

ECONOMIC BRIEF

The Economic and Business Case for LGBT+ Inclusion in the Czech Republic



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Businesses support LGBT+ inclusion and the freedom to marry in the Czech Republic

Open For Business is a coalition of global companies, many of whom provide economic opportunities in the Czech Republic. Our coalition partners want to see the continued growth and prosperity of the Czech Republic, and so we write to support the more than 70,000 people in the Czech movement *Jsme Fér* that support the freedom to marry.¹ In June 2018, 46 Deputies of the Czech Chamber of Deputies introduced a bill to amend the Civil Code to give same-sex couples the same rights as heterosexual ones.^{2,3} The same-sex marriage bill was to have been voted on in January 2019, and then March 2019, but has now been postponed with no further anticipated date available.⁴

Many companies in the Czech Republic are supportive of the freedom to marry and understand that a more LGBT+ inclusive Czech Republic will be better for companies and for the Czech Republic's overall economic growth.

The freedom to marry is a strong step toward a more open and LGBT+ inclusive society, which is good for business and economic growth. The freedom to marry and LGBT+ inclusion can help the Czech Republic:

- **Close the skills gap:** LGBT+ inclusive societies are more effective at attracting and retaining skilled workers. Signalling openness through the freedom to marry could play a strong role in closing the skills gap.
- **Increase national productivity:** LGBT+ discrimination in society and in the workplace acts as a drag on national productivity by lowering output and inefficiently allocating human capital.
- **Boost innovation and attract foreign direct investment:** Evidence shows that LGBT+ inclusive environments foster greater innovation and attract higher levels of foreign direct investment.
- **Reduce administrative burden and improve business performance:** The freedom to marry can reduce some of the administrative burden placed on companies and create a supportive environment for companies to implement inclusive policies that boost performance.

Czech Republic's Economic Opportunity

Inclusive, long-term economic development is a priority for politicians and policymakers around the world, and the Czech Republic is no exception. It is one of the most stable and wealthiest countries of Post-Soviet Europe.⁵ *The Guardian* described it as "one of Europe's most flourishing economies".⁶

While this is all positive, some concerns exist about long-term economic progress. GDP growth is expected to slow from 4.3% in 2017 to 2.2% in 2019.⁷ Additionally, while Czech CEOs are confident in their near-term revenue growth, only 6% believe this growth will continue after 2023.⁸ Key issues such as skill shortages, dampened productivity gains and rising labor costs could have a negative impact on businesses and the economy.

In response to these headwinds, the Czech government has prioritized policies meant to grow the number of skilled workers, to boost innovation and foreign direct investment, and to boost companies' performance by, among other initiatives, reducing their administrative burden.⁹

As this paper will show, advancing LGBT+ inclusion can help to create the environment that will enable the Czech Republic to meet these policy goals and to continue to flourish.

LGBT+ inclusion is a predictor for economic growth in the global economy.

A growing and increasingly global body of evidence clearly shows that open, inclusive and diverse societies perform better economically. The evidence also shows that discrimination based on sexual orientation or gender identity can damage long-term economic prospects. This is made clear when comparing attitudes towards the LGBT+ population with economic growth metrics. For example:

- **Each additional LGBT+ right is associated with \$300 more per capita GDP.** Using data going back to the 1960s, Dr Kees Waaldijk developed the Global Index on Legal Recognition of Homosexual Orientation (GILRHO). By correlating this Index with GDP data, a study led by Professor Lee Badgett found that one additional right is associated with \$300 more in per capita GDP in emerging economies.¹⁰



- **LGBT+ inclusion is closely correlated to economic development.** Data on LGBT+ tolerance in 43 countries, measuring the degree of support for same-sex relationships published by ILGA correlates (0.61) with the historic absolute rise in GDP per capita between 1980 and 2016.¹¹



- **LGBT+ inclusive countries are more competitive.** When approval of same-sex relationships is compared to the World Economic Forum's Competitiveness Index, it becomes clear that LGBT+ inclusion is a predictor of competitiveness.¹²

