Overview and Executive Summary

The State of the Independent Sector

THIS BOOK aspires to visibly portray the size, scope, and nature of the independent sector and its contributions to American society. It provides a current picture of the independent sector and its components and relates it with the other two major sectors of the economy, the business (for-profit) and government sectors. Defining the independent sector requires mentioning the wide range of organizations that it comprises. These include major hospitals and health care organizations, with their sizable revenue, as well as small community-based shelters or soup kitchens that rely mostly on donations to carry on their mission. Universities, churches and religious organizations, adult and day-care centers, environmental groups, libraries, humane societies, private foundations, museums, special Olympics, drug rehabilitation centers, international human rights organizations—these are but a few of the assorted types of organizations that make up the independent sector.

The independent sector is composed of two major groups of tax-exempt organizations: 501(c)(3) charitable organizations and religious congregations and organizations; and 501(c)(4) social welfare organizations.

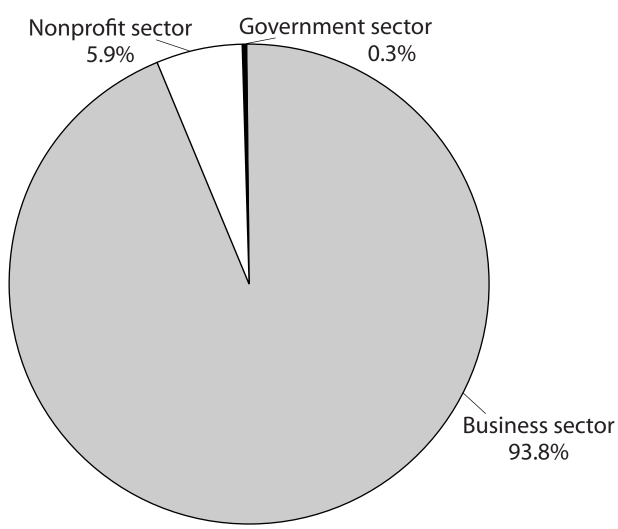
Independent sector organizations are founded to serve a public purpose but are private and self-governing, nonprofit oriented and tax exempt, and some may receive tax-deductible contributions. Two other important features that make the independent sector unique are voluntarism and private philanthropy, which play critical roles in the sector. The sector is financed by three key sources, including private payments for dues and program services, government grants and contracts, and private charitable contributions in the form of time and money.

Size and Scope of the Independent Sector

- Almost 6 percent of all organizations in the United States belong to the nonprofit sector; 4.4 percent of all organizations belong specifically to the independent sector (see Figure ES.1). Independent Sector organizations constitute over 75 percent of the nonprofit sector.
- Between 1987 and 1997 the number of charitable organizations in the country increased at an annual rate of 5.1 percent as demand for their services increased. This was more than double the rate experienced by the business sector. The number of organizations in the independent sector now totals 1.2 million (and 1.6 million for the entire nonprofit sector).
- The independent sector's estimated share of national income in 1998 was 6.1 percent, or about $443.6 billion (including assigned values for volunteers), up from $325.0 billion in 1992. The entire nonprofit sector had a 6.7 percent share of national income, or a total of $485.5 billion. (See Figure ES.2.)
- Of those 501(c)(3) organizations that file Form 990 with the IRS, most are small organizations; 73 percent of them reported expenses of less than $500,000 in 1998.

