The Quiet Crisis

The Impact of the Economic Downturn on the Nonprofit Sector

A Report By

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EXECUTIVE SUMMARY

This report was written to shine a spotlight on the under-reported plight of America's nonprofit organizations and to make recommendations for how the nation can respond. In the wake of the economic downturn, hospitals, nursing homes, nursery schools, senior centers, soup kitchens, and other nonprofit organizations have been hit by a triple whammy. The evaporation of wealth has decimated charitable donations; the state and local budget crunch is costing nonprofits their foremost paying clients; and the human need for nonprofit help is skyrocketing as nonprofit resources shrink.

As the nation's needs soar and charitable donations plunge, the nonprofit sector is in a quiet crisis.

Our research uncovered disturbing evidence of the nonprofit sector's growing troubles:

- Churches, many of which deliver social services to the poor and needy, were expected to raise $3 billion to $5 billion less than anticipated in the last quarter of 2008;
- United Way saw a 68 percent increase during the past year in the number of calls for basic needs such as securing food, shelter, and warm clothing, and is receiving 10,000 to 15,000 more calls every month compared to 2007;
- Chicago's Meals on Wheels is trimming its budget by 35 percent;
- The State of Arizona reports an increase of more than 100 percent in the number of people who sought social services from 2007 to 2008, and Goodwill of Central Arizona reported nearly twice the number of visits to its centers on December 23, 2008, compared to the same day in 2007; and
- Over the last year, more than 70 percent of Michigan nonprofits have seen increasing demand for their services, while 50 percent say their financial support has dropped.

Reversing the nonprofit plunge is a matter of jobs, not just charity. With 9.4 million employees and 4.7 million full-time volunteers nationwide, nonprofits constitute 11 percent of the American workforce—greater than the auto and financial industries combined. If the nonprofit sector were a country, it would have the seventh largest economy in the world. We cannot afford for it to go the way of Iceland, whose financial system collapsed.

So far, the economic debate has almost completely overlooked nonprofits. That is a mistake, because no sector offers more bang for the buck. For example, national service volunteers—individuals who spent one or more years of their lives in full-time or part-time civilian service to the country—cost less per hour than private-sector employees making the minimum wage. A report showed that such national service among disadvantaged youth led to successful post-service employment and higher earnings than their peers with no national service experience. Such citizen service, one of America's finest and longstanding traditions, offers policymakers a hat trick: a way to create hundreds of thousands of jobs at low cost to government, with great national purpose—meeting the country's most challenging needs in education, poverty, health care, energy, and the environment—and with no new bureaucracy, since individuals work through existing nonprofit organizations.

Churches were expected to raise $3 to $5 billion less than anticipated in the last quarter of 2008.

This report makes several concrete recommendations on how our nation can spark a strong nonprofit recovery and permit more Americans to do good works in hard times:

1. **Put 250,000 Americans a year to work in national and community service by passing the bipartisan Serve America Act.** This legislation—endorsed by both President Barack Obama and his 2008 opponent John McCain, and co-sponsored by Senators Edward Kennedy, Orrin Hatch, and 20 other senators from both parties—expands opportunities for individuals of all ages to serve, from young people to working adults to retirees. The bill establishes a tax incentive for employers who allow employees to take paid leave for full-time service; creates "Encore Fellowships" to help retirees who wish to transition to longer-term public service; establishes a "Volunteer Generation Fund" to help nonprofit organizations recruit, train, and deploy more volunteers to meet increasing local community needs; and provides more visibility and a network of community solutions funds to support social entrepreneurs—those whose service has a profound effect on transforming the very systems to solve our nation's toughest challenges. President Obama has just challenged Congress to pass the bipartisan Serve America Act.

2. **Adopt targeted incentives to expand private giving and volunteering.** A handful of modest changes in the tax code would help keep nonprofit contributions by individuals and foundations from plunging: extending the IRA rollover so Americans over 70 can make charitable contributions through tax-free withdrawals from their retirement accounts; making the mileage deduction for volunteer travel, currently at only 14 cents per mile, the same 58.5 cents per mile as for business travel; creating a broad-based nonprofit investment tax credit to help charities hold their own in a brutal credit environment; suspending the 2 percent excise tax on foundation earnings for grant makers that give more than the 5 percent of assets required by federal law; and allowing the 65 percent of all taxpayers who do not itemize their tax deductions to claim a deduction for charitable contributions.

