



# A Progressive Agenda for Inclusive and Diverse Entrepreneurship

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By Kate Bahn, Regina Willensky, and Annie McGrew    October 2016

Center for American Progress



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# Introduction and summary

Entrepreneurship is a key driver of U.S. economic dynamism and leadership in the world economy. While many of the academic and policy discussions around promoting entrepreneurship have focused on technology startups and other innovative small businesses, the vast majority of small businesses do not fit that stereotype. The overwhelming majority of small businesses are local shops, restaurants, and services, which play a significant role in building a strong foundation for local communities and national economic growth and development.<sup>1</sup> A sound economic policy is not just about finding the next Steve Jobs; it's also about creating Main Street jobs.

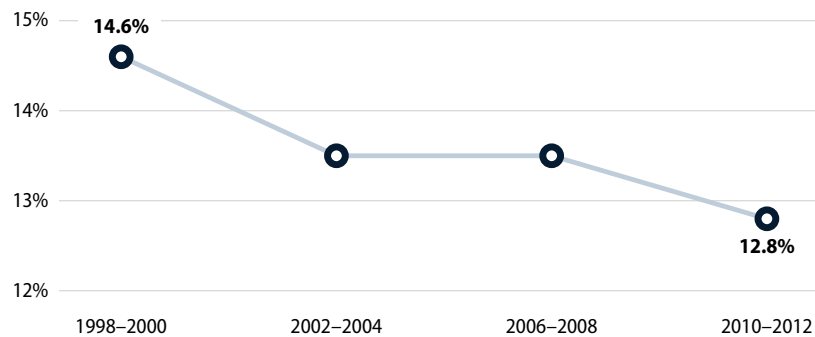
A growing body of research shows that the middle class plays a central role in forming and running these small businesses.<sup>2</sup> However, the reduced economic security of the middle class, which was magnified substantially by the financial crisis and the Great Recession, has meant that entrepreneurship has been largely the realm of upper-income and financially secure households. As the Center for American Progress demonstrated in its recent report, “Raising Wages and Rebuilding Wealth,” middle-class economic security in the form of wages and wealth has begun to recover in recent years, but much more remains to be done to restore a high-pressure, full employment economy.<sup>3</sup> Entrepreneurship is an important part of the equation in both creating, and benefiting from, strong demand in the economy.

Similar to CAP's recent analysis on wages and wealth overall, previous CAP research has shown that entrepreneurship has been on a long-term decline since the early 2000s.<sup>4</sup> This report finds that this trend continues: Looking at all households who are earning income, business ownership steadily declined from 14.6 percent in the period from 1998 to 2000 to 13.5 percent in the mid-2000s to 12.8 percent by 2010 to 2012.<sup>5</sup>

FIGURE 1

### Business ownership rates have decreased since the late 1990s

Business ownership rates in two-year periods, 1998–2012



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

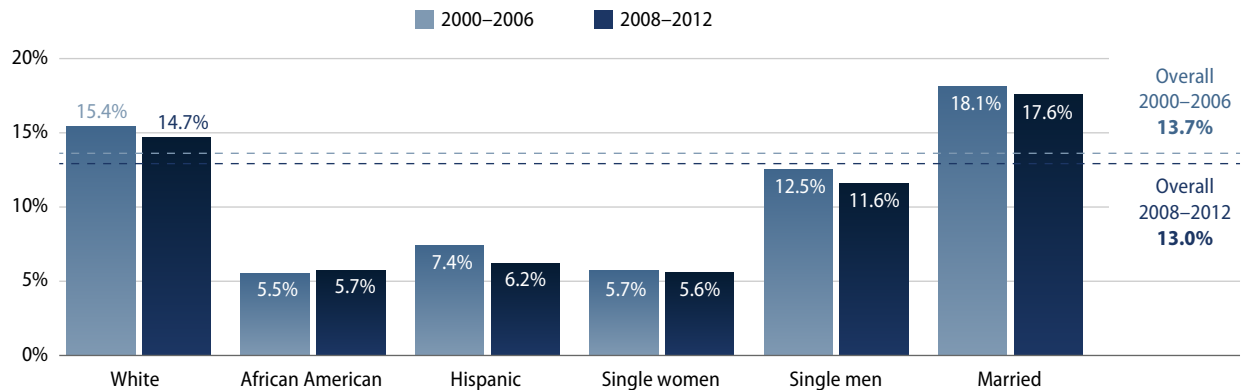
The overall lower rate of business startup since the 1990s is more than simply a statistic. It means that America is also losing out on untapped talent. CAP's report "1 Million Missing Entrepreneurs" found that there would be 1 million more entrepreneurs in the economy today if startup rates had kept up pace from the 1990s.<sup>6</sup>

These challenges are even starker for many communities of color, for women workers, and for low-income families. The authors' analysis using the Panel Study of Income Dynamics, or PSID, shows that African American households and Hispanic households have lower rates of business ownership than white households. Single women have lower rates of business ownership compared with single men, and both have lower rates than married households.

We also find that African Americans are 5 percent less likely to have a business in their household compared with white households—even at the same levels of income, wealth, and education—and Hispanic households are 6.7 percent less likely. Single women are 3.9 percent less likely to have a business compared with single men. These losses are particularly painful, as entrepreneurship is an important strategy for economic development<sup>7</sup> in neighborhoods and cities, as well as for economic mobility for these workers and families.<sup>8</sup>

**FIGURE 2****Business ownership rates are highest among whites, single men, and married households**

Business ownership rates before and after the Great Recession, by race and marital status

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

This report focuses on the challenges to entrepreneurship that people of color\* and women face. It explores the role that lower levels of income and wealth play for people of color and women in their ability to start a business. It examines the structural barriers, such as lack of access to informal entrepreneurial training and networks, more difficulty securing startup capital and business loans, and other challenges to tapping the entrepreneurial spirit. In addition, the report also looks at broader economic factors, such as aggregate demand and competition, as well as gender inequity and other basic public policy challenges, which may also affect people of color and women more or differently. While this report is primarily focused on promoting people of color entrepreneurs and women entrepreneurs, it notes that any of the tools proposed would apply broadly to the small-business community.

This report also proposes policies to help people overcome the barriers to becoming entrepreneurs. These include: enhancing the State Small Business Credit Initiative to address the wealth gap and expand access to capital; developing apprenticeship programs to provide training and hands-on experience for future entrepreneurs; fostering early training and education to encourage entrepreneurship among young people; and creating “one stop shops” and Self-Employment

\*This report's use of the term “people of color” includes the demographics of African Americans and Hispanics. Due to small sample sizes of Asian Americans and other racial and ethnic minorities in the PSID, statistically significant figures could not be calculated for these demographic groups.

Assistance Programs, or SEAPs, to help people start businesses. The report also promotes broad progressive policies that will help raise wages and rebuild wealth for all Americans both to support small businesses and to encourage others to start small businesses.

Of course, starting a business is no guarantee of success—only two-thirds of small businesses survive at least two years, and only half will survive past their first five years.<sup>9</sup> But this report finds that they present an important opportunity for middle-class economic security: Indeed, the authors' calculations with the PSID find that African American small-business owners weathered the Great Recession with a financial position seven times stronger than that of ordinary workers.

Overall, this report shows that progressive policies can help break down the barriers that people face in starting their own businesses and help them become successful business owners. Making entrepreneurialism a career choice open to all will help families build wealth; create opportunities for jobs and mobility in disadvantaged communities; and support a robust, inclusive, and growing economy.



