

**Raising the Minimum Wage: Helpful or Hurtful for the Expansion of the Nonprofit  
Sector within the United States?**

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## **Abstract**

To evaluate the changes of minimum wage in accordance with the growth of nonprofits in the United States, I looked to answer the following: Does a raised minimum wage affect the expansion of the 501(c)(3) nonprofit sector in the United States? Through this research, I assess a time-series evaluation between minimum wage and the growth of the nonprofit sector, based on archival data. The dataset consists of financial information from different nonprofit industries including their size based on the number of employees. Although there has been research done on the effect of minimum wage, rarely does the nonprofit sector ever arise in conversation. In a similar research study, it was found that the nonprofit sector is affected more heavily by minimum wage changes than the private sector. The study found a correlation between an increased minimum wage and a decrease in size of the nonprofit sector. This research is useful to multiple policy-makers on both the federal and state level. With proper policy, we can see a growth in the nonprofit sector, allowing organizations to continue to help those in need.

## **Introduction**

Policymakers often take data from the private sector when considering minimum wage changes. This is because it is assumed that the non-profit sector will react similarly enough to the private sector. With the current push for higher minimum wage, it is important to find out how minimum wage will affect the nonprofit sector. Knowing whether a higher minimum wage will positively or negatively affect the nonprofit sector can have a long-term impact on future policy changes. With an increasing minimum wage, we can expect one of three outcomes for the non-profit sector: the first two include a boom or bust situation in the growth of the non-profit sector,

while the third will show no change. Because of the large-scale impact, minimum wage policy has, it is crucial that there be evidential research before making any changes to the policy.

To study the changes and create evidence of the effect of minimum wage on non-profits, I am studying the following question: Does a raised minimum wage affect the expansion of the 501(c)(3) nonprofit sector in the United States? Minimum wage legislation was originally put in place in order to ensure that workers are able to make a living wage. However, nonprofit organizations rely on volunteers to **operate** in a larger capacity. This is because many nonprofits are operating on very thin margins, typically only putting their executive director on payroll. With an increasing minimum wage nonprofits could potentially face greater financial burdens. This research can potentially help inform policymakers on future decisions regarding minimum wage. In order to complete this research I **conducted** a time-series study, using archival data to come to my conclusions through using a comparative linear regression model. I was able to evaluate if there was a correlation between growth of nonprofits and the minimum wage rates by state however, there were some variables I was unable to test and provide ideas for future research opportunities. .

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## **Literature Review**

### **History of minimum wage research:**

Before researching the comparison between the **positive** and negative effects of minimum wage it is important to note the amount of people affected by the policies. According to US Bureau of Labor<sup>1</sup> there were 12.3 million employees in the nonprofit sector in 2016. Additionally, in 2016 the rate of employees being paid the federal minimum wage was at 2.7

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<sup>1</sup> "Research Data on the Nonprofit Sector," U.S. Bureau of Labor Statistics (U.S. Bureau of Labor Statistics, May 14, 2020)

percent<sup>2</sup>. This means that we can assume over 300,000 non-profit employees are making the federal minimum wage. This number may be in the millions, affecting an already vulnerable population and making it crucial to tread carefully in minimum wage policy.

When looking at past and current minimum wage policy it is clear that there is an overwhelming amount of support for minimum wage due to its positive effects. In fact, some researchers argue that there is no evidence of any negative effects on youth from minimum wage (Neumark and Nizalova, 2006)<sup>3</sup>. On the contrary, in recent literature it was found that exposure to minimum wages at young ages could lead to negative effects in the long run. These effects include diminished education, less training and an overall decrease in the labor market experience. This relates to the nonprofit sector, because it limits the amount of workforce, they can use to compile their teams and in turn, results in a heavier reliance on the volunteer sector. While research shows both pros and cons, the overall consensus is in favor of increased minimum wage according to public opinion data<sup>4</sup>. Even though there is overwhelming support, it is still unclear whether or not increasing the minimum wage will have a positive effect on the nonprofit sector.

