum's retail arm for immediate cutbacks. In March, as the Metropolitan's loss estimates rose by $100 million, its director, Thomas Campbell, announced further layoffs. Campbell added that the museum anticipated the need to reduce the rest of its workforce by 10% by July, which could mean a reduction of as many as 250 additional full- and part-time jobs. These cuts will represent the first museum-wide layoffs since the fiscal crisis of the early 1970s. And in June, the museum raised the estimate of its losses again, to a third of the endowment's former value.

"We're looking at a period of austerity this fiscal year, and the situation will be even more difficult in the fiscal year that follows," says Metropolitan spokesman Harold Holzer. Even without an additional downturn in its portfolio, the Met's bottom line will worsen because of the way the museum averages its endowment income over a multiyear period. "We base [endowment income] on a rolling average of 20 quarters, so it's just beginning to be averaged in," says Holzer. "We've had three quarters. Eventually the bad periods become the majority of the average. That's when the income will go precipitously down. We're looking at a much more pressing problem in fiscal year 2011 than in 2010."

Bad news for the Met, but smaller arts organizations might envy a mere 33% endowment loss at a still-munificent museum. On April 21, Arnold Lehman, director of the Brooklyn Museum, released far grimmer news. The museum's endowment had fallen 35% from the top of the market, from approximately $100 million to $65 million.

In addition, since the end of the museum's 2008 fiscal year, New York City had reduced its operating support for the institution by 32%, amounting to a loss of $2.31 million over three years, according to the museum. Income from museum membership fell 20% in the first months of 2009. Enrollment for new members dropped "precipitously" compared with the past several years, Lehman continued. Income from two major annual fund-raising events was down 35% in early 2009. Revenue from the museum shops and the parking lot also fell off. To help confront these shortfalls, Lehman announced, the museum's trustees had agreed to maintain or increase their level of financial support.

Meanwhile, the museum froze hiring and put a moratorium on staff travel. Suggested admission fees for adults were raised from $8 to $10. Staff members would get a one-week unpaid vacation in the summer. Nonunion employees were asked to take salary reductions, beginning in July, and all employees were offered voluntary severance packages. Through these actions, Lehman said, the museum hoped to "reduce personnel costs sufficiently to avoid or minimize any subsequent layoffs." Meanwhile, a major exhibition scheduled to open in the fall was canceled, and in September, the museum will shutter one of its three special-exhibition galleries "for the foreseeable future."

Lehman's perspective on the challenges facing New York arts organizations extends beyond Brooklyn. In addition to his job at the Brooklyn Museum, he heads the Cultural Institutions Group, a committee representing 34 city museums and cultural outlets, including the Metropolitan Museum of Art, the Brooklyn Academy of Music, and the American Museum of Natural History. The group's members are located on city-owned property and receive funding from the city in exchange for providing cultural services.

"The Cultural Institutions Group really is in the midst of a perfect storm," Lehman said in late April. "Significant reductions in municipal support as well as huge downturns in contributed incomes at all levels have left many of our members in a much more fragile state than is understood by the general public." While many once-stable arts organizations are now in a "fragile state," those that were already shaky when the financial crisis began may now be past hope.

---

No organization represents this sad chapter of the economic crisis more than New York City Opera. At one time, City Opera--the "people's opera," as Mayor Fiorello La Guardia called it--was a model counterweight to the Metropolitan Opera, its tonier neighbor now located across the plaza at Lincoln Center. The opera star Beverly Sills became City Opera's general director in 1979 and headed it for a decade, raising its profile with popular bel canto fare and increasing donations. The more than decade-long tenure of Paul Kellogg, who took over from Sills's successor, Christopher Keene, in 1996, was likewise "stable and successful--a model balancing act," writes New Yorker music critic Alex Ross. Yet when Kellogg announced his retirement in 2005, City Opera languished for years without finding a replacement.

Another long-running problem was City Opera's location. For years, it fretted over finding a new venue independent from the New York State Theater at Lincoln Center, which it shared with the New York City Ballet and which was constructed with acoustics suited to ballet footfalls rather than opera arias.