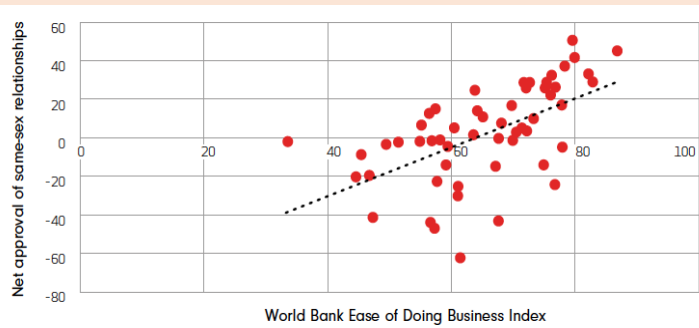


Figure 3: LGBT+ inclusion and ease of doing business

- **Ease of doing business is higher in LGBT+ inclusive countries.** The World Bank publishes annual data on how easy it is to do business in countries around the world. Net approval of same-sex relationships is a clear predictor of how easy it is to do business in a country.¹³

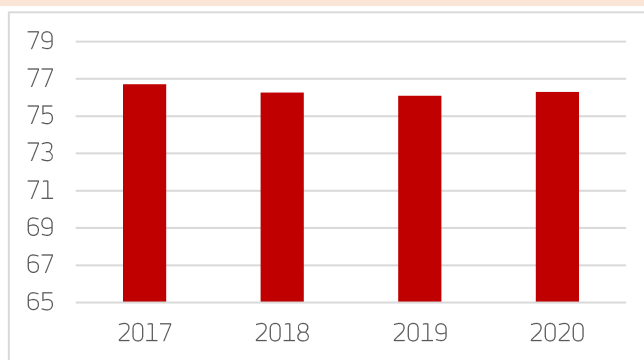


Figure 4: The Czech Republic's score on the World Bank Ease of Doing Business Index.¹⁴

- **The Czech Republic's ease of doing business has stalled.** The Czech Republic's performance on the *Ease of Doing Business* index has stalled since 2017. As the charts above show, higher levels of LGBT+ inclusion predict more competitive economies.

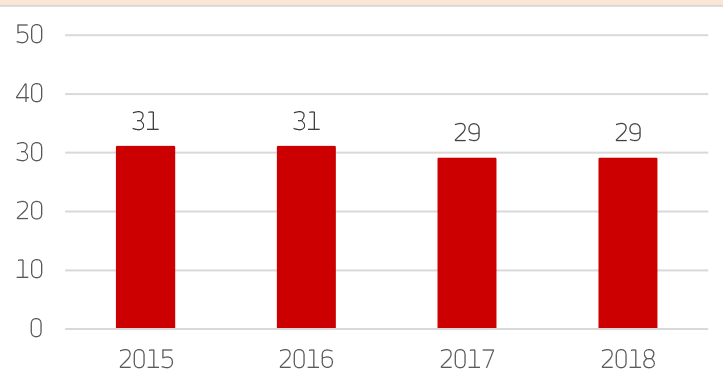


Figure 5: Czech Republic's performance on the Global Competitiveness Report¹⁵

- **The Czech Republic's competitiveness has stalled.** The Czech Republic's performance on the World Economic Forum Competitiveness Index has stalled. As the charts above show, higher levels of LGBT+ inclusion predict more competitive economies.

The Economic and Business Case for LGBT+ Inclusion in the Czech Republic

A move toward a more open and inclusive Czech Republic, signaled by implementing the freedom to marry, can create the infrastructure for sustained economic growth. As the global data shows above, LGBT+ inclusion is a predictor of competitiveness, economic development and ease of doing business. In addition to these economic trends, LGBT+ inclusion can have a positive impact on the Czech Republic's economy in a number of ways outlined in this report.

