



July 2015

Nonprofits

The magnitude of the impact of nonprofits on our economy is significant. Over 1.5 million nonprofits generate more than 5% of Gross Domestic Product. They account for over 9% of all wages and salaries and over 10% of the labor force. Clearly, they are a prominent component of our economy.

At the local level, Wabash County supports in the neighborhood of 400 nonprofit organizations. They form an integral part of our community.

In this issue we present the economics of

nonprofits followed by a closer look at two of the four types of nonprofits. The Community Foundation of Wabash County comprises our first segment, and the economic impact of religious organizations follows.

Economists distinguish for-profits and nonprofits based on the answers to four essential questions. Each must answer what, how, for whom, and how much to produce.

What differentiates a nonprofit from a for-profit rests solely on the answers. The for-profit firm has a single answer – whatever maximizes profits.

Nonprofits will differ from this answer for at least one of the four. Most produce something

a market system does not produce, and therefore, they are not profit maximizing.

An organization like Good Will hires disabled workers who might not find employment otherwise. For them, “how” does not have to maximize profits.

Charitable organizations provide to the least able to pay. Clearly not profit maximizing.

And most nonprofits try to produce the maximum amount their budgets allow which often is a great deal more than the profit maximizing solution.

Nonprofits in US Economy

Aspect	Percentage
GDP	5%
All salaries	9%
Labor force	10%

So in essence, whenever an organization has goals besides the profit motive, it belongs in the category of nonprofits. The economist’s definition does not always align with the legal requirements that allow an organization to be a nonprofit, but the vast majority of nonprofits meet the economist’s criteria.

To an economist, if markets were perfect and a number of unrealistic assumptions were true, there would be no need to have nonprofits. But this economist’s paradise only serves as a benchmark to measure the shortcomings of the real world.

Down here on earth, economists know that to reach the best alternative to paradise requires organizations with goals very different than profits. Thus, there are good economic reasons for them to exist.

Education is a prime example. For markets to work, students would need to be able to borrow from private banks. However, their collateral would be their increased future earnings. Since a student’s life prospects are unknown, banks find it too uncertain to make such loans. Letting schools be nonprofits reduces tuition, allows more students to attend, and helps society better achieve what it wants – highly educated citizens.

To help support nonprofits, federal and state governments passed specific laws pertinent to the nonprofit.

For-profits are owned by share holders who

expect dividends. (For those that do not pay a dividend, the rise in stock values is in essence the same thing.) To oversee operations the shareholders select management.

The goal of profits translates to income, and thus is justifiably taxed.

Nonprofits lack share holders, so they rely on boards of volunteers selected by current board members. Since volunteers work in areas that interest them, the boards are made up of people who want the organization to do well pursuing the goals stated in their charter.

In terms of taxes, the nonprofit usually lacks profits (though they are not legally bound to this requirement). As such there is nothing to tax. In addition, exempting them from taxes such as the sales tax helps them accomplish their goals.

Nonprofits engage in four distinct activities – investment, service, charity, and religion. Most nonprofits engage in more than one, but one of the four usually dominates.

Investments such as promoting the arts, supporting starting businesses, providing students scholarships, and the list goes on, are the

kind of activities that nonprofits engage in.

Services nonprofits provide include education, public transportation, and medical treatment for individuals, promotion of tourism, restoration of main streets, and support for public libraries for the community as a whole.

Charitable organizations include food pantries, shelters, and blood banks that determine eligibility by need and not the ability to pay.

And religious organizations have a special role in our society with our tradition of constitutional protection from the state, thus excluding them from taxation.

The first nonprofit presented is the Community Foundation of Wabash County, an organization predominately, but not exclusively, in the investment category.

Community Foundation of Wabash County

The Community Foundation of Wabash County administers over 250 funds, providing resources to a range of programs including food

pantries, youth programs, cultural events, and the free clinic in Wabash.



Community Foundation of Wabash County staff: (lower left, clockwise) Patty Grant, Executive Director; Cathy Dillon, Program Assistant; Reily Frankum, Marketing and Communications; Julie Garber, Program Director; and not pictured, Carrie Gillenwater, Executive Assistant.

Julie Garber, Program Director, points out, “The entire community benefits from the retirement communities, the senior centers, the transportation system – which is a very low cost ser-

Just in North Manchester, the Foundation helped build Scout Hall, the park, the swimming pool, the library, and many other kinds of public places.

