THE NONPROFIT AND THE NONPROFIT ARTS SECTOR
IN THE UNITED STATES

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THE NONPROFIT AND THE NONPROFIT ARTS SECTOR

IN THE UNITED STATES

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Thesis

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CHAPTER I

INTRODUCTION OF THE NONPROFIT AND ITS FUNCTION

Before the conception creation of a legal entity defined as a nonprofit corporation was created, there were only two major systems to operate the world--government and business. With the appearance of the nonprofit sector, the social system was reformed by redistributing resources and social wealth. It not only moderated social contradictions which were created by the old system, but also maximized the creativity and spiritual value of individuals. Therefore, the invention of an unique legal status for nonprofit corporations may be ranked any of the other great innovations and creations in the history of human beings.

This thesis is about the naissance of the nonprofit organization and its role and influence on the nonprofit arts sector in the United States. The author researched the elements which caused the conception and early structure of the nonprofit organization in America from a historical perspective. By viewing the nonprofit arts sector through the lens of nonprofit history and cultural development, the researcher may reach a deeper understanding of the role, function and operation of nonprofit arts through analyzing the history, society, policy and culture of the United States.
A nonprofit organization is an organization that does not distribute its surplus funds to owners or shareholders, but instead, uses them to help pursue its goals. Nonprofit organizations are dedicated to two major functions: first, to perform public tasks that have been delegated by the state as agencies of government; second, to perform public tasks for which there is a demand that neither the government nor for-profit organizations are willing to do. It is because of this second function, the nonprofit organization has the potential to influence the direction of policy in the state, in the for-profit, in other nonprofit organizations, and, finally, in the structure of the social mechanism. Above all, its contribution to the nation's quality of life is incalculable.

The National Center for Charitable Statistics (NCCS) is the national repository of data on the nonprofit sector in the United States. Its mission is to develop and disseminate high quality data on nonprofit organizations and their activities for use in research on the relationships between the nonprofit sector, government, the commercial sector, and the broader civil society. According to the data from NCCS, there are currently over 1.5 million nonprofit organizations in the United States. They range from large universities with assets in billions of dollars to small all-volunteer, community-based, grass roots organizations. In 2007, public charities reported over $1.4 trillion in total revenues and nearly $1.3 trillion in total expenses. Foundations gave $45.6 billion in 2008, an increase of 2.8% from 2007.¹ Between September 2007 and September 2008, approximately

26.4% of Americans over the age of 16 volunteered through or for an organization. The Corporation for National and Community Service (CNCS) released the report *Volunteering in America 2010*. Across the country, 63.4 million Americans volunteered to help their communities in 2009, an additional 1.6 million volunteers when compared to 2008, contributing 8.1 billion hours of service, which has an estimated dollar value of nearly $169 billion. (Not all data is renewed annually, some are updated only every three to five years.)

Nonprofits are significant actors in the area of environmental protection, human rights, conflict resolution, disaster relief, economics, cultural and arts development, and religious activities. They play prominent social, economic and political roles as service providers, advocates, educators, and employers. According to the information from the California Association of Nonprofits (CAN), nonprofit organizations have led some of the most profound and important changes in our society, such as:

- Development of the polio vaccine funded by the March of Dimes.
- Transference of high-yield seeds to developing countries by the Rockefeller Foundation.

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2 The National Center for Charitable Statistics (NCCS); generated by Yi Yu; <http://nccs.urban.org/>
3 The Corporation for National and Community Service (CNCS); generated by Yi Yu; <http://www.nationalservice.gov/>
4 California Association of Nonprofits; generated by Yi Yu; <http://www.canonprofits.org/>
• The Civil Rights Movement based in the Southern black churches and the resulting Equal Rights legislation.
• Growth of regional and off-Broadway theatre.
• The American Red Cross's pioneering work in blood banking and its management of half of the nation's blood supply.
• Relief efforts to starving people by Save the Children and other international relief organizations.
• The anti-smoking campaign that made California a smoke-free state by the Heart, Lung and Cancer Associations.
• Environmental initiatives and programs by the Sierra Club, the Nature Conservancy and similar groups.
• Social welfare assistance provided by thousands of nonprofits to elderly people, boys and girls, people with AIDS, abused children, unemployed workers, people with disabilities, latch-key kids and low-income families.
• The campaign by Mothers Against Drunk Driving that resulted in dramatically reduced rates of alcohol-related auto accidents and nearly universal awareness of the dangers of drunk driving.
• Increased accessibility for the disabled to the public sphere through the Americans with Disabilities Act.
• National discussions mobilized by both the Right-to-Choice and Right-to-Life movements.
• Increased access for women to equal pay for equal work through the women’s movement.5

Despite the tremendous size and impact of the nonprofit sector, it is not well understood by most people. While there are many elements of nonprofit organizations that are similar to many businesses, there are important differences that make nonprofits more complex than most businesses. Here are a few things to consider:

(1) Business reaps maximum profits from available investment and sales; owners/shareholders share profits. Nonprofits deliver maximum service from available donations and sales; any surplus must be used solely for the nonprofit agency’s authorized mission.

