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Earnings Effects of Sexual Orientation Revisited: Evidence from the CPS

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Does Sexual Orientation affect Earnings?

Objective. To measure the wage premium or penalty associated with sexual orientation of partnered lesbians and gays and to compare these estimates with those produced using smaller sample sizes and alternative definitions of homosexuality.

Data Source and Sampling Methods. Data are drawn from the Current Population Survey, produced by the U.S. Census Bureau. Extracting household information from the out-going March rotation provides a sample of 37,000 households interviewed in the years 1995 and 2000. Only workers living with a partner are included in the analysis.

Study Design. Following the methodology used by Black et al. (2003), this study uses a Mincerian wage regression to determine the effect of demographic and employment characteristics on earnings. A respondent's sexual orientation is determined by marital status and whether or not they live with a partner of the same sex. With logged wages as the dependent variable, I estimate the effect of sexual orientation on earnings using an ordinary least squares regression. I run two regressions for each gender: one with controls for occupation and one without. Demographic control variables are: education, potential experience, race/ethnicity, and the region in which the respondent resides.

Principal Findings. Not controlling for occupation, gay partnered couples earn more than similar heterosexual married couples, although this effect is stronger for men than for women. Controlling for occupation, being gay still has a positive and significant effect on men's earnings. Once occupation is added, however, there is a positive effect of being gay on women's earnings, but this effect is no longer statistically significant.

Conclusion. Homosexuals living with a partner earn significantly higher wages than those in heterosexual partnerships. This wage premium diminishes slightly when controlling for a worker's occupation and remains statistically significant for men. These results are consistent with various hypotheses of the effect of sexual orientation on labor market outcomes. It also suggests that lesbians earn a wage premium because they tend to cluster into higher paying occupations.

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Introduction

The fight for civil rights has recently swept the nation under the banner of lesbian, gay, bisexual, and transgender people (LGBT). As more and more young people are starting to "come out" at an early age, LGBT issues have increased in importance on the political agenda, rearing its head in political debates and congressional legislation.

LGBT rights and issues will continue to dominate the political landscape for many years to come. Some political theorists have dubbed LGBT issues today's version of the 1960s political rights movement. This movement is fueled by the inferior position held by the LGBT community in today's society. Social inferiority stems from many sources, such as a constitutional amendment against same-sex marriage in many states and the inability of same-sex couples to adopt a child. However, another area of political importance is the economic standing of homosexuals. Sexual orientation affects workers in a number of different environments. Due to the current social climate, homosexuals may experience lower wages from discrimination; employers could subsequently offer less attractive jobs, avoid giving homosexuals promotions, or avoid giving them jobs altogether. However, sexual orientation could affect one's occupational decision as well, prompting homosexuals to choose more accepting careers.

There has been much literature and research discussing the socio-economic status of homosexual individuals. However this area, though relatively transparent in the political agenda, remains significantly important for the growing number of openly homosexual individuals. With the growth of the LGBT community comes an increased importance on equal employment rights for homosexuals. And along with equal

employment opportunities comes the issue of equal wages for equal work performed. The question of wage equality based on sexual orientation is important for tomorrow's social classes and serves as the driving force behind this paper.

This paper addresses the economic situation of homosexuals in America's labor force by examining workers' wages. It attempts to control for the different worker characteristics and isolate the effect of sexual orientation on earnings. It aims to answer the question: how much of an effect does being gay have on one's wages? Through observing discrepancies in the wages of homosexuals compared to heterosexuals, it will exploit a possible unobservable in homosexual workers, including decreased productivity or possible discrimination.

Related Research

Previous research has investigated the socio-economic standing of homosexual men and women. Many of these papers focus on the apparent wealth of gay men as perpetuated by common stereotypes[1]. According to this view, homosexuals lead lives of luxury and well being without any family obligations or real financial hardships. However, like all other stereotypes, these are not always true and are often misleading. Gay men and women face financial stress as regularly as heterosexuals do, but as I explore later, it is often for different reasons.

Research on homosexuals has evolved as often and as fast as society's perceptions on homosexuality. In 1973, American Psychiatric Association officially removed "sexual deviancy" from the list of Diagnostic and Statistical Manual of Mental

[1] Lee Badgett, M. V. "Beyond Biased Samples." Homo Economics. London: Routledge, 1997. 65-71.

Disorders[2]. By the 1990s, many doctoral and research topics began to address homosexuality from many different views. The bulk of economic research on homosexuality has dealt with the earning effects of sexual orientation. This was made possible by the 1990 U.S. Census which included the phrase "unmarried partner" when asking respondents about their relationship to the householder. This was the first attempt by the U.S. Census to collect information on the number of alternative household types in the U.S. and it lead to new avenues of research in economics.

Collecting information on homosexuals is much more complicated than one might think. Researchers find it hard to classify homosexuals, and therefore information is relatively vague. Since homosexuality is often expressed as a fluid and transformational process, sexual orientation is seemingly foggy. Most people are not simply heterosexual or homosexual but experience urges from a number of different sides. One's own lack of knowledge or differing degrees of homosexuality complicate this process for individuals and subsequently researchers. In 1948, Alfred Kinsey developed a scale representing the seven different levels of sexuality (0 equals exclusively heterosexual and 6 equals exclusively homosexual)[3]. From a research standpoint, this poses the question: at what point is a person officially considered a homosexual?

If researchers restrict classification of homosexuality to simply one homosexual encounter, there would be an overrepresentation of homosexuals in America, due to drunken mistakes or experimentation in college. Furthermore, the

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[2] "Homosexuality and Psychology." Wikipedia. 3 Dec. 2006. wikipedia.org. 7 Dec. 2006 <http://en.wikipedia.org/wiki/Homosexuality_and_psychology>.
[3] "Kinsey Scale." Wikipedia. 29 Nov. 2006. wikipedia.org. 14 Dec. 2006 <http://en.wikipedia.org/wiki/Kinsey_scale>.

lack of knowledge of one's own self makes this process harder. Some people avoid classifying themselves as homosexual because they do not live a homosexual lifestyle or refuse to admit they have homosexual urges. Homosexuality would be easier to classify and report if one's sexuality was as clear as gender. Alas, this is not the case and therefore researchers must find a common classification.

