

# Racism and the Economy

focus on Entrepreneurship

Author: Victor W. Hwang, Founder and CEO, Right to Start

Title of proposal: The “Right to Start” Can Expand Entrepreneurial Opportunity in Communities of Color and Beyond

The COVID-19 pandemic has exposed a deep underlying economic weakness. Millions of Americans have lost jobs, countless businesses have closed shop indefinitely, and formerly dependable goods and services have vanished when we need them most. Vulnerable communities have been hit hardest during the pandemic, with Hispanic-owned and Black-owned businesses closing at higher rates than businesses overall. Nationwide, there is a desperate need to help people find alternative income, restart closed businesses, open new businesses to provide missing goods and services, and diversify supply chains. Entrepreneurship has become an urgent priority for our economic recovery and for our pursuit of a just society.

While there is evidence that many Americans want to start new businesses, there are systemic barriers that prevent the vast majority of would-be entrepreneurs from even attempting to create new companies. Such barriers include: regulatory burdens, lack of capital access, educational inadequacy, healthcare uncertainty, inequitable taxation, crippling student debt, social network breakdowns, systemic biases against certain groups, anticompetitive markets, bureaucratic red tape, poor support for parenthood, antiquated workforce training, punitive immigration rules, broken patent systems, and misplaced economic development. As a result, more people are stuck in dead-end situations. Fewer than 2 percent of Americans will start businesses in the next six months, despite the facts that 62 percent have a dream business in mind,<sup>1</sup> 67 percent are disengaged in their current jobs,<sup>2</sup> and 41 percent would quit their jobs and start their own business in six months if they could.<sup>3</sup> Indeed, even before the pandemic, new business creation – the source of new jobs, productivity, and opportunity – was at its lowest rate in more than forty years. We have seen a massive decline in American dynamism, rates of entrepreneurship have decreased across a wide array of measures, and businesses have been closing about as fast as they are starting across almost all sectors.

Women and people of color have consistently faced even steeper challenges to starting and growing businesses that persist today. The playing field is not level. While people of color made up more than 35 percent of the population just a few years ago, they owned less than 20 percent of employer businesses and only 17.4 percent of businesses with at least a million dollars in revenue.<sup>4</sup> Research also indicates

---

<sup>1</sup> America’s Small Business Development Centers and the Center for Generational Kinetics, “America’s Voice on Small Business,” (May 2017), <https://americassbdc.org/wp-content/uploads/2017/05/White-Paper-GenStudy-6-1-2017.pdf>.

<sup>2</sup> Royal, Ken, “Heard of the U.S. Quit Rate? Win the War for Talent Now,” Gallup (July 12, 2019), <https://www.gallup.com/workplace/260564/heard-quit-rate-win-war-talent.aspx>.

<sup>3</sup> America’s Small Business Development Centers and the Center for Generational Kinetics, “America’s Voice on Small Business.”

<sup>4</sup> Kauffman Foundation, “Zero Barriers: Three Mega Trends Shaping the Future of Entrepreneurship” (2017), citing calculations from U.S. Census Bureau Annual Survey of Entrepreneurs.

that businesses founded by women and people of color start smaller and grow slower.<sup>5</sup> Black-owned businesses earn, on average, about 10 percent of the revenue of white-owned businesses.<sup>6</sup> A recent *Harvard Business Review* article emphasizes the barriers that Black women, in particular, face in growing their businesses. Although 17 percent of Black women are in the process of starting or running new businesses – compared to only 10 percent of white women and 15 percent of white men – only three percent of Black women are running mature businesses. This significant drop is due, in part, to higher levels of debt, less personal wealth, less access to capital and other resources necessary for new business creation, and a higher concentration of informal businesses with small margins.<sup>7</sup>

A substantial body of research also documents the striking barriers to capital that confront Black entrepreneurs. Systemic racism has led to higher interest rates on bank loans and higher levels of loan denials, even after accounting for credit scores and other observable characteristics.<sup>8</sup> One study found that new Black-owned businesses start with almost three times less in terms of overall capital than new white-owned businesses, and that this gap does not close as firms mature.<sup>9</sup> Furthermore, sixteen percent of minority-owned businesses report a negative impact on profit as a result of the lack of access to and cost of capital, compared to only about 10 percent of white-owned businesses in the same period.<sup>10</sup> Ultimately, even people who have great talent, innovative ideas, and a strong work ethic have the odds stacked against them from the beginning.

