ECONOMIC INNOVATION GROUP

The American Worker Project

Black entrepreneurship, past and present

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October 2024

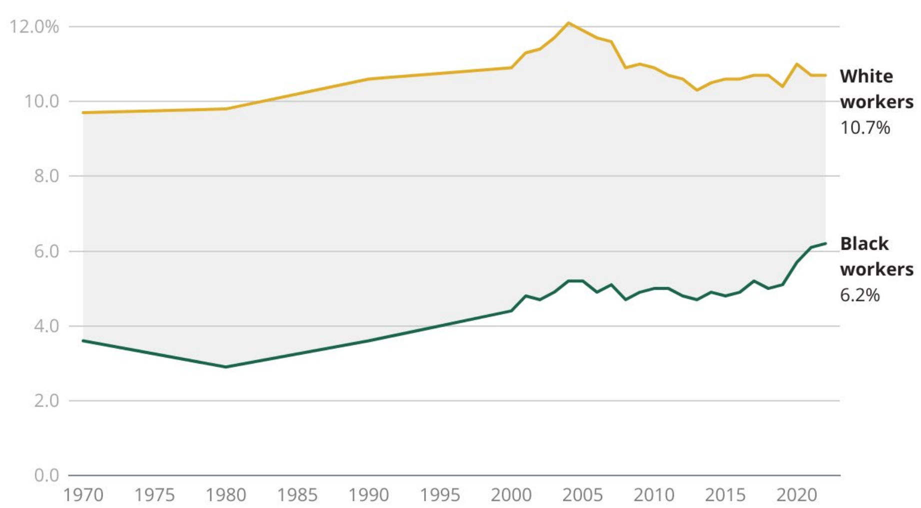
[EIG's American Worker Project](#) aims to form a consensus on worker progress over time. This essay focuses on one specific category of worker, Black entrepreneurs. The sudden growth in Black entrepreneurship since the COVID-19 pandemic has garnered the attention of economists and the business press. But despite the increases, deep racial disparities in entrepreneurship rates and outcomes remain and may threaten to impede recent progress.

In keeping with the theme of the American Worker Project, this essay examines the gains Black entrepreneurs have made since 1980 and the factors contributing to the persistent Black-White entrepreneurship gap.

How has Black entrepreneurship changed since 1980?

Self-employment data shows that Black entrepreneurship more than doubled between 1980 and 2022. As displayed in Figure 1, the proportion of Black workers who self-identified as entrepreneurs in the American Community Survey (ACS) was only 2.9 percent in 1980. (Entrepreneurship researchers frequently use self-employment as a proxy for entrepreneurship.)

Figure 1: Self-employed worker share of employment



Source: American Community Survey and Decennial Census.

That percentage grew slowly through the early 2000s and subsequently stagnated after the Great Recession. Then, one year into the COVID-19 pandemic, the entrepreneurs' share of Black workers soared to 6.1 percent in 2021 and reached 6.2 percent in 2022. By contrast, the entrepreneurs' share of White workers ended this period roughly 1 percentage point higher than it started in 1980, at approximately 10.7 percent.

Firm-level data tells a similar story. Unfortunately, no single survey or census consistently reported business ownership statistics by race from 1980 to the present. Evidence from various surveys, however, offers some insight into what has improved over time and where progress has been fleeting. The Survey of Minority-Owned Business Enterprises (SMOBE) was conducted in the 1980s and '90s before being replaced by a variety of other survey instruments leading to the current Annual Business Survey (ABS). These surveys do not provide apples-to-apples comparisons, but they can provide a picture of how Black business ownership in the 1980s compares with the present.

Economists Robert W. Fairlie and Alicia M. Robb report data from the SMOBE indicating that there were about 308,000 Black-owned businesses in the US in 1982 and 11 million non-minority-owned firms, which is a proxy for but may not be exactly comparable to later measures of White-owned firms. In other words, for every Black-owned business in America, there were about 37 businesses owned by a non-minority.

By 2021, the number of Black-owned businesses reported in the Census Bureau's Nonemployer Statistics (NESD) was nearly 3.8 million, and businesses owned by Whites numbered about 21.5 million, such that there was one Black-owned business for roughly every 5.7 White-owned businesses in the US.

