

Chief economist's comment

Pride and Prejudice, and Economists

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- Pride month is a series of events that aim to counter prejudice against non-heterosexual people (often known as LGBT or LGBTQ). This is an important economic issue. This is becoming more and more important as the world economy changes.
- The Kinsey study famously estimated that around 10% of people were not heterosexual. A US Gallup survey reported 4.5% of people *identify* as LGBT. The same survey reported that 8.1% of millennials identify as LGBT. Both numbers have increased in recent years.
- Data on LGBT employees is limited, because a significant minority of LGBT employees do not identify as being LGBT at work. However, there is clear evidence that non-heterosexual men are paid less (estimates put the figure around 9%).
- A firm that is prejudiced against LGBT staff, or that has a culture of prejudice, will not make as much profit as it could.
- A society that is prejudiced against LGBT people, or that has a culture of prejudice, will have a lower standard of living than would otherwise be the case.

The economics of LGBT equality is the economics of prejudice. Prejudice takes place when a person, a firm, or society makes a choice using irrational ideas. Treating someone who is LGBT as different because they are LGBT is not rational. The fact that someone is LGBT does not affect how well a person can do their job. A firm or a society that treats people who are LGBT as being different from other people will not do as well in economic and financial terms. In short, prejudice is bad.

LGBT prejudice has slightly different risks from some other forms of prejudice. Any form of prejudice is bad for the economy. Racial, gender, and some forms of disability prejudice tend to be visible. A woman does not usually need to tell her colleagues that she is a woman.

Being LGBT is not visible. An LGBT employee has to decide to tell their colleagues that they are LGBT (to "come out"). This creates a different economic pattern to LGBT prejudice. An LGBT employee could avoid being the target of personal prejudice by lying at work about who they are. Lying at work creates its own economic problems. The other choice is for the LGBT employee to choose to come out. If they come out, they risk being the target of personal prejudice.

"Don't ask, don't tell" does not work

Keeping quiet about being LGBT does not stop prejudice causing economic damage. A company that encourages staff to lie is not likely to be a great place to work. A company with a culture of dishonesty is also unlikely to be a great company to do business with. An LGBT person who wastes time being careful what they say at work (using "my partner" not "my husband" or "my wife") will be under stress. Stress makes people perform badly at work.

Just as important, an LGBT person who has not come out can still be the target of prejudice. Being told (in general, not personal terms) that LGBT people are in some way "second class" or not as good as non-LGBT employees will undermine LGBT employees who are not out.

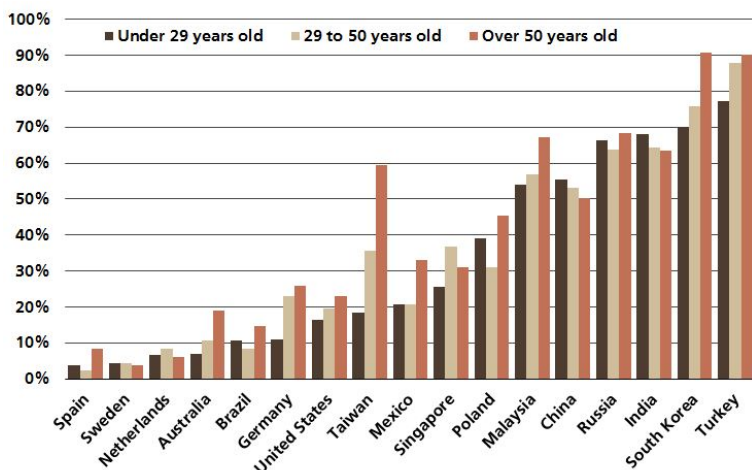
Prejudice puts the wrong person in the job

If an LGBT employee has come out, prejudice may do more economic damage. If a company is prejudiced, it will employ the wrong people to fill its positions. A company may choose not to promote the best qualified LGBT employees if there is an anti-LGBT prejudice, for example. A company that deliberately does not use the best people is never going to make as much money as it might.

