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Market Crash
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Sticker by street artists EnjoyBanking, on the façade of former Guild & Greyshkul gallery in Soho

Frank Gehry's Guggenheim Museum in Bilbao

THE MUSEUM BUBBLE

by Ben Davis

Almost everyone admits that there was an "art bubble." People admitted it as it was happening.

However, most of us are probably still coming to grips with the fact that there was a "museum bubble" as well.

Almost every week brings fresh news of museum cuts. By now the template is established -- layoffs, hiring freezes and unpaid furloughs or pay cuts for those left. Let it never be said that the art world didn't contribute to wage deflation.

Many of these announcements have been accompanied by symbolic mandates that those at the top will take more of a hit, salary-wise, than the foot soldiers. James M. Williams, the Getty Trust's chief investment officer, magnanimously agreed to take a six percent pay cut -- he made a staggering $1.28 million, according to the *L.A. Times* -- even as his investment decisions led to the loss of 205 jobs.

Meanwhile, everyone knows who is getting hardest hit -- it is the personnel who do the unglamorous day-to-day stuff that makes these places run.

The truth is that it is the people at the top who deserve the most opprobrium. I am not of the camp who hates on art students just because they were sold the idea that art could be a lucrative and glamorous career, or who thinks that art dealers are the spawn of Satan (only some of them are). But the art bureaucrats at the top, those pious guardians of our nonprofit castles of culture -- they deserve our scorn right now.

Reports generally frame museum downsizing as collateral damage of the more general train wreck in the economy. But the truth is that museum boards and higher-ups not only participated in the madness of the "bubble era" -- the period of super-charged, risk-fueled craziness that the world is now trying desperately to recover from -- but actively fed it.

Let's look at why our museums are falling on their faces so very hard right now. Beneath the Olympian veneer of the nonprofit art world, the causes are surprisingly familiar: short-sighted speculation and irrational competition.

First of all, of course, there are the massive endowment losses. Museums are generally heavily funded by interest from their investments -- they depend far more on endowment income then they do on, say, ticket sales. So who is to blame for these endowment losses?

Over the last few years, the people who run museum endowments have followed the siren song of the "Yale Model," pioneered by guru David Swenson at the Ivy League citadel (which itself recently announced a large loss on its investments). This genius idea held that "safety" was actually a bad thing for large investors, who could use their scale to diversify into riskier, less-liquid, high-yielding asset

Toledo Art Museum's SANAA-designed, $30-million Glass Pavilion

Los Angeles County Museum of Art's Renzo Piano-designed, $56-million Broad Contemporary Art Museum (BCAM)

Diorama for Herzog & de Meuron's $131 -million Miami Art Museum, set to open in 2011

wHY Architecture-designed, $75-million Grand Rapids Art Museum, in Grand Rapids, Mich.

classes.

Take the Museum of Modern Art, with its gargantuan endowment. A 2002 report in *Foundation & Money Management* described MoMA's "alternative assets" portfolio as "dabs and splatters of merger arbitrage funds, distressed debt funds, and long/short equity funds, as well as private equity and real estate" ("Real estate is a great way to get some yield and also is a good inflation hedge," MoMA's investments director told the publication). At that time, the museum was launching a new "hedge fund strategy," allocating an additional three percent of its assets to a new fund -- and indeed, according to the *Chronicle of Philanthropy* statistics, it seems that between 2004 and 2006, MoMA eliminated all of its cash holdings (11 percent of its endowment value before that), dramatically upping its hedge-fund exposure. "If the Museum's alternatives portfolio were a canvas, the painting certainly would be colorful."

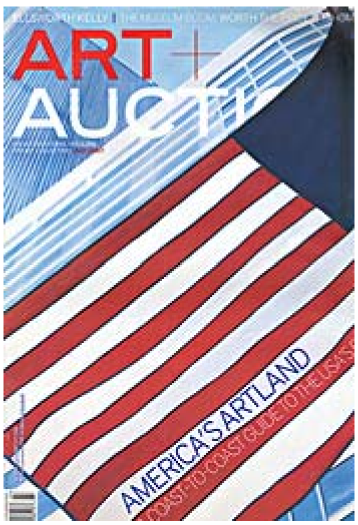
These days there are questions about the Yale Model's theoretical soundness, given the large-scale losses incurred by Swenson's protégés. The entry en masse of large institutional investors into high -risk asset classes certainly fed the madness of the bubble years. At the same time, a recent *Forbes* article, "The Culture Crash," questions whether museum endowments knew what they were getting into at all, noting that "arts boards proved too slow to navigate away from the hazardous investments once the bad times began." As one investment advisor told the mag: "All of the charities, all of the institutions lost money, but they didn't have to lose 25% to 40%. . . putting 85% of your money in equity and illiquid instruments is gambling."

