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# Charities in Canada as an Economic Sector

*Discussion Paper*

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## **Charities in Canada as an Economic Sector: Discussion Paper**

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# SUMMARY

1. The charitable sector has expanded rapidly in the last two decades and is now a major sector in Canada, supporting a large number of jobs and creating significant economic growth.
2. This growth is not supply driven — created by an increase in the number of charities — but is driven by demand. As population grows, ages and becomes more diverse and as economies become richer, the demand for the services that the sector provides — health, social services, recreation, culture and so on — tend to increase. The growth of the charitable sector is thus driven by demand and value the sector produces.
3. The sector has expanded rapidly in most advanced industrial economies and is increasingly an integral part of the global service and knowledge-based economy.
4. Because the growth in the charitable sector in Canada is mirrored by similar developments in other advanced economies it provides Canada with an important and expanding set of connections to growing economies worldwide.
5. The sector is in many ways similar to the small business sector of the economy and makes a similar contribution to jobs and growth. It also faces similar problems — for example with financing, as well as with investment in innovation and productivity improvements.

6. The jobs the sector creates are good ones, requiring skills and education levels somewhat higher than the Canadian work force in general. People enjoy high levels of job satisfaction. The sector is also a good first employer for graduates and new Canadians.
7. The rapid expansion of the sector and the jobs it has brought with it have been financed by a combination of income earned by the charitable sector from the sale of memberships and services, from government funding and from donations from individuals.
8. Donations from individuals have shown a tendency to weaken and government contributions are in decline as a result of fiscal pressure.
9. Canada's charities are at a financial crossroads. With traditional revenue sources declining, charities are increasingly looking at ways to finance their nonprofit activities through business income — both in areas directly related to their charitable missions, and in areas that are not.

# 1

## INTRODUCTION

Charitable organizations are not like other firms in the economy:

*The charity sector will never be like other sectors. Indeed its special role means we don't want it to be. It is driven by a sense of mission and passion — few are involved to maximize profits, improve share prices or earn as much as they can.<sup>1</sup>*

Nevertheless, it is useful from an economic point of view to regard charities as being in many ways analogous to firms. Each charity uses inputs — labour (volunteers and paid staff), capital, material and energy — to produce outputs in pursuit of its goals and objectives. Operations are paid from a number of sources, including memberships, government grants and contributions, and donations from corporations and individuals. The sector as a whole consists of a large number of generally quite small entities, which provide valuable but often difficult-to-measure services, from poverty alleviation to culture and recreation.

The comparison with private sector firms is useful but not exact — charities pose special problems from an economic point of view. Charities are mission-oriented, often staffed largely or in part by committed volunteers, and do not make a profit by definition. In the absence of profit and share value (the market economy's effective way of comparing apples and oranges), it is difficult for economists to develop a way of measuring the performance of one charity compared to another, or of charities compared to other valuable economic activities. In addition, the services provided by charities tend to be difficult to

<sup>1</sup> *How do we Drive Productivity and Innovation in the Charity Sector*, Dan Corry, Lecture hosted by the Royal Society for the encouragement of the Arts, Manufactures and Commerce, 8 May, 2014.

measure in dollar terms — poverty reduction, improvements in literacy, reductions in recidivism, the provision of arts, culture and recreation and myriad other services are highly valued, but often intangible in nature. This makes the output of charities difficult to measure and to compare to other market-based activities, such as providing haircuts or producing autos, for example. Key indicators of economic performance, such as productivity and innovation, can also be elusive.<sup>2</sup>

<sup>2</sup> Government shares many of these elements and poses some of the same challenges to economists.

But the charitable sector in Canada is simply too large and significant NOT to be looked at through the same lens as other economic actors. Indeed, the sector is itself seeking to improve its ability to speak the language of economics and position itself appropriately as a source of jobs, innovation and growth in the modern Canadian economy.<sup>3</sup> Taking an economic perspective opens up a wide range of questions of fact and analysis — what is the structure of the sector? Is it labour or capital intensive? Is it a source of (good) jobs and growth? How does it fit into broader developments in the global knowledge economy? Where does its revenue come from and what does this say about the outlook for the sector?

<sup>3</sup> The appointment of a Chief Economist by Imagine Canada is a good example of this.

The purpose of this paper is to take a balanced look at the Canadian charitable sector from an economic point of view, taking the same approach that an analyst looking at any sector would take — be it semi-conductors or natural resources. It will attempt to present a general picture of Canadian charities as an economic sector using existing data and analyses.

The second section of the paper focuses on structure:

- the role and scope of the charitable sector in the economy as compared to other types of economic activity;
- the charitable sector as a service sector;
- the charitable sector as a small business sector;

- the charitable sector as a source of innovation and productivity growth in the economy; and,
- the charitable sector as an employer of staff and volunteers.

The third section turns to sources of revenue and the financial sustainability of the sector. Section four then lays out some preliminary and broad policy implications. Subsequent papers are planned to look at two specific areas: the policy landscape facing charities going forward and the growing interest in social impact investing.

# 2

## THE ROLE AND SCOPE OF THE CHARITABLE SECTOR IN CANADIAN ECONOMY

### 2.1 Charitable Sector Contribution to GDP and Employment is Large and has been Growing

There has been rapid growth in organized voluntary activity in both developed and developing economies over the past few decades. Because of this “associational growth,” the sector’s share of employment and income is growing, both here in Canada and elsewhere in the world.<sup>4</sup> This growth has naturally caught the attention of economists and policy makers seeking to understand the role of the sector in both an economic and social context.

<sup>4</sup> *The Rise of the Nonprofit sector*, Lester Salamon, Foreign Affairs, July 1994.

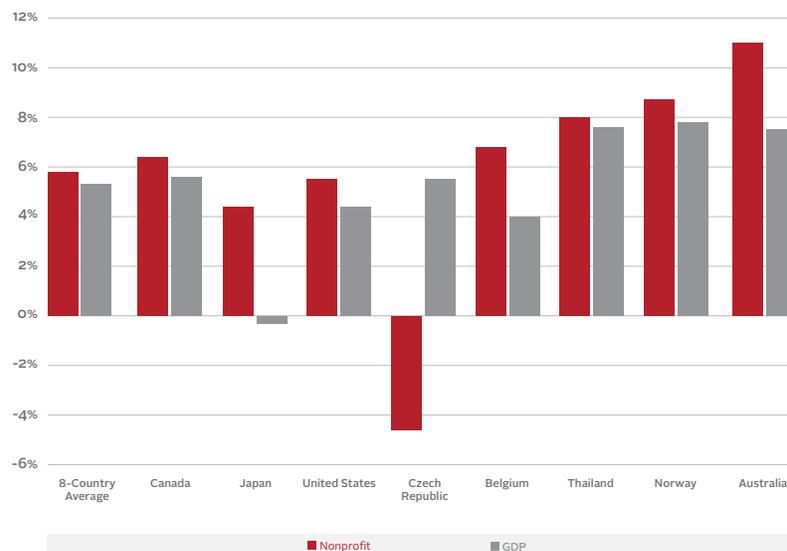
A Johns Hopkins University study of eight different countries shows worldwide growth of the nonprofit sector outpacing the growth of GDP in each of eight developed economies, with the exception of the Czech Republic. In Canada, the nonprofit sector is growing at 6.4% annually compared to 5.6% for GDP.

