

# Can Entrepreneurship Reduce the Racial Wealth Gap?

By Gary Cunningham

Every year, more people are talking about the racial and ethnic economic inequalities that have created a racial wealth gap in this country. Equity *talk* is fashionable, but equity *solutions* are not. Our challenge is to help people shift from talking about the problems to creating practical solutions that close the gap.

To advance discussions about practical solutions, we raise the question:

Can entrepreneurship reduce the racial wealth gap?

To answer that question, we must first understand the status of today's equity talk and solutions.

## *Equity Talk*

Amongst policymakers, community advocates, and in today's media—from newspaper opinion pieces to online blogs—equity talk has catapulted in its popularity. Why has such talk shifted from a taboo topic to an acceptable, even savvy one? Across the political spectrum, people increasingly feel that it's foolish to ignore the impact of growing racial demographic changes.

In years past, many found it easy to ignore the rights and needs of people of color so long as those people were in true minorities, composing, say, 10% or less of the total population. Out of sight, out of mind. Yet today, choosing such ignorance seems increasingly ill-advised as people of color are fast becoming the majority populations in many of our nation's cities and regions.

When the majority population lacks the funds to participate fully in our capitalist society, when they are unable to buy middle class goods and services, the engines of our economy stay in lower gears and are in danger of stalling out. Hence, the lack of prosperity of people of color drags down our whole society and seriously shortchanges our economic competitiveness.

It's no wonder then that equity has become a popular buzzword. Now it feels smart to acknowledge the racial wealth gap.

But rather than work as architects of solutions, we have become eloquent, entrenched admirers of the problem. It's as though we think that if we just keep talking about it, something will give way and change.

Too many of us lock ourselves into "I win, you lose" stalemates in which, if one identity group is to do better, another identity group has to do less well. Though it's worse than pointless, some of us still get sucked into playing the blame game. We blame others for their racially grounded shortcomings, but then cut ourselves too much slack for our own. Sadly, our true empathy is often tightly and racially bound. If others don't look and talk like us, we too often treat them as unworthy, outsiders of the circle of our human concern.

## *Equity Solutions*

Just talking about the racial wealth gap really doesn't get us where we need to go. Nor does framing these issues as win/lose propositions enable us to maintain our competitive edge. We need to ensure that our country's systems for creating wealth and opportunity work equally well for everyone. The worse these systems work for people of color, the more likely it is that the capitalistic engines driving our nation's economy will sputter.

Around dinner tables, in community meetings, and during policy discussions, too often silence ensues when the conversation shifts to creating practical solutions that address racial economic disparities. From these varied conversations, no consensus as to our next steps is arising. In fact, some people are fighting against change with everything they've got, even when they suspect that the inequitable path we are on is unsustainable.

This silence surrounding solutions is baffling, especially when our path forward is becoming increasingly clear and well-documented. What is that path? It runs on two levels. To help people of color gain sustainable prosperity, we should ensure their success in 1) becoming entrepreneurs or 2) securing better jobs and careers.

Excluding those who are born into wealth and those who get rich from their investments or the lottery, there are those two main routes people can take to legitimately improve their economic lot in life. They can choose either to become entrepreneurs or to advance in the labor market.

So, to close the racial economic opportunity gap, as a society we need to increase successful business ownership and employment opportunity for everyone, making sure to keep a steady focus on people of color.

From much experience and research, we have learned that, by itself, income earned on the job is not enough to build wealth or address the racial wealth gap. To build wealth, people must first increase their assets and reduce their debt.

It's time to focus on entrepreneurs of color. Let's first take up the pros and cons of supporting them.

On the positive side, numerous studies have shown that entrepreneurship (business ownership or self-employment) creates higher levels of asset creation and upward mobility than working for someone else. When compared to white-owned businesses, it is well-documented that businesses owned by people of color hire people of color at significantly greater rates. It follows that focusing policies and resources to help entrepreneurs of color succeed will have the added benefit of significantly impacting the racial employment gap. In addition, supporting the success of new businesses is a proven way to increase the tax base, which helps all communities grow and thrive.

On the down side, it is clear that not everyone has what it takes to become a successful entrepreneur. Business ownership does entail a high level of risk; people's rate of failure is high compared to if they were working in the labor market. That risk level is what makes additional support so crucial.

Have we learned what entrepreneurs of color need to succeed? Yes, in many ways we have. Two of the most crucial ingredients in their success are adequate education and resources for asset creation.

*Education.* Not surprisingly, education is a key ingredient in successful business development. The ability of people of color to access adequate education is an important determinant in their success. With the exception of specific Asian subpopulations, people of color in general have less education than whites. These educational disparities are particularly acute in African American populations.

Even as we are keenly aware that these educational disadvantages continue, we have spotted encouraging trends. Between 1976 and 2008, the number of African Americans earning bachelor degrees in business increased 316%; the number of African American earning MBAs in the same period increased by 1,399% from 1,549 to 23,220. These trends could portend a tipping point for the success of African Americans entering into business creation.

*Asset creation.* The institutions that govern asset creation have unfortunately been stacked against people of color. Such hurdles hamper the trajectories of economic success for people of color, making it more challenging for them to be successful entrepreneurs.

Insufficient asset creation is one of the main reasons that so many entrepreneurs of color fail to thrive. The difference in assets between whites and African Americans is staggering. According to The Center for Global Solutions, in 2013, whites had a median net worth of over 15 times that of African Americans (\$111,740 versus \$8,113). It is no wonder African Americans use their credit cards and other forms of unsecured high-interest-rate debt to start their businesses.

Do we have evidence that the entrepreneurs of color are positively impacting the racial wealth gap? Yes, we certainly do. Even while they are disadvantaged by existing systems, structures and biases, people of color who independently own businesses are making a big difference.

In a groundbreaking study<sup>1</sup>, William Bradford successfully makes the case that it is a fact, not a myth, that black entrepreneurs reduce the wealth gap. Bradford thoroughly studied income data on family wealth between 1999 through 2009; his analysis shows that black entrepreneurship significantly reduces wealth disparities between black and white families in the United States. He also found that the upward wealth mobility of black entrepreneurs is equivalent to that of white entrepreneurs. In fact, according to Bradford, black and white entrepreneurs (self-employed) have higher wealth levels and more upward mobility than do workers of either race.

Bradford's findings demonstrate that entrepreneurship effectively addresses the racial economic opportunity gap.

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<sup>1</sup> William D Bradford, Washington University. *The "Myth" That Black Entrepreneurs Can Reduce the Gap in Wealth between Black and White Families*, Economic Development Quarterly, vol. 28 no. 3 254-269, August 2014.

*Where do we go from here?*

We need to move beyond talk and take the actions needed to address our nation's racial economic inequalities. Regardless of whether you're Democrat or Republican, whether you live inside the urban core, or in a suburban or rural community, our futures are all increasingly intertwined.

Who would disagree that entrepreneurs, regardless of their color, are crucial for our economy's success? By helping entrepreneurs of color prosper through increasing their access to capital and providing them with technical assistance and training, we can reduce the racial wealth gap in this country. Furthermore, by making investments to identify and strengthen entrepreneurs of color, we can bank on the principles of the market system to create better outcomes for us all.

When we help businesses grow, all our communities can thrive.