

Building an Economy that Embraces and Empowers Black Entrepreneurship

Black entrepreneurs and businesses form an integral part of the U.S. economy, contributing to its growth and dynamism. This brief highlights the key contributions of these businesses and the challenges they face in today's economy:

- More than 3 million Black-owned businesses contribute over \$200 billion to the U.S. economy annually and employ about 1.2 million Americans.
- Between 2012 and 2017, the number of Black-owned businesses grew at a faster pace than the number of white-owned businesses.
- Black businesses are also more likely to be owned by women, and they have historically provided a pathway to wealth creation.
- Long-standing barriers to financing continue to limit Black business formation and development. They also leave Black-owned businesses more vulnerable to economic shocks. This is why Black businesses were disproportionately affected by the pandemic, and many struggled to access early emergency relief.
- The Biden administration and Congress have worked to strengthen the Minority Business Development Agency (MBDA), which provides improved access to capital, technical assistance and development training for Black-owned businesses of all sizes. More will be required to address structural barriers to opportunity and wealth creation.

INTRODUCTION

The prosperity of the U.S. economy is inescapably linked to the opportunities available to entrepreneurs and small businesses all around the country. Pervasive racial gaps in business ownership, opportunity and wealth restrain the potential of the U.S. economy. To bridge these gaps, it is important to understand the vital role that Black entrepreneurs play in the aggregate economy, the challenges they face and what public policy can do to build a fairer climate that enables Black entrepreneurs to thrive.

Minority-owned businesses, including Black-owned businesses, are among the fastest growing in the United States. More than 3 million Black-owned businesses contribute over \$200 billion to the American economy annually. Between 2012 and 2017, the number of Black-owned businesses grew at a faster pace than the number of white-owned businesses. Much of this growth was driven by Black-owned employer firms, which employ 1.2 million Americans.

Despite the importance of Black-owned businesses to the U.S. economy, Black entrepreneurs continue to face long-standing barriers to financing, which limit entrepreneurship and business formation. Although Black Americans represent more than 13% of the total U.S. population, only about 10% of all businesses in the United States are Black-owned. Limited access to capital also left Black-owned businesses more vulnerable to the economic impact of the pandemic,

causing Black businesses to be disproportionately affected by the ensuing economic contraction in 2020.

The federal government can play a vital role in alleviating many of these challenges and unlocking the full potential of Black entrepreneurs and businesses. The Biden administration and Congress have worked to strengthen the Minority Business Development Agency (MBDA), which provides improved access to capital, technical assistance and development training for Black and other minority-owned businesses of all sizes. The bipartisan Infrastructure Investment and Jobs Act (IIJA) permanently authorized the MBDA for the first time since its inception in 1969, and the Build Back Better Act would increase its funding and make progressive tax changes that can improve the competitiveness of small, Black-owned businesses. These advances in public policy contribute to the legacy of Black-owned businesses providing a pathway for building Black family wealth and strengthening the American economy.

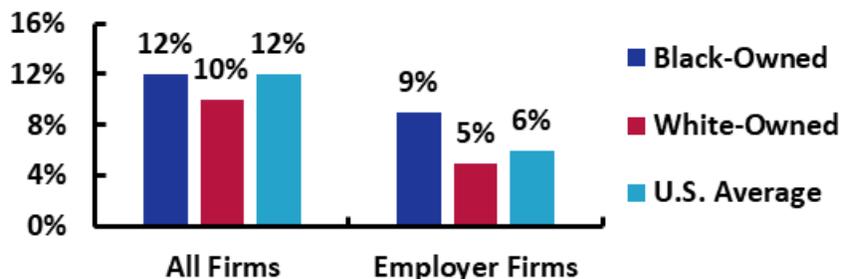
BLACK ENTREPRENEURS AND BUSINESSES MAKE KEY CONTRIBUTIONS TO ECONOMIC GROWTH

The growth in Black-owned businesses helps drive U.S. economic dynamism

More than 3 million Black-owned businesses contribute over \$200 billion to the American economy annually, making up 1 in 10 of the total number of employer and non-employer firms in the United States. Black-owned businesses are also among the fastest growing. Between 2012 and 2017, the number of Black-owned businesses grew at a faster pace than the number of white-owned businesses (see figure below). Much of this growth was driven by Black-owned employer firms. These Black enterprises have grown at a pace nearly twice as fast as their white-owned counterparts and faster than the national average.

Black-Owned Businesses Grew at a Faster Rate Than White-Owned Businesses

Growth rate of businesses by race from 2012 to 2017



Source: Stanford Graduate School of Business, U.S. Census Bureau

Note: All firms includes both employer and non-employer firms.