To be clear, this economic crisis and the inequities it has exposed are the direct result of our priorities and values over the last half century. Many leaders – politicians, economists, businesspeople, and others – and ordinary citizens focused on supporting giant companies, assuming that their success would ensure prosperity for all. Our economy today is designed to supercharge these big players; it is tilted in favor of incumbents and against newcomers. But by focusing on big companies and aggregate numbers – like corporate profits, stock markets, GDP, employment-in-any-job, and the price of goods – we have neglected other, more important metrics. We ignored the vast inequalities between haves and have-nots, falling rates of mobility, dead-end jobs, enduring racial discrimination, fragmenting communities, and epidemic rates of depression and hopelessness. We will not see a broad economic recovery without addressing these problems.

### **Proposal: Entrepreneurship as a new public priority**

All along, however, there has been a better, surer, less expensive approach. The answer was – and always is – us. The evidence shows that the source of almost all job growth<sup>11</sup> and increased productivity<sup>12</sup> for our nation is entrepreneurs starting and growing new companies – not big businesses that grab subsidies and headlines. The overwhelming weight of research in the past decade indicates that entrepreneurship is also key to fighting inequality, creating mobility, increasing lifetime incomes,

---

<sup>5</sup> Kauffman Foundation, “Zero Barriers.”

<sup>6</sup> Myers, Spectra and Pamela Chan, “Stuck from the Start: The Financial Challenges of Low- and Moderate-Income African-American Entrepreneurs in the South,” *Prosperity Now* (2017), citing SBA 2012 Survey of Business Owners.

<sup>7</sup> Kelley, Donna, Mahdi Majbouri, and Angela Randolph, “Black Women Are More Likely to Start a Business than White Men,” *Harvard Business Review* (May 11, 2021).

<sup>8</sup> Hwang, Victor, Sameeksha Desai, and Ross Baird. “Access to Capital for Entrepreneurs: Removing Barriers.” Ewing Marion Kauffman Foundation: Kansas City, 2019.

<sup>9</sup> Hwang, Victor, Sameeksha Desai, and Ross Baird. “Access to Capital for Entrepreneurs: Removing Barriers.”

<sup>10</sup> Kauffman Foundation, “Zero Barriers.”

<sup>11</sup> Haltiwanger, John, Ron Jarmin, and Javier Miranda, “Who Creates Jobs? Small vs. Large vs. Young,” *U.S. Census Bureau Center for Economic Studies* (August 2010), <https://www.nber.org/papers/w16300.pdf>.

<sup>12</sup> Foster, Lucia, Cheryl Grim, John Haltiwanger, and Zoltan Wolf, “Firm innovation and productivity: Searching for Black Holes,” CEPR Policy Portal, June 2018, <https://voxeu.org/article/firm-innovation-and-productivity>.

and raising community wealth. At a fundamental level, the origin of jobs and prosperity for all Americans is greater access to new business creation. Small newcomers, taken as a whole, contribute more to economic prosperity than big incumbents.

The capacity for new entrepreneurs to start businesses and achieve success, however, largely depends on the environments in which businesses are created and grow. Entrepreneurs need to be surrounded by other people who support their journeys because all new ideas start small and grow through webs of human relationships – customers, partners, employees, contractors, service providers, suppliers, investors, and simply friends. These entrepreneurial networks are often called “ecosystems.” They are environments – like natural rainforests – that are dynamic and interconnected, where serendipitous value emerges from the diverse interactions between the people in the community, and where the whole is greater than the sum of the parts. Fortunately, inclusive ecosystems can be built. Getting started is inexpensive, and every community already has the basic ingredients it needs. If we can move beyond our economic and governance system that is stuck in the industrial past – one that condones lasting inequities and doesn’t respect what we are capable of today – we can build these ecosystems and intentionally tilt the system the other way, toward job growth, increased productivity, inclusivity, and economic resilience for all Americans.

