ENTERING ENTREPRENEURSHIP:

RACIAL DISPARITIES IN THE PATHWAYS INTO BUSINESS OWNERSHIP

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EXECUTIVE SUMMARY

Black Americans are almost twice as likely to start a business, yet black-owned businesses persistently lag significantly.behind their white counterparts in sales, scale, and longevity.

The paper distinguishes between the outcomes for employer-based and nonemployer-based (no employees) businesses. In each category, differences between black-ownedand white-owned businesses are examined with respect tostart-up capital, average annual sales, and averageannual salaries, among other factors. One of the paper's points of emphasis in exploring the discrepancies between the patterns of white- vs. black-owned business development is how owners enter into entrepreneurship. Chief entry routes that operate to the distinct advantage of whites include inheritance nd receipt of a transfer of ownership of a business.

The paper demontrates that black business owners are far more likely to enter into business ownership, by starting a new enterprise than white business owners. But black business, failure rates are notably higher, due collectively to the comparatively low levels of wealth held by black Americans, the lower likelihood of an intergenerational transfer of business ownership, less, if any, financial and institutional support and mentorship networks, and barriers produced by discrimination in credit markets.

Even after controlling for education levels, blacks are less likely than whites to have their business loans approved "and the loans they do receive…are much smaller than those flowing to whitebusiness borrowers." As an added point, banks are rarely a source of credit for black-owned businesses – and when they are approved for credit, they often receive less than what they applied for. Also, without adequate mentorship, black entrepreneurs lack guidance on how to overcome historically embedded barriers and how to navigate discriminatory environments pertinent to business ownership.

A critical difference in the performance of established black- and white-owned businesses is attributed to aspects related to the initial stage of ownership, particularly related to racial differentials in prior wealth and access to capital. Furthermore, the report shows that that white American adults have 13 times the wealth of black American adults, and on average black business owners have fewer assets, lower wealth, and less disposable income to invest into the business than white business owners.

In the concluding section, this paper reports that steps must be taken to tackle the racial business ownership disparity. This will require addressing the racial wealth disparity prior to increasing business ownership among blacks. It points to the need for public targeting of seed capital for black entrepreneurs or major redistributive measures to build black wealth in advance of entry into businessownership.

1. INTRODUCTION

The current landscape of entrepreneurship in the United States is radically different than it was a century ago, but the connections between entrepreneurship and the capital needed to finance it still greatly contribute to today's racially embedded disparities. Research on entrepreneurship often highlights that business ownership is a key element for building wealth (AEO, 2017). Moreover, a substantial literature suggests that the story of business ownership does not look the same for blacks as it does for whites. While black Americans are almost twice as likely to start a business, black-owned businesses persistently lag behind their white counterparts, appear disproportionately lower in high-revenue-earning industries, and fail at higher rates. In fact, even when comparing the same industries, black-owned businesses that do survive have fewer employees and smaller revenues than white-owned businesses (Kollinger & Minniti, 2006; Fairlie & Krashinsky, 2012; Bates, 1998).

Despite past studies, this body of work is silent on the role of prior wealth in shaping the pathways into business ownership and the corresponding racial disparities associated with entering entrepreneurship. On this account, this report aims to address the following question: How do characteristics of black business owners (or black entrepreneurs) and black-owned businesses differ from characteristics of white business owners and white-owned businesses at the time of entry into business ownership? This study aims to contextualize patterns of initial ownership and to shed some light on the mechanisms and processes by which racial stratification in business ownership persists. Insight into racial disparities in business will move us one step closer to understanding how we can tackle structural inequality in contemporary America.

2. DESCRIPTION OF RACIAL DISPARITIES IN THE RATE OF BUSINESS OWNERSHIP

2.1 Employer Businesses vs Nonemployer Businesses, by Race

Based on the US Census' ASE and SBO, "business ownership" by race, gender, or ethnicity is defined as having 51 percent or more of the stock or equity in a business. Therefore, a "black-owned business" is one in which 51 percent or more of the stock or equity is owned by black Americans. But one cannot fully understand how racial disparities in business ownership operate without considering the difference between nonemployer and employer businesses. All privately owned U.S. businesses can be defined as the sum of nonemployer businesses—those that have no paid employees other than the owner—and employer businessesthose with at least one other paid employee. While nonemployer businesses outnumber employer businesses in the U.S., the latter generate a significantly larger proportion of total annual revenue as measured by sales (AEO, 2017). Employer businesses receive nearly 97 percent of the total annual revenue but comprise less than 20 percent of all privately owned businesses. A nonemployer business often requires less start-up capital than does an employer business to acquire a business (SBCS, 2018). According to the 2012 Survey of Business Owners (SBO), 35.4 percent of all nonemployer businesses used less than $5,000 in start-up capital; only 17.9 percent of all employer businesses did likewise. Conversely, only 4.5 percent of all nonemployer used more than $100,000 of capital to start or acquire the business, compared to 16.7 percent of all employer businesses .

Across race, the dynamics distinguishing employer and nonemployer business ownership are much more pronounced. Roughly 79 percent of all white-owned businesses and 96 percent of black-owned businesses are nonemployer, respectively (SBO, 2012). Nevertheless, while 7.7 percent of sales revenue of all white-owned businesses comes from those that are nonemployer, 31% of all sales revenue of black-owned businesses are nonemployer-generated (SBO, 2012). In sum, nonemployer businesses (despite bringing in relatively less revenue) play a larger role amongst black-owned businesses than they do amongst white-owned businesses. Understanding these trends is important for conceptualizing how the implications of the racial disparities may vary depending on the types of businesses we observe.

[1] *20.5 percent of employer businesses and 10.4 percent of nonemployer businesses do not know how much capital was used to start or acquire the corresponding business.*

In sum, nonemployer businesses (despite bringing in relatively less revenue) play a larger role amongst black-owned businesses than they do amongst white-owned businesses.