Besides contributions to capital projects the Foundation maintains a focus on human needs, providing opportunities, and enhancing the economic environment.

vice – the free clinic, youth programming, and sponsoring cultural events.”

The Community Foundation of Wabash County employs a small staff and relies on its board members to chair committees of volunteers in decisions of how to allocate the unrestricted funds and scholarships. Board members typically serve terms of three to five years.

The funds for the Foundation’s efforts derive from two sources: earnings on endowments and annual contributions. The current endowment is \$32 million and growing.

Though the Community Foundation started 60 years ago, it was in the 1990s that a major transformation occurred. The Lilly endowment in Indianapolis challenged the foundation with a matching grant to expand to cover the whole of Wabash County. In the intervening years the endowment grew from \$50,000 to its present level.

Nonprofits maintain two pools of money called restricted and unrestricted funds. Unrestricted money is dispersed by the Foundation according to the wishes of the board and the volunteer committees it brings together for such de-

cisions. Either donations or the earnings on endowment monies can fall into this category.

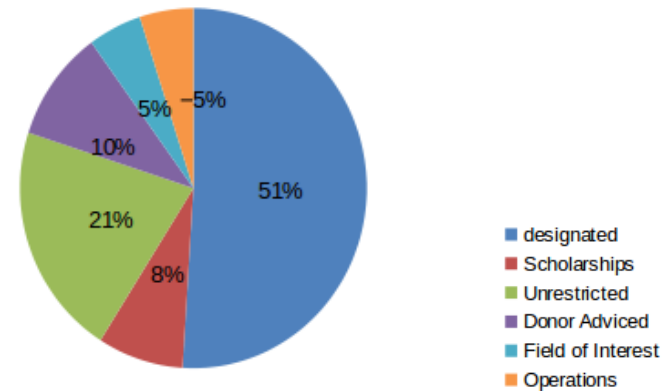
Restricted funds are those where the contributor has specified the kinds of activities the money must go toward. The donor designates either type of activity or the time frame for the disbursement.

Those donating can specify whether the money goes into the endowment which prevents the capital from being spent or into current expenditures. Contributions to the endowment are invested and spending each year is restricted to the earnings. Thus endowed funds insure a stream of benefits in the years ahead.

Others contribute money to be spent in its entirety within a calendar year. These one time donations generate maximum immediate impact, but of course provide no resources for the future.

One quality the Foundation strives for is transparency in its operations, decision-making, and allocation of funds. Not only can donors observe the processes that determine the distribution of their contributions, potential applicants become aware of the kinds of projects that will

receive funding and the reasons behind those decisions.



The composition of these different kinds of funds are shown in the pie chart. Approximately three-quarters of the assets held by the Foundation have some form of restriction on them. They are designated or limited to a certain field, directed toward scholarships, or require consultation with the donor.

Clearly, potential donors have a range of options in specifying how their contributions can benefit the community.

Recipients of the Community Foundation of Wabash County disbursements include schol-

arship recipients, churches, other nonprofits, and public organizations such as local government and schools.

Grants are distributed twice a year, and 70 scholarships are given out each year.

Another role of the Foundation involves helping other organizations pursue their own charitable goals. Each year it sponsors workshops providing information concerning how to write a successful grant application as well as other pertinent aspects to running a nonprofit.

Through bequests, donations, and returns on assets, the Community Foundation of Wabash County continues to channel resources to meet the dreams of those living in our county.

Economics of Religion

Only an economist could look at religious belief as a commodity. But by definition if something enters the utility function (the economist's measure of happiness), then it is in essence a commodity or service.

The economist desires an impossible number – the dollar value of the happiness that flows

through a person due to their faith.



St. Patrick's in Lagro (built 1870) is an historic church of one of the oldest congregations in Wabash County. The congregation extends back to Irish immigrants working on the Wabash Erie canal.

Since people neither purchase nor sell their

beliefs, there is no objective data for obtaining this number.

Surveying people would do no better. Who is able to place a monetary number on their beliefs? In essence we would be asking each individual “if you didn’t believe, how much would you pay to become a believer?”

Though the perfect number is unobtainable, it remains possible to estimate a portion of the value and set a lower bound.

