*NONPROFIT ORGANIZATIONS AND THE INTERSECTORAL DIVISION OF LABOR IN THE ARTS**

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Nonprofit Organizations and the Intersectoral Division of Labor in the Arts

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This chapter takes stock of what we know about the role of nonprofit enterprise in the production and distribution of the arts (broadly defined), primarily in the United States. After briefly discussing measurement, I present data on the extent of nonprofit activity in a range of cultural subfields. I then review theoretical explanations of the prevalence of nonprofits in cultural industries and discuss some puzzles existing theories do not adequately solve. After reviewing research and theory about behavioral differences between nonprofit and for-profit arts firms, I explore how the arts-and-cultural sector is evolving in the face of demographic change, the weakening of cultural hierarchy, and the emergence of new production and distribution technologies. I conclude with a research agenda.

My perspective is ecological in that I believe that the nonprofit sector's role can best be understood in the context of the intersectoral division of labor. I define the arts very broadly defined to include works associated with high, popular, and folk cultures: *Othello*, *Married with Children*, and outdoor religious drama; Swan Lake, clogging, and Las Vegas chorus lines; and the works of Rembrandt, Native American craft artists, and Cassius Marcellus Coolidge. This chapter does *not* cover types of culture excluded from the arts so defined, such as science, religion, law, cuisine, industrial design, architecture or the humanities.

Organizations in the field of culture and the arts represent a small share of total nonprofit activity (2.3 percent of revenues and 1.9 percent of employment) (Weitzman et al. 2002: xxxiii). Moreover, they tend to include more very small organizations and fewer large ones than most other nonprofit fields (Seley and Wolpert 2002: 14). But the nonprofit arts sector has been growing: rates of increase in both employment and revenues between 1987 and 1997 exceeded those in the fields of health, education, religion, social services, civic associations and private foundations (Weitzman et al. 2002: xxxiii, 42). The number of nonprofit arts and cultural organizations filing returns with the Internal Revenue Service also rose sharply (though not more than nonprofits in other fields) during the 1990s, from 17,290 in 1992 to 23,779 in 1998 (Weitzman et al. 2002, Table 5.6).[1] Nonprofit cultural organizations are distinctive in that they rely more on individual donations (and on volunteering) and less on government grants and contracts than nonprofits in most other fields (Brooks 2003). Especially in the performing arts, earned income also accounts for a large share of revenue.

Where are Nonprofit Sectors Prevalent?

In what industries is the nonprofit sector prevalent? This question is more complex than it seems, especially if we wish to compare the roles of nonprofit and commercial entities engaged in providing broadly similar artistic services.

Dilemmas of Measurement and Enumeration

Before presenting the evidence we must take a brief detour into measurement and methodology. As we illuminate sectors of the arts that statistical systems ordinarily obscure, we shall begin to see the nonprofit arts sector as less professional and more participatory, less restricted to high culture and more widely spread throughout the cultural hierarchy, and less limited to the grand museum or concert hall and more ubiquitously integrated into our homes, schools, churches, and everyday lives.

Several methodological problems cloud our vision of the sector. First, for historical reasons, data on nonprofit and for-profit cultural organizations are often collected separately and therefore difficult to compare. Second, nonprofit and commercial cultural enterprise are typically organized in different ways, which also makes comparison difficult. (Nonprofit arts organizations tend to internalize functions that the commercial sector accomplishes through contracting among separate entities [Heilbron and Gray 2001].)

Finally, institutional factors render some organizations more likely to be counted than others even when their structures are comparable. Weakly institutionalized organizational forms, and organizations that depart from accepted forms in arts fields that *are* strongly institutionalized, are often socially and statistically invisible. Nonprofit cultural programs embedded within organizations that are not generally considered producers or distributors of the arts pose a special problem. Churches and universities are active arts presenters, often the most important outside of metropolitan areas. The 1999 National Congregational Survey reported that large majorities of U.S congregations sponsor regularly performing choir or other musical groups. Many churches present theater performances, sponsor book circles, organize trips to performing-arts events, or even provide rehearsal space for performing-arts groups in the wider community (Chaves 1999; Chaves and Marsden 2000). But because their artistic programs are small relative their many other functions, church arts programs, like those of universities, rarely show up when cultural activity is measured. Community-based arts activities are likewise often sponsored by nonprofit organizations with broader mandates (e.g. community-development or youth-assistance programs) and are therefore undercounted in canvasses of arts providers as well (Grams and Warr 2002).

The most elusive cultural organizations from the standpoint of enumeration are "minimalist organizations": unincorporated associations with minimal or intermittent program activities, part-time or volunteer staff, and tiny budgets (Halliday et al. 1987). Such tiny groups play important roles in many fields: training young artists, presenting difficult or innovative work, or serving audiences that may not ordinarily attend more established arts nonprofits (Jeffri 1980). Much informal activity --- *e.g.*, musicians who enjoy playing together, then name themselves and perform an occasional public concert; the collector who opens his or her home and collection to strangers for a few hours each week --- edges almost imperceptibly into formal organization, and may just as easily edge out again. The problem is not unique to the arts: similarly fluid boundaries divide informal temporary childcare and organized daycare centers. But it is especially pervasive in much of the art world (Stern and Seifert 2000b).

How Many Organizations Do Standard Data Sources Miss? How many nonprofit arts organizations would we discover if we had as reliable data on embedded and minimalist organizations as on more well established nonprofit entities? A few local studies that made heroic efforts to enumerate less visible regions of the nonprofit sector provide a basis for rough estimation. One study based on IRS Form 990 data on nonprofit theaters, opera companies, and orchestras that were members of their respective service organizations, found that 20 percent of the theaters and opera companies, and 40 percent of the orchestras were missing from the IRS files. The researchers attributed much of the difference to cases "in which the organization was part of another nonprofit institution" (Bowen et al.: 219), a problem that would affect Census of Business counts as well. A study of 501(c)3 nonprofit arts organizations in three large metropolitan areas that produce and exhibit the arts collected information on embedded as well as freestanding nonprofits from many sources. These researchers enumerated more than twice as many nonprofit entities as appeared in the same categories in the IRS Business Master File (Kaple et al. 1996: 165). A contemporaneous study of one of the cities (Philadelphia) went further to collect data on small, unincorporated, community-based associations, which swell the roster of nonprofit cultural entities even more (Stern 2000: Table 1).[2]

It may be useful to think of the nonprofit arts-and-cultural sector as comprising three rings. An inner core includes arts-and-cultural organizations (as classified under the National Taxonomy of Exempt Entities [NTEE]) that are incorporated under section 501(c)3 of the IRS code. A second ring adds arts and cultural organizations or programs "embedded" in 501(c)3 nonprofits that fall outside of the NTEE's "arts-and-culture" heading. A third ring includes unincorporated associations that share both the purposes and the noncommercial orientation of their incorporated counterparts. If Philadelphia is typical, the number of entities doubles and the distributions of size, sponsorship and missions change at each step outward from the core. Because organizations in the inner core are better documented than those in the outer circles, we must keep the latter in mind lest we propagate a distorted view of the nonprofit arts sector and its social role.

The nonprofit role by subsector. The best comparative data on the roles of nonprofit and for-profit organizations in different arts-and-cultural industries and subsectors come from the *1997 U.S. Economic Census*, which distinguishes between tax-exempt (including nonprofit and some public entities) and taxable (for-profit) establishments in several fields. The Census is not a perfect source by any means: in addition to missing embedded, minimalist, and poorly institutionalized organizations, it lumps together public and private nonprofits, some categories (*e.g.*, museums) are aggregated at higher levels than we might wish, and it assumes (without asking) that firms in some industries are all for-profit. I shall draw on other sources of information throughout this chapter, but, as long as we remain aware of its limitations, the Census provides the best single overview.[3]

Figure 1: The World of Noncommercial Arts Activities

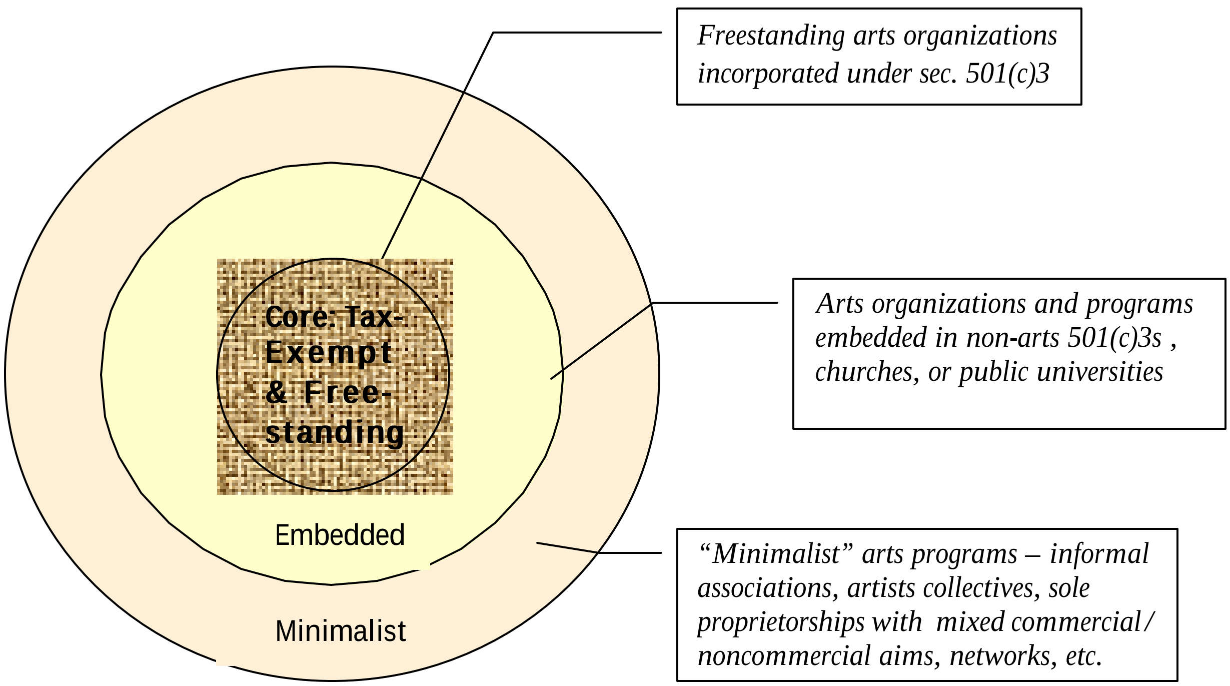
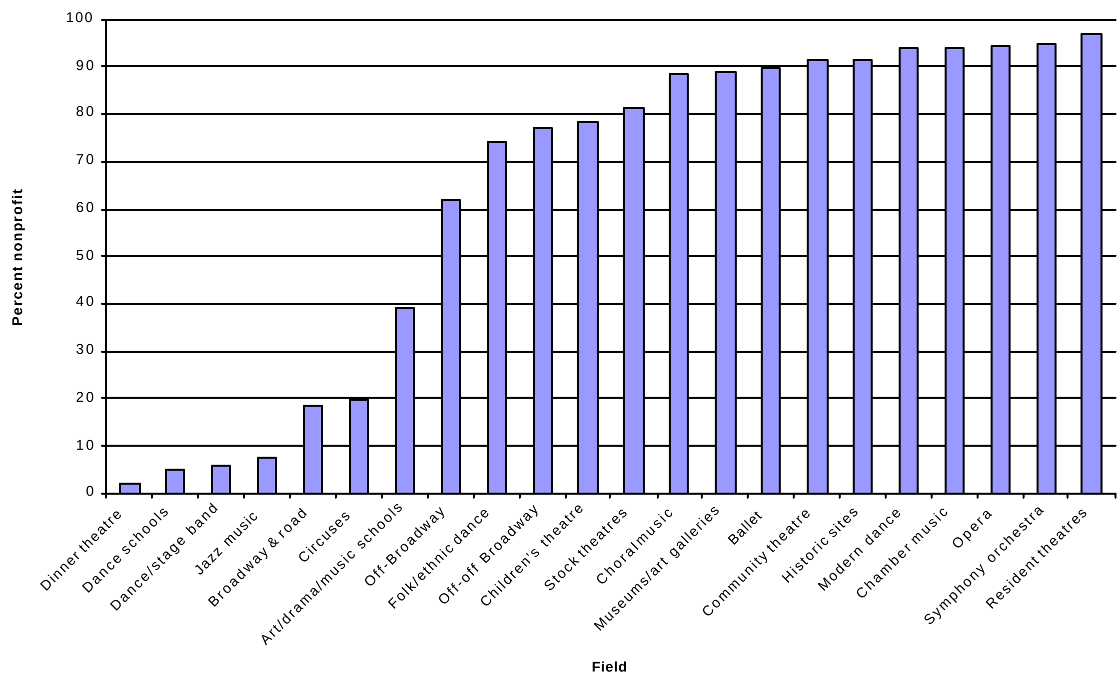


Table 1 and Figure 2 report the percentage of producers and distributors that are nonprofit organizations in each of several broadly defined arts industries, as well as the nonprofit share of revenues where such information is available. I present these data here, first, to describe the broad outlines of the nonprofit sector's role in the arts; and, second, to establish a set of cases that we can use to evaluate theories that attempt to explain variation among industries in the intersectoral division of labor.

Figure 2 provides an overview at a glance. To the right, we see industries that are almost entirely nonprofit: resident theaters, symphony orchestras, opera companies, chamber music groups, modern dance companies, historic sites (actually mixed nonprofit and public sector), and community theater, all over 90 percent nonprofit. Nonprofit organizations also dominate the fields of ballet, art museums (again mixed public and private), choral music, stock theater, and children's theater.

Figure 2: Percentage Nonprofit Establishments by Field



By contrast, commercial enterprise accounts for more than 90 percent of dinner theaters, dance schools, dance or stage bands, jazz ensembles, and other music groups and artists. For-profit companies also dominate Broadway theater, touring theater companies, and circuses.[4] Art, drama and music schools, Off-Broadway theater, folk-ethnic dance companies and Off-Off Broadway theater are mixed in organizational form.