# The benefits of entrepreneurship

Throughout the nation's history, entrepreneurship has served a critical role in driving economic growth and securing the United States' position as a world leader.<sup>10</sup> Reduced entrepreneurial dynamism, with a declining business startup rate and difficulty maintaining and growing small businesses, has been a loss to the economy and to individual communities. Today, entrepreneurship is often associated with technology startups that launch into global companies, but the majority of U.S. entrepreneurs are small-business owners that employ zero to four people. In 2014, U.S. firms with four workers or fewer comprised 62 percent of all U.S. businesses, according to data from the U.S. Census Bureau.\*

Indeed, small businesses are a critical component of a strong local economy, as they not only create jobs but also provide goods and services, generate sales tax revenue, contribute to the quality of life in neighborhoods, and attract potential new residents to help bolster a community.<sup>11</sup> A report from the Federal Reserve Bank of Atlanta found that local entrepreneurship has a significant positive effect on local economies. The report's findings indicate that the percentage of workers employed by locally owned businesses helped the local economy by having a more positive effect on local incomes and employment than larger businesses.

Additionally, locally owned businesses do a better job of recirculating money spent in the local economy than nationally owned businesses. For example, a study by the Maine Center for Economic Policy found that every \$100 spent at locally owned businesses generates an additional \$58 in local impact, while the same amount spent at a national chain store only generates \$33 in local impact. The study indicates that local businesses generate 76 percent greater return to the local economy than larger nationwide chains.<sup>12</sup> Encouraging small local business growth across the United States can be a viable economic development strategy to increase income and employment growth and reduce poverty.<sup>13</sup>

\* Authors' calculations of data from Bureau of the Census, "2014 SUSB Annual Data Tables by Establishment Industry," available at <https://www.census.gov/data/tables/2014/econ/susb/2014-susb-annual.html> (last accessed September 2016).



One of the most important benefits of these small businesses is their impact on employment. As of 2014, self-employed Americans made up 10 percent of the national labor force, according to a Pew Research Center analysis of U.S. Census Bureau data.<sup>14</sup> These microbusinesses are job creators, assets for households, and critical drivers of local economies.

For low-income families in particular, business ownership is a critical aspect of wealth building. Although low-income families often lack the resources needed to start a business, for those who do own businesses, business equity makes up a large percentage of their wealth. For business-owning families in the lowest income quintile, business equity makes up 20 percent of all nonfinancial assets, according to an analysis of Survey of Consumer Finances data by the Federal Reserve Board of Governors. The share of business equity for low-income households is much higher than for households in the middle three percentiles.<sup>15</sup> Further, the median net worth of business owners is nearly two and a half times higher than that of nonbusiness owners.<sup>16</sup> For particular groups, the ratio of business owners' median net worth to nonbusiness owners' median net worth is even greater than that of the general population. For Hispanic business owners, for instance, net worth is five times higher than that of nonbusiness owners, and for an African American woman, the difference is more than 10 times.<sup>17</sup> Such wealth building allows families to weather an unforeseen crisis, plan for the future, and pass wealth down to future generations. In addition, these households can spend more money and help strengthen local economies.

Perhaps most importantly, business ownership is an important wealth generator, which helps protect families during times of economic stress. To no small degree, that business owners tend to fare better than nonbusiness owners in both income and wealth is a self-reinforcing fact. A household is more likely to become an entrepreneur if it is higher income and has greater wealth, and business owners tend to earn more and generate more personal wealth if their businesses survive and are successful. Polling across the years before and after the Great Recession, we find that real median income and wealth declined for most households after the recession, but those who own a business have higher levels of income and wealth than those who do not, both before and after the recession.

This is not say that entrepreneurship has any guarantee of success. Business ownership is a risky profession, as only two-thirds of small businesses survive at least two years, and only half survive past their first five years. Nevertheless, for those that do make it, the benefits are significant and durable. Notably, the

benefits of business ownership held for people of color, women, and low- and moderate-income groups. According to calculations with the Panel Study of Income Dynamics, white households had \$108,300 in wealth with equity, on average, from 2008 to 2012, while African American households had only \$7,530, and Hispanic households had only \$17,000. But those households who own businesses are doing comparatively better than their nonbusiness-owning household counterparts, with African American business-owner households having \$52,174, while nonbusiness owners have \$7,224, Hispanic business-owner households have \$41,280, and nonbusiness owners households have \$16,304. Table A3 in the Appendix gives the median levels of wealth with equity broken down by gender, marital status, and race, as well as by business owner and nonbusiness owner by those characteristics.

# Low rates of entrepreneurship for people of color, women, and low- and moderate-income families

Despite the positive benefits of entrepreneurship, research has found a long-term decline in entrepreneurship in the United States beginning in the early 2000s. The CAP report “1 Million Missing Entrepreneurs”<sup>18</sup> found that the percentage of business-owner households dropped so considerably in the first decade of the century that the U.S. economy had 1 million fewer entrepreneurs than it would have had if it had kept pace from the 1990s.

In order for a household to start a business, it needs to have earned a sufficient enough income working and been able to generate wealth to finance a business or to use as collateral to get outside financing. Often this means that entrepreneurs are older, so that they have had time to experience income growth and build their wealth. Business owners also need skills and knowledge, and this is reflected in business owners tending to have more education, as found in the previous CAP report on “How Does Middle-Class Financial Health Affect Entrepreneurship in America?” Income, wealth, age, and education are some of the most significant predictors of whether someone will be able to start a business.

In “How Does Middle-Class Financial Health Affect Entrepreneurship in America?”, Camilo Mondragón-Vélez found that the decline in business ownership is linked to the hollowing out and the decreased economic security of the middle class.<sup>19</sup> Mondragón-Vélez found that decreasing economic security has meant that new business owners are waiting longer—seven years longer than they used to—before starting a business and doing so with two to three times more wealth than the median worker, compared with less than two times the wealth in the 1980s and 1990s. Middle-class families account for more than half of all business creation in the United States, but their relative wealth compared with high-income families has declined precipitously, particularly during the Great Recession, and has yet to gain back ground.<sup>20</sup> These conclusions support Mondragón-Vélez’s previous scholarly work demonstrating that the unavailability of money to start a business, including the amount someone can borrow, holds back potential entrepreneurs from making the transition to business ownership.<sup>21</sup>

The decline in business ownership is even more challenging for people of color, women, and low- and moderate-income workers. Not only do they face additional challenges in the labor market, but these challenges are mirrored in their relatively lower likelihood of starting a business compared with wealthier white men. Viewing entrepreneurship as an occupational choice and as part of the career ladder for those who want to transition to business ownership highlights the public policy imperative to address the barriers to starting businesses that certain demographic groups consistently face.

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### Business ownership and entrepreneurship for African American and Hispanic households

Using the Panel Study of Income Dynamics, we find that among households with positive income, African American and Hispanic households have significantly lower rates of formal business ownership than white households.

In addition to rates of business ownership, this report examines the rate of new business creation, which is the percentage of households who start a business between one survey and the next survey two years later, since the PSID is collected every other year. Overall, the business startup rate declined between the 2000–2006 period and the 2008–2012 period. However, the rate of business startup for white households was still higher than the rate for people of color households during those periods. Although sample sizes of all people of color who started new businesses in the PSID are too small to be conclusive, the available data do seem to suggest that African American households have lower rates of startup than white households and that this rate declined after the recession.

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### Business ownership and entrepreneurship for single women, single men, and married households

Business ownership is also much lower among households headed by single women compared with single-male-headed households and married households. Business ownership in female-headed households remained effectively constant when averaged from 2000 to 2006 and 2008 to 2012, whereas business ownership of single-male-headed households and married household business ownership both declined.

So few single households started new businesses in the PSID that we were unable to calculate the rate of startup. However, married households started new businesses at higher-than-average rates across the PSID. Both rates decreased in the 2008–2012 period.

