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THE COLOR OF ENTREPRENEURSHIP

Why the Racial Gap among Firms Costs the U.S. Billions

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Businesses owned by people of color are playing an important part in restoring the health of the American economy after the Great Recession (December 2007 through June 2009). Between 2007 and 2012, privately held minority businesses contributed 1.3 million jobs to the American economy. In a more inclusive society, one where there was truly equal opportunity for all, there would be more minority-owned businesses contributing even more to America's recovery.

Although the number of minority-owned businesses is increasing dramatically, America is currently forgoing an estimated 1.1 million businesses owned by people of color because of past and present discrimination in American society. These missing businesses could produce an estimated 9 million more jobs and boost our national income by \$300 billion. Thus, expanding entrepreneurship among people of color is an essential strategy for moving the country toward full employment for all.

This report documents the changes in the economic status of businesses owned by people of color between 2007 and 2012. Although most privately held businesses do not have employees, this analysis focuses mainly on the businesses that do have paid employees because of their greater economic impact. Data for the analysis was culled from the U.S. Census Bureau's *Survey of Business Owners* (SBO), which is conducted every five years. The two most recent surveys are from 2012 and 2007. In the SBO data, a racial, ethnic (Hispanic), or gender group is defined as owning a firm if it owns more than 50 percent of the equity, interest, or stock of the business. Hispanics can be of any race, and the *Survey of Business Owners* includes them within their racial group when the data is presented by gender (e.g., White Hispanic women's firms are in the racial category White women's firms). The analysis excludes publicly held firms—firms that are traded on a U.S. stock exchange—because those firms are not

classifiable by race, ethnicity, or gender.¹ Public firms are generally larger than private firms.

Key findings of this report are:

- ▶ Nearly all of the entrepreneur-of-color groups experienced significant growth in the number of their firms from 2007 to 2012. Asian American women-owned firms had the strongest numerical growth rate, 37.6 percent.
- ▶ African American men were the only group to have a decline in the number of their businesses in the period from 2007 through 2012.
- ▶ Six of the 10 groups of business owners analyzed experienced a decline in average sales from 2007 to 2012. Firms owned by Black women had the largest decline in average annual sales, 30 percent, followed by firms owned by American Indian women, 22.2 percent. The strongest growth in average sales was posted by firms owned by Latino men. The average sales of these firms grew 7.2 percent.
- ▶ In 2012, all of the firms owned by groups of male business owners had higher average sales than all of the firms owned by groups of female business owners. White men's firms had the highest average sales among the male firms, and Black men's firms had the lowest. Among the female firms, White women's firms had the highest average sales and Black women's firms had the lowest.
- ▶ The Great Recession delivered a significant blow to White male business owners in the construction industry. In 2007, White men owned 70.7 percent of all privately held construction firms. In 2012, with the bursting of the housing bubble, the number of construction firms owned by White men had declined by 61,000 (11.4 percent) and the number of employees in these

FIGURE A.

Share of Firms with and without Employees by Race or Hispanic Ethnicity and Gender, 2012



Note: Race data includes Hispanics. Hispanics can be of any race.
Source: Author's analysis of data from the U.S. Census Bureau (2012), *Survey of Business Owners*.

firms had declined by one million (21.4 percent).

- ▶ Looking only at the groups with businesses that added jobs between 2007 and 2012, non-White business owners added 72.3 percent of the total.
- ▶ If the number of people-of-color firms were proportional to their distribution in the labor force, people of color would own 1.1 million more businesses with employees. These firms would add about 9 million jobs and about \$300 billion in workers' income to the U.S. economy.

This report makes several recommendations for increasing successful entrepreneurship in communities of color. Key recommendations include (1) asking policymakers to provide a tax credit to promote venture capital investments in minority businesses, (2) encouraging entrepreneurs of color to find mentorships and training in the SCORE association and similar organizations, and (3) asking policymakers to add entrepreneurship as a part of career and technical education for high school students and to include age-appropriate

entrepreneurial skill-building in K-12 education.

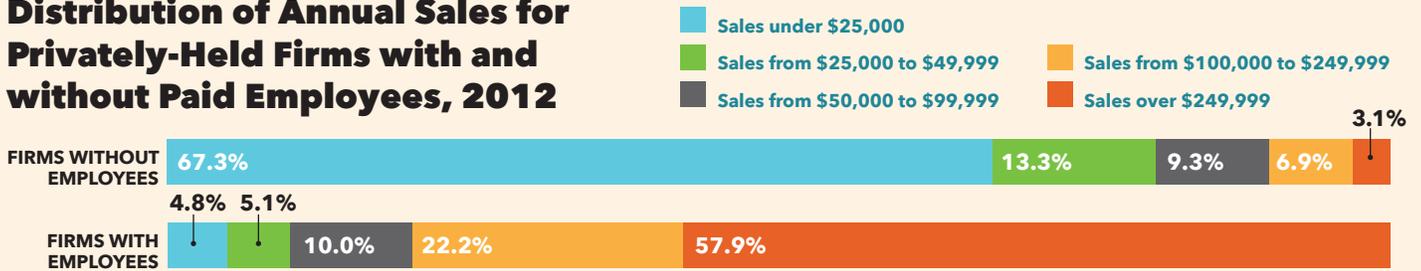
COMPARING FIRMS WITH AND WITHOUT PAID EMPLOYEES

In 2012, among the privately held firms identifiable by race or Hispanic ethnicity and gender, the share of firms without employees was much greater than the share with employees. For Asian American men, for example, 71.5 percent of all firms were without employees (Figure A). Among these groups, this was the lowest share of firms without employees. African American women had the highest share of firms without employees: 97.5 percent.

Businesses with paid employees have a much greater economic impact than those without employees. The annual sales of businesses without employees are on average only a fraction of the sales of businesses with employees. While there are some firms without employees that are very successful financially, the majority are not. Figure B shows that 67.3 percent of firms without employees

FIGURE B.

Distribution of Annual Sales for Privately-Held Firms with and without Paid Employees, 2012



Note: This analysis is restricted to firms classifiable by gender, race, ethnicity, and veteran status.
Source: Author's analysis of data from the U.S. Census Bureau (2012), *Survey of Business Owners*.

had annual sales of less than \$25,000. Any profits these firms made—if they did make profits—would only be a fraction of the total sales. This means that many firms without employees do not make enough to keep their owners and their owners’ families out of poverty if the firm is the owner’s sole source of income. On the other hand, a majority (57.9 percent) of businesses with paid employees had annual sales of more than \$249,999. It is more likely that these firms are earning profits for their owners. These firms also provide an income to the employees of the firm.

The most visible businesses are those with employees since these businesses are most likely to set up a public office. But, if one looks only at these establishments, one can underestimate the interest in entrepreneurship in different communities. Table 1 shows the distribution of minority groups in the labor force relative to the size of the White population in the labor force and compares it to parallel distributions among business owners without and with paid employees.

Relative to White female businesses, women of color generally are *overrepresented* among business owners without employees (Table 1). For example, in 2012, the number of Latinas in the labor force was

19.2 percent of the number of White women in the labor force, but the number of Hispanic women’s businesses without employees was 22.3 percent of the number of White women’s businesses without employees—3.1 percentage points higher. These findings suggest that there is a relatively strong interest in entrepreneurship among women of color. Yet, this interest might be hard to see because these businesses do not have employees.

Among female business owners *with paid employees*, women of color are *underrepresented* except in the case of Asian American women. For example, African American women were equal to 18 percent of the number of White women in the labor force in 2012, but among businesses with paid employees, the number of Black women-owned firms was only 4.5 percent of the number of firms owned by White women. Using the more visible businesses-with-employees standard, one might underestimate Black women’s interest in entrepreneurship.

