PennState Law | UNIVERSITY PARK, PA

# Perspectives on Minority Business Development

## Tuesday, November 30, 2021 4:00-6:45 p.m.

FREE WEBINAR: TO REGISTER ACCESS WEBSITE BELOW

Experts from across the country will engage in a live discussion of issues involved in Minority Business Development. The event will include the perspectives of lawyers, an economist, a business school dean, a member of the clergy, tax policy experts, and entrepreneurs.

**SEE TOC OF PROGRAM BELOW**

*PA CLE credits are available*

## Event Co-Chairs:

**Samuel C. Thompson Jr.**
Professor and Arthur Weiss
Distinguished Faculty Scholar
at Penn State Law*

**Sabrina Conyers**
Partner at McGuireWoods
LLP., Charlotte, North Carolina

*I thank my following Research Assistants at Penn State Law for their assistance with this program: (1) Ivančica Bobek, Zagreb, Croatia; (2) Skyler Morgan, Atlanta Georgia; and (3) Ngu Huu Truong, Ho Chi Minh, Vietnam. I also thank Stacey Beck of the Penn State Law Administrative Staff for her invaluable assistance.

**https://pennstatelaw.psu.edu/events/perspectives-minority-business-development-0**

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# TABLE OF CONTENTS OF THE PROGRAM

# I. THE PROGRAM AND THE SPEAKERS

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|---|---|
| 4:00 p.m. -<br>4:05 p.m. ET | **Opening Remarks**<br><br>Co-chairs: Professor Samuel C. Thompson Jr., Penn State Law and Attorney Sabrina Conyers, Partner at McGuireWoods LLP., Charlotte, N.C.<br><br>Bios of all of the speakers are at the end of the program materials |
| 4:05 p.m. -<br>4:10 p.m. ET | **Welcome from Penn State Law**<br><br>James W. Houck, Interim Dean, Penn State Law and the School of International Affairs |
| 4:10 p.m. -<br>4:30 p.m. ET | **SESSION 1: PRESENTATION BY PENN STATE LAW STUDENTS ON THE CURRENT STATE OF THE ECONOMIC GAP BETWEEN WHITES AND MINORITIES, I.E., "*THE PROBLEM*"**<br><br>This background presentation is made by four of the students in Professor Thompson's Minority Business Development course at Penn State Law (PSL), Fall 2021, and the other students in the class are listed below.<br><br>**STUDENT MODERATOR:** Skyler Morgan, 3rd Year PSL, Atlanta Georgia, Research Assistant to Professor Thompson<br><br>**STUDENT PRESENTERS:** Ivančica Bobek, LL.M, PSL, Zagreb, Croatia; Jamirca Nuesi, 2nd Year PSL, New Jersey; Gabrielle Dominique Tock, 3rd Year PSL, Pittsburgh<br><br>**OTHER STUDENTS IN THE CLASS:** Keira Frazier, 2nd Year PSL, Bloomsburg, Pennsylvania; Barbara Šimić, LL.M. PSL, Zagreb, Croatia; Ivona Šimić, LL.M. PSL, Zagreb, Croatia; Garrett Young, 2nd Year PSL, Green River, Wyoming; Taylor Washington, 2nd Year PSL, Memphis, Tennessee<br><br>**BRIEF REACTIONS:** Dana Peterson, Chief Economist at The Conference Board and former Citigroup Banker |

| | |
|---|---|
| 4:30 p.m. -<br>5:40 p.m. ET | **SESSION 2: DISCUSSION OF POTENTIAL MINORITY BUSINESS DEVELOPMENT SOLUTIONS TO "THE PROBLEM"**<br><br>**MODERATOR:** Sabrina Conyers, Partner at McGuireWoods LLP., Charlotte, N.C.<br><br>**PANELISTS:** [1] Glenn Carrington, Dean, Norfolk State Business School; [2] Marcia J. Griffin, Co-founder and CEO of HomeFree USA; [3] Sebastian V. Niles, Partner Wachtell, Lipton, Rosen, & Katz, NYC; [4] Stuart Rohatiner, Partner, Gerson, Preston, Robinson, Klein, Lips & Eisenberg, P.A. Miami, Fl.; [5] Ethan Smith Co-founder and Managing Partner of Starfield & Smith, Fort Washington PA, and an expert in SBA lending; and [6] Shoba Sivaprasad Wadhia, Associate Dean for Diversity, Equity, and Inclusion, Samuel Weiss Faculty Scholar and Clinical Professor of Law, Director, Center for Immigrants' Rights Clinic<br><br>**BRIEF REACTIONS:** Dana Peterson, Chief Economist at The Conference Board and former Citigroup Banker |
| 5:40 p.m. -<br>5:45 p.m. ET | **5-Minute Break** |
| 5:45 p.m. -<br>5:55 p.m. ET | **SESSION 3A: IS PART OF THE SOLUTION TO THE PROBLEM "THE NATIONAL DEVELOPMENT CORPORATION" AND "THE NATIONAL DEVELOPMENT BANK"?**<br><br>**MODERATOR:** Sabrina Conyers, Partner McGuireWoods Law Firm Charlotte, N.C.<br><br>**PRESENTER:** Professor Sam Thompson, Penn State Law<br><br>Sam will present his theory that part of the solution to "The Problem" is to have Black churches organize, fund, and control the voting stock interest in the "National Development Corp" and "National Development Bank," which would focus on both (1) making a profit, and (2) promoting the wellbeing of minorities in America. Sam first made this proposal in 1971 in a paper for his Minority Business Development course at the University of Pennsylvania School of Law. The paper was subsequently published in several issues of "Black Enterprise" magazine, which is no longer published. Sam will briefly outline a 2021 version of this 50-year-old proposal, which will be followed by a discussion of the potential efficacy of the proposal. |

| | |
|---|---|
| 5:55 p.m. - 6:40 p.m. ET | **SESSION 3B: SOME INITIAL REACTIONS TO THE NDC AND NDB PROPOSALS**<br><br>**MODERATOR:** Sabrina Conyers, Partner McGuireWoods Law Firm Charlotte, N.C.<br><br>**PANELISTS**: [1] Jonathan E. Ford, Pastor, Taylor Tabernacle, Philadelphia, and graduate of the University of Pennsylvania's Wharton of School of Business; [2] James M. Griffin, Jr., Chief Operating Officer, Homefree USA, Inc., Washington D.C.; [3] Richard Hoskins, Professor Northwestern University School of Law and Doctor of Religion, University of Chicago, Divinity School; and [4] J.B. Todd McCoy, Atty Lawyer, Bilotti and Associates, Media, Pa. and a deacon at Taylor Tabernacle<br><br>**BRIEF REACTIONS**: Dana Peterson, Chief Economist at The Conference Board and former Citigroup Banker |
| 6:40 p.m. - 6:45 p.m. ET | **Closing Remarks**<br><br>Co-Chairs: Professor Samuel C. Thompson Jr. and Attorney Sabrina Conyers |

## II. A SPECIAL THANKS TO THOSE OUTSTANDING ATTORNEYS WHO WERE THE CLASS LEADERS DURING PART I AND PART II OF THE COURSE AND WHOSE CLASS SESSIONS ARE AVAILABLE ON THE PENN STATE LAW WEBPAGE FOR THIS COURSE

The last session of Part I of the course (i.e., the second hour of class 5) focused on an article in the University of Wisconsin Law Review by Professor Berdejo of the Loyola School of Law in L.A. The article is entitled *Financing Minority Entrepreneurship*. Professor Berdejo participated in a discussion of his article after presentations by three of the students in the class on the various parts of the article. My special thanks goes to Professor Berdejo.

Also, each of the sessions in Part II, *The Essential Tools*, was led by an outstanding professional who consulted with the assigned student on the preparation of a slide presentation on the topic. The slides and a recording of the session are available on the webpage for the course on the Penn State Law website. A special thanks goes to these professionals, who are set out here with the subject of their contributions shown:

- SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP , CHARLOTTE N.C, *INTRODUCTION TO THE LAWYER'S ROLE IN BUSINESS PLANNING*;
- SRINIVAS M. RAJU, PARTNER, RICHARDS, LAYTON & FINGER, P.A, WILMINGTON, DEL; *OVERVIEW OF LLC LAW AND THE INCORPORATION PROCESS*;
- ERIN REEVES MCGINNIS, PARTNER, NELSON MULLINS, ATLANTA, GEORGIA, *SELECTED ISSUES UNDER THE FEDERAL SECURITIES LAWS*;
- RICHARDSON JEAN, ASSISTANT STATE ATTORNEY, MIAMI/DADE STATE ATTORNEY'S OFFICE AND GRADUATE TAX STUDENT, UNIVERSITY OF MIAMI SCHOOL OF LAW, *TAX CONSIDERATIONS IN ORGANIZING AND OPERATING A SMALL BUSINESS*, BASED ON AN OUTLINE PREPARED FOR THE SPRING 2020 VERSION OF THE COURSE BY ERIC SOLOMON, PARTNER, STEPTOE & JOHNSON, LLP;
- SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP., CHARLOTTE N.C., EQUITY-BASED COMPENSATION;
- CHRIS L. BOLLINGER, PARTNER, SCHIFF HARDIN LLP, CHICAGO, ILL.; INTELLECTUAL PROPERTY PROTECTION;
- SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP, CHARLOTTE N.C., CAPITAL RAISING AND OVERVIEW OF VENTURE CAPITAL;
- SABASTIAN V. NILES PARTNER, WACHTELL, LIPTON, ROSEN & KATZ, NYC, VENTURE CAPITAL FINANCING—PREFERRED STOCK ATTRIBUTES, AND DOCUMENTING THE VC TRANSACTION; AND
- CASSANDRA HAVARD, PROFESSOR, UNIVERSITY OF BALTIMORE SCHOOL OF LAW, AND ETHAN W. SMITH, MANAGING PARTNER, STARFIELD & SMITH, FORT WASHINGTON, PA, *INTRODUCTION TO SBA FINANCING*.

## III. SESSION 1: PRESENTATION BY PENN STATE LAW STUDENTS ON THE CURRENT STATE OF THE ECONOMIC GAP BETWEEN WHITES AND MINORITIES, I.E., "THE PROBLEM" AND SELECTED COURSE MATERIALS FROM PART I (INTRODUCTION) OF THE COURSE RELATING TO TODAY'S SESSION 1

a. SLIDES ON "*THE PROBLEM*" PREPRARED BY PENN STATE LAW STUDENTS: IVANČICA BOBEK, SKYLER MORGAN, JAMIRCA NUESI, GABRIELLE DOMINIQUE TOCK, PAGES 6 TO 24

b. CITIGROUP REPORT ON *CLOSING THE RACIAL INEQUALITY GAPS* (2020), PAGES 25 TO 124

c. FAIRLIE AND FOSSEN, *DID THE $660 BILLION PAYCHECK PROTECTION PROGRAM AND $220 BILLION ECONOMIC INJURY DISASTER LOAN PROGRAM GET DISBURSED TO MINORITY COMMUNITIES IN THE EARLY STAGES OF COVID-19?,* JAN 2021, PAGES 125 TO 149

d. FAIRLIE, THE STATE OF THE SMALL BUSINESS ECONOMY IN THE PANDEMIC, TESTIMONY, U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS, FEBRUARY 4, 2021, PAGES 150 TO 159

e. PENN STATE ALUMNA, ANIYIA WILLIAMS, BUILDS NONPROFIT TO HELP BLACK & BROWN FOUNDERS SUCCEED, PENN STATE NEWS, PAGES 160 TO 162

# *Assessing the Roadblocks in Minority Business Ownership: Closing the Racial Gap*

**Student Presenters:**
Skyler Morgan
Ivancica Bobek
Gabrielle Tock
Jamirca Nuesi

# *CENSUS BUREAU: INCOME AND POVERTY IN THE U.S.: 2019*

**Median Household Income** In 2019 By Race With Change From 2018 To 2019:

Asian $98.2k, Increase 10.6%

*White Not Hispanic $76.1k, 5.7%*

*White Including Hispanic $72.2k, 5.9%*

*Hispanic (Any Race) $56.1k, 7.1%*

*Black $45.4k, 7.9%*

- The Ratio Of Black To Non-Hispanic White Household Income Was 0.60, While The Ratio Of Hispanic To Non-Hispanic White Household Income Was 0.74. None Of These Ratios Were Statistically Different From 2018.

**Poverty Gap**

- In 2019, Non-Hispanic Whites Accounted For 59.9% of the total population and 41.6% of the people in poverty In 2019
- Blacks accounted for 13.2% of the total population and 23.8% of the people in poverty
- Hispanics accounted for 18.7% of the total population and 28.1%

# *BROOKINGS EXAMINING THE BLACK WHITE WEALTH GAP*

## Some reasons for differences in wealth even though incomes may be similar:

- Whites receive much larger inheritances, possibly the biggest factor
  - Inheritances are lightly taxed, if taxed at all
- Life-time income likely to be less for blacks, who are more likely to experience a fall in income
- High income black families are more likely to be called on to help less fortunate family members

## Wealth is a safety net

- Helps young family members get started, live in better neighborhoods and attend better schools
- Wealth allows people to be entrepreneurs and take risks
- Income from wealth (e.g., dividends and capital gains from the sale of stock) is taxed at a lower rate, that is, 23.8% max rate versus a 37% rate for salary income

# *Addressing Income Inequality*

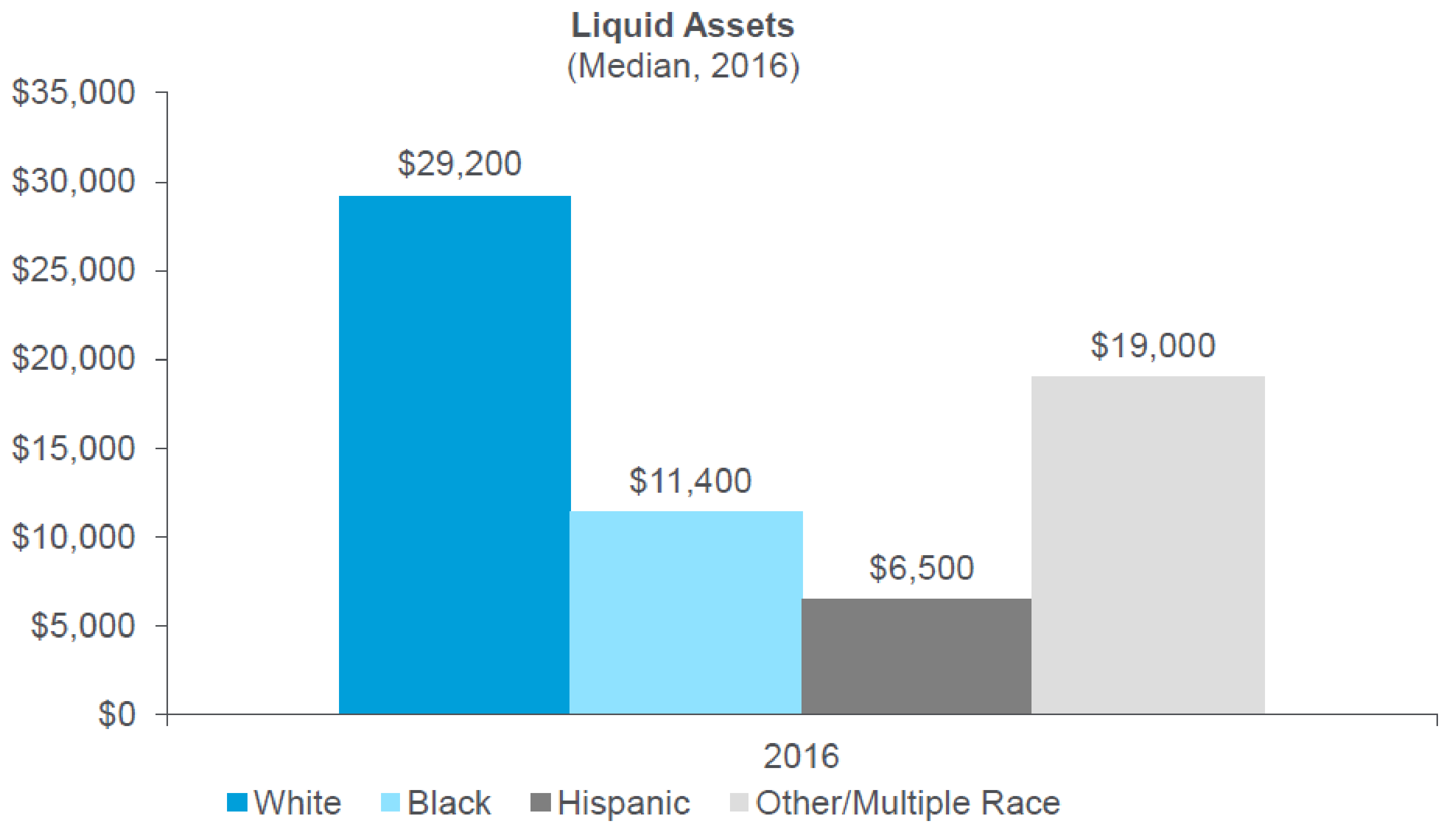
# ***Underlying Causes***

- **Systemic Racism has capped lifetime income prospects for many Black Americans**

- As of 2018, census data shows that **male Black and Hispanic workers would see peak income earlier in their careers** (age 40s), and **at a far lower level** (approx. $40,000) than their white male peers (early 50s and approx. $65,000)

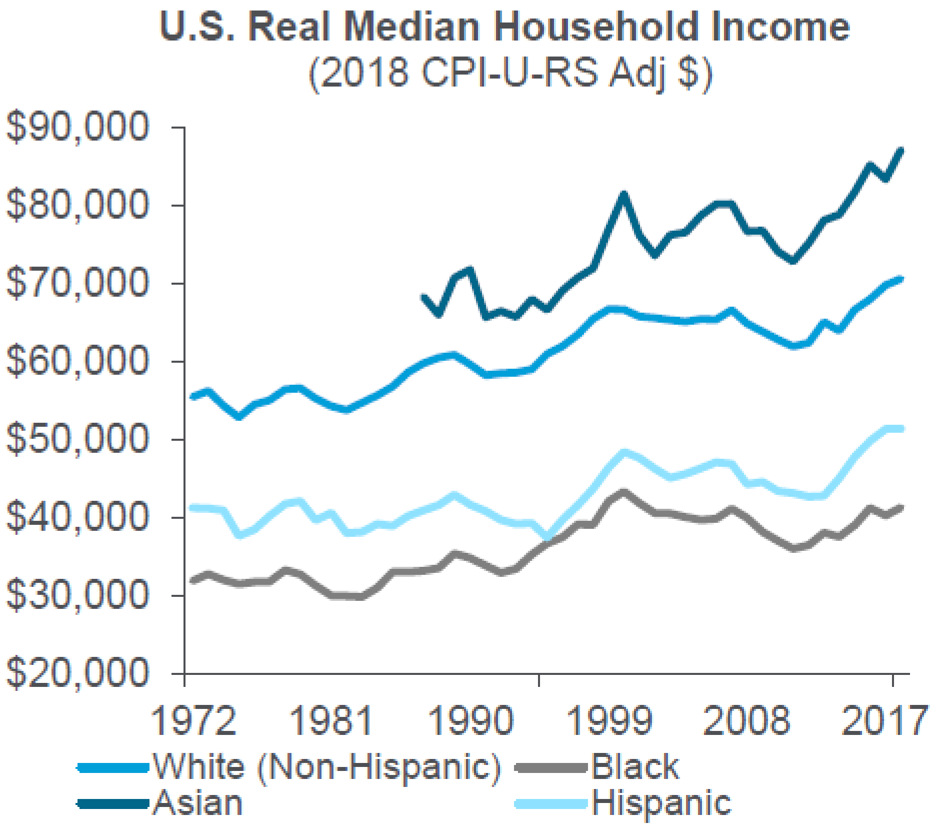
- The **median amount of liquid assets held by Black families** in 2016 was **roughly one-third of what white families held**, suggesting that Black families are potentially more vulnerable to hardship during tough economic times
- Median household net worth among white families is **8x greater** than black families

Figure 50. Black Families Hold Roughly One-Third of the Liquid Assets that Are Key to Smoothing Consumption than White Families Hold



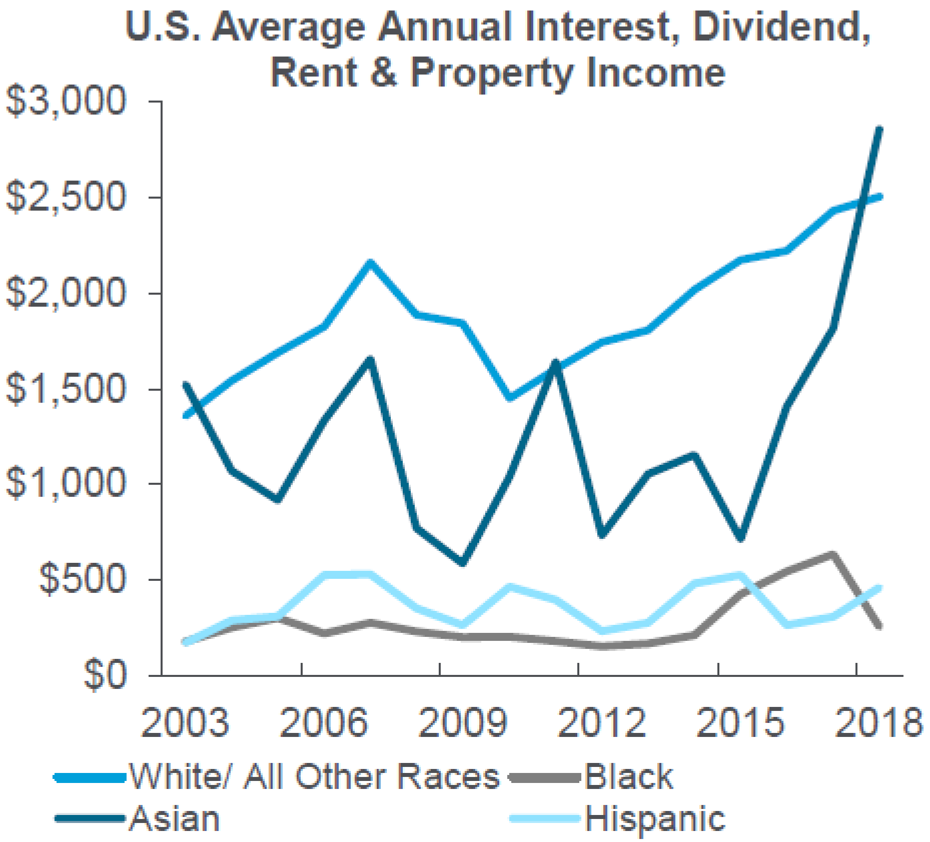

Note: Liquid Assets include transaction accounts, certificates of deposits
Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

## Figure 8. Income Gaps for Black and Hispanic People Remain Wide




Source: Census Bureau, Citi Research

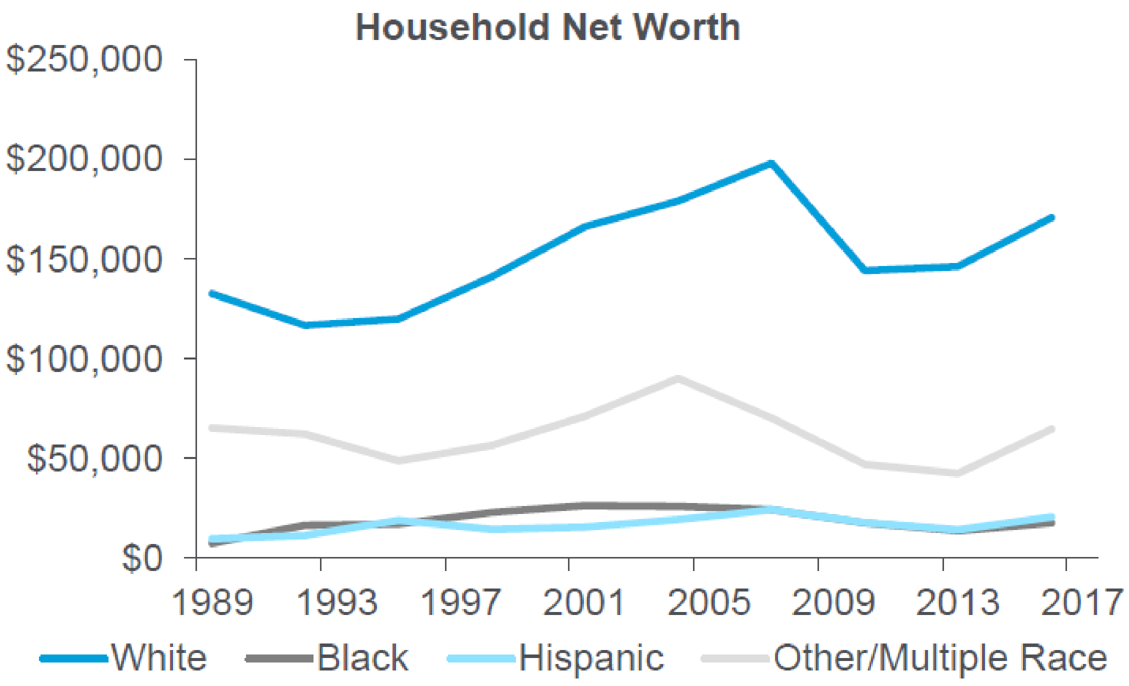
## Figure 9. Wealth Gaps for Black And Hispanic People Have Not Improved




Source: Census Bureau, Citi Research

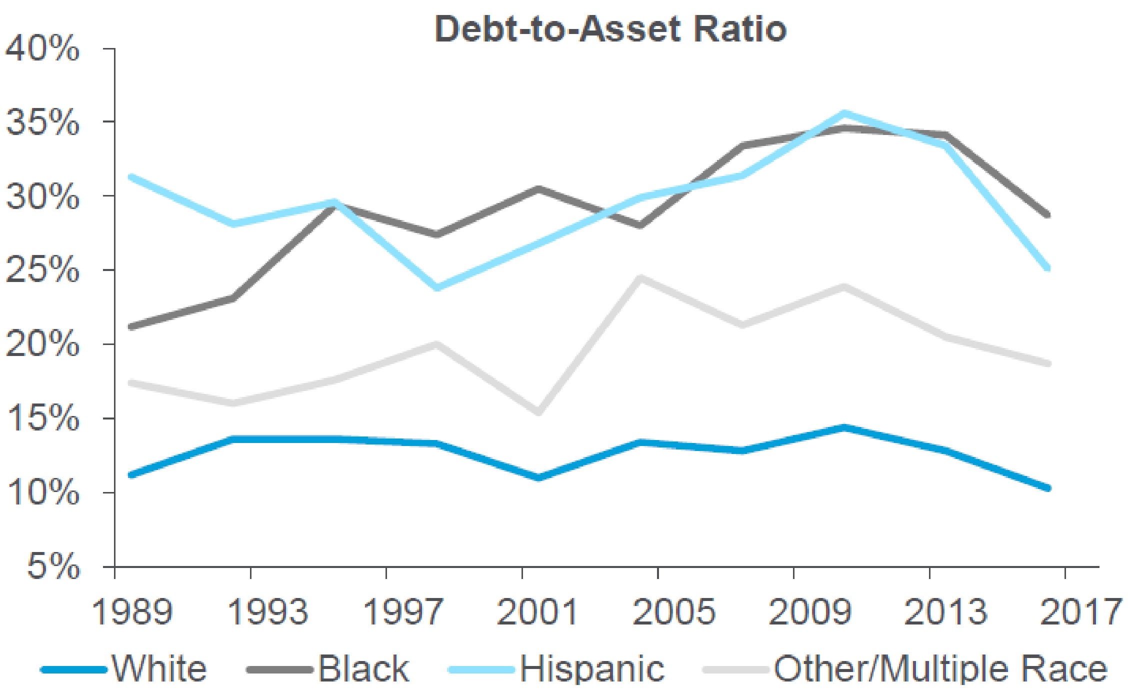
(Peterson and Mann, 12 (citing U.S. Census Data).

Figure 51. White Families Have 8x More Wealth than Black Families




Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

Figure 52. Leverage Ratios for Black Families Have Remained Elevated




Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

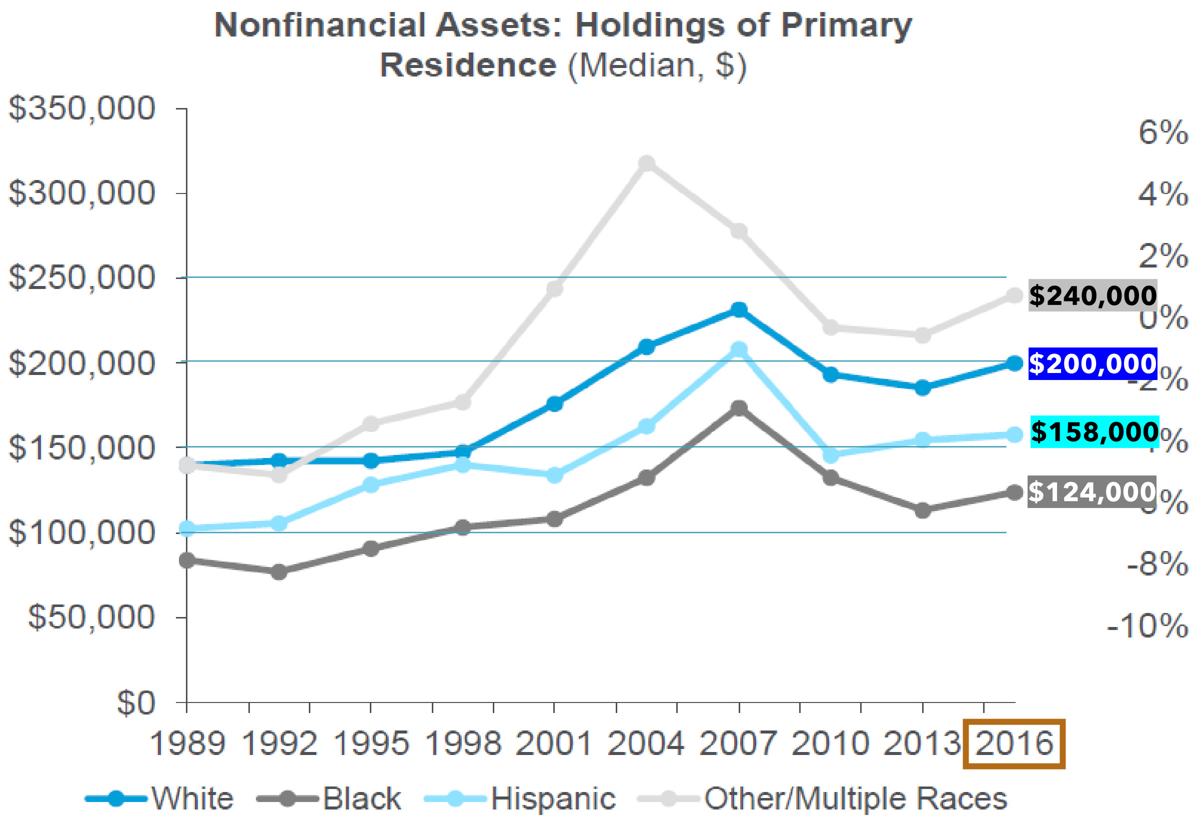
Figure 77. Inheritance Can Meaningfully Bolster Familial Wealth

| | Including Households With Inheritances | | Only Households Without Inheritance | |
|---|---|---|---|---|
| | Mean Wealth | Median Wealth | Mean Wealth | Median Wealth |
| White | $ 1,152,818.00 | $ 287,457.00 | $ 742,627.00 | $ 183,050.00 |
| Black | $ 168,238.00 | $ 38,174.00 | $ 85,702.00 | $ 33,969.00 |
| Hispanic | $ 399,498.00 | $ 65,960.00 | $ 196,541.00 | $ 38,125.00 |

Source: Federal Reserve Board, Citi Research

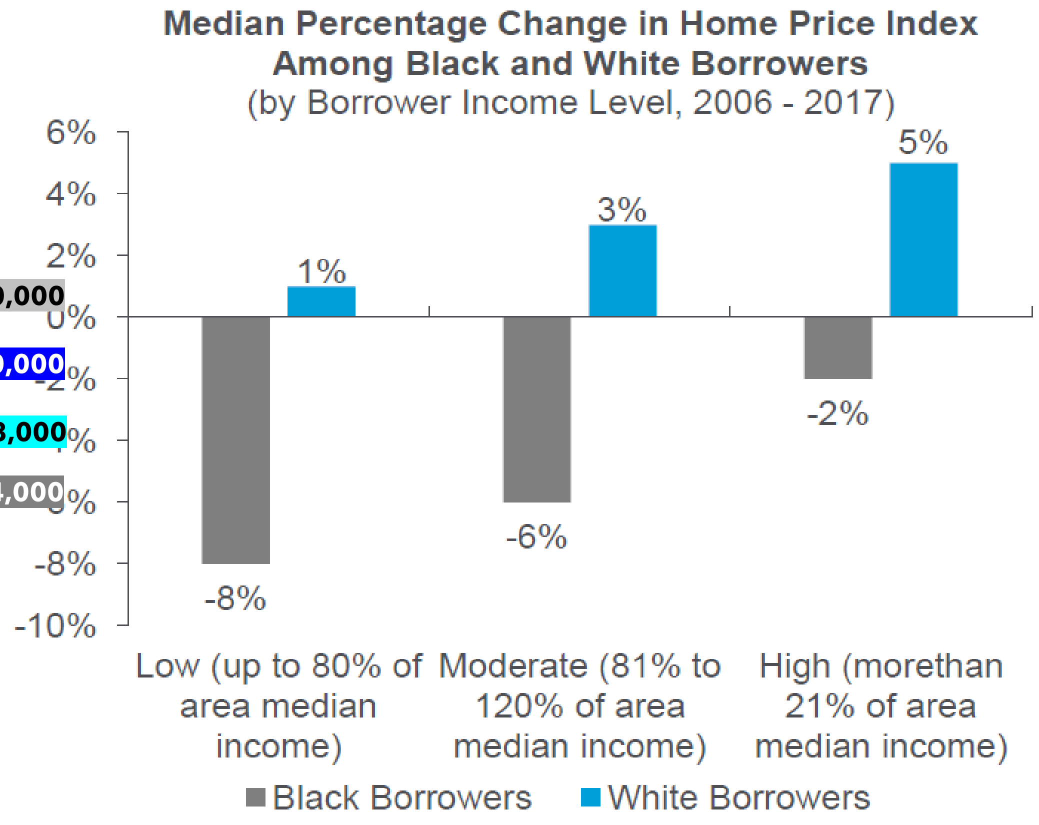
(Peterson and Mann, 35, 48).

Figure 27. Black Families Hold the Least Amount of Housing Wealth




Source: Federal Reserve Survey of Consumer Finances, Citi Research

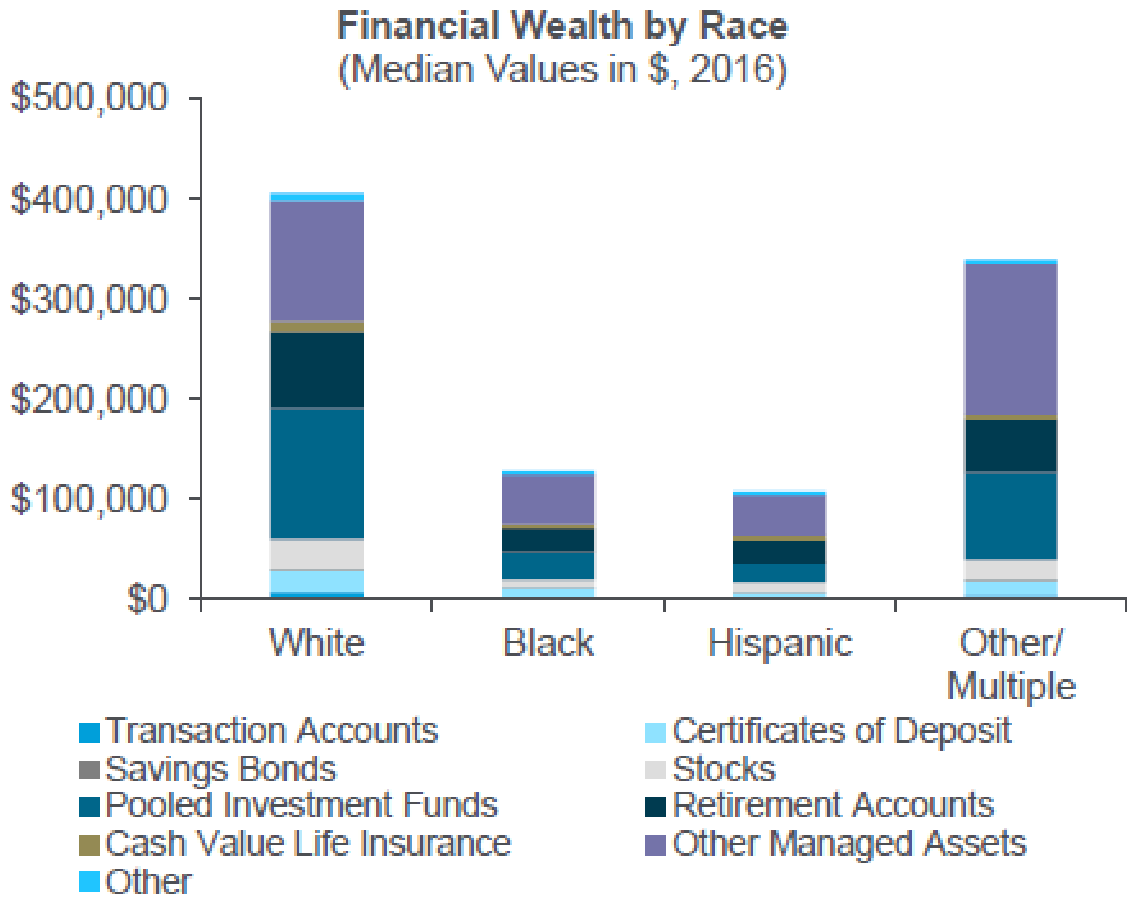
Figure 28. Black Homeowners Experienced Home Price Depreciation




Source: Center for American Progress, Citi Research

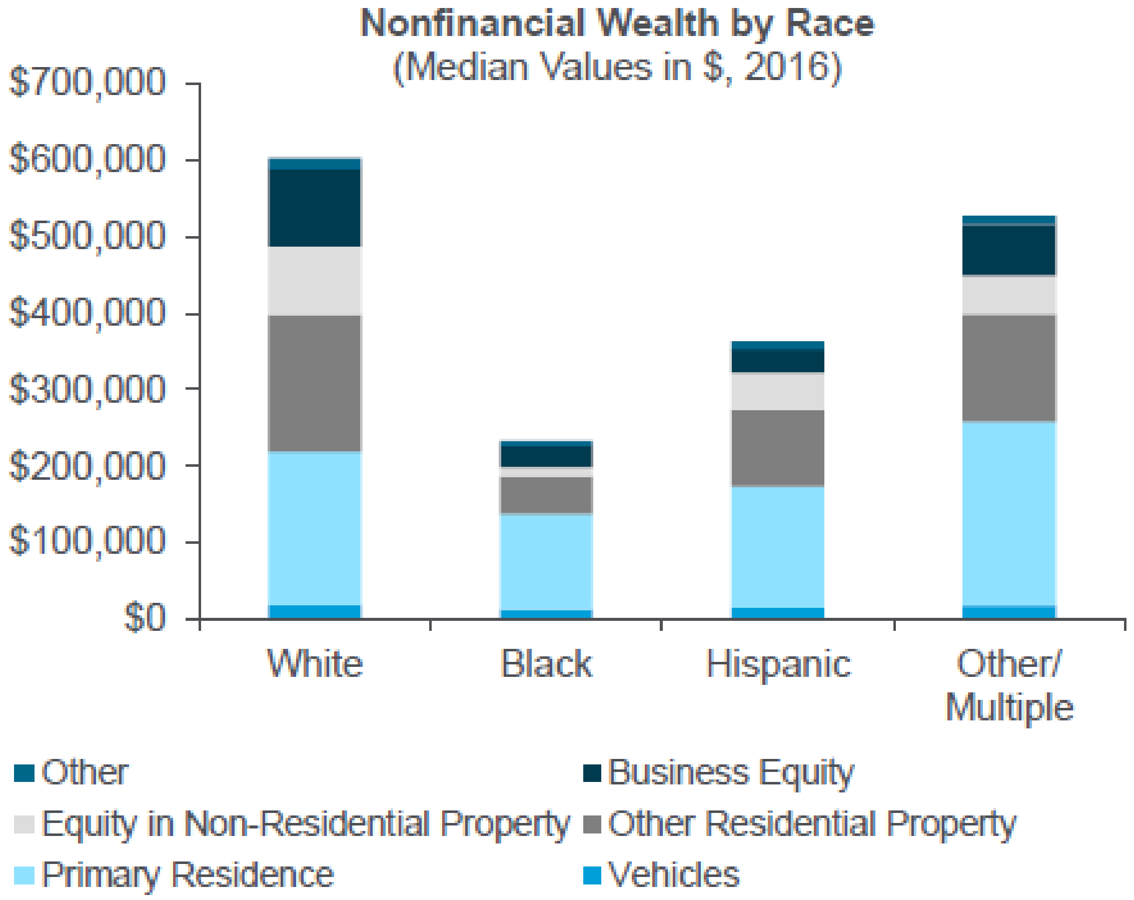
(Peterson and Mann, 17-23 (citing Greenwald, A. and Linda Krieger, Implicit Bias: Scientific Foundations, 94 Cal. L. Rev. 945 (2006); Fulwood III, S., "United States' History of Segregated Housing Continues to Limit Affordable Housing," Center for American Progress (Dec. 15, 2016); da Costa, P., "Housing discrimination underpins the staggering wealth gap between blacks and whites," Economic Policy Institute (April 8, 2019)).

**Figure 80. Black Families Have One-Third of the Financial Assets of White Families**

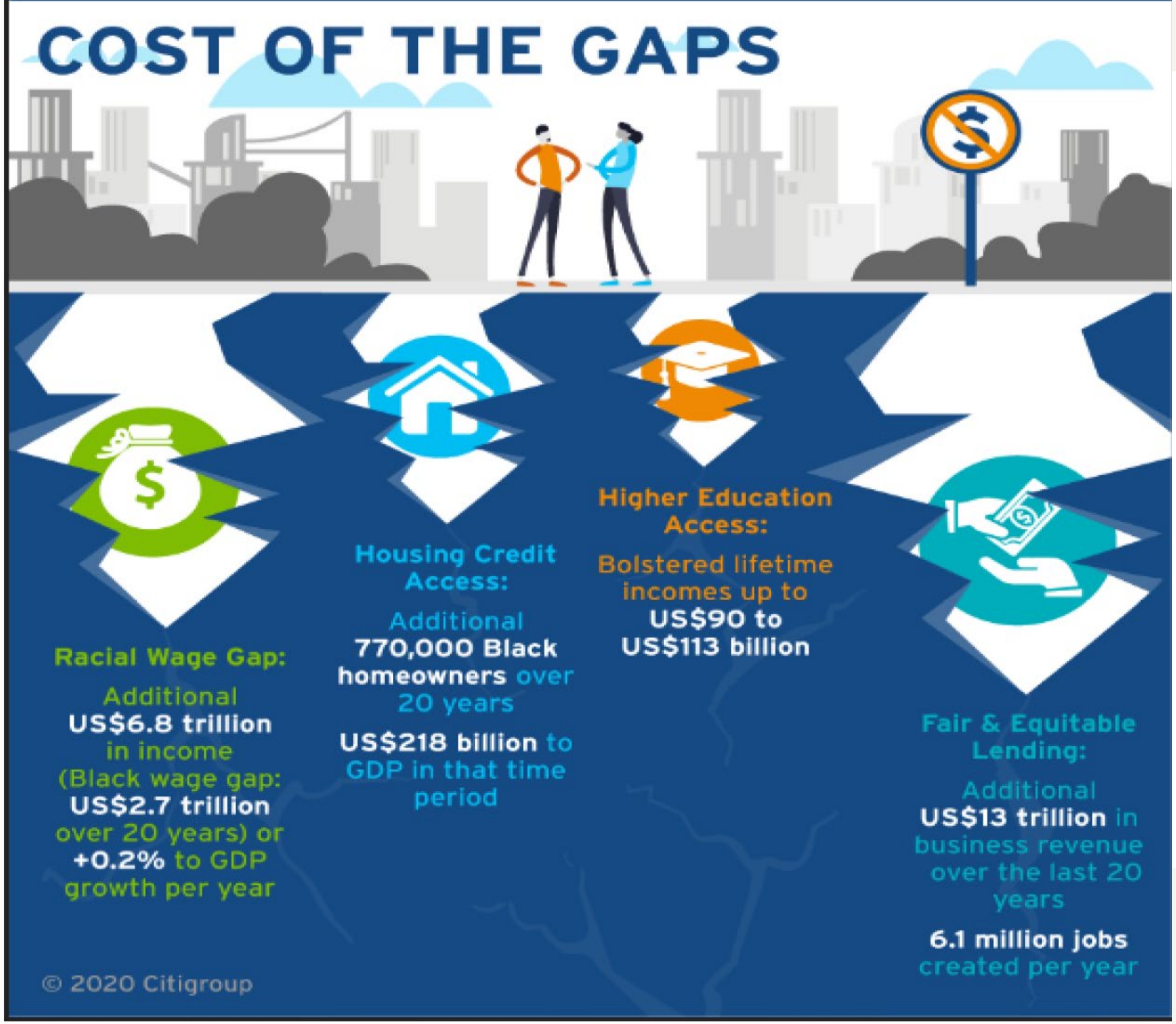



Source: Federal Reserve Board, Citi Research

**Figure 81. Black Families Have Fewer Assets in Every Category of Nonfinancial Wealth Relative to Other Races**

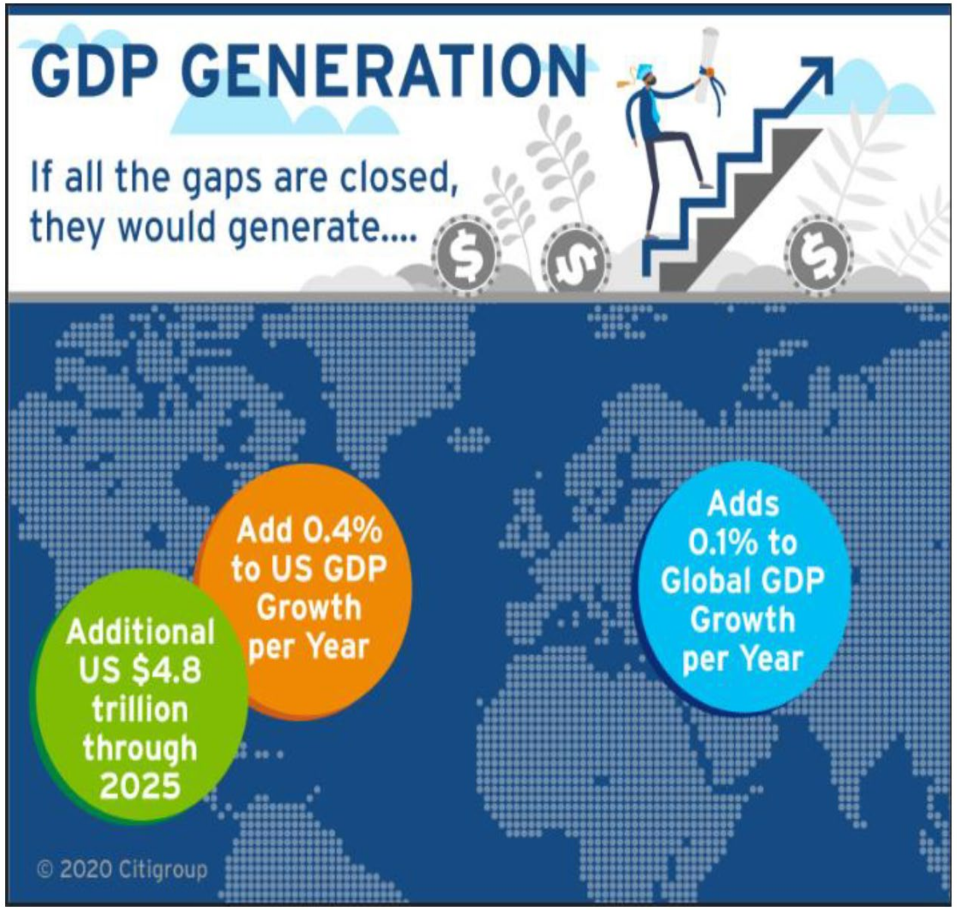



Source: Federal Research Board, Citi Research




Source: Citi Research

Figure 2. The Economic Case for Closing Racial Gaps is Highly Compelling




Source: Citi Research

(Peterson and Mann, 7-8, 38-40 (citing *Racial Equity Primer*, Federal Reserve Bank of San Francisco (June 12, 2020); Bureau of Labor Statistics; Bureau of Economic Analysis; Citi Research Estimates).

# *Racial Investment Gap*

# Obtaining Capital

- Every business venture needs capital
- Minority entrepreneurs suffer not from a lack of vision, but from a lack of funding along every point in the investment cycle, and are more likely to cease operating a business due to insufficient financing
  - *Because of the lack of funding, minority businesses have suffered more during COVID than White businesses*
- Possible sources of capital are not available/less available for minority entrepreneurs
- Financing business by founder's capital
  - *More likely for minority entrepreneurs*
  - *Due to the lack of their own capital, more likely to have a lack of finances and to finance it with more expensive capital*
- Access to capital from the family and friends
  - *More likely for minority entrepreneurs*
  - *Due to the lack of their own capital, more likely that the financing will not be sufficient*

# *Debt Financing vs. Equity Financing*

- Access to traditional forms of financing (loans)
  - *Even after controlling for firm characteristics and performance, the approval rates for minority firms still remain lower, minority businesses are the least likely to receive approval for loans from large banks*
  - *Less likely to apply for financing at small banks, similarly less likely to be approved for loans than white-owned firms at these small banks*
  - *Least likely to apply to online lending sources*
  - *Even for those who are approved for financing, they typically receive less than half of what was requested*

- Access to venture capital investments
  - *Less likely to receive it*
  - *Asymmetry of information –not aware of these sources of funding*

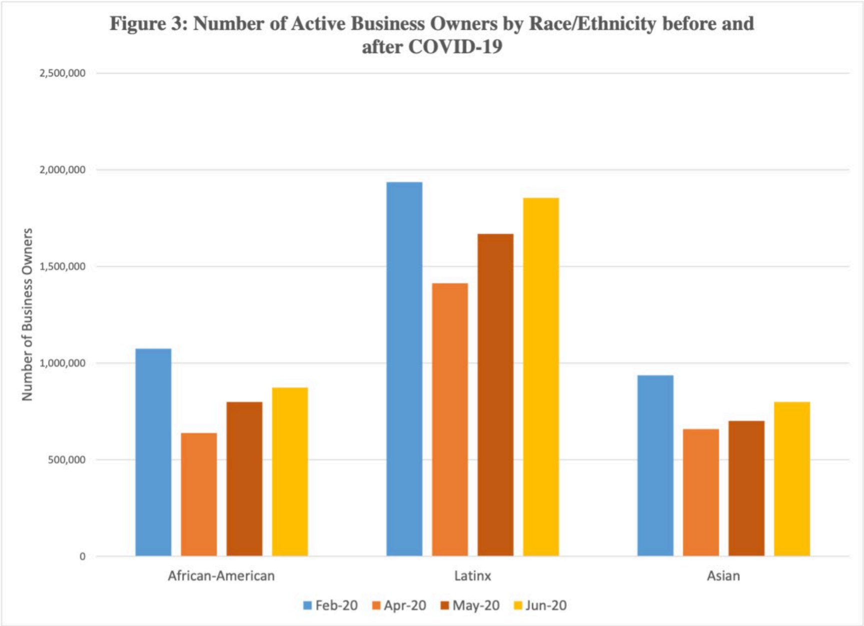
  *Unconscious bias of venture capitalist (expensive education)*
  - *Not trusting that minority entrepreneurs have viable and sustainable businesses, and/or lack an understanding of the product or customer minority founders are serving*
  - *More harsh judgment of minority entrepreneurs when managing capital funds than their white counterparts with identical credentials*

- Incubators are one of the possible solutions

# *Statistics of Covid-19's Impact on Minority Businesses*

- From February to April 2020, active business ownership in the United States went down 3.3 million (22%)
  - *The largest drop of business owners on record*
  - *Black businesses activity dropped 41% (from 1.1 million to 640,000 in a three-month period)*
  - *Hispanic businesses activity dropped 32% (from 2.1 million to 1.4 million)*
  - *Asian businesses activity dropped 21%*
  - *White businesses activity dropped 17%*
  - *Immigrant businesses dropped 32%*
- Female business ownership suffered a drop of 25% (from 5.4 million active female business to 4 million in a two-month period)
- Black unemployment reached 17%
- Latinx unemployment reached 18%

Robert W. Fairlie, National Bureau of Economic Research (2020)



# *Why Were Minority Businesses Hit Harder?*

| The industry distributions of Black and Hispanic Businesses | Differences in scales of businesses | Lack of Access to the first round of PPP loans |
|---|---|---|
| • Minority owned businesses are more likely to be concentrated in the service and health industries which were directly impacted by the pandemic | • Minority owned business are smaller on average<br>  • Less access to capital<br>• Larger businesses are more likely to have resources, business and legal structures, to implement procedures to address social distancing regulations | • Banks were primarily working with current clients and prioritizing larger clients over smaller ones so that they could get larger processing fees<br>• Only 12% of Black and Latinx owned business business were successful in receiving loans |

Robert W. Fairlie, National Bureau of Economic Research (2020)

Written Testimony of Sharon R. Pinder Before the U.S House of Representatives

# *The Impact of Covid-19 on Minority Businesses*

The negative impact on minority and immigrant owned businesses can cause broader racial inequality

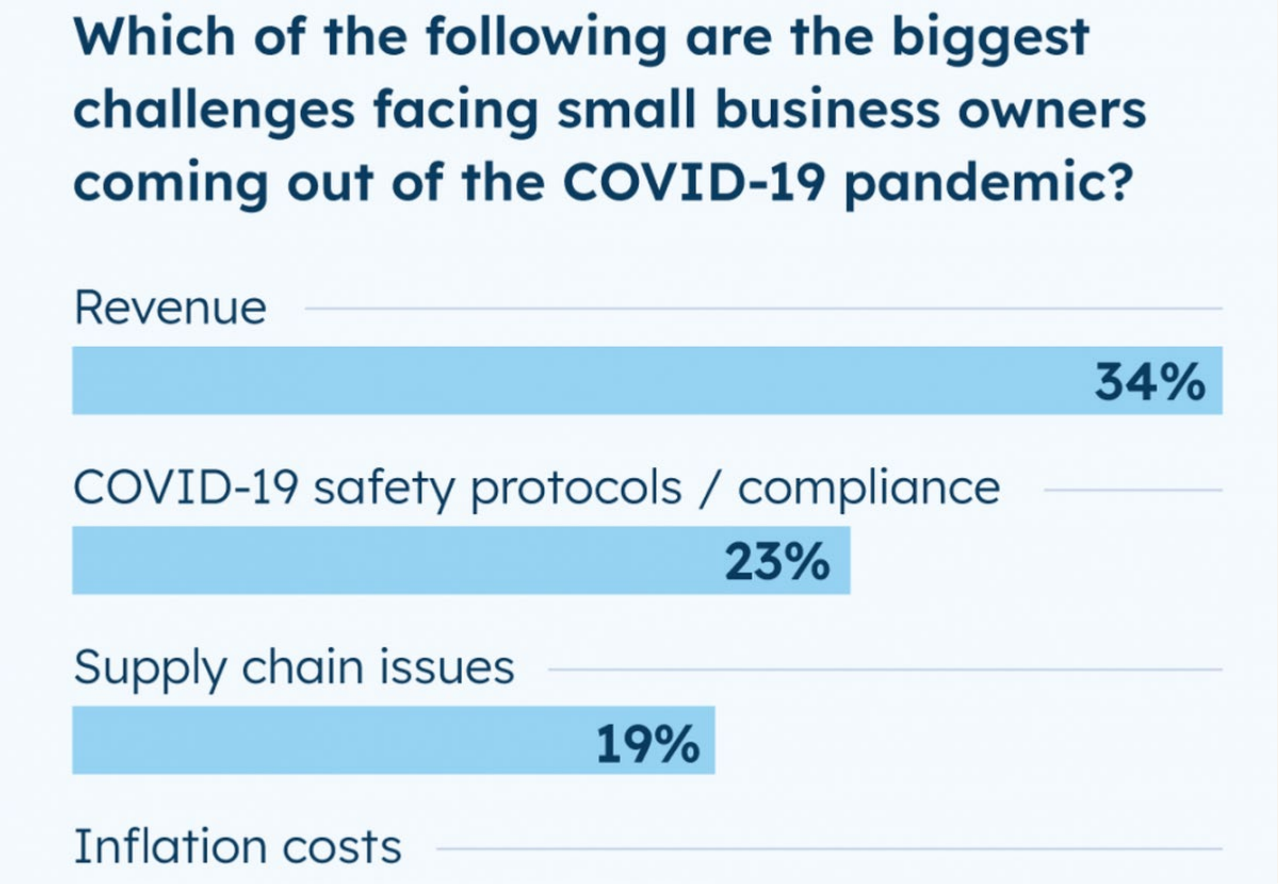
- Small businesses are important for local job creation and minority owned business disproportionately hire other minorities
- Furthers wealth inequality

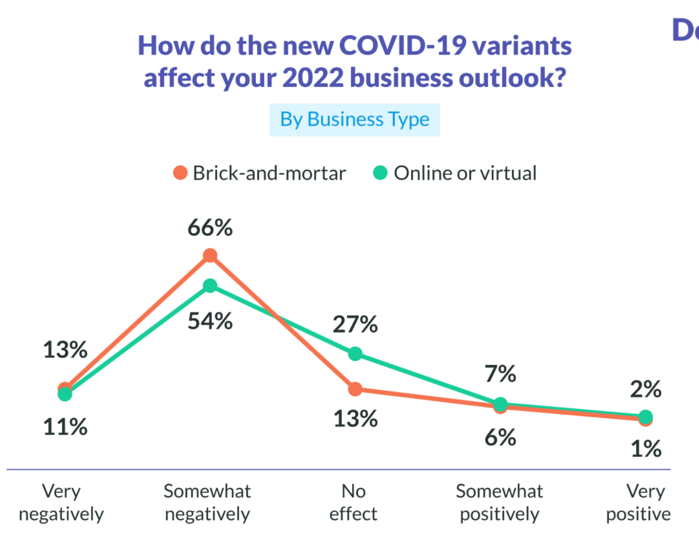
Loss of female business ownership will increase gender inequality in business ownership and possibly in economic inequality

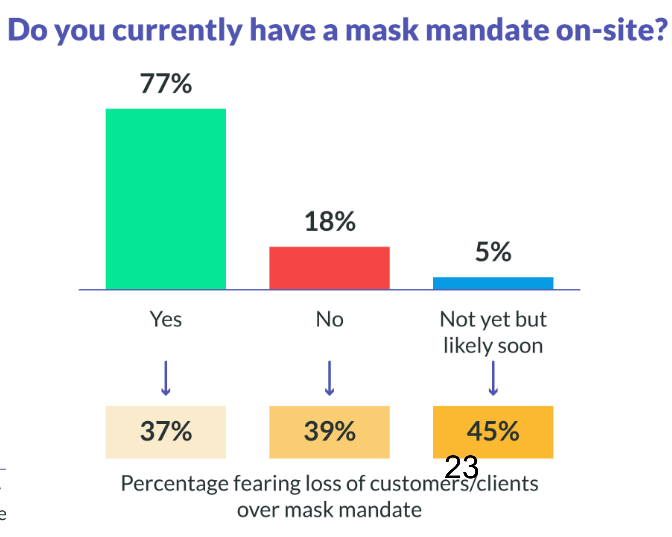
Robert W. Fairlie, National Bureau of Economic Research (2020)

# *The Impact of the Delta Variant on Minority Businesses*

- 40% of small business owners are worried about the debt they've accumulated during Covid-19
  - Higher concern for Black business owners (55%)
- Small businesses biggest challenge is generating revenue
  - 45% of small business owners have less than three months' cash reserves
  - 51% for Black business owners
- Small business owners are struggling to find workers to fill open jobs
- Issues with Covid-19 safety protocols
  - 41% of small-business owners have had confrontations with customers over mask mandates
  - 1 in 3 small businesses report getting their employees vaccinated as a top priority
  - 18% of small-business owners are being significantly strained by having to protect their workforce from the COVID-19 variants



***BRIEF REACTIONS:***
*Dana Peterson, Chief Economist at The Conference Board and former Citigroup Banker*

# CLOSING THE RACIAL INEQUALITY GAPS

## The Economic Cost of Black Inequality in the U.S.

**Citi GPS: Global Perspectives & Solutions**

September 2020

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**Dana M Peterson** Director, is a Global Economist with Citi Research. Her goal is to provide high value, accurate and timely analysis that informs Citi's top tier clients in their investment, risk, and business planning decisions. Dana has specific responsibility for identifying, analyzing, and publishing research papers on important global economic themes having direct financial market implications. Such global economic themes include, monetary policy, fiscal and trade policy, debt, taxation; ESG; and demographics. Dana also examines U.S. themes using granular data. Dana and her research have been featured by U.S. and international news outlets in print and on television, including the CNBC, Bloomberg, Thomson-Reuters, WSJ, the Financial Times (FT), Fox Business News Network, BNN-Bloomberg, Globe and Mail, CBC, and National Post.

**Please note:** This is the last report written by Dana Peterson in her role as Global Economist at Citi. We thank Dana for her insights and dedication to global thematics and in particular her work on this important Citi GPS report. We wish her all the best in her new role as Chief Economist at The Conference Board.

**Catherine L Mann** is the Global Chief Economist at Citigroup where she is responsible for thought leadership, research guidance of a global team of economists, and cross-fertilization of research across macroeconomics, fixed-income, and equities. Prior to this position, she was Chief Economist at the OECD, where she also was Director of the Economics Department and was Finance Deputy to the G20 (2014-2017). Prior to the OECD, she held the Barbara '54 and Richard M. Rosenberg Professor of Global Finance at the International Business School, Brandeis University, where she also directed the Rosenberg Institute of Global Finance (2006-2014). She spent 20-plus years in Washington, DC (1984-2006) where her positions included Senior Fellow at the Peter G. Peterson Institute for International Economics; Economist, Senior Economist, and Assistant Director in the International Finance Division at the Federal Reserve Board of Governors; Senior International Economist on the President's Council of Economic Advisers; and Adviser to the Chief Economist at the World Bank. Dr. Mann received her PhD in Economics from the Massachusetts Institute of Technology and her undergraduate degree is from Harvard University.

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Contributors

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Global Thematics Team

**Aaron Liu**
Global Economics Team

# CLOSING THE RACIAL INEQUALITY GAPS

## The Economic Cost of Black Inequality in the U.S.

**Raymond J McGuire**
Vice Chairman, Citi
Chairman, Banking, Capital Markets, Advisory

In his Letter from a Birmingham Jail, Dr. Martin Luther King Jr. wrote, “We are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly, affects all indirectly.”

Today, more than at any time since Dr. King’s assassination, we are bearing witness to the grave injustices affecting our fellow citizens. Black, Latinx, and Native Americans have been hospitalized for COVID-19 at a disproportionately high rate, a direct result of what the Centers for Disease Control and Prevention has identified as “long-standing systemic health and social inequities.” Blacks and People of Color are also bearing a disproportionate share of the pandemic’s economic devastation. And the killings of Ahmaud Arbery, Breonna Taylor, and George Floyd have finally shaken the U.S. and the world awake to the egregious racial inequities in our criminal justice system.

As Dr. King noted, these injustices affect all of us. Higher rates of infection among some affect the health of all, and the loss of health, life, and livelihood among communities of color diminish everyone’s economic security. No one should want to live in a society that incarcerates or kills so many of its citizens just because they are black or brown.

The privileges we enjoy by working for Citi come with responsibilities. While elected officials and community activists must do their part, so must we. One important thing we can do is to show the costs of racial inequality through objective analysis which is what the authors of this report have sought so effectively to demonstrate. Our overarching goal for the Citi GPS series is not only to tackle the key opportunities and challenges of the 21st century, but also to address complex societal questions and to not shy away from difficult subjects. As such, we believe we have a responsibility to address current events and to frame them with an economic lens in order to highlight the real costs of longstanding discrimination against minority groups, especially against Black people and particularly in the U.S.

The analysis in the report that follows shows that if four key racial gaps for Blacks — wages, education, housing, and investment — were closed 20 years ago, $16 trillion could have been added to the U.S. economy. And if the gaps are closed today, $5 trillion can be added to U.S. GDP over the next five years.

I write this forward as Citi’s Vice Chairman and Chairman of our Global Banking, Capital Markets and Advisory business, but my journey began at the bottom. My two brothers and I were raised in Dayton, Ohio by our single mom and her parents, who had migrated from Georgia to escape the injustice and terror of Jim Crow. They worked tirelessly as janitors, social workers, and leaders at our local church to give us every opportunity. At any given time, we shared our home with five to eight foster siblings.

Yet even today, with all those credentials and as one of the leading executives on Wall Street, I am still seen first as a six-foot-four, two-hundred-pound Black man wherever I go — even in my own neighborhood. I could have been George Floyd. And my wife and I are constantly aware that our children could have their innocence snatched away from them at any given moment, simply for the perceived threat of their skin color. I hope that the analysis in this report brings sober perspective as well as hope to our readers as we collectively find substantive and sustainable opportunities to address the gaps we identify.

# A Path Towards Equality

## NOT ADDRESSING RACIAL GAPS BETWEEN BLACKS AND WHITES HAS COST THE U.S. ECONOMY UP TO **$16 TRILLION** OVER THE PAST 20 YEARS

Closing the Black Wage Gap could have added **$2.7 trillion in income** or **+0.2% to GDP** per year.

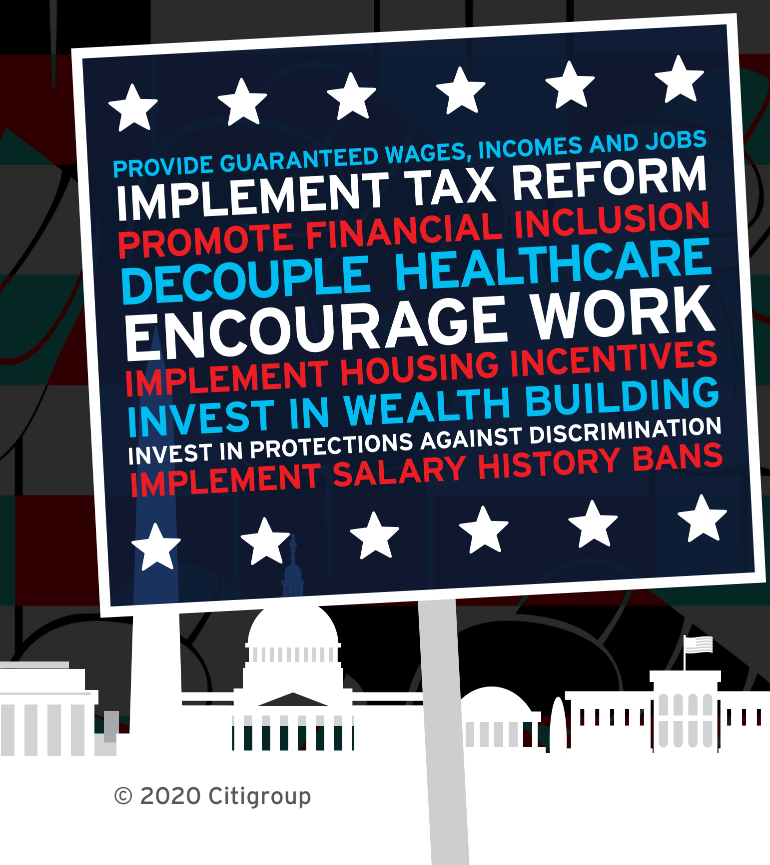
Facilitating easy access to higher education for Black students could have increased lifetime incomes **$90-$113 billion**.

Improving access to housing credit might have added an additional **770,000 Black homeowners**, adding **$218 billion in sales** and expenditures.

Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of an additional **$13 trillion** in business revenue and potentially created **6.1 million jobs** per year.

If these racial gaps were closed today, we could see **$5 trillion** of additional GDP over the next 5 years, or an average add of **0.35 percentage point** to U.S. GDP growth per year and **0.09 percentage point** to global growth per year.

## WHAT CAN THE GOVERNMENT DO TO CLOSE THE GAPS BETWEEN BLACKS AND WHITES?



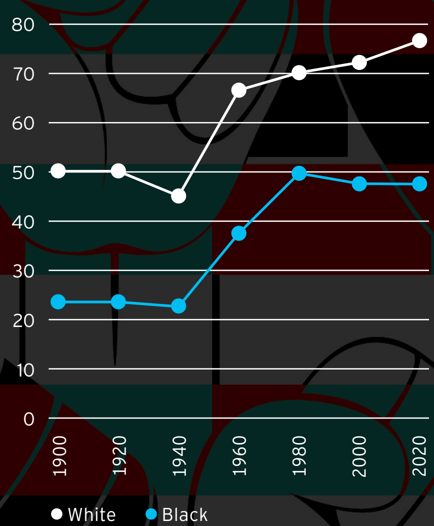

## WHAT CAN INDIVIDUALS DO?

## ATTITUDES AND POLICIES THAT UNDERMINE EQUAL ACCESS ARE AT THE ROOT OF THE RACIAL GAPS PLAGUING U.S. SOCIETY

### Housing

The gap between white and Black home ownership remains wide with discriminatory practices still an issue.

**U.S. Home Ownership Rate by Race (%)**




Source: Census Bureau, FRED

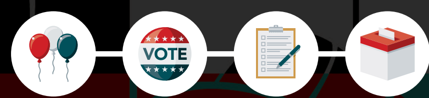
### Policing

Blacks are 5x as likely to be incarcerated vs. whites and make up an oversized percent of the U.S. prison population – 33% vs. 12% of total U.S. population.

Source: NAACP

### Voting

Over past 10 years, 25 of 50 States have implemented voting restrictions which disproportionately affect Black voters.




Of the 3.1 million American adults estimated as banned from voting, 2.2 million are Black Americans.

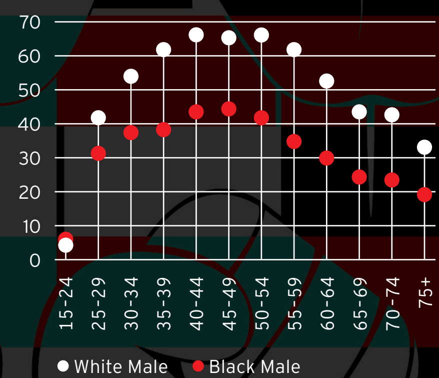
Source: The Sentencing Project

### Income

Peak income occurs sooner and is lower for Black males (age 45-49, $43,859) vs. white males (age 50-54, $66,250).

White families have 8x as much wealth as Black families and lower debt-to-asset ratios (~10% vs. ~30%).

**Median Income by Race and Age 2018 (US$ 000's)**




Source: Census Bureau, Federal Reserve

## WHAT CAN CORPORATES DO?

# Contents

# The Economic Costs of U.S. Racial Inequality

Racial equity has real economic benefits, while discrimination has real economic costs

A useful definition of racial equity hails from the San Francisco Fed: "racial equity means just and fair inclusion in an economy in which all can participate, prosper, and reach their full potential. We will know we have achieved racial equity when race no longer predicts life outcomes."[1]

A plethora of data, studies, and societal ills indicate the U.S. has yet to achieve the point of racial equity, given the prevalence of major gaps in economic opportunity, education, income, housing, and wealth that run along racial fault lines.

The COVID-19 pandemic and the deaths of several Black people while in police custody in rapid succession have laid bare the United States' longstanding problem of discrimination against minority groups, especially against Black people. Moreover, it has laid bare how inequality has produced real economic costs and social losses.

These costs are most evident in racial gaps: wide numerical differences in key social and economic indicators between Black and white Americans. These gaps are apparent in unemployment, net worth, debt levels, wages, peak income, financing for businesses, spending on education, and rates of imprisonment and sentencing levels. The gaps in many cases remain wide 60 years after the Civil Rights Movement. In some cases, including in homeownership rates and college degree attainment, the gaps are wider now than in the 1950s and 1960s.

**This report (1) identifies the underlying causes of the racial and economic gaps exacerbated by the COVID-19 pandemic; (2) discusses the value of closing gaps; and (3) outlines how governments, corporations, and individuals can work together to eliminate gaps for good.**

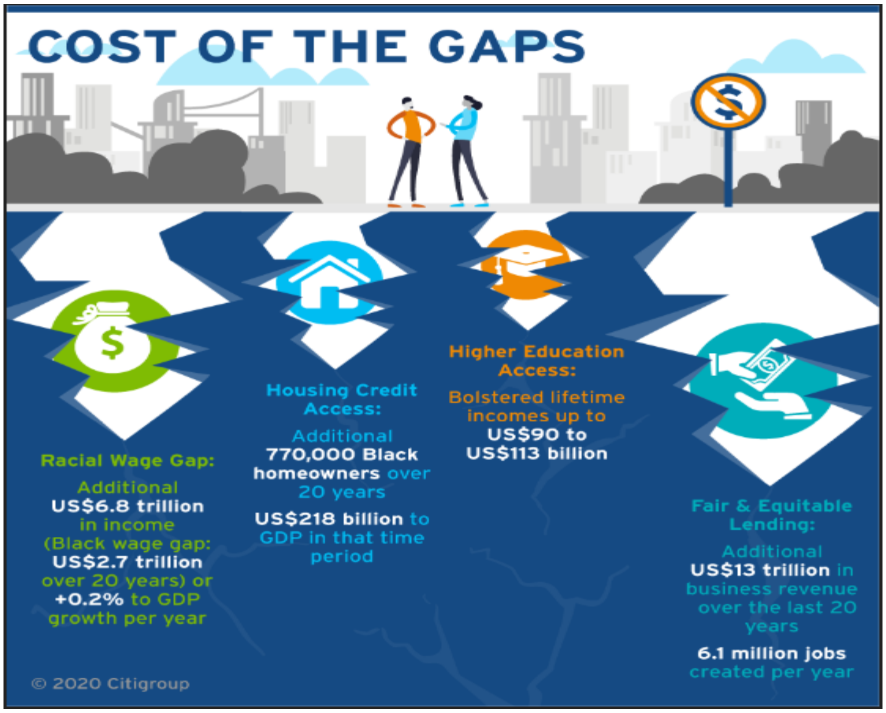
We discover that closing racial gaps is a pareto improvement to both the U.S. economy and society. If racial gaps for Blacks had been closed 20 years ago, U.S. GDP could have benefitted by an estimated $16 trillion. If we close gaps today, the equivalent add to the U.S. economy over the next five years could be $5 trillion of additional GDP, or an average add of 0.35 percentage points to U.S. GDP growth per year and 0.09 percentage points to global GDP growth per year.