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## Business ownership and startup by income level

Echoing the findings of previous CAP research, business ownership and formation rates are much lower by income level. Low-income and middle-income households lagged behind upper-income households above the 90th percentile in their business startup rates and the businesses' performance. Of particular note, the Great Recession appears to have had the largest effect on the ability of middle-income households to start a business.

## Lower rates, but an increasing share of people of color- and women-owned businesses

While people of color and single-female households have lower rates of business ownership and appear to have lower rates of startup—based on their small sample size—surveys of business owners have found that these groups are an increasing share of all business owners.

According to the Census' Survey of Business Owners for 2012, between 2007 and 2012, the number of Hispanic-owned firms increased 46.3 percent and the number of African American-owned firms increased 34.5 percent. In contrast, the total number of firms in the United States increased only 2 percent.<sup>22</sup>

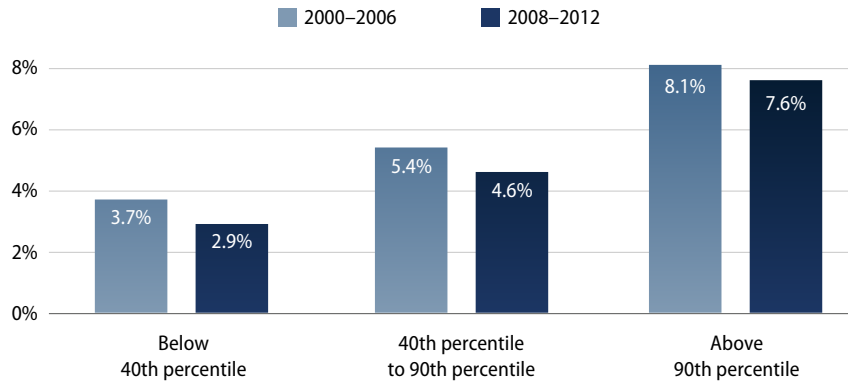
Additionally, women-owned firms now make up 30 percent of all U.S. businesses, according to a Womenable study using the 2012 Survey of Business Owners. Women-owned firms have also become more diverse. The study found that 33 percent of women-owned firms were owned by people of color in 2015.<sup>23</sup> And women-owned firms are also a fast-growing segment. According to the Survey of Business Owners for 2012, they increased 26.8 percent between 2007 and 2012, whereas male-owned firms increased only 6.8 percent.<sup>24</sup>

These rising rates of people of color and women entrepreneurship reinforce the importance of developing policies to help these people become successful entrepreneurs.<sup>25</sup>

FIGURE 3

### Business startup rates are highest among the wealthiest households

Business startup rates before and after the Great Recession, by income level



Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

## The ability of people of color and women to have a business

We know that people of color and women have lower rates of entrepreneurship—but not why this occurs. To better understand the impact of race and gender on entrepreneurship, this report analyzes the likelihood that a household has a business given the common factors that are correlated with business ownership, such as household income, wealth, education, age, and whether someone was unemployed or out of the labor force in the prior year. Wealth is one of the largest and most significant factors influencing the likelihood of starting a business, but income and age are also important and significant. Even when controlling for these factors, however, African American households, Hispanic households, and female-headed households are still less likely to own a business.

Table 1 below shows the relative probabilities of African American, Hispanic, and female-headed households of having a business compared with single white males. These calculations are predicted margins, which model the relative probability that each of these factors predict the likelihood of having a business in the household.

These numbers represent the structural barriers that women and people of color face in being entrepreneurs. This report also calculated the likelihood of entrepreneurship based only on demographics and age (as shown in the Appendix) and

TABLE 1

## How much less likely are African Americans, Hispanics, and women to start a business?

Coefficients of regression analysis on business startup rates, controlling for age and demographic characteristics

Demographic	Relative probability of becoming an entrepreneur, compared with white males
African American households	-5.0***
Hispanic households	-6.7***
Female-headed household	-3.9***
Married households	1.0

\*\*\*  $p < 0.01$

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

found an even lower likelihood of entrepreneurship for these groups. This demonstrates the interplay of demographic background with access to education, earning higher levels of income, generating wealth, and subsequently being able to start one's business. But even people of color- and female-headed households that have the same educational background and are able to earn the same level of income and wealth still have more difficulty starting their own businesses. This suggests the need for policies designed to target these communities.

Not only do these groups have lower rates of business ownership and startup, but when they do have businesses, the nature of their business also tends to be different than that of whites, men, and upper-income people. A report by the Kauffman Foundation found that women have lower ownership rates particularly in high-profit sectors.<sup>26</sup> People of color- and women-owned business growth tends to be largely in lower-earning sectors such as retail and service. Furthermore, they tend to have lower survival rates, meaning that their businesses are more likely to fail.<sup>27</sup>

In addition to the barriers imposed by income gaps, wealth gaps, and educational attainment gaps, people of color and women also face barriers in access to capital for business startup, often lack the networks that make starting a business easier, and are less likely to have business education. These barriers are discussed in detail in the following section and demonstrate that lack of spirit or innate ability are not the reasons why female-headed, African American, and Hispanic households are not becoming entrepreneurs. This also means that there is a role that policy can play to level the playing field.



# Barriers to entrepreneurship for people of color, women, and low- and moderate-income groups

The lower rates of entrepreneurship among people of color and women are largely a result of long-standing and persistent structural wealth barriers, aggravated by challenges accessing the capital, skills sets, and networks needed to start and grow a business.

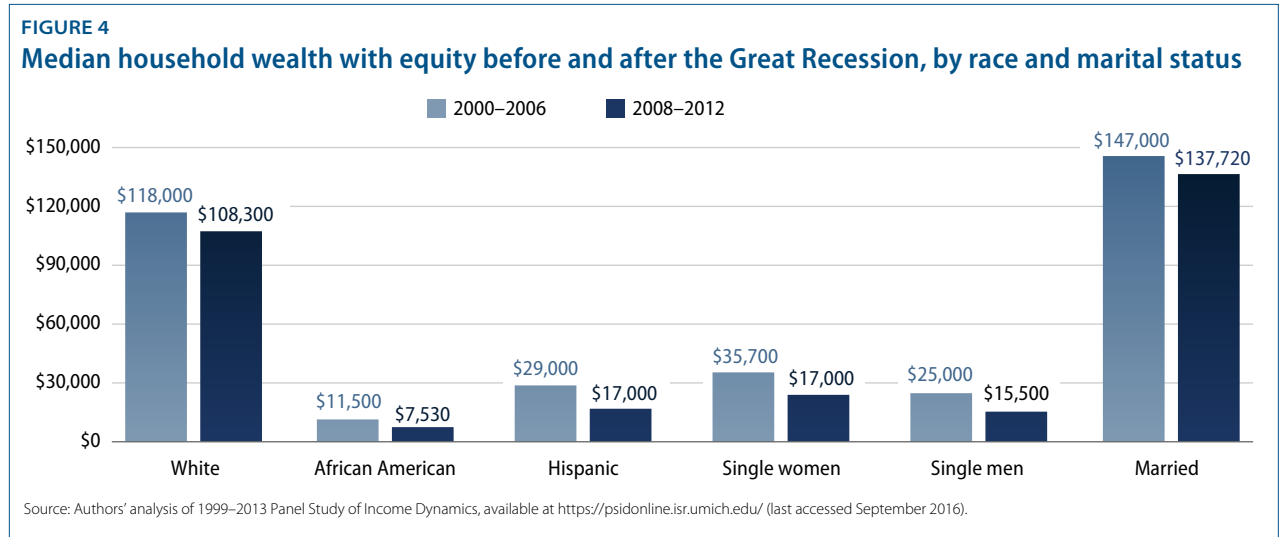
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## The wealth gap

Household wealth is often the initial capital used by an entrepreneur to start his or her business. A lack of personal wealth can thus inhibit a would-be entrepreneur from starting a business. In “What Data on Older Households Tell Us About Wealth Inequality and Entrepreneurship Growth,” CAP found a correlation between wealth inequality and entrepreneurship.<sup>28</sup> The report found that entrepreneurship was especially pronounced among older households and along demographic lines. This finding is correlated with wealth growing primarily for households that are white, married, college educated, and 50 years old and older.<sup>29</sup> Both people of color and women face income gaps and wealth gaps compared with whites and men, which makes it harder for them to start their own businesses.

