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The Economic Significance of the Not-for-Profit Sector

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Many public benefits of the not-for-profit sector are commonly recognized - the provision of important community services, the enhancement of the cultural and artistic quality of life, and so on. However, the *economic* significance of the sector is not well theorized, researched, measured, or understood. Based on a recent study in New York State, the not-for-profit sector is shown to have a sizable and significant localized economic presence in addition to its broad and very real social and civil contributions.

It is precisely because of traditionally presumed public benefits that qualified not-for-profit organizations (religious, charitable, educational, scientific, or literary in purpose) are granted preferred tax status by the IRS as well as by state and local governments. The Nonprofit Almanac (2007) identifies 1.4 million nonprofit organizations registered with the IRS. Collectively, they make important direct contributions to jobs and national wealth. These organizations constitute 5.2 percent of the gross domestic product (GDP) and 8.3 percent of wages and salaries paid in the U.S. as reported in 2007. When considering only the subset of not-for-profits that are public charities, these charities had revenues of \$3,587, and expenses of \$3,351, per U.S. resident in 2004.

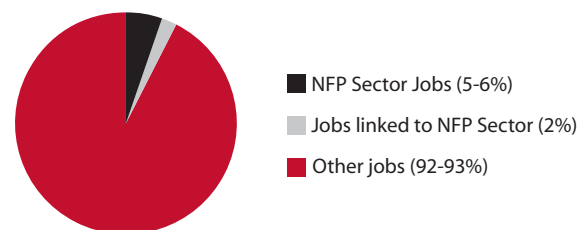
In a recent study of New York State's Rockland County, Cornell researchers found that the not-for-profit sector had a sizable and significant localized economic presence. In September, 2007, we surveyed 208 Rockland County not-for-profit organizations. Various economic information was collected including income and employment data. These data, in combination with supplemental data available from the web and other sources, were used to estimate the sector's total size. Based on the survey, we estimated that the sector accounted for about 5-6% of all jobs in the county. When jobs that were supported through the "ripple effects" of dollars attracted into the county from elsewhere were factored into this analysis, about 7-8% of jobs in the county were estimated to be either part of or linked to the not-for-profit sector.

To all outward appearances, profit and not-for-profit enterprises may in some cases seem practically indistinguishable. In particular, there is often little difference between not-for-profit and for-profit enterprises in terms of the major factors that drive

local and regional economic impacts, like their employment and purchasing behaviors. Though the distribution of profit remains a significant, obvious difference, the profit versus not-for-profit status of many kinds of businesses - be they hospitals or day care centers, schools or grocery stores -- is more likely to create subtle than dramatic differences for local employment, wages, and purchases of inputs. In many of these cases, after all, the enterprise produces a similar service or product with similar input requirements regardless of whether it is motivated by profits. The growing tendency of certain categories of not-for-profit enterprises that are less likely to have for-profit analogues - religious and community organizations, environmental organizations, symphonies and various other cultural organizations, etc. - to sell merchandise and pursue other profit making activities serves to further blur the differences between this sector and the rest of the economy. This makes it even more important to take the economic role of not-for-profits seriously.

We believe that it is a mistake to think of not-for-profits as a group exclusively in terms of their tax advantages and social functions. Just like their for-profit cousins, not-for-profits hire workers, purchase custodial services, buy supplies from local farmers, pay for local accounting services, and so forth. Just like their for-profit cousins, the economic contributions of these services can be quantified. Results like those in Rockland County remind us that not-for-profits have important, basic and measureable economic impact on local economic development too.

Figure 1: Share of Not for Profit Sector Jobs in Rockland County, NYS, 2007.



Source: *Rockland County: Economic Significance of the Not-for-Profit Sector*, by David Kay and Duncan Hilchey. Unpublished report submitted to Cornell Cooperative Extension, Rockland County, August 2008.