

## Friendly Fire

How foreign art institutions entice American donors

by Michael Huber

February 2007

When Lisa Dennison, the director of the New York Guggenheim Museum, stood up from the audience during a star-studded panel in February to speak about "a threat in our midst," a murmur rose in the auditorium, which was packed with art collectors, dealers and museum executives in town for the Armory Show and six other art fairs. Dennison fingered "Friends of"-organizations, which collect tax-deductible donations from American patrons in order to support art institutions overseas.

"If you join the American Patrons of the Tate, you get to go to dinner at Tony Blair's house," she said, gesturing in the direction of Sir Nicholas Serota, the director of the London Tate Gallery who was sitting on the auditorium's stage alongside MoMA's director Glenn Lowry and other notable art world figures. "You get your picture taken by Annie Leibovitz, and you get to keep it. These are compelling, compelling incentives that speak not of true philanthropy but of 'give us some money, give us some art, and we're going to give you something back that's really, really enticing.' I know this because my board members come to me in deep conflict, [saying] I want this, I want to be a friend to the Tate, to the Centre Pompidou, to the Hermitage, the Pushkin, the Tretyakov Gallery. What's a poor American museum director to do?"

Serota played down Dennison's complaint, joking at the notion of the Guggenheim being a "poor" organization. But the Guggenheim's director had hinted at a new set of conflicts that arise when the business of arts fundraising - which depends heavily on glamorous events and perks for patrons - goes global. In an increasingly contested marketplace for donations, American art organizations feel the pressure of international competitors who use their old-world appeal and their long-standing connections to revered institutions to offer donors rewards that US fundraisers can't match. If local museums are beginning to feel a squeeze, it may be because some worry that the next generation of wealthy Americans will be less civic-minded than those they rely on today: if the supply of reliable, big-check supporters may be dwindling, American institutions may have reason to fear increasing demands for their favors.

"Friends-of" organizations were set up primarily to provide a tax incentive for American

donors to aid foreign institutions. According to a 2003 thesis by Columbia University alum Peter Heslip, the organizations arrived in the 1960s, experienced a steady rise in the 1980s and reached a plateau in the 1990s. A recent search on the nonprofit database "Guidestar" found 1,034 institutions with "American friends of" in their name, though only a fraction is dedicated to aiding arts institutions abroad. Universities, schools, and hospitals account for a significant number of the groups. In addition to 36 "American friends"-organizations whose name also included the term "museum," there are "friends" groups for the Salzburg Festival, Amsterdam's Concertgebouw Orchestra, the Paris Opera and Ballet, and many more.

Many "friends" groups were built on the belief that America is a goldmine for philanthropy, with a rich elite keen to give away money to prestigious art institutions. But the club of big-scale philanthropists is still relatively small, and it is difficult to assess how many institutions it can support. The past several years have seen large-scale gifts by individual donors, but in 2005, overall arts giving declined for the first time since 1998, according to a report by the Giving USA foundation. According to the "Million Dollar List" assembled by the Center for Philanthropy at Indiana University, patrons gave 297 contributions over \$1 million in the last quarter of 2006 alone, a 16 percent increase from the previous year. Forty-four donations worth more than \$1 million went to the arts and humanities, totaling over \$285 million. The list for the year 2005 showed 23 gifts of \$5 million or more from individuals to the arts. These gifts totaled more than \$1 billion, with more than half of that amount from donations of art collections. (Comparisons with previous years are difficult because earlier accounts did not include art collections.) Large donations tend to be clustered around relatively few institutions; 65 arts institutions received more than a quarter of all donations in 2003, according to Giving USA. "My gut feeling is that the arts are benefiting at the moment from significant gifts because of the money that's coming into the art world by virtue of the rising art market," said Richard Hamilton, the director of the U.S. fundraising branch of the London Tate Gallery. "But my other feeling is that a lot of museums have to grapple quite seriously with different ways of fundraising." A younger generation of wealthy art aficionados – often referred to as "hedge-fund art buyers" – would respond to different incentives than the older generation of philanthropists, Hamilton said – if they respond at all. The "American Patrons of the Tate" could count on 150 to 300 supporters who gave a median sum of \$20,000 per year, Hamilton said. He insisted that the institution did not pose a threat to the Guggenheim or any other U.S.

museum.

Hamilton would not comment on a party reception with British Prime Minister Tony Blair that will benefit the American Patrons of the Tate. The event, which was portrayed by some British tabloids as a job-seeking opportunity for the departing Prime Minister, is so far probably the gaudiest attempt to lure American charitable dollars. According to a report by the Art Newspaper and the British tabloid the Daily Mail, the event will be held at 10 Downing Street in London on June 16 and will feature affluent guests such as Richard Fuld of the investment bank Lehman brothers, Donald Marron of the private equity firm Lightyear Capital, and MoMA trustees Ronald Lauder and Agnes Gund. But the Tate's is only one of many efforts meant to entice wealthy US donors with European splendor.

