

The Value of Volunteer Work: Shadow Prices and Opportunity Costs

By John Brodman and Michelle Powers

Two recent articles about the value of volunteer work in Pine Knoll Shores have stirred up considerable interest in the subject. The first article, appearing in the *Carteret County News-Times* on July 13, reported that the Pine Knoll Shores Garden Club performed 301 hours of volunteer work on the town's gardens last year at a value of \$22.50 per hour, thereby saving the town some \$6,773 in landscaping expenses. Most people we talked to felt that this was a good thing, that volunteers are right to assign a value to their time and that the \$22.50 per hour estimate, which is what economists call a "shadow price," seemed reasonable, but probably debatable. The second article was the Women's Club monthly report in last month's *Shoreline*, written by Michelle Powers, who also had a hand in helping the Garden Club come up with the estimates mentioned in the *News-Times* report.

The Women's Club article goes into greater detail about the value of volunteer work, citing the research of several national volunteer organizations that has been acknowledged by the Financial Accounting Standards Board (FASB), the Bureau of Labor Statistics (BLS) and the Internal Revenue Service (IRS). Ms. Powers conducted an informal survey of the Women's Club that showed that club members collectively donated over 11,000 hours of volunteer time last year to town, county and faith-based volunteer organizations, contributing some \$250,000 worth of value to the community—a staggering amount that clearly shows how the diverse contributions of many individuals can quickly add up to something of great value. The article talked briefly about the value of volunteer work from the other side—the value of their contributions to the volunteers themselves—focusing on the physical and mental health benefits derived from the satisfaction of contributing to the community. Both of these articles stimulated a lot of discussion and got us wondering, in greater depth, about how organizations and volunteers think about the value of volunteer work, and that's what this article is about. Economics is a social science, but it is also called "the dismal science," and we will warn you in advance that there's a bit of micro-economic reasoning in everything that follows.

The organization's viewpoint. From the organization's perspective, the value of a volunteer's work is the market price (wage or salary) it would have to pay an employee to provide a similar service. Volunteers provide a wide range of services, covering everything from answering phones to gardening, to professional services and advice in engineering, finance, management, medicine and law. Each of these services has a different market value. The \$22.50 per hour cited above is a national average value of volunteer work in 2013, based on the hourly earnings of non-farm, non-supervisory workers, plus an allowance for fringe benefits. It seems reasonable, and it is not far from the median earnings of full-time wage and salary workers in all occupations tracked by the BLS. In the Garden Club example, it is probably not far from what the town would have to pay a contractor to provide an hour of landscaping work, factoring in all the overheads like estimating, contracting, hiring and supervision, machinery and equipment, fuel, social security, Medicare, other taxes, insurance and benefits. Since there is not a real market for volunteer work where supply and demand determine value, the \$22.50 is a shadow price, or estimate, of what a service is worth, that is, its market value. The town also receives some additional, but intangible, benefits from the sense of community among residents that is derived from the spirit of volunteerism and cooperation.

It's a somewhat different story when it comes to the IRS, which does not assign a value to volunteer work. While you can deduct charitable contributions of money and goods to qualified charitable organizations, you cannot deduct the value of your volunteered time or services (see IRS Publication 526) or, if you are employed, the value of the income lost while you work as an unpaid volunteer. It's complicated, but when you start to consider how you could possibly allow deductions against reported income for imputed, shadow-price values of volunteer work that's never recorded as income and never subject to payroll (FICA) taxes, it's easy to understand why the IRS has taken this position. Every proposal to allow deductions for the value of volunteer work has been shot down, and even then, they all included extremely onerous record-keeping and reporting requirements.

From the volunteer's viewpoint. Study after study shows that volunteers should always try to put a value on their time because, if they don't, no one else will, either. This is especially true for retired persons acting as volunteers, since many people automatically assume that someone who is retired has all the time in the world and, therefore, his or her time is of little value. We have all experienced volunteering for well-meaning organizations, only to arrive and discover that the activity is unorganized and a big waste of time. The internal value you assign to your time is something economists call "opportunity cost." The cost of doing one thing is the value of the other things you could have done instead. This is largely a subconscious calculation for most people, where you weigh internally the costs and benefits of doing one thing over another. You don't have to be employed to do the opportunity cost calculation; you just have to weigh internally the value of different activities to yourself. If you are gainfully employed, however, the value (opportunity cost) of your time spent volunteering is at least equal to the extra income you could have earned working the same amount of time in your regular job.

Other forces are at work that affect the value of a volunteer's work to the volunteer. For example, the more hours a volunteer (or anyone) works, the more valuable his or her remaining time becomes because there is less of it. This is the economic basis for overtime and holiday pay. You have to pay more for the extra hour of labor because the worker values that extra hour more, especially on holidays when the worker may be missing out on important family celebrations. A volunteer will work until the value of the last hour spent volunteering equals the value of an extra hour of free time to do other things, like (take your pick) play golf, exercise, clean house, shop, accompany your spouse to a medical appointment, help your daughter plan her wedding or take a nap. Rarely do we think of these things in terms of money, and dollars and cents don't really enter the calculation. A volunteer is more likely to get up in the morning and decide that he or she can only volunteer for two hours that day because he or she is just too busy and has too many other things to do. Nevertheless, these are very personal and subjective decisions based on personal valuations of the importance of different activities to an individual. No one else can, or should, make these decisions for you about the best use of your time.

Many volunteers have been pressured into tasks, to say "yes," only to experience remorse when they realize that they should have said "no." This is often a source of conflict in volunteer organizations where there can be more than a bit of tension between the objectives of the group, which require volunteer hours of work, and the desires of individuals. Peer pressure has a role to play, for sure, but only individuals can determine the best use of their time. This tension between the group and the individual is probably a creative, positive force that helps both parties strike a balance.

We've all met the volunteer who simultaneously brags and complains about the number of volunteer hours he or she is putting in (competitive volunteering maybe?). This type of situation is probably one source of the phrase "he (or she) needs to get a life," meaning that others think that the person really needs to find something of value to do outside the volunteer organization. But the reasoning behind the phrase really isn't fair, because it is a personal valuation exercise. The person who needs to "get a life" may get more out of volunteering relative to the other things in his or her life. The converse is also true. We have all met volunteers who are reluctant, at best, when it comes to work. Their reluctance to step up may be a function of other, more important things in their life, or they could just be slackers. Who knows? In any case, it's an internal, personal decision. The person who volunteers many hours can make other volunteers feel uncomfortable by making them feel that they may not be doing enough, and the person who does very little, but shares in the credit, can also create problems. This is where peer pressure and group dynamics come into play to influence how volunteers in an organization strike their own balance between work and personal time.

Pine Knoll Shores prides itself on its citizen volunteers, and it looks favorably on activities that give volunteers an opportunity to use and contribute their individual talents to the community through a number of potentially rewarding pursuits. At present, there are opportunities for full-time and part-time residents to serve the town on the Planning Board, Community Appearance Committee, Parks and Recreation Committee, History Committee, Kayak for the Warriors-related events, Community Emergency Response Team (CERT), Volunteers in Police Service (VIPS), Fire and EMS Department and *The Shoreline*. If you are interested, please call Town Clerk Scott Sherrill, or visit the town website for more information at www.townofpks.org.