

ETHICS

Bigotry is Bad for the Economy

by David Salisbury



The effects of discrimination are felt by everyone. Race and gender biases hold hidden costs, not only for mental health, but also for economic productivity.

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In an age where white supremacy has made a meager but still troubling comeback; politicians fear-monger their way into office by framing immigration as a national threat; and said politicians in power have tossed out Obama-era guidelines for race-based university admissions, everyone could use a solid reminder that America is great because of growing diversity. In fact, diversity's positive effect on the country's social fabric directly affects economic quality.

A 2016 University of Chicago & Stanford study attributes one quarter of GDP growth from 1960-2010 to declining social barriers that have allowed women and non-white people into job recruitment pools formerly exclusive to white men. In 1960, 94 percent of doctors and lawyers were white men. By 2010, the fraction was just 62 percent. Similar changes in other highly-skilled occupations have occurred throughout the U.S. economy over the last fifty years. Given that innate talent for these professions is unlikely to differ across groups, the occupational distribution in 1960 suggests that a substantial number of innately talented people were not pursuing their comparative advantage. By including other previously underused demographics, the level of talent in the job market increased.

Common sense tells us that allowing people who are innately talented in certain fields to pursue work in those fields should increase our nation's productivity. Thus, would accepting talented foreigners who want to add their skills to the American job market be good for America? All the signs point to yes. Decreased Job Performance & Mental Health

Multiple studies indicate that exposure to racism is detrimental to job performance due to impact on attitudes, mental and physical health, and organizational behavior. In fact, an Australian study found that stress due to racism and exclusionary environments accounts for a 3% GDP loss today. This research also shows direct associations between racism and a range of mental illnesses, including depression and anxiety. By addressing racism, companies will see improved job performance.

Two studies on the relationship between diversity and productivity found that, at worst, diversity had no overall impact on team performance. In other words, you have nothing to lose by diversifying your work force. However, these studies also show that diverse regions enjoy better productivity and hence higher wages. [8] These benefits are again largely due to diversity providing a variety of skills and a wider talent pool.

Threats to Market Growth

One could assume that with face-to-face homebuyer transactions now being replaced with online apps and algorithms, lending discrimination should be dwindling. However, a UC Berkeley study shows both online and face-to-face lenders charge higher interest rates to

African American and Latino borrowers, earning 11 to 17 percent higher profits on such loans. [9]

Black and Latino borrowers pay 5.6 to 8.6 basis points higher interest on purchase loans than White and Asian borrowers do, and 3 basis points more on refinance loans. These disparities cost US borrowers \$250M to \$500M annually. With the smallest housing market gains in two years, the average homeowners with mortgages seeing \$12,400 last quarter, discrimination of this kind could completely derail an already unstable market that needs to see more buyers. [10] Furthermore, non-white people will soon be the majority in the country. [11] If the majority of the population are being shut out from housing and other ailing markets, logic would tell you continued discrimination would be disastrous on the US economy at large.

Progress and Solutions

Efforts that have been made to efficiently reduce racial discrimination and close socio-economic gaps have proven effectual. Affirmative action rules adopted 50 years ago, though controversial at the time, have impacted modern society even though the program has waned in relevancy and practice over the years. UC Berkeley Professor Conrad Miller's paper, "The Persistent Effect of Temporary Affirmative Action," examined employment data for over 44,000 firms from 1978 to 2004. Miller found that five years after they first became federal contractors, companies on average reduced the gap between their share of black employees and those in the local labor pool by 60 to 100 percent. As these same firms ended their federal AA contracts, their increased ratio of racial diversity appeared to stay about the same. Since employers were no longer required to maintain this diversity, this outcome strongly suggests that employers maintained this diversity because it made good business sense.

Solutions within the business model arena are also effective and necessary. In the Berkeley Haas Case Series case study "BAYCAT: How a New Hybrid Nonprofit Model is Creating Sustainability and Driving Social Change," Bay Area entrepreneur Villy Wang works to end inequality and racism by empowering disadvantaged youth to tell their stories through visual arts training and productions. BAYCAT is run more like a business than a typical

nonprofit, relying on a hybrid business model that benefits stakeholders including donors, clients, nonprofits, small businesses, and local communities. This provides a new model for companies to create a sustainable business that benefits themselves while enriching socioeconomically downtrodden communities.

To reduce the digital divide and provide job placement opportunities, BAYCAT operates an Academy - a hands-on media school for underserved youth - and a Studio - which partners with media professionals to create marketing materials. Many of the more than 4,000 BAYCAT graduates have been hired by companies like Netflix, networks like CBS, and movie studios like Lucasfilm.

In the end, humanity's tendency toward bias and discrimination can be a difficult instinct to overcome. However, scientists are working to quantify and study racial bias that create obstacles to understanding and stability. A new University of Chicago paper attempts a computational model to quantify and predict unequal treatment based on perceptions of warmth and competence. [14] This can be used to improve how to quantify and compare different types of discrimination across different social groups. It would be an improvement to affirmative action's general policy of providing more employment to non-whites and women by honing in on populations who are most discriminated against and need the most attention.

This issue is of course a complex, controversial, and difficult one. Though we've made much progress, much more is still needed. A more successful future depends on greater diversity, and a failure to grow and evolve as a society is not just bad for our social fabric, but for our economic health.



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