Currently, federal minimum wage sits at 7.25 dollars per hour. This hourly wage is the minimum that all states are required to follow, many of which set the bar higher. The variation in state pay in relation to federal minimum wage nullifies many studies conducted about the federal minimum wage (Neumark and Wascher, 2006)<sup>5</sup>. In relation to the non-profit sector it is unclear

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<sup>2</sup>BLS Reports. 2018. *Characteristics of minimum wage workers*, 2017.

<sup>3</sup> Neumark, D. and Nizalova, O., 2006. *Minimum Wage Effects in the Longer Run*.

<sup>4</sup> Dunn, A., 2021. *Most Americans support a \$15 federal minimum wage*.

<sup>5</sup>Neumark, D. and Wascher, W., 2006. *MINIMUM WAGES AND EMPLOYMENT: A REVIEW OF EVIDENCE FROM THE NEW MINIMUM WAGE RESEARCH*. 1st ed.

whether or not the federal rate needs to be raised. In a study done by Sabia and Burkhauser<sup>6</sup>, it was found that increasing the federal minimum wage had no effect on state poverty rates. However, many researchers have claimed that the overall benefits of minimum wage outweigh the cons. In my research, I hope to find that an increase in minimum wage will either have a positive or negative impact on the non-profit sector.

#### **Current research on minimum wage affecting non-profit organizations:**

Currently there is research on the effects of minimum wage on the non-profit sector similar to my study. One study reviewing minimum wage, “The Differential Impact of Minimum Wage Increase on Nonprofit vs. For-profit Organizations”, found that nonprofits are more affected by wage hikes than corporations in the private sector. This is because they cannot function as private organizations by laying off workers, increasing cost of goods, or expanding their budget. Also, they cannot adapt as quickly because they are in contracts with funders, so they are held to a higher level of strictness than their private sector counterparts (Obradovic, 2018)<sup>7</sup>, making this a reason to consider non-profits in further research.

Having already seen a greater impact on the nonprofit sector, it is important to look at the equity of minimum wage. In another study, “Is Raising the Minimum Wage a Good Idea Evidence and Implications for Social Work”, found social workers and allies should work for a higher minimum wage. This is because if they only advocate for certain wages to be raised it will not equally benefit everyone in the community (Romich)<sup>8</sup>. This raises an interesting question: Is

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<sup>6</sup> Sabia, J. and Burkhauser, R., 2010. *Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?*.

<sup>7</sup> Obradovic, S., 2018. *The Differential Impact of Minimum Wage Increases on Nonprofit vs. For-Profit Organizations*.

<sup>8</sup> Romich, J., 2017. *Is Raising the Minimum Wage a Good Idea? Evidence and Implications for Social Work*.

the minimum wage equitable in the United States? Multiple studies have explained that the disconnect between federal and state minimum wages make it difficult for tracking growth through a sector.

After covering current and previous literature revolving around my research question, it is clear that it is yet to be answered. Many have covered the positive and negative effects, but in an ever-growing industry this key question has been overlooked. This gap in literature is important to answer because it will allow policymakers to make more informed decisions about minimum wage policies on a state or federal level. This gap in literature exists for a multitude of reasons. One explanation is that the general public opinion is in favor of a higher minimum wage, so researchers do not want to find data that would go against this preference. With non-profits based on a public good it is important that we allow for growth in the sector that helps fight for the greater good to aid in our global community.

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#### **Factors in non-profit expansion:**

When considering minimum wage as a factor of expansion it is important to consider the other variables that may affect expansion and why; this will allow for the easy identification of control variables. During my preliminary research there appeared to be three main categories of expansion factors: environmental, legal, and social capital. Each encapsulates a wide range of factors, some more influential than others.

One of the many reasons we see expansion in the nonprofit sector is environmental factors. This category ranges from factors such as levels of government spending to unemployment. First, when looking at government funding, a study correlating the amount of government funding available to non-profit expansion found that it was a relatively insignificant

factor (Corbin, 1999)<sup>9</sup>. This shows that government policies have the possibility of a result of no effect, however this does reflect the nonprofit growth through minimum wage rates if the government funding is not enough to employ more people. This result may appear to be similar to my study in the sense that there may be no correlation between an increased minimum wage and expansion in the nonprofit sector.

