



RECESSIONS AND INDIANA'S NONPROFIT EMPLOYMENT

Our ongoing analysis of Indiana nonprofit employment is a joint effort by the Lilly Family School of Philanthropy, the School of Public and Environmental Affairs, and the Indiana Business Research Center at Indiana University to document the significant impact of nonprofits on Indiana's economy by providing detailed information on the size, composition, and distribution of paid employment in the private nonprofit sector.

Highlights from a report on

Recessions and Indiana's Nonprofit Employment

For the full report, visit: www.indiana.edu/~nonprof

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Key Findings

- In the height of the Great Recession (2008-2009) nonprofit employment grew 2 percent and payroll grew 5 percent, while for-profit employment and payroll each decreased 8 percent.
- Nonprofit employment and payroll growth outpaced key for-profit Indiana industries during both recession periods (2001 and 2008-09). While the nonprofit sector grew, manufacturing, construction, and other major industries lost employees and payroll during the recessions.
- The education and health care industries drove nonprofit sector growth. Nonprofit employment in education increased the most, with health care not far behind. These nonprofits increased their shares of both total employees and payroll, led by two dominant sub-industries: colleges and universities and hospitals, respectively.
- Three smaller nonprofit industries, however, faltered in employment and payroll during the most recent recessions. Arts, entertainment, and recreation peaked in 2001, social assistance in 2004, and membership in 2006. All lost employment and payroll during the Great Recession and subsequent recovery.

Why does nonprofit employment during recessions matter?

The United States and Indiana are now emerging from the most severe recession since the 1930s. The previous recession, which officially lasted from March to November of 2001, and the "Great Recession," which officially lasted from December 2007 through June 2009,¹ had an impact on the economic health of all sectors: nonprofit, for-profit, and government. The three sectors, however, followed very different paths.

Since the mid-1990s when we began to obtain systematic data on U.S. nonprofits, the sector has grown significantly and outperformed the national economy. Moreover, during times of recession the nonprofit sector continued to grow. This report documents the resilience of the sector through two recession cycles – in sharp contrast to downturns in the for-profit sector and, to some extent, the government sector.

The general growth in the nonprofit sector, however, masks notably divergent patterns for major nonprofit industries – the primary focus of this report. We show how the economic growth engines of health care and education follow very different trajectories from nonprofit membership, social assistance, and arts, entertainment, and recreation.

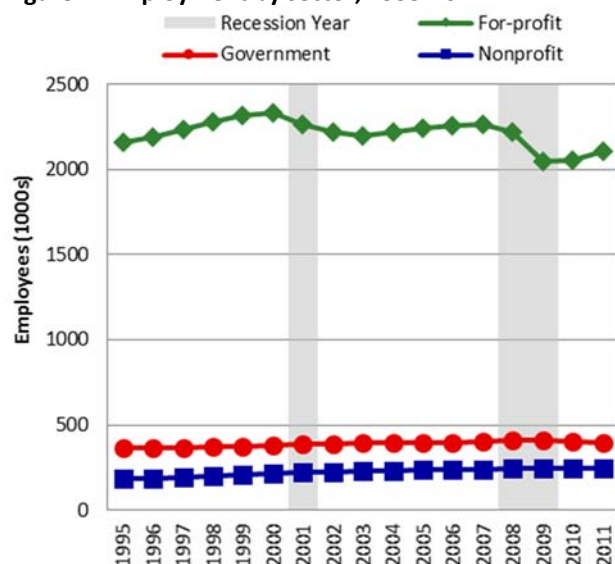
¹ The National Bureau of Economic Research, "US Business Cycle Expansions and Contractions," www.nber.org/cycles.html.

Nonprofit employment in Indiana grew the most of any sector from 1995-2011, including during recession periods.

Indiana nonprofit employment grew 34 percent from 1995 to 2011 to reach a total of almost 250,000 employees (Figure 1). By comparison, government employment grew by only 9 percent – less than one-third the rate of growth in nonprofit employment – and the for-profit sector sustained an overall **net loss** of 3 percent over the period.