**FIGURE 1**

Average annual growth, Nonprofit vs. aggregate GDP

**Source**

*State of Global Civil Society and Volunteering*, Johns Hopkins University, 2013



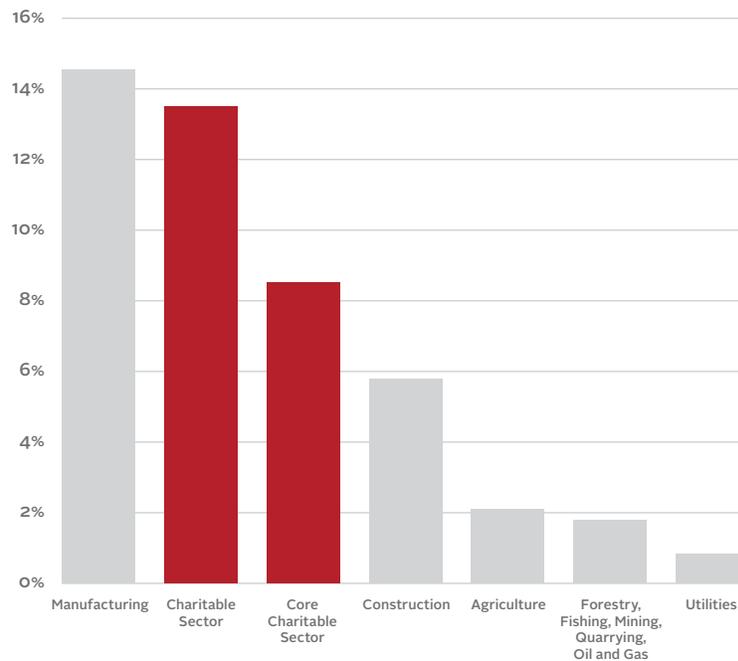
Today, in many countries (including Canada) the charitable and nonprofit sector is a major actor, outweighing the contributions to income and employment of many of the sectors people generally think of as driving economic activity and employment. In 2003, the sector employed just over 2 million people. Of those people, approximately 1.3 million were employed in the core<sup>5</sup> charitable sector<sup>6</sup>. These figures accounted for about 13% and 8.5% of the total workforce in Canada, respectively.

**FIGURE 2**

Employment Share of Different Sectors, 2003

**Source**

*National Survey of Nonprofit and Voluntary Organizations, Statistics Canada, 2003;*  
CANSIM table 282-0008, Statistics Canada



The total charitable sector contributed 8.1% of GDP in 2008, while the core charitable sector contributed 3.3% that same year.<sup>7</sup> When compared to other important sectors of the economy, the nonprofit sector employs nearly as many people as the manufacturing sector in Canada, and more people than any one of construction, agriculture, forestry and the utilities.

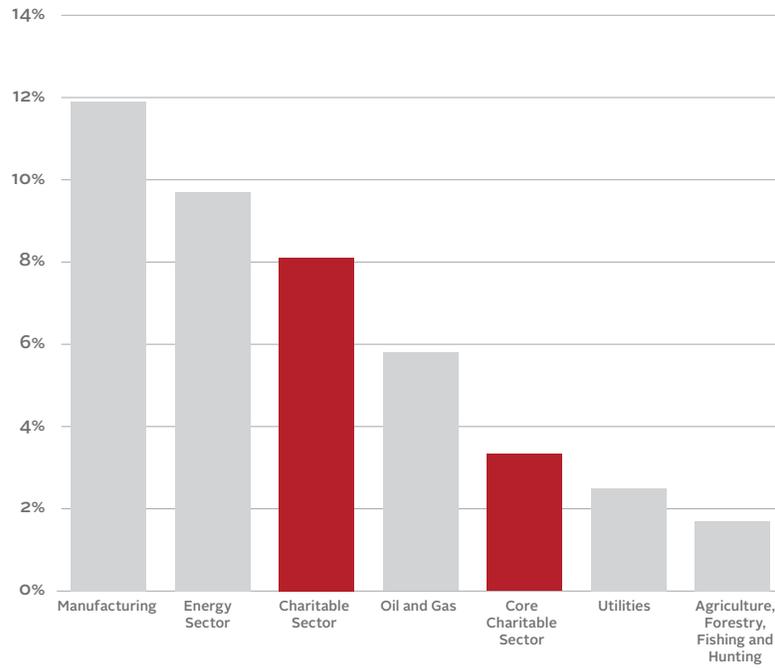
<sup>5</sup> Where it is useful to do so, this paper distinguishes between the core charitable sector and the broader charitable sector. The broad sector includes universities and hospitals, the core sector does not. In most discussions of the sector in the press and the academic literature, the broader definition of the sector is more frequently used.

<sup>6</sup> *National Survey of Nonprofit and Voluntary Organizations*, Statistics Canada, 2003.

<sup>7</sup> CANSIM tables 388-0002 and 380-0064, Statistics Canada.

**FIGURE 3**

GDP contribution of different sectors (including volunteer contributions), 2008



**Source**

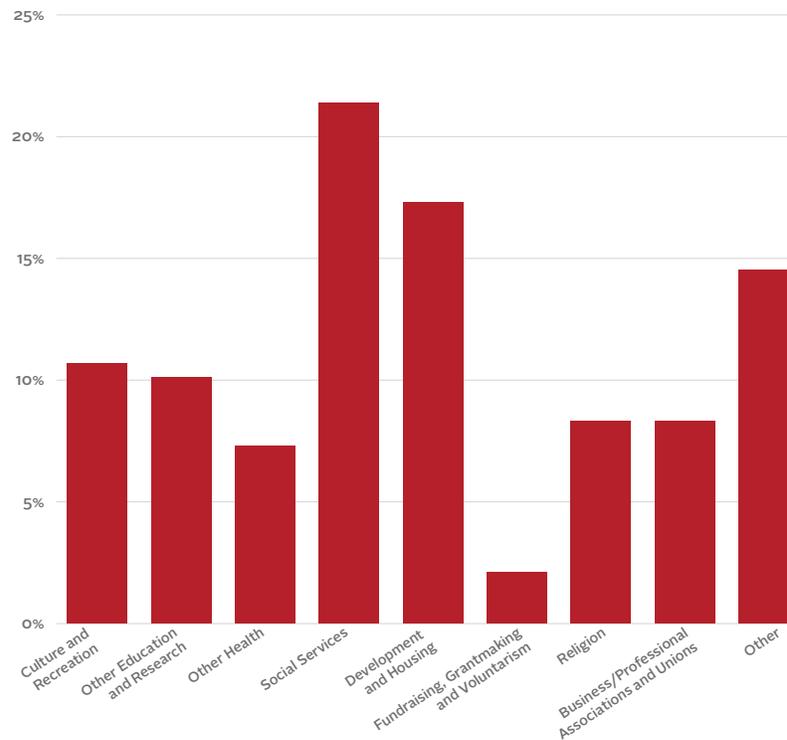
*Satellite Account of Non-profit Institutions and Volunteering*, Statistics Canada, 2008; CANSIM table 379-0031, Statistics Canada; *State of Global Civil Society and Volunteering*, Johns Hopkins University, 2013

## 2.2 The Charitable Sector Shares Many of the Characteristics of the Broader Service Sector of the Economy

While charities operate in a number of fields, some of which are goods producing, the charitable sector is largely a service sector.<sup>8</sup>

**FIGURE 4**

Contribution of Core Nonprofit Sector by Area of Service, 2008



**Source**

CANSIM table 388-0002, Statistics Canada

<sup>8</sup> The service sector broadly encompasses those industries that do not produce tangible output: transportation and storage; communications; wholesale and retail trade; finance, insurance and real estate (FIRE); and community, business and personal services (CBPS). *Lagging Productivity Growth in the Service Sector: Mismeasurement, Mismanagement or Misinformation?* Dinah Maclean, Research Department Bank of Canada.