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Aside from environmental factors, there are several legal factors that affect expansion of the non-profit sector. The Internal Revenue Service (IRS) projected that over the course of eight years the non-profit sector would grow eight percent<sup>10</sup>. This is attributed to the tax reforms of 2002 which were in response to abuses in the private sector. Should minimum wage be increased we may see a decline as more restrictions have shown that it slows growth. While there are many other legal factors the overall consensus is that more intervention and restrictions will only lead to slower growth if done poorly(9).

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The last factor, social capital, is a considerable influence on the non-profit sector growth. Social capital is defined as: The networks of relationships among people who live and work in a particular society, enabling that society to function effectively. One example of a social capital factor is diversity. A study assessed 285 metropolitan areas in the United States found that social cohesion, demand of heterogeneity, market failure, resource dependence, and the philanthropic culture of the surrounding areas all affect the growth of non-profits in their respective location (Luksetich, 2005)<sup>11</sup>. After the evaluation of these locations it was found that economic,

<sup>9</sup> Corbin, J., 1999. *A Study of Factors Influencing the Growth of Nonprofits in Social Services*.

<sup>10</sup> 2004. *DESCRIPTION OF PRESENT LAW RELATING TO CHARITABLE AND OTHER EXEMPT ORGANIZATIONS AND STATISTICAL INFORMATION REGARDING GROWTH AND OVERSIGHT OF THE TAX-EXEMPT SECTOR*. 1st ed.

<sup>11</sup> Luksetich, W., 2005. *Government Funding and Nonprofit Organizations*. 1st ed.

sociodemographic and religious data were the most helpful for analyzing factors of growth in the areas. Knowing environmental, legal, and social capital all factor into the growth of the non-profit sector, they must be controlled for when trying to look at just minimum wage.

### Volunteerism

Volunteerism is typically associated with the non-profit sector. Organizations are constantly trying to recruit more volunteers and in order to do so need to figure out what motivates them to volunteer in the first place. Many researchers including Stukas<sup>12</sup> explain the extrinsic and intrinsic factors that motivate volunteers. The extrinsic factors mentioned include career advancement, being forced or pressured, and having aligned values with the organization. On the other hand, the intrinsic motivations are awareness and principism. Principism is identified as “a significant motivation for community involvement; that is, acting on a moral principle, such as social justice or social responsibility”<sup>13</sup>. Knowing what factors pull in volunteers is vital information when looking at the volunteer rates over time.

This is further supported by looking at “The New Public Service? Empirical Research on Job Choice Motivation in the Nonprofit Sector”. A study focused on what motivates nonprofit employees, they found intrinsic motivation is an important aspect to the majority of employees. In addition to that, certain policies like work-life balance and advancement in job security are important as well. Lastly, not all nonprofits attract similarly motivated individuals (Word & Park)<sup>14</sup>. This indicates that not all non-profit employees are motivated by money, meaning some individuals will not be affected by changes in minimum wage.

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<sup>12</sup>Stukas, A., 2015. *Understanding and encouraging volunteerism and community involvement*.

<sup>13</sup>Batson, D., Ahmad, N. and Tsang, J., 2003. *Four Motives for Community Involvement*.

<sup>14</sup> Word, J. and Park, S., 2022. *The New Public Service? Empirical Research on Job Choice Motivation in the Nonprofit Sector*.



However, after looking at the work done by the Nonprofit Source<sup>15</sup> it is seen that volunteerism peaked in 2004 when approximately 29 percent of Americans reported volunteering. Since then, the United States has seen a sharp decline in volunteerism dropping to just under 25 percent in 2016. Interestingly, this number continues to fall further during the COVID-19 pandemic. In a time of peril, where citizens needed the most support, we saw less availability from the nonprofit sector. With the world continuing to move from crisis to crisis, nonprofits need to begin to look towards a steadier workforce than volunteers.

