Consumer Demand and Credit Supply as Barriers to Growth for Black-Owned Startups

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Summary of Findings

Develop a theoretical framework and use microdata to show that Black-Owned Firms (BOF) experience:

- lower returns to capital and capital intensity, which is related to lower consumer demand and tighter credit constraints
- differences in capital returns are persistent
- differences in capital intensity disappear after 4 years
- effects of tighter credit constraints are transitory
- lower demand is a persistent barrier for growth

Manuscript highlights

- Having a theoretical model with evidence from micro-data makes the analysis very strong
- Considering demand and supply factors and several robustness checks are also strengths of the paper
- Important research to devise policies to foster entrepreneurship as a tool to address the racial wealth gap
- Write a research brief/oped to share with policy makers and stakeholders in the financial sector and government
- Submit to an academic journal soon!

Main Findings

Credit and consumer discrimination

- Black-owned firms face an average of around 52% higher cost of capital relative to White-owned firms (credit discrimination)
- Black entrepreneurs, holding all else constant, face relatively lower consumer demand, which we attribute in our context to consumer discrimination – markup wedge of -68% (consumer discrimination)

→ Provide some discussion on context of the magnitudes of these findings

Some ideas for expanding empirical analysis

Consider the following if data allows or for future work:

- Disaggregating by gender (paper controls for gender)
- Impact of Great Recession (data on firms formed in 2004 and followed up to 2011)
- Industry/sectors (paper controls for homogeneous good – construction or manufacturing)
- Location/geographic factors
- Entrepreneur confidence measures/proxies

Future research/discussion

"Black individuals appear to be able to accumulate sufficient liquidity to overcome their initial lack of credit"

BOF are resilient to credit discrimination - would this made BOF more appealing to financial institutions? What are the mechanisms for this?

"Consumer demand differences are insurmountable"

Consumer discrimination is a more important barrier for BOF – how race plays a role in the consumer decision-making process? What is the role of location, type of product/service, and/or messaging here?

→ Should your findings imply that more attention needs to be allocated to answer what explains consumer discrimination?

→ Develop more knowledge on what explains these two facts shown in paper and its relevance for policymakers/stakeholders

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