ON JUSTIFICATIONS FOR PUBLIC SUPPORT OF THE ARTS

Don Fullerton

A large literature has discussed the philosophical and economic arguments that might justify government involvement and subsidies to public charities for the arts. Major disagreements characterize this literature. On the one hand, advocates for the arts justify government subsidies by the inherent value of art for the cultural development of our society, the education of our children, and the enjoyment of our citizens. On the other hand, some analytically-minded economists (but not all) may argue that the free market works reasonably well on its own, without much governmental interference, unless some well-defined market failure causes a misallocation of resources that could justify public action.

To help clarify the arguments, I wish to review several of the standard justifications for public support of the arts, and describe why some economists have such trouble finding one that is analytically sound, rigorous, and convincing. Finally, I will present a new argument based on the concept of externalities that may have more appeal to economists. Actually, it is just a new application, to the arts, of an existing case made in the economics literature for in-kind transfers. Discussion of the relative merit of various justifications for government support is essential for understanding the significance of art in a democratic society and in an economic environment. If we really value art, then we owe it the chance to be analyzed, to be justified, and to be heard.

Accordingly, the next section reviews justifications for public support that have been raised in the literature. It also points out why economists have had such trouble accepting these arguments within their "rigorous" analytical framework. None of the standard justifications by itself seems adequate to explain the documented size of government subsidies, though a general case may rely on all such justifications in combination.

Finally, I suggest a somewhat new perspective on externalities, one justification that may have more appeal.

Justifications for Public Support

Many of those who participate in the arts may think it obvious that government ought to provide financial support. The preservation and display of artistic treasures provide national prestige, educational benefits, cultural enrichment, and nearly unlimited enjoyment through their inherent aesthetic value. But economists point out that many goods have qualities similar in nature. For example, movie theaters have many of the same attributes as art museums or artistic performances. Like the production of fine art, the production of Hollywood movies requires much talent, time, and expense. These works can be put on display without being used up, and admission can be charged. They can be preserved for the enjoyment of future generations. They are often educational or historical, and they help define our culture in aesthetic and often thought-provoking ways. Many find them enjoyable to view.

Yet subsidies are not justified for the thousands of profit-making movie theaters in this country just because they provide a product which is "good". Why should government support "the arts" and not movie theaters? The answer is not so obvious.

To address this type of question, economists since Adam Smith have found that the most compelling and useful framework is the power of competitive markets. The initial competitive model is useful not for its initial conclusions, but for its framework of analysis. This framework puts the burden of proof upon those who would try to justify government support for any activity, and it is useful because it helps preclude interference in private markets that do operate well on their own. The presumption of the free-market model thus helps avoid many unjustified government interventions, and this advantage is lost unless the presumption is applied uniformly. Economists therefore start with the presumption that public support of the arts must be demonstrated by rigorous analytical argument.

Let us now review some of the major arguments that have been advanced as justifications for public support of the arts in general. Entire books have been written about some of these issues (e.g. Netzer, 1978, Banfield, 1984, Weisbrod, 1988, and Grampp, 1989), so the discussion here will only be able to give a flavor for some of the pros and cons of each argument.

Rising Costs

In a quintessential example of economic analysis that is both rigorous and intuitive, William Baumol (1967) describes why public service organizations may experience cost disadvantages that increase virtually without limit. In one sector of the economy, labor becomes increasingly productive through technological advances such as more efficient computers, easier communications, better products, or faster travel. Competitive forces increase the real wage over time, reflecting this greater productivity. In contrast, labor in the nonprogressive sector conducts business as usual: a teacher at the blackboard, a policeman on the beat, an artist with an easel. Productivity does not generate wage increases in this sector, but workers are free to choose between the two sectors. Increasing wage disparity will attract to industry some scientists that might have been teachers, or designers that might have been artists. If the nonprogressive sector is forced to match wages that continue to rise in the progressive sector, its costs will continue to rise without the offsetting productivity. If it does not match wage increases, its labor force and output will continue to fall.