*Table 1: Arts Establishments: Percentage of Firms that are Tax-Exempt and Tax-Exempt Firms' Percentage of Receipts/Revenues by Category**

NAICS Code	Category	Subcategory	Number of Establishments	Receipts/Revenues (1000s)	Percent of Establishments Tax-Exempt	Share Receipts/Revenues for Tax-Exempts
7111102	Producers of live theatrical productions[1]		2893	3225537	51.8	36.6
	Self-designated:	Resident theatres[1]	140	385837	97.1	99.5
		Stock theatres[1]	102	72969	81.4	89.4
		Broadway productions & Road[1]	167	**	18.6	**
		Off-Broadway productions[1]	79	97498	62.0	43.6
		Off-off-Broadway productions[1]	131	114774	77.1	57.2
		Children's theatre[1]	187	77458	78.1	
		Dinner theatre[1]	45	**	2.2	**
		Community theatre[1]	478	131550	91.2	89.5
		Other theatrical presentation[1]	309	241698	35.3	22.4
	Not self-designated:	All other producers of live theatrical presentations[1]	1255	1082151	32.5	22.9
711 pt.	Other theatrical producers & services[1]		3479	4912754	18.0	21.1
7111200	Dance groups & artists[1]		530	432690	68.5	74.7
	Self-designated:	Ballet company[1]	146	184745	89.7	99.0
		Modern dance company[1]	96	51423	93.8	95.9
		Folk/ethnic dance company[1]	23	14861	73.9	21.6
		Other dance group, artist, presentation[1]	69	44795	20.3	6.4
	Not self-designated:	All other dance groups & artists[1]	196	136866	60.7	62.2
71111 pt.	Symphony orchestras, opera companies, chamber music organizations[1]		975	**	86.2	**
	Self-designated:	Opera company[1]	122	539986	94.3	99.7
		Symphony orchestra[1]	451	896370	94.7	98.3
		Chamber music organization[1]	150	69164	94.0	98.9
	Not self-designated:	All other	252	**	64.3	**

Table 1 (continued)

		symphony orchestras, opera companies, chamber music organizations[1]				
7111309	Other music groups & artists[1]		3775	2248281	13.6	5.2
NAICS Code	**Category**	**Subcategory**	**Number of Estab-lishments**	**Receipts/Revenues (1000s)**	**Percent of Est-ablishments Tax-Exempt**	**Share Receipts/ Revenues for Tax-Exempts**
	Self-designated:	Dance or stage band or orchestra[1]	279	85801	5.7	2.6
		Choral music group[1]	239	85353	88.3	46.6
		Jazz music groups or artists[1]	159	69254	7.5	11.0
		Other music group, artist, presentation[1]	1326	1233131	4.6	1.6
	Not self-designated:	All other music groups and artists[1]	1772	774742	12.0	5.9
711 pt.	Other entertainers & entertainment groups[1]		4018	3076520	1.7	0.8
7111901	Circuses[2]		87	289048	19.5	7.2
71211	Museums & art galleries[2]		3860	4788424	89.0	94.6
71212	Historic sites[2]		892	370068	91.3	92.6
6116101	Dance schools[3]		5367	781732	5.0	8.4
6116102	Art, drama, and music schools[3]		1887	560803	39.2	57.6

***Number of establishments reflects those in business at any time in 1997. Revenues for taxable establishments are "receipts"; for tax-exempts, "revenues." "Self-designated" establishments are those that responded to a mailed inquiry. Information on "non-self-designated" was gathered from administrative records.**
****Data suppressed by Census Bureau due to risk of identifying particular establishment.**
[1] Source: data are based on from special tabulations from the 1997 Economic Census, prepared by the Census Bureau for the National Endowment for the

For the most part, whichever form dominates in number of establishments is even more dominant in its share of receipts. There are three notable exceptions to this rule, however. Nonprofits account for just 39 percent of art, drama and music schools, but 58 percent of revenues in this field. Commercial entities account for just 12 percent of choral music groups, but these relatively few for-profit companies absorb more than half of the field's revenues. Similarly, just one in four ethnic dance companies is for-profit, but these garner almost 80 percent of the revenues. Smaller biases favor for-profits in the Off-Broadway and Off-Off Broadway theater.

To summarize, nonprofit (and public) organizations are hegemonic in the fields of art and historic exhibition; and nonprofits have a lock on the most prestigious regions of the performing arts. Other fields within the performing arts – for the most part those which, like jazz or ethnic dance, have won critical respect and scholarly attention relatively recently or, like pop music or dinner theater, still await it – are dominated by for-profit firms. In still other fields – arts education, circus, several kinds of theaters – commercial and nonprofit enterprise compete. Interestingly, while nonprofits compete with for-profits in some fields and public enterprises in others, in no industry do we find concentrations of public and commercial enterprise without large nonprofit sectors.

How might these patterns be explained? Let us examine some theories that together can cast light on this complex array of statistics.

<u>Three Explanations for the Intersectoral Division of Labor in the Arts</u>

There are three kinds of scholarly accounts of the division of labor between nonprofit and for-profit organizations in the arts. One emphasizes the failure of markets to provide sufficient incentive for capitalists to invest in cultural enterprises that produce socially valued goods and services, and the need for philanthropic and government subsidy to which such market failure leads. A second set focuses less on the need for subsidy than on the way that the organization of production and contracting in the arts poses specific problems that nonprofit organizations are well equipped to solve. A third perspective takes an historical approach, emphasizing the varying uses to which entrepreneurial artists and patrons have sought to put the nonprofit form in different eras.

Market-failure approaches. The most venerable explanation for the prevalence of nonprofit organizations in some arts sectors is also a central justification for government subsidy: namely, that the best art costs more to produce or exhibit than people are willing to pay. For most exhibiting institutions, the economics behind this assertion are clear: Art museums face huge fixed costs for building maintenance, security, conservation and exhibition. For large urban arts museums there is no price at which the number of visitors would generate sufficient revenue to cover these costs. The same is true of the live performing arts, as well: symphony orchestras concerts and Wagnerian opera, for example, are inherently expensive to produce, at least in the style to which audiences and critics are accustomed. Again, there is no price, it is argued, at which revenues will meet costs.[5] Given this, so the story goes, it is crucial for government to promote the public good by subsidizing arts organizations so that their survival becomes economically feasible.

The most ingenious variant of this argument is the *cost-disease* theory that economists William Baumol and William Bowen put forward in their landmark study *The Performing Arts: The Economic Dilemma*. In their account, the plight of performing-arts firms can only worsen. The largest component of a performing-arts organizations' budget comprises labor costs for performers, technicians, set designers and other highly skilled workers. Because live performances take place in real time and in one location, there are few ways to increase productivity. Yet arts organizations compete for employees in the same labor market as firms that can and do use technology to boost productivity, and these latter pass on some of the gains to employees in higher wages. Constrained to keep up with rising labor costs in the economy at large, but unable to boost revenues by raising productivity, performing-arts groups fall ever further behind (Baumol and Bowen 1966).

Market failure approaches explain why, given stable aesthetic conventions, non-profit arts organizations require subsidy to survive. They cannot, however, explain why arts organizations *get* the subsidies they need. Demand for many artistic goods and services (most touring light-opera performances, slides for kinetoscopes, mechanical player pianos) has fallen below the level necessary to support the survival of firms that produce them. How then can we explain the persistence of nonprofit arts organizations in the face of adverse market conditions? For that we need a theory of demand for public goods.

We find such a theory in another type of market-failure explanation, which addresses not just the question of why the market does not work, but also the secondary issue of why we have private nonprofit as well as public provision of cultural goods and services. By this argument, noncommercial organizations (including arts organizations) provide "collective consumption goods," the benefits of which cannot be limited to those who pay for them. Most arts programs (exhibits, performances, community projects) are "mixed goods" with both private and collective features. People who buy tickets to orchestra concerts or participate in neighborhood mural projects, for example, capture some unique benefits (for example, entertainment or artistic training). But the rest of us benefit (whether we pay or not) from the survival of orchestras and the music they play or from the presence of murals in our communities (Throsby 2001). Because most ticket buyers will pay a price that covers only their private benefit, revenues fail to reflect the true value (private plus collective) of a performance. Only government, with its power to tax, can step in to make up the difference with subsidy (Weisbrod 1990).

According to public-choice theory, democratic governments provide subsidies that reflect the demand for public or mixed goods (or services) of the "median voter": the person in the middle of the range of values that voters place upon the good in question. Where demand for a good or service develops gradually, the first citizens who care about it will create voluntary associations to satisfy their demand. As incomes rise and demand increases to the point that the median voter desires the good or service, government enters the picture. At this point, citizens who want more than the median voter continue to subsidize private voluntary organizations to supplement the quantity or quality of government production. As people get wealthier still, they may substitute private goods for collective goods (Weisbrod 1990), as occurred when many U.S. cities stopped supporting municipal bands as sales of phonograph records increased in the 1920 and 1930s.

The public-choice model can be generalized to heterogeneity not only in the amount of demand but in the nature of demand, as well. Thus ethnic, religious, or political heterogeneity may induce nonprofit rather than public supply of collective goods, if members of different groups want different types of programming (James 1987). Locational variation may matter, as well: Where demand is geographically lumpy, the role of local government will exceed that of national government, and regional differences in the role of nonprofit sectors will also be greater.

Industrial-organization approaches. Even if we grant that (again given conventionally accepted standards of quality and craft) many nonprofit arts organizations cannot support their activities out of earned revenues, and that, furthermore, heterogeneity of demand means that government will supply fewer exhibitions, classes, and performances than many citizens desire, we still need to explain what it is about the nonprofit form that makes it such an attractive instrument for bringing demand and supply into balance. The availability of subsidy is an obvious answer, but many nonprofits in the arts sector get relatively little by way of government or foundation aid, especially compared to the money they raise from private individuals. Moreover, we still need to explain why government chooses to give grants to nonprofits (and to provide the tax deductibility that subsidizes private contributions to them) in the first place.

Economists who study organization and contracting have proposed additional reasons that the nonprofit form solves the problems of cultural organizations, especially those in the performing arts. These arguments emphasize the ways in which the nonprofit form enables arts organizations to make credible commitments to, and thereby induce the trust of, contributors and volunteers.

Hansmann (1981) argued that performing-arts organizations facing insufficient revenues to mount the quality of work to which they aspire use the nonprofit form to take advantage of variability in demand for their product. Whereas starving music students labor to find $20 for standing room, wealthy patrons who believe that opera's survival is essential for civilization will pay much more. One can tap a limited portion of this variability by charging different prices for different types of seat. But one can exploit much more of it by operating two markets: one for tickets and one for contributions (often sold as memberships of different kinds, pegged to the size of annual gifts). Hansmann argues that arts groups must adopt the nonprofit form to assure subscribers and patrons that they will use contributed funds for program purposes, rather than to line their own pockets.[6]

Caves (2000: 225ff) suggests an additional mechanism that helps to explain the prevalence of nonprofits in some performing-arts industries. Performing-arts companies compete for services of the most talented performers. Many such artists, Caves argues, are as concerned with working conditions (especially the amount of creative control that they can exercise over their work) as with income. It is difficult to specify contractually the relative voice of artists and businesspeople in making decisions that affect artistic quality. Nonprofit status serves as a signal to artists that a performing-arts firm will be more likely to accord artistic values high importance. In other words, because both patrons and artists perceive nonprofits as sharing their own values and interests to a greater degree than businesses, nonprofits have privileged access to each.

Still other economists, drawing on "club theory," view governance as the key to understanding the effectiveness of the nonprofit form (Kuan 2001). A relatively small number of committed stakeholders provide most of the contributed income or labor power (or both) for many cultural organizations, especially small ones. Such stake-holders – who may be customers with a strong preference for quality levels that a profit-maximizing entrepreneur would not provide, or artists who are committed to work for which a large market does not yet exist – create nonprofits to meet this demand. By forming a board comprising themselves or like-minded persons, they ensure that their aesthetic preferences will constrain business decisions and, at the same time, create a structure for inducing ongoing contributions.

New forms of cultural nonprofits emerge in response to new organizational problems. Thus Frey (1994) explains explosive growth in the number of nonprofit performing-arts festivals in Europe during the 1980s and 1990s as the result of attractive organizational properties that solved economic and regulatory problems that weighed heavily on government-sponsored performing-arts groups. In addition to benefiting from tourism (by locating in attractive travel destinations), nonprofit festivals employ the for-profit technique of short-term contracting for artistic talent (which they can do because they operate in the summer, when other organizations are dark) to reduce fixed costs, minimize risk, and avoid unions and government regulation.

Historical/political approaches. Market-failure theories explain why some arts organizations require subsidy. The industrial-organization literature explains the advantages that the nonprofit form presents to organizations whose managers hope to attract grants or contributions. But neither explains the particular cultural fields in which nonprofit entrepreneurs have been active or the reasons for their success.

To understand such patterns we need to attend to history and politics. History is important because opportunities for successful entrepreneurship vary over time and because the sequence in which different types of artists and patrons adopted the nonprofit form both created models and limited opportunities for their successors. Politics matters because the ability of artistic communities to take advantage of the nonprofit form depends on power and influence as much as need. Seen from an historical perspective, intersectoral divisions of labor that appear natural today reflect the past capacity of particular groups to mobilize entrepreneurial resources.

In the 19th-century U.S., urban upper classes found trustee-governed nonprofit arts organizations to be useful tools for defining a prestigious status culture to which they and their children would have privileged access. For these emerging elites, symphony orchestras and art museums were an important component of an institutional complex that included prep schools, universities, private libraries and exclusive social clubs.[7] The nonprofit form (which as Hall, this volume, demonstrates was less clearly differentiated from its proprietary counterpart in the late 19th century than it is today), was attractive to museum and orchestra founders because it provided a stable framework for an arduous process of clarifying the distinctions between art, on the one hand, and entertainment and fashion, on the other; and because trustee governance ensured that the founders would remain securely in control. As I have argued elsewhere (DiMaggio 1982; see also Levine 1990), the very strength of the conceptual distinction between high culture and popular entertainment throughout much of the 20th century was itself a product of the institutional differentiation of nonprofit and proprietary enterprise.