Sexual behavior proves insufficient, because although some people might sleep with people of the same sex, they do not classify themselves as gay. Many simply consider it a sexual experiment or a phase that they will one day out grow. They can also be married with children and have no intention of coming out to their family and friends. These people (who many would classify as gay) lead lives more similar to heterosexuals, and therefore, do not fit into a category depicting all homosexuals. Therefore, sexual behavior is not always a reliable determinant for sexual orientation.

Furthermore, research on wage inequality between sexes is seemingly endless. For the past fifty years, many studies have compared male and female wage earnings. As recently as December 24, 2006, the New York Times ran a front-page article on the wage gap between men and women. They found that since the mid 1990s the pay gap has actually widened between highly educated men and highly educated women[4]. I plan to explore this area as well, more specifically, the earnings between lesbians and gay men.

Among some of the first literature in the economics of sexual orientation is M.V. Lee Badgett's *The Wage Effects of Sexual Orientation Discrimination* (1995). In

[4] Leonhardt, David. "Gender Pay Gay, Once Narrowing, is Stuck in Place." The New York Times 24 Dec. 2006. 5 Jan. 2007 <http://www.nytimes.com/2006/12/24/business/24gap.html>.

her paper, Badgett tries to find a way to classify homosexuals based on their sexual experience. The respondents were asked questions concerning the number of same-sex and opposite-sex partners they had had since they were eighteen. Badgett then determined their sexual orientation. However, her method lacked accuracy because of afore mentioned problems. Though some respondents have had sex with same-sex partners, it did not mean they were gay. Many of these perceived homosexuals actually lived very traditional, heterosexual lives and cannot be included in this group. They were everyday people with only one characteristic in common: having had same-sex sex. While this technique does provide for plentiful, concrete data, I do not think it is a good representation of the homosexual community. Holding these standards to classify one as gay would provide a very vague and diverse picture of all homosexuals. This technique provides very little deviation from the standard norm.

Another problem with reported statistics about homosexuals is a question of honesty. Fear of coming out and admitting one's sexual orientation leads to inaccurate information on many homosexuals. Until recently (and still somewhat today) Americans avoid the word gay. We perceive something "gay" as being abnormal and not healthy, attaching a stigma to homosexuality. Many Americans have come to fear gay people and the possibility of being gay. Adolescents and gay adults fear admitting they are homosexual because how others might perceive them. Data collecting by surveys such as the U.S. Census are not ideal for studying the economic conditions of homosexuals. Because of the fear of exposure, respondents to any survey do not always respond truthfully. They may hide their sexual orientation by lying about it, or in my sample, excluding their partner from the questionnaire, causing a high degree of error in the assignment of sexual orientation.

In *Demographics of the Gay and Lesbian Population in the United States* (2000), Black, et al use a number of different sources to identify gay and lesbians. The General Social Survey (GSS) determines sexual orientation based on different questions about sexual behavior. When respondents reply positively about their experience with same-sex partners on multiple questions, they are classified in four different categories of homosexual. In *Earning Effects of Sexual Orientation* (2003), Black, et al use similar data to explore the effects of homosexuality on earnings. The methods used in this research are the foundation for my study. However, I plan on using different data as prescribed by the authors. One important aspect of the study is the relatively small size of the sample studied. Because of their survey's questioning methods, the number of homosexuals proved hardly sufficient for reliable data. My sample, on the other hand, will hopefully provide a greater sample size and subsequently more reliable data.

The previous papers have all found a wage gap between homosexuals and heterosexuals, though not always with heterosexuals being the wealthier group. They have also uncovered differences in the demographics of gay workers. Seemingly, homosexuals tend to work in different sectors of the economy in different parts of the country, and their choices subsequently affect their earnings.

With this paper, I hope to achieve a more accurate depiction of the earning effects of sexual orientation by using a different data source to more accurately identify homosexuals. Such an analysis can be achieved by looking at those who lead a homosexual lifestyle. A homosexual lifestyle is indicative of an openly gay individual and someone who lives in an open, homosexual relationship. These people, in turn, are more likely to encounter wage and other types of discrimination because of their

unwillingness to conceal their sexual orientation. Respondents in my data source are asked about the status of the other person living in the household. If the respondents replies “unmarried partner” and if the partner is of the same sex, I conclude they are a homosexual couple. I believe that this is the most accurate way of defining homosexuals and will present the clearest depiction of the demographic. By using this method and data source, I hope to have a large enough sample size for an accurate representation, which is something previous studies struggled to achieve.

I also examine where and in what kind of industries and occupations homosexuals are employed. This information helps us interpret the occupational decisions of homosexuals and its correlation with earnings. Furthermore, I plan to look at the relative importance of being gay in different sectors of the economy. Do homosexuals fair less well in social occupations where it is relatively difficult to hide one’s sexual orientation?

Theory

This section considers how wages are determined in equilibrium. It emphasizes the importance of labor market characteristics and how these characteristics affect earnings. The perceptions of workers, both on the part of the worker and the employer, carry tremendous weight in the labor market despite other quantitative characteristics. The idea of human capital accumulation and workers’ characteristics lay fundamental to understanding wages.

In order to get a job, an applicant must prove that he or she is able to effectively perform the task required. Qualifications help to inform the employer of job productivity. However, the question arises, how does one prove his or her

qualifications to perform a job effectively? An applicant must prove he or she has the qualifications to do the job in an efficient manor because qualifications are proof of efficiency. For instance, a stenographer can easily take a typing exam on an interview to prove efficiency to the employer, which in turn, provides sufficient qualification for the job. Qualifications in other professions, however, are not always so clear. How can a university be sure that it has hired a qualified professor to teach an advanced economics class? Therein lies the problem: there is uncertainty in assessing true productivity given an applicants profile.