While employment dropped in the for-profit sector during all recession years and recovered slowly following the Great Recession, nonprofit employment grew each year over the entire period, despite economic downturns. For more information, see page 2 in the full report.

Figure 1: Employment by sector, 1995-2011



Nonprofit employment grew every year, even during the recessions, averaging 2 percent growth during the period.

Government grew less than 1 percent on average each year while the average change in for-profit employment was negative. For-profit employment dropped during both recessions; the most dramatic decrease was of nearly 8 percent from 2008 to 2009. Nonprofit employment continued to grow in 2010 and 2011 when for-profit employment began to recover and government employment decreased.

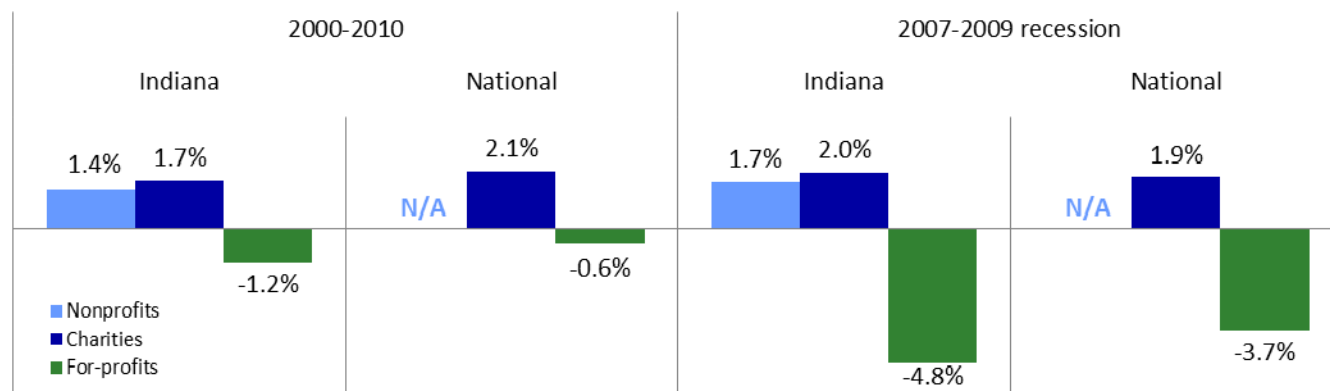
Indiana's nonprofit sector thus helped buffer the shock of the Great Recession. The nonprofit sector added over 3,700 jobs from 2008 to 2009. While important, this growth was of course not nearly enough to compensate for the massive number of jobs lost in the for-profit sector that same year (170,000). For more information, see page 3 in the full report.

Indiana's growth patterns mirror national trends.

Over the study period, employment in Indiana charities grew an average of 1.7 percent per year, somewhat slower than the national average of 2.1 percent (Figure 2). During the Great Recession, however, charities in Indiana expanded employment slightly faster than the national average (2 versus 1.9 percent).

Indiana charities grew slightly faster than overall average annual growth of nonprofit employment, but both increased through 2011 and during the Great Recession. The for-profit sector in Indiana was more severely impacted than at the national level, losing nearly 5 percent on average in employment per year. For more information, see Appendix C of the full report.

Figure 2: Average annual changes in employment, charities v. nonprofits v. for-profits, Indiana and Nation

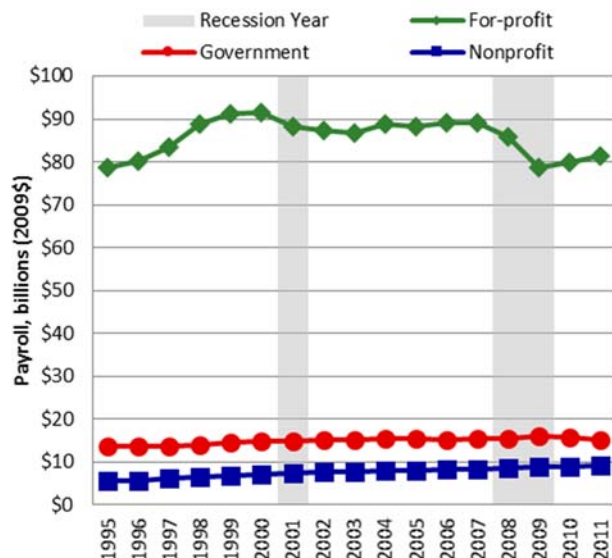


Nonprofit payroll increased by 61 percent from 1995-2011—nearly double the rate of its employment.