The first part of the 20th century witnessed a diffusion of the trustee-governed nonprofit arts, first to smaller cities across the United States and then to certain arts (opera, theater, contemporary art, the dance) that had previously been organized along commercial lines. Entrepreneurial patrons in these disciplines, often excluded by virtue of religion, ethnicity, or gender from the elite networks from whom the trustees of orchestras and encyclopedic art museums were selected, explicitly emulated the institutional design of the museums and orchestras, though for many years they were unable to attain the same degree of wealth, prestige, or stability (DiMaggio 1992).

Artists, especially artists of color, were notably absent from the ranks of the non-profit cultural entrepreneurs during the first half of the 20th century. Nor did such new art forms as film or photography receive much nonprofit sponsorship at first. Yet the non-profit form was not solely the reserve of the wealthy. During the late 19th and early 20th centuries, immigrant groups created many voluntary associations devoted to communal cultural practice (*e.g*., the ubiquitous *turerereins* of the German immigrant communities) or commercial enterprises with cultural missions (the Yiddish theaters, parts of the immigrant press) that provided communal vehicles for artistic and cultural expression. Established charities (*e.g.*, Chicago's Hull House and other settlements) and associations (*e.g.*, the National Federation of Women's Clubs) were also active in the arts.

By the 1950s, the contours of the intersectoral division of labor in the arts were well defined. All that remained was to fill them in, a project epitomized by the Ford Foundation's arts program, which in the 1960s and 1970s engaged in massive institution-building efforts in the fields of theater and dance. The expansion of the role of the federal government in the 1960s and 1970s disrupted what turned out to be a surprisingly fragile equilibrium, however, by providing incentives and opportunities for adoption of the nonprofit form by groups that had been unable to use it in the past. By the time the tide of federal expansion was turned back in the 1980s, an institutional framework of state and local arts agencies, private foundations, and corporate funders had emerged to sustain a range of purposes that were foreign to the aesthetic traditionalism that had characterized most U.S. art patronage (with some notable exceptions in New York and a few other urban centers) through 1960.

The rise of institutional patronage coincided with the unintended production of a mass market for serious art due to the largest educational expansion in American history during the 1960s. Education has been the best predictor of interest in the sorts of arts experiences that nonprofits provide for as long as anyone has studied the topic, so doubling of the percentage of Americans attending college provided a major demand-side stimulus at precisely the moment that an unprecedented infusion of grants and contracts bolstered the supply side. The expansion of higher education (and the concomitantly greater role of universities as arts presenters) also contributed to an overproduction of artists (relative previous numbers and the market for their services) during the post-Vietnam era. Not only were artists underemployed but, being college educated, they had the skills to create and administer nonprofit organizations and, in some cases, the networks to receive modest but important grant support from state or local arts agencies. These factors contributed to an unprecedented increase in the number of nonprofit cultural organizations.

Institutional patronage worked in at least four ways to expand the scope of the nonprofit arts after the 1960s. First, it provided *direct incentives* to adopt the nonprofit form in industries where small enterprises became eligible for government and foundation grants that could make a big difference. For example, whereas almost all small presses were proprietary before the 1970s, new literary presses often incorporated as nonprofits (and some old one converted to the nonprofit form) in order to become eligible for grants. Second, institutional patronage provided legitimacy to art forms that had been effectively shut out of the nonprofit sector because of their lack of access to philanthropic capital. Whereas private donors may spend their money however they want, government must justify its funding priorities. Ignoring jazz, craft and folk art, and other parts of the

American living cultural heritage was difficult to justify. Moreover, such art forms were attractive investments for arts agencies in states that had few orchestras, art museums and theater companies. Although the amount of funding going to organizations in such fields, institutional patronage opened the door to nonprofit entrepreneurs in these areas.

Third, the scope and client base of nonprofit arts programs grew in response to what Lester Salamon (1987) has called "third-party government": the choice by governments to pay nonprofits to carry out programs that public agencies might otherwise have undertaken themselves. The expansion of federal social programs in the 1970s (and of state programs later on) provided funds for arts programs that emphasized the utility of the arts for such purposes as community empowerment, economic development, or the salvation of "at-risk youth." Finally, the rise of institutional subsidy led to a mobilization of arts constituencies that enhanced the capacity of artists and their supporters to pursue shared interests. An early priority of the National Endowment for the Arts was to create a network that would support its requests for larger appropriations, for which purpose it employed congressionally mandated pass-through grants to any state that created a state arts agency. By the early 1970s all the states had done so, and many of these agencies were themselves encouraging the proliferation of local arts agencies throughout their states, as well as advocacy groups (in which staff or trustees of their grantees often played central roles. Although attempts to influence the legislative process were often ineffective, a by-product of these efforts was the production of a discourse that highlighted the instrumental value of the arts and justified the missions of nonprofits that used the arts in the service of education and community building.

For all these reasons – the expansion of government's role (and the shift from direct government service provision to contracting with nonprofit third parties), the rise of public and other forms of institutional funding of the arts, the explosion of higher education, and the oversupply of artists –- the groups that were interested in and capable of using the nonprofit form to pursue artistic missions, and the nature of these missions themselves, became markedly more diverse during the latter third of the 20th century.

We can draw five general lessons from this narrative. First, we should be cautious in modeling the division of labor between nonprofit and commercial enterprise as a consequence of organizational choices based on characteristics of organizations and arts forms as they currently exist. The kinds of art that nonprofit cultural organizations exhibit or present, and the way they present it, have co-evolved over time with their organizational forms, and therefore cannot be presumed to have caused the latter. Second, the nonprofit legal form is to some extent an empty shell that can be employed for an almost unlimited range of noncommercial (and some commercial) purposes, depending on who has the motivation and capacity to use it. Third, government plays a critical role in defining the scope of nonprofit activity by altering the incentives for entrepreneurs to use the nonprofit form. Fourth, a significant predictor of the extent of nonprofit activity in specific cultural subfields is the capacity of those who stand to benefit from it to organize and to overcome free-rider problems. Fifth, it follows from the first three points that we should not be surprised if the nonprofit sector's cultural role changes markedly over time.

Remaining Conundrums

Each of the explanations reviewed here casts light on the role of nonprofit organizations in the intersectoral division of labor; and together they do better than each one does on its own. As with any kind of mystery, finding the right solution requires that we identify motive, opportunity, and means. The *market-failure* approach goes far to solve the problem of *motive*; the *industrial-organization* view explains *opportunity*; and the *historical-political* perspective helps us understand the *means* by which entrepreneurs succeeded in making nonprofits effective vehicles for the purposes they pursued.

These theories account reasonably well for the intersectoral division of labor we observe today. That division of labor has several striking features. First, the relative importance of the nonprofit form varies less between artistic media (visual, musical, dramatic, literary) or organizational functions (exhibition, presentation) than within them. Most arts industries (broadly defined) have islands of nonprofit activity: scholarly and poetry presses, classical music presenters, art museums, resident theaters, and ballet or modern dance companies. Nonprofit organizations are responsible for live presentation and exhibition of most of what has traditionally been regarded as "high culture." For-profit concerns are dominant in the mechanical or digital distribution of all art forms, and in live presentations and exhibitions that appeal to large and educationally heterogeneous audiences. For the most part, nonprofit sectors promote objectives – conserving a permanent collection of great art, keeping many musicians on long-term contract, developing and educating a committed audience – that require relatively large investments and enough organizational stability to see them bear fruit. By contrast, for-profit enterprise dominates those sectors that rely on technology to keep variable costs very low, and attempt to reach huge audiences through broadcasting and retail channels.

With respect to the division of labor between public and nonprofit organizations, the data are roughly consistent with the public-choice story. The few surveys that have asked Americans about their willingness to spend tax dollars on particular kinds of culture suggest that most people support assistance to institutions that are perceived as serving a broad educational function (museums, libraries, arts programs in the schools) whereas fewer favor support for performing-arts groups or individual artists (DiMaggio and Pettit 1997). Consistent with this, the public sector is best represented in the former areas. Within the arts *per se*, between 70 and 75 percent of art museums are nonprofit, a proportion that has been stable for decades (Macro Systems 1979; Schuster 1999: Table 3; Heilbrun and Gray 2001:187). Moreover, approximately one in five nonprofit art museums, including some of the largest, like New York's Metropolitan Museum or the Philadelphia Museum, are hybrids in which local government owns the buildings and grounds but nonprofit entities control collections and endowments (Schuster 1999: Tables 7, 8). Consistent with public-choice theory, public and hybrid art museums appear to be concentrated among generalist museums in large cities, whereas specialized museums and those in small places are predominantly nonprofits.[8]

Nonetheless, there are patterns for which our theories do not account, and which therefore represent areas of opportunity for research and theory development. In highlighting these opportunities, I shall expand the range of variation beyond the kinds of organizations that show up in the Census of Business, by examining data on embedded and minimalist organizations, and by looking more closely at industries that the Census assumes are entirely proprietary for signs of nonprofit life.[9] .

Efficient boundaries. A particular gap in research and theory on arts organizations has been the relative absence of work that addresses the issue of what economists call "efficient boundaries" – that is, the question of what activities fall within the boundaries of the firm, and which are either excluded or incorporated through contracting. Most theories take the structure and activities of firms as givens from which one can deduce which organizational form is most appropriate. By contrast, I believe that we must endogenize organizational structure and activities if we are to understand the intersectoral division of labor. This is the case in at least two ways.

First, we need to explain why some performing-arts activities are articulated by contract whereas others are internalized within single organizations. As we have seen, when numerous activities – talent acquisition through long-term contracts, facilities management, and marketing – are internalized in a single firm, the nonprofit form is more likely to prevail. But in many performing arts fields – from Hollywood movie production and Broadway theater to jazz clubs and rock concerts – artistic activities and management are articulated through contract rather than hierarchy, an approach that economists sometimes refer to as "flexible specialization" (Storper 1989; Scott 2002).

Jazz is the outstanding puzzle in this regard, for the genre has all the hallmarks of high culture – critical respect, a highly educated audience, representation in university music departments, eligibility for government and foundation grants – *except* a dominant role for nonprofit organizations in its presentation (Peterson 1972; Lopes 2002). Why are jazz quartets for-profit and chamber quartets nonprofit? Jazz artists' work is labor-intensive, only a handful benefit from recording contracts and, consequentially technological economies of scale; and only a few can cross-subsidize their artistic work with teaching appointments in universities (Heckathorn and Jeffri 2003). Typically, jazz artists, like popular-music artists, enter into short-term performance contracts with proprietors of commercial nightclubs, drinking establishments, or concert halls.

One explanation lies in the availability of grant support. For organizations in art genres that gained a foothold in the system of philanthropic support when the window of opportunity was open (DiMaggio 1992), the nonprofit form is an effective way for managers and artists to limit risk. By contrast, in genres for which contributed funds are rarely available, risk is handled by decoupling performance and presentation. Most performance contracts in popular music protect the proprietor from long-term risk, transferring it instead to performers, who ordinarily work for a small fee and a percentage of the gate. (Broadway and much Off- and Off-Off Broadway theater employ a similar system, except that the risk in the former is shared with investors rather than entirely assumed by the artists themselves.) In effect, artists subsidize the artistic performance with proceeds from "day jobs" or family resources (Kreidler 1996; Alper and Wassall 2000).

Another explanation may be related to the distribution of talent. The founders of America's orchestras (and the creators of nonprofit theaters who emulated them decades later) sought an alternative to short-term artists contracts because they believed (with good reason) that they could not achieve satisfactory levels of quality unless they, first, created long-term relationships among artists, who could achieve ensemble skills; and, second, long-term relationships with audiences, whom they could educate to appreciate the qualitative superiority they hoped to achieve. Similarly, art museums (compared to earlier for-profit museums) eventually sought to create significant permanent collections, which in turn required long-term commitments to facilities.

Given advances in performing-arts training and increases in the number of talented, committed artists, short-term contracting may have become a more efficient means of organizing, for presenters if not for artists. Recording studios, for example, can contract with studio musicians by the session because they have immensely skilled labor pools from whom to choose (Peterson and White 1979). Similarly, members of small ensembles in every musical genre subsidize production to keep quality high. If this explanation is correct, then we might expect increases in the quality of performers (which may be indexed by local measures of artists' population density) to be associated with more contracting in fields like classical music and theater. We might also find contracting more common when for-profit organizations can benefit parasitically from nonprofits' investments (e.g., when small clubs or restaurants can contract with musicians who have learned to play together in a nonprofit orchestra or university jazz band).

A second efficient-boundary issue has to do with the ways in which for-profit media companies' choices provide opportunities for nonprofit entrepreneurs. For-profit cultural sectors, even the most concentrated and capital-intensive media industries, spawn oases of nonprofit activity. Public television emerged out of the frustration of intellectuals and educators with the quality of commercial broadcasting. Nonprofit poetry and fiction magazines respond to the difficulties that young writers face in finding an audience. Most university presses publish works of scholarship (and in some cases, of fiction or poetry) for audiences too small to justify production by commercial publishers. Nonprofit media arts centers and public and private universities present independent and foreign films (though their numbers and importance have diminished with the spread of pay cable movie channels and video and DVD rentals). In many cases, efforts by publicly held media companies to slough off activities that, while profitable, produced poor margins, account for the role of the nonprofit sector in these fields. (Public television emerged as a significant broadcast alternative only in the 1960s, after network executives stopped worrying about intellectual respectability and abandoned earnest public-affairs and dramatic programming.)[10] A theory that focused exclusively on the nonprofit sector (as opposed to the broader ecology of media and cultural production) would be hard-pressed to explain such developments.