The first way to prove qualification is through prior experience. If an employer sees that an applicant has a history of doing a similar job for years, he is more likely to hire this applicant because of previously acquired skills. An employer wants to hire somebody that will help the company through efficient work, which is usually signified by an applicant's qualifications.

From introductory economics, nominal wages tend to equal the value of one's marginal product[5]. In other words, one receives in nominal wages what one is able to contribute to production. And as logic follows, the more productive one is the more one will earn in the labor market. Productivity is the defining feature for income and earnings, but it isn't that simple.

Discrimination in the labor market affects potential earnings. Consider the example of women or African-Americans. It has been proven that both of these groups make lower wages than the average white male[6]. Many times this has to do with occupational choice or differences in human capital (i.e. educational attainment).

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[5] Fleisher, Belton M., and Thomas J. Kniesner. Labor Economics: Theory, Evidence, and Policy. 3rd ed. Englewood Cliffs, NJ: Prentice-Hall Inc., 1984. 374.
[6] Leonhardt, David.

However, still today, many woman and African-Americans earn smaller salaries than their white, male counterparts when factoring in human capital. This scenario is evidence of wage discrimination based on a certain minority status.

As earlier stated, perceptions play an important role in determining wages. Employers' perceptions are of particular interest in my paper because of commonly held views on homosexuality. How an employer might view a homosexual worker could affect the wage or treatment a worker receives. If an employer has an unfavorable view of homosexuals, a homosexual worker might receive less pay for equal work performed. This distaste by employers can also manifest itself in other ways, such as not promoting or simply not hiring a homosexual applicant. However, for discrimination to exist there must be a commonly held view among employers and patrons about homosexuality. This view will be negative and imposed on all homosexual workers. The source of this view can range from fundamental distaste for homosexuality to the perceived unproductive nature of homosexuals. This is commonly known as a stereotype. Discrimination will only end, however, when employers and patrons both change their perceptions of homosexuals[7].

However, sexual orientation is unique in the sense that it "is analogous to that based on religion or national origin.[8]" Homosexuality is not always an easily identifiable characteristic, such as race or gender. Therefore, discrimination on the basis of sexual orientation is a bit harder to come by. In order for an employee to be discriminated against based on sexual orientation, an employer must know or suspect something about the employee. The employee must disclose his or her sexuality or

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[7] Fleisher, Belton M., and Thomas J. Kniesner, 393.
[8] Lee Badgett, M. V., and Mary C. King. "Lesbian and Gay Occupational Strategies." Homo Economics (1997): 73-86.

possess telling signs. Such signs include a very effeminate male employee, which could lead an employer to believe that this employee is gay, or a thirty-something woman that always comes alone to office social events. Sexual orientation is not easily identifiable, and therefore, makes it harder for employers to discriminate against. But once discovered through suspicion or disclosure, homosexuals can face large amounts of discrimination from their employers and even other coworkers.

To deal with discrimination in the workforce, gays and lesbians have relatively few options. Many homosexuals will opt to stay at their current job, enduring discrimination and harassment. Others, however, will find a way around it.

One option is to simply act in a certain way and pass for a heterosexual. "Passing- that is, providing a façade of heterosexuality[9]" allows a worker to avoid any discrimination that might come with being homosexual. Passing, however, can have serious psychological and economic costs. The desire to pass as heterosexual requires many workers to avoid social situations, personal gatherings, and even sit through unpleasant conversations about the horrors of homosexuality[10]. The effort to achieve this can take a serious psychological toll on workers. For this reason, many people might choose to disclose their sexual orientation and find another way around discrimination.

A second option is employment in a more gay-friendly sector of the economy. Some industries are considered more gay-friendly because of where they are located or the types of people employed. Sectors, such as theater, only exist in cities where the market is large enough to support the industry. Large cities are typically more

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[9] Escoffier, Jeffrey. "Stigmas, Work Environment, and Economic Discrimination Against Homosexuals." *Homosexual Counseling Journal,* Vol. 2, No. 1 (January 1975): 8-17.
[10] Lee Badgett, King, 75.

liberal-minded and accepting of homosexuals than rural areas. For this reason, homosexuals might tend to get involved in areas such as theater or interior design. Many homosexuals might recognize this early and start to build labor market qualifications by studying at a fine arts high school or majoring in a discipline specific to these areas. The choice to work in these industries can be attributed in part to the industry's favorable view of homosexuality. Employees want to work in places where they feel more accepted and will not encounter discrimination.

This theory helps to explain the perceived overrepresentation of homosexuals as hairdressers, interior designers, and actors; however, it also has some major implication for earnings. This overrepresentation in some sectors of the economy implies similar earnings. If gay men are overrepresented as hair stylists, (a profession that on average makes less than one that requires a college degree) gay men will appear to have a lower average income. These skewed earnings could be less or more than the average heterosexual's earnings, depending on which sectors are in question.

Occupational choice plays a large role because workers for a variety of different reasons choose occupations based on personal preferences and attitudes. Wage is always an important factor in deciding on a career but so is happiness. Many workers choose careers that they enjoy or simply feel comfortable in their environment. And many times occupational choice will require a trade off between enjoyment of the job or a higher wage. Homosexual workers can choose a career where they feel more comfortable and free to be themselves but these jobs can pay less than some traditional jobs in conservative environments. Occupational choice could play a big role in determining earnings, and therefore, it is very important that I account for this.

It could help to explain a possible wage differentiation between heterosexuals and homosexuals.

Furthermore, people could choose to not work at all. Until relatively recently, many women opted to stay at home and raise children instead of contributing financially to the household. However, the vast increase of the number of women now in the workforce has brought about a complete restructuring of the household. Fewer women today stay home to raise children sometimes leaving the responsibility to the man. The same can be said for gays and lesbians. The large number of out homosexuals face similar household decisions. The difficulty of these decisions is exacerbated by the unique household structure of a homosexual relationship. Whether gays and lesbians also stay home and let their partner work could play a role in my findings. This occupational decision is one that I cannot control for in my study, because the choice to stay home is unobservable and correlates closely to wages and sexual orientation.

