



On The Up: Voluntary Sector Wages in the UK 1998-2007

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What effect has the big expansion of the UK voluntary sector workforce in the past ten years had on wages in the sector?

A Growing Sector

Since 1997 the government in the UK has promoted the involvement of the independent non-profit sector in the provision of public services.

As a result, the voluntary sector has grown dramatically while the increasing use of commissioning and competitive tendering has exerted many market forces on the sector from which it had previously enjoyed some shelter.

The UK voluntary sector workforce has grown from 483,000 employees in 1996 to 611,000 employees in 2005. This is an increase of 26% in ten years (Private 11%, Public 14%).

The value of government contracts with the UK voluntary sector increased from around £2 billion in 1996/97 to £6.88 billion in 2005/06.

What is the Voluntary Sector?

- Non-distribution of profits constraint;
- Public-benefit Purpose;
- Independent.

The Voluntary Sector Labour Market

Warm-Glow Theory

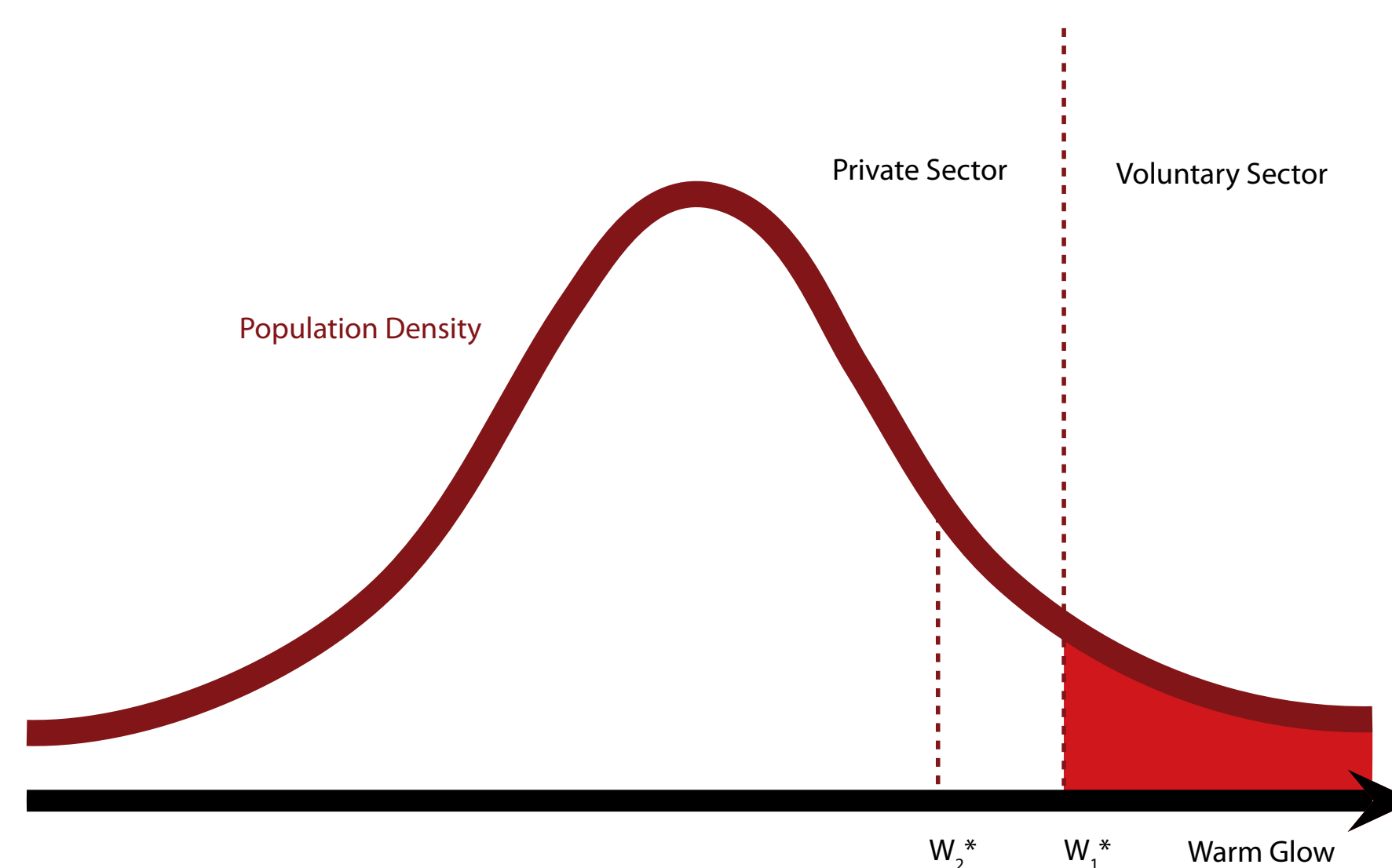
The most comprehensive model is Besley & Ghatak's (2005) Motivated Agent model.