When reviewing the structure of the non-profit sector, the article “Money Talks or Millennials Walk: The Effect of Compensation on Nonprofit Millennial Workers Sector-Switching Intentions”, showed that the nonprofit sector has become increasingly reliant on paid employees more than volunteers in recent years. However, with competition for paid professionals they have to increase pay to not only attract but also to retain workers. Some may argue this point make minimum wage irrelevant, however this stresses the importance of mainlining an employment sector that can uphold the minimum wage and can grow alongside it. In some cases, we see the growth of the nonprofit sector can be limited by the minimum wage and the ability for some nonprofits to meet that quota. It was also found that regardless of your age, one will be less likely to switch from the public sector to the private sector on the account of pay (Johnson & Ng)<sup>16</sup>. With this in mind it is key that nonprofits begin to switch some of their focus onto finding paid staff; however this is becoming increasingly difficult due to the varying minimum wages.

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<sup>15</sup>Nonprofits Source. 2017. *Volunteering Statistics and Trends For Nonprofits*.

<sup>16</sup> McGinnis, J. and Ng, E., 2022. *Money Talks or Millennials Walk: The Effect of Compensation on Nonprofit Millennial Workers Sector-Switching Intentions*.

## Methods

This time-series study is to evaluate minimum wage across state boundaries comparing the size of non-profits. Ordinarily one can define minimum wage and the size of non-profits in various ways. The way I have defined minimum wage is based upon the state minimum wage of where the nonprofit is located in order to compare different levels of minimum wage across states. If the expansion of nonprofit organizations are increased this will disprove my hypothesis and prove that the minimum wage has a relative correlation within the growth of the nonprofit sector. For the expansion of nonprofit organizations, I chose to define it by changes in an organization's paid staff; the number of staff an organization has is a representation of how successful the non-profit is, as they can employ more people, there is a large scale of work and ability to pay the larger amount of people than other nonprofits that are smaller in employ size.

In order to complete the study, I used one main source of data – archival data. The archival included open-source data accessed from the public information published by the Internal Revenue Service (IRS). The IRS publishes non-profit 990 forms, which include paid staff as well as other financial data. To compile a complete dataset for analysis, I will use additional data from the U.S. Bureau of Labor to gather state minimum wages over time. With both variables accounted for, I will conduct statistical analysis within Microsoft Excel. This will allow me to have analysis, data, and graphs all in one place. The time-series format has several benefits to the study. The first advantage is that it allows for observations of phenomena as they naturally occur. This means that I can observe the information about non-for-profit organization expansion as it is occurring in comparison to minimum wage. Another advantage is that it allows me to set up my study with multiple data sources.

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In accordance with the research I have already conducted it is possible there will be a negative growth associated with a higher minimum wage. With the struggle of having to pay employees along with operating charities, non-profits might be hurt financially. Since non-profits are not operating like businesses any increase will most likely result in an initial decline in staff or stagnate growth. While it is believed that minimum wage is overall good because it provides a livable quality of life top the public, the negative impact on the nonprofit sector is still something to be considered. I will be analyzing data from non-profits across different states using state minimum wage as a variable. Of course, there will have to be many control variables to indicate causation. Overall this study is intended to impact decisions from policy-makers in accordance to minimum wage policy in the future.

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## **Data**

When looking at the specifics of nonprofit employment and minimum wage, there is no source of archival data greater than the U.S. Department of labor, the U.S. Bureau of Labor and the Internal Revenue Service (IRS). The IRS combined with the U.S. Bureau of Labor has multiple years of data showing 501c(3) nonprofit employment rates by individual states. For this study, I used all of the available years of data, which includes 2013 through 2017. While the IRS has great data on employment, it did not have the minimum wages over these years. For this, the U.S. Department of Labor has an excellent source of each state's minimum wage dating back to the original creation of the law. This data combined has provided me with the evidence to do analysis regarding the research question. In order to provide further information, other sources of data will be involved for indicating a possible causation.

