Conceptualizing an Inclusive Economic Approach to GLBT Labor Issues: Current Research and Future Directions

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We discuss how economic theory has analyzed the effects of being GLBT. We find that economics has focused on finding earnings differentials between GLBT and heterosexuals. The issue is, however, whether the standard analytical techniques available in economics, can be applied to sexual minorities. A number of shortcomings in recent econometric studies have shown that a more comprehensive approach is required. We conclude by listing a number of elements that this new approach should feature.

Keywords: Sexual Orientation, Economics, Future Directions

Statistics impress us, no matter how often we tell ourselves they are not to be trusted. After all, what could be better than an informational snapshot of ostensibly objective, scientifically-grounded data that defines who we are and how we compare to others? Not surprisingly, the temptation to use numbers to understand a group’s relationship to the broader society is nearly irresistible. For gay, lesbian, bisexual, and transgender Americans, statistics are a complicated and contested terrain. (Goldberg, 1998, p. iii)

Statistics are complicated because sexual minorities are rarely counted in national surveys. Counting people is further complicated by the need to categorize and define categories in ways which do not offend heterosexist sensibilities. The terrain is contested when examining the lives of sexual minorities because objective measures cannot exist in the oppressive situations which endure in most nations for sexual minorities. Workplace discrimination against sexual minorities is illegal in only ten states (Human Rights Campaign, 2001); incidents of discrimination are hard to prove. With no national anti discrimination protection for sexual minorities determining what to discuss in orientation and diversity training is complicated and contested for HRD practitioners. Discrimination can be defined as differential treatment based solely on group membership (Badgett & Frank, 2007). Discrimination is measured in terms of economic disparities that occur between non dominant and dominant group members such as white women and African Americans (male and female) to white men. Economic disparities are measured in terms of housing costs, wage differentials, interest rates, and so on.

The purpose of this paper is to outline the elements of an inclusive economic approach for analyzing GLBT (Gay, Lesbian, Bisexual or Transgender) labor market issues. Traditionally, attention from economics on GLBT has been scarce and the economic research that is available on measuring the impact of being GLBT has been limited to applying human capital theory (HCT), an economic theory that analyzes the relationships between the investment in human capital and economic returns in terms of productivity or wages to the analysis of the impact of sexual orientation. Human capital is the investments made in humans that are the outcomes of education, health care, and on-the-job training (Todaro, 1994). The main contribution of HCT is the idea that the investment in humans can be analyzed in a similar manner as the investment in physical capital (Becker, 1962; Mincer, 1974). HCT is based on four assumptions: markets are competitive, firms maximize profits; workers maximize their lifetime earnings, and the labor force has all available information at its disposal to take advantage of the best opportunities available (Ashton & Green, 1996; Swanson & Holton, 2001). The main implication of HCT is that there is an economic equilibrium between investment in and returns to human capital. Since human capital theory is one of the root philosophies in HRD (Swanson & Holton, 2001), strengthening the economic approach to the analysis of GLBT is not only relevant for economic research, but also for HRD. While organizations often claim to value diversity, many HR systems are developed to encourage, reinforce and allow only similarity (Ferris, Frink, & Galang, 1993). Understanding the economic rationales for discrimination of GLBT and the implications contributes to improving HRD policies that take into account workforce diversity. We proceed as follows discussing: (a) why economics has,
Economic analysis typically applies and produces statistics that are important for the explanation of phenomena and for policy making. Simon (2005) lists a number of rationales for using statistics in the context of racial discrimination. These rationales can be applied to discrimination of sexual minorities as well, as the use of statistics for policy making:

Rationales for Little Attention on Sexual Minorities in Economics

Economic research has attempted to ascertain various impacts on labor market outcomes of discrimination using categories such as gender, race, ethnicity and disability status, but a void exists with respect to sexual minorities (Brown, 1998). While the analysis of the position of other minority groups have been prominent in economics, “lesbian and gay economics has only recently emerged as an identifiable area in the United States, with the American Economic Association holding its first session to discuss a research agenda in 1992” (Badgett & Hyman, 1998, p. 51). In contrast with the work economic historians have done on the economic history of labor market discrimination against other minorities. Discrimination against gays and lesbians, however, should be interesting to economists, as well for three reasons. Sexual minorities: (a) constitute a sizable minority group, (b) suffer from a social and political stigma, similar to African Americans in the USA and other minority populations in EU countries and (c) human rights are tied to economic stability. Klawitter (1998) lists four factors that are barriers to economic research on sexual minorities: (a) Discrimination against sexual minorities, (b) a lack of interest or knowledge, (c) absence of support and (d) the scarcity of appropriate models and data.

Discrimination constitutes a barrier because (a) heterosexuals are unlikely to do research on sexual identity when sexual minorities are stigmatized, (b) when sexual minorities are discriminated against in hiring, there will be fewer minorities to do research on sexual minorities and (c) when economics departments are unsupportive of research on sexual minorities, research will be limited because of the fear of being exposed. In a 1995 study among gay and lesbian sociologists, 43% felt discriminated against because of their sexual orientation and only 45% were out to all colleagues (Taylor & Raeburn, 1995). In addition to discrimination, the lack of research on sexual minorities may be caused by a lack of interest or knowledge, and little personal or professional experience with sexual identity or sexual minority status. Economists might attach little importance to sexual minority issues because of the small group of people involved and the popular notions of gays as wealthy (Klawitter, 1998). This notion is not supported by research: empirical studies consistently show that gay men earn less than their heterosexual counterparts (Badgett, 2007). Research on sexual minorities is also hampered by the absence of support when departments and funding agencies see research on sexual minorities as too interdisciplinary, political or non-objective, especially when it is done by sexual minorities. Moreover, departments may not want to be associated with work on sexual minorities and may not be willing to count it or there may be too few opportunities to teach on sexual minorities. Finally, the lack of appropriate data and models is a barrier to GLBT research as this prevents important advances in empirical studies and theory building. It is important to recognize that the factors that hamper economic research on sexual minorities mutually reinforce each other e.g., the combination of a lack of support and insufficient empirical data creates a double disadvantage for researchers who need to collect data, which typically requires substantial funding, to realize their research aspirations.

While economic theories and models may be adaptable to issues of sexual minorities, access to randomly collected empirical data is still severely limited (Brown, 1998). Most large-scale surveys do not collect information on sexual orientation and when they do sexual orientation is indirectly measured by using proxies (e.g. same-sex unrelated persons living together are classified as GLBT) or by sexual behavior, rather than how someone self identifies. Another problematic issue concerns disclosure: in contrast to observable characteristics of other minority groups (e.g. gender or race) not all GLBT may be willing to state their sexual orientation in surveys. This potentially has an adverse impact on the validity of the results obtained in empirical analyses that include sexual orientation.

Even when information on sexual orientation is included, it is difficult and costly to obtain a sample that is large enough for econometric analysis. New data sets that combine information on sexual identity and behavior with economic variables would draw new researchers. But using existing data to their full potential constitutes another important research opportunity. As not much quantitative information on gays and lesbians in the past exists, studies that document the economic history of sexual minorities could use historical records and other sources to generate empirical data just as has been done in the analysis of other minority groups.

Economic analysis typically applies and produces statistics that are important for the explanation of phenomena and for policy making. Simon (2005) lists a number of rationales for using statistics in the context of racial discrimination. These rationales can be applied to discrimination of sexual minorities as well, as the use of statistics for policy making:

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The limited number of economic studies on sexual minorities has focused on applying the human capital framework to sexual identity. The application of HCT to sexual minorities is a logical result of the fact that economists have applied this framework to examine the implications of belonging to other groups that might face discrimination, such as females or racial minorities. From a literature search in major economic journals and a web-search on Google Scholar, we found that six US studies and three non-US studies have been carried out that examine whether there are significant differences between earnings of sexual minorities and heterosexual workers. For this paper, we only used studies that apply the human capital framework to sexual orientation by estimating wage equations that take into account the impact of being GLBT. We review those studies and their results below.