2.2 Racial Disparities in the Rate of Business Ownership Across the United States

While white Americans represent nearly 72.9 percent of the U.S. population , 78 percent of all private U.S. businesses are white-owned, according to the 2012 Survey of Business Owners (SBO). On the other hand, black Americans represent approximately 13.3 percent of the U.S. population, but own just 9 percent of all the nation's private businesses. Put simply, black Americans across the country are disproportionately underrepresented as business owners while white Americans are disproportionately overrepresented. The portrait is even more unequal when comparing the average annual business revenues and average salaries of employees of black-owned and white-owned employer businesses (*See Appendix B*).

As displayed in Table 2.1 the racial composition across all 50 states varies dramatically from a 1 percent working-age black population in Idaho to a 38 percent working-age black population in Mississippi. Analogously, the black-owned business composition varies from 0 percent in Montana to 28 percent in Georgia. The discrepancy between the racial composition of the entire U.S. population versus the racial composition of privately owned U.S. businesses illustrates one key aspect of racial disparities in business ownership. Across every single state, the rate of business ownership for black Americans falls below that group's representation in the overall population. In other words, in no single state are black Americans as likely to own a business as the average resident of that state. On the other hand, white Americans are overrepresented in business ownership in every state except for California, where their true working-age proportion equally represents their business ownership composition (See Appendix A).

When observing the rate of business ownership across states, black-owned businesses are also disproportionately underrepresented in the employer businesses. To understand the scale of this disparity, we also observe that average annual sales of black-owned businesses and average annual salaries of employees from black-owned businesses significantly lag behind those of white-owned businesses. For example, in North Carolina, the average black-owned employer business generates $666,168 in annual revenue sales while the average white-owned employer business generates $2,037,372, more than three times as much. The average annual salary of an employee of a black-owned business in North Carolina makes $23,544. For a white-owned business, the average annual salary is $33,690 (*See Appendix B*).

This disproportionality, however, is not as pronounced when only looking at nonemployer businesses. In fact, the nonemployer black-owned business composition in California, Georgia, Illinois, and Michigan is either an equal or overrepresentation of the black working-age proportion in those states. The relatively high nonemployer entrepreneurial activity (as opposed to employer activity) among black-owned businesses suggests that they are lacking in the number of rapidly growing, "commercially oriented keystone organizations" (McKoy and Johnson, 2018). Why are there are fewer black-owned businesses (and at varying magnitudes) than we might expect given the population size across different states? In this report, we aim to shed the light on how racial differences in prior wealth help explain the racial differences in four dimensions of entry into business ownership: (1) the method of acquiring a business, (2) the source and amount of start-up capital used for the business, (3) the duration or age of the business, and (4) the business performance.

[2] *2012 American Community Survey Population Estimates (ACS)*

TABLE 2.1: BLACK AMERICAN SHARE OF POPULATION AND BUSINESS OWNERSHIP (2012)

State	Share of total working age population	Share of all businesses	Share of employer businesses	Share of nonemployer businesses
Alabama	0.27	0.20	0.03	0.23
Alaska	0.05	0.02	0.01	0.02
Arizona	0.05	0.03	0.01	0.04
Arkansas	0.16	0.09	0.02	0.11
California	0.07	0.06	0.02	0.07
Colorado	0.05	0.02	0.01	0.03
Connecticut	0.12	0.06	0.01	0.07
Delaware	0.23	0.11	0.03	0.14
Florida	0.17	0.12	0.03	0.15
Georgia	0.32	0.28	0.06	0.33
Hawaii	0.03	0.01	0.01	0.01
Idaho	0.01	0.00	0.00	0.00
Illinois	0.15	0.13	0.02	0.16
Indiana	0.10	0.07	0.01	0.09
Iowa	0.04	0.02	0.00	0.02
Kansas	0.07	0.03	0.01	0.04
Kentucky	0.09	0.04	0.01	0.05
Louisiana	0.33	0.23	0.04	0.27
Maine	0.02	0.01	0.00	0.01
Maryland	0.31	0.24	0.06	0.28
Massachusetts	0.09	0.04	0.01	0.05
Michigan	0.15	0.13	0.02	0.15
Minnesota	0.06	0.04	0.01	0.05
Mississippi	0.38	0.28	0.04	0.33
Missouri	0.12	0.08	0.03	0.09
Montana	0.01	0.00	0.00	0.00
Nebraska	0.06	0.03	0.01	0.04
Nevada	0.10	0.07	0.01	0.09
New Hampshire	0.02	0.01	0.00	0.01
New Jersey	0.15	0.08	0.02	0.10
New Mexico	0.03	0.02	0.01	0.02
New York	0.18	0.12	0.02	0.14
North Carolina	0.23	0.14	0.04	0.17
North Dakota	0.02	0.01	0.00	0.01
Ohio	0.13	0.09	0.02	0.11
Oklahoma	0.09	0.04	0.01	0.05
Oregon	0.03	0.02	0.01	0.02
Pennsylvania	0.12	0.06	0.01	0.07
Rhode Island	0.09	0.04	0.01	0.05
South Carolina	0.28	0.17	0.04	0.20
South Dakota	0.02	0.01	0.00	0.01
Tennessee	0.18	0.14	0.03	0.16
Texas	0.13	0.10	0.03	0.11
Utah	0.02	0.01	0.00	0.01
Vermont	0.02	0.01	0.00	0.01
Virginia	0.2	0.13	0.04	0.15
Washington	0.05	0.03	0.01	0.03
West Virginia	0.04	0.02	0.01	0.02
Wisconsin	0.07	0.05	0.01	0.06
Wyoming	0.02	0.01	0	0.01
United States	0.13	0.09	0.02	0.11

Source: 2012 American Community Survey Population Estimates and 2012 Survey of Business Owners (SBO)

3. RACIAL DISPARITIES IN HOW OWNERS ENTER ENTREPRENEURSHIP

What is the portrait of entry into business ownership by race? Based on the latest data available on business owners, the 2012 and 2015 Survey of Business Owners, the most common method of acquiring ownership of a business is by founding or starting one, as summarized in tables 3.1 and 3.2. However, quantitative racial disparities exist in the likelihood of entering entrepreneurship by each of the four possible methods: (1) founding or starting the business, (2) purchasing the business, (3) inheriting the business, or (4) receiving a transfer of ownership of the business . Each method of entry into entrepreneurship suggests a very different story about the initial experiences, barriers, and choice sets that business owners must navigate. Purchasing a firm typically requires more capital than starting or founding one, and establishing a new firm often entails a tougher and longer road to actual startup. Those businesses that are purchased, inherited, or transferred are typically bigger and more mature than those that are newly established (SBCS, 2017).

