

NOVEMBER 2013

The Economic Consequences of Discrimination Based on Sexual Orientation and Gender Identity

Workplace discrimination on the basis of sexual orientation and gender identity remains a problem in the American workplace and carries significant economic consequences. Discrimination by employers leads to a mismatch between qualified workers and the jobs for which they are best suited. This mismatch reduces productivity and harms businesses, workers and the economy. Federal law currently prohibits discrimination based on race, ethnicity, religious affiliation, gender and age, but does not protect against discrimination based on sexual orientation and gender identity. Federal legislation prohibiting such discrimination could result in significant benefits to the U.S. economy.

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Workplace Discrimination Based on Sexual Orientation and Gender Identity

American society has witnessed increasing acceptance of the lesbian, gay, bisexual and transgender (LGBT) population in recent years. In a June 2013 Pew Research Center survey of LGBT adults, 92 percent of respondents said that “compared with ten years ago, society is now more accepting of people who are LGBT.”¹ The same percentage also responded optimistically about the future, saying that they believed the United States would be “more accepting” of LGBT individuals when asked what society would be like ten years from now.²

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Despite this progress, workplace discrimination based on sexual orientation and gender identity persists. The same Pew survey found that more than one-in-five LGBT employees have experienced some form of workplace discrimination.³ Another poll found that 27 percent of those surveyed “would not be happy to have a homosexual manager at work” and an estimated 25 percent “believe it should not be illegal” to discriminate on the basis of sexual orientation in hiring.⁴

There are important benefits to reducing discrimination based on sexual orientation and gender identity. An April 2013 report by the Williams Institute determined that a majority of the top

50 Fortune 500 companies report that pro-diversity policies increase profitability. Most of these same companies have taken steps to include protections for LGBT employees and applicants in their non-discrimination policies.⁵ Moreover, there appears to be strong support among small businesses for laws to end workplace discrimination. Another poll found that over 63 percent of small businesses supported greater legal protections for LGBT workers.⁶ Beyond its inherent unfairness, discrimination based on sexual orientation and gender identity carries significant economic costs.

Workplace Discrimination Has Real Economic Consequences

The economic literature finds that discrimination in the workplace—whether based on gender, ethnicity, race, religion or other factors—has serious economic consequences. The following discusses in more detail some of the economic costs of workplace discrimination.

Lower Profits: Companies are most competitive when they hire the most skilled and talented workers for any given job, but discrimination may lead some employers to not hire the best candidates. Businesses that discriminate effectively restrict their hiring to a smaller pool of workers, which can lead to reduced productivity and lower profits.⁷

In addition, a hostile work environment can lead to greater turnover. This also results in labor inefficiencies and significant costs for American businesses, as well as unnecessary costs to replace qualified staff. One study estimated that the average cost of replacing a worker in the United States is \$4,000.⁸ Another analysis of the overall costs of employee turnover due to various forms of workplace discrimination found an annual cost to employers of \$64 billion.⁹

Reduced Wages and Underemployment: Discriminatory hiring has serious consequences for employees and job seekers as well. Individuals in the population that is being discriminated against frequently get paid less money and are hired less often. Research on discrimination based on sexual orientation has shown that prejudices in hiring do occur, as do wage gaps between some gay employees

and their heterosexual counterparts.¹⁰ Discrimination of this kind can lead to depressed wages and underemployment for an entire subset of the population. Discriminatory hiring and wages also create a disincentive for investment in further education and training, limiting future growth both for the individual and the larger economy.¹¹ Research shows that higher levels of discrimination are often associated with increased physiological distress and related mental health problems.¹² For the employee, a hostile work environment can lead to decreased productivity, which undermines wage growth and career trajectory.

Reduced Economic Growth: Discrimination diminishes worker morale and retention, which can lower productivity and lead to reduced economic growth. A hostile work environment is not conducive to optimal employee performance and leads to a less productive, motivated and creative workforce.¹³

Discriminatory recruitment practices have serious economic consequences at the macro level. Restricting the economic potential and buying power of a subset of the population creates a drag on national economic growth. Prejudicial hiring reduces the incentive for investment in education and training, which degrades the skill level and capacity of the U.S. workforce.¹⁴ Discriminatory hiring misallocates crucial human capital and creates inefficiencies in the economy.

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The Need for Federal Action

Little information is collected by the federal government that can be used to identify discrimination based on sexual orientation and gender identity. Routine, consistent collection of demographic information on LGBT individuals through federally supported surveys, including work done by the U.S. Census Bureau, would help to identify discrimination that LGBT individuals experience as well as the economic consequences of that discrimination.

Seventeen states and the District of Columbia have put in place laws that prohibit discrimination based on sexual orientation and gender identity, and an additional four states have enacted laws or policies that prohibit discrimination based on sexual orientation.¹⁵ There are still few or no protections specifically for LGBT job seekers and employees in the majority of U.S. states.

The Employment Non-Discrimination Act, known as ENDA (S. 815/H.R. 1755), would provide LGBT workers with uniform and comprehensive employment protections nationwide. If passed, the law would prohibit civilian government and non-religious private employers with 15 or more employees from discriminating against individuals based on their sexual orientation or gender identity. As the Senate takes up this legislation, it should consider both the importance of protecting all its citizens from discrimination and the significant economic costs to the United States if all Americans are not protected equally.

Sources:

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² *Ibid.*

³ *Ibid.*

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⁷ Lanning, Jonathan A., “Productivity, Discrimination, and Lost Profits During Baseball’s Integration,” Bryn Mar College, 2010. http://repository.brynmawr.edu/cgi/viewcontent.cgi?article=1000&context=econ_pubs.

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¹² Choi, Kyung-Hee, Jay Paul, George Ayala, Ross Boylan and Steven Gregorich, “Experiences of Discrimination and their Impact on the Mental Health Among African American, Asian and Pacific Islander, and Latino Men Who Have Sex With Men,” *American Journal of Public Health*, March 2013.

¹³ *Ibid.*

¹⁴ Milgrom, Paul and Sharon Oster, “Job Discrimination, Market Forces and the Invisibility Hypothesis,” Cowles Foundation for Research in Economics at Yale University, June 1984. <http://cowles.econ.yale.edu/P/cd/d07a/d0708.pdf>.

¹⁵ Human Rights Campaign, “Statewide Employment Laws and Policies,” June 19, 2013. http://www.hrc.org/files/assets/resources/employment_laws_062013.pdf.