Embedded in this choice is the so-called household specialization theory introduced by Gary Becker (1971), in which individuals specialize in different forms of human capital with an understanding of what their future might be. A great example of this would be a heterosexual woman. Traditionally, women were expected to stay home and raise the family. This was considered their role in society and for this reason, women spent much time learning skills and building human capital for the household. A Home Economics course in high school, where the girls always outnumbered the boys five to one, provides an excellent example. Women faced few options and to be the best wife possible they forewent advanced calculus and focused on more practical courses. The same can be said for men. Men, knowing they had to

provide for a family, spent much time building human capital skills for the labor market. He went to college to study accounting and perhaps took a job he despised all so he could be the breadwinner. Men often build these human capital skills on the assumption of what the future holds.

It must be noted here that I treat sexual orientation as completely exogenous to labor market decisions. While it does not play a role in one's human capital, it does affect the decision to invest in one's human capital, and consequently, one's future earnings. In other words, the decision to invest in one's self is influenced by sexual orientation, but sexual orientation is not determined by labor market decision or experiences.

With all of that in mind, the same can be said for homosexual relationships and couples. Many homosexuals growing up know they will not lead a traditional, married lifestyle. The cultural norms and expectations established above do not always apply so they drift from the popular path. For instance, many lesbians know growing up they will not find a man and settle down where they are expected to stay home and raise the children. Instead, they choose to invest in their human capital and become more fit for the labor market. This could mean that lesbians on average work more than heterosexual women, which would lead to higher earnings. On the flip side, many gay men might think that they would want to stay home one day to raise children instead of being pushed into the traditional route of providing for the family. This could bring down homosexual males' earnings compared to heterosexual men. This theory provides that gays and lesbians "face constraints different from those facing other men

and women, and therefore make different optimal choices.[11]" And these choices could have serious potential effects on earnings.

Hypothesis:

I predict that gay men earn less than heterosexual men and lesbians earn more than heterosexual women, *ceteris paribus*. The difference in earnings based on sexual orientation will be in part due to occupation choice. However, there will be a wage differential that is not explained by observable characteristics, consistent with theories of labor market discrimination. I further predict in accordance with current gender wage gap findings[12] that gay men earn more than lesbians.

Method

Economics in a neoclassic sense studies variation at the margin. I look at the variation in wages between two groups: homosexuals and heterosexuals. I am able to do this by controlling for all other factors that influence earnings and isolating the effect of sexual orientation. Using a Mincerian wage regression, I can create identical economic environments for all the actors and study specifically their wages as affected by sexuality.

Mincer (1962) posted that wages are determined by the worker's personal characteristics and offered an empirical approach in keeping with this view. The so-called Mincerian wage equations have proved to be an enduring and common approach to the study of wage differentials. I use the Mincerian wage equation to analyze the importance of labor market characteristics for earnings. By examining

[11] Black, pg. 458.
[12] Leonhardt, David. "Gender Pay Gap, Once Narrowing, is Stuck in Place." The New York Times 24 Dec. 2006. 23 Dec. 2006 <http://www.nytimes.com>.

how much an individual earns and his or her specific labor characteristics, I can determine the weight that sexual orientation has on wages. This section identifies and explains the importance and role of different characteristics for workers, including experience, race, geographic location and occupation. I argue that sexual orientation affects one's earnings, *ceteris paribus.* The first characteristic is education as a form of human capital investment.

Workers are constantly evaluated on how productive they are. In the labor market, workers invest in themselves to make them more productive. This in turn, leads to higher wages and salaries. The most common form to increase one's productivity is through education. An education increases salary through higher knowledge and therefore greater productivity. And a worker who is willing to wait for a higher salary in the future might choose to attend college. This choice is considered an investment in human capital, supposedly making one more productive in the labor market.

Such investments also make the worker more attractive to employers. A college degree informs employers that this applicant is more educated than most. And education, as I mentioned earlier, is seen as a productivity-enhancing characteristic. A college degree not only increases one's human capital but it can send certain signals to employers. It proves to be a screening device and shows that this applicant has a high propensity to wait for earnings by taking four years out of their life to complete the degree. This sends signs of patience and dedication to the employer, which even though might not increase productivity, are very good characteristics to have.

Higher educated people may possess positive unobservable characteristics, which positively affect wages. Those individuals who choose to go to college and earn

a degree are usually the higher achieving and better students throughout their years in school. Many times these are the students to whom school comes easier because they "just get" the material. Therefore, one hour of studying provides more human capital to the educationally inclined student[13]. In other words, the student with the higher ability will get more from the studying and subsequently the education than the student who struggles with school. There exists a positive correlation between amount of schooling and abilities, which leads to an even greater dispersion of earning capacity. And as Berndt argues, this dispersion is greater "[T]han would occur if everyone had equal abilities… in which case abilities and schooling would be uncorrelated[14]." An education (EDU) should increase workers' earnings.

Two other widely known characteristics are experience and age (EXP), both of which affect worker productivity. Workers who have more experience (and are usually inherently older) are regarded to be more productive because they have greater exposure to the workforce. In this case, experience increases worker productivity through increased practical knowledge. It goes without saying that a lawyer with thirty years of experience handling civil litigation would be more confident and more likely to win a case against a young lawyer direct from law school. Experience in principle is hard to examine, because what determines it? Does experience mean the overall experience in the labor market, or solely the years one has spent in that specific job? For the purpose of uniformity (and to fit the data I have) I calculate potential experience. I do this by subtracting number of years of education and five from the

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[13] Berndt, Ernst R. The Practice of Econometrics: Classic and Contemporary. 1st ed. Vol. 1. Reading, Massachusetts: Addison-Wesley Company, Inc., 1991. 151184.
[14] Berndt, 155.

individual's age[15]. This gives me the number of years a person could have been working, accounting for the fact that we typically do not work full time during our education or the five years prior to attending school. This method is not entirely accurate because it counts the number of potential years a worker could have worked. Many people may take a couple years off to pursue personal interests, such as child bearing.