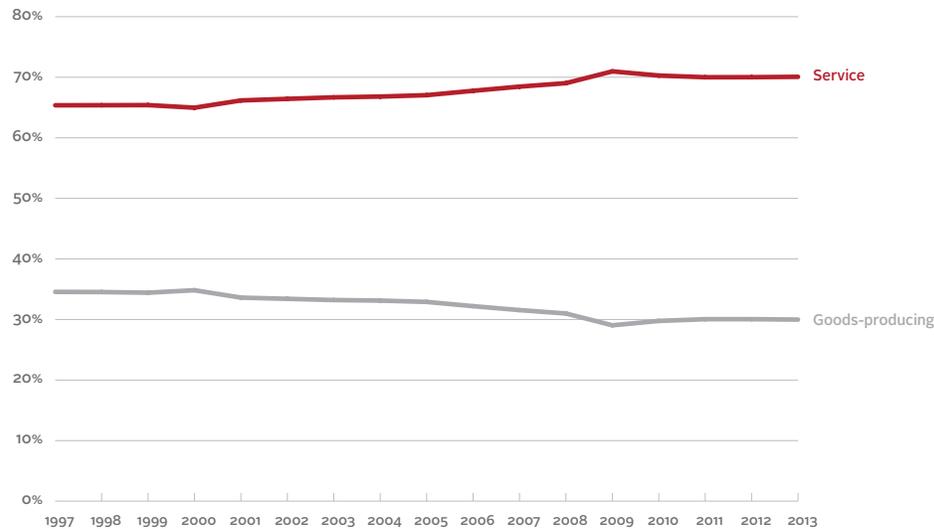
The service sector is the fastest growing component of advanced industrial economies. The growth of the charitable sector reflects the growth in the service sector in general. In Canada, for example, the share of goods-producing activity in the economy has fallen from 35% in 1997, to 30% in 2013 — the continuation of a trend to a more service-dominated economy which has been observed since about 1960.

**FIGURE 5**

GDP Contribution of Goods-producing and Service Sectors, 1997–2013

Source

Statistics Canada, CANSIM table 379-0030



Data on employment published by Statistics Canada reveals that about 78% of working Canadians are currently employed in the service sector (with about 10% of working Canadians employed in the charitable sector). Because most charities focus on service delivery, they tend to be quite labour intensive.<sup>9</sup>

*Many service industries deliver personalized services... on average about one third of operating expenses in the service industry goes toward paying salaries and wages. The share is even higher in industries reliant on highly trained employees: wages account for 54% in the accounting and book keeping industries and 47% in engineering services.<sup>10</sup>*

Service industries tend also to employ more women than men. In 2014, 55% of employees in service industries were women.

<sup>9</sup> The degree of labour intensity is typically measured in proportion to the amount of capital required to produce the goods/services; the higher the proportion of labour costs required, the more labour intensive the business. <http://www.investopedia.com/terms/l/laborintensive.asp>.

<sup>10</sup> *Canada Yearbook 2006*, Statistics Canada, 2006. [http://www41.statcan.gc.ca/2006/0163/ceb0163\\_000-eng.htm](http://www41.statcan.gc.ca/2006/0163/ceb0163_000-eng.htm). This places the amount charities, with their highly educated work forces, spend on wages and salaries in an appropriate context.

The health care and social assistance industries employ an especially large number, with 1.8 million women occupying 82% of jobs in the field.<sup>11</sup>

<sup>11</sup> Statistics Canada, CANSIM table 282-0008.

The labour intensity of the sector has led to concerns about productivity, growth and the rise of the knowledge economy, which will be explored in a subsequent section.

### 2.3 The Charitable Sector has Much in Common with the Small Business Sector

Charities are small businesses, albeit with some special characteristics. Both the charitable sector and the small business sector consist of a large number of small entities. Data from the NSNVO<sup>12</sup> shows that in 2003 there were 161,227 charities and nonprofits in Canada. The majority (54%) employed no paid staff. Only 2% had paid staff of 100 or more.

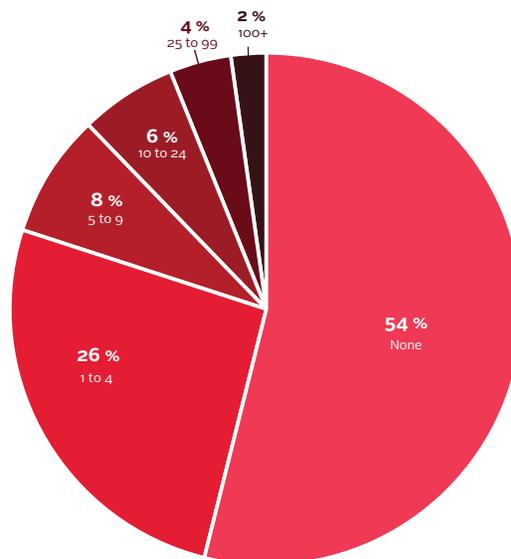
<sup>12</sup> National Survey of Nonprofit and Voluntary Organizations, Statistics Canada, 2003.

**FIGURE 6**

Charities by number of employees, 2003

**Source**

National Survey of Nonprofit and Voluntary Organizations, Statistics Canada, 2003

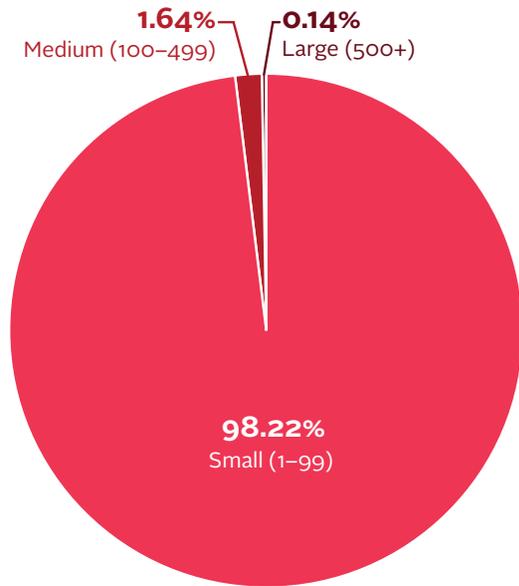


It's a similar story in the small business sector, which is dominated by a large number of small firms,<sup>13</sup> the vast majority of which (98%) employ fewer than 100 paid staff. Less than 2% employ 100 people or more.

<sup>13</sup> Key Small Business Statistics, Industry Canada, August 2013. <http://www.ic.gc.ca/eic/site/061.nsf/eng/02804.html>.