- Closing the Black racial wage gap 20 years ago might have provided an additional $2.7 trillion in income available for consumption and investment.
- Improving access to housing credit might have added an additional 770,000 Black homeowners over the last 20 years, with combined sales and expenditures adding another $218 billion to GDP over that time.
- Facilitating increased access to higher education (college, graduate, and vocational schools) for Black students might have bolstered lifetime incomes that in aggregate sums to $90 to $113 billion.
- Providing fair and equitable lending to Black entrepreneurs might have resulted in the creation of an additional $13 trillion in business revenue over the last 20 years. This could have been used for investments in labor, technology, capital equipment, and structures and 6.1 million jobs might have been created per year.

[1] "Racial Equity Primer," Federal Reserve Bank of San Francisco, June 12, 2020.

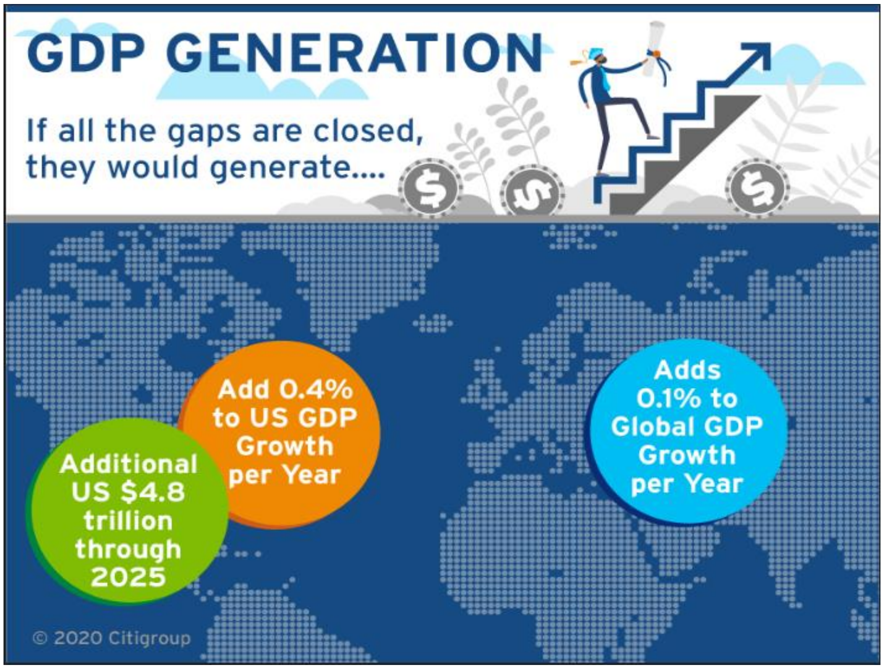
- Closing the wage, housing, education, and business investment racial gaps can help narrow the wealth gap, which is significant for facilitating homeownership, business, and job creation, plus establishing a pipeline for intergenerational wealth accumulation.

**Figure 1. Racial Gaps Cause Economic Harm**




Source: Citi Research

**Figure 2. The Economic Case for Closing Racial Gaps is Highly Compelling**




Source: Citi Research

# COVID-19 Shines Light on Racial Disparities

**Figure 3. COVID-19 Uncovers Long-Standing Biases and Inequities in the U.S.**

Source: Shutterstock

Dual health and economic crises resulting from the coronavirus lays bare long simmering racial tensions and inequities in the U.S.

The dual health and economic crises resulting from the coronavirus lays bare long simmering racial tensions and inequities that have plagued the U.S for centuries. The overlay of deep job cuts, threat of eviction, hunger, business closures among minority groups, and uneven fiscal supports, with high rates of infections and deaths, plus repeated incidences of police brutality involving Black Americans has proven too great to ignore. The result not only has precipitated protests in the streets, but also a general reassessment of the very soul of the nation. Specifically, how past and current biases have embedded themselves into the economy and society, and what should be done to rectify them.

Data reveal the burden from the pandemic has fallen disproportionately on Black Americans and tangible and emotional hardships from the virus spilled into national outrage after several high profile deaths of Blacks during altercations with police

While all racial and ethnic groups are suffering from the fall-out of the pandemic, data reveal the burden is falling more heavily on certain demographics. Black persons, in particular, appear to have suffered greater job losses amid government-ordered shutdowns; found themselves in industries that are essential but low paying; possessed more pre-existing factors leading to COVID-19 mortality; owned businesses that closed permanently or were unable to access Paycheck Protection Program (PPP) loans; and reported elevated rates of food, income, and housing insecurity amid the crisis. The tangible and emotional hardships of the virus impact spilled over into national outrage about the deaths of several Black people during altercations with the police. Most notably, the video-taped death of George Floyd.

The combination of the pandemic and deadly community policing tactics leads us to revisit the problem of racial gaps in the U.S., and the case for closing them. First we review the disproportionate impact of the virus on minority groups, and Black persons in particular, plus the linkages to preexisting racial gaps.

## Health Divide

In NYC, ethnic minorities were more likely to both contract COVID-19 and die from COVID-19

Ethnic minorities were more likely to contract and perish from COVID-19. Death rates tallied by the U.S. Center for Disease Control (CDC) for New York City — a particularly hard hit region — showed mortality figures for Black/African American persons (92.3 deaths per 100,000 population) and Hispanic/Latino persons (74.3) were substantially higher than that of white (45.2) or Asian (34.5) persons. A Federal Reserve Bank of New York study reveals there is a high significance of death from COVID-19 and the existence of various conditions, including belonging to a low income group, living in a densely populated urban area, and/or being a member of a major minority group (Figure 4).[2] Indeed, an overlay of COVID-19 deaths and U.S. counties having large minority populations indicates a higher prevalence of perishing from COVID-19 if one belongs to a racial minority: Black, Hispanic, and Native American plus select Asian and Pacific Islander population groups (Figure 5).

**Figure 4. Being a Minority with Low Income, and/or Residing in Densely Populated Urban Areas Raised the Likelihood of Death from COVID-19**

**Regressions of Cases and Deaths on Demographics**

| | Cases/ 1,000 population (1) | Cases/ 1,000 population (2) | Cases/ 1,000 population (3) | Cases/ 1,000 population (4) |
|---|---|---|---|---|
| Low Income | .5843** | 1.183*** | .8616*** | .1192*** |
| | (2.46) | (5.18) | (3.37) | (9.09) |
| Majority Minority | 3.838*** | 2.887*** | 2.453*** | .0951*** |
| | (14.91) | (11.58) | (8.34) | (6.64) |
| In Metropolitan Statistical Area | 1.837*** | -1.381*** | -1.465*** | -.1096*** |
| | (6.68) | (-4.51) | (-4.77) | (-6.23) |
| Log Population Density | | 1.41*** | 1.404*** | .1177*** |
| | | (20.35) | (20.26) | (29.57) |
| Low Income x Majority | | | 1.335*** | |
| | | | (2.77) | |
| Observations | 3216 | 3136 | 3135 | 3136 |

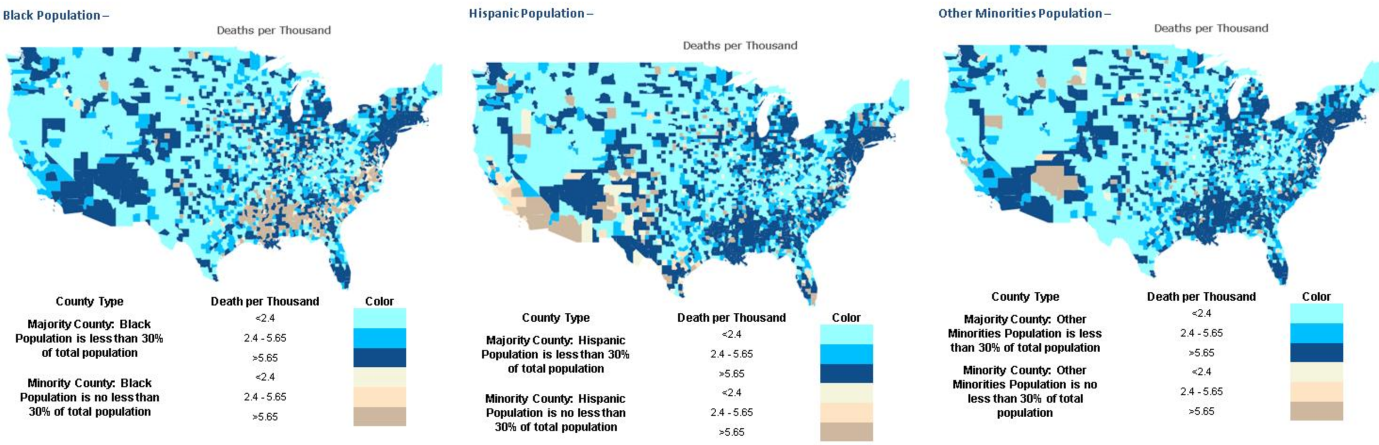
Note: t statistics in parenthesis; Significance: * 10% level, ** 5% level, *** 1% level
Source: Federal Reserve Bank of NY

Federal data corroborate the racial disparity of COVID-19 death

Federal data corroborate the racial disparity of COVID-19 deaths. The Centers for Disease Control (CDC) stated that contributing factors included living conditions (densely populated, residential segregation, multi-generational households, incarceration), work circumstances (critical workers, lack of paid sick leave), and underlying health conditions (lack of access to health insurance, serious underlying medical conditions, stigma, and systemic inequalities). Regarding health conditions, the SHADAC analysis of the American Community Survey (ACS) Public Use Microdata Sample (PUMS) files reveals that although the number of uninsured persons has fallen since passage of the Affordable Care Act in 2012, ethnic minorities are still less likely to have health insurance (Figure 7).

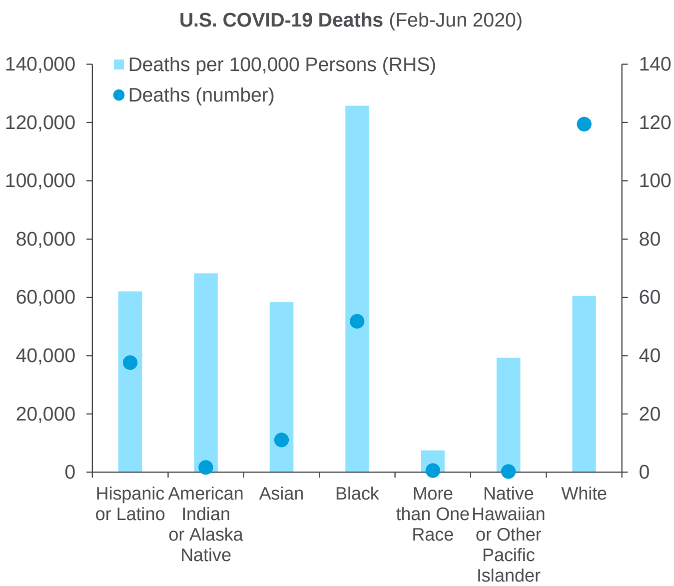
[2] Chakrabarti, R. and William Nober. "Distribution of COVID-19 Incidence by Geography, Race, and Income." Liberty Street Economics, Federal Reserve Bank of New York, June 15, 2020.

**Figure 5. U.S. Counties with Large Number of COVID-19 Deaths Tend to Overlap with Counties Having Large Minority Populations**



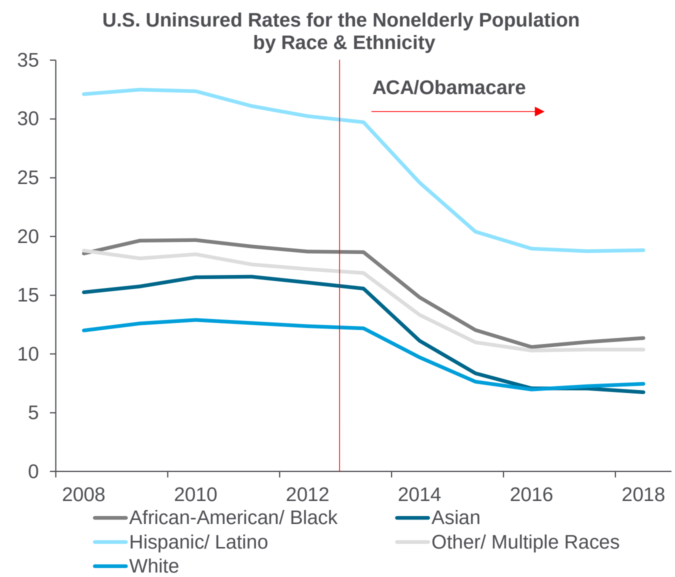

Source: CDC, Census Bureau, Citi Research

**Figure 6. Persons Belonging to Minority Groups, Especially Black Persons, Suffered More Deaths Per Capita than White Persons**




Source: CDC, Census Bureau and Citi Research

**Figure 7. Insurance Coverage has Improved Since Obamacare Passage, But Minorities Are Still More Likely to be Uninsured**

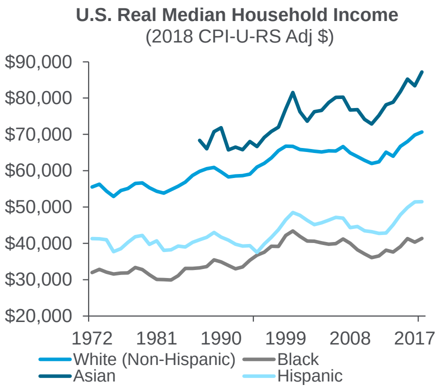



Source: SHADAC analysis of the American Community Survey, Citi Research

Wealth and income gaps between Black families and Hispanic, Asian, and white families have remained wide for last 40 years

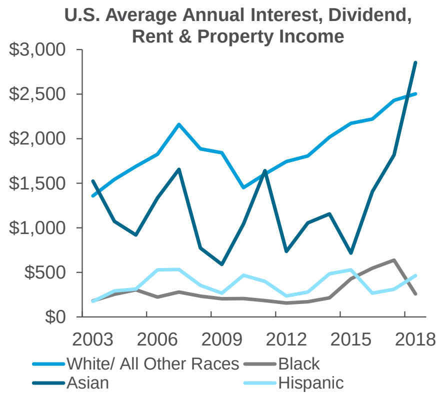
The eroded sentiment among minorities amid the pandemic, and Black Americans in particular, reflects not only policing and health care inequities, but also long simmering economic disparities. Both the wealth and income gaps between Black and Hispanic families and white and Asian families have remained wide over the last 40 years for which the U.S. Census Bureau has collected data. The real median income (Figure 8) and wealth (Figure 9) disparities continue to be stark for Black Americans. These gaps have been exacerbated by business shutdowns amid the coronavirus pandemic. In the latest Bureau of Labor Statistics (BLS) employment report, the civilian unemployment rate in the U.S. continues to edge lower. Nonetheless, jobless rates are falling for white persons faster than for other minorities, and the unemployment rate for Black workers at 13.0 percent is the highest (Figure 10). Moreover, the NBER reported there was greater business destruction over the February-April 2020 span for Black-owned firms, in terms of percentage decline, than for businesses owned by other ethnicities (Figure 11).

Figure 8. Income Gaps for Black and Hispanic People Remain Wide



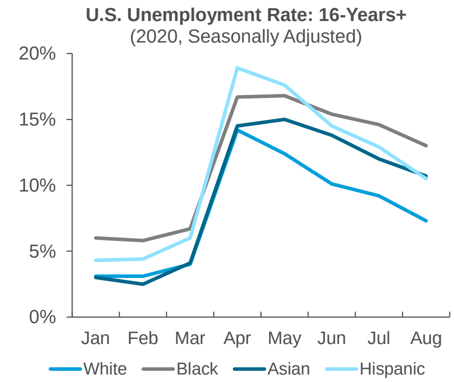

Source: Census Bureau, Citi Research

Figure 9. Wealth Gaps for Black And Hispanic People Have Not Improved




Source: Census Bureau, Citi Research

Figure 10. Jobless Rate Remains Most Elevated for Black People in August 2020



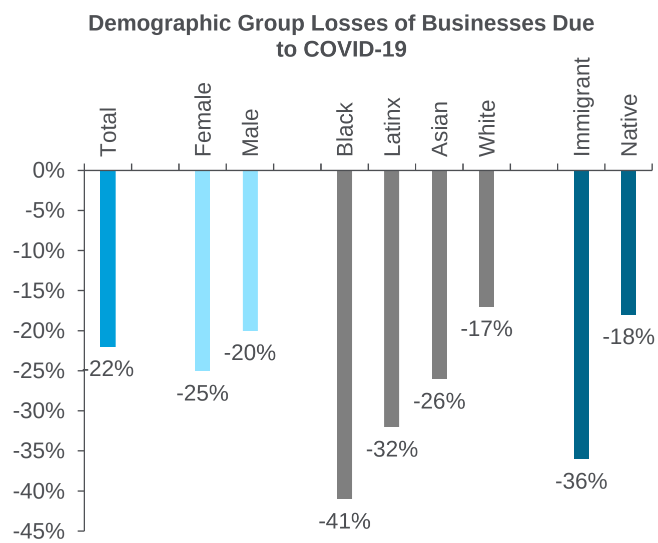

Source: Census Bureau, Citi Research

## Insecurity

Black households have had more difficulty managing the basics of daily living amid the COVID-19 pandemic

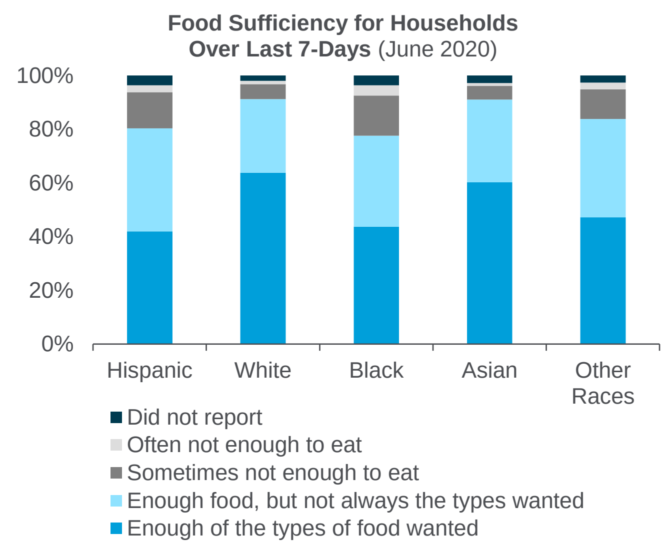
Managing the basics of daily living have been more difficult for Black households amid the COVID-19 pandemic. Food sufficiency has been a greater challenge for select households of color, and Black households in particular, during the COVID-19 pandemic. The Census Bureau's *Household Pulse Survey* revealed that in June 2020, it was more likely the case for Black, Hispanic, and Other Racial category households to have inadequate access to food during the pandemic than was the case for white and Asian households. Black households were more likely to say that they sometimes or often did not have enough to eat (Figure 12). Meanwhile, it was more likely the case that Black, households fell behind on rent or mortgage payments amid the coronavirus pandemic than white households (Figure 13). Black households were also less confident they could make future housing payments than were white households.

Figure 11. Black-Owned Businesses Suffered Brunt of COVID-19 Disruptions



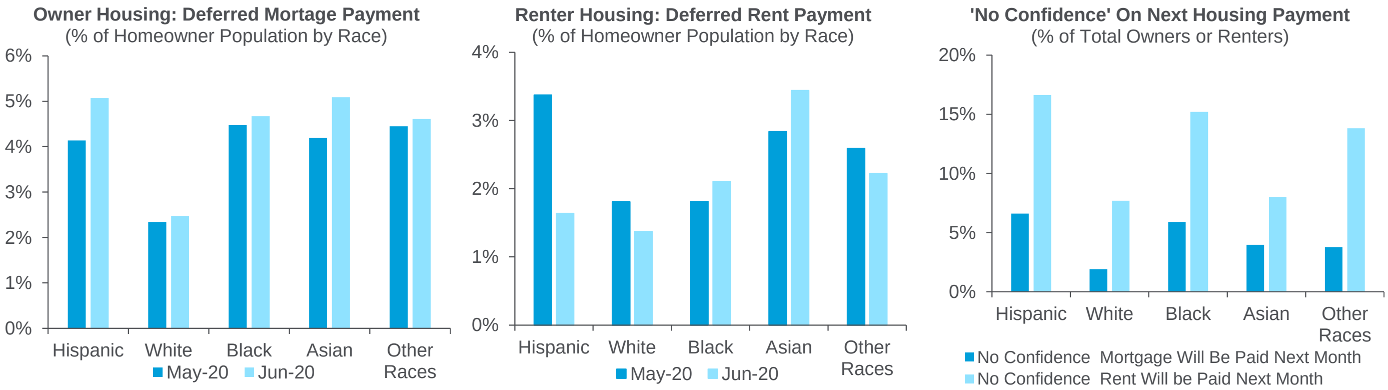

Source: NBER, Citi Research

Figure 12. Black Households Had Significant Challenges Related to Lack of Adequate Access to Food During the Coronavirus Pandemic




Source: Census Bureau *Household Pulse Survey*, Citi Research

**Figure 13. Black Households Are More Likely to Have Deferred Housing Payments and Have "No Confidence" that Future Payments Will be Met**



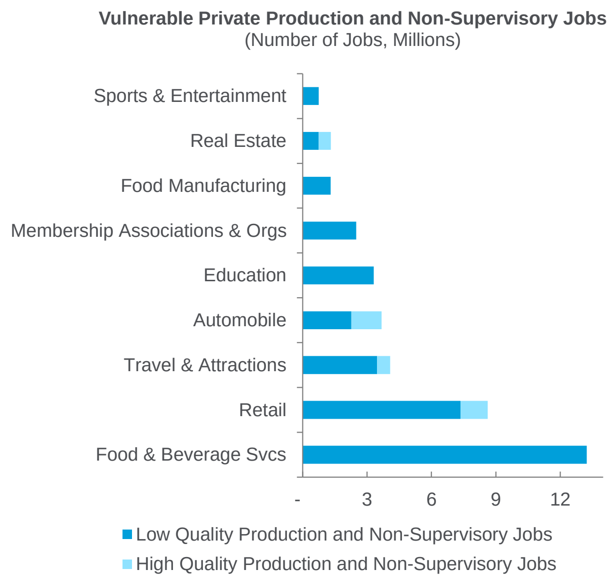

Source: Census Bureau *Household Pulse Survey* and Citi Research

## Essential vs. Nonessential

The unequal nature of job losses, which heavily affected low-skilled and discretionary sectors that largely employ minorities, was directly linked to food and housing insecurity levels

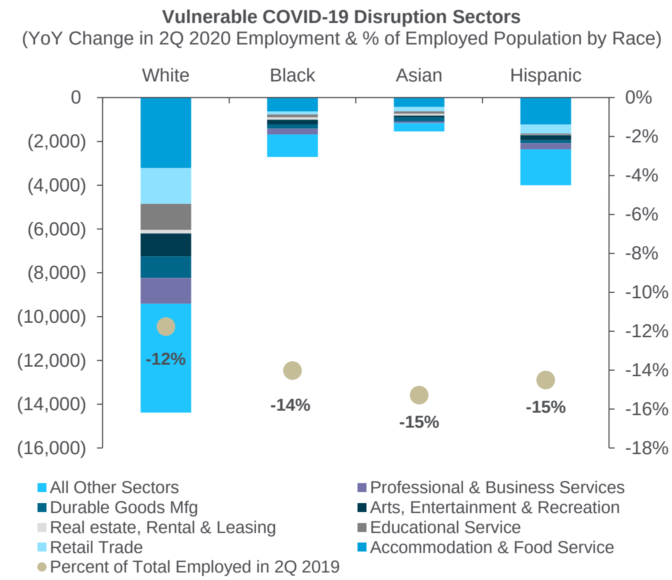
Food and housing insecurity during the pandemic were directly linked to the unequal nature of job losses that heavily affected low-skilled and discretionary sectors employing large shares of minorities. The U.S. Private Sector Job Quality Index ® (JQI) listed jobs in the food and beverage services, retail, travel and attractions, and the auto sector among the most vulnerable amid COVID-19 disruptions (Figure 14). Many of these jobs rank low in the quality index. The JQI interprets "job quality" as meaning the weekly dollar income a job generates for an employee. Hence, it is also likely many of these jobs have low skills requirements given the relatively low quality of pay. U.S. job cuts among these sectors were disproportionately skewed toward women and minorities due to labor market segmentation into areas that were discretionary in nature and/or impossible to execute in a work-from-home scheme. Indeed, a staggering 14 million white workers were laid off, but this is compared to 8 million minorities, which comprise 23 percent of the working age population. In the second quarter of 2020, Black persons working in coronavirus disruption-sensitive sectors experienced an employment loss of 2.7 million. However, as a share of the number of employed Black persons one year prior, the loss was 14 percent compared to 12 percent for white persons (Figure 15). For Hispanic and Asian people the loss was 15 percent, each.

Figure 14. Low-Pay Jobs Also Most Vulnerable to COVD-19 Disruption




Source: U.S. Private Sector Job Quality Index® (JQI), and Citi Research

Figure 15. Minority Groups Slightly Harder Hit by Pandemic Layoffs

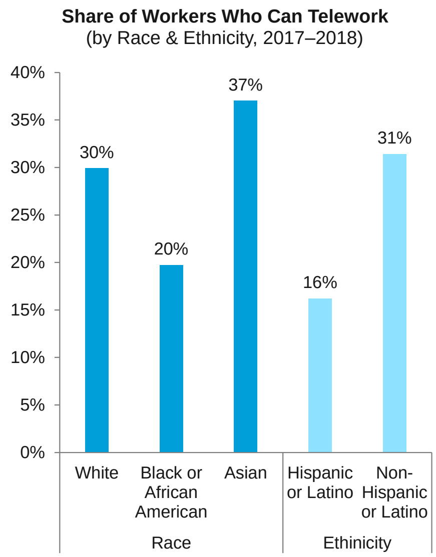



Source: Bureau of Labor Statistics and Citi Research estimates

Only 20% of Black workers were able to work from home during the pandemic and Blacks tended to cluster in essential jobs with high exposure to infection

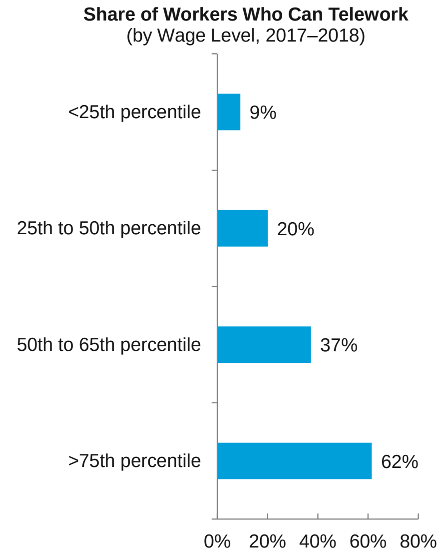
For Black persons who maintained their jobs, the split between essential and non-essential work highlighted that the most hazardous jobs were also among those with the lowest pay. According to the U.S. Bureau of Labor Statistics (BLS), only 30 percent of U.S. workers are able to telework (work-from-home or WFH). Hispanic and Black workers were the least able to WFH (16 percent and 20 percent, respectively). (Figure 16). The BLS also reported laborers who are below the 50th percentile in terms of wage level were the least likely to WFH: <25th percentile (9 percent) and 25th to 50th percentile (20 percent) (Figure 17). Moreover, many of the jobs deemed essential by governments were the least amenable to WFH (Figure 18). Of essential jobs with high exposure to infection, many of them are low wage jobs in which Black workers are clustered (Figure 19). Healthcare, food service, and child care stand out as low-wage, essential occupations employing large numbers of Black employees.

**Figure 16. Only 20% of Black Workers Can Work from Home**



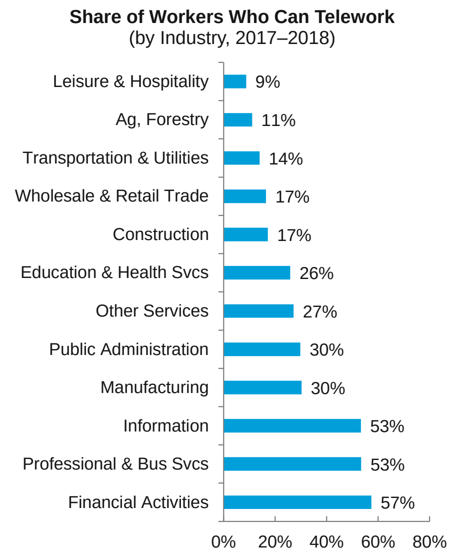

Source: Bureau of Labor Statistics, Citi Research

**Figure 17. Low Income Workers Less Likely to Work from Home**



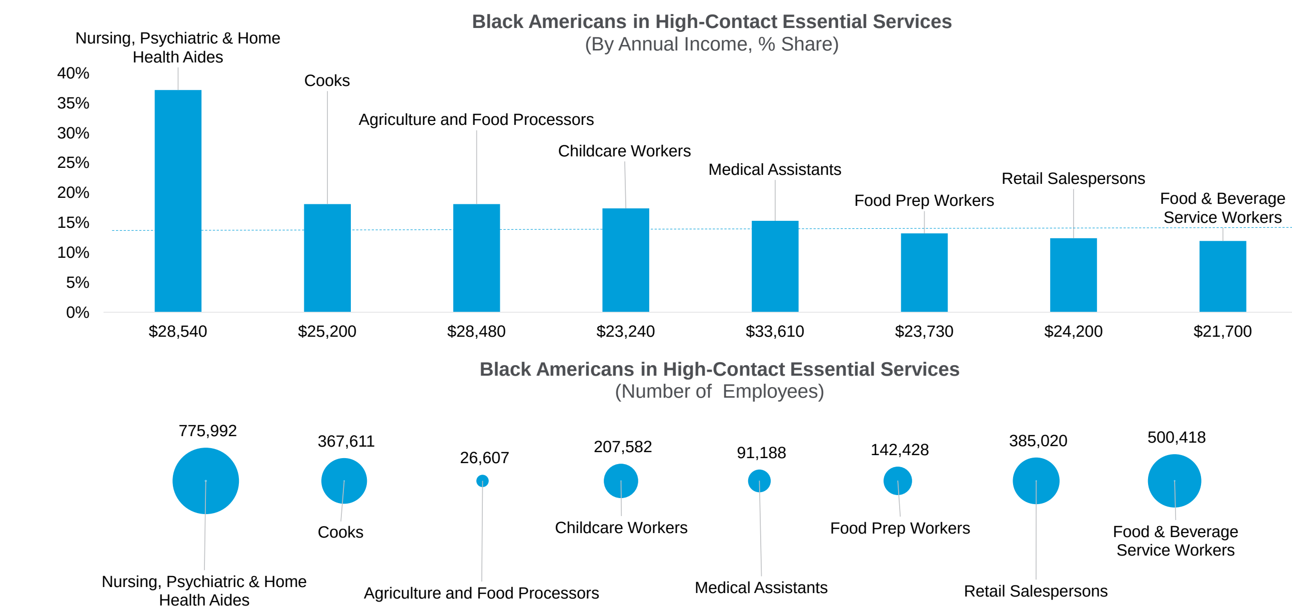

Source: Bureau of Labor Statistics, Citi Research

**Figure 18. Low Wage Industries Less Amenable to Work from Home**




Source: Bureau of Labor Statistics, Citi Research

**Figure 19. Black Workers Are Overrepresented in Many of the Lowest Wage Jobs Considered High-Contact, Essential Services**



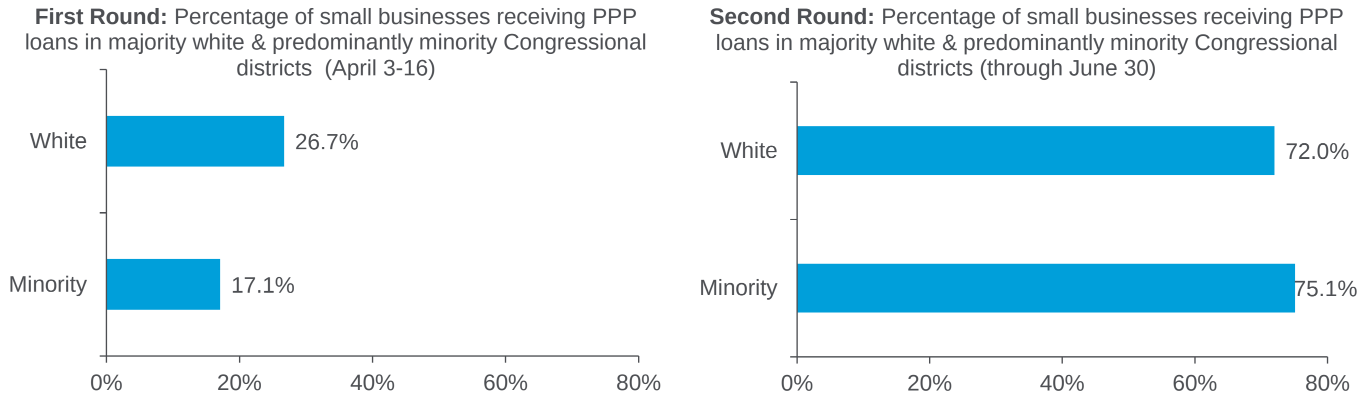

Note: Dotted line denotes Black workers as a percent of the civilian non-institutional population 20 and over or 12.6 percent.
Source: McKinsey Global Institute analysis, U.S. Bureau of Labor Statistics, Citi Research estimates

## Uneven Relief

From the perspective of recovery, minority-owned firms received Federal government supports later

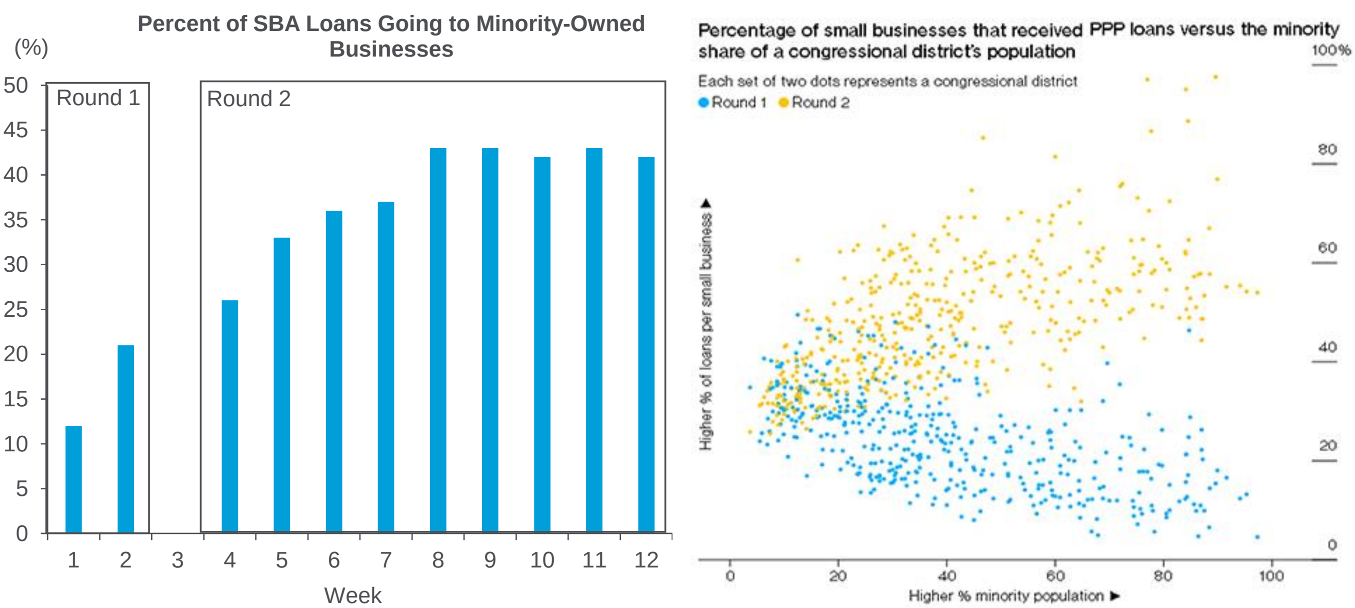
The CARES Act of 2020 legislated the Paycheck Protection Program (PPP), which provided loans to businesses suffering coronavirus disruptions. The potentially forgivable loans were designed to encourage firms to invest and retain workers until domestic demand improved. A Bloomberg News analysis of Small Businesses Association (SBA) data revealed that in the initial wave of the program, minority-owned firms received fewer loans as a share of the total number of minority-owned businesses (17 percent) than did white-owned firms (27 percent). The percentages improved and largely evened out in the second tranche of PPP loans at 75 and 72 percent, respectively (Figure 20). Nonetheless, minority firms found themselves shut-out of the initial rounds of relief and struggled to receive funding from large financial institutions at the outset of the pandemic disruptions, as the availability of community banks expedited lending (Figure 21).

**Figure 20. Minority-Owned Firms Received COVID-19 Relief Later than White-Owned Firms**




Source: *Bloomberg News*

**Figure 21. Minority-Owned Firms Received COVID-19 Relief Later**



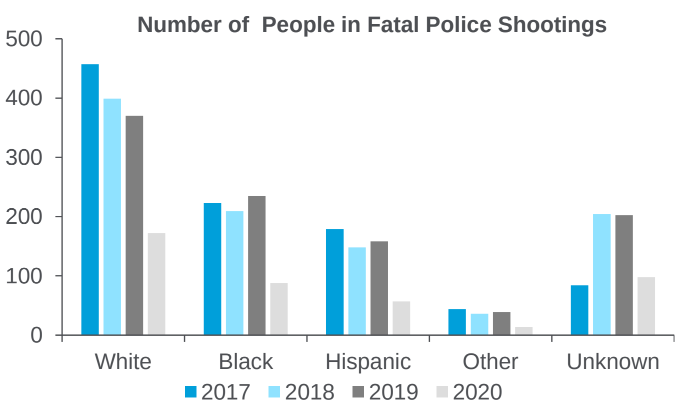

Source: *Bloomberg News*

## Simmering Tensions

The U.S. has been gripped by protests fueled by a conflagration of inequality, racism, and police brutality

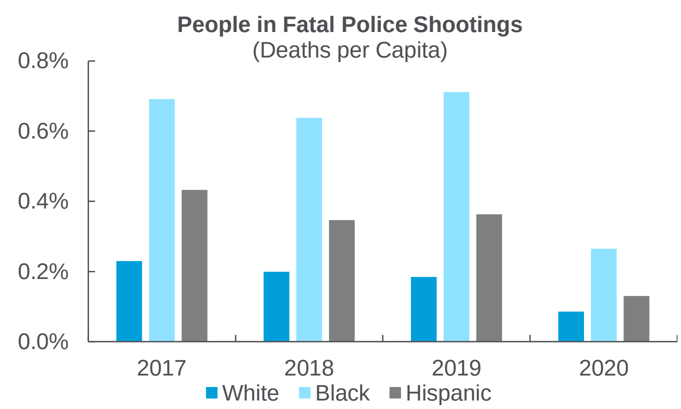
In addition to the disruption from COVID-19, the U.S. has also been gripped by protests fueled by a conflagration of inequality, racism, and police brutality. The civil unrest comes against a backdrop of disproportionately higher numbers of deaths for minorities, especially Black persons from COVID-19, and elevated unemployment figures for Black Americans amid the pandemic-induced U.S. recession. Roughly 1,000 people per year die during altercations with the police (Figure 22). Nearly half of them are racial minorities, and Black persons have a higher share of fatalities per capita (Figure 23). A number of these deaths have come on account of mishandling by police forces, which have been linked at times to long-standing social and racial issues. In general, the U.S. has lost ground relative to other advanced economies, and even the world, in terms of discrimination and violence against minority groups (Figure 24).

**Figure 22. Roughly 1,000 People/Yr Die in Altercations with the Police**



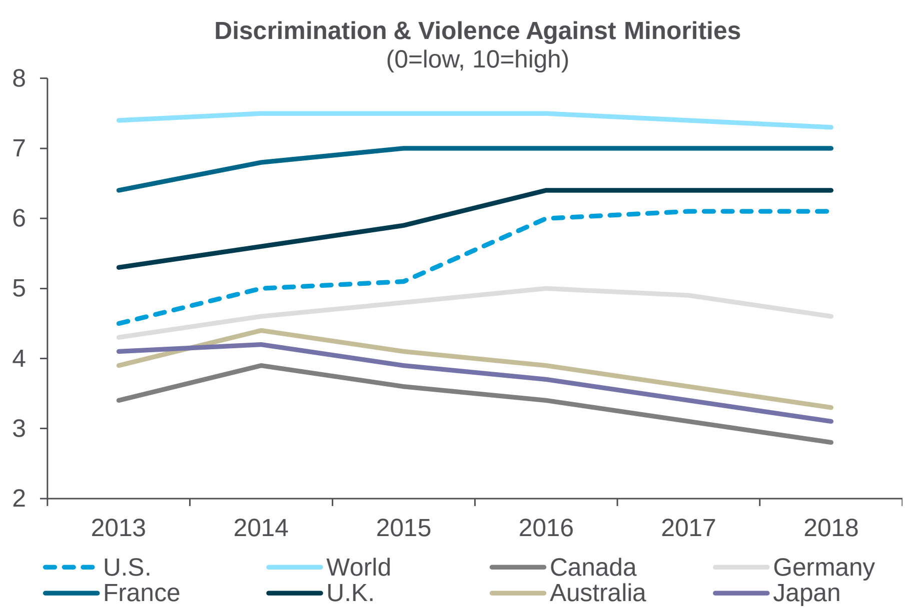

Source: Statista.com, Citi Research

**Figure 23. Police-Related Deaths Per Capita is Highest for Black People**




Source: Statista.com, Citi Research

**Figure 24. The U.S. Has Lost Ground Relative to Other Advanced Economies and the World Regarding Discrimination and Violence Against Minority Groups**




Source: The Social Progress Imperative, Citi Research

# Why Gaps Exist: Racism and Inequality Are Little Improved

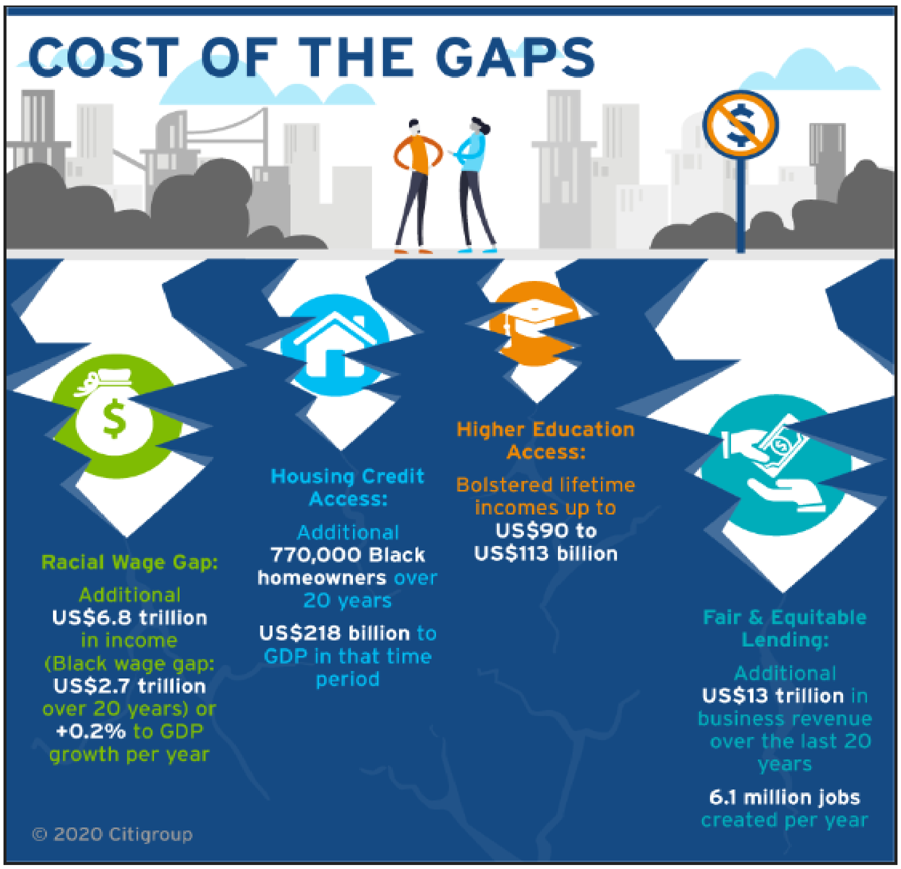
Defining systemic and persistent racism and providing evidence that has led to or exacerbated racial gaps is the first step towards eliminating inequality

Closing racial gaps in the U.S. 20 years ago could have generated $16 trillion in GDP

The 400 years of enslavement of Black populations in the Americas has residual effects that persist to this day despite tomes of legislation providing equal access to various aspects of American life under the law. Attitudes and policies undermining equal access are at the root of the racial gaps plaguing U.S. society.

Moreover, societal inequities have manifested themselves into economic costs, which have harmed individuals, families, communities, and ultimately the growth and well-being of the U.S. economy. If the racial gaps in wages in the U.S. had been closed two decades ago, there might have been an additional 0.2 percentage point to real GDP growth per year. Adequate access to housing credit might have produced 770,000 new Black homeowners. More Black students with university and advanced degrees might have generated an additional $90 to $113 billion in income that could have contributed to consumption. More than 6 million jobs per year might have been added and $13 trillion in cumulative revenue gained if Black-owned firms had equitable access to credit. The global implications are also apparent given the U.S. contributes a one-third share of growth to the world economy.

Figure 25. What the United States Could Have Gained by Closing Racial Gaps 20 Years Ago




Source: Citi Research

# Bias

The results of policies creating and perpetuating bias produce inequality

The persistence of racially-biased attitudes, coupled with the implementation and maintenance of policies enshrining these attitudes, constitute what is often termed as systemic racism. Biases may be conscious or unconscious. Nonetheless, the result of policies creating and perpetuating bias produce inequality. Even when the biases fade, the policies may linger, rendering the inequality multi-generational as it becomes interwoven with the way things are done: in broader society, government, corporations, and/or institutions.

The continuation of racial bias and systemically-entrenched inequality born from past and present biases are evident across multiple facets of U.S. society. The Civil Rights Movement of the 1950s launched 20 years of major legislative achievements for Black persons in America that also spurred other movements for equality. However, 70 years later, improvements appear to be few and far between for many Black Americans. The U.S. is light-years more equal than it was in the 1950s, but systems perpetuating inequalities among different racial groups either still remain or are being reinvented, either consciously or unconsciously.

Bias plays a central role in economic and social outcomes for Black Americans

Bias, whether conscious or unconscious, plays a central role in economic and social outcomes for Black Americans. Building upon the bias seen in businesses financing, there are numerous cases of bias within the hiring spectrum and moreover from a consumption prospective. As discussed by Greenwald and Krieger, 78 percent of those who took the Harvard Implicit Association Test (IAT) displayed implicit bias, with 85 percent of whites showing bias against Blacks. The overarching message in the study was that most people possess bias, and due to its infinitely engrained status, people are generally unware of their own bias despite its profound impact upon behavior and attitude.[3] One study, which sent out resumes with traditionally white-sounding names like Emily and Greg and also resumes with Black-sounding names like Lakisha and Jamal, found a white applicant was 49 percent more likely than their Black counterpart to receive a call back in Chicago and 50 percent more likely in Boston.[4] This kind of systematic discrimination is inherently exclusionary of Black people from the workforce, demonstrating the significant impact of bias, be it unconscious or not. A 2015 experiment involving baseball card auctions on eBay again highlighted the significant difference racial bias can have on economic outcomes. Baseball cards held by dark-skinned/African American hands sold for approximately 20 percent less than cards held by light-skinned/Caucasian hands, despite the cards held by the African American hand being more valuable on average.[5] Without addressing bias directly, the challenge of equality will remain profound.

[3] Greenwald, A. and Linda Krieger. 2006. “Implicit Bias: Scientific Foundations”. California Law Review. 94. 945. 10.2307/20439056.
[4] Bertrand, M. and Sendhil Mullainathan. 2004. "Are Emily and Greg More Employable Than Lakisha and Jamal? A Field Experiment on Labor Market Discrimination." American Economic Review, Vol 94 (4): 991-1013, https://pubs.aeaweb.org/doi/pdfplus/10.1257/0002828042002561.
[5] Ayres, et. al. 2015. “Race Effects on EBay.” The RAND Journal of Economics, Vol. 46 (4), pp. 891–917., www.jstor.org/stable/43895621.

### The U.S. Civil Rights Movement: A Synopsis

The Civil Rights Movement that began in the late 1950s won African Americans basic rights long denied to them, inspired other discriminated groups to fight for their own rights, and had a deep effect on American society.

After the Civil War, the 13th, 14th, and 15th amendments to the Constitution were supposed to guarantee equal rights for African Americans. But in the South, segregation of the races, the denial of opportunities to African Americans, and their disenfranchisement continued in a system known as "Jim Crow laws." In 1896, in a controversial decision, the United States Supreme Court, in the case *Plessy v. Ferguson*, upheld the "separate, but equal" facilities for the races.

During World War II, some progress on equality was made as President Roosevelt outlawed discrimination in the defense industry. Moreover, as the country fought for freedom around the world, many African-Americans began to wonder why they did not enjoy those freedoms at home. In 1954, a series of landmark cases testing segregation pressed by the National Association for the Advancement of Colored People (NAACP) culminated in the Supreme Court's ruling in the *Brown v. Board of Education* case, which unanimously outlawed segregation of public schools.

On December 1, 1955, the modern civil rights movement began when Rosa Parks, an African-American woman, was arrested in Montgomery, Alabama for refusing to move to the back of the bus. A new minister in town, Martin Luther King, Jr., organized a community bus boycott, which eventually led to the desegregation of the bus line and launched protests across the South. In 1960, spontaneous sit-ins by students began at lunch counters throughout the South, and in 1961, "Freedom Riders" boarded inter-state buses to test and break down segregated accommodations. These protests were peaceful, but they were met with violent, and often, brutal force — televised images helped win support from sympathetic whites in the North. In 1963, TV viewers saw hundreds of thousands of African Americans and whites march on Washington, DC to end racial discrimination. It was there that Martin Luther King, Jr. delivered his famous "I Have a Dream" speech.

After the assassination of President Kennedy and the landslide election of Lyndon Johnson, Congress passed the landmark Civil Rights Act of 1964 and the Voting Rights Act of 1965, which outlawed racial discrimination in public accommodations and schools and removed obstacles to voting. As part of the Civil Rights Act, the Federal government would withhold funds from any state that did not desegregate, and as Health, Education & Welfare Secretary, John Gardner was the man holding the purse strings. In 1967, he threatened to cut off $95.8 million in Federal welfare funds to the state of Alabama unless it complied with desegregation guidelines. As Gardner remembers, "Civil rights was real hardball."

The passage of the Voting Rights Act, in particular, prompted a massive effort to register African Americans throughout the South to vote. Again, this was often met with violent resistance. After 1966, the Civil Rights Movement began to fracture between those who favored non-violent means to achieve integration and younger, more radical leaders who wanted to fight for "Black power." This split alienated some white allies, a process that was accelerated by a wave of rioting in Black neighborhoods in Northern cities throughout 1965 and 1967.

After Dr. King was assassinated 1968 and more rioting ensued, the Civil Rights Movement as a cohesive effort disintegrated. Yet the push for civil rights continued, with African Americans making gains economically, politically, and socially. Moreover, other discriminated groups were inspired by the Civil Rights Movement and borrowed its tactics. Over the 1960s and 1970s, gays and lesbians, women, Native Americans, and people with disabilities pushed for their own inclusion in American society. Source: PBS.org.

# Housing & Education

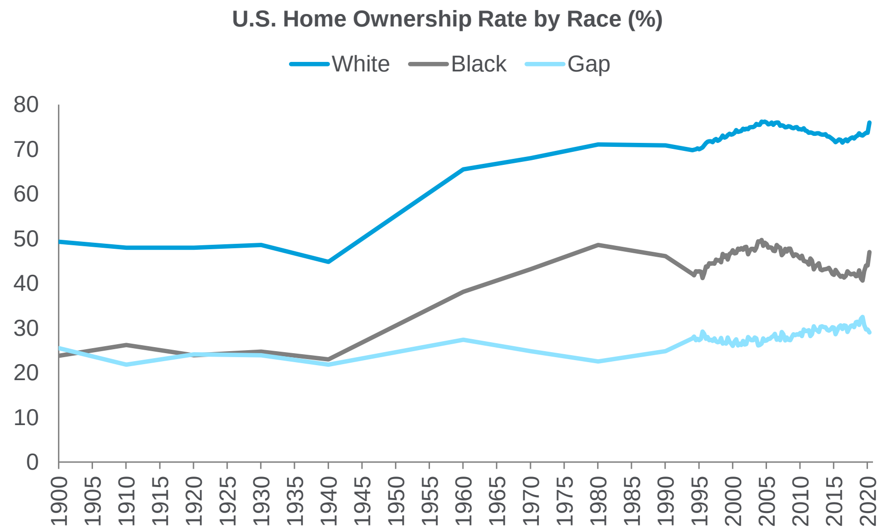
Intricate linkages between racial bias in housing and education dating back over a century are major factors in economic gaps that persist today.

## Housing Segregation

Housing discrimination from 1940 through the 1960s prevented Black Americans from owning homes and subsequently building intergenerational wealth

Past discriminatory housing practices have contributed to economic inequality for Black Americans in the present. According to the Economic Policy Institute (EPI), systemic and legalized housing discrimination over the 1940 to 1960 period prevented Black families from achieving homeownership, a critical staple for building intergenerational wealth.[6] Moreover, the disparity in homeownership was perpetuated by continued discrimination in housing, through government, private sector, individual, and even technological choices and actions, keeping the racial gap wide (Figure 26). As recently as 2019, a popular Internet platform was cited for discriminatory practices by its search engines according to the Fair Housing Act.[7]

**Figure 26. The Gap Between Black and White Homeownership Rates Remains Wide**




Source: Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 10.0 [dataset]. Minneapolis, MN: IPUMS, 2020. https://doi.org/10.18128/D010.V10.0, Census Bureau, FRED, Citi Research.

New Deal policies predating WWII enshrined modern housing segregation and discrimination in the U.S.

In an effort to combat a housing shortage in the mid 1930s the Federal Housing Administration (FHA) refused to insure mortgages in and near Black neighborhoods, a practice known as redlining. The most desirable neighborhoods for mortgages were designated green, and the least, typically predominantly Black neighborhoods, were designated red.

[6] da Costa, P., "Housing discrimination underpins the staggering wealth gap between blacks and Whites," Economic Policy Institute, April 8, 2019.

[7] Aranda, C., "Fighting Housing Discrimination in 2019," Urban Institute, April 1, 2019.

Prior to the Fair Housing Act in 1968, policies by the government as well as individual and private sector choices perpetuated housing segregation

One study revealed that between 1934 and 1968, 98 percent of home loans approved by the Federal government were given to white applicants.[8] The FHA also subsidized builders creating large tracts of housing in suburban areas as long as those projects excluded Black homebuyers. Meanwhile, minorities were directed to urban housing projects. These urban neighborhoods, where Black family housing was permitted, were often cut off from resources and subject to underinvestment.[9]

Individual and private sector choices also perpetuated housing segregation. Prior to the Fair Housing Act of 1968, residents of neighborhoods were allowed to create contracts called restrictive covenants to establish and maintain a particular racial makeup. Minorities, particularly Black persons, were prevented from moving into the suburbs or predominantly white sections of metropolitan areas either legally or through intimidation. Maps of Black neighborhoods were redlined and/or persons wishing to leave these neighborhoods for majority-white neighborhoods were threatened with violence.[10] Realtors were threatened with the loss of their licenses if they showed homes to Black families outside of prescribed areas. These activities not only upheld segregation, but also concentrated poverty and underdevelopment in geographic locations.

Housing discrimination became less overt after the Fair Housing Act including practices like gentrification, which decreased the affordability of homeownership for Blacks

Housing discrimination did not end with the Fair Housing Act. Tactics used to reinforce segregated neighborhood boundaries and majority-white suburbs became less overt. Real estate agents would show potential Black home purchasers houses in predominantly Black neighborhoods and decline to show many, if any, in other neighborhoods. Banks would continue to decline to provide financing for mortgages to Black homeowners, and insurance companies would refuse to insure mortgages assumed by Black owners. “Gentrification” in urban areas contributed to the decrease in affordability of housing for Black households. Realtors, renovators, and builders played a role as neighborhoods formerly populated by a certain racial or ethnic group were renamed, homes were upgraded to “luxury” status raising the price point, or upscale homes were built in low-income neighborhoods, inviting other such projects. These developments can lead to the displacement of current residents resulting in a change in demographics.[11] Governments can frustrate affordable housing availability via zoning laws limiting construction of multi-family units or expansion of neighborhood boundaries. Even positive community revitalization activities by governments, such as investment in transit infrastructure, can have the negative externality of inviting gentrification that affects Black communities.

Barriers to homeownership have resulted in Black families holding the least amount of housing wealth

Fifty years of barriers to Black home ownership means that Black families have missed out on the benefits of home price appreciation — a key ingredient to wealth accumulation. The Federal Reserve’s Survey of Consumer Finances reported that as of 2016, Black homeowners continued to hold the least amount of housing wealth compared to other racial groups (Figure 27). The median amount of housing wealth for a Black family was $124,000, while the median amount for white families was $200,000, Hispanic households $158,000, and other households $240,000.

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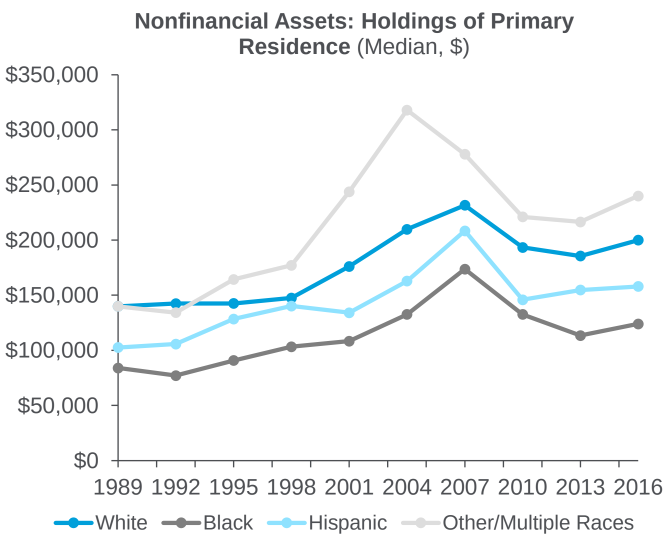
[8] Fulwood III, S., “The United States’ History of Segregated Housing Continues to Limit Affordable Housing,” Center for American Progress, December 15, 2016.
[9] Gross, T., “A 'Forgotten History' Of How The U.S. Government Segregated America,” NPR, May 3, 2017.
[10] da Costa, P., “Housing discrimination underpins the staggering wealth gap between blacks and Whites,” Economic Policy Institute, April 8, 2019.
[11] National Low Income Housing Coalition. “Gentrification and Neighborhood Revitalization: WHAT’S THE DIFFERENCE?”.

Black homeowners also don't see the same price appreciation in their homes as other homeowners

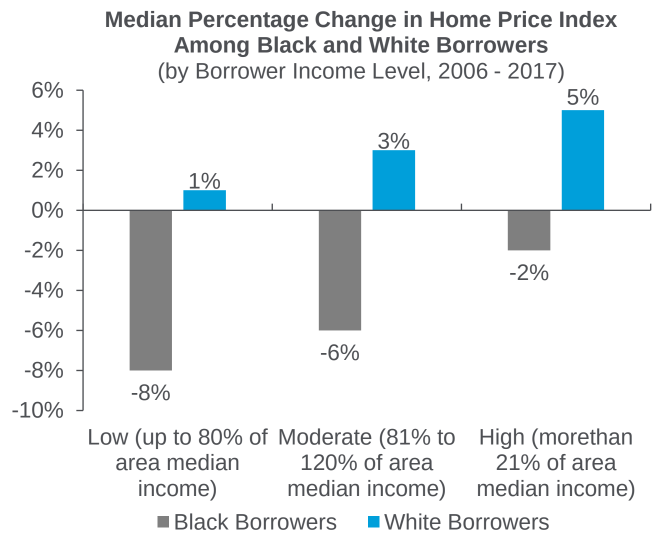
A Princeton University study notes that even among Black families owning homes, properties do not appreciate at the same rate as properties held by other ethnic groups.[12] This is a reflection of the location of Black-owned homes in areas with generally lower home values and/or bias in the way others view Black homeowners. Even though the Great Recession's housing crisis featured a wave of foreclosures, in the subsequent ten years, white homeowners were more likely to see some home price appreciation (+3 percent on average) versus Black families who didn't see a recovery (-6 percent on average) (Figure 28).[13] Indeed, past housing policies have concentrated Black families into higher-poverty neighborhoods with fewer of the amenities that help raise home values. Moreover, even higher-income Black families are still more likely to own homes in impoverished, predominately Black neighborhoods (Figure 29). Black families have also not benefited from tax incentives related to homeownership, including mortgage interest deductions (Figure 30).

Figure 27. Black Families Hold the Least Amount of Housing Wealth




Source: Federal Reserve Survey of Consumer Finances, Citi Research

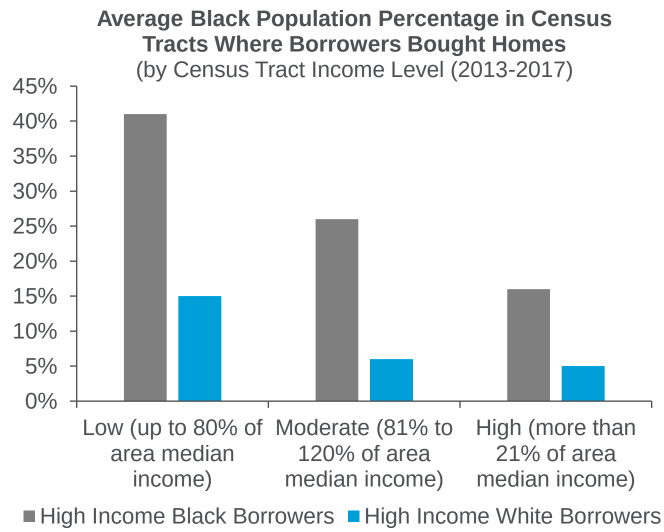
Figure 28. Black Homeowners Experienced Home Price Depreciation




Source: Center for American Progress, Citi Research

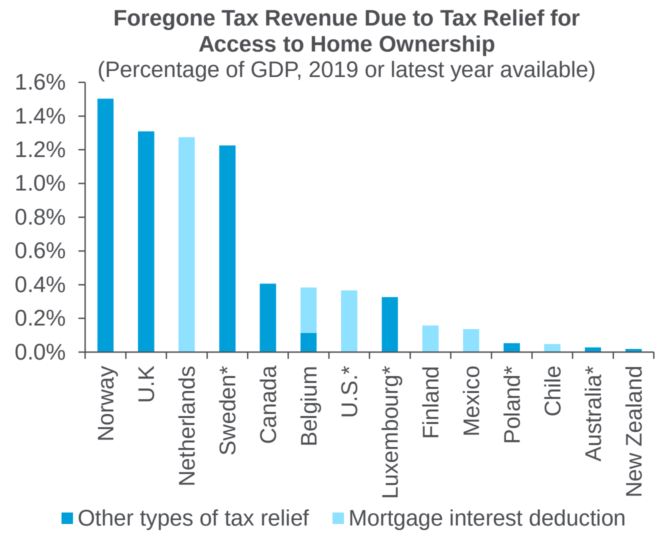
[12] "The sordid history of housing discrimination in America," *Vox*, December 5, 2019.
[13] Zonta, M., "Racial Disparities in Home Appreciation," Center for American Progress, July 15, 2019.

Figure 29. Wealthier Black Families Live in Black Neighborhoods




Source: Center for American Progress, Citi Research

Figure 30. Homeowners Benefit From Special Tax Treatment in the U.S.




Note: * indicates that spending is missing for one of the policy instruments and the reported amount is therefore a lower-bound estimate. Source, OECD, Citi Research

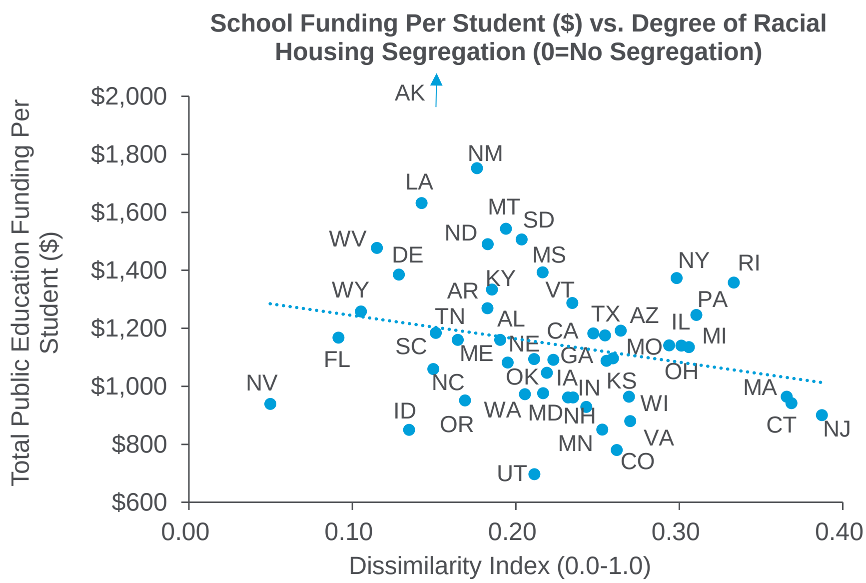
## Separate & Unequal Education

Segregated housing has led to segregated schooling by virtue of how schools are generally funded in the U.S.

Segregated housing has facilitated and perpetuated unequal access to quality education for Black Americans, which is pivotal to erasing income and wealth gaps. *Brown vs. the Board of Education* was designed to end separate and categorically unequal public schooling. However, housing segregation and the method used to fund schools have helped to perpetuate separate and unequal access to education for many Black students (Figure 31). A significant degree of evidence suggests a strong correlation between high-value housing and the quality of schooling. Seventy-five percent of children attend public schools in the U.S., which means they are assigned to a school nearest to where they live. If neighborhoods are segregated, then so are the schools. Moreover, if schools are largely funded via property taxes, then schools in wealthy neighborhoods will invariably receive greater resources, while schools in poorer areas will receive fewer resources (Figure 32). State governments attempt to make up the differences, but often fall short.[14] Resources affect both the quality of the school and the education students are given. Hence, racially segregated schools in areas of concentrated poverty have fewer resources, higher teacher turnover, and a lower quality of education.[15] School choice in the form of vouchers and charter schools have in various instances improved the quality of education, but have been unable to address the underlying problem of segregation.

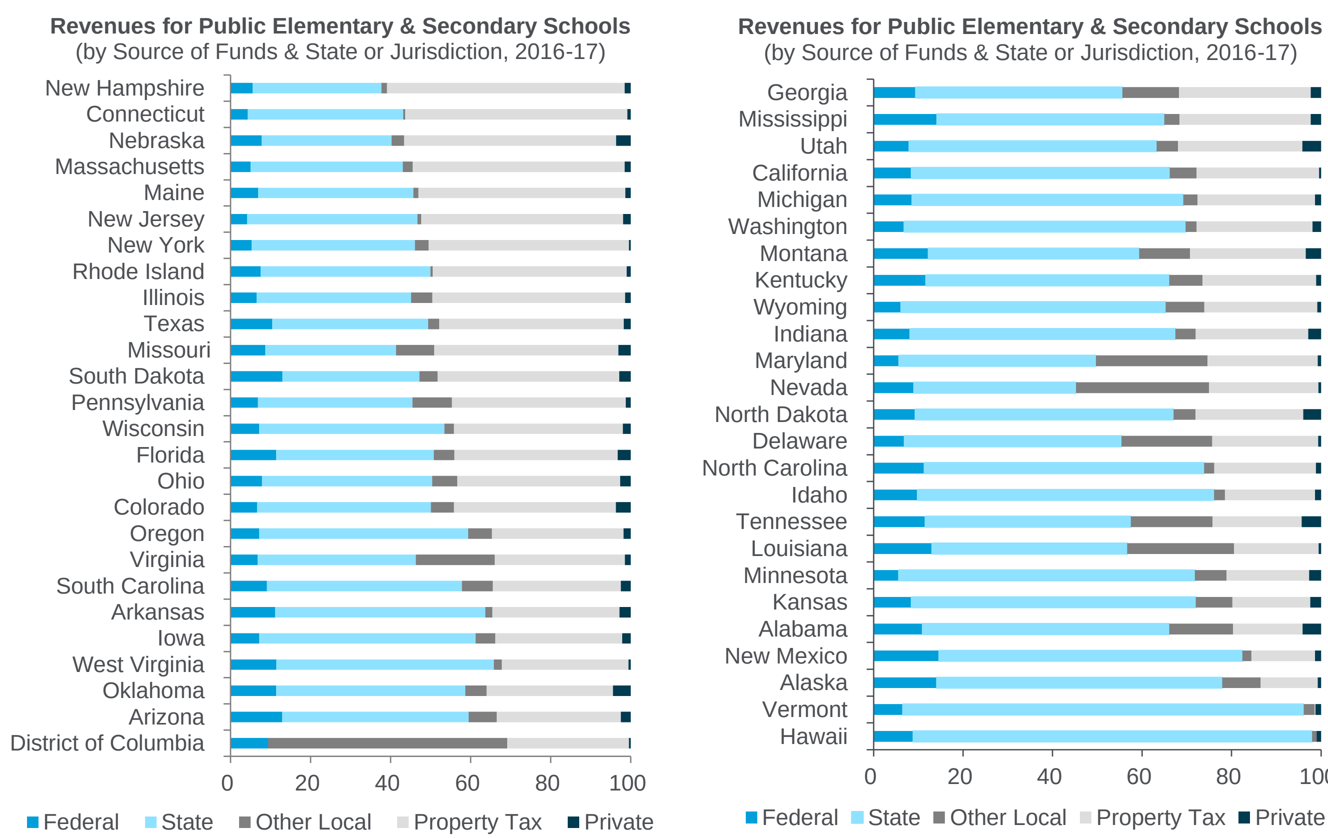
[14] Chingos, M. M. and Kristin Blagg. 2017. "Do Poor Kids Get Their Fair Share of School Funding?", Urban Institute.
[15] Bhargava, S., 2018. "The Interdependence of Housing and School Segregation," Open Society Foundations, Harvard University.

Figure 31. Greater Racial Housing Segregation Often Means Less Public School Funding




Source: Urban Institute, U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2016-17

Figure 32. More Than One-Third of States Rely on Property Taxes as a Major Source of Public School Funding




Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey," 2016-17

# Policing & Voting

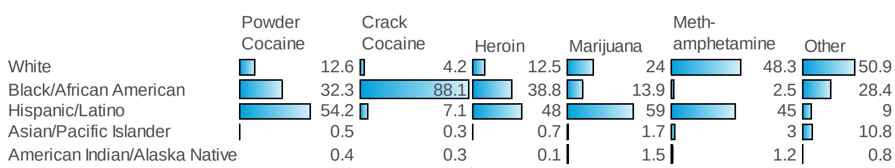
Policies relating to community policing and mass-incarceration have contributed to a deleterious cycle that has led to underrepresentation in government and the labor market.

## Community Policing

The War on Drugs enhanced prosecution of Blacks through disparate application of punishment

Extraordinary levels of incarceration as a consequence of bias within the criminal justice system are evident from movements such as the War on Drugs. Following the Rockefeller drug laws of the 1970s and born from the Reagan era, the War on Drugs has become interchangeable with the enhanced prosecution of Blacks. The perceived injustice is only amplified when considering the disparate application of punishment when associated with crimes committed predominantly by Blacks, such as the abuse of crack-cocaine, with 88 percent of Federal crack defendants Black by 2012, in comparison to crimes committed predominantly by whites crime (powdered cocaine) (Figure 33).[16] Though the original 1986 100-1 ratio (500 grams of powdered cocaine and just 5 grams of crack cocaine incurred the same five-year sentence) has been reduced by the 2010 Fair Sentencing Act, a significant disparity remains with the current ratio standing at 18-1.[17] According to recent Bureau of Justice Statistics, there has been material improvement in incarceration rates in the U.S., with the rate for Black Americans declining the most; down 34 percent since 2006.[18] Nonetheless, the share relative to the entire Black population remains stubbornly high (Figure 34).