On the other hand, evidence presented in this report shows that LGBT+ discrimination in the Czech Republic has real costs to the economy. These costs come from a number of angles and have been found to occur in economies around the world. In this report, we investigate the impact of unequal health outcomes, economic discrimination and missed revenue of same-sex weddings.

Recent research has shown that LGBT+ discrimination is reduced in European countries that extend the freedom to marry to same-sex couples.¹⁶ Therefore, extending the freedom to marry to same-sex couples will be a significant step to creating a society and an economy that is truly inclusive and "open for business".

Every year, LGBT+ discrimination costs the Czech Republic:



37.6 billion Kč to 5.0 billion Kč
(**\$1.7 billion - \$195 million**)

0.7% - 0.1% of GDP

**19.5 billion Kč –
1.0 billion Kč**
(**\$821 million - \$43 million**)

Health inequalities and violence

- Significantly higher prevalence of depression among LGBT+ people in Czech, resulting in lost earnings and productivity
- Violence against LGBT+ people creates additional cost for healthcare system

**15.4 billion Kč
– 3.3 billion Kč**
(**\$645 million - \$140 million**)

Economic discrimination

- Underutilization of human capital due to discrimination costs up to 15 billion Kč per year
- LGBT+ workplace discrimination claims cost businesses

**2.7 billion Kč –
0.6 billion Kč**
(**\$113 million - \$25 million**)

Missed wedding revenue

- Not allowing same-sex couples to be married causes the economy to miss out on additional revenue and fees

(i) Close the skills gap

The freedom to marry sends a strong signal that a society is open and inclusive, which can attract skilled workers and help close the skills gap.

In 2018, a third of Czech businesses reported that lack of employees has had a negative impact on their future growth.¹⁷ From December 2010 through April 2018, the number of labor market vacancies has increased seven-fold. Additionally, the Czech Republic needs to shift to high-skilled activities from low-skilled activities to improve the economic position of its firms.¹⁸ The government has initiated a number of programs meant to attract skilled workers from other countries.¹⁹ Evidence shows that LGBT+ inclusion, signaled by the freedom to marry, is a key ingredient for achieving these goals.

LGBT+ inclusion is a key factor to signal to skilled workers that the Czech Republic is a welcoming place to do business.

- A survey of skilled workers who had moved to one of 13 cities found that motivating factors included “hard factors” (transport, connectivity, etc) and “soft factors” (openness, diversity and culture).²⁰ The survey found that “gay/lesbian friendliness” was a factor considered by skilled workers. Although it may not be a deciding factor for non-LGBT+ employees, this is likely to send a clear signal about the culture of the city – the crucial “icing on the cake”, according to the study.²¹
- A study focused on Switzerland found that “the tolerance index for same-sex partnerships has a strong significant influence” in drawing highly skilled workers to live in a city.²²

LGBT+ inclusion attracts non-LGBT+ talent too.

- Almost three-quarters of LGBT+ allies in multiple markets are more likely to accept a job at a company that’s supportive of LGBT+ employees.²³
- More than one in two senior executives globally claims to want to work for a company that is an advocate of LGBT+ rights, while two out of three agree that companies need to do more to protect LGBT+ employees in countries that have anti-LGBT+ legislation in place.²⁴

The freedom to marry is a predictor of a society’s level of educational attainment.

- Eight of the top ten most educated cities in the world are located in countries that recognize the freedom to marry.²⁵ This suggests a trend for highly educated individuals to cluster in inclusive cities.

(ii) Increase national productivity

LGBT+ inclusive economies, signaled by the freedom to marry, can increase economic participation and boost productivity.

"Productivity isn't everything, but in the long run it is almost everything," wrote the economist Paul Krugman. The Czech economy is thriving, but the gap between Czech productivity and advanced economies remains large.²⁶ Without increasing productivity, the Czech Republic will be unable to maintain price competitiveness and adapt to the changing environment of automation. An OECD report on the Czech Republic points out that productivity growth has slowed markedly in recent years.²⁷ Policies supporting LGBT+ individuals enable employees to fully participate in the workplace and economy and boost productivity.²⁸

LGBT+ discrimination acts as a drag on national productivity.