(2) Business will discontinue activities that do not contribute to profitability while nonprofit will restructure activities whose costs exceed available funds from sales, donations, and internal subsidies. Nonprofits will continue to create programs to carry out its mission.

(3) Donations and grants do not finance business, and all income can be used as determined by owners and/or shareholders. Nonprofits rely on donations and grants (which must be used as designated by donors) in addition to fees and membership income.

(4) Business utilizes 100% paid staff and contractors, while a significant share of work in nonprofit is done by volunteers, who receive little or no financial

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5 California Association of Nonprofits; generated by Yi Yu; <http://www.canonprofits.org/>
compensation and may or may not be shown on financial statements. Many nonprofits have full-time paid employees.

(5) Business must conform to a wide range of rules related to labor, environment, health and safety, etc., and it is free to enter new business areas if the owners choose to do so; while nonprofit must conform to the same rules as business, and also to special rules for nonprofit exempt organizations. In addition, it is generally restricted to activities that are consistent with its "exempt purpose."

(6) Business pays Federal Insurance Contribution Act (FICA) tax, Workmen's Compensation, State Unemployment Insurance (SUI), and withholding taxes for all employees. It also pays property taxes and a sales tax on purchases not resold, and pays federal income taxes. Nonprofits may have exemptions from state or local property, sales, or income tax. Tax exempt status for nonprofit organizations does not mean they pay no taxes; it means only that they are exempt from federal income taxes.  

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CHAPTER II

IMPORTANT EVENTS SHAPED THE LOOK OF NONPROFIT

Rome was not built in a day. Growth of the nonprofit sector has not come easily. Many profound historical events have greatly shaped how the nonprofit sector looks today.

The Statute of Charitable Uses (1601)

The Charitable Uses Act of 1601 (also known as the "Elizabeth Statute") is an Act (43 Eliz I, c. 4) of the Parliament of England dealing with the definition of a charity. The primary purpose of the Statute of Charitable Uses was to provide a mechanism to make trustees accountable for the appropriate administration of charitable assets, which in turn would encourage the affluent to increase their giving for relief of the poor. It is the nonprofit sector's legal forerunner, which resonates in our law today. Because of it, money could be used for public good with social recognition and respect.7

British Charter of Rights (1689) & US Bill of Rights (1791)

The Charter of Rights is an act of the Parliament of England. The full title of this charter is An Act Declaring the Rights and Liberties of the Subject and Settling the Succession of the Crown. It is often called the English Bill of Rights. It was

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passed by parliament on 16 December 1689. It sets down limits on the powers of
the sovereign and identifies the rights of parliament; it lists rules for freedom of
speech in parliament, requirements for regular elections to parliament, and also
bestows the right to petition the monarch without fear of retribution. It
reestablishes the liberty of Protestants to have arms for their defense within the
rule of law.

Following that democratic tradition and the awareness of the law, the United
States Bill of Rights, the name for the first ten amendments to the United States
Constitution, was introduced by James Madison to the First United States
Congress in 1789 as a series of legislative articles, and came into effect as
constitutional amendments on 15 December 1791, through the process of
ratification by three-fourths of the states.

The Bill of Rights is a series of limitations on the power of the United States
federal government, protecting the natural rights of liberty and property including
freedom of speech, free press, free assembly, and free association, as well as the
right to keep and bear arms. It gives the press the right to publish news,
information and opinions without government interference. This also means
people have the right to publish their own newspapers, newsletters, magazines,
etc. It prohibits the government from establishing a religion and protects each
person’s right to practice (or not practice) any faith without government
interference. It states that people have the right to appeal to the government in
favor of or against policies that affect them or that they feel strongly about. This
freedom includes the right to gather signatures in support of a cause and to lobby
legislative bodies for or against legislation. It confirms that people have rights to
gather in public to march, protest, demonstrate, carry signs and otherwise
express their views in a nonviolent way. It also means people can join and
associate with groups and organizations without interference.

In federal criminal cases, it requires an indictment by a grand jury for any
capital or "infamous crime," guarantees a speedy, public trial with an impartial jury
composed of members of the state or judicial district in which the crime occurred,
and prohibits double jeopardy. In addition, the Bill of Rights reserves for the
people any rights not specifically mentioned in the Constitution and reserves all
powers not specifically granted to the federal government to the people or the
States. The British Charter of Rights and the US Bill of Rights were the
development of Natural Rights. They guaranteed freedoms to individuals, and
provided legislative authority to protect the basic rights and property of individuals.
All of these efforts paved the philosophical way for the nonprofit sector.8

The Civil Rights Movement in the United States

In a relatively stable political system, after a status had been reached in
which every citizen has the same rights by law, practical issues of discrimination
remained. Even if every person were treated equally by the state, there might not
be actual equality due to discrimination within society, such as ethnicity equity
issues, gender equity issues as well as LGBT (lesbian, gay, bisexual, and

8 Wikipedia-United States Bill of Rights; generated by Yi Yu;
transgender social movements) rights and gay liberation, which may hinder civil liberties in everyday life.