Is the cost disease curable? The cost-disease hypothesis is consistent with the results of analyses of change over time in performing-arts institutions' cost structures, for labor costs have indeed increased more quickly than other expenses, assuming an ever greater share of performing-arts budgets (Caves 2000; Heilbrun and Gray 2001). Yet it is not clear that the cost-disease hypothesis *explains* this trend. First, the nonprofit arts have expanded dramatically in the past thirty years. Many organizational deficits reflect increased fixed costs as a result of imprudent expansion (sometimes encouraged by donors or grantmakers) (McDaniel and Thorn 1991); and others reflect reduced market share due to greater competition. Second, structural change in the U.S. economy -- a prolonged decline in the manufacturing sector, where productivity growth through technological advance is easiest to achieve --- should have reduced the cost disease's severity. Third, where deficits do reflect higher wages, the cost disease is not always responsible: in some cases, as when orchestra salaries rose precipitously in response to large investments by the Ford Foundation during the 1970s, foundation grants and government subsidies cause, rather than respond to, such increases (Caves 2000: 254; Frey 1996).[11]

Fourth, performing-arts organizations *have* found ways to boost productivity: for-profit theater producers produce lavish shows with several casts and send them out on the road to increase the ratio of variable to fixed costs (*ibid.*); nonprofit theaters mount play with smaller casts and less elaborate stage designs; studio ensembles (and even some live pop performers) employ drum machines or replace string sections with synthesizers (Colonna et al. 1993). That they can do this demonstrates the principle that cost structures in the arts reflect craft conventions -- shared ideas about what constitutes good practice -- more than technical necessities (Becker 1982). Whatever we think of the aesthetic results of such devices, they represent economically viable means of fighting the cost disease.

Embedded programs and organizations. It is tempting to discount embedded organizations as messy exceptions that can be ignored in efforts to explain the nonprofit role. But if, as I have argued, embedded arts organizations and programs are all around us --- in schools and universities, in churches, in community action agencies – then any theory of nonprofit origins must take them centrally into account. None of our theories do.

The publishing industry (newspapers, magazines, and books) illustrates this well. Most of the field's nonprofits are embedded in other organizations, with the result that the nonprofit presence deviates from one would predict on the basis of theories of market failure or public choice. The collective goods produced by newspapers are arguably as valuable as those produced, for example, by modern dance companies; and many observers believe that greater diversity and competition in that industry would enhance democratic debate. Yet all or almost all daily and weekly newspapers enumerated in the Census (2001c) are proprietary in form. Like performing-arts organizations, newspapers are populated by professionals (journalists) with strong professional standards; and, also like performing-arts organizations, they cannot convince consumers to pay prices that would cover the costs of living up to those standards. As Jencks (1986) observed, all this should make the newspaper industry ripe for the nonprofit presence it lacks.

By contrast, there is a greater, albeit still small, nonprofit presence among periodical publishers, even though the greater diversity of perspective among national magazines and the relatively less daunting economics of the industry (compared to newspaper publishing) might lead us to expect very few. One might anticipate that nonprofits would be found primarily among literary and poetry magazines, the least commercially viable subsector and one that promotes a valued social function. Yet literary magazines are rarely tax-exempt (except when opportunities for government or foundation grants provide incentives): most of the U.S.'s roughly 500 poetry magazines are formally for-profit, mom-or-pop operations.[12] A few free-standing large-circulation periodicals devoted to serious debate or minority viewpoints --- *e.g., Ms., Harper's, the Nation* – are nonprofit, but they are not typical. Most nonprofits that publish magazines do so to support such missions as running churches or trade unions, representing professional or industry groups (*Museum News),* or providing services to their members (*Modern Maturity).* In other words, we have nonprofit magazines because larger nonprofit entities believe they can help them pursue their broader goals.

The same is even more true of book publishers. Because the trade publishing industry has experienced much recent consolidation (only two major proprietary U.S. trade publishers have escaped absorption by a handful of multinational media firms), many observers believe that the nonprofit subsector's role has become even more important than it used to be (Miller 1997; Greco 2000). The core of nonprofit book publishing includes just over one hundred university presses, which publish scholarly (and sometimes literary) works insufficiently commercial to interest large proprietary houses (Powell 1985).[13] In addition, there are approximately two hundred other nonprofit presses, including a few independent literary publishers and a larger number of embedded enterprises, such as the New England Science Fiction Association Press and Gospel Literature International.[14] Once again, much of the nonprofit role in publishing reflects the embeddedness of book publishing in such other nonprofits as universities and voluntary associations.

Embeddedness complicates our understanding and obscures our view of the field of performing-arts presentation in a different way. Presenters, by which I refer to organizations that specialize in booking acts into venues and selling tickets to the public (as opposed to organizations that employ artists on long-term contract), have long occupied an important specialized role in the performing arts. Early in the 20th century, women's and music clubs formed a local-presenters network that sponsored performances of touring orchestras throughout the United States. By the 1920s, for-profit promoters like Arthur Judson's Columbia Concert Management had learned to use such nonprofit associations so effectively that some contemporaries cried "monopoly" (Kirstein 1938: 50).

Significant contemporary presenters run a wide gamut from proprietary night clubs to municipal arenas to nonprofit performing-arts centers. A large portion of the auditorium business is controlled by Clear Channel, a Texas-based entertainment conglomerate with large holdings in radio and outdoor advertising. Many nonprofit organizations are also in the presenting business: nonprofit performing-arts facilities, fairs and festivals, university-sponsored concert series, churches and theaters or orchestras that book outside acts into their own spaces when they are not using them (Hager and Pollak 2002). The public sector, almost always in the form of municipal government, also plays an active role, building, owning and sometimes managing performing sites (Strom 2001).

Much of the for-profit sector's role in music presentation is invisible because it is embedded in restaurants and bars, as well as in the nation's more than 250 gambling casinos (U.S. Census Bureau 2001(e).[15] Embeddedness also obscures the role of large public and nonprofit universities, most of which present touring performing arts presentations, as do many smaller institutions. Even less visible are the hundreds of churches and community associations that present performing-arts events and art exhibitions. Even corporations have embedded arts programs: About 400 have art collections, many of which are sometimes exhibited to the public (Martorella 1990); and corporate contracts sustain more than 300 firms that specialize in producing "industrials" (business-themed theatrical events for corporate management and sales meetings) (Bell 1987).

Consideration of the role of the public sector in the arts is complicated by the importance of arts programs embedded in universities, many of them public, and further complicated by the fact that public and private universities are so similar things in their programs. Although we ordinarily do not think of government as an important part of the U.S. music business, the public sector produces much classical music through state-university orchestras (and much popular music as well, through high school, college, and military bands). This state of affairs has more to do with institutionalized expectations of universities than with the kinds of factors to which economic theories call attention.

The role of nonprofits in the arts education also looks different once embedded organizations are taken into account. For example, 95 percent of 5637 dance schools reported in the Census of Business (Table 1) are proprietary. But the Census fails to measure dance instruction provided in colleges and universities. Women's colleges were the first U.S. institutions to treat the dance as a respectable activity, albeit often as part of their physical education programs (Kendall 1979), and many institutions of higher education remain involved in dance training.

I am aware of no research that attempts to explain systematically the kinds of artistic programs that non-arts entities choose to organize and incorporate, or to analyze the economics of embedded nonprofits. Many of the cases reviewed here share one of two things: cross-subsidization of marketing and facilities expenses for arts activities out of fixed costs of the sponsoring institutions (for example, in churches, cocktail lounges, or universities); or opportunities to subsidize fixed costs from grants in support of arts programs (e.g., in community agencies and other nonprofits that depend on soft money). In addition, some arts programming appears to be expected of certain kinds of organizations (e.g., church choirs or university theaters), or else to serve as a market signal for unobservable qualities (e.g., the fad for gamelon orchestras in elite liberal-arts colleges).

Issues related to size, capital intensity, and fixed costs. Existing theories do not account for what appears to be a -shaped relationship between capital-intensiveness and form. As noted earlier, the cultural producers with the greatest fixed costs --- television networks, book publishers, record companies, and so on --- are predominantly for-profit, relying on economies of scale and scope to produce profits. Within those arts fields that are predominantly nonprofit, however, this relationship is reversed, and the nonprofit form is more commonly used by organizations that have relatively high fixed costs: for example, performing-arts organizations that combine presentation and performance (especially those that own facilities) and museums, which must keep up facilities and conserve collections. Organizations with low fixed costs (jazz ensembles, chamber quartets, Off-Off-Broadway theater companies) are less likely to incorporate as 501(c)3s, even when their missions are consistent with nonprofit status.

Many "minimalist" organizations never make it into the official statistics. In classical music, volunteer-run, intermittently performing, community orchestras and amateur chamber groups are ubiquitous, and only the more organized have acquired 501(c)3 status. Unincorporated chamber ensembles outnumber chamber groups that are incorporated as nonprofits or that operate as formal subunits of symphony orchestra or of university or conservatory music programs [King 1980]. In all fields, much performing is done by individual artists (unincorporated sole proprietorships, as it were).

Unincorporated associations are also active elsewhere in the performing arts. The UDAO lists more than 5000 theater groups and 3500 dance groups not counted by the Census. Although it classifies them as "nonprofit," one suspects that relatively few have their own tax-exemptions. Approximately 2000 are amateur community groups, and more than 1000 are college or university ensembles. Most craft artists, painters and sculptors are solo practitioners operating directly in the marketplace rather than creating artworks as employees of organizations (Jeffri and Greenblatt 1994). Many hold "day jobs" in schools, art centers, or other nonprofit or public institutions that provide both a living wage and access to studio space. (At the opposite extreme, representational artist Thomas Kinkade formed a corporation, the Media Arts Group, which owns or franchises a national chain of Thomas Kinkade Signature Galleries and is traded on the New York Stock Exchange [Orlean 2001]; and pop singer David Bowie incorporated himself to sell "Bowie Bonds" secured against his future royalties [Steyn 1997].) Finally, although no one has tried to count them, literally thousands of commercial bars, restaurants, and retail establishments (not to mention public airports and nonprofit schools and hospitals) maintain small exhibition spaces that, in the aggregate, serve numerous patrons.

Our theories of nonprofit organization make little room for the populous smallest tail of the size distribution, where individuals shade into informal clubs and associations, and informal groups occasionally become formal organizations. Yet such entities, like larger and more visible firms, make (or avoid) choices about organizational form. And, together, they embody many values and pursue many missions associated with the nonprofit cultural sector as a whole.

Questions about the public/private division of labor. Public-choice models focus upon goods for which demand rises over time, and posit a dynamic in which government and nonprofits cede some of their role to commercial substitutes as incomes rise. Yet if one discounts activities embedded in public schools and universities, there are few cultural sectors in which government and commercial firms co-exist: perhaps only broadcasting (where nonprofits and public stations constitute the public broadcasting system); museums (where commercial entities are a small and poorly understood minority); and performing-arts presentation. Public enterprises are surprisingly absent from cultural sectors that are predominantly for-profit. In virtually all such fields, nonprofit organizations constitute the noncommercial minority.[16] The reasons for this pattern are not well understood.

The respective roles of public and nonprofit sectors in community cultural leadership warrant further study. In 2000 there were approximately 4000 local arts agencies, of which 1200 had paid professional staff. Formerly called “arts councils,” local arts agencies present arts events, sponsor arts-educational programs, make grants, manage facilities, provide services to artists, and engage in community cultural planning. The public sector is dominant in cities with populations greater than 500,000, whereas the 75 percent of local arts agencies that are private nonprofits prevail in smaller places (Davidson 2001). It is not clear that public-choice theory would predict this pattern, which probably reflects the fact that the roles available to local arts agencies in large cities entail greater responsibility for tax dollars.[17]

Dynamic predictions of public-choice theories would seem to receive mixed support. Rising educational levels should increase government spending on the arts as demand from the median voter rises. This was the case in the United States (especially if one views the charitable deduction as a tax subsidy [Feld et al. 1983]), yet the opposite occurred in Europe, which experienced a trend towards greater nonprofit (as opposed to government) activity since the 1980s (Kawashima 1999). Whether increasing religious and ethnic heterogeneity in much of Europe can explain this trend or whether it represents a failure of public-choice theory is a question that research has yet to answer.

Hybrids and network organizations. We also lack powerful theories about the increasingly important phenomena of hybrid organizations, which contain elements of at least two organizational forms; and projects that are accomplished less by individual entities than by networks of organizations in different sectors. I have already referred to the large minority of important art museums in which governance is divided between the public sector, which controls the physical plant, and a nonprofit organization that controls collections and endowment. Still other private museums guarantee by charter that public officials are represented on their governing boards. Schuster (1999) contends that the proportion of all museums that are hybrids grew during the last quarter of the 20th century. One can find similar arrangements in the performing arts (e.g., Washington D.C.'s Lincoln Theater, with its building owned and maintained by local government and artistic programming carried out by a nonprofit organization).

Artistic work is also carried out through partnerships that involve participants from all three sectors. The creation of large urban performing-arts centers typically involves government legislative sponsorship and fiscal stimulus, private investment, and participation by the nonprofit arts organizations that occupy the structures; and their management often involves public/private collaboration as well (Strom 2001).

Whereas such centers are among the largest arts entities, partnerships between nonprofit and for-profit entities are visible at the other end of the size distribution as well. A study of arts activities in ten low-income Chicago neighborhoods noted that much artistic vitality stemmed from interactions among networks of small groups, some for-profit, a few nonprofit, and many unincorporated or informal. One racially integrated neighborhood of 65,000 residents boasted 35 arts entities, many of them clustered within a radius of just a few blocks. A hub of this activity was a proprietary restaurant and bar that included a small book store, and a stage and exhibition space, which were available to local artists and performers. When this kind of network is successful, it may have substantial advantages over conventional nonprofit firms: the ability to engage readily participants from many types of organization; low capital costs due to an infrastructure based on reciprocity rather than hierarchy; resilience in the face of staff turnover; and the robustness of a loosely coupled system of autonomous but interdependent parts (Grams and Warr 2002; and for similar conclusions from a study in a different city, Stern and Seifert

2000a; for a discussion of similar dynamics in the social service field, see Milofsky 1987; and in biotechnology and related fields, Powell 2001).

Broadcasting: A three-sector industry. A few fields present special opportunities for comparative research because of the co-existence of multiple sectors within them. Of these, none is more intriguing than broadcasting, which is characterized by enormous diversity in organizational form, including network vs. independent, and embedded vs. freestanding. At the end of 2001, noncommercial entities controlled approximately one sixth of U.S. radio stations, and just over one in five full-signal television stations (Reed Business Information 2003: xxxii). Noncommercial radio stations were underrepresented among those with the strongest signals; nonprofit television broadcasters constituted a larger share of UHF than of VHF outlets. Most nonprofit television stations and just under one in three noncommercial radio stations are affiliated with the Public Broadcasting System (a public/private hybrid). In addition, the nonprofit broadcasting sector includes independent and Christian nonprofit stations (though many other Christian stations are proprietary), as well as numerous college, university and secondary-school stations(Reed Business Information 2003: B-134, D-545).