3. **Create a Social Innovation and Compassion Capital Fund.** A "Social Innovation and Compassion Capital Fund" should be established to help nonprofit organizations—including faith-based and community groups—enhance their effectiveness and capacity to provide social services to those most in need; diversify their funding sources; strengthen their partnerships with nonprofit, private and the government sectors; and spawn the creation of new ideas and pilot programs that draw on the capacities of social entrepreneurs and innovators to improve existing systems and design new approaches to meet the needs of the poor and vulnerable.

4. **Give nonprofit housing and financial institutions a prominent role in solving the nation's massive mortgage and foreclosure problems.** Community development financial institutions and nonprofit housing organizations oversee billions of dollars in mortgages and loans to low-income communities and individuals, without the greed, excessive risk, and mismanagement that plagued so many subprime lenders and helped lead to the current financial crisis. At many of these institutions, the entire payroll is smaller than the executive bonuses at the major financial firms on Wall Street. As the Treasury Department and Congress design recovery plans for the housing sector, the federal government should make full use of these lean, dependable, results-driven nonprofits, and not simply pour more taxpayer dollars into the same institutions that brought on the economic crisis in the first place.

Below, we have compiled stories and statistics from across the nonprofit sector that illustrate the dire straits facing many of our most crucial institutions. As Americans have always shown in times of crisis, what we ask of ourselves matters most. If we want to create the most jobs for the lowest cost with the least bureaucracy and foster the spirit of sacrifice that President Obama envisions, we must find a place for more Americans to give back to their communities and country.

With 9.4 million employees and 4.7 million full-time volunteers nationwide, non-profits constitute 11 percent of the American workforce.

THE QUIET CRISIS

A decline in the nonprofit sector will be felt across all sectors of the American economy, as it contributes more than $322 billion in wages and its workforce outnumbers the combined workforces of the utility, wholesale trade, and construction industries.[1] In fact, with 9.4 million employees and 4.7 million full-time volunteers, the nonprofit workforce consists of more than 14 million people, which totals roughly 11 percent of the American workforce, and constitutes about 5 percent of GDP.[2] With this GDP, the nonprofit sector would be the seventh largest economy in the world, if it were its own country.[3]

The economic recession has dramatically affected the nonprofit sector. The demand for services that nonprofits traditionally provide has increased significantly. Additionally, Americans have less disposable income to continue giving at the levels they have in previous years. This recession comes on the heels of record levels of giving, as 2007 saw the highest level of donations—$306.3 billion rising from $295.02 billion in 2006.[4] In a survey conducted of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported already feeling the effects of the downturn, with 52 percent already experiencing cuts in funding. Of those receiving less funding, 49 percent reported a 10 percent to 20 percent decrease in funding, while 25 percent of these nonprofits revealed that funding had been cut by 21 percent or more. Across the country, nonprofits are feeling the pinch, particularly those that rely on government funding (with 61 percent of nonprofits reporting cuts in government funding) and those that rely on foundations for monetary contributions (with 48 percent of nonprofits reporting cuts in foundation funding).[5]

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Since the vast majority of nonprofits are small to midsize organizations—roughly 94 percent have an annual budget of under $1 million—any reduction in funding is felt severely.[6] In addition, few nonprofits are adequately prepared to face an economic downturn of this magnitude, as roughly just one-quarter (28 percent) report having a well-defined contingency plan in the face of an economic crisis.[7]

If previous recessions are any guide, giving usually falls in recession years. In years with 8 months or more of recession, charitable giving has declined an average of 2.7 percent per year. The worst period for a decline in giving on record was a drop of 9.2 percent (adjusted for inflation) from 1972 to 1975 and 5.4 percent in 1974 alone.[8] Today's nonprofit sector is much larger in scale and reach than 40 years ago, and the detrimental impacts of the current recession may be more severe.

