

Nonprofit organizations: new insights from QCEW data

The BLS Quarterly Census of Employment and Wages data set has enormous promise as a source of timely information on the private, nonprofit sector; new discoveries challenge a variety of conventional theories about these organizations

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Interest in the broad array of social institutions, which make up the U.S. private, nonprofit sector, has grown substantially in recent years. These institutions, which blend private structure with public purpose, perform various services in American society. Included within this sector are more than half of the Nation's general hospitals; nearly half of its higher education institutions; most of its family service agencies; almost all of its symphonies; substantial proportions of its nursing homes; and most of its homeless shelters, soup kitchens, community development agencies, and hospices—to name just a few. This set of organizations also has nurtured virtually every social movement that has animated American political life and has constantly provided ways to express the diverse array of ethnic, religious, cultural, artistic, professional, and social values that give special vitality to community life.

Information about nonprofit institutions remains surprisingly sparse, despite concerted efforts of a growing band of researchers over the past several years. One reason for this is the limited data available on nonprofit institutions in existing data sources. Estimates of key dimensions of this sector therefore remain dependent on highly imperfect projections from dated information or on data sources whose accuracy and reliability remain highly suspect. In some respects, in fact, the data sources have deteriorated in recent years. For example, the quintennial Census Bureau Survey of Service Industries, which formerly provided one of the few systematic, albeit delayed, pictures of nonprofit activity as reflected in employment data, has progressively narrowed its focus, with the deletion of coverage of

education institutions.¹ Although other data sources, such as the Internal Revenue Service 990 forms, which nonprofit organizations are required to file annually, have recently become more accessible, these data sources often suffer from other limitations that make them difficult to use for analytical purposes.²

However, a partnership between the Bureau of Labor Statistics and the Johns Hopkins Center for Civil Society Studies³ created a way to use an existing source of data for tracking employment in the nonprofit sector: the Quarterly Census of Employment and Wages program (QCEW).⁴ Data from the QCEW are regularly collected by State workforce agencies as part of the Federal-State cooperative statistical system.

Managed by State Labor Market Information offices under the watchful eye of BLS, the QCEW offers enormous advantages for analysts and others who need to gauge the economic status and evolution of the nonprofit sector. One advantage of this arrangement is that data are timely: reports are collected on a monthly basis from employers and published quarterly, usually within 6 to 7 months of their collection. Beyond this, data are collected at the establishment level and available, except for disclosure limitations, at a fine-grained geographic level, making it possible to track geographic shifts. Another advantage is that the QCEW covers the bulk of nonprofit employment and does so within a data system that also covers for-profit and government employment, facilitating cross-sector comparisons.⁵

Despite its considerable advantages, however, the QCEW data source has long had a major

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limitation as a source of insight into nonprofit employment: it does not routinely carry an identifier that would make it possible to determine which establishments are tax-exempt, nonprofit organizations. Nonprofit employment is therefore reported as part of a larger aggregate category, total nonfarm private sector employment.

The purpose of this article is to describe an effort, which is under way with the assistance of BLS, to separate out the nonprofit employment within the QCEW data and analyze it. Specifically, the article first explains why employment is such a useful prism through which to view the nonprofit sector, then describes the procedure being used to identify the nonprofit firms in the QCEW data, and finally reports on some of the principal findings that have emerged so far from the application of this procedure.

Why focus on nonprofit employment?

Employment is, in many respects, a curious dimension of nonprofit operations on which to focus. After all, one of the distinguishing features of nonprofit institutions is their reliance on voluntary, as opposed to paid, employment. Indeed, in some parts of the world, nonprofit organizations are referred to as “voluntary organizations” to emphasize this facet of their operations.⁶

Despite this, employment turns out to be one of the most reliable and useful facets to capture nonprofit operations in empirical terms. This is so for two basic reasons. First, employment measures are more readily available, and typically more reliable, than most other measures of nonprofit activity. Data on the number of nonprofit organizations, for example, are notoriously imprecise because registration systems are grossly imperfect and rarely updated to reflect organizational births and deaths. By contrast, employment data are collected regularly as part of basic government economic data-gathering and are used for administrative purposes as well as for monitoring general economic trends. Considerable investment is therefore put into ensuring their timeliness and accuracy. What is more, employment data sources typically cover more than nonprofit establishments, making it possible to draw useful comparisons across sectors and gauge patterns of nonprofit/for-profit competition, both overall and by field.