This rather dismal theory has been applied to evidence in the performing arts by Baumol and Bowen (1966) who point out that faster performances are valued on the assembly line, but not at the opera. It may apply with equal force to the visual arts. On the other hand, some artists may use technological advances to achieve a given effect in shorter time, and some curators may be better able to preserve paintings using new techniques. Just as we gain from new technologies that allow sharper musical reproductions on compact discs, we can gain from high quality reproductions of art, inexpensive prints, or safe travel of exhibitions. Also, even if costs do rise over time, increasing incomes may allow us to bear those costs while buying the same amount of art. Finally, even if this argument explains why costs increase and output falls, it does not justify government subsidies. Government should not subsidize every good that becomes expensive or obsolete, so another argument must identify something special about art.

Difficulties Defining Income

Several related views are offered by legal scholars for the tax exemption of nonprofit institutions. William Andrews (1972) points out that the income tax is based on the ability to pay, or control over resources, where income is defined as consumption plus change in net worth. Charitable gifts detract from one's ability to pay tax, as they are neither consumption nor saving. In addition, Bittker and Rahdert (1976) argue that even if an ideal system would tax the income of nonprofit institutions, no practical definition of income is suitable. Dues-paying members and other donors might be viewed as customers who provide income, or they might be viewed as shareholders who provide capital that should not be taxed as income. Similarly, the deductibility of all amounts expended toward charitable objectives might be thought to include capital outlays since these accumulations are irrevocably dedicated to those objectives. Since the institution can never pay out to any owner, its funds cannot represent any individual's ability to pay.

These points illustrate the ambiguities that helped lead to the current tax treatment of nonprofit institutions, but they remain ambiguities. Donors can be said to feel just as much value from their gifts as from their other consumption expenditures, or else they would not give. They are buying privileges of membership, a plaque on the donation, a little prestige, or at least some personal satisfaction. There is no logical necessity to exempt gifts, though the deduction might be justified on other grounds.

The difficulty of measuring income does not rule out any reasonable attempt to do so. Investment income and admission fees are pretty well defined, and the tax code has faced measurement problems for taxable income at least as formidable as those described for nonprofits. Hansmann (1981) points out that earnings can be defined as receipts from investments, benefactors, and visitors, minus expenditures on the services to which they are dedicated. The issue is complicated by the lack of a clear rationale for the existence of the corporate income tax, given that individuals are taxed on their ability to pay under the personal income tax system. But given a separate corporate income tax on the retained earnings of a corporation that may pay no dividends, there is no logical reason (absent some other justification) to exempt the nonprofit's retained earnings.

Contract Failure, or Asymmetric Information

Profit-seeking firms may work fine with full information, but some markets are characterized by consumers that cannot adequately monitor quality and producers that therefore have an incentive to shirk. Arrow (1963) notes that patients may prefer nonprofit hospitals that have less incentive to cut corners. Nelson and Krashinsky (1973) apply the theory to day-care centers that are difficult for parents to judge. These are primarily commercial nonprofits, but Hansmann (1980) further discusses those that rely on donations. Our example is analogous. Arts organizations such as museums organized for profit might contract with members or other donors for public services such as art preservation, exhibition, and education, but such a contract would fail to ensure the quality of those services. The firm might seek short run profits by providing inadequate long run care of the art. However, the nonprofit form at least offers some additional assurance that the funds are being used appropriately.

This theory is successful in the direction of its intended purpose, namely, the explanation of the role of nonprofit institutions in an otherwise market economy. It does not relate to the rationale for tax exemption, however. Even if the retained earnings of nonprofit institutions were fully taxed, the nonprofit form would still provide the same signal to consumers that they were less likely to be gouged.

Compensation for Capital Constraints

Assuming for the moment that subsidies are justified, why should they come in the form of exemptions for the investment income of orchestras, art museums etc.? That is, if the goal is preservation and education, why encourage retained earnings? Hansmann (1981) addresses this question by noting that nonprofit institutions cannot issue stock. They cannot attract investors' capital, because they cannot pay out any profits. Their services may be highly valued by consumers, either because of contract failure with profit-seeking firms or because of the public or external nature of the benefits, but because of the nondistribution constraint these nonprofit firms will be unable to raise enough capital to provide those services. The exemption from income tax may then provide a rough compensation for that constraint in a way that aids the nonprofit's capital accumulation.

