

Counterfactuals and Punctuated Equilibrium Theory: Finding Evidence of Policy Entrepreneurship in Policy Arenas

Gordon E. Shockley (shockley@asu.edu)
Associate professor of social entrepreneurship
School of Community Resources and Development
Arizona State University
Mail Code 4020
411 N. Central Avenue, Suite 550
Phoenix, AZ 85004-0953

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Abstract

How do we know when entrepreneurship has occurred in policy arenas when ready proxies commonly used in market-entrepreneurship research (e.g., patent density or number of start-ups) are not available? We propose using counterfactuals and punctuated equilibrium theory to find evidence of entrepreneurship in non-market contexts. Counterfactuals are robust in the analysis of cases involving “a small number of cases and problems of control” (Chwioroth, 2002, p. 309) or “when experimental control and replication are not possible” (Fearon, 1991, p. 171). Baumgartner and Jones’ (1993, 2002) punctuated equilibrium theory for policy studies (PET) is an “evolutionary” theory of policy change that refers to long periods of stability in a policy domain with only incremental change (i.e., equilibrium) interrupted by short periods of rapid change (i.e., punctuation), a diachronic movement that often takes the form of an “S”-shaped curve. Premised on the “causal functionality” of entrepreneurship posited by classical entrepreneurship theorists, I argue that (1) entrepreneurial opportunities exist in periods of instability in non-market contexts and (2) successful entrepreneurship has a stabilizing effect in non-market contexts.

Key words: entrepreneurship research – counterfactuals – punctuated equilibrium theory

Counterfactuals and Punctuated Equilibrium Theory: Finding Evidence of Policy Entrepreneurship in Policy Arenas

Entrepreneurship produces important effects in a market economy, according to both Kirzner and Schumpeter. In Kirznerian entrepreneurship, the primary effect of entrepreneurship is *equilibration*, that is, the movement of a market toward an equilibrium state. “For me,” Kirzner (1973) writes, “the changes the entrepreneur initiates are always toward the hypothetical state of equilibrium...” (p. 73). Entrepreneurship and equilibration are central to the market process because they facilitate profit opportunities. According to Kirzner (1973), entrepreneurial opportunities for profit occur only in disequilibrium resulting from “human error,”¹ usually taking the form of arbitrage opportunities arising from price discrepancies (p. 26). In economics terms, the market is in a state of disequilibrium because a given product or service can be purchased in one place cheaper than it can be sold in another. When the entrepreneur’s alertness identifies the potentially profitable arbitrage opportunity in disequilibrium and acts entrepreneurially by buying cheap and selling dear, the equilibration process is triggered (Kirzner, 1979, p. 116). Once the entrepreneurial transaction has been consummated, the entrepreneurial opportunity disappears and the disequilibrium begins to lessen as the system moves toward equilibrium. “The dynamic competitive process of entrepreneurial discovery...” Kirzner (1997) writes, “is one which is seen as *tending systematically toward...the path to equilibrium*” (p. 62, emphasis in original). Thus, the major effect of Kirznerian entrepreneurship is to move the market toward equilibrium.

Like Kirznerian entrepreneurship, Schumpeterian entrepreneurship also produces important effects in a market economy. In fact, Schumpeter places the effects of entrepreneurship at the center of his theory of economic change and development. “Development,” Schumpeter argues in

¹ I interpret “human error” to be synonymous with the suboptimal decisions and actions resulting from bounded rationality (see Simon, 1945/1976, 1982), imperfect information (e.g., Hayek, 1945), incomplete knowledge (e.g., Hayek, 1952), and other human limitations.

The Theory of Economic Development (1934/2002), “is spontaneous and discontinuous change in the channels of flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing” (p. 64). In other words, entrepreneurship in the form of the “carrying out of new combinations” is the main cause of economic development. In Schumpeterian entrepreneurship, “introducing a new good or method of production, opening of a new market, identifying a new source of supply of raw materials or half-manufactured goods, or carrying out of the new organisation of any industry” (p. 66) all individually or in combination have the potential to cause “spontaneous and discontinuous change” in an economy and spur economic development. (Also see Schumpeter, 1926/2003; Sweezy, 1943.) “By introducing innovations,” McKee (1991) observes, “the [Schumpeterian] entrepreneurs jump-start the system from the range of equilibrium...The overall impact regenerates the system, causing it to expand” (p. 8).² Thus, as in Kirzner’s theory, Schumpeter’s theory of entrepreneurship is a functional one that emphasizes the effects of entrepreneurship, namely, to drive positive economic growth and development. An important requirement of a theory of policy entrepreneurship is that, like Schumpeterian and Kirznerian entrepreneurship, it includes the larger, systemic effects of entrepreneurship.

In this paper, I present a hybrid methodology for finding evidence of policy entrepreneurship in empirical research. The hybrid methodology consists of two primary methodological tools: counterfactual conditionals and Baumgartner and Jones’ punctuated equilibrium theory for policy studies (PET) that was already discussed above. In applying the tripartite theory of policy entrepreneurship developed in this chapter, PET can be used to identify and organize potential sources of empirical data on the stability of the political environment surrounding a policy domain. Then, once that data has been identified, gathered, and organized,

² Similarly, Schumpeter in *Capitalism, Socialism, and Democracy* (1950) contends that political entrepreneurs spark revolutionary change, much like technological innovation “reform[s] or revolutionize[s] the pattern of production by exploiting an invention” (Albrecht, 2002, p. 651).

counterfactual conditionals can be used to interpret the data by isolating the effects of entrepreneurship on public policy. Policy details from the case of the National Endowment for the Arts (hereafter, the Arts Endowment) – the federal agency in charge of direct support for the arts in the United States – in the 1990s are used to demonstrate how counterfactuals in conjunction with punctuated equilibrium theory can yield evidence of policy entrepreneurship.