Motivated Principals and Agents match, and the model predicts lower wages in mission-motivated organisations as warm-glow utility forms part of the agents' compensation.

Intrinsic Motivation Theory

Frey (1997) argues that compensation crowds out intrinsic motivation.

Warm-glow is therefore applicable to donating money or volunteering time, but not to the contracted worker relationship.



Empirical Literature

- Weisbrod (1983) found a nonprofit wage discount of 20%;
- Preston (1989) found a nonprofit sector wage discount of 18%;
- Leete (2001) found some differences at the industry level;
- Ruhm and Borkoski (2003) found no sig. dif. in panel data.

Estimating the Model

Using UK Labour Force Survey data 1998 to 2007 we estimate Mincer Wage Equations.

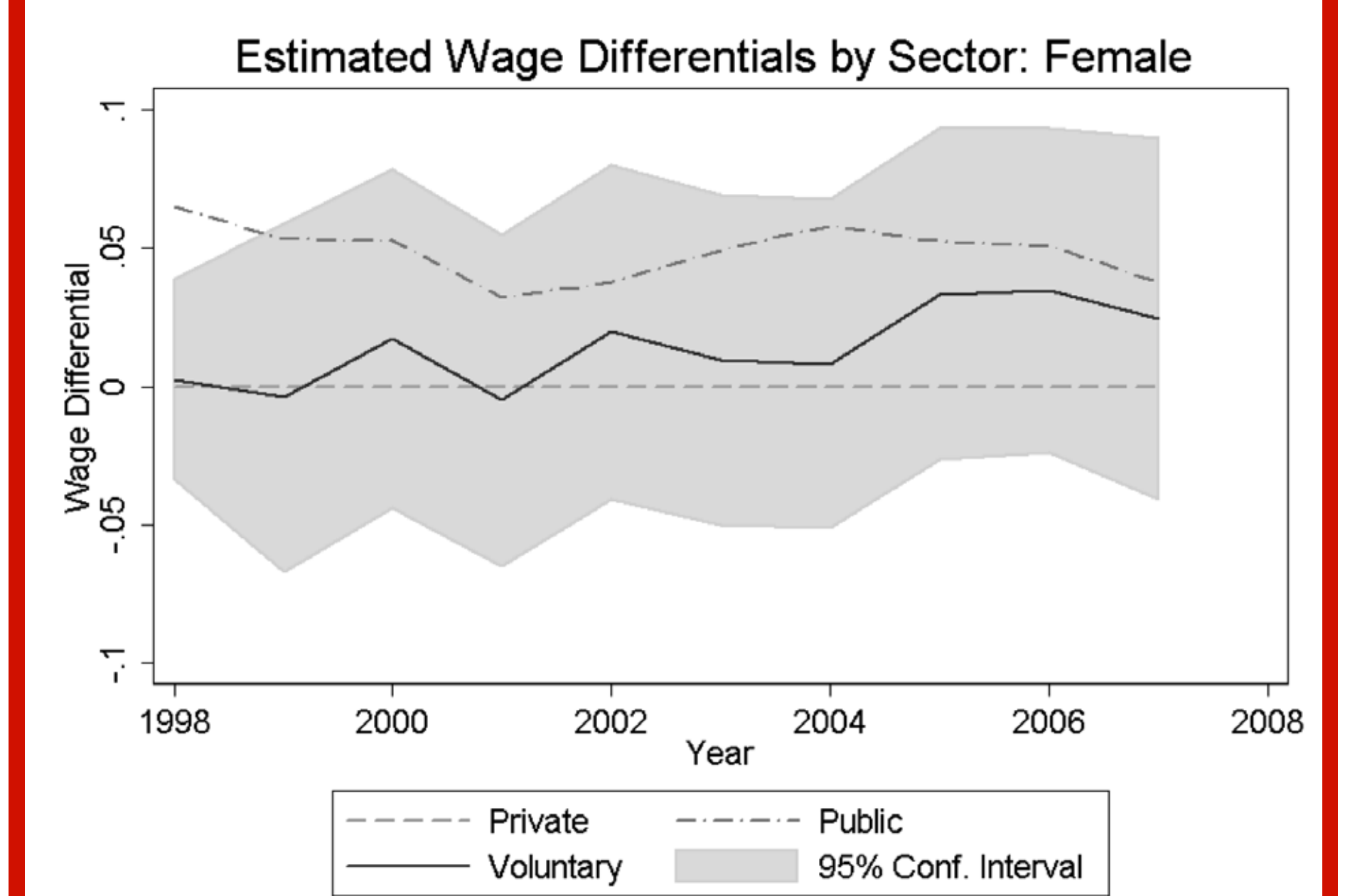
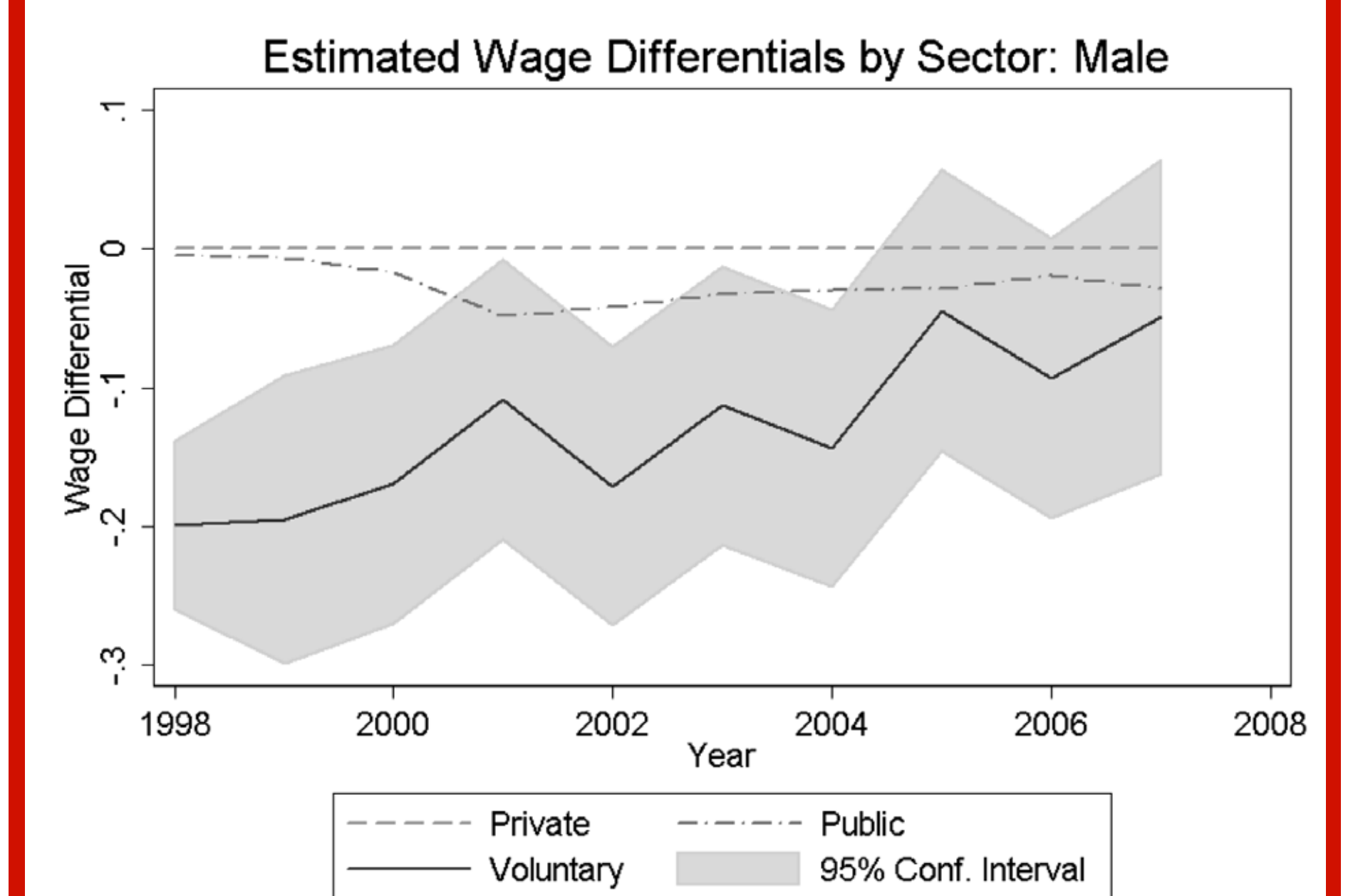
The interaction of sector and year variables estimates the sector wage differences in each year.

Tackling Unobserved Heterogeneity

Government policy since 1997 has provided an exogenous shock that has increased the size of the sector.

