

# MEASURING CIVIL SOCIETY

Patrice Flynn

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FLYNN RESEARCH  
Measuring Contributions to Society

## MEASURING CIVIL SOCIETY<sup>1</sup>

Scholars, practitioners, and policy makers interested in civil society rely upon accurate statistical data. Such data are used to articulate the various roles, functions, and contributions made by nonprofit entities, to solicit funds for programs and services, and to monitor trends over time. Unfortunately, most nations—the United States included—do not yet have a unified system of accounts for this sector of the economy. Some data are collected by government agencies, others by private research institutions, each using different empirical methodologies. This document provides an overview of how the nonprofit sector is currently measured and the key data sources available to the public that indicate the size and scope of civil society in the United States and internationally.

The information is presented in three parts. Part I describes the nonprofit sector in the United States to include the number and types of entities as reported by the U.S. Internal Revenue Service. In 2003, civil society included over 1.5 million entities with annual revenues of \$1.6 trillion (USD). Part II describes the most common approach to measuring the roles, functions, and contributions of the nonprofit sector adopted jointly by practitioners and scholars worldwide. Part III identifies sources of data on civil society in the United States and internationally to include websites where public use data are available.

One last note before delving into the numbers. Civil society is a broad term used to identify those entities that are exempt from paying national (federal) income tax and in some instances selected state and local sales, use, and education taxes. Other terms used to identify civil society include the nonprofit sector, social sector, independent sector, philanthropic sector, third sector, non-government organizations, charities, and voluntary associations. In the United States, the most common term used is the nonprofit sector; globally non-government organizations (NGOs) and civil society are common parlance. The terms are used interchangeably in this paper.

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<sup>1</sup> This document was adapted from a presentation given by Dr. Patrice Flynn on March 2, 2004 for the United Way Community Collaborative in the Eastern Panhandle of West Virginia entitled, “Using Statistics in Grantwriting.” For further information, please contact Patrice at FLYNN RESEARCH (304) 728-9499.

## **I. Size and Scope of Civil Society in the U. S.**

In the United States, the U.S. economy is comprised of three sectors: government, business, and nonprofit. In 2002, approximately 23 percent of net national income came from the government sector, 67 percent from the business sector, and the remaining 10 percent from the nonprofit sector.

The nonprofit sector has historically held a low priority in the overall national statistical system given that the organizations do not contribute to the tax base of the nation. Since the 1980s, however, greater attention has been paid to the nonprofit sector, which has grown substantially in terms of number of organizations, employees, and revenues with the advent of the Great Society programs in the 1960s.

As a result, the U.S. Internal Revenue Service (IRS) is working with the private (for-profit and nonprofit) sectors to codify tax-exempt entities so that the national system of accounts is complete. In 2000, the IRS adopted the National Center for Charitable Statistics classification system known as the **National Taxonomy for Exempt Entities** (NTEE). The taxonomy groups nonprofit entities into 10 broad categories: arts, education, environment, health, human service, international, public benefit, religious, membership, and other/unknown. The NTEE further classifies organizations under 26 major groups, which identify the focus of activities such as animal-related, medical research, housing, social sciences, et cetera. (For a table listing the NTEE codes, please go to [www.nccs.urban.org](http://www.nccs.urban.org).)

Each year, most tax-exempt entities must report to the IRS and provide basic information such as total revenues, sources of revenues, employees, types of activities by NTEE codes, and so on in order to retain tax-exempt status per the IRS tax code (see box). These data are analyzed by the IRS in tandem with selected private research organizations who then make the aggregate data available to the public.

**U.S. INTERNAL REVENUE SERVICE TAX-EXEMPT CODE**

Section 501. Exemption from tax on corporations, certain trusts, etc.  
TITLE 26, Subtitle A, CHAPTER 1, Subchapter F, PART I, Sec. 501

**STATUTE**

(c) (3)

Corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literacy, or educational purposes, or to foster national or international amateur sports competition (but only if no part of its activities involve the provision of athletic facilities or equipment), or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities or which is carrying on propaganda, or otherwise attempting, to influence legislation (except as otherwise provided in subsection (h)), and which does not participate in or intervene in (including the publishing or distributing of statements) any political campaign on behalf of (or in opposition to) any candidate for public office.