Each method of entry into entrepreneurship suggests a very different story about the initial experiences, barriers, and choice sets that business owners must navigate.

TABLE 3.1. HOW OWNERS INITIALLY ACQUIRED EMPLOYER BUSINESSES, BY RACE (2016)

How the owner initially acquired the business	Number of black owners of respondent employer-firms	Number of white owners of respondent employer-firms
Founded or started	72,364	3,183,089
Purchased	11,460	951,604
Inherited	2,432	203,525
Transfer of ownership or gift	3,767	346,640
Total reporting	88,202	4,569,600

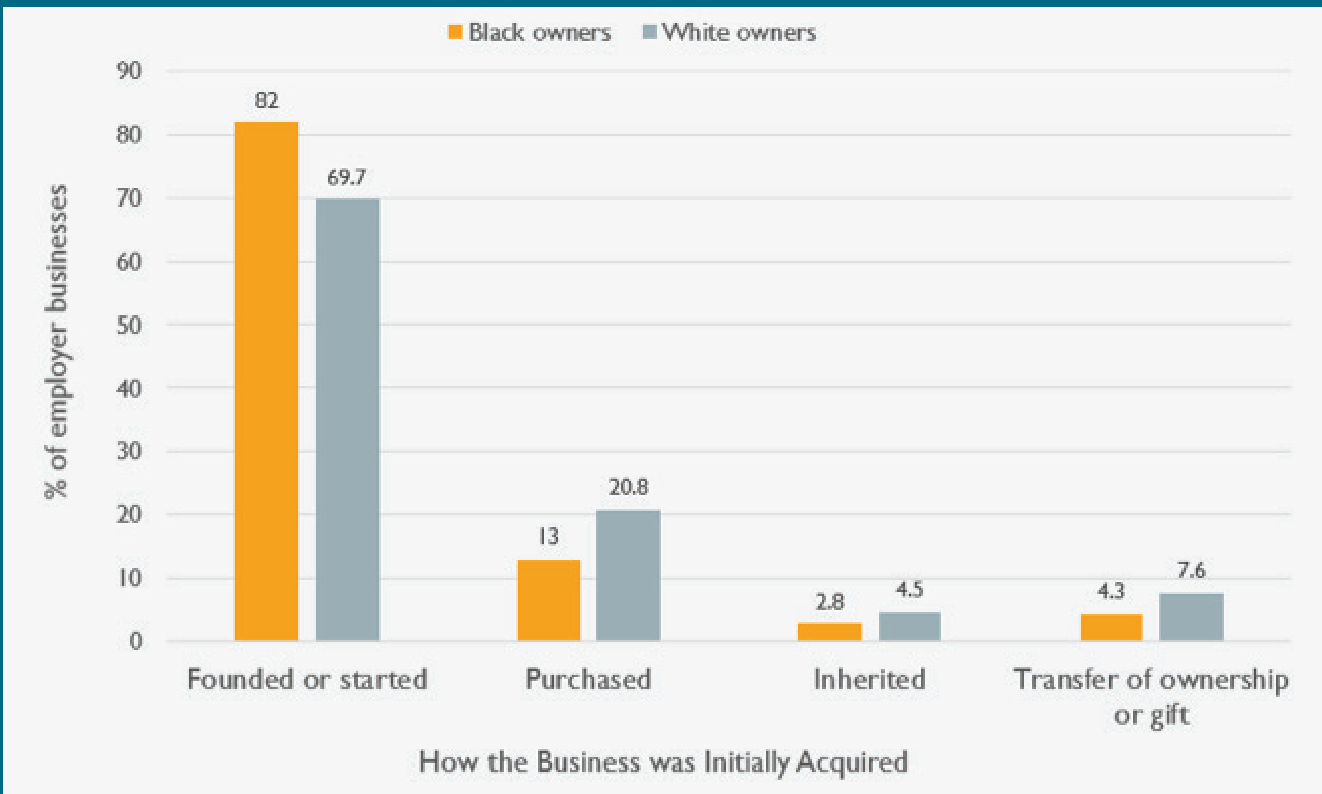
TABLE 3.2. HOW OWNERS INITIALLY ACQUIRED NONEMPLOYER BUSINESSES, BY RACE (2012)[4]

How the owner initially acquired the business	Number of black owners of respondent employer-firms	Number of white owners of respondent employer-firms
Founded or started	781,464	12,707,791
Purchased	55,609	1,105,094
Inherited	11,953	373,395
Transfer of ownership or gift	24,206	512,580
Total reporting	862,833	14,510,034

As shown in Figure 3.1, 82 percent of black owners of employer businesses founded or started their businesses, whereas the corresponding figure for white owners is 69.7 percent. This finding means that black owners of employer businesses are 17.6 percent more likely than white owners to enter business ownership by founding or starting a new enterprise. Conversely, white owners of employer businesses are 60 percent more likely to enter business ownership via acquisition by purchase, 60.7 percent more likely to acquire by way of inheritance, and nearly 76.7 percent more likely to acquire through a transfer of ownership or gift than are black business owners of employer businesses.