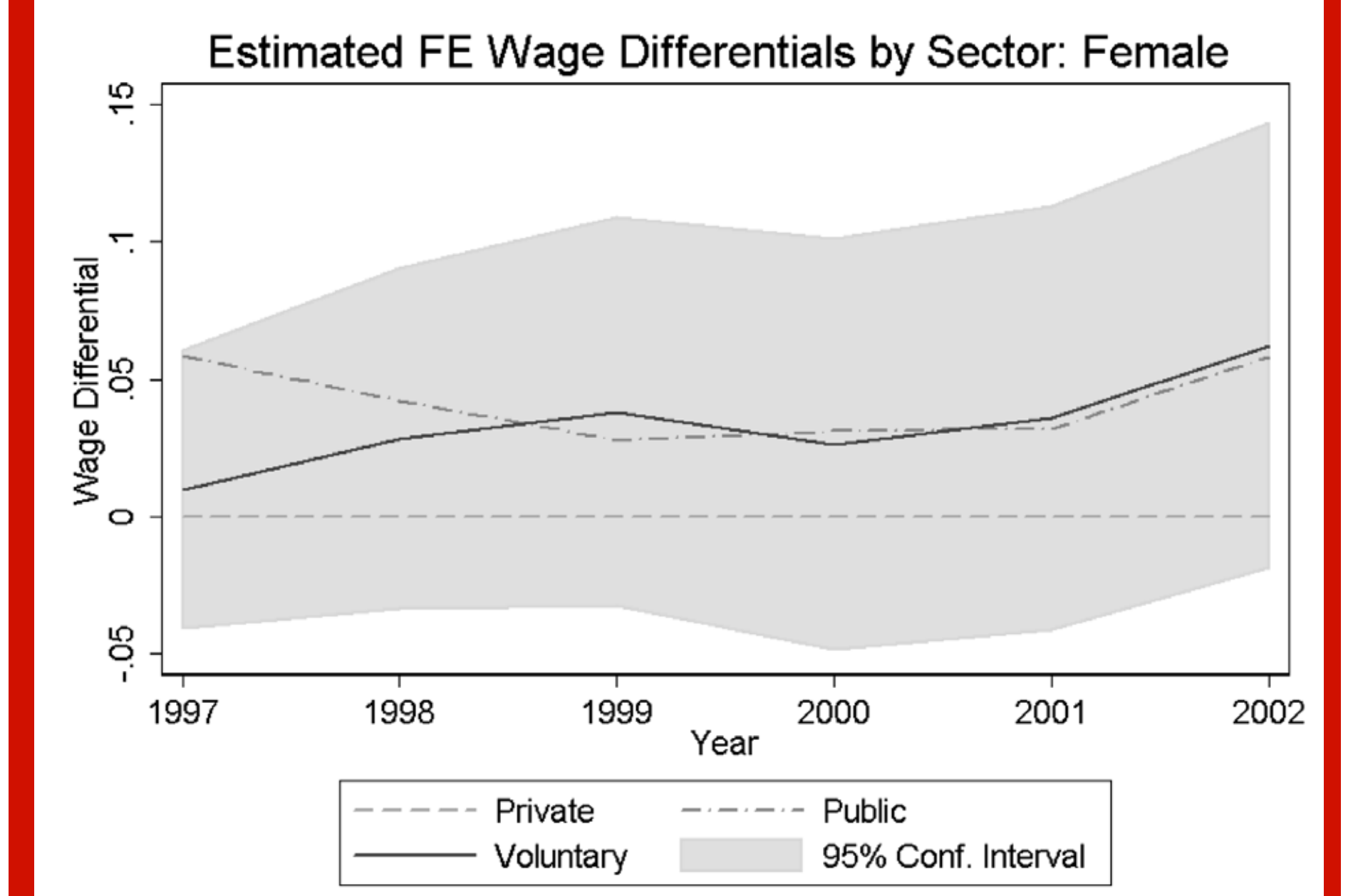
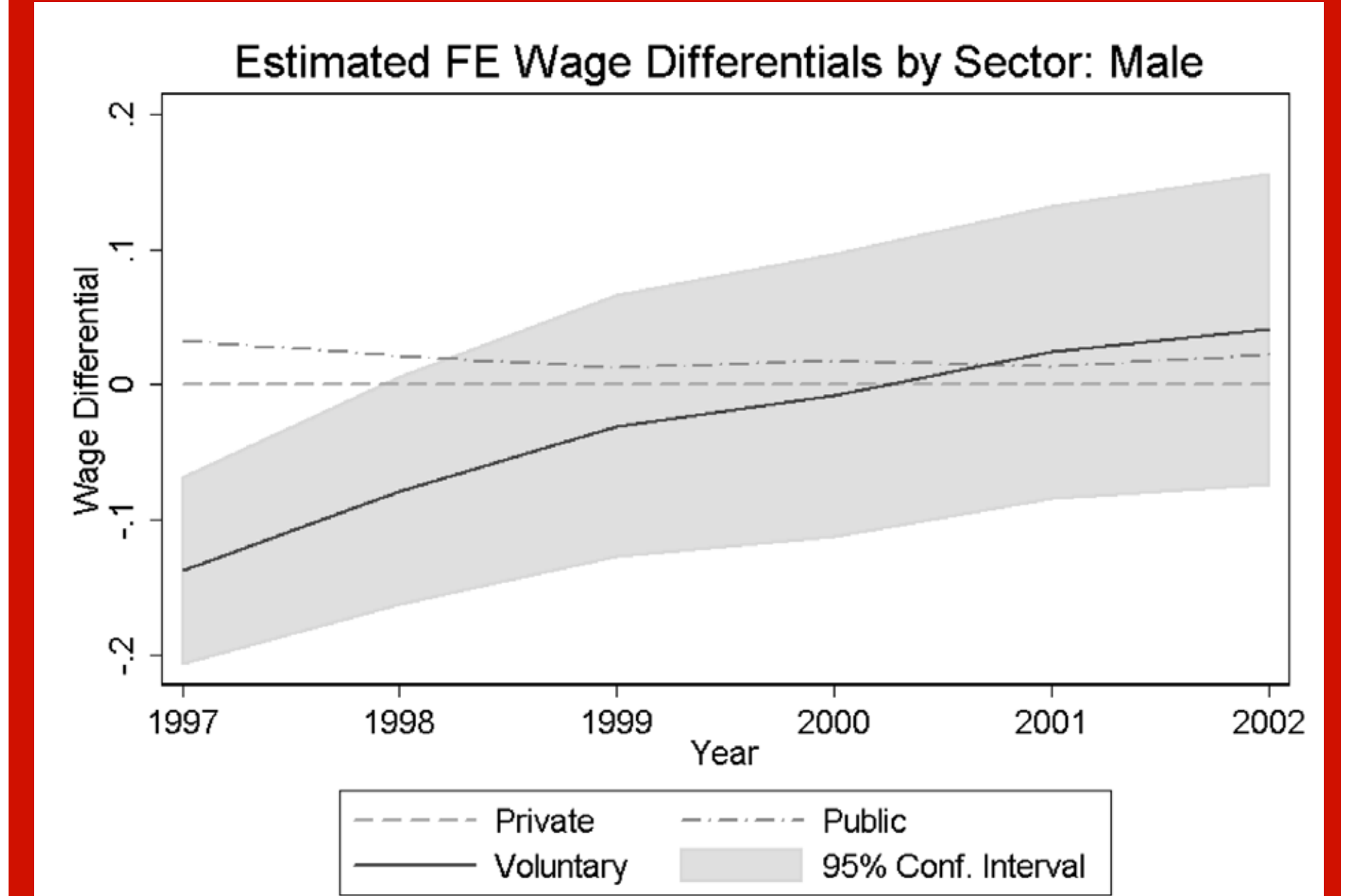
The panel element of the LFS is used to estimate a Fixed Effects model.

