

Effects of the Minimum Wage on the Nonprofit Sector

BY JONATHAN MEER, TEXAS A&M UNIVERSITY; AND HEDIEH TAJALI, UNIVERSITY OF EDINBURGH

In the private sector, labor cost increases induced by the minimum wage are borne by some combination of the following groups: owners, through lower profits; consumers, through higher prices; and workers, through lost employment opportunities or reductions in other types of compensation. The nonprofit sector, however, has fewer margins through which labor cost increases can be borne. Nonprofits do not disburse profits that can be reduced. Many nonprofits do not sell an output whose price can be increased, while others, such as hospitals, serve a mix of paying and nonpaying customers. Furthermore, nonprofit firms tend to be concentrated in more labor-intensive industries, such as human services and health care, and may therefore be more sensitive to increases in labor costs.

Our research analyzes the impact of minimum wage increases on the nonprofit sector, which makes up about 5 percent of gross domestic product in the United States

and 10 percent of private-sector employment. Anecdotal evidence suggests that nonprofits struggle to pay increased minimum wages; surveys conducted after the Seattle minimum wage increases reveal a tension between a desire for higher worker pay and the realities of budgeting for many nonprofits. Higher labor costs may also have indirect effects for charities; research has shown that donors have a distaste for nonprofits with high overhead costs, so donations may fall as charities direct more resources toward their wage bill.

Our research uses data from the Internal Revenue Service from 2011 to 2017—which include reported employment, volunteering, and other financial statements of nonprofits—as well as data from the Bureau of Labor Statistics on the nonprofit sector. Our analysis studies how outcomes differ for nonprofits in states that experienced no minimum wage increase, an increase due to inflation indexing, and an increase due to legislative action.



Editor, **JEFFREY MIRON**, Harvard University and Cato Institute.

Our results show a negative impact of legislative minimum wage increases of \$2 or more on nonprofits. Employment declines by 2.7–9.1 percent, and the number of nonprofit establishments declines by 0.2–5.6 percent, with the effects increasing over time. These effects tend to be concentrated among the smallest nonprofits as measured by number of employees. Our research also finds evidence that legislative minimum wage increases of \$2 or more reduce fundraising expenses by 4.8–6.4 percent and reduce

revenues from contributions by 7.8–14.6 percent, with the effects increasing over time.

NOTE

This research brief is based on Jonathan Meer and Hedieh Tajali, “Effects of the Minimum Wage on the Nonprofit Sector,” *Oxford Economic Papers* 75, no. 4 (October 2023): 1012–32.



The views expressed in this paper are those of the author(s) and should not be attributed to the Cato Institute, its directors, its Sponsors, or any other person or organization. Nothing in this paper should be construed as an attempt to aid or hinder the passage of any bill before Congress. Copyright © 2023 Cato Institute. This work by the Cato Institute is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.