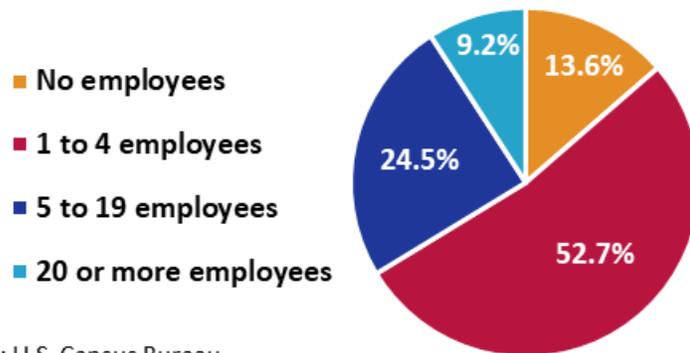
Black and white populations are non-Hispanic.

Black businesses serve as a force for employment and economic activity, especially for Black women

Black-owned businesses play a critical role in the U.S. economy. In 2019, there were over 134,000 employer firms owned by Black Americans nationwide. These businesses, nearly a third of which are in the Health Care and Social Assistance sector, make important contributions caring for those who are sick, providing child care and more.

Black-owned businesses employ 1.27 million Americans, or roughly one percent of all actively employed workers, and generate \$134 billion in annual sales and over \$40 billion in payroll. More than one-third of employer firms owned by Black Americans employ 5 workers or more (see figure below).

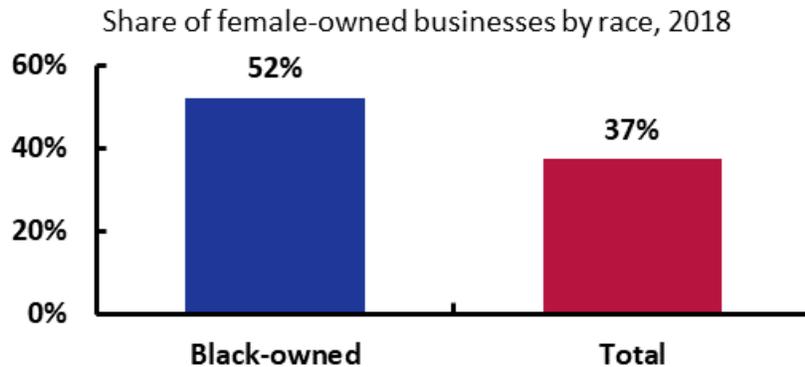
Over One-Third of Black Businesses Employ Five or More Workers
Share of Black businesses by number of employees, 2019



Source: U.S. Census Bureau
Note: Data only includes employer firms.

Black businesses are also more likely to be owned by women (see figure below). While about 37% of all firms are owned by women, more than half of all Black businesses are owned by women. Relative to white women and men, Black women are [more likely](#) to be in the process of starting or running new businesses. In addition to providing important services and bolstering the American economy overall, Black female entrepreneurship can serve as a vehicle for wealth creation, narrowing racial and gender disparities.

Black Businesses Are More Likely to Be Female-Owned



Source: U.S. Census Bureau

Note: Data includes the number of employer and non-employer firms.

Black entrepreneurship and innovation have historically provided a pathway to wealth creation, even in the face of discrimination, violence and the destruction of Black property

Black families have historically relied on novel business ideas and innovations to build wealth and strengthen their communities. Early evidence of Black enterprises in the United States [pre-dates the Civil War](#). Black entrepreneurship continued to grow after the Civil War as Black communities fought to thrive under Jim Crow laws. Since white businesses would not serve Black customers, Black Americans [increasingly founded](#) their own businesses despite lack of access to capital and widespread discrimination. These enterprises created a safe community where Black dynamism and pride flourished. One of the most successful examples is America's Black Wall Street, the [Greenwood District](#) of Tulsa, Oklahoma.

In early 1921, the Greenwood neighborhood was home to [191 businesses](#). In just [the 100 block](#) of Greenwood Avenue, there were more than 70 enterprises that were mostly Black-owned. The economic success of Black entrepreneurs in Greenwood was evident in much of the wealth it generated; Black and white residents of Tulsa had nearly identical [homeownership](#) rates in 1920. But much of this wealth was destroyed in the 1921 Tulsa Race Massacre, which left hundreds of residents dead. On May 31, 1921, a violent white mob looted and burned nearly every [Black-owned](#) business and home, decimating more than \$27 million of Black property in today's dollars. Black residents of Tulsa have [yet to recover](#) from the destruction of wealth over a century ago, but Greenwood's prosperity remains a clear example of the potential of entrepreneurship as a tool to build wealth among Black Americans and promote racial equity.