- Discrimination creates economic inefficiencies, which cause unemployment, underemployment, wage gaps and lower productivity. This discrimination has been found to cost Kenya \$105 million per year.²⁹
- The World Bank and the Williams Institute conducted studies that estimated homophobia related labor losses cost the Indian economy as much as \$30.8 billion in 2012 and the Indonesia economy \$12 billion in 2015.³⁰
- 'Network heterogeneity' studies show that greater diversity in a workplace appears to improve the productivity of R&D teams.³¹

LGBT+ inclusion, signaled by enacting the freedom to marry, can increase economic participation and boost productivity.

- LGBT+ supportive policies cause employees to feel more valued in the workplace and to contribute beyond their specific roles. This enriches a company culture and boosts productivity.³²
- LGBT+ discrimination dramatically increases the voluntary turnover level in companies. Gay men and women leave their employers due to workplace unfairness at twice the rate of straight males.³³ Replacing an employee costs a company approximately 20% of an employee's annual salary.³⁴
- In the US, one study estimates that discriminatory and hostile environments cost companies \$1.4 billion resulting from a reduction in gay and lesbian workers' productivity.³⁵

(iii) Boost innovation and attract foreign direct investment

Open and inclusive environments are more innovative and attract higher levels of FDI.

Attracting investment from abroad and encouraging innovation are top priorities for sustained economic growth. The Czech Ministry of Industry warns that without more innovation and investment, the country's long-term competitiveness could plummet.³⁶ Without these ingredients, the Czech Republic is more vulnerable to economic downturns and its pattern of growth will not make it competitive with wealthier EU member states.³⁷

The NRDIP and Industry 4.0 are being used as roadmaps for drawing more early-stage innovative R&D enterprises, like collaborations between the academic community and the business sector, and creating "innovation ecosystems" throughout the country.³⁸ Openness and LGBT+ inclusion are key aspects of creating an environment for these innovation ecosystems to be successful and can help attract additional foreign investment.

LGBT+ inclusive environments are better for innovation and entrepreneurship.

- LGBT+ inclusive cities have higher levels of entrepreneurialism, research has shown. These entrepreneurs tend to start companies in higher value service sectors.³⁹
- Inclusion attracts the highly skilled "Creative Class" to a city, according to studies.⁴⁰ Diversity feeds a "clustering effect" for young talent,⁴¹ and LGBT+ inclusion is a signal of openness, diversity and culture.⁴²
- LGBT+ inclusion is a predictor of high-tech entrepreneurship. In a study of US cities, those with a greater concentration of LGB people had higher concentrations of high-tech industries.⁴³

LGBT+ inclusive environments are more effective at attracting FDI.

- Employee quality of life factors, such as tolerance and inclusion, are equally "important factors" as infrastructure, education, and personal and political security to help attract the international workforce and investment required for highly skilled industries.⁴⁴
- Correlating FDI data with the Pew Global Attitudes survey shows that inward FDI flows are positively correlated with societal acceptance of homosexuality as a way of life and that more tolerant countries also have better sovereign debt ratings.⁴⁵

LGBT+ inclusive cities foster innovation ecosystems, which create the environment necessary for high-value industries to flourish.

- The free flow of ideas and information between people with different backgrounds and sectors leads to greater innovation potential and spurs "collision density" between different kinds of thinkers within a city.⁴⁶
- According to a study of 60,000 U.S. corporations, companies with laws prohibiting discrimination based on sexual orientation or gender identity have greater levels of innovation: these companies register 8% more patents and receive 11% more patent citations (an indicator of the impact of those patents). The study controls for factors that might confound this result, such as the overall economic performance of the state, talent levels and political orientations.⁴⁷

LGBT+ inclusive companies have higher levels of innovation and collaboration.