Where a worker lives in the country will also affect earnings (GEO). This is important because it is much more expensive to live in New York or California than in Mississippi, and wages reflect the cost of living. A resident of California could not survive on southern wages, and therefore, is paid more. A worker in Mississippi and a worker in California could have the same job with the same characteristics, and the worker in California would receive a higher wage simply because of the cost of living. Furthermore, different regions of the country could reflect differing social attitudes to homosexuals. I expect the number of homosexuals located in New York to be greater than the number located in North Dakota. There is much to be said about the number of homosexuals in a given area, because this influences the social attitudes toward homosexuals and I predict it to influence wages as well. In areas more where homosexuality is more socially accepted, I predict wages will be higher (possibly due to lower levels of discrimination).

The next labor market characteristic is race (RACE). I control for race because I do not want my results to reflect racial discrimination. This is very important

[15] Allegretto, Sylvia A., and Michelle M. Arthur. "An Empirical Analysis of Homosexual/Heterosexual Male Earnings Differentials: Unmarried and Unequal?" Industrial and Labor Relations Review 3rd ser. 54 (2001): 631-646.

for my study because on average African-Americans earn less than white people[16]. One reason for this is employer discrimination. Many employers believe that racial minorities are not as productive or simply not good enough to work for them. These employers could dislike associating with members of a certain minority or hold stereotypes against them. Furthermore, the effect of racial discrimination is so large because of its nature. Employees cannot hide their race unlike many can hide their sexual orientation. A race is obvious to the employers, and therefore, much easier to identify and discriminate on the grounds of.

Occupational choice (OCC) also influences earnings. It goes without saying that a well-seasoned doctor will earn more than a self-employed painter will. Although there are some exceptions to the rule, these speculations will generally hold and provide a fair basis for the inclusion of occupation choice in my regression. I predict that this variable will prove extremely influential in earnings because of the industries that homosexuals choose to participate in. For instance, gay men stereotypically choose to work in the arts-related industries, such as theatre and fine arts. While many of these professions can provide a very comfortable living, they are extremely hard to get in to and even harder to make a living off of. The majority of actors and painters live meagerly compared to other professions. However, the coin is two-sided. Interior design is a field dominated by gay men that is normally very profitable.

The last variable (SO) is the effect of sexual orientation. I break my sample into men and women and run two regressions for each sex: one with controls for occupation and one without. Sexual Orientation is a dummy variable and is used to determine the magnitude of being gay in different occupations and industries. If it is

[16] Fleisher and Kniesner, 387.

positive, I can determine that there is an enhanced degree of marginal productivity associated with being gay.

I examine wages based on sexual orientation by looking solely at persons in a partnership. This consists of people that are either in an unmarried partnership or are married. Because of the composition of my data source, this is the only way I can assure that I only include homosexuals in the same-sex partner category and that everybody else is heterosexual. This excludes all single people, both heterosexual and homosexual. So while my data will be highly accurate on sexual orientation among couples, it misses a large sector of society that I cannot control for.

All of the above mention variables are included in my wage regression. On the left side of the regression are an individual's earnings. On the right side are all of the variables that affect one's earnings. Also contained on the right side is a base salary for all individuals in the labor market[17], which can be perceived as the starting point for all of my different variables. The regression is displayed below:

$$\log w = \beta_1 \log EXP + \beta_2 \log EDU + \beta_3 \log GEO + + \beta_4 \log RACE + \beta_5 \log OCC + \beta_6 \log SO + u$$ [18].

Following Mincer, that it is "conventional to specify log wages as a function of a set of wage determining characteristics,[19]" which notably includes controls for human capital. I determine these effects using an ordinary least squares

[17] Berndt, 162.
[18] Berndt, 163.
[19] Hung Pham, T., and Barry Reilly. The Gender Pay Gap in Vietnam, 1993-2002: a Quantile Regression Approach. Diss. Univ. of Sussex, 2006. 3 Dec. 2006 <http://www.sussex.ac.uk/Units/PRU/wps/wp34.pdf>.

Data

My data source for this paper is drawn from the Current Population Survey (CPS). The CPS is a monthly, computerized survey of about 50,000 households, conducted over the telephone and published for all respondents over sixteen. The CPS is conducted by the Bureau of the Census for the Bureau of Labor Statistics, and therefore, is geared towards the demographics of the labor force in America. It includes variables such as employment, unemployment, hours worked, and type of job worked. It also includes the demographics of these workers such as race, sex, marital status, and educational attainment.

The participants of the CPS survey are interviewed for four consecutive months to maintain accuracy. They are again surveyed one year later during the same four consecutive months. The participants are broken up into eight cohorts (numbered 1-8). I plan to take the outgoing rotation from March of two different years (1995 and 2000). The reason for this is because the March supplement of the CPS has more precise data concerning wages and demographics. Also, I want to avoid any overlap in respondents' answers and by taking the outgoing rotation I manage to avoid possibly recording one respondent twice.

My study is the first to use the CPS to determine the effect of sexual orientation on earnings. The closest antecedent, Black et al (2003), uses the General Social Survey (GSS) and the 1990 Census. Before this paper, many studies defined sexual orientation by sexual behavior. They used information from sexual histories to determine whether a respondent was gay. However, these studies are flawed because sexual behavior is not the best determinant of how one is perceived by others. Openness, or whether or not somebody leads a homosexual lifestyle, is the

best determinant of homosexuality and this can be found through other means. In the GSS study by Black et al, respondents were asked their sexual orientation. This might seem like the best and most direct approach, however, it is also flawed. One could argue that the times were much different in 1990 and not nearly as many people were open or accepting of their sexual orientation. Many respondents could have answered incorrectly for fear of being exposed. Also, many homosexual-acting individuals (those who have sex with same-sex partners) may not consider themselves gay. Therefore many people identified as gay by these procedures may not define themselves or be perceived by co-workers as gay.