Baumgartner and Jones' Punctuated Equilibrium Theory in Public Policy

Baumgartner and Jones' punctuated equilibrium theory for policy studies (PET), in their words, is an “evolutionary” theory of policy change. PET refers to long periods of stability in a policy domain with only incremental change (i.e., equilibrium) interrupted by short periods of rapid change (i.e., punctuation), a diachronic movement that often takes the form of a logistic, “S”-shaped curve. They hypothesize that, on a structural level, the logistic curve correlates with policy change in that greatest policy change (in terms of both volume of total change and potential magnitude of individual policy changes) occurs in disequilibrium. “Most issue change,” Baumgartner and Jones (1993) write, “occurs during periods of heightened general attention” (p. 20). In order to historically analyze the relationship between punctuated equilibria in political environments and change in specific policy domains, Baumgartner and Jones suggest the analysis of five data sets: (1) congressional hearings data; (2) articles in the *Congressional Quarterly Almanac*; (3) Public Law; (4) *The New York Times* articles; and (5) federal budget data from the Office of Management and Budget (Baumgartner, Jones, & Wilkerson, 2002).³ Baumgartner and Jones also recognize that these five data sets might not be sufficient for all research projects utilizing PET, in which case, “We suggest three strategies: creating one’s own customized set of subtopics; supplementing our data with further analysis; and searching and recording our data based on the textual summaries” (Baumgartner et al., 2002, p. 38). In PET terms, changes in any of these data sets with respect to a

³ Baumgartner and Jones store these five data sets for a comprehensive list of policy domains on their Policy Agendas Project website (www.policyagendas.org).

specific policy domain potentially indicate punctuated equilibrium in the political environment (i.e., the data reveals a logistic curve) as well as signal a high incidence of policy change during the punctuation.

PET-based research implies case analysis. Yin (2003) observes that a single case study (instead of multiple case studies) is justifiable when the case is extreme or unique (pp. 39-46). In PET-based research, each policy domain has a unique history surrounding a punctuated equilibrium pattern in its political environment and unique justifications for any sort of change in policy. For example, if the number of congressional hearings on federal health policy remains at a constant average rate of two per year over three decades and if the annual appropriation of all health-related programs has increased steadily and incrementally over the same time period, then, according to PET, it can be said that the political environment of federal health policy was in equilibrium over those two decades of policy stability. If suddenly the number of congressional hearings on federal health policy increases dramatically or is erratic for a few years and the appropriations for health-related programs are drastically cut or generously increased, then, according to PET, federal health policy is undergoing a punctuation of rapid and large policy change. According to PET, once some sort of consistency returns for a few years in a policy domain, a new equilibrium and period of policy stability has returned. The history of each policy domain has its own thresholds for determination of equilibria and punctuation and can only be determined by examining longitudinally its unique policy trajectory. Thus, if it occurs, the logistic curve of equilibria and punctuations in federal health policy will differ from that of local government budget expenditures (Jordan, 2003), science and technology policy (Feeley, 2002), telecommunications policy (MacLeod, 2002). PET accommodates the uniqueness of different policy domains' histories while facilitating their generalizability (Bailey, 1992) by furnishing a common conceptual language with which to monitor the stability of their different political environments.

Data on a policy domain's political environment organized under the auspices of PET can be used to study the effects of policy entrepreneurship on public policy. The complete tripartite theory of policy entrepreneurship in holds in part that “policy entrepreneurship...serves the equilibrative function of returning stability to a policy domain.” As PET data are used to track the long equilibria of policy stability as well as the brief punctuations of policy change, they offer promise for analyzing the equilibrative function of policy entrepreneurship as conceptualized in this chapter. Consider the example above in which the PET data indicate that the logistic curve of federal health policy in which, after two decades of equilibrium and policy stability, the policy domain underwent a punctuation of rapid policy change and then reached a new equilibrium when a new period of policy stability returned. If it could be established that entrepreneurial activity occurred in response to at least one specific opportunity at the height of the punctuation and just before the new equilibrium began (all of which will be discussed immediately below in the next section on counterfactual conditionals), then PET data can be used to analyze empirically the effects of policy entrepreneurship on public policy.⁴

Counterfactual Conditionals and Policy Change

The use of counterfactual conditionals is methodological tool of logic for use primarily in case analysis. Counterfactuals are robust in the analysis of cases involving “a small number of cases and problems of control” (Chwioroth, 2002, p. 309) or “when experimental control and replication are not possible” (Fearon, 1991, p. 171). Counterfactuals have become increasingly common in political analysis. Tetlock and Belkin (1996), for example, have recently published an edited volume on the use of counterfactuals in world politics; Chwioroth (2002) explores the possibilities of using counterfactuals in studying the American presidency; and Carpenter (2001) uses counterfactuals “to

⁴ It should be noted that Baumgartner and Jones explicitly include a distinct version of policy entrepreneurship in PET; however, as discussed above in part, their conceptualization of policy entrepreneurship is problematic.

demonstrate the existence of bureaucratic autonomy and to provide further purchase on the narratives [in this book]” (p. 35). Taking the analytic form of “If it had been the case that C (or not C), it would have been the case that E (or not E),” Fearon (1991) writes, “counterfactuals make claims about events that did not actually occur” (p. 169). (Also see Lebow, 2000; Lewis, 1973.) Tetlock and Belton (1996) offer six criteria for evaluating the soundness of counterfactual arguments: clarity, logical consistency, historical consistency, theoretical consistency, statistical consistency, and projectability (pp. 16-31). The proper use of counterfactuals should strive to meet all six criteria.

Counterfactuals can be used to identify the occurrence, timing, and shape of the discovering and exploiting entrepreneurial opportunities. Carpenter in his book *The Forging of Bureaucratic Autonomy* (2001) constructs the following counterfactual conditional in order to study the occurrence, timing, and shape of particular cases of “bureaucratic autonomy” for three federal agencies. “I claim it sufficient for a demonstration of bureaucratic autonomy in a given narrative,” Carpenter declares, “if the following counterfactual holds.

‘In the absence of the self-consistent action of a preference-irreducible bureaucracy, a nontrivial and counter-institutional shift [representing the forging of bureaucratic autonomy] (1) would not have *occurred*, (2) would not have occurred *when* it occurred, or (3) would not have eventuated *in the form it did*.’ (p. 35, emphasis in the original)

Carpenter’s counterfactual for the case analysis of bureaucratic autonomy can be modified and extended for the case analysis of the tripartite theory of policy entrepreneurship (Box 1). *It is sufficient for a demonstration of a case of policy entrepreneurship if the following counterfactual holds.*

As indicated in PET-like data, a new period of policy stability after a period of instability would not have occurred, would not have occurred when it occurred, or would not have eventuated in the form it did, without a policy actor discovering an empirically observable entrepreneurial opportunity relating directly and unambiguously to a non-trivial source of the policy domain’s prior instability and exploiting the entrepreneurial opportunity.