FIGURE ES.1

Distribution of Organizations by Major Sector, 1998

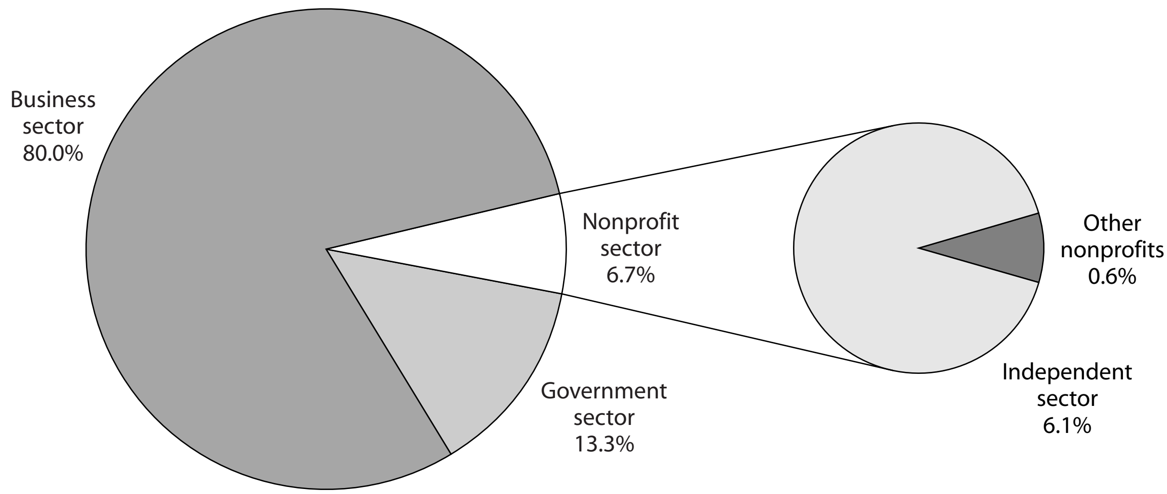


Total number of organizations in 1998 = 27.7 million

Source: *Table 1.1.*

FIGURE ES.2

Distribution of National Income by Major Sector, 1998



National income = $7.266 trillion
(including assigned values for volunteers and unpaid family workers)

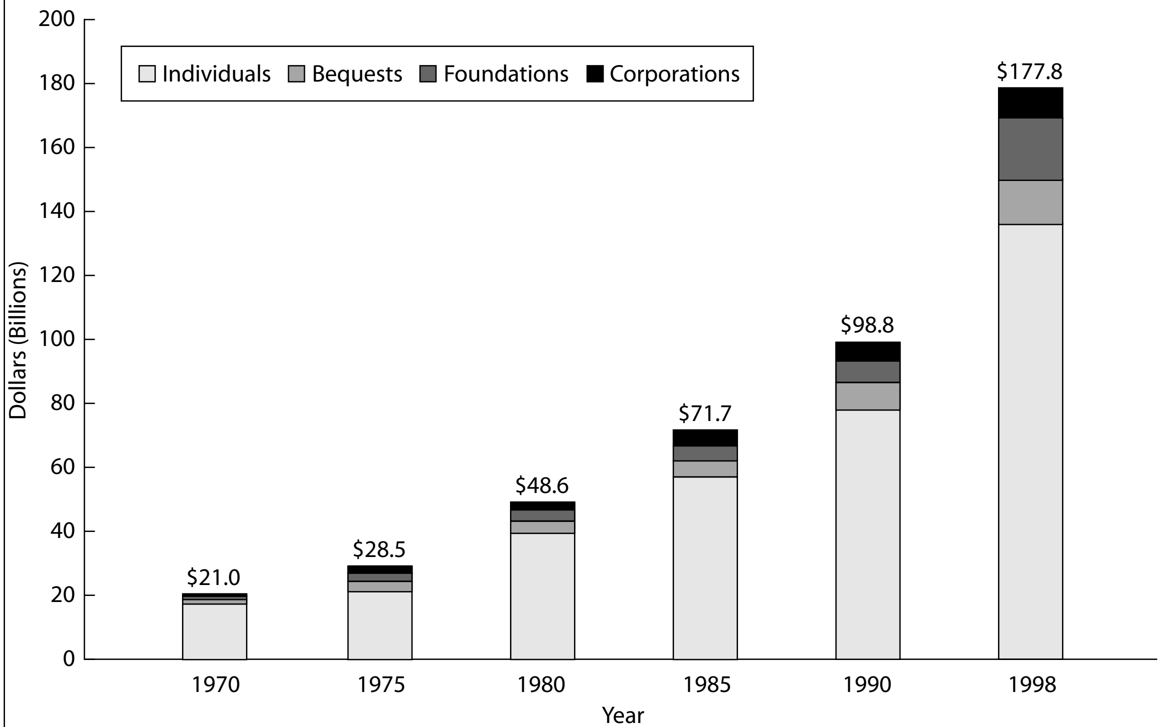
Source: *Table 1.4.*

- An estimated 89 percent of reporting independent sector organizations have been identified as "operating," that is, delivering information, products, and services to their members and the public. The remaining 11 percent are "support" organizations (such as United Ways and Catholic Charities USA), which collect funds and provide the financial support to operating organizations.