Table 1 entitled, “U.S. Tax-Exempt Organizations: Number and Revenues in 2003” provides a snap shot of the nonprofit sector in the United States according to IRS records. It is important to note that not all tax-exempt entities in the U.S. are required to file annually with the IRS. According to the U.S. Constitution, religious congregations are tax-exempt but treated differently from secular organizations in that they are not required to file with the IRS and account for activities and/or funds. Therefore, scholars can only estimate the number of religious congregations at somewhere between 260,000 and 350,000.

All of the remaining tax-entities with annual revenues exceeding \$5,000 (USD) must register annually with the IRS. Those with revenues exceeding \$25,000 must also file a Form 990 with the IRS from which the bulk of financial statistics on the sector derives. According to the IRS, we know the following about the nonprofit sector:

- 1.35 million tax-exempt entities were registered in 2003;
- Revenues totaled \$1.6 trillion;
- 866,333 entities were classified as 501(c)(3) organizations;
- Revenues received by 501(c)(3) entities totaled \$1.2 trillion;
- 501(c)(3) entities included two types, public charities and private foundations;
- Public charities numbered 768,746 and reported \$1 trillion in revenues;
- Private foundations numbered 97,587 and reported \$200 billion in revenues;
- Non-501(c)(3) entities numbered 484,445 and reported 455 billion in revenues;<sup>2</sup>

When using statistics on the nonprofit sector, it is thus helpful to understand the IRS data system and articulate how the data you are using fits into the national grid. The national system also provides benchmark statistics on the sector as a whole from which to track national trends overtime and in relation to the other sectors, government and business.

## **II. Measuring the Roles, Functions, and Contributions of Civil Society**

The IRS data provide key insights and the background needed to develop a national statistical portrait of the nonprofit sector. More recently, however, there is new interest in measuring the benefits of the sector and the overall impact that nonprofit organizations have on society over time. This effort is demanding and complex, but necessary, as the sector and its institutions will be called upon to demonstrate their accomplishments and inherent worth in an era of greater accountability to the public.

To date, the nonprofit sector has relied on anecdotal evidence and general good will to argue for its many successes and tax-exempt status. There is no body of scholarly literature assessing the roles, functions, and contributions of the nonprofit sector beyond evaluation research at the institutional level. Hence, in public deliberations, nonprofit professionals are unable to clearly articulate the myriad activities performed by tax-exempt organizations and any ensuing, greater societal good. While both government and business have clear and consistent bottom lines (i.e., elections and profits, respectively), the bottom line for nonprofits is vague (i.e., the production of collective goods that would not otherwise be

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<sup>2</sup> There are more than 27 types of tax-exempt entities in the IRS tax code, ranging from 501(c)(1) to 501(c)(25), 501(d), 501(e), 501(f), 521, 527, and 557 entities. The “other” category in Table 1 includes non-501(c)(3) entities and those not classified by IRS section.

provided in society). Until we develop a useful methodology to describe and measure the sector, we are reduced to operating on beliefs about the value added by nonprofit organizations as well as their contemporary roles and functions.

Increased demand for rigorous measurement tools is not limited to nonprofits in the United States. With the growth of foundation-sponsored foreign aid and the popular belief that nonprofit organizations are important vehicles to develop democracy and to offset poverty, efforts are being made to measure the impact of nonprofit organizations abroad. But the data systems and empirical tools to assess socio-economic development and democracy formation are primitive compared to those available for assessing business activities

How then do donors, staff, and board members assess the roles, functions, and contributions of civil society? Table 2 provides an approach to measuring the sector developed in large measure by the United Way of America and its local agencies. The approach encourages the development of a common terminology to differentiate inputs, outputs, and outcomes.<sup>3</sup>

**Inputs** include resources dedicated to or consumed by the program (e.g., money, staff and volunteer time, facilities, equipment, supplies). **Outputs** are direct products of program activities, usually measured in terms of the volume of work accomplished (e.g., number of classes or counseling sessions, educational materials, participants served, performances). Outputs have little inherent value in themselves, but are expected to lead to a desired benefit, outcome, and/or change for a target audience. **Outcomes**, on the other hand, are the benefits or changes (for individuals, populations, the earth, society) derived from the program, activity, inputs, and/or outputs (e.g., Are participants better off after receiving the service? Is the river cleaner as a result of reduced production by Company X upstream?). Outcomes may relate to behavior, skills, knowledge, attitudes, values, condition, status, or other attributes.