While this data set is sufficient for this research, another possibility would be to find a more specific data set. Although this was the original plan for the study, it was clear there was

little information on the individual level of local minimum wages (via county or region) and abundant on the state/industry level. Evidently, it was clear I needed to switch to this data set to conduct my analysis. The new dataset came with a clear key, a reliable source and is applicable to this research. Since the data found, includes all 501c(3) organizations, it is impossible to create controls within the analysis, however they may be hard to account for in the data analysis. To account for this, outside sources were necessary to fill in gaps that occurred throughout my analysis.

When evaluating the datasets, it was important to use the appropriate statistical analysis for the comparative time-series process. For the primary comparison of the minimum wage disparities and the growth of the nonprofit organizations in the United States, I used the following multiple linear regression equation to graph each variable to evaluate growth in the nonprofit sector and the minimum wage:

$$Y = \beta_0 + \beta_1 X$$

The variables of this equation are defined as follows; Y is the independent variable,  $\beta_0$  is the constant,  $\beta_1$  is the value of the slope in both scenarios, and the X value is the dependent variable. Through this equation, I can form visualized data points that show the linear regression of both the growth of minimum wage and the growth of the nonprofit sector within my data.

In the first linear regression model, I compared the dependent variable (Y) which was the rate of minimum wage with the independent variable (x), time. I found the initial change between the minimum wage growth as a form of linear regression that proved to be positive. Along the graph we can see that, as time moves forward on an annual basis there is an increase of annual minimum wage at an average of \$0.128 (see figure 1).

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### Growth of Minimum Wage From 2013-2017

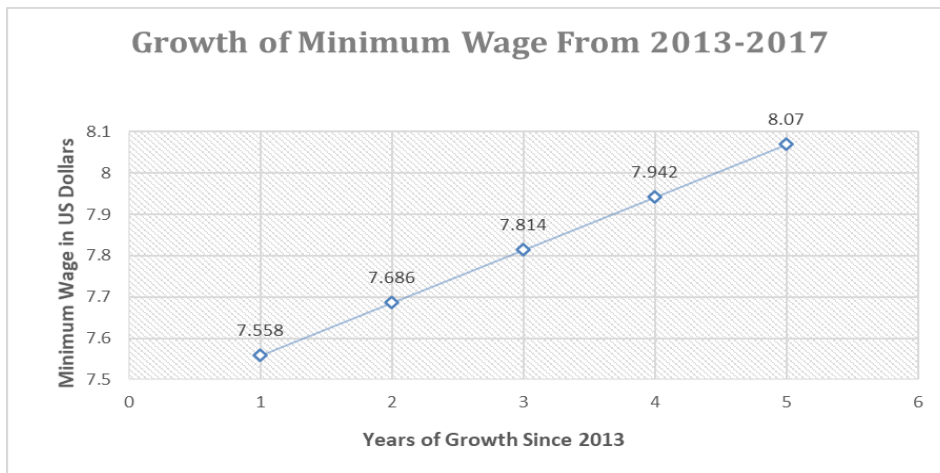


Figure 1

Source: U.S. Bureau of Labor

Comparatively, the growth of the nonprofits from 2013-2017 grew in the same positive linear regression form as the minimum wages. For this model, I compared the dependent variable (Y) which was the average employee amount in the nonprofit sector within the United States with the independent variable (x), time. Here, we see the total number in growth of the nonprofit sector in the years 2013-2017 is estimated at 19,203 people on an annual rating.

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### Growth of 501(c)3 Nonprofit Employment From 2013-2017