**FIGURE 7**

Businesses in Canada  
by size, 2012



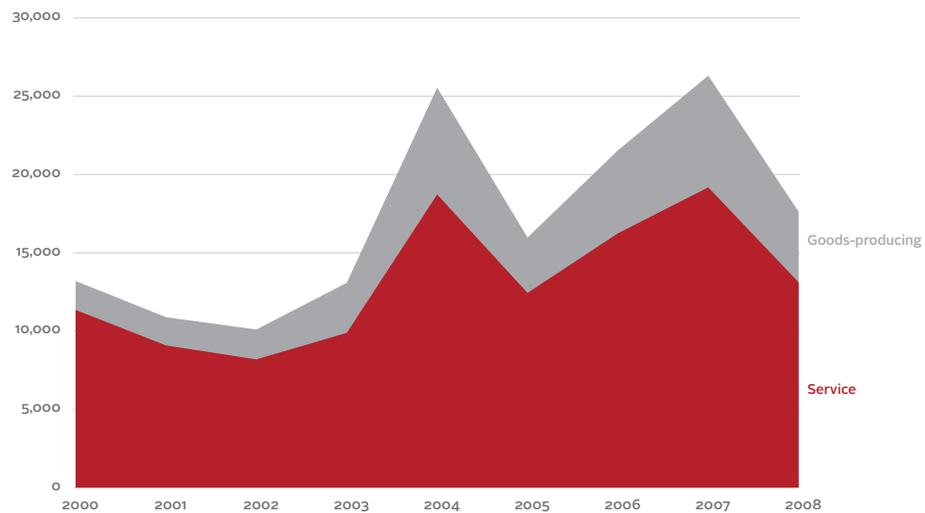
**Source**

*Key Small Business  
Statistics, Industry Canada*

Both sectors are characterized by significant risks to success and continuity. Barriers to entry are relatively low and barriers to success are relatively high. Therefore there is a significant rate of entry and exit in both the charitable and small business sectors for a variety of reasons, including bankruptcy, illness, retirement, or the fulfilment of mission.

**FIGURE 8**

Net business entrants,  
2000-2008



**Source**

*Firm dynamics: Firm  
Entry and Exit, Statistics  
Canada, 2000-2008*

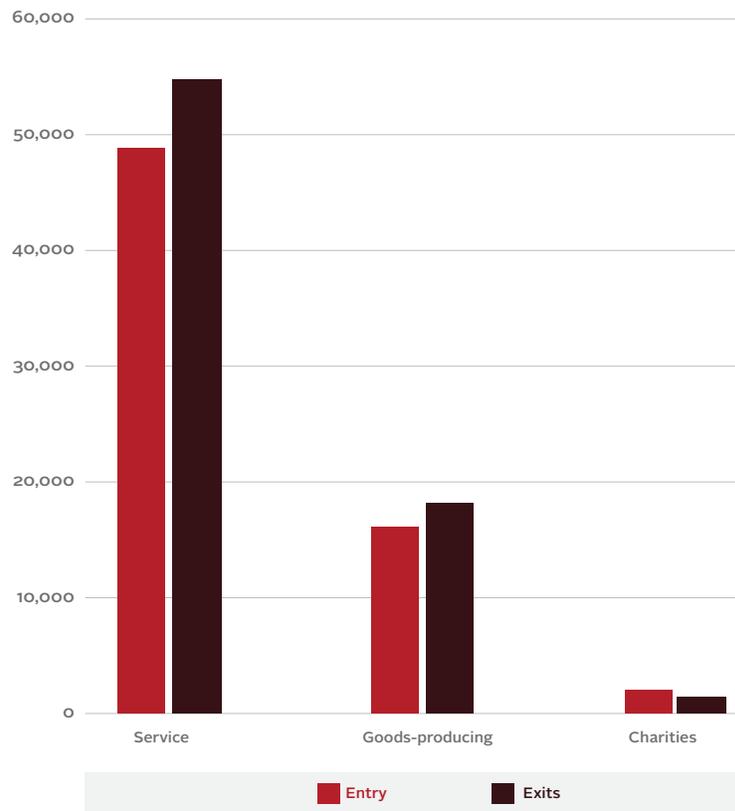
For the small business sector, the service sector has added firms more quickly than the goods-producing sector. And, in some years, the rate of attrition in the small business sector has been starkly high — as for example in the recession year 2009.

**FIGURE 9**

Business entrants and exits, 2009

Source

*Entrepreneurship Indicators Database, Statistics Canada*



Charities in Canada also experience low barriers to entry and high barriers to success. The net result is that each year, the number of charities in Canada increases. In 2009, for example, approximately 2,100 new charities were registered by Revenue Canada<sup>14</sup> while 1,500 charities were revoked. Over the past 10 years, a net increase of roughly 360 charities per year has been typical, leading to a fairly rapid expansion of the number of charities in Canada.

<sup>14</sup> *Registered Charities Newsletter 31*, Canada Revenue Agency, <http://www.cra-arc.gc.ca/E/pub/tg/charitiesnews-31/charitiesnews31-e.html>.

This is a natural and, in many ways, desirable part of the dynamics of the economy as older organizations die or fail and existing ownership is replaced by new. This level of turnover is comparable to, and in some cases less dramatic than, the rate of entry and exit in the world of small business.

## 2.4 Productivity and Innovation in the Charitable Sector

*“Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”*

— **Paul Krugman, *The Age of Diminished Expectations* (1994)**

Job creation and economic growth remain core objectives for governments and “the fastest way to boost productivity and economic growth is to innovate.”<sup>15</sup> It is inevitable, then, that productivity issues will generate a significant amount of policy and research attention. With the absolute size of the charitable sector and its rapid growth, questions about productivity and innovation are in many ways difficult to answer.

<sup>15</sup> *Industrial Research and Development: Intentions*, Statistics Canada, 2012, and calculations by Industry Canada.

The charitable sector is essentially a service sector and

*Over the past three decades, the rapid growth of the economy’s service sector and the increasing interest in the sector on the part of both scholars and policy makers have helped give currency to three perceptions about service industries. The perceptions are that (1) the service sector is composed entirely of industries that have very low rates of productivity growth; (2) service industries are highly labor intensive and low in capital intensity; and (3) shifts in employment to the service producing sector have been a major reason for the slowdown in productivity growth over the past 10 to 15 years.<sup>16</sup>*

Funding for innovation is difficult. Both the small business sector and the charitable sector are dominated by small firms — and the availability of resources to spend on research and development (R&D) is tied to the size of businesses. Large

<sup>16</sup> *The service-producing sector: some common perceptions reviewed*, Ronald E. Kutscher and Jerome A. Mark, *Monthly Labor Review*, April 1983.

businesses account for fewer than 0.2% all employer businesses, but accounted for over 50% of all R&D expenditures in 2009 (Figure 10). Small businesses make up 98% of all employer businesses, on the other hand, but accounted for only 31% of total R&D expenditures.<sup>17</sup>

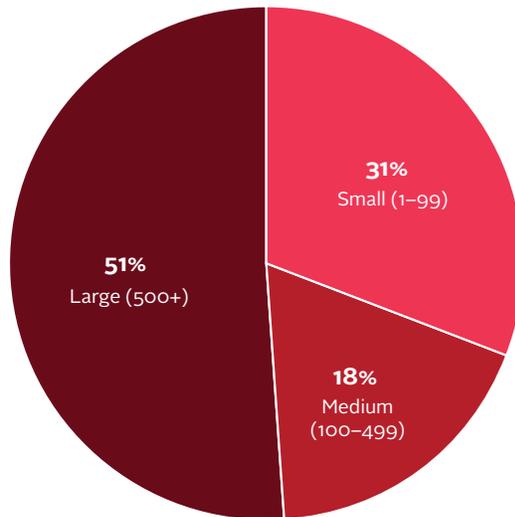
<sup>17</sup> Ibid.