Ethnicity equity issues include Integrationism, Black Power, Chicano Movement, and the American Indian Movement. In the last decade of the nineteenth century in the United States, racially discriminatory laws and racial violence aimed at African Americans and other minority groups began to mushroom. This period is sometimes referred to as the nadir of American race relations.\(^9\) The minorities got together in groups, and fought for their equal rights and respect in the work place and in society. The most illustrious event is probably the mid-twentieth century March on Washington for Jobs and Freedom. It is best remembered for the speech Martin Luther King, Jr. gave, in which the "I have a dream" part turned into an international text and eclipsed the troubles the organizers had to bring the march forward.

Meanwhile, the waves of feminism focused upon absolute rights such as suffrage (which led to women attaining the right to vote in the early part of the 20th century), and changing social attitudes and economic, reproductive, and educational equality (including the ability to have careers in addition to motherhood, or the right to choose not to have children) between the genders and addressed the rights of female minorities.

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\(^9\) Wikipedia-Civil Rights Movement; generated by Yi Yu; 
<http://en.wikipedia.org/wiki/Civil_Rights_Movement>; 
Wikipedia-Civil Rights Movement in the United States; generated by Yi Yu; 
LGBT rights were much harder to achieve than other issues at that time. However, with continuing effort, anti-discrimination law has been put into force in the family, military, employment and housing.

To some extent, these movements became rehearsals and preparations for the birth of nonprofit organizations in the United States. When different groups of people worked together to gain their rights, they had worked toward the same mission voluntarily under the leadership of their role model (as chief director or board member) with the financial support (donations) from the citizens (mission's supporters) who shared the same objective.

President Johnson's Great Society

The Great Society as of the 1960s was a set of domestic programs proposed or enacted in the United States on the initiative of President Lyndon B. Johnson, which encompassed civil rights, the war on poverty, education, health (Medicare and Medicaid), arts and cultural institutions, transportation, consumer protection and environment. Some of the demands of the Civil Rights Movement were translated into law. Two main goals of the Great Society's social reforms were the elimination of both poverty and racial injustice.

Moreover, nonprofit began to contract with the federal government for scientific, defense-related and medical research. In the late 1960s, federal money became as important to nonprofits as philanthropy. President Lyndon Johnson's Great Society fundamentally altered the size, scope and funding of nonprofits. Government funding began to rival charitable donations. By the late 1970s, government funding was larger than private giving.
These programs not only improved the quality of life for individuals, but also stimulated public attention and and awareness of need in those sectors. Although many programs went underfunded, they turned into the major sectors on which the nonprofit focuses nowadays.

President Nixon's New Federalism

New Federalism is a political philosophy of devolution, or the transfer of certain powers from the United States federal government to the states. The primary objective of New Federalism is the restoration to the states of some of the autonomy and power which they lost to the federal government as a consequence of President Franklin Roosevelt's New Deal, a series of economic programs implemented during the Great Depression in the 1930s.

As a policy theme, New Federalism typically involves the federal government providing block grants to the states to resolve a social issue. The federal government then monitors outcomes but provides broad discretion to the states for how the programs are implemented. It provides the opportunity for nonprofit organizations to function as government agencies, which upgrades the image and status of the nonprofit sector.10

The Establishment of Tax System

In the United States, a tax is imposed on income by federal, most state, and many local governments. The income tax is determined by applying a tax rate, which may increase as income increases, to taxable income as defined.

10 Wikipedia-Great Society; generated by Yi Yu; <http://en.wikipedia.org/wiki/Great_Society>
Individuals and corporations are directly taxable, and estates and trusts may be taxable on undistributed income.

Tax statutes passed after the ratification of the Sixteenth Amendment in 1913 are sometimes referred to as the "modern" tax statutes. In 1917 Congress passed a bill that allowed people to take an income tax deduction for gifts to charity. There was not much impact at first because Americans did not have much income. However, after World War II, US wages increased dramatically and suddenly millions were paying income taxes — and beginning to take advantage of the charitable deduction write-off. Today, 83% of Americans donate to charities.

In July 1862, during the Civil War, President Lincoln and Congress created the office of Commissioner of Internal Revenue and enacted an income tax to pay war expenses. The position of Commissioner exists today as the head of the Internal Revenue Service. Today, the Internal Revenue Service (IRS) is the revenue service of the United States federal government, which is responsible for collecting taxes and the interpretation and enforcement of the Internal Revenue Code. Forms are used to report income and calculate taxes to be paid to the federal government of the United States.

Among those forms, the IRS Form 990 is titled "Return of Organization Exempt Form Income Tax." It is submitted by tax-exempt organizations and nonprofit organizations to provide the Internal Revenue Service with annual financial information. It provides information on the filing organization’s mission, programs, and finances. The 990 allows the IRS and the public to evaluate nonprofits and how they operate. The tax-return and tax-exempt policies largely
encourage citizens to donate for the public good, especially for high-income families, millionaires, billionaires, and mega-companies.\textsuperscript{11}

**Filer Commission**

In the 1970s, the Filer Commission, named for committee chair John Filer, Chief Executive Officer of the Aetna Life and Casualty Company in Hartford, Connecticut, helped to create the first body of information about the American nonprofit sector. Grantmakers and grantseekers also realized the value of partnership. For the first time, nonprofit leaders began to think of themselves as an independent sector. New academic centers on nonprofit studies, degree programs and management assistance centers popped up around the country.\textsuperscript{12}

At this point, every element necessary to support a brick and mortar nonprofit sector in the United States is ready. The following chapter will examine the administrative body of the nonprofit sector.