The second reason that employment data are preferable is that despite the voluntary character of much nonprofit action, employment is a particularly suitable indicator of nonprofit activity. For one thing, nonprofit organizations tend to concentrate in labor-intensive, rather than capital-intensive, fields—for example social services, day care, nursing home care, education, the arts, and health care. The amount of labor utilized is thus a particularly good indicator of the scope of nonprofit activity. In addition, the value of labor inputs is a good proxy for the “value added” by nonprofit organizations

and an important variable in economic analysis. This is so because nonprofits do not earn a profit. Consequently, there is no need to net out “intermediate consumption” and derive separate estimates of profit and labor inputs when computing the value added by nonprofit organizations. To be sure, the fact that nonprofit workers may accept below-market earnings and that nonprofit firms make use of volunteer labor, which may not show up in employment data, makes it likely that labor costs by themselves may understate the value added by nonprofit organizations. However, there are ways to correct for these underestimates (for example, by using industrywide averages to compute the real value of nonprofit employment, and by making separate estimates of the quantity and value of volunteer labor that these organizations utilize). Finally, employment data have considerable utility in building up estimates of other dimensions of nonprofit activity. Thus, by computing average industrywide ratios of total expenditures to labor inputs for the industries in which nonprofits are engaged, it is possible to estimate the expenditures of nonprofits from the available information on nonprofit employment. In this way, employment estimates can be used to derive expenditure estimates.

Untapping the potential of QCEW

Although employment data offer enormous advantages for understanding the scope, structure, and dynamics of the nonprofit sector, the available sources of such data have significant limitations.⁷ Few of these sources separate nonprofit places of employment from other private establishments. This is the case, for example, with the Census Bureau’s annual County Business Patterns surveys. The Census Bureau’s economic census and its population census do differentiate nonprofit from for-profit employment, but both of these sources have other limitations. The economic census is conducted only every 5 years, and it takes the Census Bureau 2 or 3 years to process the data, limiting the timeliness of this source. What is more, as noted earlier, the coverage of this census has been narrowed in recent years, so that significant portions of the nonprofit sector are no longer covered. The population census and the Current Population Survey have slightly different drawbacks: both of them depend on worker self-identification of the profit or nonprofit character of their workplaces, and experience shows that these self-identifications are questionable.⁸

Researchers at the Johns Hopkins Center for Civil Society Studies discovered a way out of this dilemma. In cooperation with the Bureau of Labor Statistics, the Johns Hopkins Center applied a methodology that used QCEW data as a source to identify nonprofit employment statistics. The initial breakthrough resulted from examining nonprofit employment patterns in Maryland. Conversations with officials in the Maryland Labor Market Information Office revealed that Maryland had been assigning a discrete set of internal identification numbers to

tax-exempt establishments on its QCEW register for years, and that these identification numbers were geared to the Internal Revenue Code section under which the organizations secured their Federal tax exemption. It was thus relatively easy for Maryland labor market officials to generate a separate report on the tax-exempt establishments in the State, covering all the variables in the QCEW system—number of establishments, number of employees, total wages, principal activity, and geographic location—and to do so within months of the collection of the data, rather than the years required to access data from the economic census. Within the constraints of the disclosure limitations that apply to the QCEW system, this opened the door to an enormous treasure trove of insights into nonprofit employment trends, spatial changes in nonprofit activity, nonprofit/for-profit competition, and relative nonprofit/for-profit wage patterns in the State of Maryland.

Subsequent investigation revealed that few other States had adopted the system of discrete identifiers for tax-exempt firms utilized by Maryland, but once the lid had been opened on the QCEW data as a source of rich and timely insights into nonprofit employment dynamics, we were able to formulate several other methods for “flagging” tax-exempt firms, or subsets of them, in the QCEW data sets—first at the State level in a targeted set of States, and ultimately at the national level through a cooperative agreement with BLS and the concurrence of the State Labor Market Information offices. The most comprehensive of these methods has involved matching employer identification numbers on the QCEW files with those on the exempt organization master file, maintained by the Internal Revenue Service. Though not without its limitations, this method has made it possible to identify tax-exempt firms in the QCEW data sets supplied to BLS by individual States and to generate aggregate data on them over time. The result is an enormous breakthrough in the availability of timely data on the economic activity of nonprofit organizations and some important new discoveries that challenge a variety of conventional beliefs about this set of organizations. With the help of BLS, the Johns Hopkins Nonprofit Employment Data Project has been taking advantage of this breakthrough to examine these data. In the balance of this article, we report some of our early discoveries.