**Figure 33. Drug Offences for Black Prisoners Are Overwhelmingly for Crack Cocaine**




Source: Bureau of Justice Statistics, Citi Research

Unequal application of drug-related sentencing has led to mass-incarceration leading to a much higher likelihood of Black incarceration

Reductions in incarceration rates notwithstanding, Black Americans remain far more likely to be imprisoned than their other racial counterparts — almost twice as likely as Hispanic Americans and five times more likely than white Americans. As a result, the United States prison population is disproportionally Black dominated (33 percent) relative to their presence in the U.S. total population (12 percent). A similar trend can be seen with the Hispanic population (23 percent of prison population vs 16 percent of U.S. population), in contrast to white Americans who make up just 30 percent of the prison population despite being 63 percent of total U.S. population. Startlingly, one in every three Black boys born can expect to be sentenced within

[16] Banks, R. R., 2003. “Beyond Profiling: Race, Policing, and the Drug War.” Stanford Law Review, Vol. 56, (3), pp. 571–603. "Cruel and Unusual: Disproportionate Sentences for New York Drug Offenders, 1997 " Human Rights Watch Vol. 9 (2) (B). Internet. Available: http://www.hrw.org/summaries/s.us973.html.

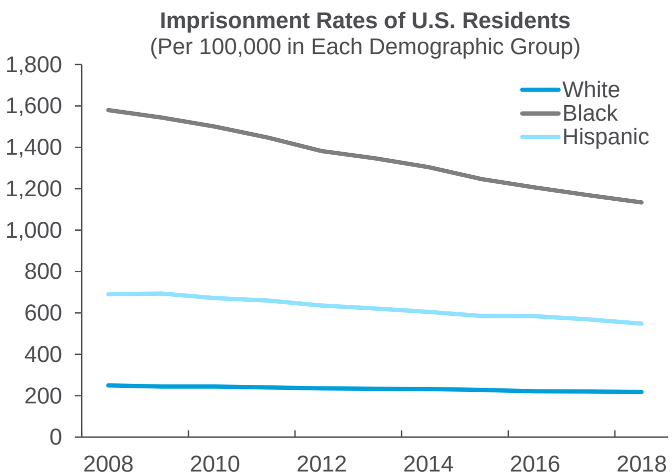
[17] U.S. Department of Justice. “Drug Offenders in Federal Prison: Estimates of Characteristics Based on Linked Data,” Office of Justice Programs, Bureau of Justice Statistics, October 2012. ACLU Fair Sentencing Act https://www.aclu.org/issues/criminal-law-reform/drug-law-reform/fair-sentencing-act.

[18] Carson, E.A., “Prisoners in 2018,” BJS Statistician, U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics.

their lifetime, versus one in every six Latino boys and one in every seventeen white boys.

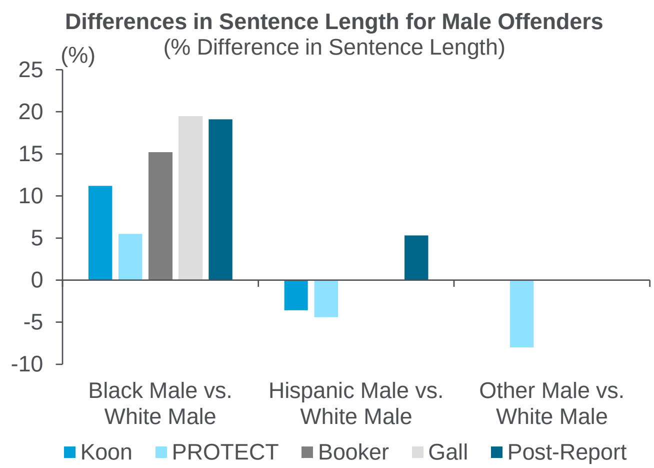
This disparity is even more apparent when reviewing individual age ranges, with 1 in 20 Black Americans between the ages of 35 and 39 in either State or Federal Prison. Moreover, several studies have shown the percentage difference in sentence length for Black versus white prisoners can be from 5 to 20 percentage points (Figure 35). Though only accounting for 5 percent of the global population, the U.S. is home to 25 percent of the world's prison population, recording the highest incarceration rate globally. Aside from the racial inequality, the cost of maintaining this system is outsized, costing $81 billion in 2012 alone (with the rate of spending three times that on Pre K-12 education over the last 30 years).[19]

**Figure 34. Imprisonment Rates Have Fallen, But Still Remain Elevated for Black U.S. Residents**




Source: Bureau of Justice Statistics, Citi Research

**Figure 35. Sentences for Black Prisoners Can Exceed Those of White Offenders by 5 to 20 Percentage Points**




Source: US Sentencing Commission,1999-2016 data files, Citi Research

Incarceration limits an ex-offenders ability to obtain employment, earn income, and build wealth

Incarceration also limits the ability of Black ex-offenders to obtain employment, earn income, and build wealth. The Brookings Institute highlights several key facts linking low job prospects to incarceration and vice-versa. Former prisoners fare poorly in the labor market, with only 55 percent earning any income in the first year of release and median earnings of only $10,090. Prisoners generally had poor labor market prospects before becoming incarcerated. An estimated 51 percent of prime-age men were employed two full years prior to imprisonment, with median earnings of only $6,250. Growing up in poverty dramatically increased the likelihood of incarceration. Boys raised in families in the bottom decile of the income distribution were 20 times more likely to be in prison in their early 30s than those born in the top decile. Notably, boys from the poorest families were 40 times more likely to be imprisoned than boys from the wealthiest families. Brookings finds that an astounding one-third of men age 30 without any annual earnings are either incarcerated or ex-prisoners. Moreover, where one grows up is highly correlated with the likelihood of incarceration. Imprisonment rates can vary by a factor of 30 between zip codes in the same city.[20]

[19] NAACP. "Criminal Justice Fact Sheet,".

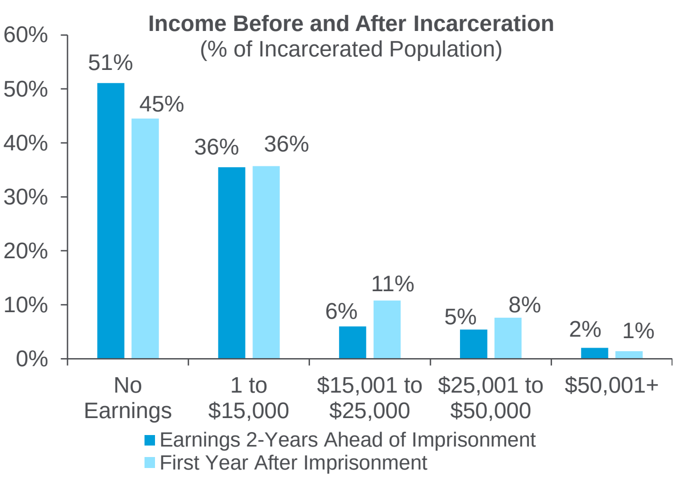
[20] Looney, A., "5 facts about prisoners and work, before and after incarceration," Brookings, March 14, 2018.

Bias against ex-prisoners leads to a poor earnings trajectory post-imprisonment

A poor earnings trajectory post-imprisonment is linked to bias. Unemployment following incarceration is often a consequence of the "prison penalty," where employers discriminate against persons with criminal records. Evidence of a criminal record reduces employer call-back rates by 50 percent.

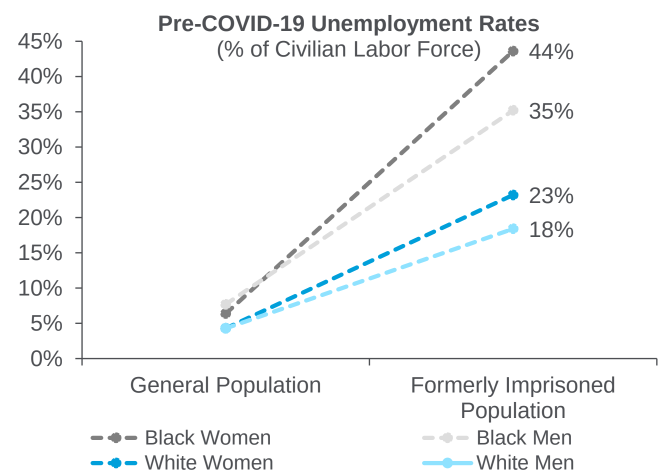
Studies suggest that formerly incarcerated persons do desire to work: among 25-44 year olds, 93.3 percent were active in the labor market compared to 83.8 percent of the general population of the same age. However, unemployment rates for formerly incarcerated persons can be five times that of persons who were never imprisoned. Unemployment rates for Black female former inmates were 44 percent before COVID-19, and the rate for Black males was 35 percent. Black women are also more likely to work part-time jobs after imprisonment than other racial groups.

**Figure 36. Incarceration and Poor Earnings Prospects Are Interrelated**




Source: Brookings, Citi Research

**Figure 37. Ex-Prisoners Are 5x More Likely to be Unemployed**




Source: Prison Policy Initiative, Citi Research

## Voting Power

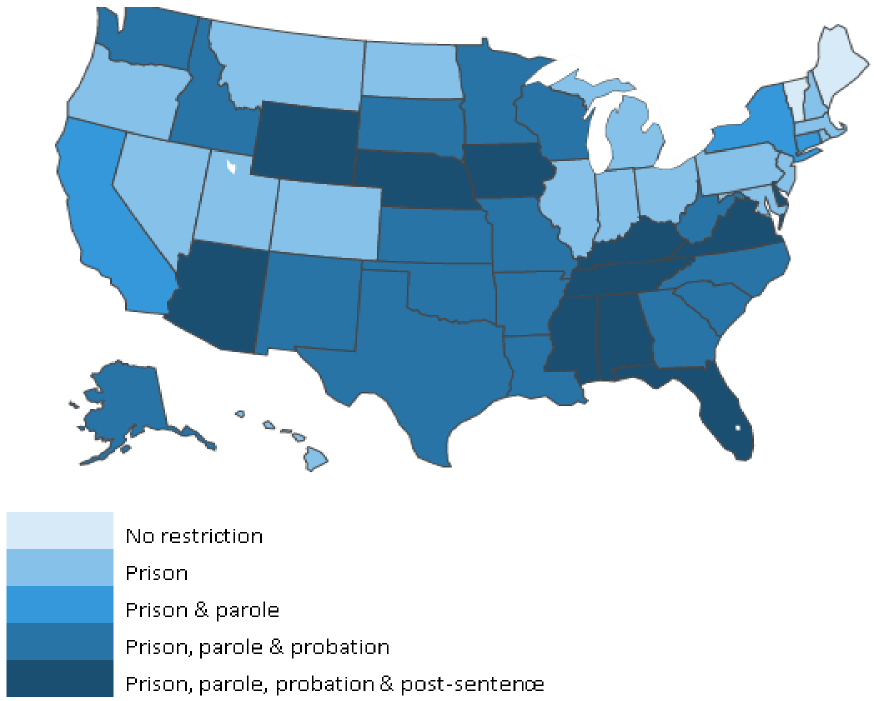
Felony disenfranchisement has a disproportionate impact on Black Americans due to the cycle of mass incarceration

This cycle of mass incarceration becomes increasingly problematic when considering the impact of felony disenfranchisement and its disproportionate impact on people of color. As of 2016, one in every thirteen Black American adults could not vote due to felony convictions, with more than 20 percent of Black adults in four states (Florida, Kentucky, Tennessee and Virginia) disenfranchised.[21] There is a sense of cyclicality within disenfranchisement as 27 percent of non-voters were rearrested versus only 12 percent of voters. It has been argued that political elections would have seen differing outcomes should disenfranchisement not have been established, including seven Senate races between 1970 and 1998, as well as the infamously tight Gore-Bush Presidential election of 2000.[22] Though there has been significant progress, with 25 States modifying their felony disenfranchisement provisions since 1997 (10 repealing or amending lifetime disenfranchisement laws), it still stands that of the total 3.1 million American adults estimated as banned from voting, 2.2 million are Black Americans.[23]

[21] Chung, J., 2017. "Felony Disenfranchisement: A Primer," The Sentencing Project.
[22] Uggen, C. & Manza, J. 2002. "Democratic contraction? Political consequences of felon disenfranchisement in the United States". American Sociological Review, 67 (6), 777-803. Uggen, C. & Manza, J. 2004. "Voting and subsequent crime and arrest: Evidence from a community sample". Columbia Human Rights Law Review, 36 (1), 193-215.
[23] Porter, N. 2010. "Expanding the vote: State felony disenfranchisement reform, 1997-2010.", DC: The Sentencing Project., Uggen, C., Larson, L., & Shannon, S. 2016. "6

The forced reduction in political clout is only compounded by already lower voter turnout rates for Black and minority voters versus their white counterparts. Excluding record turnout in 2008 (69.1 percent) during the Obama election cycle, Black voters have underperformed white voters with regards to turnout; 51.4 percent vs. 54.2 percent on average from 2000-2018.[24]

**Figure 38. Felony Disenfranchisement Restrictions by State, 2019**




Source: The Sentencing Project

With the U.S. set to become minority white by 2045 based on demographic trends, the Black and minority vote will become increasingly significant

The Black and minority vote is set to become increasingly significant as the U.S. is forecast to become minority white by 2045.[25] With white voters at less than 50 percent for the first time, the influence of minority voters will be enhanced with the Black vote making up 13.1 percent of the vote, Hispanic 24 percent and Asian 7.9 percent. This trend is compounded by the emergence of Gen Z as part of the electorate. As a group, 'minority majority' is set to potentially be reached in Gen Z as early as this year (2020), with the 18-29 age range achieving this by 2027.[26] Perhaps unsurprisingly Gen Z voters are set to be some of the most 'liberal' yet, essentially reflecting Millennial positioning on key issues.

Younger voters (Gen Z) are more ethnically diverse and are more consolidated around core social issues than older voters

What is apparent is that Gen Z voters from both sides of the aisle are more consolidated around core social issues than their older counterparts. Significantly, over 60 percent of both Gen Z and Millennial voters view increasing racial and ethnic diversity as a good thing for society, versus only 48 percent of Boomers.

million lost voters: State-level estimates of felony disenfranchisement", Washington, DC: The Sentencing Project.

[24] United States Elections Project. "Voter Turnout Demographics".

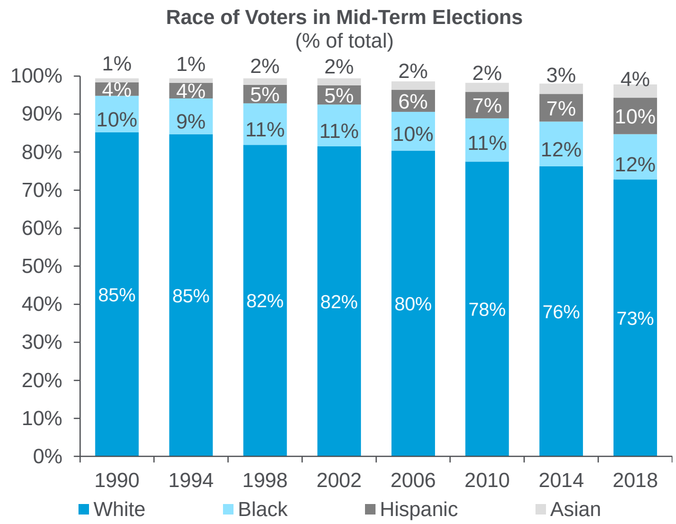
[25] Frey, W.H., "The US will become 'minority White' in 2045, Census projects," Brookings Institute, May 14, 2018.

[26] Ibid.

More importantly, even amongst Republican Gen Z voters, a majority still agree with that statement, versus only 30 percent of Republican Boomers.[27]

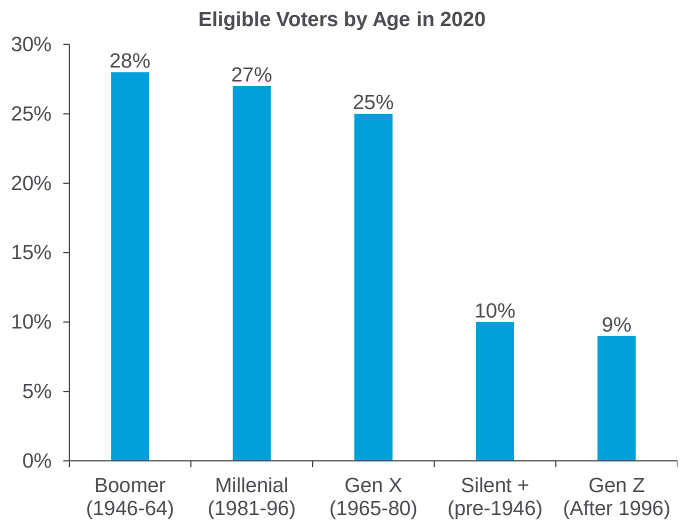
This disparity between younger and older Republicans can be found elsewhere, with a majority of Republican Gen Z also in favor of the government having a larger role in society. Sixty-six percent of American Gen Z and Millennials also hold the opinion that the Black population in the U.S. is treated less fairly than the white population vs. only 50 percent of Gen X. As the younger generations gain prominence amongst the voting population, first as a support to the already established Millennial voting trends and then in their own right, they will demand more political attention. With Gen Z voters composing 9 percent of the 2020 electorate (up from 4 percent in 2016), versus the declining share of Baby Boomers (from 68 percent in 2016 to only 4/10 in 2020), policymakers may need to be more conscientious of this new group of voters.[28]

**Figure 39. Minority Voters Are Gaining Ground**




Source: The Pew Research Center, Citi Research

**Figure 40. Potential Voters Are Skewing Younger (i.e.,<40 Years of Age)**




Source: The Pew Research Center, Citi Research

Recent events have rallied and inspired the political activism of many young and Black voters — traditionally two groups with lower-than-average voter turnout. Given the demographic makeup of Gen Z is increasingly diverse (minority majority by 2020 with Blacks (14 percent) and Hispanics (25 percent) the largest minority groups), its unsurprising that movements such as '#BlackLivesMatter' had the support of over 60 percent of Millennials and Gen Z, versus only 37 percent of Boomers.[29] Should young minority voters translate this intensified interest in addressing the issues most prominent to themselves into presence at the polls, then there is a real argument to stress the significance and impact this group can have.

[27] Parker, K., Graf, N., and Ruth Igielnik "Generation Z Looks a Lot Like Millennials on Key Social and Political Issues", Pew Research Center, January 17, 2019.
[28] Parker, K. and Ruth Igielnik."On the Cusp of Adulthood and Facing an Uncertain Future: What We Know About Gen Z So Far", Pew Research Center, May 14, 2020. Cilluffo, A. and Richard Fry "An early look at the 2020 electorate," Pew Research Center, January 30, 2019.
[29] Parker, K., Graf, N., and Ruth Igielnik "Generation Z Looks a Lot Like Millennials on Key Social and Political Issues", Pew Research Center, January 17, 2019.

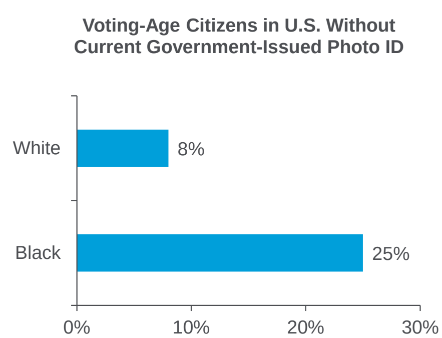
Voter suppression, although less blatant than during the Jim Crow era, still exists today

Voter suppression remains a persistent threat to full participation of Black voters in the U.S. democratic process. The connection between voter suppression and race did not end in the 1960s. Tactics that disenfranchise voters of color, and particularly Black voters, are still in existence today, although they are less blatant than those deployed during the Jim Crow Era. The Voting Rights Act of 1965 significantly curtailed voter suppression. In 1966, the Supreme Court invalidated poll taxes. However, a 2013 Supreme Court decision *Shelby County v. Holder* vacated key provisions of the Voting Rights Act opening the door for state and local governments to erect barriers to voting for racial minorities. The main element in the 2013 decision ended the requirement of state and local governments to obtain preclearance from the Federal government before changing voting rules. Over the last 10 years, 25 of 50 states have implemented new voting restrictions. Ten of those states have sizable Black populations: Mississippi, Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, Illinois, Michigan, and Tennessee according to the Brennan Center.

States have enhanced barriers to voting since 2013

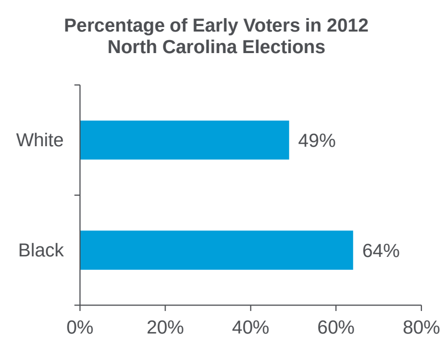
New restrictive voting rules include requiring voters to present government-issued photo IDs, which disproportionately affects the youngest and oldest voters, as they are less likely to have a driver's license or permit (Figure 41). There is even disparity among types of IDs. In Texas for example, handgun licenses, which are predominantly held by white persons (82 percent), are permissible (Figure 44). But student IDs are disallowed, despite more than half of the students of the University of Texas system being racial or ethnic minorities (51 percent). While the stated aim of voter rules is to combat voter impersonation fraud research by the Brennan Center for Justice has found scant evidence of such types of behavior. Other barriers to voting include restrictions on early voting, which is largely used by minority voters; third party voter registration drives that often target Black voters; voter list purges, which have eliminated 33 million voters from the rolls over the 2014-2018 period (Figure 43); and exact matches of voter registration form data and IDs. Other tactics include not upgrading technology; moving or closing polling stations without notifying voters; shortening voting hours; restricting early voting on weekends when Black voters are likely to vote; shutting Departments of Motor Vehicles (DMVs) in minority communities where heavy voter registration takes place; and/or not properly training poll workers. Federal courts have ruled that many voting restrictions have been implemented with the aim to racially discriminate.

**Figure 41. Black Voters Are More Likely to Not Have Government Issued Photo IDs**



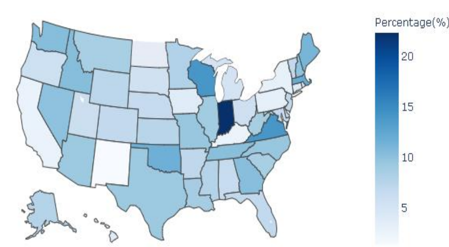

Source: Brennan Center. Citi Research

**Figure 42. In Some States, Like North Carolina, Black Voters Are More Likely to Vote Early**



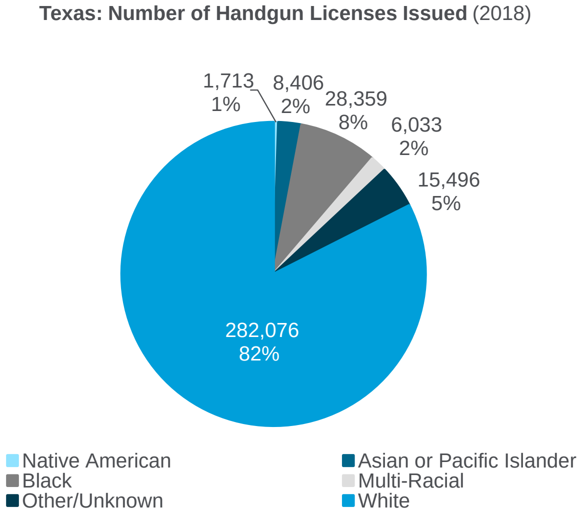

Source: Brakebill vs Jaeger, Citi Research

**Figure 43. Several States with Notable Minority Populations Are Engaged in Heavy Voter Registration Purges: Percent of Lists Purged**



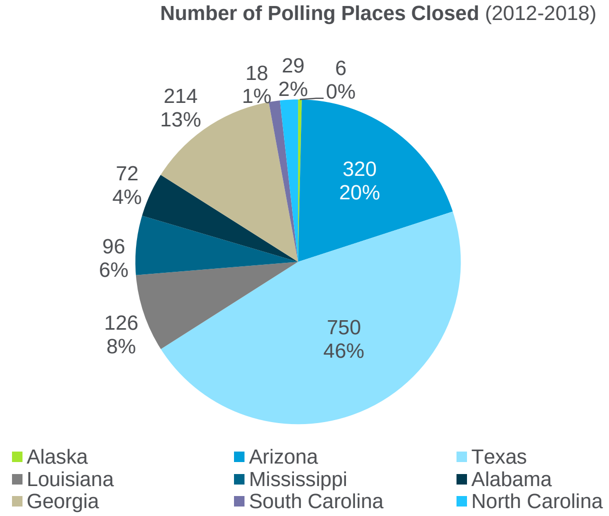

Source: Brennan Center. Citi Research

**Figure 44. Handgun Licenses Are Acceptable Forms of ID for Voting in Texas, but Student IDs Are Not**




Source: Texas Department of Public Safety, Citi Research

**Figure 45. Many States with Large Minority Populations in the South and West have Closed Polling Stations**




Source: The Leadership Conference Education Fund, Citi Research

# Income and Wealth

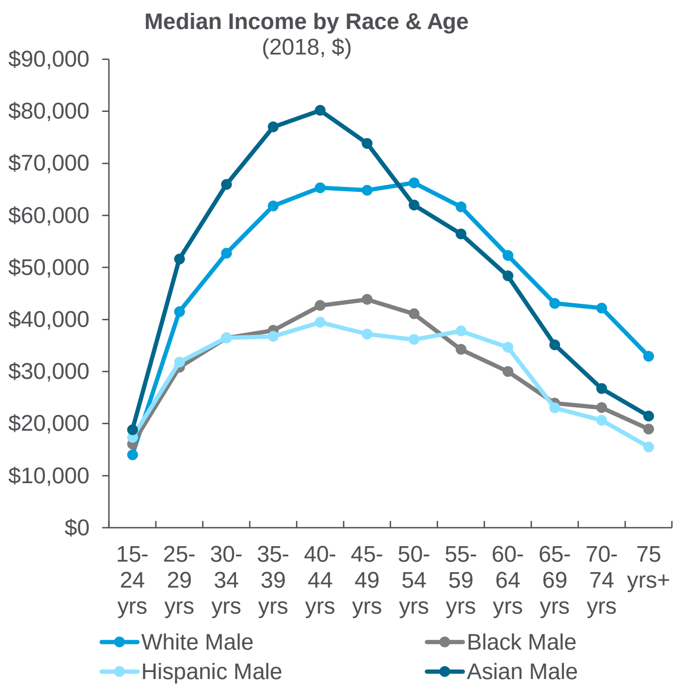
Disparities in housing, education, policing, and voting rights plus conscious and unconscious bias have limited access to employment for many Black Americans, and consequently social mobility and wealth accumulation.

## Peak Income

Peak earnings are lower for Black and Hispanic males than white males and occur at a younger age

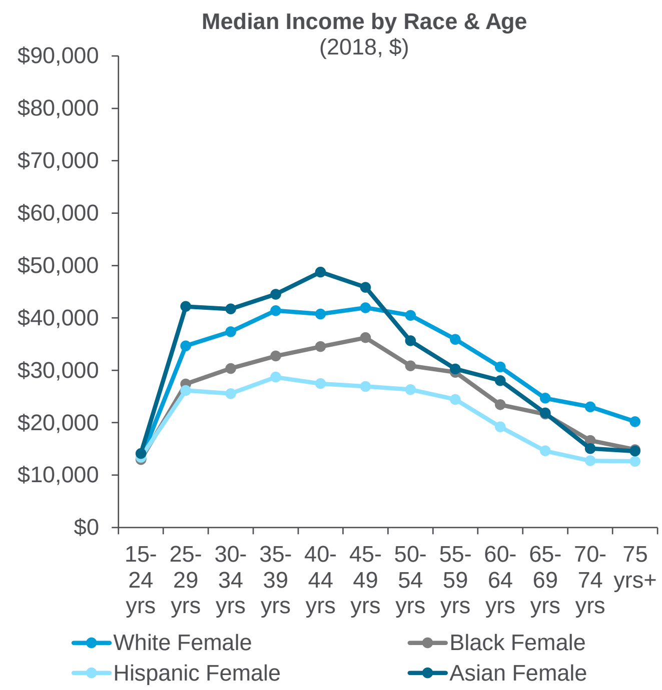
An extended history of job discrimination, plus unequal access to quality education in the U.S., have capped lifetime income prospects for many Black Americans. Census Bureau data reveal that as of 2018, it was still the case that male Black and Hispanic workers would see peak income earlier in their careers (age 40s), and at a far lower level (~$40,000) than their white male peers (early 50s and ~$65,000) (Figure 46). The gap between peak income between Black and Hispanic workers is even greater relative to Asian male workers (~$80,000), even though Asian males experience peak income around the same age. For women the peak age is about the same as males, and the gaps in income between races is smaller. Moreover, peak earnings for Black women are about $5,000 higher than for Black men. Nonetheless, women in general earn notably less over a lifetime than do men (Figure 47), having significant negative implications for retirement income which must typically be stretched over a longer period for women than for men.

**Figure 46. Peak Income Occurs Sooner and Lower for Black Males**




Source: Census Bureau, Citi Research

**Figure 47. Income Prospects Over a Lifetime are Worse for Women**




Source: Census Bureau, Citi Research

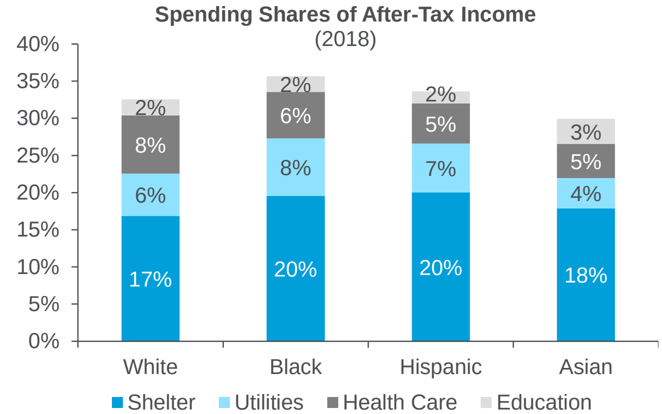
Lower lifetime income for Black families caps retirement funds, limits spending options, and reduces cushions needed during recessions and shocks

Income is key to accumulating liquid assets, which are important for smoothing consumption. Lower lifetime income prospects not only cap retirement funds, but also limit spending options over the course of a lifetime, and especially during economic downturns. The Bureau of Labor Statistics' Consumer Expenditure Survey shows that Black families spend slightly more of their incomes than other ethnic and racial groups on budgetary staples, including on housing (20 percent) and utilities (8 percent) (Figure 48). Black families (69 percent) are highly likely to be faced with unaffordable child care options, as are Hispanic families (72 percent), which can often consume as much as 11 percent of a family's monthly income (Figure 49).[30] Importantly, the level of family income is important for creating liquid assets (i.e., savings in the form of cash or easily convertible instruments like certificates of deposit (CDs)).

Savings are paramount for helping families to smooth their consumption over a lifetime, particularly during recessions, and shocks including job loss and illness. According to the Federal Reserve Board's Survey of Consumer Finances, the median amount of liquid assets held by Black families in 2016 (the most recent reading), was $11,400 (Figure 50). This is roughly one-third of what white families held ($29,200), suggesting that Black families are potentially more vulnerable to hardship during tough economic times. Hispanic families were worse off, with just $6,500 in liquid assets.

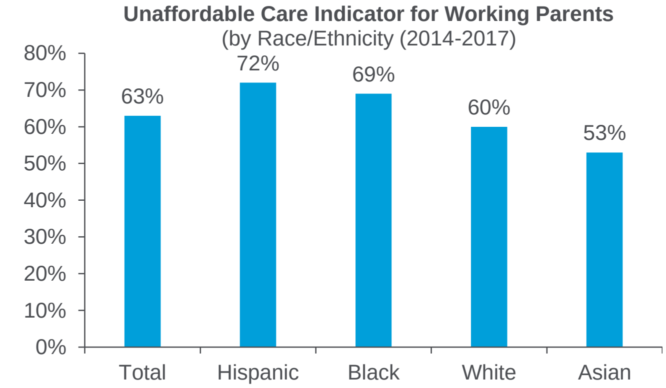
[30] Baldiga, M., Joshi, P., Hardy, E., and Dolores Acevedo-Garcia. 2018. "Data-for-Equity Research Brief, Child Care Affordability for Working Parents," Institute for Child, Youth and Family Policy, Heller School for Social Policy and Management Brandeis University; Malik, R. 2019. "Working Families Are Spending Big Money on Child Care," Center for American Progress, June 20, 2019.

Figure 48. Black and Hispanic Families Spend Slightly More on Housing than White and Asian Families



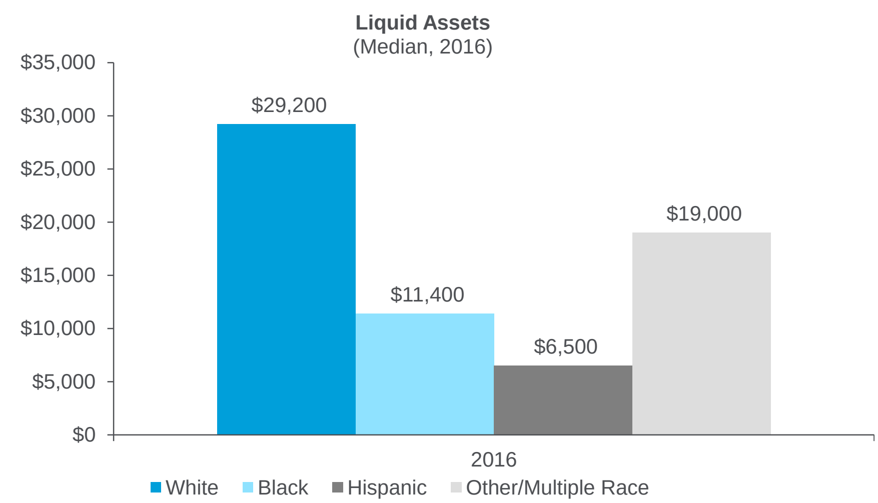

Source: Bureau of Labor Statistics *Consumer Expenditure Survey*, Citi Research estimates

Figure 49. Black and Hispanic Families Are More Likely to Experience Challenging Child Care Options




Note: The sample is parents working full time and year round with four or fewer children and at least one child under age 14 (N=71,981).
Source: Current Population Survey, 2014-2017 March Annual Social and Economic Supplement, Public Use Microdata Files, IPUMS-CPS, University of Minnesota, www.ipums.org.

Figure 50. Black Families Hold Roughly One-Third of the Liquid Assets that Are Key to Smoothing Consumption than White Families Hold




Note: Liquid Assets include transaction accounts, certificates of deposits
Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

## Wealth and Debt Gaps

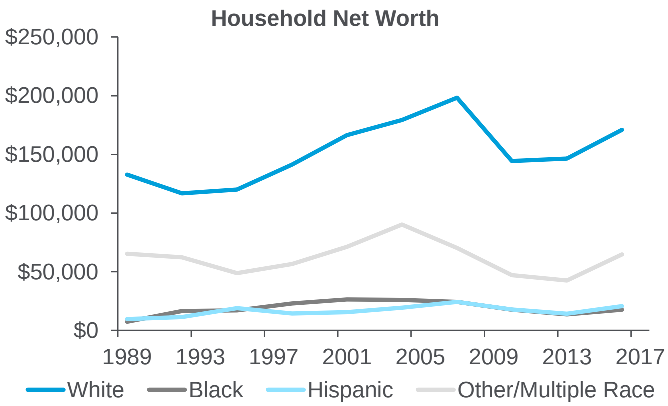
Historical gaps in intergenerational wealth accumulation have led to challenges in social mobility for Black Americans

The Federal Reserve Board's Survey of Consumer Finances reveals that the wealth gap between Black families and white families has remained persistently wide. Among Black families, household net worth, which is defined as total assets less all liabilities, has hovered in the $15,000 to $25,000 range over the last thirty years (Figure 51). Net worth for white families has been in the range of $115,000 and $200,000. The gap between white and Black familial income is a multiple of eight. Meanwhile, the leverage ratio — debt divided by assets — for Black families has remained stubbornly elevated above 25 percent over much of the last 30 years, while the leverage ratio for white families has held between 10 and 15 percent (Figure 52). These metrics matter as the body of literature suggests that wealth and debt play meaningful roles in social mobility, especially from one generation to the next.

A myriad of factors contribute to the racial wealth gaps in the U.S.

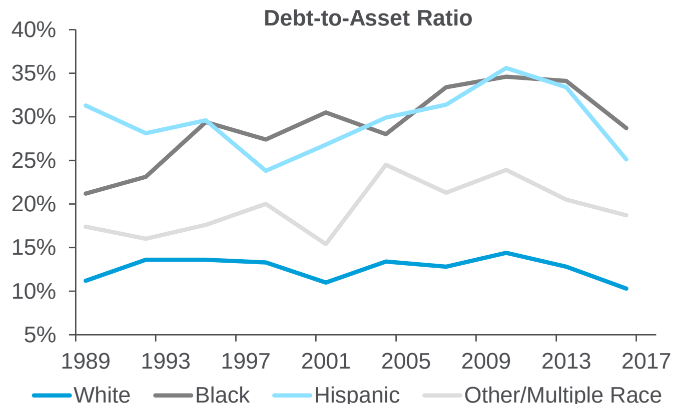
Building wealth is not just a function of higher income, but the ability to save out of income once basic needs are met. The outsized debt-to-asset ratio for Black families indicates that a number of families have insufficient income to meet needs and are financing expenditures with credit. This indicates a lack of disposable income available for saving and investing. Other factors contributing to wealth accumulation include (1) intergenerational transfers of wealth within families; (2) conditions where one lives, such as poverty rates, home values and housing segregation;(3) geographic and financial barriers to human capital formation (e.g., elevated costs for education; limited job prospects in region); (4) discrimination in labor markets and/or racially motivated segmentation; and (5) racial biases in policies and practices of government, institutions, and the private sector.[31] Without amelioration, each of these factors discussed above will perpetuate racial wealth gaps.

**Figure 51. White Families Have 8x More Wealth than Black Families**




Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

**Figure 52. Leverage Ratios for Black Families Have Remained Elevated**

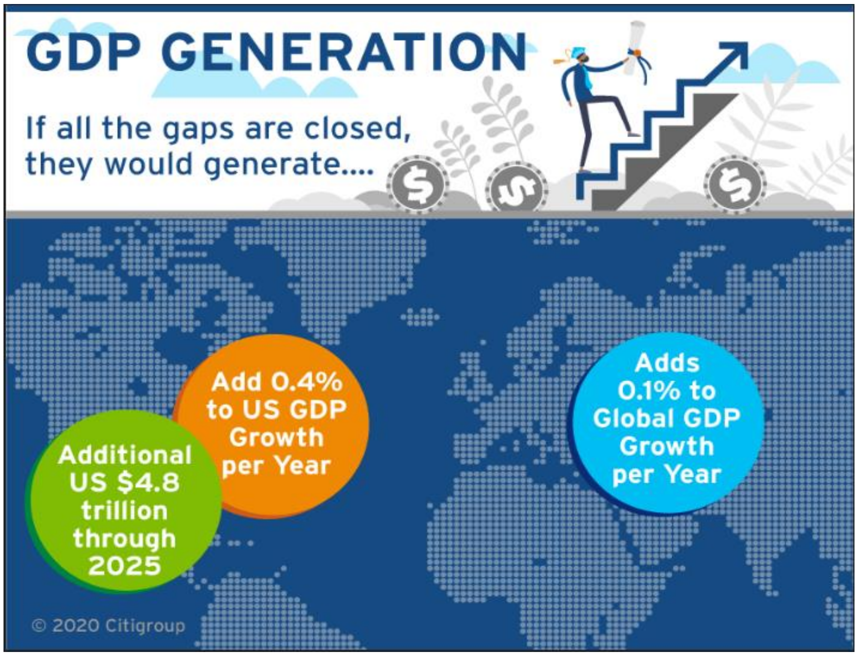



Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

[31] (i) (e.g., Meschede et al. 2017; Chiteji and Hamilton 2002; McKernan et al. 2014b); (ii) (e.g., Chetty et al. 2019; Perry et al. 2018); (iii) (e.g., Dobbie and Fryer 2011; Jackson and Reynolds 2013; Addo et al. 2016) ; (iv) (e.g., Grodsky and Pager 2001; Bertrand & Mullainathan 2004); (v)(e.g., Oliver and Shapiro 2013; Katznelson 2005; Robles et al. 2006; Bayer et al. 2014; Asante-Muhamm).

# Closing Gaps Generates Growth

**Figure 53. The Economic Case for Closing Racial Gaps in the United States**




Source: Citi Research

Amid a once-in-a-century global pandemic that has resulted in staggering economic and job losses, investors should welcome ideas and actions that can add value. Closing racial gaps is one.

The business case for eliminating racial gaps is well established

The business case for eliminating racial gaps is well established. Some firms believe continuing to focus on Diversity & Inclusion (D&I) as part of their COVID-19 recovery strategy is a luxury. However evidence shows firms who do not abandon D&I protocols may fare better. Companies in the top quartile for both gender and ethnic diversity are 12 percent more likely to outperform companies in lower quartiles. Top quartile companies outperformed those in the fourth by 36 percent in terms of profitability (up from 33 percent in 2017, 35 percent in 2014).[32]

The economic case for closing racial gaps is equally compelling

The economic case for closing racial gaps is equally compelling. Present racial gaps in income, housing, education, business ownership and financing, and wealth are derived from centuries of bias and institutionalized segregation, producing not only societal, but also real economic losses. However, future gains from eliminating these gaps are enormous: benefiting not only individuals, but also the broader U.S. economy with positive spillover effects into the global economy. If four key racial gaps had been closed 20 years ago, then the additional GDP that could have been added to the U.S. economy might have summed to as much as $16 trillion. Casting this amount forward into the future, a global economic model suggests roughly $5 trillion could be added to U.S. GDP through 2025 from closing the gaps. The consequent additions to U.S. and global GDP growth averages roughly 0.4 percentage point and 0.1 percentage point per year, respectively. These gains do not reflect the potential narrowing of the wealth gap experienced by Black persons in the U.S., which would inevitably also lead to additional economic gains.

[32] Hunt, V., Layton, D., and Sara Prince "Why diversity matters," McKinsey, January 1, 2015.

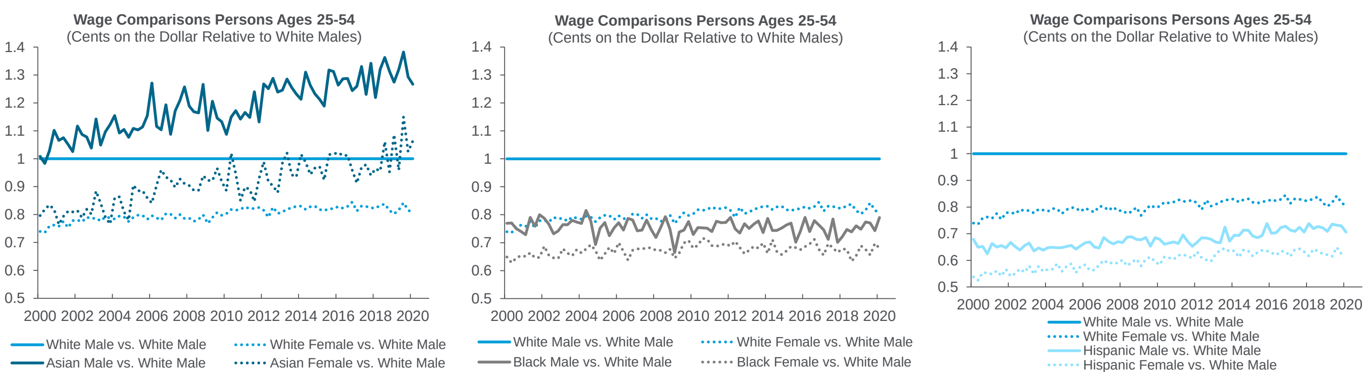
# Racial Wage Gap

## Opportunity Loss

Racial and gender wage gaps remain wide in the U.S., signaling lost opportunity for income, consumption, investment, and real GDP growth

Racial and gender wage gaps remain wide in the U.S., signaling lost opportunity for income, consumption, investment, and real GDP growth. Typically, wage gaps are measured by comparing the median wage of female and/or non-white workers to that of white males. Over the last 20 years, wages for Asian males have broken significantly above those of white males, and in the most recent two years, wages for Asian women exceed those of white males. However, for white women in general and Black and Hispanic workers in particular, the gaps between white male wages persist. The gap for Black male wages compared to white male wages was 80 cents on the dollar, as of 2020. The gap for Black female wages to white male wages was just below 70 cents on the dollar in 2020. The gaps for male and female Hispanic workers relative to white male wages is even starker at about 70 cents and 60 cents, respectively (Figure 54).

**Figure 54. Black and Hispanic Men and Women Make Fewer Cents on the Dollar than White Men and Women**

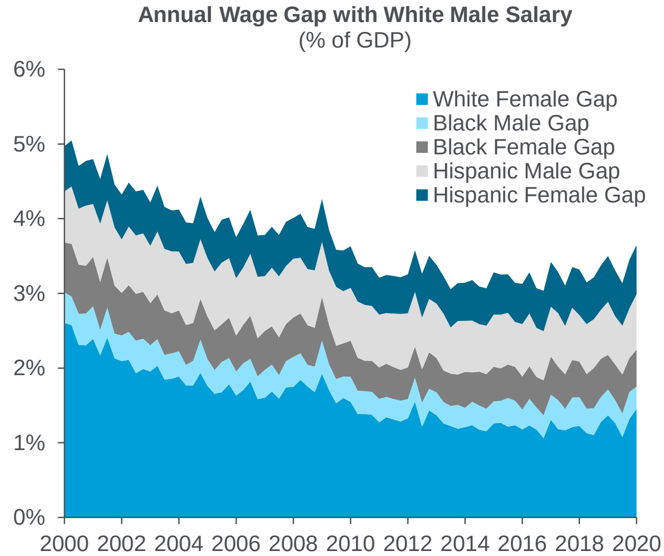



Source: Bureau of Labor Statistics, Citi Research

Individual wage losses over the past 20 years have been substantial — between $175,000 and $360,000 — due to racial and gender gaps

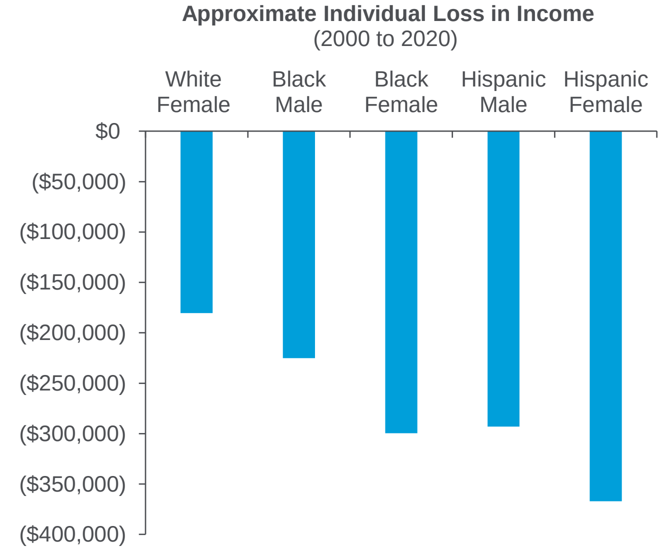
Individual wage losses due to gaps over the last 20 years have been substantial. The gap in terms of aggregate income for white female wages (i.e., all white women nationwide) compared to white male wages has been narrowing as a share of U.S. GDP over the last 20 years (Figure 55). Some of this reflects slower GDP growth in general, but also a slight increase in white female wages. However, for Black and Hispanic male and female workers, their gaps as shares of GDP have not improved. The presence of gaps denote significant opportunity loss in terms of wages that could have been used for personal consumption, home buying, or investment in small businesses. As the wage gap with white males was not collapsed for white females 20 years ago, the typical individual white female worker missed out on roughly $175,000 in additional income. For Black males, the loss was approximately $225,000, for Black females and Hispanic males about $300,000, and for Hispanic females roughly $360,000 (Figure 56).

Figure 55. Wage Gap has Narrowed Somewhat for White Women but Not for Black, Hispanic and Other (Non-Asian) Minority Groups




Source: Bureau of Labor Statistics, BEA, Citi Research estimates

Figure 56. Accrual of 20 Years of Lost Income Due to Wage Gap is Acute for the Representative Black and Hispanic Worker



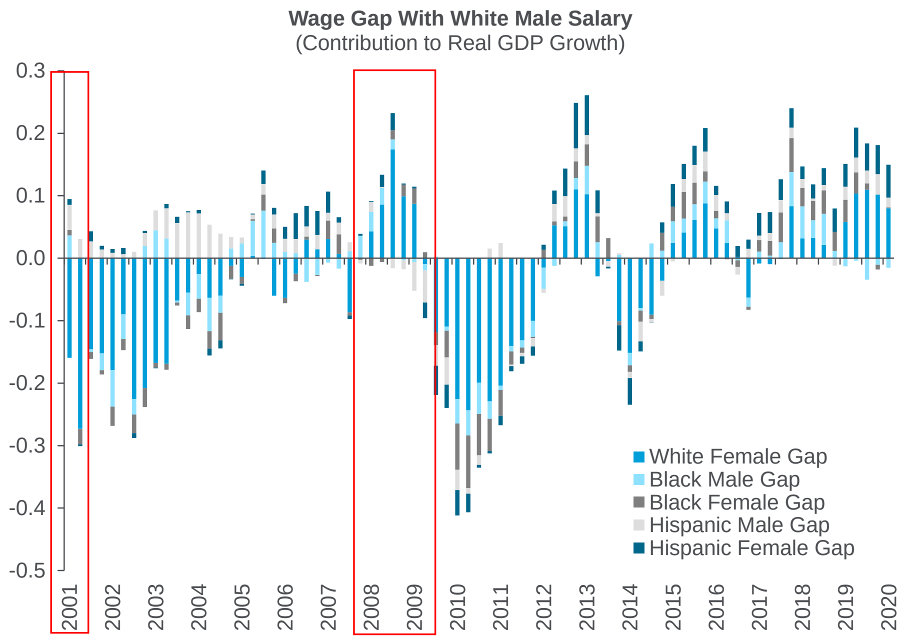

Source: Bureau of Labor Statistics, Citi Research estimates

## Closing the Gap

Closing the minority wage gap 20 years ago could have generated $12 trillion in income; $2.7 trillion for Blacks

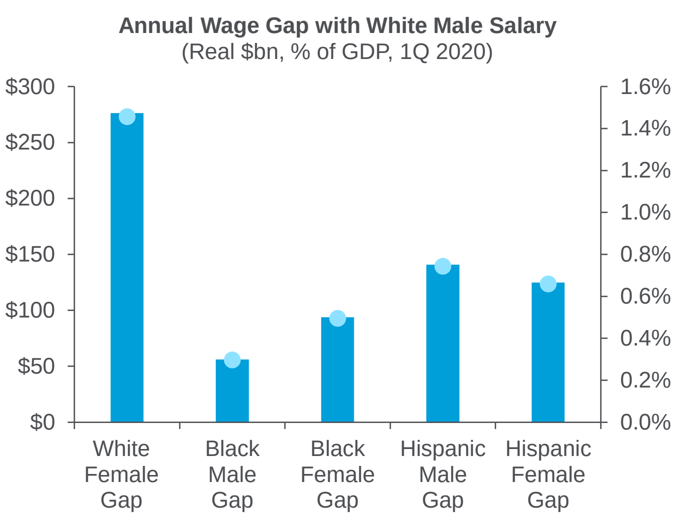
The wage gaps between minorities and white males, if closed 20 years ago might have generated $12 trillion in additional income, and indeed for Black workers an additional $2.7 trillion. Since the Great Financial Crisis, income inequality expressed in one fashion by wage gaps has worsened in most years. The aggregate amount of income lost due to wage gaps each year is equivalent to a roughly 0.15 percentage point contribution to U.S. GDP growth per year (Figure 57). While that appears to be a nominal amount in comparison to the losses experienced amid the COVID-19 global recession, in "normal" years a nearly 0.2 percentage point add to annual U.S. GDP growth is actually quite substantial. This is especially true as the pre-pandemic economy was on course to slow to a new equilibrium rate of 1.7 to 1.9 percent a year. The total amount of income that could have been generated since 2000 if all income gaps were closed sums to an astounding $12 trillion, with $5 trillion from closing the white male-white female gap, and another $7 trillion from closing the gaps between white males and Black and Hispanic workers. The contribution of closing the Black worker gaps with white male wages is an outsized $2.7 trillion (Figure 58 and Figure 59).

**Figure 57. Closing Wage Gaps for White Women and Minorities Could Have Contributed to GDP Growth in Most Years Post-Great Financial Crisis (GFC)**



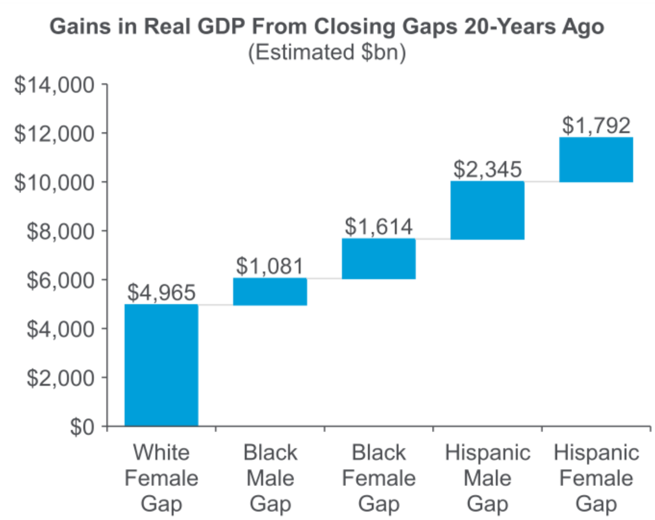

Note: Red rectangles denote U.S. recessions
Source: Bureau of Labor Statistics, Bureau of Economic Analysis (BEA), Citi Research estimates

**Figure 58. Gaps with White Male Salaries Remain Wide in 2020**




Source: Bureau of Labor Statistics, BEA, Citi Research

**Figure 59. Lost Wages Add Up to Trillions of Dollars in Foregone GDP**




Source: Bureau of Labor Statistics, BEA, Citi Research

# Racial Labor Segmentation Gap

## Location, Location, Location

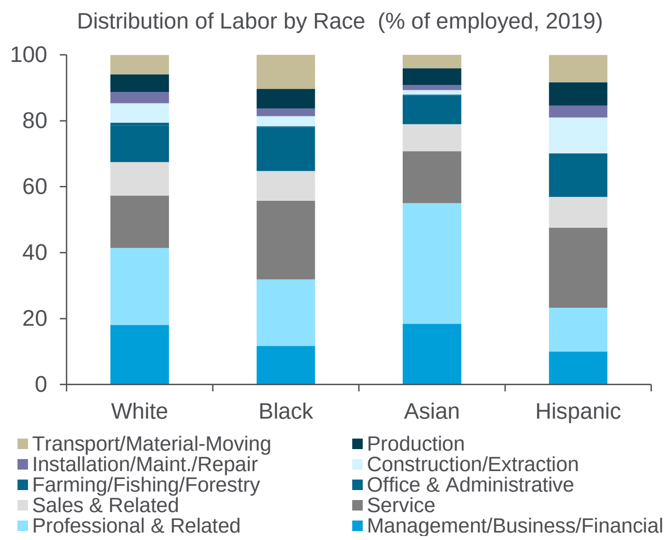
Black workers represent 10 percent or less of many of the occupations paying the top wages

Where a person works determines their wage potential. In general, Black workers are underrepresented in management, business, financial, professional and related occupations that pay the highest salaries. The share of Black managers is roughly 10 percent compared to almost 20 percent among white workers (Figure 60). The share of Black professionals is about 20 percent compared to nearly 35 percent among Asian. On balance, Black workers represent 10 percent or less of many of the occupations that pay the top wages, including STEM, finance, legal, medicine, and management jobs (Figure 61). Black workers are, however, overrepresented in sales and services occupations, office and administrative, as well as in transport and material moving occupations (Figure 62).

Almost half of Black workers are employed in jobs potentially subject to automation

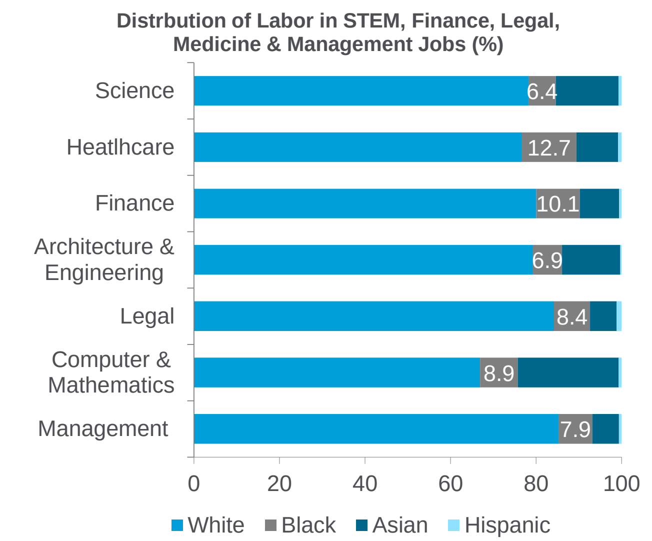
Black workers are more likely to be situated in jobs requiring lower skills and/or are more susceptible to automation. Skill requirements and the risk of automation appear to be drivers of wage differences between more technical and less technical occupations. A study by Carl Benedikt Frey and Michael Osborne highlighted in the Citi GPS report Technology at Work noted that 47% of U.S. jobs were at risk due to automation. Among Black workers, close to half (46 percent) work in jobs that are subject to potential automation compared to those that are not (54 percent), and only 3 percent of Black workers are in technical jobs, leaving the other 97 percent in non-technical jobs that could be automated to some degree (Figure 63).

**Figure 60. Black Workers Are Underrepresented in Management, Business, financial, Professional and Related Occupations**



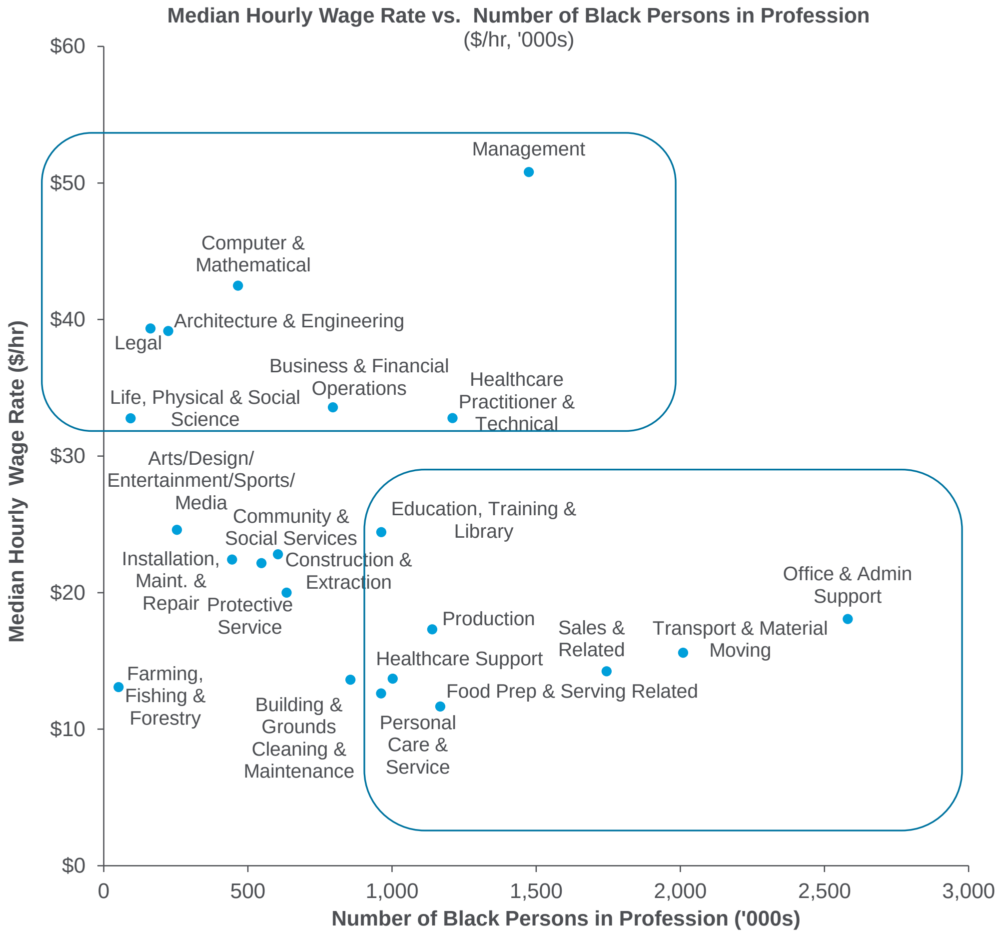

Source: Bureau of Labor Statistics, Citi Research

**Figure 61. Black Workers Comprise Small Shares of Occupations that Typically Pay Higher Wages Compared to White and Asian Workers**




Source: Bureau of Labor Statistics, Citi Research

**Figure 62. Black Workers Are More Concentrated in Jobs that Pay Less than $25/hour and May Also Require Fewer Skills**




Source: Bureau of Labor Statistics, Citi Research

**Figure 63. Black People are More Likely to Work in Jobs That Are Susceptible to Automation**

| | Workers in Jobs Susceptible to Automation | Workers in Jobs Not Susceptible to Automation | Workers in Tech Jobs | Workers in Non-Tech Jobs |
|---|---|---|---|---|
| Worker Population | 58.7 Million | 77.7 Million | 7.2 Million | 129.2 Million |
| Number of Workers | 39 years | 41 years | 41 years | 40 years |
| Median Age | $17.37 | $26.94 | $39.68 | $21.88 |
| Mean Hourly Wage | $14.26 | $22.06 | $36.76 | $17.16 |
| **Percent of workers in the below groups who hold jobs of the specified type:** | | | | |
| Total Workers | 43.0% | 57.0% | 5.3% | 94.7% |
| Male | 44.1% | 55.9% | 8.1% | 91.9% |
| Female | 41.9% | 58.1% | 2.4% | 97.6% |
| Asian, non-Hispanic | 35.9% | 64.1% | 15.9% | 84.1% |
| Black, non-Hispanic | 46.4% | 53.6% | 3.0% | 97.0% |
| Hispanic | 54.1% | 45.9% | 2.3% | 97.7% |
| White, non-Hispanic | 40.0% | 60.0% | 5.6% | 94.4% |
| Other, non-Hispanic | 45.2% | 54.8% | 4.9% | 95.1% |
| Graduate Degree | 11.3% | 88.7% | 10.6% | 89.4% |
| Bachelor's Degree (BA) | 26.9% | 73.1% | 11.3% | 88.7% |
| Some College, but less than a BA | 46.7% | 53.3% | 3.9% | 96.1% |
| High School Degree or Less | 60.7% | 39.3% | 1.0% | 99.0% |

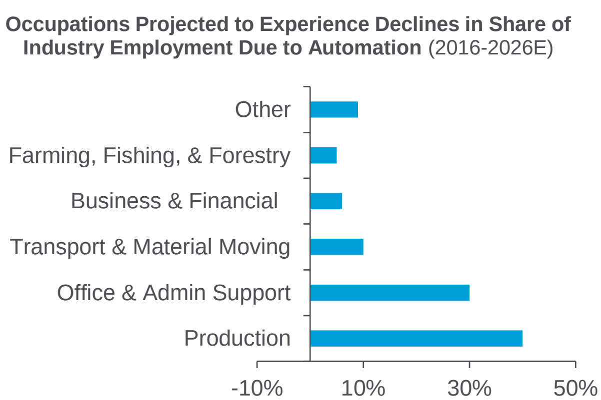
Source: U.S. Government Accountability Office, BLS and Citi Research

## Closing the Gap

Pursuing education and training for more technical and skills-based careers can help close the racial labor segmentation gap

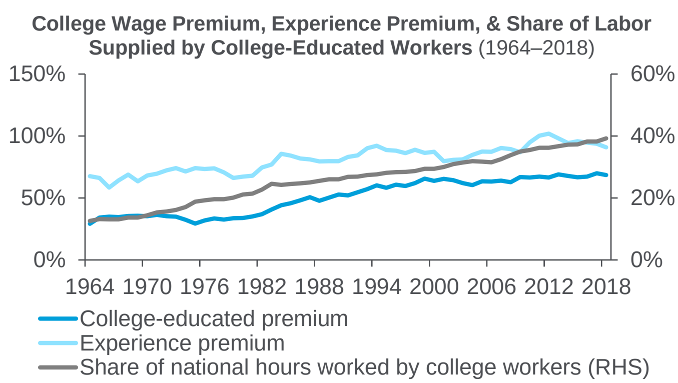
Encouraging Black students and workers to pursue education and training suitable to more technological and skills-based careers can help close the racial labor segmentation gap. The BLS cites literature in labor economics positing that technology has increased the productivity of workers with college educations more than workers with less education. The increase in productivity helps explain the rise of earnings for college-educated workers relative to the earnings of non-college-educated workers, despite the increase in the labor supply of college-educated workers. The BLS notes that since 1980, the relative incomes of college-educated workers have risen compared to high school-educated workers, after adjusting for other observable factors. The phenomenon is called the college earnings premium, which has increased from 34 percent in 1980 to 68 percent by 2018 (Figure 65). One aspect of the widening premium is the share of hours worked by college-educated workers has nearly doubled from 20 percent in 1979 to 39 percent by 2018. In a simple supply-demand framework, this suggests demand for college-educated workers has outpaced the steady increase in supply. Hence, there is plenty of room for more Black college graduates to be absorbed into the U.S. labor market.

**Figure 64. Select Occupations Are More Susceptible to Automation**




Source: US Government Accountability Office, BLS, Citi Research

**Figure 65. College Degrees Produce Notable Wage Benefits**




Source: BLS, Citi Research

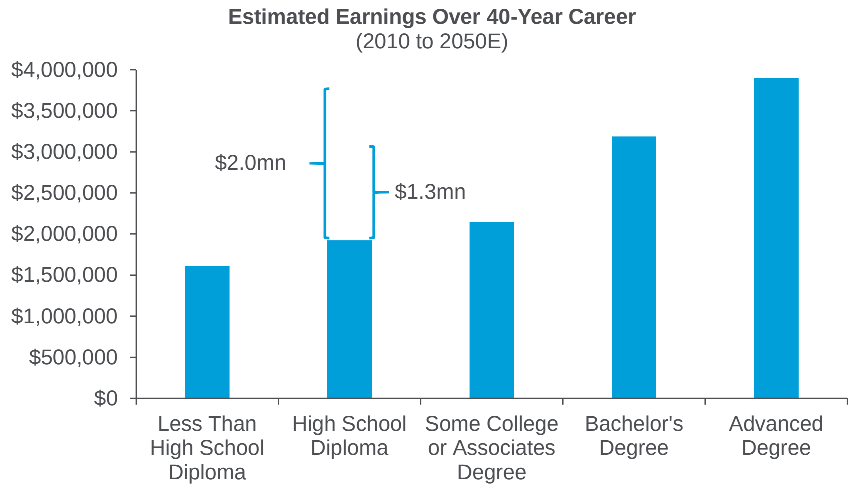
# Racial Education Gap

## Higher Education

Attainment of higher education can be challenged by lack of access to quality pre-school education and underfunded public schooling in K-12

Encouraging Black students to pursue higher education is a manner in which racial wage and income gaps can be closed, but there are challenges. Plenty of literature and simple calculations affirm that persons with a degree beyond a high school diploma earn more over a lifetime than persons with a high school degree or less. The difference over a 40-year career is upwards of $1.3 million for a person with a bachelor's (or equivalent) degree and $2.0 million for a person with an advance degree (Figure 66). However, the path towards college and advanced degrees for Black students is challenged by lack of access to a quality pre-school education and underfunding of public schools from grades K-12. For Black students who do attend college, which since 1980 has consistently been 10 percentage points below the national average, the occupation chosen after graduating from college or with an advanced degree also determines lifetime income.

**Figure 66. Students Earning Bachelor or Advanced Degrees Earn More Lifetime Income**




Source: Bureau of Labor Statistics, Citi Research

## Access to Pre-School

Black children are more likely to attend full-time pre-school than other children

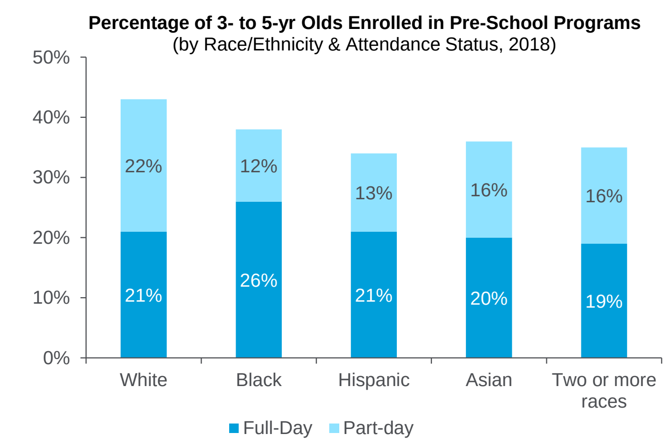
Education literature suggests that children who receive a pre-school education perform better once in grades K-12. Pre-school programs also serve as an important form of childcare for working parents. A Brookings Institute report summarizing early education studies found that high-quality programs produced short-term gains in cognitive functioning and longer-term gains in school achievement and social adjustment. Moreover, pre-school education yields higher school achievement, fewer children being 'left-back' in a grade, reduced need for special education, and a reduction in neighborhood crime. Early childhood education can also save governments between $13,000 and $19,000 per child over and above the cost of the pre-school program. The National Center for Education Statistics reported that in 2018, 26 percent of Black children aged 3-5 years old attended full-time pre-school, exceeding every other racial group (Figure 67). Slightly more white children overall (43 percent) attended either full- or part-time pre-school, compared to 38 percent of Black children. Nonetheless, a sizable number of Black children overall attend pre-school.

But access to high-quality, adequately-funded pre-school varies by state…and poor funding is directly linked to quality of education

However, access to high quality, adequately-funded pre-school remains challenged in terms of availability, quality, funding, and training of teachers. State-funded (as opposed to private) pre-school programs serve just 22 percent of 4-year-olds and 3 percent of 5-year-olds. Only three states — Florida, Georgia, and Oklahoma — make pre-school available to all 4-year-olds. Twelve states with state-funded pre-school do not offer programs to 3-year-olds, and 12 states have no state-funded pre-school at all (Figure 68). Overall state spending on pre-school is disparate, ranging from $1,600 per child to $10,000, and the average amount of spending ($3,600 per child) is roughly one-third of the average spend on public school students in K-12. Quality of education also varies. The National Institute for Early Education Research (NIEER) reports only 17 states meet eight or more of their ten quality-checklist criteria. Poor funding is directly linked to quality according to NIEER, and programs serving primarily poor students tend to receive less funding than those who serve more middle-class students. Relatedly, while 76 percent of pre-school teachers have a Bachelor's degree, only roughly 56 percent have a teaching certificate to teach young children. Moreover, pre-school teachers earn less than half of that earned by elementary school teachers, and 70 percent report earnings below 200 percent of the Federal poverty guidelines.

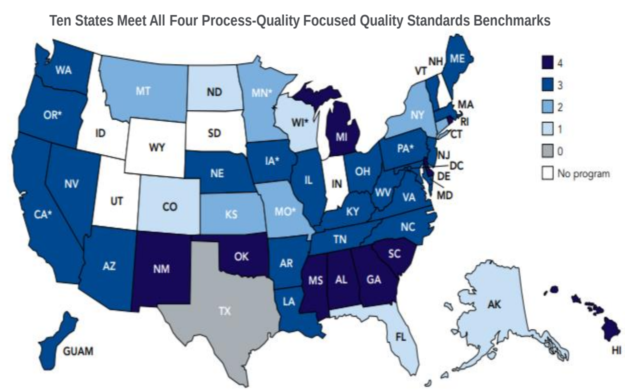
These figures are important, as state programs comprise 70 percent of all early childhood education centers, and the states with the least funding and poorest quality tend to host large Black populations.

**Figure 67. Black Children More Likely to Attend Full-Day Pre-School**




Source: Census Bureau, Citi Research

**Figure 68. Few States Have High Quality Pre-School Programs**




Note: Idaho, Montana, New Hampshire, North Dakota, South Dakota, Utah and Wyoming have no state pre-school program.*These multi-program states have programs with different quality standards. Data in map is for largest state program.
Source: National Institute for Early Education, NPR, Citi Research

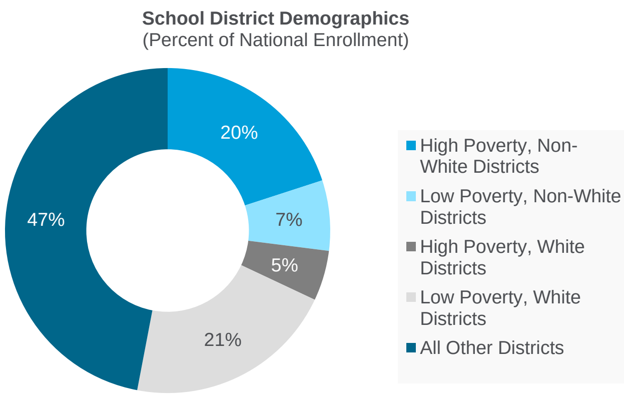
## Funding K-12 Schools

The funding gap between white and minority school districts in the U.S. sums to $23 billion, despite serving the same number of children

The racial education gap begins with widespread underfunding of schools with high concentrations of children of color. The average difference in funding of predominately white school districts and predominately minority school districts sums to $23 billion, despite serving roughly the same number of children, according to a study by nonprofit think tank EdBuild. In the U.S., 27 percent of students live in non-white districts, while 26 percent live in white districts. In white districts, 5 percent of students live in high-poverty areas, while in non-white districts 20 percent of student live in high-poverty areas (Figure 69). Even relative to high-poverty white districts, well-off non-white districts receive less money.