\textsuperscript{11} Wikipedia-Income Tax in the United States; generated by Yi Yu; <http://en.wikipedia.org/wiki/Income_tax_in_the_United_States>

\textsuperscript{12} Peter Dobkin Hall. *A History of Nonprofit Boards in the United States.* Board Source: Building Effective Nonprofit Boards, 2008; generated by Yi Yu
CHAPTER III

ORGANIZATION AND MANAGEMENT

In the United States, nonprofit organizations are formed by incorporating in the state in which they expect to do business. The act of incorporating creates a legal entity enabling the organization to be treated as a corporation under law and to enter into business dealings, form contracts, and own property as any other individual or for-profit corporation may do. The body of a nonprofit organization is composed by the board, board committee, executive director, staff and volunteers.

Board & Board Committees

A board of directors is a body of elected or appointed members who jointly oversee the activities of a company or organization. The body sometimes has a different name, such as board of trustees, board of managers, board of governors, or executive board. It is often simply referred to as "the board." Not everyone can be nonprofit board member. Board members must agree to avoid conflicts of interest, and to take on certain duties and responsibilities according to the bylaws of the organization. A board of directors is the soul of the nonprofit organization, and has many responsibilities. It determines the organization's mission and sets
policies for its operation, ensuring that the provisions of the organization’s charter and its bylaws are being followed; it sets the organization's overall programs and engages in long-term planning for its future; it establishes fiscal policy and boundaries, with budgets and financial controls; it provides adequate resources for the activities of the organization through direct financial contribution and a commitment to fund raising; it selects, evaluates, and if necessary, terminates the appointment of the chief executive director; it develops and maintains a communication link to the community, and promotes the work of the organization.

State laws vary, but generally a nonprofit organization's board should have at least three officers: a president, a treasurer and a secretary. The president should be a person of authority, who has plenty of time to devote to the position, is respected by the board, the staff and the community. The treasurer must be someone who has advanced financial experience related to the operation of the nonprofit sector and capable of considering the different policies and legal issues between the for-profit and the nonprofit sector. The secretary should be organized and have the ability to record official information accurately for the board meetings and to compile files which need to be reported to the IRS.

When a nonprofit organization reaches a certain size and its operation becomes more complex, the board usually divides into committees to carry out its responsibilities efficiently. Committees are a critical aspect of an effective and successful nonprofit organization. Every board member should serve on at least one committee. Committee work must be taken seriously. A committee structure brings several advantages. First, it divides the workload and makes the duty more
specific and professional. Second, it allows an organization to bring experts into the deliberation process without putting them on the board when they do not have time or inclination to be trustees. Third, it is a testing for prospective trustees before they are selected to be board members. Typical committees include: Executive, Finance, Development, Nominating, Planning, Marketing/Public Relations, Events/Fundraisers/Special Projects, Program, Personnel and Investment.\textsuperscript{13}

**Executive Director**

An executive director is the senior manager of an organization, company, or corporation. The position is comparable to a chief executive officer (CEO) or managing director. Different from the voluntary board, an executive director is remunerated for his work. An executive director plays the role of coordinator and liaison for the board, the staff and the volunteers, and has a key role in the success of the nonprofit organization. The executive director will report directly to the board, and will work as a liaison between the board and the staff.

The role of the executive director is to design, develop and implement strategic plans for their organization in a cost-effective and time-efficient manner. The executive director is also responsible for the day-to-day operation of the organization, including managing committees and staff and developing business

plans in collaboration with the board for the future of the organization. In essence, the board grants the executive director the authority to run the organization. The executive director is accountable to the president of the board and reports to the board on a regular basis - quarterly, semiannually, or annually. The board may offer suggestions and ideas about how to improve the organization, but the executive director decides whether or not, and how, to implement these ideas.

As the title suggests, the executive director needs to be informed of everything that goes on in the organization. This includes staff, membership, budget, company assets, and all other company resources, to help make the best use of them and fulfill the organization's mission and profile.

The important thing about the role of the executive director in a nonprofit organization is that he or she should be flexible and willing to change with the times. It is the board's responsibility to govern the duties of the executive director and to continue changing the job description as the nonprofit grows.14

Management Skills Unique to Nonprofit

Staff report to the executive director and may support the work of the committees. Based on their responsibilities, the staff is divided into different departments to operate the organization together. Besides the similar structure to the for-profit sector, there are several unique management skills to nonprofit which need to be examined.