**FIGURE 10**

Percentage of total expenditures on R&D by firm size, 2009

**Source**

*Industrial Research and Development: Intentions*, Statistics Canada, 2012 and calculations by Industry Canada



In addition, charities may exhibit other characteristics that make innovation difficult.

*Changes in the market and new opportunities — often the result of new technologies — drive economic progress. Social organizations are slower to adapt since their revenues are less sensitive to changes in demand, need, and performance, and their market is often seen to be their funders rather than the constituencies or causes they serve. Funding models are based on avoiding risk rather than experimenting with new approaches that might increase effectiveness. Fresh ideas emerge through the creation of new organizations, but they enter a crowded marketplace and are often unable to demonstrate convincingly their superior efficacy. For established organizations, technological innovation is frequently viewed more as a problem than as a source of creativity.<sup>18</sup>*

<sup>18</sup> *On Not Letting a Crisis Go to Waste*, Tim Brodhead, *The Philanthropist*, Vol. 23 No. 1, 2010.

As charities position themselves as an important economic sector, as a source of jobs and growth to be encouraged and supported by government, questions of innovation and productivity will become more and more pressing.

## **2.5 The Charitable Sector as a Place to Work**

In many ways, charities are seen as good places to work, where well motivated and well educated people with a sense of mission, of wanting make a difference, can find meaningful and fulfilling employment. Beyond this, though, there are a host of more bottom-line, practical questions about the desirability of working in the sector. How do wages and benefits in the charitable sector compare to other employers? Does a period of employment in the charitable sector increase an employee's marketable skill set, producing a resume that is attractive in the broader economy? Is HR capacity in the sector adequate to attract and maintain the necessary work force?

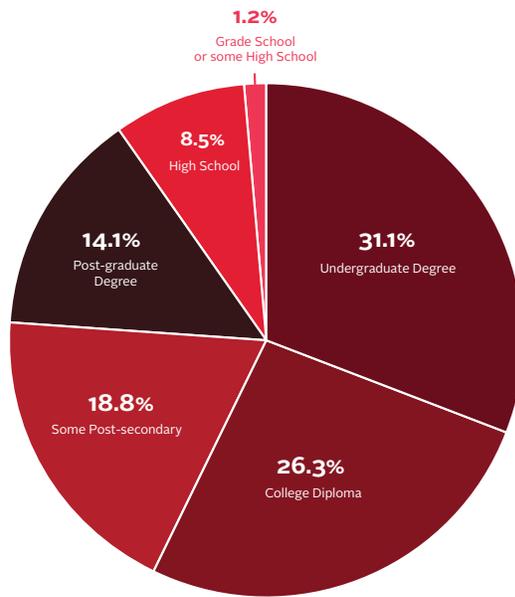
The work force in the charitable sector is well educated relative to the general levels of education in the work force, with more than 90% of employees having some post-secondary education and some 71% having a college diploma, undergraduate or graduate degree.

**FIGURE 11**

Education level of nonprofit employees

Source

*Towards a Labour Force Strategy for Canada's Voluntary and Non-profit Sector*, HR Council for the Voluntary and Non-profit Sector, 2009



While the charitable labour force is well educated, and therefore mobile, historically, the sector pays less than market wages to most of its full-time employees. The sometimes dramatic gap is said to be justified by the psychic or non-monetary rewards afforded by the work, or by the high level of motivation and commitment demonstrated by many who work in the sector. In a recent survey by the HR Council for the Voluntary & Nonprofit Sector, an impressive 96% of respondents said they were somewhat or very committed to their organization.<sup>19</sup>

Organizations are beginning, nevertheless, to experience difficulty attracting and retaining staff. The lack of job security due to irregular and short-term project funding, limited opportunities for advancement within organizations, long hours (usually unpaid) and sometimes poor personnel practices are cited as reasons for this difficulty. Surveys of younger employees and job seekers also suggest that expectations are changing; entrants into the labour market want a better balance between work and personal lives, which is at odds with the ethos of selfless service that permeates many charities. In the same HR Council Survey, nearly half of employers who tried to recruit staff in the past year said it was “difficult” or “very difficult.”

<sup>19</sup> *Toward a Labour Force Strategy for Canada's Voluntary and Nonprofit Sector*, HR Council for the Voluntary and Nonprofit Sector, 2009.

Attention to HR management can be under-resourced in both the small business and the charitable sector.

*Research conducted recently by Framework Foundation reveals that of 197 courses offered by Canadian post-secondary institutions on voluntary sector management, only 22% (according to the course descriptions) address such human resource issues as engaging, training, and managing staff and volunteers. On the other hand, one-third deal with fundraising and financial management. More attention needs to be directed to how the community sector engages and trains a new generation of volunteers who have different and more demanding expectations, but also much to contribute.<sup>20</sup>*

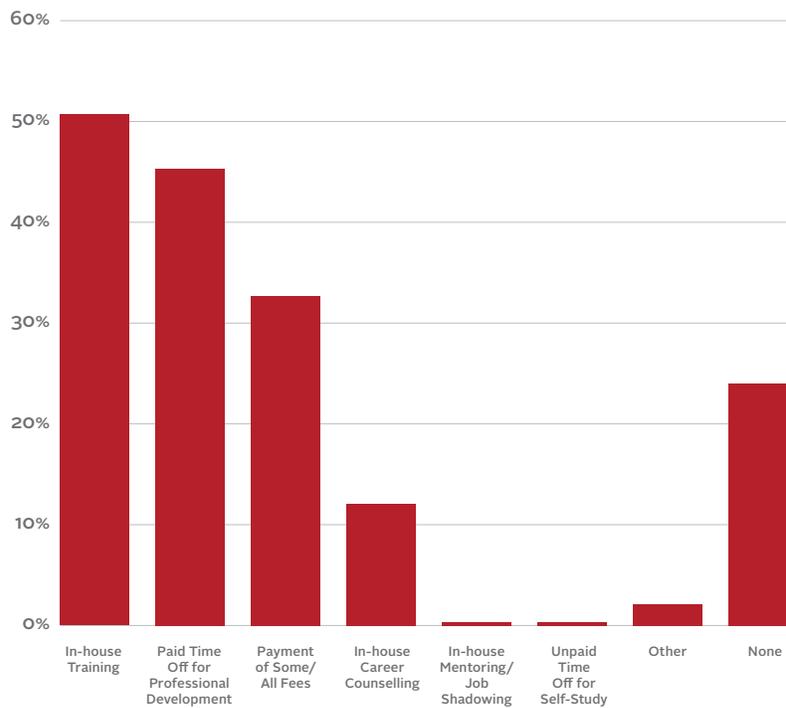
<sup>20</sup> Brodhead, op.cit.

**FIGURE 12**

Professional development opportunities for nonprofit staff

Source

*Towards a Labour Force Strategy for Canada's Voluntary and Non-profit Sector*, HR Council for the Voluntary and Nonprofit Sector, 2009



# 3

## REVENUE FOR CHARITABLE ORGANIZATIONS

Like any economic entity for profit or nonprofit, the charitable sector needs revenue to finance its operations and future sustainability and to invest to increase productivity. Unlike most for-profit firms, though, charities face a disconnect between sources of revenues and customers or clients. In the private sector, it is customers who judge whether products or services are adequate and their decisions determine whether a firm succeeds or fails. There is little or no conflict between the aphorism that the customer is always right and the old adage that the person with the gold sets the rules. In the charitable sector, it is funders who provide the revenue, while clients are somewhat passive beneficiaries of funding decisions by governments and donors.