Paid and Voluntary Employment in the Independent Sector

- The independent sector employed an estimated 10.9 million paid employees in 1998. In addition, it benefited from the work contributed by another 5.8 million (full-time-equivalent) volunteers, who represented one-third of the total employment (both paid and unpaid) of the sector.
- Independent sector employees represented 7.1 percent of total U.S. employment, including both paid and voluntary.
- Among paid nonagricultural employees alone, independent sector employees represented 8.7 percent of all full- and part-time paid employees in the economy in 1998. The entire nonprofit sector represented 9.3 percent of all paid employees.

FIGURE ES.3
Growth in Private Contributions, 1970–1998



Source: *Table 3.3.*

- The nonprofit sector experienced its highest annual rate of growth in employment between 1987 and 1992—4.2 percent. In comparison, total nonagricultural employment grew by only 1.2 percent for the same period.
- The total assigned dollar value of volunteer time in 1998 reached almost $226 billion in all three major sectors combined. Voluntary employment represented one-third of the independent sector's national income.

Growth in Charitable Giving

- Preliminary estimates indicate that private charitable giving reached about $178 billion in 1998 and close to $190 billion in 1999. Gifts from individuals and their bequests accounted for 85 percent of all private giving. (See Figure ES.3.)
- Between 1995 and 1998, gifts from individuals increased by over $10 billion annually. This remarkable growth in charitable contributions

was influenced by the growth in income and wealth of the population. The Council of Economic Advisers (2000) notes that during this same time period, unemployment and inflation rates were low, and the annual rate of growth of the economy was 4.1 percent. The strong stock market also had its effect on increasing both individual and foundation giving.

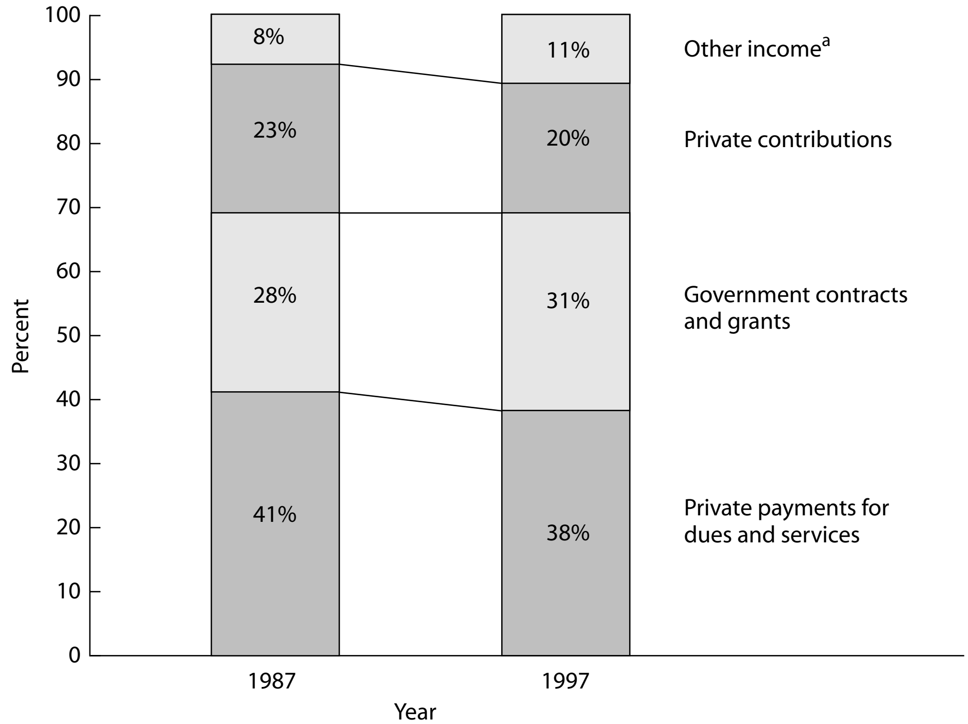
- In 1997 total private dollar contributions directed to the independent sector totaled $132 billion. Similarly, the total value of volunteer time given by individuals to the independent sector alone for the same year reached $134 billion. This clearly illustrates the equal importance of charitable contributions and volunteer time as crucial resources to the sector.