Initial findings

Scope. To date, work on the QCEW data source by the Johns Hopkins project at BLS has focused on generating national estimates of employment and average wages of nonprofit 501(c)(3) charitable organizations, overall and by field of activity, as of 2002; and on tracing changes in nonprofit employment between 1995 and 2003, overall and by field, for an initial subset of States.⁹ Because data were not made available on five States (New York, Massachusetts, Colorado, Nebraska, and Wyoming), the national figures reported here are based on estimates for these States.¹⁰

Industry and location. Perhaps the central conclusion to emerge from the QCEW data is the sheer scale of the nonprofit sector in the United States, even when measured solely in terms of paid employment. The 195,145 charitable nonprofit organizations identified in the QCEW data files employed 8,789,300 people as of 2002, or 8.2 percent of the country’s private employment. As shown in chart 1, this means that nonprofit organizations (at 8.8 million employees) employ nearly three times as many workers as the country’s entire agriculture sector, twice as many workers as the country’s transportation industry, 60 percent more workers than the Nation’s wholesale trade industry and its finance and insurance industry, and nearly as many workers as are those employed in durable goods manufacturing.

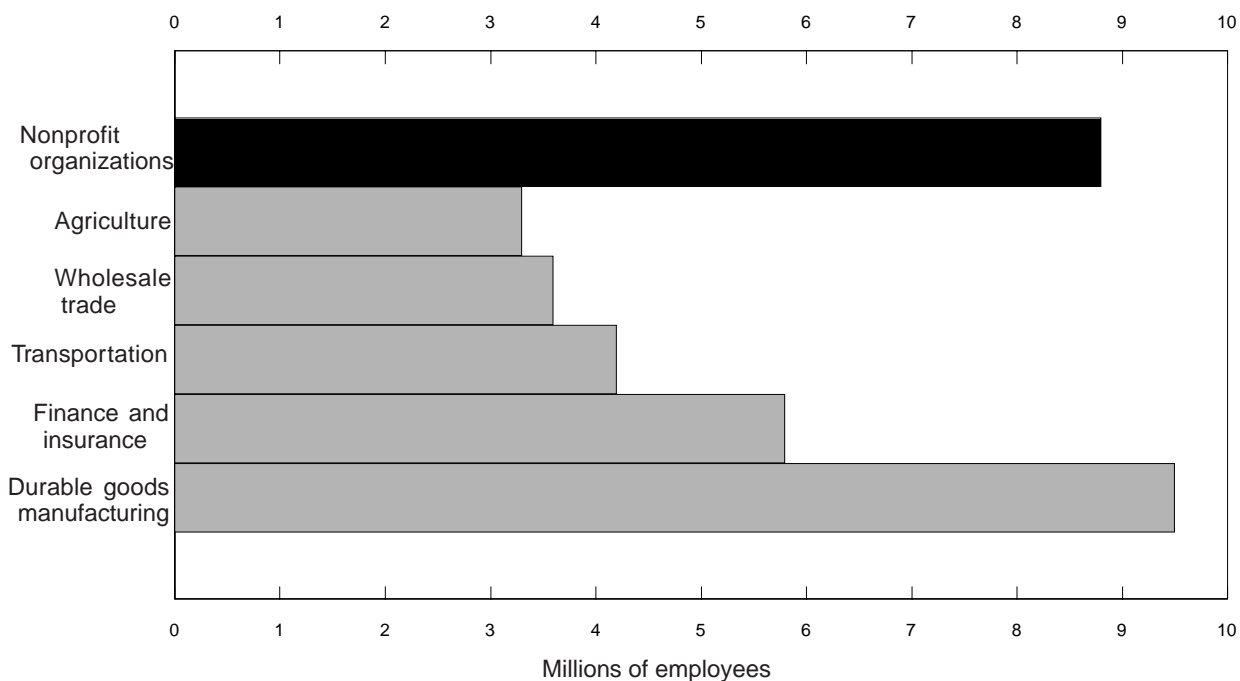
Nonprofit employment is particularly dense in the northeastern part of the country, reaching 13 percent of all private employment in the New England States and 12.2 percent in the mid-Atlantic region. (See chart 2.) By contrast, nonprofit employment accounts for 5.4 percent of total private employment in the West South Central region, 6.2 percent in the Pacific region, and 6.3 percent in both the East South Central region and the Mountain region.