Right to Start, our new nonprofit campaign, aims to address the root cause of this economic crisis and create wealth in underserved communities by making entrepreneurial opportunity a priority in American society. The campaign seeks to rebuild the American economy and create entrepreneurial opportunity for everyone, especially for those who have been marginalized in the past. Our organization is creating a national infrastructure that unleashes the innate “right to start” – the fundamental right to be entrepreneurial – in all of us. The effort is based in a 501(c)(3) for education, advocacy, and other charitable efforts, with an affiliated 501(c)(4) for social welfare and targeted policy work.

Right to Start promotes entrepreneurial opportunity and fights to enshrine everyone’s right to start permanently in our economic and governmental system – by engaging major media, public leaders, and a diverse network of grassroots citizens to take action. We outline our three broad strategies below:

- › **Change minds.** Through work with media, storytelling, and narrative, we will win the battle of ideas. We will elevate the importance of entrepreneurial opportunity as a civic priority by engaging advocates and educating policymakers, civic leaders, and the general public. Every month, only three out of every 1,000 people start new businesses. The success of the three, however, depends on the behavior and support of the other 997. This work will include the following specific tactics:
  - Place op-eds in national and local media
  - Publish a digital newsletter, engage social media, maintain a resource website
  - Produce video Start Shows to highlight progress in targeted communities
  - Engage citizens through in-person activities
  - Run digital ads to engage more citizens
- › **Change policies.** We will advocate for awareness, adoption, and implementation of new legislation and regulation that will enshrine the Right to Start at all levels of our system. We will drive adoption of pro-starter policies across local, state, and federal levels by engaging policymakers and civic leaders to change laws and regulations. This work will be guided by “America’s New Business Plan,” a policy roadmap that is backed by a coalition of more than 200 organizations.<sup>13</sup> The plan proposes

---

<sup>13</sup> See Start Us Up, “America’s New Business Plan,” <https://www.startusupnow.org>.

14 recommendations with 43 specific points, provides valuable data and case studies, and offers action checklists of 25 to-do's for federal, state, and local policymakers in order to put entrepreneurs front and center to grow our shared prosperity. It provides practical, actionable policy ideas that are grouped into four pillars: *opportunity* (creation of a level playing field and decrease in red tape associated with new businesses), *funding* (equal access to the right kind of capital everywhere), *knowledge* (access to the know-how necessary to start a business), and *support* (systems that allows all individuals to take risks).

In addition to this broader plan, we are proposing “Ready to Start” policies – inspired by America’s New Business Plan – that can aid in the immediate recovery from the pandemic. These policies, if implemented right away, would help millions of displaced workers find new incomes, restart closed businesses, open new businesses to provide needed goods and services, and diversify our supply chains.

This work will comprise the following tactics:

- Conduct outreach to leaders and policymakers through policy networks and chambers of commerce
  - Write op-eds and deliver speeches and webinars to engage leaders and policymakers
  - Serve as an expert resource for leaders and policymakers
  - Publish a Field Guide for Policymakers with actionable steps for decision-makers
- › ***Change communities.*** We will organize and mobilize ordinary Americans to take steps to support and advocate for entrepreneurs. Entrepreneurship is a community endeavor, and every community in America already has the basic ingredients it needs to build an entrepreneurial ecosystem – no matter its size or shape, or its demographic, socioeconomic, or geographic profile. Our country has a vast entrepreneurial infrastructure that stretches across all 50 states, D.C., and territories. To renew and rebuild, we must now translate that entrepreneurial infrastructure into a permanent civic infrastructure. Simple actions will create awareness, influence policies, and recruit grassroots advocates for the Right to Start. This work will include the following tactics:
- Set up meetings to connect starters and business resources
  - Set up meetings to connect starters and policymakers
  - Host Start Parties and mobilize ordinary citizens to host
  - Host regular nationwide Ambassador meetings

#### **Goals and metrics: Evidence of success**

We will know we have succeeded when Right to Start policies are adopted in cities and states across the country and when major media, community discussions, and political campaigns focus on entrepreneurship as a public priority. In the meantime, our goals are to organize and mobilize 100,000 citizens to take action to support entrepreneurs, and to build a network of 100 Right to Start communities across the country. These achievements are key to our ability to recover from the pandemic and begin to rebuild better. By America’s 250<sup>th</sup> birthday in 2026, we hope to realize the benchmarks listed below.