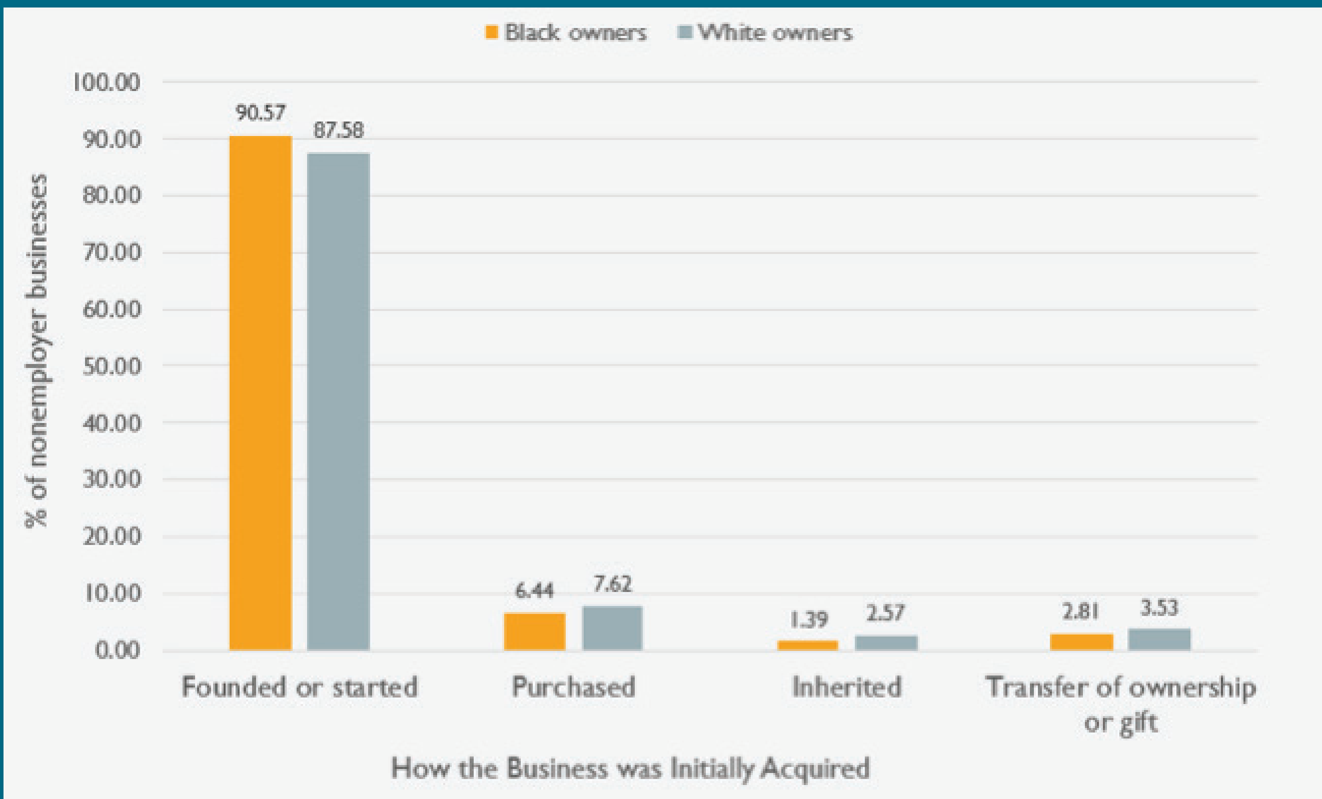
[3] Note that respondents could select more than one answer to the question regarding initial mode of acquisition. Therefore, the cumulative amount of responses across all four categories may exceed the total reporting amount. This applies to Table 3.1, Table 3.2, Figure 3.1, Figure 3.2, and Table 3.3.
[4] The latest survey data on owners of nonemployer businesses is from 2012.

FIGURE 3.1. HOW BLACK AND WHITE OWNERS INITIALLY ACQUIRED THEIR EMPLOYER BUSINESSES (2016)



As expected, it is even more common for owners of nonemployer businesses than owners of employer businesses to acquire a business by founding or starting it, regardless of the owner's race. Nearly 91 percent of black owners and 88 percent of white owners of nonemployer businesses founded or started their businesses. Figure 3.2 illustrates that, like owners of employer businesses, white owners of nonemployer businesses are more likely to enter business ownership through purchase, through inheritance, and through a transfer of ownership or gift than are black owners of nonemployer businesses.

FIGURE 3.2. HOW BLACK AND WHITE OWNERS INITIALLY ACQUIRED THEIR NONEMPLOYER BUSINESSES (2012)



We observe similar patterns of initially acquiring employer businesses across nine different sectoral categories. As displayed in Table 3.3, black business owners are more likely than white business owners to found or start their own business in each of these sectors except for the information sector. However, white business owners are more likely than black business to receive business ownership as a transfer or gift in all of nine industry categories. Furthermore, white business owners are more likely than black business owners to initially acquire a business by purchasing it in every category except for the information sector. This gap widens within higher-end sectors. In fact, well over half (66 percent) of white-owned businesses in the comparatively more lucrative management sector (bolded in the table) were acquired either by purchase, inheritance, or transfer, while only about 33 percent of black-owned businesses in that sector were acquired in one of those three ways.

TABLE 3.3. HOW OWNERS INITIALLY ACQUIRED EMPLOYER BUSINESSES, BY INDUSTRY (2016)

Industry	Founded or started		Inherited		Purchased		Transfer of ownership or gift	
	Black	White	Black	White	Black	White	Black	White
Accommodation and food services	0.66	0.60	0.03	0.04	0.33	0.34	0.03	0.06
Administrative and support and waste management and remediation services	0.87	0.76	0.03	0.03	0.08	0.16	0.03	0.07
Agriculture, forestry, fishing, and hunting	0.75	0.73	0.25	0.06	0.01	0.14	0%	0.10
Construction	0.88	0.77	0.04	0.04	0.04	0.12	0.05	0.09
Finance and insurance	0.86	0.71	0.03	0.05	0.08	0.19	0.05	0.08
Information	0.69	0.73	0.03	0.04	0.25	0.18	0.04	0.08
Management of companies and enterprises	0.73	0.44	0.11	0.16	0.15	0.29	0.07	0.21
Manufacturing	0.72	0.54	0.08	0.09	0.19	0.27	0.09	0.14
Other services (except public administration)	0.75	0.66	0.06	0.04	0.16	0.25	0.06	0.07

In short, black business owners are far more likely to enter into business ownership by starting a new enterprise than white business owners, which coincides well with the proposition that black Americans have historically been undercapitalized because of barriers in wealth accumulation, credit and loan discrimination, and lack of intergenerational transfers (Herring & Loren, 2016). Compared to white owners, black owners likely enter into businesses with less, if any, financial and institutional support and mentorship networks in their respective

4. RACIAL DISPARITIES IN THE SOURCE AND AMOUNT OF START-UP CAPITAL USED

Depending on the type and amount of capital needed by potential business owners, different sources of funding may be optimal for supporting them at the start-up stage of ownership. Independent of scale and sector, an aspiring entrepreneur and even an already established business entrepreneur require some degree of monetary support. Along with the figures presented in Table 4.1, evidence suggests that even after controlling for education levels, blacks are less likely than whites to have their business loans approved "and the loans they do receive from financial institutions are much smaller than those flowing to white business borrowers" (Bates, 1998). Given these trends, some would argue that black Americans are not given the opportunity to realize their full potential as entrepreneurs.