Did the pandemic unleash a permanent new reality for Black entrepreneurship in the US?

There is mounting evidence that the unique circumstances surrounding the COVID-19 pandemic may have contributed to disproportionately high growth in new Black-owned businesses. Webhosting platform GoDaddy.com publishes data on new microbusiness formation. They showed that between March 2020 and July 2021, 26 percent of new microbusinesses in the US were created by Black Americans. Prior to March 2020, their share was 15 percent.

Other research published in a National Bureau of Economic Research (NBER) working paper used state-level data on business registrations to show higher startup rates in Black neighborhoods from 2019 to 2020, particularly in high-income Black neighborhoods. Importantly, this research points to one likely explanation for the surge: stimulus checks issued in response to the COVID-19-related economic downturn were likely associated with the flood of new business formation.

Despite the growth, is there still room for improvement?

It is important to evaluate growth in Black business ownership in the context of persistent racial disparities. For example, despite the high growth rate, Black workers remained only about half as likely as White workers to be self-employed entrepreneurs in 2022.

Moreover, the US Census Bureau's Nonemployer Statistics (NESD) show that 96 percent of Black-owned businesses were non-employer firms in 2021, meaning they did not hire any workers, and only 4 percent were firms with paid employees. By contrast, 21 percent of White-owned firms were employer firms.

Data on firm revenues show yet another stark disparity. The same NESD data for 2021 indicates that White-owned firms generated $16 billion in revenue. They represented 62 percent of all firms and accounted for 36 percent of all firm sales. By contrast, Black-owned business revenues were $268 million in 2021. That year Black-owned firms comprised 11 percent of all firms but just 0.6 percent of all firm sales.

What are the most important barriers to Black entrepreneurship, and what should be done about them?

Some economists and commentators argue that the behavior of some Black people explains social and economic disparities like the ones outlined in this essay. They cite statistics in Black communities, such as higher crime rates, lower educational attainment, and higher out-of-wedlock birth rates, as evidence that the barriers Blacks face are primarily within the group's control to remedy.

Yet studies that decompose the Black-White gaps in entrepreneurship find that factors like these can only account for a small portion of the differences. For example, another study from Fairlie and Robb shows the contribution of various group characteristics to the Black-White entrepreneurship gap. Racial differences in education account for just 6 percent of the Black-White entrepreneurship gap, while marital status and children account for an additional 5 percent. Assuming violent crime is more prevalent in inner-city settings, the fact that Blacks reside in these areas at higher rates contributes another 5.4 percent to the difference. In fact, observable demographic characteristics—including factors like age, sex, and unemployment—only explain about 34 percent of the Black-White difference in entrepreneurship rates.

So, what accounts for the remaining disparity?

Another hypothesis often presupposes that Blacks have lower aspirations toward entrepreneurship. This notion has been consistently debunked by the research, which shows that Black Americans express greater interest in entrepreneurship than their White counterparts. They even engage in nascent (or pre-launch) entrepreneurship activities at higher rates.

Research examining racial inequality in entrepreneurship consistently shows that access to financial capital is the leading driver of entrepreneurship disparities. Black business owners are more likely than White business owners to apply for loans, but they are also more likely to be denied some or all of the financing they request. Black firms also struggle to secure equity investments, garnering just 0.5 percent of Venture Capital funding in 2023. There are many historical and present-day issues underlying unequal access to capital, including interpersonal discrimination as well as systemic and structural inequality.

The racial wealth gap

The racial wealth gap has received much attention in recent years and is one structural factor preventing Black entrepreneurs from sufficiently funding their ventures. Fairlie and Robb's research, referenced above, also estimates that the Black-White asset gap accounts for about 15 percent of the entrepreneurship gap.

My own research[1] finds that Black-White differences in home equity explain about 12 percent of the gap in entrepreneurship. Home equity is important because it is a significant store of wealth for most Americans and, to an even greater degree, among Blacks. It also provides the type of collateral that potential entrepreneurs can more readily borrow against to gain startup capital.