Box 1: A tripartite counterfactual conditional for empirical analysis of policy entrepreneurship

The counterfactual in Box 1 is intended to capture the occurrence, timing, and shape of policy entrepreneurship. The counterfactual assumes that PET data on a policy domain's political environment indicate the logistic curve of punctuated equilibrium. Once the logistic curve for a policy domain has been established with PET data, the counterfactual seeks to explain the cause of the critical transition from instability and rapid policy change to stability and the return of policy stability. The counterfactual first requires not only that an entrepreneurial opportunity directly related to the policy domain's prior instability, but also that a policy actor discover the entrepreneurial opportunity. Second, the counterfactual requires that a policy actor acts on and thus realizes the discovered entrepreneurial opportunity. The basic intuition behind the counterfactual in Box 1 is, Would the new period of stability, as indicated in the PET data, have been introduced if a policy actor had not discovered and exploited a non-trivial and empirically observable entrepreneurial opportunity relating to the political turbulence?

Does the stability of the political environment surrounding a policy domain correlate with the magnitude and range of policy change occurring at any given point in its policy trajectory? Peter Hall (1993) conceives of three orders of policy change along the dimensions of instrument settings, instruments, and policy goals. According to Hall, *first-order change* occurs when only instrument settings are changed; *second-order change* occurs when “the instruments of policy as well as their settings are altered” but the policy goals are left in place; and *third-order change* occurs when instrument settings, policy instruments, and policy goals are all modified, essentially resulting in new policy (Hall, 1993, pp. 278-279). Framed by Hall's terminology, the data herein probabilistically show that first-order changes in a policy domain tend to occur in a highly stable and predictable political environment while the greater magnitudes of second- and third-order changes are more likely to occur when the surrounding political environment is more volatile and less predictable (see Figure 1).

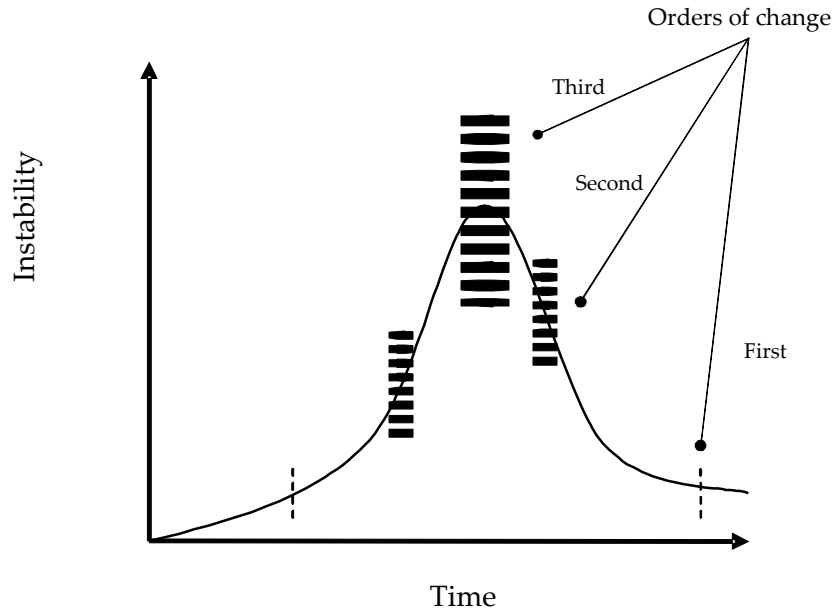


Figure 1. Policy instability and magnitude of policy change.

The Destabilization of the Arts Endowment’s Political Environment and Congressional Changes to Direct Federal Support for the Arts in the 1990s

The Arts Endowment was created in a time of rapid expansion of government programs and policies across the federal government. On September 29, 1965, President Johnson signed into law PL 89-209, otherwise known as the National Foundation on the Arts and the Humanities (NFAH), amid the myriad Great Society programs encompassing a policy agenda that “was the most far-reaching since the dawn of the New Deal” (Elving, 1996, p. 69). Under NFAH two sister federal agencies were created: the National Endowment for the Humanities to provide direct federal support for humanities research and the Arts Endowment to provide direct federal support to encourage excellence in and access to the arts in the United States.⁵ As Livingston Biddle, primary

⁵ The second section of NFAH’s original declaration of purpose reads (in part) as follows: “The Congress hereby finds and declares—

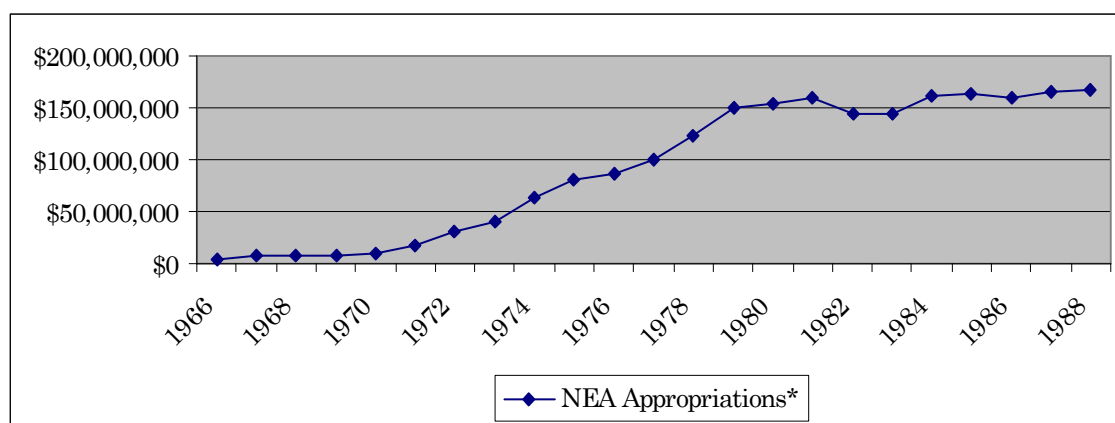
(1) that the encouragement and support of national progress and scholarship in the humanities and the arts, while primarily a matter for private and local initiative, is also an appropriate matter for of concern to the Federal Government;

author of NFAH and the third chairperson of the Arts Endowment, writes, “In the beginning the word was from Congress: a National Endowment for the Arts would be created for the first time in our country’s life” (Biddle, 1988, p. 1). Like any new government policy, agency, or program, the first few years of the Arts Endowment and its program of direct support for the arts were precarious. Once Arts Endowment began to build a permanent constituency and formed some sort of policy identity, however, the Arts Endowment and direct federal support for the arts enjoyed a highly stable political environment.