Survey evidence suggests that an overwhelming majority of LGBT people take a company's LGBT policy into account when considering where to work. A prejudiced company that is looking to hire people will therefore have a smaller pool of talent from which to choose¹. This becomes a double negative for a prejudiced company. Their talent pool shrinks, but the talent available to their unprejudiced competitors increases.

Prejudice by age

Percentage of the population who would not have homosexuals as neighbors, by age of survey respondent

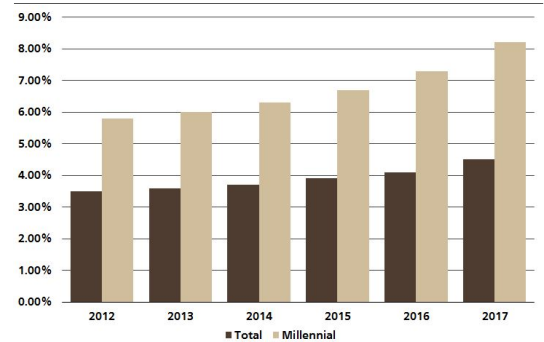


Source: World Values Survey, sixth wave

A company may find it difficult to hire the best non-LGBT staff if it is anti-LGBT. A non-LGBT person may be unwilling to work for a company that does not share their values. The World Values Survey shows that younger people are significantly less likely to be prejudiced against LGBT people. In the US, people over 50 years old are about 40% more likely to be prejudiced against LGBT people than

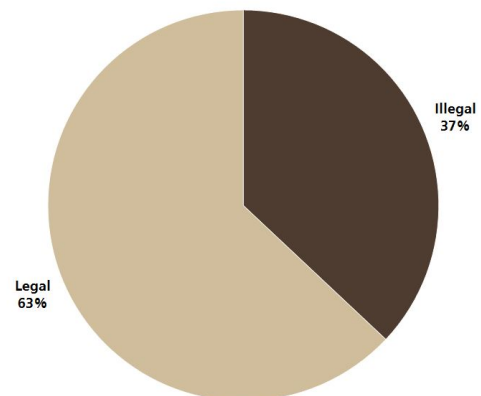
More people identify as LGBT

Proportion of US population who identify as LGBT, total and millennial



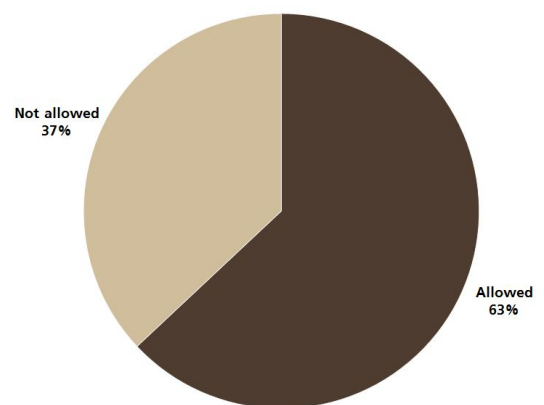
Source: Gallup daily tracking. Millennial is defined as born between 1980 and 1999

Share of UN countries where being actively non-heterosexual is legal or illegal



Source: ILGA, "State-sponsored homophobia" 2017

Share of UN countries where non-heterosexuals can be discriminated against in employment



Source: ILGA, "State-sponsored homophobia" 2017

people under 29 years old. Older Germans are twice as likely to be prejudiced as younger Germans. Companies prejudiced against LGBT employees may find it harder and harder to hire younger staff.

Potential employees who might be victims of other sorts of prejudice may worry "I might be next." They may then choose not to apply to a company that is prejudiced against LGBT people, even though they are not LGBT themselves.