For the more than 1 million nonprofits in this country, the biggest donations come from government, corporations, foundations, and the ultra-wealthy. Already, research shows that the number of donors fell a median of 3.8 percent in the first half of 2008, compared to a year earlier. Also during this time, nonprofit revenues declined a median of 2.4 percent.[9] Surveys show that few nonprofit organizations have strong reserves to weather the downturn—54 percent of respondents have three months or less of operating reserves and 74 percent have less than six months of operating reserves.[10]

Nonprofit Shortfalls Due to Government Funding

A large majority of nonprofits receive government funding, usually from states. The recession, however, has led 44 states and the District of Columbia to expect budget shortfalls for the remainder of their fiscal years, which end July 1, 2009. These shortfalls are expected to total 8.6 percent of overall budgets, and at least 38 states are expecting deficits for fiscal year 2010 and beyond. These gaps in funding look to total almost $350 billion by the end of fiscal year 2011.[11]

Unlike the federal government, state constitutions both require states to balance their budgets and do not permit deficits even when the economy is in a downturn. States typically respond by cutting expenditures, raising taxes, or drawing on reserve funds in order to balance their budgets. Since government is the primary source of revenue for human service nonprofits, the effects could be overwhelming. At least 28 states have implemented or are considering cuts that will affect low-income children's eligibility for health insurance or reduce their access to health care services. Programs for the elderly and disabled also will invariably be cut. At least 22 states are cutting medical, rehabilitative, home care, and other services, or significantly raising the prices of these services.[12]

The repercussions of state budget cuts can also be seen in the education sector as at least 26 states are cutting or proposing to cut funding for K-12 education, and at least 32 states have implemented or are proposing cuts for public colleges and universities.[13] In Iowa, state budget concerns have caused a significant delay in the announcement of awards given to after-school programs. Enrollment in fee-based after-school programs has also declined as parents cite economic hardships. Similar trends are found as 38 states are likely to reduce their state workforce numbers.[14] The economic recovery plan President Obama just signed into law will make those cutbacks less severe than they would otherwise have been, but the budget outlook for state and local governments remains grim.

By looking at individual states, one can see the specific impact of budget shortfalls:

- Michigan recently sent out letters announcing that the state had the right to delay payments to nonprofits by up to 45 days, and suggested that the state may take steps to extend the delay further.[15]

- In California, the Human Services Department in Sonoma County had to cut its contributions to a variety of local nonprofits, various women's and children's shelters, and the YMCA, which will lose roughly $700,000.[16]

- The State of Minnesota is facing a $4.8 billion deficit in the next 2 years, despite the rising demand for public services.[17]

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Demand for Nonprofits Increases in the Face of the Recession

In 2008, record numbers of Americans lost their jobs and are struggling to find new employment. Data shows that the unemployment rate hit a 16-year high in 2008, with 2.6 million lost jobs, and many economic analysts predict the jobless rate will hit 8 percent in the upcoming months (currently, the rate is at 7.6 percent).[18] As a result of high rates of unemployment, more Americans are less willing to continue with previous levels of giving and volunteering. In addition, as more unemployed individuals and families are struggling through personal hardships, many service nonprofits are seeing record numbers of "first-time visitors" to their centers for assistance. These struggles can be seen on a state level:

At United Way, a 68 percent increase in the number of calls received this year dealing with basic needs: food, shelter and warm clothing.

- In Minnesota, nonprofit CEOs, presidents, and executive directors report that the demand for social services has been heightened as a result of laid-off workers who are seeking public assistance either financially or in the form of medical services. They are also seeking more education and training in hopes of developing additional job skills to find new employment.[19]

- A similar trend was seen in Arizona, as the state reported that the number of individuals seeking services was 22,107 this year, more than twice the 10,818 people who sought help last year. The Goodwill of Central Arizona reported that on December 23, 2008, there were 64,013 visits to its centers compared to 39,004 on the same day in 2007.[20]

- In California, local nonprofits are witnessing the worst-ever crisis of homelessness and a lack of food and shelter due to the increased unemployment rate and wave of home foreclosures.[21]

Case Study: The United Way, a national nonprofit committed to helping individuals and families in need, has also seen an increase in demand for their services. It has reported:[22]

- A 68 percent increase in the number of calls received this year dealing with basic needs — callers looking for help securing food, shelter, or warm clothing.

- The number of calls received from homeless families has doubled since last year, and overall, United Way is receiving 10,000 to 15,000 more calls every month compared to 2007.