Radio is particularly intriguing because the noncommercial and proprietary sectors occupy distinct niches defined by well-defined programming formats. Noncommercial stations dominate classical music and jazz formats, as well as the "alternative" and "progressive" rock formats favored by many college radio station managers. They also constitute the majority of stations with diversified formats, and almost all those that describe themselves as "educational." Commercial broadcasters, by contrast, rule mainstream pop radio, with well over 90 percent of stations in the adult contemporary, country, oldies, classic rock, and middle-of-the-road formats (*Ibid.*).

Noncommercial and for-profit stations share some format niches. Nonprofits are prominent among religious broadcasters, comprising nearly 50 percent of "Christian," "religious," and "inspirational" stations (but just over 10 percent of stations offering "Gospel" programming). Noncommercial broadcasters also represent a large minority of stations with youth-oriented and African-American formats (approximately 30 percent and almost 20 percent respectively). In some cases the nonprofit/commercial divide is marked by relatively small differences in self-description: more than half of "news" stations are nonprofit, but almost 90 percent of stations boasting "news-talk" or "talk" formats are for-profit (*Ibid.*: D661-62).

Does Organizational Form Make a Difference?

As readers of this *Handbook* are aware, students of nonprofit and for-profit hospitals, nursing homes, and daycare facilities have conducted many comparative studies of the behavioral differences that flow from organizational form. Students of cultural organizations have done little of this.

In part, this is because there are few cases in which nonprofit and for-profit entities are similar enough in form and function to make statistical comparison sensible. How would one compare a nonprofit resident theater that maintains a facility, mounts several productions per year, books in jazz concerts and dance performances, and provides services to its community's schools to a Broadway production company whose only purpose is to produce one show as skillfully as possible until the end of its run? Is the appropriate comparison group for nonprofit art museums the relatively few small proprietary museums, or the broader category of theme parks? What is the for-profit counterpart of the poets' collective, the arts-in-education program at a local community center, or a neighborhood mural project?

To be sure, there are select populations where fruitful behavioral comparisons *could* be made: between municipal and private museums, or public and nonprofit local arts agencies; for-profit art galleries and artists' cooperatives; or between nonprofit and for-profit literary presses, music schools, Christian radio stations, and circuses. If there are empirical studies of any of these topics but the first, I am unaware of them.

Without empirical guidance from systematic comparative research, students of nonprofit arts organizations must rely on case studies and theory. There are three basic kinds of theory, one (primarily produced by economists, who value abstraction and parsimony) positing that behavioral differences flow from differences in the ordered preferences ("objective functions") of decision-makers in nonprofit and for-profit firms; a second that attributes behavioral differences to structural differences that influence decision-making at the organizational level; and a third that views behavioral differences as contingent upon the particular niches that for-profit and nonprofit cultural producers occupy in particular fields.

Preference-centered explanations. Economics explains phenomena by aggregating upward from the more-or-less rational behavior of individuals who pursue their interests as they define them. Because people with varying preferences for different outcomes will behave in ways calculated to maximize their "objective functions," organizations run by such people will exhibit behavioral differences accordingly. The preferences of for-profit cultural producers are clear enough: They want to maximize profits.[18] By contrast, the objective functions of nonprofit decision-makers are more varied. Economists ordinarily make stylized assumptions about what the nonprofit arts manager wants in lieu of maximizing net revenue. The two most popular assumptions are that nonprofit arts managers seek to maximize artistic excellence (if they share the values of artists) or audience size (if they want as many people as possible to receive the benefits of the work they produce). Some observers suggest that nonprofit managers may also want to maximize growth (in order to enhance their power, their salaries or both) (Hansmann 1981; Throsby and Withers 1979; Heilbrun and Gray 2001).

These assumptions are reasonable, especially when they are applied to conventional performing-arts organizations or museums. Because most arts managers make relatively low salaries and are prohibited from sharing in net revenues to stakeholders, the field is unlikely to attract managers who place financial outcomes first. Moreover, people who choose to work with artists, often in what is perceived to be a support role, are likely to sympathize with artists' perspectives and values. And managers who believe in what they are doing are likely to want to share the product with a large public.

Alas, there is little empirical support for these assumptions, however. Several ingenious studies have sought to reveal arts organizations' objective functions by seeing what such organizations do more of when their discretionary revenues increase: results vary sharply from sample to sample (Luksetich and Lange 1995). Case studies of actual arts organizations, which, however atypical they may be, represent the bulk of the evidence available to us, are equally inconclusive.

To be sure, key decision makers in many arts nonprofits are committed to artistic excellence as they perceive it. Small performing groups that operate *de jure* or *de facto* as cooperatives are often quality-maximizers (especially when members have viable day jobs) (Murnighan 1991). But even where quality maximization is the goal, it is an imprecise guide to behavior because there are so many dimensions to, and definitions of, "artistic quality:" craft skill, daring or disturbing content, innovative production technique, virtuoso performances and seamless ensemble work. Moreover, many small for-profit arts producers (*e.g.*, independent recording companies and poetry presses) seem equally artist-identified and committed to artistic values.

Similarly, the meaning of commitment to audience development varies markedly from manager to manager. Conservative arts institutions may prefer their audiences small and socially exclusive, if trustees and patrons value intimacy and social comfort. Arian [1971] contended that the Philadelphia Orchestra pursued this policy in the 1960s, and they were certainly not alone. Budgetary expansion, often associated with capital investments that raise fixed costs, has made even some of the staidest institutions, especially museums, seek larger audiences. Even so, nonprofit cultural organizations' pursuit of larger audiences is almost always constrained by ideas about appropriate repertoire or exhibition content or by considerations of organizational prestige (Ostrower 2002).

Some arts-organization decision-makers appear more interested in audience quality, often defined as audience commitment to value of artistic risk-taking and willingness to be challenged, than in audience quantity. Even managers who want to increase audience size rarely act as if they are deeply committed to audience diversity: In the 1890s, the managers of the Chicago Symphony failed to advertise concerts in the German-language press (which reached what would have been the largest market for symphonic music). In the 1990s, performing-arts managers sought foundation grants to attract more ethnically diverse audiences only to abandon their efforts when the grants expired. Overall, the notion that arts managers are interested in reaching out to new publics (as opposed to using standardized marketing techniques to clone the audiences they already have) receives little empirical support.[19] Moreover, the assertion that audience expansion is an important objective of cultural organizations is belied by the low status of education and outreach programs in most established art museums and performing-arts organizations (Eisner and Dobbs 1986; National Task Force for the American Orchestra 1993). Indeed, one study of art museums found that, controlling for exhibition space, collection budgets, and city characteristics, nonprofit museums drew significantly fewer visitors than their public counterparts (Oster and Goetzmann 2002: 17).

The notion that nonprofit arts organizations seek growth has received much anecdotal support. The fact that arts managers cannot distribute profits does not mean that financial objectives do not guide their behavior. Many arts managers are *deficit optimizers* rather than profit maximizers. That is, they seek the deficit that will maximize the sum of earned and contributed revenues by inducing additional contributions at the margin. Growth is attractive to arts institutions and their managers for many reasons. Most mundanely, given the high correlation between budget size and managerial salaries in nonprofit arts firms (Hallock 2002:395), budgetary expansion is the best strategy a manager can employ to boost her or his income and prestige.

Expansion can also be a means to other ends. In the 1930s, the Brooklyn Museum's Director sought to open a chain of branch museums across Long Island as a means of using his collection more efficiently to reach a larger public; and in recent years, New York's Guggenheim Museum created a worldwide chain of Guggenheim-branded museums (with dire financial consequences) for the same purpose (DiMaggio 1991c). Finally, growth is, to some extent, a strongly institutionalized cultural value: An anthropologist who studied arts organizations in a small Pennsylvania city reported that growth was a pervasive concern for managers, trustees and donors, because they regarded it as a sign of "vitality and good management" (Cameron 1991:232).

Behind the notion of an organizational or managerial objective function lies much ambiguity about whose objectives count. Ultimately, trustees have the authority to set organizational goals Attempting to model the objective functions of large nonprofit arts organizations without reference to patrons and trustees is futile, not just because of their legal authority but because, compared to wealthy patrons in other fields, those in the arts are more specialized in their philanthropy, make larger gifts, are more personally involved with the organizations they support, and are more likely to be affiliated with upper-class social institutions (Ostrower 1995: 92-95). Nonetheless, in many arts organizations, especially smaller ones, managers or artistic directors exert great influence over their boards. In some organizations (ordinarily large ones that depend on earned income for most of their revenues), artists are subordinate to managers. In others (ordinarily small ones that subsist on grants and contributed labor), artists may dominate managers. And for some purposes the objectives of grantmakers may be as consequential as those of museum decision-makers themselves (Alexander 1996).

Organization-centered explanations. Such heterogeneity is at the center of organization-centered explanations. In this view, differences between nonprofit and for-profit arts firms reflect not arts managers' preferences, but rather decision-making processes peculiar to nonprofit (and public) enterprise. Whereas preference-based models may be more illuminating for small, artist-led nonprofits than for large and complex ones, the opposite is true of organization-centered explanations, which start from the premise that decisions represent the interaction of conflicting and incommensurable agendas rather than the objective function of any single actor.

In this view, the major difference between for-profit and nonprofit firms is that, whereas the former has one legitimate goal (profit maximization) to which all participants must at least publicly subscribe, nonprofit firms are intrinsically multiple-objective, multiple-stakeholder organizations (Blaug 2001: 127; Tschirhart 1996). The encyclopedic urban art museum is the outstanding example, as much a confederation of professional departments, each with its own distinctive objective function, as a single organization (DiMaggio 1991b; for a similar view of theaters, see Voss et al. 2000). Curators focus on collecting and exhibiting objects, which they value for their own sake; exhibition specialists and educators emphasize the quality of the museum experience; marketing managers care about numbers; development specialists about cultivating donors; government-affairs directors about demonstrating enough public-spiritedness to justify subsidy (Zolberg 1981). The director (depending on background and inclinations) seeks some balance among all these objectives, perhaps while working actively to snare the next big exhibition, while readying plans for a new wing. The board of trustees, which is supposed to adjudicate among these agendas, consists of men and women with agendas of their own. No wonder two perceptive observers remarked that the major job of the art museum director is to conceal the museum's true objective function (Frey and Pommerehene, 1980).

In some ways, large cultural nonprofits are more like political coalitions -- groups of stakeholders with diverse objectives who find potential value in cooperation -- than they are like bureaucracies. Heterogeneity of objectives produces *not* characteristic decisions (these will vary from coalition to coalition), but characteristic organizational cultures and management styles. These include ambiguous goals, flexible rule systems with many exceptions, and a pervasive sense that decision-making is a "political" rather than a purely rational activity (March 1962; Tschirhart 1996). Decision-making itself is likely to be episodic: Unable to articulate a clear objective function without alienating critical constituencies, managers will lurch from objective to objective one at a time, often responding to crises rather than initiating strategies in advance.[20] Planning will focus on facilities and programming: strategic planning will be largely symbolic. Elements of this description apply to many for-profits, as well. But in large cultural nonprofits, goal ambiguity is not a problem to be solved: it is a fundamental condition of organizational life.

Other differences between nonprofit and proprietary work settings flow from organizational features peculiar to particular industries. In the classical field, for example, commercial music jobs pay better, are less interesting musically, and require more extraordinary feats of sight-reading (to economize on studio or rehearsal time). By contrast, small-ensemble nonprofit settings provide poorer wages, more interesting music, and require more tonal creativity and emotional range (Allen 1998).

Environmental contingency models. By contingency models, I refer to models that view nonprofit/for-profit behavioral differences as contextually variable, depending upon the relative positions of nonprofit and for-profit firms in a given industry (for examples from other industries, see Weisbrod 1990) and in their local communities. Such models represent the application of such theoretical approaches from sociology and organization science as resource-dependence theory, neoinstitutional theory, and organizational ecology. Common to all of them is the view that to predict differences in the behavior of nonprofits and for-profits in a given field, we must understand both the field's competitive dynamics (including the niches that for-profits and nonprofits occupy) and the network of cooperative relationships in which nonprofits are enmeshed. Decision makers' preferences matter in this view. But those preferences can be predicted if one knows the environment the organization faces, because organizations recruit managers whose preferences are suited to the environments in which they must operate.

Although most nonprofit arts organizations give lip service to the value of cooperation, they are in fact subject to intense competitive pressures. A study from the mid-1990s found that almost one in seven arts organizations became inactive within five years (Hager 2001; also Bowen et al. 1994). Such failure rates indicate that selection pressures constrain the ability of trustees or managers to pursue objectives for which resources (market demand, grants or donations, contributed services) are unavailable, thus limiting the utility of models of nonprofit behavior based on assumptions about manager or trustee objective functions.

As we have seen, in relatively few fields do nonprofit arts organizations compete directly with similar for-profit firms. In most places, if one wants to visit a large art exhibit, one goes to a nonprofit (or public) museum; and if one buys a subscription to a series of performing-arts events, it will probably be from a nonprofit organization as well. Within these fields, the behavior of a particular nonprofit will vary with the extent to which it holds a local monopoly. Where there are several nonprofit theaters, orchestras, art museums or public radio stations, one is often the "generalist" (Hannan and Freeman 1989) --- a full-service provider with a much larger budget than the rest, offering a diverse set of programs to a broad range of publics, with special attention to middle-class members or subscribers and wealthy patrons --- and the others ordinarily specialize in particular kinds of artistic work (often with artists or curators playing more important decision-making roles than in larger institutions) (DiMaggio and Stenberg 1985b).

In a long-term study of nonprofit organizations in the Twin Cities, Galaskiewicz (1997) reported that more competition among nonprofits in a particular field led to greater inequality, with the largest organizations increasing both earned and contributed income and the smallest forced to specialize and innovate in order to survive. By contrast, in remote places with relatively little commercial entertainment, the ecological perspective predicts that nonprofit arts presenters will offer repertoires that are decidedly more middlebrow than in communities with active for-profit commercial venues.