A prejudiced company will make bad staffing decisions. Those bad staffing decisions will lower its profits. If lots of companies in an economy are prejudiced, the economy will likely grow at a lower trend rate. If companies are not making the most of LGBT people's skills, the overall economy will have lower productivity. But a company that is not prejudiced itself can still suffer if anti-LGBT attitudes exist in society.

Prejudiced countries underperform

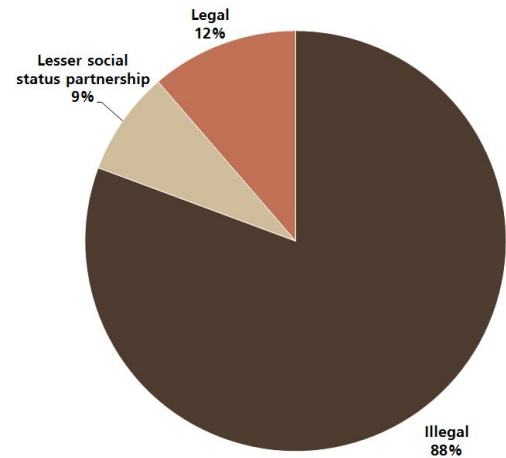
A global company like UBS wants to put its best people to work where they are most useful. Social prejudice against LGBT people can make that difficult. A global company will struggle to ask an employee to move to work in a country that pretends that they are second-class people. A global company will find it difficult to ask an employee to move to work in a country that does not recognize their marriage. A company cannot ask an employee to move to work in a country that might seize their children, that could imprison them, or that could kill them.

The fact that people cannot move to the place where they will be most productive will hurt the economy. The prejudiced country is at a competitive disadvantage. Companies may choose not to invest in that country if prejudice prevents them from employing the best staff possible. Reports suggest that labor flexibility and being able to use the right workers with the right skills are extremely important in getting foreign investment into a country.

High-value-added parts of the world economy tend to rely on high-skilled workers. Finance, design, and technology depend on having the best people possible. A country prejudiced against LGBT people prevents companies from using their highest-skilled workers. Such a country risks having fewer high-value-adding firms. There is also a risk that the high-value-adding firms it does have will be less competitive than firms that operate in countries with less prejudice².

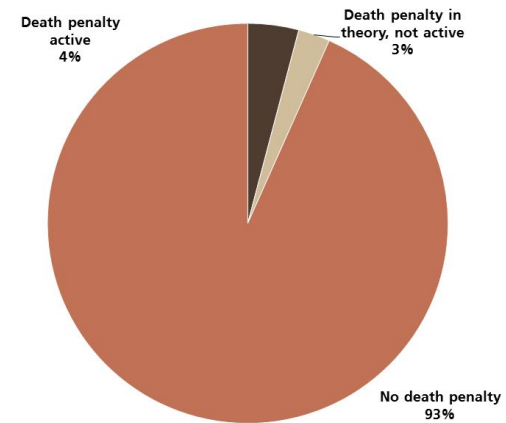
The world economy is about to go through a period of dramatic structural change. This is what economists call an "industrial revolution." The vital criteria for success in a rapidly changing world is flexibility and making the most of what you have. Prejudice against LGBT people reduces flexibility and throws away the most valuable thing any company or country can have: human potential. Prejudice against LGBT people is just one of many forms of prejudice, of course. Those companies and countries that exhibit this prejudice are, however, setting themselves up to fail in a time of economic change.

Status of same-sex marriage, by share of UN countries



Source: ILGA "State-sponsored homophobia" 2017, UBS. Data has been updated to account for the legalization of same-sex marriage in Australia and Germany, which occurred after the ILGA report was published.

Countries that execute people for not being heterosexual, by share of UN countries



Source: ILGA, "State-sponsored homophobia" 2017

¹ *The Power of "out" 2.0*, Hewlitt et al, Center for Talent Innovation, 2013

² A World Bank pilot study estimated that LGBT prejudice in India cost the Indian economy up to USD 32 billion in lost output

Appendix

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