Revenue Sources for the Independent Sector

The revenue of the independent sector is generated from three major sources: private charitable contributions, government payments, and private payments received from dues and fees for program services and charges.

- Estimates for the total annual revenue of the independent sector in 1997 are $665 billion. Of this, 38 percent came from private payments for dues and services, 31 percent from government contracts and grants, 20 percent from private contributions, and 11 percent from other sources (including investments, interest, and dividends; see Figure ES.4).
- Although payments for dues and services continue to account for the largest share of independent sector revenue, their share has contracted over the years. Various factors may account for this shift, including increased competition from for-profits for services traditionally provided by nonprofits. The share of government payments has remained fairly constant from 1992 to 1997, after growing substantially from 1987 to 1992. The effect of the growth in private giving during the mid- to late 1990s is reflected in its increased share of total revenue, from 18.4 percent in 1992 to almost 20 percent by 1997.
- Independent sector total revenue is distributed somewhat disproportionately among its major subsectors (see Figure ES.5). In 1997 two subsectors, health services and education and research, shared 67 percent of the total annual revenue of the independent sector.

FIGURE ES.4
Independent Sector: Sources of Revenue, 1987 and 1997



[a] *Other income from investments, interest, and dividends.*

Source: *Table 4.2.*

The remaining 33 percent was split among five subsectors: social and legal services (11.5 percent); religious organizations (11.5 percent); civic, social, and fraternal organizations (2.7 percent); arts and culture (2.3 percent); and foundations (5.0 percent).

Profile of the Major Subsectors of the Independent Sector

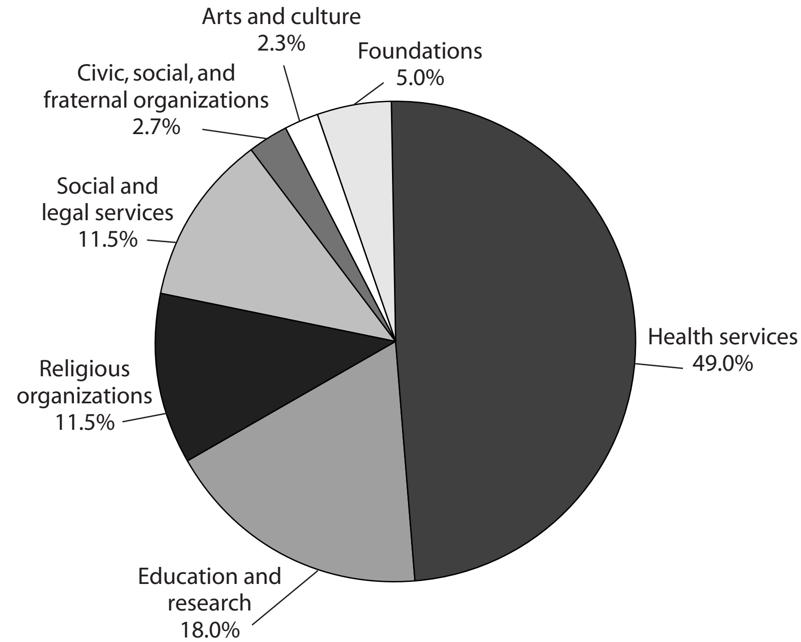
The diverse nature of the independent sector is reflected clearly among its subsectors. They vary not only in the size and type of organizations but also in the nature of their goals, missions, locations, and revenue sources.