Clearly this argument cannot stand on its own, as it must rely on one of the other market failures listed here. In addition, Goodspeed and Kenyon (1988) show that the compensation is rough at best. It does not restore the economy to the optimality of a world without either the tax on the profit sector or the constraint on the nonprofit sector. Finally, they doubt the existence of a real constraint. Although nonprofit institutions cannot issue stock, they can be funded by debt or by foundations and major donations that are not available to firms operating for profit.

Redistribution

One problem with a purely competitive free-market economy is that it does not ensure a fair distribution of income. A democratic society might therefore wish its government to intervene in the market, despite the distortions in consumer choice associated with taxes and transfers, to ensure a decent standard of living for everyone. In our case, arts organizations are charities that provide free admission and other benefits that might be thought to help the poor. David Rockefeller says:

> "I believe that unless we can give the people who live in our ghettos, who are the under-privileged of our rich country, a hope to be able to enjoy the better things in life and not just the bare necessities -- unless we can convince them that they, too, can share in beauty and creativity, are we really going to satisfy their wants?" (in Banfield, 1984, p.60, from Gingrich, 1969, p.3)

Clearly the extreme form of this argument is absurd. No one can really believe that the first item on the agenda of the homeless is to have more subsidized access to the arts. Data in Feld, O'Hare, and Schuster (1983) reveal that the top income group representing 8 percent of the population accounts for 18 percent of the visits to art museums, while the bottom income group representing 8 percent of the population accounts for about 2 percent of visits to art museums. Any direct benefits of subsidies to the arts must be said to accrue to the affluent.

David Rockefeller probably had in mind an argument based on equality of opportunity, as suggested by Baumol and Bowen (1966, p.379) when they say that "the extremely narrow audience for the arts is a consequence, not of limited interest, but of the fact that a very large segment of the community has been denied the opportunity to learn to appreciate them." It remains speculation, however, what the poor would choose if given more opportunity. And while it may represent a case for education in an economy without fully informed consumers, it is not by itself a case for merely providing the opportunity to view art.

Feld, O'Hare, and Schuster (1983) note that the benefits of visits to art museums represent only part of the impact. They also calculate the distributional pattern of various sources of income to museums such as admission fees, donations, and government subsidies. Admission fees are paid by those in relatively high income brackets, donations are received from those in even higher income brackets, and the deduction for gifts is "paid for" by taxpayers who also lie predominantly in the upper brackets of the progressive personal income tax. On balance, the arts are mildly redistributive in the sense that those who finance them have income slightly higher than those who benefit. This calculation is enlightening, but it hardly presents a case for using the arts to redistribute income, however, and it does not say that the government portion of the equation could not be more redistributive.

Merit Goods

Another variation on this theme is that art represents a "merit good" with inherent qualities that ought to be provided or subsidized by government for the good of society. Fundamentally, this type of argument is paternalistic. By denying consumer sovereignty, it denies the premise of the free-enterprise model that markets are better than government at determining value. The poor do not want someone else to decide what is good for them, any more than those who are not poor.

Public Goods

The optimality of the free-market economy requires that all goods can be bought and sold. If a private producer can exclude those who do not pay, then a price can be charged that covers cost and tries to make a profit. In this case, the market mechanism can work. If the good is not "excludable," however, then benefits flow to those who have not paid. Since everyone receives the benefit, no one has an incentive to pay for it. If too many consumers try to get a "free ride," then no producer can break even and the good is not provided. The market fails, even though total benefits of the good exceed its cost.

In our case, art can be bought and sold, and admission to arts events can be charged. The primary benefits of art and its viewing are excludable. Others may benefit indirectly, however, even those who do not visit the organization. They may value the continued preservation and availability of art, or the advancements in ideas, education, and culture that it makes possible.

Another useful distinction is whether a good is "rival" in the sense that one's consumption precludes another's, or nonrival in that each can benefit without using it up. If for example, an art museum is uncrowded, for example, one more visitor may impose no additional cost. Even if the good is excludable, the market fails because any private provider would have to charge a positive price. It would thus discourage use by some for whom the benefits exceed the cost.

Art itself is not categorically a public good because consumption can be charged for (at least at museums) (excludable) and is limited (rival). Although not always revelant and perhaps a bit strained, the example is not unlike a movie theater where empty seats imply that one more viewer has no social cost. The best exhibits can get very crowded, so one more visitor does impose a cost on others. Travel for the exhibition to reach additional visitors can be very expensive.

