

Discussion Topics

The dominant theoretical explanation in economics for the existence of nonprofit organisations is their role in overcoming market failure where there are significant information asymmetries between purchaser, service-user and service-provider. While this is certainly important in explaining a critical function of nonprofit organisations, I feel that a richer explanation should take account of the motivations and goals of the individuals who run, work for and volunteer with these organisations.

With this in mind, I feel that gift exchange could form part of an explanation of nonprofit wage setting, where employers “gift” higher wages in return for a reciprocal gift of greater effort from workers. This relationship is particularly important where effort is difficult to observe and/or quality difficult to measure. I suggest that the motivation and shared goals of workers in nonprofit organisation, together with the non-distribution constraint, facilitates this gift exchange and gives nonprofit organisations an advantage over for-profit firms in some industries and some services.

This research is ongoing, and all comments, suggestions and criticisms will be welcomed. Some of the questions that I am currently considering include:

- What are the driving forces behind nonprofit/voluntary sector wage setting?
- Are workers in the nonprofit/voluntary sector behaving altruistically (by accepting lower wages, exerting more effort, delivering higher quality, etc)?
- Is Employer-Employee Gift Exchange a good model/explanation of this?
- How can we distinguish between these different explanations?
- Does this analysis apply to other the nonprofit/voluntary sector in other countries?
- This analysis does not consider volunteering – can/should this be incorporated?

References

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Paying the Price for Care: Estimating Wage Differentials between the Private, Public & Voluntary Sectors

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Are workers in the nonprofit/voluntary sector paid more or less than their colleagues in the private and public sectors? How can we explain this? What does it mean? And why does it matter?

These questions are tackled empirically using individual-level data from the UK Labour Force Survey (LFS) to identify workers in the nonprofit/voluntary sector. I analyse wage differences between sectors taking into account individual workers' characteristics, and using both pooled cross-section and panel datasets. From this analysis I hope to develop a theory of nonprofit wage setting that incorporates worker motivation and employer-employee gift exchange as a method of overcoming information asymmetry in industries where quality is difficult to observe.

Main Findings

- An economy-wide voluntary sector wage discount was found for male workers, but no significant difference for female workers
- Evidence of lower economy-wide gender wage discrimination in the voluntary sector
- A voluntary sector wage premium was found for both male and female workers in the Health & Social Work industries, at all levels of industry disaggregation, compared to the private sector
- No significant sector wage difference found for both male and female workers switching between sectors
- Higher levels of unpaid overtime found for both male and female workers in the voluntary sector, compared to both the private and public sectors
- Evidence of reduced returns to job tenure for male and female workers in the voluntary sector

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Theoretical Literature

Theories of wage setting in the nonprofit/voluntary sector are not conclusive, and different explanations predict quite different effects.

Voluntary/nonprofit sector premium

Property Rights theory suggests that nonprofit organisations create rents that are then used to pay higher wages. These could be the “profits” that can’t be distributed, or due to the lack of cost-minimising incentives (Preston, 1988).

Voluntary/nonprofit sector discount

Motivated Agent theory predicts that “motivated” workers gain utility from working for an organisation that shares their goals. This satisfaction acts as part-compensation for working, leading them to accept lower wages (Besley & Ghatak, 2005)

Empirical Literature

Empirical research into the sector wage differential has also produced mixed results, finding both wage premiums and discounts. Estimation of wage equations is complicated by unobserved heterogeneity, endogeneity, and sample selection bias.

Voluntary/nonprofit sector premium

Leete (2001) used US census data for 1990 and found little evidence of a difference between the private and voluntary sectors overall. However, she did find some significant differences at the disaggregated industry level with nonprofit workers in the health & social work industries had wage premiums of 2% - 7%.

Naci Mocan & Tekin (2003) examine employer-employee matched data on child care workers, and find evidence of a nonprofit wage premium of between 6% - 15%.

Voluntary/nonprofit sector discount

Preston (1989) conducted an analysis of the nonprofit sector wage differential for white-collar workers using Current Population Survey (CPS) in the US, and found a significant nonprofit sector discount of 18% even after controlling for differences in human capital and other worker and job characteristics. She found a larger differential for male workers than female workers.

Weisbrod (1983) examined wage differences between lawyers employed by nonprofit and for-profit firms, and found evidence of a nonprofit wage discount of ~20%.

The empirical literature seems to suggest that there is a nonprofit wage discount when examined at the economy-level, however the size and nature of the premium/discount varies by industry. In the health and social work industries, where nonprofit organisations are most common, the evidence appears to support the existence of a wage premium.

Researching the UK Nonprofit / Voluntary Sector

Much of the existing literature on wage differences in the nonprofit/voluntary sector focuses on US data. Arguably, there are large national differences in the structure, governance and behaviour of the nonprofit sector. This analysis makes use of available British data sources to examine the sector differences in the UK.

Cross-Section: Economy-wide

Dataset: UK Labour Force Survey 1998 – 2007. Pooled cross-section of ~577,000 workers, with about 11,000 in the voluntary sector (~2%).

Method: Dummy variable, sector equations (Oaxaca-blinder decomposition) and employment sample selection correction.

Results: Voluntary sector wage discount of ~10% for male workers, no significant wage difference for female workers.

Cross Section: Health & Social Work Industries

Dataset: UK Labour Force Survey 1998 – 2007. Pooled cross-section of workers in specific industries, from 35,000 to 4,800, with about 12% in the voluntary sector.

Method: Dummy variable, sector equations (Oaxaca-blinder decomposition) and employment sample selection correction.

Analysed at three industry levels: “Health & Social Work”, “Social Work” & “Social Work with Accommodation”.

Results: Voluntary Sector wage premium of ~8% - 12% for both male and female workers at all industry levels. This finding is robust after accounting for differences in working hours, including unpaid overtime.

Panel Estimation: Economy-wide & Health & Social Work Industries

Dataset: Longitudinal UK Labour Force Survey 1998 – 2007. Two observations on each worker, one year apart. Identify sector switchers.

Method: Fixed Effects Panel Estimator.

Industry Analysed at two levels: Whole economy and Health & Social Work.

Results: No significant sector wage difference found for either male or female workers.

Future Work

Analysis of labour-demand side of voluntary/nonprofit sector labour market – examine characteristic of organisations such as working conditions, policies, strategy and goals.

Estimation of joint linked employer-employee model using alternative dataset (sample of ~100 nonprofits, ~2,500 employees).

Develop theory of nonprofit/voluntary sector wage-setting based on Gift-Exchange theories (Akerlof, 1986) to overcome information asymmetry.