1. Fundraising and Grant Writing. Nonprofit management must engage in fundraising in order to meet the fiscal needs of their organization. Generally, fundraising can be an all-consuming activity, challenging an executive director's creativity and the organization's intangible pull. Executive directors are constantly striking a balance between the time they devote to fundraising and to program management. Too little attention to one area can leave an organization bereft of cash or quality services.

2. Nonprofit Budgeting and Accounting. Nonprofits are unique entities created to provide a public service, rather than generate fpr-profit. Therefore, nonprofits can enjoy special tax-exempt status with the IRS. Nonprofits also receive grants and other forms of donations to support their operation. These special features unique to nonprofits require highly customized forms of budgeting and accounting, which are not used in the general management sector.

3. Program Development and Evaluation. Nonprofit typically delivers ongoing services and fulfills its mission in the form of organizational programs. Therefore, it is important that nonprofit management understands the basic principles of program development and evaluation.

4. Public Policy. Particularly with nonprofits engaged in human services, nonprofit management must have strong knowledge of the vast rules, regulations and legal aspects of public policies. Nonprofits often are at the forefront of guiding public policy, including championing new legislation to serve the public. Although charitable nonprofits typically cannot lobby or advocate for legislation, they are usually directly affected by changes in federal programs for social welfare.
Nonprofit board members and executives often must have strong working knowledge of the various agencies that influence legislation, and rules and regulations affecting federal funding.

5. Volunteer Programs. Volunteers are unpaid personnel who assist staff, serve on committees, and do general work. A nonprofit organization cannot succeed without a strong core of volunteers. Many nonprofit organizations rely to a great extent on the use of volunteers. Volunteers should be managed much like any other human resource. There should be staffing planning, recruitment, job descriptions, suitable policies, and risk management measures, some form of performance management. Performance management includes setting suitable goals, training, evaluating performance, providing appropriate rewards, or actions to terminate services.\textsuperscript{15}

Here is an example of how crucial and varied a volunteer program could be. Elizabeth Pim, the Volunteer Manager of the Cleveland Museum of Art, she explained during an interview that each year, nearly 600 volunteers work for the CMA. Volunteers serve at the information desk, on audio tours, as ushers, docent, teacher’s assistants, office support, greeters, gardeners, editors, and in community arts events. The volunteer manager recruits them, trains them, and, of course, is responsible to cover for them if they make a mistake. They are

\textsuperscript{15} Carver, John. \textit{Boards that make a difference: a new design for leadership in nonprofit and public organizations}. San Francisco: Jossey-Bass Publishers,1990; generated by Yi Yu

managed by the staff members they work for. Sixty percent of their volunteers are over the age of 60, although they are recruiting younger and more diverse volunteers each year. CMA does not have a shortage of volunteers. They usually come to find a volunteer job on their own. Sometimes the volunteer manager will advertise in the CMA Members magazine to encourage the community to join. They also send a quarterly E-Newsletter with current opportunities. As a reward for all of the volunteers, the organization thanks them each and every day, and offers free lectures, free parking, free beverages and a volunteer acknowledgement party. Volunteers benefit the museum in many ways – cultivation is one of the most important benefits. It is the upside-down pyramid effect; people start out by volunteering, then become more involved as members; then upgrade their memberships, even to become possible donors. Volunteers also save the museum money by filling positions paid personnel might normally do.
CHAPTER IV

THE ROLE OF FEDERAL GOVERNMENT IN NONPROFIT ARTS SECTOR

A nonprofit arts organization usually takes the form of a nonprofit corporation, association, or foundation for the purpose of developing and promoting the work of artists in various visual and performing art forms such as film, sculpture, painting, multimedia, poetry, and performance arts such as concert, dance or theatre. Although museums and performing arts societies have existed for centuries, they have proliferated since World War II with the development of government organizations such as the National Council on the Arts, the National Endowment for the Arts, and a national network of state arts agencies—all of which award grants to help promote the development of art and culture. The following section examines the important movements and organizations in history which allowed the nonprofit arts sector to prosper and find out their roles and functions.

The Works Progress Administration (WPA)

The Works Progress Administration created in 1935 (renamed during 1939 as the Work Projects Administration; WPA) was the largest and most
ambitious New Deal agency, employing millions to carry out public works projects, including the construction of public buildings and roads, and operated large arts, drama, media, and literacy projects. The New Deal was a series of economic programs implemented in the United States between 1933 and 1936 under the Franklin Delano Roosevelt administration. Billions of dollars was expended in this national project.

The Federal Theatre Project (FTP), which was sponsored by the Works Progress Administration (WPA), was a New Deal project to fund theatre and other live artistic performances in the United States during the Great Depression. The FTP's primary goal was employment of out-of-work artists, writers, and directors, with the secondary aim of entertaining poor families and creating relevant art. Many of the notable artists of the time participated in the FTP. The legacy of the FTP can also be found in a new generation of theater artists whose careers began with the FTP. Arthur Miller, Orson Welles, John Houseman, Martin Ritt, Elia Kazan, Joseph Losey, Marc Blitzstein, Arthur Arent and Abe Feder all became established, in part, through their work in the FTP. On June 30, 1939, the FTP was ended when its funding was canceled, largely attributed to strong congressional objections to the overtly left-wing political tones of many FTP productions.¹⁶

¹⁶ Wikipedia-Works Progress Administration; generated by Yi Yu; <http://en.wikipedia.org/wiki/Works_Progress_Administration>
National Council on the Arts

The council was established through the National Arts and Cultural Development Act of 1964, a full year before the federal agency was created by congressional legislation. It advises the chairman of the National Endowment for the Arts, who also chairs the council, on agency policies and programs. It reviews and makes recommendations to the chairman on applications for grants, funding guidelines, and leadership initiatives.