### **3.1 Sources of Funds for Broad and Core Charitable Sectors**

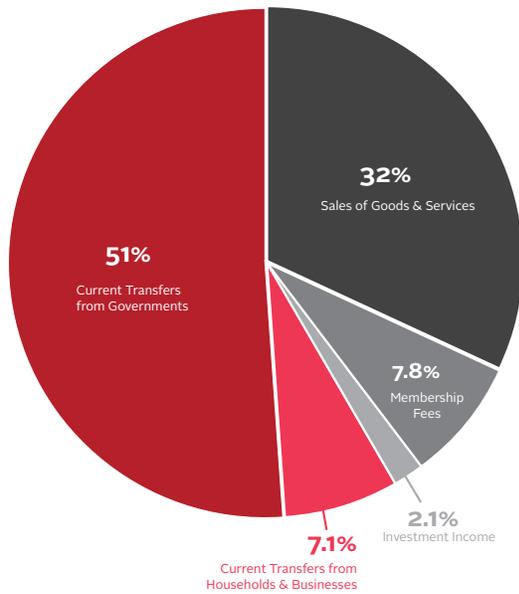
Charities and nonprofits are funded by a variety of sources. Charities sell memberships and some goods and services, receive money from governments to deliver government programs and priorities, and receive donations from individual households and businesses.

For the broadly defined charitable sector, government transfers are the most important source of revenue — reflecting the role of universities and hospitals in achieving government objectives in health care and education.

**FIGURE 13**

Sources of revenue for broad charitable sector, 2008

Source  
Statistics Canada, CANSIM table 388-0001

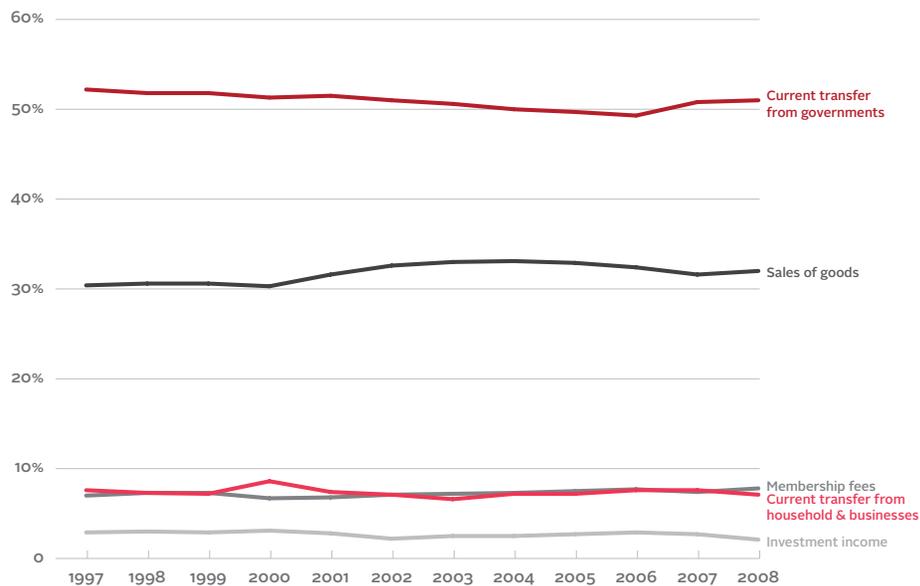


The breakdown of the various sources shows a high degree of stability over time, with some indication that the role of government is declining slightly, which is also true of investment income (reflecting the recession after 2008), and that there is some softness in donations from individuals. The core charitable sector is much more member- and donor-driven, while government transfers play a still significant but less prominent role.

**FIGURE 14**

Sources of revenue for the broad charitable sector, 1997-2008

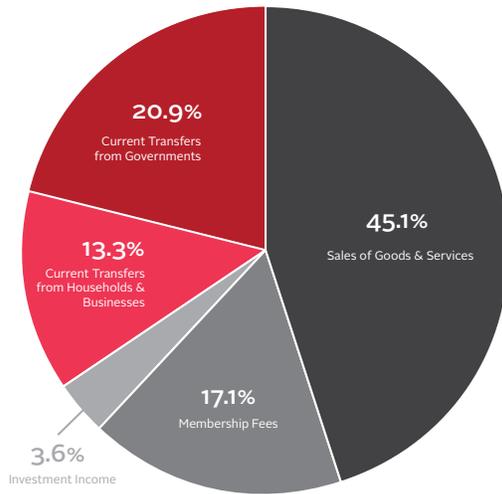
Source  
Statistics Canada, CANSIM table 388-0001



**FIGURE 15**

Sources of revenue  
for the core charitable  
sector, 2008

Source  
Statistics Canada,  
CANSIM table 388-0001

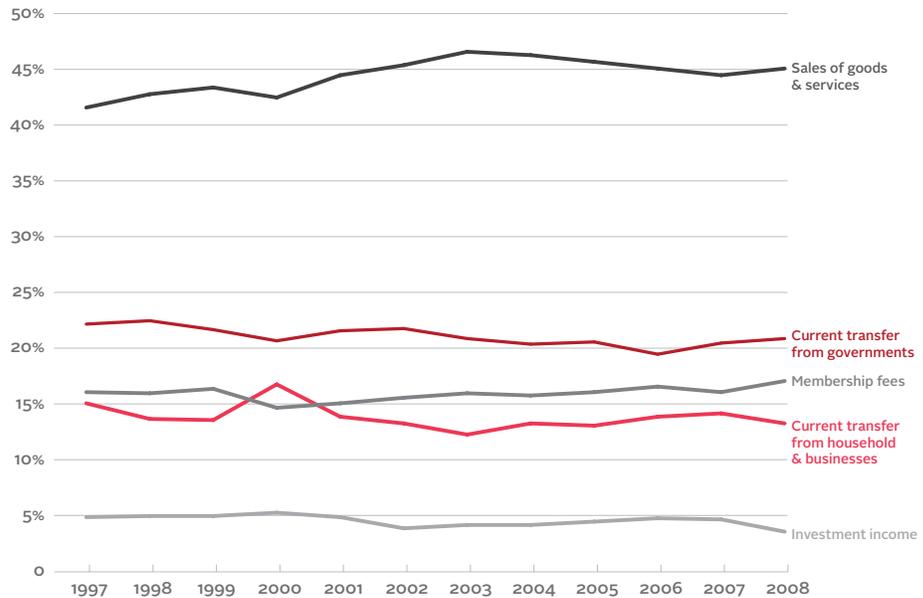


With respect to trends, the decline in the role of government is more apparent for the core charitable sector. The weakening in investment income and donations from individuals is also more evident.

**FIGURE 16**

Core nonprofit revenues,  
1997-2008

Source  
Statistics Canada,  
CANSIM table 388-0001



### 3.2 Donations

Donations account for 13% of all income for core charities and nonprofits, but donations have a value to charities that is out of proportion to their relative size.<sup>21</sup>

<sup>21</sup> CANSIM 388-0001, Statistics Canada, 2008.

*Donations may only contribute some 11% of charities' revenue, but their value lies in their being (mostly) unrestricted, unlike most of the money provided by governments, foundations, and corporate donors. This source therefore underwrites much of the operational costs of organizations in the sector.*<sup>22</sup>

<sup>22</sup> Broadhead, op. cit.