Relative to White male business owners *without employees*, Latino men and African American men are underrepresented, but American Indian men and Asian American men are not. Asian American men

in the labor force were equal to 7.1 percent of the White male labor force in 2012, but their firms were 7.6 percent of the number of White male businesses without employees.

As compared to White male business owners *with employees*, only Asian American men’s businesses are not underrepresented. American Indian men in the labor force were 0.9 percent of the White male labor force in 2012, but American Indian men’s businesses with employees were 0.6 percent of the number of White male businesses with employees.

Asian American women and men are overrepresented among business owners with and without employees relative to their White peers. For these women and men, Table 1 shows that the overrepresentation was greater among the business owners with employees. It is important to keep in mind that the Asian American population is fairly diverse, however. This overall summary picture may hide disadvantages for specific Asian American subgroups.

Numerous economic and social factors play a role in whether a person decides to become an entrepreneur. For example, research shows that individuals who are wealthier, better-educated, and foreign-born are more likely to start a business.² Also, individuals who cannot find a decent job or who feel that they are not being treated well in the

labor market may feel pushed into starting their own businesses.³ The overall overrepresentation of Asian Americans as business owners is due to economic and social factors such as these.

For all of the entrepreneur-of-color groups except Asian Americans, the underrepresentation is greatest among businesses with paid employees, typically the most visible and most financially successful of businesses. Given that there are far more people of color who own businesses without

TABLE 1.

Distribution of Race or Hispanic Ethnicity and Gender Groups in the Labor Force and among Business Owners with and without Paid Employees Relative to the Size of the White Population, 2012

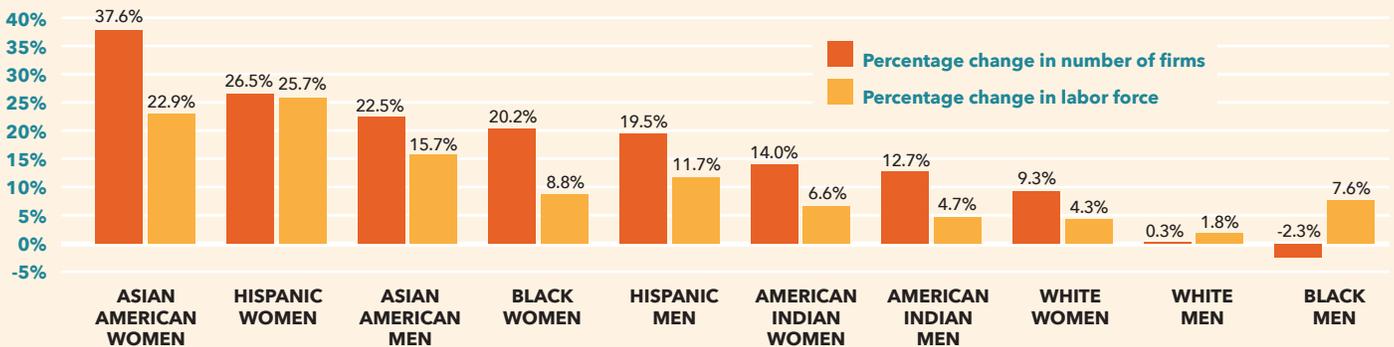
Ratio to White Female Population	Number in the labor force	Number without paid employees	Number with paid employees
WHITE WOMEN	100.0%	100.0%	100.0%
BLACK WOMEN	18.0%	23.5%	4.5%
AMERICAN INDIAN WOMEN	1.0%	2.0%	0.9%
ASIAN AMERICAN WOMEN	7.6%	9.9%	14.8%
HISPANIC WOMEN	19.2%	22.3%	7.8%

Ratio to White Male Population	Number in the labor force	Number without paid employees	Number with paid employees
WHITE MEN	100.0%	100.0%	100.0%
BLACK MEN	13.4%	10.2%	2.1%
AMERICAN INDIAN MEN	0.9%	1.3%	0.6%
ASIAN AMERICAN MEN	7.1%	7.6%	9.7%
HISPANIC MEN	21.8%	16.2%	6.4%

Note: Race data includes Hispanics. Hispanics can be of any race. The labor force population is restricted to 25- to 64-year-olds. Source: Author’s analysis of data from the U.S. Census Bureau (2012), *Survey of Business Owners*, and the U.S. Census Bureau (2012), *American Community Survey*, from IPUMS-USA, University of Minnesota, www.ipums.org.

FIGURE C.

Percentage Change in the Number of Firms and in the Labor Force by Race or Hispanic Ethnicity and Gender, 2007 to 2012



Note: Race data includes Hispanics. Hispanics can be of any race. The labor force is restricted to 25- to 64-year olds.
Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners* and the U.S. Census Bureau (2007 & 2012), *American Community Survey*, obtained from IPUMS-USA, University of Minnesota, www.ipums.org.

employees than businesses with employees, it seems clear that there are many more people of color who would be interested in owning a more financially successful business with employees than there are today. If the United States were to create the economic and social conditions to enable these individuals to grow their businesses, then the entire society could benefit from more jobs, less poverty, and greater economic output.

Because of the more significant economic impact of firms with paid employees, the rest of this report will focus on these firms.

GROWTH IN THE NUMBER OF FIRMS WITH PAID EMPLOYEES, 2007 TO 2012

In general, there was significant growth in the number of minority-owned firms with employees from 2007

to 2012 (Figure C). Firms owned by Asian American women had the strongest numerical growth rate at 37.6 percent.⁴ But this growth rate should be considered relative to the robust growth of the Asian American female labor force. During this same period, there were 22.9 percent more Asian American women working or seeking work. Thus, it is not surprising that there was also strong growth in the number of business owners who were Asian American women. But even after taking the growth of the Asian American female labor force into consideration, Asian American women had the strongest growth in the number of business owners. In particular, the number of Asian American women's firms in the health care and social assistance industry and the accommodation and food services industry increased strongly, by 49 percent and 37 percent, respectively.⁵

Although this analysis does not consider the diversity among Asian Americans, it is likely that there is significant variation among subgroups of

Asian Americans in business ownership growth rates. Overall, the high rate of Asian American business ownership is attributable to their relatively high levels of wealth and education, and the high proportion of immigrants in their population. On all of these factors, Asian Americans can be distinguished from other people of color. These issues will be discussed further in the “Factors Influencing Minority Business Success” section.

The number of firms owned by African American women also increased strongly when viewed in relation to the growth in their number in the labor force. The Black female labor force grew by 8.8 percent between 2007 and 2012, but the number of firms owned by Black females increased by 20.2 percent. Black women’s firms’ growth was driven primarily by a large increase (44.1 percent) in the number of these firms in the health care and social assistance industry.⁶

At the other end of the spectrum, the number of firms owned by African American men that had paid employees declined 2.3 percent from 2007 to 2012. When one considers that the African American male labor force actually grew 7.6 percent, this should be seen as a greater decline than that conveyed by the absolute numbers. The number of retail trade and construction firms owned by Black men declined by 26.4 percent and 23 percent, respectively, over the period and overwhelmed the 22.6 percent growth in firms in the health care and social assistance industry

that were owned by Black men.⁷

Although the number of firms owned by White men did not experience an absolute decline, its growth of 0.3 percent was less than the 1.8 percent growth of White men in the labor force. Viewed in relation to the labor force increase, the very low growth of firms owned by White men should be considered a decline. The number of White men’s firms in the construction industry declined by 61,000 (11.4 percent), which cancelled out much of the growth in other industries.⁸

In absolute numbers, White women-owned businesses with employees increased the most (Table 2). These firms increased by nearly 73,000 from 2007 to 2012 and had their strongest numerical

TABLE 2.