- Many of the callers reported being homeless as a result of recent evictions and home foreclosures. These record numbers of individuals and families seeking assistance have caused a dramatic backlog in United Way's systems and it is taking much longer to secure food stamps and other benefits for those in need.

- One United Way volunteer sums up the experience by saying, "People call, and more and more are saying, 'I've never needed help like this before.'"

Nonprofits Unable to Meet Increased Demand

Seasoned nonprofits are finding themselves in a two-fold dilemma. First, they are facing high levels of demand from individuals and families who are struggling as a result of the economic downturn. Second, nonprofits find themselves with depleted resources as federal, state, and individual contributions are declining.

The economic downturn is keeping many service-based nonprofits from reaching fundraising goals:

- A prime example is Habitat for Humanity, a well-known service nonprofit that builds homes for low-income families. Its Inland Valley chapter in California was unable to find corporate sponsors for its annual fund-raising event. As a result, giving is down 39 percent from this time last year.[23]

- Oxfam America, an international relief organization, reported sales were down 40 percent this year from its annual charity catalog that donates proceeds to disadvantaged nations.[24]

- Meals on Wheels in Chicago, which provides hot meals to low-income and home-bound individuals, recently announced that it will be trimming its budget by 35 percent in the upcoming year.[25]

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The recession also has an impact on faith-based centers. A new study by the Barna Group found that during the last quarter of 2008, one out of every five households had cut its faith-based giving. Among those who have decreased their giving, 22 percent have stopped giving altogether. As a result, churches were expected to see a decline in donations of $3 billion to $5 billion in the months leading up to 2009.[26]

As a result of decreased funds, many faith-based organizations are being forced to cut employees. Northside United Methodist Church in Springfield, Ill., could not meet its $120,000 budget as lower-income and fixed-income families decreased their giving. Overall, the average faith-based institution is expected to see a 4 percent to 6 percent decrease in revenues.[27]

Cultural organizations like museums and historic sites, largely responsible for increasing state revenue through tourism, are also being hurt by the recession:

- A survey of close to 100 New York City cultural organizations found that 79 percent will be reducing their budgets this year. Of these, 68 percent report they will defer new hires, 42 percent plan on laying off employees, and 45 percent will likely cancel or postpone programs.[28]

- Similarly, the American Association of Museums announced that in Illinois, state budget cuts have resulted in the closing of 12 of the state's 28 historic sites.[29]

- Likewise, the New York Botanical Gardens, as a result of experiencing a 20 percent decline in earned income, will cancel exhibits and layoff workers in 2009.[30]

Foundations Adjust and Decrease Grant Making

Across the country, foundations notable for high levels of grant making to nonprofits are planning to cut back on the number of future grants if the economy does not recover. In 2007, foundations set records for giving, totaling $5.4 billion, of which the Bill & Melinda Gates Foundation contributed more than half. For 2009, the Gates Foundation announced that it will scale back its plans for grant making, and while the foundation will still grow its payout by 10 percent, it will not be able to meet the $3.2 billion it had hoped to give out before the economic downturn hit.[31] In California, the William and Flora Hewlett Foundation announced it would cut its grant making by 7 percent.[32] Similar plans are being made for the Carnegie Foundation, which had an estimated worth of $3.1 billion last year, but has fallen to $2.2 billion in early 2009.[33]

In addition to either cutting back or not scaling up the level of grant making, foundations are also choosing to adjust the areas in which their grants will be targeted. Many foundations are recommitting themselves to human service nonprofits, which are becoming overburdened in the midst of the recession:

- The Weingart Foundation announced it will be offering "core support" to underwrite administrative costs for social service agencies that provide necessities such as food, clothing, shelter, and health care to low-income individuals and families in the Los Angeles region. These will be issued in the form of one-year grants, up to $150,000 for nonprofits that specifically provide these human services.[34]

- The John D. and Catherine T. MacArthur Foundation is investing $68 million in grants and low-interest loans to stop foreclosures in Chicago neighborhoods. They hope to target 10,000 households, prevent 2,700 foreclosures by 2010, and provide counseling to 6,000 borrowers.[35]

- The Pittsburgh Foundation recently announced that it will be reallocating its resources to set up an emergency community relief fund to help those most crippled by the economic downturn.[36]