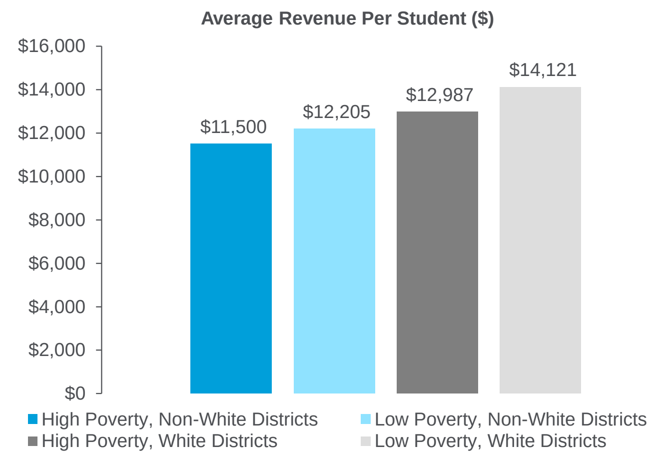
The difference between the revenue received for funding low-poverty white districts ($14,121 per student) and all non-white districts ($11,853) is more than $2,200 per student (Figure 70). EdBuild estimates the national average difference in revenue per student between non-white and white districts is $2,226. This difference this difference sums to $22.5 billion ($2,226 times 10,126,150 affected students). States that stand out in terms of the severity of the funding gap between non-white and white school districts include California, Texas, New Jersey, and Arizona (Figure 71).

**Figure 69. White and Non-White Districts Serve Same Number of Kids**



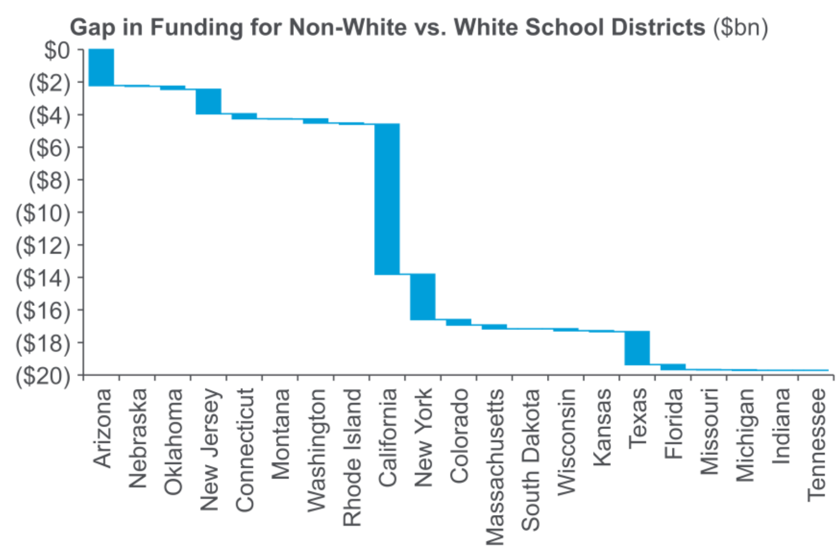

Source: EdBuild, Citi Research

**Figure 70. Non-White Districts are Chronically Underfunded**




Source: EdBuild, Citi Research

**Figure 71. Funding Gaps Between White and Non-White School Districts Remain Wide**




Source: EdBuild, Citi Research

Reliance on property taxes for school funding means wealthier municipalities will have potentially greater resources to finance their school districts

Where a student resides can determine whether they will face a funding disadvantage. The Federal government spends roughly $23 billion a year on K-12 education. While a sizable figure, it only constitutes 10 percent of total funding for public schools. The remaining $660 billion is raised at the state and local government level. The gap in school funding reflects a combination of past housing segregation policies and a patchwork of current district financing schemes that value local control.

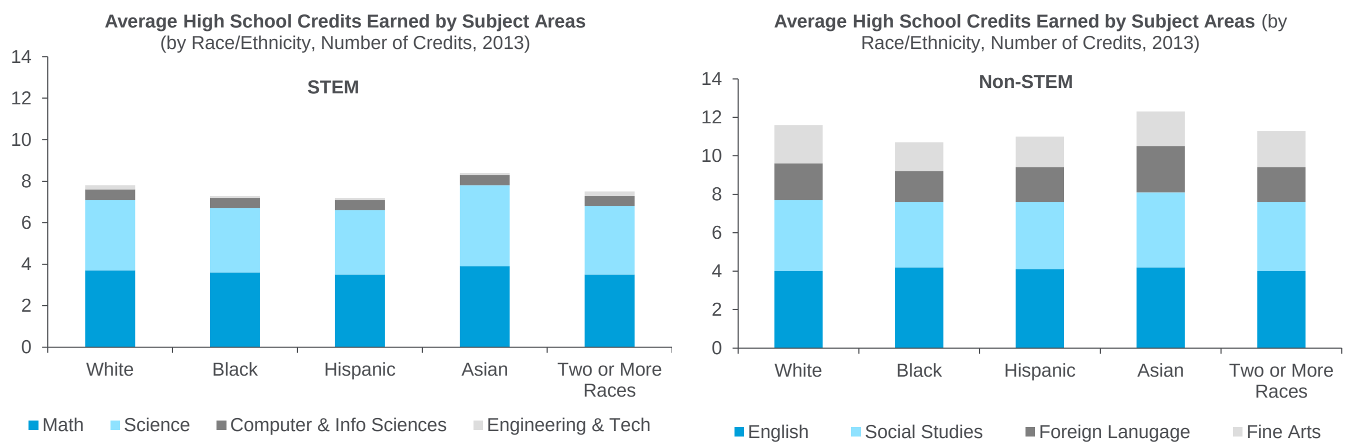
According to EdBuild, nearly all states rely upon property taxes to fund schools. Hence wealthier municipalities will have potentially greater resources to finance their school districts. Fifteen states also generate funds through locally-raised sales taxes, six permit locally-governed income taxes and many states use revenues from lottery gaming programs. Just over half of all states employ a student-based formula, while the remainder fund schools based upon a variety of formulas.

## STEM and High-Demand Careers

Only about 20% of students earning university degrees earn degrees in STEM-related fields but Black students only make up 12% of STEM graduates

In addition to funding, school curricula and whether students are directed towards high-wage and/or in-demand occupations matters for closing the education gap that can help solve the income gap. Department of Education data from 2013 indicated that U.S. high school students were on average taking fewer course credits in STEM (Science, Technology, Engineering, and Mathematics) disciplines than in humanities and arts. Even among those taking STEM coursework, Black students took slightly fewer credits than their white and Asian counterparts (Figure 72). More recent data from 2015-16 show that among students receiving university degrees few — 20 percent or less — earn degrees in STEM-related fields, which typically have elevated wages and lifetime earnings potential. Asian students were the exception, with 30 percent of all degrees from STEM programs. Among all other students, Black students produced the least STEM graduates at 12 percent (Figure 73).

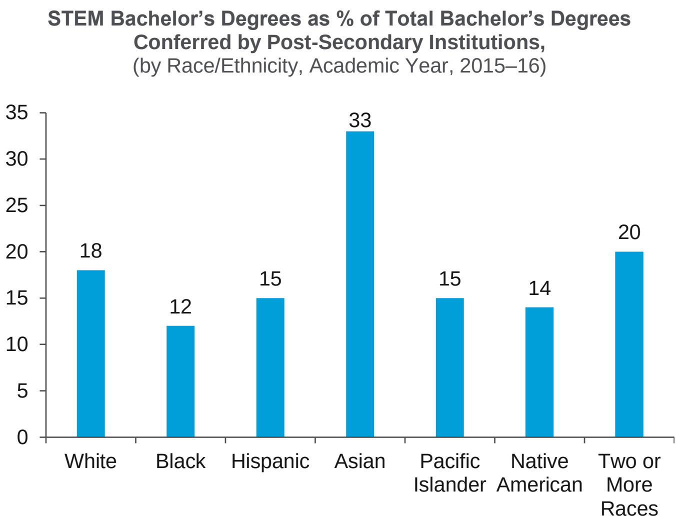
**Figure 72. U.S. Students in General Are Taking Fewer Credits in STEM Courses than Non-STEM Courses**




Source: National Center for Educational Statistics, Citi Research

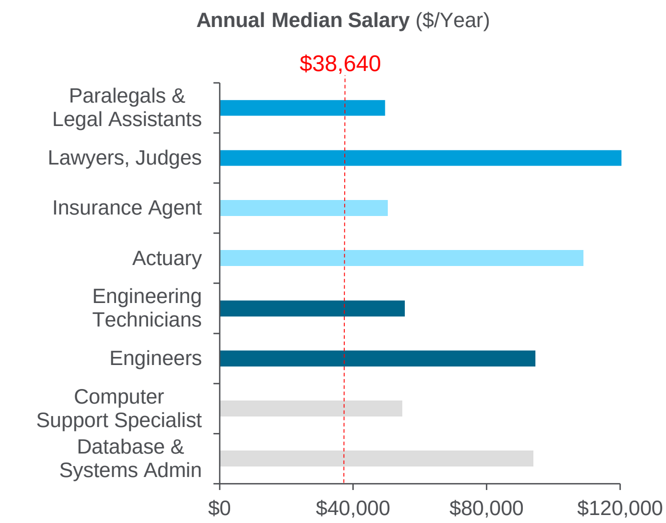
STEM jobs generally pay more than many ‘middle-class’ non-STEM jobs. Even within the STEM fields, jobs requiring greater skills pay notably more than the U.S. national median annual salary of $38,640 (Figure 74). It’s logical for young students, to not only pursue more difficult jobs in the STEM, finance, and legal fields, but to also aim for those requiring greater mental and/or technical acuity within these fields given the enhanced potential for increased lifetime earnings. Access to high quality education and opportunities throughout one’s academic career, as well as guidance by mentors and exposure to higher paying occupations early in one’s working career are key to closing the gap.

Figure 73. Black People Have the Smallest Share of STEM Graduates




Source: National Center for Education al Statistics, Citi Research

Figure 74. STEM Jobs Pay More than Many Middle-Class Jobs



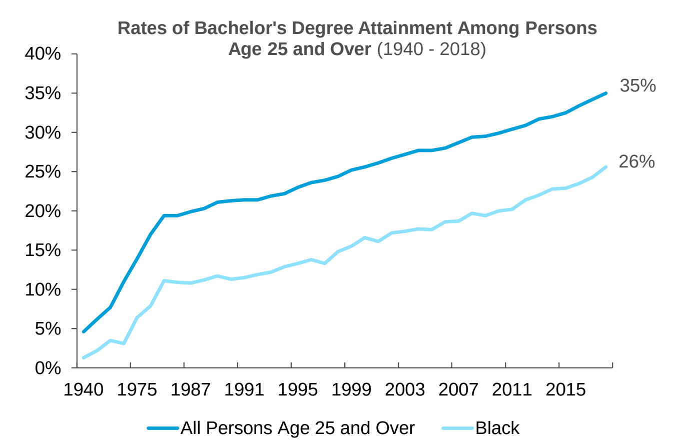

Source: National Center for Educational Statistics, Citi Research

## Closing the Gap

Closing the gap in advanced degrees between Blacks and the national average 20 years ago would have produced an additional 1.7 million Black university graduates

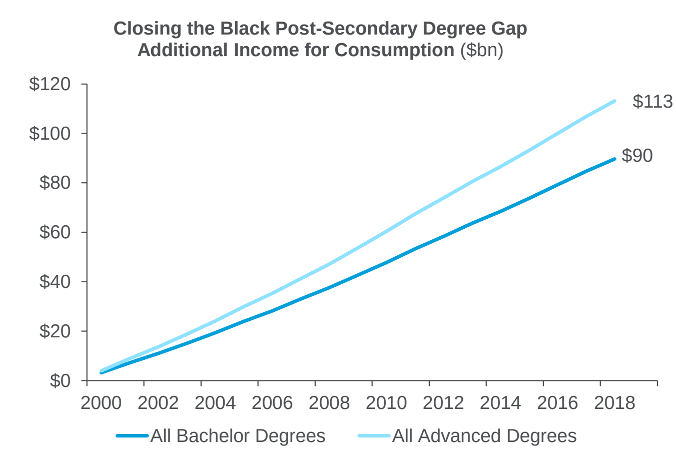
Closing the college/advanced degree racial gap 20 years ago might have generated up to $113 billion in additional income for saving, investing and consumption. Since the early 1980s, the proportion of Black people aged 25+ who obtain a bachelor's degree has persistently been about 10 percentage points below the U.S. national rate (Figure 75). If this gap was closed back in 2000, then over the last 20 years there might have been an additional 1.7 million Black university graduates. If these graduates earned the median income that bachelor degree holders made, as described above, the equivalent additional income generated might be roughly $90 billion. If all of those graduates obtained advanced degrees, the figure might increase to $113 billion (Figure 76). This is not a recommendation for students to only pursue college or graduate school. It is saying that any degree — college, graduate, associate, technical — in excess of a high school degree typically signals greater lifetime income.

Figure 75. The Gap Between Black and National Degree Attainment Has Been Fairly Steady at Around 10 Percentage Points




Source: National Center for Educational Statistics, Citi Research

Figure 76. Closing the 10 Percentage Point Gap 20 Years Ago Might Have Generated an Additional $90 to $113 Billion in Black Income




Source: National Center for Educational Statistics, Citi Research

# Racial Wealth Gap

Black and Hispanic families continue to trail white and Asian families in accumulating wealth

Black and Hispanic families continue to trail white and Asian families in accumulating wealth. Issues like lack of inheritances and barriers to entry, including to income and access to credit, appear to be working against the ability of Black and Hispanic families to amass wealth required for acquiring assets for personal financial security and community investment. Data from the Federal Reserve's 2010 and 2013 Surveys of Consumer Finances, while dated, reveal that inherited wealth significantly bolsters familial wealth, particularly for white families (Figure 77). Black families are less likely to receive (10.6 percent) or expect an inheritance (5.9 percent) relative to white families (22.9 percent and 18.8 percent). Meanwhile, easier avenues toward the accumulation of generational wealth, like home ownership and retirement benefits, are littered with obstacles for minorities, especially Black and Hispanic families.

**Figure 77. Inheritance Can Meaningfully Bolster Familial Wealth**

| | Including Households With Inheritances | | Only Households Without Inheritance | |
|---|---|---|---|---|
| | Mean Wealth | Median Wealth | Mean Wealth | Median Wealth |
| White | $ 1,152,818.00 | $ 287,457.00 | $ 742,627.00 | $ 183,050.00 |
| Black | $ 168,238.00 | $ 38,174.00 | $ 85,702.00 | $ 33,969.00 |
| Hispanic | $ 399,498.00 | $ 65,960.00 | $ 196,541.00 | $ 38,125.00 |

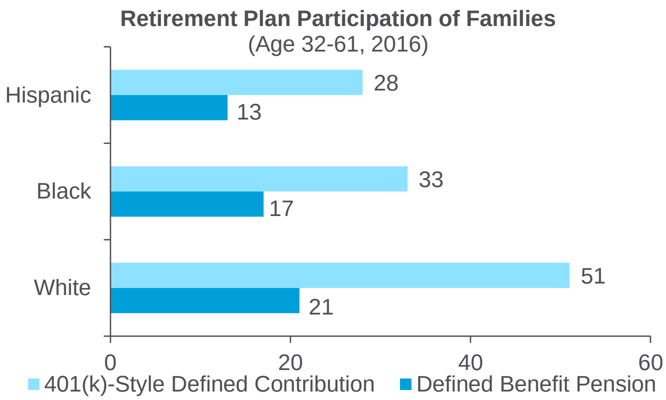
Source: Federal Reserve Board, Citi Research

## Financial Assets

Black families have one-third, and Hispanic families one-fourth the financial assets of white families

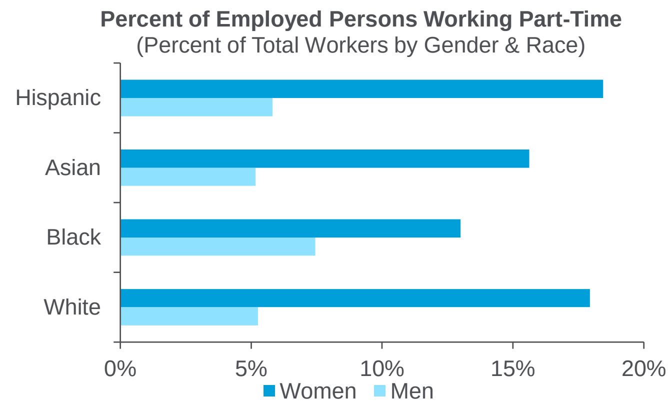
Black families have one-third, and Hispanic families one-fourth the financial assets of white families. Financial assets are dependent on income, job benefits, the ability to accumulate savings, and generational (inherited) wealth. The ability to invest depends on initial conditions including inherited wealth, the ability to work in a high wage job that facilitates savings needed for investment, a higher tolerance for risk, and financial savvy. The sections above explain the challenges for Black and Hispanic families regarding inheritances and high wage employment. Linked to high wage employment are benefits including retirement benefits and pooled investment funds like 401K plans, which are an easy way to accumulate financial wealth. Black and Hispanic workers are almost equally likely to participate in traditional pension plans, but less likely to participate in 401K plans relative to their white counterparts (Figure 78). Jobs that have unions which bargain for pensions may explain some of the similarity in rates of participation among racial groups. Greater labor force participation in jobs that are non-unionized, part-time and/or lacking in benefits among Black and Hispanic workers may explain the disparity for 401K plans (Figure 79).

**Figure 78. Black and Hispanic Workers Are Less Likely to Participate in 401(k) Plans**




Source: Federal Reserve *Survey of Consumer Finances*, Citi Research

**Figure 79. Black Men are Slightly More Likely to Work Part-Time than White Men; Black Women More Likely to Work Part-Time than Men**



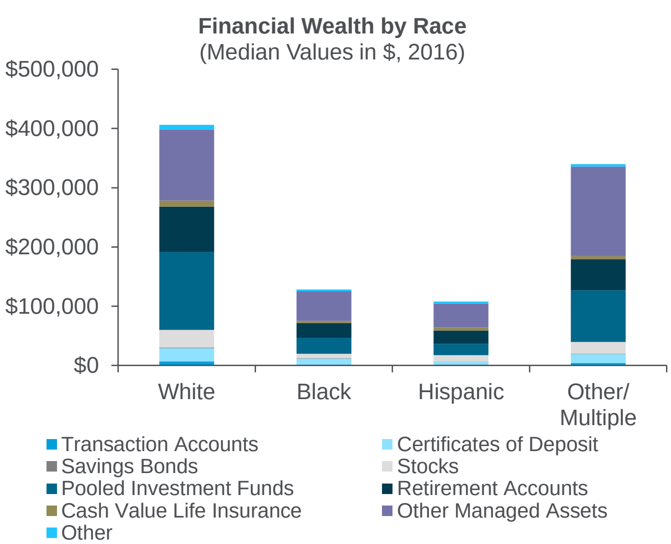

Source: Bureau of Labor Statistics, Citi Research

## Nonfinancial Assets

Black families have fewer assets in every category of nonfinancial wealth compared to other races

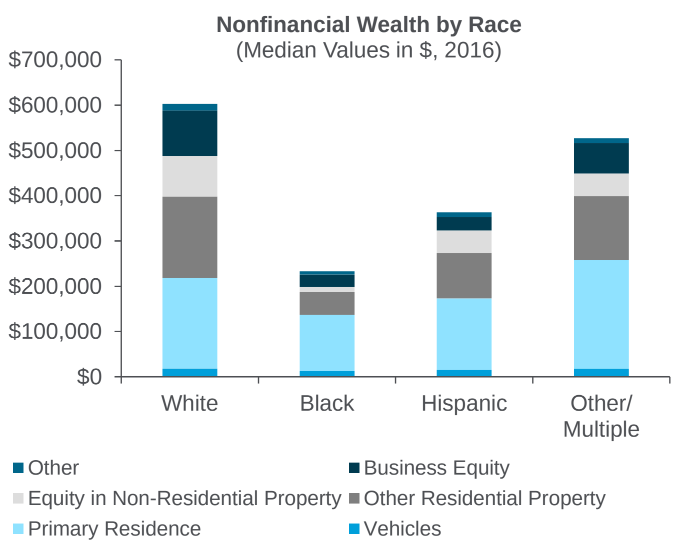
Black families have fewer assets in every category of nonfinancial wealth compared to other races, with elevated barriers to attaining such wealth via property holdings. Nonfinancial assets depend upon income and wealth (Figure 80), but also equal access to credit. The largest contributors of nonfinancial wealth are related to real estate (primary residence, other residential property and nonresidential property). Property is typically acquired through inheritance, or a combination of savings (from earned income and financial assets) and access to credit, which is often dependent upon one's savings, proof of a perpetual source of income (wages), and credit history. Black families are trailing other races on nearly all of these fronts, rendering the path towards building wealth through nonfinancial assets difficult to attain (Figure 81).

**Figure 80. Black Families Have One-Third of the Financial Assets of White Families**




Source: Federal Reserve Board, Citi Research

**Figure 81. Black Families Have Fewer Assets in Every Category of Nonfinancial Wealth Relative to Other Races**



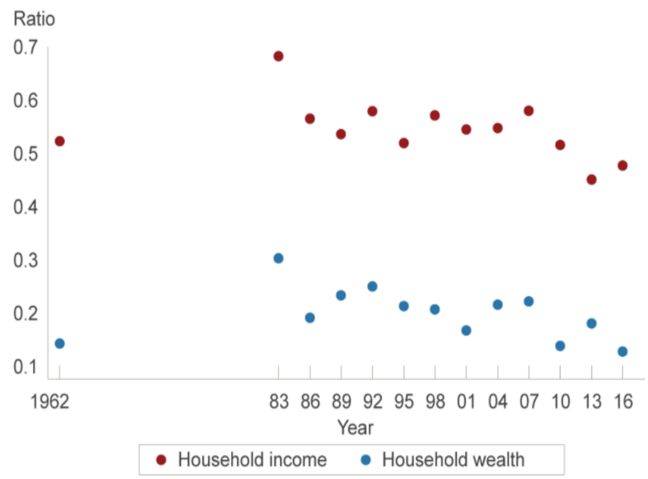

Source: Federal Research Board, Citi Research

## Hard and Soft Barriers

The primary driver behind the wealth gap is the income gap, therefore policies designed to speed the closing of the racial wealth gap should focus on closing the racial income gap

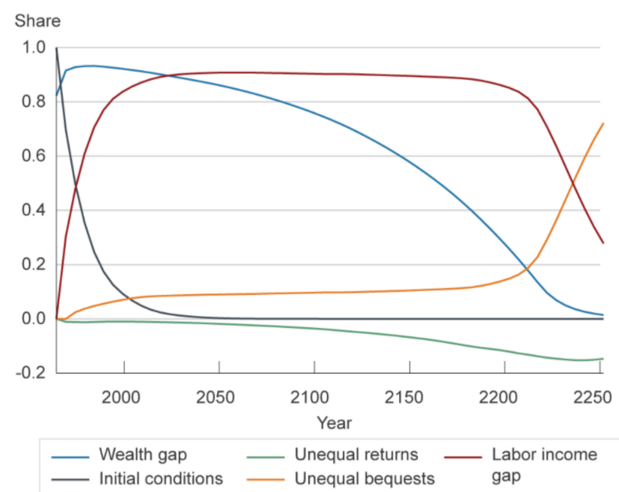
The Federal Reserve found the primary driver behind the wealth gap is the income gap. Moreover the income gap is large enough to explain the persistent difference in wealth accumulation between different racial groups in the United States. The key policy implication of this finding is that policies designed to speed the closing of the racial wealth gap should focus upon closing the racial income gap. Looking at the Federal Reserve's Survey of Consumer Finances dating back nearly 40 years reveals that while wealth and incomes have fallen, the ratio of both wealth and income of Black and white families remained persistently wide (Figure 82). Looking ahead, the Federal Reserve estimates the wealth gap can be eliminated if the racial income gap is closed (Figure 83). This effect would eventually negate the influences of unequal bequests, initial conditions, and unequal returns. The downside is that this might take roughly 200 years to achieve.

**Figure 82. Wealth and Income Ratios of Black and White Means in the Survey of Consumer Finances Reveal Persistently Wide Gaps**




Source: [Federal Reserve Bank of Cleveland: What Is Behind the Persistence of the Racial Wealth Gap?]()

**Figure 83. Contribution to Factors of Wealth Gap Over Time**

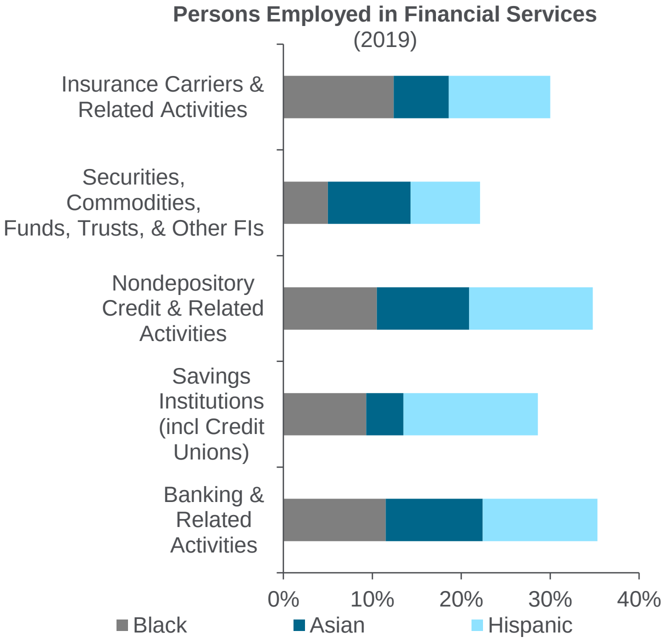



Source: [Federal Reserve Bank of Cleveland: What Is Behind the Persistence of the Racial Wealth Gap?]()

Intangibles also matter significantly for wealth accumulation

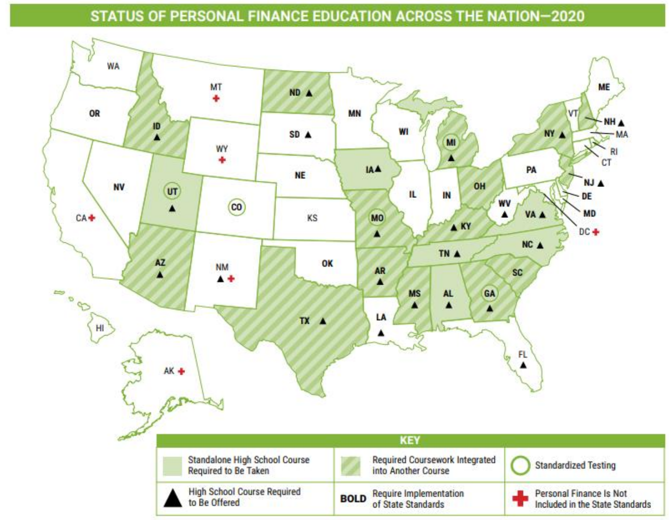
Black and Hispanic families are less likely to have exposure to financial markets and peer groups of successful investors, which help provide the financial literacy required to make informed decisions. Black and Hispanic people are few and far between in finance jobs, which would facilitate education and access to peer groups (Figure 84). Moreover, financial literacy coursework is still far from fully included in academic curriculums, which is problematic for all students, not just for students of color. According to the [Council for Economic Education](), only 21 states require high school students to take a course in personal finances, and only a handful of states require standardized testing around financial literacy (Figure 85). Compounding these barriers are the lower levels of tolerance for risk among Black and Hispanic families which is strongly associated with the level of net worth (i.e., higher net worth allows for a higher risk tolerance) (Figure 86 and Figure 87).

**Figure 84. Black People Represent Small Share of Financial Workers**




Source: Bureau of Labor Statistics, Citi Research

**Figure 85. Few States Mandate Financial Literacy Coursework**




Source: [Council for Economic Education]

**Figure 86. Average 2013 Family Wealth by Attitudes Toward Saving and Investing (Family Head Ages 35 to 59)**

| | Net Worth |
|---|---|
| Tolerant of risk | $ 1,079,478.00 |
| Not tolerant | $ 375,608.00 |
| | |
| Long time horizon for saving and investing | $ 748,093.00 |
| Short or medium time horizon | $ 183,354.00 |
| | |
| Approve of borrowing for vacations or luxuries | $ 435,134.00 |
| Do not approve | $ 532,150.00 |

Source: [Federal Reserve Board: Exploring the Racial Wealth Gap Using the Survey of Consumer Finances]

**Figure 87. Wealth, Race, and Attitudes Toward Saving and Investing: Distribution of Attitudes by Race**

| | Risk Tolerant | Long Horizon | Luxury Borrower |
|---|---|---|---|
| White | 23% | 71% | 18% |
| Black | 15% | 53% | 21% |
| Hispanic | 15% | 52% | 17% |
| Total | 21% | 67% | 18% |

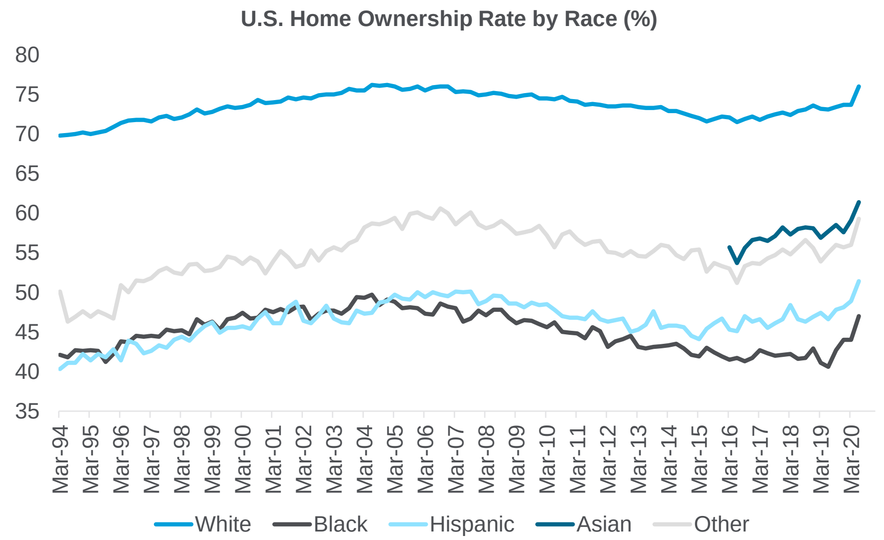
Source: [Federal Reserve Board: Exploring the Racial Wealth Gap Using the Survey of Consumer Finances]

# Racial Housing Gap

Black families have the lowest rate of home ownership among different racial groups

Housing is the largest stock of wealth most families hold, with Black families facing the greatest obstacles to home ownership. At 47 percent as of the first quarter of 2020, Black families have the lowest rate of home ownership among different racial groups (Figure 88). Income and wealth gaps contribute to lower levels of homeownership, but so do other factors, including access to credit, outstanding debt, and a short supply of affordable housing options.

**Figure 88. Black Homeownership Rates Are Below That of All Other Racial Groups**



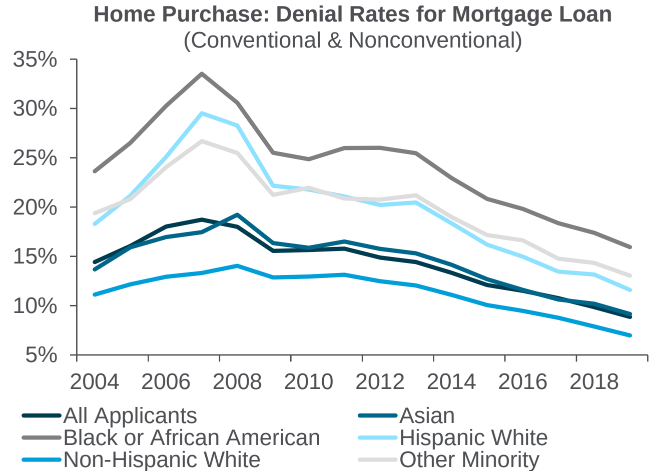

Source: Census Bureau, Citi Research

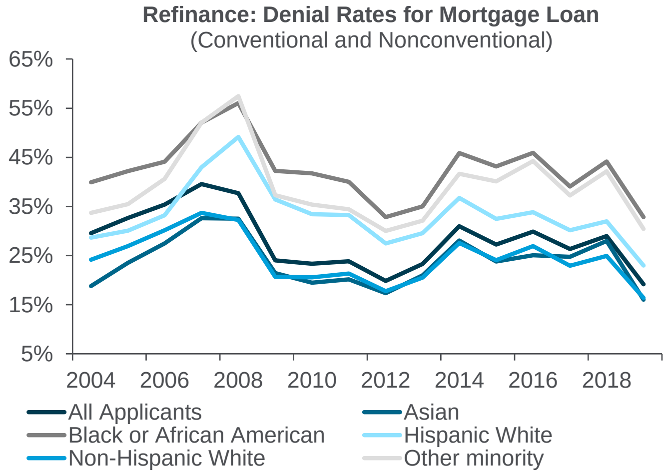
## Access to Credit

Black families continued to be the most likely racial group to be denied a conventional or nonconventional mortgage

The path towards Black family home ownership is limited by reduced access to credit. The Consumer Financial Protection Bureau (CFPB) reported in 2019, Black families continued to be the most likely racial group to be denied a conventional or nonconventional mortgage for home purchase or refinance (Figure 89). The denial rate for Black families remained above 15 percent for home purchase and was roughly 35 percent for refinance, compared to just above 5 percent and 15 percent, respectively, for white families. The higher denial rate for Black families largely reflected elevated debt-to-income ratios, poor credit histories, and incomplete applications (Figure 90).

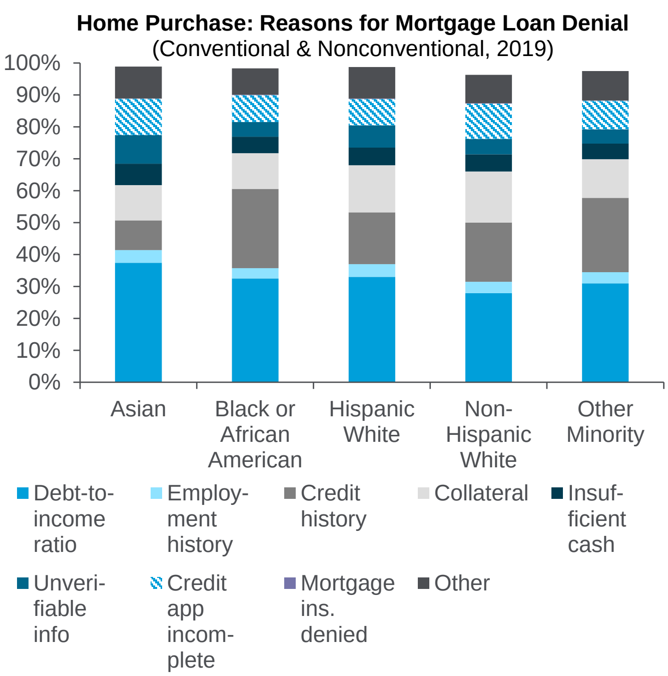
**Figure 89. Black People Continue to Experience the Highest Level of Mortgage Loan Denials**

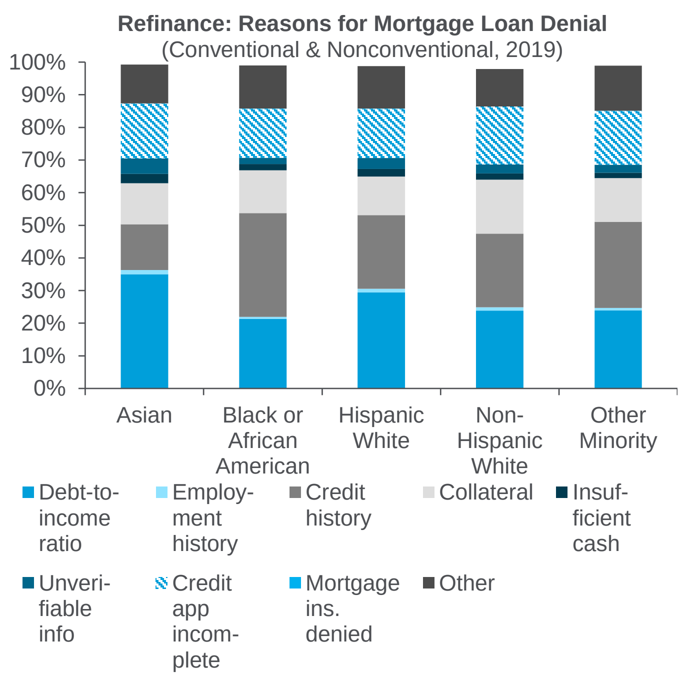



* Consists of applications by American Indians or Alaska Natives, Native Hawaiians or other Pacific Islanders, and borrowers reporting two or more minority races.
Source: Consumer Financial Protection Bureau, Citi Research

**Figure 90. Elevated Debt-to-Income Ratios, Poor Credit Histories, and Incomplete Applications Are the Main Drivers of Loan Application Denials for Black Homebuyers and Mortgage Loan Refinancers**



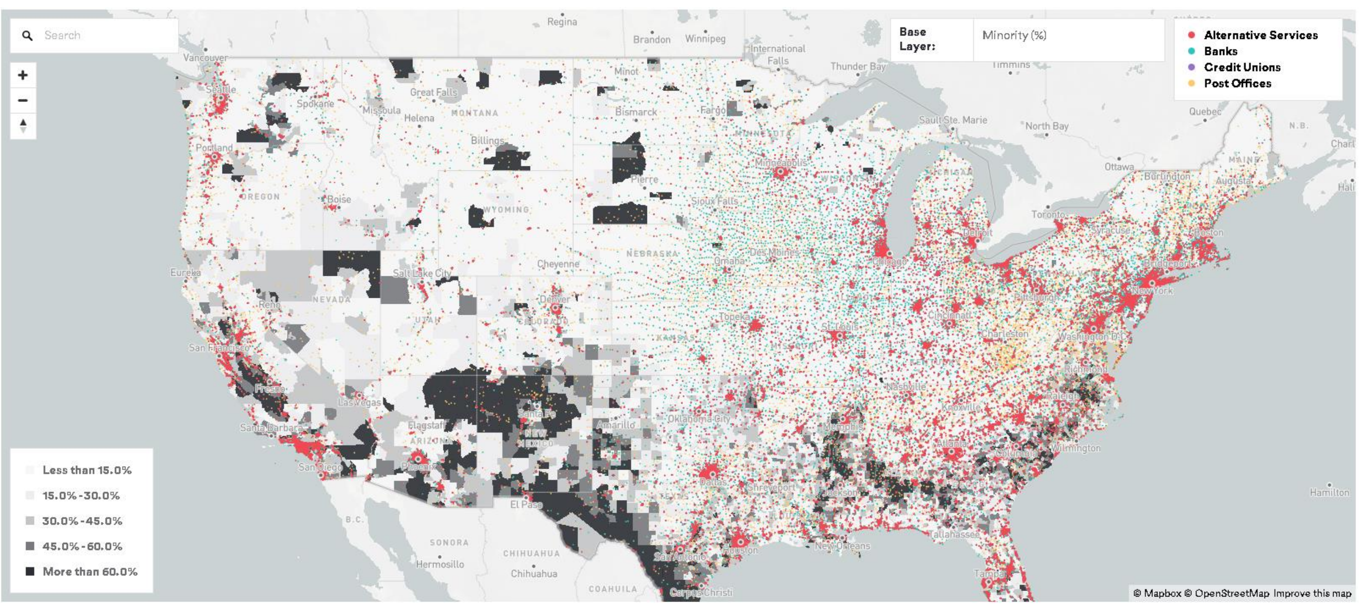

* Consists of applications by American Indians or Alaska Natives, Native Hawaiians or other Pacific Islanders, and borrowers reporting two or more minority races.
Source: Consumer Financial Protection Bureau, Citi Research

## Access to Financial Services

Lack of access to traditional financial services in Black neighborhoods, plus higher account requirements drive Black families to alternative financial institutions which are costly

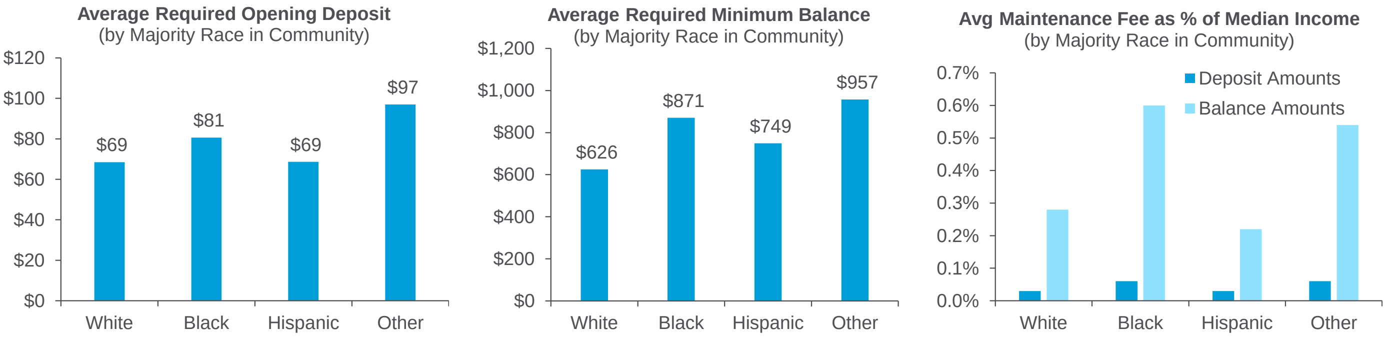
Lower credit scores among Black families can be partially explained by the forces of structural racism in the financial system. Research shows the legacies of redlining, community segregation, and few traditional financial institutions in predominately Black neighborhoods have limited access to traditional credit for Black borrowers' and exposed them disproportionately to predatory lending sources. A study by think-tank New America reveals that alternative financial institutions predominate in states where more Black people tend to reside. An overlay of the 16 states (IL, MI, AR, LA, MS, AL, TN,GA, FL, SC,NC, VA, MD, DE, NJ, NY) where Black people represent a greater percent of the population than the national average, maps nearly one-to-one with the elevated number of alternative banking institutions (Figure 91). Moreover, traditional banks in predominately Black neighborhoods, tend to require higher initial opening deposits, higher minimum balances. This translates into Black accountholders needing to deposit a higher percentage of their paychecks into accounts to avoid fees or closure (Figure 92). Higher costs contribute to the elevated number of unbanked individuals who are forced to turn to alternative financial institutions like check cashing outfits and payday lenders, which carry higher interest rates and fees (Figure 93). McKinsey estimates the average person could save as much as $40,000 over a career by switching from check cashing places to a traditional bank account. Fines, fees, and subprime borrowing erode credit scores and consequently reduce access to credit for home ownership (Figure 94).

**Figure 91. Traditional and Nontraditional Banking Services by Concentration of Minority Populations**



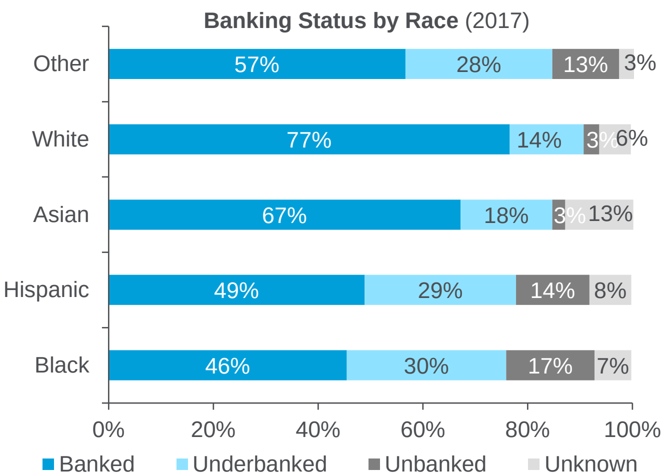

Source: New America

**Figure 92. Even Traditional Banking Can Cost More for Minority Communities**



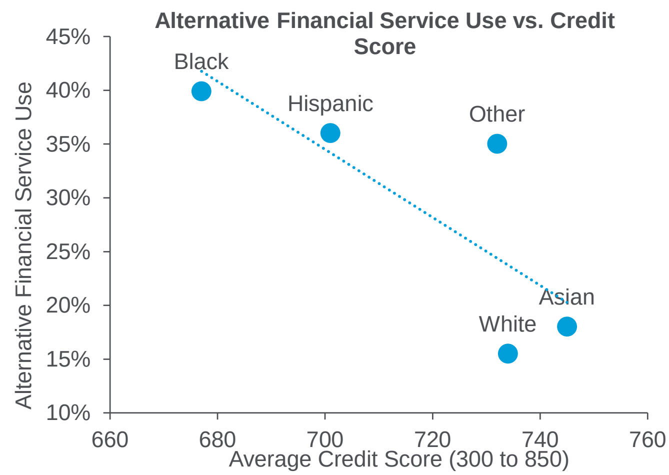

Source: New America (David H Montgomery/Bloomberg CityLab)

**Figure 93. Black Consumers Are More Likely to be Unbanked or Underbanked**




Source: FDIC National Survey of Unbanked and Underbanked Households

**Figure 94. There is a Notable Relationship Between Alternative Financial Services Use and Low Credit Scores**



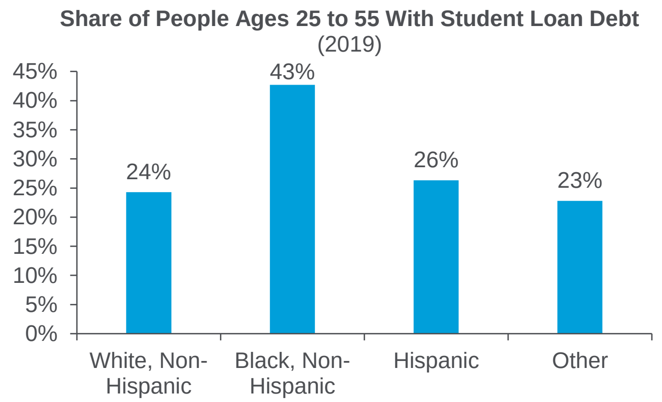

Source: FDIC National Survey of Unbanked and Underbanked Households, Shiftprocessing.com, Citi Research

## Student Loan Debt

Elevated student loan debt and high debt-to-income levels inhibit Black homeownership

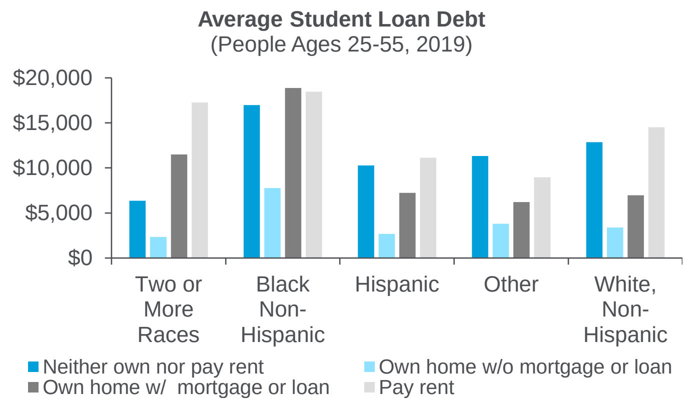
Elevated debt-to-income levels and poor credit histories linked to student loan debt are also likely inhibiting Black homeownership. The Urban Institute found that African Americans with four-year college degrees have a lower homeownership rate than white Americans without a high school diploma — 56.4 percent vs. 60.5 percent (Figure 95). Of all racial groups, the Federal Reserve Board's Survey of Household Economics and Decisionmaking reveals Black persons (43 percent) are more likely to have student loan debt than white persons (24 percent), and have more student loan debt on average regardless of housing situation (Figure 96). The income and wealth gaps contribute to the sizable amount of student loans Black persons borrow and ultimately carry as debt. Also according to the Center for Responsible Lending, Black persons with a college degree are five times more likely to default on their student debt than white Americans, which is also associated with the wealth gap. The presence of elevated student loan debt and/or defaults render a person less likely to meet mortgage lending standards.

**Figure 95. Black Persons Are More Likely to Have Student Loan Debt Than Other Racial and Ethnic Groups**




Source: Federal Reserve Board *Survey of Household Economics and Decisionmaking*, Citi Research

**Figure 96. Black Persons Tend to Have Higher Average Student Loan Debt Regardless of Housing Situation**



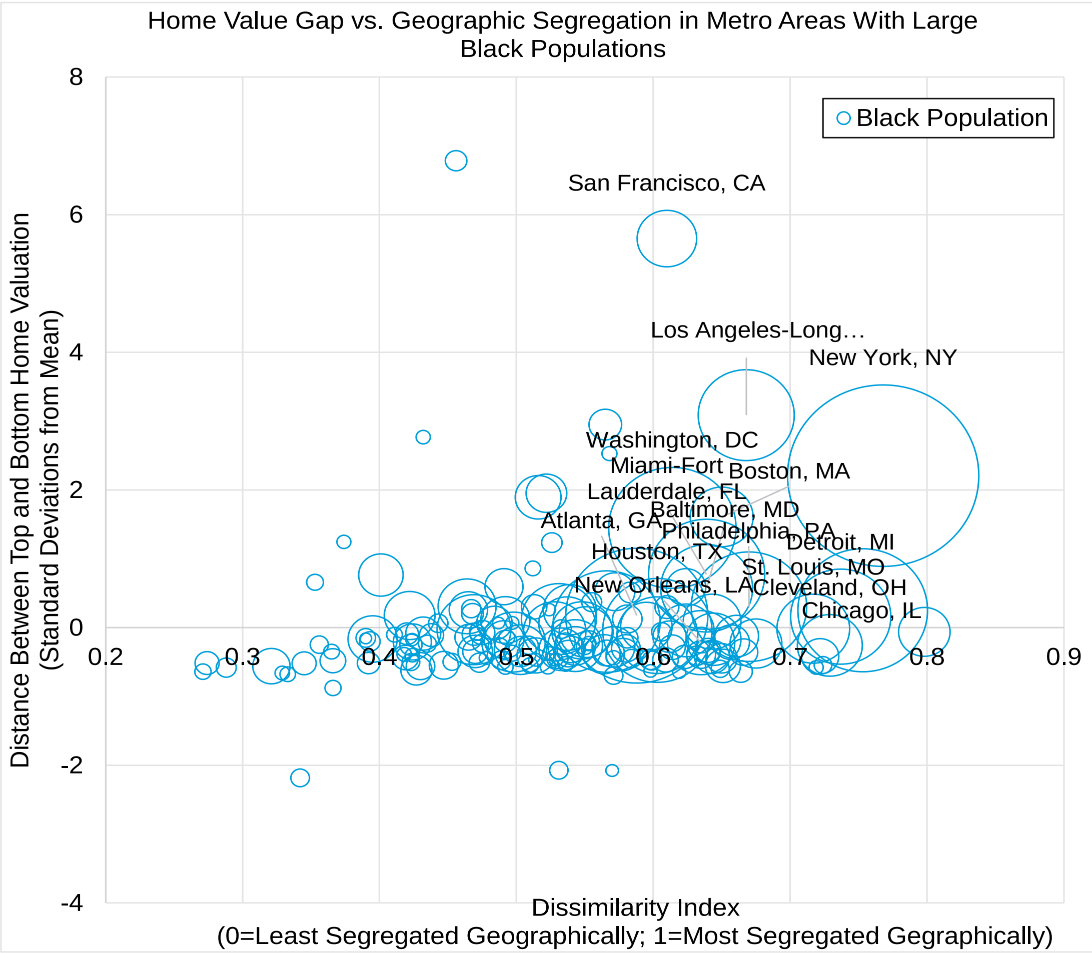

Source: Federal Reserve Board *Survey of Household Economics and Decisionmaking*, Citi Research

## Affordable Housing

In many metropolitan areas with large Black populations, geographic segregation is compounded by lack of available affordable housing

Even when income and credit conditions are met, lack of affordable housing remains a major constraint to homeownership for many Black families. Data from the Census Bureau and real estate agency Zillow reveal that in many metropolitan areas with large Black populations, geographic segregation is compounded by lack of available affordable housing. The dissimilarity score is a metric that measures the extent to which racial groups are clustered in geographic areas. Again, many of these clusters are a result of past policies including housing discrimination and redlining. Cities with sizable Black populations including New York, Los Angeles, Washington DC, Boston, Miami, Philadelphia, Atlanta, Houston, and Detroit are not only quite segregated (dissimilarity scores closer to 1 than 0.5) but also have wide gaps between the least and most expensive homes (Figure 97). A Trulia real estate agency study also revealed the widening gap between the median home valuation and most homes in large metro areas appeared to be occurring at the lower end of the market. In other words in most markets affordable housing is disappearing.

**Figure 97. Affordable Housing Gap is Highly Pronounced in Metro Areas with Large Black Populations**



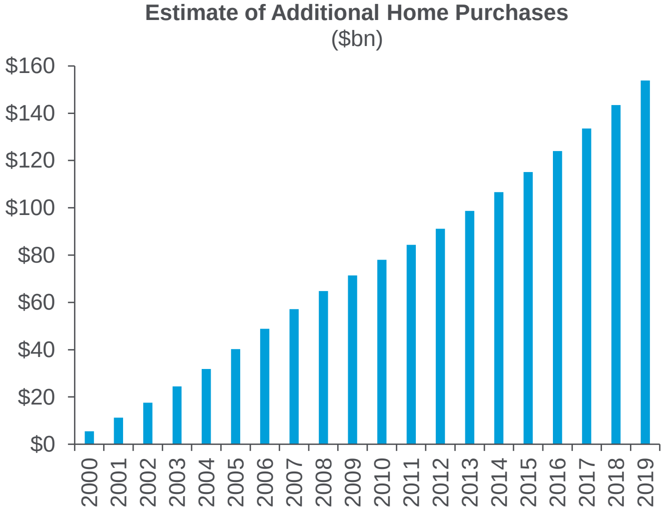

Source: Census Bureau, Zillow, Blackdemographics.com, Citi Research

## Closing the Gap

If the Black home ownership rate were returned to the 2000 level, there would be an estimated 770,000 additional Black homeowners

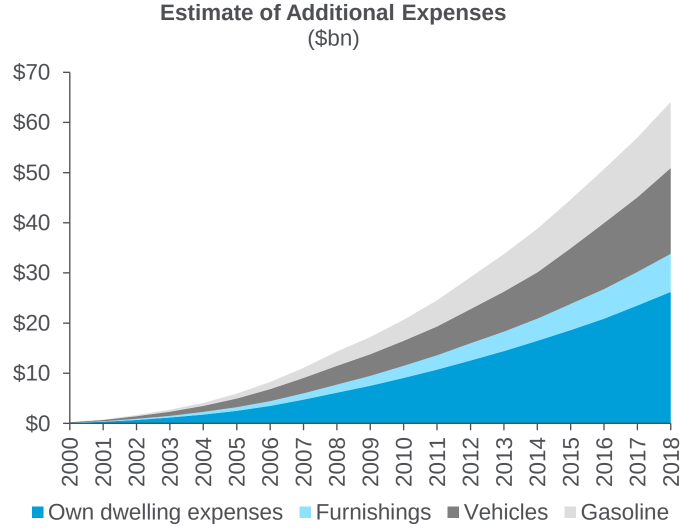
Closing the Black family housing gap 20 years ago might have generated $218 billion in additional U.S. consumption. According to the Urban Institute, the current 30 basis point gap between Black and white family home ownership is greater now than before 1968 when housing discrimination was legal. The ownership spread is directly related to the racial wealth gap and the increase in inequality in general post the Great Financial Crisis. If the Black home ownership rate were returned to the 2000 level, there would be an estimated 770,000 additional Black homeowners. Multiplying the National Association of Realtor's median existing home price by this figure equates to $154 billion in additional home sales over the 2000 to 2019 period (Figure 98). A simple calculation of spending on maintenance, cars, and furniture, which often accompany home buying using the Bureau of Labor Statistics' Consumer Expenditure Survey suggests that there might have been another $65 billion in consumption over the last two decades (Figure 99).

**Figure 98. 770,000 Additional Black Homeowners Might Have Added Another $154 Billion in Spending on Housing Since 2000**



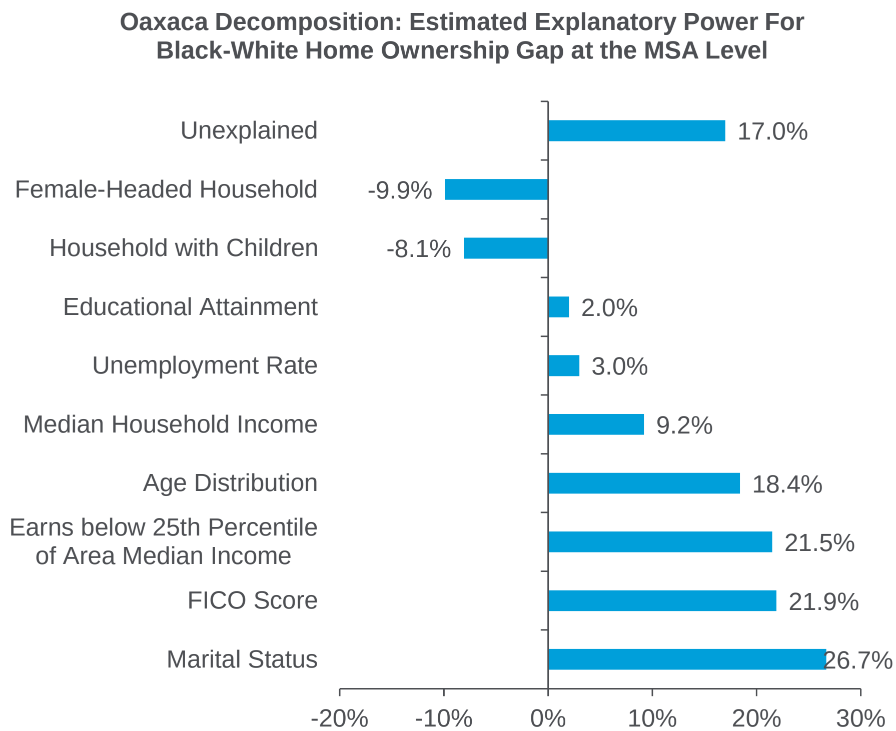

Source: National Association of Realtors, Citi Research

**Figure 99. Black Homeowners Might Have Generated an Additional $65 billion in Consumption on Housing-Related Expenditures**




Source: Bureau of Labor Statistics, Citi Research

**Figure 100. Seventeen Percent of the Black-White Homeownership Gap Remains Unexplained**




Source: Urban Institute, Citi Research

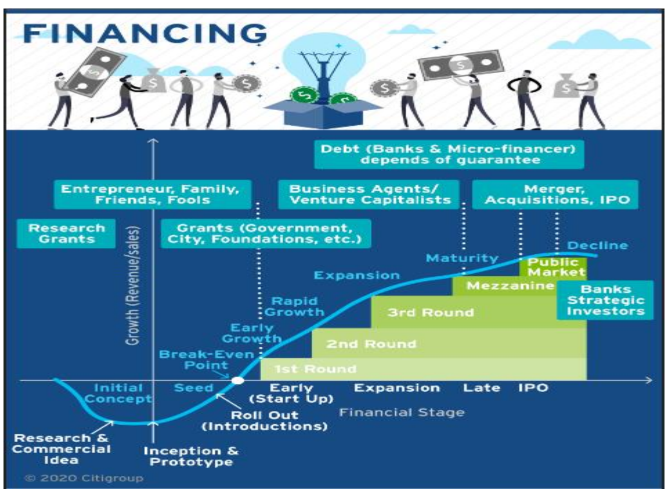
# Racial Investment Gap

## Capital Deficit

A lack of funding along the investment cycle is an issue for Black entrepreneurs and business owners

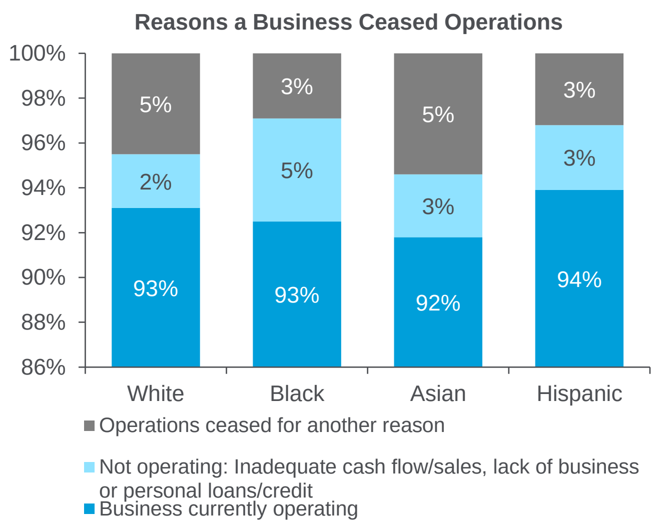
Black entrepreneurs suffer not from a lack of vision, but a lack of funding along every point in the investment cycle. Funding is a challenge over the phases of start-up and as the business matures (Figure 101). Indeed, Black business owners are more likely to cease the operations of their business due to insufficient sales and/or lack of financing than other racial group (Figure 102). During the early stages of funding for a new business, Black founders are more likely to source funds from family, friends, and employees than are white founders. However, funding from friends and family tends to yield $25,000 or less in capital for Black-owned firms, and even less for white-owned firms (Figure 103). Black founders are more likely to bring their own resources to the table than are white founders, with Black founders more apt to use personal and business credit cards that may have higher interest rates and fees (Figure 104). Black founders are also less likely to receive other forms of financing, including business loans from banks, financial institutions, and friends, grants, and professional investors (e.g., angel and venture capital investors). For Black founders who do gain access to these other types of investment, the percentage receiving loans of $100,000 or more is somewhat smaller than the size of loans for white founders (Figure 106).

Figure 101. Phases of Private Business Financing



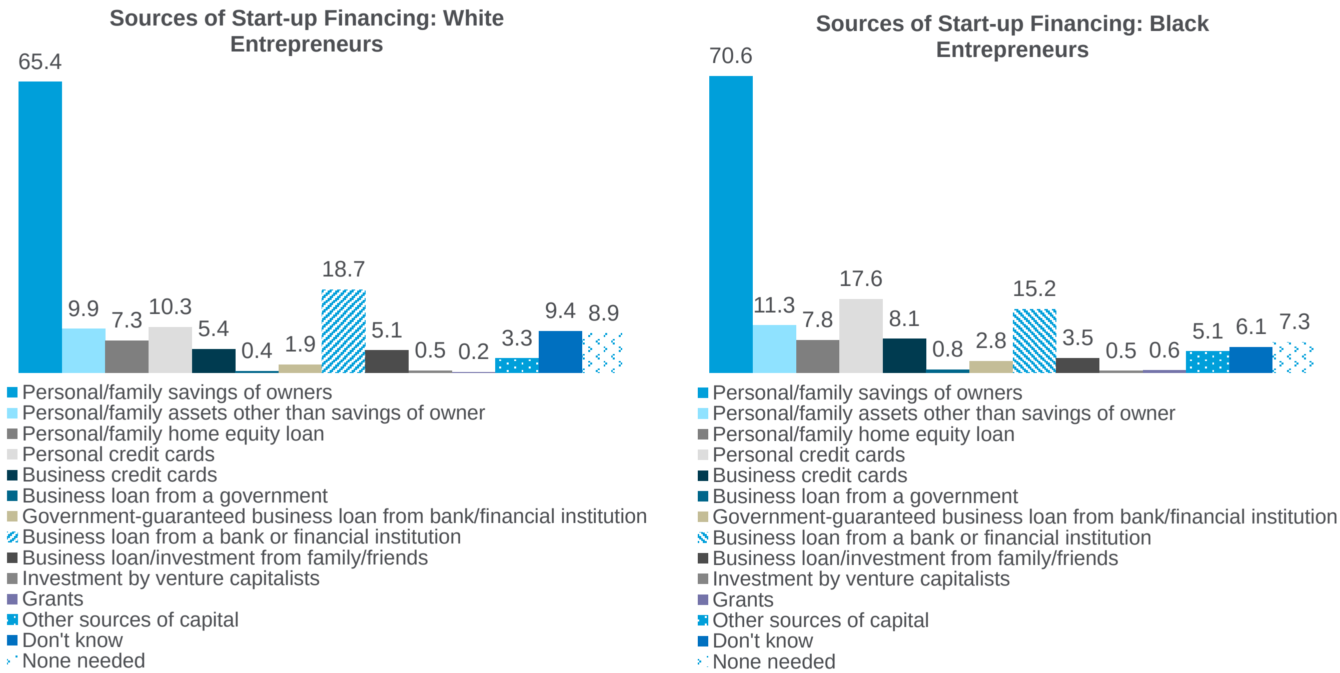

Source: Citi Research

Figure 102. Black Businesses More Likely to Die Due to Inadequate Sales and/or Access to Financing



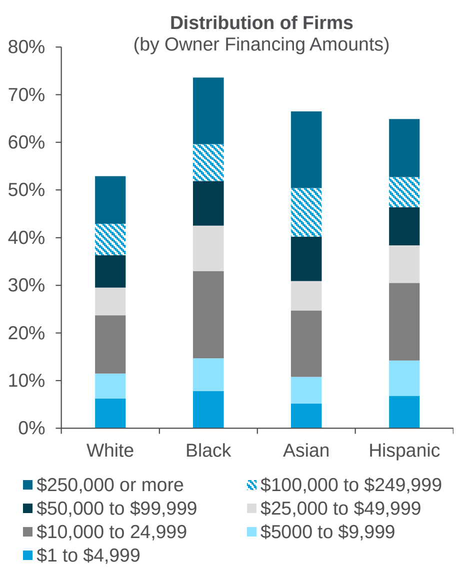

Source: SBA, Census Bureau, Citi Research

**Figure 103. Black Entrepreneurs Are More Dependent Upon Sources of Capital from Friends, Family, and Own Resources for Capital**



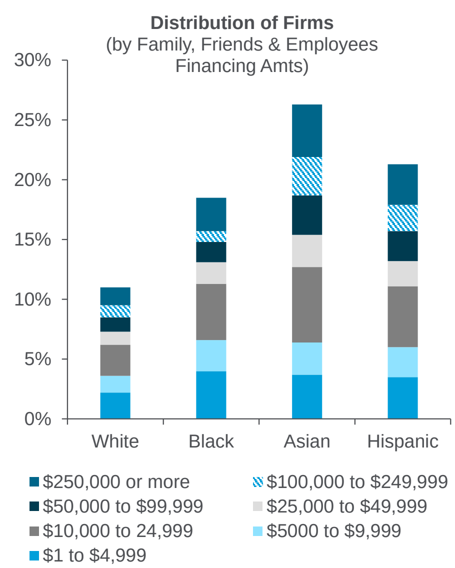

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

**Figure 104. Black Founders Are More Likely to Produce their Own Resources for Start-ups**



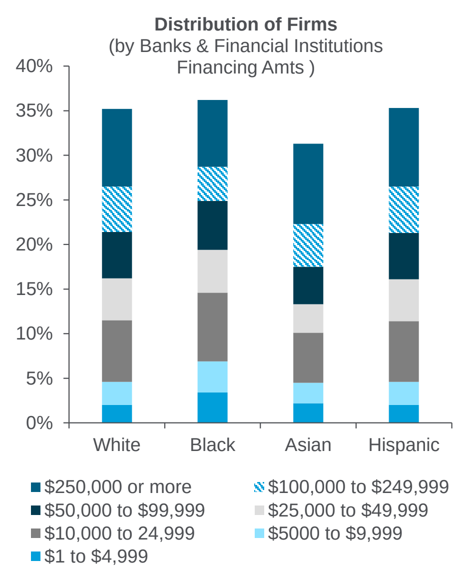

Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

**Figure 105. Friends and Family Yield Limited Resources for Both Black and White Founders**




Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

**Figure 106. Black Founders Receive Less Funding for Projects Above $100,000**




Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

## Bank Loans and Denials

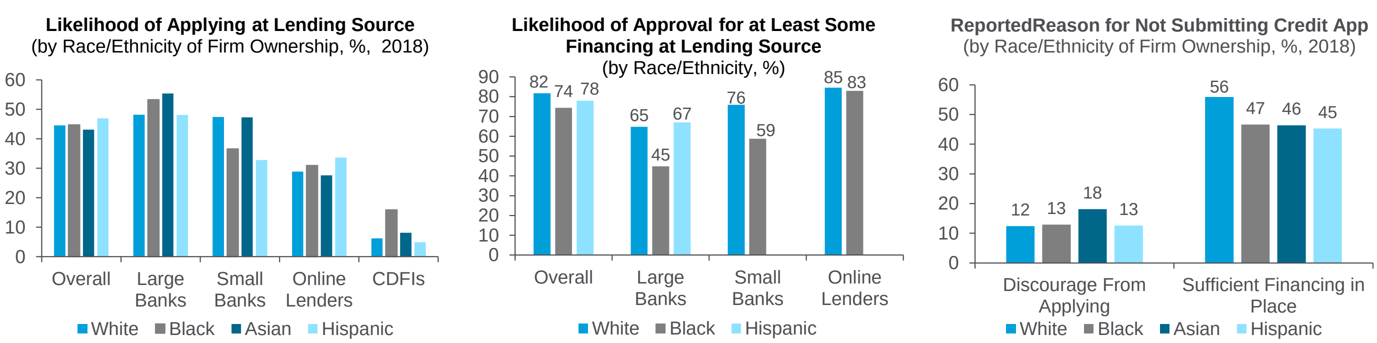
Creditworthy Black-owned firms experience greater challenges raising capital than creditworthy white-owned firms including lower application rate, lower approval rates,

Black entrepreneurs appear shut-out of traditional forms of financing. The reliance of Black founders on less lucrative forms of financing may reflect the difficulty in financing along the investment channel. According to the Fed, creditworthy Black-owned firms experience greater challenges raising capital than creditworthy white-owned firms. Even after controlling for firm characteristics and performance, the Fed finds that approval rates for Black-owned firms still remain lower. Fed data indicate all entrepreneurs are more likely to apply to large banks versus other institutions for financing. However, Black-owned businesses are the least likely to receive approval for loans from large banks (Figure 107). Despite Black-owned firms being less likely to apply for financing at small banks, they are similarly less likely to be approved for loans than white-owned firms at these small banks. Black founders are the least likely to apply to online lending sources, like most other racial groups, but are about equally likely to be approved as white founders at these alternative financial institutions. This suggests there may be critical factors differentiating Black founders in traditional bank lending standards than among alternative financial institutions. If Black-owned firms are passing the gauntlet along myriad metrics, but still not receiving funding, then the epsilon may be bias.

Black-owned forms also tend to receive less in funding than white-owned firms

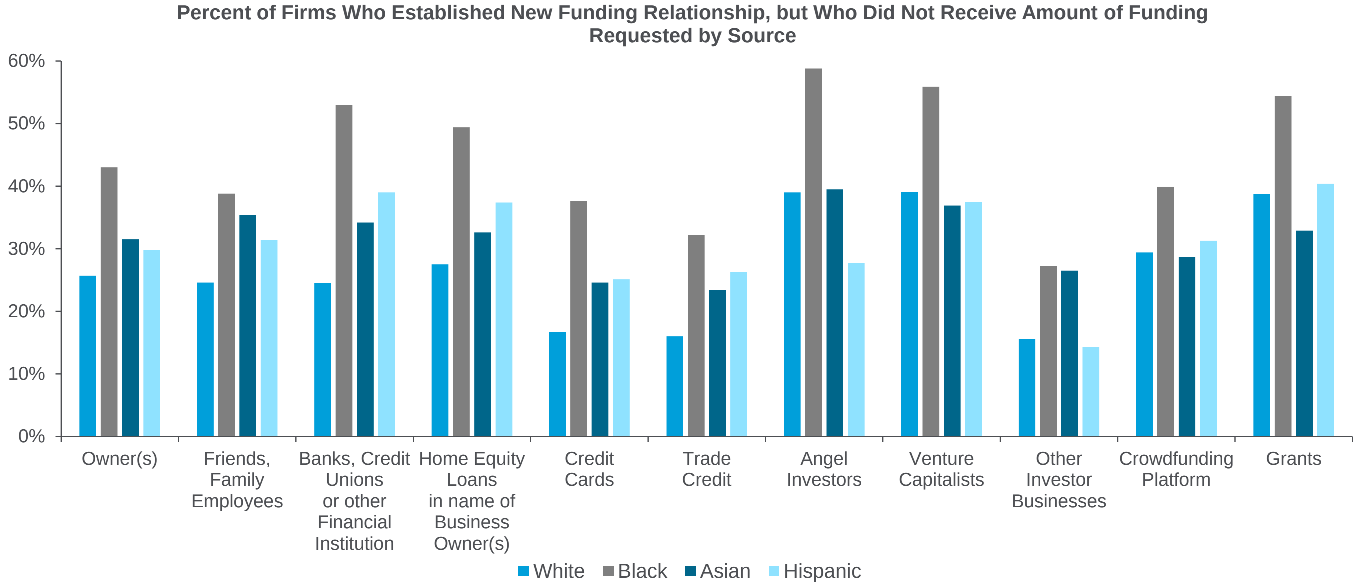
The Fed also found that underfunding is affecting financing. While Black-owned firms are roughly equivalent with white-owned firms in the percentage who decline to apply for loans due to discouragement, Black founders are still less likely to say that they had sufficient funding in place (Figure 108). The Fed reports that even for those Black-owned firms who are approved for financing, they typically receive less than half of what was requested. According to the Fed, minority-owned businesses in recent times are still facing potentially large unmet financing needs. Census Bureau data confirm this. When complaints of underfunding are tabulated across different types of financing, Black founders routinely state that they received fewer dollars than requested.