...blacks are less likely than whites to have their business loans approved "and the loans they do receive from financial institutions are much smaller than those flowing to white business borrowers."
(Bates, 1998)

TABLE 4.1. THE AMOUNT OF START-UP CAPITAL USED (2016)

Amount of Capital to Start or Acquire the Employer Firm (2016)	Percent of Black-Owned Employer Businesses	Percent of White-Owned Employer Businesses
$3,000,000 or more	0.2	0.5
$1,000,000 to $2,999,999	0.7	1.5
$250,000 to $999,999	4.5	6.5
$100,000 to $249,999	7.6	9.6
$50,000 to $99,999	10.8	9.4
$25,000 to $49,999	9.6	9.0
$10,000 to $24,999	15.5	11.8
$5,000 to $9,999	10.8	8.8
Less than $5,000	19.0	16.3
Don't know	12.8	17.2
Not applicable	8.4	9.3
Total reporting (number)	62,670	2,966,595

As displayed in Table 4.1, 45.3 percent of black-owned employer businesses compared with 36.9 percent of white-owned employer businesses used less than $25,000 of capital to start up. In contrast, only 13 percent of black-owned compared with 18.1 percent of white-owned businesses used more than $100,000 in capital to start up. Clearly, black-owned businesses are starting off at a relatively smaller scale.

Like the amount of start-up capital, the source start-up capital has implications for what kind of support the business owners have. The source can be in the form of a personal account, a loan from a financial institution, an investment by a venture capitalist, or a government grant. As Table 4.2 shows, 21.8 percent of white-owned employer businesses receive business loans from banks, financial institutions, or families and friends; only 15.5 percent of similar black-owned businesses received start-up capital from equivalent sources. Furthermore, black-owned employer business are 59 percent more likely to use start-up capital in the form of personal credit cards than are white-owned employer businesses.

TABLE 4.2. THE SOURCE OF CAPITAL USED TO START BUSINESS (2016)

Sources of Capital Used to Start or Acquire the Business	Percent of Black-Owned Employer Firms (%)	Percent of White-Owned Employer Firms (%)
Personal/family savings of owner(s)	69.6	64.8
Personal/family assets other than savings of owner(s)	9.0	8.7
Personal/family home equity loan	5.2	6.3
Personal credit card(s) carrying balances	14.7	9.2
Business credit card(s) carrying balances	6.3	5.0
Business loan from federal, state, or local government	0.5	0.4
Government-guaranteed business loan from a bank or financial institution	1.9	1.8
Business loan from a bank or financial institution	12.6	17.2
Business loan/investment from family/friends	2.9	4.6
Investment by venture capitalist(s)	0.5	0.5
Grants	0.5	0.2
Other source(s) of capital	4.4	2.9
Don't know	8.1	10.0
None needed	8.4	9.3
Total Reporting (number)	62,657	2,966,829

All told, black American business owners have a limited access to capital relative to their white counterparts. In fact, financial banks are rarely a source of credit for black-owned businesses, and when they are approved for credit, they often receive less than what they applied for. Twenty percent of black households are un-banked, while only 4 percent of white non-Hispanic households remain unbanked (AEO, 2017). Historic racial bias and discrimination play roles at nearly every step of the process of obtaining a loan, and this leads to a somewhat dangerous trend and interplay between the amount and type of financial capital black Americans typically seek to the financial capital they receive. Black Americans are often forced to rely more heavily on personal credit cards for financing a business. Consequently, this can deplete their assets even further by damaging their credit scores and suppressing their business prospects.

5. RACIAL DISPARITIES IN THE AGE OF EMPLOYER BUSINESSES

How long ago were existing employer and nonemployer businesses established? The duration or "age" of a business is the difference between the year when the ASE survey was conducted—2012 for nonemployer businesses; 2016 for employer businesses—and the year the business was established. This corresponding duration of an employer-business has implications for business stabilization, quantity of sales, and whether the business can withstand changing market conditions over time. Older firms, by virtue of their longevity, tend to be more stable and more experienced. Moreover, they typically generate more annual revenue from sales and have more market-navigation resources. Thus, one would expect that older firms are not only larger in size but are also in stronger and more successful positions than firms established more recently.

Based on the 2012 and 2016 ASE, white-owned employer businesses are older than black-owned employer businesses. As displayed in Figure 5.1, 43.6 percent of all existing white-owned firms are 16 years or older (established prior to the 2000s), while only 27.1 percent of black-owned firms are 16 years or older.5 In contrast, 35.2 percent of black-owned firms are 7 years or younger, whereas 21.6 percent of white-owned firms are 7 years or younger. Therefore, close to half of all white-owned firms that exist today were established before the turn of the 21st century, whereas most existing black-owned firms were originally started in the 2000s.

For nonemployer businesses existing as of 2012, we observe similar patterns. While the most common age of nonemployer businesses in 2012 was between 5 and 12 years old regardless of race, white-owned nonemployer businesses were generally older than black-owned nonemployer businesses. In fact, 62.1 percent of existing black-owned nonemployer firms in 2012 were originally established after 2000 while less than one third of all white-owned nonemployer businesses were originally established between 2008 and 2012. Moreover, the proportion of white-owned nonemployer businesses that were older than the age of 32 as of 2012 was roughly four times the proportion of black-owned nonemployer businesses older than 32 years old. Over one-fourth of black-owned nonemployer businesses existing in 2012 were only one year old or younger.