Not only is the nonprofit sector a major employer in many different States, but nonprofit employment is also present in virtually all parts of these States. In California, for example, nonprofit employment is relatively more extensive in the rural areas than it is in the metropolitan ones (6.6 percent of total private employment in rural, versus 5.4 percent in metropolitan areas). In Maryland, nonprofits account for 28 percent of total private employment in Baltimore City, but also account for 8.5 percent in the Baltimore suburbs and 10 percent in the rural Eastern Shore.

Occupational composition. More than half (52.4 percent) of nonprofit employment is in the health field; of that, 38 percent is in hospitals and the balance is in nursing homes, residential care, and clinics. Another 20 percent of nonprofit employment is in social services (for example, individual and family services, child day care, and job training). Of the remainder, 15 percent is in education, and the balance is split among membership organizations, culture and recreation, and assorted other activities. (See chart 3.)

Job growth. Not only is the nonprofit sector a sizable presence in the Nation’s economy, but also it appears to be a growing presence, both absolutely and relatively. As shown in table 1, between 1995 and 2003, nonprofit employment increased by an average of nearly 30 percent in the five jurisdictions for which we currently have time-series data (Maryland, the District of Columbia, North Carolina, Pennsylvania, and Virginia). By comparison, total private employment in these same areas increased by 11 percent, or slightly more than one-third as

Chart 1. Employment in nonprofit organizations and selected industries, 2002



NOTE: The nonprofit labor force is employed in 501(c)(3) organizations.

SOURCE: Statistical Abstracts of the United States, 2002.

Chart 2. Nonprofit share of private employment by census region, 2002

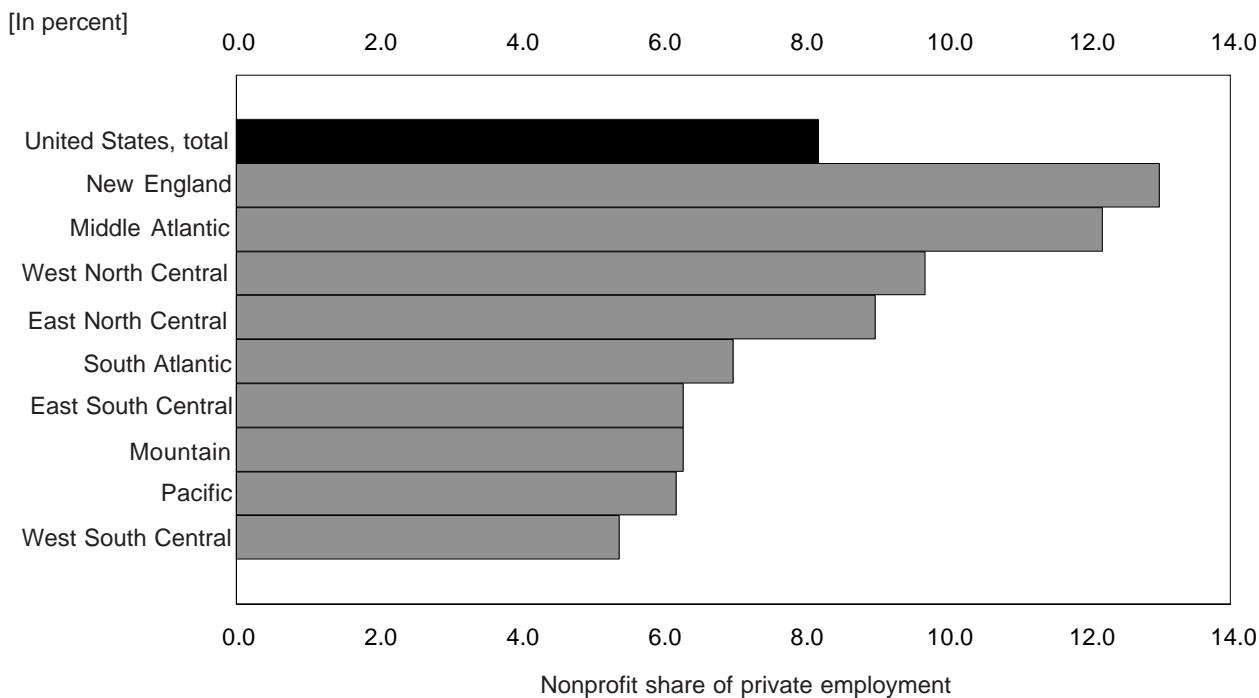
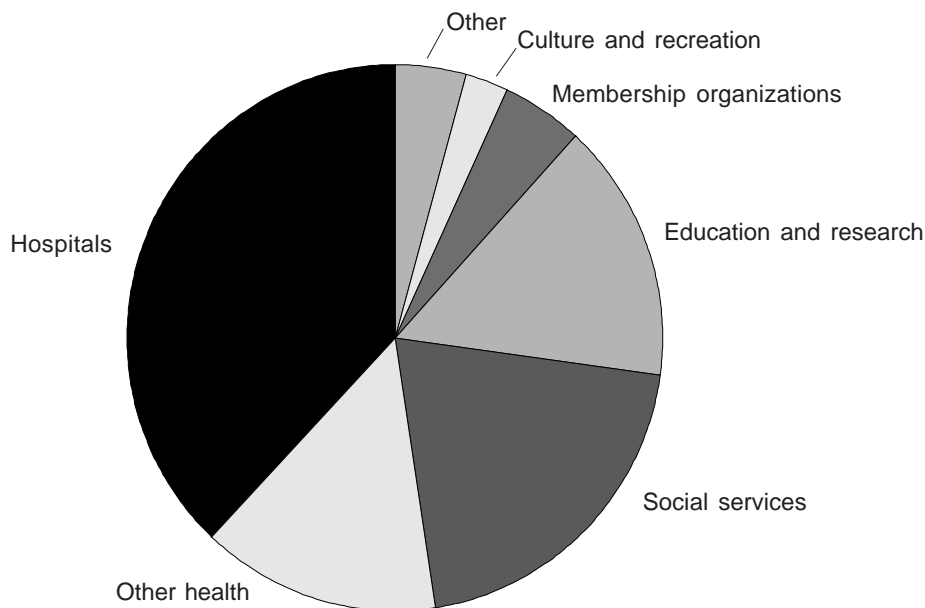