A second reason why museums are suffering is loss of city and county subsidies and support, as desperate municipalities look to trim anything that can credibly be characterized as frivolous. This has left art supporters desperately making the appeal that art actually generates jobs, trotting out any arguments that can make the case that culture is not just a luxury item -- the Americans for the Arts study suggesting that art generates $166 billion in economic activity is popular.

What really burns me about all this, however, is that not so long ago, it was government officials who were actively egging on arts leaders into thinking of themselves as the center of the "new economy." All the chatter about the rise of the "creative economy" was the flip-side of deindustrialization in the U.S., and part of how it was sold -- new "cultural industries" would replace old heavy industry; artists would be "the Johnny Appleseeds of the New Creative Economy," as Myrna M. Breitbart and Cathy Stanton put it in 2007's *Tourism, Culture and Regeneration* in an article on New England towns trying to transform their abandoned mills into cultural hubs. There was, they said, "a shift from first seeing investment in culture as amenity alone, to seeing it as *a replacement for industry* and eventually as an important component of large-scale makeovers" [emphasis mine]. This formula was general.

Thus, the "Bilbao Effect" was sold by and to mayors in Rust Belt towns as a panacea -- old centers of industry could be revitalized by turning themselves into cultural Meccas ("The so-called 'Bilbao effect' has come to mean a striking building that almost guarantees that its architecture could or should contribute to the revitalization of a city," the Pritzker Prize's Martha Thorne explained). Who could have predicted that when the chips were down the same officials who cut the ribbons would cut and run, leaving the art world alone to plead for a paltry few million extra in NEA funding before Congress? Well, in fact, I did write an article lamenting the Bilbao-ification trend with respect to the Toledo Art Museum's stylish SANAA-designed Glass Pavilion, back in 2006 [see "Glass Houses", Aug. 30, 2006]. I have

Randall Stout-designed, $66-million Taubman Museum of Art in Roanoke, Vir.



Art + Auction, July 2007

"Cash for Your Warhol" sign (art project of Geoff Hargadon) outside the Rose Art Museum at Brandeis University in Waltham, Mass.

Daniel Libeskind-designed, $110-million Denver Art Museum

since regretted dumping on Toledo -- TAM is a terrific institution and the Glass Pavilion is a gem -- but the truth is that the rage for cultural showpieces had become a way of short-circuiting thought about sustainable development.

Which begs a question: If the idea of art-as-revitalization was just a pretext for museum mania, what was its real driver? What caused so many cities to embark almost simultaneously on plans for flashy new museums, from L.A. and Miami to Grand Rapids, Mich., and Roanoke, Va. (the latter's $66-million Taubman Museum opened in November 2008, and immediately began to lay people off)? We find the answer in a 2007 *Art + Auction* article on the building craze: "An overabundance of available money." In fact, if you draw a line through the phase of postmodern museum hyper-expansion that passes through the opening of Frank Gehry's Bilbao in 1997 and ends with the Madoff-fueled evisceration of the Rose Art Museum in 2008, it lays nicely across the recent history of asset super-bubbles -- the internet bubble, and then the real estate bubble. These created huge fortunes in technology, real estate and finance, which swelled the trustee boards of museums and the egos of potential museum donors -- and it was these people who were instrumental in pushing through the unprecedented round of museum expansions of recent years ("a lot of wealthy people are keen to have their names on wings, galleries or walls of a museum designed by a world-famous architect"). *Art + Auction* described museum directors as being in a sort of "quiet pain" over all the unwise building they were being asked to do. "Most museum directors know better," Nelson-Atkins head Marc Wilson said. "They get pushed into it by the trustees."

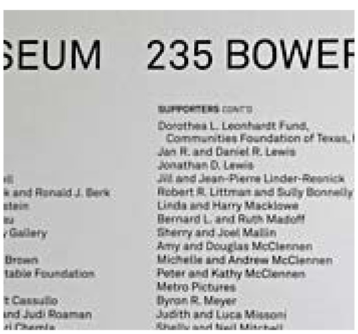
The result -- as is often the case with investment driven by an overabundance of cash -- was a lot of bad investment. A famously ill-starred case is that of the Denver Art Museum, which built its Daniel Libeskind museum -- a shiny deconstructionist cruise ship washed up in the Mile High City -- with notoriously over-ambitious projections that it could draw one million visitors a year. The result? DAM ended up operating at a loss, and began laying people off in April 2007, then eliminated its film program and curator in 2008 -- all well before the general meltdown compelled it to slash its budget by an additional 12 percent early in 2009. This, then, is another reason for the fragility of many museums right now -- across the country, cultural institutions have saddled themselves with new, flashy buildings that are expensive to heat and guard. "Subtly, the ratio between fixed costs, which are about the building, and variable costs, which are the programming costs, has changed," Adrian Ellis told *Art + Auction*. "And that means more building and less art."