The tenure of Nancy Hanks (1968-1977), the second chair of the Arts Endowment, was “marked by the maturation of each of the components of the potential arts-policy triangle, as well as by the enhancement of presidential support for the new agency and its programs” (Margaret Jane Wyszomirski, 1988a, p. 19). During the early decades of stability, the Arts Endowment was comfortably ensconced at the vertex of an iron triangle. The other two vertices were occupied by interest groups, such as state and local arts agencies and arts service organizations, and the relevant authorizing and appropriations congressional subcommittees in the House and Senate (Rourke, 1987, p. 227). Mulcahy (1988) describes this era in the Arts Endowment’s policy history as “cultural subgovernment.” The Arts Endowment operated according to a “logic of constituency formation” in which the agency worked to build a national constituency to support its efforts to secure ever-larger appropriations from Congress (DiMaggio, 2000, p. 52). In Lowi’s typology (see Lowi, 1964; 1972), the first-quarter century of U.S. arts policy was a simple distributive policy with very low levels of conflict (Burgess, 2004). Wyszomirski (1995b) writes that during these years the Arts Endowment’s management of direct government support for the arts was a “relatively simple distributive policy sub-government focused on increasing financial resources for the NEA and, through it, to the arts constituency” (p. 47). Also according to Wyszomirski (1995a), the first two

(2) that a high civilization must not limit its efforts to science and technology alone but must give full value and support to the other great branches of man’s scholarly and cultural activity...

decades of direct federal support for the arts comprised a positive feedback loop generated by such axioms as “growing public interest and financial support,” “increasingly positive political regard with low visibility,” and “largely unchallenged artistic control of the grant decision making process” (p. 72). These descriptive terms and concepts—a simple distributive policy, cultural subgovernment, policy maturation, the positive feedback loop—all indicate that fairly soon after its creation the Arts Endowment and the policy of direct federal for the arts it administered flourished in a highly stable and predictable policy environment for next quarter-century.

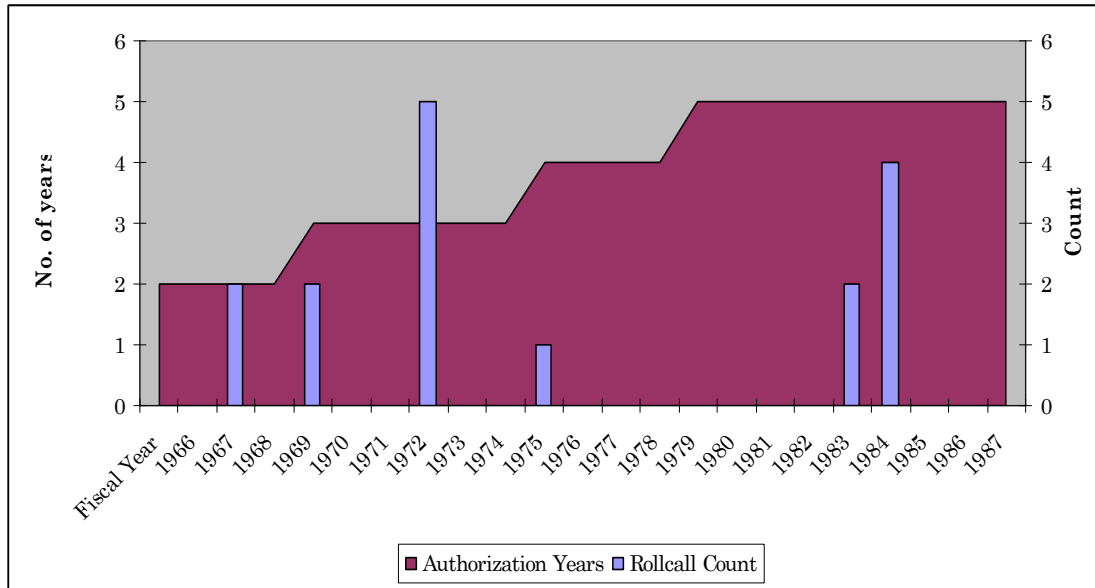


Source: Published U.S. federal budgets (FY 1966 – 1988, not including FY 1976 transition)

Figure 2. Appropriations during the era of “cultural subgovernment” (nominal dollars).

Only first-order changes are evident in federal arts policy during this long period of cultural subgovernment. Together, [Figure 2](#) and [Figure 3](#) demonstrate that first-order policy change predominated throughout the era of cultural subgovernment. First, [Figure 2](#) shows a general trend of increasing appropriation levels for the Arts Endowment as Congress steadily appropriated increasing sums to direct federal support for the arts through the 1970s and maintained that level (in nominal appropriation dollars) through the 1980s. (Increasing and maintaining appropriation levels is best characterized as first-order change because it essentially represents incremental budget adjustments.) Further, [Figure 3](#) shows that Congress also adjusted the instrumental settings of the

reauthorization period as it extended from two years in 1966 to five years by the end of the 1980s. Wyszomirski (1988a) observes that the growth and stabilization of Arts Endowment appropriations and the extension of its reauthorization period from two to five years are “evidence of the agency’s evolution from a controversial Great Society experiment into an established agency administering a legitimate federal policy” (pp. 10-11).



Source: *Congressional Quarterly Almanac* (1966 – 1987)

Figure 3. First-order policy change under cultural subgovernment.

Consistent with any sort of subgovernmental arrangement, the Arts Endowment attracted very little general attention in Congress as it appeared on the floor agenda infrequently, only every few years. In fact, as also shown in [Figure 3](#), every congressional floor vote on the Arts Endowment for the entire period between its establishment in 1965 and 1988 was for its reauthorization; not a single vote ever questioned the legitimacy of government support for the arts, the Arts Endowment’s operations, or any other substantive issue of federal arts policy, though such concerns of course might have been expressed in venues and forums other than the floor of Congress. And all but two of the floor votes (the Kemp and Gross amendments to H.R. 3926 in 1973, both of

which were rejected on the floor) were to authorize an *increase* in appropriations. Even when the Arts Endowment did draw general interest in 1981 under the anti-government bureaucracy ideology of the Reagan administration (see Campbell, 1999; Pfiffner, 2000a),⁶ the cultural subgovernment was sufficiently resilient to repel these attacks (Margaret Jane Wyszomirski, 1988b, p. 134). For the most part, increasing or stabilizing appropriations and lengthening reauthorization periods indicate that the Arts Endowment's stable political environment insulated it from everything but simple parametric adjustments of first-order change, preserving both the policy instruments and goals established when Congress originally devised NFAH in 1965 through 1988.