When arts nonprofits *do* compete directly with for-profit counterparts, nonprofits may attempt to differentiate their services as higher quality, whereas for-profits will compete on price and convenience (a pattern one observes in competition for young music students among for-profit music schools and nonprofit conservatories). Where competition is between community-based nonprofits and for-profit entities with fewer community ties (*e.g*., between nonprofit theaters and traveling commercial shows oriented to African-American audiences, or between Hispanic-oriented commercial broadcasters and local nonprofits with Spanish-language programming), nonprofits are more likely to compete by emphasizing collective identity, political awareness, and special local services. Some community based for-profits --- e.g., local bookstores competing with chains or local nightclubs --- also multiply services (e.g., respectively, presenting readings by local authors, or permitting local performing groups to use their stage for rehearsal) in order to underscore their community ties.

Endemic expansion and institutionalization have increased the intensity of competition among nonprofit arts organizations (and between them and for-profit substitutes) for the consumer dollar (McDaniel and Thorn 1981). In particular, many art museums have expanded their scope of operations (and with it, their fixed costs) to the point that traditional sources of public and private patronage must be supplemented by additional forms of earned income, a development that has pushed most of the largest museums towards special exhibitions and retailing (Rudenstine 1991; Anheier and Toepfler 1998; Alexander 1996). Expansion has also increased commercial demands on performing-arts organizations, the reliance of which on the subscription system has exerted a conservative influence on repertoire (DiMaggio and Stenberg 1985a; Hager 2001: 387; Heilbrun 2001; O'Hagan and Neligan 2002). Under these circumstances, the openness of a field to artistic innovation depends on keeping entry barriers low, so that creatively fertile if short-lived small, experimental organizations can operating at the field's artistic cutting edge.

The behavior of nonprofit arts organizations is a function not simply of their competitive environment, but also of the network of cooperative relations in which they are enmeshed (Gramms and Warr 2002; Backer 2002). Arts nonprofits engage in a wide range of exchanges with other actors (both organizations and individuals); and much of their behavior can be explained analytically as an effort to maintain the commitment of actors on whom they depend (Galaskiewicz 1985; Stern and Seifert 2000a). Many small nonprofits, for example, survive by inducing artists to participate at below-market wages; in exchange for foregone income, such arts groups are likely to offer some combination of artistic voice (either directly, through participatory decision-making or by proxy through the dominance of an artistic leader whose vision participants respect), professional training, and access to valuable social networks.

The behavior of "embedded" nonprofits reflects the demands of the organizations that sponsor them. University-based performing-arts institutions ordinarily devote more time to training young musicians than other ensembles. College art museums devote more space to educational programs than do their public or freestanding nonprofit counterparts, but have fewer visitors per square foot of exhibition space (Oster and Goetzmann 2002: 7, 9). Community organizations' arts programs tend to reflect their sponsor's political orientation and social ethos, just as church-based arts programs may mirror the religious faith and communal orientation of the denominations that sponsor them.

Even free-standing nonprofit organizations are influenced by the network of relationships that sustain them. Where these relationships are formal (for example, when arts groups share a common performance facility [Freedman 1986], or participate in a united arts fund-raising campaign [Shanahan 1989]) such ties can be highly constraining. Some collaborative relations, such as partnerships between nonprofit resident theaters who develop new plays and Broadway producers who commercialize them, induce nonprofits to behave more like commercial entities. Other relationships, such as the positive impact of the expansion of university music programs on the number of new composers entering U.S. orchestra repertoires, stimulate artistic risk-taking by reducing its cost (Dowd 2002).

The same is true at the community level. Informal relations among trustees may also influence the opportunities available to nonprofit arts organizations as well as the constraints they face. Trustees of major arts nonprofits are more likely than those of other types to be involved in business associations that promote local economic development (Whitt and Lammers 1991). These ties may enhance the likelihood that such organizations cooperate with development plans and be included in them.

* * *

No generalization can characterize the objective function of nonprofit arts firms in a way that enables us to predict their behavior (either as a group or in contrast to a stylized for-profit competitor), for three reasons. First, arts organizations' missions (and the objective functions of decision makers they recruit to accomplish these missions) reflect the niches they occupy in a broader community cultural ecology. Those niches vary over time, across communities, and among different arts fields. Second, the very notion that the large, complex nonprofit arts organization *has* a consistent objective function is itself problematic. Such institutions are sites at which trustees, managers, and professional staff with distinct and often inconsistent objective functions struggle under ambiguous terms of engagement with results that resemble temporary truces more closely than sustained strategies. Third, in some cases, arts organizations' behavior reflects *other people's objective functions* – the churches or universities or community groups that sponsor them, the managers of performing-arts centers upon which they depend for performance space, foundation program officers, or local legislators upon whom they rely for grants or subsidy, or the network of collaborating artists and organizations in which they participate. Under these circumstances, the best we can do is point to general principles or mechanisms that will help us to analyze particular cases, based upon patterns that emerge out of comparative analyses.

The Changing Nonprofit Cultural Sector

The role of nonprofit organizations in the arts has evolved steadily since the creation of America's first nonprofit art museums and orchestras in the 19th century. For the most part, the story has been one of expanding functions, resulting from two different processes. On the one hand, the orchestra and museum model of trustee governance, donative support, and commitment to artistic values spread gradually to other art forms – opera, theater, the dance, and jazz. On the other, since the 1960s other kinds of nonprofits – community organizations, human-service agencies, universities, churches – have spawned arts programs, creating a separate nonprofit arts sector committed to different roles for the arts and based on somewhat different organizational principals.

Barring long-term economic recession that undercuts opportunities for contributed income, or legislative action that makes the nonprofit form less attractive, we can expect to see the nonprofit sector bear the principle responsibility for live performance and exhibition of an expanding range of art forms and genres, and for programs that use the arts to pursue social-welfare agendas, while gradually extending into new niches that are opened by industrial concentration and technological change.

Economic and Demographic Factors

The enormous boom in the nonprofit arts during the final third of the 20th century, and especially in the creation of nonprofit museums and performing-arts institutions in large and mid-sized cities around the United States, has arguably led to, if not oversupply, at least the satiation of demand. The forces that fueled that expansion --- the coming to age of the baby-boom generation, the simultaneous state-financed expansion of higher education, and the rapid rise in government arts funding --- are spent. Although new enterprises will enter the picture as old ones fail, nonprofit theater, museums, orchestras, and opera and dance constitute mature industries with relatively little potential for continuing growth and some risk of attrition in the middle ranks (Wolf Organization 1992).

Much growth in the nonprofit arts was facilitated by low wages due to the over-production of artists during the 1970s and 1980s, a period during which the number of artists in the labor force increased rapidly as their median earnings markedly declined (Kreidler 1996). Because most arts fields have what economist Robert Frank (Frank and Cook 1995; Rosen 1981) calls "winner-take-all" labor markets --- career tracks where a few people reap extraordinary rewards while most others, including men and women of great talent, receive meager if any returns -- graduates of arts programs have constituted a reserve army of the underemployed upon which many nonprofits (as well as for-profit ad agencies, interior design firms, and proprietary schools [Stern 2000]) have depended for workers and management alike. In the 1990s, the rate of increase in the artistic labor force began to slow, falling slightly behind the growth rate for professional occupations as a whole (Cultural Policy and the Arts Data Archive 2003). If the decline continues, an important foundation of the nonprofit arts economy may be placed in jeopardy.

By contrast, the new immigration will engender a boom in arts organizations devoted to the cultures and ambitions of newcomers from Latin America and Asia. Students of voluntary organizations in comparative cross-national perspective have long noted a positive association between ethnic and religious heterogeneity and the size of nonprofit sectors (Weisbrod 1997; James 1987). Whether demand for immigrant culture is absorbed by for-profit entrepreneurs or whether immigrant arts becomes a nonprofit growth area during the first decades of the 21st century remains to be seen. To some extent it will depend on such imponderables as the rate of assimilation of new immigrants into the panethnic middle class, the demand of immigrants for arts programs that emphasize fine points of shared culture and identity as opposed to those that market efficiently a mass-oriented version of indigenous art forms; and the fit between the U.S. nonprofit form and modes of organizing artistic activity prevalent in immigrant artists' countries of origin.

The rise of Evangelical Christianity poses an analogous opportunity and challenge to the nonprofit arts sector. Conservative Christians have increased their share of the U.S. population substantially over the past four decades and, at the same time, have become more similar to other Americans in educational attainment, income, and regional distribution (Hout et al. 2001). Some Christian entrepreneurs have created new forms of identity-based, for-profit enterprise that elicit commitment, including donations of time or money, from customers based on shared identity or faith. The most notable examples at present are broadcast enterprises owned by Evangelical Christians who portray their business interests as incidental to their mission to spread the gospel. Like immigrant-based enterprises that produce collective goods without benefit of nonprofit charter, the key mechanism is the use of shared faith or identity as a substitute for the trust inspired by the non-distribution constraint. Eventually such entrepreneurs may gravitate to the nonprofit form; or they may present a challenge to it.

Ultimately the challenges posed by demographic change will lead nonprofit arts organizations to search for new "efficient boundaries" to define their missions and activities. The key question is: What functions fit within the framework of the nonprofit arts firm (or of the larger nonprofit entity in which arts activities are embedded), and which ones will stay outside it? Galaskiewicz (1997) has pointed to the versatility of hospitals at bundling additional functions and services, while preserving their core missions. Since the 1970s many arts large arts nonprofits have likewise bundled new services (educational programs, community outreach, performing-arts presenting, food services, retail operations) into their portfolio (Throsby and Withers 1979: 48). Whether conventional arts nonprofits – theater companies, art museums, symphony orchestras, and so on – become arts mega-enterprises or leave new markets and missions to more agile competitors remains to be seen. At the same time, we may see new combinations of enterprise – *e.g.,* artists cooperatives that branch into rights management or distribution of digital images or cultural centers devoted to particular immigrant cultures that begin to present artists from other national-origin groups --- occupy important roles.

The Eroding Boundary between High and Popular Culture and the Nonprofit Arts Sector's Broadening Scope

The last half century has witnessed dramatic change in beliefs about the appropriate role of the arts within society. The most important shift, from the standpoint of the nonprofit arts, has been the gradual erosion of the hierarchical model of culture --- with European high culture at the top and other cultural forms arrayed beneath it --- that animated (and was in turn instantiated in) the creation of America's first nonprofit orchestras and art museums in the late 19th century (Gans 1985; DiMaggio 1991a).[21]

The decline of the hierarchical model reflects not just a cognitive change but also a weakening of cognitive and institutional boundaries between high and popular culture. Since the 1970s, observers have noted a trend towards more popular-culture programming on the part of many traditional arts nonprofits (Peterson 1990). A more recent and potentially equally important development is the entry of community-based commercial arts providers into networks that produce high-culture programming. For example, in

2003, a Trenton nightclub that ordinarily features edgy pop music acts hosted a series of films, piano soloists, and academic-style panels as part of a festival celebrating the life and work of modernist composer George Antheil.[22] It is possible that some community-based nightspots will ultimately migrate to the nonprofit sector. But it seems more likely that small for-profits may usurp portions of the nonprofit sector's traditional role.

The expansion of the nonprofit arts. The decline of cultural hierarchy opens the nonprofit arts sector to a wider range of genres and styles. Some relatively new entrants are hybrids between high-culture art worlds and popular traditions. Performance art, for example, features solo or ensemble performers who combine elements of drama, comedy, dance, or visual art into novel performances (Wheeler 1999; Pagani 2001). It originated in the visual arts world but evolved to include participants with roots in theater, comedy, and music as well. The nonprofit sector's role in this field is largely that of presenter, providing venues in which these artists perform.

The nonprofit arts sector has also embraced "media arts," of which there have been two waves. A first used film and video to created installations that incorporated moving images into static assemblies. Although some projects required large exhibition spaces like the retooled factory that houses the Massachusetts Museum of Contemporary Art, smaller video loops and similar creations fit easily into ordinary museum spaces. A second wave has employed digital technologies with more radical consequences for exhibit organization due to the suitability of the Internet for broadcasting digital works. Another case of intersectoral drift is the once entirely proprietary field of circus entertainment, which now includes a significant nonprofit minority, the most prominent of which, like Big Apple Circus and Cirque du Soleil, boast more sophisticated self-presentations and more upscale, urban audiences than the Big Top's traditional denizens.

The art world has also become increasingly open to nonprofit organizations that promote distinctly American based in folk or popular culture. Two genres, craft art and jazz, were at the forefront of this development. A recent canvass of craft organizations enumerates 1329 nonprofits devoted to craft art, including 88 museums, 315 galleries, and 105 festivals or craft art centers.[23] For jazz, nonprofit and philanthropic sponsorship has lagged behind critical esteem and academic respectability. Although more than 90 percent of the jazz groups enumerated in the Census are commercial, the nonprofit sector is making inroads, however, with jazz societies, service organizations and museums, and even some jazz ensembles.[24] Jazz performers who employ the nonprofit form include a few typical small jazz ensembles; performing groups affiliated with college or university music departments; and groups sponsored by organizations devoted to fostering African-American cultural identity. Some of the largest are preservationist, devoted, like the first symphony orchestras, to defining and preserving a musical canon. A few large ensembles, like the Nebraska Jazz Orchestra (2002), have adopted all the institutional trappings of symphony orchestras.[25]

More recently, organizations that present musical forms associated with a wide range of ethnic identities have adopted the nonprofit form: for example, the Minnesota Chinese Music Ensemble, the Baltimore Klezmer Orchestra, an Irish Heritage Festival in West Virginia and an Omaha, Nebraska mariachi orchestra.[26] The nonprofit form has also migrated to older popular American forms, like bluegrass music and rural blues. Nonprofit and government enterprise (*e.g.,* the Smithsonian Institution's Center for

Folklife and Cultural Heritage) are also evident in the small but important field dedicated to preserving the recorded heritage by transferring at-risk recordings to new media.