As in Tulsa, modern wealth disparities across the country are severe but can be narrowed via improved access to wealth-building opportunities in entrepreneurship. The [mean and median wealth](#) of Black families in the United States is less than 15% that of white families, and even as thousands of Black businesses serve communities across the country, employer firms are disproportionately owned by white Americans. As in the past, business ownership is one tool to narrow the racial wealth gap.

BLACK ENTREPRENEURS AND BUSINESSES CONTINUE TO FACE CHALLENGES

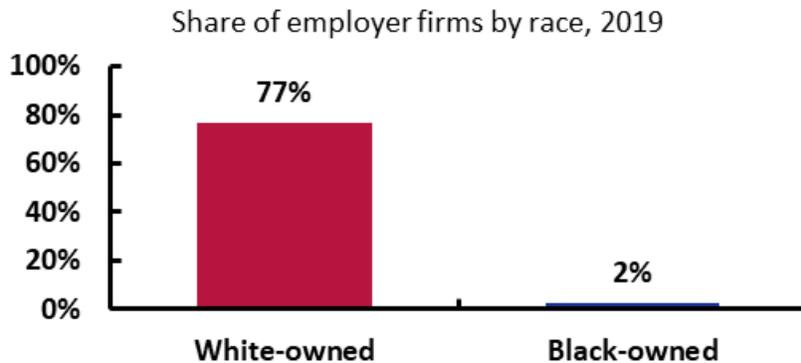
Long-standing structural barriers account for disparities in Black business formation and development

Black entrepreneurs continue to face long-standing, structural barriers to entrepreneurship and business development. These barriers hold back business formation. Although Black Americans represent [more than 13% of the population](#), only about 10% of all businesses in the United States are Black-owned. In contrast, non-Hispanic white Americans own a higher share of businesses than the share of the total population they represent.

Black businesses are especially likely to be non-employer firms. Non-employer firms are [generally small](#), such as real estate agents or independent contractors. Establishing a non-employer business may be an attractive source of independent and flexible employment for individuals who may struggle to find the right match for their skills and experience due to discrimination and other barriers. Some of these businesses are borne out of [economic necessity](#) and do not always provide a clear path to economic security.

The businesses that hold the greatest opportunity for growth and stable contributions to wealth are employer firms. Only 2% of employer firms are owned by Black Americans, relative to the 77% of employer firms that are owned by white Americans (see figure below). Black employer firms also tend to be smaller, younger and less profitable than employer firms owned by white Americans. These disparities result in about [800,000](#) fewer Black-owned businesses than should otherwise exist.

There Is a Pronounced Divide Between White and Black Ownership of Employer Firms



Source: U.S. Census Bureau

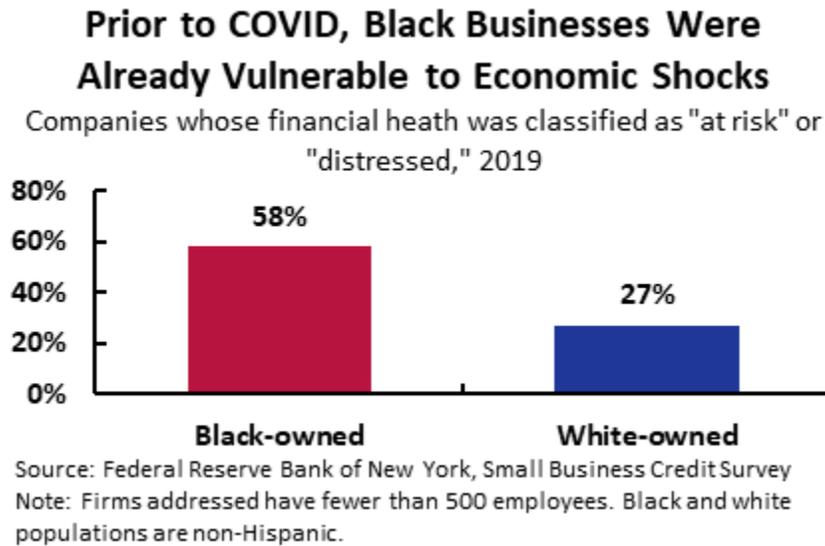
Note: "White-owned" refers to non-Hispanic white-owned firms.

Employer firms are also where differences in access to capital have the greatest consequences for firm outcomes. Black-owned employer firms are three times more likely than their white-owned counterparts to report that [lack of access to capital](#) affects their profitability. Similarly, Black-owned employer businesses are more likely than employer firms owned by white Americans to have to leverage [personal sources of financing](#), like personal savings and credit cards, to start their businesses.