Health Services

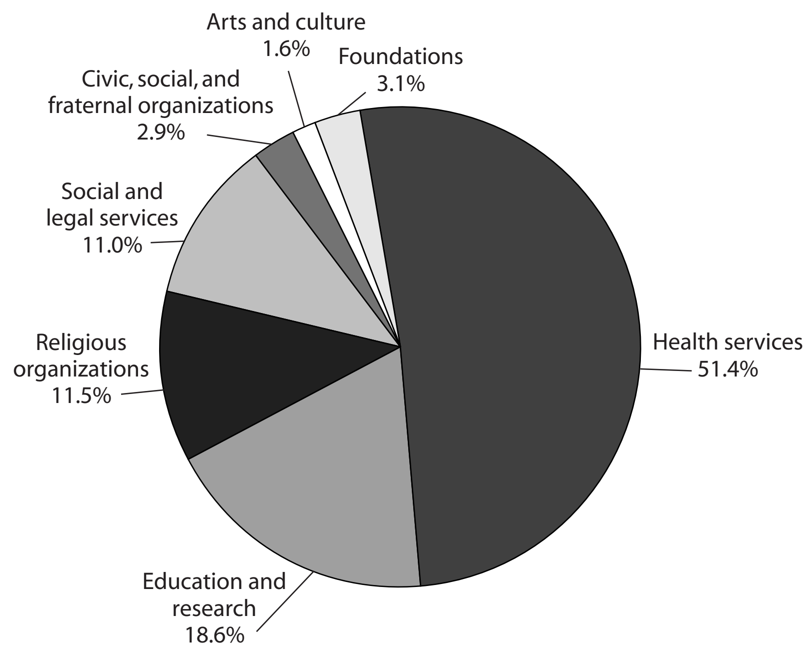
Health services dominates the independent sector in three ways: it has the largest total revenue of all the subsectors; it has the highest number of employees; and it has the largest share of total wages and salaries among the subsectors. Health services, although composed mostly of hospitals, also

FIGURE ES.5

Independent Sector: Distribution of Revenue by Subsector, 1997 Versus 1987



1997



1987

Source: *Table 4.3.*

includes nursing and personal care facilities and other health services, such as specialized treatment facilities, home health care, outpatient services, and drug and alcohol treatment centers.

- Health services has consistently held the largest share of total annual revenue of the independent sector since 1977. In 1997 its total estimated revenue of $326 billion accounted for 49 percent of total revenue in the entire sector.
- Health services has been receiving a growing proportion of its annual funds from government payments. In 1997, 42 percent of its funds came from government payments, 47 percent from private payments, 4 percent from private contributions, and 7 percent from other sources. In comparison, in 1977 government payments only accounted for 32 percent of total funds for the subsector.
- About 43 percent of all independent sector paid workers worked in health services in 1998, down from 47 percent in 1992. Among the various components of this subsector, hospitals employed 72 percent of all workers. From 1992 to 1997 the rate of growth in employment for health services was at a low of 1.7 percent. This was probably the result of several factors, including limits imposed by the government and managed care organizations on hospital charges and admissions and the number of hospitals switching from nonprofit to for-profit status in recent years.
- In 1998 health services earned 54 percent of total wages and salaries in the independent sector, with hospitals making up the largest share. As with the number of employees, the share of hospitals has been declining since 1992, whereas the other components of this subsector have been growing.
- Health services received the second largest share of foundation grants in 1998 (after education and research), receiving 16.5 percent of all funds given by foundations.
- Among the major subsectors reporting to the IRS in 1998, health services was found to have the smallest increase in the number of organizations; it had minimal growth in total revenue, public support, expenses, and assets between 1992 and 1998.

Education and Research

The education and research subsector comprises colleges and universities, preschool, elementary, secondary, and correspondence schools, libraries, and other educational and research institutions.

- In 1997 education and research had $119 billion of total revenue. Private payments from dues, tuition, and services made up 56 percent of total funds. Government payments contributed 19 percent, private contributions accounted for 13 percent, and the remaining 11 percent came from other sources.
- Although education and research has the second largest annual revenue among the subsectors, its share of total revenue in the independent sector has declined from a high of 25 percent in 1977 to 18 percent in 1997.
- In 1998 the education and research subsector had 22 percent of all paid workers in the independent sector. More than half of all these employees were concentrated in higher education institutions. Similarly, its share of total wages and salaries in the independent sector was 21 percent.
- Education received the largest share of all foundation giving (24 percent) in 1998 in terms of both dollars and number of grants.
- The number of education organizations reporting to the IRS grew by 53 percent between 1992 and 1998. This was accompanied by the 80 percent growth in the number of student services organizations. Higher education grew by 20 percent, and elementary and secondary institutions increased by 26 percent.