**Figure 107. Black Entrepreneurs Are Less Likely to Receive Loans from Traditional Banks Despite High Likelihood of Applying to Traditional Banks**




Note: CDFI stands for Community Development Financial Institutions
Source: Federal Reserve Board, Citi Research

**Figure 108. Black Business-Owners Routinely Receive Less Funding than Requested from Financing Sources**




Source: SBA, Census Bureau Annual Survey of Entrepreneurs, Citi Research

## Asymmetric Information and Narrow Pipelines

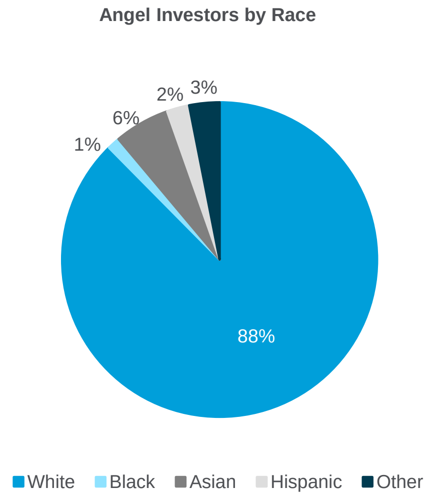
Black investors represent small shares of angel and venture capital investment

Black investors are missing out on an important stage in capital raising. Angel and venture capital (VC) investment are important phases in the private business capitalization pathway, but Black investors represent small shares of these types of investors. Just over 1 percent of all angel investors are Black (Figure 109), while 4 percent of the VC workforce is Black, with just 3 percent in the senior ranks of leadership (Figure 110). The number of Black persons in finance provision positions is important because they can play a pivotal role in directing capital to Black-owned businesses. In the VC space, this is extremely important as the majority of products purchased by consumers received VC funding at some point and these financiers decide which businesses receive funding and ultimately what products go to market.

Asymmetric information and a narrow pipeline limit investment in Black-owned businesses

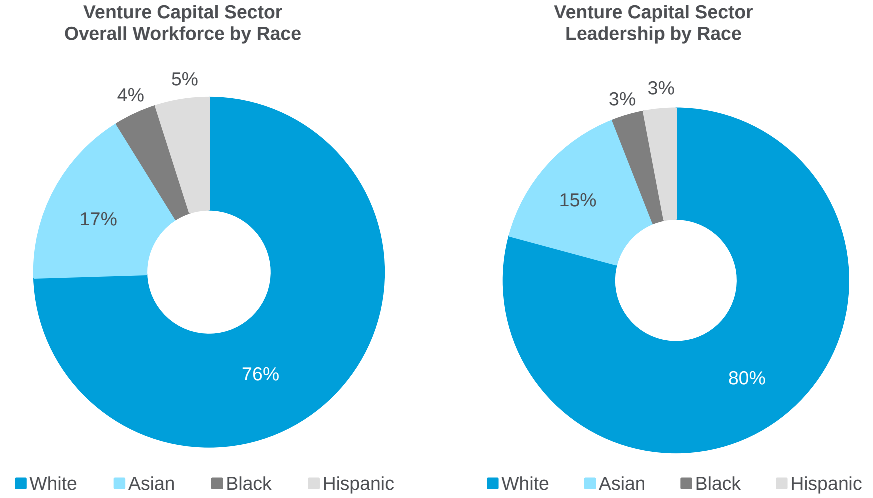
Studies suggest that the sparse amount of investments by Black angel and VC investors reflect a combination of asymmetric information — in that Black entrepreneurs are not aware of these sources of funding — and/or a narrow pipeline of incoming investors. With respect to information, SEC regulation prohibits business founders from publicly advertising fundraising. Communication of these opportunities are limited to a network of accredited investors. Accredited investors must have $1 million in net worth, not including a home, or income exceeding $300,000, which can be prohibitive for many would be angel investors. Hence, a lack of information and wealth-limits create barriers for entrepreneurs and potential investors. Regarding the pipeline, many VCs have backgrounds in investment banking, which have struggled with diversity given in part to recruiting from elite schools that are also lacking in diversity. Indeed, 40 percent of venture capitalists attended either Harvard or Stanford University. Over the last 30 years Harvard Business School had a Black population averaging about 5 percent. The high cost of a business school education is one prohibition for Black students.

Figure 109. Black Investors Represent a Nominal Share of Angel Investors




Source: Wharton Entrepreneurship and Angel Capital Association, Citi Research

Figure 110. Black Investors Are Underrepresented in the Venture Capital Space, Both in Leadership and the Overall Workforce



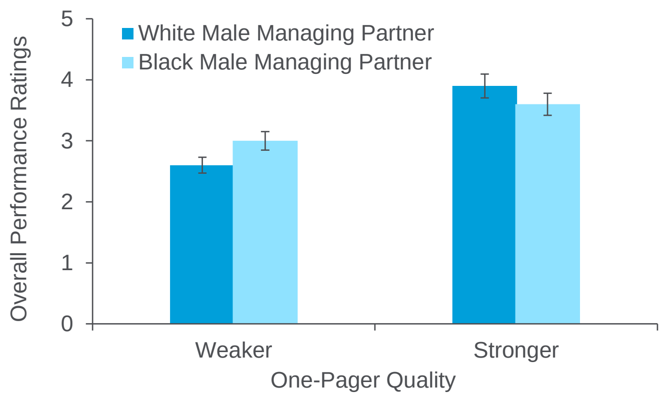

Source: NVCA, Deloitte, Citi Research

## Investor Bias

Unconscious bias may also be at the root of the dearth of investment in Black-owned businesses

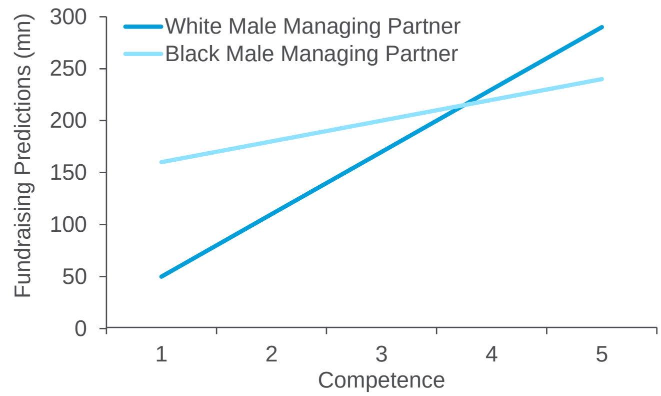
Venture capital is a relationship-based business, so the leaders decide which other investors are invited into the fold, and which firms receive capital. This proves problematic if the perception of Black founders and their business ventures are tinged by unconscious bias. Anecdotal assertions of bias include investors not trusting that Black entrepreneurs have viable and sustainable businesses, and/or lack an understanding of the product or customer Black founders are serving. Even for professional investors choosing to invest in VC funds, data-based evidence of bias is revealed in a Stanford University study which determined when venture capital funds are managed by a person of color with strong credentials, professional investors judge them more harshly than their white counterparts with identical credentials (Figure 111). The study found investors were able to easily distinguish between stronger and weaker white-led teams, where the stronger team received the higher ratings and the weaker team lower ratings. However, investors were unable to distinguish between stronger and weaker Black-led teams. Strong white-led teams were expected to raise more funds than strong Black-led teams, suggesting lower funding prospects for Black-led fund teams, and consequently financing for Black-owned businesses (Figure 112).

**Figure 111. Higher Performing Black-Led VC Funds Rated Lower than White-Led VC Funds by Professional Investors**




Source: Stanford University, PNAS

**Figure 112. Professional Investors Less Able to Distinguish Between Weak and Strong VC Funds, Projecting Lower Funding Prospects**




Source: Stanford University, PNAS

## Closing the Gap

Increased access to funding and information, alternative measures of credit, and financial education can all help close the financing gap

Increased access to financing and information are tactics that may help close the financing gap for Black-owned businesses. As Black-owned firms appear to invest greater sums of owner-generated financing for start-up projects, this greater level of personal sacrifice should factor more favorably into lending decisions from financial institutions. Experts have also advocated for alternative measures of credit to factor more materially in underwriting decisions, not just FICO scores. Black entrepreneurs are on balance more highly educated than the average small business owner, and are more likely to be Gen X'ers (45 percent) and Baby Boomers (31 percent) than Millennials (22 percent). However, there still appear to be gaps in experience running a firm and/or knowledge about financing options, including angel and venture capital investment. Governments (including the SBA) can make it easier for firms to learn about funding options and/or lowering the barrier for interested investors to become engaged, particularly for angel investors. There is also a market for private firms to educate and counsel Black business owners regarding applying for and obtaining financing via traditional and non-traditional financing channels.

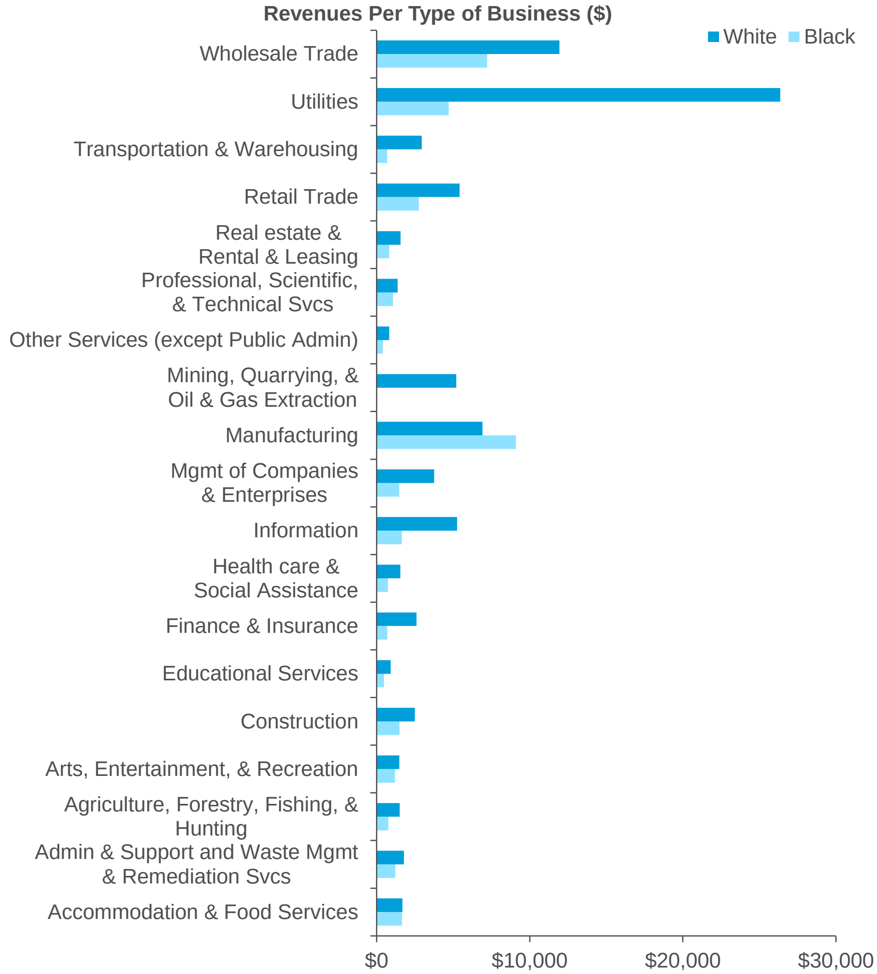
Eliminating bias will be more difficult. However, if lenders and professional investors changed their views towards minority-owned firms, there might be greater access to capital. More capital helps ensure the survival of Black-owned firms, and greater revenue, which currently trails that of white-owned firms in every industry except manufacturing (Figure 113). More revenue leads to greater job creation, and more income which facilitates consumption and real GDP growth. A Fed survey found that 60 percent of Black-owned firms declined to apply for financing, even when needed, due to concern that they would be denied. Increasing applications as well as improving approval rates would be highly favorable for Black-owned firms.

Closing the share of Black-owned firms-gap 20 years ago might have generated $13 trillion of revenues for investment, 6.1 million jobs per year, and a cumulative $182 billion in income for consumption

Closing the share of Black-owned firms-gap 20 years ago might have generated $13 trillion of revenues for investment, 6.1 million jobs per year, and a cumulative $182 billion in income for consumption. In 2017, there were more than 114,400 small Black-owned firms, employing 1.2 million persons, generating $121 billion in revenue and $35 billion in annual payroll. However, the number of Black-owned small businesses represents just 0.6 percent of the Black civilian population age 20 and over (20 million people). This is compared to a 3.6 percent share of white-owned small firms to the white civilian population (122 million).

If the share of Black-owned firms was raised to 3.6 percent of the U.S. Black population, the number of businesses would rise to more than 720,000, or a 6-fold increase. Per year, revenue might increase to $761 billion, the number of employees to 7.3 million, and payrolls to $10.8 billion. If this gap were closed two decades ago, then the additional amount of consumption from workers' incomes might have summed to near $182 billion. Some share of the extra $13 trillion in revenues over the last 20 years might have also contributed to GDP-enhancing capital expenditure on equipment, intellectual property, and structures (Figure 114).

**Figure 113. With the Exception of Manufacturing, White-Owned Firms Generate More Revenues per Business than Black-Owned Firms**




Source: Census Bureau *Survey of Business Owners*, Citi Research

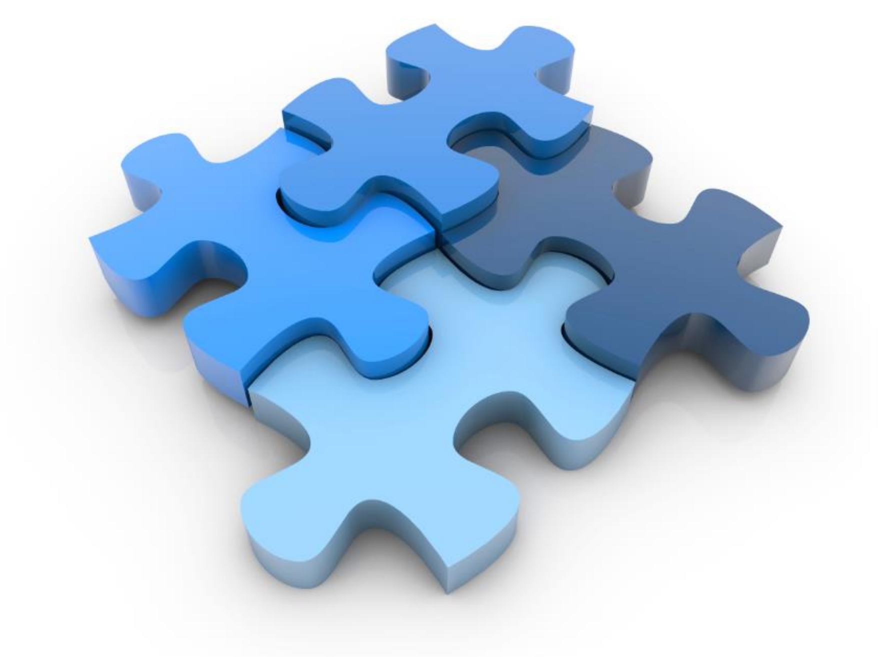
**Figure 114. Small Firms, Revenues, Employment and Payrolls: 2017 Actual and Gap Closure Estimates**

| | Per Year | | 20 Years | |
|---|---|---|---|---|
| **Black Small Businesses** | **2017 Share of Black population (0.6 percent)** | **3.6 Percent Share of Black Population** | **2017 Share of Black population (0.6 percent)** | **3.6 Percent Share of Black Population** |
| **Firms (Number)** | 114,400 | 720,069 | 2,288,000 | 14,401,386 |
| **Revenues (Billions of US$)** | $121 | $761 | $2,417 | $15,212 |
| **Employees (Number)** | 1,155,344 | 7,272,095 | | |
| **Payrolls/Year (Billions of US$)** | $1.7 | $10.8 | $34.4 | $216.7 |

Source: Citi Research

# How Do We Close the Gaps: Future Policy

Figure 115. Governments, Corporations, and Individuals Can All Work Together to Close Gaps



Source: Shutterstock

Significant and permanent behavioral and attitudinal changes are required to mitigate the number of gaps faced by Black Americans

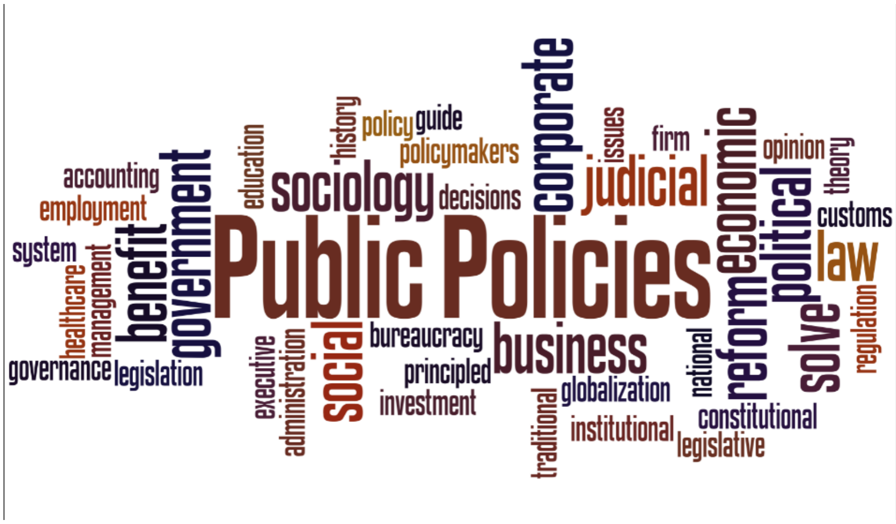
To emerge from a history of entrenched segregation and active discriminatory policy into an era of genuine equity will require conscientious reform at individualistic, corporate, and governmental levels. Although there is much to celebrate regarding renewed interest in closing gaps, there is still considerable work that must be done.

Moreover, given the exacerbation of inequality amid the COVID-19 pandemic, now is an important time to focus on eliminating racial gaps. In the U.S., the sum total of wealth held by U.S. billionaires is equal to three-quarters of all Black wealth ($3.5 trillion vs $4.6 trillion). Hence, it is crucial to address severe income inequality as part of the overall economic resolution and to avoid the perpetuation of disparity as seen after the Global Financial Crisis (GFC) of 2008. As of 2016, only 20 percent of Americans are said to have recovered to pre-GFC wealth levels, with Black Americans having suffered a 33 percent decline in wealth between 2007 and 2010. The GFC wealth loss further compounded how the median Black family witnessed their wealth almost halve, once adjusted for inflation, from 1983 to 2016; in comparison to an increase of almost one-third for white households.[33]

[33] Dettling, L.J., Hsu, J.W. and Elizabeth Llanes. 2018. "A Wealthless Recovery? Asset Ownership and the Uneven Recovery from the Great Recession," FEDS Notes. Washington: Board of Governors of the Federal Reserve System; Wolff, E. 2017. "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?", NBER Working Paper No. 24085.

# What Can Governments Do?

**Figure 116. Public Policies are Required to Advance Racial Gap Closures**




Source: Shutterstock

Governments can help reduce racial gaps by eliminating discriminatory barriers and implementing policies that support work, homeownership, entrepreneurship, and well-being

Governments can help reduce racial gaps by eliminating discriminatory barriers and implementing policies that support work, homeownership, entrepreneurship, and well-being. Basic actions, borrowed in part from the literature on gender equity, include (1) adequate race-specific data collection, necessary for identifying, tracking, and ameliorating race-based gaps; (2) prohibiting discrimination in wages, housing, labor, financial services, lending etc. based upon race; (3) facilitating work, including affordable childcare options, quality K-12 education, access to higher education, and paid family leave; and (4) supporting innovation, including enabling access to financing for Black-owned firms and start-ups. Additionally, governments can act to promote access to affordable healthcare and housing, which are paramount for supporting work and innovation. In this paper, we also highlight more unconventional ideas for how governments can contribute to closing racial gaps, from the Fed and Congress, to the state and local level.

## Monetary Policy Focus

Voices are calling for the U.S. central bank to include reducing racial inequality as part of its mission

More voices are calling for the U.S. central bank to enhance its focus upon racial economic gaps. Economic gaps produced as a consequence of decades of racial discrimination have been highlighted by Democratic politicians in the U.S. in their proposal for the Fed to integrate racial considerations in its policymaking. Under 'The Federal Reserve Racial and Economic Equity Act', the reduction of racial inequality in the U.S. economy would become an official part of the Fed's mission. Former Vice President, Joe Biden called on the Fed to 'aggressively enhance' its highlighting of 'persistent racial gaps in jobs, wages and wealth.'[34] It is worth highlighting that before the pandemic, the Black unemployment rate, concurrent will all other jobless rates, was falling and reached an all-time low of 5.4 percent in August 2019. However, it remained higher than overall unemployment, which troughed at 3.5 percent in February 2020 and the white unemployment rate, which fell to 3.1percent in January 2020 (Figure 117).

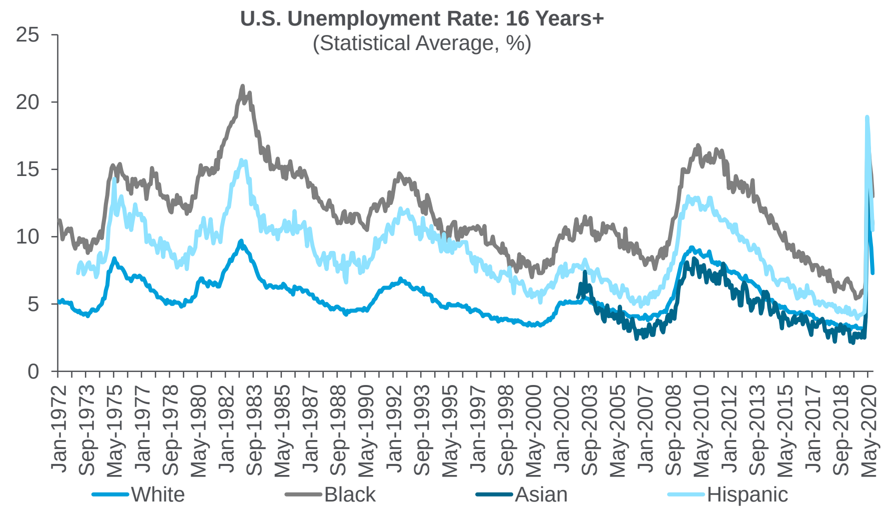
[34] Long, H., "Democrats introduce bill to give the Federal Reserve a new mission: Ending racial inequality," *Washington Post*, August 5, 2020.

Amid the pandemic, jobless rates across every racial group swelled to nearly four times their pre-COVID levels, but the racial gaps persisted.[35]

The Fed will now focus on broad-based and inclusive job gains and will allow inflation to exceed their 2 percent target for a period

Even in the absence of new legislation, the Fed has signaled a willingness to enhance its focus upon inequality. At the 2020 Jackson Hole Economic Summit, the Fed indicated its policies will focus on “broad-based and inclusive” job gains, language suggesting the central bank’s policies may help disadvantaged Americans in particular, rather than as a consequence of focusing upon maximum employment in general. Practically, the Fed will now allow inflation to exceed the 2-percent target for a period of time before raising interest rates, allowing unemployment rates to fall further. Still Chairman Powell stated that ending racial inequality “is more of an all-government, society project that we need to take on forcefully…It can’t just be the way the Fed manages interest rates.”[36] In other words, there is a role for fiscal policies at every level of government. Moreover, a counter argument to the Fed allowing rates to remain lower for longer, is that low rates inflate the prices of asset that do not benefit low income persons on the upswing, but do negatively affect them on the downswing when the owners of capital (employers) respond to financial market crises by cutting labor.

**Figure 117. Black Unemployment Rate is Consistently Higher than Other Races**




Source: Bureau of Labor Statistics. Citi Research

[35] Zeitli, M., “Federal Reserve policy has failed Black Americans for decades. Now is the time to fix that,” *Business Insider*, July 18, 2020.
[36] Guida, V., “An activist central bank? Dems push the Fed to fight racial inequality,” *Politico*, August 29, 2020.

## Encourage Work

Tax policy, such as EITC and CTC, have proven to reduce poverty as workers keep more of their earnings

Reforming tax benefits and the application of specialized tax reforms can encourage work among lower income families and help reduce racial gaps. One recent study highlighted that of the nearly $275 billion within the 2018 Tax Cuts and Jobs Act, 80 percent benefited white households; receiving $2,020 on average in cuts, versus $970 received by Latino household and just $840 by Black Households.[37] Moreover, households in the highest 1 percentile received 23.7 percent of the law's total tax cuts, in comparison to just 13.8 percent received by the bottom 60 percent. Given that white households are three times as likely as Black or Latino households to be in the top 1%, these racial gaps are further exacerbated.[38] Some effective and racially-inclusive tax provisions linked to work such as the Earned Income Tax Credit (EITC), and Child Tax Credit (CTC), have proven to reduce poverty while serving a larger proportion of minority groups, especially Black and Latina Women. Some policymakers would make CTC fully refundable so the benefits reach the poorest children. Indeed, an estimated 17 million Black households would benefit from a fully-refundable CTC.[39] Under current law, the Congressional Budget Office (CBO) estimates the share of Federal government spending on these credits is set to tumble over the next decade without Congressional intervention (Figure 118).

### How do the EITC and the Child Tax Credit Encourage Work?

- **EITC:** The Earned Income Tax Credit, EITC or EIC, is a benefit for working people with low to moderate income. To qualify for EITC, tax filers must have earned income from either working for someone or from running or owning a business or farm, in addition to meeting some basic rules. Filers must also either meet additional rules for workers without a qualifying child or have a child that meets all the qualifying child rules. (Source: IRS.gov).

- **CTC:** The Child Tax Credit (CTC) is designed to give an income boost to the parents or guardians of children and other dependents. It only applies to dependents who are younger than 17 as of the last day of the tax year. The credit is worth up to $2,000 per dependent, but income level determines the exactly amount of the credit. Tax filers need to have earned at least $2,500 to qualify for the CTC. Then it phases out for income above $200,000 for single filers and $400,000 for joint filers. If earned income is above the applicable threshold, filers will receive a partial credit. (Source: Smartasset)

## Provide Guaranteed Wages, Income, and Jobs

Progressive policies to help close gaps include raising minimum wages, introducing income supplements, and guaranteeing jobs

A policy with dramatic implication would be a "living wage." Currently, the Federal minimum wage for tip earning employees at just $2.13 an hour and $7.25 for others. Although Black workers make up only 11 percent of the workforce, 38 percent of Black workers currently work for minimum wage and would receive a pay increase under such legislation, helping to address the wage gap (Figure 119).[40]
Another policy gaining traction in U.S. policy circles, which has also been implemented in other nations (e.g., Canada), is that of guaranteed income supports.

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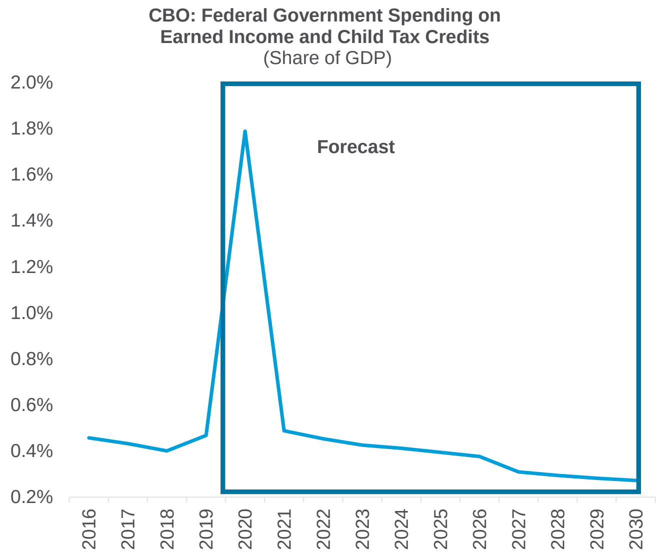
[37] Institute on Taxation and Economic Policy and Prosperity Now "Race, Wealth and Taxes: How the Tax Cuts and Jobs Act Supercharges the Racial Wealth Divide," October 11, 2018.
[38] Ibid.; Huang, Chye-Ching and Roderick Taylor. "Advancing Racial Equity Through the Tax Code," Spotlight on Poverty and Opportunity, 24 September 2019; Chye-Ching Huang and Roderick Taylor. "How the Federal Tax Code Can Better Advance Racial Equity,", Center on Budget and Policy Priorities, July 25, 2019.
[39] Marr et al., "Working Families Tax Relief Act Would Raise Incomes of 46 Million Households, Reduce Child Poverty," Center on Budget and Policy Priorities, April 16, 2019.
[40] Walker, D., "If Corporations Really Want to Address Racial Inequality, Here are 9 Things That Actually Make a Difference." *Time*, August 4, 2020.

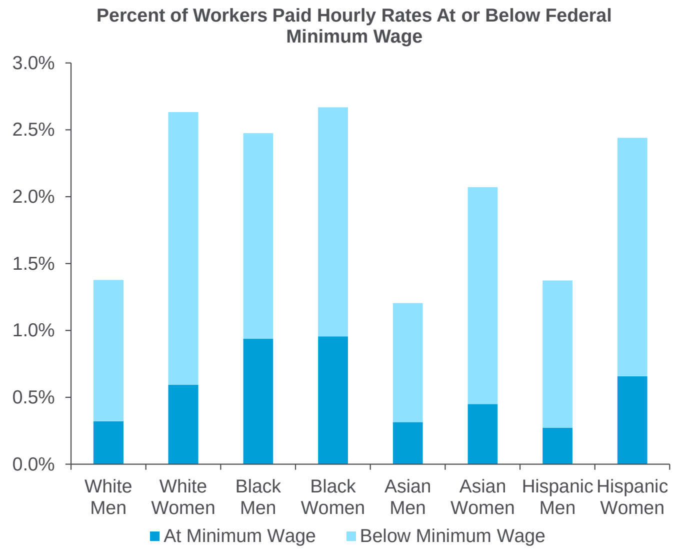
Means-tested, direct government transfers to families, with the potential to expand guaranteed income above the poverty line might help assist families with expenses such as childcare, which is a key enabler of work. A successful basic income program in practice is the Alaska Permanent Fund. The Fund has paid residents a dividend of $1,600 on average in recent years, with one study showing the program reduced poverty by 20 percent in the state.[41] In a similar fashion, a Federal Job Guarantee has also been advocated as an effective way to decrease the racial income gap. While potentially an expensive proposition, with estimated ranging from $378 billion to $543 billion per year, there is some potential to mitigate poverty through work.[42]

**Figure 118. EITC and Child Tax Credit Spending Share Set to Tumble**




Source: Congressional Budget Office, Citi Research

**Figure 119. Black People More Likely to Make Minimum Wage or Less**




Source: Bureau of Labor Statistics, Citi Research

## Implement Tax Reform

Raising revenue in a more progressive way and moving away from flat income taxes could help close wealth gaps

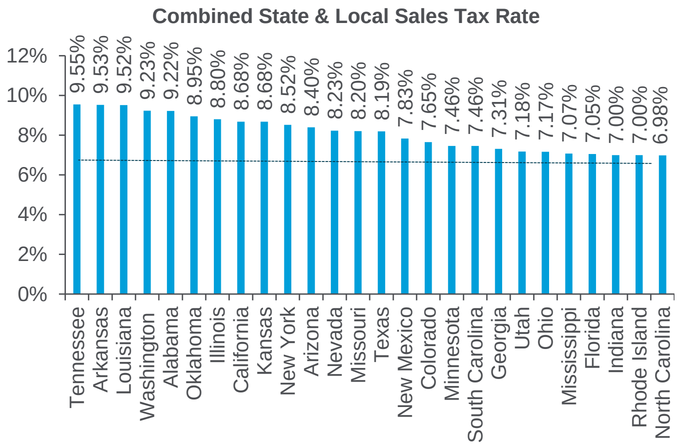
Changes to current tax provisions, including a more progressive tax code, might also have a material impact on efforts to close gaps. Some policymakers and experts suggest taxing wealth rather than income, and increasing taxes on inherited wealth — both of which are traditionally areas where Black Americans fall behind their white counterparts. Much of the Federal tax code is designed to offset less progressive state tax codes, which rely heavily on sales and excise taxes; meaning that on average, the lowest-income households pay a higher share of their income than the highest-income households.[43] Indeed, 25 of the 50 states in the U.S. plus Washington DC, have combined state and local sales taxes in excess of the national median of 6.98 percent (Figure 120).

Ten of the 50 states (Illinois, Indiana, Kentucky,  Massachusetts, Michigan, New Hampshire, North Carolina, Pennsylvania, Tennessee, and Utah) have one income

[41] Berman, Matthew and Random Reamey. "Permanent Fund Dividends and Poverty in Alaska." Institute of Social and Economic Research: University of Alaska Anchorage.
[42] Paddison, Laura. "What is a federal jobs guarantee?" The Huffington Post; Paul, Mark, William Darity, Jr. and Darrick Hamilton. "The Federal Job Guarantee – A Policy to Achieve Permanent Full Employment." Center on Budget and Policy Priorities.
[43] Huang, Chye-Ching and Roderick Taylor "How the Federal Tax Code Can Better Advance Racial Equity," Center on Budget and Policy Priorities, 25 July 2019

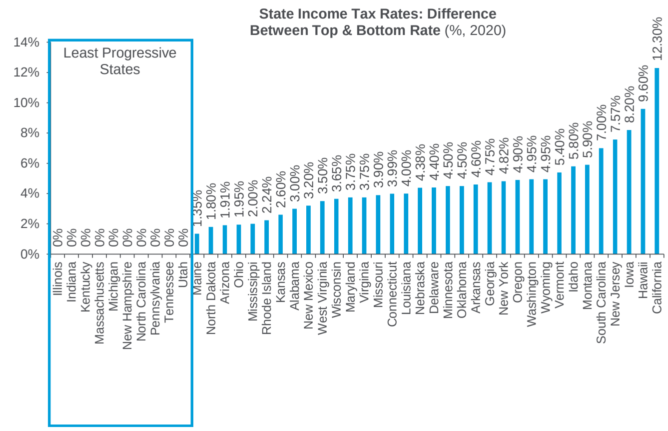
tax rate for all individual tax payers, making them the least progressive (Figure 121). A clear approach the U.S. could take in order to reduce racial inequality would be to raise more revenue overall in a progressive manner, with the revenues then directed to investments which advance racial equity. Indeed, the U.S. system of taxes currently underperforms 27 other high-income countries in regards to reducing post-tax inequality.[44]

**Figure 120. 25 States have Combined State and Local Tax Rates Exceeding the National Median of 6.98%**




Source: The Tax Foundation, Citi Research

**Figure 121. Progressiveness of State Taxes-**




Note: States not listed do not have state income taxes.
Source: The Tax Foundation, Citi Research

## Promote Financial Inclusion

Increasing access to financial services is key to increasing the amount of Blacks in the financial system

To address racial wealth inequality, the exceptionally high number of unbanked or underbanked Black households (estimated to be 47 percent) also needs to be combatted with Federal banking services. In order to avoid the usual obstacles of traditional for-profit banking of minimum account balances and transaction costs, one study advocates the Congressional strengthening of the U.S. Postal Service (USPS) as an avenue for financial services. At its peak in 1947, the Postal Savings systems held $3.4 billion in reserves. Enabling the USPS to provide financial services would provide an alternative means of banking for many families, and in tandem allow for more money to circulate within the economies of low-income communities. The immediate need for cash availability, which a Postal Service/FedAccounts proposal would mobilize, has been incredibly apparent during the COVID-19 pandemic. These FedAccounts would enable free and digitized payments, withdrawals, and provide the ability to receive payments such as jobless benefits or stimulus checks without minimum balance requirements or fees.

[44] Based on reductions in the Gini measure of inequality among 33 countries for which OECD data for 2016 or the latest available year are available (see OECD Income Distribution Database, 2019). The United States ranks above only New Zealand, Israel, Switzerland, Korea, and Chile on this measure. (Data for Mexico, Hungary, and Turkey are unavailable.)

Fintech can also play a critical role in reducing the number of unbanked persons. Ex-JP Morgan Managing Director and founder of Mobility Capital Finance, Wole Coaxum, estimates that "Black and Hispanic people spend 50 to 100 percent more per month for basic banking services, which, over a lifetime, can cost $40,000 in fees."[45][46] His company, along with a number of others, seeks to tackle this in providing financial services to those on low to moderate incomes. Similarly FS Card provides credit cards with $500 spending limits as an alternative to payday loan services. In providing these alternative services without the high fees, these fintech firms have the ability to drastically improve access to basic financial services. Moreover, in August 2020, leaders of the fintech industry, including Credit Karma, Monzo, and Stash, announced the creation of the Fintech Equality Coalition. The Coalition will focus on enhancing access to financial services and committing to providing opportunities in recruitment outreach within the Black community.[47]

## Decouple Health Care

Providing minimum government-supported healthcare would increase the level of health security for workers in economically-challenged industries

Access to affordable healthcare is a key component of enabling work and wealth creation. Indeed, a Gallup poll found that 9 percent of American adults and 14 percent of non-white American adults would avoid treatment for the coronavirus over concerns over medical expense.[48] An idea gained greater traction in the U.S. is to decouple healthcare from employment. Most people who have health insurance in the U.S. receive it via their employers (Figure 122). Expansion of Medicaid — public healthcare for persons under 65 years of age — has increased since being implemented under Obamacare (ACA) in 2012, but the private-direct purchase option under the ACA has fallen during the Trump Administration. Given the three groups who saw their unemployment markers spike to elevated peaks in April 2020 were women (15.5 percent), Black Americans (16.7 percent), and Latinos (18.9 percent), there is a clear connection between race/gender and those most at risk from losing their healthcare coverage.[49] In providing minimum government-supported healthcare, as an additional option to private job-linked health care, those in more economically-challenged industries would have an increased level of health security, with potentially significant benefits to minority groups.

[45] Rosen, E., "Trying to Correct Banking's Racial Imbalance", *The New York Times,* June 30, 2020.

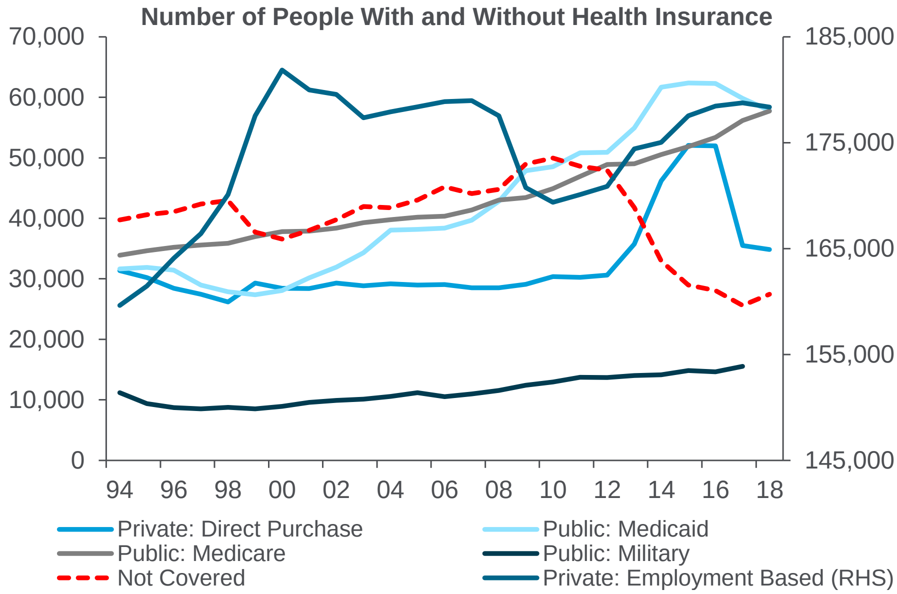
[46] FDIC National Survey of Unbanked and Underbanked Households, 2017.

[47] "Fintech Equality Coalition Created to Help Fight Racial Inequality in the Industry," PR Newswire, August 13, 2020.

[48] Witters, D., "In U.S., 14% with Likely Covid-19 to Avoid Care Due to Cost," Gallup, April 28, 2020.

[49] Tolbert, J., Orgera, K., Singer, N. and Anthony Damico, "Key Facts About The Uninsured Population," Kaiser Family Foundation, December 13, 2019; Kaiser Family Foundation, "State Data and Policy Actions to Address Coronavirus," Kaiser Family Foundation, May 13, 2020.

**Figure 122. The Majority of U.S. Persons Are Covered by Private-Employed Based Insurance; The Number of Persons in the Private-Direct Purchase Option Has Declined in Recent Years**




Note: Some persons may have more than one type of insurance.
Source: Census Bureau, Citi Research

## Implement Housing Incentives

Public policy should focus upon housing as a pathway to wealth

Two suggestions proposed for providing affordable housing include: (1) expansion of tax incentives encouraging low-income housing in affluent areas; and (2) low-income community revitalization policies encouraging residential and commercial development in poor and primarily communities of color.[50] A third avenue for facilitating the path to homeownership for Black families is to close gaps enabling higher earnings and wealth accumulation necessary for home ownership.

Encouraging homeownership is a potential path to intergenerational wealth

Policy reform of established programs to benefit minority groups, might be instrumental in closing equity gaps. One candidate for reform is the Mortgage Interest Deduction program which currently only benefits 6% of Black families. Enhancing the benefit to Black households requires increased homeownership, but the gap in homeownership rates between white and Black families is significant: the Black homeownership rate is at 44 percent vs. white at 70 percent. Affordable also housing remains a challenge in many local regions with large Black populations (Figure 123). Increasing incentives and access to affordable housing is an avenue towards greater homeownership. With a stark deficiency in affordable housing — in no state can a full time employee on $7.25 afford a two bedroom apartment — progress in this area is of desperate necessity.[51] The American Housing and Economic Mobility Act provides an initial framework with provisions for down payment assistance for first time buyers living in formerly redlined or officially segregated areas.[52]

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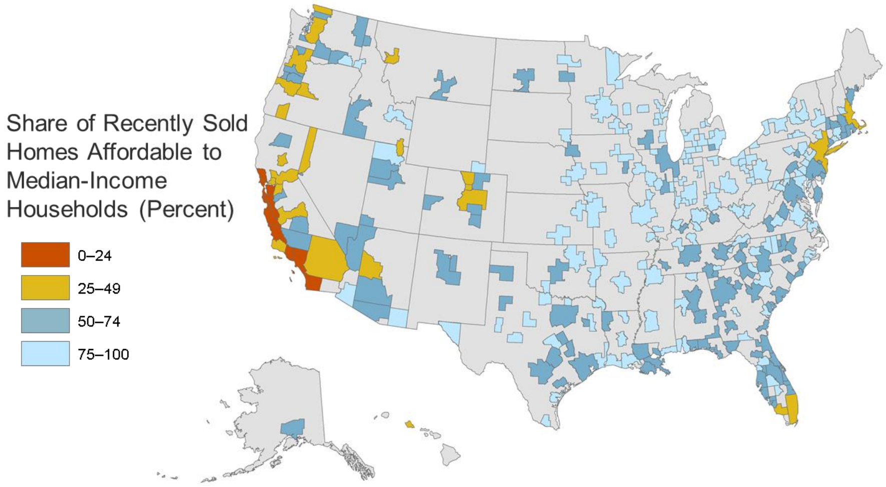
[50] Fulwok III, S., "The United States' History of Segregated Housing Continues to Limit Affordable Housing," Center for American Progress, December 15, 2016.
[51] National Low-Income Housing Coalition. "Out of Reach 2018: The High Cost of Housing." 2018.
[52] "Warren Unveils Historic Legislation to Confront America's Housing Crisis." Press release. September 26, 2018.

**Figure 123. Many Highly Populated Regions of the U.S. Are Unaffordable Even For Median-Income Households**




Notes: Median incomes are estimated at the core-based statistical area (CBSA) level. Recently sold homes are defined as homes with owners that moved within the 12 months prior to the survey date. Monthly payments assume a 3.5% down payment and property taxes of 1.15%, property insurance of 0.35%, and mortgage insurance of 0.85%. Affordable payments are defined as requiring less than 31% of monthly household income. Only CBSAs with at least 30 home sales in the past year are shown.
Source: JCHS tabulations of US Census Bureau, 2017 American Community Survey 1-Year Estimates, and Freddie Mac, PMMS

17 percent of the gap between Black and white homeownership is unexplained

The Urban Institute found intangible factors are contributing to the widening racial housing gap, highlighting the need for targeted policy solutions. According to the Urban Institute, even after accounting for individual factors including marital status, income distribution, FICO scores, age, median household income, and city segregation, approximately 17 percent of the Black-white family home ownership gap remains unexplained (Figure 100). These intangible factors suggest a combination of policies are necessary to narrow the gap, built on a foundation of fair housing and lending, plus new technologies.

- **Advance policy solutions at the local level:** Expand small-dollar mortgages; remove discriminatory terms in home- and condo-association deeds on single family units; property tax relief for low- and moderate-income taxpayers; strengthen lender networks.

- **Tackle housing supply constraints and affordability:** Reform local land-use, building codes and zoning laws; Federal investments in affordable housing; Government-sponsored enterprise (GSE) and Housing & Urban Development (HUD) collaboration with organizations working to make housing affordable.

- **Promote an equitable and accessible housing finance system:** Increase visibility, access, and types of down payment assistance programs; alternative data for credit histories and diverse sources of income for down payments.

- **Further outreach and counseling for renters and mortgage-ready millennials:** Improve and expand financial education and homeownership preparation; expand programs that automate saving for down payments.

- **Focus on sustainable homeownership and preservation:** Strengthen post-purchase counseling; early-warning displacement metrics; mitigation strategies and interventions for homeowners at high risk for flood and disaster events.

## Invest in Training

Government investment in training programs can help narrow income and wealth gaps

Government focus on specific skills training with respect to identified occupational availability through either community college courses or named industry training has proven instrumental in combating economic inequality. With over 12 million students enrolling in community colleges each year, and a majority of those enrolled as undergraduates in 2-year public colleges identifying as non-white, funding for these programs is vital in delivering a more equitable workforce. However, without a permanent funding stream, sustainability can be a challenge.[53][54] Though community colleges have been the benefactors of a number of grants, including the Community Based Job Training Grant (CBJTG), which provided $600 million in three years from 2005-2010, and two Federal grant programs under President Obama — Health Profession Opportunity Grant and Trade Adjustment Assistance Community College and Career Training (TAACCT) — there have been calls to reform the workforce system to move away from presumptions based upon skills narratives.[55][56] Skills narratives place an emphasis on skills, which for many workers "fail[s] to recognize the historical and inter-generational way in which multiple systems, including not only workforce, but also education, housing, criminal justice and others, have created an inherent set of disadvantages for people of color."[57] Without proper recognition of individual circumstance, and an understanding that a multidimensional, rather than a 'one-size-fits-all' approach is far more likely to deliver meaningful results, there is a natural restriction to equity progress.

Public-private partnerships can help narrow training gaps

Public-private partnerships can help narrow training gaps. Notably, white high school dropouts have the same chance of obtaining a job as Black workers who have completed some college or earned an associate degree. In order to address such discrepancies, The Center for American Progress has highlighted four policy features that are essential for developing an equitable design and process for training and job access: (1) expand the share of economic risk by requiring employers of a certain size to pay into the WETF (Workforce Equity Trust Fund); (2) make a suite of wrap-around services (e.g., childcare) and employment benefits standard; (3) improve workforce analytics by creating an accountability dashboard for multiple measures of job quality; and (4) govern the WETF by a multi-stakeholder partnership comprising of business, labor and the public.[58][59] There are a number of programs along such guidelines emerging with community-based organizations designing programs to directly train and connect workers to local opportunities.

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[53] Eyster, L., Durham, C., and Theresa Anderson. "Federal Investments in Job Training at Community Colleges," Urban Institute, December 2016

[54] Kilpatrick, S., "A Quick Rundown of Community College Diversity Statistics,", EVERFI

[55] Anderson, T., Loprest, P., Derrick-Mills, T. Eyster, L., Morley, E., and Alan Werner. 2014. Health Profession Opportunity Grants: Year Two Annual Report 2011–2012. Report 2014-03. Washington, DC: Office of Planning, Research, and Evaluation, Administration for Children and Families, US Department of Health and Human Services.

[56] Lam, L. "A Design for Workforce Equity," Center for American Progress, October 16, 2019.

[57] Race Forward, "Race-Explicit Strategies for Workforce Equity in Healthcare and IT" (New York: 2017).

[58] Adams, S. "White High School Drop-Outs Are As Likely To Land Jobs As Black College Students," *Forbes*, June 27, 2014.

[59] Lam, L. "A Design for Workforce Equity," Center for American Progress, October 16, 2019.

For example, in Detroit, HOPE has incorporated robotics training into its technical training; and in San Diego, the International Rescue Committee has included solar panel installation into training options; connecting a high-growth local industry currently facing a skilled labor shortage with job-seekers.[60]

## Invest in Wealth Building

Government investment in programs that encourage wealth building can reduce the racial wealth gap

Government investment in building wealth is a radical approach to closing the racial wealth gap. One approach is 'Baby Bonds'.[61] Championed by New Jersey Senator Cory Booker, the bonds would provide every child born with $1,000 in an interest-bearing savings account that would be added to annually (maximum of $2,000 based upon family income) up to the age of 18. Upon reaching adulthood, the funds accrued can be accessed for wealth building activities such as down payments on homes, college tuition, or start-up funding.[62] A study by Columbia University on the effect of instruments such as 'Baby Bonds' estimated that though the racial disparity would persist, it would be substantially narrowed: from a factor of 15.9 to 1.4 at the median, with the median Caucasian adult holding approximately $79,000 versus $58,890 for the median Black adult.[63] The program is expected to cost $60 billion per year, and to be funded by modifying the estate tax and closing the tax break for inherited capital gains.[64] There have also been some successes at the state and local level. In Oklahoma, the Ford Foundation provided over a thousand babies with $1,000 in state-owned 529 college savings account in 2007. There is evidence to suggest these kinds of programs could have significant impact with young people who, with a college fund, are three times as likely to go to college, and four times as likely to graduate, helping to address future racial earnings gaps.[65]

## Invest in Protections

Funding and broadening the scope of anti-discrimination agencies can help lessen inequality in the United States

Established in 1965, the U.S. Equal Employment Opportunity Commission (EEOC) is tasked with enforcing Federal laws preventing discrimination against job applicants and employees based upon race, color, religion, sex, national origin, age, disability, or genetic information. However, as the U.S. population has grown by 44 percent in 40 years to roughly 330 million persons, and become even more diverse, Federal funding for the EEOC has not kept pace. Indeed, funding for the EEOC has shrunk by 8 percent over the same period, and the number of employees at the EEOC fielding discrimination complaints has decreased by 42 percent since 1980. Meanwhile, at the state level, funds for employment anti-discrimination programs are modest and in some cases non-existent. A 2015 census of ten states with the largest Black populations revealed that none of them spent more than 70 cents per resident on employment anti-discrimination programs. Indeed, three states — Mississippi, Alabama, and North Carolina — spent zero dollars on such programs.

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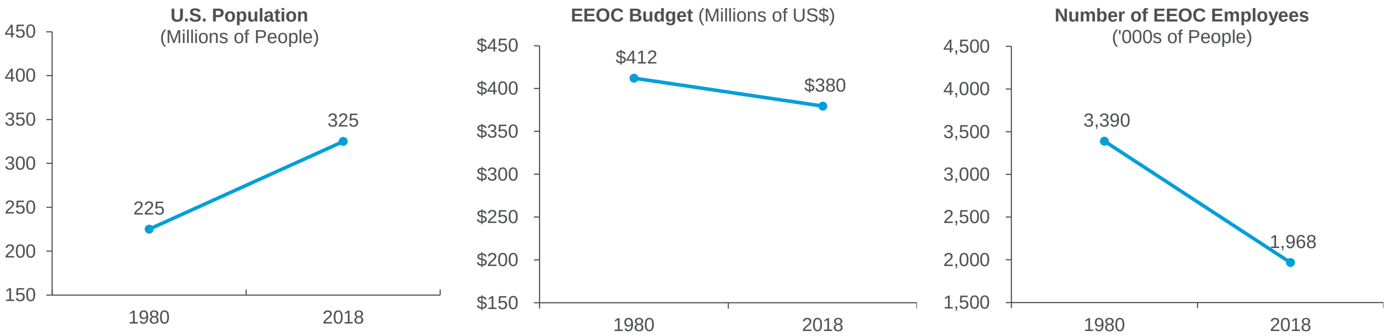
[60] Jones, M., and Ed Skyler. "Here's a solution to economic inequity: Invest more in job training," *USA Today*, March 10, 2020.
[61] Zwede, N., "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults."
[62] "Interview With Corey Booker: Making real the ideals of our country," The Economist, July 14, 2020.
[63] Zwede, N. "Universal Baby Bonds Reduce Black-White Wealth Inequality, Progressively Raise Net Worth of All Young Adults."
[64] Viebeck, E., "Booker wants a 'baby bond' for every U.S. child. Would it work?," *The Washington Post*, August 19, 2019.
[65] "'Baby bonds' proven to boost aspirations and college savings," *Bangor News*, December 11, 2018.

Figure 124. Congress Has Decreased Resources for the Equal Employment Opportunity Commission (EEOC) Over the Last 40 Years




Source: Census Bureau, EEOC, Citi Research

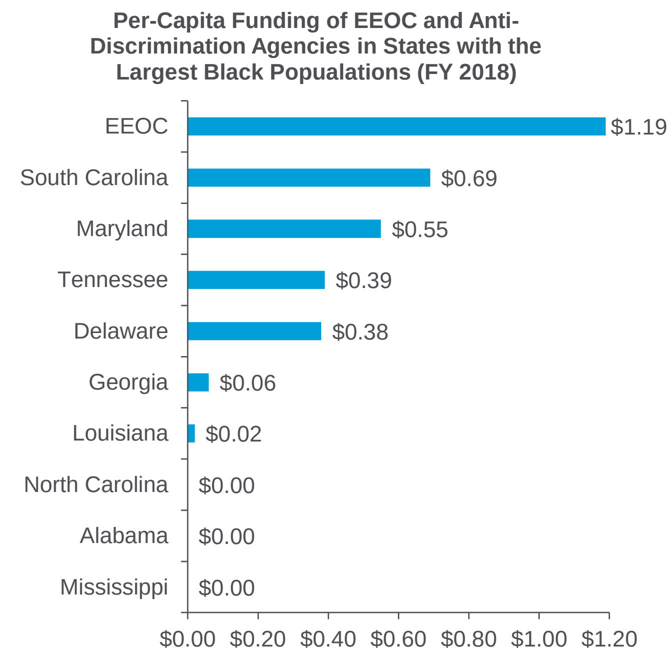
## Implement Salary History Bans

Banning employers from asking about salary history helps to stop prior wage discrimination from being perpetuated

Salary history bans are a method to stop the perpetuation of racial wage gaps. With the wage gap between white and Black workers having grown at the median between 2000 and 2019, increasing the discrepancy from 20.8 percent to 24.4 percent, addressing this disparity is particularly important.[66] One approach that has proven particularly effective is banning employers from inquiring about historical salaries. A study by Boston University found that, following bans, pay for job switchers increased by 13 percent for Black workers and 8 percent for women workers, respectively.[67] By removing the knowledge of prior salaries, employers are no longer influenced by potential discrimination of previous employers, and hence are less likely to perpetuate the wage gap between white and Black employees by continuing to maintain the difference. Massachusetts, as the first state to impose a ban preventing employers asking candidates their previous salaries in 2016, has been followed by 18 other states, with individual cities nationwide, including Washington DC, also following suit (Figure 126).[68][69]

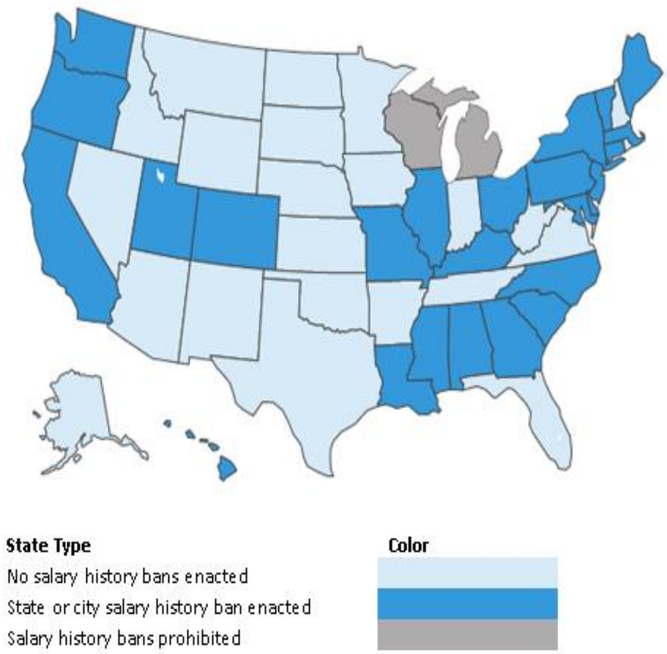
[66] Gould, E., "State of Working America Wages 2019," Economic Policy Institute, February 20, 2020.
[67] Bessen, J. E., Meng, C., and Erich Denk. "Perpetuating Inequality: What Salary History Bans Reveal About Wages," SSRN, June 24, 2020.
[68] "Salary history bans," HRDrive, August 7, 2020.
[69] Ziv, S., "Salary History Bans Reduce Racial and Gender Wage Gaps; Every CEO Should Use Them," *Forbes*, June 23, 2020.

**Figure 125. Anti-Discrimination Agency Spending at the State Level is Significantly Underfunded in States with Large Black Populations**




Source: EEOC, Henry J. Kaiser Family Foundation, Citi Research

**Figure 126. Only 19 of 50 States Plus Washington, DC, and 20 of Thousands of Municipalities, Have Salary History Bans**




Source: AccuSource, HRDrive, Citi Research

# What Can Companies Do?

**Figure 127. Corporations Play a Tremendous Role in Eliminating Racial Gaps**


Source: Shutterstock

## The Business Case

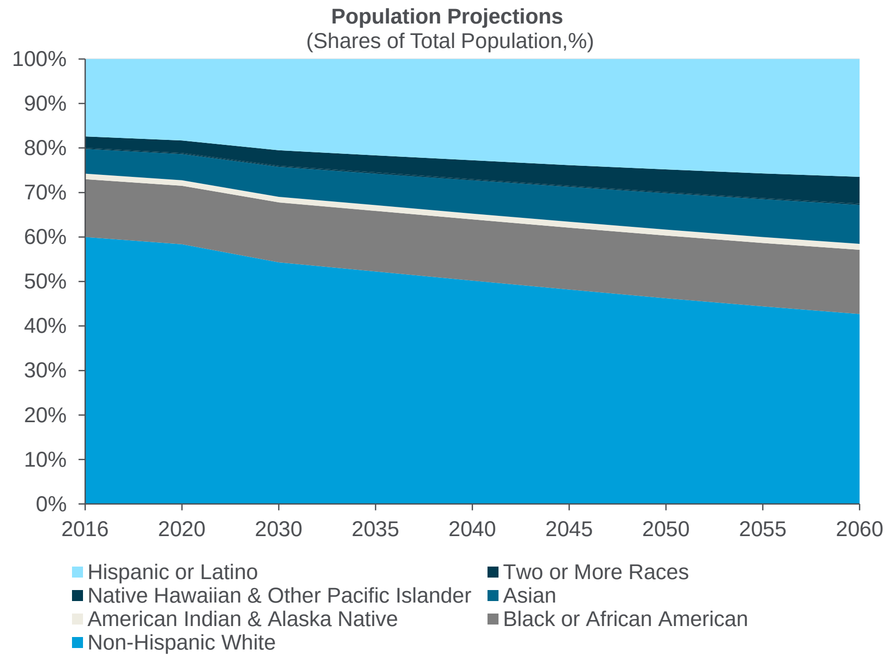
The business case for diversity is multifaceted

While imperfect, there is a business case for diversity that should help motivate firms to act upon closing racial gaps. The body of literature suggests that when executed well, diversity and inclusion in the workplace may lead to increased revenue, reduced costs, greater innovation, and increased employee engagement, productivity, and commitment.[70] The business case is multifaceted:

- **Changing demographics:** Businesses may desire their workforces to reflect current and future population trends. According to the U.S. Census Bureau, by 2060, the percentage of non-Hispanic white persons will decline to 44 percent from roughly 60 percent currently and there will be a major increase in the number of persons of color.[71] If this is the case, firms should adjust their employee composition to match their future customer base. Even today, when persons of color are still in the minority, many firms still do not reflect the demographics of the nation at every rung on the jobs ladder.

[70] "The Business Case for D&I: Ask Catalyst Express," Catalyst, October 4, 2019.
[71] Colby, S.L., and Jennifer M. Ortman. "Projections of the Size and Composition of the U.S. Population: 2014 to 2060," US Census Bureau, March 2015.

Figure 128. The Share of Non-White Hispanic Persons Is Poised to Shrink to 44% by 2060




Source: Census Bureau, Citi Research

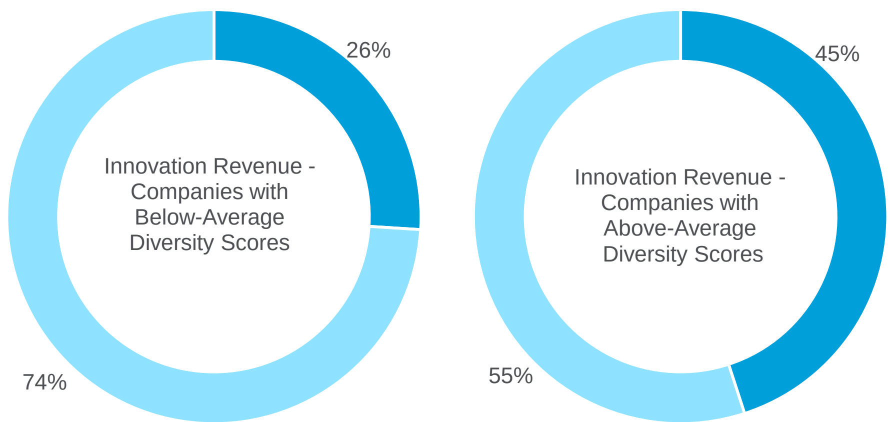
- **Diversity of Perspectives:** Persons from diverse backgrounds and experiences will have a multiplicity of ideas and perspectives. Diversity of perspectives may produce better outcomes as diversity can help avoid "group-think."[72] A diversity of opinions can create friction. However, if diverse employees are made to feel included, then outcomes can potentially be positive.[73] A Boston Consulting Group (BCG) international survey, including the U.S., revealed a strong and statistically significant correlation between the diversity of management teams and overall innovation. "Firms reporting above-average diversity on their management teams also reported innovation revenue that was 19 percentage points higher than that of companies with below-average leadership diversity — 45% of total revenue versus just 26%."[74][75]

- **Bolstering the Bottom Line:** Studies suggest that diverse firms may have stronger financial results more generally. A separate McKinsey & Company international survey found that "companies in the top quartile for racial and ethnic diversity were 35 percent more likely to have financial returns above their respective national industry medians." In the United States, McKinsey found "there is a linear relationship between racial and ethnic diversity and better financial performance: for every 10 percent increase in racial and ethnic diversity on the senior-executive team, earnings before interest and taxes (EBIT) rise 0.8 percent."

[72] Sidorenko, V., "The Business Case For Diversity and Inclusion," TLNT, April 24, 2019.
[73] Kaplan, S., "Why the 'business case' for diversity isn't working," Fast Company, February 12, 2020.
[74] Lorenzo, R., Voigt, N., Tsusaka, M., Krentz, K., and Katie Abouzahr. "How Diverse Leadership Teams Boost Innovation," Boston Consulting Group, January 23, 2018.
[75] Esweraj, V., "The business case for diversity in the workplace is now overwhelming," World Economic Forum (WEF), April 29, 2019.

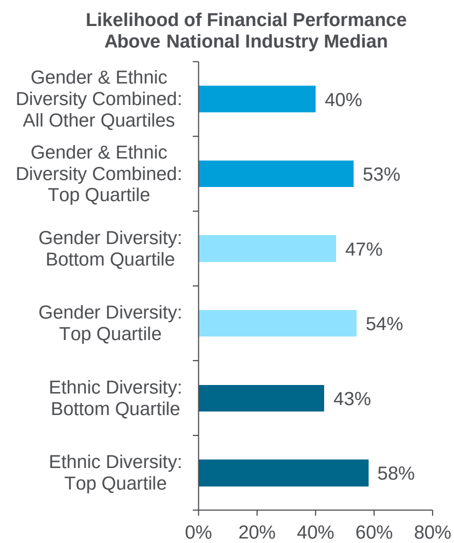
Moreover, that “racial and ethnic diversity has a stronger impact on financial performance in the United States than gender diversity, perhaps because earlier efforts to increase women’s representation in the top levels of business have already yielded positive results.”[76]

**Figure 129. Businesses with Diverse Leadership Teams May Generate More Revenue**




Source: The Boston Consulting Group, Citi Research

**Figure 130. Diverse Firms May Perform Better**




Source: McKinsey & Co, Citi Research

- **A Matter of Talent - Recruiting and Retaining the Best Talent Is Paramount:** By hiring a limited group of people based upon a specific mold (i.e. white and/or male), companies are foregoing significant segments of talent. Hence, firms should consider directing resources and energy towards recruiting and retaining diverse employees, and creating inclusive workplace cultures where everyone has an equal opportunity to contribute and succeed.[77] McKinsey & Company posits that more diverse companies, “are better able to win top talent and improve their customer orientation, employee satisfaction, and decision making, and all that leads to a virtuous cycle of increasing returns.”[78]

- **Moral Imperative - It’s the Right Thing to Do:** The Society for Human Resource Management defines inclusion as, “the achievement of a work environment in which all individuals are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to the organization’s success.” Employees who are made to feel like they belong are potentially better performers and happier people.[79]

[76] Hunt, V., Layton, D., and Sara Prince. “Why diversity matters,” McKinsey & Company, January 1, 2015.
[77] “The Business Case for D&I: Ask Catalyst Express,” Catalyst, October 4, 2019.
[78] Hunt, V., Layton, D., and Sara Prince. “Why diversity matters,” McKinsey & Company, January 1, 2015.
[79] Sidorenko, V., “The Business Case For Diversity and Inclusion,” TLNT, April 24, 2019.

## Support Initiatives from the Top

Consumers expect corporations that make statements on racial equality to follow up with concrete action – support must come from the top

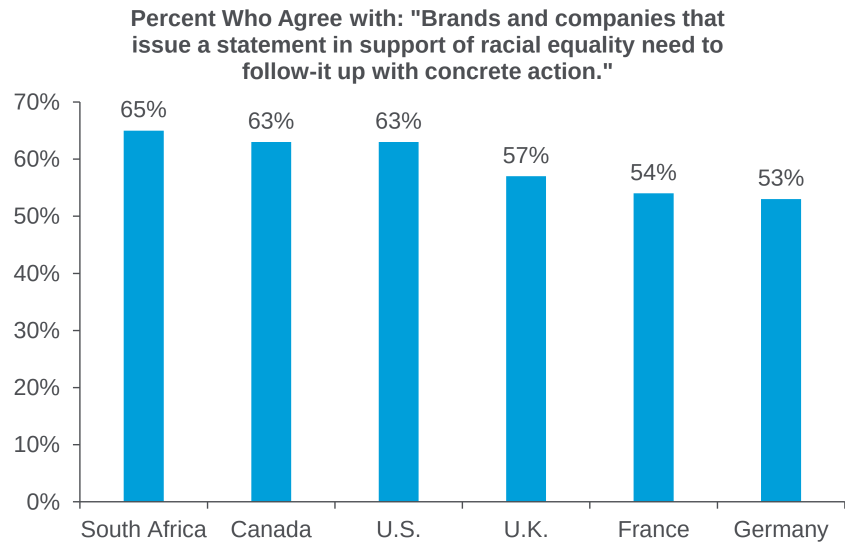
Support of Diversity and Inclusion (D&I) initiatives must come from the top. As of 2020, only four CEOs at Fortune 500 companies are Black. This statistic highlights concerns about equity, as management diversity is often reflected at all levels of a company.[80] Literature suggests that corporations must actively engage in D&I initiatives in order to change the composition and complexion of their firms, but focus must start at the top of the corporate ladder. Indeed, the Edelman Trust Barometer indicates that in the U.S., 63 percent of consumer respondents to their poll believed corporations that make statements in support of racial equality must follow it up with concrete actions in order not to be seen as exploitative or opportunistic (Figure 130).

A number of high profile CEOs support D&I initiatives, including former Xerox CEO Ursula Burns (the first Black female CEO of a Fortune 500 company) who stated that "Business leaders have to start to lead, what has happened in the past, they've trailed." Similarly a number of CEOs have pledged hard dollars to address racial gaps. For example, Comcast pledged $100 million over three years to accelerate efforts on diversity and inclusion, and Walmart also pledged $100 million over five years to create a new center on racial equity that would concentrate in four areas: financial, health care, criminal justice and education.[81]

### Citi's Response

In direct response to the messages from the #BLM Protests, Citi itself has committed to $10.7 million in donations: $1 million each to two organizations working to close the Black achievement gap in education in the United States: UNCF and Management Leadership of Tomorrow (MLT). This is in addition to the $8 million Citi committed to four leading Black-led organizations addressing voting rights, income and wealth gaps, and housing discrimination (the NAACP Legal Defense Fund, the Lawyers' Committee for Civil Rights, the National Urban League and the National Fair Housing Alliance), for a total of $10,684,000 in charitable contributions, inclusive of employee contributions.

**Figure 131. Consumers Expect Firms to Follow up Talk with Action**




Source: Edelman Brand Trust Barometer 2020, Citi Research

[80] Siripurapu, A., "The US Inequality Debate". Council on Foreign Relations. July 15, 2020.

[81] Stankiewicz, K., "CEOs are offering plans and investments to address racial inequality after George Floyd death". CNBC. June 11, 2020.

## Address Racial Gaps in Hiring, Retention, and Firing

Corporations can implement policies that are more conscious of addressing racial gaps in matters of hiring, retention, and firing

Corporations can implement policies that are more conscious of addressing racial gaps in matters of hiring, retention, and firing. There are several recommendations for the corporate setting:

- **Recruitment and Hiring:** Establishing diverse slates and limiting selection bias is paramount at the recruitment and hiring stage. Analysis by NatCen suggests that there is discrimination and 'ethnic filtering' in the recruitment process. Indeed, National Academy of Sciences data reveal the rate of callbacks for Black candidates is generally lower than that of white candidates, and this rate has been little changed over since the 1970s.[82] Moreover, businesses may be inadvertently perpetuating wage inequality by asking for salary histories. To enhance motivation for greater minority employment, companies could be subject to mandatory, randomized public diversity monitoring with the intention that in facing potential obligation to publish minority employment statistics this would translate into material change and diversification of the recruitment process. Additionally, a government supported and fiscally incentivized enhancement of online recruitment as a method to further anonymize the hiring process likely would prove instrumental in improving racial equality in hiring practices.[83]

- **Retention:** With research showing that a professional leaving an organization can cost as much as twice the average associate's salary there is clear economic incentive to improve retention rates, especially among minority employees who are more likely to leave a firm due to mistreatment.[84] Active consideration of minority interests and implementation of specific programs to address minority representation within a firm are proven avenues to greater retention levels. These include mentoring schemes, with defined commitment from employers to provide clear evaluation tools to deliver tangible advancement of their minority employees; active inclusion in high visibility assignments; and proactive endeavors to provide influential sponsors to minority employees within the firm to support the navigation of corporate ascent.[85] Firms should ensure that pay and promotion of Black employees is commensurate with other workers.[86]

[82] Quillian, L., Pager, D., Midtbøen, A., and Ole Hexel. Hiring Discrimination Against Black Americans Hasn't Declined in 25 Years," Harvard Business Review, October 11, 2017.
[83] Lloyd, J., "Ending Ethnic Discrimination in Recruitment". The Strategic Society Centre. November, 2010.
[84] Kapor Center. 2017 Tech Leavers Study.
[85] Diversity Primer, Diversity Best Practices, September 2009 - https://www.diversitybestpractices.com/sites/diversitybestpractices.com/files/import/embedded/anchors/files/diversity_primer_chapter_08.pdf.
[86] Vieux, S., "What Companies Can Do to Combat Systemic Racism Against Black Colleagues in the Workplace," Just Capital, June 4, 2020.

**Figure 132. Callbacks of White Applicants Relative to Black Applicants**

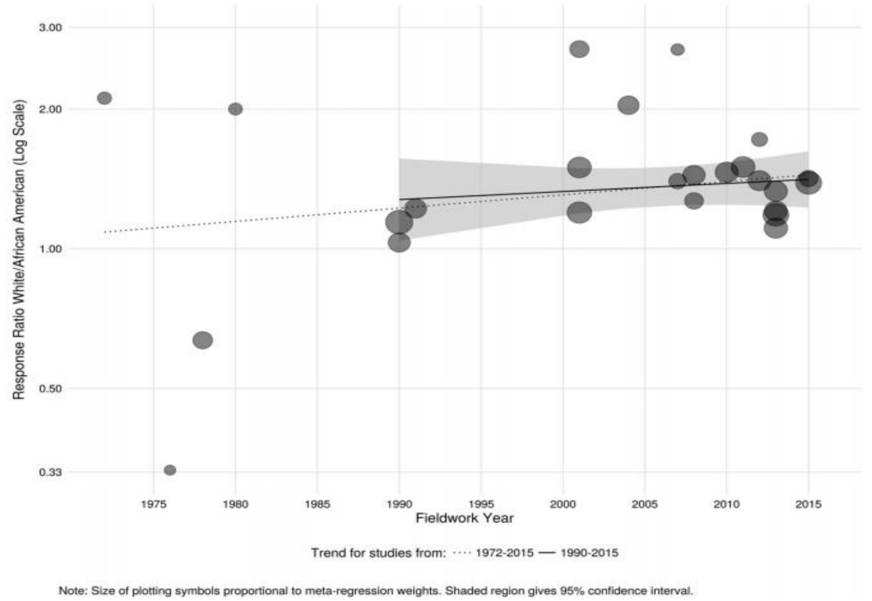



**Fig. 1.** No reduction in hiring discrimination facing African Americans over time.

Source: Meta-analysis of field experiments shows no change in racial discrimination in hiring over time. Lincoln Quilliana, Devah Pager, Ole Hexela, and Arnfinn H. Midtbøen,Proceedings of the National Academy of Sciences (PNAS), 2017

- **Layoffs:** Black and Hispanic workers are more likely to be subject to reductions in force (RIF) actions amid economic downturns due to higher labor market segmentation in lower-level or more discretionary jobs. The Harvard Business Review (HBR) suggests employers can consider performance more than position, and cross-training and upskilling workers to help narrow the numbers of minorities reduced. Companies factoring performance into their decision-making, often are able to retain their best performers, regardless of gender and race. Businesses can redeploy workers with transferable skills to other parts of the firm, and/or cross-train employees for other tasks to avoid major labor cuts. Employers can also cut pay and hours, but continue to retain workers.[87]

- **Lists:** HBR recommends that firms, when releasing employees, maintain lists of persons being let go to note major disparities and to share those lists with other firms that may have job openings. Businesses can draw from these lists of recently unemployed persons to find a diverse set of talent.[88]

## Engage in Corporate Social Responsibility

Businesses can engage in corporate social responsibility (CSR)

Bolstering external communities and supporting minority-owned firms can help close gaps at the societal level. Businesses can engage in corporate social responsibility (CSR). CSR is considered a strategic differentiator for firms, which can aid in brand reputation externally and support employee morale and sense of purpose internally. Moreover, corporations can provide direct investments in minority-owned small businesses.