Cultural subgovernment's long period of political stability and predictability abruptly ended during the summer of 1989 with a policy punctuation in the direct federal support for the arts. Borrowing from Stephen Jay Gould and Niles Eldredge's work in evolutionary biology,⁷ Baumgartner and Jones conceptualize "punctuated equilibrium theory" in public policy (PET) to describe long periods of policy stability with only incremental change (i.e., equilibrium) punctuated by short periods of rapid change (i.e., punctuation), the combination of the two terms thus comprising the compound term "punctuated equilibrium" (see Baumgartner & Jones, 1991; 1993, 2002). The long period of stability in the Arts Endowment's political environment and incremental, first-order change in direct federal support for the arts represents "equilibrium." The relatively shorter period that ended the equilibrium and allowed greater orders of policy change represents a "punctuation," and the stable period marking then end of the punctuation signifies the beginning of the new period of equilibrium.

⁶ In 1981, for example, the nascent Reagan administration proposed a 50 percent cut in the NEA's appropriation for FY 1982 and a severe cap on the growth of its annual appropriation. "Behind the administration's draconian proposal," Wyszomirski (1995b) observes, "was a very strong feeling that arts funding should come not from government but from the private sector" (p. 47).

⁷ (Eldredge, 1985; Eldredge & Gould, 1972; Gould, 1992, 2002; Gould & Eldredge, 1993)

The Arts Endowment's policy punctuation begins in 1989 and continues through the mid- to late 1990s, as detailed in Shockley (2011). In 1989, the Arts Endowment was criticized for its association with two controversial instances of public funding of the arts: Andres Serrano's *Piss Christ* and the cancellation of *Robert Mapplethorpe: The Perfect Moment* exhibit at Corcoran Gallery of Art in Washington, D.C. As a direct consequence of these controversies, the Arts Endowment drew the attention of political interest groups outside the arts, the general membership of Congress outside its subcommittees, as well as the general public, thus forming in Hecló's (1978) terminology a classic issue network. As Wyszomirski (1995b) puts it, the old iron triangle of cultural subgovernment transmogrified into an issue network. Certain conservative members of Congress, such as Sen. Jesse Helms (R.-N.C.), sought to impose content restrictions on the art in support of which the Arts Endowment gave grants. Moreover, these controversies occurred just as cultural conservatives in Congress and elsewhere began to criticize the growing U.S. nonprofit arts establishment for developing "a sense of entitlement" with respect to government support for the arts and the Arts Endowment's support of progressive and innovative art as more characteristic of a private foundation than a democratically accountable government agency (Burgess, 2004, pp. 51-52).

As a result, the Arts Endowment was swept up in the "culture wars" raging in the late 1980s and early 1990s and, many would argue, continue today. Suddenly a confusing network of variously committed actors with multiple agendas replaced the Arts Endowment's iron triangle as, once again in Lowi's terms, direct federal support for the arts transformed from a simple distributive policy to one with both redistributive and regulatory elements and high levels of conflict (Burgess, 2004). The unwanted criticism and attention created political sound and fury of a kind that the agency had never experienced before. Thrust onto the national political stage (Zeigler, 1994, p. 76), the Arts Endowment had lost the stability and predictability that a quarter-century in cultural subgovernment

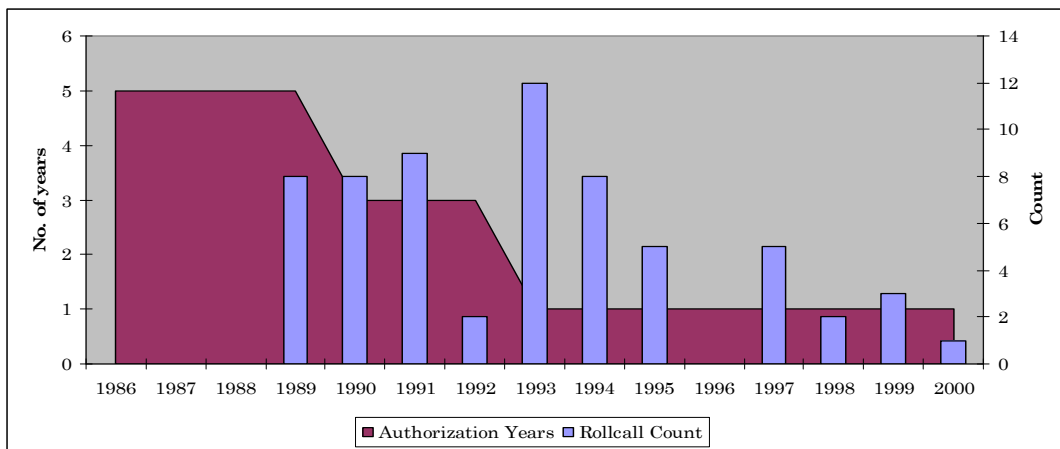
had almost continuously provided. Thus, commenced a decade of tumult, congressional hostility, and credible threats to the Arts Endowment's existence.

A major consequence of the end of cultural subgovernment was that the now unpredictable and volatile political environment of the Arts Endowment no longer could ensure that direct federal support for the arts would be insulated from the greater magnitudes of second- and third-order change. A "negative policy window" opened for radically altering, restricting, or eliminating the Arts Endowment appeared to be wide open in the early 1990s (Margaret Jane Wyszomirski, 1997). Indeed, many of those newly attentive to the agency, such as conservative Republicans of Congress and the Christian right of the politically active citizenry, promoted different policy changes with varying magnitudes of first-, second-, and third-orders of policy change (see Moen, 1997). Congress still sought incremental first-order change such as making incremental adjustments to the percentage of the Arts Endowment's appropriation legislatively mandated to pass through to states arts agencies⁸ and reducing the reauthorization period from its peak at the end of the 1980s of five years and then after 1993 never reauthorizing for the balance of the 1990s, as shown in [Figure 4](#).