Case Study: Geoffrey Canada's "Harlem Children's Zone"[37]

For decades, Harlem Children's Zone President Geoffrey Canada has been tirelessly working to save poor children from the crime-ridden streets and crumbling public schools in their neighborhoods. Currently, Canada reaches 8,000 children across 97 blocks of Central Harlem. The program's model is to create community-wide supports for the youth: everything from parenting classes, to free health clinics, and high-achieving charter schools. According to Canada, 30 percent to 50 percent of males in low-income neighborhoods end up being incarcerated, which is why a $3,500 investment in the Harlem Children's Zone is more efficient and less costly than the $50,000 Americans pay to keep that child behind bars.

His program starts before children are even born, as expectant parents enroll in a nine-week Saturday morning program, dubbed "Baby College." Parents are taught the importance of reading to their children, prenatal care, and the proper way to discipline children that does not rely on physical abuse. The children are then placed in rigorous prekindergarten schools that teach foreign languages, so that they are adequately prepared for the high-performing charter schools they will attend.

The methods of the Harlem Children's Zone have shown favorable results, as last year nearly all of Canada's third-graders scored at or above grade-level in math, and his eighth grade students outperformed the average New York student in math. His outcomes are so promising that President Obama mentioned during his campaign that he wanted to replicate Canada's model in 20 cities across the United States, and that initiative remains part of the White House's publicized agenda.

Unfortunately, Canada is feeling the pinch of the economic downturn as many of his Wall Street and private investment backers, who have previously donated upwards of $15 million annually, can no longer afford to give at such high levels. His budget had grown 15 percent annually in eight of the past nine years, to $68 million, and his charity endowment stands around $94 million. Now, with his biggest contributors—such as Lehman Brothers, Merrill Lynch, Citigroup, and Morgan Stanley—facing collapse or financial distress, he has had to lay off employees and can no longer afford to expand his project. Ultimately, Canada plans on cutting 10 percent of his staff and has shelved plans to add another 1,000 children to the program.

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Youth Unemployment High — Also Among College Graduates

While unemployment rates rose for all age groups during 2008, the increase was particularly acute for America's youth. For researchers, youth unemployment rates are usually a good indicator of the overall health of the economy, since young people typically face the greatest difficulties in finding steady employment, due to their lack of experience.

By January 2009, the overall unemployment rate had reached 7.6 percent. The youth unemployment rate, for individuals 16 to19 years old, was nearly triple that, at 20.8 percent.[38] In particular, African-American youth were the most likely to be unemployed, at a rate of 36.5 percent in January 2009.

High rates of youth unemployment are detrimental not only to the jobless youth, but also to the economy as a whole. Research shows that an individual who experiences early unemployment is more likely to have lower future earnings as well as repeated spells of joblessness.[39] The demoralizing effects of prolonged unemployment may also lead to adverse psychological effects on young people, such as depression, as well as an increased likelihood of risky behavior, such as crime and drug-taking.[40]

Unemployment rates for college graduates, while still lower than the nation's overall unemployment rate, are nevertheless increasing. Compared to the national rate of unemployment, which was 7.6 percent in January, the college graduate unemployment rate was 4.1 percent, breaking the record for college graduates of 3.9 percent in January 1983. Some researchers predict the rate will continue to increase and exceed 5 percent in 2009.[41]

Teach for America saw a record number of applications for fewer than 5,000 teaching positions for the 2009 school year.

Older Americans Particularly Hurt by the Recession

As unemployment rates climb, many older Americans are quickly finding themselves out of work. According to the U.S. Department of Labor, as of January 2009, 5.2 percent of workers age 55 and older were unemployed. This is a jump of 63 percent from just over a year ago, with 1.5 million older workers now facing joblessness.[42] Unlike many other sectors of the workforce, it is generally harder for older Americans to find a new job once they become unemployed. In October 2008, one out of every three jobless Americans age 55 and older had been out of work for at least 27 weeks, a 15 percent increase from the previous month.[43]

Many older workers are returning to the job market because of the recession's impact on their retirement funds. Market turmoil has wiped out nearly $3 trillion from America's retirement accounts over the past 14 months, as the average American lost 34 percent on retirement holdings. Americans age 50 or older tended to be the hardest hit since they hold 75 percent of the wealth in the nation's retirement accounts, largely in the form of IRAs and defined contribution plans.[44]

Amidst the Economic Downturn, Interest in Nonprofit Employment Increasing

As many nonprofits are being forced to lay off employees, cut salaries, reduce work hours, and even close parts of their operations, some are also witnessing an increase in employment applications. In a climate of high unemployment rates, it is not surprising that many individuals are turning to nonprofits for work.