[87] Kalev, A., "Research: U.S. Unemployment Rising Faster for Women and People of Color," Harvard Business Review, April 20, 2020.
[88] Morgan Roberts, L., McCluney, C.L., Thomas, E.L., and Michelle Kim. "How U.S. Companies Can Support Employees of Color Through the Pandemic," Harvard Business Review, May 22, 2020.

Firms can also consider public actions to accelerate policies and legal measures to protect and support vulnerable populations. This can include public condemnation of events or legislation that target groups of people based upon race.[89]

Studies have shown CSR is not only for attracting and retaining customers, but also for retaining talent. For example, Millennials are willing to forego an average of 14.4 percent of their expected compensation to work at socially responsible companies. Also 88 percent of Millennials believe a business should be proactivity participating in the community. A reported 92 percent of employees involved in CSR programs cite higher rates of emotional and physical health. Moreover, 66 percent of employees report a greater sense of loyalty to their employers as a consequence of participating in CSR programs.[90]

## Dismantle Structural Barriers to Hiring Black Talent

Structural barriers to hiring, such as criminal histories, should be addressed to eliminate discrimination

Other structural barriers inhibiting corporations from hiring Black talent must also be dismantled. In a Time Magazine article written by Darren Walker, the President of the Ford Foundation, Walker advocated enforcement of racially diverse candidate pools while also stressing the material impact of engaging fully with Fair Chance Hiring (FCH). FCH is where companies are encouraged to employ qualified job applicants with criminal histories — a group in which Black Americans are overrepresented, as African American men are 11.8 times more likely to be incarcerated than white men of the same age.[91][92] Policies that might help reduce joblessness among ex-inmates include: (1) temporary basic income; (2) occupational licensing reform; (3) bond insurance and tax incentives for employers who hire ex-offenders; (4) automatic record expungement; and (5) banning employment discrimination subject to Title VII of the Civil Rights Act of1964.[93] Moreover, removing blanket bans on occupational licensing, and following a more bespoke approach. For example, in New Jersey and Oklahoma, a conviction must have a 'direct, rational, or reasonable relationship' to the duties of the occupation to be defined for licensing.

## Develop Metrics to Analyze, Report, and React

Change can't happen until metrics are developed to analyze current situations, report and react

In order for firms to begin and/or continue the process of facilitating racial gap closures in the workplace, metrics must be used to analyze, report, and react. The steps towards eliminating wage gaps include: (1) collecting data; (2) analyzing and publicizing the data; and then (3) acting on the results of the data if they reveal that inequity in pay exists for jobs requiring the same qualifications. First, firms can assess current workforce demographics: do the present number of Black employees match national and local population ratios? Second, firms may set recruitment targets to address discrepancies for Black employees. In areas where Black employees are underrepresented, firms can establish recruitment targets with accountability mechanisms like tying executive compensation to meeting targets or holding leaders accountable in performance reviews.

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[89] IBID.

[90] Civic, B., "CSR – IS IT GOOD FOR BUSINESS?," February 28, 2018.

[91] Walker, D., "If Corporations Really Want to Address Racial Inequality, Here are 9 Things That Actually Make a Difference." Time, August 4, 2020.

[92] Keaveny, P., "Ensuring Racial Equality- from classrooms to Workplaces". The Conversation. March 6, 2019.

[93] Couloute, L., and Daniel Kopf. "Out of Prison & Out of Work: Unemployment among formerly incarcerated people," Prison Policy Institute, July 2018.

Targets are useful for opening up opportunity for highly qualified underrepresented persons while potentially limiting space for less qualified persons among overrepresented groups.[94] Third, investigate whether Black employees are compensated for equal work and promoted as regularly as other employees. Following the pay equity study (analyze), firms should be transparent about the results (report), and then create a plan to rectify discrepancies (react).[95] Business can also hire specialized recruitment and employment firms (e.g., Jopwell) to assist with diversification initiatives.

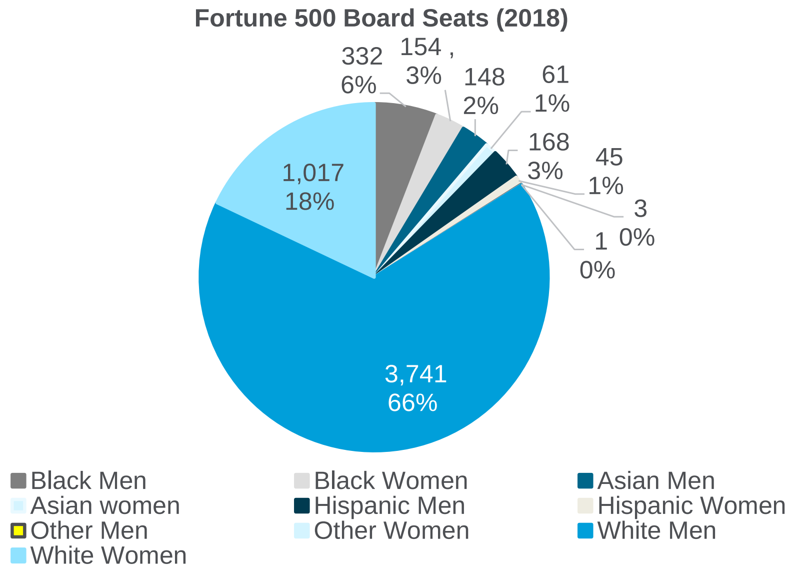
## Recruit More Black Board Members

More Black executives need to be added to corporate boards

To assist with accountability, companies can add more Black executives to their boards. According to Deloitte LLP "a critical need for inclusive leadership, the shifting U.S. demographics, and investor pressure in the United States have increased the focus on diversity in the C-suite and on public company boards."[96] A 2018 Deloitte study found that 34 percent of Fortune 500 seats were held by women and minorities, and 38.6 percent of Fortune 100 board seats were held by women and minorities. This share might increase to 40 percent by 2024 if the rate of increase identified over the 2016 to 2018 period of the study were kept. Notably, Black women gained 32 Fortune 500 seats in 2018, and Black men acquired 26 seats, rates of increase of 26.2 percent and 8.5 percent respectively.[97] Nonetheless, the study confirmed that many of the Black board members were "recycled," meaning they had already been board members elsewhere or are currently serving on another board. Hence, while board diversity is increasing, the absolute number and share of Black men and women on boards (9 percent) is lagging relative to the U.S. population (13 percent).

[94] Kaplan, S., "Why the 'business case' for diversity isn't working," *Fast Company*, February 12, 2020.
[95] Vieux, S., "What Companies Can Do to Combat Systemic Racism Against Black Colleagues in the Workplace," Just Capital, June 4, 2020.
[96] DeHaas. D., Akutagawa, L., and Skip Spriggs. Missing Pieces Report: The 2018 Board Diversity Census of Women and Minorities on Fortune 500 Boards, Deloitte LLP, February 5, 2019.
[97] Ibid.

**Figure 133. Black People Still Underrepresented on Boards (9%) Relative to Population (13%)**

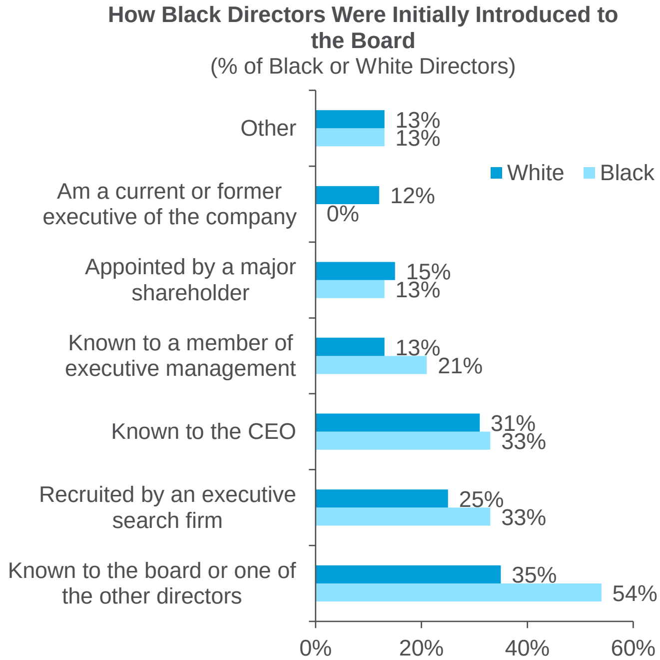



Source: Deloitte LLP, Citi Research

Challenges to adding more Black board directors must be overcome. According to the Harvard Business Review, challenges to adding Black board members include: (1) few existing minority directors to recruit and attract Black board members; (2) a lack of Black persons in the executive pipeline, who are often persons tapped for board seats; (3) an insufficient number of minorities on recruitment slates; (4) homogenous social networks that may have few or no Black persons who might be tapped for board directorships; (5) inadequate director onboarding required for directors to get to know each other and work more effectively; (6) lack of leadership roles on boards for Black directors, making them less effective; and (7) bias, where Black directors, especially women, feel that their ideas are devalued or ignored.[98] Many of these challenges can be overcome by (1) broadening the search criteria for board members; (2) better leveraging search firms for finding board members; (3) improving on-boarding training; (4) ensuring more leadership roles for Black directors; (5) building up the pipeline of potential directors by addressing problems with retention of Black employees; and (6) valuing the expertise, contributions, and opinions of Black board directors. Diverse boards provide a diversity of perspectives, create a virtuous cycle of greater diversity, and help with recruitment and retention of diverse talent throughout the company.

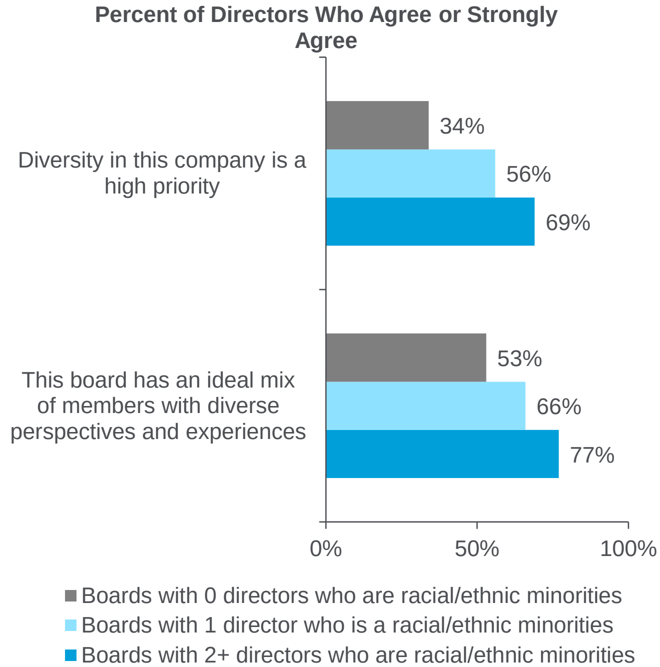
[98] Cheng, J.Y-J., Groysberg, B., and Paul M. Healy. "Why Do Boards Have So Few Black Directors?," Harvard Business Review, August 13, 2020.

**Figure 134. Social Networking is a Major Factor In Selecting Black Board Members**




Source: Harvard Business Review, Citi Research

**Figure 135. Racially Diverse Boards Tend to Prioritize Racial Diversity Within the Company**




Source: Harvard Business Review, Citi Research

## What Can Individuals Do?

**Figure 136. Individuals Can Work Towards Eliminating Racial Gaps**


Source: Shutterstock

While we argue that structural factors have and continue to play significant roles in perpetuating racial gaps, individuals are far from powerless. Black persons in the U.S. can continue to advocate for themselves in the realms of finances, education, business, and politics. Meanwhile, persons of other races can continue to educate themselves about historical disparities and work towards fixing them.

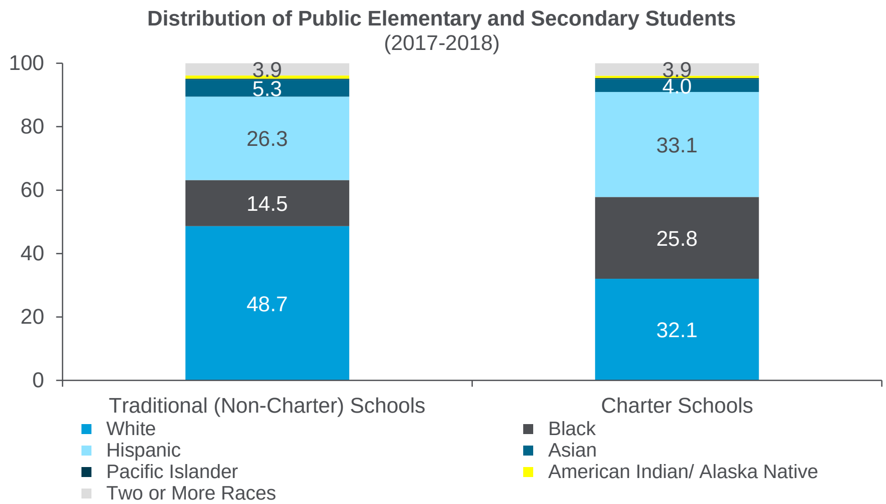
### Use Education as a Pathway for Advancement

Education is a pathway for advancements and parents can advocate for greater accountability and funding for schools

Parents can advocate for greater accountability from and funding for schools. Although Black parents are less likely to volunteer at school events, often due to work commitments, it does not mean that they are not involved in their children's education. Parents show their activism in their choices for education for their children including charter schools, private schools, and magnet public schools. (Figure 137). On a small scale, one study revealed that 83 percent of Black students had their homework checked by a parent, compared to 57 percent of white students and 59 percent of Asian students.[99] In terms of more dramatic action, parents have reported willingness to move in order to provide their students with access to a better school district. Parents can continue to take action against unequal disciplinary measures against their children that can disrupt learning and future prospects. Black youth comprise roughly 16 percent of public school students and about 9 percent of private school students. Yet, they account for 35 percent of in- and out-of-school suspensions, and 39 percent of expulsions.[100] Parents can ensure that their children are considered for gifted and talented education (GATE) programs and apply to magnate schools, which have become more racially segregated.[101] Finally, parents can use their political power (Decennial Census, voting) to ensure that adequate funding is directed towards their school districts.

[99] Morris, M.W., Black Stats: African Americans by the Numbers in the 21st Century, 2014.
[100] Ibid.
[101] Pirtle, W., "The Other Segregation," *The Atlantic*, April 23, 2019.

Figure 137. Minority Students Are More Likely to Attend Charter Schools than Traditional Ones




Source: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), Citi Research

Students can aim high and utilize resources that promote success

As mentioned above, students can take more courses relevant to STEM fields, and take Advanced Placement courses in high school. Students should seek education beyond a high school degree: college, trade school. Students should also consider advanced and professional degrees even after earning a college degree. Throughout the school career, students can take advantage of organizations that promote academic achievement and stepping stones into business. Notable organization include Girls Who Code, My Brother's Keeper Alliance, Jack and Jill of America Incorporated, United Negro College Fund (UNCF), Management Leadership for Tomorrow (MLT), INROADS, Toigo, Sponsors for Educational Opportunity (SEO), A Better Chance, the Jackie Robinson Foundation, and the Urban League. Funding for education can be tackled in part via familial investments in college savings plans and student applications to scholarships. As discussed above, training and higher education are highly correlated with higher incomes over a lifetime.

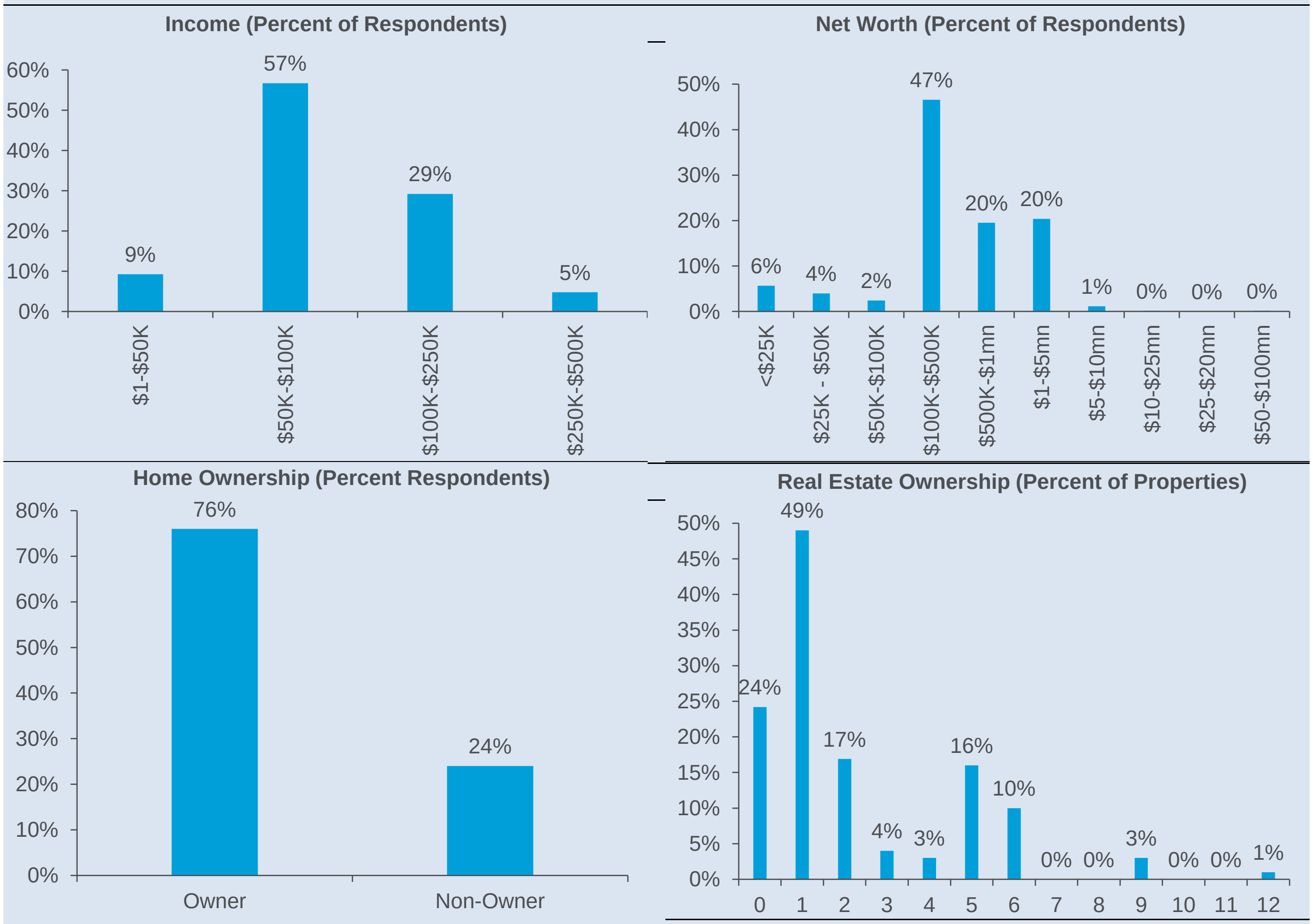
## Have Non-Profit Organizations Built the Middle Class? Spotlight on MLT and INROADS

Non-profit organizations have existed for more 100 years to help advance the financial and social wellbeing of Black Americans. Two organizations have quantified how their efforts have bolstered the expansion of the Black middle-class.

- MLT – Statistics from the MLT website indicate the average starting salary for their Career Prep Fellows is $75,000, with half of these students coming from homes with annual household incomes of less than $50,000. Moreover, of their 1,600 scholars per year, 90 percent of their undergraduates receive an offer for a high trajectory job, 90 percent of its MBA Prep students matriculate at top10 business schools, and 90 percent of its first-generation college students are on track to graduate within 4-6 years, compared to the national average of 11 percent.

- INROADS –INROADS in partnership with Australian-based non-profit Career Trackers surveyed 1000 INROADS alumni to determine how the organization has helped to narrow racial gaps. Among respondents, 57 percent have incomes in the range of $50,000 to $100,000 and 34 percent with incomes exceeding $100,000. Forty seven percent have net worth in the range of $100,000 to $500,000, and 40 percent in the $500,000 to $5 million range. Plus, 76 percent own a home. Regarding real estate 49 percent own at least one property and 56 percent own more than one property (Figure 138).

**Figure 138. INROADS Scholar Alumni Have Helped to Expand the Black and Minority US Middle-Class**




Source: Adam Davids, Fulbright Scholar hosted by INROADS and Director of Learning and Innovation CareerTrackers Australia, Citi Research

### What Is Citi Doing to Help Minority Women Advance in Technology?

***Citi Foundation Supports NPower and their report Breaking Through, Rising Up; Strategies for Propelling Women of Color in Technology***

In May 2018, the Citi Foundation awarded a $1.64 million grant to NPower to increase the enrollment of young women in its program from 25% to 40% by 2022 — now two years into this mission, enrollment rates are at 31%. In September 2020, Citi Foundation announced it was expanding its partnership with NPower, including an additional $4 million investment, to help advance the careers of young Black and Latinx women in the technology field across six U.S. cities.

**To date, the intersection of gender, race, and class in technology has received little attention.** NPower seeks to address this discrepancy and highlight the core elements crucial to establishing a more equitable industry; with a particular focus on women of color. Undeniably, achieving this goal will require intention, investment and innovation as well as cross-sector awareness and action by practitioners and executives. With women making up just 26% of the technology workforce and with Black and Latinx women making up just 3% and 1% of the computing workforce, respectively, there is significant progress to be made.

**NPower seeks to address inequality in providing free training in technology.** Its aim is to correct diminished access to early computing as a result of inequitable funding streams in high-poverty areas disproportionally affecting minority groups. There are four key aspects to the program: (1) focusing on recruitment; (2) support services; (3) instruction; and (4) job placement services. In combining the practical with the personable, the program is able to best approach training for women of color. In using community-based organizations to expand applicant pools whilst providing wraparound support services, the impact of the training and economic mobility provided to alumni can be material. Moreover, in endeavoring to target classroom bias by providing female instructors, the program is also able to provide applicable role models; challenging what is often seen as a barrier to motivation to join an industry. With Citi's support, the instructional staff at NPower has gone from one female instructor in 2018 to recruiting and onboarding six additional female instructors two years later. This trend of inclusion is further emphasized within the job placement aspect of the program, primarily in their drive to create strong partnerships with employers that demonstrate successful and integrated diversity practices.

**NPower supports utilization of a number of strategies that practitioners, employers, and funders can apply in order to deliver a successful and minority favorable outcome.** Particularly impactful is the suggestion for the provision of flexible training provisions, such as online or at the weekend, whilst considering skill based hiring and embracing non-traditional educational backgrounds. Moreover from a funding prospective, investing in wraparound services such as childcare — with 19% of female and 10% of male students citing managing childcare responsibilities as a significant challenge during the program — and transportation, deliver meaningful differences for participants.

**NPower believes a number of policy levers for increasing opportunities for Women of Color in Technology can also be widely applied to the minority population as a whole.** Fundamentally, an expansion of funding for apprenticeship programs as well as the expansion of Pell Grants to shorter term training programs would have a positive impact, alongside the increased funding for childcare subsides, especially during non-traditional hours. To provide sustainability, expanding family leave laws and strengthening pay parity laws would prove instrumental in progressing towards a more equitable workplace, not just in technology, but in every industry.

## Don't Ask, Don't Get: Advocate for One's Career

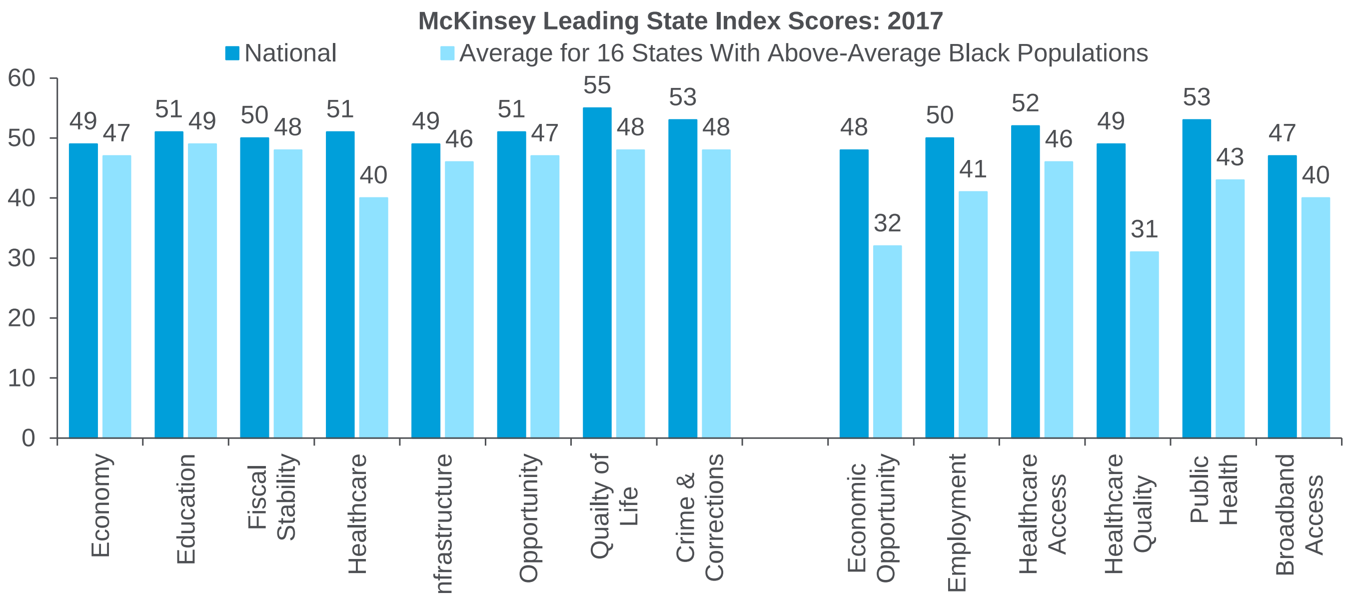
Black workers can enhance their wage and income prospects by advocating for their careers.

Black workers should seek greater opportunities, including stretch assignments and leadership roles. Ask for and accept constructive feedback during reviews in order to identify areas of strength and weakness. Request clear goals that constitute success and review them with managers on a frequent basis. When it comes to compensation ask for the raise, but also arm oneself with a list of accomplishments warranting an increase. Ask employers where your salary lies within the range for your duties. If outside of that range, ask for it to be rectified. Unfortunately, a study by PayScale indicates that “People of color were significantly less likely than white men to have received a raise when they asked for one.

Women of color were 19 percent less likely to have received a raise than a white man and men of color were 25 percent less likely."[102] Nonetheless, if workers do not ask for a raise, then they lower the likelihood of receiving one. Network and remain visible, highlighting your successes with key stakeholders. Workers should seek mentors, advocates, and sponsors to help navigate their careers within a corporate setting. Join trade unions or professional clubs within your industry. Join or create support groups with colleagues outside of your business to glean knowledge and to build morale. Remain curious and retool one's skillset in order to be prepared for larger roles, greater responsibilities, and new opportunities.

- **Consider starting a business:** The U.S. Chamber of Congress and the SBA are resources for Black-owned businesses to find sources for grants, financing, and advice on how to run effective firms.
- **Move:** While a difficult decision, relocation may be the answer to improved jobs prospects. Sixty five percent of the Black population resides in 16 states in the U.S. However, according to a survey by McKinsey and Company, on average these states rank below national averages in metrics that can lead to an improved quality of life and wealth generation. Black workers, especially younger workers can opt to move to states that are generating the most jobs in high paying industries.

**Figure 139. Black Workers Are Concentrated in States with Poor Economic Prospects Relative to National Average**




Source: McKinsey & Company, Citi Research

[102] "PayScale Research Shows People of Color Up to 25% Less Likely toRreceive a Requested Pay Raise than White Men," PayScale Inc., May 28, 2018.

**Figure 140. Black Workers Are Less Likely to Be Located In States With Rapid Growth in High Wage Sectors**


Source: BEA, World Population Review, Citi Research

## Embrace Delayed Gratification and Risk

Investment is an important tool for generating wealth

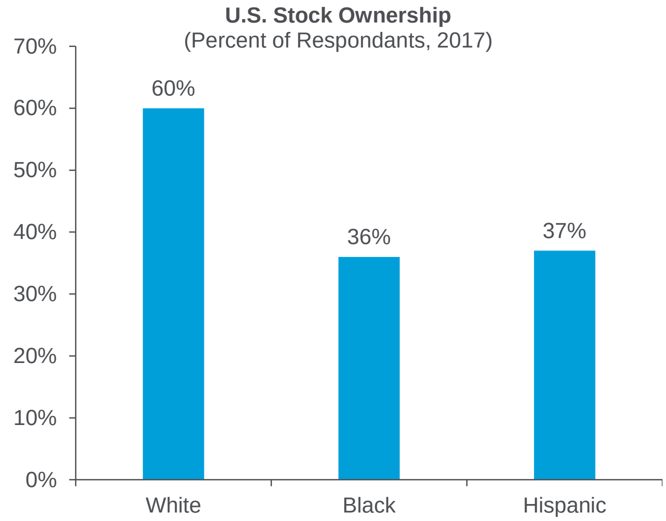
Financial literacy and engaging with more traditional forms of financial services are ways that Black families can learn to budget and adjust spending in order to generate savings. Savings are critical for generating wealth via investments in homes, retirement and college savings vehicles, businesses, and financial assets. Indeed, a 2017 Gallup poll revealed that only 36 percent of Black respondents compared to 60 percent of white respondents cited investments in the stock market (Figure 141).[103] This is despite one fifth to one quarter of people in the US believing that stocks are a good long-term investment in recent years (Figure 142).[104] Actions that generate wealth require delayed gratification and a measure of risk, but can often lead to positive returns over the longer run.

[103] Jones, J.M., “U.S. Stock Ownership Down Among All but Older, Higher-Income,” Gallup, May 24, 2017.

[104] McCarthy, J., “Stock Investments Lose Some Luster After COVID-19 Sell-Off,” Gallup, April 24, 2020.

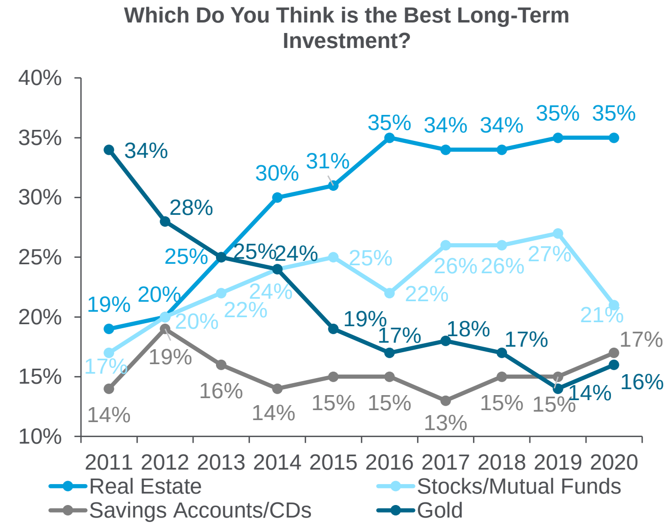
Operation Hope and Dfree are notable organizations that advocate financial literacy as an avenue for achieving financial independence, often known as "silver rights." Online brokerage firms that require smaller initial investments and reduced fees, as well as investment clubs are ways that families with modest incomes can begin to invest in their futures. Families with greater means can seek professional advice from brokers and financial advisors. All persons working at jobs with pension funds and/or retirement savings vehicles (IRAs, 401Ks) should take advantage of them, especially early in one's career.

Figure 141. Black People Less Likely to Own Stocks than White People




Source: Gallup, Citi Research

Figure 142. A Significant Share of Americans Favor Stock Holdings



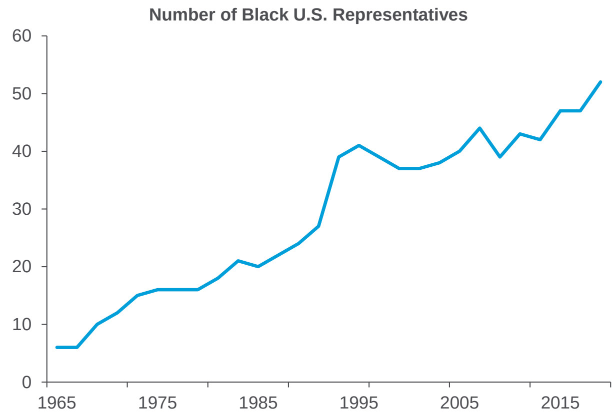

Source: Gallup, Citi Research

## Utilize Political Power

Black persons can use the power of the purse and political activism to advance closure of racial gaps

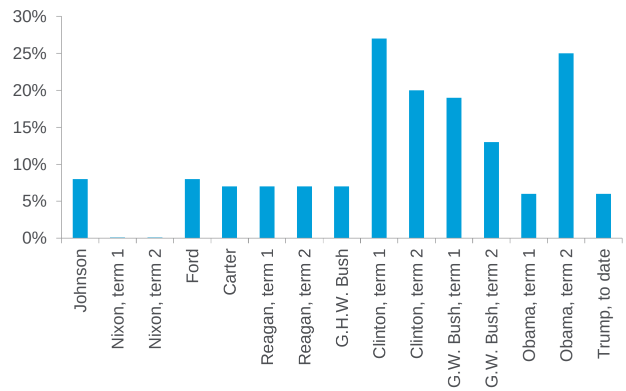
Many people are utilizing the #BlackLivesMatter movement as an opportunity to speak out against and address racial disparities of all stripes in the United States. Even ordinary persons can use their wallets to challenge firms to change practices that perpetuate inequality. Meanwhile, shareholders can use their influence over corporate executives to advance change. Every citizen having the right to vote should exercise it. Those willing to have a more direct hand in effecting change at the institutional level can engage in political activism by running for office or supporting elected officials with finances and time. While the number of Black politicians, particularly at the Federal level, remains few, the numbers have been on the rise, and likely will continue to do so (Figure 144).

**Figure 143. Number of Blacks in Congress is Small but Steadily Climbing**




Source: Pew Research Center, Citi Research

**Figure 144. Blacks in Federal Positions Have Increased**




Source: Pew Research Center, Citi Research

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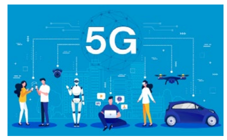


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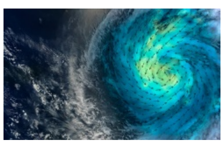

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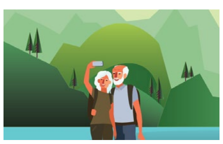

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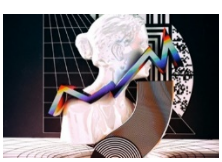

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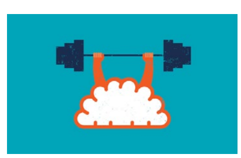

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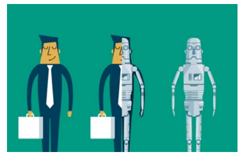

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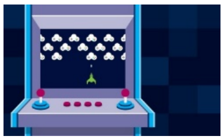

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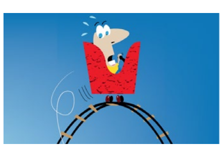

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## IMPORTANT DISCLOSURES

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## Key Insights regarding the future of Racial Equality

### EDUCATION

Closing the college/advanced degree racial gap 20 years ago might have generated up to $113 billion in additional income for saving, investing and consumption. / Removing funding gaps from K-12 education funding, focusing on school curricula (including STEM) and directing Black students toward higher wage and in-demand occupations can help close the education gap and solve the income gap.

### LABOR MARKET

In general Black workers are underrepresented in management, business, financial, professional and related occupations that pay the highest salaries. They are also are more likely to be situated in jobs that require lower skills and/or are more susceptible to automation / Encouraging Black students and workers to pursue education and training suitable to more technological and skills-based careers can help close the racial labor segmentation gap.


### POLICY

The current 30 basis point gap between Black and white family home ownership is greater now than before 1968 when housing discrimination was legal. / Public policy should focus upon housing as a pathway to wealth and encourage home ownership as a path to intergenerational wealth.

NBER WORKING PAPER SERIES

# DID THE $660 BILLION PAYCHECK PROTECTION PROGRAM AND $220 BILLION ECONOMIC INJURY DISASTER LOAN PROGRAM GET DISBURSED TO MINORITY COMMUNITIES IN THE EARLY STAGES OF COVID-19?

Robert W. Fairlie
Frank Fossen

Working Paper 28321
http://www.nber.org/papers/w28321

NATIONAL BUREAU OF ECONOMIC RESEARCH
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Cambridge, MA 02138
January 2021

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Did the $660 Billion Paycheck Protection Program and $220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?
Robert W. Fairlie and Frank Fossen
NBER Working Paper No. 28321
January 2021
JEL No. I28,J15,L26

## ABSTRACT

Social distancing restrictions and health- and economic-driven demand shifts from COVID-19 shut down many small businesses with especially negative impacts on minority owners. Is there evidence that the unprecedented federal government response to help small businesses – the $659 billion Paycheck Protection Program (PPP) and the related $220 billion COVID-19 Economic Injury Disaster Loans (EIDL) – which had a stated goal of helping disadvantaged groups, was disbursed evenly to minority communities? In this descriptive research note, we provide the first detailed analysis of how the PPP and EIDL funds were disbursed across minority communities in the country. From our analysis of data on the universe of loans from these programs and administrative data on employer firms, we generally find a slightly positive relationship between PPP loan receipt per business and the minority share of the population or businesses, although funds flowed to minority communities later than to communities with lower minority shares. PPP loan amounts, however, are negatively related to the minority share of the population. The EIDL program, in contrast, both in numbers and amounts, was distributed positively to minority communities.

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# 1. Introduction

The widespread closing of stores and businesses in the United States and around the world due to the coronavirus is unprecedented. Stores, factories and many other businesses have closed by policy mandate, downward demand shifts, health concerns, or other factors. The number of working business owners in the United States plummeted from 15.0 million in February 2020 to 11.7 million in April 2020 and has only partially rebounded since then (Fairlie 2020).[1] The impacts have also been disproportionately felt by race: business owner activity fell in the early-stages of the pandemic by 41 percent among African-Americans and 32 percent among Latinx compared with 17 percent among whites.[2]

Given the impact of the pandemic the federal government provided a response of larger magnitude than ever seen before in terms of providing financial assistance to small businesses. The largest program providing funds to small businesses is the $650 billion Paycheck Protection Program (PPP).[3] The Small Business Administration (SBA) administered program provides loans to small businesses through banks, credit unions, and other financial institutions with the stated goal of keeping small businesses open and retaining employees on the payroll. Loan amounts were generally equal to 2.5 months of average payroll costs, and can be forgiven if the business retains its employees. The program started providing loans on April 3, 2020, which was after most states imposed social distancing restrictions in response to COVID-19, and ran through August 8, 2020 providing more than 5 million total loans.[4] The $220 billion Economic Injury Disaster Loan Program (EIDL) program, which is also administered by the SBA, is designed to provide either loans or advances to small businesses that are losing revenues and sales due to COVID-19. Nearly 3.6 EIDL loans for $200 billion and nearly 5.8 million EIDL advances for $20 billion have been provided to small businesses. EIDL loans can be used to cover up to 6 months of a wide array of

[1] These findings prompted a large policy response, for example, new U.S. Senate bills (U.S. Senate 2020) and California State bills (Newsom 2020) to provide assistance to minority and small businesses during the pandemic.
[2] Cash balances and revenues of small businesses also fell substantially in the early stages of the pandemic (Farrell, Wheat and Mac 2020).
[3] The Coronavirus Aid, Relief, and Economic Security (CARES) Act also provided stimulus payments to households and expanded unemployment insurance benefits to households. See Bhutta et al. (2020) for an analysis of whether this cash assistance will help families cover expenses over a six month period of lost income (i.e. April through September 2020), relative to a counterfactual where families would have had to rely solely on their own liquid savings and standard UI benefits (e.g., benefits available in the absence of CARES).
[4] On March 11, 2020, the World Health Organization (WHO) declared COVID-19 a pandemic. On March 16, the San Francisco Bay Area imposed the first shelter-in-place restrictions in the country followed by the State of California on March 19. New York State followed the next day. By early April most states imposed social distancing restrictions.

working capital and normal operating expenses, such as continuation of health care benefits, rent, utilities, and fixed debt payments. EIDL advances are grants and do not have to be repaid, but are for smaller amounts ($1,000 per employee up to a maximum of $10,000). EIDL advances are subtracted from the forgiveness amount of their PPP loan if they are received in addition to PPP loans.

One of the stated goals in the CARES Act which included the PPP and EIDL programs was to prioritize serving "underserved markets" and businesses owned by "socially and economically disadvantaged individuals" (U.S. Congress 2020). Did the PPP and EIDL programs, which provided 15 million loans or advances worth more than $850 billion to small businesses, get disbursed to minority communities benefitting the businesses and employees in those communities? Given the larger negative effects of COVID-19 on business inactivity among minority businesses (Fairlie 2020) targeting these relief funds to minority communities might be especially important.

In this descriptive research note we provide the first detailed analysis of how the PPP and EIDL funds were disbursed across minority communities in the United States. Using administrative data on the universe of PPP loans, EIDL loans, and EIDL advances, we explore whether loans and advances were evenly distributed or not. We find that minority communities received a large share of PPP loans. We generally find a slightly positive relationship between PPP loan receipt per business and the minority share of the population. There is some evidence, however, that the first round of funds was disproportionately disbursed to non-minority communities and the second round of funds was disproportionately disbursed to minority communities. When we focus on the minority share of employer businesses in an area we find similar results. Focusing on PPP loan amount per employee, however, we find a negative relationship with minority share of the population. In contrast, EIDL loans and advances, in both number and amounts, were provided positively to minority communities. We find a strong positive relationship in the receipt of these loans and advances by minority share of the population.

These results build on the findings from a few related working papers on the PPP program. Granja et al. (2020) find that the first round of PPP funds flowed to areas more adversely affected by the economic effects of the pandemic, but that the early PPP did not have a substantial effect on local economic outcomes. Neilson et al. (2020) report based on survey data that the smallest businesses were less aware of the PPP, less likely to apply, and conditional on applications filed later, faced longer processing times, and were denied more often. Bartik et al. (2020) using firm-level data and an instrumental variables approach find that PPP loans led to an increase in a business' expected survival, and a positive but imprecise effect on employment.[5] Focusing on race, Lederer et al. (2020) conducted matched-pair audit testing of financial institutions in Washington, D.C. for PPP loans and find disparities between black and white testers in encouragement in applying for a loan, products offered, and information provided by the bank representative. Additionally, Erel and Liebersohn (2020) find that FinTech is disproportionately used to disburse PPP funds in high minority share ZIP codes. This paper builds on the previous research by providing the first comprehensive analysis of the relative disbursement of PPP and EIDL small business funds to minority communities, and the first study, to our knowledge, of the EIDL program. The findings are potentially important for future targeting and oversight of government aid to preserve minority businesses and the jobs they create.[6]

## 2. Data

Partly in response to a Freedom of Information Act (FOIA) request and law suit threat by the media, the SBA released complete loan-level microdata for the PPP and EIDL programs. The PPP data cover the universe of loans provided through the program, which was from April 3, 2020 to August 8, 2020. The PPP is divided into two rounds. The first round ran from April 3 to April 16 and consisted of $342 billion across about 1.6 million loans. The second round ran from April 27 to August 8 and included more than 3.5 million loans with a total value of roughly $180 billion. In total there are 5.2 million loans and $522 billion.

The loan microdata include information on the amount of the loan for loans under $150,000 For larger loans, only ranges are reported ($150,000-350,000, $350,000-1 million, $1-2 million, $2-5 million, and $5-10 million). Geographical information down to the zip code is provided in the smaller loan data, whereas exact address and even the name of the business is included in the larger loan data. The data also include information on industry, business type, jobs retained self-

[5] Alstadsæter et al. (2020) use Norwegian administrative data to simulate the effects of Norwegian government support and the U.S. PPP program to help businesses during the COVID-19 pandemic and find that these policies supporting payroll can be partly effective.

[6] A large literatures explores the causes and consequences of disparities in ownership and success of minority-owned businesses. For broader discussions and reviews of these literature, see, for example, Davila and Mora (2013); Fairlie and Robb (2008); Kerr and Kerr (2020); Parker (2018). See Fairlie (2020) and Stanford Latino Entrepreneurship Initiative (2020) for evidence of COVID-19 impacts on minority-owned businesses.

reported by the business, and name of the lender.[7] Information on the race, gender and veteran status of the owner are incomplete. The application did not ask for demographic information on the owners (see U.S. SBA 2020 for application form) and relied on banks to report the information. The result is that only 10 percent of loans provide race information, and these are heavily concentrated among a few banks.

The SBA also released loan and advance data from the EIDL program. The EIDL program data are separated into the loans and advances. There were 3.6 million loans and 5.8 million advances administered through the program. As of 9/14/20 $190 billion of the allocated $200 billion in loans have been handed out to small businesses. All of the $20 billion for EIDL advances has been provided to small businesses.

To normalize the number of PPP or EIDL loans by zip code we calculate loans per employer business. We use data from County Business Patterns (CBP) on business establishments with employees. The data are provided by the U.S. Census Bureau at the zip code level as well as other geographical levels. The CBP data on employer establishments do not include counts of farms and nonprofits. We acquire farm data by zip code from the U.S. Department of Agriculture's National Agricultural Statistics Service (NASS). From the PPP loan data, we exclude nonprofit businesses, which represent 3.5 percent of loans, businesses with a nonclassifiable industry (1.7 percent of the loans), self-employed persons (4.5 percent), and independent contractors (3.0 percent).

To normalize loan amounts we calculate average loan amounts per business employee in each zip code. CBP data also includes employment levels for employer business establishments down to the zip code level. The normalization adjusts for loan amount differences due to differences in employment size by location, which is the general basis for loan amounts. Because only ranges are reported for larger loans in the PPP administrative data we use the midpoint of each range for each loan (e.g. we use $250,000 for a recorded range value of $150,000-350,000). Using alternative assumptions such as 1/3 the range instead of the midpoint does not change the relationship by minority share. EIDL loan and advance amounts are complete.

[7] The top banks providing PPP loans were Bank of America (7%), JPMorgan Chase (5%), Cross River Bank (4%), Kabbage (4%), and Wells Fargo (4%).

We compare these measures of loan receipt per employer business establishment and loan amounts per employee to data from the Census of Population on the minority share of the population across communities. We measure minority share of the population primarily by zip code but also by county. In addition to analyzing the relationship between PPP and EIDL loan receipt per business by the minority share of the population we examine the relationship by minority share of employer businesses. We use data from the Annual Business Survey (ABS) on employer businesses at the county level to calculate the minority share of employer businesses in each location. Data from the ABS are not available at the zip code level.

Table 1 provides mean values (weighed by population and unweighted) for the main variables of interest. Across zip codes, the average number of PPP loans per employer establishment is 0.489. The average loan amount per employee (unconditional on receiving a loan) is $4,404. EIDL loan receipt and amounts are lower. EIDL advances went out to more firms but the amounts were much smaller than other funds. The minority share of the population across zip codes has a mean of 0.389 and the minority share of employer businesses has a lower mean of 0.180 reflecting substantially lower business ownership rates among minorities.

Table 1: Descriptive Statistics

| | Weighted Mean | Unweighted Mean | N |
|---|---|---|---|
| PPP loans per employer establishment | 0.489 | 0.347 | 31,952 |
| PPP average loan amount per employee | $4,404 | $4,892 | 30,356 |
| EIDL loans per employer establishment | 0.256 | 0.154 | 31,952 |
| EIDL average loan amount per employee | $1,515 | $2,488 | 30,356 |
| EIDL advances per employer establishment | 0.577 | 0.335 | 31,952 |
| EIDL average advance amount per employee | $192 | $262 | 30,356 |
| Minority share of the population | 0.389 | 0.229 | 32,670 |
| Minority share of the population (county) | 0.389 | 0.235 | 3,142 |
| Minority share of employer businesses (county) | 0.180 | 0.116 | 1,031 |

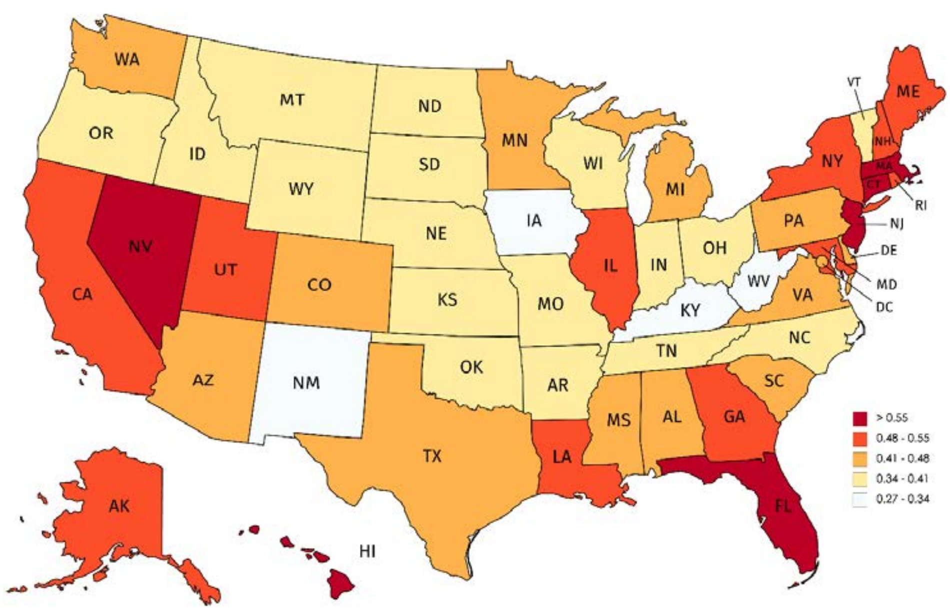
*Notes*: The statistics are at the zip code level if not otherwise indicated. The weighted means are weighted by population. Areas with unobserved minority shares are excluded. The PPP average loan amount per employee excludes loans to agriculture due to a lack of data on farm employees.

# 3. Results

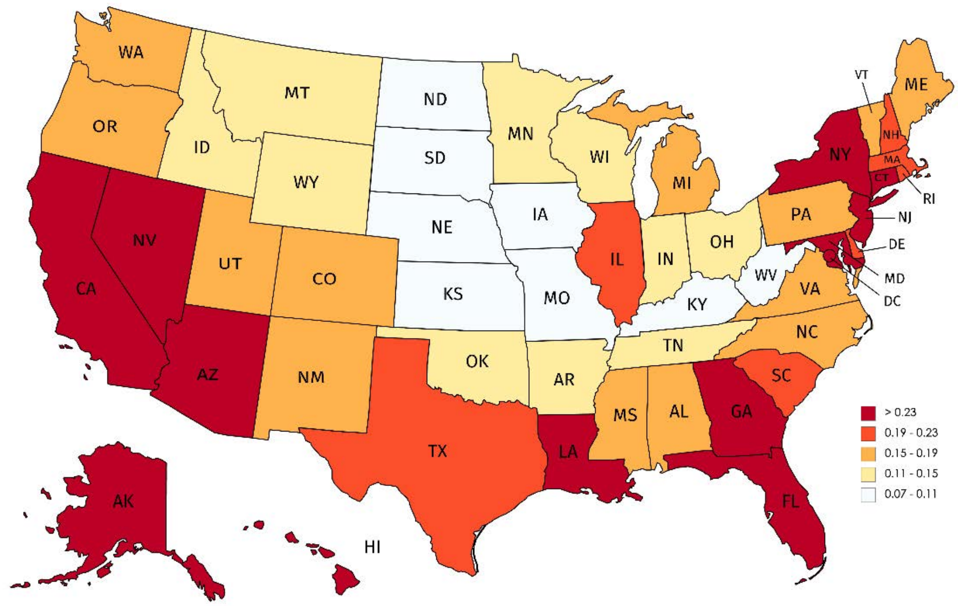
## 3.1 Regional Patterns in PPP Loans and EIDL

PPP loans were spread across the country and not limited to a few regions. Figure 1, Panel A, provides a state heat map of PPP loan receipt per employer business establishment. A few states had levels of above 0.55 loans per employer business and a few states had levels between 0.27 and 0.34 loans per employer business. States on the East Coast tended to have higher rates of loan receipt per business, and states in the Midwest tended to have lower rates of loan receipt per business. EIDL loan receipt per business (Panel B) also was generally spread across the country. The patterns are somewhat stronger regionally, however, with the coasts having higher levels of loan receipt per business than the middle of the country. EIDL advances (Panel C) show a somewhat similar pattern across states. The main takeaway from these figures, however, is that PPP loan, EIDL loan and EIDL advances receipt per business was spread across the country and not limited to only a few states or regions.

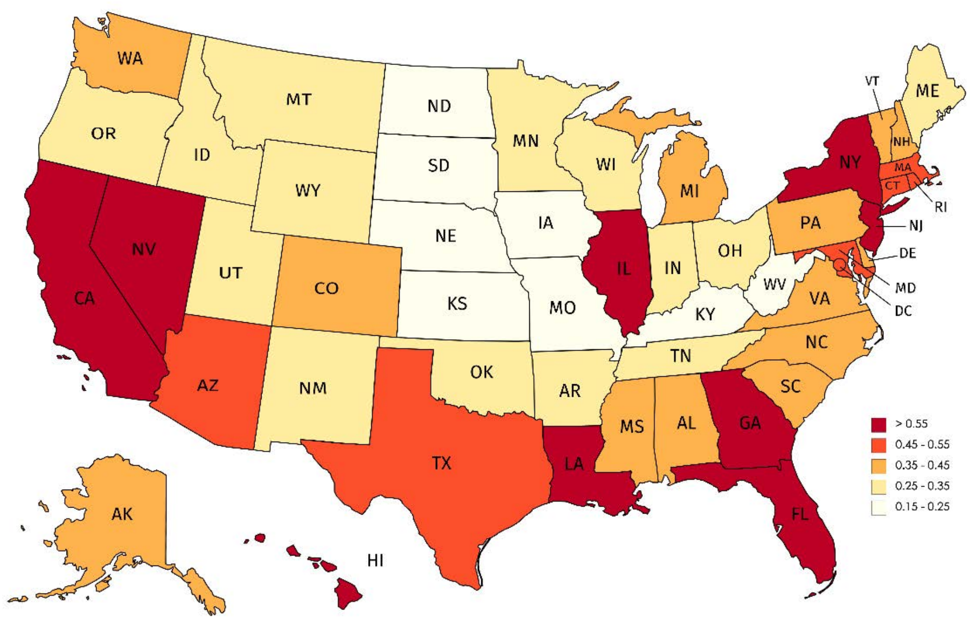
**Figure 1: Distribution of loan receipts per employer establishment across states**
Panel A: PPP loans



Panel B: EIDL loans




Panel C: EIDL advances

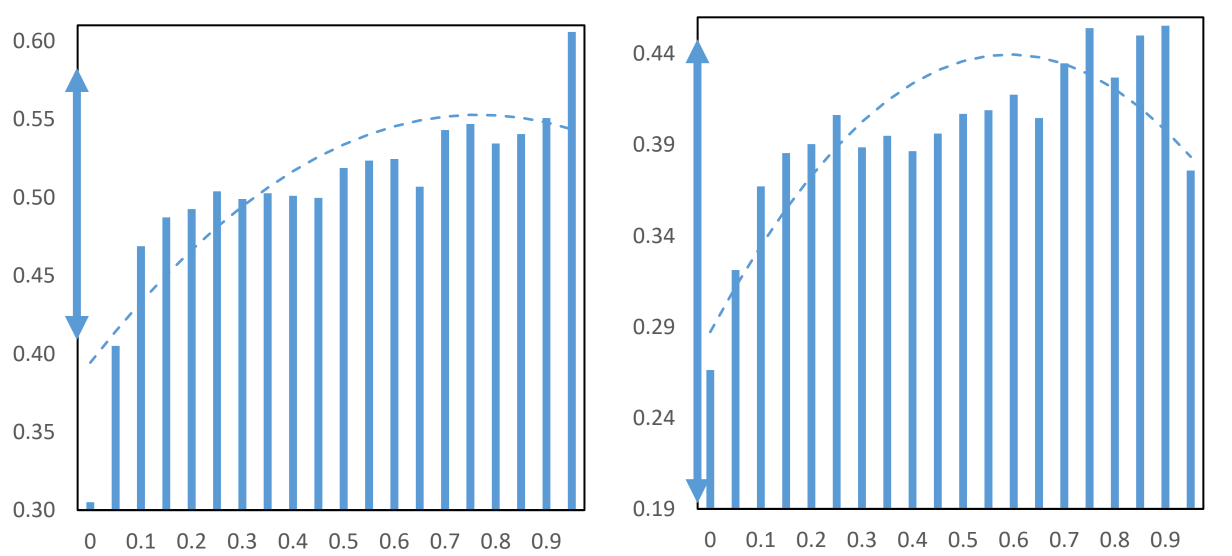



## 3.2 PPP Loan Receipt Patterns by Minority Communities

We turn to analyzing how PPP loan receipt was distributed across minority communities. Figure 2 displays PPP loan receipt per employer establishment by minority share of the population at the zip code level. Panel A shows the relationship weighted by the total population and Panel B shows the relationship without population weights. The figure also includes plotted quadratic regression lines to help show the relationship. Before discussing the results, two important points are noted. First, we do not report confidence intervals (i.e. "whiskers") because we use the universe of PPP loans and administrative data on employer firms based on the Census Business Register. Second, we focus on the raw relationship between PPP loan receipt and minority share of the population without controlling for other factors because we are trying to capture the influences of these neighborhood characteristics. For example, if minority communities have higher poverty rates and that is correlated with receipt of PPP loans then we want to include that in our measurement. Even if the driver of loan receipt is income it is reflected in race and that is what we are trying to capture.

**Figure 2: PPP loans per employer establishment by minority share**

Panel A: Weighted by population — Panel B: Unweighted



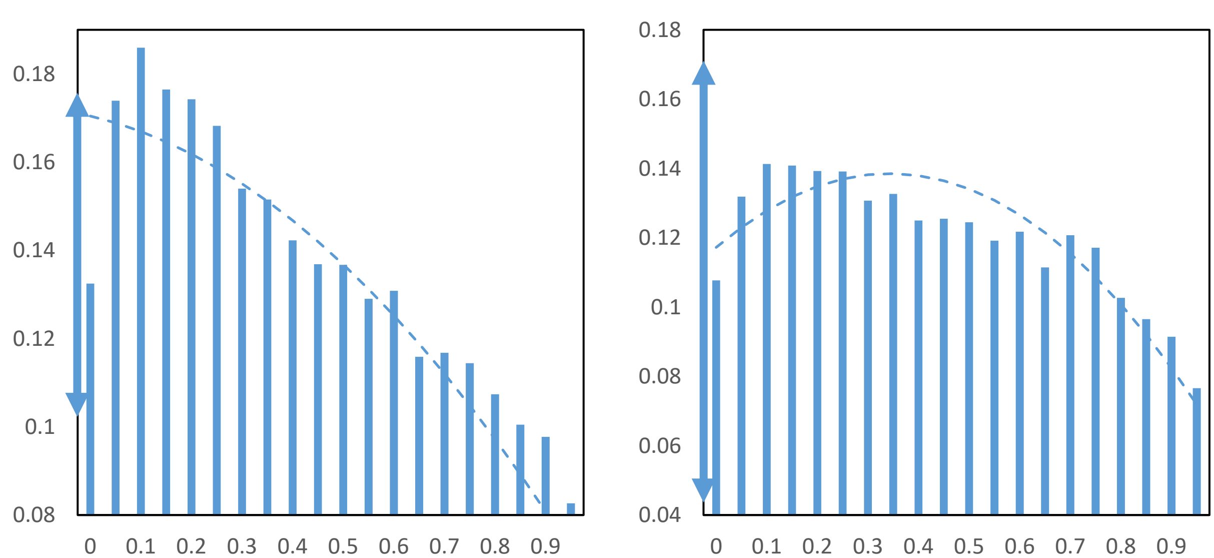

*Notes*: The charts show the mean number of PPP loans per employer establishment in zip codes by minority share of the population. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

The relationship appears to be mostly flat between loan receipt and minority population share. Both weighted and unweighted figures show a slight positive relationship between loan receipt per business and the minority share of the population across zip codes in the United States. Most of the averages by minority share fall within the range of half a standard deviation from the median, as indicated by the double arrow on the Y-axis. Using the weighted figure, moving from the 25th percentile minority share of the population (16 percent minority) to the 75th percentile minority share of the population (59 percent minority) loan receipt only increases from 0.49 to 0.52 PPP loans per employer business establishment.

The PPP disbursed funds in two rounds with adjustments and awareness about the program changing between the two. The first round was April 3 to April 16, 2020 and consisted of 1.6 million loans. The second round ran from April 27 to August 8 and consisted of 3.6 million loans. Figure 3 displays the first round relationship, and Figure 4 displays the second round relationship. Different patterns are revealed when separating by rounds. In the first round, loan receipt went disproportionately to non-minority communities. The figure shows a stronger negative relationship, with a decline of 0.05 loans per business between the 25th and 75th percentiles in minority shares. The second round of funding, however, showed the opposite pattern. In this case, there is an unequivocal positive relationship between loan receipt and minority population share. Moving from the first quartile to the third quartile in minority share is associated with an increase of 0.08 PPP loans per firm.

**Figure 3: PPP loans per employer establishment by minority share in the 1st round**

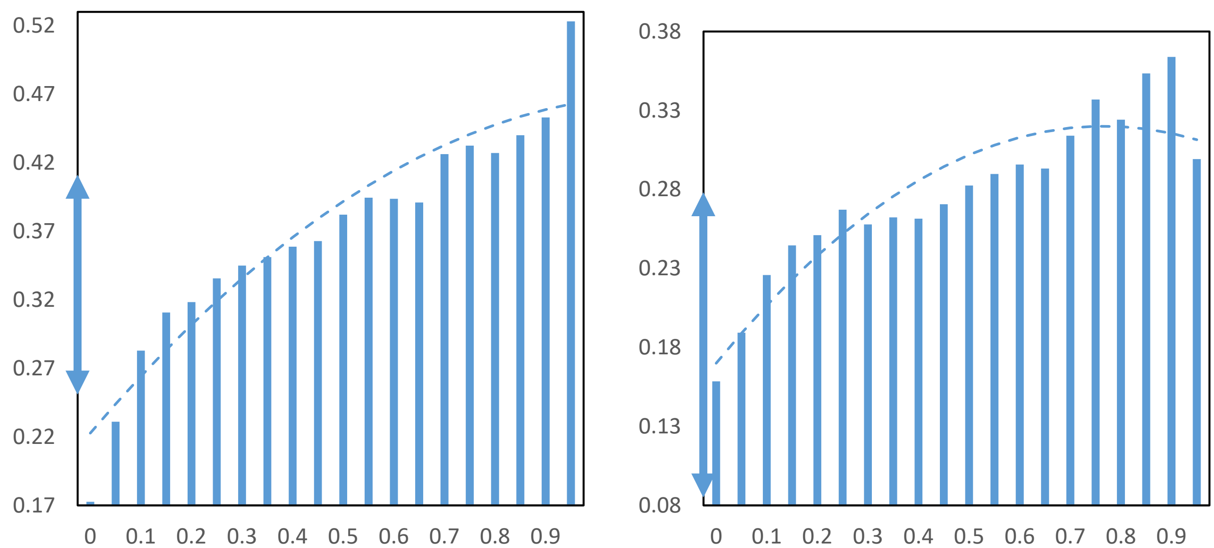
Panel A: Weighted by population Panel B: Unweighted




*Notes*: The charts show the mean number of PPP loans per employer establishment in zip codes by minority share of the population in the first round of the PPP program (April 3-April 16, 2020). Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

**Figure 4: PPP loans per employer establishment by minority share in the 2nd round**

Panel A: Weighted by population Panel B: Unweighted



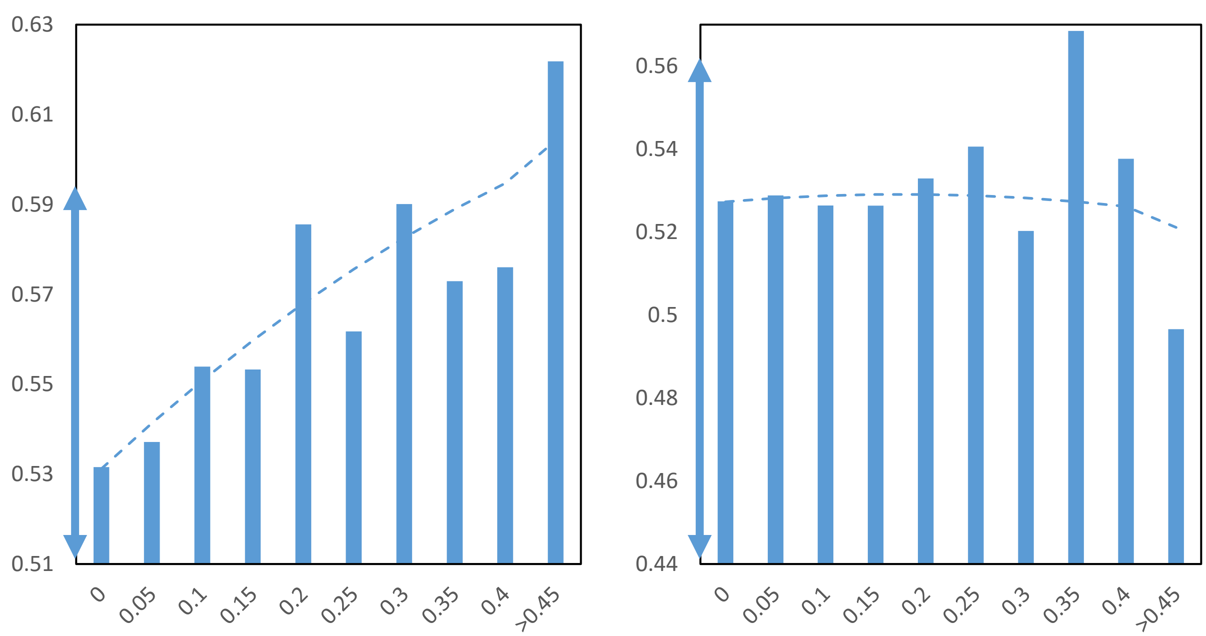

*Notes*: The charts show the mean number of PPP loans per employer establishment in zip codes by minority share of the population in the second round of the PPP program (April 27-August 8, 2020). Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

In terms of the different rounds of the PPP, the first $349 billion was exhausted after just two weeks of being available. Given unmet need by small businesses for assistance, Congress approved an additional $310 billion. The change in the slope of the relationship between the two rounds might be caused by a few factors. First, applying for PPP loans early on favored having long established relationships with banks which minority businesses were less likely to have (Mills 2020). Second, much of the early money flowed through smaller community banks which were often in rural areas because these banks were nimbler at accessing the aid (Bloomberg 2020). In the second round larger banks with more urban and racially diverse customer bases caught up. Third, minority-owned businesses tend to be smaller than non-minority-owned businesses (Census 2016; Fairlie and Robb 2008), and smaller businesses typically took longer to complete required paperwork because they often did not have in-house accountants, legal help, or other support. Finally, FinTech and other online lenders were brought in and approved by the SBA, and these lenders were often active in minority areas (Liu and Parilla 2020). It is unclear how costly the delay was in receiving loans to minority businesses and communities.

We turn to analyzing the relationship between PPP loans per business and the minority share of businesses in the community. To measure the minority share of businesses we use data from the Annual Business Survey (ABS) on employer businesses at the county level.[8] Data are not available at the zip code level.[9] Figure 5 displays the relationship. The unweighted numbers do not indicate a clear pattern and are mostly consistent with a flat relationship. The weighted numbers by population size indicate a slight positive relationship. The relationship is not strong however. For example, moving from the 25th percentile of counties in the minority share of businesses (9 percent minority share) to the 75th percentile (25 percent) is associated with an increase of 0.02 PPP loans per employer business.

**Figure 5: PPP loans per employer establishment by minority share of businesses**

Panel A: Weighted by population | Panel B: Unweighted



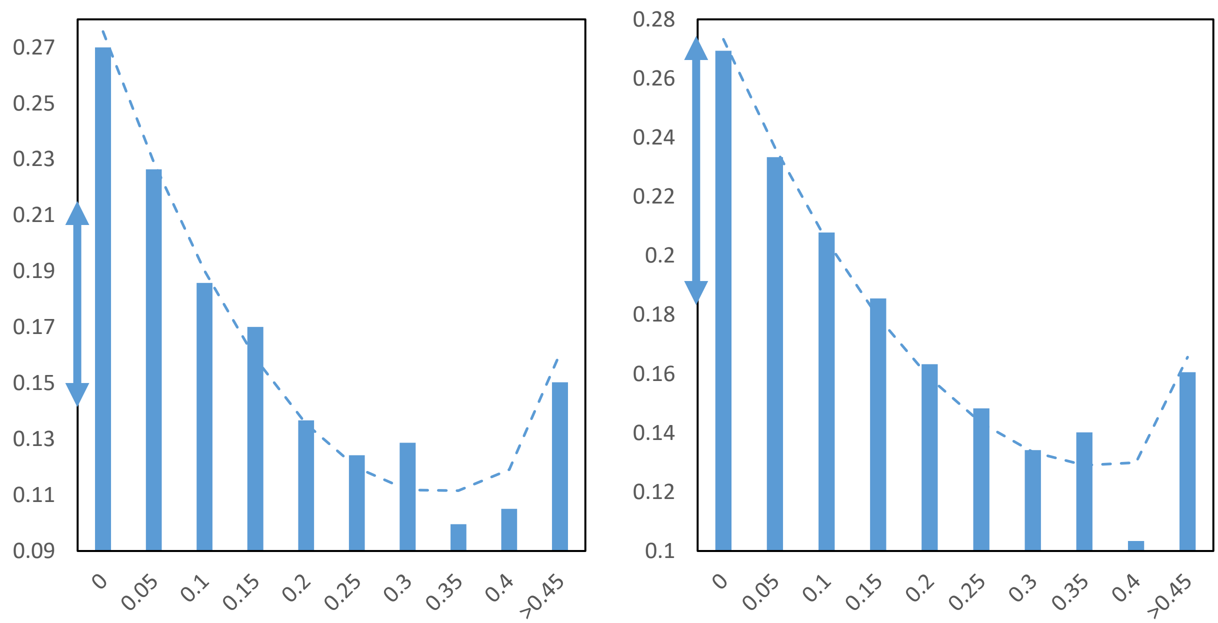

*Notes*: The charts show the mean number of PPP loans per employer establishment in counties by minority share of businesses. Loans to agricultural businesses are excluded. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the county level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

[8] We exclude PPP loans to agricultural businesses here due to a lack of data on the minority status of farmers.
[9] We also examine the relationship between PPP loans per employer business by minority share of the population at the county level. The results are similar to those at the zip code level.

Figures 6 and 7 display the relationship between loan receipt and minority business share for the first and second rounds, respectively. Similar to our findings using the minority share of the population, again we find that in the first round there appears to be a negative relationship between loan receipt and minority business share, and in the second round the relationship switches to being positive.