Moreover, Congress as a whole paid considerably more attention to the Arts Endowment during the policy punctuation, an observation that is consistent with the loss of cultural subgovernment. While [Figure 4](#) shows that floor votes on the Arts Endowment were much more frequent from 1989 through the mid-1990s, it does not indicate that for the first time these congressional floor votes were concerned with the legitimacy of government support for the arts, the Arts Endowment operations, and other substantive policy matters involved in direct federal

⁸ Congress legislatively mandated that approximately 15 percent of the Arts Endowment appropriation be passed through to state arts agencies in FY 1979; 13 percent in FY 1984; 13 percent in FY 1989; and 16 percent in 1994 (Dipko & Young, 2001).

support for the arts.⁹ Two of the more notorious pieces of anti-Arts Endowment legislation were the series of annual Crane Amendments from 1990 to 1994, which sought the most severe third-order change of eliminating the agency and terminating direct federal support for the arts, and the Helms Amendments of 1990 and 1991, which also sought third-order change of policy goals by attaching content restrictions to the Arts Endowment’s reauthorization by forcing the agency meet “general standards of decency” when awarding grants. The Helms Amendment of 1991 that was adopted (HR 2686; September 19, 1991) exacerbated the Arts Endowment’s circumstances when the so-called “NEA Four”¹⁰ took legal action against the agency on First Amendment grounds. Reaching the U.S. Supreme Court as *NEA v. Finley*¹¹ (524 U.S. 569), this case brought still more attention to the Arts Endowment and its grant-giving procedures, further destabilizing its already precarious political environment.



Source: *Congressional Quarterly Almanac (1986 – 2000)*

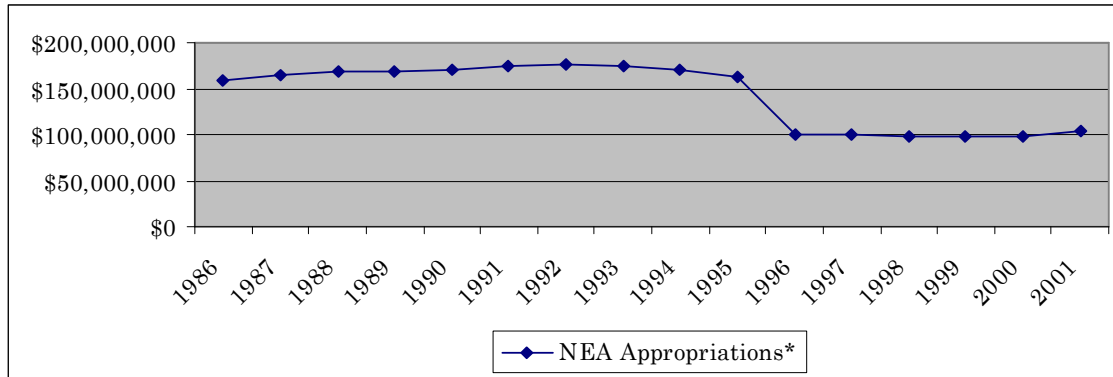
Figure 4. The end of cultural subgovernment and the commencement of all orders of change.

⁹ No floor votes regarding the Arts Endowment occurred in 1996 because an agreement was reached in 1995 whereby the Arts Endowment would be allowed to operate for two more years (1995 and 1996) but would be terminated beginning in 1997.

¹⁰ John Fleck, Holly Hughes, Tim Miller, and Karen Finley were four individual artists whose grant applications were approved by Arts Endowment peer panels but were ultimately denied by the Arts Endowment. The first-amendment case *NEA v. Finley* was a direct result of the NEA Four.

¹¹ *NEA v. Finley* was decided by the Supreme Court on June 28, 1998. Ruling in the Arts Endowment’s favor, Justice O’Connor’s majority opinion held, “Any content-based considerations that may be taken into account in the grant-making process are a consequence of the nature of arts funding. The NEA has limited resources and it must deny the majority of the grant applications that it receives, including many that it receives, including many that propose ‘artistically excellent’ projects” (“*NEA v. Finley*,” 1998).

The Republican ascendancy in the 104th Congress consummated the destabilization of the Arts Endowment's political environment. The mid-term elections in November 1994 will always be known as the "Republican revolution" as Republicans took back control of Congress for the first time in 40 years. Newt Gingrich (R.-Ga.), the leader of revolution, declared in 1991, "I'm not interested in preserving the status quo. I want to overthrow it" (Gingrich, 1995, p. 27). He achieved his goal in the 104th Congress. After enduring several years of anti-Arts Endowment legislation from the Republican *minority* in Congress seeking all orders of change since 1989, the Arts Endowment became acutely vulnerable to vigorous efforts to effectuate second- and third-order change by new Republican *majority* in the House in the 104th Congress. In fact, many Republicans running for Congress had pitched anti-Arts Endowment campaigns (Cho, Commerato, & Heins, 2003; Gee, 1997; Miller, 2000). Figure 5 shows that 104th Congress was able to effectuate the second-order change in the Arts Endowment's appropriation for FY 1996 by slashing the FY 1995 level by 39 percent. Although the budget cut might not have changed the Arts Endowment's policy goals of encouraging access and excellence in the arts and thus have qualified as third-order change, it certainly resulted in several negative effects on the Arts Endowment's policy instruments by, *inter alia*, forcing the Arts Endowment to lay off 89 staff members (a staff reduction of 37 percent) and shrinking both the quantity and size of the grants it could award. Thus, the 104th Congress' drastic budget cut qualifies as a second-order change, one of the first in the Arts Endowment's policy history. The highly unstable political environment of the 104th Congress surrounding the Arts Endowment was thus allowing greater magnitudes of policy change.



Source: Published U.S. federal budgets (FY 1986 – 2001)

Figure 5. Second-order policy change of cutting the Arts Endowment FY 1996 appropriation.