Given that more black-owned firms are younger, black business owners of those firms are likely less experienced and lack the capacity to offer mentorship to other black American entrepreneurs just starting off. One can imagine that this can create a serious disadvantage for one looking to receive guidance on how to overcome historically embedded barriers and how to navigate discriminatory environments as they pertain to the business ownership experience for black Americans.

FIGURE 5.1. AGE OF EMPLOYER BUSINESS, BY RACE (2016)[4]

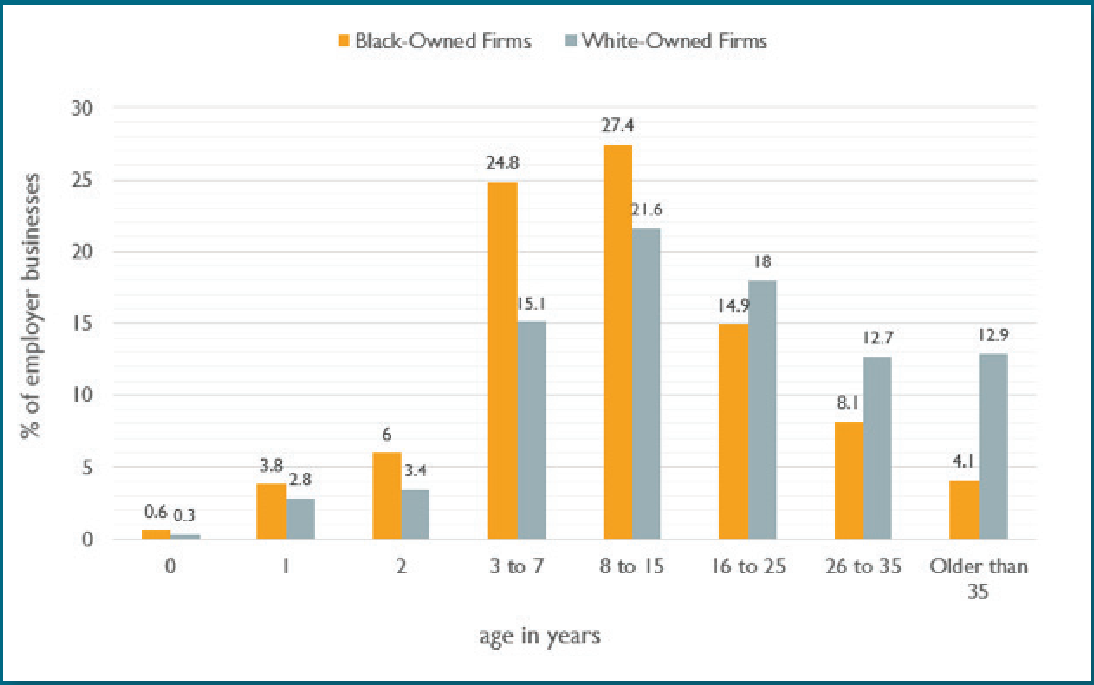
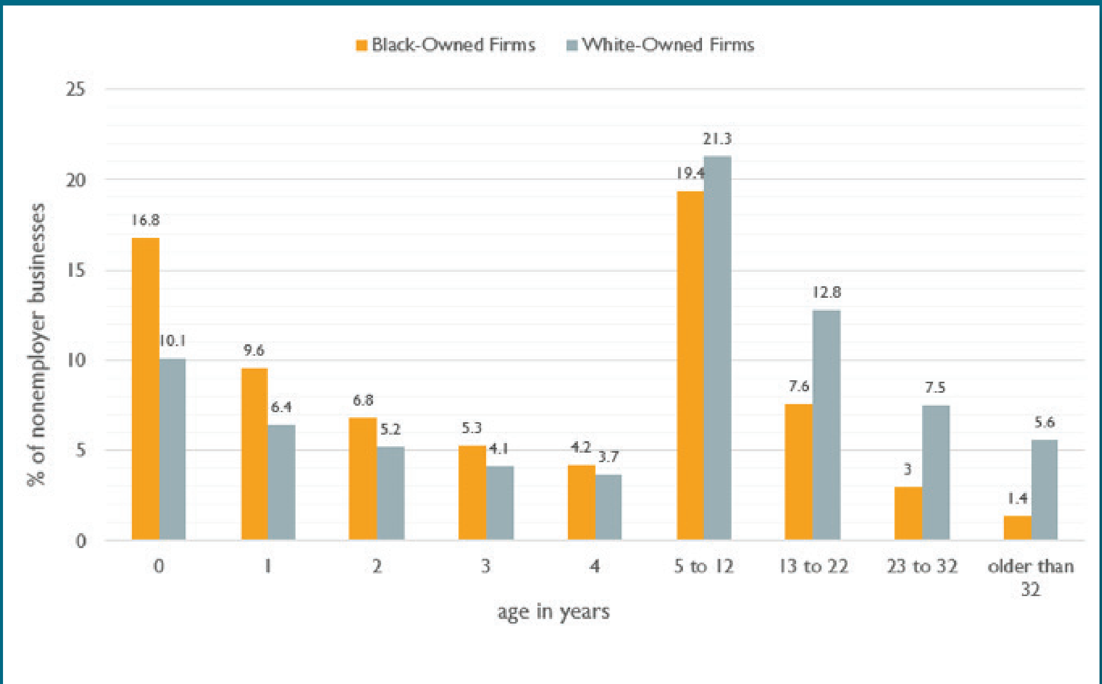


FIGURE 5-2. AGE OF NONEMPLOYER BUSINESSES, BY RACE (2012)[5]



[4] The age/duration of a business is calculated from "year business was started." For example, "Older than 35" refers to businesses that were started before 1980.
[5] 13.1 percent and 10.4 percent of white-owned and black-owned businesses, respectively, do not know the year their businesses were originally established.