Externalities

Indirect benefits cannot be sold or used up, however, so art may have positive externalities. Provision of art has benefits that spill over to nonpurchasers. Much of the literature (e.g. Baumol and Bowen, 1966, Netzer, 1978) is concerned with listing and discussing these externalities. Such arguments may well justify public subsidies, but none is above challenge and none is demonstrated empirically.

First, art may provide a source of national prestige, pride, or international recognition. Of course well-built cars, computer chips, or films may also be a source of pride. The case depends on showing a substantial difference between art and other private goods that would justify the subsidy. Also, this potential externality may benefit the nation more than mankind in general. Many European countries have export limitations on "national artistic treasures," but one country's gain may be another country's loss.

Second, the availability of cultural activity may attract tourists, other businesses, and general beneficial growth (see Radich, 1987). The case is strongest for a major metropolitan area that wishes to attract the right kind of growth and might therefore sponsor the arts, but note again that the extra business for one city comes primarily at the expense of another city. If competing cities all increase their attractiveness in this way, then none can afford to ignore the arts and yet no net additional business may be created.

Third, future generations are not able to voice their demand for today's preservations of the arts. Baumol and Bowen (1966, p.385) refer to this external effect as a case "par excellence" for public support. Yet many private firms make current investments necessary to provide for the demands of future generations. The case depends on some reason that private arts organizations without subsidies would not see sufficient future profit opportunities from current preservation. Economists may suggest that they see no future profit for the same reason they see no current profit. Thus subsidy still needs justification.

Fourth, many point to the educational function of the arts. In general, we benefit from others' education because of feedback effects on greater future innovation, social discourse, and economic and cultural growth. A case must be made here not only that the fine arts have more educational content than other excludable private goods (like Hollywood movies), but also that subsidizing arts organizations is a better way to achieve that educational goal than further subsidizing other educational institutions. Schools and universities may be better able to reach the target audience with the desired knowledge in a way that maximizes the beneficial effect. For most audiences yet to be educated, that viewing the artist's original in a distant museum may not be more effective education thanviewing and discussing a print.

Fifth, Tibor Scitovsky (1983) notes that humans crave stimulation and excitement as in "literature and gambling, art and violence, sports and crime" (p.7). It is not just that art may have external benefits, but that alternative forms of excitement have external costs. Thus:

> "..the main justification for subsidizing the arts is to acquaint the general public with the artistic outlets to man's passion for excitement, adventure and stimulation, in the hope that as the existence and attraction of those outlets become more widely known and appreciated, they will help to displace the obnoxious and more costly outlets to those same passions" (p.14).

The idea here is primarily educational, as in the previous item. Also, Scitovsky acknowledges that such a plan may take generations. In the short run, it may be more effective to provide recreational sports facilities as an alternative outlet for the energies of youth.

A New Argument with More Appeal to Economists

Many of the arguments discussed in the previous section can be recast in terms of an externality, including those involving merit goods and redistributive goals. An externality arises anytime one producer or consumer takes actions that affect another, when there is no market for it. The concern that the donor feels for the disadvantaged recipient can be represented by the expressions:

$$(1) \qquad U_D = U_D(X_D, Y_D, U_R)$$
$$U_R = U_R(X_R, Y_R)$$

The donor's utility (U_D) depends not only on his goods (X_D and Y_D), but also on the recipient's utility (U_R). If many potential donors feel the same way, then they are tempted to free ride: giving to the poor is nonexcludable in that one donor cannot keep another potential donor from appreciating the redistribution. It is also nonrival in that many donors can benefit from a single gift. Thus giving is a "public good" that is inadequately provided by private markets (Hochman and Rogers, 1969, Thurow, 1971). Government can help. In fact, even though potential donors do not have enough incentive to give voluntarily, they can all become happier by voting to tax themselves and provide transfers to the poor. The basic logic is, "I'll give if you give."

