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# Equity in Entrepreneurship

## Challenges and Opportunities

Entrepreneurship and small business ownership have long been seen as a source of opportunity and promise in the United States. Many believe that with the right idea, everyone has an opportunity to live the “American dream” and achieve an improved standard of living, moving to the middle or even upper class. However, White men are more likely to start and maintain their own businesses and tend to have greater success when they do, compared with women and members of minority groups.<sup>1</sup> The coronavirus disease 2019 (COVID-19) pandemic exacerbated these disparities, as minority and female business owners were harder hit, by virtue of the industries in which they operate, and had fewer resources to draw on to sustain their businesses.<sup>2</sup>

In analyzing the policies that are most likely to promote equity in entrepreneurship,<sup>3</sup> it is important to acknowledge the reasons for these longstanding disparities. Differences in accumulated wealth are a significant contributor: More than 64 percent of new businesses use personal savings as a source of start-up capital.<sup>4</sup> This puts White Americans at a significant advantage, given that

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they are approximately eight times wealthier than Black Americans and five times wealthier than Hispanic Americans.<sup>5</sup> For women, those who never married<sup>6</sup> have just 6 percent of the wealth of never-married men.<sup>7</sup>

While access to loans and capital could mitigate these disparities, there are persistent gaps in equitable financing.<sup>8</sup> Examples from research on entrepreneurship abound: Black start-up owners have a harder time raising external capital than their White counterparts and are also more likely to not apply for loans, despite having good credit history;<sup>9</sup> Latinx business owners are less likely than White business owners to have loans approved by national banks;<sup>10</sup> and women have a harder time than men obtaining the necessary funding for their businesses, in part due to discriminatory factors.<sup>11</sup> Moreover, underrepresented groups are less likely to have similarly abundant access to capital from their social and familial networks, given existing wealth disparities.

Rectifying these inequities could help close wealth gaps. Research has shown that Black entrepreneurship reduces wealth disparities relative to Whites, and that the

wealth mobility gains experienced by Black entrepreneurs are greater than those experienced by Black workers.<sup>12</sup> Entrepreneurship also builds valuable networks and experience with investing that could enable minorities to feel more empowered to participate in future entrepreneurial endeavors.<sup>13</sup> And by building successful experiences with entrepreneurship, business owners might feel empowered to move into new business sectors. This is an important consideration, since entrepreneurship among some minority groups tends to be concentrated in low-revenue sectors, such as Black business owners who concentrate in food services or accommodation.<sup>14</sup>

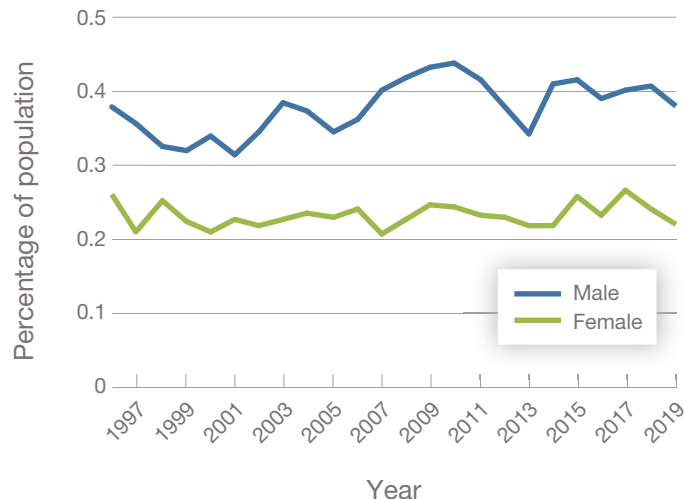
But even beyond the individual business owner, reducing disparities has the potential to revitalize whole communities.<sup>15</sup> Improving the health and success of minority-owned businesses is likely to have a positive economic impact on minority-dense urban communities where these businesses tend to be concentrated.<sup>16</sup> The spillover effects of economic empowerment could be transformative: Research has found that the growth in Black-owned businesses in U.S. cities from 1990 to 2000 was significantly positively correlated with a decline in Black juvenile violence, with a contributing factor being that minority-owned businesses provided role models to urban youth.<sup>17</sup> While likely not a panacea alone, this type of community revitalization could have additional spillover effects, such as higher employment, increased social ties in the community, and greater retention of talent.

In addition to improving outcomes at the community level, improving equity in entrepreneurship also has significant implications for U.S. economic growth. Just as the rise in female labor participation during the 20th century significantly expanded economic output, research suggests

that an increase in entrepreneurship among women could have similar impacts.<sup>18</sup> Given that women have historically pursued entrepreneurship at significantly lower rates than men<sup>19</sup> (see Figure 1), providing more support for women by way of financing and mentorship is vital to capitalizing on the latent potential of women to drive further economic growth.<sup>20</sup> The same is likely to be true for expanding entrepreneurship among other groups.