The Republican-controlled 104th Congress also sought once again the ultimate third-order change of abandoning a policy, that is, the elimination of the Arts Endowment and termination of direct federal support for the arts. The difference between this congressional effort in 1995 and the ones prior to 1995 is that the first Republican majority since the creation of Arts Endowment made these threats instantly more credible. Gingrich, junior House Republicans (Janowitz, 1995b), as well as the Republican-controlled Senate were intent on eliminating the Arts Endowment along with several other agencies as part of the “Contract with America.”¹² De Leon (1997) observes, “the ‘termination blues’ [were] an integral part of the hymnal for the Republican ‘Contract with America’” (p. 2197). Enacting their agenda through the House appropriations committee (Aldrich & Rohde, 2000) and “generally unorthodox lawmaking” (Sinclair, 2000, Chapter 11), Republicans targeted

¹² For example, consider the following “Sense of the Senate” amended to a concurrent budget resolution for FY 1996: “It is the sense of the Senate that to balance the budget the Congress should –
 (1) “Restructure federal programs to meet identified national priorities in the most effective and efficient manner so that program dollars get to the intended purpose or recipient;
 (2) “Terminate programs that have largely met their goals, that have outlived their original purpose, or that have been superseded by other programs;
 (3) “Seek to end significant duplication among federal programs, which results in excessive administrative costs and ill serve the American people; and
 (4) “Eliminate lower priority programs.” (“Senate Amendment to Concurrent Resolution on the Budget -- Fiscal Years 1996 - 2002,” 1995)

three categories of federal agencies for elimination: (1) “the symbolic budget trophy” agencies, such as the Office of Technology Assessment; (2) “those with significant budgets,” such as the Department of Energy; and (3) “those whose missions conflicted with the new conservatism brought to Congress by the class of 1994,” such as the Arts Endowment (Bimber, 1998, pp. 204-205). Overall, as Pfiffner (2000b) reports, the Senate sought to abolish more than 100 programs and agencies while the House more than 280. Providing evidence that these “termination blues” included the Arts Endowment, a section of a concurrent budget resolution for FY 1996 was entitled “Terminate Funding for the National Endowment for the Arts and the National Endowment for the Humanities.”¹³ The highly unstable political environment of the Arts Endowment thus reached its apex in 1995 with the Republican revolution and, consequently, the Arts Endowment was now subject to all orders of policy change.

Policy Changes to Direct Federal Support for the Arts and the Stabilization of Its Political Environment

Direct federal support for the arts changed considerably during the policy punctuation. Table 1 displays a selection of prominent policy changes occurring during the height of the punctuation between 1991 and 1996. Within the punctuation, these changes move from first-order change in between 1990-1991 to both first- and second-order change between 1993 and 1994 and finally all three orders of change between 1995 and 1996. Even the most simplistic rational-actor can explain the first- and second-order policy changes as the Arts Endowment’s adaptive response to external stimuli. Rational-actor explanations, however, are much less satisfying for third-order policy changes. Instead, I invoke the causal functionality of (Kirznerian and Schumpeterian) policy

¹³ Under this proposal, Federal funding for the National Endowment for the Arts and the National Endowment for the Humanities would be eliminated. Federal funding for the arts and humanities is not affordable in a time of fiscal stringency, especially when programs addressing central Federal concerns are not fully funded. In addition, many arts and humanities programs benefit predominantly higher-income people, who could pay higher admission or ticket prices. Finally, there is serious philosophical debate about whether financing artistic creation is an appropriate government activity in the first place. (1995)

entrepreneurship to provide a more thorough explanation. In other words, it is the Arts Endowment’s policy entrepreneurship that introduces stability to its political environment.

Table 1. Selected Arts Endowment changes to direct support for the arts (1990-1996).

<i>1990-1991 Changes: First Order</i>	<i>1993 – 1994 Changes: Second Order</i>	<i>1995 – 1996 Changes: Third Order</i>
<ul style="list-style-type: none"> • First order: Including knowledgeable lay persons in panel membership 	<ul style="list-style-type: none"> • Second order: Eliminating sub-granting 	<ul style="list-style-type: none"> • Third order: Restructuring grant programming from 17 discipline-based grant categories to 4 thematic ones
<ul style="list-style-type: none"> • First order: Limiting panel service to no more than 3 consecutive years 	<ul style="list-style-type: none"> • Second order: Consolidating 17 grant discipline-based categories to 14 	<ul style="list-style-type: none"> • Second order: Eliminating seasonal or general operating support
<ul style="list-style-type: none"> • First order: Removing conflicts of interest in panel service 	<ul style="list-style-type: none"> • First order: Requiring interim reports from grantees and disbursing grant monies in installments of interest in panel service 	<ul style="list-style-type: none"> • Second order: Eliminating individual fellowships, except for literature, jazz, and heritage
<ul style="list-style-type: none"> • First order: Requiring all applicants to provide a project description 		

Sources: (AAMD, 2004; Alexander, 2000; GAO, 1991; Janowitz, 1995a; Kimbis, 1997a, 1997b)

As shown in Table 1, the Arts Endowment implemented a group of changes towards the beginning of the punctuation in 1991. Although the Arts Endowment had never considered so many changes to federal policy in support of the arts, each of these changes is appropriately categorized as first-order policy change. Most of these changes can be traced to the Independent Commission of 1990 (IC) that Congress created in wake of the controversies of 1989. The IC’s findings in *A Report to Congress on the National Endowment for the Arts* (1990) provided the plan for, in Burgess’ (2004) words, “politically induced organizational change.” This group of policy changes—including adding a lay person to review panels and limiting the service of panel members, requiring grant applicants to provide a project description, and requiring interim reports from grantees—are simple adjustments of existing policy instruments and do not involve any sort of modification in the grant-giving instruments or overall policy goals of direct government support for the arts. Three

principles guided the operation of the IC: “balance, independence and a striving for consensus” (Brademas, 1997, p. 39). Burgess (2004) finds that the Arts Endowment adopted and implemented most of the IC’s recommendations for action (though some were not implemented until later in the 1990s) because they were unanimously endorsed within the IC and satisfied a variety of critics outside the IC, both conservative and liberal in Congress (p. 125). The unanimity and balance the IC achieved in its final report, however, ensured that the IC would recommend only incremental adjustments, first-order changes at the Arts Endowment that were not likely to move federal support for the arts in a new direction by changing the instruments or policy goals of federal arts policy. Thus, the Arts Endowment’s implementation of these first-order changes were quick fixes that might in some way affect Arts Endowment’s political environment, but any effect most likely would be limited and short-lived.