My study focuses on the most precise measure of homosexuality used in wage studies to date- being part of a same-sex, cohabitating couple. Members of homosexual couples are one of the strongest indicators of individuals who lead open homosexual lifestyles. Individuals who choose to enter a same-sex couple can be said to be most comfortable or open with their sexuality, which in most cases will be seen in all aspects of their lives. They will choose to bring their partners to company socials or talk freely about their significant other. Homosexual partners will also be the first to encounter discrimination because of their openness, and therefore, will provide the best sample for my study.

A respondent's sexual orientation can be determined by their response to the relationship to reference person question. Among the many responses to this question there are two that I examine closely. If the respondent answers either "unmarried partner without own relatives in household" or "unmarried partner with own relatives in household" it signals a possible homosexual couple. I then look at the household identification number, which is the same for all respondents in the

household. If the second respondent is in an "unmarried partnership" with the first respondent, and if they are of the same sex, they are considered a homosexual couple. This proves an extremely accurate portrayal of homosexual partnerships because of the numerous responses to the relationship to reference person question. For instance, there is no possibility that these two people could be heterosexuals miscoded as homosexuals because there exist a "roommate" and "border" responses. Also, it does not allow for the confusion in coding terms. If two people are of the same sex and they respond they are married, they are automatically asked the question about their relationship again. The CPS takes numerous measures to ensure this data is as accurate as possible.

However, the logic to determine one's sexual orientation has its drawbacks. My method is an extremely accurate portrayal of partnered homosexuals, however, I am *only* looking at partners. All homosexuals that live alone and who could live a very homosexual lifestyle are completely left out of this sample. On the other hand, the same can be said for heterosexuals. All single heterosexuals are dropped from the sample as well. Therefore, this study is simply a comparison of partnered people across the country. I am also assuming that traditional, coupled partners are most representative of a homosexual lifestyle. Surely this is not always the case, as many people would argue that homosexuals do not enter relationships as often or as long as heterosexuals. If this were true, my study would only represent a portion of the population, those who led heterosexual-like, gay lifestyles. And surely there are a mass amount of homosexuals that do not live with a partner, but I cannot observe these people due to the lack of sufficient data. Many single homosexuals are as open about their sexuality as partnered homosexuals and therefore would encounter

discrimination as often as members of a homosexual couple. However, there is no way I can control for these people in my data.

The fact that I compare only partnered homosexuals and heterosexuals makes for a more similar data set and has its many advantages. Some may argue that it creates a smaller and therefore better data source for the study of earnings effects. By only taking people in partnerships on both sides of the spectrum, it makes my data more manageable and easier to navigate. However, there is plenty to be said about the importance of including singles as well. By only studying partners, we may be exposing a certain unobservable that comes from being in a partnership. People that choose to enter into partnerships (both heterosexual and homosexual) might possess certain characteristics that help them in the labor force. The characteristics could have potential positive effects when compared to single individuals. For instance, individuals who enter long-term committed relationships can be said to be more cooperative with other individuals. They can also be more committed to a person or a place and this is perceived as a more reliable worker, a greater asset to an employer. The employer knows that this employee is less likely to quit a job suddenly or stop showing up. To them, people in relationships are more reliable. Such a characteristic may be visible in my data through increased wages because of frequent raises or promotions. Therefore, the inclusion of singles is especially important.

Results

The results show a positive coefficient and t-statistic on the gay variable for both men and women (Table 1). This suggests that being gay has a positive effect on one's earnings when compared to similar partnered heterosexuals and that these

results are statistically significant. The effect of sexual orientation is greater in men than in women but both are considered statistically significant. We can conclude from this data that homosexual, partnered men earn more than heterosexual partnered men; and that homosexual, partnered women earn more than heterosexual partnered women, *ceteris paribus.*

When controlling for occupation, sexual orientation become a less significant factor in both sexes. It remains highly significant in men but only significant in women by the .01 standard. This means that within occupations, homosexuals fair less well compared to their co-workers. They maintain higher wages but by a smaller margin than when compared to the national picture. On the other hand, it also means that homosexuals enter into higher paid occupations in order to achieve these higher wages.

When looking at experience, we can see that it has a positive effect on earnings. Experience squared, on the other hand, has a negative effect. These results are expected because of the effect experience has on earnings. For just experience, a positive coefficient means that when one's years of experience go up, so do wages. This is the notion held by many and according to this data it is true. Experienced squared says in the beginning years of one's career, experience will go up until one reaches a certain point. At this point, a worker's education is out-dated and his or her experience is somewhat irrelevant in a changing world. Few employers find these characteristics as attributes and it may even become harder for the older workers to find jobs. For these reasons, wages will start to decline and experience squared shows this to be true.

Below experience on the table are the results for race and ethnicity. These results are all relative to the effect of being white. As we would expect, all races have a negative coefficient and t-statistic, and all are highly significant in both sexes. However, it is interesting to note that race is much more significant in men than in women. Blacks, Asians, Hispanics, and all other races that are non-white and non-Hispanic earn less than whites.

All variables under education are compared to the most common education level in America, the high school graduate. There are no surprises here: high school dropouts earn less than high school graduates and each subsequent level of education received beyond high school has a positive impact on earnings. Consistent with current findings, there exists a large earnings gap separating college graduates and all those without college degrees. The gap between an undergraduate degree and a graduate degree are not as drastic. For men, the effects of having more than a high school degree are not as great when compared to women, both with and without occupational controls. The large number of men, who until recently, dominated higher education, can explain this. Since more men possess higher degrees, the effect (or advantage) of having this degree is not as great when compared to members of the same sex.