Charities receive donations from both corporations and households, with the majority being donations from households. This section will focus on donations from households. Donations by Canadians to charities have generally tracked GDP, with donations as a percentage of GDP steady at roughly just under 0.5% of GDP. However, since 2007, the level of donations has fallen noticeably to 0.439% of GDP. This amounts to a substantial proportion of what Canadians give each year. It is tempting to attribute this decrease to recession and economic uncertainty beginning in roughly 2007/08. However, the “great recession” has been relatively mild in Canada with

**FIGURE 17**

Donations as a percentage of GDP, 1997-2012 (minus tax shelters)

**Source**

CANSIM tables 111-002 and 380-0064, Statistics Canada; Charities Directorate, Canada Revenue Agency



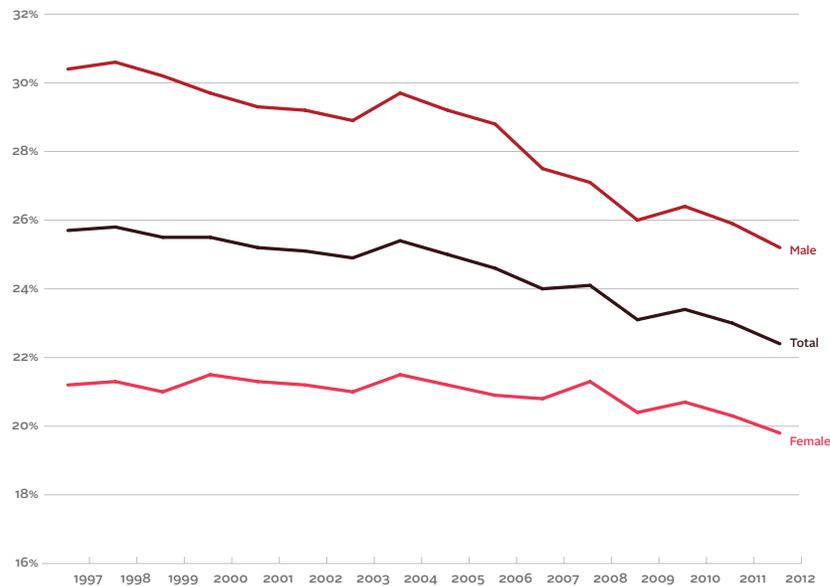
GDP increasing slowly but steadily over this period. This means changes in the underlying behaviour of donors must be examined.

**FIGURE 18**

Percentage of taxfilers claiming donations from 1997 to 2012

**Source**

Statistics Canada, CANSIM table 111-0002



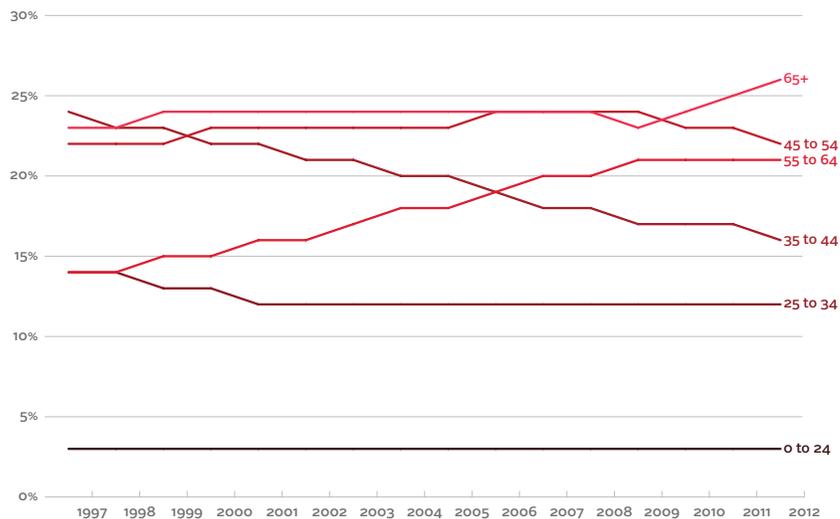
More troubling, the percentage of people who file taxes and who claim charitable donations is also on the decline. The percentage of people who file taxes and claimed charitable donations is down from 25.7% in 1997 to 22.38% in 2012. A larger drop has been observed in men than women, but fewer members of both sexes are claiming donations.

The population of those who tend to donate the most is getting older. From 1997 to 2012, the percentage of donors between the ages of 55 and 64 increased by 7% from 14% to 21%. The percentage of donors above the age of 65 also increased by 3%, from 23% to 26%. These increases came at the expense of younger groups of donors. The percentage of donors aged 35 to 44 decreased by 8%, while the percentage of donors aged 25 to 34 decreased by 2%.

**FIGURE 19**

Percentage of donors by age group from 1997 to 2012

Source  
Statistics Canada,  
CANSIM table 111-0002



These trends suggest that charities are failing to attract younger donors who are entering the workforce for the first time. There are a number of possible explanations for this phenomenon. Religious institutions play a very large role in the charitable sector and place a significant emphasis on charity, but Canadians are becoming increasingly less religious. Young professionals may also feel that charities are not doing a good job and are failing to innovate. If charities fail to innovate, people might perceive them as old fashioned and ineffective, which would make them less likely to donate. It is also possible that people feel that the tax treatment they would receive for donating is not a sufficient incentive.

### 3.3 Government Funding

Despite the potential issues with donations, charities still receive the majority of their funds from the government. Government funding represents a substantial portion of the income for charities in the form of grants and reimbursement for delivering services. Of the total funding for the core charitable sector for example, 15% comes from provincial and territorial governments, 5.5% comes from the federal government, and 0.8% comes from municipal governments.<sup>23</sup>

<sup>23</sup> CANSIM table 388-0001, Statistics Canada, 2008.

The role of the federal government is statistically small relative to the provinces, reflecting the predominant role of provincial government in health education and social services. But the role of the federal government cannot be underestimated — it is the level of government which determines the tax treatment of the donations under the *Income Tax Act* for example. It is also the level of government responsible for overall economic policy affecting the growth of GDP and employment and therefore of the capacity of people to donate. It is also the funder of huge transfer programs such as unemployment insurance, old age security and pensions. The generosity, or lack of it, of these broad social programs goes a long way to determining the role charities need to play in meeting the needs of society.

