

# Community Dispatch

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## RECOGNIZING THE ECONOMIC CONTRIBUTION OF THE NONPROFIT AND VOLUNTARY SECTOR

*Community Development Halton (CDH) has launched a study of the nonprofit human services sector in Halton that will focus on the economic contribution of the sector to the community through its human resources, both paid employees and volunteers. The study is funded by Service Canada. It informs the work of Regional Chairman Joyce Savoline's Roundtable on the Nonprofit and Voluntary Sector in Halton that has been convened to address issues related to the diminishing infrastructure faced by nonprofit organizations.*

*This is the first of a series of Community Dispatches on the nonprofit and voluntary sector in Halton. It will focus on the economic role of the sector and is based on national survey research and a presentation made by Peter Clutterbuck of the Social Planning Network of Ontario at the "Funding Matters Workshop" organized by CDH in November 2003. It is a synthesis of a full discussion found in CDH's Working Paper #1: Positioning the Nonprofit and Voluntary Sector: An Economic Contribution to Prosperity, January 2006. Full citation of sources is found in the working paper.*

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### **Introduction**

The Nonprofit and Voluntary Sector contributes to the quality of life in communities throughout the region. There is a growing realization, however, of the sector's significant contribution to the economy as well.

Preliminary Canadian research, using workplace data and information on charitable organizations, indicates that more than 900,000 employees work in 58,000 nonprofit workplaces of which about 73% are small

work settings employing less than 10 people. This proportion of employees in smaller workplaces is almost equivalent to the proportion of employment for small business workplaces in the private sector.

Hall and MacPherson in their study, *A Provincial Portrait of Canada's Charities*, estimate that the annual payroll expenditures of the nonprofit sector, excluding hospitals, universities and colleges, is more than \$20 billion and that the total value of assets in the voluntary sector is between \$44 and \$78 billion. The economic scale of the sector is beginning to be appreciated from these first research explorations.

In recent years, Statistics Canada is measuring the contribution of the voluntary sector to Canada's Gross Domestic Product (GDP). Two studies create a picture of the nonprofit sector's status within the national accounts. Called the *Satellite Account of Nonprofit Institutions and Volunteering* (2004 and 2005), these reports use administrative tax file data to develop estimates of the economic activity of the sector for the 1997 to 2001 period.

The *Satellite Account* estimates indicate that the nonprofit sector's GDP grew from \$65.03 billion in 1998 to \$70.5 billion in 2001, a growth rate of +8.4%, twice that of the overall Canadian economy for the same period. The entire nonprofit sector makes up 6.8% of the overall economy, which is a higher share than either the mining, oil and gas industry (\$60.91 billion) or the retail trade industry (\$51.35 billion) in Canada.

### ***Core Nonprofit Sector***

When hospitals, colleges and universities are removed from these totals, leaving what the *Satellite Account* designates as the “**core nonprofit sector**”, the core GDP amounts to \$25.4 billion in 2001, which is still 2.5% of the overall Canadian economy. In 2000, the **core nonprofit sector’s** share of GDP is higher than either agriculture (\$14.47 billion) or motor vehicle manufacturing industries (\$13.46 billion) and about equivalent to the Canadian accommodation and food services industry (\$23.43 billion)

Interestingly enough, the **core nonprofit sector** accounts for more of the overall nonprofit sector’s GDP growth between 1997 and 2001, registering +10.2% growth rate compared to a +5.4% growth rate for hospitals, colleges and universities. The social services component accounts for most of the core nonprofit sector’s GDP between 1997 and 2001 (23.5%). Social services averaged a +10% annual growth rate over the period, second only to education and research. GDP for social service organizations grew from \$4 billion in 1997 to \$6 billion in 2001, a 50% increase. This may indicate the increasing reliance on the nonprofit social services sector to pick up on service demand offloaded by governments in the 1990s.

The *Satellite Account* for the **core nonprofit sector** reports payroll expenditures of \$19.8 billion in 2001, which is 78% of its GDP. These payroll expenditures have increased from \$14.7 billion in 1997, a 35% increase. Revenue growth for the **core nonprofit sector** is also high, averaging +7.5% annually between 1997 and 2001. Significantly, most of this revenue growth comes from sales of goods and services (40%), rather than government transfers and has been supplemented with income from donations,

memberships, and other sources.<sup>1</sup> The 2005 *Satellite Account* report notes: “Social service organizations, which led the [**core nonprofit**] group in terms of value-added, receives a lesser share of total income and ranks only second in terms of revenue.” This suggests that the social services nonprofit sector is highly productive and economically efficient, and probably under-resourced for the social and economic benefits that it produces.<sup>2</sup>

### ***Economic Value of Volunteers***

In economic terms, the value-added of the social service organizations and the overall nonprofit sector is enhanced by the volunteer contribution brought to the work of the sector. The *National Survey of Giving, Volunteering and Participating* (2001) reports that 6.5 million volunteers contributed just over one billion hours annually in Canada in 1997, which is equivalent to more than half a million full-time jobs.