The barriers to equitable participation in entrepreneurship for underrepresented groups are multifaceted. The way to unlock entrepreneurial pathways for all groups is to invest in understanding the policies that best support different types of entrepreneurs and tailor these policies to the diverse experiences and challenges facing different racial and ethnic, socioeconomic, and gender subgroups. Recent data show that federal stimulus as a response to the pandemic was correlated with an upswing in business registrations, particularly in Black communities,<sup>21</sup> pointing to the potential for renewed entrepreneurship that exists in a post-COVID-19 world. Efforts to support minority-owned small businesses, recently unveiled by the Biden administration,<sup>22</sup> must be complemented by a deeper understanding of how best to enable underrepresented business owners to break the intergenerational transmission of inequities in entrepreneurship and wealth in the United States—a significant step toward equality of opportunity for all.

FIGURE 1  
Rate of New Entrepreneurs, by Sex,  
1996–2019



SOURCES: Fairlie and Desai, 2020, p. 11, using U.S. Bureau of Labor Statistics Current Population Survey data.

NOTE: The rates are calculated using the percentage of individuals ages 20–64 “who do not own a business in the first survey month and start a business in the following month with 15 or more hours worked per week” (Fairlie and Desai, 2020, p. 11).

## Notes

- <sup>1</sup> Fairlie and Desai, 2020; Hwang, Desai, and Baird, 2019; Liu and Parilla. 2020.
- <sup>2</sup> Liu and Parilla, 2020; Misera, 2020; Fairlie, 2020.
- <sup>3</sup> We define *entrepreneurship* as small business ownership in addition to new businesses that become highly successful and large-scale (e.g., prominent start-ups or tech companies), and we include self-employed individuals.
- <sup>4</sup> Hwang, Desai, and Baird. 2019.
- <sup>5</sup> Kent and Ricketts, 2021.
- <sup>6</sup> Examining never-married individuals abstracts from the effect of marriage on wealth accumulation.
- <sup>7</sup> Barr, 2015.
- <sup>8</sup> Barr, 2015.
- <sup>9</sup> Fairlie, Robb, and Robinson, 2020.

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- <sup>10</sup> Steen, 2021; Orozco et al., 2021.
- <sup>11</sup> Bank of America, 2019; Visa, 2019; Guzman and Kacperczyk, 2018.
- <sup>12</sup> Bradford, 2014.
- <sup>13</sup> Boerma and Karabarbounis, 2021.
- <sup>14</sup> Baboolall et al., 2020.
- <sup>15</sup> Gaskin and Duckett, 2020.
- <sup>16</sup> Barr, 2015; Perry and Romer, 2020.
- <sup>17</sup> Parker, 2015.
- <sup>18</sup> Marich, 2014.
- <sup>19</sup> Fairlie and Desai, 2020.
- <sup>20</sup> Robb, Coleman, and Stangler, 2014.
- <sup>21</sup> Bui, 2021.
- <sup>22</sup> The White House, 2021.

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## About This Perspective

There are significant disparities in entrepreneurship start-up and success for women and racial and ethnic minorities relative to white men. These differences are due, in part, to significant inequities in accumulated wealth, access to capital, and the development of valuable networks that provide mentorship and support. Rectifying these inequities represents a significant opportunity: More-effective entrepreneurial support has the potential to improve wealth accumulation among these groups, revitalize communities where minority business owners are located, and boost economic growth by unlocking the talent of would-be entrepreneurs. By crafting targeted and thoughtful policies to enhance entrepreneurship among these underrepresented groups, policymakers would be promoting equality of opportunity while lifting up the economy as a whole.

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## RAND Lowy Family Middle-Class Pathways Center

This research was conducted within the RAND Lowy Family Middle-Class Pathways Center. The center aims to identify ways to create and sustain middle-class employment in the face of rapidly changing labor-

market conditions. The center is part of RAND Education and Labor, a division of the RAND Corporation that conducts research on early childhood through postsecondary education programs, workforce development, and programs and policies affecting workers, entrepreneurship, and financial literacy and decisionmaking.

For more information about the RAND Lowy Family Middle-Class Pathways Center, visit [www.rand.org/mcpc](http://www.rand.org/mcpc). For more information on RAND Education and Labor, visit [www.rand.org/education-and-labor](http://www.rand.org/education-and-labor).

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