Nonprofit payroll grew from \$5.7 billion in 1995 to \$9.1 billion in 2011, adjusted for inflation (Figure 3). For-profits, which paid about 80 percent of all payroll in the state, only increased 4 percent over the same period and lost 8 percent, or \$7.3 billion, in payroll from 2008 to 2009.

Government payroll, meanwhile, increased 12 percent overall, growing slightly during the Great Recession only to decrease by 5 percent from 2009 to 2011. Though the nonprofit sector provides the smallest proportion of Indiana's payroll, strong growth demonstrates its growing prominence for Indiana employees dependent on nonprofits for their earnings. For more information, see page 5 in the full report.

Figure 3: Payroll by sector, 1995-2011



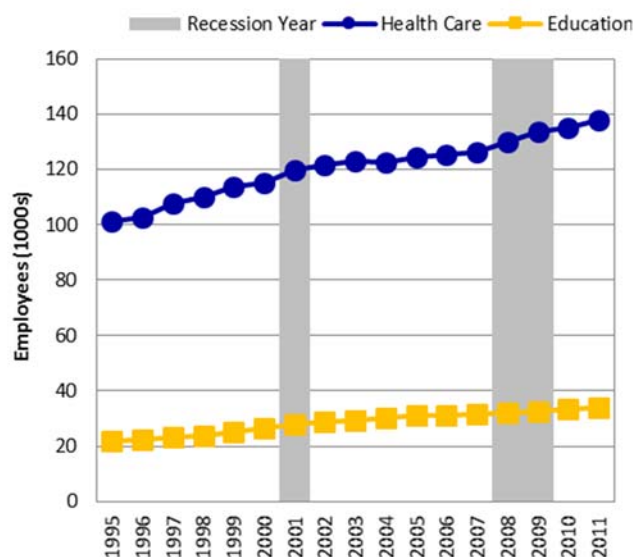
Together, health care and education – the two largest nonprofit industries - drove the sector's employment growth.

Both industries grew steadily, even during recession periods, highlighting their importance in supporting the state economy during economic downturns (Figure 4). Over half of all nonprofit employees worked in the health care industry and these positions increased by 36 percent from 1995-2011. Education, the second largest nonprofit employer as of 2001, experienced the highest growth in jobs of any nonprofit industry: up by 56 percent from 1995 to 2011.

Health care and education had positive annual growth in employment for nearly all years, even during periods of recession. Health care experienced its second

highest year of growth during the first recession and grew by 3 percent a year from 2007 to 2009. Education grew 5 percent from 2000 to 2001 and averaged 2 percent growth from 2007 to 2010. For more information, see page 8 in the full report.

Figure 4: Nonprofit employment in health care and education industries, 1995-2011



The sub-industries within education and health care followed more diverse patterns.

Within health care, hospitals – the largest sub-industry – accounted for around 70 percent of nonprofit employment and payroll and drove the overall industry's growth. However, hospitals did have two years of minor declines in employment and one year of negative change in payroll.

The ambulatory care sub-industry, though not even a fifth the size of hospital employment or payroll, grew the most of all nonprofit health sub-industries: 63 percent in employment and an enormous 130 percent in payroll. In contrast, nonprofit nursing and residential care, only slightly larger than ambulatory care, grew rapidly in the early years of the study (except for 1997 to 1998), but later slowed and even decreased.

Within the nonprofit education industry, the dominant sub-industry, colleges and universities, led growth in both employment and payroll. Colleges and universities, accounting for over 70 percent of all nonprofit employment and payroll in education, increased employment by almost 50 percent and payroll by nearly 70 percent through 2011, including during recessions.