The major areas in which the council advises the agency and its chairman are:

1. Applications for federal grant funds recommended by advisory panels;
2. Guidelines outlining funding categories, objectives, and eligibility;
3. Leadership initiatives and partnership agreements with other agencies;
4. Agency budget levels, allocations, and funding priorities;
5. Policy directions involving congressional legislation and other issues of importance to the arts nationally.

Currently, council meetings are convened for one-day sessions three times per year, usually on Fridays in March, July, and November. Meetings are held at the Nancy Hanks Center/Old Post Office Building in Washington, DC, and are open to the public. The day before the council meeting, members are briefed by staff about the pending grant applications that they will consider, as well as the
deliberations of the advisory panels that reviewed them. These informational sessions are closed to the public. Agendas are posted on the website.\footnote{National Endowment for the Arts (NEA)-National Council on the Arts; generated by Yi Yu; <http://www.nea.gov/about/NCA/About_NCA.html>}

**National Endowment for the Arts (NEA)**

The NEA was created by an act of the U.S. Congress in 1965 as an independent agency of the federal government to offer support and funding for projects exhibiting artistic excellence. Between 1965 and 2008, the NEA made in excess of 128,000 grants, totaling more than $4 billion, to support artistic excellence, creativity, and innovation for the benefit of individuals and communities. The NEA extends its work through partnerships with state arts agencies, local leaders, other federal agencies, and the philanthropic sector.

The NEA is the largest grantmaker to arts organizations in the nation. It offers grants in the categories of: 1) Grants for Arts Projects, 2) National Initiatives, and 3) Partnership Agreements. Grants for Arts Projects support exemplary projects in the discipline categories of artist communities, arts education, dance, design, folk and traditional arts, literature, local arts agencies, media arts, museums, music, musical theater, opera, presenting (including multidisciplinary art forms), theater, and visual arts. The NEA also grants individual fellowships in literature to creative writers and translators of exceptional talent in the areas of prose and poetry. The
NEA has partnerships in the areas of state and regional, federal, international activities, and design. The state arts agencies and regional arts organizations are the NEA’s primary partners in serving the American people through the arts.

According to the information on its website, forty percent of all NEA funding goes to state arts agencies and regional arts organizations. Additionally, the NEA awards three Lifetime Honors: NEA National Heritage Fellowships to master folk and traditional artists, NEA Jazz Masters Fellowships to jazz musicians and advocates, and NEA Opera Honors to individuals who have made extraordinary contributions to opera in the United States. The NEA also manages the National Medal of Arts, awarded annually by the President.18

After a general view of the nonprofit arts sector, dividing the entire arts sector into the categories of music, theatre, and visual arts & exhibition, will facilitate a more specific look at how nonprofit arts function.

In the music industry, some sectors have taken for-profit form, such as the manufacture of musical instruments and most parts of the record industry. The one segment of the music industry in which nonprofit organizations dominate is the live presentation of classical music. According to the data of 2010 from the

League of the American Orchestras, there are around 1,500 orchestras across the country. Sixty percent of these are major or regional nonprofit orchestras, which provide substantial employment to player on contractual basis. About 100 metropolitan and urban orchestras and nearly 550 small community orchestras are nonprofit. There are about 500 college orchestra in the public or private universities, and approximately 200 youth orchestras from high school, conservatories or other grass-roots nonprofit organization. Among the huge and prestigious orchestras, the nonprofit form is quite normal. For example, the top five orchestras in the United States are all nonprofit. They are, in alphabetical order, the Boston Symphony, the Chicago Symphony, the Cleveland Orchestra, the New York Philharmonic and the Philadelphia Orchestra.19

Modern theater in the U.S. requires collaboration among many artists, craftsmen and managers in order to create a performance. In many cases, theater groups are generally operated as for-profit ventures. For example, Broadway theatre is almost exclusively commercial theatre. However, nonprofit theater groups, such as community or outdoor theaters, tend also to provide a wide variety of activities which attract large audiences. In 2009, 1,825 nonprofit professional theatres filed Internal Revenue Service (IRS) Form 990. The