**US Studies on the Economic Impact of GLBT**

Badgett (1995) was the first study to consider the earnings effects of being GLBT and the possible wage effects of discrimination on the basis of sexual orientation. She used pooled data from the General Social Survey 1989-1991 to analyze the wage impact of being gay, lesbian, or bisexual. Being gay or lesbian is measured in four different ways: (a) having had one or more same-sex sexual partner, (b) having had more than one same-sex sexual partner, (c) having had at least as many same-sex sexual partners as opposite-sex sexual partners and (d) having had either more than one same-sex sexual partner or at least as many same-sex sexual partners as opposite-sex sexual partners. All these measurements focus on sexual behavior, not on identity. For instance, individuals may discretely engage in same sex behavior while openly living a heterosexual lifestyle. Badgett (1995) runs separate OLS wage regressions for men and women and finds that being gay or bisexual decreases income by 11 to 27% for males and concludes that this is evidence for discrimination. For lesbians and bisexual women, Badgett also finds evidence for lower wages, but the results are not consistently significant. The conclusion that there is empirical evidence for discrimination against gay and bisexual males follows from the applied method: in the OLS estimations, controls for experience, education, occupation, marital status and region of residence are included.

Klawitter and Flatt (1998) analyze whether local antidiscrimination policies impact earnings for gays and lesbians. The main idea is that these measures increase income for gays and lesbians by decreasing discrimination in hiring, firing, promotion, or pay. Their study features two main results: (a) policies are mainly adapted in places with higher incomes and same-sex couples are more likely to live in those areas and (b) no evidence is found of a direct effect of antidiscrimination policies on average income or earnings for members of same-sex couples.

Allegretto and Arthur (2001) use the 5% Public Use Microdata Sample (PUMS) of the 1990 census of population and housing to address the impact of being gay on male earnings. It is the first large-scale study on gay males’ earnings (4427 gay men were included). Being gay is defined on the basis of the relationship of people in a household. The assumption is made that unmarried men living with a same-sex partner who is not a relative, a boarder, a housemate, a roommate, or other non-relative are homosexuals. Their main finding is that gay men in unmarried partnered relationships are estimated to earn 15.6% less than similarly qualified heterosexual men, and 2.4% less than similarly qualified unmarried partnered heterosexual men. They conclude that discrimination may play a role, but immediately add that productivity differentials might also be (partly) responsible for the observed earnings differential. Another finding is that the bulk of the homosexual-heterosexual earnings differences can be explained by whether someone is married.

Clain and Leppel (2001) also use the PUMS data but they rely on the 1990 1/1000 PUMS data set. They use the same definition of being gay as Allegretto and Arthur (2001), but due to the different sample, their study only includes 91 gays and 58 lesbians. Their empirical results include the following: (a) Men living with partners of the same sex earn about 22% less than comparable men not living with partners and 16% less than comparable men living with female partners, (b) Women living with women have higher earnings than otherwise similar women; at most ages, women with female partners earn significantly more than women not living with partners. They also find that the earnings differentials are impacted by region, education and occupation for men and by age and the presence of children for women. They conclude that the wage differentials between sexual minorities and heterosexuals may be interpreted as discrimination against gay men and straight women. Clain and Leppel (2001) hypothesize that alternative explanations may exist for the observed wage differentials: immeasurable or unobservable factors,
differentials. They point towards five possible explanations ('scenarios') for the empirical results that are commonly observed: (a) specialization within households and human capital accumulation decisions made by young people and (b) marriage-based gender discrimination.

**Non-US studies on the economic impact of GLBT**

Blackaby and Frank (2000) look at academic economists in the UK and find that 3.2% of the sample of 516 individuals is gay, bisexual, or lesbian. This small number is not sufficient for further analysis and therefore they are not able to include a GLBT variable in the wage functions. Frank (2006) reports on another survey of UK academics (13.5% are gay, lesbian, or bisexual) finding no significant effects on earnings of being GLBT. However, there was some evidence that gay and bisexual males were not promoted to the top ranks.

