

The Need for Increasing Black Entrepreneurship as a Result of the COVID-19 Pandemic

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ABSTRACT

COVID-19 and recent high-profile police killings are putting focus on the inequities and societal hurdles facing blacks in the U.S. There is no quick fix or singular solution; however, increasing black entrepreneurship may be a key piece of the solution. The reasons for, and potential benefits of, new public policies and private investment to spur black entrepreneurship are discussed.

Keywords: black entrepreneurship, economic disparity, social justice

The COVID-19 global pandemic has a disproportionate impact on people of color in the United States, especially within the black community. According to the U.S. Centers for Disease Control and Prevention (CDC) website, black individuals are significantly more likely to be hospitalized and die relative to the general population. Among the reasons for this is that blacks tend to live in densely populated urban areas, are less likely to have white collar jobs that can be done remotely/online, and struggle with inadequate health care (CDC, 2020).

Economically, black communities are also suffering more than white communities. According to U.S. Bureau of Labor Statistics (BLS) figures for May 2020, black unemployment stands at 16.6%, compared to

white unemployment at 12.1% (BLS, 2020). This disparity has existed for decades (Badgett, 1994; Singh, Knox & Crump, 2008; Spriggs & Williams, 2000) and is a major contributor to the ongoing wealth gap between black and white Americans. According to U.S. Census (2020) figures, median income for black households is \$41,361 with 19.2% making less than \$15,000, and for white households it is \$66,943 with 8.7% making less than \$15,000. Black households also tend to be larger so there is even less money per person in black households.

The negative effects of COVID-19, combined with recent high-profile police killings, have laid bare societal disparities and challenges faced by the black community. This has led to civil unrest, rising support for Black Lives Matter protests, and a growing discussion of systemic racism and the need for social equity.

There is no easy or single solution to the inequities. However, one piece of the puzzle may be improving new venture creation rates within the black population. Entrepreneurship represents a viable alternative to unemployment and/or discrimination in the labor market and can provide a path out of poverty (e.g., Glazer & Moynihan, 1970; Light, 1979; Moore 1983; Ogbolu, Singh, & Wilbon, 2015; Sowell, 1981). As discussed in this paper, entrepreneurship can help reduce black unemployment, increase wealth, and address the societal hurdles facing blacks in the U.S.

MAIN ARGUMENT/LITERATURE

Entrepreneurs are important economic actors (Birch, 1987; Du & O'Connor, 2018; Schumpeter, 1934) whose new ventures stimulate economic activity and ensure economic and business dynamism through the process of creative destruction (Schumpeter, 1934). In fact, research has consistently found that new entrepreneurial ventures and small businesses have been the major source of the net new jobs in the U.S. economy in recent decades (Birch, 1987; Kirchoff & Phillips, 1988; Scarborough & Cornwell, 2019; Van Stel & Storey, 2004) and may be responsible for up to half of U.S. GDP (Cornwall, 2008).

Given the above, a natural solution to address the disproportionately high black unemployment, the wealth gap, and overall economic and social inequities is increased black entrepreneurship (Bates, 2006; Ogbolu, *et al.*, 2015). Historically, entrepreneurship and self-employment have been paths of economic advancement for disadvantaged people (Fairlie & Robb, 2007). Toward this end, research has found that black business owners are more

likely to hire black job seekers, than are white business owners (Bates, 1997; 2006).

One would expect elevated levels of self-employment and entrepreneurship among blacks to address the socio-economic effects of higher unemployment in the black community. Unfortunately, this is not the case. Approximately 12% of whites are self-employed compared to just 4% of blacks, and the three-to-one ratio in the self-employment rate between whites and blacks has remained roughly constant for more than a century (Bates, 1995; 1997; Fairlie, 1999; Fairlie & Meyer, 1996, 2000). Further, black entrepreneurs who do found businesses tend to be less successful than their white counterparts (Fairlie, 1999). Fairlie and Robb (2007) found that black-owned businesses lagged behind white-owned businesses in profits, sales, number of employees, and survival. Robb (2002) also found that black-owned businesses are 43% more likely to close than white-owned businesses.