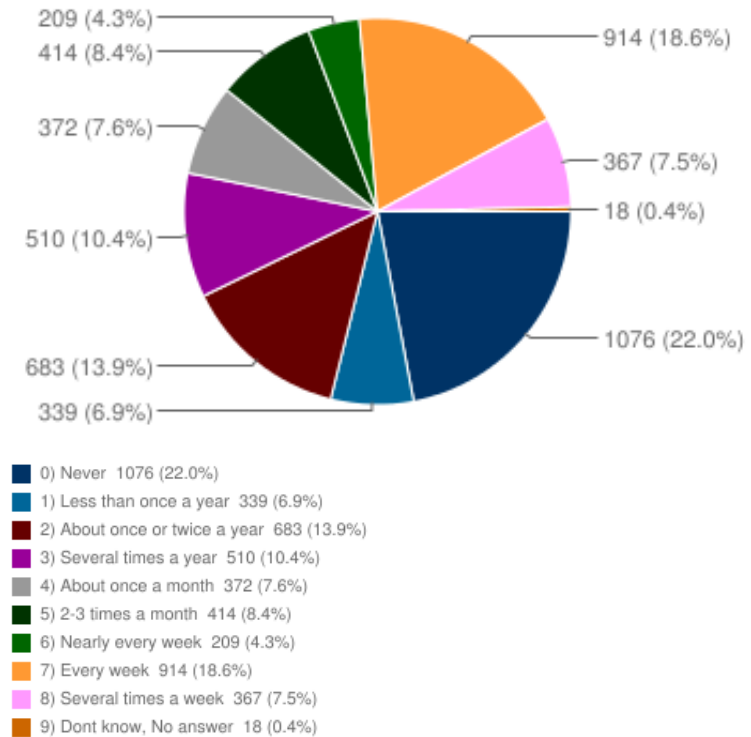
To do this we take a step back and assess what people contribute to religious institutions and how much time do they commit attending services.

This limits the perspective to something manageable and yet is still an important benchmark of the economic impact of religion. The economic significance of religion must be at least the number we report here.

Only some county level data is available, but reliable national surveys find members of religious organizations contribute an average of \$1100 per member.

A survey of a sample of the seventy-two congregations in Wabash County serves as the

basis of the WCER estimate of membership.



National Opinion Research Center data (2010).

We attempted to reach all the congregations and reached a sufficient number to make our estimate.

The entire range of congregations from

very small to the largest responded. From these numbers we extrapolated to the whole.

Our numbers suggest membership in the county is just shy of 13,000 people or approximately 42% of the population.

The contribution per member combined with the level of membership allows the calculation of a total dollar value. The result tells us that somewhere in the neighborhood of \$14 million a year go to organized religion in Wabash County.

To an economist there is another form of commitment – time.

Ideally, time use studies of residents would provide the data desired. Lacking this, one can still approximate the time investment in religion.

Though services vary in length, two hours, counting transportation time, seemed an appropriate number.

In terms of attendance levels, estimates from the census done at the county level suggest Wabash County matches the nation as a whole. Thus we felt comfortable using the National Opinion Research Center’s (NORC) data on frequency of participation across the country. See pie chart on the previous page.

These numbers imply on average people dedicate 46 hours a year to their church activities.

Next a dollar value of an hour of time is needed. Typically, economists turn to the wage. Though there are problems using wages as a measure of the value of time, it is the dollar amount economists feel most comfortable using.

In Wabash County the average wage is \$15 an hour. Multiplying this times the population times the 46 hours leads to the dollar value of time.

Economic Impact of Religion

Component	Dollars
Financial	\$14 million
Time	\$21 million
Total	\$35 million

Given the county has a population of around 30,000, the grand total value of time spent is \$21 million. Thus time accounts for two-thirds of the “expenditures” on religious activity.

The bottom benchmark comes to \$35 million. Of course the comprehensive number is

much higher, but even the magnitude of this number shows the large economic significance of religion in our community.

Inflation

A unique data set reported in the WCER tracks inflation in Wabash County. None of the national numbers announced by the Bureau of Labor Statistics (BLS) nor the prices used to calculate the results, come from rural counties. Inflation is determined solely based on urban areas.