19 League of the American Orchestras; generated by Yi Yu; <http://www.americanorchestras.org/>
National Endowment for the Arts recently reported on the growth, distribution, and finances of United States non-profit theatres during the fifteen-year span from 1990-2005. The number of nonprofit theaters in the United States doubled during the time period surveyed. The majority of nonprofit theaters were in highly-populated states, including California, New York, Texas, Florida, Illinois, Pennsylvania, and Ohio. In Texas alone during 2005, there were over 100 theatres. The Theatre Communications Group (TCG), founded in 1961 as the national organization for theatre in the United States, reports each year on attendance, performance, and the fiscal health of its member nonprofit theaters. According to its data on the Theatre Fact 2009, nonprofit theatres presented the creative work of 80,000 professional artists to 30 million audience members. This conclusion is based on an extrapolation of data from 180 TCG member theatres to 1,645 additional theatres that completed IRS Form 990 and either are not members of TCG or are members who did not participate in TCG Fiscal Survey 2009.20

In the visual arts for-profit industry, commercial design and advertising companies make up the largest part. Meanwhile, most craftsmen and artists, painters and sculptors work independently in the market rather than in

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20 The Theatre Communications Group; generated by Yi Yu
<http://www.tcg.org/tools/other/index.cfm>
organizations by cooperating with commercial galleries. It is quite usual for artists
to establish private art studios after they establish their reputation. The nonprofit
role is more important in arts exhibitions. According to a survey conducted for the
National Conference of State Museum Associations in 1998, there are 15,848
museums in the United States. The Institute of Museum & Library Services (IMLS)
reports that the number is around 17,000. Almost three-quarters of art museums
are nonprofit, and most of the rest are public museums.\textsuperscript{21} A 1999 study, made by
the American Association of Museums (AAM), reported that American museums
average approximately 865 million visits per year or 2.3 million visits per day.
Moreover, AAM’s 2006 Museum Financial Information survey found that the
median cost for museum admission is $6, but that more than one-third of
museums charge no admission at all. On average, visitors spend an additional
$1.55 in museum stores and $.81 for food service. This earned income, however,
covers only a fraction of a museum’s cost to serve its visitors. The median cost of
serving a visitor is $23.35. A museum’s earned income generates only about
one-third of this amount. Private charitable donations are the largest source of
operating income for museums (about 35%). Government funding provides less
than 25%, and investment income about 10%.\textsuperscript{22}

\textsuperscript{21} Institute of Museum & Library Services (IMLS); generated by Yi Yu
<http://www.imls.gov/>
\textsuperscript{22} The American Association of Museums; generated by Yi Yu
<http://www.aam-us.org/index.cfm>
CHAPTER V

OTHER CONTRIBUTING FACTORS TO THE NONPROFIT

Before I started my journey to the United States, a very prestigious European professor suggested to "not do your oversea study there because the Americans don't have culture." How do we define culture and civilization? Compared to European and Asian countries, the United States has a relatively short history. However, the entire world has witnessed its modern culture and the development of the expansive nonprofit sector is one of the most fabulous proofs. As an international student from the country of China, which has one of the longest histories in the world, I have been immersed in tradition, heritage and history through all my life. That special experience makes me understand that tradition can be a gift, but it can also be a burden sometimes. Networking and personal relationships are always more complicated in the Asian world. Rules and reforms are difficult to implement; grassroots always sacrifice much more than others during any transition period. Based on my life experience in different cultures and government systems, I have noticed that there are certain cultural reasons which have stimulated the emergence of nonprofit form in the western world, especially in the United States.
The Church

The term "church" is a complex word which includes one of the most important elements of the cultures in the western world. It is not only a symbol of religion, which has united and ruled the western world for thousands of years. It also refers to a crucial spiritual and psychological support system for most western people even today. Moreover, perhaps most obviously climaxing during medieval times, the church was a major controlling force over countries, confirming the power of monarchs, influencing relationships between kingdoms, being the most dominant source of knowledge and education, and setting moral standards. It even took the roles of public service as the hospital, the refuge for orphans and the homeless, psychological counseling. It also served as the arts center for architecture, painting, music, sculpture and liturgical drama. The context of “church” planted a tradition and a national habit of donation in the western civilization, laying the cultural groundwork for the evolution of the modern nonprofit sector highly close and familiar to the public. As children of God, Westerners enjoy showing their love to each other and to the world; they sympathize with disadvantaged groups; they participate in activities which can make the universe a better place by acting just like Jesus Christ in the Bible account. With thousands of years of training, giving is a commitment to religion, a moral behavior, a cultural model that gradually has become a part of their lives.
The Formation of the United States

Following the thirteen colonies’ rebellion against British rule in 1775, the United States became independent in 1776. Most of the first Americans were immigrants from Europe. They came and explored the new world, eventually dominating indigenous populations, and finally built up a new country. To some extent, all immigrants are adventurers and idealists, who believe human beings deserve a better world and who pursue their dreams. Instead of accepting the world as it was, they wanted the world to become as they projected. When they set up the political system, they designed one that protected the core value of the formation of the United States, and created a series of policies and regulations to ensure transparency, independence, justice, freedom and democracy through documents such as the Declaration of Independence, and the First Amendment. It is also part of their patriotism to keep the United States as the same wonderland as at the very beginning. Their natural desires for democracy pushed American individuals to take the responsibility of monitoring and involving themselves in public issues. When they created their system, they had already guaranteed the framework for maintaining the power of the public and citizens, which include the

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freedom and feasibility to establish a sectos of society devoted to missions which the public identifies as being important to society rather than business.