Change in the Number of Business Owners with Paid Employees by Race or Hispanic Ethnicity and Gender, 2007 to 2012

	2007	2012	Change from 2007 to 2012	Percentage change
ASIAN AMERICAN WOMEN	91,775	126,328	34,553	37.6%
HISPANIC WOMEN	53,044	67,079	14,035	26.5%
ASIAN AMERICAN MEN	231,465	283,538	52,073	22.5%
BLACK WOMEN	32,109	38,609	6,500	20.2%
HISPANIC MEN	157,448	188,130	30,682	19.5%
AMERICAN INDIAN WOMEN	6,809	7,759	950	14.0%
AMERICAN INDIAN MEN	15,575	17,557	1,982	12.7%
WHITE WOMEN	782,691	855,200	72,509	9.3%
WHITE MEN	2,924,724	2,933,198	8,474	0.3%
BLACK MEN	61,879	60,439	-1,440	-2.3%

Note: Race data includes Hispanics. Hispanics can be of any race. The labor force population is restricted to 25- to 64-year-olds. Source: Author’s analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*, and the U.S. Census Bureau (2007 & 2012), *American Community Survey*, made available by IPUMS-USA, University of Minnesota, www.ipums.org.

growth in the health care and social assistance (28,000) and professional, scientific, and technical services (17,000) industries. Firms owned by Asian American men had the second largest increase in number—52,000—over the period. There were substantial increases in the number of firms owned by Asian American men in the accommodation and food services and retail trade industries (15,000 and 12,000, respectively).⁹

All of the female-owned firms had their biggest numerical gains by industry in the health care and social assistance industry.¹⁰ Black men's firms were the only male-owned firms whose strongest growth by industry was in health care and social assistance. All of the other groups of male-owned firms, except for American Indians, had their strongest numerical growth in the accommodation and food services industry. Businesses owned by American Indian men had their strongest numerical growth in the administrative and support and waste management and remediation services industry.¹¹

AVERAGE ANNUAL SALES OF FIRMS WITH PAID EMPLOYEES, 2007 TO 2012

Six of the 10 business-owner groups analyzed experienced a decline in average annual sales from 2007 to 2012 (Figure D and Table 3). African American women-owned firms had the largest decline in average annual sales, falling from \$795,000 to \$557,000—a drop of 30 percent. Businesses owned by Black women had their highest average annual sales in the wholesale industry, and these sales plummeted by 90.3 percent, falling from \$22.2 million in 2007 (in 2012 dollars) to \$2.1 million in 2012. But the 2007 average annual sales amount recorded by Black women's wholesale firms was an outlier; therefore, it should not be surprising that

it was not sustained. For comparison, in 2007, the average annual sales amount of White women's wholesale firms was 7.4 million. For Latinas, this amount was 3.4 million.¹²

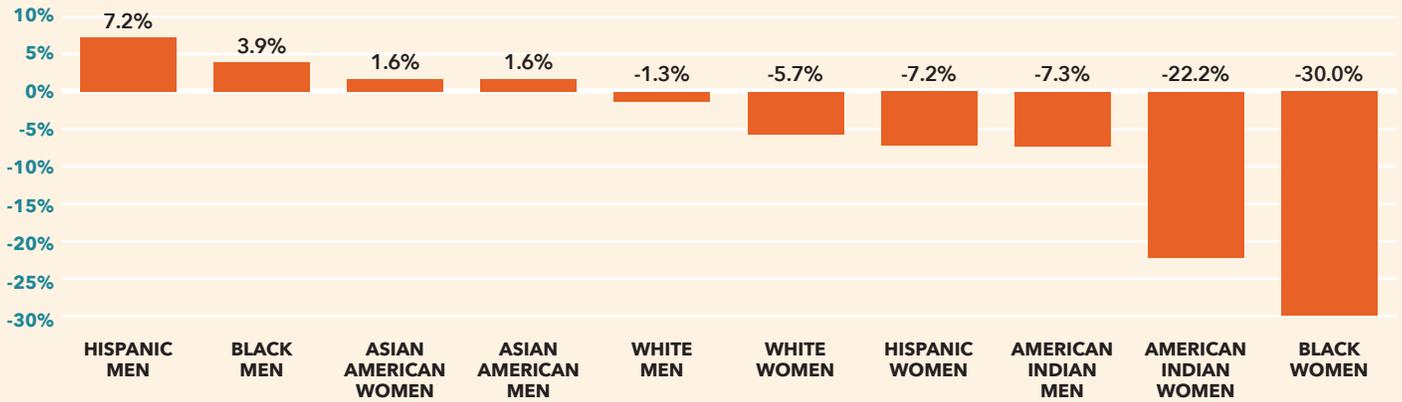
With a gain of more than 5,000 additional firms, there was strong growth (44.1 percent) in the number of Black women-owned firms in the health care and social assistance industry; but, these firms had relatively low average sales. In 2012, Black women's health care and social assistance firms had average annual sales of \$407,000 or, stated differently, sales that were \$150,000 below the overall average annual sales of Black women's businesses.¹³ The reduction in the average sales of Black women's high-sales firms and the growth in the number of relatively low-sales firms drove the overall average sales for Black women's firms sharply downward.

Firms owned by American Indian women also had a substantial drop (22.2 percent) in average annual sales. In 2012, average sales of businesses owned by American Indian women were about \$867,000, down from more than \$1.1 million in 2007. Similar to Black women's businesses, firms owned by American Indian women experienced declines in average annual sales in industries with high average sales and growth in industries with relatively low average sales.

The average sales of American Indian women-owned firms in the wholesale trade industry declined 33.7 percent from about \$3.9 million to \$2.6 million. The numerical growth in businesses owned by American Indian women was largely in industries with average sales below the overall American Indian female average. For example, the biggest numerical growth of American Indian women's firms was in the health care and social assistance industry, which had average sales of nearly \$483,000 in 2012. Yet this amount was almost \$400,000 below the overall American Indian female average.¹⁴ These trends

FIGURE D.

Percentage Change in Average Annual Sales for Firms with Paid Employees by Race or Hispanic Ethnicity and Gender, 2007 to 2012



Note: Race data includes Hispanics. Hispanics can be of any race.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*.

pushed down the value of the overall average sales for American Indian women-owned firms.

The strongest growth in average annual sales was posted by firms owned by Hispanic men. The average sales of these businesses grew 7.2 percent from about \$1.5 million in 2007 to about \$1.6 million in 2012. Wholesale trade and retail trade firms helped to push up the average sales of Hispanic men's businesses. In 2012, wholesale firms owned by Hispanic men had average sales of about \$6.5 million, and their retail firms had average sales of about \$3.4 million. The number of Hispanic men's firms in wholesale trade increased by about 3,000 (36.2 percent) and the number in retail increased by about 4,000

TABLE 3.

Average Annual Sales for Firms with Paid Employees by Race or Hispanic Ethnicity and Gender, 2007 and 2012

	Average sales, 2007 (2012\$)	Average sales, 2012	Percentage change
HISPANIC MEN	\$1,480,831	\$1,587,031	7.2%
BLACK MEN	\$1,205,508	\$1,252,173	3.9%
ASIAN AMERICAN WOMEN	\$879,940	\$894,033	1.6%
ASIAN AMERICAN MEN	\$1,505,324	\$1,529,267	1.6%
WHITE MEN	\$2,838,555	\$2,802,747	-1.3%
WHITE WOMEN	\$1,293,596	\$1,219,301	-5.7%
HISPANIC WOMEN	\$825,761	\$765,958	-7.2%
AMERICAN INDIAN MEN	\$1,406,473	\$1,304,403	-7.3%
AMERICAN INDIAN WOMEN	\$1,114,447	\$867,275	-22.2%
BLACK WOMEN	\$795,470	\$557,074	-30.0%

Note: Race data includes Hispanics. Hispanics can be of any race.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*.

(23.3 percent).¹⁵ The growth in these relatively high-average-sales firms lifted up the overall average sales of businesses owned by Hispanic men.