- › ***Improved policy environment.*** Entrepreneurship established as a priority in at least 100 cities and 30 states where pro-starter policies have been introduced.

- › **More entrepreneurs.** An increase of at least 20 percent in the rate of startup formation nationally (about 100,000 more businesses starting per month).
- › **Greater inclusivity.** More equitable distribution of entrepreneurial opportunity across gender, race, geography, disability, and socioeconomic status.
- › **Better capital access.** Expanded capital access for early entrepreneurs, such as a 20 percent reduction in entrepreneurs who cannot access institutional capital sources.
- › **More equitable opportunity.** Reduction from 66 percent to 50 percent<sup>14</sup> of entrepreneurs who say that the government favors established businesses over entrepreneurs.

With these changes, we will have created a new civic infrastructure that recognizes the importance of entrepreneurial opportunity. For each American, the Right to Start will bring dignity, autonomy, and opportunity. And at scale, the Right to Start will drive prosperity through community renewal, job growth, greater productivity, and economic justice.

## References

America's Small Business Development Centers and the Center for Generational Kinetics. "America's Voice on Small Business," May 2017. <https://americassbdc.org/wp-content/uploads/2017/05/White-Paper-GenStudy-6-1-2017.pdf>

Foster, Lucia, Cheryl Grim, John Haltiwanger, and Zoltan Wolf. "Firm innovation and productivity: Searching for Black Holes." CEPR Policy Portal, June 2018. <https://voxeu.org/article/firm-innovation-and-productivity>

Haltiwanger, John, Ron Jarmin, and Javier Miranda. "Who Creates Jobs? Small vs. Large vs. Young." *U.S. Census Bureau Center for Economic Studies*, August 2010. <https://www.nber.org/papers/w16300.pdf>

Hwang, Victor W. *We Are All Starters*. Regenwald: Kansas City, 2020.

Hwang, Victor W., Sameeksha Desai, and Ross Baird. "Access to Capital for Entrepreneurs: Removing Barriers." Ewing Marion Kauffman Foundation: Kansas City, 2019.

Kauffman Foundation. "Zero Barriers: Three Mega Trends Shaping the Future of Entrepreneurship," 2017. [https://www.kauffman.org/wp-content/uploads/2019/12/state\\_of\\_entrepreneurship\\_address\\_report\\_2017.pdf](https://www.kauffman.org/wp-content/uploads/2019/12/state_of_entrepreneurship_address_report_2017.pdf)

Kauffman Foundation and Global Strategy Group. "Kauffman Foundation Entrepreneurship Survey," 2018.

---

<sup>14</sup> Kauffman Foundation and Global Strategy Group, "Kauffman Foundation Entrepreneurship Survey" (2018).

KC SourceLink. “We Create: Making KC America’s Most Entrepreneurial City.”

<https://www.kcsourcelink.com/wecreate/jobs>

Kelley, Donna, Mahdi Majbouri, and Angela Randolph. “Black Women Are More Likely to Start a Business than White Men.” *Harvard Business Review*, May 11, 2021. <https://hbr.org/2021/05/black-women-are-more-likely-to-start-a-business-than-white-men>

Myers, Spectra and Pamela Chan. “Stuck from the Start: The Financial Challenges of Low- and Moderate-Income African-American Entrepreneurs in the South.” *Prosperity Now*, 2017.

Royal, Ken. “Heard of the U.S. Quit Rate? Win the War for Talent Now.” Gallup, July 12, 2019.

<https://www.gallup.com/workplace/260564/heard-quit-rate-win-war-talent.aspx>

Start Us Up. “America’s New Business Plan.” <https://www.startusupnow.org>.