The regression analysis available in the Appendix demonstrates that greater amounts of wealth are one of the largest factors that increases the likelihood of starting a business. This is also confirmed by the extensive research on capital access for people of color business owners and women business owners. One of the primary reasons behind the lower rate of business startup for women and people of color is the wealth gap these groups experience. Economist Robert Fairlie has found that asset level gaps are the single largest factor explaining the lower rate of business creation for African Americans compared with whites and a major factor in the lower rate for Hispanics.<sup>30</sup>

As the data below and in the Appendix show, these wealth gaps between women and men and whites and people of color are correlated with lower rates of business startup and ownership for women and people of color, respectively. Unfortunately, a persistent wage and wealth gap exists between white, male-headed households and households headed by single women and people of color.



The wealth gap has a profound effect on the ability to start a small business and also on the ability of a small business to weather economic turmoil and small temporary setbacks. Almost every small business faces times of economic uncertainty, and the survival of the business is likely dependent on the entrepreneur's access to adequate financial resources. Household wealth is often a significant component of enabling the business to survive and thrive over the long term.

### Access to capital

Access to capital is one of the most important factors in starting a business, and variations in access to capital by gender, race, and ethnicity can help us understand why business startup and ownership rates are lower for women, African American households, and Hispanic households. In addition to lower levels of wealth, African Americans, Hispanics, and women have a harder time securing business investment and financing and incur higher borrowing costs to start a business.

A report for the U.S. Small Business Administration, or SBA, found that people of color business owners and women business owners are more likely to finance their business with their own assets, which makes it harder to start a business given asset gaps by race and gender.<sup>31</sup> Financing with personal assets also means that these groups start with less capital and that they are at significantly more personal risk in starting a self-financed business. According to research from the Kauffman Firm Survey, female entrepreneurs face greater financial barriers and typically have less than half the amount of financing of their male counterparts. Initial disparities in financing startups do not go away as the business continues.<sup>32</sup> Economists Thomas Astebro and Irwin Bernhardt found that personal loans—from friends, family, and former business owners—are correlated with a greater likelihood of business success, demonstrating the importance of personal networks in one’s ability to start a business. Of those business owners who had some kind of loan, highly qualified owners—as defined by Astebro and Bernhardt as those with high levels of human capital and wealth—appear to self-select noncommercial loans.<sup>33</sup>

In addition to being more likely to fund a new business venture with one’s personal assets, people of color and women are also less likely to apply for business loans because of fear of denial.<sup>34</sup> This is not unfounded, since these groups are also more likely to be denied a loan or to pay higher interest rates compared with equally qualified white business owners applying for business loans.<sup>35</sup> Using data from the Kauffman Foundation, economist Alicia Robb found that people of color and women say they do not apply because of fear that they will be denied a loan and because they are in fact denied loans more often.<sup>36</sup> However, when controlling for credit quality, industry, and other owner and firm characteristics, the racial and gender differences are not statistically significant in the years after business startup.

Barriers to business financing are correlated with restricted capital access in the housing market. The 2015 CAP column “Time to Reboot the Housing Market” found that “the housing market remains in a state of lethargy and, with overly rigid underwriting standards, unnecessarily excludes first-time buyers, young adults, and people of color from the opportunity of home ownership.”<sup>37</sup> The Minority Business Development Agency report “Disparities in Capital Access between Minority and Non-Minority-Owned Businesses” found that the decline in housing equity for people of color has been a significant barrier to starting a business, since housing equity can be used as collateral in securing financing and is a determinant of whether one can start a business.<sup>38</sup> As the SBA issue brief “Access to Capital for Women- and Minority-owned Businesses: Revisiting Key Variables,” states, “Home ownership may provide an important catalyst to small business growth, but it may also serve as a barrier to entry for prospective entrepreneurs.”<sup>39</sup>

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## Access to education and training

The ability to start and successfully own a business is boosted by both education and training specific to business, as well as by higher levels of education in general. We know that business owners tend to have higher levels of education, with calculations showing, on average, 14.4 years of education for business owners in the PSID from 2008 to 2012 and 13.6 years of education for nonbusiness owners in the PSID in the same time period. The SBA analyzed the education levels of business owners and employees using the Survey of Income and Program Participation and found that 39.2 percent of business owners have a bachelor's degree or higher, while 29.2 percent of employees have a bachelor's degree or higher.<sup>40</sup>

Since businesses owners tend to have higher levels of educational attainment, certain demographics with lower educational attainment levels might face barriers to entrepreneurship. For example, Hispanics reported the lowest percentage of educational attainment at every education level: They graduate high school at a rate of 66.7 percent and graduate college at a rate of 15.5 percent, according to 2015 Census data.<sup>41</sup> African American rates are right above Hispanic rates. African Americans graduate high school at a rate of 87 percent and graduate college at 22.5 percent.<sup>42</sup> Additionally, in higher education, African Americans disproportionately study business,<sup>43</sup> demonstrating the desire to go into business despite the barriers to starting one's own.

However, comparing general educational attainment, such as receiving a bachelor's degree, cannot explain the disparity in business startup rates between genders, since men and women have very similar educational attainment rates.<sup>44</sup> Women across all races have slightly less business education compared with men<sup>45</sup> but a small enough magnitude that it is unlikely to explain the greater magnitude of lower business ownership and startup rates.

# Policies to foster inclusive and diverse entrepreneurship

The United States should do more to foster inclusive and diverse entrepreneurship in the economy, for the economic well-being of entrepreneurs and their households, for local economic development, and for the dynamism of the American economy overall. Below, evidence is discussed that supports increasing investments in policies and programs to help more Americans overcome the barriers preventing them from tapping their entrepreneurial spirit.

The nation's current patchwork system to support entrepreneurship does not do enough to reach all Americans, especially those who have lower rates of business startup. Thus, many of the policies proposed here are designed to especially benefit people of color business owners and women business owners. However, many of the policies will help anyone seeking to start a business and also foster a healthy economy that supports small businesses.

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## Addressing the wealth gap and expanding access to capital through an enhanced State Small Business Credit Initiative

As described above, two important inhibitors for potential entrepreneurs are lack of personal wealth and lack of access to capital. While much of the discussions about promoting entrepreneurship have focused on a business soliciting funds from the capital markets, the reality is that this path to funding is only viable for a tiny fraction of small businesses. For the broader array of small businesses that need capital, a far more effective approach is to focus on other, more specific tools designed to assist those with less wealth and greater barriers to accessing capital for business formation.

Traditional capital access relies on having personal wealth, networks to help, and banking services.<sup>46</sup> Communities of color and low-income communities are often underserved by banks.<sup>47</sup> Programs that work to overcome these barriers in secur-

ing capital will help create more diverse and inclusive entrepreneurship. This also works best when local communities have a role in designing programs that best suit their unique needs and entrepreneurial ecosystem.