Businesses owned by African American men had the second highest growth rate in average annual sales. These businesses increased their overall average sales by 3.9 percent, rising from \$1.2 million to \$1.3 million in overall average sales. Although there was a decline in the number of firms owned by Black men in wholesale trade and manufacturing, the average sales of these firms increased. The average sales of firms in wholesale trade owned by Black men rose from \$4.7 million up to \$6.2 million. In manufacturing, the average sales of Black men's firms rose from \$4.5 million to \$8.1 million. The large increases in the average sales in these industries helped to lift the overall average sales of firms owned by Black men.

By lining up all of the groups of firms by the value of average annual sales, one sees that all of the male-owned firms had higher average annual sales in 2012 than all of the female-owned firms. Firms owned by White men have the highest average annual sales (\$2.8 million) among the male-owned firms and firms owned by Black men have the lowest (\$1.3 million). Among the firms owned by women, White female firms have the highest average sales (\$1.2 million) and Black female firms have the lowest (\$557,000). In 2007, however, firms owned by White women had higher average sales than those owned by Black men.

TABLE 4.

Average Annual Pay per Employee for Firms with Employees by Race or Hispanic Ethnicity and Gender, 2007 to 2012

	2007 (2012\$)	2012	Percentage change
BLACK MEN	\$31,694	\$32,061	1.2%
WHITE WOMEN	\$32,013	\$31,943	-0.2%
WHITE MEN	\$41,113	\$40,573	-1.3%
HISPANIC WOMEN	\$28,348	\$27,938	-1.4%
ASIAN AMERICAN MEN	\$34,128	\$33,497	-1.8%
BLACK WOMEN	\$25,171	\$24,303	-3.5%
ASIAN AMERICAN WOMEN	\$29,354	\$28,122	-4.2%
HISPANIC MEN	\$34,036	\$32,144	-5.6%
AMERICAN INDIAN MEN	\$37,534	\$35,349	-5.8%
AMERICAN INDIAN WOMEN	\$32,167	\$30,224	-6.0%

Note: Race data includes Hispanics. Hispanics can be of any race.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*.

AVERAGE ANNUAL PAY PER EMPLOYEE, 2007 AND 2012

Employer firms owned by 9 of the 10 groups experienced declines in average pay per employee from 2007 to 2012 (Table 4). Businesses owned by Black men were the only ones to have an increase in the average pay; pay increased 1.2 percent in these businesses. Firms owned by American Indian women had the largest decline in average pay with a drop of 6.0 percent.

Similar to the pattern in average annual sales, the average pay at male-owned firms was higher than the average pay at female-owned firms in 2012. Additionally, firms owned by White men had the highest pay of male-owned firms and firms owned

TABLE 5.

Change in the Number of Paid Employees by Race or Hispanic Ethnicity and Gender, 2007 to 2012

Firms Adding Jobs	Number of paid employees, 2007	Number of paid employees, 2012	Change in number of employees 2007 to 2012	Percent Change in number of employees
ASIAN AMERICAN MEN	1,742,269	2,261,502	519,233	29.8%
WHITE WOMEN	6,682,695	7,195,764	513,069	7.7%
OTHER NON-WHITE MEN	297,075	668,358	371,283	125.0%
ASIAN AMERICAN WOMEN	561,031	804,276	243,245	43.4%
OTHER NON-WHITE WOMEN	54,836	155,120	100,284	182.9%
BLACK WOMEN	245,474	316,977	71,503	29.1%
AMERICAN INDIAN MEN	124,511	144,859	20,348	16.3%
BLACK MEN	552,611	563,338	10,727	1.9%
AMERICAN INDIAN WOMEN	52,432	55,011	2,579	4.9%
ASIAN AMERICAN EQUALLY MALE/FEMALE-OWNED	504,471	506,798	2,327	0.5%

TOTAL EMPLOYEES ADDED: 1,854,598

TOTAL EMPLOYEES ADDED BY NON-WHITE BUSINESS OWNERS: 1,341,529

PERCENT OF TOTAL EMPLOYEES ADDED BY NON-WHITE BUSINESS OWNERS: 72.3%

Hispanic Firms Adding Jobs	Number of paid employees, 2007	Number of paid employees, 2012	Change in number of employees 2007 to 2012	Percent Change in number of employees
HISPANIC MEN	1,281,259	1,622,404	341,145	26.6%
HISPANIC WOMEN	363,430	470,726	107,296	29.5%
EQUALLY HISPANIC/NON-HISPANIC WOMEN	14,102	19,240	5,138	36.4%

Firms Losing Jobs	Number of paid employees, 2007	Number of paid employees, 2012	Change in number of employees 2007 to 2012	Percent Change in number of employees
WHITE EQUALLY MALE/FEMALE-OWNED	7,226,387	5,621,341	-1,605,046	-22.2%
WHITE MEN	38,609,119	37,750,711	-858,408	-2.2%
BLACK EQUALLY MALE/FEMALE-OWNED	111,467	94,738	-16,729	-15.0%
OTHER NON-WHITE EQUALLY MALE/FEMALE-OWNED	465,972	449,774	-16,198	-3.5%

TOTAL EMPLOYEES LOST: -2,496,381

TOTAL EMPLOYEES LOST BY NON-WHITE BUSINESS OWNERS: -32,927

PERCENT OF TOTAL EMPLOYEES LOST BY NON-WHITE BUSINESS OWNERS: 1.3%

Hispanic Firms Losing Jobs	Number of paid employees, 2007	Number of paid employees, 2012	Change in number of employees 2007 to 2012	Percent Change in number of employees
HISPANIC EQUALLY MALE/FEMALE-OWNED	263,473	236,423	-27,050	-10.3%
EQUALLY HISPANIC/NON-HISPANIC EQUALLY MALE/FEMALE-OWNED	254,597	234,751	-19,846	-7.8%
EQUALLY HISPANIC/NON-HISPANIC MEN	109,062	106,262	-2,800	-2.6%

Note: Race data includes Hispanics. "Other" refers to Native Hawaiians and other Pacific Islanders, owners identifying "some other race," and the equally minority- and non-minority-owned firms.

American Indian equally male- and female-owned data was suppressed by the Census Bureau for 2012 and not included.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*.

by Black men had the lowest. Firms owned by White women had the highest pay among the female-owned firms and firms owned by Black women had the lowest.

JOB GROWTH IN FIRMS WITH PAID EMPLOYEES, 2007 TO 2012

Table 5 provides an accounting of the change in the number of jobs provided in 2012 as compared to 2007 by firms grouped by race or Hispanic ethnicity and gender. To measure the full impact of business owners who are people of color, Table 5 includes data for “other non-White” groups. These other groups include Native Hawaiians and other Pacific Islanders, the businesses equally owned by minorities and non-minorities, and those in the “some other race” category.¹⁶ Hispanics can be of any race, and the *Survey of Business Owners* includes them within their racial group when the data is presented by gender. There is a separate tabulation for the number of jobs added by business owners of Hispanic ethnicity, which includes Hispanics of all races.

Looking only at the groups of business owners that added jobs between 2007 and 2012, non-White business owners added 72.3 percent of the total (Figure E and Table 5). Firms owned by White women added the remainder of the job-creation total. These firms basically tied with those owned by Asian American men for adding the most jobs between 2007 and 2012. Each of these groups’ firms added about half a million jobs. Businesses owned equally by White men and White women lost the most jobs—1.6 million—over the period.

Excluding the “other non-White” race categories, firms owned by Asian American women had the fastest growth rate in jobs (43.4 percent); those owned by Asian American men had the second fastest growth rate (29.8 percent); and firms owned

by African American women came in a very close third (29.1 percent). Surprisingly, firms owned equally by Asian American men and women had the slowest growth rate (0.5 percent) in number of employees. Firms owned by Black men had the second slowest growth rate (1.9 percent). Among the firms categorized by Hispanic ethnicity, those owned equally by Hispanic and non-Hispanic women had the fastest growth rate (36.4 percent).