**Figure 6: PPP loans per employer establishment by minority share of businesses in the 1st round**

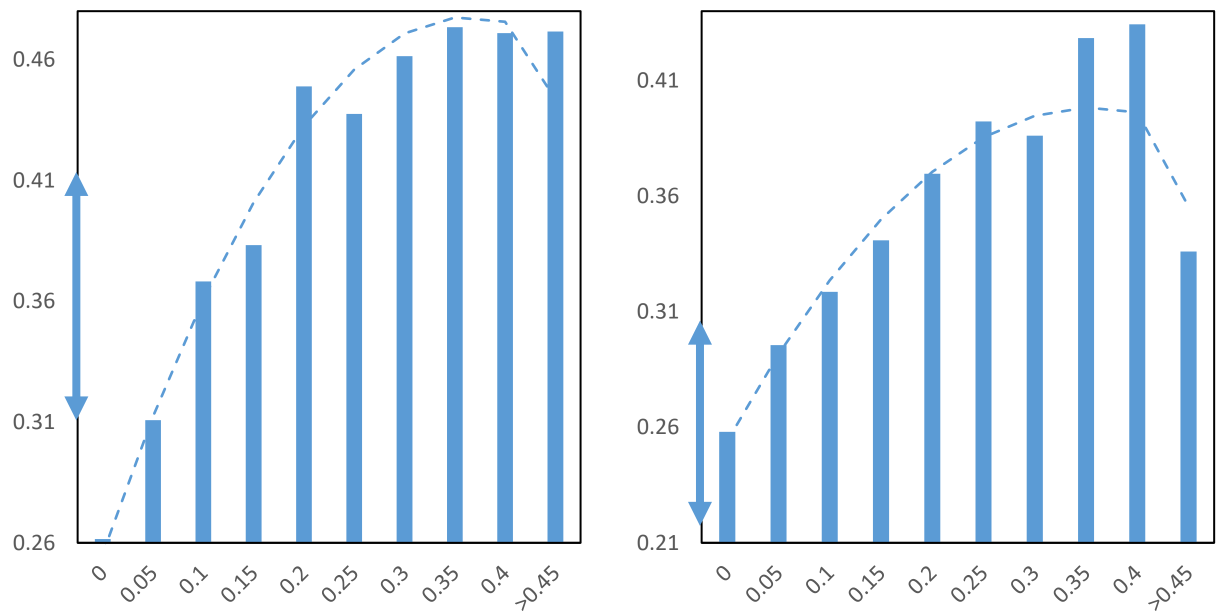
Panel A: Weighted by population Panel B: Unweighted




*Notes*: The charts show the mean number of PPP loans per employer establishment in counties by minority share of businesses in the first round of the PPP program (April 3-April 16, 2020). Loans to agricultural businesses are excluded. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the county level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

**Figure 7: PPP loans per employer establishment by minority share of businesses in the 2nd round**

Panel A: Weighted by population Panel B: Unweighted



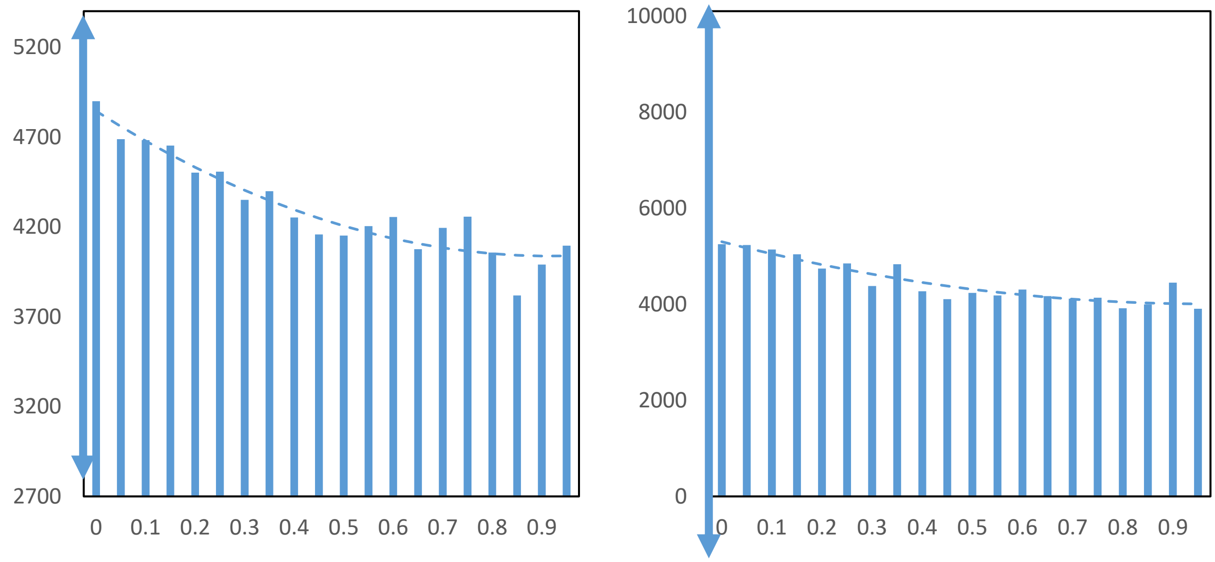

*Notes*: The charts show the mean number of PPP loans per employer establishment in counties by minority share of businesses in the second round of the PPP program (April 27-August 8, 2020). Loans to agricultural businesses are excluded. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the county level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

*PPP Loan Amounts*

The disbursement of PPP funds across communities by minority share might differ when measured by loan amounts instead of number of loans. Figure 8 displays average loan amounts per business employee by minority share in the population at the zip code level. We standardize the Y-axis by reporting the range of ± ½ standard deviations around the median loan size (cutting off at zero in case of the unweighted chart). We find a slight downward relationship with minority share. Moving from the 25th to the 75th percentile in minority share is associated with a decrease from \$4652 to \$4204 in average loan amount per employee.

**Figure 8: PPP loan amounts per employee by minority share**

Panel A: Weighted by population Panel B: Unweighted




*Notes*: The charts show the mean amounts of PPP loans per employee in zip codes by minority share of the population. Loans to agricultural businesses are excluded. Loans reported as a range are approximated by using the interval midpoint. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

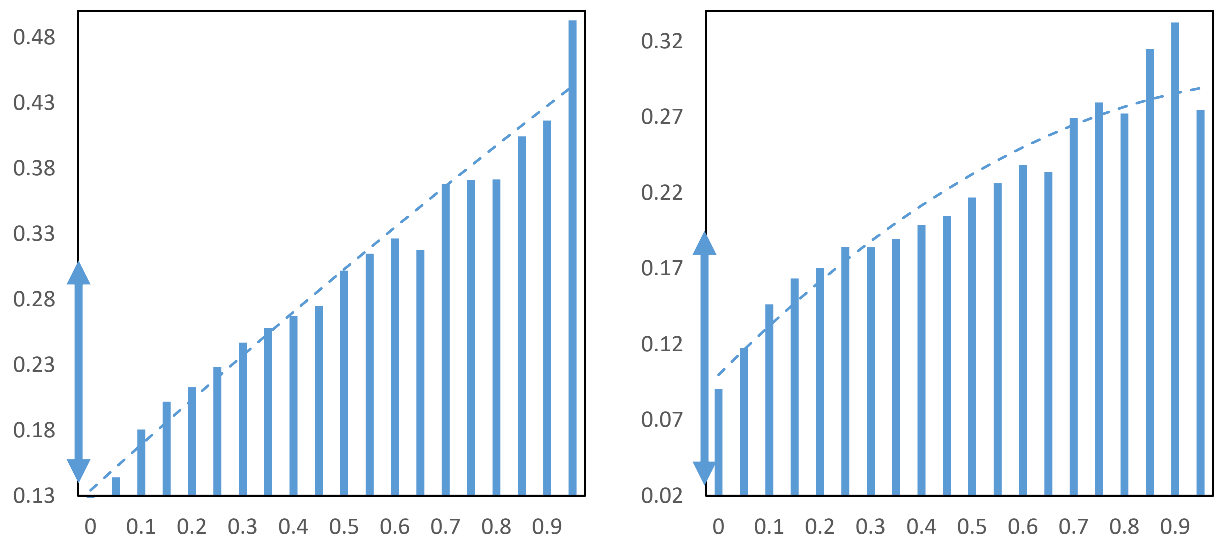
## 3.3 Economic Injury Disaster Loan (EIDL) Programs

Although the PPP program has received a lot of attention, the federal government also approved the $220 billion EIDL program, which also provides aid to small businesses during COVID-19, but has received much less attention. There are two programs, EIDL loans and EIDL advances. EIDL loans are not forgivable and must be paid back in full. EIDL advances are grants and do not have to be repaid, but are for smaller amounts ($1,000 per employee up to $10,000 total).

Figure 9 displays EIDL loan receipt per employer establishment by minority share of the population across zip codes. The relationship between loan receipt and minority population share shows a clear upward pattern. If we move from the lowest quartile minority share (16 percent) to the highest quartile minority share (59 percent) loan receipt increases from 0.20 to 0.31 EIDL loans per employer business establishment.

**Figure 9: EIDL loans per employer establishment by minority share**

Panel A: Weighted by population Panel B: Unweighted

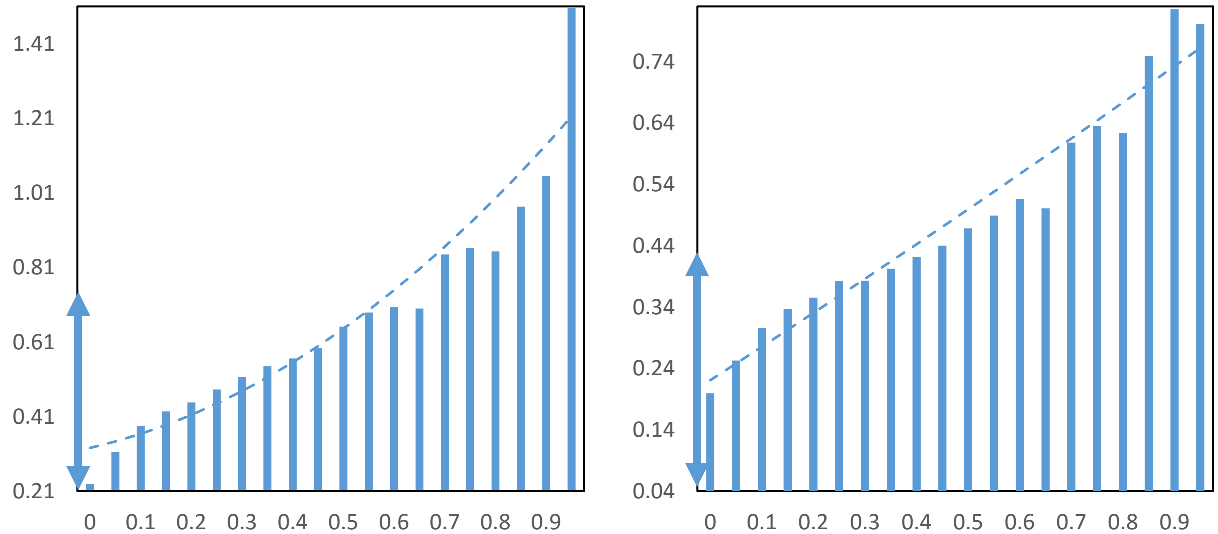



*Notes*: The charts show the mean number of EIDL loans per employer establishment in zip codes by minority share of the population. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

Figure 10 displays EIDL advance receipt per employer establishment by minority share of the population in zip codes. The relationship between advance receipt and minority population share shows a similarly strong upward pattern. Movement from the lowest quartile to the highest quartile minority share loan receipt increases from 0.42 to 0.69 EIDL advances per employer business establishment.

**Figure 10: EIDL advances per employer establishment by minority share**

Panel A: Weighted by population Panel B: Unweighted



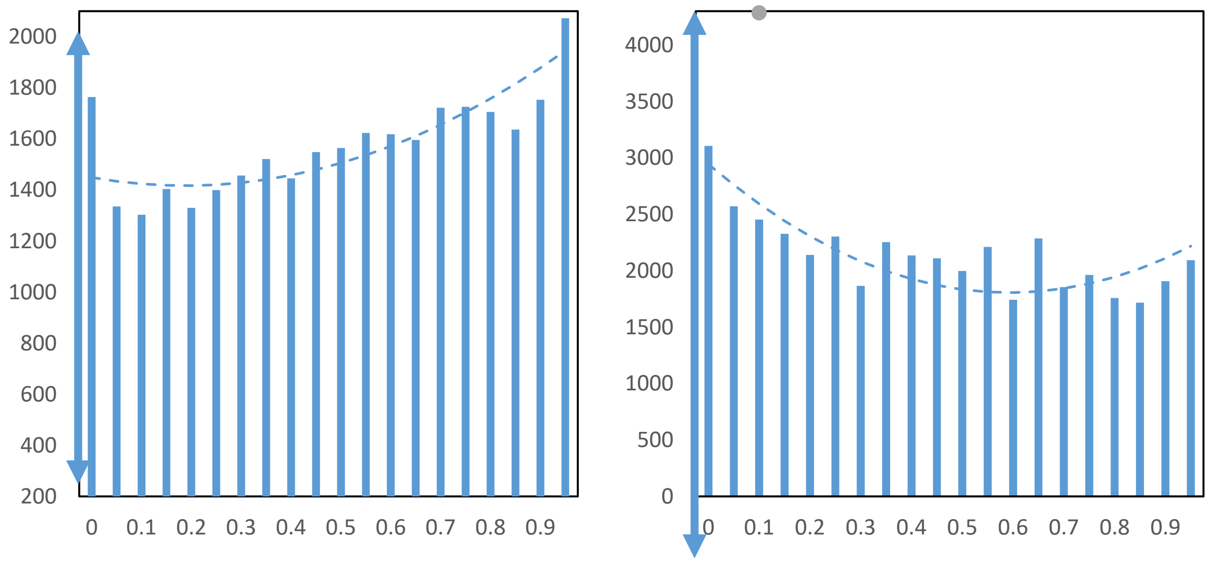

*Notes*: The charts show the mean number of EIDL advances per employer establishment in zip codes by minority share of the population. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

*EIDL Loan Amounts*

Figure 11 displays EIDL loan amounts per employee by minority share of the zip code. Similar to the number of loans we find a positive relationship between loan amounts and minority share of the population based on the weighted chart. An increase in EIDL loans per employee from $1404 to $1624 is associated with the interquartile range in minority share across zip codes. Figure 12 displays EIDL advances per employee by minority share. We also find a positive relationship for EIDL advances increasing from a weighted average of $148 to $198 per employee when moving from the 25th to the 75th percentile in minority share.

**Figure 11: EIDL loan amounts per employee by minority share**

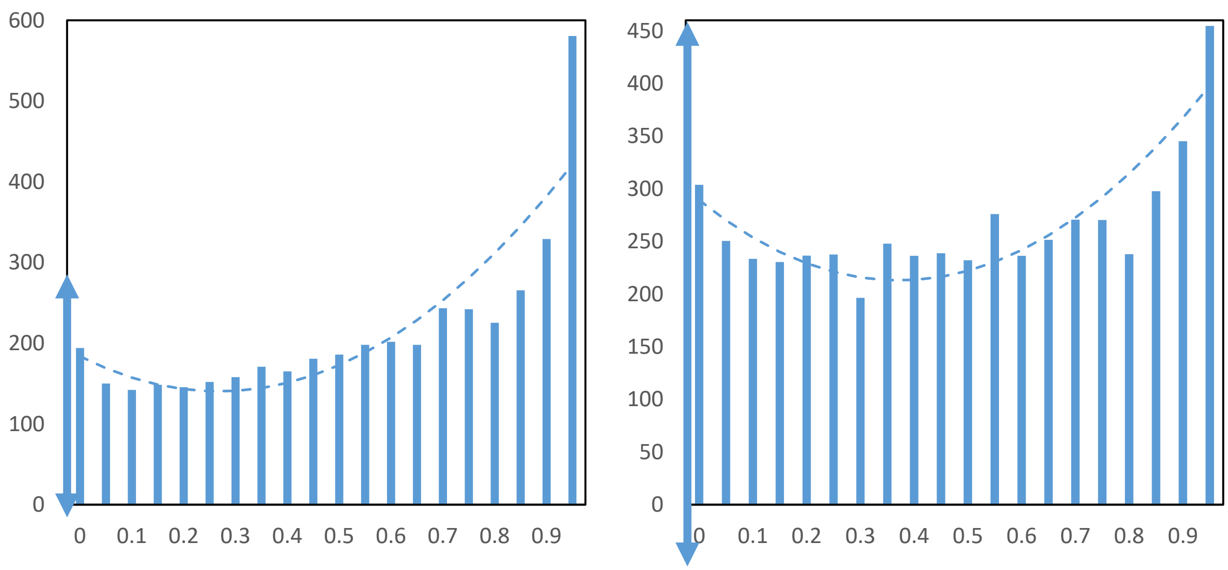
Panel A: Weighted by population Panel B: Unweighted




*Notes*: The charts show the mean EIDL loan amounts per employee in zip codes by minority share of the population. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

**Figure 12: EIDL advance amounts per employee by minority share**

Panel A: Weighted by population Panel B: Unweighted




*Notes*: The charts show the mean EIDL advance amounts per employee in zip codes by minority share of the population. Panel A uses population weights, Panel B is unweighted. The dashed lines are from quadratic regressions at the zip code level. For perspective, the double arrow on the Y-axis indicates the median ± ½ standard deviation.

## 4. Conclusions

Given the shutdown of the economy to slow down the spread of the novel coronavirus Congress agreed to a massive level of expenditures in the 2020 CARES Act to help small businesses stay open and retain employees. Two components directly providing loan and grant assistance to small businesses, the PPP and EIDL programs, provided a total of nearly 15 million separate loans or advances, and a staggering level of expenditures of roughly $850 billion. The total number and amount of support for small businesses in the United States is unprecedented. Given that the programs were to help disadvantaged businesses (U.S. Congress 2020) we provide the first study of whether loans and advances from these programs were indeed distributed positively to minority communities.

Using administrative data on the universe of PPP loans, EIDL loans, and EIDL advances, we explore how loans and advances were distributed. We find that funding from these programs both flowed to minority communities and away from minority communities. Focusing first on PPP loans, we generally find a slightly positive relationship between PPP loan receipt per business and the minority share of the population. There is some evidence, however, that the first round of funds was disproportionately disbursed to non-minority communities and the second round of funds was disproportionately disbursed to minority communities. When we focus on the minority share of employer businesses in an area we find similar results: slightly positive relationship but differential relationships by disbursement rounds. Focusing on PPP loan amount per employee we find a negative relationship with minority share of the population. EIDL loans and advances, in both number and amounts, were provided positively to minority communities. We find a strong positive relationship in the receipt of these loans and advances by the minority share of the population.

Although analyzing patterns of PPP and EIDL funding receipt across minority communities by using the universe of loan-level data across minority communities is important, the loan-level data are limited by not having information on loan receipt by race and ethnicity. To be sure, there is some information in the PPP loan data, but only 10 percent of loans include race and ethnicity (and in a non-representative way by lender), and none of the loans in the EIDL data provide information on race and ethnicity. There is always the possibility that minority businesses did not evenly receive loans in geographical areas even with high minority shares of the population or high minority shares of businesses. The federal government has been criticized heavily for not collecting this information and plans on collecting demographic information when processing forgiveness on the PPP loans. Future research needs to address this critical question.

Another criticism of the programs is that there was no collection of information on applications for loans that were denied. There is no way to gauge demand and unmet need for these loans by minority businesses and in minority communities. Although there is currently no information by race, the Census Bureau's Small Business Pulse Survey indicates that by early August most businesses in their survey who asked for PPP or EIDL funds reported receiving them (U.S. Census Bureau 2020). But, this is an important concern. There might exist large disparities by race, and there is a major difference in potential policy response between whether minority businesses needed these loans but faced barriers (e.g. lack of established bank relationships, lack of information about loans, digital divide, or discrimination) or if they did not need loans or needed smaller loans. Another concern is that many minority businesses did not have employees and the programs were primarily focused on serving employer businesses. Finally, many minority businesses might have been reluctant to apply for PPP loans because of uncertainty over future revenues due to entering the pandemic in a weakened position (Mills and Battisto 2020).

The findings presented in this research note have implications for trends in broader inequality. Minority-owned businesses are important for local job creation (as minority owners disproportionately hire minority workers), economic advancement, and longer-term wealth inequality (Boston 1999, 2006; Stoll et al. 2001; Bradford 2003, 2014; Fairlie and Robb 2008). With major losses in business activity among minority businesses in the early stages of the pandemic (Fairlie 2020) minority business owners have already lost substantial amounts of income from their businesses. If the pandemic continues over a long period of time the long-term economic consequences on minority businesses could be severe. Many minority business owners will not have the resources to weather prolonged closures, reduced demand from health concerns, and a more comprehensive recession. Just prior to the pandemic when small business owners were asked what actions they would take if faced with a two-month revenue loss roughly half said they would use their own funds and 17 percent said they would close or sell the business (Mills et al. 2020). But, the latest Census data indicate that the median level of wealth among black families is $13,000 and Latinx families is $20,000 compared with $139,000 among white families possibly making it difficult to use their own funds for an extended period of time (U.S. Census Bureau 2015).

The government just passed a new $892 billion COVID relief package, and private foundations and companies are promising to help. Can these programs help small businesses survive the setbacks and shutdowns due to the coronavirus pandemic, or will more assistance be needed? Furthermore, will an added shift in consumer behavior away from large online retailers towards small businesses be needed? In light of the Black Lives Matter movement there has been an unprecedented push to support black-owned stores around the country, and states have promoted shopping local (e.g. California's #ShopSafeShopLocal). In the end, getting the virus in check and restoring customer, owner and employee confidence in health risks is likely the first real step to a full recovery for small businesses.

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**The State of the Small Business Economy in the Pandemic**

U.S. House of Representatives Committee on Small Business

February 4, 2021

Testimony by:

Robert W. Fairlie
Professor of Economics
University of California, Santa Cruz

Thank you, Chair Velázquez, Ranking member Luetkemeyer, and members of the Committee. It is an honor to testify before you on the state of the small business economy. I am a Professor of Economics at the University of California, Santa Cruz and have studied entrepreneurship, racial inequality and small business policy for over 25 years. I have been asked to discuss the findings from my research on the impacts of the pandemic on small business owners.

Small businesses across the country are struggling. Minority-owned businesses are especially struggling.

As you know, obtaining up-to-date and accurate information on the effects of the pandemic on small business owners has been extremely difficult. I have spent the past eight months compiling and analyzing data on how small businesses are faring during the pandemic.

I have focused my research on three main questions. First, what happened to small business owners? Did the pandemic disproportionately close minority-owned businesses? Second, how much did small businesses lose in sales during the early stages of the pandemic? What types of businesses were hit the hardest? Third, did the massive, unprecedented levels of government relief for small businesses through the PPP and EIDL programs get distributed evenly to minority communities?

Small Business Activity in the Pandemic

On March 19, 2020, the State of California imposed shelter-in-place restrictions with New York State following the next day. By early April most states imposed social distancing restrictions that closed "non-essential" businesses and added to consumer health concerns in the emerging pandemic.

In my research, I found that the number of active business owners in the U.S. plummeted by 3.3 million or 22 percent over the crucial two-month window from February to April 2020 (Figure 1).[1] No other one-, two- or even 12-month window of time has ever shown such a large change in business activity. For comparison, from the start to the end of the Great Recession the number of active business owners dropped by only 5 percent.

African-American businesses were hit the hardest experiencing a 41 percent drop in business activity (Figure 2). Latinx business owner activity fell by 32 percent, and Asian business owner activity dropped by 26 percent. Unfavorable industry concentrations and the smaller scale of businesses owned by minorities were partly responsible.

Extending the analysis into May and June small business activity partially rebounded in both months. But, the disproportionate impacts from COVID-19 by race lingered. African-Americans continued to experience the largest losses, with 26 percent of business owners still not active in May and 19 percent not active in June. Job losses were also

[1] Fairlie, Robert W. 2020. "The impact of COVID-19 on small business owners: The first three months after social-distancing restrictions." *Journal of Economics & Management Strategy*, 29(4): 727-740.

much higher for minority workers.[2] Black unemployment hit a peak of 17 percent and Latinx unemployment hit a peak of 18 percent.

Although many of the closures in April, May and June turned out to be temporary, any month of closure is problematic because it reflects lost income to the owner of the business. The owner still has to pay rent, some employees and other expenses.

Sales Losses in the Pandemic

It has been especially difficult to figure out how much small businesses have lost in sales and revenues in the pandemic. We suspect that losses have been great but data on actual losses in sales are difficult to find.

Using taxable sales data from the California Department of Tax and Fee Administration, we found average sales losses of 17 percent in the second quarter of 2020. Normal year-over-year growth is in the range of 3-4 percent.[3] Sales losses were largest in businesses affected by mandatory lockdowns. For example, hotels lost 91 percent, restaurants lost 61 percent, and clothing stores lost 56 percent (Table 1).

The losses among so many different types of businesses are disconcerting, but perhaps even more troubling are consumer trends away from in-person stores to shopping online. At the same time in-store purchases were sharply declining online sales grew by 180 percent in the second quarter of 2020.

The large losses in sales in the second quarter of 2020 are worrisome for the longer-term survival of small, local businesses throughout the country. Although larger stores and chains with a strong online presence may survive, many small businesses will not have the resources to weather a prolonged recovery. Recent Census Bureau surveys indicate that only 15-20 percent of small businesses have enough cash on hand to cover 3 months of operations.[4]

Financial Help to Small Businesses in the Pandemic

One of the stated goals in the CARES Act was to prioritize serving "underserved markets" and businesses owned by "socially and economically disadvantaged individuals." Did the PPP and EIDL programs, which were key components of the CARES Act, get distributed to minority communities providing much needed help to the businesses, employees and residents of those communities?

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[2] Couch, Kenneth A., Robert Fairlie, and Huanan Xu. 2020. "Early evidence of the impacts of COVID-19 on minority unemployment." *Journal of Public Economics* 192.

[3] Fairlie, Robert, and Frank Fossen. 2021. "Sales Losses in the First Quarter of the COVID-19 Pandemic: Evidence from California Administrative Data," NBER Working Paper No. 28414.

[4] U.S. Census Bureau. 2020. "Small Business Pulse Survey," https://portal.census.gov/pulse/data/.

Using data on 15 million individual loans, we found that funding from these relief programs both flowed to minority communities and away from minority communities.[5] If anything we found a slightly positive relationship between PPP loan receipt per business and the minority share of the population. There is some evidence, however, that the first round of funds was disproportionately distributed to non-minority communities and the second round of funds was disproportionately distributed to minority communities. When focusing on PPP loan amounts per employee, however, we find a negative relationship with minority communities. In contrast, EIDL loans and advances, in both number and amounts, were provided to minority communities.

Recent Reversal of Progress for Business Owners

In my continual work tracking how small businesses are doing in the recovery I recently found some alarming trends. From April to October there was constant month-to-month improvement in business activity, but in November and December that pattern reversed. From October to December small business activity dropped by 6 percent (Figure 3).[6] For minority owners the drop was from 5-10 percent (Table 2).

Vulnerable Groups

The losses that I have described here are especially alarming for two vulnerable groups, African-Americans and Latinx. Prior to the pandemic, business ownership as a share of the population and average revenues per business were already low for both groups.[7] But, perhaps more importantly there is a huge wealth gap. Half of black families in the U.S. have less than $10,000 in total wealth and half of Latinx families have less than $25,000 in total wealth. White levels of wealth are 7 to 18 times higher. Many minority business owners will simply not have the financial resources to weather prolonged closures.

Four things that could help.

I would like to turn to discussing what could help us move forward.

1. First, consumers need to feel safe again. The number one priority for helping small businesses is to get the vaccine out faster. People are anxious to get back to restaurants, bars and shops. Pent-up demand should help kick start the small business recovery.

2. Second, more financial assistance is needed for small business owners especially during the next few months. In particular, rent relief and protection could be crucial for survival.

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[5] Fairlie, Robert, and Frank Fossen. 2021. "Did the $660 Billion Paycheck Protection Program and $220 Billion Economic Injury Disaster Loan Program Get Disbursed to Minority Communities in the Early Stages of COVID-19?" NBER Working Paper No. 28321.

[6] See https://people.ucsc.edu/~rfairlie/current/.

[7] Fairlie, Robert. "Racial Inequality in Business Ownership and Income" *Oxford Review of Economic Policy*, 34(4): 597–614, 2018. Fairlie, Robert and Alicia Robb. *Race and Entrepreneurial Success: Black-, Asian-, and White-Owned Businesses in the United States*, Cambridge: MIT Press, 2008.

3. Third, we need to slow down the extensive shift to online shopping which was happening prior to the pandemic. This trend is unlikely to stop. Small businesses need to have more of an online presence. Aid in the form of web page assistance could be useful. Search engines could prioritize local small businesses instead of online retailers and big box stores.

4. Fourth, the federal government needs to collect more data on race in their relief efforts. Demographic information was only partially and unevenly collected in the first two rounds providing PPP funds, and there was much criticism for this omission. The information is crucial for future research on equity issues. Additionally, collection of information on applications for loans that were denied would useful.

In closing, we need to reverse the negative impacts of the pandemic on minority-owned businesses. These losses are problematic for broader racial inequality because of the importance of small businesses for local job creation, economic advancement, and longer-term wealth gaps. Losses from the pandemic are also very costly to total U.S. productivity as minority-owned businesses represent the fastest growing segment of the business population. Finally, we will lose the vibrant downtowns with diverse restaurants and shops that truly make America great.

Thank you for the opportunity to present the findings from my research on this topic. I look forward to hearing your comments and questions.

**Figure 1**
**Number of Active Business Owners in the United States (January 2000 - April 2020)**

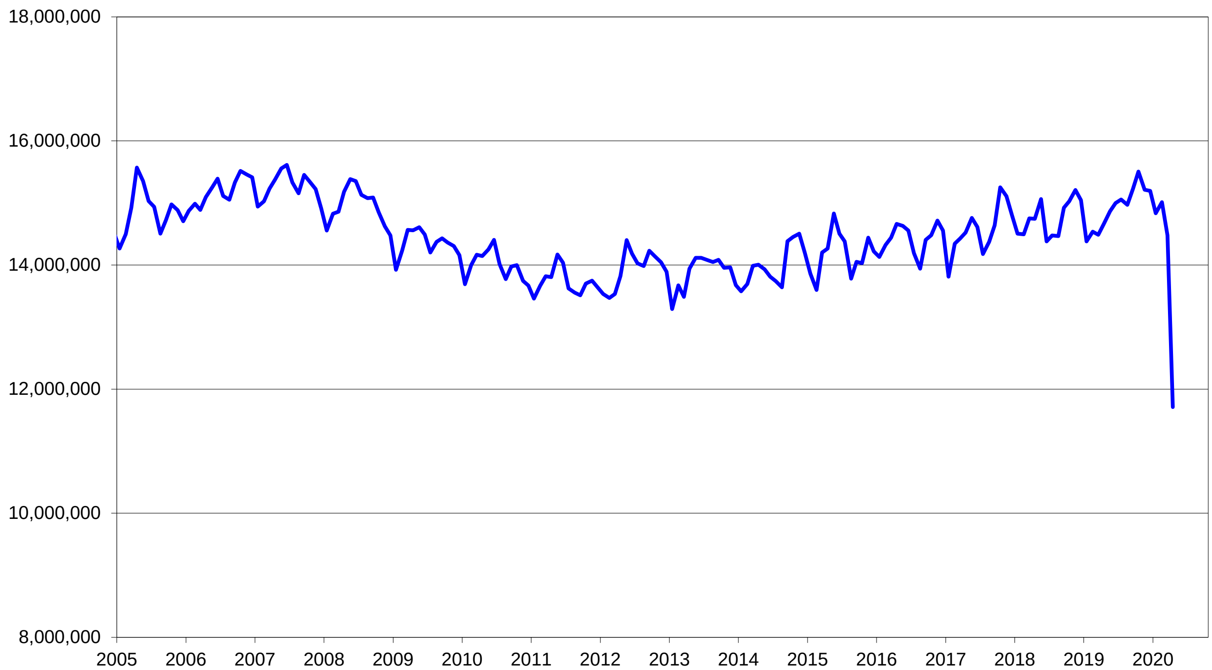

**Figure 2: Losses in the Number of Active Business Owners before and after COVID-19 Restrictions (February to April 2020)**

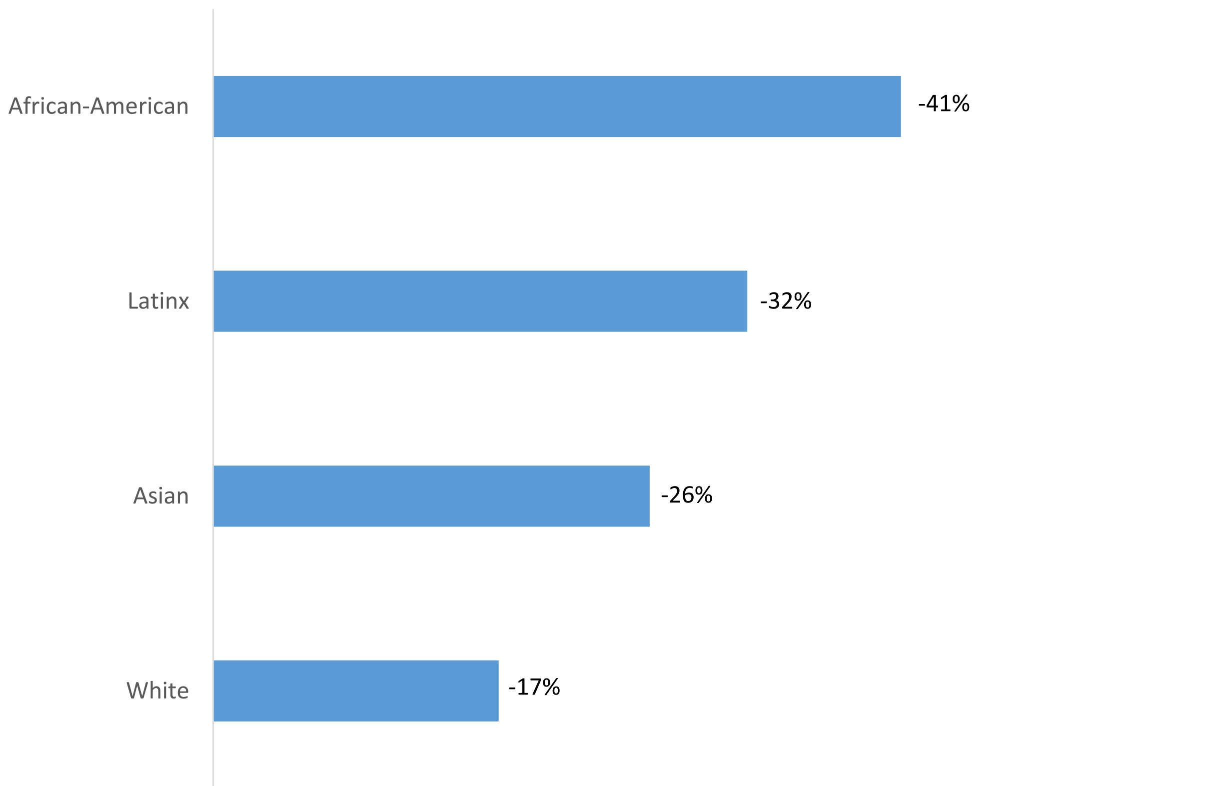

**Figure 3**
**Number of Active Business Owners in the United States (Jan. 2019 - Dec. 2020)**

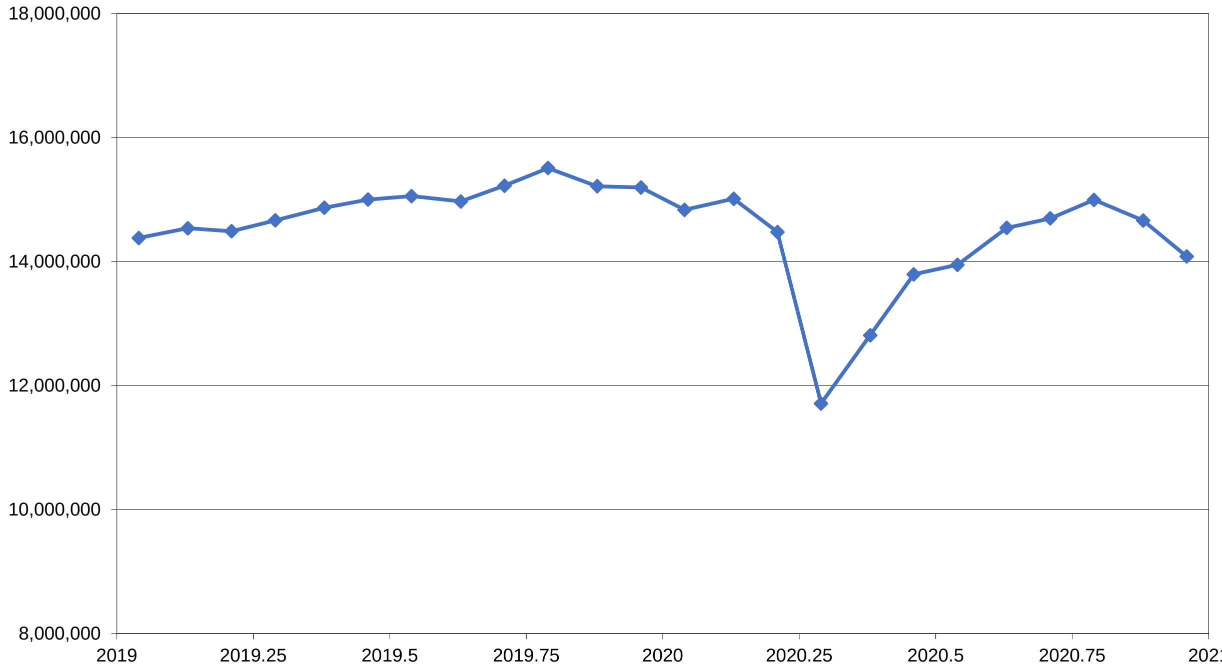

Table 1: California Taxable Sales Losses by Subsector Business Types

| Business Type | Percent Change 2019Q2 to 2020Q2 | Taxable Transactions Amount |
|---|---|---|
| Total All Outlets | -17 | 152,362,296,481 |
| Total Retail and Food Services | -17 | 105,528,311,167 |
| | | |
| Motor Vehicle and Parts Dealers | -15 | 19,294,245,937 |
| New Car Dealers | -16 | 13,661,226,032 |
| Used Car Dealers | -27 | 2,017,580,937 |
| Other Motor Vehicle Dealers | 11 | 1,546,237,177 |
| Automotive Parts, Access. and Tires | -3 | 2,069,201,791 |
| Furniture and Home Furn. Stores | -18 | 2,625,229,637 |
| Furniture Stores | -28 | 1,532,455,251 |
| Home Furnishings Stores | 3 | 1,092,774,386 |
| Electronics and Appliance Stores | -14 | 3,663,719,124 |
| Building Material and Garden Equipme | 12 | 12,248,068,380 |
| Building Material and Supplies Deal | 13 | 11,064,090,950 |
| Lawn and Garden Equipment and Su | 7 | 1,183,977,430 |
| Food and Beverage Stores | 2 | 7,584,295,812 |
| Supermarkets and Other Grocery Sto | 5 | 5,209,119,995 |
| Convenience Stores | -12 | 841,092,239 |
| Specialty Food Stores | -40 | 202,729,466 |
| Beer, Wine, and Liquor Stores | 10 | 1,331,354,112 |
| Health and Personal Care Stores | -11 | 3,414,123,225 |
| Pharmacies and Drug Stores | 7 | 2,024,226,564 |
| Other Health and Personal Care Stor | -28 | 1,389,896,661 |
| Gasoline Stations | -47 | 7,737,896,946 |
| Clothing and Clothing Access. Stores | -54 | 4,744,372,982 |
| Clothing Stores | -56 | 3,640,766,921 |
| Shoe Stores | -38 | 648,398,066 |
| Jewelry, Luggage, and Leather Good | -61 | 455,207,995 |
| Sporting Goods, Hobby, Mus. Inst., Boo | -20 | 2,010,965,666 |
| Sporting Goods Stores | 0 | 1,257,390,598 |
| Hobby, Toy and Musical Instrument S | -30 | 553,514,156 |
| Book Stores and News Dealers | -55 | 200,060,912 |
| General Merchandise Stores | -10 | 12,522,013,242 |

| Business Type | Percent Change 2019Q2 to 2020Q2 | Taxable Transactions Amount |
|---|---|---|
| Miscellaneous Store Retailers | -17 | 4,418,659,674 |
| Florists | -39 | 103,717,354 |
| Office Supplies and Stationery Stores | -22 | 642,964,260 |
| Gift, Novelty, and Souvenir Stores | -58 | 197,790,991 |
| Used Merchandise Stores | -44 | 144,130,178 |
| Other Miscellaneous Store Retailers | -8 | 3,330,056,891 |
| Nonstore Retailers | 181 | 13,273,550,077 |
| Food Services and Drinking Places | -47 | 11,991,170,465 |
| Special Food Services | -76 | 292,967,418 |
| Drinking Places (Alcoholic Beverages) | -86 | 65,185,094 |
| Full-Service Restaurants | -61 | 4,454,731,382 |
| Limited-Service Eating Places | -25 | 7,178,286,571 |
| Total All Other Outlets | -19 | 46,833,985,314 |
| Agriculture, Forestry, Fishing and Hunting | 40 | 325,549,091 |
| Mining, Quarrying, and Oil and Gas Extraction | -29 | 139,003,233 |
| Utilities | 0 | 364,305,709 |
| Construction | -17 | 2,305,307,376 |
| Manufacturing | -13 | 11,005,456,107 |
| Wholesale Trade | -17 | 18,392,665,466 |
| Transportation and Warehousing | -40 | 408,491,412 |
| Information | -9 | 1,960,180,852 |
| Finance and Insurance | -6 | 340,123,180 |
| Real Estate and Rental and Leasing | -19 | 5,872,138,743 |
| Professional, Scientific, and Technical Service | 0 | 1,893,493,925 |
| Management of Companies and Enterprises | -18 | 6,432,654 |
| Administrative and Support and Waste Man. a | -39 | 597,633,328 |
| Educational Services | -47 | 163,539,655 |
| Health Care and Social Assistance | -15 | 286,043,742 |
| Arts, Entertainment, and Recreation | -83 | 188,119,522 |
| Accommodation | -92 | 94,715,762 |
| Other Services (except Public Administration) | -31 | 2,145,100,206 |
| Public Administration | -11 | 103,363,587 |
| Others | 59 | 242,321,764 |

Table 2: Change in Number of Active Business Owners in the United States (Minority Groups)

| | African-American | | | | Latinx | | | | Asian | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Relative to: | | | | Relative to: | | | | Relative to: | | |
| | | | Month in | Reg. | | | Month in | Reg. | | | Month in | Reg. |
| | Number | Feb. 2020 | Prev. Yr. | Adjusted | Number | Feb. 2020 | Prev. Yr. | Adjusted | Number | Feb. 2020 | Prev. Yr. | Adjusted |
| Feb. 2020 | 1,079,116 | 0% | 2% | 0% | 2,070,896 | 0% | 5% | 0% | 888,528 | 0% | -1% | 0% |
| Mar. 2020 | 1,074,478 | 0% | 13% | -6% | 1,936,739 | -6% | -3% | -4% | 936,072 | 5% | 4% | 6% |
| Apr. 2020 | 637,769 | -41% | -38% | -52% | 1,412,925 | -32% | -28% | -32% | 657,896 | -26% | -36% | -29% |
| May 2020 | 798,668 | -26% | -23% | -35% | 1,668,254 | -19% | -14% | -20% | 700,393 | -21% | -24% | -24% |
| June 2020 | 872,717 | -19% | -24% | -28% | 1,855,026 | -10% | -4% | -8% | 798,811 | -10% | -14% | -10% |
| July 2020 | 974,093 | -10% | -18% | -18% | 1,851,702 | -11% | 0% | -10% | 809,922 | -9% | -5% | -7% |
| Aug. 2020 | 1,084,869 | 1% | -2% | -5% | 2,009,642 | -3% | 2% | -3% | 794,433 | -11% | -11% | -9% |
| Sept. 2020 | 1,103,761 | 2% | -6% | -6% | 2,093,925 | 1% | 0% | 0% | 741,249 | -17% | -12% | -20% |
| Oct. 2020 | 1,153,326 | 7% | -3% | -4% | 2,130,408 | 3% | 1% | -1% | 758,205 | -15% | -5% | -17% |
| Nov. 2020 | 1,115,874 | 3% | 0% | -5% | 2,169,500 | 5% | -1% | -2% | 692,402 | -22% | -16% | -27% |
| Dec. 2020 | 1,046,956 | -3% | -10% | -12% | 2,004,637 | -3% | -1% | -7% | 713,485 | -20% | -20% | -23% |

Notes: (1) Estimates are continuation from those reported in Fairlie, Robert. 2020. “The Impact of COVID-19 on Small Business Owners: The First Three Months after Social-Distancing Restrictions" *Journal of Economics and Management Strategy* . (2) Reg. Adjusted estimates are based on regression analysis accounting for trends and seasonality (monthly).

## PENN STATE ALUMNA BUILDS NONPROFIT TO HELP BLACK & BROWN FOUNDERS SUCCEED

Nonprofit works with LaunchBox & Innovation Hub Network to provide diversity and inclusion training, Pennsylvania State University, News Wire (Aug. 25, 2021)

Penn State alumna Aniyia Williams.
August 25, 2021
UNIVERSITY PARK, Pa. — Lack of access to capital is one of the primary barriers facing Black and Latinx entrepreneurs. According to the Harvard Business Review, less than 2% of venture capital goes to Black and Latinx entrepreneurs, and when almost 65% of all entrepreneurs rely on personal and family savings for startup capital, taking on the full financial risk of starting a business may not be feasible.

In 2017, Penn State alumna Aniyia Williams launched Black & Brown Founders, a nonprofit organization providing community, education and financial access to Black and Latinx entrepreneurs, allowing them to launch and build tech businesses with modest resources.

"When founders look a certain way or come from a certain background, there isn't the same lens and rigor around how investors evaluate deals," Williams said. "In terms of venture capital and the role it plays in tech, a lot of those decisions get made based on having the right relationships when people are giving out money — Black women are basically at the bottom of the totem pole when it comes to getting investment and support, which has only gotten marginally better in the past few years."

Williams started her work in diversity and inclusion as a student at Penn State Berks in her first year as an undergraduate. As a member of the Council of Commonwealth Student

Governments (CCSG) and diversity co-chair, she helped start an endowment fund for students working towards advancing diversity and inclusion on campus. She graduated from the Schreyer Honors College in 2007 with a degree in music from the College of Arts and Architecture. These opportunities provided her with a great introduction to and experience in fundraising and development.

Now, Williams's journey with Penn State has come full circle as the Invent Penn State LaunchBox & Innovation Hub Network collaborated with Black & Brown Founders to facilitate the "We Rise Together" program, which was designed to equip the directors and staff at each of the 21 LaunchBox and Innovation Hub locations with the awareness and tools to help them build more inclusive and equitable entrepreneurial ecosystems.

"Black & Brown Founders' extensive knowledge of building community and the unique challenges faced by underrepresented entrepreneurs was instrumental in our ability to generate awareness with our 21 locations across the Commonwealth," said Lee Erickson, chief amplifier at Happy Valley LaunchBox powered by PNC Bank. "Aniyia and her team played a huge part in shaping and informing our community of practice moving forward."

After graduating from Penn State, Williams moved to San Francisco and got her foot in the door of the tech and startup world working for Voxer, a walkie-talkie messaging app. Shortly thereafter Williams decided to start her own business. Combining her love for music and interest in tech, Williams founded Tinsel, which manufactured and sold women's necklaces that transformed into headphones. She got an initial investment from her former boss at Voxer allowing her to start a team, build a functioning prototype, and start a crowdfunding campaign that exceeded its fundraising goal.

But when she went to investors with a prototype and proof of an existing market, she didn't see the financial support other tech startups were receiving.

"Particularly at that time, Silicon Valley didn't understand women, didn't understand hardware, and didn't understand fashion," Williams said. "So, having raised a little bit less than half a million dollars over the lifetime of the company, it was amazing what we accomplished with Tinsel, especially knowing what I know now about manufacturing and shipping a product."

While working on Tinsel, Williams entered an entrepreneur residency program funded by Google and Code 2040 — a nonprofit helping Black and Latinx individuals get into the tech industry. The program was an important inflection point for her because it gave her the opportunity to connect with so many other Black and Latinx entrepreneurs with experiences like hers.

"It was really hard raising capital and getting the resources I needed. I had 50+ ideas in my head of things I could've done to change the outcome, but the really deep feeling I had about it was validated after I started doing that residency," Williams said. "I just realized, this is what it means when we say something is systemic, where it's actually the exception that you got what you needed."

After seeing and experiencing the need for targeted support, Williams launched Black & Brown Founders in 2017. Since then, the nonprofit has produced seven events in four cities providing actionable information about building tech companies, gathering interdisciplinary stakeholders to ideate on ecosystem solutions, and refining effective ways to create connection among siloed tech founders of color.

Deldelp Medina, executive director of Black & Brown Founders and a co-facilitator for the "We Rise Together" program, said the main goal going into "We Rise Together" was providing the tools for innovation hub leadership to connect with and support diverse founders while discovering new ways to examine personal and institutional bias.

"We are super grateful that folks were willing to show up virtually week after week to have difficult but needed conversations, and during a pandemic," Medina said. "Talking about racism, bias, and systems on exclusion is not a skillset folks develop through formal education. Yet it is so needed to make sure you are engaging in economic development that is solid."

Williams chairs the Black & Brown Founders Board and works as a principal for the Omidyar Network, a social change venture seeking to create a more equitable economy, promote responsible technology that improves lives, and discover the emergent issues that will shape our future. She said she and the rest of the Black & Brown Founders team look forward to continued collaboration with the Invent Penn State entrepreneurial ecosystem.

Visit the Invent Penn State LaunchBox & Innovation Hub Network website to learn more.

## IV. SESSION 2: DISCUSSION OF POTENTIAL SOLUTIONS TO "THE PROBLEM;" SELECTED COURSE MATERIALS FROM PART I (INTRODUCTION) OF THE COURSE RELATING TO TODAY'S SESSION 2

a. FAIRLIE AND ROBB, WHY ARE BLACK-OWNED BUSINESSES LESS SUCCESSFUL THAN WHITE-OWNED BUSINESSES? THE ROLE OF FAMILIES, INHERITANCES, AND BUSINESS HUMAN CAPITAL, UNIVERSITY OF CALIFORNIA, SANTA CRUZ, WORKING PAPER (2014) PAGES 164 TO 207

b. BROOKINGS INSTITUTION, EXAMINING THE BLACK-WHITE WEALTH GAP (FEB 27, 2021) PAGES 208 TO 211

c. THE SCHOLAR OF INEQUALITY [I.E.,] THOMAS PIKETTY, AUTHOR OF CAPITAL IN THE TWENTY-FIRST CENTURY] WARNED US THAT OUR ECONOMIC SYSTEMS COULDN'T WITHSTAND A GLOBAL CATASTROPHE, NEW YORK MAGAZINE (APRIL 27, 2020) PAGES 212 TO 224

**Title**

Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital



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**Why Are Black-Owned Businesses Less Successful than White-Owned Businesses? The Role of Families, Inheritances, and Business Human Capital**

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**Abstract**

Using confidential microdata from the Characteristics of Business Owners, we examine why African-American owned businesses lag substantially behind white-owned businesses in sales, profits, employment, and survival. Black business owners are much less likely than white owners to have had a self-employed family member owner prior to starting their business and are less likely to have worked in that family member's business. Using a nonlinear decomposition technique, we find that the lack of prior work experience in a family business among black business owners, perhaps by limiting their acquisition of general and specific business human capital, negatively affects black business outcomes.

## 1. Introduction

The plight of African-Americans in the labor market is one of the most studied topics by economists, sociologists and other social scientists over the past several decades. Interestingly, however, much less attention has been drawn to the plight of blacks in the main alternative form of making a living -- business ownership. More than 1 out of every 10 working-age adults in the United States owns a business (U.S. Census Bureau 1993). Furthermore, only 3.8 percent of black workers are self-employed business owners compared to 11.6 percent of white workers. Several recent studies have examined the causes of the dearth of black-owned businesses and find that relatively low levels of education, assets, and parental self-employment are partly responsible (see Bates 1997, Fairlie 1999, and Hout and Rosen 2000 for a few recent examples). Although these results are informative, they do not shed light on why black-owned firms lag behind white-owned firms. Black-owned firms have lower revenues and profits, hire fewer employees, and are more likely to close than white-owned businesses (U.S. Census Bureau 1997).

The relative lack of success of black-owned businesses in the United States is a major concern among policymakers. It is particularly troubling because business ownership has historically been a route of economic advancement for disadvantaged groups. It has been argued, for example, that the economic success of several immigrant groups in the United States, such as the Chinese, Japanese, Jews, Italians, and Greeks, is in part due to their ownership of small businesses (See Loewen 1971, Light 1972, Baron et al. 1975, and Bonacich and Modell 1980). In addition, many states and the federal government are currently promoting self-employment as a way for families to leave the welfare and unemployment insurance rolls. The lack of business success among blacks also contributes to racial tensions in urban areas throughout the United States (Yoon 1997 and Min 1996).

Another reason for concern about the lack of business success among African-Americans is that they have made little progress in rates of business ownership even in light of the substantial gains in education, earnings, and civil rights that they have made during the twentieth century. The 3 to 1 ratio of white to black self-employment rates has remained roughly constant over the past 90 years (Fairlie and Meyer 2000). Early researchers emphasized the role that past inexperience in business played in creating low rates of business ownership among blacks. In particular, Du Bois (1899), and later Myrdal (1944), Cayton and Drake (1946) and Frazier (1957) identify the lack of black traditions in business enterprise as a major cause of low levels of black business ownership at the time of their analyses.

The lack of black traditions in business argument relies on a strong intergenerational link in business ownership. Theoretically, we might expect the link to be strong due to the transmission of general business or managerial experience in family-owned businesses ("general business human capital"), the acquisition of industry- or firm-specific business experience in family-owned businesses ("specific business human capital"), the inheritance of family businesses, and the correlation among family members in preferences for entrepreneurial activities. Past empirical research supports this conjecture. The probability of self-employment is substantially higher among the children of the self-employed (see Lentz and Laband 1990, Fairlie 1999, Dunn and Holtz-Eakin 2000, and Hout and Rosen 2000). There is also evidence suggesting that current racial patterns of self-employment are in part determined by racial patterns of self-employment in the previous generation (Fairlie 1999 and Hout and Rosen 2000).

Although these findings indicate that the intergenerational transmission of business ownership is important in creating racial disparities in *rates* of business ownership, little is known about whether it also contributes to racial disparities in business outcomes *conditioning* on ownership. Do black business owners have limited opportunities for the acquisition of general and specific business human capital from working in family-owned businesses and the receipt of business inheritances? And, can racial disparities in these measures explain why black-owned businesses have worse outcomes, on average, than white-owned businesses? Previous studies have not explored these questions in detail because of the difficulty in finding nationally representative data that include a large enough sample of black firms and information on family business ownership, prior work experience in family businesses and business inheritances.

In this paper, we use confidential and restricted-access microdata from the Characteristics of Business Owners (CBO) to explore the role that intergenerational links in self-employment play in contributing to racial differences in small business outcomes such as closure rates, profits, employment size, and sales. The CBO contains detailed information on the characteristics of both the business and the owner, but has been used by only a handful of researchers primarily because of difficulties obtaining access, using and reporting results from the data. We build on previous findings using the CBO indicating that previous work experience in a family member's business and previous work experience in a business providing similar goods and services have large positive effects on small business outcomes, whereas having a self-employed family member and business inheritances play only a minor role (Fairlie and Robb 2005). A careful examination of how these measures of family business background differ by race may uncover some answers. The inability of blacks to acquire general and specific business human capital through exposure to businesses owned by family members may contribute to their limited success in business ownership.

## 2. Data

The 1992 Characteristics of Business Owners (CBO) survey was conducted by the U.S. Bureau of the Census to provide economic, demographic and sociological data on business owners and their business activities (see U.S. Census Bureau 1997, Bates 1990a, Headd 1999, and Robb 2000 for more details on the CBO). The CBO is unique in that it contains detailed information on both the characteristics of business owners and the characteristics of their businesses. It includes oversamples of black-, Hispanic-, other minority-, and female-owned businesses. The survey was sent to more than 75,000 firms and 115,000 owners who filed an IRS form 1040 Schedule C (individual proprietorship or self-employed person), 1065 (partnership), or

1120S (subchapter S corporation). Only firms with $500 or more in sales were included. The universe from which the CBO sample was drawn represents nearly 90 percent of all businesses in the United States (U.S. Census Bureau, 1996). Response rates for the firm and owners surveys were approximately 60 percent. All estimates reported below use sample weights that adjust for survey non-response (Headd, 1999). The Data Appendix provides more details on the CBO.

The sample used below includes firms that meet a minimum weeks and hours restriction. Specifically, at least one owner must report working for the business at least 12 weeks in 1992 and at least 10 hours per week. This restriction excludes 22.1 percent of firms in the original sample. The weeks and hours restrictions are imposed to rule out very small-scale business activities such as casual or side-businesses owned by wage/salary workers. We also impose tighter restrictions on weeks and hours worked to check the sensitivity of our main results and comment on these below.

**3. Racial Differences in Small Business Outcomes**

Black-owned firms have worse outcomes than white-owned firms. Table 1 reports estimates of closure rates between 1992 and 1996, and 1992 profits, employment size, and sales from the CBO. The magnitude of these differences in business outcomes is striking. For example, only 13.9 percent of black-owned firms have annual profits of $10,000 or more, compared to 30.4 percent of white-owned firms. In fact, the entire distribution of business net profits before taxes for black-owned firms is to the left of the distribution for white-owned firms (with the exception of the largest loss categories). Surprisingly, nearly 40 percent of all black-owned firms have *negative* profits. Black-owned firms also have lower survival rates than white-owned firms. The average probability of business closure between 1992 and 1996 is 26.9 percent for black-owned firms compared to 22.6 percent for white-owned firms.

Black-owned firms are substantially smaller on average than are white-owned firms. Mean sales or total receipts among black-owned firms were $59,415 in 1992. Average sales among white-owned firms were nearly 4 times larger. The difference is not simply due to a few very large white firms influencing the mean. Median sales for black firms were one half that of white firms, and the percent of black firms with sales of $100,000 or more was less than half the percent of white firms. Black-owned firms also hire fewer employees than white-owned firms. On average, they hire only 0.63 employees, whereas white-owned firms hire 1.80 employees. Interestingly, only 11.3 percent of black-owned firms hire *any* employees. In comparison, 21.4 percent of white-owned firms hire at least 1 employee.

Estimates from other data sources paint a similarly bleak picture for the state of black business. Closure rates are high among black-owned firms (Bates 1997, Robb 2000, Boden and Headd 2002, and Robb 2002). Data from the Survey of Small Business Finances show that black owned businesses had lower sales, employment, and profits, as well has higher bankruptcies and credit risk ratings (Bitler, Robb, and Wolken 2001 and Robb 2005). Using data from the Panel Study of Income Dynamics, Fairlie (1999) finds that the annual exit rate from self-employment for black men is twice the rate for white men.

## 4. Racial Differences in Family Business Background

An extensive literature addresses the "breakdown" of the African-American family (Wilson 1987, Tucker and Mitchell-Kernan 1995, Wilson 2002). Blacks are 40.1 percent less likely to be married than are whites, and black women are 78.8 percent more likely to have an out-of-wedlock birth than are white women (U.S. Census Bureau 2001 and National Center for Health Statistics 2002). The result is that 53.3 percent of black children live with only one of their parents compared with 21.5 percent of white children (U.S. Census Bureau 2001). In addition, previous research indicates that the probability of self-employment is substantially higher among the children of the self-employed than among the children of the non-self-employed (see Lentz and Laband 1990, Fairlie 1999, Dunn and Holtz-Eakin 2000, and Hout and Rosen 2000). These studies generally find that an individual who had a self-employed parent is roughly two to three times as likely to be self-employed as someone who did not have a self-employed parent. The high incidence of growing up in a single-parent family and the strong intergenerational link in self-employment may limit business ownership opportunities for blacks.

Concerns about the negative consequences of weak family ties on business opportunities among blacks are not new. In fact, four decades ago Nathan Glazer and Daniel Patrick Moynihan made the argument that the black family "was not strong enough to create those extended clans that elsewhere were most helpful for businessmen and professionals (Glazer and Moynihan 1970, p.33)." More recently, Hout and Rosen (2000) note a "triple disadvantage" faced by black men in business ownership. They are less likely than whites to have self-employed fathers, to become self-employed if their fathers were not self-employed, and to follow their father in self-employment. Fairlie (1999) provides evidence that current racial patterns of self-employment are partly determined by racial patterns of self-employment in the previous generation.

We know less, however, about whether blacks and whites differ in work experience in family businesses and their likelihood of receiving business inheritances, and whether these patterns contribute to why black firms are less successful than white firms. Estimates from the CBO indicate that black and white primary business owners have different family business backgrounds. Table 2 reports the percentage of owners that had a family member who was a business owner and the percentage of owners that worked for that family member.[1] More than half of all white business owners had a self-employed family member owner prior to starting their business. In contrast, approximately one-third of black business owners had a self-employed family member.

Although family members may include spouses and siblings in addition to parents, these findings are consistent with Hout and Rosen's (2000) finding of a lower probability of self-

[1] The questions ask (1) "Prior to beginning/acquiring this business, had any of your close relatives ever owned a business OR been self-employed? (Close relatives refer to spouses, parents/guardians, brothers, sisters, or immediate family)", and (2) "If "Yes," did you work for any of these relatives?" (U.S. Census Bureau 1997, p. C-4).

employment among the children of self-employed parents (the "intergenerational pick up rate with respect to self-employment") for blacks than for whites.[2] To see this, we express the joint probability of having a self-employed parent ($S_{t-1}$=1) and child ($S_t$) as:

(4.1) $P(S_t=1, S_{t-1}=1) = P(S_t=1 \mid S_{t-1}=1)P(S_{t-1}=1) = P(S_{t-1}=1 \mid S_t=1)P(S_t=1)$.

Assuming a steady state equilibrium, $S_t=S_{t-1}$ and one-to-one matching of parents to children, the intergenerational pick up rate equals the probability of a business owner having a self-employed parent. We find a black/total ratio of 0.632 for the probability of having a self-employed family member, which is in the range of Hout and Rosen's (2000) estimates.

Family businesses may provide important opportunities for acquiring general and specific business human capital (Lentz and Leband 1990, Fairlie and Robb 2005). Estimates from the CBO indicate that conditional on having a self-employed family member, black business owners were also less likely to have worked for that person than were white business owners. Only 37.4 percent of black business owners who had a self-employed family member worked for that person's business, whereas 43.9 percent of white business owners who had a self-employed family member worked for that person's business.[3] Finally, black business owners overall were much less likely than white business owners to work for a family member's business. The unconditional rate of working for family member's business was 12.6 percent for blacks and 23.3 percent for whites.

Black business owners were slightly less likely to inherit their businesses than were white owners (Table 2). Only 1.4 percent of black owners inherited their firms compared with 1.7 percent of white owners. These rates of inheritance are very low and suggest that racial differences in inheritances cannot explain much of the gaps in small business outcomes. These estimates are consistent with estimates of racial differences in inheritances and gifts from the

[2] A large percentage of owners who report having a self-employed family member prior to starting their businesses are likely to have self-employed parents because the question refers to family business ownership prior to starting the business, less than a quarter of the self-employed have self-employed spouses and business ownership runs in families (see Fairlie and Robb 2005 for further discussion).

Federal Reserve's Survey of Small Business Finances (SSBF). Estimates from the SSBF indicate that 4.2 percent of white firms and 4.0 percent of black firms are inherited or acquired as gifts. Unfortunately, the SSBF questionnaire does not distinguish between inheritances and gifts.

Overall, the estimates reported in Table 2 indicate that black business owners have a relatively disadvantaged family business background compared to white business owners. The lack of family business experience may contribute substantially to the relative lack of success of black-owned businesses because of limited opportunities to receive the informal learning or apprenticeship type training that occurs in working in a family business. Family businesses provide an opportunity for family members to acquire general business human capital and in many cases also provide the opportunity for acquiring specific business human capital. The impact of racial differences in these opportunities on business outcomes, however, are unknown.

**5. The Determinants of Small Business Outcomes**

To better understand why racial differences in business outcomes exist, we first model the determinants of small business outcomes. Logit and linear regression models are estimated for the probability of a business closure from 1992-1996, the probability that the firm has profits of at least $10,000 per year, the probability of having employees, and log sales.[4] Table 3 reports estimates of marginal effects for the logit regressions and coefficients for the OLS regression. After controlling for numerous owner and business characteristics, black-owned businesses continue to lag behind white-owned businesses. In all specifications except the closure probability equation, the coefficient estimate on the black-owned business dummy variable is large, negative and statistically significant. Thus, racial differences in the included variables cannot explain all of the black/white disparities in outcomes (which we discuss further below).

[3] These patterns may in part be due to lower employment levels among black-owned firms.
[4] The profit measure available in the CBO is categorical. We estimate a logit model for the cutoff of $10,000 to make it easier to interpret the coefficients and perform the decomposition described below. We find similar results in estimating an ordered probit for profits (Fairlie and Robb 2005).

Similar to previous studies, we find that small business outcomes are positively associated with the education level of the business owner (Bates 1990b). Female-owned businesses have lower outcomes, on average, than male-owned businesses, which is consistent with previous findings indicating that self-employment is associated with higher earnings for men, but lower earnings for women (see Hundley 2000 for example). And, firms located in urban areas are more likely to close and are less likely to have employees, but are more likely to have large profits and have higher sales than firms located in non-urban areas.

Having a family business background is important for small business outcomes (see Fairle and Robb 2005 for more details). The main effect, however, appears to be through the informal learning or apprenticeship type training that occurs in working in a family business and not from simply having a self-employed family member. The coefficient estimates on the dummy variable indicating whether the owner had a family member who owned a business are small and statistically insignificant in all of the specifications except for the closure probability equation. In contrast, working at this family member's business has a large positive and statistically significant effect in all specifications. The probability of a business closure is 0.042 lower, the probability of large profits is 0.032 higher, the probability of employment is 0.055 higher, and sales are roughly 40 percent higher if the business owner had worked for one of his/her self-employed family members prior to starting the business.[5] The effects on the closure, profit and employment probabilities represent 15.3 to 26.6 percent of the sample mean for the dependent variables.

Perhaps not surprisingly, inherited businesses are more successful and larger than non-inherited businesses. The coefficients are large, positive (negative in the closure equation) and statistically significant in all specifications. Inheritances may represent a form of transferring successful businesses across generations, but their overall importance in determining business

[5] These estimates are not overly sensitive to the exclusion of firms started before 1980 or the inclusion of the age of the firm (with the exception of the inheritance variable). In addition, estimates from the log sales

outcomes is slight at best. Although the coefficient estimates are large in the outcome equations, the relative absence of inherited businesses (only 1.6 percent of all small businesses) suggests that they play only a minor role in establishing an intergenerational link in self-employment.

The strong effect of previous work experience in a family member's business on small business outcomes suggests that family businesses provide an important opportunity for family members to acquire human capital related to operating a business. The general lack of significance of having a self-employed family member may indicate that correlations across family members in entrepreneurial preferences and ability are less important in creating an intergenerational link in business ownership. There is the possibility, however, that the more able children are the ones that are more likely to work in family businesses.

The CBO also provides detailed information on other forms of acquiring general and specific business human capital. Available questions include information on prior work experience in a managerial capacity and prior work experience in a business whose goods and services were similar to those provided by the owner's business. These variables may have an important effect on small business outcomes. There may also exist important racial differences in the extent to which these methods of acquiring general and specific business human capital are used, thus leading in turn to racial differences in business outcomes.

The effects on small business outcomes of working for a self-employed family member are generally stronger than the effects of prior work experience in a managerial capacity. Management experience has a similar size effect in the profit and employer equations, but has a much smaller effect on log sales and a positive and statistically significant effect on business closures. Management experience prior to starting or acquiring a business generally improves business outcomes, but has a less consistent effect than experience working for a close relative.

The CBO also provides information on whether the owner worked in a business whose goods and services were similar to those provided by his/her business. This more general case of

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specification are not sensitive to the exclusion of firms with extremely large annual sales.

acquiring specific business human capital appears to be very important. In fact, the coefficient estimates on a dummy variable for whether the owner had work experience in a similar business are comparable in size to the coefficient estimates on prior work experience in a family member's business in the closure probability and log sales equations. The coefficient estimate is smaller in the employer probability equation, but larger in the profits equation. In all specifications, the coefficient estimates are large and statistically significant.

The inclusion of prior managerial experience and similar business experience suggests that the large, positive coefficient estimates on working for a self-employed family member are not simply capturing the effects of management experience or specific business human capital on small business outcomes. Instead, prior work experience in a family member's business has an independent effect on small business outcomes, which may in part be due to the acquisition of less specific, general business human capital. In contrast, the independent effects of having a family member who owns a business on small business outcomes are not large. Finally, inherited businesses may be more successful on average than non-inherited businesses, but their limited representation among the population of small businesses suggests that they are only a minor determinant of small business outcomes.

## ADDITIONAL ESTIMATES

We investigate whether the regression estimates are sensitive to alternative samples.[6] First, we estimate regressions using a sample that excludes firms with less than $5,000 in startup capital. We do not use this restriction in the original sample because most businesses report requiring very little in startup capital, and, in fact, many large successful businesses started with virtually no capital. For example, estimates from the CBO indicate that among businesses with sales of $100,000 to $200,000 per year, approximately 40 percent of firms required less than $5000 in startup capital (U.S. Census Bureau 1997). We also do not exclude these firms in the original sample because we are concerned that the receipt of startup capital may be related to the potential success of the business (we discuss this issue further below). Although mean outcomes among businesses that started with $5,000 or more in startup capital are better than those for all businesses, we find roughly similar estimates for most variables in the regression models. In particular, we find that having a self-employed family member has little effect on outcomes, whereas prior work experience in a family member's business improves outcomes. Overall, these estimates indicate that the findings regarding the importance of family business backgrounds in contributing to small business success are not due to the inclusion of smaller, less successful firms that require little or no startup capital.

Although not reported, we also check the sensitivity of our results to the removal of part-time business owners. In particular, we estimate means and a separate set of regressions that only include businesses with at least one owner who works 30 hours or more per week and 36 weeks or more per year, which reduces the sample size by roughly 20 percent. Although average business outcomes are better for this sample, we find similar coefficients on the family business background measures. We also estimate regressions that include even tighter hours and weeks worked restrictions and find roughly similar results. Finally, we estimate regressions that exclude partnerships, which represent 7 percent of the total sample. We find similar results using this sample. Overall, the regression results are not sensitive to these alternative sample restrictions.

## FINANCIAL STARTUP CAPITAL AND INDUSTRY

Two additional factors that are associated with business success are access to startup capital and the industry of the business. The causal effects of these two variables on business outcomes, however, are difficult to estimate. We first discuss the results for startup capital.

A large and growing literature examines the importance of personal wealth as a potential determinant of self-employment. Most studies find that asset levels (e.g. net worth) measured in

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[6] The estimates are not sensitive to missing data (see the Data Appendix).

one year increase the probability of entering self-employment by the following year.[7] The finding has generally been interpreted as providing evidence that entrepreneurs face liquidity constraints, although there is some recent evidence against this interpretation (Hurst and Lusardi 2004). The main concerns with the liquidity constraint interpretation are that business ownership may be an effective method of acquiring wealth and that individuals who are adept at accumulating wealth perhaps through wage/salary work may be the same ones who are the most successful at starting businesses.[8]

Although we do not present new evidence on liquidity constraint debate, we note the possibility that the owner's level of wealth may affect future business success. In particular, if liquidity constraints bind the owner's wealth may affect access to financial capital because this wealth can be invested directly in the business or used as collateral to obtain business loans. Constant returns to scale production implies that liquidity constrained entrepreneurs might start smaller, undercapitalized businesses. These businesses will have worse outcomes than those created in the absence of liquidity constraints. Unfortunately, the CBO does not contain a measure of the owner's net worth prior to starting the business.[9] Instead, the CBO contains categorical information on "the total amount of capital required to start/acquire the business" (U.S. Census Bureau 1997, p. C-15). Related to the aforementioned problems, however, the amount of required startup capital is potentially endogenous to business success because potentially successful business ventures are likely to generate more startup capital than business ventures that are viewed as being potentially less successful (Bates 1990b).[10]

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[7] For example, see Evans and Jovanovic (1989), Evans and Leighton (1989), Meyer (1990), Holtz-Eakin, Joulfaian, and Rosen (1994), Blanchflower and Oswald (1998), Dunn and Holtz-Eakin (2000) Fairlie (1999, 2002), Holtz-Eakin and Rosen (2004), and Hurst and Lusardi (2004).
[8] See Bradford (2003) for evidence on wealth accumulation among black and white entrepreneurs.
[9] The CBO does not include any measure of the owner's net worth. Using the 1987 CBO, Astebro and Bernhardt (2005) instead use instrumented household income as a proxy for household wealth and find a positive relationship between this variable and startup capital controlling for other owner and business characteristics.
[10] In support of the use of this measure, there is evidence suggesting that the size of inheritances received by individuals increases the amount of capital invested in the business (Holtz-Eakin, Joulfaian, and Rosen 1994a). Hurst and Lusardi (2004) find, however, that future inheritances also increase the probability of

The industry of the business is also likely to be associated with the size and success of the business. Estimates from the CBO indicate large industry differences in business outcomes (U.S. Census Bureau 1997). These patterns are difficult to interpret, however, because the choice of industry and the choice of starting and the size of a business may be simultaneously determined, and industry choice may be correlated with unobserved preferences for the scale of the business and entrepreneurial ability.

In light of these concerns, we estimate a second set of small business outcome regressions that include dummy variables for different levels of startup capital and major industry categories. Estimates are reported in Table 4. As expected, small business outcomes are positively associated with the amount of required startup capital. The coefficients on the startup capital dummies are large, positive (negative for the closure probability), and statistically significant in all specifications. Industry is also linked to business success as many of the dummy variables for industries are large in magnitude and statistically significant (retail trade is the left-out category). The estimates vary across specifications, however, making it difficult to summarize the association between industries and business outcomes.

It is also important to note that the addition of startup capital and industry does not overly influence the estimated effects of the family business background, human capital and business human capital variables. The coefficient estimates on having a self-employed family member and inheriting the business do not change substantially. The coefficients on previous work experience in a family member's business are generally smaller, but remain statistically significant.