Limited access to capital also leaves Black-owned businesses more vulnerable to economic shocks

Minority-owned small businesses are more likely to be in a [financially precarious](#) situation due to factors such as limited access to credit and an often-forced reliance on post-tax business profits as a primary funding source. Black businesses are generally less likely to have their [financing needs](#) met than white-owned businesses. These disparities affect even the more successful small businesses owned by Black Americans: Among businesses with good credit scores, [Black-owned](#) firms are half as likely as white-owned firms to receive all of the financing they apply for (24% versus 48%).

Even before the coronavirus pandemic, Black small businesses were more likely to show signs of financial vulnerability given challenges in profitability, credit and funding. In 2019, over half (58%) of Black-owned businesses were [classified](#) as being financially “at risk” or “distressed” compared to 27% of white-owned businesses (see figure below). When the pandemic-triggered recession took place, Black businesses had less of a financial cushion to soften the impact of harsh business conditions.

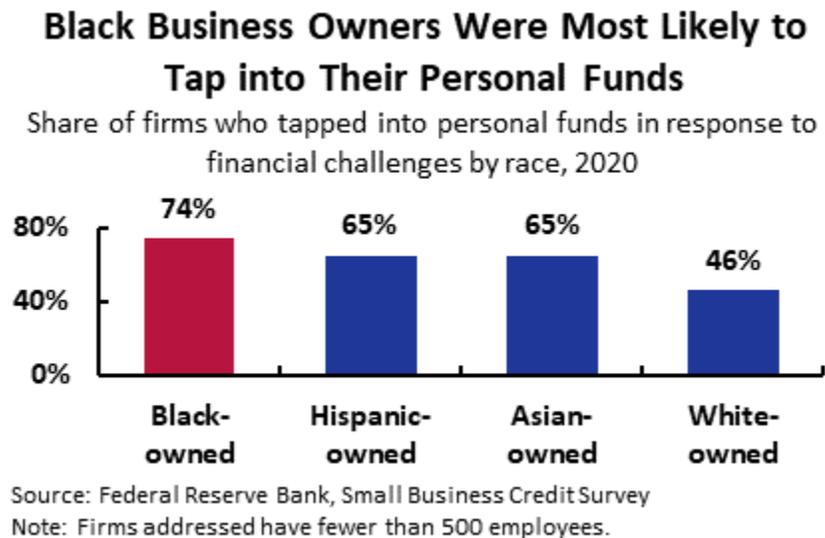


Black businesses were disproportionately harmed during the COVID-19 pandemic and struggled to access early emergency relief

The structural inequities faced by Black communities and entrepreneurs left them vulnerable to the worst financial impacts of the pandemic-induced recession. While performance indicators declined substantially for the majority of small employer establishments between 2019 and 2020, Black-owned businesses saw more [significant negative effects](#) than white-owned businesses on revenue, employment and operations as a result of the pandemic.

More than two-thirds of small employer firms owned by Black Americans reported having to reduce their [operations](#) due to the pandemic, relative to about half of white-owned businesses. Small, Black-owned establishments were also more likely to report a decline in sales than their white-owned counterparts. By 2020, more than 9 in 10 Black-owned employer firms reported

facing significant financial stress. Small Black entrepreneurs face more financial challenges than any other group. During this hardship, Black businesses were also more likely than their counterparts to be forced to tap into their personal funds (see figure below).



Congress created the Paycheck Protection Program (PPP) in March 2020 as source of emergency relief for small businesses. Over the course of the pandemic, this program became one of the largest small-business support efforts, sending nearly [\\$800 billion](#) in loans to businesses. But Black and other minority businesses struggled to access much of this funding. One [study](#) found that small- and medium-sized banks gave out approximately 50% of all PPP loans but Black-owned businesses received only 3.3% of loans from small banks and only 4.1% of loans from medium banks. Meanwhile, white borrowers received nearly 90% of the loans from small banks and 84% of loans from medium-sized lenders. This is despite that fact that Black-owned business requested smaller loans, on average, than other minority and non-minority businesses.

These difficulties explain why Black businesses experienced the most [acute decline](#) since the very early stages of the pandemic. While the number of active business owners declined across the board as a result of the pandemic, the decline of Black business owners was more pronounced. The total number of active business owners [fell](#) by 22% from February to April 2020 and by 41% for Black business owners.