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<sup>3</sup> See also the volume entitled, "Measuring the Impact of the Nonprofit Sector" by Patrice Flynn and Virginia A. Hodgkinson, eds. (Kluwer Academic / Plenum Publishers 2002).

**Impacts** are inherently more difficult to measure because we must first understand the causal relationships between the measured inputs, outputs, and outcomes and the underlying phenomena leading to the observed results. Impact analysis helps us understand “why” a phenomenon occurred and apportion credit or blame for any change(s). Outcomes, in contrast, tell us “what” has occurred. In order to measure the impact of something, we are required to formulate a theory of behavior (e.g., an hypothesis) and a testable model (e.g., if A then B), to collect reliable data, and to execute formal analysis.

Even if the sector adopted a common approach to measurement, the nonprofit sector is many years away from being able to measure its impact on society. First, we must make strides toward better measurement of the sector’s outputs and outcomes from which a cohesive theory of behavior might emerge. Perhaps the approach developed by the United Way might serve as a first step down this road.

### **III. Data Sources on Civil Society in the U.S. and Internationally**

The final table provides detailed information on extant data from which to measure the nonprofit sector. The most comprehensive source for international data is the Johns Hopkins University Center on Civil Society Studies (see [www.jhu.edu/~CCSS](http://www.jhu.edu/~CCSS)). Data are collected on more than 40 countries where civil society is active. A uniform data system has been developed with information on the number of organizations by type, activities, employees, volunteers, and revenues.

In the United States, data are available from several sources. For private foundation data, two nonprofit research organizations collect and analyze the information. The first is the American Association of Fundraising Counsel (established in 1935), which works with Indiana University’s Center on Philanthropy to issue the annual *Giving USA* publication (see [www.AAFRC.org](http://www.AAFRC.org)). Detailed data are available on the total amount of private giving each year in the United States by type of donor/donation (e.g., bequests, corporate foundations, individuals, etc.) and type of organization receiving the funds (e.g., health, education, etc). *Giving USA* reports that private giving in 2002 reached \$240.9 billion.