Chart 3. Distribution of nonprofit employment by field, 2002



much. Put somewhat differently, although nonprofit organizations started the 1995–2003 period with only 11 percent of total private employment on average in these five jurisdictions, they accounted for a disproportionate average of 29 percent of the net job growth.

Suburbanization. As a general rule, nonprofit employment has tended to be concentrated in urban areas. Thirty-eight percent of nonprofit employment in the State of Maryland was located in Baltimore City as of 1995, where it accounted for 22 percent of total private employment. Similarly, 40 percent of nonprofit employment in Pennsylvania as of 1995 was in the two major urban areas, Pittsburgh and Philadelphia, where nonprofits accounted for 13 percent of total private employment in Pittsburgh and 23 percent of total employment in Philadelphia.

But the concentration of nonprofit employment in urban centers is changing. Like the population generally, nonprofit employment is growing rapidly in suburban areas. As shown in table 2, nonprofit employment grew at a much more rapid rate in the suburban jurisdictions (for which we have time-series data) than it did in the urban core. For example, in Maryland, nonprofit employment grew by 21 percent in Baltimore City between 1995 and 2003, but it grew by nearly 37 percent in the outlying

suburbs. As a consequence, Baltimore City's share of total nonprofit employment in the State declined from 38 percent in 1995 to 36 percent in 2003.

A similar phenomenon is apparent in Pennsylvania, Virginia, and the Washington, DC area. For example, nonprofit employment grew by 17 percent in the city of Philadelphia, compared with 35 percent in the Philadelphia suburbs. In Richmond, VA, nonprofit employment declined by 11 percent between 1995 and 2003, but in the surrounding counties it grew by 85 percent. The case of Pittsburgh appears to deviate from this general pattern, but this is probably because the central city county contains a significant portion of the city's suburban ring.