The Chicago-based "American Friends of Versailles," for instance, have scheduled a major fundraising week for June. On the 16<sup>th</sup> approximately 600 "Friends" will convene for to a ball in Versailles' Orangerie. On the days before, donors can participate in different of events, depending on whether they have contributed an annual fee of \$5,000, \$10,000 or \$25,000. Top-level donors get the opportunity to attend splendid homes and Châteaux in the Versailles and Paris vicinity that are usually off-limits to the public. "For instance, we're going to Château Fleury-en-Bière, which is owned by three counts, and they're hosting us for a champagne reception," said Kristin Smith, the executive director of the organization. "The reason they're doing that is because their niece is on our board of directors. We have numerous events like that. They're very special rare privileges that no other organization can have."

It takes some effort to comprehend why "friends" groups can hold events in Europe, solicit money for institutions there, and still qualify as American charitable institutions whose donors can claim tax deductions. The Internal Revenue Service (IRS) required in 1935 that corporate tax-deductible donations be given to domestic institutions and be used domestically; it extended this ruling three years later to individual donations. But according to the 1996 study "Cross-Border Charitable Giving" published by the New York University's National Center on Philanthropy and the Law, the restrictions were inconsistent and vague, allowing funds to be used abroad as long as they were given to US institutions. Nonprofits were subjected to "earmarking and conduit restrictions" that should prevent foreign institutions from using a US charity merely as a bank account. Administrative rulings by the IRS in 1963 and 1966 found that "Friends" organizations exercised enough "control and discretion" over their funds to keep them on the fair side of tax law.

"Donors can not demand or require that funds are used for specific things," explained Sue Devine, the executive director of the "American Friends of the Louvre" who has also worked for the British Museum's US operation. Donations are given solely to the American "friends" institution; its board makes decisions about when and how the funds will be used. "Typically our board will agree to whatever a donor has requested if it's in the best interest of the Musée du Louvre," Devine said.

European institutions rely on American support to varying degrees. The Tate Gallery began to benefit in 1987 from an American Fund established by the British expatriate and insurance entrepreneur Edwin Manton. The fund enabled the gallery to expand its collection of American art. In the mid-1990s, the Tate embarked on a £150 million (\$289 million) capital campaign to remodel a former power station into the Tate Modern gallery. It received 25 percent of all private funding, a total of \$33 million, from American donors. To stay in better touch with its US donors, the "American Patrons for the Tate" opened their New York office in fall 1999. According to Mr. Hamilton, the organization has raised \$40.6 million since then.

In comparison to the support received by the Tate, the contributions of the "American Friends of Versailles" to the overall budget of the royal palace and gardens were small. The organization, which reported about \$4.5 million in received donations for the years 2001 to 2005, focused exclusively on funding the restoration of a fountain garden called "The Trois Fontaines Bousquet," which was completed in 2004. It currently seeks support for the restoration of the "Pavillon Frais," a salon in a remote part of the Versailles gardens. "Our projects are things that wouldn't normally get done," Ms. Smith, the executive director, explained. The same was true of the activities of the Louvre's American Friends, Ms. Devine said. Her organization had raised approximately \$5 million since 2002 and awarded half of this amount directly to the Louvre. In addition, the Louvre's American Friends supported exchange programs between American and French schools and recently hosted a New York lecture and performance series with the writer Toni Morrison, who had also been commissioned to curate a series of events at the French museum in 2006. "We feel that it's part of our mission to do programs in the United States that help promote the resources of the Louvre," Devine said. She stated that the organization's US events were not the result of a legal obligation. However, "friends" look more persuasive US non-profits when they act as agents of cultural exchange.

So far, the status of "Friends of"-organizations has not been directly challenged by the

American museum community. Emily Roberts, a spokesperson for the American Association of Museum Directors (AAMD), denied that there was any sense of competition in the community at all. Officials at the American Association of Museums declined to comment, and neither Ms. Dennison nor fundraisers at the Guggenheim, the Whitney Museum, or the Brooklyn museum replied to multiple requests for comment.

"I really think that there is enough to go around, and I don't think that our organization or other international organizations are really going to put a dent in the very strong fundraising programs of cultural organizations in this country," said Sue Devine of the American Friends of the Louvre. But the organizations compete not just for the money, but also for the loyalty of their donors, who often double as board members. The fact that the "friends" organizations differ widely in their activities and in the amounts they raise makes it hard to assess how large the "threat" perceived by the Guggenheim's Dennison really is. "Obviously there's competition," the Friends of Versailles' Kristin Smith said. "But I don't think we look at it that way."