Not everyone was so rash, of course. When it decided to expand, the Seattle Art Museum, with unflashy Northwestern good sense, ducked burdening itself with a headache of a new building, deciding instead to enter into a revenue-generating, space-sharing agreement with a corporation (or perhaps SAM was just burned by the example of the loss-making, unusable, Frank Gehry-designed Experience Music Project in downtown Seattle, unloved vanity project of gazillionaire Paul Allen). Too bad that corporation was Washington Mutual, whose exit from this world has left Seattle's premier art venue with a multimillion-dollar hole in its finances, not to mention the permanent albatross of a gallery named after Wamu's disgraced ex-CEO Kerry Killinger (not as bad as the New Museum's donors plaque highlighting the patronage of Ruth & Bernie Madoff, but close). No better metaphor for the sour, one-sided relationship of art to finance could be imagined.

We should be clear, however, on who is worst hit in all of this. I find myself returning for guidance to the prosaic pages of a Pew Charitable Trusts' report on the state of the art world, *A Portrait of the Visual Arts*. "Whether measured in terms of the number of

Combined office tower and museum, housing the Seattle Art Museum

Frank Gehry-designed, $240-million Experience Art Project in Seattle



Ruth and Bernie Madoff (among others) on New Museum donors plaque

L.A. MoCA's Geffen Contemporary, closed for six months due to the museum's fiscal crisis

organizations or their revenues, the organizational structure of the visual arts has been growing," the report states. However, alongside this proliferation, it notes another fact -- the increasing concentration of resources with the biggest institutions: "In 2000, the largest 20 percent of all art museums. . . controlled 95 percent of the total revenues in the nonprofit visual arts sector and 98 percent of the assets (not counting the value of the artwork itself)," the study notes, adding that there was no reason to think that this trend had reversed itself.

The cause is simple: The biggest museums have "initial advantages" that they can compound -- they can best afford blockbuster shows (the main driver, aside from population growth, of growing museum attendance), and they are better placed to attract corporate sponsorship and private donations, which in turn have been steadily growing in importance. This competition for big shows and big donations was the reality behind the competition for sprawling new showpiece buildings. "Midsized museums," the study concludes, "will need to think strategically about their basic objectives, the audiences they are trying to reach, and their comparative advantages. They will also need to consider ways to reduce their costs -- for example, by cost sharing, loaning artworks, and joint ticketing." Keep in mind this study came out *in 2005*, well before museum endowments ran aground on the rocks of a coordinated global economic slump.

Consequently, even as the big museums cut staff, it is the small and midsized arts institutions that are hurting the most, and these are the kinds of places where young and unknown artists get their start, the venues that do some of the most heroic and risky work. For every front-page story about a mismanaged institution like L.A. MoCA, saved by the largesse of real estate mogul and AIG investor Eli Broad, there are ten back-page stories about admirable smaller venues like Memphis' Power House gallery, forced to close shop as grants and donations dry up.

But it is not, in the end, even such small arts venues that are most battered in the recession, of course. Art, in our society, has an intermediate status -- lavished with praise in the good times, considered dispensable in the bad times. And yet culture tends to be at the head of the line for whatever spare funds there are, for the simple reason that it is a cause that the rich and powerful can relate to. "The growing divide between the wealthy and the middle class has meant that causes supported by the less affluent face an increasingly tough time," the *Chronicle of Philanthropy* reported in 2007, at the height of the "New Gilded Age" chatter, when donations to cultural charities were growing at a phenomenal rate. These days, even the arts are fighting for respect. Down in Louisiana, Bobby Jindal's recent budget contained a massive cut for cultural subsidies. Protests by the arts community won back $2.3 million to preserve historic sites at the last minute, and a few other scraps. But the same budget also reduced funding for food banks from $5 million to $500,000, a criminal assault on the state's neediest citizens.

This dynamic is worth meditating on. Given the anatomy of the museum meltdown, the art world should ask itself whose side it is on -- those who are worst hit by this crisis, or those who caused it in the first place?

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Artist Mary Ellen Carroll, dressed in a polar bear suit, climbs the smokestack of Memphis' Power House in 2007 for her show "Me Like Black"

Protestors stage jazz funeral for arts funding in Louisiana

Ligorano/Reese
Main Street Meltdown
2009