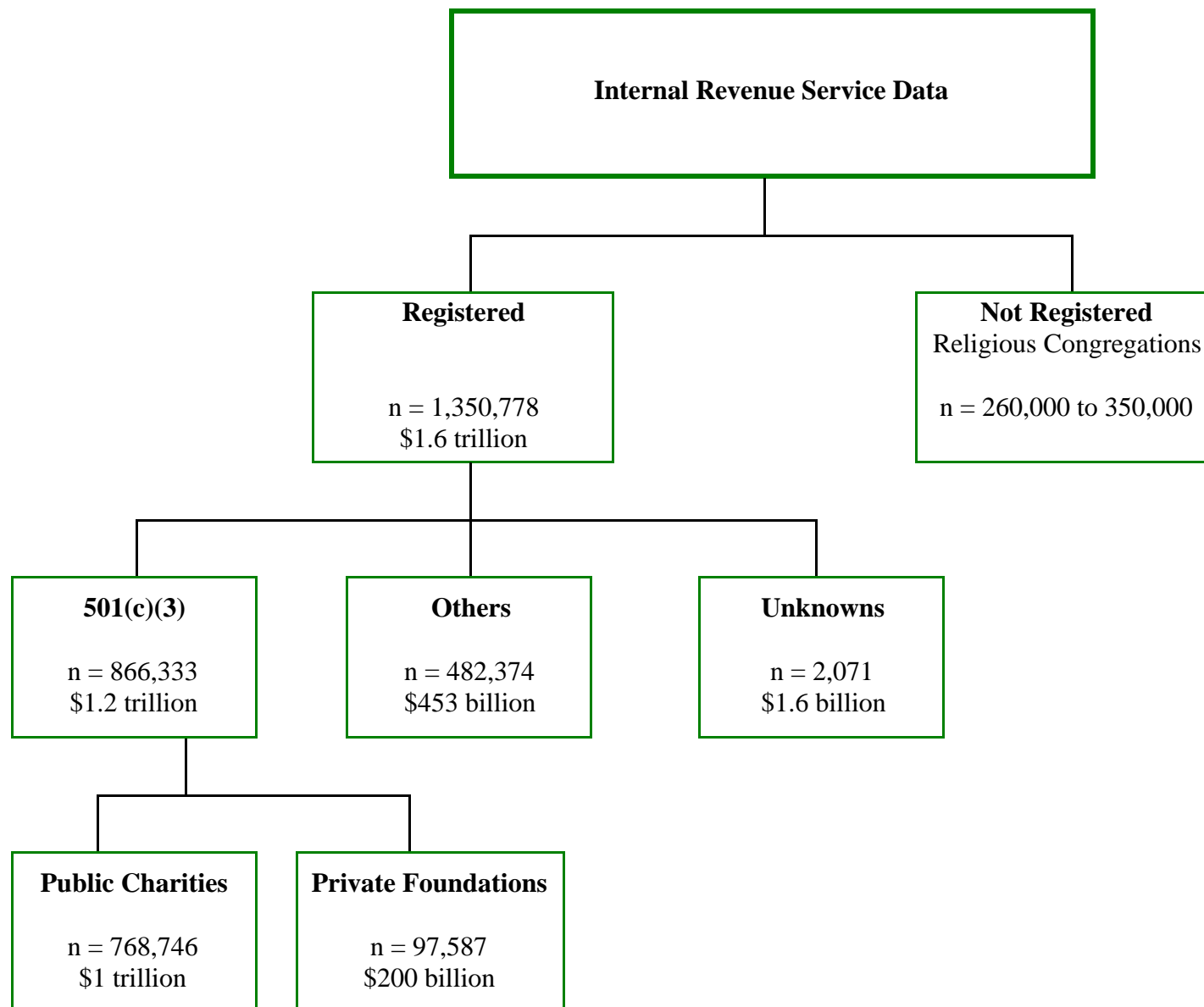
The second source of data on private giving is The Foundation Center that issues the Foundation Yearbook (see [www.fdncenter.org](http://www.fdncenter.org)). Information is provided on the size of grants made by the various types of foundations (e.g., independent, corporate, community, operating), regional variance in giving, and assets held by foundations. The Foundation Center reports that foundation grantmaking totaled \$30.3 billion in 2002.

Lastly, data on public charities are available online from three sources: Independent Sector (see [www.independentsector.org](http://www.independentsector.org)), the Urban Institute (see [www.urban.org](http://www.urban.org)), and Guide Star (see [www.guidestar.org](http://www.guidestar.org)). The data have been edited for internal consistency and reporting errors. Periodically, Independent Sector issues *The Nonprofit Almanac*, a portrait of the size, scope, and dimensions of the nonprofit sector in the United States along with key trends in employment, revenues, and activities.

#### **IV. Conclusion**

Despite the fragmented system of accounts on civil society, a wealth of good information is available to describe the breath and depth of services and programs available to citizens during times of need. This paper is intended to encourage the readers to jump in and mine the data in ways that can best articulate the roles, functions, and contributions made by nonprofit organizations and the millions of people who provide needed services as volunteers, board members, and staffers. In the end, such an effort will help us understand—and perhaps appreciate—the interdependence of government, business, and civil society for the healthy functioning of a capitalist economy.