- 62% of employees at LGBT+ inclusive companies say their team is not afraid to fail. This is compared to only 47% which say the same at less inclusive companies.⁴⁸
- LGBT+ individuals who are out at work have better co-worker relationships, driving greater collaboration. 92% of LGBT+ business leaders believe being out at work improves their relationships with colleagues.⁴⁹

(iv) Improve business performance

The freedom to marry can strengthen business performance by reducing the administrative burden on companies and allowing them to realize the full value of LGBT+ inclusion.

Inclusive companies in the Czech Republic will be more competitive and perform better on several metrics. Integrating into a global marketplace is a winning strategy and companies and organizations trading in the global marketplace tend to be those with global standards of best practice on LGBT+ inclusion.⁵⁰

Additionally, the freedom to marry will reduce the administrative burden on companies that operate across the EU and that must deal with a patchwork of marriage equality laws.

The administrative burden and costs that corporations face by operating across a patchwork of marriage laws will decrease.

- Many multinational companies offer equal benefits for their employees, regardless of sexual orientation. Despite laws which do not recognize marriage equality, 81% of global companies offer equal life, medical and retirement benefits for LGBT+ couples.⁵¹ However, this is administratively burdensome and costly for companies that operate in markets that do not recognize marriage equality, such as the Czech Republic. A study in the US found that unequal marriage laws in 2014 cost companies \$1.1 billion total, with a cost up to \$250,000 per company.⁵² These costs undoubtedly exist in the Czech Republic as well and serve as unnecessary barriers for companies to move their LGBT+ talent to the country.
- The European Parliamentary Research Service reported that “the divergence between Member States when it comes to the legal recognition of same-sex relationships, significant practical issues arise and same-sex couples and their families may currently experience significant and disproportionate obstacles when moving around the EU”.⁵³
- In Europe, the inconsistency of international laws on the recognition of same-sex marriages is estimated to cost the European economy €4.2 million per annum.⁵⁴
- Individuals in same-sex registered partnerships are not granted the same benefits that those in opposite-sex marriages are. The Czech government does not pay for 2 days of time away from work as it does for those entering marriages. As a result, companies are incurring costs of 34 Kč –154 Kč million to provide the same benefit to same-sex registered partnerships.⁵⁵

LGBT+ inclusive companies perform better across several financial metrics.

- LGBT+ inclusive companies have better share price performance. A basket of 275 companies with openly LGBT+ management or companies whose employees are openly members of local LGBT+ business networks outperformed global stocks and benchmarks.⁵⁶
- A four-year longitudinal dataset of public firms in the U.S. shows that firms with more “corporate sexual equality” have higher stock returns and higher market valuation.⁵⁷

- LGBT+ inclusive companies have higher cash flow. A study of 450 global companies (with revenues above \$750M) shows that over a three-year period, inclusive companies had 2.3 times higher cash flow per employee. The effect is even more substantial for smaller companies, which had 13 times higher mean cash flow from operations.⁵⁸

LGBT+ inclusive societies empower companies to meet global best practices on inclusion and excel on a global stage.

- There is a direct connection between a company's support for LGBT+ inclusion and its ability to connect with global markets. Companies who are leaders on LGBT+ inclusion see a 20-percentage point higher proportion of international revenue than those that have no evidence of publicly available non-discrimination policies.⁵⁹

Methodology and Sources

This section sets out the basis for key conclusions presented in this report, in particular:

- A** Methodology for additional revenue from same-sex weddings -
 - Additional Marriages
 - Additional Marriage Fee Revenue
- B** Methodology for cost of Depression
- C** Methodology for cost of Discrimination
- D** Methodology for cost of Lost Productivity
- E** Methodology for cost of Violence

Methodology for additional revenue from same-sex weddings

The methodology for estimating the added revenue to Czech Republic's economy for the three years following legalization of same-sex marriage was based on the research conducted by the Independent Democratic Conference's 2011 analysis of the freedom to marry in the US state of New York.⁶⁰ A 'high' and 'low' scenario for each calculation was used to reflect the different estimations of the size of the LGBT+ population that would potentially choose to marry in the Czech Republic. This creates a conservative range for the economic revenue to prevent an overestimate of the added revenue.

