

# Profit and prejudice

Why replacing falsehoods with facts profits us all

Prejudice benefits no one. But just how harmful is it to societies worldwide? And what are the economic arguments for overcoming it? Paul Donovan, Chief Economist at UBS Global Wealth Management – and author of “Profit and Prejudice: The Luddites of the Fourth Industrial Revolution” – explains the facts and fictions of discrimination.

## **What inspired you to write the book, “Profit and Prejudice”?**

I was writing about the effects of prejudice on workforce productivity and economic growth trends. That initially sparked my interest. Then, one weekend, I was sat at home listening to a radio debate on the economics of marriage equality. What I heard made me choke on my tea in disbelief.

So I wrote and published an article about the topic, which naturally focused on prejudice. From there, I really got involved in the debate. That exploded into a commitment that saw me spending five years researching the book. I remember a colleague asked me how the book was progressing. I said, “I’ve just spent two weeks researching 19th Century brick-making techniques, and that’s boiled down to two lines in the book.” But that’s the nature of the topic – it’s vast and covers so many different areas, like society, economics and psychology.

## **How do you define prejudice?**

There are two definitions. First, discrimination in an economic sense, is simply choosing one thing over another. As long as it’s a rational choice, it’s fine. But an economic definition of prejudice is “irrational discrimination”. For example, someone might say they don’t want to hire a candidate because they don’t like their religion, gender, sexuality, hair color or whatever. That form of prejudice is economically destructive because it potentially dismisses the right person with the right skills for no rational reason.

More broadly, irrational discrimination sees people treating others as less than themselves – or worse, less than human.

## **What do you think are the most dangerous forms of prejudice?**

A particularly dangerous form is one that creates what economists call an “unstable equilibrium”. The “equilibrium” in this sense refers to what society agrees is socially acceptable. While society is at that equilibrium, prejudice is held in check. But if something shifts society away from that equilibrium in the direction of prejudice, it’s very hard to go back.

For example, someone may express prejudice then say, “It’s just a joke, don’t you have a sense of humor?” That kind of acceptance can rapidly descend into outright racism. Once society’s on this slope, it’s very hard to avoid sliding into the abyss.

Another form of prejudice is “rule-of-thumb”, which is often based on stereotypes. It’s damaging because it’s so common. In the book, I used the example of the 19th Century stereotype that Irish people are lazy and shouldn’t be hired as servants. If you’re inundated with applications, being able to eliminate a big chunk of them seems like a simple solution. But I think this type of prejudice can be overcome by pointing out to people that they’re being ridiculous.

## **How does prejudice harm society economically?**

There are two aspects here. The first involves inclusion. In these times of structural change, economists don’t really care about technology. What matters is how people use it. That’s where the economic value comes from. But using technology in a way that brings most economic benefit means hiring the right people for the job. Failing to do that – being irrational when hiring – misses opportunities. For example, had Germany not employed Turkish-born medical researchers (as a result of anti-immigration prejudice) it might have cost the world a new coronavirus vaccine. So that’s an obvious cost.

“There’s a risk of a disillusioned class emerging that sees its status, income and jobs disappearing. That could lead to social, political and economic problems.”

The second aspect deals with diversity. If a business has just one kind of culture (sometimes called a “monoculture”), there’s no diversity of thought, and the company’s decisions will be flawed. Diversity enables companies to consider opportunities, problems and risks – which are more prevalent in times of change – from all possible sides.

But there are dangers in having a superficial tick-box approach to diversity. For example, Norway introduced a gender diversity requirement that increased the number of women on corporate boards. But many of the women sat on multiple boards and shared similar social backgrounds to their male colleagues. So while the boards were diverse on paper, there was not as much diversity of thought in practice.

**In your book, you talk about the world’s three previous industrial revolutions – steam, electric and computer. How would you define the “fourth industrial revolution”?**

It’s primarily about automation in business, involving technologies like artificial intelligence and robotics. Communication is also a big part of it.

The first revolution took self-employed rural homeworking people and put them in an urban factory system. They were no longer relying on local produce. Instead, they depended on complicated supply chains for food and the things they needed.

Now, the fourth industrial revolution is in many ways reversing the social changes of the first. Local production, homeworking and self-employment are becoming more common. People once bought compact discs made in China. But now they stream music direct to their devices. So it’s removed manufacturing and made the “production” of music local.

For communication, there’s something of a democratic revolution. Making media is accessible to almost everyone. Anyone with a YouTube channel can become a film star. The changes are dramatic – and from an economic perspective, very exciting.

**What positives and negatives do you see arising from the fourth industrial revolution?**

A lot of the positives are to do with efficiency and improving people’s living standards, while doing less damage to the environment. Ultimately, we’ll have a more efficient economy because we’re using resources more efficiently, for example, producing goods locally. And more people working from home will mean fewer offices, less equipment and reduced commuting.

The problem is that we’re talking about considerable economic upheaval. An industrial revolution is what it’s called – a revolution. It turns society upside down. The robots won’t take over. There will be plenty of jobs in the future. But some will lose their jobs; or they’ll keep their jobs and earn less in lower-status roles.

There will also be new roles requiring skills that those who’ve lost jobs lack. Many will struggle to adapt to the new circumstances. All this encourages prejudice and inequality. There’s a risk of a disillusioned class emerging that sees its status, income and jobs disappearing. That could lead to social, political and economic problems.