Plug and Berkhout (2003) analyze the earnings effects of being GLBT using a cohort of Dutch graduates from higher vocational education and universities. Using a cohort has the advantage that it focuses on current discriminatory attitudes and that all graduates in the cohort face the same anti-discriminatory legislation. The disadvantage of the set-up is that discrimination and its earnings effects later in the career are ignored. The key difference with other studies is that they use a direct measure of sexual identity. Sexual preferences is not approached by using information on same sex partners, but is directly measured by asking graduates what their sexual preference is. Plug and Berkhout (2003) rightfully point at two difficulties in establishing whether discrimination is going on. First, completely accurate information is absent. Sexual orientation is not generally an observable trait which implies that while the information on sexual orientation is known by researchers, it may not be so to co-workers or employers. Second, disclosure may be voluntary or involuntary. When it occurs voluntarily, it is an endogenous action taken because individual workers expect benefits related to workplace factors. When voluntary disclosure is not taken into account, the effects of being bi- or homosexual may be underestimated. The main empirical results in Plug and Berkhout's (2003) study are that young gay workers earn 3% less while young lesbian workers earn 4% more. Another interesting finding is that, among gay men, the gender gap is not observed.

Arabsheibani et al (2005) analyze the earnings of homosexuals in the UK and test for possible existence of sexual orientation discrimination by using decomposition analysis. As is the case in many empirical studies, homosexuals are identified by looking at same-sex couples. The British Labor Force Survey (1996-2002) is used. According to the study, on average, both gay men and lesbians earn more than heterosexuals. Using decomposition analysis, however, there is evidence for discrimination against homosexual men, as they earn less than heterosexual men with similar characteristics. As in other studies (see Frank, 2006) a ‘reverse discrimination’ pattern arises for
lesbian women, as they would earn less when rewarded at the same wage rate as heterosexual women. The distinctive aspect of this study is that it applies a different empirical strategy than applied in other work. Most studies present multiple regression analysis with a gay dummy or a gay dummy and a number of interaction variables. Arabsheibani et al (2005) use the Oaxaca-Blinder approach to study discrimination. This has the advantage that the common assumption that labor market returns to characteristics of gays and non-gays are equal is not needed. Still, the study faces a number of shortcomings: (a) is earnings discrimination based on knowledge that someone is homosexual or their behavior? (b) What is the impact of disclosure or non-disclosure? And (c) Do people admit in surveys that they are non-heterosexual?

Assumptions and Shortcomings of Current Economic Research on Sexual Minorities

Economic research on sexual minorities has mainly focused on comparing earnings between heterosexuals and homosexual men and women. Although evidence for discrimination against gay men has been empirically established, the studies suffer from a number of shortcomings that need to be addressed in future research. These shortcomings include:

1. Data sets and surveys that do not include sexual minority status;
2. Sexual orientation is often measured by looking at same sex *couples*, not *individuals*. Studies that use self-identification to determine sexual orientation are scarce.
3. The use of dummy variables to include sexual identity in earnings equations, which implies that the effect of sexual orientation is a parallel shift of the earnings function;
4. Single equation modeling, which assumes the labor market treats gays and lesbians similar as non-homosexuals
5. The restricted sample size of non-heterosexuals
6. Insufficient insights on the cause of discrimination: is it the knowledge that someone belongs to a sexual minority or the actual behavior of sexual minorities that causes discrimination?
7. Problems with disclosure effects: Do sexual minorities disclose their orientation or do employers not know about their workers’ sexual identity?
8. Single point in time analyses. Research on career patterns, human capital decisions, and career choices of sexual minorities in comparison to heterosexuals is only just emerging (see e.g. Peplau and Fingerhut, 2004)