One of the most compelling examples is Teach for America. A nationally recognized service organization that recruits top college graduates to commit two years to teaching in low-income schools, Teach for America has steadily increased in popularity since its inception nearly 20 years ago. Last year it saw a record number of 14,181 applications from America's youth—with 23,000 more expected by the February deadline—all for fewer than 5,000 teaching positions for the 2009 school year. While this is a reflection of the difficult job market, it also poignantly shows the commitment of the nation's youth to serve. In a 2007 survey conducted by UCLA freshmen, it was reported that 70 percent of respondents felt that it is "essential" or "very important" to help those in need.[45]

Similarly, there was a spike in applications for both AmeriCorps positions and for the Peace Corps. The Peace Corps, for example, reported a 16 percent increase in applications in 2008, making the 13,000 applications it received last year the highest in five years.[46]

National service members make only $5.67 an hour, less than the federal minimum wage.

ECONOMIC CASE FOR NATIONAL AND COMMUNITY SERVICE

A Low-Cost Solution to Fight Unemployment

Since the inception of full-time and part-time national and community service in 1993, more than 540,000 Americans have committed to tackling the nation's most challenging problems through a powerful network of well-known nonprofit organizations, such as Habitat for Humanity, Teach for America, and City Year. Each year since 2004, the federal government has offered 75,000 opportunities to adults of all ages to serve through partnerships with local and national nonprofit groups. These individuals are given a monthly living stipend and receive an education award at the end of their year of service.[47] The last Congressional Budget Justification reported that for 2007, the overall cost per such national service members was $9,621 for the 1,700 hours of annual service they were expected to complete. These national service members make $5.67 an hour, less than the federal minimum wage that is currently set at $6.55 per hour.[48]

In addition to creating jobs at lower cost than government or the private sector, national service programs and members leverage impressive resources within their communities. For 2007, these national service members recruited nearly 1 million local volunteers. More than 90 percent of the sponsoring organizations reported that national service members had helped them increase their productivity and the number of people served by their programs. On an economic level, in 2007, these national service programs leveraged an impressive $231 million in financial resources to meet local needs.[49]

“And to encourage a renewed spirit of national service for this and future generations, I ask this Congress to send me the bipartisan legislation that bears the name of Senator Orrin Hatch as well as an American who has never stopped asking what he can do for his country – Senator Edward Kennedy.”

–President Barack Obama

These calculations clearly show the economic benefit of increasing the levels of full-time national and community service positions. These individuals commit themselves to tackling the nation’s most pressing challenges, such as those members who rebuilt houses in the communities hit by Hurricane Katrina or mentor children in our nation’s most low-performing schools. They also do it at an extremely low cost to the American taxpayer.

Long-Term and Far-Reaching Benefits

As a result of the economic downturn, youth are struggling more than any other age group with the tightening job market, experiencing a joblessness rate nearly three times the nation as a whole. Many youth rely on employment, particularly summer jobs, to pay for their education or add to their family’s aggregate income. Data shows that youth had a harder time finding employment during the summer of 2008 than at any other time since the 1940s.[50]

Employing youth in national and community service programs is a targeted response to combating high rates of youth joblessness. Research shows that youth who were engaged in these programs not only earned a salary, but upon completing the program, were also more likely to stay invested in service and find successful employment.

National service programs also have been shown to have an important impact on participants in these programs and in meeting needs in communities. Independent evaluations have shown that Teach for America teachers have made greater gains in math among their students compared to other teachers[52]; participants in Citizen Schools programs show higher school attendance and math and English grades[53]; City Year alumni show increased participation in groups and organizations and belief in their political efficacy[54]; third graders working with Experience Corps members scored higher in reading tests and exhibited better behavior in schools than children in control schools[55]; African American men in Youth Corps programs were more likely to have experienced more employment and higher earnings, voted in the last election, and scored higher on measures of personal and social responsibility than members in a control group[56]; and 75 percent of former participants in the YouthBuild program (most of whom are high school dropouts) were currently working at an average wage of $10 an hour, going to school, or training for jobs.[57] Future studies should examine the costs and benefits of these investments and outcomes.