**Why did you use the term “Luddite” in the book’s title? Are you drawing historical parallels with the Luddites from the 19th Century – English workers who destroyed machines that threatened their jobs? Or are you referring more generally to prejudiced people who fear change?**

Both. In the first industrial revolution, Luddites were trying to destroy a new technology – weaving looms – that were transforming the economy. But they were also attacking minority groups, so they were certainly prejudiced.

In the fourth industrial revolution, I think people – or what economists call “human capital” – will transform the economy. Today’s prejudiced “Luddites” are trying to destroy human capital where once they destroyed physical capital.

Prejudiced people resist change and progress. They have “restorative nostalgia”, which involves believing everything was better in the past, and wanting to return to those times.

**Do you have any sympathy for “Luddite” fears?**

People cling to the simple ideas of prejudice. However, we live in a complex world covered by a thin veneer of simplicity. For example, washing our clothes seems simple. We put them in a machine, add detergent and press a button. But how many can explain in detail how a washing machine actually works? It’s complex.

The forces that cause people to lose their jobs are complex too. The simple veneer manifests as, “It’s not my fault I lost my job – it’s the fault of those people over there. Let’s stop migrants arriving and women working, and everything will go back to the way it was.” None of those opinions are valid but I see why people are drawn to them.

In the book, I tell the story of my great uncles. They were East London dock workers in the 1930s, when complex global forces cost them their jobs. According to family legend, they joined the British Union of Fascists (BUF).

Why? Because the BUF leader was telling them, it's not your fault – it's the fault of Jewish immigrants. They're the ones stealing your jobs, raising rents and increasing prices. When researching accounts from BUF members, I sensed a strong feeling of community. Because the BUF was telling them they were superior, it bonded the members as a group in a time of upheaval. That's seductive. We're still seeing that kind of mentality today.

### **Does being an economist make it easier to fight prejudice with facts?**

Yes, the fact-based objectivity of economics is one of the profession's great triumphs. Unfortunately, if I go on social media and present fact-based arguments against, for example, Bitcoin's potential as a currency, there's a backlash. Rather than people saying I think you're wrong and here's why, the comments are usually things like, you're a dinosaur, you're corrupt – it's knee-jerk emotional stuff.

Posting a chart that shows immigrants are good for the economy isn't going to convince anyone on Twitter. Economists must get better at telling stories people can relate to – "narrative economics". Facts can prove what's right. But only by connecting emotionally will we win people over.

### **How can we solve gender prejudice in the workplace?**

I think larger companies need to lead the way on this, because they have the resources and opportunities to do so. Female role models in business are important because they inspire others to aspire and progress. Without them, there's a risk that employees become disillusioned. Mentoring and reverse mentoring (senior staff learning from junior employees) are also useful approaches.

But efforts need to go beyond the workplace. Take the example of a woman who needs to leave a work event early in the evening to relieve the babysitter, then misses out on important discussions later. I think that needs to change. Why is a company conducting business this way, and not more equally?

We also need to challenge social norms. That's starting to happen. I have female friends who are the main wage earners while their male partners are the principal child carers. But in my generation, that's the exception, not the norm. We need to think about how we change and adjust.

### **How can we fight prejudice individually?**

Challenge yourself. Stop and think. Recognize that if you're feeling a little uncomfortable, there's something you need to consider and correct. And challenge others respectfully, particularly when they express those subtle "it's-a-joke" kind of prejudices. If you make people feel too uncomfortable, they put up barriers and their prejudice becomes entrenched. But making people feel a bit uncomfortable encourages them to reflect on their prejudices.

We also need to engage. I talk in the book about "parasocial contact theory". The theory proposes that knowing someone from a different group makes it more difficult to be prejudiced against that group. Today's diverse media can also help. For example, following a YouTuber who happens to be gay may change someone's views on sexuality. There's a big opportunity, especially among the younger generations, to better understand others. It helps us realize that other groups aren't less than us – they're the same as us.

Sadly, we'll still have extremist groups dehumanizing people on social media. But generally, every successive generation is becoming less prejudiced. This fact, combined with increased parasocial contact, more diverse social media, and the positive role of large companies, makes me optimistic for the future.



Paul Donovan

Buy “Profit and Prejudice: The Luddites of the Fourth Industrial Revolution” (published November 2020) at [www.routledge.com](http://www.routledge.com) – using the code SSM20 for 20% off

Paul’s author royalties are donated to charity.

## Five big takeaways

**1. Economically unsound.** Dismissing potential candidates due to “irrational discrimination” is economically destructive because it means overlooking people with the right skills for jobs.

**2. “It’s just a joke.”** Accepting prejudiced statements as throwaway or amusing comments can see society slip into outright racism. Statements based on rule-of-thumb stereotypes are also damaging but more easily challenged.

**3. Adapting to change.** The fourth industrial revolution should create more jobs and improve people’s living standards, while doing less harm to the environment. But some will lose their jobs, or see their income and status fall. This could lead to social, political and economic challenges.

**4. Putting people first.** Beyond technology, people (or what economists call “human capital”) will transform the economy. Today’s prejudiced “Luddites” try to destroy human capital where Luddites from the 19th Century once tried to destroy the technologies that threatened their jobs.

**5. A bright future?** Younger, less prejudiced generations; engaging more with people from other groups; diverse social media; and the positive role of large companies may lead to a more equal future and stronger global economy.

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