Elementary and secondary education employment grew by 70 percent and more than doubled in payroll,

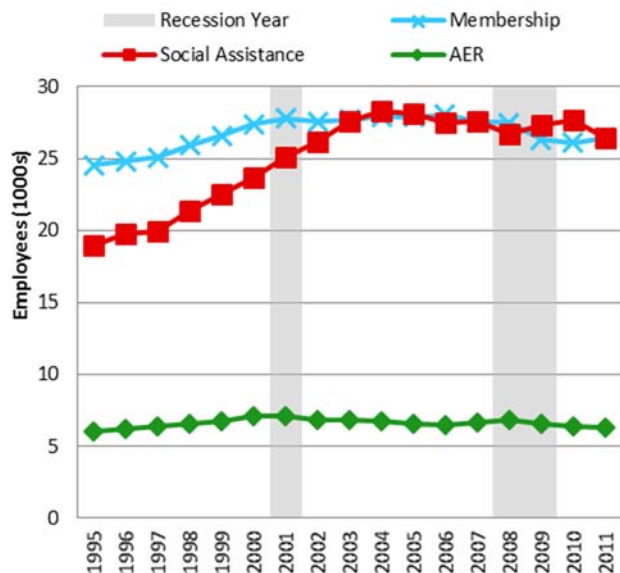
also contributing to overall industry growth. By contrast, nonprofit junior colleges lost impressive amounts of payroll around the Great Recession. For more information, see page 12 in the full report.

Nonprofit membership, social assistance, and arts, entertainment, and recreation industries all lost ground during the Great Recession.

While all three industries experienced overall employment growth between 1995 and 2011, it was concentrated in the first half of the period (Figure 5). Social assistance grew the most of the three at 39 percent overall, but mainly from 1995 to 2004, when social assistance employment increased by almost 50 percent (from 19,000 to 28,000 employees), before dropping to just over 26,000 employees in 2011.

Membership employment grew by 8 percent overall, but lost half its earlier growth from 2008 to 2011. Arts, entertainment, and recreation (AER) grew 17 percent from 1995 to 2001 and while it was the most sensitive to recessions, it managed an overall growth of 4 percent. For more, see page 15 in the full report.

Figure 5: Nonprofit employment in membership, social assistance, and arts, entertainment, and recreation industries, 1995-2011



Membership, social assistance, and arts, entertainment, and recreation saw declines in their largest sub-industries over the time period

These three smaller nonprofit industries posted losses in their largest sub-industries, in contrast to the patterns for health care and education. Nonprofit membership's two largest sub-industries – civic and social organizations; and business, professional, labor, politi-

cal, and similar organizations – made up 80 percent of industry employment and 70 percent of payroll. These sub-industries showed negligible to negative growth overall and had significant employment losses during the Great Recession and recovery.

In nonprofit social assistance, vocational rehabilitation and individual and family services account for nearly 80 percent of industry employment. These sub-industries experienced modest overall growth through the recession of 2001, but were more sensitive to the Great Recession. Vocational rehabilitation lost 8 percent of its workers from 2007 to 2008, and both sub-industry groups drove the industry's decline in payroll of about 10 percent each from 2008 to 2011.

For AER, over half of all nonprofit employees work in the amusement, gambling, and recreation sub-industry, consisting of such establishments as country clubs and fitness centers. The AER industry mirrored the overall economic cycles, curtailing employment with the onset of economic downturns starting in 2001 and worsening in 2008. For more information, see page 19 in the full report.

Policy Implications

Diverse funding streams may have contributed to the divergence in growth patterns among nonprofit industries during recessions. Health care receives government mandated funding (e.g., Medicare and Medicaid), while education funding is largely through tuition dollars, amplified by students who may decide to seek education in the face of a tough job market. Membership, social assistance, and AER tend to be funded by grants, individual contributions, and fees or service charges. Since these funding sources are more sensitive to recessions, the industries that depend on them are thus more exposed to economic cycles.

Historically, the Indiana nonprofit sector has shown remarkable resilience. It has been an effective partner for government service provision in times of crisis and a strong contributor to raising the standard of living in our state. Our findings, however, suggest that such resilience is uneven among the nonprofit industries and sub-industries. While some remain strong or thrive during recessions, those providing vital social services and opportunities for cultural and community engagement have faced significance challenges and may need particular consideration in times of economic crises.