In a recent longitudinal study of national service members, data showed that former members were more likely than their non-national service peers to stay in public service. These individuals reported that the programs taught them new skills, gave them better access to higher education, and helped them view themselves as positive role models. After finishing their year of service, national service alumni were also more likely to continue volunteering. Research showed the former members who did not volunteer prior to their national service were

25 percent more likely to volunteer than a group of individuals who expressed interest in, but did not join, such national service programs.[51]

Similar trends were seen upon examining the long-term effects of individuals involved with Youth Corps, a full-time national community service program that employs youth with a combination of work experience and education. The majority of Youth Corps members are economically disadvantaged and between the ages of 18 and 25. Like other national service members, these youth also were satisfied with their involvement with the programs. Almost three-fourths (73 percent) said they learned a skill that would benefit them in the future, 95 percent perceived their services to be "helpful" or "very helpful" to their community, and more than 80 percent reported that they would enroll in the program if they had the opportunity to make the decision again.[58]

Research found that by participating in Youth Corps programs, participants were more likely to secure better employment opportunities after completing their service commitment. Former members, particularly African-American and Hispanic males, had a higher average wage than their peers who did not participate in the program.

INVESTING IN TRADITIONAL VOLUNTEERS

Economic Benefit of Volunteers

In 2007, 60.8 million Americans, or roughly 26.2 percent of the adult population, gave 8.1 billon hours of volunteer service. Researchers estimate that the cost of that service, had it been done by paid workers, would have amounted to $158 billion.[59] Research has shown that not only are more Americans choosing to volunteer, but that they are also committing to serve for more hours. In 2007, more than one-third of volunteers (34 percent) served 100 or more hours in a year. These trends largely continued in 2008.

> In 2007, 60.8 million Americans, or roughly 26.2 percent of the adult population, gave 8.1 billion hours of volunteer service.

According to a recent report for the AARP, a majority of older Americans are healthy and free of care-giving obligations, and tens of millions of them are prepared to increase their volunteer service in a world they believe they are leaving in worse condition than they inherited it.[60] The 77 million baby boomers are the longest-living, best educated, wealthiest, and most highly skilled generation in our history and represent enormous productive capacity to meet needs throughout our country.

As the nation's economy continues to slow and organizations are forced to operate on shrinking budgets, volunteers will become even more vital to the nation's financial and civic health. Studies have shown that while millions of Americans (19.1 million adults in 2007) sign up to volunteer, many do not continue with their commitment in subsequent years. In 2007, 21.7 million Americans, roughly one-third, did not continue volunteering from the previous year, so much more work needs to be done in both recruiting and retaining volunteers from year to year.[61]

POLICY RECOMMENDATIONS

Strengthening the nonprofit sector is vital to America's economic recovery. In the coming months, the Obama administration, Congress, state and local governments, and Americans from all walks of life must do their part:

1. **Put 250,000 Americans a year to work in national and community service by passing the bipartisan Serve America Act.**

On September 11, 2008, Barack Obama and John McCain both appeared at the ServiceNation Presidential Forum in New York City to call for a dramatic expansion of national and community service. The next day, Senators Edward Kennedy and Orrin Hatch introduced bipartisan legislation to ask 175,000 more Americans to give a year of service to address specific national challenges in education, healthcare, poverty, energy, and the environment, increasing the total number of national service participants to 250,000 each year.

The Serve America Act expands opportunities for individuals of all ages to serve, from young people to working adults to retirees. The bill establishes a tax incentive for employers who allow employees to take paid leave for full-time service, and creates "Encore Fellowships" to help retirees who wish to transition to longer-term public service. To expand the volunteer pool, the legislation sets up a "Volunteer Generation Fund" to help nonprofit organizations recruit, manage and retain more volunteers. The legislation also establishes a commission and a network of community solutions funds to support social entrepreneurs — those whose service has a profound effect on transforming the very systems to solve our nation's toughest challenges.