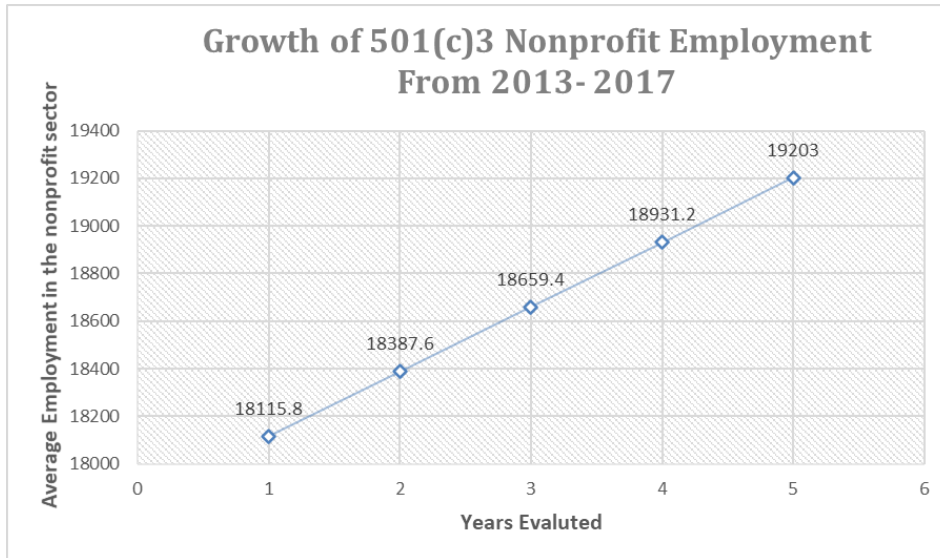
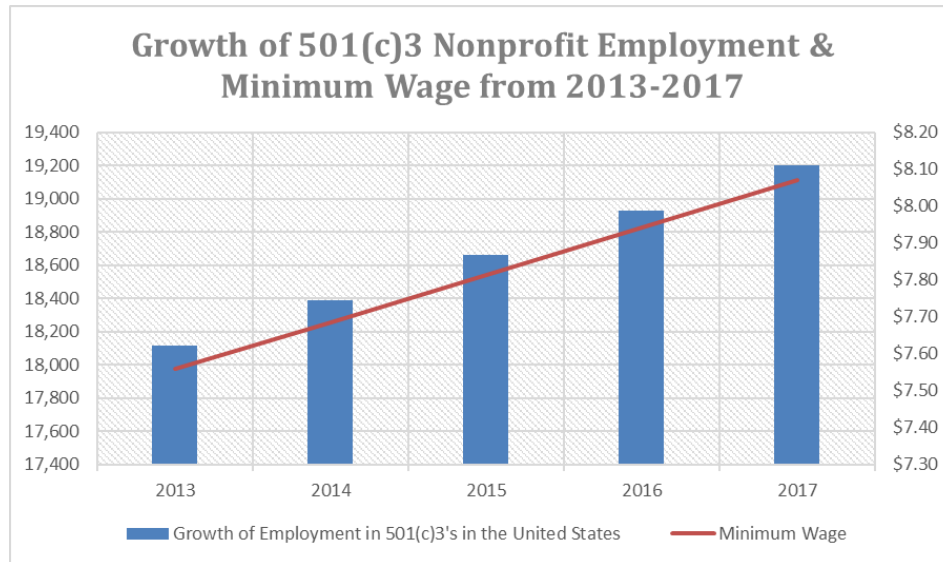


Figure 2

Source: U.S. Bureau of Labor

When comparing the two sets of data, it is clear that as the average minimum wage increases, the expansion of the nonprofit sector is also increasing. In conclusion, we can see through these two examples of growth rates that there is a correlation between the growth of each in comparison to one another. To visualize the comparison, I used the data from both models to create a final visualization of the correlation between the two variables in my study.

### Growth of 501(c)3 Nonprofit Employment & Minimum Wage from 2013-2017



*Figure 3*

*Source: U.S. Bureau of Labor*

To further the study's analysis between the two variables, I plan to introduce the idea of causation into this evaluation. To do so, there will be outside data and visualizations to identify other variables that may play a role in the relationship between minimum wage and expansion. With a positive correlation and no outside variables it can be assumed that there is causation within the correlation. In order to confirm any causal relationship, these other variables must have no effect on the variables defined in my study.