The nonprofit sector is even represented (more faintly) in pop culture fields that are younger (the nonprofit organization Urban Think Tank publishes the *Journal of Rap Music and Hip Hop Culture*) or of doubtful repute (California's Exotic World Burlesque Museum commemorates and honors nude dancing, burlesque and striptease [Kellogg 2002]). The nonprofit cutting edge often involves efforts to impart academic respectab-ility or historical legitimacy to genres that have lacked either. Other examples of early nonprofit ventures dedicated to conservation and consecration are Nashville's Country Music Museum and Hall of Fame and Mississippi's Delta Blues Museum.

Less distinct lines between nonprofit and commercial cultural organizations. At the same time that the weakening of cultural hierarchy has expanded the nonprofit arts sector's scope, it has made nonprofit cultural organizations more vulnerable to the impos-ition of values and methods imported from the proprietary sector. Increasingly, the lang-uage of commerce permeates the board rooms and hallways of traditional arts organizat-ions, as nonprofit managers adopt for-profit planning models and marketing techniques to placate business trustees and corporate donors (Stone 1989; Alexander 1996). Although many arts organizations have benefited from adopting business management tools, others have wasted time and resources on symbolic gestures; and some have imported not just techniques, but also vocabularies of motive, including "bottom-line" justifications for program decisions, from the for-profit sector (Kenyon 1995).

Similarly, erosion of the cognitive boundary between high and popular culture reduces resistance to the commercialization of nonprofit arts organizations. Early high-culture institutions shunned the market, lest they profane their sacred mission (DiMaggio 1982). In recent years, however, museums, performing-arts organizations, and public broadcasters have embraced commercialism in many ways (Silverman 1986; Powell and Friedkin 1986; Wu 2001). Although in theory business activities cross-subsidize core missions, commercial success often becomes a goal in itself, competing with artistic objectives. Moreover, commercial successes may paradoxically undermine the rationale for government and philanthropic subsidy (DiMaggio 1986; Toepler 2001). Under such circumstances, policy makers who care about the arts have searched for new rationales to justify continued subsidy.

Two such rationales have become prominent, each representing a growth areas for nonprofit cultural entrepreneurship. The arts have long played a key role in many urban development projects (Lincoln Center, or for that matter Boston's Museum of Fine Arts, which was originally sited near the public library in Back Bay at the heart of America's first culturally anchored urban development project). But the practice accelerated towards the end of the 20th century (Whitt 1987; Strom 1999), bolstered by the success of projects like Newark's NJPAC, the efforts of arts advocates, and some evidence from academic researchers that the presence of artists and cultural organizations is associated with urban prosperity (Florida 2002) and neighborhood stability (Stern 2000).

Cultural policy analysts have also devoted attention to issues of "cultural heritage." Whereas "heritage" was once code for the preservation of stately homes, its referents are now far broader --- 19th-century workers' housing, public buildings of architectural value, and the non-built heritage of musical recordings, choreography, and folklore as well. Although class politics invariably enters into allocation, as a general criterion for cultural subvention heritage is politically attractive for its democratic thrust. And the rationale for heritage preservation has been deepened by scholars who have probed the analogy between the cultural and the natural environments (Throsby 2001).

Technological Change and Economic Concentration

A dramatic increase in the media industries' concentration has narrowed distribution channels at the same time that the rise of digital recording and communications technology has reduced barriers to entry and challenged business models that have sustained for-profit culture industries for decades. When the dust clears, for-profit firms may provide some services that nonprofits do today, while nonprofits take over niches hitherto restricted to the proprietary sector.

New digital technologies undermine old business models in several ways. Most notably, any recording (of a piece of music, a film, or a photograph or other artwork) can be almost instantaneously transmitted at virtually no variable cost. First the recording industry and now Hollywood have seen their hottest new products distributed freely worldwide, sometimes before the official release date. The entertainment conglomerates have responded vigorously with lawsuits and technical fixes, but at this writing, the hackers have stayed one step ahead. The big companies will have to find a new business model that includes distribution for profit over the Internet. What effect this quest will have on the intersectoral division of labor remains to be seen.

An equally important effect of the digital revolution has been a dramatic reduction in barriers to entry in many fields, continuing a trend originating in declining prices in the electronics market that antedated the Internet's rise. Sound recordings that would have absorbed thousands of dollars of studio time a few years ago, can be cut on relatively in-expensive equipment in a teenager's basement today. Costs have likewise fallen for magazine publishing and, to a lesser extent, photography, film, and animation. Yet the democratization of artistic production occurred alongside a concentration of the means of distribution. The Internet solves the technical distribution problem by reducing variable cost to close to zero. But in so doing it creates an economy of attention scarcity that disadvantages artists without the marketing power the media giants possess.

The combination of an unprecedented abundance of product with an unprecedentedly concentrated corporate media sector creates an opportunity for nonprofit organizations in the field of distribution. In some cases, such organizations will operate in the physical world, as do several grant-supported organizations devoted to marketing and distributing small-press fiction, a field in which the concentration of commercial publishing has made small literary presses the primary publishers of first novels by talented young writers. One can imagine the nonprofit form moving further downstream to the consumer, as well, with nonprofit bookstores and record stores joining nonprofit art film houses, museum stores, and cafes in an enlarged arena of nonprofit cultural retailing.

Indeed, nonprofits have long been active in some forms of distribution and retailing: museum shops and college book stores are significant examples (National Association of College Stores 2003). Nonprofit galleries, often artists cooperatives, have emerged as significant alternative to for-profit galleries in the fine arts and, especially, crafts.[27] And while independent book stores have not yet used the nonprofit form, under pressure by chains and on-line bookstores, many of the surviving independents have taken on some functions of libraries (offering public programs, sponsoring reading groups, and so on). It seems a small step for some to reincorporate as nonprofit institutions, selling books as a "related business activity" that supports broader educational functions.

In other fields, virtual nonprofits may serve to link artists and potential publics. The Internet's advantage for cultural intermediation is its ability to harness the power of distributed intelligence through peer rating systems. The combination of peer reviews and network algorithms that on-line businesses like Amazon and Netflix use to recommend books and films are readily applicable to organizing smaller markets for artistically ambitious alternatives to the products of media conglomerates.

Whether or not nonprofits this niche remains unclear. In some cases new network-based enterprises that are *not* organized as 501(c)3s have begun to organize the production of collective goods. Take for example an independent music site that provides a free space for bands to advertise their records or tour dates, gains the trust of surfers willing to donate a few minutes of their time to write reviews or edifying dialogue, and offers free web-based information services to aspiring musicians (while also using the web site to sell recordings of bands its owners keep under contract, t-shirts and related paraphernalia). The key mechanism is the ability of networks to compile and share information at very low cost: Many people may contribute content to such sites not out of any deep faith in the proprietors, but because it is easy and fun to do so. The Internet ensures that very limited commitment can go a long way if it is shared by thousands of people.

At present, the relationship between legal form and self-presentation appears to be blurred on-line, with many web sites devoted to the production of public goods (for example, information exchange among digital artists or restaurant aficionados) describing themselves as "nonprofit" and even soliciting donations to help keep their sites on line, apparently without benefit of 501(c)3 registration. Such sites as digitalart.org or Chowhound.com, or indiegrrl.com are, by all accounts, genuinely nonprofit in ethos. It is likely that they are organized as, in effect, sole proprietorships for the same reason that other "minimalist organizations" retain that form, i.e., that they control few assets and lack realistic prospects for significant philanthropic fund-raising, so would not find the trouble or expense of incorporation worthwhile. It seems possible that the Internet culture (Castells 2001) has produced an alternative model that elides the line between charitable and mutual-benefit associations and between nonprofit and for-profit enterprise.[28]

In the non-digital world, industrial concentration has created opportunities for new enterprises that sell works that, while profitable, are not profitable enough for the giants. In the popular music industry, industrial concentration may have enhanced innovation, as conglomerates have designed strategies that sustain diversity while opening niches for small independent companies ("indies") that record a wide range of talented artists working in and across every genre (Dowd forthcoming). Although they are financial dwarfs, the hundreds of independent record companies are an artistically vital part of the industry. Moreover, many operate with a nonprofit ethos, foregoing commercial success in the interest of substantive aesthetic ends (Gray 1988). They ordinarily adopt the nonprofit form, however, only when sound recording follows from a broader mission. For example, Appalshop, an entrepreneurial nonprofit multi-arts program in rural Kentucky, has created a subsidiary, Appal Records, which records Appalachian folk singers; and the Electronic Music Foundation, which promotes the work of serious composers using electronic media, has created a record label to publish important but unavailable works. If other states' arts councils follow New York's in offering grants to nonprofit record companies, their numbers will increase (New York State Council for the Arts 2002). In states that do not offer the promise of grants from government agencies or private foundations, few small record companies have had reason to incorporate as 501(c)3s. Time will tell whether the indies evolve into a nonprofit sector of the recording industry or continue to pursue value-rational purposes by other means.

Conclusion: Research Priorities

Whether one's interests are driven by theory development, substantive curiosity, or policy relevance, research opportunities abound. Whereas many kind of rigorous empirical research on nonprofit arts organizations, especially comparative research across nonprofit and other sectors, were once virtually impossible, recent efforts to improve data quality and availability make the quest for rigor less quixotic. A sustained commitment by the National Endowment for the Arts, Research Division, supplemented by programs of the Pew Charitable Trusts and other foundations have paid off in several improvements. Notable among them are the enhanced quality of cultural data in the Census of Business; the Urban Institute's success in building data bases out of IRS Form 990s (including its collaboration with the National Assembly of State Arts Agencies to create the Uniform Data Base on Arts Organizations); and Princeton University's establishment of the Cultural Policy and the Arts Data Archives (CPANDA), which permits on-line analysis or downloading of dozens of data sets relevant to arts and cultural policy studies.

Theory Testing and Theory Development

I have already identified a series of theoretical challenges. Why are some performing-arts activities articulated by contract whereas others are organized through hierarchy? To what extent do endemic deficits in nonprofit arts organizations reflect the "cost disease," and to what extent do they stem from organizational expansion or other managerial choices? What explains the presence of embedded arts programs in organizations outside the arts, and how might our understanding of the origins of nonprofit cultural enterprise change once we take these into account? How can we understand the division of labor among the sectors in the few fields – for example, performing-arts presentation and radio broadcasting – where all three are present? What accounts for the increase in hybrid arts organizations and interorganizational (and sometimes intersectoral)? What theories can provide the greatest purchase over "minimalist" arts organizations, including sole proprietorships and very small multi-person firms: Is it more productive to view them as for-profits (which they are as a legal matter), nonprofits (when they are nonprofit in ethos), or as means for workers to survive difficult labor markets? Why do public and for-profit cultural firms rarely co-exist in the same fields? How do size, capital intensiveness, and cost structures interact to influence the intersectoral division of labor? Why are there for-profit art museums and nonprofit circuses?

In order to address such questions we need to develop more sophisticated and rigorous analytic methods. Too often we have been forced to test theories about the origins of nonprofit enterprise by anecdote and example or, at best, by cross-sectional comparisons. Yet our best theories are both probabilistic (they identify important and pervasive tendencies, not iron laws) and evolutionary (they make predictions, at least implicitly, about conditions influencing the relative rates of birth and death of nonprofit, as opposed to for-profit or government, firms). In order to give public-choice, market-failure, and other theories a fair hearing, we must develop over-time population data that enable us to test them in the context of realistic models of population dynamics (DiMaggio 2003).

Substantive Issues: Understanding Organizational Change

Other research priorities, although theoretically relevant, are matters of greater practical concern. Exploratory research on new nonprofit roles in the arts and culture is necessary to illuminate emerging nonprofit fields on which standardized data systems do not yet report. We need to better understand the emergence of nonprofit enterprise in the presentation and exhibition of art forms that have in the past been largely commercial: Who are the pioneers, what causes them to choose the nonprofit form, and how do their organizations' structures and missions differ from those of their for-profit counterparts? We need similar studies of the role of nonprofit and commercial organizations in identity-based cultural organizations, for example those associated with new immigrant groups and emerging faith communities? Finally, we need systematic research on the organizational forms that are emerging (both on-line and off) to address new dilemmas in marketing and distribution. What are the advantages and disadvantages of the nonprofit form in the retailing and distribution of mechanically and digitally reproduced artworks, and what role might nonprofits play in bringing diverse products to the attention of audiences who would otherwise not encounter them?

Policy Studies

Although many of the topics I have mentioned will be of interest to cultural policy makers in the public and philanthropic sectors, two policy research priorities are particularly urgent. First, we need research that will predict enable grantmakers to assess the relationship between organizational form and behavioral differences relevant to the values – for example, artistic excellence, education and access, innovation and diversity – that cultural policy makers ordinarily wish to promote. Emphasis should be placed on rigorous comparisons that explore the conditions under which organizational form influences such behavioral differences, either directly or through elements of strategy and structure with respect to which different forms vary. Furthermore, such studies should go beyond mere comparison in two ways. They should explain *why* observed differences exist, and, therefore, provide guidance as to whether such patterns are replicable through policy incentives. And they should define organizational form more broadly than "nonprofit" versus "for-profit," including comparisons between pure types, on the one hand, and hybrid and embedded organizations, on the other.

A second priority for policy-relevant research is to undertake community cultural-resource studies that view arts organizations as interrelated parts of coherent systems. Increasingly, grantmakers seek not simply to sustain significant institutions, but also to enhance the role of the arts in community life. From this perspective, it is important that we learn not just about institutions (or artists), but about the relationships that sustain a community's arts institutions and link them to other arenas of public life. In particular, we need studies that can reveal the ways in which cultural organizations in different sectors – free-standing nonprofits, embedded nonprofits, government, commercial entities, and unincorporated associations – interact to produce collective goods. What is the relationship, for example, between the robustness of informal neighborhood arts associations and arts schools, on the one hand, and the vitality of professional institutions, on the other? In what ways do different kinds of art organization compete, and in what ways do their programs reinforce one another by building audiences, training artists, or enhancing the attractiveness of the arts to philanthropists?