Despite the diminished level of firm founding and entrepreneurial success within the black community, research has found that blacks have a higher entrepreneurial *propensity* than whites (Butler, 1991; Köllinger & Minniti, 2006; Walstad & Kourilsky, 1998). That is, they possess a strong tendency to pursue entrepreneurship, marked by a high degree of motivation, interest, and intentions. Black youth, in particular, are more interested in entrepreneurship than white youth (Walstad & Kourilsky, 1998; Wilson, Marlino, & Kickul, 2004). In spite of the apparent interest and the great need for entrepreneurship, blacks remain underrepresented in entrepreneurship (Crump, 2008; Fairlie, 2004; Fairlie & Robb, 2007; Ogbolu, *et al.*, 2015).

The long-term economic disparity between white and black citizens can again be blamed. Starting a new business requires investment of significant financial resources – without these resources no entrepreneurial opportunity can be pursued. There is evidence that minority entrepreneurs have less access to institutional financing than whites (Bates & Bradford, 2004; Cavalluzzo & Cavalluzzo 1998; Gabriel & Rosenthal, 1991; Munnell, Browne, McEaney & Tootell, 1996; Rhodes & Butler, 2004). Consequently, personal savings are the primary source of initial funding for most new ventures (Hisrich, Peters, & Shepherd, 2019; Scarborough & Cornwall, 2019), and in particular for black entrepreneurs. However, as discussed above, blacks are less wealthy than whites and these financial resource constraints prevent successful new venture creation.

Public policies that focus on black communities and black-owned businesses are needed now more than ever. These businesses have largely

been ignored over the last decade. In response to the Great Recession, taxpayers funded the \$700 billion Troubled Asset Relief Program (TARP) in October 2008. The TARP became the largest government bailout program for private sector firms in history. Taxpayers saved some of America's largest private companies from demise, and "too big to fail" became established policy for the federal government (Suskind, 2011). More recently, the \$500 billion Payroll Protection Program (PPP) largely ignored black-owned businesses. Only 12% of black and Latino-owned businesses that sought assistance from the federal government received the amount they requested, and 41% were denied. As a result, a staggering 41% of black entrepreneurs had to close permanently compared to a 17% drop in the number of white entrepreneurs (Fairlie, 2020).

Realizing that most black-owned businesses were excluded from benefiting from the two enormous bailout programs above demonstrates the continued systemic racism and unfair structural challenges that black entrepreneurs face. It is past time for government policies to be specifically focused on saving black-owned businesses and spurring new entrepreneurial venture creation to help strengthen broader black communities.

The private sector must also be tapped to help build more stable black communities. The "15% Pledge" is a new grassroots movement that asks large retailers such as Target, Amazon, and Whole Foods to pledge to give visibility and shelf space to products provided by black-owned businesses. Venture capital firms should also look to diversify their portfolios. This can allow them to enter new markets while also providing social good.

With a concerted effort to build up black communities, societal problems and disparities in income, wealth, home ownership, crime, health care can be addressed, creating the promise of a better future.

CONCLUSIONS

The economic devastation caused by COVID-19 has had a disproportionate negative impact on black communities and will take years to recover from. Combined with the recognition of inequitable treatment by law enforcement, there is growing awareness of the need for social and economic justice to address the inequities between the white and black population. This has created a window of opportunity for new public policies and private investment focused on the problem.

In this paper, I have discussed the growing need and potential for increased black entrepreneurship to lift up this historically depressed

community. It is not a quick-fix panacea, but most certainly will be part of the long-term solution to the societal ills plaguing the U.S.

Much future research, particularly longitudinal research, is needed to further develop the theory in this important area and to fully understand the reasons for the long-term disparity between the entrepreneurship rates of blacks and whites. Financial resources are needed but the historically lower rate of entrepreneurship results in lower numbers of black entrepreneurs who can serve as role models and supportive information sources to the next generation of black entrepreneurs. This, in and of itself, is a limiting factor for future black entrepreneurship.

The U.S. population is changing and within the next several decades the majority of the country will be made up of minorities (i.e., less than 50 percent of the population will still be white). The long-term economic viability and global competitiveness of the nation requires that all subgroups remain productive, especially one that makes up more than 13% of the nation's population. As discussed in this paper, the need is even more acute in the black community to help address the systemic racism that has held back the potential of the black population. Even just a marginal increase in the black entrepreneurship rate would result in thousands of new firms and employment opportunities, give hope to historically distressed communities, and put the nation on a path to economic and social justice.

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