Given the percentage of the population that lives in urban areas, this is not a problematic approach for estimating a national rate. But it does leave us in the dark as to what is happening locally.

The method we use cannot be as comprehensive as the BLS's, but for important sectors we feel confident our monitoring of 150 items captures the underlying trends.

The sectors covered are all non-durable commodities (core inflation), food, gas, and the composite of the three (all). The two largest sectors not included are housing and services.

Inflation is portrayed two different ways: in percentage terms and as a price index. Percentages reflect "average" prices as a portion of the "average" prices of the previous month. Average is in quotes, since it is not a simple adding up of prices and dividing. Instead each item is weighted depending on what portion it comprises of a typical person's budget. See Wabash County Economic Report – July 2013 for a discussion. (All past issues are available at www.Manchester.edu/WCER under the Archive tab.)

Though the percentage approach seems obvious, it actually obscures trends. The numbers fluctuate from positive to negative and from large to small. The creation of a price index and tracking it through time provides a much better picture of what is happening over time.

The price index is a level of prices. A benchmark month is chosen (WCER uses January 2012) and set to 100. Imagine \$100 of typical spending. Then the level given each subsequent month is how much it will cost to buy the same bundle of goods.

The national numbers reported are the con-

Consumer Price Index – Wabash County (CPIW)

	2011	2012				2013				2014				2015
	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
All	100.00	101.58	102.14	102.68	103.60	103.96	103.97	104.22	104.43	104.57	104.68	104.71	104.17	104.26
Core	100.00	100.83	101.30	101.83	102.64	102.84	102.72	103.03	103.06	103.08	103.07	103.21	103.13	103.18
Food	100.00	101.31	102.66	102.42	103.82	104.55	106.58	106.16	108.26	109.53	111.57	110.79	105.01	106.15
Gas	100.00	115.40	113.71	118.98	121.44	159.62	151.42	139.57	148.52	163.63	155.46	132.26	106.31	91.19

sumer price index (CPI) whereas the WCER series is the CPI – Wabash County portrayed in the graph titled CPIW.

It is the price index that reveals the trends in the clearest fashion. The dramatic bumps up and down are smoothed into an easily understood progression.

WCER uses numbers from eight months of the year (the interns do not work during the summer and January). Since we know the price level both before and after the missed months, the only loss in information is the fluctuations in the intervening months. We assume they are even.

We have replaced our previous inflation series (July 2013) with one that better represents the reality of county prices. The change is based on our own work observing housing prices through time. Here’s our thinking.

The CPIW measures only a portion of the economy. Two distinct assumptions can be made in calculating inflation.

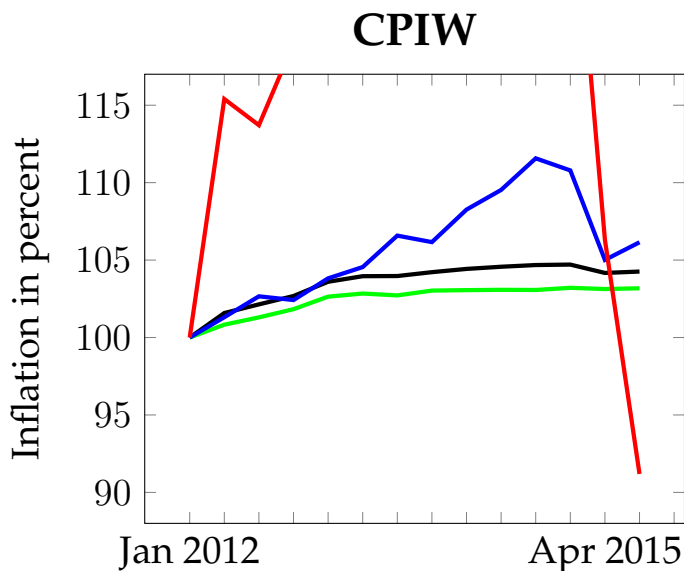
One, the inflation of those sectors not measured is the same as those measured. This was the one used in the previous series.

Two, the prices in the other sectors have not changed. The index should be based solely on the sectors observed.

The appropriate assumption depends on which sectors are missing. The largest sector not included in our measure is housing at 42% of household expenditures. Our series on housing (see issues May 2012, July 2013, January 2014) implies housing costs are stable. Since the WCER list of commodities covers sectors that account for most of the inflation and excludes large ones with stable prices, we deemed it appropriate to

switch to the second assumption – zero inflation in the missing sectors.