The *Satellite Account* calculates the “extended value of labour compensation” produced from volunteer activity supported by the nonprofit sector. It estimates that volunteer activity produced an additional \$14 billion in GDP for the sector as a whole in 2000. More than 85% of this extended value is generated by the **core nonprofit sector** (\$12.1 billion in 2000), which has increased this sector’s share of the

<sup>1</sup> Lynn Eakin’s case study research of ten nonprofit human service agencies in Toronto shows that as government income has shifted from transfers to purchase of service and project funding, nonprofit agencies are actually forced to subsidize the infrastructure costs (e.g. employee benefits, supervision, administration) of government funded programs from these other revenue sources (See Community Dispatch, Sept. 2004, Vol. 9, No. 1)

<sup>2</sup> Eakin’s research suggests that these are partly false efficiencies in that governments are not funding their programs at the full cost to nonprofit agencies delivering them. Eakin questions the long-term sustainability of this “draining of community capacity” in the sector.

overall Canadian economy from 2.3% to 3.5% in 2000. For the whole sector, culture and recreation (\$3.6 billion of volunteer effort) and social services (\$2.9 billion) are the largest contributors to the “extended value” component of the nonprofit sector’s GDP.

### ***Care and Caution on Framing the Economic Role of the Sector***

The discovery of the economic value of the nonprofit sector and documentation of its productive contribution to the Canadian economy will be important in repositioning the sector and raising awareness about its full social and economic contribution. Yet, there are important cautions here.

Analyzing Statistics Canada’s *Workplace and Employee Survey* (WES), McMullen and Schellenberg point out the low wage rates in the nonprofit sector compared to the private sector – \$2.00 to \$4.00 lower median hourly wages despite the fact that nonprofit workplace employees are generally better educated than private sector workers. The nonprofit sector also has a higher proportion of temporary and part-time jobs than the private sector. Non-wage benefits are not as available in the smaller nonprofit workplaces as they are in larger workplaces, which is significant since almost three-quarters of nonprofit employees work for smaller organizations with less than ten employees.

All of this suggests that, at least in the **core nonprofit sector**, the quality of employment leaves something to be desired. One early study by Browne and Landry entitled, *The Third Sector and Employment*” suggests that the sector reflects mostly poor quality jobs. Given the economic value and importance of the sector, poor quality employment would seem to be a risk factor for maintaining economic strength in the long run. Also, this may be evidence of the economic exploitation of the sector as a low wage sector used for

downloading and offloading of responsibilities previously provided through higher quality public service employment.

Another caution about the economic contribution of the nonprofit sector has to do with measuring volunteer activity as the “extended value of labour compensation” to the sector’s overall GDP. While volunteer time and talent are part of the productive capacity of the nonprofit sector, it is very important to make sure that converting this human resource capacity into full-time equivalent jobs does not lead to faulty conclusions.

Stating volunteer hours in terms of full-time job equivalents can suggest that volunteers are a substitute to a paid labour force and a potential source of higher sector efficiencies, especially when resources are constrained. Although volunteers contribute to the work of the nonprofit organization, volunteers themselves are also an output of the nonprofit sector’s work via their recruitment, orientation, coordination and ongoing support. Institutional infrastructures based on paid employees are critical to enabling and supporting volunteer participation.

The study, *Profile of a Changing World*, surveyed 400 nonprofit community service agencies in Metro Toronto in 1995 and 1996. This research suggests a negative relationship between weakened nonprofit infrastructure and the capacity to maintain volunteer involvement. As funding to the agencies fell by \$11 million between 1995 and 1996, and about one third of the agencies in the sample reduced their staff complements, the level of volunteer participation fell by 9%. Overall at the sector level in this study, there was no substitute labour effect from the loss of staff and the presence of volunteers. Rather volunteer loss accompanied funding cuts and staff reductions.

## Conclusion

The future place of the nonprofit and voluntary sector is under debate. Jeremy Rifkin, in his book, *The End of Work*, describes one scenario that presents a two-stream society in which the nonprofit services make up a low wage sector supporting a highly marginalized population while the mainstream economy of producers and consumers is left primarily to the privileged with good jobs, wages and benefits. In this future, the “third sector”, with its “disinherited workforce”, becomes a last refuge or beachhead for survival in a world totally overtaken by the private market. On the other hand, Browne and Landry in their study, *The Third Sector and Employment*, offer hope for the nonprofit sector to be an integral part of the new economy and central to the future social and cultural development of Canadian society and community life.

The report, *Toronto's Quiet Crisis: The Case for Social and Community Infrastructure Investment*, also sees a healthy nonprofit social sector being more connected than disconnected from other parts of the economy and society. It states:

*Government-run services and programs and not-for-profit community-based agencies work*

*interdependently to deliver a full range of social infrastructure supports necessary for maintaining healthy, vibrant, and supportive communities.*

*In addition to its [sic] service role, community organizations also make critical contributions to community cohesion and economic well-being through the mobilization of volunteers and the promotion of civic participation.*

The nonprofit and voluntary sector's strengths and contributions should be recognized for the added value and benefits they bring to the whole community and Canadian society. This means clear and mutually reinforcing relationships with the public and market sectors.

All Canadians have a stake in the governments that provide high quality public services; all have a stake in a business community that creates wealth in a socially and environmentally responsible manner. Similarly, all Canadians should come to realize and value the role of the nonprofit sector in contributing to the social, economic, cultural and political development of community life.

*CDH's Labour Force Study on Human Services in the Nonprofit and Voluntary Sector will attempt to create some hard data and clarity about the value of the nonprofit sector in Halton Region by generating and analyzing data about the sector's most valuable asset – the paid employees and volunteers in its human resource base. CDH looks forward to your full participation in this study.*



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