Decades after the Fair Housing Act was passed, many Black Americans struggled to gain access to homeownership, maintain ownership of their homes, and build wealth through home equity. Potential homebuyers continue to face housing discrimination, as evidenced by audit studies, a rigorous research method used to detect discrimination which I briefly describe below.

Research further shows bias in the appraisal process, which reduces wealth potential for Black families. Black households have also had land and property taken from them through legal and illegal processes. These examples of housing discrimination have implications beyond housing.

To the extent that it impedes wealth creation for Black households, housing discrimination also exacerbates the racial wealth gap—which, in turn, limits Black entrepreneurship potential.

Policy response

Pandemic-era policies illustrated what may happen when we loosen constraints on capital, allowing it to flow to Black Americans more freely. A rise in entrepreneurship appears to be one such outcome. As noted above, the stimulus payments seem to have had such an effect.

Another pandemic-era policy, the Paycheck Protection Program (PPP), also provided insight into the nature of our capital access problem, potential policy solutions, and, importantly, what the federal government should avoid when crafting policy in the future.

The PPP illustrates ways that lending discrimination, systemic factors, and structural inequality combine to limit access to capital for Black business owners. It was designed to funnel loans to small businesses through private-sector lending institutions backed by a federal government guarantee. Though the government assumed all the downside risks of loan defaults, several studies, including my research with Lisa Cook and Rob Seamans, found evidence of racial discrimination in the program.

One audit study found that bank employees treated Black and White "mystery shoppers" seeking business loans differently. They were offered different products and given different information to help with the process.

Another study found that large banks likely had more significant incentives to lend to their existing customers as it protected them against defaults on previously issued loans. Since banks lent to Black-owned businesses at lower rates pre-COVID-19, this practice, while not overtly discriminatory, had racially disparate effects. It also illustrates how systemic inequality can operate.

Lastly, the PPP was designed largely to shore up employment during the pandemic, so funds were only available to employer firms. However, as described in the data above, Black-owned firms are less likely to have employees, and therefore fewer of them were even eligible for the program. Again, this element of the program was not an overtly discriminatory practice, but it nonetheless had racially disparate effects, showing how structural inequality operates.

The PPP illustrated how well-intentioned policy can exacerbate existing inequality. But it also points the way for more effective policy initiatives going forward. It is imperative that private sector institutions adequately serve Black households. Initiatives like the PPP inadvertently created a context for researchers to uncover systemic and structural barriers that prevent Blacks from being adequately served by large financial institutions.

This knowledge can prevent future policies from exacerbating inequality through their design. But it also shows that a confluence of public and private sector entities can overcome these barriers when they work together to quickly steer capital to as many eligible business owners as possible. Later rounds of the PPP included a broader group of private lenders, including Community Development Lending Institutions and Fintech companies. Their inclusion appears to have increased the flow of PPP funds to Black entrepreneurs.

It is unnecessary to wait for the next crisis to engage in these types of partnerships. Funding and then implementing initiatives that utilize public and private sector entities can achieve the goal of supplying financing to underserved populations. This should be done in ways that intentionally uncover existing systemic and structural barriers in financial markets, and then alter incentive structures to eliminate them. In cases of discrimination, there must be more funding for existing mechanisms of enforcement. Additionally, data and technological resources could be used to more frequently and effectively monitor discriminatory behavior.

Finally, ensuring equal access to entrepreneurship funding may require rewriting some of our anti-discrimination laws. Federal courts recently ruled that a private investment fund that supplies capital to Black women entrepreneurs violates anti-discrimination laws. Their opponents weaponized laws intended to foster racial, social, and economic inclusion to cement racial exclusion. This outcome may be legal, but it is not just.

As the data reveals, Black entrepreneurship is growing—but there is room for it to expand even more. A vibrant and inclusive economy is possible when prioritizing resource allocation at levels necessary for everyone to flourish and contribute.

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Explore the Economic Innovation Group's American Worker Project here.

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[1] Atkins, Rachel M.B. 2022. Homeownership, home equity, and black-owned business starts: examining the impact of racial disparities in housing assets on firm creation.