6. RACIAL DISPARITIES IN CHARACTERISTICS OF EMPLOYER BUSINESSES, BY AGE

For white-owned businesses, older firms tend to generate more revenue in sales than younger firms. This, however, does not hold true for black-owned businesses. As shown in Table 6.1, 50 percent of sales from black-owned employer businesses comes from those that are 9 to 26 years old. Fifteen percent of sales from black-owned employer businesses comes from those 27 years or older, while the proportion of sales coming from white-owned employer businesses 27 years or older is 51 percent. In other words, a majority of the total revenue from black-owned firms are earned by firms relatively younger than white-owned firms (ASE, 2016).

All told, the association between sales for older firms and larger firms does not hold across race. Older black-owned firms are on average smaller than white-owned firms that are younger. For example, black-owned businesses older than 36 years generate less in average revenue sales ($1,242,000) than white-owned businesses ($1,466,000) between 9 and 16 years old. At every age category, the average salary per employee—measured by dividing annual payroll by the number of employees in each age category—is greater for employees of white-owned employer firms than for employees of black-owned employer firms . In fact, the average employee from a black-owned employer business that is older than 36 years earns ($31,000) just as much as the average employee of a white-owned employer business that is only two years old. Most strikingly, across every age category, black-owned employer businesses bring in less average revenue than white-owned firms originally established around the same time. Much of this disparity in the performance of different aged black- and white-owned businesses can be attributed to aspects related to the initial stage of ownership; particularly related to racial differentials in prior wealth and access to capital. Many differences in economic outcomes across individuals operate through lingering effects of racially motivated historical injustices of violence and hostility.

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[5] *Note that data on nonemployer firms ended in 2012.*
[6] *This holds with the exception of employer firms whose duration is only three years as of 2015.*

TABLE 6-1. WAGE AND SALES OF BLACK-OWNED AND WHITE-OWNED EMPLOYER BUSINESSES, BY AGE (2016)

	Black-Owned Employer Businesses				White-Owned Employer Businesses			
Duration of Business as of 2016	Percent of businesses (%)	Average salary per employee ($1000)	Percent of Sales (%) Percent of businesses (%)	Average Sales ($1,000)	Percent of businesses (%)	Average salary per employee ($1000)	Percent of Sales (%) Percent of businesses (%)	Average Sales ($1,000)
Older than 36	0.04	31	0.05	1242	0.12	47	0.35	6699
27 to 35	0.07	32	0.10	1355	0.12	45	0.16	3025
17 to 26	0.14	33	0.20	1343	0.17	43	0.16	2215
9 to 16	0.26	30	0.30	1115	0.20	41	0.13	1466
4 to 8	0.22	29	0.17	755	0.14	36	0.07	1105
3	0.05	36	0.03	556	0.03	35	0.01	905
2	0.06	21	0.02	340	0.04	31	0.01	750
1	0.05	21	0.03	487	0.03	31	0.01	728
Don't Know	0.11	31	0.11	968	0.14	37	0.11	1828

7. WEALTH AS AN INPUT FOR THE PATHWAY INTO BUSINESS OWNERSHIP

Empirically, black Americans are more likely than white Americans to start a business, but white-owned businesses are more likely grow and succeed. Similarly, white American adults have 13 times the wealth of black American adults, and on average "black business owners have fewer assets, lower wealth, and less disposable income to invest into the business than white business owners" (AEO, 2017). The prevalence of racial wealth inequality in the U.S. has long been examined and well documented by past scholarship. Wealth is arguably the foremost indicator of economic well-being, signifying what people own and whether a household has access to life-enhancing and income-producing assets. Herring and Hynes (2017) state that "racial disparities in wealth provide material goods, opportunities, resources, services, and psychological satisfactions for Whites, and they serve to penalize African Americans by decreasing their quality of life." Moreover, wealth has a tendency to aggregate in the hands of very few and to accumulate intergenerationally over time (Chiteji and Hamilton, 2002; Addo, Houle, & Simon, 2016; Brown, 2016).

This suggests that prior wealth endowments (and the various economic, social, and political benefits that come with them) may influence the capability of an individual to become a business owner. Lack of wealth and access to capital serves as a current barrier that governs the pathway into business ownership for black Americans. In order to support an ecosystem for black business owners, it is critical that more attention be given to wealth as an input into the business ownership experience.

8. POLICY IMPLICATIONS AND CONCLUSION

Virtually all commentaries on the relationship between entrepreneurship and wealth emphasize the contribution of business ownership to wealth accumulation; very little consideration is given to the role of prior wealth in shaping pathways of business ownership. Our study exploring racial differences in patterns of entry into entrepreneurship points us toward the latter, less recognized relationship—the influence of initial asset endowments on the capability of individuals to become business owners.

Racial differences in prior wealth are implicated in racial differences in the ways in which people acquire businesses. Adding the dimension of multiple pathways toward business ownership enriches the entry story. For both employer and nonemployer businesses, whites are far more likely than blacks to become owners via routes that require direct (or network) access to wealth.

A body of literature establishes how racial disparities are not merely a function of the political, social, and economic processes as we know them today (Archarya, Blackwell, & Sen, 2018). Rather, many differences in economic outcomes across individuals operate through lingering effects of racially motivated historical injustices and hostilities. While the construction of freeways to cut through Hayti and Black Wall Street in Durham, North Carolina, reveals one of the historical methods used to disrupt and block black business ownership, the 1921 massacre in Tulsa, Oklahoma, exemplifies the explicit acts of violence mounted against the economic prosperity of black Americans.

These injustices were legitimized through "official narratives that discredit(ed), vilifi(ed)," and targeted black communities and infrastructures that were prosperous or thriving (Messer et al., 2018). Social and economic structures of historical racial violence not only have laid the foundation for maintenance of white supremacy in the past, but arguably also have had lasting effects on the business opportunities, economic prospects, and corresponding potential support networks at present. Much of the black/white business ownership disparity observed today may be linked to how conducive or

For both employer and nonemployer businesses, whites are far more likely than blacks to become owners via routes that require direct (or network) access to wealth.

damaging social structures have been in supporting black wealth and opportunity. Future research should explore how localities with different histories of racial hostility make black business ownership more or less likely today.