One such example is the Small Business Administration's Microloan Program. The Microloan Program operates through Community Development Financial Institutions, or CDFIs, specialized high-touch lenders that provide affordable products, flexible underwriting, and technical assistance to support businesses in low-income communities. The SBA's traditional 7(a) and 504 loan programs also fill a critical gap for underserved small businesses, since these types of guaranteed loans are often more accessible and lower cost than small bank loans not guaranteed by the SBA. The SBA also funds other, more specifically targeted programs.<sup>48</sup>

While the SBA administers a range of targeted programs, one innovative program, owing to its design and flexibility, possesses particular potential for expanding access to capital in underserved communities. The U.S. Department of the Treasury's State Small Business Credit Initiative, or SSBCI, was created by the Small Business Jobs Act of 2010 as a response to the fallout from the financial crisis and the Great Recession.<sup>49</sup> It was meant to provide lending to small businesses and small manufacturers that were unable to obtain the loans and investments they needed due to banks' reluctance to lend under economic uncertainty. Small-business owners were hit hard in the Great Recession by collapsing demand for their goods and services, as well as by sharp declines in the value of many assets, both personal and business, that served as collateral for bank loans.<sup>50</sup>

With those circumstances in mind, the SSBCI was authorized to provide—and provided—\$1.5 billion over seven years, commencing in 2010 through its expiration in 2017, directly to states to design and develop their own targeted small-business support programs that would address the unique economic challenges they faced in the Great Recession.<sup>51</sup> To maximize impact, the program required states to leverage the federal investment with private-sector investment, and to date, the SSBCI has in fact leveraged \$8 in private-sector lending or investment for every \$1 of SSBCI funds.<sup>52</sup>

As applied by state and local economic development corporations, the SSBCI addresses two essential challenges for many entrepreneurs: (1) the ability to pledge enough collateral for a loan; and (2) the ability to make full loan payments immediately, as opposed to six months or one year later. Using SSBCI funds, for example, a state economic development corporation could assist a borrower in obtaining a loan from a private bank by pledging a portion of the collateral needed to support the loan.

This structure has a number of significant advantages. First, it significantly leverages federal investments by pairing them with private funding. This maximizes limited public investments and also helps align incentives. Second, the specific transactions are entered into by private parties—often community banks—and overseen by state and local development corporations. Locally focused decision-making not just improves the quality of funding decisions, but also the programs are designed by states with responsiveness to local economic conditions and programmatic accountability.

But what makes the SSBCI so valuable as a tool for expanding access to capital for traditionally underserved communities is its flexibility. States were given wide latitude to develop programs in any one of five categories to best serve local market needs: capital access by being able to secure financing to start a business; loan participation; and collateral support by having assets to use to guarantee a loan; and venture capital from investors who help finance a new business. And states did implement these programs in a variety of ways. This flexibility is one of the reasons why the SSBCI offers such potential for addressing the wealth and capital barriers highlighted in this report.<sup>53</sup>

The U.S. Department of the Treasury has highlighted a range of examples of businesses that have benefited from support from different types of SSBCI programs, including SSBCI-supported loans by a CDFI<sup>54</sup> and the SSBCI Cash Collateral Program, among others.<sup>55</sup>

An important part of the SSBCI funding application is for each state to increase access to capital for small business in low- and moderate-income communities; communities of color; underserved communities; and for women- and people of color-owned small businesses.<sup>56</sup> Indeed, the SSBCI has been reasonably successful in achieving some of these goals. For example, 42 percent of SSBCI loans were made in low- or moderate-income communities from 2010 to 2014.<sup>57</sup> However, with the Great Recession and its particular challenges now several years in the past, more can be done to achieve all of these goals—especially that of increasing access to capital for women- and people of color-owned small businesses.

Although the SSBCI was initially funded with \$1.5 billion, that funding expires in 2017. As seen in the previous analysis, the decline in opportunities for small businesses is part of a longer-term trend that merits a policy response. The first years of the SSBCI demonstrate its effectiveness and flexibility during challenging economic circumstances. If deployed with focus and creativity, this program offers



a powerful vehicle for helping overcome the particular barriers to capital that people of color and women face in being entrepreneurs. Congress should reauthorize the SSBCI and expand it, and the Treasury and the states should implement it with greater focus to these particular goals.

More specifically, states should develop, and the Treasury Department overseeing the SSBCI should support, programs particularly designed to support small-business lending to lower-wealth but still creditworthy entrepreneurs. For example, a specially designed program that combines a capital access tool with a collateral support tool—to make up for limited assets—could potentially fill this need. More research and experimentation via pilot programs may be appropriate.

One last benefit for utilizing the SSBCI as a means to expand entrepreneurship opportunities is that it does not require going down the dangerous road of banking or securities deregulation. That road, traveled before, rarely leads to enhanced opportunity for disadvantaged communities; in fact, it quite often leads to additional abuse of these communities.<sup>58</sup> In fact, from a wealth perspective, one of the major reasons why communities of color are in such dire straits is that the consumer protection violations that played such a significant role in the financial crisis were disproportionately harmful to them.<sup>59</sup> This was both because these communities were targeted by the abusers and because much of their wealth is tied up in housing. As noted earlier, this highlights the fundamental importance of expanding entrepreneurial opportunity as a means of diversifying wealth.

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## Develop entrepreneurial apprenticeship

CAP has strongly advanced the idea of combining skills learning and on-the-job experience through apprenticeships. Apprenticeships combine on-the-job training with classroom instruction and have been successful at providing workers with the skills they need to get good-paying jobs.<sup>60</sup> And while a small-business apprenticeship might not fit within the ordinary conception of an apprenticeship, a creative approach to apprenticeships could give prospective entrepreneurs the skills, experience, and network they need to become a successful entrepreneur.

Some efforts along these fronts are already happening. For example, organizations such as Venture for America connect potential entrepreneurs with companies where they can get useful experience, while also helping those companies be successful, create jobs, and develop communities.<sup>61</sup> Expanding this model to be a

more formal apprenticeship paired with classroom instruction could help people learn the technical day-to-day business operations skills that are necessary for success, while also ensuring that potential entrepreneurs can support themselves as they learn how to become future business owners. For those who have less income and wealth, the ability to earn an income while learning entrepreneurship skills through an apprenticeship program could be crucial. These entrepreneurial apprenticeship programs also help build networks for entrepreneurs, which is especially crucial in encouraging women and people of color to become entrepreneurs, since networks provide knowledge and support to business owners.

Apprenticeships may also be valuable because there does not appear to be a significant gap in access: Women seek business education at similar rates as men,<sup>\*</sup> and African Americans seek business education at even higher rates than whites.<sup>62</sup>

Funding for mentoring is often focused on early-stage business owners. But it could also be effective when teaching future business owners the daily ins and outs of running a business while they are simultaneously able to support themselves by working for the company where they apprentice. The SBA Entrepreneurial Mentor Corps<sup>63</sup> launched in 2011 to help early-stage entrepreneurs in high-growth sectors. While the focus on high-growth entrepreneurship is beneficial in fostering more diversity in high-growth sectors and in growing the American economy, the expansion of these programs to more industries could also help reach out to underserved communities. These programs could be encouraged to include apprenticeship for community-based businesses that would be more inclusive of people of color business owners and women business owners, which would help develop business and an entrepreneurial ecosystem within these communities. Apprentice programs for entrepreneurship address the need for specific entrepreneurial skills and training when formal business training is not feasible or accessible.

<sup>\*</sup> Based on authors' calculations of National Center for Education Statistics data. See National Center for Education Statistics, "Table 322.40. Bachelor's degrees conferred to males by postsecondary institutions, by race/ethnicity and field of study: 2012-13 and 2013-14," available at [http://nces.ed.gov/programs/digest/d15/tables/dt15\\_322.40.asp?current=yes](http://nces.ed.gov/programs/digest/d15/tables/dt15_322.40.asp?current=yes) (last accessed September 2016); National Center for Education Statistics, "Table 322.50. Bachelor's degrees conferred to females by postsecondary institutions, by race/ethnicity and field of study: 2012-13 and 2013-14," available at [http://nces.ed.gov/programs/digest/d15/tables/dt15\\_322.50.asp?current=yes](http://nces.ed.gov/programs/digest/d15/tables/dt15_322.50.asp?current=yes) (last accessed September 2016). From 2013 to 2014, females were awarded 47 percent and males were awarded 52 percent of all undergraduate business degrees.