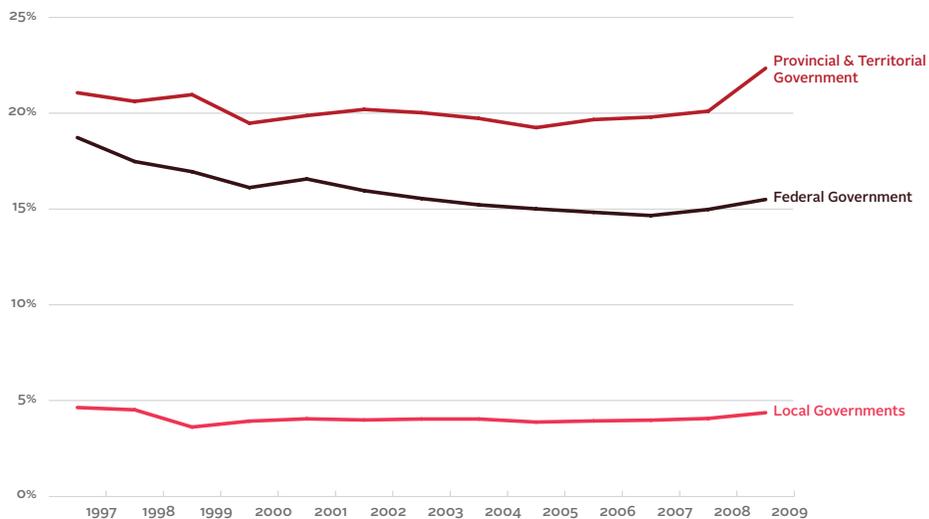
The federal government is becoming relatively smaller in economic terms. This is in part related to the goal of the present government to reduce the role of government in the lives of Canadians. It is also part of a longer-term trend as governments world-wide have encountered fiscal pressures. In fact the size of the federal government has been declining steadily since 1997 as successive governments have struggled with fiscal challenges and deficit control. Overall, government spending as a percentage of GDP declined over 3% from 1997 to 2009, with an uptick in 2010 to reflect a short-term increase in expenditure in response to recession.

**FIGURE 20**

Government expenditure as a percentage of GDP from 1997 to 2009

**Source**

Statistics Canada, CANSIM tables 385-0001 and 380-0064



One response to reduced federal expenditure can be a move by provincial and municipal governments to take up the resulting fiscal room and expand their own expenditures. This in general has not occurred in recent years. Provincial and municipal spending has remained relatively stable as a percentage of GDP as provinces and municipalities have had to cope with their own fiscal pressures.

An additional concern is the make-up of expenditures: as the federal government has become smaller, has spending on social programs become relatively smaller? The answer appears to be no — the federal government has chosen to keep things like transfers to individuals relatively stable as a percentage of federal expenditure. However, since overall federal spending is declining in relation to GDP, so is overall federal spending on social programs.

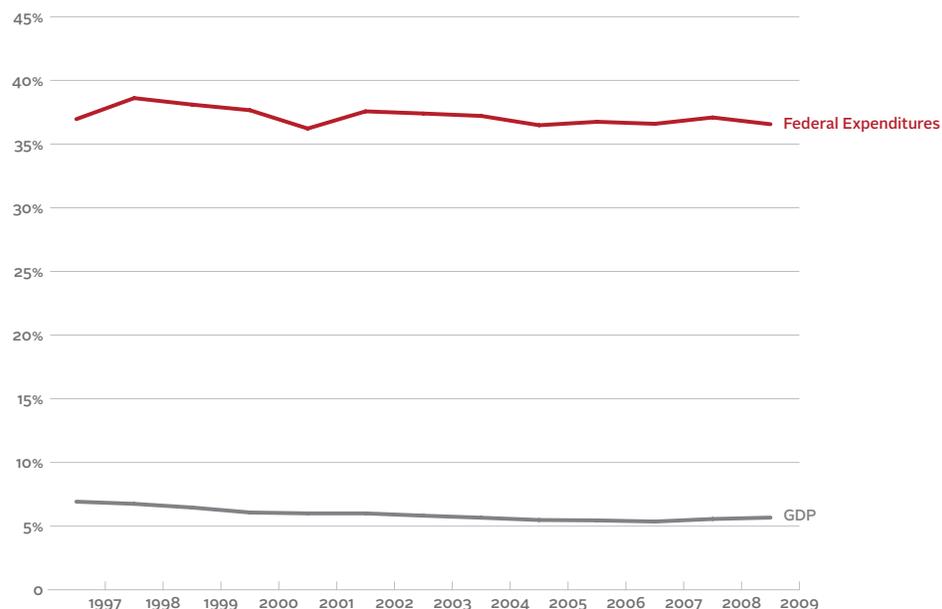
The picture this paints is one of a Canada which is taking on a different character, one in which government will do less and charities will need to do more. This trend isn't likely to reverse itself soon — the current conservative government is expected to lower taxes in the near future, meaning that government

**FIGURE 21**

Federal social services spending as a percentage of GDP and as a percentage of total federal spending

**Source**

Statistics Canada, CANSIM tables 380-0064 and 385-0001



spending will likely continue to shrink, making it relatively difficult for future parliaments to increase spending and the role of government.

### 3.4 Membership Fees and Sales of Goods and Services

*While facts speak to the robustness of Canada's non-profit sector and its integral role in Canadian society, more organizations are facing increasing sustainability challenges in the face of uncertain revenues and escalating service demands driven by demographic changes and exacerbated by the recent recession.*<sup>24</sup>

The charitable sector has enjoyed rapid growth over the past couple of decades or so outpacing the rate of growth of the economy and of the service sector as a whole. But growth and the jobs it generates can only be sustained if there are revenue streams to support it. Charities rely on the three pillars of government funding, philanthropy, and earned income. Of these, both philanthropy in the form of donations from individuals and government funding are under threat because of fundamental changes in demographics, culture and the ongoing fiscal pressures encountered by governments world-wide. While earned income activities have done well, increasing as a percentage of charitable revenues over the last few years, it is questionable whether they can be expected to fill a gap which is emerging and which will grow as governments cut back on social spending. This is especially true in Canada where charities' efforts to increase earned income are constrained by legislative and regulatory barriers.

<sup>24</sup> *Strengthening the Third Pillar of the Canadian Union: An Intergovernmental Agenda for Canada's Charities and Nonprofits*, Elizabeth Mulholland, Matthew Mendelsohn, Negin Shamshir, Mowat Centre for Policy Innovation, 2011.

# 4

## POLICY IMPLICATIONS

While this paper has been largely descriptive, some of the policy implications of a review of the sector's structure and contribution to the Canadian economy are clear. Canada's charities and nonprofits are a large and growing part of the Canadian economy. They generate jobs and growth and provide valuable services that are more and more in demand. In this respect, Canada's economy is changing and keeping pace with developments in other advanced industrial economies. The growth of the sector in Canada means that the country is well positioned to be successful in the global economy of the 21<sup>st</sup> century.

First, this means that effective overall management of the economy (the fiscal framework, monetary policy, industrial policy) should increasingly be sensitive to the needs of the charitable and nonprofit sector as well as sectors more traditionally thought of as "economic". Of course, this means that charities and nonprofits need to be aware of their economic role and nature and interact with governments on economic policy as well as, for example, social and environmental policy issues.

Second, to support jobs and growth and value, the full suite of support programs available to small private business should be extended to the charitable sector and would produce significant benefits to the economy in terms of jobs and growth, increased productivity, and the ability to innovate.

Third, if charities are to be able to sustain contributions to jobs and growth they will need to work with government to explore options to increase funding in two key areas: contri-

butions from individuals (through improved tax treatment of donations) and options to expand earned income from their own efforts and use it for charitable purposes. The latter means addressing regulatory and income tax barriers to expanding earned income and exploring social finance and investment more broadly.

Fourth, as an important and rapidly growing sector of the economy the sector requires and warrants better data collection and analysis by government, similar to data collection, analysis and support for the small business sector.

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In 2013, Brian Emmett joined Imagine Canada in the unique role of the Chief Economist for Canada's Charitable and Nonprofit Sector. As Chief Economist, Brian is tasked with measuring the impact of the sector and bringing economic issues facing charities and nonprofits to the forefront of public policy decision makers. [imaginecanada.ca/chief-economist](http://imaginecanada.ca/chief-economist)

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