Model 1: Pooled Cross-Section



$$\ln(w) = \beta_0 + \beta_{VOL}VOL + \beta_{VOLYR}VOL \times YEAR + \beta_{PUB}PUB + \beta_{PUBYR}PUB \times YEAR + \beta_{EDUC}EDUC + \beta_{EXP}EXP + \beta_{EXP2}EXP^2 + \beta_X X + \epsilon$$

Model 2: Panel Fixed Effects



$$\ln[w_{it}] = CONS + \beta_{VOL}VOL_{it} + \beta_{VOLYR}VOL_{it} \times YEAR_{it} + \beta_{PUB}PUBLIC_{it} + \beta_{PUBYR}PUBLIC_{it} \times YEAR_{it} + \beta_{EDUC}EDUC_{it} + \beta_{EXP}EXP_{it} + \beta_X X_{it} + \alpha_i + \epsilon_{it}$$

Discussion

Voluntary Sector wages are significantly lower for male workers, less clear for female workers.

Lower Voluntary Sector wages for both male and females in 1998 – but wages in the sector have grown faster over the past ten years than the other two sectors.

This reduces the average level of warm-glow in the sector. If this intrinsic motivation is crowded out by increasing extrinsic incentives, then this is an issue. An unintended consequence of the policy to contract out services could be an undermining of the sector's main advantage.

Andreoni (1990) used the phrase "warm glow" to describe the impure altruism of utility from the act of giving to charity