Apprenticeships could be especially useful at reducing the riskiness of small-business ownership, noted above, for people of color entrepreneurs and women entrepreneurs, who generally start with lower economic security.<sup>64</sup> Acquiring the skills through hands-on experience in a successful business while earning an income could help mitigate the risks of business failure in a new startup, since the entrepreneur would have more income to start with and more skills for business management.

Potential channels already exist to build apprenticeships for entrepreneurs. Grant programs such as the SBA Growth Accelerator Fund award grants to organizations that foster entrepreneurship through developing local ecosystems.<sup>65</sup> These funds could be increased and expanded to include programs that develop apprenticeship programs as a means of developing an entrepreneurial ecosystem. Once an explicit call for these programs is made, incubators and accelerators could also play a role in further developing these programs.

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### Foster early training and education to help young people foster an entrepreneurial spirit

Entrepreneurship among parents also leads to an increased likelihood of entrepreneurship for their children. In a survey of college students and graduates commissioned by the SBA, of the students whose parents were entrepreneurs, 39 percent went on to found their own entrepreneurial organization, compared with only 26 percent of those whose parents never started their own business.<sup>66</sup> It is clear that being exposed to entrepreneurship at a young age helps develop one's entrepreneurial spirit, or at least the vision of it as a career option. This creates path dependency, meaning that current rates of business ownership are perpetuated. Therefore, young people of color will have less exposure to business ownership within their households because their parents are less likely to be business owners. By the time a person reaches out to an incubator program or seeks technical assistance for applying for a business loan, they have already likely had exposure to entrepreneurship in their communities and self-selected into business ownership. Policies that target incubator programs will only be effective in encouraging entrepreneurship among individuals who already have self-selected to be entrepreneurs. If youth in low-income communities are not able to develop an early sense and reassurances that they could start their own business one day, they may not reach out to find their nearest incubator or technical assistance program.

Fortunately, there is evidence that entrepreneurial education and training, or EET, besides overall liberal arts or general business education, may also increase entrepreneurial outcomes, both startup and performance, as found in a meta-analysis of the effect of EET.<sup>67</sup> Expanding EET to young people and communities of color will likely increase exposure to entrepreneurship in households and communities where there are lower rates of business ownership.

A survey commissioned by the SBA with researchers from various business schools found that those who took entrepreneurial courses in college or graduate school were more likely to start and work at business startups. Thirty-nine percent of students who took an entrepreneurship course were a founder of an entrepreneurial business, compared with 26 percent who did not take a similar course.<sup>68</sup> One scholarly survey of 73 studies on entrepreneurship education found a small but positive and statistically significant effect of entrepreneurship intentions.<sup>69</sup> Learning about entrepreneurship increases the entrepreneurial spirit.

In communities where ready access to models for entrepreneurship are lacking, education and outreach programs at an early age could help make a difference. The Aspen Institute's "Youth Entrepreneurship Education in America" guide encourages policymakers to develop entrepreneurship training, especially in the school systems serving low-income communities, and to adopt standards for youth entrepreneurship education.<sup>70</sup> The adoption of guides such as these by cities and states could both increase diversity among entrepreneurs and help communities become inclusive entrepreneurial ecosystems.

Numerous high school entrepreneurship programs have already been developed in order to encourage young people to think of themselves as future entrepreneurs and to develop their own innovative business ideas at an early age.<sup>71</sup> Junior Achievement USA is the nation's largest organization devoted to developing entrepreneurs at a young age and reaches more than 4 million students per year through its classroom and after-school programs.<sup>72</sup> Public schools in low-income communities can collaborate with nonprofit organizations to use school space and classroom time to expose young people to entrepreneurship. Programs such as Sponsors for Educational Opportunity and Girls Who Invest also help expose young people to the possibilities of the business world, opening up their worlds more broadly and hopefully creating a virtuous cycle of networks—and capital—flowing back into diverse communities.<sup>73</sup>

Communities can also help create their own local entrepreneurial ecosystems outside their school systems. The Philadelphia-area Startup Corps fosters entrepreneurship in low-income communities and among a diverse background of young people. Startup Corps has received municipal funding from the city of Philadelphia matched by private sponsorship to expand its program by increasing the number of students and by reaching out to diverse communities of students who may want to get a jump-start on building the skills and ideas for starting their own businesses.<sup>74</sup> Other cities can follow suit by providing matched grants to incubators that would explicitly reach out to low-income communities and develop a more inclusive and diverse entrepreneurial ecosystem.

The benefits to cities developing high school entrepreneurship programs extend beyond the direct outcome of students starting their own businesses. High school entrepreneurship programs are also encouraged as a way to engage discouraged students in low-performing schools and to encourage students to stay in school. The nonprofit BUILD Greater Boston teamed up with startup accelerator MassChallenge to increase high school graduation rates and college acceptance rates. Working in schools with graduation rates as low as 40 percent, these programs saw graduation rates rise to more than 95 percent among their program participants.<sup>75</sup> The Network for Teaching Entrepreneurship, or NFTE, report “The NFTE Difference: Examining the Impact of Entrepreneurship Education” found a lower dropout rate among NFTE alumni between ages 16 and 19 than the national average and higher rates of having a high school diploma by age 25 among NFTE alumni compared with the national average.<sup>76</sup>

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## Tapping the resources of ‘one stop shops’ and Self-Employment Assistance Programs to help people start businesses

An additional barrier for all entrepreneurs, but especially for those who already have less access to networks and capital, is navigating how to formally open a business. For many new entrepreneurs, navigating the regulatory requirements necessary for starting a new business can be especially burdensome. Local one-stop shops can help ease these burdens by providing advice and support to entrepreneurs, including information on taxes, registration, licensing, and the other parts of the regulatory process. Thus, these local one-stop shops help ease some of the issues that entrepreneurs face in navigating the regulatory process.

Some states—including Michigan, Ohio, and Virginia—offer one-stop shop online portals for business owners to access the various services they need to start their business, from registering as a business to filing local taxes.<sup>77</sup> These “Business One Stop” websites, as they are called in these states, provide a simple gateway that directs business owners to the various state-level departments they need to interact with in managing their business. For example, Michigan’s Business One Stop directs potential business owners to the Michigan Treasury for filing sales tax and to an e-Registration website for registering a new business online.<sup>78</sup>

The benefits of one-stop shops can be applied to support the success of other municipal and state programs to help people get their businesses off the ground, such as Self-Employment Assistance Programs. These programs existed in a few states—Delaware, Maine, New Jersey, New York, and Oregon—when the program was promoted and extended through the Middle Class Tax Relief and Job Creation Act of 2012.<sup>79</sup> The U.S. Department of Labor provided \$35 million in grants to develop SEAPs as an extension of reforms to unemployment insurance.<sup>80</sup> Emphasis should be given to SEAPs that have a physical presence in a classroom because they tend to be more accessible to a broader range of people. Ideally, an individual location would reach out to particular groups of potential entrepreneurs in its area who tend to have lower rates of business ownership and are less likely to have access to the internet, such as Spanish speakers, adults with less than a high school education, and lower-income families.<sup>81</sup>

Participants in SEAPs receive benefits equal to unemployment insurance while learning necessary skills to start a business.<sup>82</sup> New York state’s SEAP links the receipt of unemployment benefits to training for business ownership, including 20 hours of entrepreneurship training and meetings with a business counselor.<sup>83</sup> Oregon’s program supplements counseling with the addition of technical assistance on developing a market feasibility study and business plan.<sup>84</sup> In addition to providing business counseling, technical assistance, and the equivalent of unemployment insurance, SEAPs could be expanded through greater involvement from local municipalities to integrate assistance provided in one-stop shops, such as licensing and permitting, so that new businesses can also navigate the regulatory landscape in their location.