BUILDING AN ECONOMY THAT EMPOWERS BLACK ENTREPRENEURS AND BUSINESSES

[Empowering the Minority Business Development Agency is vital to improve access to capital for Black-owned businesses](#)

The U.S. Department of Commerce [Minority Business Development Agency](#) (MBDA) is charged with improving access to capital, technical assistance and development training for Black-owned businesses of all sizes. To ensure this agency has the tools it needs to assist minority owned businesses, Congress has recently acted to strengthen the MBDA.

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Specifically, the IJA [permanently authorized](#) the MBDA for the first time since its inception in 1969. This will allow the federal agency to increase its programs and outreach to the more than 3 million Black-owned businesses by expanding the agency's grant-making capacity to partner with community and national non-profits that are engaged in private and public sector development and research. The IJA also mandates the creation of entrepreneurial grants to develop the next generation of Black entrepreneurs coming out of Historically Black Colleges and Universities.

Creating the MBDA as a [statutory](#) agency marks the dawn of a new era in minority business development with an intentional shift towards addressing the structural barriers to capital and contracts that limit the growth potential and markets of Black enterprises. The [Build Back Better Act](#) would further empower the MBDA for decades to come by funding it at \$1.6 billion through 2029.

Public access to disaggregated data of federal contracting will improve access and the opportunities available to Black-owned businesses

In order to increase the share of procurement dollars going to small, disadvantaged businesses, the Biden administration has prioritized [publicizing](#) disaggregated data on Federal procurement and contracting. The importance of this cannot be understated. For the first time, the federal government has [released data](#) on federal contracting by race and ethnicity of the business owner, which shows that Black-owned businesses are among the most disadvantaged.

Disaggregated data, like the share of procurement dollars going to Black-owned business (only about [1.7%](#) of federal contracting dollars in FY 2020), can help policymakers more-accurately evaluate the federal government's performance in supporting equity for Black-owned businesses. It would also allow further assessments of [procurement by industry](#), which would highlight parts of the economy in which minority-owned businesses face the greatest disadvantage in federal purchasing. Increasing data transparency represents a [necessary condition](#) to achieving economic equity.

Using federal procurement to narrow the racial wealth gap for black entrepreneurs

The United States federal government is [the largest consumer of goods in the world](#), spending more than [\\$650 billion](#) each year. As a result, federal procurement is one of the government's most effective tools to advance equity and build wealth for Black entrepreneurs and their families. Only [about 10%](#) of federal agencies' total eligible contracting dollars typically go to small, disadvantaged businesses, a category under federal law for which Black-owned and other minority-owned businesses are most likely to qualify.

The Biden Administration has set a more [ambitious goal](#) of increasing the share of procurement dollars going to small, disadvantaged businesses by half, from 10% to 15%, by fiscal year 2025. This would translate to an additional investment of an estimated [\\$100 billion](#) in these small and disadvantaged enterprises over the course of about 5 years.

Using the purchasing power of the federal government to close the gap in business ownership between privileged and disadvantaged groups can have a dramatic impact on the racial wealth gap. For example, closing the gap in small business ownership rates between Black and white

families can [narrow the gap](#) in average net worth between these groups by \$185,900 or more than 20%.

Progressive changes to personal and corporate taxes can improve the competitiveness of small, Black-owned businesses

Current business tax proposals under consideration by the U.S. Congress in the Build Back Better Act would help level the playing field for small businesses, including minority owned businesses. A [minimum tax](#) on the profits of large corporations—those with over \$1 billion in profits—report to their shareholders would make it easier for Black-owned and other small businesses to thrive and compete with major corporations. Nearly 70% of small businesses [support the idea](#) of implementing provisions that will help ensure wealthy corporations and individuals pay their fair share.

The [concentration of corporate power](#) has undermined the competitiveness of the American economy, putting upward pressure on prices that disadvantage low-income and underrepresented communities, while harming small businesses which are generally more likely to be minority-owned. One of the ways in which large corporations make the U.S. economy less competitive is by engaging in [tax avoidance](#). Reforming corporate income taxes and strengthening the global minimum tax for large multinational corporations would help improve the competitiveness of all small business, including those owned by Black Americans.

CONCLUSION

Limits on the potential of Black entrepreneurs and businesses are inherently limits on the overall potential of the U.S. economy. To ensure that economic growth is broad-based and inclusive, Congress will need to continue to tear down long-standing barriers to financing for Black entrepreneurs. Black entrepreneurship and innovation have historically provided a pathway to wealth creation, even in the face of discrimination and the destruction of Black property. Congress has taken initial steps to level the playing field for these businesses that serve as a force for economic activity and employment in their communities and around the country; however, much more will be required to expand economic justice and narrow the wealth divide that impacts broader social and economic outcomes in the United States.