There are several variables that may play a role in the expansion of the nonprofit sector. The first possible variable is the number of new nonprofit organizations created each year. If the number of nonprofit organizations being created each year drastically changes over the span of the data, it could have a drastic effect on the employment data. Looking at the graph below (See

figure 4) we can see that there has been a general increasing trend in the number of new nonprofits<sup>17</sup>. As an outside variable that can have a clear association with the growth of the nonprofit sector, in terms of employment, it complicates the conclusion of causation.

#### Number of non-profit organizations in the U.S. from 1998-2016 (in millions)



Figure 4

Source: Statista

In addition to the last variable, changes in giving patterns (which directly affects the budget of nonprofits) can skew employment data. During the last four years, we can see there is a significant increase in giving amounts. During 2017, \$410.02 billion was estimated to have been given to charitable causes during the year, which was an increasing rate, as it has been for

<sup>17</sup> "Number of Non-Profit Organization in the U.S. from 1998 to 2016," Statista (Statista 2022, October 5, 2021),



the past four years. The comparative 2.1% GDP is a 5.2% increase since 2016<sup>18</sup>. With donations increasing, nonprofits will have an increased budget. This could lead to an effect on employment/growth in the nonprofit sector.

Additionally, public opinion of nonprofit organizations can impact the growth of the nonprofit sector as well. In a study conducted by Castro et al., it found that over the course of three years high-trust has declined by 18% (See figure 5). We can see from further data, over the course of 2012-2017 the private sector continues to employ more people compared to the nonprofit sector (See figure 6)<sup>19</sup>. This data, correlates to the public trust, as it is indicative of the change in employment/growth of the nonprofit sector. This confirms the notion that public trust affects employment/growth of the nonprofit sector.

## **Results**

As a result of the data there is no clear answer to my questions: Does a raised minimum wage affect the expansion of the 501(c)(3) nonprofit sector in the United States? Originally, it was hypothesized that an increased minimum wage would decrease the size of the nonprofit sector.

As a result of the data collected, it is evident that there is a positive correlation between minimum wage and the growth of the nonprofit sector. However, due to other variables that could have an effect on the dependent variable, growth of the nonprofit sector annually, not staying constant, causation cannot be confirmed. As a result, with the evidence provided, minimum wage does not cause an effect of growth on the nonprofit sector. Although this is not a

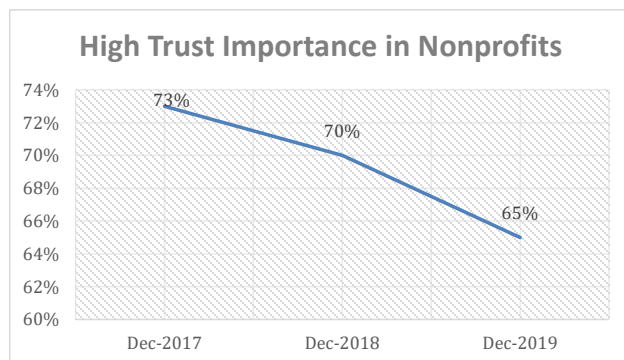
**Commented [LLC21]:** On other graphs you showed employment increasing and this shows trust decreasing. Even if employment didn't increase as fast in nonprofits as for-profits (which contradicts what you said earlier) big jump to say caused slower growth when you earlier identified other factors

<sup>18</sup> "Giving Statistics," Charity Navigator (Charity Navigator, June 12, 2018),

<sup>19</sup> Lester M Salamon, Chelsea L Newhouse, and S Wojciech Sokolowski, "The 2020 Nonprofit Employment Report," John Hopkins University Center for Civil Society Studies (John Hopkins University, June 2020),

preferred outcome of the study, it may be proven in future research. There are notable differences for the comparison that have yet to be studied in detail such as;

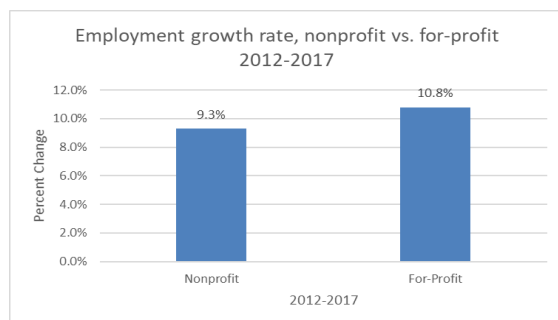
#### **The levels of Trust in the Nonprofit Sector Over Three Years**