With each failed search, City Opera piled uncertainties on its supporters. It sought headline space at a rebuilt World Trade Center cultural venue and then at a location nearby, which it lost out to Goldman Sachs. It proposed building a new theater in

Damrosch Park, the current location of the Lincoln Center band shell, and was shot down by the Metropolitan Opera. It looked at reconfiguring City Center in midtown, where Morton Baum had founded City Opera in 1944, but concluded that the fly space there couldn't accommodate contemporary sets. It made plans to move into a new development near Lincoln Center, on Amsterdam Avenue, but that also fell through.

Now the opera company may not need a home at all, partly thanks to its 2007 selection of Belgian-born Gérard Mortier as its future director. An avant-garde impresario accustomed to government largesse (see "The Abduction of Opera," Summer 2007), the director proved a far greater diva than Beverly Sills without singing a note. While the New York State Theater went under the knife for a $100 million renovation, becoming in the process the David H. Koch Theater, Mortier encouraged City Opera's board to shut down the 2008–09 season almost entirely, rather than contend with the construction. (New York City Ballet had no such qualms and ran its season around the interruptions.)

While the opera was able to shed its administrative staff for the yearlong furlough, it still had to pay its chorus and orchestra. Ticket revenue declined from the $13 million that it averaged for its 2005 to 2008 seasons to only $320,000 this past year. The ill-timed closing, combined with the economic crisis, pushed City Opera into an abyss. In 2001, City Opera's endowment was worth $51 million; in 2008, it had shrunk to $27 million; now, after two large withdrawals for operating expenses in late 2008 and early 2009, it has dwindled to $10 million.

And what became of City Opera's captain during this emergency? In November 2008, Mortier jumped ship without ever taking the full-time helm, accepting a job at the Teatro Real in Madrid. He says he opted out of his New York post because City Opera's evaporating finances wouldn't let him enact his artistic vision. "I saw myself as drowning," Mortier told *The New York Times.* "I wanted to be rescued." As he floats away on a golden lifeboat, his replacement, the young George Steel, has confronted a strike from his union performers over further emergency cuts. City Opera's future will play out in one of two ways: Either a donor steps in soon to rescue it, or Steel will oversee the end of a once-proud New York cultural institution.

The experiences of these three institutions--the Metropolitan Museum, the Brooklyn Museum and City Opera--mirror the overall troubles of arts organizations in New York City.

The Metropolitan Opera, which saw its $300 million endowment shrink by a third, has cut senior staff salaries by 10% and put up its colossal Marc Chagall tapestries as collateral for a loan. The Museum of Modern Art has implemented a hiring freeze and ordered a general budget cut of 10%. The New York Botanical Garden, facing a $2 million reduction in city support and a 12% budget shortfall, will cut 49 jobs; it has also canceled its 2009 summer art exhibit, despite the popularity of last year's showing of Henry Moore sculptures, which led to an 8% increase in attendance. The Asia Society has seen a 30% decline in its endowment and has had to cut 18 positions, reducing its $26 million operating budget by 10%.

Even animals are facing the ax, metaphorically, as the Bronx Zoo must close several exhibits. A survey in late 2008 of nearly 100 New York City cultural institutions, conducted by the Alliance for the Arts, found that 79% had reduced or were planning to reduce their budgets, 68% were deferring new hires, 42% were planning layoffs and 45% were canceling or postponing programs.

With irrecoverable losses in endowment income, at least for the foreseeable future, the survival of arts organizations will depend not just on cutting their budgets without negatively affecting their core services, but also on finding new sources of revenue. Unfortunately, in perilous economic times, attracting new donors may be harder for arts organizations than for other nonprofits.