The table presents quarterly data on the level of the Consumer Price Index – Wabash County. Note the rise and fall of food prices on the third line. More on that later.



All – black; Core – green; Food – blue; and Gas – red

The first row comprises all non-durable commodities including food and gas. Policy makers, such as the Federal Reserve, the Office of Management and Budget, and the Congressional

Budget Office, find this comprehensive measure less valuable than what is called core inflation. Core inflation is everything excluding food and gas.

The reason for using core inflation stems from the fact that food and gas prices are extremely volatile. Look at the Wabash County Inflation graph and observe the large fluctuations of inflation rates for each category. In particular note the tremendous variation of gas and food. Including these latter two muddies the waters as to what is really happening to prices.

Compare the graph of the CPIW and the one portraying inflation rates. The former allows one to spot trends, while the latter captures the month to month impact of changing prices and the breadth of variation occurring.

Gas prices jump around to such extremes that even in the CPIW graph they are outside the range of the graph. To see the outlying values see the last line of the table on the previous page.

In the first issue of the WCER (May 2012), several theories for the volatility were posited. However, research on our part in the intervening years has led us to settle on one explanation. Any

subset of the country has larger price variability than the nation as a whole.

Wabash County's population is approximately 1/10,000 of the nation's population. Clearly the county is a small subset of the country.

To illustrate the point, look at the graphs for two different metropolitan areas compared to Wabash County for January 2013 through December 2014. Besides Wabash County, one region is New York City and environs, while the other is greater Los Angeles.

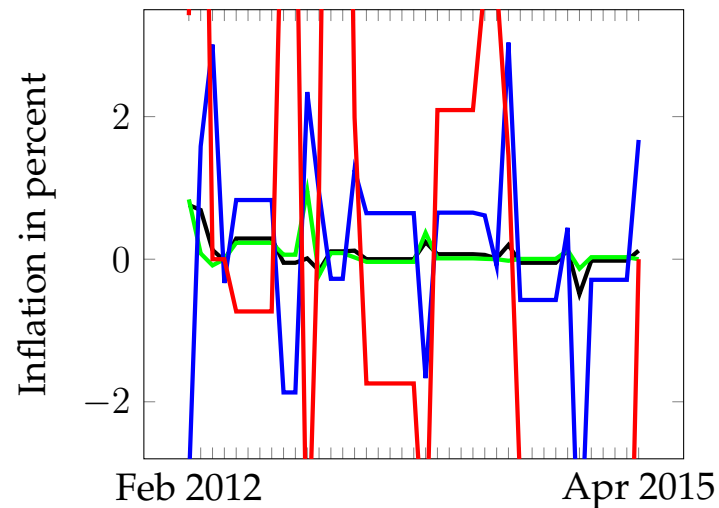
Though there is some similarity to their patterns, no one could say they lie on top of one another. Clearly, they are not moving in tandem. Price fluctuations are local and very turbulent.

As one expects, the variation in our rural county is actually less than the other two large urban areas. So there is nothing unusual in the pattern of price changes we have observed.

The results reveal two dominant facts. Core inflation in the county is less than the national rate averaging slightly more than 1.3% compared to the U.S. rate of just under 2%. Rural areas recover from recessions more slowly than urban ar-

eas. One reflection of this fact, is that price increases lag in rural communities.