Social and Legal Services

Organizations that make up the social and legal services subsector include individual and family services, legal aid groups providing pro bono services, child day-care, residential care, job-training and related services, and youth and housing development.

- Employment in social and legal services grew at a faster rate than in any other subsector. Its share of total employment in the independent sector grew from 13.0 percent in 1977 to 17.5 percent in 1998, reflecting the increase in demand for the services this subsector provides. Consequently, its share of total wages and salaries in the independent sector also grew from 9.2 percent in 1977 to 12.1 percent by 1998.
- This subsector had an 11.5 percent share of total revenue in the independent sector in 1997. Total revenue in the social and legal services subsector reached $76.7 billion. Between 1987 and 1997 its total revenue had an annual growth rate of 6.3 percent, with most of the growth (8.8 percent) occurring between 1987 and 1992.

- In 1997 government payments made up 52 percent of total revenue received by social and legal services. It is the most reliant on government support among the subsectors and therefore is the most sensitive to public policy changes. Private contributions accounted for 20 percent of revenue, private payments accounted for 19 percent, and 9 percent came from other sources.

Religious Organizations

Religious organizations (including religious congregations of all faiths) had estimated revenue of $76.3 billion in 1997. This subsector is unique in that private contributions account for most of its funds.

- In 1997 private contributions of $73 billion accounted for 95 percent of the total revenue of religious organizations. The annual rate of change in this subsector's total revenue between 1987 and 1997 was 2.7 percent, with most of the growth taking place in the last five years.
- Among all independent sector entities, religious organizations receive the largest share of funds from total private giving (individual, foundation, and corporate)—44 percent in 1998. This may be the result of the religious commitment of many Americans in supporting their churches as well as a perception that religious institutions are generally trustworthy in using the donations for the public good. However, estimates show that religious organizations' share of private contributions has decreased from the 53 percent share it enjoyed in 1995 to 44 percent in 1998.
- In 1998 religious organizations' share of independent sector employment was 11.6 percent.

Arts and Culture

Included in the arts and culture subsector are museums, orchestras, botanical and zoological gardens, performing arts groups, ballet groups, nonprofit radio and television, literary organizations, and other humanities-oriented organizations.

- In 1997 the arts and culture subsector represented just over 2 percent of total funds in the independent sector. It had total revenue of about $15.4 billion, growing substantially from its 1992 revenue of $8.5 billion. This subsector had the highest annual growth rate for total revenue (7.0 percent) between 1987 and 1997 and grew the most (10.4 percent) over the last five years (1992–1997).

- Private contributions made up the largest share of this subsector's total funds (44 percent), followed by private payments (28 percent), payments from other sources (19 percent), and government payments (10 percent).

Geographical and State Trends

The number of reporting public charities and their distribution by region and state closely mirror the distribution of the total U.S. population among the states.

- The ten states with the largest number of charitable organizations in 1998 (excluding religious congregations and smaller organizations) were California, New York, Texas, Pennsylvania, Ohio, Illinois, Florida, Massachusetts, Michigan, and New Jersey.
- Wyoming, Nevada, Idaho, and Delaware reported the smallest number of public charities .
- The South had 28 percent of reporting organizations, followed by the Midwest (24 percent), the Northeast (23 percent), and the West (22 percent).
- Between 1992 and 1998 the number of reporting charitable organizations grew by 50 percent in the Mountain region, compared with 39 percent nationally. Six of the eight states constituting this region also experienced large population increases between 1990 and 2000, including Nevada (66 percent), Arizona (40 percent), and Colorado (31 percent).
- Revenue growth rates for reporting public charities were highest in the East South Central region and lowest in the Pacific region. Among states, North Dakota and Oregon led with the highest revenue growth rates.
- The South led in the growth of public support, which increased by 77 percent for the period between 1992 and 1998. The region also led in the growth of total assets for charitable organizations, recording an 89 percent growth rate from 1992 to 1998.

Reference

Council of Economic Advisers, Office of the President. *Philanthropy in the American Economy.* Washington, D.C.: Author, 2000.