*Figure 5*

*Source: Donor Trust Report 2020, The Pandemic and a Three-Year Retrospective*

#### **Employment growth rate, nonprofit vs. for-profit 2012-2017**



*Figure 6*

*Source: The 2020 Nonprofit Employment Report*

Lastly, volunteerism is a large aspect of the nonprofit sector that may affect the growth of the sector. While determining the causality of my study, volunteerism rates were an important

factor to consider. Over the course of ten years it was clear that there is a decline in volunteerism (see figure 7)<sup>20</sup>. This data has a negative correlation with growth of the nonprofit sector (based on employment), indicating that there is an influential factor. However, some factors are harder to measure and account for given the time allotted for this study, such as volunteerism true rates, levels of trust, and the comparison of growth between the nonprofit and the for-profit sector.

#### Percentage of population volunteering in the U.S. from 2006 to 2017

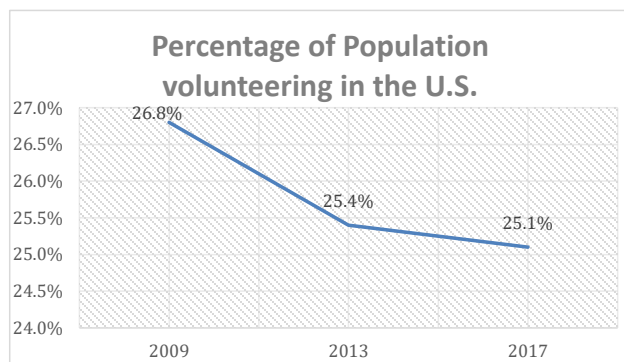


Figure 7  
Source: Statista

## Conclusion

Through all of the evaluation, the growth of the nonprofit sector is affected by more than just minimum wage. Through the data analysis, it was clear that although the two variables are positively correlated there is no causal relationship. After seeing a positive correlation, and my original hypothesis being proven incorrect, it shows why there is such a strong public support for

<sup>20</sup> "Percentage of Population Volunteering in the U.S. from 2008 to 2017," Statista (Statista 2022, February 22, 2022),

increased minimum wage due to the growth of nonprofit sector that is in growth alongside the rate of minimum wage. With this research, along with the other research provided in the literature review, it is evident that minimum wage increases would be beneficial for the sake of the global impact of the nonprofit sector that grows in accordance to minimum wage rates as the research shows.

Like most things, this study was not perfect. Should other researchers pursue a similar study, taking another approach to finding causality between these two variables may find more conclusive results. Additionally, with limitations of time, I was not able to collect my own data. With that said, it is possible that a more in-depth data set would have allowed for greater statistical analysis.

In the event that future research should be conducted in this field, there are a few topics I would like to suggest pursuing. The first is, does the socioeconomic status of the United States play a role in the growth of the nonprofit sector. By socioeconomic status, it is important to highlight we would be analyzing the need of the nonprofit sector within the country based on political, civil, and economic unrest within the United States as whole. This research would provide great insight into a potential causal relationship between minimum wage and the growth of the nonprofit sector. Additionally, any research regarding the international field of nonprofits and the effects of minimum wage would help fill in further gaps within the current literature. Due to other countries having both different minimum wage policies and nonprofit sector growth rates, it is hard to say the United States is solely representative of the global nonprofit sector. However, gaps in literature are hard to fill, but I encourage research in these topics in order to provide a more cohesive knowledge base for the nonprofit sector.

**Commented [LLC22]:** Public opinion is not based on the fact that it won't impact nonprofit sector- big leap in logic

**Commented [LLC23]:** Just because it won't negatively impact nonprofit sector, doesn't mean it would be beneficial

**Commented [LLC24]:** What do you mean?

**Commented [LLC25]:** What do you mean- other countries minimum wage and their nonprofit sectors?



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