So far, we have assumed that the donor considers the recipient to be the best judge of his or her own well-being, and so the gifts should just involve cash. Suppose, however, that the utility functions are slightly different:

$$(2) \qquad U_D = U_D(X_D, Y_D, X_R)$$
$$U_R = U_R(X_R, Y_R)$$

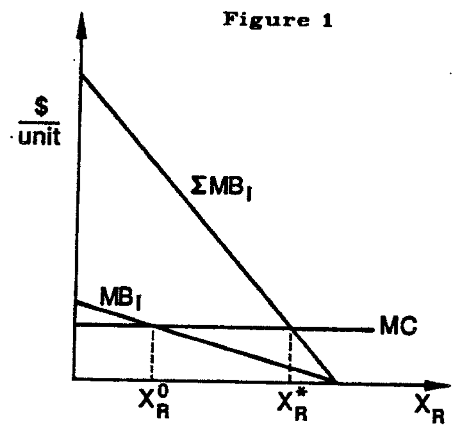
where X represents the arts and Y everything else. Then the donor values not the general welfare of the recipient, but the amount of art received. The donor may think that additional museums and art education will reduce the crime rate, increase national prestige, or make possible future cultural and scientific achievement. Or the donor may merely be paternalistic about what the recipient ought to receive. The reason that U_D depends on X_R is essentially irrelevant. All that matters is that many potential donors feel benefits from recipients' access to the arts. The private decision to give another dollar to the arts will account for one's own valuation of X_R, but not for other potential donors' benefits. Thus private giving is insufficient.

The fact that art also enters the recipient's utility in equation (2) is not necessary to justify the subsidy. That is, even if the poor could care less about art, potential donors can make themselves happier by paying tax dollars to support subsidized provision of art. This justification for public support of the arts does not appear in the previous literature.

This justification can be formalized, to help avoid misunderstanding. Let me first take the simplest possible model and later discuss generalizations. Consider a large number of donors ($i = 1, \dots N$), each with utility over just one private good, Y_i, and art of recipients, X_R. For now ignore the donors' own appreciation of art and the utility of recipients. Each individual donor maximizes $U_i(Y_i, X_R)$ subject to a budget. For these donors, however, X_R is a pure public good. It is nonrival because any individual's provision of X_R will benefit all N potential donors at no additional cost. It is nonexcludable because one donor cannot charge other potential donors for that benefit. This simplest model reduces exactly to the public goods problem of Samuelson (1955), where the optimal solution involves provision of X_R up to the point where the sum of marginal benefits ($\sum_{i=0}^{N} MB_i$) is matched by marginal cost (MC).

In figure 1, N identical donors have marginal benefits MB_i, and marginal costs are constant. Then the optimal provision is X_R. How fares the private market? An individual might provide X_R0, as long as own marginal benefits exceed cost, but would ignore benefits to others Moreover, as soon as one individual gives X_R0, no other individual has any incentive to give at all, since their own MB_i have fallen below MC. Each tries to free-ride on the gifts of others. In this model, government can tax all N donors, provide X_R*, and make all donors better off.

Figure 1



Now suppose individuals differ, and that "recipients" are included whether or not they appreciate the provision of X_R. In this case the Samuelson solution would sum over the M diverse positive or negative

MB_i schedules to find ΣMB_i. Any donor or recipient who likes X_R would augment the total, any who are indifferent would not affect the total, and any who dislike X_R would detract from the total. Then X_R should be provided only as long as ΣMB exceeds MC. It can be provided directly, or by subsidizing individual gifts to the arts.

This standard public goods treatment is subject to all of the standard public goods problems. First, how can we identify free riders? The MB_i schedules are difficult to measure, especially since any surveyed individuals would have no incentive to tell the truth about their preferences. If told their taxes do not depend upon their response, those with positive benefits would overstate benefits. If told their taxes do depend upon their response, they would understate benefits in an attempt to free-ride. This measurement problem is not insurmountable, however, and it does not imply that the best estimate of benefits is zero. The same imperfect measurement techniques could be applied to this case for the arts that are applied to roads, parks, and other public goods.

Second, even if the sum of benefits exceeds cost, the net gain may be too small to justify government action. Why bother with public involvement in the arts? The answer to this question also depends on empirical measures not provided here. In a recent Louis Harris poll, however, 56 percent of Americans expressed willingness to pay $25 more in taxes each year, and 70 percent to pay $10 more each year, for federal spending on the arts above and beyond current levels.