THE DISTRIBUTION OF FIRMS WITH PAID EMPLOYEES IN 2012 AND THE NUMBER OF “MISSING” MINORITY BUSINESSES

In 2012, businesses owned by White men made up nearly three fifths (57.1 percent) of all firms with employees while White men only made up two fifths (40.5 percent) of the labor force (Table 6). Among business owners with employees, all groups do worse than White men relative to their share of the labor force except for Asian American men. Asian American men owned businesses at nearly twice the rate that they were represented in the labor force (5.5 percent versus 2.9 percent respectively). Black women had a particularly low rate of business ownership. They owned less than one percent (0.8 percent) of all firms with employees while making up 6.3 percent of the labor force.

Asian American women are underrepresented relative to their share of the labor force. In 2012, they owned 2.5 percent of all firms with employees and they made up 2.7 percent of the labor force. However, their underrepresentation is not as severe as that of White women who owned 16.7 percent of firms and made up 35 percent of the labor force. In estimating the number of missing firms (below), Asian American women and all of the other women are compared to White women. In this comparison, Asian American women are overrepresented because they do better

FIGURE E.

Percentage of Total Employees Added by White and Non-White Firms among Groups Adding Jobs by Race or Hispanic Ethnicity and Gender 2007 to 2012

PERCENTAGE OF TOTAL EMPLOYEES ADDED	White firms 27.7%	Non-white firms 72.3%
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Note: See Table 5 for additional details.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*.

relative to White women. Relative to White men or Asian American men, Asian American women would be underrepresented as business owners.

Generally, employer firms owned by people of color are underrepresented relative to the proportion of people of color in the labor force. If the number of these people-of-color firms matched their distribution in the labor force relative to Whites by gender, people of color would own 1.1 million more businesses with employees (Table 7). These firms would add about 9 million jobs and nearly \$300 billion in workers' income to the U.S. economy.¹⁷ Thus, if the United States wants to achieve a full-employment economy and its many benefits,¹⁸ it needs to enact policies to increase the rate of successful entrepreneurship among people of color.

TABLE 6.

Number and Distribution of Business Owners with Paid Employees and Distribution of Labor Force by Race or Hispanic Ethnicity and Gender, 2012

	Number of firms	Percentage of all firms with paid employees	Labor force
WHITE MEN	2,933,198	57.1%	40.5%
WHITE WOMEN	855,200	16.7%	35.0%
ASIAN AMERICAN MEN	283,538	5.5%	2.9%
HISPANIC MEN	188,130	3.7%	8.8%
ASIAN AMERICAN WOMEN	126,328	2.5%	2.7%
HISPANIC WOMEN	67,079	1.3%	6.7%
BLACK MEN	60,439	1.2%	5.4%
BLACK WOMEN	38,609	0.8%	6.3%
AMERICAN INDIAN MEN	17,557	0.3%	0.4%
AMERICAN INDIAN WOMEN	7,759	0.2%	0.3%

Note: Race data includes Hispanics. The listed categories do not include all racial or ethnic and gender categories. The labor force population is restricted to 25- to 64-year-olds.

Source: Author's analysis of data from the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners*, and the U.S. Census Bureau (2007 & 2012), *American Community Survey*, made available by IPUMS-USA, University of Minnesota, www.ipums.org.

TABLE 7.

Estimated Number of Additional Firms, Additional Jobs, and Additional Worker's Income if the Number of People of Color Firms Were Proportional to White Female and White Male Firms, 2012

	Additional women's firms	Percentage increase		Additional men's firms	Percentage increase
Hispanic women	110,210	264%	Hispanic men	515,976	374%
Non-Hispanic Black women	125,803	339%	Non-Hispanic Black men	362,182	624%
Non-Hispanic Asian American women	0	0%	Non-Hispanic Asian American men	0	0%
Non-Hispanic American Indian women	473	7%	Non-Hispanic American Indian men	6,552	41%
Sum of additional female firms			Sum of additional male firms		
236,485			884,711		
Additional jobs from women's firms			Additional jobs from men's firms		
1,627,775			7,434,685		
Additional worker's income from women's firms			Additional worker's income from men's firms		
\$45 billion			\$246 billion		

Total additional firms: 1,121,197
Total additional jobs: 9,062,460
Additional worker's income: \$291 billion

Note: See appendix for methodology.

PROFILES BY RACE OR HISPANIC ETHNICITY AND GENDER GROUP

WHITE MEN'S FIRMS: STILL DOMINANT

Firms owned by White men still dominate among privately held businesses with employees. In 2012, White men's firms made up 57.1 percent of all privately held firms, although White men made up only 40.5 percent of the labor force (Table 6). Firms owned by White men also had the highest average annual sales (Table 3) and the highest average annual pay (Table 4).

The Great Recession delivered a significant blow to White male business owners in the construction

industry. In 2007, White men owned 70.7 percent of all privately held construction firms. With the bursting of the housing bubble, the number of these firms declined by 61,000 (11.4 percent). Overall, firms owned by White men saw a decline of 1.3 percent in average sales between 2007 and 2012 (Figure D and Table 3). But, in White men's firms in the construction industry, average sales fell 16.5 percent and the number of jobs fell by one million (21.4 percent).¹⁹

WHITE WOMEN'S FIRMS: HALF A MILLION JOBS ADDED BETWEEN 2007 AND 2012

Although businesses owned by White women made up only 16.7 percent of all privately held firms with

employees in 2012, they were the second largest group by race or Hispanic ethnicity and gender (Table 6). They are the financially dominant group among women-owned firms. In 2012, firms owned by White women had the highest average sales (Table 3) and the highest average pay (Table 4) among women-owned firms.

The number of firms owned by White women grew solidly (9.3 percent) between 2007 and 2012 (Table 2). This group basically tied with firms owned by Asian American men for adding the most jobs—about a half a million for each group—over the period (Table 5). As a percentage, however, the rate of job growth among White women-owned firms was relatively modest.

White women-owned firms experienced an average annual sales decline of 5.7 percent over the period (Table 3). Utility firms owned by White women saw a 57.4 percent drop in average annual sales. This decline may be, in part, due to lower sales at newer firms since the number of utility firms owned by White women actually increased by 26.5 percent.²⁰

HISPANIC MEN'S FIRMS: GOOD SALES GROWTH, NUMERICAL GROWTH, AND JOB GROWTH

Businesses owned by Hispanic men led in average annual sales growth from 2007 to 2012 (Figure D). The average sales of these firms grew 7.2 percent, even as 6 of the 10 groups analyzed had declines in sales. Wholesale trade and retail trade firms helped to push up the average sales of businesses owned by Hispanic men.²¹ The number of Hispanic men's firms also grew strongly, 19.5 percent compared to a labor force growth of 11.7 percent (Figure C). Additionally, firms owned by Hispanic men added more than 300,000 employees, an increase of 26.6 percent (Table 5).

HISPANIC WOMEN'S FIRMS: FACING CHALLENGES

At first glance, it appears that firms owned by Hispanic women had the second strongest numerical growth from 2007 to 2012 (Figure C). But the 26.5 percent growth in the number of businesses owned by Hispanic women should be considered against the 25.7 percent growth in the number of Hispanic women in the labor force. Relative to their labor force growth, businesses owned by Hispanic women actually had one of the weakest growth rates. In average annual sales, these firms had a decline of 7.2 percent (Figure D). This decline was due, in part, to a 26.2 percent drop in average sales of Hispanic women's construction firms and a 13.5 percent decline in average sales of Hispanic women's retail trade firms.²²

BLACK MEN'S FIRMS: DECLINING NUMBERS, GROWTH IN SALES

The only group to experience an absolute decline (2.3 percent) in the number of its firms (Figure C) consisted of businesses owned by Black men. These firms had the second highest growth rate in average annual sales (Figure D), but this growth may have been the result of the loss of weaker firms with lower sales rather than a real increase in firms with higher sales. Most of the industries with sales above the overall average for Black men's firms had declines in the number of their firms.²³ A similar dynamic may also be the reason for the slight increase (1.2 percent) in the average annual pay for firms owned by Black men (Table 4). Weaker firms offering lower pay may have gone out of business.