Number of Same-Sex Weddings Likely to Occur Following Same-Sex Marriage Legalization

Calculate the potential number of marriages that would be held by Czech same-sex couples.

1. The current population of the Czech Republic is 10,625,690.⁶¹ Of those, a low value of 1.5% and a high value of 6.7% were utilized to determine the range of the number of LGBT+ individuals in the Czech population.^{62,63} This range is **159,385 – 771,921**.
2. Of the number of LGBT+ individuals in the Czech population, a conservative estimate of 25% was used to estimate the number of those individuals that are couples. This range is **39,846 – 192,980** individuals.
3. Of the number of LGBT+ couples in the Czech Republic population, a conservative estimate of 25% was used to estimate the number of same-sex weddings that would potentially occur. This range is **9,962 – 44,495**, which equates to **4,981 – 22,248** weddings.

Cost of a Czech Wedding

A definitive cost of a wedding in the Czech Republic couldn't be obtained. However, estimates ranged from €100 to over €200 a person for a 50-person wedding.⁶⁴ The NY Comptroller's Office and the Williams Institute have both reported that same-sex couples spend less on their weddings as they are less likely to have financial support from family members. Also, according to Lee Badgett, research director at the Williams Institute and Professor of Economics at the University of Massachusetts, Amherst, many same-sex couples will rush to the altar soon after same-sex marriage legalization. As result, less planning and expenses are likely to occur.⁶⁵ **\$5,000** was utilized as the cost of weddings by Czech same-sex couples.

1. Multiplying the possible number of same-sex weddings that would potentially occur by the cost of a wedding gives the possible wedding revenues in the first three years following legalization of same-sex marriage. This range is **\$24,903,961 - \$111,237,692**.

Marriage License Fees

Additional same-sex weddings to be conducted in the Czech Republic also add revenue as the amount of marriage fees collected will increase. Marriage fees for two Czech citizens is \$86.⁶⁶

1. Multiplying the possible number of same-sex weddings that would potentially occur by the cost of marriage fees gives the possible wedding revenues in the first three years following legalization of same-sex marriage give a range of **\$856,696 to \$3,826,577**.

Depression Methodology

The methodology for estimating the cost to the Czech Republic's economy due to depression in the LGBT+ community is based on the World Bank analysis of India, which is itself based on global best practices for determining economic impacts of disease.⁶⁷

The health impact measure used to determine the total cost is the disability-adjusted life years (DALYs) for the health condition. This is recommended by the World Health Organization's Commission on Macroeconomics and Health. It reflects the total of years of life lived with a disability and years of life lost due to the health condition. DALYs reflect the cumulative years of lost economic output.

We used a "high" and "low" scenario for each calculation to reflect different estimations of the size of the LGBT+ population and the prevalence rate of the health issues. This creates a conservative range for the economic cost to ensure we do not overestimate these costs.

The steps of the calculation for the low scenario are below:

1. Calculate the excess prevalence of the health condition for LGBT+ people. This assumes that LGBT+ people would see similar levels of disease as the general population in the absence of LGBT+ discrimination. Excess prevalence rate = prevalence in LGBT+ population – prevalence in general population is equal to **7.8% - 5.2% = 2.6%**.^{68,69}
2. Use the excess prevalence rate multiplied by the estimated population of LGBT+ people to identify the number of LGBT+ people with the health condition due to LGBT+ discrimination. This is equal to: **2.6% x 159,385 = 4,144**.
3. Determine what proportion of the total population has the health condition due to LGBT+ discrimination. Take the Excess number of LGBT+ people with depression divided by total Czechs with depression. This is equal to: **4,144 / 552,536 = 0.75%**.
4. Use that proportion multiplied by the total number of DALYs for the health condition to determine the number of DALYs attributed to LGBT+ discrimination. This is equal to: **0.75% x 36,103 = 271**.⁷⁰
5. Multiply the number of DALYs by one to three times per capita income to calculate lost economic output, as recommended by the World Health Organization. This is equal to: **271 x \$37,870.00 = \$10,254,138**.⁷¹

*Note: numbers have slight variance due to rounding.

