The Effect on US GDP of Treating Non-profit Institutions Serving Households as Market Producers

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This paper examines the effect of treating non-profit institutions serving households (NPISH) as market producers on the U.S. gross domestic product (GDP). As a case study, this paper focuses on non-profit hospitals. In the U.S. National Income and Product Accounts (NIPAs), NPISH are treated as nonmarket producers and their output is measured as a sum of their operating cost. In this method, NPISH accounts for about 5.6% of the U.S. GDP in 2019, almost half of which is account for by hospitals. Hospitals are thus the biggest contributor to the NPISH sector in the United States, and in turn has the largest impact on the overall GDP when accounting methods are changed.

Unlike many other OECD countries, the hospital sector in the United States is characterized by a mixture of three types of institutional sectors: non-profit (68%), for-profit (12%), and government hospitals (20%). While both government and non-profit hospitals are classified as nonmarket producers, both often charge economically significant prices as evidenced by the fact that more than 90 percent of non-profit hospitals' operating cost is recovered from households as revenues. Following the SNA guidelines of classification of market producers and nonmarket producers, U.S. non-profit hospitals clearly falls into the category of market producers.

This paper compiles data from Statistics of Income of the Internal Revenue Service (IRS) and Economic Census to construct an account of the non-profit hospital sector as market producers. The preliminary results indicate doing so has only negligible effects on the NIPAs: The nonprofit hospital sector as market producers is smaller in terms of gross output by less than 0.1 % of the sector measured in the current methodology. As a result, its impact on the total U.S. GDP is smaller than one-hundredth of one percentage point.