BLACK WOMEN'S FIRMS: STRONG NUMERICAL GROWTH, LOW SALES

The number of businesses owned by Black women

increased strongly—20.2 percent—while the Black female labor force grew by 8.8 percent between 2007 and 2012 (Figure C). The rate of job growth for these firms was also strong—29.1 percent (Table 5). However, businesses owned by Black women had the largest decline in average sales, 30 percent (Figure D), driven in part by declining sales in the wholesale trade industry.²⁴ Of all the groups analyzed, firms owned by Black women have the lowest average sales (Table 3) and the lowest average pay (Table 4).

ASIAN AMERICAN MEN'S FIRMS: LOTS OF POSITIVES

While businesses owned by Asian American men are not the absolute best on any measure, they are fairly highly ranked on all. The numerical growth of these firms (22.5 percent) is good when considered against the growth of Asian American men in the labor force (15.7 percent) (Figure C). Firms owned by Asian American men were one of the four groups analyzed that experienced an increase in average annual sales, even if the increase was small (1.6 percent) (Figure D). In terms of the dollar amount of average annual sales, in 2012, firms owned by Asian American men ranked third, only a little behind firms owned by Hispanic men, the group in second place (Table 3). Businesses owned by Asian American men basically tied with firms owned by White women in the number of jobs created, but they ranked second (excluding the “other non-White” groups) in the growth rate of jobs (Table 5). They ranked third in average annual pay (Table 4).

ASIAN AMERICAN WOMEN'S FIRMS: STRONGEST NUMERICAL GROWTH AND STRONGEST JOB GROWTH

Firms owned by Asian American women had the strongest numerical growth rate at 37.6 percent,

even when one considers that the Asian American female labor force grew 22.9 percent (Figure C). These businesses also had the strongest growth rate in jobs—43.4 percent (excluding the “other non-White” groups) (Table 5). This growth rate translated into an increase of more than 200,000 jobs. Businesses owned by Asian American women also saw a slight increase (1.6 percent) in average annual sales (Figure D). In terms of the dollar amount of average annual sales, these firms were second among the women’s groups, behind firms owned by White women (Table 3).

AMERICAN INDIAN MEN'S FIRMS: GOOD NUMERICAL GROWTH, DECLINING PAY

Firms owned by American Indian men had relatively strong growth in relation to the growth of American Indian men in the labor force. The American Indian male labor force grew 4.7 percent from 2007 to 2012, but businesses owned by American Indian men grew 12.7 percent (Figure C). This growth in the number of firms was accompanied by a decline in overall average annual sales of 7.3 percent (Figure D). Additionally, firms owned by American Indian men had declining average sales in the manufacturing and construction industries. However, the number of their manufacturing firms increased over the period and the number of their construction firms decreased.²⁵ Businesses owned by American Indian men had the second highest average annual pay in 2012, but those firms had the second largest reduction in average pay (5.8 percent) since 2007 (Table 4).

AMERICAN INDIAN WOMEN'S FIRMS: DECLINING SALES, DECLINING PAY

Businesses owned by American Indian women had good numerical growth—14 percent—even when considered against the growth in American Indian women in the labor force—6.6 percent (Figure C).

However, these firms had a substantial decline in their average annual sales (22.2 percent) from 2007 to 2012 (Figure D). Firms owned by American Indian women had declines in the average sales in industries with high average sales and growth in industries with relatively low average sales. Although firms owned by American Indian women had the second highest average annual pay among women in 2012, these firms also had the largest reduction in average pay (6 percent) since 2007 (Table 4).

FACTORS INFLUENCING MINORITY BUSINESS SUCCESS

WEALTH

The adage, “it takes money to make money,” refers to the fact that access to capital or wealth is crucial for achieving success in a business. Differences in startup capital are one of the biggest factors behind racial disparities in entrepreneurial success. The economists Robert W. Fairlie and Alicia M. Robb find that lower levels of startup capital explain much of the difference between the success rates of Black and White businesses. They also find that the greater success of Asian American businesses relative to White businesses is due largely to Asian American business owners investing more startup capital in their firms than White business owners do.²⁶

A majority of business owners rely on their own wealth or on the wealth of their family and friends to start and run a business.²⁷ There are large differences in wealth by race. At the median, Asian Americans have about 80 percent of the wealth that Whites have. Hispanics and African Americans have less than 10 percent.²⁸ This means that, on average, these differences are reflected in the capital available by race and Hispanic ethnicity for starting and running a business.

Racial and ethnic differences in wealth are, in part, a result of past and current discriminatory practices. Wealth can be easily transferred intergenerationally. Wealthy parents and grandparents can pass on their wealth to children and grandchildren through in vivo transfers and inheritances. Also, wealthier parents have access to better communities, better schools, and richer social networks which can lead in turn to their children building more wealth than children lacking these advantages. Because past wealth affects present wealth, America’s history of inhibiting wealth-creation among people of color matters in understanding wealth inequality today.

American Indians have been disadvantaged by conquest, broken treaties, and the mismanagement of their assets by the federal government.²⁹ Much of American history can be understood as a story of brutal alchemy where American Indian wealth is transformed into White wealth. African Americans have been disadvantaged because of slavery, Jim Crow, segregation, redlining, and their exclusion from the G.I. bill and homeownership incentives that enriched Whites after World War II.³⁰ There are many similarities between the history of Mexican Americans in the Southwest and West in the nineteenth and early twentieth centuries and the history of African Americans in the Eastern United States in the same time period. Mexican Americans were subject to extreme prejudice, violence by the Ku Klux Klan and other groups, segregation, and separate and unequal schooling.³¹ These and other policies and practices greatly reduced the opportunities for people of color to build wealth. And, unfortunately, there is still evidence of prejudice and discrimination limiting economic opportunities for people of color today.³²

While most business owners rely on themselves, family, and friends for business capital, some business owners seek loans. Researchers find

evidence of discrimination against entrepreneurs of color in obtaining credit.³³ If it takes wealth or access to capital to be a successful entrepreneur, then America's past and present policies that suppress wealth-building in communities of color³⁴ are also suppressing American entrepreneurship.

EXPERIENCE-BASED HUMAN CAPITAL

Fairlie and Robb find that working in a business owned by a family member leads to a greater chance of business success.³⁵ This means that there is an intergenerational factor to achievement in business. Individuals who have older relatives who own businesses often have a chance to work in those businesses and, in turn, increase their chances of becoming business owners themselves. The same dynamic is likely also true for the older relatives. If they had older relatives who were business owners, it increased their likelihood of becoming business owners. America's long history of suppressing wealth-building among people of color has reduced the number of older relatives who own businesses among people of color. This past reduces the rate of successful minority business owners today.

Another way for an entrepreneur to learn to run a business is by working in a business similar to the one the entrepreneur hopes to open or by obtaining management experience. African Americans and Latinos are disadvantaged in this arena because of their higher levels of unemployment and because they are less likely than Whites and Asian Americans to be employed in management positions.³⁶

FORMAL HUMAN CAPITAL

In general, the more formally educated a business owner, the greater the likelihood of that person's success in business. Part of the reason for Asian Americans' higher rate of success in business as

compared with Whites is their higher level of college education. In contrast, the lower levels of college education and degree attainment among Latinos and African Americans serve to lower their rates of business success.³⁷

BEING AN IMMIGRANT

White immigrants are more likely to be self-employed than Whites born in the United States. This is also true for Hispanic immigrants, Black immigrants, and Asian immigrants relative to their U.S.-born peers.³⁸ Immigrants uproot themselves from familiar environments, family, and friends in search of a better life for themselves and their children. Although there is considerable variation by country of origin and era of migration, many immigrants also have a relatively high level of skills, formal education, and financial resources. The relatively high level of motivation, risk-taking, skills, education, and resources of immigrants are all factors that contribute to their success in business.³⁹ In 2012, immigrants were about 80 percent of the Asian American labor force and about 60 percent of the Hispanic labor force.⁴⁰ This high level of immigrants in the population pushes up the rate of entrepreneurship among these groups.