Discrimination Methodology

Extending the freedom to marry to same-sex couples will likely cause a decrease in discrimination to occur. A targeted decrease in discrimination from 27% to 20% was used to estimate the impact of decreasing the cost of discrimination in the workforce.

We used a "high" and "low" scenario for each calculation to reflect different estimations of the size of the LGBT+ population and the costs of discrimination penalties to companies if cases are brought to court under the Work Inspection Act. This creates a conservative range for the economic cost to ensure we do not overestimate these costs. The steps of the calculation are:

1. Determine the number of LGBT+ people in the workforce and the number of LGBT+ who reported experiencing discrimination.
 - a. The Czech workforce is 5,415,300.⁷² An estimated 1.5% to 6.7% of the workforce are LGBT+. This range is **81,230 – 362,825**.
 - b. On average, 27% of LGBT+ employees have experienced discrimination.⁷³ The numbers who have experienced discrimination are **81,230 – 362,825 x 27%**. This range is **21,932 – 97,963**.

2. Only 5% of discrimination cases are reported as breaches of the Work Inspection Act equating to 21,932 – 97,963 x 5%.⁷⁴ This range is **1097 – 4898**.
3. Estimate the possible fees that could be incurred based on the Work Inspection Act. Assume a low of 1/10 of the maximum penalty and the maximum penalty. This range is: **40,000 Kč – 400,000 Kč**.⁷⁵
4. Assume that the portion of LGBT+ employees experiencing discrimination will decrease to 20% with the freedom to marry. We use the 20% number to calculate the number of LGBT+ fewer cases of discrimination. This is (27% experience harassment – 20% decrease in harassment) X number of LGBT+ employees x 5% of harassment reported. This range is **284 – 1270**.
5. Calculate the amount of fees that would be avoided due to the decrease in discrimination claims registered. This range is **11,372,130 Kč – 507,955,140 Kč**.

*Note: numbers have slight variance due to rounding.

Productivity Methodology

LGBT+ discrimination costs the Czech economy as a result of lost earning potential of LGBT+ employees. The steps of the calculation are:

- Determine the average annual earning of Czech employees based on an average monthly earning of 34,105 Kč = **409,260 Kč**.⁷⁶
- Calculate the earnings lost per LGBT individual using research showing that homosexual male employees earn 10% less than heterosexual male employees.⁷⁷ This is 409,620 Kč x 10% = **40,926 Kč**.
- The Czech workforce is 5,415,300. An estimated 1.5% to 6.7% of the workforce are LGBT+. This range is **81,230 – 362,825**.
- Calculate the total lost wages of LGBT+ employees in the workforce. This range is **3,324,398,517 Kč – 14,848,980,043 Kč**.

*Note: numbers have slight variance due to rounding.

Violence Methodology

The economic impact of LGBT+ violence is based on a study of the economic impact of domestic violence in the Czech Republic.⁷⁸ From this study, the average cost of a violent act, for both outpatient and inpatient events, is 20,295 Kč. The steps of the calculation are:

1. The current population of the Czech Republic is 10,625,690. Of those, a low value of 1.5% and a high value of 6.7% were utilized to determine the range of the number of LGBT+ individuals in the Czech population.^{79,80} This range is **159,385 – 771,921**.
2. On average, 24% of LGBT+ people have experienced violence of some type.⁸¹ The numbers who have experienced violence are **159,385 – 771,921 x 24%**. This range is **37,456– 167,301**.
3. Total cost of violence is the number of LGBT+ who have experienced violence multiplied by the average cost of a violent act. This range is **760,160,534 Kč – 3,395,383,720 Kč**.

*Note: numbers have slight variance due to rounding.

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