On the other hand, while the population was growing, the country became a huge melting pot, which mixed everything together to create something new. To begin with, the United States is a huge country with significant regional and group differences. Before I came and lived here, I had the illusion that Americans were extremely open and international. Actually, that is not the whole picture. Americans are diverse. They are avant-garde. But surprisingly, some of them are even more conservative than the Chinese elder generation today! Generally speaking, Americans do not draw a line between national and international. They just may care or not care, depending on the issue itself. Compared to Asian culture, public opinions in the U.S., have much less influence or pressure on individual Americans’ personal lives or choices than they do on individual Asians. The private difference and social environment provide the possibility for the citizens to set up the varied missions of private groups.

The Community

In biological terms, a community is a group of interacting organisms sharing a populated environment. In human communities, intent, belief, resources, preferences, needs, risks, and a number of other conditions may be present and common, affecting the identity of the participants and their degree of
cohesiveness. In China, the "community" means no more than a geographic identification. There is no any further connection, other than the fact that people share the same physical space, especially in metropolitan cities. With the conception of socialism, the whole country is a community and everyone is part of the big family. Individuals are divided by the unit of family, district, city, province, but not by the community.

Community in the United States is more like a sub-unit of the federal state. It is a modern version of polis from the ancient Greek, and also a form of power structure, which was invented to avoid oligarchy. This special social structure ensures American citizens' independence and freedom; and allows them to have different levels of identification and affiliation, from personal, community, state to nation, through sharing collective values or missions. This unique phenomenon brought the prosperity of the countless community-based nonprofit organizations.

Alexis de Tocqueville, the most famous observer of early American nonprofits, noted that Americans of all ages, all stations in life, and all types of disposition are forever forming associations. Associations are necessary for the stability of a democracy, in which all citizens are equally independent, and cannot rely on a

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25 Alexis de Tocqueville, *Democracy in America*, trans. George Lawrence (Garden City, NY: Doubleday, 1969), 513. The title of the essay is "of the uses Which the Americans Make of Public Associations"; it is found in vol.2, sec. 2.
powerful central government to dictate values or dispense charity. The appearance of nonprofits in the United States is not an accident. The character of the nation, its special social structure, mature business model, international economic power and global influence all contributed to the bloom of the nonprofit sector in the United States. The success of the nonprofit sector in the United States is not duplicable, however, it is a lively textbook of "creating a new sector," and lots of inspirations can be absorbed from its development, policymaking, operation form and cultural preparation.
After the research and observation of the operation of nonprofit and nonprofit arts sector in the United States, a brief consideration of the nonprofit in China will be concluded in following paragraphs.

Actually, charity and donation are not strange to the Chinese people at all. In ancient times, it was an honorable behavior for the nobles to give food, care and money to the poor. The high-ranking officials from the court, even the King himself, kept a tradition to investigate the social conditions secretly by wearing plain-clothes annually; they gave a lot whenever they saw the need from grass roots. When there was a hard year with serious natural disasters, the court would open the storage and distribute free food to people, and reduce or waive the taxes of that year. Common people, based on the influence of Buddhism, believed in good karma and a future world, both of which are strong motivators for people to behave well to each other and to the society. Moreover, Confucianism highly values man's honor and it provides a strict and complex system for the noble and the intelligent to follow and perfect themselves as great human beings.
In modern times, the concepts of serving/sacrificing for the people of China, for this country and for the idea of communism were planted into everyone's faith during the period of establishing of the People's Republic of China. Lots of role models gave their lives for the development of new China during the intensive period of industry development (road-building, steeling-making and atomic bomb developing.) Today, people's mindsets have been changed by Chinese economic reform and the economic boom. After acquiring wealth, many first- and second- generation rich want to reward society. Charity and donation have suddenly become a fashion trend for millionaires and celebrities, especially after the 2008 Beijing Olympic Games and the 2008 Sichuan earthquake. With greater education and more opportunities for overseas experiences, the generation born after the 1980s has wider international perspective than ever. That generation has more pride, confidence, and a sense of responsibility to China because they grew up during such an era of rapid social and economic change in China. They witnessed a series of milestones in China's achievements, including taking back the colonies of Hong Kong and Macao, joining the WTO, and successfully bidding for and hosting the 2008 Olympic Games. This generation will be the future power of China. They were cultivated both by the Chinese tradition and the Western education system during the process of Chinese modernization. They are more willing to initiate creative reform to handle Chinese issues by borrowing the foreign models.

Although the term “nonprofit” was created in the western world, and the operation of nonprofit is comparatively mature in the United States; the original concept of giving, helping and sharing of love and wealth occurs naturally in
humanity--crossing cultures, countries and races. There should be no obstacle for human beings to act on charitable impulses. The only difference is what kind of form they are going to take in accordance with their diverse histories, social structures, traditions and cultures. As one of the after 80s generation of China, I deeply believe that China will finally build up its unique operating system to implement the concept of nonprofit, and it will not take long.
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