Wabash County Inflation

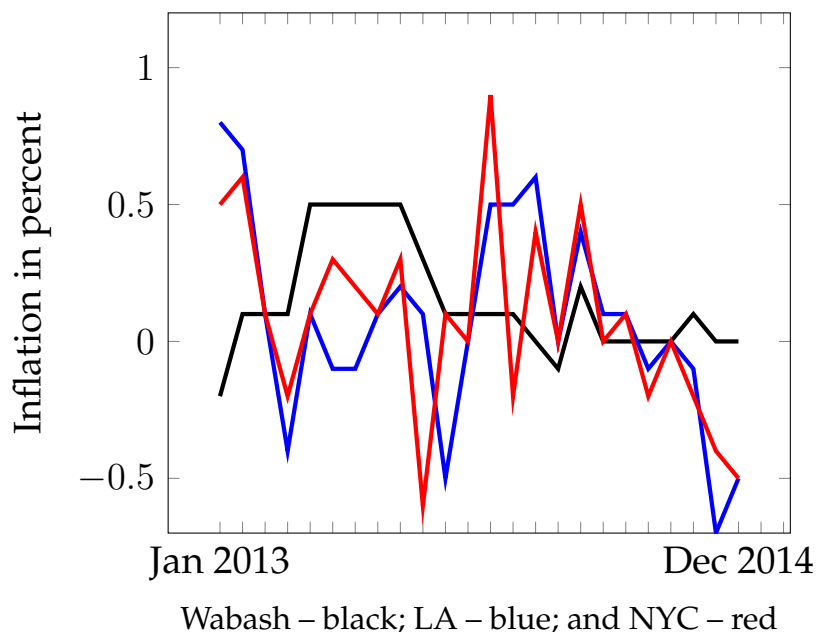


All – black; Core – green; Food – blue; and Gas – red

It comes as no surprise to any resident of Wabash County that living here is cheaper than, say, Cook County, Illinois. But what these numbers indicate, is the differential is widening. Our county is becoming more and more of a bargain.

The second feature concerns food prices. They have risen the fastest of the different rates at slightly more than 2% per year.

Regional Inflation Rates



all food products. Those costs were absorbed by consumers.

The dramatic rise in corn prices was followed by an equally dramatic fall. Food prices have followed.

In the months and years ahead, it will be interesting to see how long Wabash County inflation lags the national rates. The county unemployment rates are close to matching the national levels, and it stands to reason the county's economy is improving at the same rate as the nation. This would suggest prices will begin to rise to correspond to the rest of the country.

What is particularly interesting about the rise in food prices is the incredible rise from the first quarter of 2012 to the second quarter of 2014. In that two year period food prices rose over 11%.

What was happening? Though definitive proof is lacking, in short we argue it is corn prices.

Corn prices peaked at twice their normal level in March of 2013. Corn is part of almost

Who We Are



Ross Dietrich will start his senior year this Fall. He is an Economics and Accounting major. This is his first year with the WCER. This summer he works as an intern for the Economic Development Group of Wabash County. For WCER he is working on health related issues, helping with the agriculture topics, and has maintained the inflation numbers.



Nicole Dombek has completed her first year at Manchester University as well as her first year on the WCER. Her major is Business Management. She is taking over the inflation series from Ross and Conner and was responsible for the research behind the piece on religion in Wabash County.



Jessica Sanchez is a Social Work major starting her third year at Manchester University. This is her first year with the WCER. She is working with Nicole on the inflation numbers and was behind the piece on the Community Foundation of Wabash. Next year she will be investigating economic issues of poverty in the county.



Conner Shank is a junior Economics major. He has been with WCER for one year. This year he worked with Ross on the inflation numbers and did some preliminary work on a piece concerned with Wabash County's low crime rate.



Vasin "Thew" Pasda is a junior and third year participant with the Wabash County Economic Report. His major is Economics. He tackled the tricky problem of establishing a resident survey of economic conditions. We hope to present some results in the December 2015 and May 2016 issues.

He also maintains the housing numbers which is one of our unique series we periodically present.



Taylor Price is an Accounting and Economics major. He completes his degree in December and finishes his second year with the WCER. His work led to our piece on government revenues last issue, and his research on the agricultural sector will appear in the December 2015 issue. In addition to his projects, he maintains the unemployment and employment level numbers.

Allison Weber graduated this Spring as a Chemistry and Political Science major. This was her second year with WCER. In the past she worked with the inflation numbers and was behind the research on the feature concerning health in Wabash County in the last issue. She ultimately plans on attending law school.

Matt Hendryx is Director of the Wabash County Economic Report and Lecturer in Economics at Manchester University. He supervises the interns and teaches intro and upper level courses.



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We love to make presentations to interested groups. Contact us to arrange a time and place.

All past issues are available by clicking on the Archive tab at our website www.manchester.edu/WCER.

Sponsors

We would like to thank our past sponsors. The Ball Brother's Foundation provided us with the grant to start in June 2011. The Community Foundation of Wabash County contributed to our efforts in 2013.

Currently, our efforts are financed by a portion of a grant from the Lilly Foundation to Manchester University.