Third, a government program to impose tax and provide art is essentially coercive. Does the suggested justification amount to an assault on economic and political freedoms? Again the problem is no different from that of other public goods. Individuals with full economic and political freedoms do not provide roads or parks for others to use, but they can improve their own welfare by forming a coercive government to tax and provide such public goods. If the benefits described above for the arts are sufficient, then government can potentially make everyone happier by providing it.

Fourth, donors may be paternalistic about many "merit goods." What is so special about art? As described above, the appearance of U_R in the donor's utility function would justify only cash transfers. We observe many in-kind transfers, however, such as food stamps, federal housing subsidies, and medicaid. These particular programs can be justified by the same argument. The claim is that the relatively affluent care about the recipients' nutrition, housing, health, and access to the arts.

Fifth, what justifies a subsidy to the wealthy? As Grampp (1989, pp. 196-7) notes:

> "What museums now do in the interest of the poor is to provide free admission at certain times. Visitors do not actually have to show their need before being admitted, and the result is that those who are not poor benefit as well as those who are. The Boston Museum of Fine Arts in 1973 had free evenings. Attendance was noticeably higher than when there was an admission charge, and the check-rooms, according to the attendants, were quite stuffed with mink coats."

Indeed, any justification for public support of the arts that is based on helping the poor should be definitively rejected. My proposed justification is an "efficiency" argument, in that donors can tax themselves, provide access to the arts (X_R, whether for rich or poor), improve their own welfare (since U_D depends on X_R), and have no effect on the poor.

Finally, of course, a distributional objection can arise if those who pay the tax are not the same as those who benefit. Who pays and who benefits? All public goods face exactly the same problem, since government cannot pinpoint beneficiaries. There is no reason to hold this public good to a higher standard than other public goods. Still, the proposal might be stronger if it did not systematically tax everyone (including the poor) to provide benefits to those who like the arts (especially the rich). The best proposal might target a tax on the wealthy, since they are the primary beneficiaries. More generally, the calculations in Feld, O'Hare and Schuster (1983) indicate that those who now pay for the arts are in the same or slightly higher income brackets as those who benefit.

Conclusion

In summary, there is no overwhelming argument to the public support of the arts. Justifications have been put forward, as discussed in this paper, but most have been found lacking when considered analytically or empirically in the "rigorous" free market framework of economists.

Certainly economists would grant the possibility of a market failure such as an externality, where tickets to arts events should be subsidized because attendance helps someone other than the attendee, but the externality needs to be demonstrated. In particular, an argument based on such market failure involves specifying who else benefits. It has not been demonstrated that arts events significantly help the local or national economy more than would alternative uses of the funds. Also, "future generations" are not external beneficiaries of current attendance: if arts events were truly worthwhile in the sense that they could be self-supporting today, then investments in the arts would also be profitable for the future.

This paper suggests a new twist on the externality argument. The external beneficiary is a person who, for whatever reason, wants others to attend arts events. This person may be paternalistic, feeling that attendance would be "good for" them, or may merely think there is an economic benefit or intrinsic value. The source of the externality is unimportant. The point is just that if enough people benefit, in the sense that they are willing to pay to see subsidized arts, and if similar individuals can "free ride" by enjoying others' donations, then none of them has sufficient incentive to give to the arts. It is possible for government, potentially, to make everybody better off by taxing those individuals who do value others' attendance, and then using the funds to subsidize the arts.

University of Virginia

Note: I am grateful for financial support from an Olin Foundation grant to the National Bureau of Economic Research and for helpful suggestions from Charles Clotfelter, Martin Feldstein, Edgar Olsen, Hilary Sigman, and referees. All views expressed are my own.

References

Americans and the Arts V, Louis Harris and Associates, Inc., New York: National Research Center for the Arts, 1988.

Andrew, William D. "Personal Deductions in an Ideal Income Tax," *Harvard Law Review* 86, 2, (December, 1972), pp. 309-85.

Arrow, Kenneth, "Uncertainty and the Welfare Economics of Medical Care," *American Economic Review* 53, (1963), pp. 941-73.

Atkinson, Rob, "Policy Basis for Tax Exemption of Charities Revisited," mimeo, Florida State University College of Law (undated).