POLICY RECOMMENDATIONS

As discussed briefly above and documented in such publications as *When Affirmative Action Was White*⁴¹ and "Unfair Lending: The Effect of Race and Ethnicity on the Price of Subprime Mortgages,"⁴² public and private policies in the United States in the past and the present have created unequal economic outcomes by race and ethnicity.⁴³ But these circumstances can be changed. Public and private policies focused on equity and on strengthening the nation can be a remedy for the situation.

Because wealth is an important driver of business success, it is necessary to encourage wealth-building in communities of color. The document, *A Policy Agenda to Close the Racial Wealth Gap*,⁴⁴ outlines a set of measures that can be used to increase the rate of successful entrepreneurship among people of color. Many of the following recommendations are adapted from *A Policy Agenda*:

Provide a Tax Credit to Promote Venture Capital Investments in Minority Businesses

Entrepreneurs of color often lack access to the informal networks that are critical for attracting venture capitalists to help support their business pursuits.⁴⁵ Providing tax incentives for venture capitalists who invest in businesses owned by people of color could help to overcome this significant barrier to growth.

Provide a Tax Credit for Low-Income New Entrepreneurs⁴⁶

Many smaller business owners are not likely to be able to capture the interest of venture capitalists to obtain capital. A tax credit for new entrepreneurs who earn less than the median income would be a way to provide a small amount of capital to help these businesses get off the ground.

The Consumer Financial Protection Bureau Should Support the Use of Alternative Credit Data⁴⁷

Many low- and moderate-income business owners lack a sufficient credit history to obtain a credit score, and thus they are blocked from obtaining a business loan. The Consumer Financial Protection Bureau can encourage the use of alternative data such as rent and utility payments to establish credit histories.

Government Agencies Serving Small Businesses and Entrepreneurs Need to Do Better Outreach to Entrepreneurs of Color

The Stanford Latino Entrepreneurship Initiative reports that 22 percent of Latino business owners have never heard of the Small Business Administration, 51 percent have never heard of the Small Business Investment Companies, and 56 percent have never heard of the Small Business Innovation Research program.⁴⁶ Many people of color do not have relatives or mentors with experience in business, formal business education, or a long family history in the United States. As a result, they may be unaware of many government agencies and programs serving business owners. Government agencies need to do better outreach to entrepreneurs of color.

Dramatically Increase the Number and Outreach of Minority Business Development Agency Business Centers

The Minority Business Development Agency (MBDA) works out of the U.S. Department of Commerce to create sustainable jobs within businesses owned and operated by minority entrepreneurs. Through the MBDA Business Centers, entrepreneurs of color can obtain assistance in gaining access to capital, contracts, and markets. The Business Centers are an excellent one-stop resource. To dramatically increase the number of successful firms owned by people of color, this program would need to be significantly expanded.

Improve Minority Business Development Agency Data-Tracking Mechanisms

Groups such as the National Advisory Council on Minority Business Enterprise recommend that the

accuracy, availability, and frequency of economic data on MBDA target businesses be improved. This data would facilitate assessments of minority-owned businesses and inform future policy change. It would include financial statements, income statements, balance sheets, deductible expenses, demographics, and other data sources.

Encourage Entrepreneurs of Color to Find Mentorships and Training in SCORE and Similar Organizations⁴⁷

Entrepreneurs of color are less likely to learn about running a business from a relative. They are also less likely to have held a management position that would give them applied, real-life skills in running a business. For these reasons, programs offering business mentorships and other types of advising could be very valuable to minority entrepreneurs.

There are several organizations that provide guidance to entrepreneurs. For example, the SCORE association⁴⁸ is an invaluable resource for hands-on business advice and mentorship. Entrepreneurship.org provides online video instruction in all aspects of running and growing a business. CFED, also known as the Corporation for Enterprise Development, provides training through its Microbusiness Solutions Learning Cluster.⁴⁹ Individuals and grassroots organizations should encourage aspiring minority entrepreneurs to utilize these and other similar resources.

Nonprofit Organizations Providing Resources for Entrepreneurs Should Improve Their Outreach to People of Color

As this report illustrates, there are many entrepreneurs of color who may be hard to see because their businesses have no employees.

Among business owners of firms without employees, people of color are well represented and women of color are overrepresented relative to the numbers for White women. Nonprofit organizations providing training to entrepreneurs need to be made aware that there is a strong interest in entrepreneurship in all communities of color. If the people accessing an organization's resources on entrepreneurship do not look like America, the organization needs to do better outreach to communities of color.

Implement High-Quality Universal Pre-K

Increasing the educational achievement of Latinos, African Americans, and American Indians will likely increase their odds of becoming successful business owners. Again, the entire *A Policy Agenda to Close the Racial Wealth Gap* is relevant to addressing this problem because economically disadvantaged children have worse educational outcomes than their more advantaged peers.⁵⁰ *A Policy Agenda* also has recommendations aimed specifically at expanding access to quality education.

High-quality universal pre-Kindergarten is a crucial tool for improving educational and economic outcomes. States should adopt, with federal support provided in the form of revenue and subsidies, high-quality pre-K educational systems and provide every young child with quality, publicly-funded preschool. States and the federal government would fund the program jointly, with the federal support designed to help states, local agencies, and governments to build educational components and expand access while maintaining quality.

Provide Equitable Quality Education in K-12 Public Schools

Students of color disproportionately attend schools with fewer resources and of poorer educational quality. Adequate resource allocation, with equitable financing for schools and districts across each state, as well as improved support for and distribution of highly qualified and effective teachers and principals, is essential for leveling educational disparities. Such reforms would involve building a robust teacher pipeline through ongoing education, training, preparation, and mentoring; establishing model programs, such as teacher residency programs or master-teacher corps; and, ensuring that all public school facilities and learning tools are state-of-the-art. Finally, creative and thoughtful solutions to 21st century educational reforms should include more magnet schools for careers of the future—such as entrepreneurship, business, technology, and health care—and the ubiquitous use of digital learning platforms and strategies in vulnerable communities.

Expand Access to Entrepreneurship Training in K-12 Education and Career and Technical Education

A recent Gallup poll found that non-White grade-school children expressed more interest in starting a business than White children.⁵¹ It is not clear, however, that students are receiving the necessary education and work experience to make this dream come true.⁵² Schools should use the resources of the Network for Teaching Entrepreneurship⁵³ and other organizations to provide age-appropriate education in entrepreneurship.

The Carl D. Perkins Vocational and Technical Education Act should be modified to include entrepreneurship training. For many individuals in skilled-trades occupations, someday owning their own business would be a logical step in the progression of their career. Running and growing a business requires knowledge beyond technical skills, however. To increase the rate of success for these business owners, entrepreneurship education should be part of their career and technical training.

Curb Tuition Increases at Public and Private Universities and Hold Future Tuition Hikes to the Rate of Inflation

Nearly half of young entrepreneurs report that student loan debt has interfered with their ability to start or run their business.⁵⁴ Many states have increased tuition and fees at public universities, reduced state financing, and cutback on enrollment and university resources. These spending cuts and revenue increases have diminished access to and the quality of higher education. With college costs outpacing inflation and family income stagnant or reduced, policymakers must make affordable and equitable access to higher education a priority. Tuition increases and fee hikes should also be frozen or kept to the rate of inflation to limit the financial burden placed on students.