Interpretation of Results

According to my study, there exists a positive effect for being gay in the labor force and this is seen through increased wages. There also exists a correlation between being gay and occupational choice. Homosexuals make career decisions that differ from heterosexuals and this in part can be attributed to their

sexual orientation. However, it must be said that sexuality acts as an endogenous variable, as established by earlier literature, and this is something that I cannot prove false.

My findings are in contrast to all the literature I have found in preparation for this study. When compared to Black, et al, they are close to opposites. He found that homosexual women earned more than heterosexual women and homosexual men earned less than heterosexual men. I find this to be false, showing homosexual have the most significant positive effect. This can be attributed to a different data set and a different method for determining sexual orientation. My data are much larger than that used in previous studies due to this method and data source. A comparison of the numbers is as follows:

Relation to Policy

There is presently no federal law protecting homosexuals in the workforce. Members of the LGBT community can be fired or discriminated against for no reason. Only 13 states have a sexual orientation clause in their equal opportunity employment laws and many are very slow to follow. These findings could shed more light upon the inferior position of LGBT people in the workforce and help to correct the current situation. Laws prohibiting discrimination against LGBT people would not only help directly, but they could help indirectly by providing more tolerance in other sectors of the economy. If this tolerance spreads, gays and lesbians might feel more comfortable to venture off into new fields. This could prevent lesbians from clustering into higher paying occupations and spreading their skills in other sectors of the economy where they are greatly needed.

According to my research, homosexuals earn more than heterosexuals, which suggests that there is a premium for being gay. For whatever reason, gay people tend to earn more and this is possibly due to higher productivity. If this is the case, having gay people in the work environment is advantageous. The added marginal product that comes from being gay could help companies improve their bottom line and become more productive. So if there is a premium for being gay, it would make sense that companies would want to hire gay employees. Many of the fortune 500 companies have already instituted domestic partner benefits and claim acceptance of homosexual employees. However, gay men and women will not go into occupation where they do not feel comfortable. One way to make them feel more comfortable in these types of occupations is through increased employee education. Companies must take the initiative in providing information on anti-discrimination and gay issues. If employees are more aware of these issues, they will more likely become sympathetic to the gay cause. Through increased awareness and exposure, tolerance of homosexuals will increase.

Furthermore, recent literature suggests that perhaps homosexuals are not always more productive but inspire productivity in other workers[20]. This could happen by having a gay boss who people in enjoying working for because of certain personality traits or the way he or she treats the employees. A gay employer could provide a better, more tolerant atmosphere where people are not afraid to be who they are. A better working environment will foster happier employees and, generally speaking, people who enjoy their jobs are more productive.

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[20] Snyder, Kirk. The G Quotient. Jossey-Bass, 2006.

Suggestions for Future Study

Above all else, I advocate for the inclusion of single people in the data source. As I mentioned earlier, this was not feasible in my study because of lack of sufficient data and census methods. Nonetheless, I think this aspect is very important because of reasons I mentioned earlier. The best and easiest way to replicate my study would be to find data that asks a respondents sexual orientation. However, for this to be as accurate as possible, respondents must be willing to answer freely and honestly. Furthermore, there must be a common standard for homosexuality. Data surveyors must not use sexual behavior or how attracted respondents are to members of their same sex because these indicators do not provide for accurate data. This will only work if people are willing to answer questions about their sexual orientation freely and without any fear of exposure. And in order for this to work, societal attitudes towards homosexuality will have to change. In today's society, this is not the case. Or, if attitudes do not change, the method of polling must. Respondents must somehow know and trust that the data collectors cannot or will not expose them.

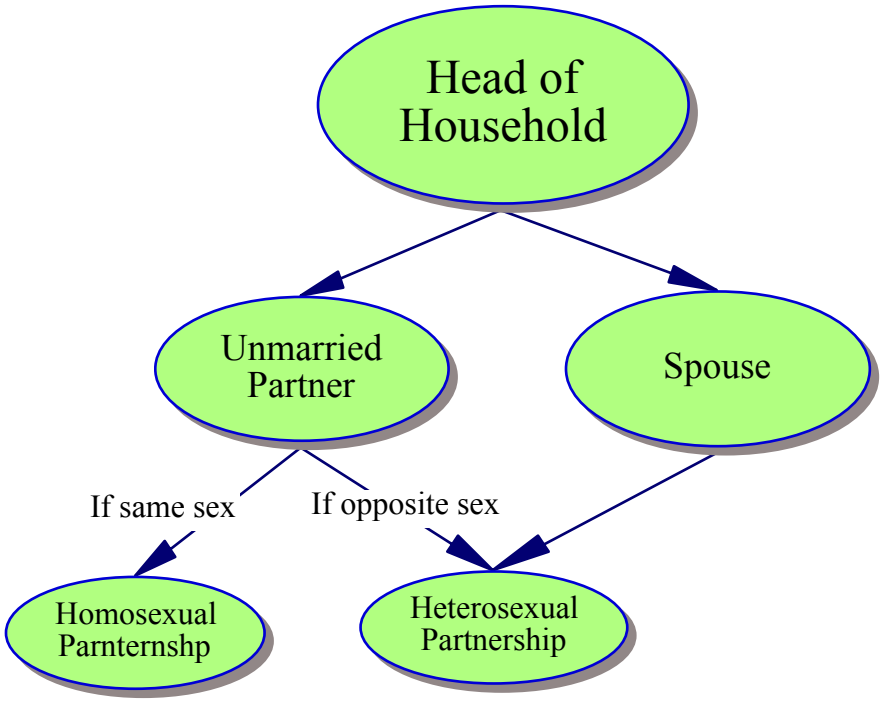
Furthermore, why do gay men earn more than straight men? I have proposed many theories in my work but it is interesting to look at the diminishing effect when controlling for occupation. When can deduce that lesbians enter into higher paying occupations, and therefore, the earnings are no longer statistically significant when controls are added; however, the same cannot be said for men.