Banfield, Edward C. *The Democratic Muse: Visual Arts and the Public Interest*, New York: Basic Book, 1984.

Baumol, William J. "Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis," *American Economic Review* 57, (June, 1967), pp. 415-26.

Baumol, William J. and William G. Bowen, *Performing Arts - the Economic Dilemma*, New York: The Twentieth Century Fund, 1966.

Bittker, Boris I. and George K. Rahdert, "The Exemption of Nonprofit Organizations from Federal Income Taxation," *Yale Law Journal* 85, (1976), pp. 299-358.

Buchanan, James M. and William C. Stubblebine, "Externality," *Economica* 29, (November, 1962), pp. 371-84.

Daly, George and Fred Giertz, "Welfare Economics and Welfare Reform," *American Economic Review* 62 (March, 1972), pp. 131-38.

Feld, Alan L., Michael O'Hare, and J. Mark Davidson Schuster *Patrons Despite Themselves: Taxpayers and Arts Policy*, New York: New York University Press, 1983.

Gingrich, Arnold, *Business and the Arts, An Answer to Tomorrow*, New York: Paul S. Eriksson, 1969.

Goodspeed, Timothy J. and Daphne A. Kenyon, "The Nonprofit Sector's Capital Constraint: Does it Provide a Rationale for the Tax-Exemption Granted to Nonprofit Firms?" mimeo, U.S. Treasury, 1988.

Grampp, William D. *Pricing the Priceless: Art, Artists, and Economics*, New York: Basic Books, Inc., 1989.

Hansmann, Henry, "The Role of Nonprofit Enterprise," *Yale Law Journal* 89, (1980), pp. 835-901.

Hansmann, Henry, "The Rationale for Exempting Nonprofit Organizations from Corporation Income Taxation," *Yale Law Journal* 91, (1981), pp. 54-100.

Hochman, Harold M. and James D. Rogers, "Pareto Optimal Redistribution," *American Economic Review* 59 (September, 1969), pp. 542-57.

Nelson, Richard, and Michael Krashinsky, "Two Major Issues of Public Policy: Public Policy and Organization of Supply," in R. Nelson and D. Young, eds., *Public Policy for Day Care of Young Children,* Lexington, MA: D.C. Heath and C, 1973.

Netzer, Dick., *The Subsidized Muse*, Cambridge: New York Cambridge University Press, 1978.

Neubig, Thomas S. and David Joulfaian, "The Tax Expenditure Budget Before and After the Tax Reform Act of 1986," OTA Paper 60, Washington, D.C.: U.S. Treasury Department, 1988.

Olsen, Edgar O., "A Normative Theory of Transfers," *Public Choice* 6, (Spring, 1969), 39-58.

Radich, Anthony J., ed., *Economic Impact of the Arts*, Washington, D.C.: National Conference of State Legislatures, 1987.

Samuelson, Paul A., "A Diagrammatic Exposition of a Theory of Public Expenditure," *Review of Economics and Statistics* 37, (November, 1955), 350-56.

Schuster, J. Mark Davidson, "Tax Incentives as Arts Policy in Western Europe," in P. J. DiMaggio, ed., *Nonprofit Enterprise in the Arts*, New York: Oxford University Press, 1986.

Scitovsky, Tibor, "Subsidies for the Arts: The Economic Argument," in William. S. Hendon and James L. Shanahan, eds., *Economics of Cultural Decisions,* Cambridge, MA: Abt Books, 1983.

Simon, John G., "The Tax Treatment of Nonprofit Organizations: A Review of Federal and State Policies," in W. W. Powell, ed., *The Nonprofit Sector*, New Haven: Yale University Press, 1987.

Thurow, Lester C., "The Income Distribution as a Pure Public Good," *Quarterly Journal of Economics*, (1971), pp. 327-36.

Weisbrod, Burton A., "Toward a Theory of the Voluntary Nonprofit Sector in a Three-Sector Economy," in E. S. Phelps, ed., *Altruism, Morality, and Economic Theory*, New York: Russell Sage Foundation, 1975.

Weisbrod, Burton A., *The Nonprofit Economy,* Cambridge, MA: Harvard University Press, 1988.