CAP, the National Employment Law Project, and the Georgetown Center on Poverty and Inequality propose additional reforms to the unemployment insurance program to enable SEAPs to reach more workers successfully.<sup>85</sup> Ideas include lifting the requirement that they be budget neutral, allowing jobless workers to participate in the program from the beginning of their unemployment insurance claim, and allowing participants to collect up to half of their remaining unemployment insurance benefit entitlement upfront to finance the start of their business.

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## Broad progressive economic policies can also expand the opportunities for entrepreneurship

As explained in previous CAP reports on entrepreneurship, entrepreneurial potential depends greatly on the overall economic environment. As such, although these policies are not targeted at people of color entrepreneurs and women entrepreneurs, they are nevertheless essential for these group's small businesses to succeed.

For example, macroeconomic policies that boost and sustain aggregate demand both create the wealth that potential entrepreneurs need to venture out on their own and bring the customers those small-businesses owners need to thrive.

The 1990s, when small-business growth was strong, was a decade of tight labor markets, rising wages, and a strong middle class. In “How Does Middle-Class Financial Health Affect Entrepreneurship in America?”, Mondragón-Vélez found that the percentage of business-owner households peaked in the second half of the 1990s at 13.6 percent.<sup>86</sup> The U.S. economy, and especially the middle class as part of it, have been hit hard by stagnant middle-class wages since 2001, as well as by the financial crisis and the Great Recession, which devastated employment, aggregate demand, and middle-class wealth. As the Roosevelt Institute shows in its recent report “Declining Entrepreneurship, Labor Mobility, and Business Dynamism,” declining entrepreneurship is correlated with declining labor demand, so workers are locked into jobs in a slack labor market and unable to make the risky transition into entrepreneurship.<sup>87</sup> When labor demand is low, workers cannot take the risk to try to start their own business and lose their job prospects. This is an especially important conclusion if one views entrepreneurship as an occupational choice which represents the next step on the career ladder for many people who want to have autonomy over the work they do and own their businesses themselves.



In the recent report “Raising Wages and Rebuilding Wealth,” CAP proposed a suite of policies designed to strengthen demand, ensure a strong labor market, and promote a robust middle class.

A wide range of other policies also impact entrepreneurial potential, including antitrust enforcement that protects competition in the marketplace;<sup>88</sup> immigration reform; policies that reduce gender and sociocultural inequity; and policies that ensure access to an affordable, high-quality education.<sup>89</sup> These can make a difference in expanding opportunities to become an entrepreneur.

## Conclusion

Entrepreneurial dynamism is one of the key features of inclusive opportunity in the American economy. This report shows that entrepreneurship is a pathway to moving up a career ladder, realizing higher income and wealth, developing communities, and creating a competitive and dynamic American economy. But previous CAP research has demonstrated a decline in entrepreneurialism over the past 15 years.<sup>90</sup> Furthermore, certain groups continue to be underrepresented among business owners, a trend beyond the recent decline in overall rates of startup. People of color and women are less likely to own businesses already and to start their own businesses. This is correlated with persistent income and wealth gaps.

This report's data analysis demonstrates that wealth is one of the largest determinants in starting a business. Research shows that people of color business owners and women business owners are less likely to apply for and receive small-business loans and are more likely to rely on self-financing their businesses, which gives them substantially less capital to start with if they are facing income and wealth gaps already. They also are less able to tap into skills and mentorship networks. Policies need to target the many real barriers that people of color business owners and women business owners face in their ability to plan for and start their own businesses.

# Appendix: Methodology

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## Data

The Panel Study of Income Dynamics is a nationally representative longitudinal data set that began in 1968, following families through multiple generations. An immigrant sample was added between the 1997 and 1999 surveys in order to maintain its nationally representative nature with the inclusion of newer immigrant populations, partially households of Hispanic descent. For this analysis, we rely on data from 1999 to 2013 in order to include the more representative sample that includes the immigrant addition.\* The panels are conducted every other year during the period we are examining.

We use a broad measure of entrepreneurship which has also been used by Hurst and Lusardi (2004).<sup>91</sup> In each survey year of the PSID, entrepreneurs are defined as households who own a business, answering the question, “Did you (or anyone else in the family there) own a business at any time in [the prior year] or have a financial interest in any business enterprise?” In Mondragón-Vélez’s 2009 paper using the PSID, “The probability of transition to entrepreneurship revisited: wealth, education and age,” entrepreneurs are defined as business owners who are identified as self-employed.<sup>92</sup> In this analysis, we prefer to use the broader measure, which more closely captures the concept of entrepreneurship and includes those households who may start a business in addition to other employment. Also, the narrower measure provides a smaller number of entrepreneurs.

The variables that we include as explanatory variables are household race; gender of household head; an indicator of the person’s marital status; household taxable income; household wealth; household equity; years of education; age; and

\*The financial variables of income and wealth are the prior full year’s data. So the 2013 panel refers to 2012 for income and wealth. The variables for employment status, including unemployment and being out of the labor force, were lagged to the previous wage to understand how they affected the incidence of business ownership in the current wage.

age-squared. We follow previous literature on entrepreneurship by focusing on the roles of age, education, and economic factors such as income and wealth. (see, for example, the 2009 Mondragón-Vélez work and the 2004 Hurst and Lusardi work) While Hurst and Lusardi use household net worth, we follow Mondragón-Vélez in using real household wealth because the wealth data allow us to understand the assets that a household can mobilize in financing a business startup or maintaining cash flow. The PSID contains two primary variables, wealth and wealth with equity. For our regression analysis, we separate the valuation of household equity in order to delineate between liquid assets that could be mobilized directly to start a business and the value of equity that could be leverage as collateral in obtaining financing. How we constructed each variable is listed below.

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## Variables related to the probability of business ownership

### *Income*

The natural logarithm of the head of household and wife's total taxable income in the prior year: This variable includes the head's and wife's/"wife's" income from assets, earnings, and net profit or loss from a farm or business. Our sample is limited only to those with positive income.

### *Wealth without equity*

The natural logarithm of the constructed variable that is a sum of seven asset types: value of farm/business (if sold and paid off debts); value of checking/savings accounts; value of other real estate; value of stocks; value of vehicles; value of other assets; value of annuity/individual retirement account; net of value of other debt.

### *Value of equity*

The logarithm of value of home equity.

### *Age*

Actual age of head, over age 18, recoded N/A to represent missing values.

### *Less than high school diploma*

Less than 12 years of education.

### *High school diploma*

12 years of education.

### *Some college*

More than 12 years and fewer than 16 years of education.

### *College degree*

16 or more years of education.

### *Single-female-headed household*

Sex of head of household coded as female, couple status as head with no wife, “wife,” husband, or first-year cohabitor or with only a first-year cohabitor.

### *Married household*

Couple status is head with wife present, head with “wife” present, head (female) with husband present—but there should be none of these, since head with a spouse is automatically male in opposite-sex couples.

### *African American household*

Both head and spouse (if any) self-identifying as black or African American, without Spanish descent (non-Hispanic).