* * *

These research priorities, like this chapter as a whole, reflect two premises that, although they are increasingly shared, are still somewhat controversial. First, one can only understand the nonprofit sector by comparing its scope and behavior to that of the public and commercial sectors. Second, understanding the current and likely future importance of the nonprofit arts sector involves focusing on a broader range of cultural nonprofits, including embedded and minimalist arts organizations, than analysts ordinarily take into account. Such nonprofit arts organizations as museums, orchestras and dance and theater companies will remain central to the sector. But the rate of growth in these fields will continue to slow. If we want to grasp the dynamism of the nonprofit sector in art and culture, we must focus on those less well institutionalized portions of the organizational universe from which new functions and future directions continually emerge.

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End Notes

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[1] Such estimates are intrinsically debatable. It makes sense to include only filing organizations, because many of the organizations in the IRS lists that do not file are inactive; at the same time, this does lead to the exclusion of some active organizations that are not required to file because they have annual budgets have annual budgets of less than $25,000 (Bowen et al. 1994). This figure also fails to count arts and cultural programs mounted by nonprofit organizations categorized under other headings (for example, private foundations that fund the arts; universities that support theater groups or film series, present concerts, and provide arts education; community groups that sponsor murals, use the arts in work with youth, and sponsor concerts and exhibitions in public parks; or churches that organize theater trips or whose choirs sing at festivals throughout their communities). It also leaves out the myriad informal, unincorporated groups (chamber groups, book circles, immigrant cultural societies, and so on) that pursue artistic or other cultural ends and neither seek nor distribute positive net revenues, but lack legal standing as nonprofit entities. In other words, the size of the sector depends on how one defines it.

[2] Kaple et al. (1996: 165) went beyond the usual data sources to identify all 501(c)3s with at least one professional employee that presented or exhibited the arts, including organizations whose artistic programs were ancillary to a larger purpose. Although Kaple et al. included "embedded" cultural organizations, unlike Stern, they did not try to count freestanding associations without incorporated nonprofit status. Stern found 1,204 "nonprofit arts and cultural providers," but for comparative purposes I have only used fields covered by Kaple et al. (excluding history, humanities, libraries, science, and design arts) and organizations that mount their own performances or exhibitions (to which Kaple et al.'s organizations were limited). In this comparison, adding freestanding unincorporated associations increased the count of organizations in Philadelphia from 309 to 650. Even allowing for Stern's more intensive data-collection effort, it is clear that including the informal, unincorporated arts sector greatly increases the nonprofit cultural sector's size

[3] This problem is less acute for the performing arts because the National Endowment for the Arts, Research Division has graciously shared special tabulations that the Census Bureau produced at the Endowment's request. Interpretation of the less aggregated measures is complicated by the fact that detailed self-designations are available only for establishments that responded directly to the Census, and not for organizations

for which data were gleaned only from administrative sources. (Establishments that were part of multi-establishment firms and establishments that employed more than a certain number of employees [which varied by industry] received mail questionnaires. Smaller employer firms did not, and data on "firms" that employed no one during the previous year [a group that probably included most individual artists who define themselves as businesses for tax purposes] were excluded from published tabulations.)

[4] The for-profit sector is so preponderant in manufacturing and distribution of instruments, supplies, and mechanically reproduced or broadcast music and drama that the Census simply assumes without asking that firms are proprietary. Motion picture distributors are corporate studios; most films are produced by ad hoc partnerships (Baker and Faulkner 1991) and distributed by large commercial firms. Most television dramatic and comedy programs are produced by a few for-profit production companies (Bielby and Bielby 1994). Arts service industries that are exclusively or predominantly for-profit include music publishers, agents and artists' representatives, advertising agencies that employ graphic artists and musicians (U.S. Census Bureau 1997d), graphic design services, photography studios, and software publishers. Also overwhelmingly for-profit are retail establishments that sell musical instruments and sheet music and stores that specialize in selling new CDs, records, and tapes, The major exception to this rule, for both recordings and books, comprises retail establishments embedded in nonprofit or government organizations – military commissaries, museum shops, and almost 2500 college and university book stores that are owned and run by the institutions. Because retail operations are ancillary to such organizations' major missions, such establishments rarely show up in the Economic Census. [All figures in this paragraph are from U.S. Census 2002, except for the number of college university stores, which comes from National Association of College Stores 2003.]

[5]Some economists say that there may be such a price but that a company that charged such a price would, in effect, exclude most of the population from access to its services, an outcome that would be undesirable given what are believed to be beneficial effects of exposure to high culture.

[6] In the context of a continuing game (i.e., arts organizations hoping that this year's donors will give again next year), the nondistribution constraint is attractive because it is difficult for donors to monitor critical aspects of the product or production process. Compared to the classic case of services purchased from non-

profits by third parties on behalf of clients who cannot easily evaluate or report those services' quality (e.g., young children, the infirm elderly, hospital patients with complex diseases), the arts organizations' exhibits and performances are highly visible; however the processes that bring them to the stage or gallery are often not visible at all. For example, donors may need assurance that nonprofits will not use their gifts to boost the incomes of managers at the expense of working conditions for artists or services to the community.

[7] The relation between function and motive is complex: Much elite entrepreneurship was motivated by a pragmatic interest in educating designers and craftsmen (art museums) or by an ideological commitment to the value of classical music (the orchestras). For more nuanced treatments of motivation see DiMaggio 1982, 1991, 1992.

[8] The 1997 Census of Business reports that 11 percent of museums (of all kinds) are not tax-exempt.

[9] I am fortunate to have had use of a beta version of the Unified Database of Arts Organizations (UDAO), a valuable new resource created by the Urban Institute and the National Assembly of State Arts Agencies (NASAA) under contract to the National Endowment for the Arts, Research Division. This data base, which is the closest thing we have had to a complete listing of nonprofit arts organizations (as well as a few for-profits) represents the union of data from the IRS Form 990s (which all nonprofit organizations with annual revenues of $25,000 or more are required to file annually) with NASAA's data base of grantee lists and other lists provided annually by the United States's fifty-seven state and territorial arts agencies (Lampkin and Boris 2002; Kaple 2002). The UDAO is particularly valuable for three reasons. First, the IRS 990s provide particularly comprehensive listings of nonprofit organizations compared to alternative sources (Kaple et al. 1998; Gronjberg 2002). Second, the data base permits some cross-walking between the serviceable but coarse-grained typology of organizations used by IRS and the National Center for Charitable Statistics, on the one hand, and the more refined, arts-focused typology that NASAA employs. Third, the data base identifies the organizations, so that researchers can add data and cases of their own. UDAO data are not comparable to Census tabulations, first, because the system does not yet have NAIC codes (the classification system that Census uses to sort establishments by industry) for most entries and, second, because it does not yet include systematically collected data on proprietary entities. But although the UDAO cannot be used for intersectoral comparison, it is well equipped for more in-depth looks at

Census's "tax-exempt" categories and for asking to what extent nonprofit organizations are becoming active in new arenas.

[10] Organizational theorists refer to the process by which industrial concentration opens new markets to small firms as "niche partitioning" (Carroll 1985).

[11] Brooks (2003) notes that labor costs in the arts have risen faster in the U.S. than in other advanced industrial nations, a result that the theory would not predict (given the relatively small size of the U.S. manufacturing sector).

[12] To estimate the number of poetry magazines, I consulted the electronic *Ulrich's Periodical Directory* in January 2003 and selected poetry magazines (*www.ulrichsweb.com)*, of which Ulrich's listed 2153. I sampled the first 250 of these and found 49 published in the U.S. and still listed as active. Because many listings are designated "researched/unresolved," I inflated the total estimate by about 20 percent above the figure one would obtain by projecting my sample to the whole.

[13] The rise of public funding for poetry and serious fiction during the 1970s contributed to an increase in the number of presses taking the nonprofit form (in order to make themselves eligible for grants from public arts agencies or foundations). Despite the presence of a few exemplars (e.g., the New Press, founded as a nonprofit with an explicit public-benefit mission, or Graywolf Press, which adopted the nonprofit form to become eligible for grants in the 1970s), by 2000 this tendency by 2000 it appeared to have stalled in the face of more cautious grant-making by public arts agencies eager to avoid controversial grants that attract legislative retribution (Mitchell 1985). .

[14] The UDAO F_Inst field lists 658 organizations classified as nonprofit independent presses, but my inspection of a sample of 30 of these organizations suggests that only about half are properly classified, as the list includes both some organizations that are not presses and some presses that are not nonprofit in form (though some may be in mission).

[15] When dining establishments present plays they are classified under arts establishments as dinner theaters; when they present musicians, the Census classifies them as dining establishments.

[16] The only case in which for-profits and public agencies compete *without* nonprofits playing a more important role than at least one of the others is in the lending of feature films, where public libraries

supplement provision by retail video lenders (from whom the practice elicits cries of "unfair competition"). This exception represents the complementarity of this function to libraries' major role as lenders of books and recorded music, fields that public and nonprofit libraries monopolize.

[17] On the one hand, demand for the arts in large cities is more heterogeneous than demand in smaller places, which should make the nonprofit sector more important. On the other hand, demand for the may be higher in cities, and public-choice theory would expect that this would increase public grant-making to arts groups, which is consistent with the observed facts. A study of the relationship between cultural philanthropy (a measure of demand) and the form and behavior of arts agencies would be illuminating.

[18] This assumption applies better to managers of firms that are accountable to investors than to the owner of an art-house movie theater or to a chamber trio that performs at weddings and dinner parties, of course.

[19] A 1993 task force of the American Symphony Orchestra League placed "orchestra leadership" near the top of a list of barriers to "achieving cultural diversity," writing that "many orchestra boards have become large, entrenched structures that include people who have not kept abreast of changing community dynamics and values" (National Task Force for the America Orchestra 1993: 41).

[20] See Cohen and March, 1974, for a similar argument about universities on which I have drawn.

[21] The influence of this trend even in the United States (which has lagged behind Europe and the Commonwealth countries) is evident in the 1997 report of the American Assembly on "The Arts and the Public Purpose," a consensus document of a conference of leading nonprofit arts practitioners, with some representation of commercial interests and cultural grantmakers. In the report's opening sentences, the authors make two claims that are strikingly different from the themes of previous pronouncements of this kind: "The 92nd American Assembly defined the arts inclusively – in a spectrum from commercial to not-for-profit to volunteer, resisting the conventional dichotomies of high and low, fine and folk, professional and amateur, pop and classic. This Assembly affirmed the interdependence of these art forms and the artists and enterprises that create, produce, present, distribute and preserve them, and underscored, in particular, the interdependence of the commercial and not-for-profit arts" (American Assembly 1997: 5).[21] Both of these premises are analytically sensible. They are also rhetorically powerful, for an arts sector that includes everything is, first, larger and more important and, second, can no longer be dismissed as an elite preserve.

At the same time, this statement of formal equality and interdependence among all forms of arts implicitly rejects the moral privileging of Euro-American high culture that was the dominant rationale for nonprofit enterprise in the arts for most of the 20th century.

[22] www.paristranslatlantic.com/antheil/frameset.html. Last accessed, March 17, 2003. Antheil was a Trenton native. The celebration was organized by an association of New Jersey composers and supported by local corporations, among others.

[23] The UDAO institution code for 117 indicates "business corporation," which suggests that they are misclassified as nonprofits or that they have incorrect institution codes. Visits to some web sites of organizations so designated suggests that the former is the case.

[24] The UDAO lists 432 nonprofit organizations in the jazz discipline, twice as many jazz organizations of any kind as were included in the Economic Census's mail survey, and about thirty-five time as many non-profits. This reflects the fact that the Census restricts its coverage to performing organizations, whereas the UDAO includes jazz societies, service organizations, and even jazz museums. Nonetheless, UDAO classified almost half of the jazz entries as regular performing groups and another 14 percent as amateur, youth, or school-affiliated performing organizations. (It seems likely that Census includes most of the nonprofit jazz performing organizations identified by UDAO in nonspecific musical-performer categories.) Jazz organizations are identified using the discipline codes (F_DISC), and types within this classification are distinguished by cross-classifying F_DISC against the National Standard institution codes (F_INST). Visual inspection of organization names and consultation of their home pages suggests that some of these organizations are misclassified, either because they are actually blues bands or because they are really associations that sponsor concerts rather than actual performing groups.

[25] An interesting subset of jazz nonprofits comprises associations of middle-class, middle-aged white musical amateurs who perform together in public, but also promote occasional concerts by professional jazz artists. (One web site lists fourteen such associations in the Los Angeles area alone, scheduling regular concerts or jam sessions at venues that include a local community college, Elks Club Lodges, American Legion Halls, and an International House of Pancakes [Valley Jazz Club 2002].)

[26] The UDAO lists 377 nonprofits in the "ethnic" music field.

[27] Based on UDAO lists and classifications, I estimate that there are roughly 900 to 1200 nonprofit and artist-cooperative galleries – considerably fewer than their proprietary counterparts, but a significant proportion (perhaps 20 percent) nonetheless. This rough estimate is based on my analysis of web pages of a sample of 30 galleries that UDAO lists as nonprofit visual art galleries (separate from museums). Of these, approximately a third appeared to proprietary art galleries misclassified as nonprofit, so I deducted that number (as well as a few extra, based on other forms of misclassification) from the total reported in this category, but then added an estimated 200 to 300 gallery-type operations listed under other headings. It is likely that many such galleries are nonprofit mutual-benefit associations rather than 501(c)3 nonprofits.

[28] The field of software design and publishing adds plausibility to such speculation. Most software is produced commercially by firms that sell it for profit. But some very important and successful software programs, such as Linux or Apache, have been produced by informal networks of cooperating programmers, whose collective work is facilitated by networks both physical (the Internet) and reputational. Although economists might predict that most people would free ride on the efforts of others (or else be withhold their own contributions lest other designers profit from their efforts), such networks have been enormously effective, even without the credibility provided by formal organizations and nonprofit charters. Indeed, new legal instruments – for example, so-called "copylefts" by which software producers appropriate rights and then assign them to any user for free, with the sole condition that all further development remain in the public domain --- may provide an institutional basis for new forms of cultural production. Even its advocates acknowledge that open source is not appropriate to every software project. Yet the open-source movement suggests that, for some purposes, extensive, diffusely-connected, on-line peer-to-peer networks may present a viable organizational alternative to conventional nonprofit organizations (Raymond 2001).