In fact, as shown in [Figure 4](#) and [Figure 5](#), the mollifying effects of the Arts Endowment implementing the IC recommendations were limited and short-lived. After the IC recommendations were accepted and the Arts Endowment began to implement them, Congress reduced the Arts Endowment’s reauthorization period from five to three years ([Figure 4](#)). Then, in 1993 after the Arts Endowment had implemented many of the IC’s recommendations (all of the changes were implemented by 1996), Congress further reduced the Arts Endowment’s reauthorization to an annual event ([Figure 4](#)). In other words, Congress trusted the agency less and less, even after the work of the IC. Further, [Figure 4](#) also shows that after the Arts Endowment had implemented many of the IC’s recommendations the roll call count shot up to 12 in 1993, which is the highest count in the history of the federal agency, and totaled 26 between 1993 and 1995. And of course Congress dramatically slashed the Arts Endowment’s appropriations for FY 1996 ([Figure 5](#)). Far from calming down after the Arts Endowment implemented the IC recommendations, the

apparent stability evident in the political environment was only the “calm before the storm.” The Arts Endowment’s policy punctuation was only intensifying.

As the policy punctuation intensified, the Arts Endowment undertook changes that were of a greater magnitude than the first batch of IC-related ones beginning in 1991. In the second batch of changes during the middle of the punctuation in federal arts policy (1993-1994), first-order changes continue to appear, such as the parametric adjustment of adding more diversity to panels. In addition to first-order policy changes, however, second-order policy changes now appear in Table 1, such as eliminating most fellowships to individual artists as well as terminating the practice of sub-granting (the practice of allowing grantees to reallocate their grant award to projects of their own choosing). These changes are characterized as second-order policy change because they involve more than simple parametric adjustments to existing policy instruments. Rather, these changes represent the alteration the policy instruments of federal arts policy while leaving intact its overall policy goals. Thus, as the punctuation in federal arts policy intensifies, the data show that a greater magnitude of policy change is occurring.

Third-order policy change appears for the first time in the third batch of policy changes occurring at the end of the punctuation in federal arts policy between 1995 and 1996. At this time the Arts Endowment undertook the most sweeping policy change since NFAH created the agency 30 years before: a programmatic restructuring of 17 discipline-based grant categories to four thematic ones. This change the Art Endowment implemented represents a third-order change because it signifies a significant shift in policy goals of direct federal support for the arts (Margaret J. Wyszomirski, 1999). Beginning in FY 1996, the Arts Endowment abandoned its direct support of the *artistic disciplines*, such as dance, design, music, the visual arts, theater, media arts, etc., in favor of funding only a few generic *art-related policy objectives* carried out in America’s vast nonprofit arts sector, such as historic preservation, arts education, and access to the arts. “The government decided,” the

art critic Michael Brenson (2001) argues, “that in order to save the Endowment, it had to stop investing in artists and invest its cultural authority in institutions” (p. 89). The programmatic restructuring thus embodies a redirection of the goals of federal arts policy away from artistic constituency-oriented grants to public interest-oriented grants. This change registered a seismic shift in arts policy away from supporting the kind of projects that recently had embroiled the Arts Endowment and instigated the punctuation of policy instability then imperiling the agency, such as the work of Robert Mapplethorpe, Andres Serrano, and Karen Finley. As Kimbis (1997b) remarks, “In order to remake the agency’s image into that of a more politically stable, inoffensive entity, the Endowment determined that its first priority was to reshape its role and agenda” (p. 149), which the Arts Endowment did by undertaking the third-order change of programmatic restructuring. After the third batch of changes between 1995 and 1996, the Arts Endowment implemented no more major changes of any order for the remainder of the 1990s.

Conclusion

Would this stability have returned to the Arts Endowment’s political environment if the agency had not identified the opportunity to radically change its grant-giving from art-specific disciplines to art-related programs? Logic would seem to suggest, “No.” The argument of this paper is that the Arts Endowment’s policy entrepreneurship (and its causal functionality) was the necessary act to bring stability to its political environment. The startling fact following soon after the third batch of changes between 1995 and 1996, particularly the third-order change of programmatic restructuring, is that the Arts Endowment’s political environment began to stabilize. Indeed, the data in [Figure 4](#) and [Figure 5](#) above indicate that a new equilibrium period of stability in the Arts Endowment’s political environment emerged in 1996 and continued to solidify throughout the balance of the 1990s. First, the agency survived the series of Crane amendments and other,

similarly intentioned legislation and was not terminated. Second, Figure 4 shows that the reauthorization period remained annual event after 1993 and that floor votes dropped off considerably from an average of eight each year between 1993 and 1995 (excluding 1996)¹⁴ to fewer than three each year between 1996 and 2000. The Arts Endowment was the subject of only one floor vote in 2000. And Figure 5 shows that the Arts Endowment's appropriation after the deep cut in its appropriation beginning for FY 1996 remained at just under \$100 million for the balance of the 1990s.

These data on the Arts Endowment's political environment show that the 35-year policy trajectory of direct federal support for the arts follows a logistic curve characteristic of Baumgartner and Jones' PET. "In the end," Baumgartner and Jones (1993) write, "we depict a political system that displays considerable stability with regard to the manner in which it processes issues, but the stability is punctuated with periods of volatile change" (p. 4). The political environment data presented above indicate "considerable stability" with which the domain of federal arts policy processed policy change for its first quarter-century. In other words, only first-order policy change is evident during the period of cultural subgovernment. The data then show that the policy punctuation occurred between 1989 and 1997 when the strenuous efforts to eliminate the agency and terminate federal arts policy were continuously in motion. Although first-order change from the IC's recommendations is evident in the beginning of the punctuation, the magnitude of policy change increased as the punctuation stretched into the mid-1990s. Then, by 1997, suddenly everything seemed to "cool down," to borrow Brademas' phrase ill-timed in 1991. The changes Congress and the Arts Endowment had been undertook during the first half of the 1990s stayed in place. No more changes to federal arts policy were made. Generally speaking, the counterfactual

¹⁴ The 104th Congress apparently had already decided the Arts Endowment's fate in 1995. The budget agreement would slash the agency's funding for FY 1996, which it did, with the understanding that the agency was to be terminated in 1997, which it ultimately did not. Therefore, by this 1995 agreement, no votes were necessary in 1996.

analysis reveals that the policy changes did the trick and returned stability to federal arts policy, strongly suggesting a causal link between policy change and policy stabilization.

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