**U.S. TAX-EXEMPT ORGANIZATIONS:  
NUMBER AND REVENUES IN 2003**



**APPROACH TO MEASUREMENT**

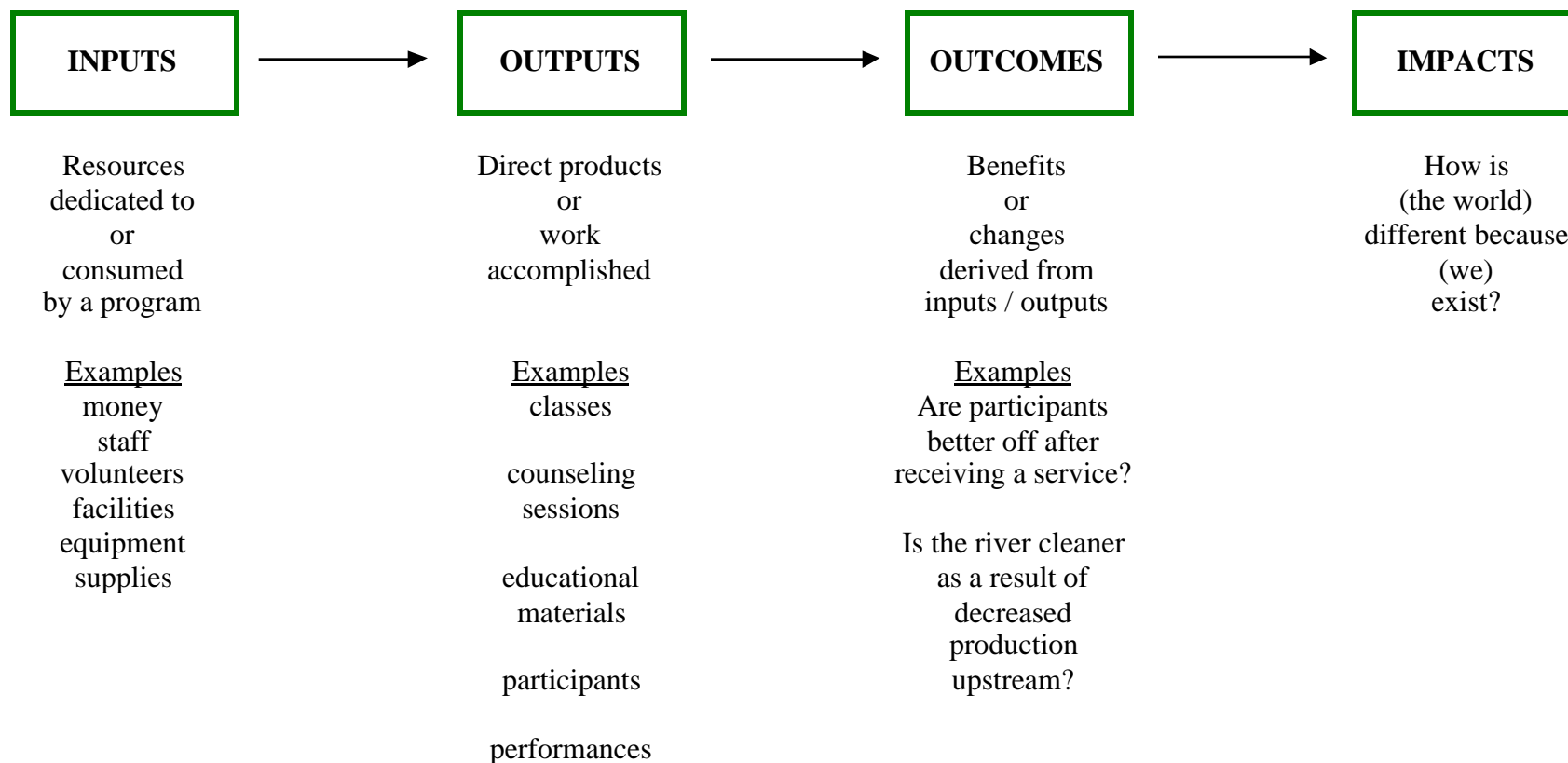


Table 3

**DATA ON THE NONPROFIT SECTOR:  
UNITED STATES AND INTERNATIONAL**