What these data might suggest is that the nonprofit sector is hardly immune to the pressures of the market. With public sector spending under tight conditions and charitable giving unable to fill the gap, nonprofit institutions have turned increasingly to fees and charges to finance their activities. This requires, however, that they market their services, at least in part, to paying customers, and these customers have moved increasingly to the suburbs. Hence, nonprofits have had no choice but to follow the money.

The dynamics of nonprofit employment shifts are thrown into even sharper relief when we compare them with overall private employment, as is done in table 3. Two key conclusions

Table 1. Changes in nonprofit and private employment in selected jurisdictions, 1995–2003

[In percent]

Jurisdiction	Employment growth, 1995–2003		Nonprofits as percent of—	
	Nonprofit	All private	Total private employment, 1995	Private growth, 1995–2003
Five-region average	29.7	11.2	10.9	29.2
District of Columbia	28.0	11.0	21.2	53.8
Maryland	29.5	14.1	9.8	20.4
North Carolina	35.4	7.5	5.4	25.8
Pennsylvania	24.9	8.9	11.6	32.4
Virginia	30.5	14.5	6.4	13.6

NOTE: The nonprofit labor force is employed in 501(c) (3) organizations.

flow from this table. First, nonprofit job growth in the suburbs has not only been faster than that in the cities, but it has also been faster than private job growth generally in the suburbs. In the five urban areas for which we have data, overall private job growth averaged 19 percent between 1995 and 2003, but nonprofit job growth was more than twice as great (42.7), and this basic relationship held for all five jurisdictions.

Although nonprofit job growth was faster in the suburbs, it also continued in the cities. In fact, the nonprofit sector was virtually the only source of net employment growth in these core cities between 1995 and 2003, boosting its employment by 16 percent on average, compared with virtually no growth in overall private employment. Despite its shift to the suburbs, therefore, the nonprofit sector has thus remained one of the few reliable lifelines for central city job markets.

Nonprofit versus for-profit wage rates

A final revealing finding to emerge from our scrutiny of the QCEW data is that nonprofit wages, although generally lower than those of for-profit enterprises or government, actually equal or exceed for-profit wage rates in the industries in which both sectors are involved. This runs counter to conventional wisdom in the nonprofit field, which has suggested that nonprofits pay lower wages than for-profit establishments. The conventional wisdom has focused, however, on sectoral aggregates rather than on the particular industries in which nonprofits are most heavily involved.

Across the country, weekly wages for nonprofit establishments averaged \$603 as of 2002. (See chart 4.) By comparison, the average weekly wages of for-profit firms were \$670, or 11 percent higher; the average for Federal Government employees was \$996, or 65 percent higher; the average for State government employees was \$736, or 22 percent higher; and the average for local government employees was \$668, or more than 10 percent higher.

Thanks to the detail available through the QCEW data set, however, it is possible to drill deeper and look at comparative

wages in the actual industries in which both nonprofits and for-profits are actively engaged. When this is done, a far different picture emerges: nonprofit wages are often on a par with, or significantly ahead of, the wages of for-profit firms. Thus, for hospitals and nursing homes, average nonprofit weekly wages are virtually identical with the average wages of for-profit hospitals and nursing homes. And for education, social services, residential care, and day care, nonprofit wages actually exceed the for-profit wages of their counterparts, often by a substantial margin (for example, by 30 percent in the case of day care and 18 percent in the case of residential care). What this suggests is that the apparent disadvantage of nonprofit wages is more an industry phenomenon, reflecting the fields in which nonprofits are active, than it is a sector phenomenon, reflecting the human resource policies of nonprofit agencies. To the contrary, it

Table 2. Changes in nonprofit employment, urban versus suburban areas in selected jurisdictions, 1995–2003

Area	Percent of total 1995	Percent change 1995–2003	Percent of total 2003
Maryland			
Baltimore city	38.4	21.1	35.9
Baltimore suburbs	23.2	36.5	24.5
Washington, D.C. area	33.2	...
District of Columbia	48.7	28.0	46.8
Maryland suburbs	26.3	32.0	26.1
Virginia suburbs	25.1	44.4	27.2
Pennsylvania			
Philadelphia	24.2	16.9	22.6
Philadelphia suburbs	14.8	34.7	16.0
Pittsburgh (Allegheny)	15.5	27.0	15.8
Pittsburgh suburbs	5.7	23.7	5.7
Virginia			
Richmond	7.2	-11.4	4.9
Richmond suburbs	4.2	85.0	5.9

NOTE: The nonprofit labor force is employed in 501(c) (3) organizations.