I also suggest similar studies to be done of other fields, such as psychology. Why is it that homosexual men earn more than heterosexual men? This could possibly say something about the work ethic of homosexual men compared to others. It could be that many homosexual men are workaholics and feel like they have to prove

themselves in the office as compensation for feeling inadequate growing up. It can also be attributed to the need to feel accepted among his heterosexual co-workers. And why would gay men choose certain sectors of the economy, like an actor or hairdresser? From an economics point of view, it could be that gay men choose to develop these skills early on in life because of the stigma attached to it. From a sociologist point of view, gay men could be inherently more talented in these areas. My study alone cannot solve this riddle but it helps to shed more light on the situation. Whatever the case, this extra drive transforms into excellent employees who excel through diligent work, which leads to raises or promotions.

Appendix

Figure 1: Determination of Sexual Orientation



The graph above shows the method for determining sexual orientation. Under the question "What is your relationship to the reference person of the household?" a respondent has numerous options; however, only the responses "head of household", "unmarried partner," or "spouse" are telling to the sexual orientation. If a person responds "unmarried partner" one must then look at their sex and the sex of the head of household. If they are of the same sex, they are considered a homosexual partnership. Respondents who answer "spouse" are automatically in a heterosexual partnership due to absence of any legally recognized same-sex marriages in the years 1995 and 2000.

Table 1: Regression results of sexual orientation on logged 1995 and 2000 wages

	Eq. (1) Women	Eq. (1) Men	Eq. (2) Women	Eq. (2) Men
Homosexual Partner	.0088 (1.93)	.0131 (3.06)	.0047 (1.09)	.0112 (2.72)
Experience	.0455 (30.02)	.0524 (30.04)	.0410 (28.67)	.0491 (29.23)
Experience^2	-.0017 (-16.45)	-.0014 (-12.54)	-.0015 (-15.70)	-.0013 (11.90)
Experience^3	.0000 (10.01)	.0000 (4.84)	.0000 (9.55)	.0000 (4.24)
Experience^4	-1.65e-07 (-7.63)	-6.52e-08 (-2.71)	-1.47e-07 (-7.19)	-4.55e-08 (-1.97)
Race/ Ethnicity				
Black, non-Hispanic	-0.0302 (-6.58)	-.1759 (-32.79)	-.0178 (-4.10)	-.1428 (-27.57)
Asian, non-Hispanic	-0.0561 (-7.13)	-.1125 (-14.07)	-0.0394 (-5.29)	-.1063 (-13.79)
Other, non-Hispanic	-0.006 (-3.15)	-.0971 (-7.18)	-.0281 (-2.31)	-.0783 (-6.03)
Hispanic	-0.0692 (-12.90)	-.1634 (-31.59)	-.0460 (-9.08)	-.1287 (-25.79)
Education				
High School Drop-out	-.2505 (-45.27)	-.2350 (-45.19)	-.1636 (-30.52)	-.2030 (-40.27)
Some College	.1235 (31.95)	-.0934 (22.72)	.0717 (19.42)	.0640 (15.93)
Associates' Degree	.2461 (50.85)	.1651 (30.08)	.1533 (32.58)	.1162 (21.71)
College Graduate	.5105 (126.65)	.4375 (106.76)	.3779 (90.02)	.3078 (68.02)
Graduate Degree	.7351 (140.71)	.6015 (119.98)	.5812 (102.36)	.4567 (78.78)
Region New England	.0308 (5.30)	-0.0317 (-5.17)	.0221 (4.03)	-.0299 (-5.08)
South Atlantic	-.0120* (-2.50)	-0.0545 (-10.97)	-.0184 (-4.07)	-.0556 (-11.63)
Pacific	.0847 (15.48)	.0293 (5.32)	.0815 (15.75)	.0362 (6.82)
Mountain	-.0787 (-14.22)	-.0984 (-17.73)	-.0712 (-13.60)	-.0862 (-16.14)
East South Central	-.1106 (-15.80)	-.1219 (-16.64)	-.1077 (-16.29)	-.1195 (-16.97)
West South Central	-.0844 (-14.32)	-.0966 (-16.14)	-.0907 (-16.29)	-.0983 (-17.09)
Mid-Atlantic	.0680 (13.40)	.0287 (5.53)	.0612 (12.77)	.0358 (7.16)
West North Central	-.0935 (-16.85)	-.1303 (-22.31)	-.0904 (-17.24)	-.1177 (-20.95)
Occupational Fixed Effects?	N	N	Y	Y
Adj. R squared	0.3037	0.2977	0.3795	0.3513
N	118751	118744	118751	118744

Note: The marginal effect of each worker characteristic is reported, and the t-statistics (standard errors) are shown below each coefficient. The fixed effects are for worker occupations. Drop variables due to colinearity are: White non-Hispanic, High School graduate, and East North Central region.

Table 2: Descriptive Statistics for Regression Variables

Variable	**Mean**	**Number in Sample**	**Percent of Sample**
Gay Partner	.1238	48,069	10.98
High School Drop Out	.1074	69,1321	15.79
Some College	.1878	79,914	18.25
Associate's Degree	.0835	34,303	7.83
College Graduate	.1958	71,652	16.36
Graduate Degree	.1074	36,948	8.44
White, non-Hispanic	N/A	343,956	78.54
Black, non-Hispanic	.0789	38,904	8.88
Asian/Pacific, non-Hispanic	.0340	13,714	3.13
Hispanic	.0966	36,268	8.28
Other, non-Hispanic	.0110	5,105	1.17
New England	.0795	35,745	8.16
Mid-Atlantic	.1379	62,281	14.22
East North Central	N/A	65,264	14.90
West North Central	.0922	40,453	9.24
South Atlantic	.1658	75,000	17.13
East South Central	.0484	22,415	5.12
West South Central	.0868	37,908	8.66
Mountain	.1102	46,718	10.67
Pacific	.1214	52,163	11.91

Table 3: Comparative Results of Alternative Data Sets

	CPS		**GSS**	
Gender	Women	Men	Women	Men
N	118744	118751	53	77
Percent of all in Gender	10%	12%	2.4%	2.9%

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