

# Effects of macroeconomic policies upon a single organization



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### Understanding the Tree by Knowing the Forest

The analogy of the forest and the trees is particularly apt in illustrating the difference between macro- and micro-economic areas of concern. Whereas microeconomics ‘operates’ at the level of the individual firm, manufacturer or even individual consumers, macroeconomics is principally concerned with the national or even global aggregate issues of these entities. In other words, if single firm is a tree, macroeconomics is concerned with the policies that ‘drive’ the forest. Thus, it must be kept in mind, the goals of the tree may not always be furthered by following the governance of the forest. Similarly, the policies that are best for the forest may not be in the best interests of any *one* tree. Utilizing this perspective, a brief examination shall be made of how macroeconomic “forest” policy might affect a single organizational “tree”.

Depending on semantics and the exact metric utilized The YMCA is arguably the world’s largest human service organization. This nonprofit organization was founded in 1844 in London and rapidly spread across the world, now being active in over 140 countries. In the United States the YMCA has approximate 2, 500 branches with nearly 20, 000, 000 members. Each of these operating units is independently governed by a local board of directors who hires the CEO. This position runs is the operations end of the business and is immediately responsible for the hiring of all other employees. Some operating units are quite small, perhaps having less than 10 employees while others have several hundred or more. Financial impact of a unit, in terms of projected revenue, could range from less than one hundred thousand dollars

to nearly \$100, 000, 000 (personal communication, J. Bean, retired YMCA Senior Director, October 6, 2005).

One of the key concerns of macroeconomic policy is to maintain optimal employment levels (Keifer 1999, p. 59). While the wage policies of a single organization are very unlikely to affect the forest, a minimum wage policy does certainly affect individual organizations. On October 1, 1996, the US minimum wage increased from \$3. 85 to \$4. 75 per hour and increased again effective September 1, 1997 to \$5. 15 per hour (US Department of Labor, 2005). Though businesses had months to consider and adjust, the net effect, in the end, was that a 34% wage increase was evidenced.

In an organization such as a YMCA unit, this had the potential of having serious consequences as there are a number of operating parameters different from many other businesses:

- The YMCA is a nonprofit organization. – While still being run as a “business”, the operating margins of nonprofit firms are typically much slimmer... there are no real “profit margins”, there are no dividends or bonus and there is no excessive executive compensation.
- The YMCA employs an extensive part-time work force. – Many of these individuals are either entry-level or accept entry level wages.
- The YMCA is a service driven organization. – In many private sector businesses, firms get very nervous if total personnel costs exceed 30% of budgeted expenses. In a YMCA, depending on the exact program mix in a specific community, it is not uncommon to see human resource costs occupying 60% of the budget.

With these factors in mind, it is easy to see how increases in minimum wage can disproportionately affect the bottom-line of service driven organizations. In 1996 or in 2005 (were their to be additional increases), there are but a number of strategies to be deployed. First, one can make ‘ budget cuts’ and trim service levels. For a nonprofit meeting the needs of the community, this is generally unacceptable. A second solution is to increase the efficiency of human assets so that you are doing more with less. For example, if one had 10 employees at minimum wage (\$5. 25/hour) for an hourly expense of \$55. 25, the goal would now be to somehow “ re-engineer” the process so that only six employees are required. This approach is a good one... in the long run. In the short run, additional funds must be invested, often in technology, so that workers efforts are leveraged to a greater extent. Also, a potential problem with this solution is that many YMCA programs involve youth for which there are either government or organizational policies in regards to staffing ratios (i. e., in infant childcare programs, the ratio must not exceed one staff to four children). A third option is to increase revenue to cover the additional expense. In a YMCA, this can be achieved two ways:

- Increase *earned* revenue by increasing program fees. In this situation, increases would likely be tolerated as there is a bona fida increase in the cost of doing business.
- Increase *contributed* income by philanthropy. Faced with increasing operating costs and a compelling need for a program service, donors are often quite willing to help out a benevolent organization who demonstrates principles of good stewardship with existing assets.

While employment policies are one example, the field of macroeconomic policies is one in which there is seemingly no such thing as an isolated variable. Increases in minimum wage policy are likely to trigger inflation (Knoop 2004, p. 39). Inflation, in turn, increases the cost of doing business, particularly as the cost commodity goods such as gas, oil, electricity and water increase. Again, the same three strategies present themselves to the operators of enterprise.

A final example of how macroeconomic policies can impact the organization in question is that of federal monetary policy. While a nonprofit organization does not play the market per se, money is often borrowed for capital projects. A loose fiscal policy will drive interest rates down, creating opportune times for consideration of borrowing funds. A related consideration is the overall tone of the market. As nonprofit organizations are often the beneficiary of financial instruments, the specific tax advantages set by federal fiscal policy have an effect upon the generosity of some donors.

In summary, the politics of the forest have a tremendous effect upon the trees. While the policies may, in the short run, create mild operational havoc, we must have some faith that the forest has our best interests at heart as a strong forest is better for all trees.

#### Works Consulted

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