In his February 24th address at the Capitol, President Obama challenged Congress: "Send me the bipartisan legislation that bears the name of Senator Orrin Hatch as well as an American who has never stopped asking what he can do for his country – Senator Edward Kennedy." Congress should answer that call, and pass the Serve America Act into law within the next 100 days.

2. **Adopt targeted incentives to expand private giving and volunteering.**

A handful of modest changes in the tax code would help keep nonprofit contributions by individuals and foundations from plunging:

- Extend for at least two more years beyond 2009 the so-called IRA rollover that allows people age 70½ and older to avoid taxes on withdrawals from their retirement accounts if they use them to make charitable contributions.

- Set the mileage deduction for volunteer travel equal to that of business travel and exempt reimbursements for volunteer travel from taxation up to the business rate. For 2009, the mileage deduction for volunteering purposes is 14 cents per mile, compared to 58.5 cents per mile for business purposes.

- Create a broad-based nonprofit investment tax credit to help charities hold their own in a brutal credit environment and encourage more private investment in community-development financial institutions.

- Suspend the 2 percent excise tax on foundation earnings for grant makers that give more than the 5 percent of assets required by federal law.

- Allow the 65 percent of all taxpayers who do not itemize their tax deductions to claim a deduction for charitable contributions.

3. **Create a Social Innovation and Compassion Capital Fund.** A "Social Innovation and Compassion Capital Fund" should be established to help nonprofit organizations—including faith-based and community groups:

- Enhance their effectiveness and capacity to provide social services to those most in need;

- Diversify their funding sources;

- Strengthen their partnerships with nonprofit, private and government sectors and develop effective models of collaboration; and

- Spawn the creation of new ideas and pilot programs that draw on the capacities of social entrepreneurs and innovators to improve existing systems and design new approaches to meet the needs of the poor and vulnerable.

4. **Give nonprofit housing and community financial institutions a prominent role in solving the nation's housing and credit crisis.** Nonprofit housing organizations and community development financial institutions (CDFI) oversee billions of dollars in mortgages and loans to low-income communities and individuals, without the greed, excessive risk, and mismanagement that plagued so many sub-prime lenders and helped

Today there are some 1,800 community development corporations that provide housing across the nation.

lead to the current financial crisis. At many of these institutions, the entire payroll is smaller than the executive bonuses at the major financial firms on Wall Street.

For every dollar CDFIs receive in federal support, they leverage between $19 and $27 in private-sector financing.

Nonprofit housing organizations and CDFIs work in urban, rural, and reservation-based markets in all 50 states, the District of Columbia and Puerto Rico, where they produce jobs, affordable housing, and facilities for vital social services. Today there are some 1,800 community development corporations that provide housing and approximately 800 CDFIs across the nation that are certified by the U.S. Treasury Department's CDFI Fund as targeting 60 percent or greater of their total activity to low-income communities and people.

The U.S. Treasury Department has documented that in 20 emerging domestic markets, for every dollar CDFIs receive in federal support, they leverage between $19 and $27 in private-sector financing. These federal dollars have been leveraged not only efficiently but also prudently, as CDFIs have cumulative net charge-offs of approximately 0.5 percent, an enviable record in comparison with that of the mainstream financial industry. As the Treasury Department and Congress design recovery plans for the housing sector, the federal government should make full use of these lean, dependable, results-driven nonprofits, and not simply pour more taxpayer dollars into the same institutions that brought on the economic crisis in the first place. This might include carving out a small set-aside from the TARP and stimulus packages for nonprofit housing organizations and CDFIs.

CONCLUSION

Times of challenge have always summoned the greatness of our people, and it can be so again. As the Administration, Congress, statehouses, and communities look for innovative ways to respond to the economic downturn, they must include the nonprofit sector in their response. By putting hundreds of thousands of Americans to work in full-time and part-time national and community service; leveraging millions of additional volunteers to help meet urgent community needs; expanding private charitable giving; fostering innovation among the next generation of social entrepreneurs; and engaging nonprofit institutions in helping to meet our housing, educational, health care, energy and other challenges, we can help to save our economy and do something this country uniquely does well — enable more Americans to do good works in hard times.

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