Table 3. Change in nonprofit and total private employment, urban versus suburban areas in selected jurisdictions, 1995–2003

Area	Percent change 1995–2003	
	Nonprofit	All private
All city average	16.3	.4
All suburb average	42.7	19.9
Maryland	29.5	14.1
Baltimore city	21.1	-4.0
Baltimore suburbs	36.5	19.7
Washington, d.c. area	31.3	17.3
District of Columbia	28.0	11.0
Maryland suburbs	32.0	18.1
Virginia suburbs	44.4	28.0
Pennsylvania	24.9	8.9
Philadelphia	16.9	1.5
Philadelphia suburbs	34.7	14.3
Pittsburgh (Allegheny)	27.0	3.3
Pittsburgh suburbs	23.7	10.0
Virginia	30.5	14.5
Richmond	-11.4	-9.6
Richmond suburbs	85.0	23.0

NOTE: The nonprofit labor force is employed in 501(c) (3) organizations.

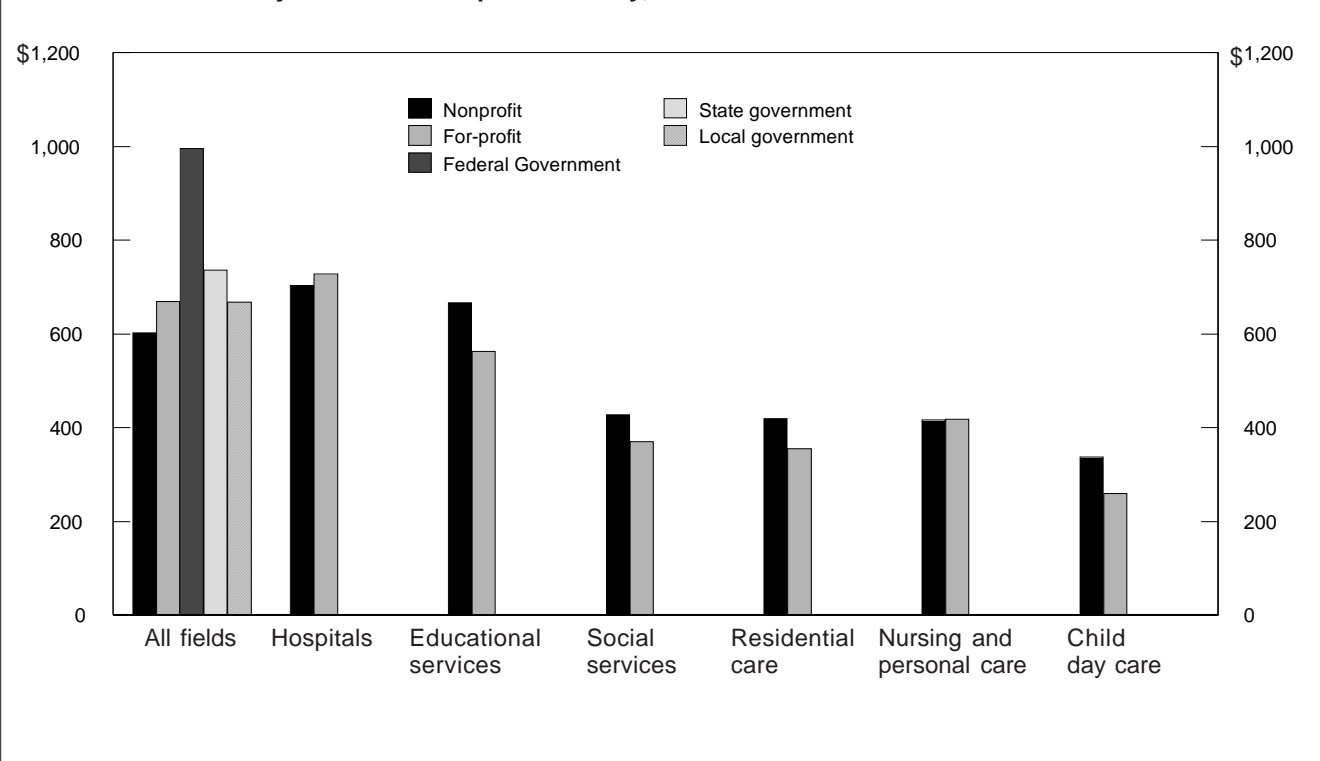
appears that nonprofits are more generous employers in the fields in which they operate and one of the reasons for-profit

establishments may be able to operate at a profit in these fields is that compensation levels are below the already low nonprofit levels.