### *Hispanic household*

Response to the questions: “Are you Spanish, Hispanic, or Latino? – That is, Mexican, Mexican American, Chicano, Puerto Rican, Cuban, or other Spanish?” This variable began to be asked in 2005, so we rely on this stationary variable in a balanced panel to represent Hispanic origin across all years. Both head and spouse (if any) are of Spanish descent.

### *1997 immigrant sample add*

A dummy variable identified by the interview number denoting that the household was part of the 1997 immigrant sample addition.

### *Unemployed previous year*

Employment status of head of household answered as unemployed, looking for work, or temporarily laid off. Lagged to the previous panel.

### *Out of labor force previous year*

Employment status of head of household answered as retired, permanently disabled, housewife/keeping house, or student.

## Summary statistics

**TABLE A1**  
**Age and years of education of head of household,  
 by business ownership status**

	2000–2006	2008–2012
Age of business owners	48.9	51.5
Age of nonbusiness owners	48.3	49.4
Years of education of business owners	14.2	14.4
Years of education of nonbusiness owners	13.2	13.6

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

**TABLE A2**  
**Median real household income before and after the Great Recession  
 by business ownership and demographics, in 2015 dollars**

Demographics	2000–2006	2008–2012
Single-female-headed households	\$24,897	\$23,913
Single-female-headed households who own a business	\$36,864	\$39,130
Single-female-headed households who do not own a business	\$24,319	\$23,261
Single-male-headed households	\$36,003	\$30,960
Single-male-headed households who own a business	\$65,995	\$56,760
Single-male-headed households who do not own a business	\$34,256	\$29,022
Married households	\$77,207	\$72,296
Married households who own a business	\$107,791	\$103,302
Married households who do not own a business	\$71,578	\$68,111
Head of household in white, non-Hispanic households	\$53,827	\$48,913
Head of household in white, non-Hispanic households who owns a business	\$94,616	\$89,130
Head of household in white, non-Hispanic households who does not own a business	\$47,679	\$43,612
Head of household in African American, non-Hispanic households	\$35,178	\$31,265
Head of household in African American, non-Hispanic households who owns a business	\$62,944	\$50,330
Head of household in African American, non-Hispanic households who does not own a business	\$34,256	\$30,837
Head of household in Hispanic households	\$36,386	\$34,861
Head of household in Hispanic households who owns a business	\$60,523	\$49,780
Head of household in Hispanic households who does not own a business	\$35,132	\$34,056

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

TABLE A3

### Median real household wealth with equity before and after the Great Recession by gender, marital status, and race

Demographics	2000–2006	2008–2012
Single-female-headed households	\$46,245	\$25,800
Single-female-headed households who own a business	\$231,087	\$147,781
Single-female-headed households who do not own a business	\$39,953	\$23,043
Single-male-headed households	\$31,884	\$16,520
Single-male-headed households who own a business	\$202,889	\$194,565
Single-male-headed households who do not own a business	\$24,440	\$12,445
Married households	\$189,461	\$147,687
Married households who own a business	\$455,502	\$424,665
Married households who do not own a business	\$155,112	\$120,109
White, non-Hispanic households	\$149,931	\$115,639
White, non-Hispanic households who own a business	\$420,220	\$416,304
White, non-Hispanic households who do not own a business	\$122,961	\$92,879
African American, non-Hispanic households	\$14,492	\$8,152
African American, non-Hispanic households who own a business	\$61,924	\$52,174
African American, non-Hispanic households who do not own a business	\$13,181	\$7,224
Hispanic households	\$37,139	\$18,576
Hispanic households who own a business	\$193,302	\$41,280
Hispanic households who do not own a business	\$31,368	\$16,304

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

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## Regression analysis

In order to understand why people of color and women own businesses at lower rates than whites and men, we ran linear probability models, or LPMs, on business ownership and transitioned into business ownership dependent on demographics, income, wealth, equity, age, education, and labor force status. The coefficient on a given variable represents the impact of the variable on the increased or decreased probability of having a business or becoming a business owner based on that factor. LPMs are appropriate when many of the independent variables are indicators themselves\* and are useful for their straightforward interpretation. The results were also more robust than those resulting from a longitudinal probit model. The results from the regressions are listed in the following tables.

\*Woolridge notes that “the case for the LPM is even stronger if most of the  $x_j$  are discrete and take on only a few values.” See Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data, First Edition* (Cambridge, MA: The MIT Press, 2010), p. 456.



**TABLE A4**  
**Linear probability model of business ownership**

Business ownership	Age and demographics	Age, demographics, and education	Age, demographics, education, and economic factors
African American household	-0.0965*** (0.011)	-0.0891*** (0.011)	-0.0498*** (0.014)
Hispanic household	-0.118*** (0.016)	-0.105*** (0.017)	-0.0672*** (0.021)
Single-female-headed household	-0.0484*** (0.014)	-0.0492*** (0.014)	-0.0390* (0.021)
Married household	0.0368*** (0.011)	0.0365*** (0.011)	0.010 (0.017)
Income			0.0148*** (0.003)
Wealth without equity			0.0330*** (0.003)
Value of equity			0.0055 (0.004)
Age	0.0135*** (0.002)	0.0131*** (0.002)	0.00493*** (0.002)
Age-squared	-0.000128*** (0.000)	-0.000125*** (0.000)	-6.15e-05*** (0.001)
Less than high school diploma		-0.0430*** (0.014)	0.000906 (0.018)
High school diploma		-0.0309** (0.013)	-0.0106 (0.016)
Some college		-0.0215* (0.013)	-0.00169 (0.015)
College degree		-0.00362 (0.013)	0.00912 (0.016)
Unemployed previous year			0.0367* (0.021)
Out of labor force previous year			0.0374*** (0.014)
Constant	-0.158*** (0.043)	-0.129*** (0.044)	-0.507*** (0.073)
Observations	20,469	20,469	13,603
Number of individuals	2,927	2,927	2,520

\* p < 0.1  
\*\* p < 0.05  
\*\*\* p < 0.01

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

**TABLE A5**  
**Linear probability model of a business startup**

<b>Business startup</b>	<b>Age and demographics</b>	<b>Age, demographics, and education</b>	<b>Age, demographics, education, and economic factors</b>
African American household	-0.0296*** (0.008)	-0.0247*** (0.008)	-0.0106 (0.011)
Hispanic household	-0.0504*** (0.011)	-0.0418*** (0.011)	-0.0308** (0.014)
Single-female-headed household	-0.0237** (0.009)	-0.0244*** (0.009)	-0.0238 (0.015)
Married household	0.0254*** (0.008)	0.0256*** (0.008)	0.0139 (0.014)
Income previous year			0.00688*** (0.003)
Wealth without equity previous year			0.0123*** (0.002)
Value of equity previous year			0.00288 (0.003)
Age	0.00539*** (0.001)	0.00510*** (0.001)	-1.99e-05 (0.000)
Age-squared	-5.31e-05*** (0.000)	-5.09e-05*** (0.000)	-6.38e-05*** (0.000)
Less than high school diploma		-0.0299*** (0.011)	-0.00792 (0.014)
High school diploma		-0.0262*** (0.009)	-0.0164 (0.012)
Some college		-0.0116 (0.010)	-0.000746 (0.012)
College degree		-0.00841 (0.010)	-0.00406 (0.012)
Unemployed previous year			0.0532*** (0.018)
Out of labor force previous year			0.0159 (0.010)
Constant	-0.0422 (0.030)	-0.0196 (0.032)	-0.167*** (0.059)
Observations	17,015	17,015	10,741
Number of individuals	2,766	2,766	2,321

\* p < 0.1  
 \*\* p < 0.05  
 \*\*\* p < 0.01

Source: Authors' analysis of 1999–2013 Panel Study of Income Dynamics, available at <https://psidonline.isr.umich.edu/> (last accessed September 2016).

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