The Princeton philosopher Peter Singer exemplifies the attitude against arts funding in his new book, *The Life You Can Save*: "Philanthropy for the arts or for cultural activities is, in a world like this one, morally dubious." Singer points to the $45 million that the Metropolitan Museum spent on a Duccio painting in 2004 as an amount that would pay for cataract operations for nearly 1 million blind people in the developing world. "If the museum were on fire, would anyone think it right to save the Duccio from the flames, rather than a child?" Singer asks.

Such ideas, of course, ignore the fact that arts organizations, unlike "feed the world" campaigns, have a proven track record of serving and elevating the poor and dispossessed. They also employ many workers. Still, studies by the Conference Board and by the Center on Philanthropy at Indiana University find Singer's anti-art attitude reflected in the habits of many donors during troubled economic times.

"When you're providing human services or feeding the hungry, people understand that maybe this is a time to dig a little deeper," Patrick Rooney, interim executive director of the Center on Philanthropy, told Bloomberg News. "Helping an arts organization? That's a tougher sell." Randall Bourscheidt, president of the Alliance for the Arts, concurs. But the "deeper values of society that are in education and the arts are important," Bourscheidt maintains. "These activities are not competing with basic needs but complementing them."

Some arts donors have already followed Bourscheidt's advice. In April 2009, the Juilliard School announced that it would cut 50 slots for poor minority schoolchildren in its Music Advancement Program. When the billionaire Los Angeles philanthropist Eli Broad read about the cut, he pledged $425,000 over four years to sustain the program.

But such stories are the exceptions. A Foundation Center survey at the start of 2009 reported that two-thirds of foundations expected to reduce their giving amounts by about 10%. Half of all foundations predicted reductions in the number and size of their grants. Most grant-making organizations anticipated maintaining their previous priorities--meaning that arts foundations will continue to make donations but that competition for their support will become more aggressive.

Many arts organizations will close before the next financial rebound. Some will undoubtedly fold because they lack public support, and as unworthy organizations no longer compete for funding, such winnowing could eventually contribute to the cumulative health of the arts. One hope for arts organizations that do survive the storm is that they emerge stronger, leaner and more responsive to their constituency.

The National Academy Museum and School of Fine Arts is an organization that is trying to turn that corner. Like City Opera, the artist-run Academy suffered from years of bad management. In the economic downturn, its already-small operating endowment fell 40%. So in late 2008, it sold two major Hudson River School landscapes from its permanent collection to pay its bills.

It was a low point in the Academy's 184-year history. According to peer-reviewed organizations like the Association of Art Museum Directors, museums are permitted to use the proceeds from the sale of artworks--or "deaccessions," as the museum world calls such sales--only to fund the purchase of other artworks, not to pay general operating expenses. The National Academy deaccessions brought a censure from the arts establishment, making the museum unable to secure loans from other museums. (Legislation now under consideration in New York State would have made the deaccessions illegal.)

But if not for the sales, "we would not have been able to pay loans and certain creditors," says David Kapp, an artist and treasurer of the National Academy. "We would have had to file for Chapter 11." The sale of the works brought the National Academy's operating endowment to $10.5 million.

If the National Academy survives--and the painting sales bought some time--the economic crisis will have presented the museum and school with a mandate for reform, says Kapp. In April, the Academy's artist members voted to modernize its governing structure and administration. "How do you guarantee that it never gets to that edge again?" asks Carmine Branagan, the new director of the Academy. The answer, she says, is to confront the bad decisions and bad habits that created the crisis--in the Academy's case, an antiquated board structure that hindered fund-raising and outreach. "The sale of the paintings would have been a wasted endeavor," says Kapp, "if we hadn't changed our governing practices."

The Academy's restructuring points to a lesson for the city's other arts organizations. They must try to survive the storm through budget cuts and aggressive outreach, yes. But they must also confront the governing and investment decisions that exposed their endowments, big and small, to excessive levels of risk and brought many of their organizations to the brink. As Kapp says: "This is too good a crisis to waste."

*James Panero is the managing editor of* The New Criterion*. He collects his writing at supremefiction.com. Adapted from "New York's Tomorrow," a special issue of* City Journal.