Should Nonprofits be Required to Pay a Living Wage?

Sophie Turner

John Glenn College of Public Affairs, Ohio State University

PUBAFRS 2150: Introduction to Nonprofit Organizations

Dr. Erynn Beaton

November 28, 2020

Despite public opinion, the nonprofit sector pays sufficient salaries on par with the private sector (Salamon & Newhouse, 2019, p. 10); however, many nonprofits pay poverty wages such as child care, elder care, and home care agencies (McCambridge, 2016). The work of these organizations is done in wage ghettos. Wage ghettos are industries that are dependent on paying direct programming staff well below a living wage. A living wage is a salary that supports the cost of living in one's community. Despite large variance in cost of living throughout the United States, for simplicity's sake, $15 an hour is typically described as the lowest living wage. Addressing the abismall salaries in these fields is crucial to reducing the quantity of nonprofit employees living in poverty and improving services delivered. However, mandating living wages for all nonprofit employees would pass the responsibility of effectively managing public problems like an aging population, early childhood care, and familial support from the government to independent organizations. Increased funding must be secured before a mandate can go into effect. Currently, nonprofits should not be required to pay a living wage.

Many nonprofits are not able to raise wages because they do not have the capacity to increase revenue due to the unique funding structure of the sector. Unlike for-profit and public organizations, many nonprofits rely on streams of income that are somewhat or entirely outside of their control such as individual contributions, foundation grants, and, most significantly, government grants. Fees for services and goods from the government makeup 24% of public charities' revenue (LeRoux & Feeney, 2014, p. 27). This 24% is not evenly divided amongst each nonprofit. The human services sector is particularly reliant on government funding with 37% to 50% of revenue sourced through government dollars (Grønbjerg, 2001, p. 282). For some organizations, specifically those in the "helping" fields, it is even more. For example, a Head Start program in New York City is 99% dependent on federal funding (Minimum Wage, 2015).

The human services sector is where many of these wage ghettos, such as childcare provided by Head Start, reside. These organizations would not have the means to absorb large budget increases without accompanying government funding increases.

Wage mandates would cause strain and possible closure of much needed human service programming. By forcing an increase in salary expenditures some nonprofits would be left with no choice but to cut services or even close. For example, in 2014, Michigan raised its state minimum wage from $7.40/hr to $8.15/hr. The 75 cent bump was enough to put Tastes of Life, a job training program, out of business. The wage increase demanded $10,000 in additional revenue. Located in rural Michigan, the program was not able to pass the added cost onto their poor customers (Minimum Wage, 2015). The aforementioned NYC Head Start program would need to increase it's $3 million budget by one-third to raise it's 90 employees wages to all at or above $15/hr (Minimum Wage, 2015). Results from a poll conducted by the New York Council of Nonprofits show that 92 percent of nonprofit leaders say that their organization's financial sustainability would be at risk if the minimum wage were to be raised to $15/hr. Thirty percent of those surveyed said that employee benefits would be reduced if the change were to occur (Minimum Wage, 2015). Organizations are not prepared to handle salary increases; forcing them to do so would worsen the strain on the nonprofit sector.

The pattern of cuts in public funding for nonprofits suggests that the government would not be willing to support the transition to livable wages for all employees. Government funding for nonprofits began to decline during the Reagan era. In his attempt to limit government spending, Reagan reduced federal funding of nonprofits by 27% in his first term (if excluding government spending on healthcare). In the decades since, funding opportunities have not gotten much better. Many sub sectors have experienced cumulative losses or only modest gains in federal funding since Reagan's presidency (Soskis & McKeever, 2017). This trend shows no signs of letting up and is not reserved to just the federal government. In 2010 56% of nonprofit organizations lost state government funding and 49% lost local when compared to the year before (Soskis & McKeever, 2017). Government funding is consistently cut at all levels following an economic recession. The general trend of limited and unstable government funding is not promising for a sector that would be in great need of increased grants should a substantial minimum wage raise go into effect.

Some may say that the detriment to human service organizations is worth the gains in the entire sector, afterall human service agencies only make up 11.9% of all public charities' revenue (NCSS Team, 2020). However, the lowest paying non profit jobs are concentrated in the human services sector. Nursing homes alone employ 10% of the entire nonprofit workforce (Salamon & Newhouse, 2019, p. 8). Most organizations outside of human service work would be largely unaffected by a living wage mandate because the majority of their employees are already being paid $15/hr. Arts and recreation organizations are the exception, but they are also in need of greater government funding (Salamon & Newhouse, 2019, p. 10). Even underpaid professions, such as teaching, would not be addressed by the new minimum wage. In the 2017-2018 school year, the average salary for a public school teacher was $61,730, $30,530 more than an employee working 40 hours a week for $15/hr (Estimated Average Annual Salary, 2019). A living wage requirement would create monumental challenges for organizations in the human services and arts and recreation sectors and small changes in others.

While some may argue that nonprofits could offset the cost of raises by reducing the executive team's salary, this is unfortunately not possible for the organizations with the greatest need for improved wages. There are certainly many nonprofits with highly paid senior staff.

However, these executives typically work in sectors with greater pay all around. When compared to organizations of the same size, human service executives make less than executives at all other types of nonprofits other than religious institutions and international relief organizations. Research nonprofits typically pay their CEOs 50% more than human service agencies (2016 Charity, 2016, p. 5). The justifiability of large nonprofit leader salaries is up for debate, but when it comes to addressing poverty wages with these salaries the issue is moot.

Poverty wages in the nonprofit sector is an issue that must be addressed for the betterment of individuals, organizations, and the economy; however, introducing a living wage requirement is a misguided attempt to create this reality. A better solution to improving the nonprofit sector is to increase government funding, giving organizations the capacity to increase wages. In turn this would improve services delivered by relieving the stressors of poverty from employees and increase competition for nonprofit positions. Without necessary additional financial resources, increased wages will not be possible. A living wage requirement forces nonprofits to solve a problem without giving them the tools to do so.

References

2016 charity CEO compensation study. (2016, October). Charity Navigator. https://d20umu42aunjpx.cloudfront.net/2016+CEO+Comp+Study/2016+CEO+Compensation+Study.pdf

Estimated average annual salary of teachers in public elementary and secondary schools: Selected years, 1959-60 through 2018-19 (2019, September). National Center for Education Statistics. nces.ed.gov/programs/digest/d19/tables/dt19_211.50.asp

Grønbjerg, K. A. (2001). The US nonprofit human service sector: A creeping revolution. *Nonprofit and Voluntary Sector Quarterly*, *30*(2), 276-297.

LeRoux, K., & Feeney, M. K. (2014). *Nonprofit organizations and civil society in the United States*. Routledge.

McCambridge, R. (2016, November 18). *Nonprofit wage ghettos and what we should do about them.* Nonprofit Quarterly. nonprofitquarterly.org/nonprofit-wage-ghettos/

Minimum wage no small issue for nonprofits. (2015, December 31). The NonProfit Times. thenonprofittimes.com/npt_articles/minimum-wage-no-small-issue-for-nonprofits/

NCSS Team. (2020, June 18). *The nonprofit sector in brief.* The Urban Institute. nccs.urban.org/publication/nonprofit-sector-brief-2019#highlights

Salamon, L. M., & Newhouse, C. L. (2019). *The 2019 nonprofit employment report.* Nonprofit Economic Data Bulletin, (47).

Soskis, B., & McKeever, B. (2017, April 6). *How vulnerable are nonprofits under Trump's skinny budget?.* Urban Institute. https://www.urban.org/urban-wire/how-vulnerable-are-nonprofits-under-trumps-skinny-budget