

## Chapter 6

# Pooling Resources to Fund the Arts

**Leigh Hersey**

*University of Louisiana – Monroe, USA*

### **ABSTRACT**

*The viability of today's arts and cultural nonprofit organizations depends much on the ability to generate financial resources. Leaders of these organizations must balance government funding, private giving, and earned income to meet their budget needs. Using regression analysis, this research focuses on the relationship between government funding and private giving to nonprofit arts and culture organizations. Results suggest that government funding of the arts, including arts education programs, encourages private giving. Therefore, organizations need to continue to fight for funding from programs like the U.S. Department of Education's Arts in Education which will in turn encourage private giving. It is the pooling of different revenue streams that can keep the arts vibrant in our communities.*

### **INTRODUCTION**

Nonprofit arts organizations rely on a variety of revenue sources to achieve their missions and to maintain their program activities. Some organizations depend heavily on private giving, others on government funding, and still others on fees for services or products. Leaders at many organizations may believe that having a diverse portfolio will help them ride out difficult times when one funding area decreases. Few nonprofit administrators, however, look at how these varied revenue sources impact each other.

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This relationship between public and private funding can be very important for the arts and arts education. Educational programs are core to the mission of nonprofit organizations. Yet, they do not always bring in the funds that performances or exhibitions do. Government cuts to funding of programs like Arts in Education means less money is available for organizations to provide such programming. However, the organization may not only lose the government funding, but private funding may also decrease based on this relationship between funding streams.

This chapter explores how and to what extent government funding to a nonprofit arts organization impacts the amount of private giving it receives, a reaction known as crowding. Economic theory suggests two possible sides of the crowding phenomenon. *Crowding in* theory states that government funding *encourages* private donations. On the other hand, *crowding out* occurs when government funding *discourages* private donations. Early work by Abrams and Schitz (1978), Schiff (1985), and Kingma (1989) developed and supported models of crowding in and crowding out at the aggregate level, based on total national giving and total national government expenditures. Brooks continued the study at the organizational level (1999, 2000a, 2003, 2004) and introduced the idea of a curvilinear relationship – public funds encourage private giving up to a point, then private giving is discouraged (2000b).

Despite the number of studies on crowding, the results are inconsistent. While some studies show that crowding in occurs (Schiff, 1985; Smith, 2007) others show that crowding out is present (Abrams & Schitz, 1978; Brooks, 2000a; Kingma, 1989). This study compares the nonprofit arts organizations of twenty-four metropolitan areas in the United States to better understand to what extent crowding occurs with arts organizations.

Better understanding of crowding effects can benefit each of the multiple partners in the provision of arts programming and education, including government agencies, nonprofit organizations, and private donors. Especially as funding becomes increasingly scarce, it is important that financial-decision makers better understand how their decisions impact others. Most of these decisions are made independently, without consideration of possible effects. For government agencies, a better understanding of their funding's impact on private giving could lead to improved allocation of tax dollars. For the nonprofit arts organization, a better understanding can help create an improved funding strategy that intertwines the various revenue sources. Implications also exist for the donor in his or her role as a citizen. A better-informed donor will make better decisions about where to make his or her gift.

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