The focus on single point in time analyses in economic research on sexual minorities implies that the processes of disclosure (‘coming out’), career choice and the cumulative career effects caused by the differences between sexual minorities and heterosexuals are not sufficiently addressed. Some of these issues have been discussed in other strands of literature. Griffith and Hebl (2002) discuss the antecedents and effects of disclosure of one’s sexual identity at work. Ragins and Cornwell (2001) examine the causes and effects of workplace discrimination against gay and lesbian employees and find that this not only leads to negative work attitudes, but also to fewer promotions. Frank (2006) finds evidence that gay or bisexual men suffer from ‘gay glass ceilings’ comparable to those faced by heterosexual women. By examining sexual identity development, societal stigma, multicultural identity development and psychological adjustment, Prince (1995) relates concepts from the general literature of gay and lesbian psychology to the career development of gay men and Chung (1995) suggests that career decision making of sexual minorities can be modeled using a framework that includes personal and environmental factors. Nam Cam Trau & Härtel (2004) demonstrate that gay men are confronted with a conflict between personal and career needs and have to deal with society’s expectations and intolerance towards homosexuality.

Future Research Needs

The current economic approach to analyzing wage differences between sexual minorities and heterosexuals can be strengthened by addressing the shortcomings identified earlier. This would allow more insight in what differences exist between sexual minorities and heterosexuals, what their cause is, what effects they have on the labor market and what implications this should have for policy.

First, the impact of disclosure or non-disclosure should be addressed in terms of the individual and organization. In gay friendly work environments where self disclosure is less risky, increased self-acceptance, positive self concept, and other work attitudes (Day & Schoenrade, 1997) are believed to increase productivity. A positively received disclosure at work is related to higher job satisfaction and lower job anxiety (Griffith & Hebl, 2002).
challenge for economic research on sexual minorities is to integrate the impact of being out or ‘closeted’ at work in earnings analyses. Disclosure about sexual minority status is not a simple act. Individuals risk termination even in ‘gay-friendly’ work places if the supervisor is uncomfortable. Other risks include physical and mental violence perpetrated by co-workers and others. The issue of whether or not to disclose is a personal one, the issue of whether or not disclosure influences discrimination at work and how is yet to be adequately investigated (Rocco & Gallagher, 2006).

Second, more attention should be given to the cause of observed wage differences. While discrimination against sexual minorities is certainly part of the explanation for wage differences, other mechanisms might play a role. In order to examine what factors play a role, it is necessary to take a dynamic perspective on individual choice, career development and human capital development/individual development. Empirical evidence on differences between these concepts between sexual minorities and heterosexuals can shed more light on how careers and rewards differ between heterosexuals and non-heterosexuals.

Finally, future research should analyze discrimination and the resulting labor market impacts using models that incorporate occupational choice and the dynamic impacts this has on careers of sexual minorities. Discrimination impacts occupational choice, and once selected for a position, discrimination impacts commitment, productivity, and job satisfaction. Increases in human capital through training and education will not benefit an organization if the worker believes him or herself to be at risk of harassment or termination.

Advances in the application of the human capital model to sexual minorities enable a better understanding of workplace discrimination and its impact on labor market outcomes. As human capital is one of the founding philosophies for HRD, future research in this area is not only beneficial to labor economics, but also to HRD. Both HRD theory and practice can benefit from the increased understanding of the impacts that workplace discrimination has on the position and development of sexual minorities. This has important implications for policy. Sound theoretical and empirical research on the position of sexual minorities can stimulate public policy aimed at removing institutional barriers for sexual minorities and addressing discrimination. In addition, it may have important ramifications at the level of organizations. In the early seventies, Gary Becker hypothesized that competition will ultimately weaken the position of discriminatory employers who fail to hire productive workers from disliked minority groups (Becker, 1971). Increasing the visibility of GLBT employees and generating evidence for discrimination and its adverse impact on productivity and commitment may help organizations realize that welcoming sexual minorities is not only desirable from a social point of view, but also from a bottom-line perspective.

References