This study aimed to contextualize patterns of initial ownership and to shed some light on the mechanisms and processes by which racial stratification in business ownership persists. Our results suggest that tackling the racial business ownership disparity will require tackling the racial wealth disparity prior to increasing business ownership among blacks. It points us toward public targeting of seed capital for black entrepreneurs or major redistributive measures to build black wealth in advance of accumulation that takes place due to business ownership. This could mean, in turn, adoption of general policies aimed at closing the racial wealth gap, which might include "baby bonds" (young adult trust accounts) and/or, more direct and substantial, a program of reparations for black Americans. In sum, policies focused on pathways into business ownership should consider how critical prior wealth can be for the fostering a more equitable ecosystem for business.

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APPENDIX A. WHITE AMERICAN SHARE OF POPULATION AND BUSINESS OWNERSHIP (2012)

State	White American	
	Population Share	Share of all businesses
Alabama	0.70	0.76
Alaska	0.68	0.82
Arizona	0.84	0.89
Arkansas	0.80	0.87
California	0.74	0.74
Colorado	0.88	0.93
Connecticut	0.82	0.89
Delaware	0.72	0.83
Florida	0.78	0.83
Georgia	0.63	0.64
Hawaii	0.33	0.4
Idaho	0.94	0.97
Illinois	0.78	0.79
Indiana	0.87	0.9
Iowa	0.93	0.96
Kansas	0.87	0.93
Kentucky	0.89	0.93
Louisiana	0.64	0.72
Maine	0.95	0.97
Maryland	0.61	0.67
Massachusetts	0.84	0.9
Michigan	0.80	0.83
Minnesota	0.86	0.92
Mississippi	0.60	0.69
Missouri	0.84	0.89
Montana	0.90	0.96
Nebraska	0.90	0.94
Nevada	0.77	0.81
New Hampshire	0.94	0.97
New Jersey	0.74	0.8
New Mexico	0.83	0.89
New York	0.71	0.74
North Carolina	0.72	0.81
North Dakota	0.90	0.96
Ohio	0.83	0.88
Oklahoma	0.76	0.84
Oregon	0.88	0.92
Pennsylvania	0.83	0.89
Rhode Island	0.86	0.92
South Carolina	0.69	0.79
South Dakota	0.86	0.96
Tennessee	0.79	0.83
Texas	0.81	0.82
Utah	0.92	0.95
Vermont	0.95	0.98
Virginia	0.71	0.77
Washington	0.82	0.87
West Virginia	0.94	0.96
Wisconsin	0.88	0.92
Wyoming	0.93	0.97

Source: Survey of Business Owners (2012)

APPENDIX B: WHITE-OWNED VS. BLACK-OWNED SALES AND SALARIES OF EMPLOYER BUSINESSES (2012)

	White American		Black-Owned	
State	Average Annual Sales in USD	Average Annual Employee Salary in USD	Average Annual Sales in USD	Average Annual Employee Salary in USD
Alabama	2,510,078	34,310	42,288	1,025,705
Alaska	2,275,223	46,222	118,656	834,808
Arizona	1,849,125	33,335	68,080	879,470
Arkansas	2,372,633	30,339	39,255	591,900
California	2,376,776	45,483	84,177	1,128,511
Colorado	1,598,580	38,143	97,087	1,010,609
Connecticut	2,492,964	43,938	47,552	653,300
Delaware	2,100,689	38,724	44,151	380,435
District of Columbia	2,744,202	56,913	113,922	1,437,584
Florida	1,532,142	35,001	44,645	718,506
Georgia	2,338,896	36,320	37,324	646,629
Hawaii	1,951,869	34,466	121,644	797,335
Idaho	1,526,704	29,618	108,884	912,906
Illinois	2,353,729	41,505	51,596	1,246,749
Indiana	2,485,203	34,131	111,085	2,483,369
Iowa	2,362,056	33,500	100,293	1,703,721
Kansas	2,372,540	35,247	79,667	931,713
Kentucky	2,240,284	31,976	82,870	1,109,809
Louisiana	2,581,325	38,153	35,592	657,779
Maine	1,588,498	32,557	119,729	N/A
Maryland	2,328,619	42,507	68,671	1,039,304
Massachusetts	2,448,372	45,168	83,172	1,049,822
Michigan	2,198,558	35,844	48,254	1,349,167
Minnesota	2,342,317	37,291	80,484	1,066,135
Mississippi	2,280,364	31,309	31,933	617,004
Missouri	2,194,089	35,434	66,986	564,842
Montana	1,244,546	30,194	81,260	597,034
Nebraska	2,460,743	35,189	65,000	N/A
Nevada	2,419,465	36,932	55,290	1,058,853
New Hampshire	1,855,538	37,439	94,049	784,671
New Jersey	2,440,137	41,505	65,587	843,437
New Mexico	1,653,151	32,220	121,866	843,824
New York	2,123,946	46,132	48,406	744,787
North Carolina	2,037,372	33,690	53,674	666,169
North Dakota	2,849,648	38,689	82,714	1,155,440
Ohio	2,551,218	34,908	112,621	2,300,496
Oklahoma	2,313,248	35,968	54,115	635,379
Oregon	1,746,953	36,801	107,718	1,056,919
Pennsylvania	2,313,371	37,138	54,333	724,157
Rhode Island	1,758,156	37,533	55,747	696,400
South Carolina	1,929,716	31,788	54,134	913,623
South Dakota	2,217,621	31,754	76,941	1,093,000
Tennessee	2,585,799	33,768	40,274	780,106
Texas	549,280	37,576	54,795	839,817
Utah	467,462	34,556	209,924	1,938,787
Vermont	354,558	34,640	26,570	191,000
Virginia	490,426	40,337	98,233	1,117,020
Washington	552,652	35,034	86,838	743,617
West Virginia	463,807	30,106	76,079	746,247
Wisconsin	615,201	34,514	76,270	1,086,545
Wyoming	514,931	38,162	86,006	N/A

Source: Survey of Business Owners (2012)

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