THE QCEW DATA SET holds enormous promise as a source of timely information about the private, nonprofit sector, which plays such a vital role in the United States.¹¹ It is imperative to have such a data source through which to systematically monitor developing trends and spot emerging challenges.

The findings reported here hardly exhaust the potentials of the QCEW to monitor the economic health and changing fortunes of nonprofit organizations. But they do suggest the potentials that are available. QCEW data could be the vehicle through which to monitor the changing economic position of the Nation's nonprofit organizations in a timely and systematic fashion. In addition, collaboration between BLS and the State Labor Market Information Offices has facilitated access to the QCEW, and results from this relationship could provide vital resources for policymakers and nonprofit managers alike. Perhaps, this resource can become even more readily and regularly available in the years ahead. □

Chart 4. Nonprofit versus for-profit and government average weekly wages, overall and in major fields of nonprofit activity, 2002



Notes

ACKNOWLEDGMENT: This research was conducted onsite at the Bureau of Labor Statistics, with restricted access to its data. The views expressed in this article are those of the authors and do not necessarily reflect the views of BLS.

¹ U.S. Census Bureau, 2002 Economic Census, "Educational Services," on the Internet at <http://www.census.gov/econ/census02/guide>.

² One limitation of the Form 990 data, for example, is that they are organization-based rather than establishment-based. This means that all the economic activity of the organization is assigned to the headquarters location, even though nonprofit organizations often maintain numerous establishments spread across States, regions, and metropolitan areas.

³ Authors, Lester M. Salamon is director, and S. Wojciech Sokolowski is the principal research analyst of the Johns Hopkins Nonprofit Employment Data Project.

⁴ The QCEW data series is the most complete universe of monthly employment and quarterly wage information by industry, county, and State. The series have broad economic significance in evaluating labor trends and major industry developments in time series analyses and industry comparisons, and in special studies such as analyses of wages by size of establishment. For more information about the QCEW data series, access the BLS Web page on the Internet: http://www.bls.gov/opub/hom/homch5_e.htm.

⁵ As with other official data sources, religious congregations are not required to participate in the QCEW system and States are not obliged to cover nonprofit firms with four or fewer employees, though a significant number of States have extended coverage to nonprofit organizations with at least one employee, which is the cut-off for for-profit businesses; and many religious congregations choose to participate in the QCEW process.

⁶ J. Kendall and M. Knapp, "The Voluntary Sector in the U.K.," in Lester M. Salamon and Helmut K. Anheier, eds., *Johns Hopkins Comparative Nonprofit Sector Series* (Manchester, U.K., Manchester University Press, 1996).

⁷ See Lester M. Salamon and S. Dewees, "In Search of the Nonprofit Sector: Improving the State of the Art," *American Behavioral Scientist*, July 2002, pp. 1724–34.

⁸ In 1998, for example, the Current Population Survey reported 6,856,290 workers employed in tax-exempt organizations in the United States, compared with 8,563,199 reported in the 1997 Economic Census, even though the economic census excluded institutions of higher education and places of religious worship.

⁹ Organizations that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code form the core of the charitable portion of the nonprofit sector. These organizations are not only tax-exempt, but also are the only ones eligible to receive tax deductible gifts from citizens, corporations, and foundations. Included are hospitals, schools, social service agencies, cultural institutions, civic organizations, and many more.

¹⁰ Nonprofit employment estimates were derived for the States with unavailable data by applying to total private employment an estimate of the nonprofit share of private employment. For Colorado, Nebraska, and Wyoming, the national average nonprofit share of private employment was used. Because of the distinct pattern of nonprofit activity in the northeast, the ratio applied to New York and Massachusetts was that for the Northeast States on which data were available. Given New York's reputation as a center for nonprofit activity, this technique probably yields a conservative estimate of the scale of national nonprofit employment.

¹¹ For a discussion of the extraordinary pressures under which nonprofit organizations are having to operate, see Lester M. Salamon, *The Resilient Sector: The State of Nonprofit America* (Washington, DC, The Brookings Institution Press, 2003).