CONCLUSION

Americans of all races and ethnic backgrounds want to be successful entrepreneurs, but currently much of America's entrepreneurial potential remains underdeveloped. There are roughly one million potentially successful entrepreneurs of color who are being held back because of their low levels of family wealth, lack of experience running a business, and low levels of education. If we as a society create the economic and social circumstances for these individuals to grow their businesses, then the entire society will reap the benefits—more jobs, less poverty, and greater economic output. We have a blueprint for building the wealth and increasing the educational attainment of America's people of color in *A Policy Agenda to Close the Racial Wealth Gap*. Now is the time for policymakers to use this blueprint to build a better future by making a strong commitment to creating wealth in communities of color. By investing in America's people of color, Americans of all races will see large returns.

APPENDIX: METHODOLOGY FOR CALCULATING THE NUMBER OF “MISSING” MINORITY BUSINESSES AND THEIR ECONOMIC IMPACT

The estimate for the number of “missing” minority businesses was derived from an analysis of the U.S. Census Bureau (2012) *Survey of Business Owners* (SBO) data and the U.S. Census Bureau (2012) *American Community Survey* data made available by Ruggles, S., Genadek, K., Goeken, R., Grover, J., & Sobek, M. (2015) *Integrated Public Use Microdata Series: Version 6.0* [Machine-readable database] Minneapolis: University of Minnesota.

The SBO data table does not provide non-Hispanic data by gender, but it does provide non-Hispanic data for the combined male and female data. This non-Hispanic data was used to estimate the non-Hispanic share of the men’s and women’s businesses. This step was necessary to reduce the double counting of Hispanics. Adjusting the racial firm counts to remove Hispanics provides estimates for the number of male and female non-Hispanic White, non-Hispanic Black, non-Hispanic Asian American, and non-Hispanic American Indian firms. The numbers for the male and female Hispanic firms are in the original data tables and are not modified. These counts of firms by race and Hispanic ethnicity are the “actual” counts. Other racial minority groups were left out of the analysis. This omission would lead to an underestimate of the number of “missing” non-White firms.

The 2012 *American Community Survey* was used to calculate ratios of the size of the female and male non-White labor forces (25 to 64 years old) to the non-Hispanic White female and male labor force like those in Table 1. (The Table 1 racial data includes Hispanics.) These ratios were applied to the counts of non-Hispanic White firms to calculate the “ideal” counts of minority firms. If the “ideal” count exceeded the “actual” count derived from the SBO data, then the difference is counted as the “missing” minority firms. Counts of Asian American women’s and men’s firms are not underrepresented or below the “ideal,” and these groups are treated as if there are zero “missing” firms. The total of the “missing” counts represents the total number of additional firms under a condition of greater equity and opportunity.

To estimate the number of jobs, the average size of male and female minority-owned firms with employees was multiplied by the total additional or “missing” male and female firms. The average annual pay for female and male minority-owned firms was multiplied by the additional male- and female-owned firms for the estimate of the increased national income.

END NOTES

- 1** Any other firms that are not classifiable for any other reason are also excluded from the analysis.
- 2** Fairlie, R. W., & Robb, A. M. (2008). *Race and entrepreneurial success: Black-, Asian-, and White-owned businesses in the United States*. Cambridge, MA: MIT Press; Dávila, A., & Mora, M. T. (2013). *Hispanic entrepreneurs in the 2000s: An economic profile and policy implications*. Stanford, CA: Stanford University Press; Oyelere, R.U., & Belton, W. (2013), Black-White gap in self-employment: Does intra-race heterogeneity exist?, *Small Business Economics*, 41, 25-39.
- 3** Dávila, A., & Mora, M. T. (2013).
- 4** In the Womenable report (2015), *The 2015 State of Women-Owned Business* (Empire, MI: Womenable), Black women business owners had the highest numerical growth rate (up 321.7 percent from 1997 to 2015). There are several differences between the Womenable report and this one. Womenable's analysis is for all firms; this analysis is for firms with employees only. Womenable's analysis is from 1997 to 2015; this analysis is from 2007 to 2012. Womenable's analysis uses its own projected data for 2015; this analysis uses the actual, final U.S. Census Bureau data for 2012. For these reasons, the statistics from these two reports are not comparable.
- 5** Author's analysis of the U.S. Census Bureau (2007 & 2012), *Survey of Business Owners* data, not shown.
- 6** Ibid.
- 7** Ibid.
- 8** Ibid.
- 9** Ibid.
- 10** *The 2015 State of Women-Owned Business* finds that the greatest number and highest concentration of women-owned firms are in health care and social assistance.
- 11** Author's analysis of the U.S. Census Bureau (2007 and 2012), *Survey of Business Owners* data, not shown.
- 12** Ibid.
- 13** Ibid.
- 14** Ibid.
- 15** Ibid.
- 16** In the 2012 *Survey of Business Owners* responses of "Latino" or "Hispanic" for one's race (as opposed to for one's ethnicity) are classified as "some other race." In 2007, these responses were classified as "White." This change likely inflates the growth rates for "some other race" and depresses the growth rates for Whites. U.S. Census Bureau. (2015). Comparability of the 2012 and 2007 SBO data, *Methodology - 2012 Survey of Business Owners*. Washington, D.C.: U.S. Census Bureau.
- 17** See the "Appendix" for the methodology behind these estimates.
- 18** PolicyLink and the Program for Environmental and Regional Equity. (2015). *Full employment for all: The social and economic benefits of race and gender equity in employment*. Oakland, CA: PolicyLink. http://policylink.org/sites/default/files/Full_Employment_for_All.pdf; Baker, D., and Bernstein, J. (2013). *Getting back to full employment: A better bargain for working people*. Washington, DC: Center for Economic and Policy Research.
- 19** Author's analysis of U.S. Census Bureau (2007 and 2012), *Survey of Business Owners* data, not shown.
- 20** Author's analysis of U.S. Census Bureau (2007 and 2012), *Survey of Business Owners* data, not shown.
- 21** Ibid.
- 22** Ibid.
- 23** Ibid.
- 24** Ibid.
- 25** Ibid.
- 26** Fairlie, R. W. & Robb, A. M. (2008), *Race and entrepreneurial success*.
- 27** See Dávila, A., & Mora, M. T. (2013), *Hispanic entrepreneurs in the 2000s*, p. 106.
- 28** Tippett, R., A Jones-DeWeever, A., Rockey Moore, M., Hamilton, D., & Darity Jr., W., (2014) *Beyond broke: Why closing the racial wealth gap is a priority for national economic security*, Washington, D.C.: Center for Global Policy Solutions, p. 14.
- 29** Lui, M., (2009), *Laying the foundation for national prosperity: The imperative of closing the racial wealth gap*, Oakland, CA: Insight Center for Community Economic Development, <http://ww1.insightcced.org/uploads/CRWG/LayingTheFoundationForNationalProsperity-MeizhuLui0309.pdf>.
- 30** Katznelson, I. (2005). *When affirmative action was White: An untold history of racial inequality in twentieth-century America*. New York: W.W. Norton & Company.
- 31** Urbina, M. G., Vela, J. E., & Sánchez, J. O. (2014). *Ethnic realities of*

Mexican Americans: From colonialism to 21st century globalization. Springfield, IL: Charles C Tomas Publisher, Ltd.; Almaguer, T. (1994). *Racial fault lines: The historical origins of White supremacy in California.* Berkeley: University of California Press.

- 32** See, for example, Bocian, D. G., Ernst, K., S., & Li, W. (2006). *Unfair lending: The effect of race and ethnicity on the price of subprime mortgages*, Washington, D.C.: Center for Responsible Lending.
- 33** Asiedu, E., Freeman, J., & Nti-Addae, A. (2012), Access to credit by small businesses: How relevant are race, ethnicity, and gender?, *American Economic Review: Papers & Proceedings*, 102(3), 532-537.
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