

# The Effect of State Minimum Wage Increases on Nonprofit Organizations

How do state-level minimum wage increases uniquely impact nonprofit organizations compared to for-profit firms?

This study by Balsam, Mao et al. investigates the effects of state-level minimum wage increases on nonprofit organizations, an area that has received limited attention compared to for-profit businesses. Using a difference-in-differences (DiD) approach, the authors analyze data from over 12 million for-profit firm-year observations and nearly 300,000 nonprofit organizations between 2010 and 2018. Their findings indicate that while minimum wage increases reduce employment growth in both sectors, the decline is significantly larger for nonprofits, reflecting their limited ability to absorb rising labor costs.

The study also explores how nonprofits adapt to these changes. Unlike for-profit firms that can pass on increased costs to consumers, nonprofits face constraints such as donor dependency and the inability to raise prices for services. Instead of replacing paid employees with volunteers, which might be expected given their reliance on unpaid labor, nonprofits increase investment in automation, particularly in information technology, to offset labor expenses. However, the study finds that minimum wage increases also elevate the likelihood of nonprofit closure, raising concerns about service continuity.

These findings underscore the financial fragility of nonprofits in the face of wage policy changes. Policymakers should consider these impacts when designing labor regulations, and nonprofit leaders must explore strategies such as efficiency improvements, diversified funding, and technological investments to sustain operations.

Ultimately, the study highlights the unintended consequences of wage policies on mission-driven organizations and the broader social services sector.

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## MAJOR TAKEAWAYS:

- Minimum wage increases reduce employment growth significantly more in nonprofits than in for-profits, reflecting financial constraints and limited flexibility in adjusting to higher labor costs.
- Nonprofits respond to wage hikes by investing more in information technology, suggesting a shift toward automation rather than reliance on volunteers to offset expenses.
- Wage increases raise the likelihood of nonprofit shutdowns, highlighting the sector's vulnerability to labor cost shocks and the potential reduction in community services.

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## WHO NEEDS TO KNOW:

- Nonprofit Executives
- Policy Makers
- Community Members
- Philanthropists and Private Donors

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