## 6. Identifying the Causes of Racial Differences in Small Business Outcomes

Estimates from the CBO indicate that black business owners have less family business experience than white business owners and differ for many other characteristics, such as

self-employment entry suggesting that liquidity constraints are not the underlying cause of the positive relationship between inheritances and entrepreneurship.

education and startup capital (see Table 2 and the Appendix). Furthermore, the estimates reported in Tables 3 and 4 indicate that many of these variables are important determinants of small business outcomes. Taken together these results suggest that racial differences in family business background, education, and startup capital contribute to why black-owned businesses have worse outcomes on average than white-owned businesses. The impact of each factor, however, is difficult to summarize. In particular, we wish to identify the separate contributions from racial differences in the distributions of all of the variables or subsets of variables included in the regressions.

To explore these issues further, we employ a variant of the familiar technique of decomposing inter-group differences in a dependent variable into those due to different observable characteristics across groups and those due to different "prices" of characteristics of groups (see Blinder 1973 and Oaxaca 1973).[11] The technique that we describe here takes into account the nonlinearity of the logit regressions used to estimate the closure, profit, and employment probability equations discussed above (see Fairlie 1999 for more details). The standard Blinder-Oaxaca decomposition is used for the log sales specification. Similar to most recent studies applying the decomposition technique, we focus on estimating the first component of the decomposition that captures contributions from differences in observable characteristics or "endowments." We do not report estimates for the second or "unexplained" component of the decomposition because it partly captures contributions from group differences in unmeasurable characteristics and is sensitive the choice of left-out categories making the results difficult to interpret (see Jones 1983 and Cain 1986 for more discussion).

For a nonlinear equation, such as $Y = F(X\hat{\beta})$, a modification is needed for the decomposition because $\overline{Y}$ does not necessarily equal $F(\overline{X}\hat{\beta})$. Instead, we use the full

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[11] The standard Blinder-Oaxaca decomposition of the white/minority gap in the average value of the dependent variable, Y, can be expressed as: $\overline{Y}^W - \overline{Y}^M = \left[(\overline{X}^W - \overline{X}^M)\hat{\beta}^W\right] + \left[\overline{X}^M(\hat{\beta}^W - \hat{\beta}^M)\right]$.

distribution of X to calculate the average predicted probability. In the case of a logistic model that includes a constant term, the average value of the dependent variable must equal the average value of the predicted probabilities in the sample.[12] Another issue that arises in calculating the decomposition is the choice of coefficients or weights for the first component of the decomposition. The first component can be calculated using either the white or minority coefficients often providing different estimates, which is the familiar index problem with the Blinder-Oaxaca decomposition technique. An alternative method is to weight the first term of the decomposition expression using coefficient estimates from a pooled sample of the two groups (see Oaxaca and Ransom 1994 for example). We follow this approach to calculate the decompositions by using coefficient estimates from a logit regression that includes a sample of all racial groups.

The contribution from racial differences in the characteristics can thus be written as:

$$(5.1)\quad \sum_{i=1}^{N^W} \frac{F(X_i^W \hat{\beta}^*)}{N^W} - \sum_{i=1}^{N^M} \frac{F(X_i^M \hat{\beta}^*)}{N^M},$$

where $X_i^j$ is a row vector of characteristics for firm *i* of race *j*, $\hat{\beta}^*$ is a vector of pooled coefficient estimates, $N^j$ is the sample size for race *j*, and $j=M$ or $W$ for minorities and whites, respectively.. Equation (5.1) provides an estimate of the contribution of racial differences in the entire set of independent variables to the racial gap. An additional calculation, however, is needed to identify the contribution of group differences in specific variables to the gap. For example, assume that $X$ includes two variables, $X_1$ and $X_2$. The independent contribution of $X_1$ to the racial gap can be expressed as:

$$(5.2)\quad \frac{1}{N^M} \sum_{i=1}^{N^M} F(X_{1i}^W \hat{\beta}_1^* + X_{2i}^W \hat{\beta}_2^*) - F(X_{1i}^M \hat{\beta}_1^* + X_{2i}^W \hat{\beta}_2^*).$$

[12] In contrast, the predicted probability evaluated at the means of the independent variables is not necessarily equal to the proportion of ones, and in the sample used here it is likely to be smaller because the logit function is convex for values less than 0.5.

Next, to calculate the contribution of racial differences in $X_2$ to the gap, we use the difference between the average predicted probability using the minority distribution for $X_1$ and the white distribution for $X_2$ and the average predicted probability using the minority distributions for both $X_1$ and $X_2$.  Thus, the contribution from racial differences in each variable to the gap is calculated from the change in average predicated probabilities resulting from sequentially switching white characteristics to minority characteristics one variable or set of variables at a time.[13]  The calculation of (5.2), however, is not possible without first matching the white distribution of $X_1$ to the minority distribution of $X_1$.  We draw a random subsample of whites with a sample size equal to $N_B$ and randomly match it to the minority sample.  Each observation in the white sample is thus uniquely matched to an observation in the black sample to allow for switching values of $X_1$.

The decomposition estimates obtained from this procedure depend on the randomly chosen subsample of whites.  Therefore, to obtain estimates that use the entire white sample, we draw a large number of random white subsamples.  We then calculate the mean value of estimates from all of these samples.  In the decompositions reported below, we use 1000 random subsamples of whites to calculate these means.

Table 5 reports estimates from this procedure for decomposing the large black/white gaps in small business outcomes discussed above.  The separate contributions from racial differences in each set of independent variables are reported.  Racial differences in the male/female ownership of the firm contribute significantly to the gaps in small business outcomes.  Low levels of education among black business owners relative to white business owners appear to have a negative effect on business outcomes, but educational differences do not translate into large effects.  Racial differences in owner's education explain from 2.4 to 6.5 percent of the black/white gaps in small business outcomes.  Although black-owned businesses have a different regional distribution and are more likely to be located in urban areas than are white-owned businesses, racial differences in geographical locations do not appear to contribute substantially to the gaps in small business outcomes. Racial differences in the amount of prior work experience and management experience have either small effects or mixed effects across specifications.

As reported in Table 2, black business owners are much less likely to have a self-employed family member than are white business owners. This difference, however, is unimportant in explaining racial disparities in profits, employment, and sales. The only exception is that racial differences in having a self-employed family member explain 8.9 percent of the black/white gap in closure rates. The contribution of group differences in parental self-employment to racial differences in small business outcomes appears to be smaller than the contribution to rates of self-employment and entry into self-employment. Estimates from the PSID indicate that differences in the probability of having a self-employed father explain 8 to 14 percent of the black/white gap in the entry rate into self-employment and 4 to 6 percent of the gap in the self-employment rate (Fairlie 1999).

The explanatory power of racial differences in prior work experience in a family member's business is stronger. With the exception of the profits specification, racial differences in this variable explain 5.6 to 11.6 percent of the black/white gaps in small business outcomes. Apparently, the lack of work experience in family businesses among future black business owners, perhaps by restricting their acquisition of general and specific business human capital, limits the successfulness of their businesses relative to whites.

Providing some additional evidence on this point, racial differences in prior work experience in a business providing similar goods and services consistently explain a small part of the gaps in outcomes. Although the coefficient estimates in the small business outcome regressions were generally similar in magnitude to coefficient estimates on the family business

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[13] Unlike in the linear case, the independent contributions of $X_1$ and $X_2$ depend on the value of the other variable. This implies that the choice of a variable as $X_1$ or $X_2$ (or the order of switching the distributions)

work experience variable, the contributions from racial differences are somewhat smaller. The racial disparity in the percent of owners that worked in a family member's business is larger than the disparity in the percent of owners that worked in a business with similar goods and services.

Black-owned businesses are less likely to be inherited than white-owned businesses and inherited businesses are generally more successful than non-inherited businesses, but racial differences in business inheritances explain virtually none of the gaps in small business outcomes. The overall likelihood of business inheritances (1.6 percent) is just too small to play a major role in explaining racial differences in business outcomes.

The finding is interesting in light of the finding in the literature that blacks are less likely to receive inheritances and typically receive much smaller inheritances than whites. In fact, there is recent evidence suggesting that the lack of inheritances among blacks is one of the primary factors explaining why blacks have asset levels that are substantially lower than white levels (Menchik and Jianakoplos 1997, Gittleman and Wolff 2000, and Avery and Rendall 2002). Furthermore, the receipt of inheritances is a major determinant of starting businesses (Holtz-Eakin, Joulfaian, and Rosen 1994a and Blanchflower and Oswald 1998) suggesting that lower levels of inheritances among blacks contributes to lower rates of business ownership. Focusing on business inheritances and small business outcomes, however, apparently changes the conclusion on the importance of racial differences in inheritances.

## GENDER DIFFERENCES

We also investigate whether the decomposition results hold separately for male- and female-owned businesses. Overall, male and female business owners have fairly similar family business backgrounds. Estimating separate business outcome regressions, we also find that human capital, business human capital and family business experiences are similarly related to business success for men and women (see Fairlie and Robb 2005). Having a self-employed

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is potentially important in calculating its contribution to the racial gap.

family member has no effect on business outcomes, but prior work experience in a family business has large effects on business outcomes for both men and women. Black firms are also found to have substantially worse outcomes than white firms, on average, for both men and women. Overall, separate male and female decompositions indicate some differences in the results for men and women, but the main findings for the family business background variables are similar (see Fairlie and Robb 2006 for more details). Racial differences in having a self-employed family member explain very little of the gaps in business outcomes, whereas having prior work experience in a family member's business explains part of the gaps. Racial differences in business inheritances explain virtually none of the gap for either men or women.

## STARTUP CAPITAL AND INDUSTRY DIFFERENCES

Table 6 reports the results of decompositions that include contributions from racial differences in startup capital and industry. Black-owned firms clearly have less startup capital than white-owned firms. For example, 8.1 percent of black-owned businesses required at least $25,000 in startup capital compared to 15.7 percent of white-owned businesses. These racial differences in startup capital explain a substantial portion of the black/white gaps in small business outcomes. The contribution estimates range from 14.5 to 43.2 percent. Clearly, lower levels of startup capital among black-owned firms are associated with less successful businesses.

An important question is whether these lower levels of startup capital are related to difficulties in obtaining funding because of low levels of personal wealth and/or lending discrimination. The median level of net worth for black households is $6,166, compared to $67,000 for white households (U.S. Census Bureau 2005). These enormous disparities in wealth may translate into differential access to startup capital because personal wealth can be invested directly in the business or used as collateral to obtain business loans. Recent research also indicates that black firms may face lending discrimination which potentially exacerbates the problem (see Blanchflower, Levine and Zimmerman 2003 and Cavalluzzo and Wolken 2002 for example). Blacks may also have less access to family wealth through inheritances, loans and equity investments (Bates 1997). All of these factors may contribute to the substantially lower levels of startup capital among black business owners than among white business owners. In the end, however, we cannot rule out the possibility that racial disparities in startup capital may also be caused by differences in the types, scale or potential successfulness of businesses that black entrepreneurs start.[14]

Black and white firms concentrate in different industries. Black firms are underrepresented in construction, manufacturing, wholesale trade, agricultural services and finance, insurance and real estate relative to white firms. Black firms are more concentrated in transportation, communications and public utilities, and personal services than white firms. These industry differences are associated with worse outcomes among black-owned firms. The decomposition estimates indicate that industry differences explain 7.0 to 20.5 percent of the racial differences in business outcomes. Differences in industry distributions may be due to capital constraints, skill differences, discrimination and differences in preferences making it difficult to interpret these results.

Overall, racial differences in the explanatory variables explain a large percentage of the total black/white gaps in small business outcomes. They explain nearly 50 percent of the racial gap in profits or employment, and nearly 70 percent of the total gap in log sales. The entire black/white gap in business closure rates is explained by racial differences in the explanatory variables. The remaining or "unexplained" portion of the racial gaps in small business outcomes may be due to lending discrimination and consumer discrimination against black-owned firms, the omission of important unmeasurable or difficult-to-measure factors such as risk aversion and networks, or the inability to accurately measure racial differences in *access* to capital. Although there is evidence consistent with lending discrimination as noted above, the evidence on

[14] Interestingly, black-owned firms have lower levels of startup capital across all major industries (U.S. Census Bureau 1997).

consumer discrimination is more mixed (Borjas and Bronars 1989, Meyer 1990 and Kawaguchi 2004). Previous research also indicates that social and business networks are important for business success, but there is little evidence on the question of whether racial differences in networks are important in contributing to racial differences in business outcomes (Fratoe 1988, Bates 1993, Feagin and Imani 1994, Bates and Howell 1997, Allen 2000, Rauch 2001, Shane and Cable 2002, and Davidsson and Honig 2003, Kalnins and Chung 2005).

**7. Conclusions**

An important finding in the rapidly growing literature on self-employment is that the probability of business ownership is substantially higher among the children of business owners than among the children of non-business owners (Lentz and Laband 1990, Fairlie 1999, Dunn and Holtz-Eakin 2000, and Hout and Rosen 2000). Recent evidence also suggests that current racial patterns of self-employment are in part determined by racial patterns of self-employment in the previous generation (Fairlie 1999 and Hout and Rosen 2000). Using confidential and restricted-access microdata from the Characteristics of Business Owners (CBO), we expand on these results by exploring whether the intergenerational transmission of business ownership is also important in creating racial disparities in business outcomes *conditioning* on ownership.

Estimates from the CBO indicate that black-owned firms have lower profits and sales, hire fewer employees, and are more likely to close than white-owned firms. Black business owners also have a relatively disadvantaged family business background compared to white business owners. Black business owners are much less likely than white business owners to have had a self-employed family member owner prior to starting their business and are less likely to have worked in that family member's business. Only 12.6 percent of black business owners had prior work experience in a family member's business compared to 23.3 percent of white business owners. Racial differences and overall rates of business inheritances were much smaller. The percent of business owners inheriting their firms was 1.4 percent for blacks and 1.7 percent for whites.

Using a nonlinear decomposition technique, we find that the lower probability of having a self-employed family member prior to business startup among blacks than among whites does not generally contribute to racial differences in small business outcomes.  Instead, the lack of prior work experience in family businesses among future black business owners, perhaps by restricting their acquisition of general and specific business human capital, limits the successfulness of their businesses relative to whites.  With the exception of the profits specification, racial differences in this variable explain 5.6 to 11.6 percent of the gaps in small business outcomes.  Providing some additional evidence on the importance of limited opportunities for acquiring business human capital, racial differences in prior work experience in similar businesses also consistently explain part of the gaps in small business outcomes. Furthermore, the combination of these two factors suggests that racial differences in opportunities to acquire business human capital in general contribute substantially to black/white differences in small business outcomes.

Black-owned businesses are less likely to be inherited than white-owned businesses and inherited businesses are generally more successful than non-inherited businesses, but racial differences in business inheritances explain virtually none of the gaps in small business outcomes. The overall likelihood of business inheritances (1.6 percent) is just too small to play a major role in explaining racial differences in business outcomes.

Our estimates indicate that blacks are less likely than whites to have previous work experience in a family member's business and are less likely to have previous work experience in a similar business.  The relative lack of opportunities for acquiring general and specific business human capital apparently has a negative effect on the outcomes of black-owned firms.  This finding has important policy implications.  Most minority business development policies currently in place, such as set-asides and loan assistance programs, are targeted towards alleviating financial constraints not towards providing opportunities for work experience in small businesses. To break the "vicious" cycle of low rates of business ownership and negative business outcomes being passed from one generation of blacks to the next, programs that directly address deficiencies in family business experience, possibly through an expansion of apprenticeship-type entrepreneurial training programs, may be needed.

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## Data Appendix

### 1. The Characteristics of Business Owners (CBO)

The 1992 Characteristics of Business Owners (CBO) Survey is the third survey of its kind conducted by the Bureau of the Census. The first two surveys were conducted for 1982 and 1987. Minorities and women were oversampled to allow researchers to more reliably study these businesses and business owners. The sample for the CBO is a sub-sample of the Survey of Minority-Owned Business Enterprises (SMOBE) and drawn from the businesses that responded to the SMOBE. The SMOBE had a 77 percent response rate.

The 1992 CBO survey was conducted by the U.S. Census Bureau to provide economic, demographic and sociological data on business owners and their business activities (see U.S. Census Bureau 1997, Bates 1990a, Headd 1999, and Robb 2000 for more details on the CBO). The survey was sent to more than 75,000 firms and 115,000 owners who filed an IRS form 1040 Schedule C (individual proprietorship or self-employed person), 1065 (partnership), or 1120S (subchapter S corporation). Larger C corporations were not included because of the difficulty in asking owner questions for many investors. C corporations as a tax filing status, however, are becoming less popular relative to S corporations due to changes in tax laws (Headd 1999).

The CBO and underlying SMOBE contain only firms with $500 or more in annual sales. The universe from which the CBO sample was drawn represents nearly 90 percent of all businesses in the United States (U.S. Census Bureau, 1996). These businesses, however, represent a much smaller percent of total employment. Response rates for the firm and owners surveys were approximately 60 percent. All estimates reported below use sample weights that adjust for survey non-response (Headd 1999).

The CBO is unique in that it contains detailed information on both the characteristics of business owners and the characteristics of their businesses. For example, owner characteristics include education, detailed work experience, hours worked in the business, marital status, age, weeks and hours worked, personal income, and how the business was acquired. Business characteristics include closure, profits, sales, employment, industry, startup capital, types of customers, health plans, and exports. Most business characteristics refer to 1992, with the main exception being closure which is measured over the period 1992 to 1996. Additional advantages of the CBO over other nationally representative datasets for this analysis are the availability of measures of business ownership among family members and the large oversample of black-owned businesses. In particular, the CBO contains rare or unique information on business inheritances, business ownership among family members, prior work experience in a family member's business, and prior work experience in a business whose goods/services were similar to those provided by the owner's business. The CBO allows us to conduct a detailed analysis of the determinants of racial patterns in several business outcomes, such as closure rates, sales, profits, and employment size.

For owner characteristics in multi-owner firms, which represent 20.6 percent of the sample, we identify one person as the primary owner of the business. The primary owner is identified as the owner working the most annual hours in 1992 (weeks*hours). In the case of ties, we identify the primary owner as the person who founded the business. Finally, all remaining ties are resolved by assigning a random owner. The primary business owner is used to identify all owner characteristics of the firm, such as marital status, education, prior work experience, and family business background. The race and sex of the firm, however, are identified by majority ownership, which is the method used by SMOBE/SWOBE (U.S. Bureau of the Census, 1996, Robb 2000).

The main disadvantage of the CBO is that it does not contain information on a comparison group of wage/salary workers. Therefore, it is difficult to examine the determinants of business ownership rates using these data. Another disadvantage is that there may be nonresponse bias and recall bias associated with conducting the survey in 1996. Although sample weights are used that correct for non-response, there is some concern that closure rates are underestimated for the period from 1992 to 1996 in the CBO. Businesses that closed or moved over this period may have been less likely to respond to the survey which was sent out at the end of the period. Indeed, Robb (2000) showed, through matching the CBO to administrative records for employer firms using the Business Information Tracking Series (BITS), that nonrespondents had a higher rate of closure than respondents (14 percentage points). Racial differences in closure rates, however, were similar for respondents and nonrespondents.

Given the detailed information on both owner and business characteristics, the oversamples of minority-owned businesses, and availability since 1982, it is surprising that the CBO microdata have only been used by a handful of researchers to study minority businesses (see Bates 1997 and many other studies; Christopher, 1993, 1998; Kijakazi, 1997, and Robb 2000, 2002). The lack of use appears to be primarily due to difficulties in accessing and reporting results from these confidential, restricted-access data. All research using the CBO must be conducted in a Census Research Data Center or at the Center for Economic Studies (CES) after approval by the CES and IRS, and all output must pass strict disclosure regulations.

**2. Missing Data**

A concern with the main estimates reported in Table 3 is the amount of missing data for some of the independent variables in the CBO. Approximately 10 percent of the observations for each of the specifications reported in Table 3 are excluded because of missing values for one or more of the independent variables. Although these levels of missing data are not extremely high, we examine the sensitivity of our results to two alternative methods of correcting for missing data. First, we estimate regressions in which dummy variables are included for missing values of specific independent variables.[15] For example, if the education level of the business owner is missing then the four education level dummy variables would be equal to zero and a special missing education dummy variable would be equal to one. Thus, the missing observation for owner's education would not contribute to the coefficient estimates on the main education level dummies, but would contribute to coefficient estimates on other variables. This technique is becoming increasingly common in the literature because it is easy to implement and allows for an increase in the efficiency of some coefficient estimates. Although not reported, we find estimates that are similar to the ones reported in Table 2 for all four specifications.

We also address the missing data problem by using multiple imputation (see Rubin 1987, Schafer and Olsen 1998, and Schafer 1997, 1999 for more details).[16] The multiple imputation technique essentially replaces each missing value in the data with a set of plausible values resulting in separate datasets that include the true values for nonmissing observations and the imputed variables for missing observations. The Markov Chain Monte Carlo (MCMC) method is used to impute the missing observations, which is preferred in the case of an arbitrary missing data pattern (Schafer 1997). The means and covariances between the variables for the non-missing observations and the assumption that the variables have a multivariate normal distribution are used to impute missing values. The correlations between all of the variables in the main specification and additional variables measuring financial capital, industry and start year of the firm are used to improve the imputations. We also placed restrictions on minimum and maximum values and rounding. Logit or linear regressions are then run on five separately imputed datasets.[17] The results from the five runs are combined for inference and adjustments are

[15] Race, gender, region, and urbanicity are from administrative record data and have no missing values. All other independent variables have missing values.
[16] The technique has been discussed recently in the Economics literature (Brownstone and Valetta 2001) and has been used to impute income and wealth variables in the Survey of Consumer Finances (Kennickell 1998).
[17] The gains in efficiency are small after increasing the number of imputations above five (Schafer and

made for sampling variance. The resulting coefficient estimates summarize this information and their standard errors capture the variability of estimates across the five runs, which differs from the typical overstatement of the statistical precision of estimates from single imputation methods. We report the multiple imputation coefficient estimates and their standard errors in Appendix 1. Despite the large increase in sample size, the estimates are similar to those reported in Table 3. Thus, the removal of observations with missing data does not appear to overly affect our results.

Olsen 1998).

Data Appendix
Multiple Imputation Regressions for Small Business Outcomes
Characteristics of Business Owners, 1992

| | Specification | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Dependent variable | Closure (1992-96) | Profits $10,000+ | Employer Firm | Ln Sales |
| Black-owned business | 0.0213 | -0.1866 | -0.1038 | -0.4883 |
| | (0.0121) | (0.0197) | (0.0157) | (0.0522) |
| Latino-owned business | -0.0190 | -0.0340 | 0.0167 | 0.0552 |
| | (0.0113) | (0.0135) | (0.0111) | (0.0463) |
| Native American-owned business | -0.1220 | 0.0338 | 0.0650 | 0.3944 |
| | (0.0522) | (0.0502) | (0.0396) | (0.1783) |
| Asian-owned business | -0.0473 | 0.0198 | 0.0696 | 0.4549 |
| | (0.0135) | (0.0137) | (0.0110) | (0.0508) |
| Female-owned business | 0.0199 | -0.2066 | -0.0640 | -0.6942 |
| | (0.0047) | (0.0063) | (0.0049) | (0.0197) |
| High school graduate | -0.0280 | 0.0634 | 0.0390 | 0.1620 |
| | (0.0080) | (0.0108) | (0.0090) | (0.0346) |
| Some college | -0.0188 | 0.0734 | 0.0419 | 0.0781 |
| | (0.0080) | (0.0105) | (0.0088) | (0.0342) |
| College graduate | -0.0619 | 0.1141 | 0.0542 | 0.2428 |
| | (0.0089) | (0.0112) | (0.0097) | (0.0373) |
| Graduate school | -0.1596 | 0.2187 | 0.1581 | 0.6181 |
| | (0.0102) | (0.0119) | (0.0098) | (0.0396) |
| Urban | 0.0171 | 0.0476 | -0.0291 | 0.1260 |
| | (0.0055) | (0.0066) | (0.0053) | (0.0225) |
| Prior work experience in a managerial capacity | 0.0617 | 0.0247 | 0.0529 | 0.2395 |
| | (0.0053) | (0.0062) | (0.0052) | (0.0228) |
| Prior work experience in a similar business | -0.0423 | 0.1014 | 0.0414 | 0.3862 |
| | (0.0049) | (0.0057) | (0.0049) | (0.0208) |
| Have a self-employed family member | -0.0241 | 0.0174 | 0.0011 | -0.0138 |
| | (0.0059) | (0.0065) | (0.0056) | (0.0231) |
| Prior work experience in a family member's business | -0.0389 | 0.0311 | 0.0535 | 0.3607 |
| | (0.0083) | (0.0077) | (0.0074) | (0.0327) |
| Inherited business | -0.1266 | 0.1378 | 0.1987 | 1.2058 |
| | (0.0225) | (0.0200) | (0.0145) | (0.0736) |
| Mean of dependent variable | 0.2253 | 0.3009 | 0.2131 | 10.0995 |
| Sample size | 37,156 | 33,804 | 38,020 | 38,020 |

Note: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) Logit models are used for Specifications 1-3 and OLS is used for Specification 4. (3) Marginal effects and their standard errors (in parenthesis) are reported. (4) All specifications also include a constant, and dummy variables for marital status of primary owner, region, and work experience of the primary owner. (5) Missing values for all independent variables are imputed. See text for more details.

Appendix
Means of Selected Variables
Characteristics of Business Owners. 1992

| | White-Owned Firms | Black-Owned Firms |
|---|---|---|
| Female-owned business | 0.3268 | 0.4261 |
| Married | 0.8041 | 0.7293 |
| Never married | 0.1398 | 0.1392 |
| High school graduate | 0.2651 | 0.2230 |
| Some college | 0.3123 | 0.3423 |
| College graduate | 0.1962 | 0.1292 |
| Graduate school | 0.1353 | 0.1437 |
| Northeast | 0.0643 | 0.0194 |
| Midatlantic | 0.1469 | 0.1315 |
| East North Central | 0.1666 | 0.1403 |
| West North Central | 0.0847 | 0.0330 |
| South Atlantic | 0.1597 | 0.3259 |
| East South Central | 0.0518 | 0.0792 |
| West South Central | 0.0999 | 0.1443 |
| Mountain | 0.0670 | 0.0163 |
| Urban | 0.7351 | 0.8877 |
| Prior work experience: less than 2 years | 0.0707 | 0.0680 |
| Prior work experience: 2-5 years | 0.1641 | 0.1500 |
| Prior work experience: 6-9 years | 0.1507 | 0.1445 |
| Prior work experience: 10-19 years | 0.2973 | 0.3143 |
| Prior work experience: 20 years or more | 0.2578 | 0.2393 |
| Sample size | 14,282 | 6,831 |
| Startup capital: $5,000-$25,000 | 0.2374 | 0.2107 |
| Startup capital: $25,000-$100,000 | 0.1095 | 0.0645 |
| Startup capital: $100,000+ | 0.0475 | 0.0168 |
| Agricultural services | 0.0269 | 0.0175 |
| Mining and construction | 0.1261 | 0.0718 |
| Manufacturing | 0.0330 | 0.0168 |
| Wholesale | 0.0360 | 0.0112 |
| FIRE | 0.0987 | 0.0609 |
| Trans., communications, and public utilities | 0.0389 | 0.0834 |
| Personal services | 0.2616 | 0.3287 |
| Professional services | 0.1937 | 0.2060 |
| Uncoded industry | 0.0391 | 0.0572 |
| Sample size | 14,068 | 6,743 |

Notes: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) The samples are those used in Specifications 3 and 4 of Tables 6 and 8.

Table 1
Small Business Outcomes by Race
Characteristics of Business Owners, 1992

| | All Firms | White-Owned Firms | Black-Owned Firms |
|---|---|---|---|
| Percent of firms in 1992 no longer operating in 1996 (Closure) | 22.5% | 22.6% | 26.9% |
| Percent of firms with a net profit of at least $10,000 | 30.1% | 30.4% | 13.9% |
| Percent of firms with a positive net profit | 74.5% | 75.1% | 60.7% |
| Percent of firms with 1 or more paid employees | 21.3% | 21.4% | 11.3% |
| Mean number of employees | 1.77 | 1.80 | 0.63 |
| Mean sales | $212,791 | $219,190 | $59,415 |
| Mean log sales | 10.10 | 10.10 | 9.43 |
| Sample size | 38,020 | 15,872 | 7,565 |

Notes: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) All estimates are calculated using sample weights provided by the CBO.

Table 2
Family Business Background by Race
Characteristics of Business Owners, 1992

| | All Firms | White-Owned Firms | Black-Owned Firms |
|---|---|---|---|
| Percent of owners that had a self-employed family member prior to starting firm | 51.6% | 53.1% | 33.6% |
| Percent of owners that previously worked in that family member's business (conditional) | 43.6% | 43.9% | 37.4% |
| Percent of owners that previously worked in a family member's business (unconditional) | 22.5% | 23.3% | 12.6% |
| Percent of owners that inherited their businesses | 1.6% | 1.7% | 1.4% |
| Percent of owners that previously worked in a business with similar goods/services | 50.1% | 50.4% | 43.1% |
| Percent of owners that have previous work experience in a managerial capacity | 55.2% | 55.6% | 47.1% |
| Sample size | 38,020 | 15,872 | 7,565 |

Notes: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) All estimates are calculated using sample weights provided by the CBO.

Table 3
Logit and Linear Regressions for Small Business Outcomes
Characteristics of Business Owners, 1992

| | Specification | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Dependent variable | Closure (1992-96) | Profits $10,000+ | Employer Firm | Ln Sales |
| Black-owned business | 0.0212 | -0.1786 | -0.0951 | -0.4636 |
| | (0.0130) | (0.0207) | (0.0166) | (0.0554) |
| Latino-owned business | -0.0138 | -0.0443 | 0.0231 | 0.0660 |
| | (0.0121) | (0.0144) | (0.0116) | (0.0490) |
| Native American-owned business | -0.1176 | 0.0422 | 0.0717 | 0.3991 |
| | (0.0554) | (0.0530) | (0.0415) | (0.1879) |
| Asian-owned business | -0.0457 | 0.0259 | 0.0728 | 0.4709 |
| | (0.0145) | (0.0145) | (0.0115) | (0.0539) |
| Female-owned business | 0.0247 | -0.2107 | -0.0616 | -0.6941 |
| | (0.0050) | (0.0066) | (0.0051) | (0.0206) |
| High school graduate | -0.0209 | 0.0624 | 0.0447 | 0.1534 |
| | (0.0085) | (0.0112) | (0.0092) | (0.0351) |
| Some college | -0.0101 | 0.0724 | 0.0471 | 0.0570 |
| | (0.0084) | (0.0111) | (0.0091) | (0.0351) |
| College graduate | -0.0553 | 0.1133 | 0.0606 | 0.2397 |
| | (0.0093) | (0.0118) | (0.0097) | (0.0383) |
| Graduate school | -0.1491 | 0.2127 | 0.1650 | 0.6115 |
| | (0.0107) | (0.0122) | (0.0097) | (0.0404) |
| Urban | 0.0164 | 0.0447 | -0.0343 | 0.1008 |
| | (0.0058) | (0.0069) | (0.0055) | (0.0234) |
| Prior work experience in a managerial capacity | 0.0655 | 0.0265 | 0.0513 | 0.2089 |
| | (0.0054) | (0.0063) | (0.0052) | (0.0217) |
| Prior work experience in a similar business | -0.0425 | 0.1024 | 0.0432 | 0.4087 |
| | (0.0049) | (0.0059) | (0.0048) | (0.0202) |
| Have a self-employed family member | -0.0200 | 0.0113 | -0.0022 | -0.0356 |
| | (0.0055) | (0.0067) | (0.0055) | (0.0227) |
| Prior work experience in a family member's business | -0.0419 | 0.0322 | 0.0552 | 0.3784 |
| | (0.0069) | (0.0079) | (0.0063) | (0.0273) |
| Inherited business | -0.1007 | 0.1097 | 0.2006 | 1.3144 |
| | (0.0237) | (0.0217) | (0.0157) | (0.0800) |
| Mean of dependent variable | 0.2280 | 0.2980 | 0.2070 | 10.0725 |
| Sample size | 33,485 | 30,500 | 34,179 | 34,179 |

Notes: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) Logit models are used for Specifications 1-3 and OLS is used for Specification 4. (3) Marginal effects and their standard errors (in parenthesis) are reported. (4) All specifications also include a constant, and dummy variables for marital status of primary owner, region, and work experience of the primary owner.

Table 4
Logit and Linear Regressions for Small Business Outcomes
Characteristics of Business Owners, 1992

| | Specification | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Dependent variable | Closure (1992-96) | Profits $10,000+ | Employer Firm | Ln Sales |
| Black-owned business | 0.0077 | -0.1684 | -0.0703 | -0.3215 |
| | (0.0133) | (0.0213) | (0.0176) | (0.0506) |
| Latino-owned business | -0.0143 | -0.0444 | 0.0277 | 0.0735 |
| | (0.0123) | (0.0149) | (0.0126) | (0.0447) |
| Native American-owned business | -0.1270 | 0.0322 | 0.0696 | 0.3468 |
| | (0.0564) | (0.0548) | (0.0454) | (0.1706) |
| Asian-owned business | -0.0091 | -0.0176 | -0.0164 | 0.0216 |
| | (0.0149) | (0.0150) | (0.0128) | (0.0495) |
| Female-owned business | 0.0150 | -0.1943 | -0.0498 | -0.5708 |
| | (0.0053) | (0.0069) | (0.0057) | (0.0193) |
| High school graduate | -0.0065 | 0.0428 | 0.0251 | 0.0324 |
| | (0.0087) | (0.0116) | (0.0099) | (0.0325) |
| Some college | 0.0095 | 0.0637 | 0.0398 | 0.0011 |
| | (0.0086) | (0.0115) | (0.0098) | (0.0322) |
| College graduate | -0.0433 | 0.0855 | 0.0470 | 0.1441 |
| | (0.0096) | (0.0123) | (0.0106) | (0.0355) |
| Graduate school | -0.1617 | 0.1573 | 0.1674 | 0.5567 |
| | (0.0117) | (0.0137) | (0.0115) | (0.0397) |
| Urban | 0.0079 | 0.0610 | -0.0144 | 0.1831 |
| | (0.0059) | (0.0071) | (0.0059) | (0.0214) |
| Prior work experience in a managerial capacity | 0.0826 | 0.0075 | 0.0212 | 0.0401 |
| | (0.0056) | (0.0066) | (0.0057) | (0.0200) |
| Prior work experience in a similar business | -0.0505 | 0.0962 | 0.0426 | 0.4081 |
| | (0.0052) | (0.0061) | (0.0053) | (0.0187) |
| Have a self-employed family member | -0.0181 | 0.0004 | -0.0057 | -0.0651 |
| | (0.0057) | (0.0069) | (0.0060) | (0.0207) |
| Prior work experience in a family member's business | -0.0323 | 0.0210 | 0.0344 | 0.2300 |
| | (0.0071) | (0.0081) | (0.0069) | (0.0250) |
| Inherited business | -0.0761 | 0.1351 | 0.2267 | 1.3143 |
| | (0.0246) | (0.0238) | (0.0182) | (0.0764) |

(continued)

Table 4 (continued)
Logit and Linear Regressions for Small Business Outcomes
Characteristics of Business Owners,1992

| Explanatory Variables | Specification (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Startup capital: $5,000-$24,999 | -0.0871 | 0.1505 | 0.1487 | 0.7156 |
| | (0.0061) | (0.0068) | (0.0059) | (0.0214) |
| Startup capital: $25,000-$99,999 | -0.1308 | 0.2312 | 0.3077 | 1.4676 |
| | (0.0090) | (0.0088) | (0.0070) | (0.0291) |
| Startup capital: $100,000 or more | -0.2295 | 0.1791 | 0.3735 | 2.1520 |
| | (0.0166) | (0.0125) | (0.0099) | (0.0422) |
| Agricultural services | 0.0112 | -0.0111 | -0.1586 | -0.9204 |
| | (0.0164) | (0.0184) | (0.0167) | (0.0574) |
| Mining and construction | 0.0438 | 0.0528 | -0.0353 | -0.2546 |
| | (0.0096) | (0.0111) | (0.0090) | (0.0350) |
| Manufacturing | -0.0625 | 0.0358 | 0.0035 | -0.1055 |
| | (0.0171) | (0.0166) | (0.0129) | (0.0532) |
| Wholesale | 0.0057 | 0.1305 | -0.0006 | 0.6082 |
| | (0.0148) | (0.0153) | (0.0127) | (0.0518) |
| FIRE | -0.0609 | 0.0771 | -0.1856 | -0.4926 |
| | (0.0109) | (0.0122) | (0.0109) | (0.0367) |
| Trans., communications, and public utilities | 0.0600 | 0.1205 | -0.1523 | -0.3300 |
| | (0.0130) | (0.0147) | (0.0139) | (0.0486) |
| Personal services | 0.0195 | -0.0488 | -0.1161 | -0.7430 |
| | (0.0079) | (0.0096) | (0.0077) | (0.0286) |
| Professional services | 0.0973 | 0.0650 | -0.1191 | -0.7021 |
| | (0.0089) | (0.0110) | (0.0092) | (0.0328) |
| Uncoded industry | 0.0198 | -0.1020 | -0.5054 | -0.9842 |
| | (0.0132) | (0.0183) | (0.0334) | (0.0490) |
| Mean of dependent variable | 0.2280 | 0.2975 | 0.2066 | 10.0668 |
| Sample size | 33,116 | 30,271 | 33,701 | 33,701 |

Notes: (1) The sample includes businesses that are classified by the IRS as individidual proprietorships or self-employed persons, partnerships and subchapter S corporporations, have sales of $500 or more, and have at least one owner who worked at least 12 weeks and 10 hours per week in the business. (2) Logit models are used for Specifications 1-3 and OLS is used for Specification 4. (3) Marginal effects and their standard errors (in parenthesis) are reported. (4) All specifications also include a constant, and dummy variables for marital status of primary owner, region, and work experience of the primary owner.

Table 5
Decompositions of Black/White Gaps in Small Business Outcomes
Characteristics of Business Owners,1992

| | Specification | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Dependent variable | Closure | Profits | Employer | Ln Sales |
| Black mean | 0.2696 | 0.1410 | 0.1121 | 9.4241 |
| White mean | 0.2282 | 0.3004 | 0.2067 | 10.0680 |
| Black/white gap | -0.0414 | 0.1594 | 0.0946 | 0.6439 |
| Contributions from racial differences in: | | | | |
| Sex | -0.0032 | 0.0253 | 0.0083 | 0.0689 |
| | 7.7% | 15.9% | 8.8% | 10.7% |
| Marital status | -0.0037 | 0.0044 | 0.0042 | 0.0166 |
| | 8.9% | 2.8% | 4.4% | 2.6% |
| Education | -0.0027 | 0.0056 | 0.0023 | 0.0156 |
| | 6.5% | 3.5% | 2.4% | 2.4% |
| Region | -0.0033 | 0.0032 | -0.0050 | 0.0139 |
| | 8.0% | 2.0% | -5.3% | 2.2% |
| Urban | -0.0026 | -0.0060 | 0.0051 | -0.0154 |
| | 6.3% | -3.8% | 5.4% | -2.4% |
| Prior work experience | 0.0011 | -0.0017 | -0.0008 | -0.0011 |
| | -2.7% | -1.1% | -0.8% | -0.2% |
| Prior work experience in a managerial capacity | 0.0061<br>-14.7% | 0.0016<br>1.0% | 0.0042<br>4.4% | 0.0178<br>2.8% |
| Prior work experience in a similar business | -0.0025<br>6.0% | 0.0036<br>2.3% | 0.0017<br>1.8% | 0.0277<br>4.3% |
| Have a self-employed family member | -0.0037<br>8.9% | 0.0017<br>1.1% | -0.0004<br>-0.4% | -0.0070<br>-1.1% |
| Prior work experience in a family member's business | -0.0048<br>11.6% | 0.0027<br>1.7% | 0.0053<br>5.6% | 0.0412<br>6.4% |
| Inherited business | -0.0002 | 0.0005 | 0.0002 | 0.0021 |
| | 0.5% | 0.3% | 0.2% | 0.3% |
| All included variables | -0.0200 | 0.0409 | 0.0251 | 0.1910 |
| | 48.3% | 25.7% | 26.5% | 29.7% |

Notes: (1) The samples and regression specifications are the same as those used in Table 3.
(2) Contribution estimates are mean values of the decomposition using 1000 subsamples of whites. See text for more details

Table 6
Decompositions of Black/White Gaps in Small Business Outcomes
Characteristics of Business Owners,1992

| | Specification | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Dependent variable | Closure | Profits | Employer | Ln Sales |
| Black mean | 0.2692 | 0.1414 | 0.1116 | 9.4221 |
| White mean | 0.2288 | 0.3003 | 0.2065 | 10.0615 |
| Black/white gap | -0.0404 | 0.1590 | 0.0948 | 0.6394 |
| Contributions from racial differences in: | | | | |
| Sex | -0.0019 | 0.0231 | 0.0060 | 0.0562 |
| | 4.7% | 14.6% | 6.3% | 8.8% |
| Marital status | -0.0030 | 0.0055 | 0.0041 | 0.0118 |
| | 7.5% | 3.5% | 4.3% | 1.8% |
| Education | -0.0031 | 0.0045 | 0.0013 | 0.0066 |
| | 7.8% | 2.8% | 1.4% | 1.0% |
| Region | -0.0031 | 0.0035 | 0.0010 | 0.0160 |
| | 7.6% | 2.2% | 1.0% | 2.5% |
| Urban | -0.0012 | -0.0078 | 0.0021 | -0.0277 |
| | 2.9% | -4.9% | 2.2% | -4.3% |
| Prior work experience | 0.0014 | -0.0021 | -0.0010 | -0.0032 |
| | -3.5% | -1.3% | -1.1% | -0.5% |
| Prior work experience in a managerial capacity | 0.0065 | 0.0005 | 0.0018 | 0.0035 |
| | -16.1% | 0.3% | 1.9% | 0.5% |
| Prior work experience in a similar business | -0.0029 | 0.0042 | 0.0022 | 0.0277 |
| | 7.1% | 2.6% | 2.3% | 4.3% |
| Have a self-employed family member | -0.0032 | 0.0001 | 0.0009 | -0.0128 |
| | 7.8% | 0.0% | 1.0% | -2.0% |
| Prior work experience in a family member's business | -0.0032 | 0.0019 | 0.0033 | 0.0246 |
| | 7.9% | 1.2% | 3.4% | 3.8% |
| Inherited business | -0.0001 | 0.0005 | 0.0000 | 0.0007 |
| | 0.1% | 0.3% | 0.0% | 0.1% |
| Startup capital | -0.0175 | 0.0231 | 0.0350 | 0.1512 |
| | 43.2% | 14.5% | 36.9% | 23.6% |
| Industry | -0.0083 | 0.0112 | 0.0092 | 0.0633 |
| | 20.5% | 7.0% | 9.7% | 9.9% |
| All included variables | -0.0395 | 0.0683 | 0.0658 | 0.3179 |
| | 97.7% | 42.9% | 69.4% | 49.7% |

Notes: (1) The sample and regression specifications are the same as those used in Table 4. (2) Contribution estimates are mean values of the decomposition using 1000 subsamples of whites. See text for more details.

## EXAMINING THE BLACK-WHITE WEALTH GAP

Kriston McIntosh, Emily Moss, Ryan Nunn, and Jay ShambaughThursday, February 27, 2020

A close examination of wealth in the U.S. finds evidence of staggering racial disparities. At $171,000, the net worth of a typical white family is nearly ten times greater than that of a Black family ($17,150) in 2016. Gaps in wealth between Black and white households reveal the effects of accumulated inequality and discrimination, as well as differences in power and opportunity that can be traced back to this nation's inception. The Black-white wealth gap reflects a society that has not and does not afford equality of opportunity to all its citizens.

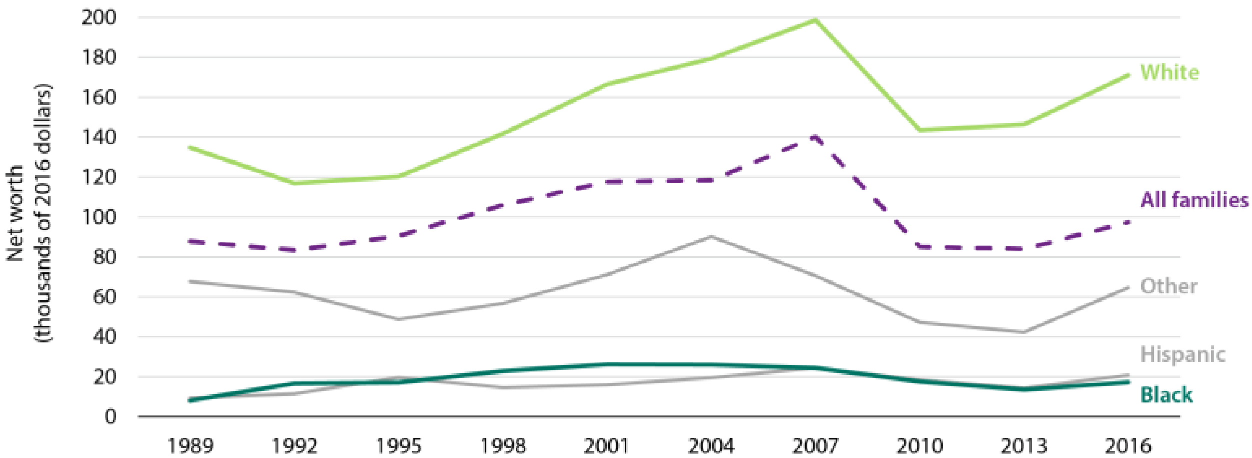
Efforts by Black Americans to build wealth can be traced back throughout American history. But these efforts have been impeded in a host of ways, beginning with 246 years of chattel slavery and followed by Congressional mismanagement of the Freedman's Savings Bank (which left 61,144 depositors with losses of nearly $3 million in 1874), the violent massacre decimating Tulsa's Greenwood District in 1921 (a population of 10,000 that thrived as the epicenter of African American business and culture, commonly referred to as "Black Wall Street"), and discriminatory policies throughout the 20th century including the Jim Crow Era's "Black Codes" strictly limiting opportunity in many southern states, the GI bill, the New Deal's Fair Labor Standards Act's exemption of domestic agricultural and service occupations, and redlining. Wealth was taken from these communities before it had the opportunity to grow.

This history matters for contemporary inequality in part because its legacy is passed down generation-to-generation through unequal monetary inheritances which make up a great deal of current wealth. In 2020 Americans are projected to inherit about $765 billion in gifts and bequests, excluding wealth transfers to spouses and transfers that support minor children. Inheritances account for roughly 4 percent of annual household income, much of which goes untaxed by the U.S. government.

Just how large and persistent are these racial wealth gaps? As figure 1 shows, median net worth for white households has far exceeded that of Black households through recessions and booms over the last thirty years. While movements in white wealth are easier to see due to the larger scale, during the most recent economic downturn, median net worth declined by more for Black families (44.3 percent decline from 2007 to 2013) than for white families (26.1 percent decline). In fact, the ratio of white family wealth to Black family wealth is higher today than at the start of the century.

FIGURE 1.

Median Net Worth by Race/Ethnicity, 1989–2016




Source: Survey of Consumer Finances 1989–2016.
Note: Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

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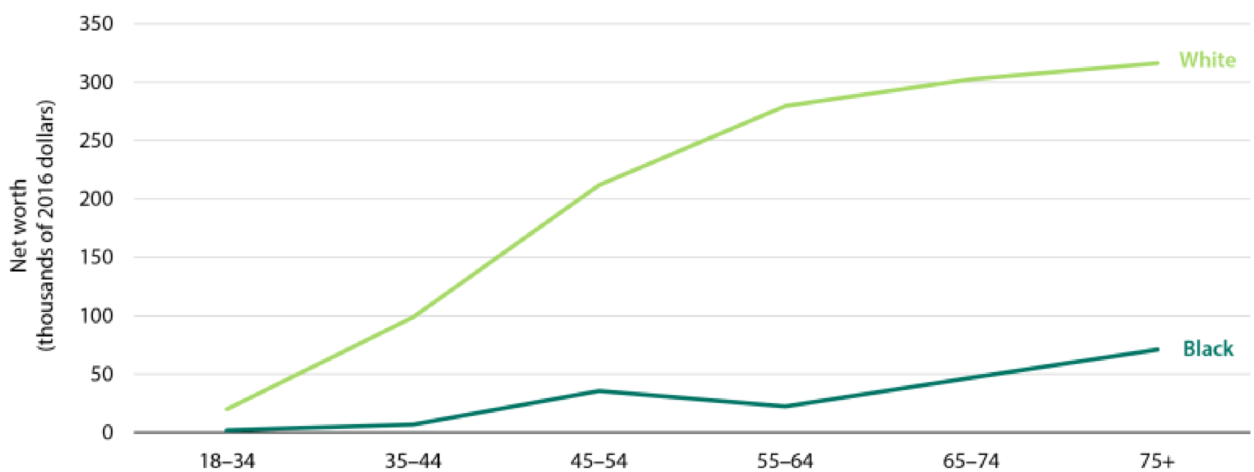
Median wealth—or the wealth of the household at the middle of a distribution—gives the experience of the typical family, but does not reflect the bulk of national wealth that is held by the richest households. White *average* wealth ($929,800), which is more influenced by very rich families and does not characterize the typical experience, is 6.7 times greater than Black average wealth ($138,100).

White adults tend to be older (median age of 55) than African Americans (49 years old), and older people tend to have more wealth, but figure 2 shows that the wealth gap remains when looking within age groups. The typical young adult (18–34 years old) of either race has little wealth, but the gap rises quickly with age, and for 65–74-year-olds accumulates to $302,500 in median white wealth and $46,890 in median Black wealth.

FIGURE 2.

Median Net Worth, by age of Household Head



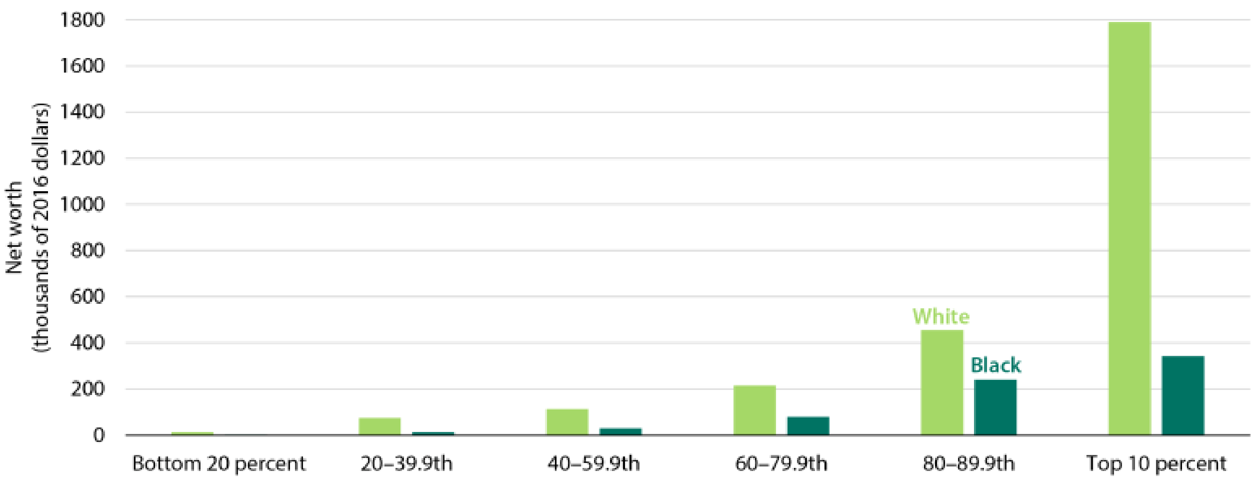

Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

THE HAMILTON PROJECT BROOKINGS

Wealth is the sum of resources available to a household at a point in time; as such it is clearly influenced by the income of a household, but the two are not perfectly correlated. Two households can have the same income, but the household with fewer expenses, or with more accumulated wealth from past income or inheritances, will have more wealth. Figure 3 shows median net worth at different points in the family income distribution. What is immediately evident is that the racial wealth gap remains even for families with the same income. For those in the top 10 percent by income (only 3.6 percent Black), the racial wealth gap is still quite large: median net worth for white families in this income group is $1,789,300 versus $343,160 for Black families. A racial gap exists in every income group except the bottom quintile (23.5 percent Black), where median net worth is zero for everyone.

FIGURE 3.

Median Net Worth, by Household Income Percentile




Source: Survey of Consumer Finances 2016; authors' calculations.
Note: Data are from 2016. Net worth refers to the difference between assets and debt for a household head. Race and ethnicity are those of the survey respondent.

much larger inheritances on average than Black families. Economists Darrick Hamilton and Sandy Darity conclude that inheritances and other intergenerational transfers "account for more of the racial wealth gap than any other demographic and socioeconomic indicators." In addition, the income groups in figure 2 are based on a snapshot of family income, which does not fully capture lifetime income. Black families who make it to the top of the income distribution in a particular year are more likely than white families to drop out of the top in subsequent years, and their respective wealth levels reflect this difference. Likely less important, but still notable, high- and middle-income Black families are more likely than their white counterparts to be called upon to assist family members and neighbors.

All of this matters because wealth confers benefits that go beyond those that come with family income. Wealth is a safety net that keeps a life from being derailed by temporary setbacks and the loss of income. This safety net allows people to take career risks knowing that they have a buffer when success is not immediately achieved. Family wealth allows people (especially young adults who have recently entered the labor force) to access housing in safe neighborhoods with good schools, thereby enhancing the prospects of their own children. Wealth affords people opportunities to be entrepreneurs and inventors. And the income from wealth is taxed at much lower rates than income from work, which means that wealth begets more wealth.

There is no single, simple explanation for the racial wealth gap. It is not explained away by differences in educational attainment, as Darrick Hamilton and Trevon Logan show in a recent article, and as we show in a recent Hamilton Project volume on tax policy. It is not accounted for by indebtedness—white families actually tend to have higher levels of debt. It is not even fully accounted for by differences in income, as seen in figure 3. In addition, the fact that intergenerational transfer of wealth is lightly taxed means that historical gaps persist over generations. Furthermore, inadequate investments in the public goods that facilitate economic mobility make it harder to erase past gaps.

The solutions to the Black-white wealth gap—and the policies that address racial inequity more generally—are largely outside the scope of this post. But the analysis above points to at least one type of reform: taxation of income from wealth. The income from inheritances, and from wealth more generally, is taxed at an inequitably low rate, especially when compared to earnings.

Well-designed taxes on inheritances, reforms to capital income taxation, and even taxes on wealth could be part of the solution. Inheritance or estate taxes in particular could enhance equality of opportunity, especially if revenues were invested in programs that give low-income children a better chance at economic success.

c. THE SCHOLAR OF INEQUALITY [I.E., ]THOMAS PIKETTY, AUTHOR OF *CAPITAL IN THE TWENTY-FIRST CENTURY*] WARNED US THAT OUR ECONOMIC SYSTEMS COULDN'T WITHSTAND A GLOBAL CATASTROPHE, NEW YORK MAGAZINE (APRIL 27, 2020)

## THOMAS PIKETTY KNEW THIS WAS COMING

### IN CONVERSATION: THOMAS PIKETTY

### THE SCHOLAR OF INEQUALITY WARNED US THAT OUR ECONOMIC SYSTEMS COULDN'T WITHSTAND A GLOBAL CATASTROPHE.

*By David Wallace-Wells*

If Bernie Sanders is the politician Occupy Wall Street dreamed of, Thomas Piketty is the closest thing we've gotten to the great theoretician of our era of inequality (and the populism and political dysfunction it has produced). *Capital in the Twenty-First Century,* which came out in France in 2013 and in the U.S. six months later, was the biggest best seller Harvard University Press had ever published (despite being nearly 700 dense pages long); it managed to smuggle an abstract equation into quasi-pop discourse (*r>g,* Piketty's shorthand for the fact that the returns to capital have been the growth of the economy as a whole) and is now the subject of a surprisingly light documentary of the same name (in which Piketty stars). It's not every day an academic economist gets a turn like this. Back in 2014, former Treasury secretary Larry Summers called Piketty a "rock star," then spent most of the rest of the decade arguing with him.

If *Capital* was diagnostic, Piketty's follow-up, *Capital and Ideology,* mixes history and polemic — case studies from modern Sweden and Soviet Russia alongside a genuine political program to help mitigate, at least, the cruelest inequities highlighted in his first book. It was published on March 10, just as the coronavirus crisis was reaching a full blaze, offering all its own lessons, all over the world, in pandemic inequality.

**Where are you? That apartment looks like it's in Paris.**
Yeah, I'm in Paris right now.

**What's it like there?**
I've been here with my wife, Julia, for the past six consecutive weeks. We have a pretty nice apartment, so we're not people who are suffering from this. The people who are suffering are people in small apartments, people who have to go and work.

**The U.S. media is so focused on the American experience, it almost makes it feel like the rest of the world isn't going through the same thing.**
We stay at home most of the time, so we really don't see much. When we go

and walk around in the city, we don't see so many people, but we see a lot of homeless who have, of course, no place to go, and they clearly have fewer people than usual to give them money so they're really asking a lot. There are some places where there is some distribution of food going on, but basically it's like in this stupid end-of-the-world movie where the normal people have disappeared and all you have left are the homeless.

**It's strange here, too. Those of us in effective quarantine, we're sort of living in two realities at once — a frozen domestic experience in which we spend a lot of our time just trying to catch up with an accelerating reality we can follow only on our phones and televisions. And the world I do see on that screen is terrifying. But I also find myself thinking about the incredible solidarity being demonstrated in this lockdown. Is any part of you encouraged by this response?**
I'm not so sure I would say that. People care about each other and are happy to celebrate the caregivers, that's true. At 8 p.m. in Paris, we have this little ritual, but in the end, what we see with this crisis is in many ways the violence of inequality. The unemployment-benefit system in France France's *chômage partiel* system provides funding for **employers to keep paying furloughed workers at 70 to 100 percent of their net salary** during exceptional circumstances such as a pandemic. has been extended, but this is basically for people who are on regular permanent contracts. If you are on an Uber-type delivery contract or self-entrepreneur, you have very little income support.

Many of these people just have to go and work. They could get sick. The area of Paris that is the most strongly hit is Seine-Saint-Denis, which is north of Paris and by far the poorest suburb. Typically lots of people who work in supermarkets or in delivery jobs or whatever. Also, of course, being locked down in a very small apartment with five people or ten people is completely different from being locked down in a place like this. And you have a big part of the Paris population that has gone to the countryside.

**Everywhere you look — inequalities.**
In the rest of the world, in India or in West Africa, for instance, I'm very concerned. There, the way the lockdown has been designed is that in practice it's mostly a way to get rid of the migrants and rural population working in the cities, who are just pushed out. In some cases, it led to huge mass movement of population going back to the countryside, which doesn't seem to be the best way to avoid the spread of the virus. When you don't have a proper safety-net

system, income system, the violence of inequality is very clear. At the same time, yes, you are right that people feel there is a collective political will to take control of our destiny and take control of economic forces and markets. It's a complex mixture.

**We've heard about Denmark covering 75 percent of unemployed workers' salaries. When you look around the spectrum of responses, from the American response to the French, British, or Danish response, who is doing the best there?**
Well, it's difficult to say. But certainly the U.S. is probably doing the worst.

**It sounds like you're saying that essentially no nation has done what you would consider a satisfactory job so far.**
In every country, there are gaps in protection, big gaps. The most extreme case is all the homeless people and illegal immigrants. Some countries in Europe really have tried to correct for these, at least on a temporary basis. Like Portugal, where they introduced a temporary regularization of all illegal immigrants until the summer, so at least they have access to basic services.

**In the U.S., a lot of media attention has focused on what I think are quite small-scale protests** **Many recent protests calling for the end of coronavirus shelter-in-place orders and the reopening of the economy have been tied to organizations such as the Betsy DeVos–linked Michigan Freedom Fund, the Mercer-funded Convention of States, the Koch-backed PR firm In Pursuit Of, and a Wisconsin law firm that counts President Trump as a client.** **against the shutdowns. Given the story of the *gilets jaunes,*** ***France's grassroots "yellow vest" movement emerged in late 2018 to protest President Macron's proposed fuel-tax increase. The movement saw it as disproportionately burdening the middle and working classes with the costs of a green transition, even as Macron cut taxes on the wealthy. Weekly yellow-vest demonstrations were still being held at the start of France's lockdown in March.*** **do you fear that might happen in France?**
So far, we don't see this kind of protest, but of course I think the government is going to be very careful not to go too far in terms of how long the lockdown continues. Again, the people who are most in need, they can't afford really protesting. They just need to work and get money and get food.

**These are issues you've raised for a while — the continued impoverishment of the poor and the enrichment of the wealthy, with a widening chasm between them. How do you see the pandemic changing those long-term trajectories? Does it have the potential to change things dramatically?**
I can see so many other trajectories where it does not. I think there will be a shift toward more social transfer A **government payment given without direct exchange for goods or services,** usually in the form of wealth-redistribution programs such as welfare, social security, financial aid, or other subsidies. and more investment in public-health care, and probably a more comprehensive safety net because more people will realize how useful this is. But then there could also be a shift toward more what I described in my book as a social nationalism — a richer sort of social policy but restricted to a particular group of people that you feel are like you or that certain politicians want to describe as like you.

Whether this could reinforce socialism or nationalism, just to take two broad possible outcomes, is very unclear at this stage. There's a possibility that, in fact, after the crisis, we go back to business as usual in terms of how we organize the economy, together with the strengthening of nationalist ideology, and we turn to strengthening the borders and strengthening the identity conflict. I think it's a serious risk.

**Broadly speaking, "social nationalism" is the approach of Boris Johnson and, at least during his first campaign, of Donald Trump here. When I look at the U.K., it seems to me that Johnson has managed to do well politically by moving his party somewhat to the left on economics while embracing right-wing nationalism. The polling suggests that combination has been quite popular. And in the U.S., I think you see something similar in the primary between Bernie Sanders and Joe Biden. In both cases, a moderate centrist or conservative figure triumphed over a clearer presentation of left-wing principles. I wonder how you assess those two races and how problematic you see the results for your own goals, since Jeremy Corbyn and Sanders both lost.**
I'm trying to contribute to the thinking about what kind of economic and social model we want to have in the long run. I'm not too concerned with the specifics of each country. Corbyn and Sanders, there were lots of problems with them for different reasons in both cases.

**They're not perfect spokespeople, you mean.**
Yeah. They're not supposed to be perfect spokesmen in any way, and in particular, it's clear that Corbyn did not manage to send a message of transformation of Europe. But what you're saying about Johnson is interesting. In some way, what Trump tried to put in the new version of the NAFTA treaty, The updated NAFTA, known as USMCA, requires that, by 2023, **40 to 45 percent of automobile parts be produced by workers making at least $16 an hour.** although it's mostly gesticulation, there is some interesting potential. The idea that you want a certain fraction of the production to be paid under a certain level of minimum wage, basically to put some discussion about wages in a trade agreement, is not necessarily stupid. I remember talking to friends, economists, academics in the U.S. They didn't want even to hear a discussion about this kind of thing.

In the case of Trump, the way he did it, you sense that he just wanted to make a point. It's actually not well done at all. Most important, as we all know, when it comes to real money, [Trump's] policy choice was to have a huge tax cut. We'll see with Johnson, but I think when things go back to normal, he'll do the same. You can always try to pretend, by going for more public debt and more public deficit, that you can do social policy without progressive taxation. At some point, though, you have to pay for what you do.

**What happens if the pandemic gets big enough that it's not possible to respond without just generating massive debt?**
We'll see. The response by governments at this stage is insufficient even in Europe, but if you look at what we know from the Spanish flu of 1918, there has been some study looking at the death rate by country, and the numbers are really incredible. The average mortality rate in the U.S. or Europe was between 0.5 and one percent of the population, which is already an awful amount, but in India it was 5 percent, in Indonesia or South Africa it was also high. Applied to today's population, there will be hundreds of millions of people killed at the world level. Nobody knows whether we'll go so far, but I'm very concerned about lockdown policies in India, in Africa, where there isn't a proper safety net.

**What can be done about that?**
What rich countries can do is first postpone poor countries' debt. That's for sure. Also I think it's important to say very clearly that we need to go toward a system of financial transparency that will allow poor countries to collect taxes in a way that's equitable, acceptable. It's already very difficult for rich

countries' governments to cope with financial opacity, but for poor countries, tax administration is impossible. How can you pay for a welfare state and a safety net if you're not able to develop an equitable tax system? I think there's a huge collective responsibility, and so far, I don't see the political move in this direction. So far, we are really concentrated on the lockdown.

**To the extent that we're thinking about policy beyond that, it seems to me almost exclusively at the national level. There's very little talk about international issues.**
Very little. There's been some talk about debt relief for poor countries, but it was mostly the French president suggesting basically China should suspend the debt for Africa, so everybody's asking other people to make gifts. We just published a new study at the World Inequality Lab suggesting that France, Italy, Spain, and Belgium should move in the direction of corona bonds, a neutralization of the interest rate of the public debt — ideally, of course, with Germany and the Netherlands. I think you cannot wait for unanimity in order to move in this direction. Even a coalition of two or three countries is better than nothing at all.

**The economist William Nordhaus recently proposed a similar approach to climate — ditching the U.N. and going to a WTO-model "climate club."**
I think we really need to rethink very deeply the very notion of internationalism. It's very difficult today to say anything positive about internationalism. To most people, this has become a bad term.

**What would rethinking it mean?**
The bottom line is that we cannot continue having free circulation of goods, services, capital without common taxation.

**How would that work?**
I think any two countries or any group of countries who today have a trade agreement or an economic agreement with free capital flow, in effect we negotiate that we will not follow this treaty unless we have verifiable targets in terms of carbon emissions, economic justice, or minimum tax rates. I think the pure trade treaties are dead, basically. In the long run, nobody will want to have pure trade treaties without any common objectives in terms of sustainable and equitable development.

But short of that, nationalism is likely to win the day, especially among the middle class and lower socioeconomic groups. To me, the biggest risk in all of this discussion is that many people who have good intentions about the world and good intentions about the environment and world poverty don't sufficiently invest time to reappropriate economic and financial issues for citizens and, in the end, leave a small group of experts, government bureaucrats, and economists to design very conservative solutions.

**In your new book, you call your preferred approach to these issues "participatory socialism."** **What Piketty calls a "universalist egalitarian perspective based on social ownership, education, and shared knowledge and power." The approach involves progressive taxation of wealth and capital endowments for all citizens.** **What would a participatory socialist response to this crisis be?**

Less inequality and more access to economic opportunities, economic participation, economic power, and participation in decision-making.

**How?**

The bottom 50 percent of the population in the U.S. owns less than 2 percent of total wealth. It used to be 3 or 4 percent 20 years ago; now it's less than 2 percent. It's always been very small, in any case, but it's not going in the right direction. This has all sorts of bad consequences in terms of how you can plan your own life. These consequences are particularly clear at a time when you don't have a job and basically when you have no wealth. You need to accept any job, any wage that comes, any working condition, because you have to eat, you have to feed your family. So this puts you in a very weak bargaining position vis-à-vis society in general and vis-à-vis your own life. So the question is: Is 2 percent of total wealth for the bottom 50 percent the best we can do? Or is it possible to think of another economic system, keeping the good aspects of the current system, but trying to do better?

The very basic idea of participatory socialism is to say, "Well, look, if we want to improve that, one way is to have a more progressive tax system. So lower tax on people who are trying to access properties. People who have a lot of debt should pay less taxes. And people who are not in debt should pay more taxes." What I'm proposing under the label of participatory socialism is to use the proceeds from this progressive tax to finance something. The people who now receive zero inheritance, who are basically the bottom 60 percent of population, will receive €120,000 or $150,000. In order to pay for that, people who now receive $1 million in inheritance would receive $600,000 or $650,000. So you will still have a lot of inequality between children — and if you want my opinion, I think we could go further than that — but this already will make a huge difference because this could put everybody roughly at the median wealth. Basically, it's an extension of what has been done in terms of progressive taxation.

The other big pillar of participatory socialism is to provide more opportunities for workers to participate in the governance of their companies through more voting rights in the boards of companies. There are many countries, including Germany, Sweden, very successful countries, where up to 50 percent of voting rights in the boards of large companies go to worker representatives. I think this should become the norm.

If this system were in place in the future, during a crisis like this one, you wouldn't see these poor people in the street searching for food, searching for work. The majority would be in a position to not have to accept everything. You can make plans. You can have better control over your own life. That's the purpose. It's much more than money. It's really more in terms of power about your own existence.

**The idea of voting power, that particular pillar was a big part of Elizabeth Warren's plan to remake the American economy. When you published your last book, you were already a public intellectual in France, but your status has been elevated since. You seem to be playing a more explicit policy role now. Have you had any direct contact with the current wave of left-wing figures — Warren and Sanders in the U.S., Corbyn in England? What's your role on the policy level with political leaders?**

I have exchanges with many of these people. With Warren, we organized a public debate back in 2014 in Boston. At the time, she was very cautious about the wealth tax. I was already advocating the wealth tax; we start the tax right on billionaires. I was saying between 5 and 10 percent per billionaire. And she was like, "Ooh." And it's interesting that four years later — well, actually she started with a lower tax rate on billionaires, only 3 percent, then Bernie came with 8 percent on billionaires and then she came to 6 percent, In September, **Sanders proposed a wealth tax on millionaires and billionaires** that included a 5 percent tax on wealth over $1 billion and gradually increased to an 8 percent tax for $10 billion and over. **Warren had initially proposed a 3 percent tax for all wealth over $1 billion** but in November upped it to 6 percent as part of a revised tax package. which maybe that was the problem. She looked sometimes as if she was sort of running behind Bernie, also on public health care.

I'm not saying they proposed that because I was proposing it to their staffs. These people, they don't need me. There are many people in the U.S., in Britain, who have changed their mind about progressive taxation, about workers' rights. We are not at the time of Tony Blair.

**It has been an amazing couple of decades in that respect. How do you see what's happened in particular in the aftermath of the Great Recession — there was the explosion of concern over inequality, with Occupy and later Bernie, but there was also a bit of an explosion of inequality itself, in part because of the way that recovery was designed.**
Things could have turned out differently. In Europe, at the time of the great crisis, the German and French governments could have taken a different route, but in the end, they were more afraid of the extreme left than the extreme right. I think this was a mistake. And maybe today they realize that they should be more afraid of the extreme right than the extreme left, because at least the extreme left, even though they don't always have a perfect plan or perfect solution, at least they are internationalists. With immigrants and the Greek Islands today, you can see the difference between an internationalism and nationalism. In 2015, Greece elected a leftist government that oversaw the arrival of over a million new migrants in 2015 and 2016. Last year, a center-right government took power, and in March, it **suspended all asylum applications and deployed its military to the Turkish border.** Several Greek islands have seen a rise in xenophobia, and last month, a refugee center on Lesbos was burned down. Leaders in the center right or center left should remember that and try to build coalitions.

But I guess today I'm maybe even more convinced than I was six or seven years ago that we really need to think about the next economic system. The 2008 financial crisis took the world by surprise at a time when we were still in the sort of free-market-competition mood of the 1990s and early 2000s. In a way, there was no real political-intellectual work to try to think of the next economic model. I think we've suffered from that.

***Capital in the Twenty-First Century* mostly covered material from before the financial crisis. You've devoted a fair amount of the new book to recent history.**
I guess my new book is … first, I think it's much better than the previous one. For those who only read one of them, I think they should really read this one. I think it's much more lively, it's less technical, it covers many more countries and historical contexts. The previous book was too much Western centered,

too much centered on the shock due to World War I, World War II, so much that many people interpret the first book in a fairly pessimistic manner, saying, “If you don’t have this big world shock, you won’t have any change,” which was not really what I thought at the time. But maybe I did not express myself well.

**One of the main responses to the last book, at least among the American audience, was to treat *r* > *g* as though it were a law of nature that could be modified only very occasionally through exceptional political change. But actually, the fact that a rich person’s bank account grows faster than the national GDP, that’s just a phenomenon created by a particular political structure too. It’s a creation of politics.**

It is. Probably I was not sufficiently clear about that. I must say in general I have learned a lot from all the discussion from my previous book. I have learned a lot by traveling to many countries to which I had not traveled sufficiently before. I think by broadening the scope of countries and historical trajectories I look at, it also made me realize this incredible diversity of human ideologies and human imagination to restructure all the time the societies. And that’s probably the main lesson of history, that the idea that there is only one way and there is no alternative is just wrong.

**You heard that a lot starting in the 1990s and all through 2008: There’s only one way.**

It’s wrong.

**Since the crash, there has been a sort of acknowledgment from places like the IMF, World Bank, *Financial Times, The Economist,* all these voices of elite globalized neoliberalism saying, “Okay, there are some real problems here.” But they still aren’t thinking much about alternative models.**

If you look at how things happen, you’ll see a potential for political mobilization and historical change through social and economic and political processes, which always happen much faster than what the dominant discourse tends to imagine.

**But of course it’s also true that those people can help design the system and how it evolves, especially in the case of something like the Great Recession. How much did that recovery worsen inequality, in your view? A layman might look at the history and say, “It’s those who have access to capital who can buy distressed assets, and, as a result, unless there is really dramatic intervention,**

**it will always be the forces of capital that benefit from the crisis." Is that a fair read of how we emerged from the recession?**
You're right that the people at the top have done better once again than average. How do you explain this? I think it's because if you take the whole compact of fiscal, social, legal, competition policy, there has been insufficient change. In the end, probably the only lesson from the 1929 crisis both from the right and the left, if you look at economist Milton Friedman, monetary economists, everybody agreed that the Federal Reserve and the central banks in Europe made a huge mistake in the 1930s by letting banks fall one after the other. The only lesson from history in a way was "We are going to do whatever it takes, we are going to print whatever money needs to be printed, in order to save the financial sector." Indeed, it allowed us to avoid the worst, which is a complete fall in economic activity of the kind we had in the 1930s. It's good news in a way. We have learned something from history.

The problem, of course, is that we are not going to solve everything with central banks. There was nothing else, really, in store. What I'm a bit concerned with today is that even though there's a lot of motivation to address structural problems, in particular the climate crisis or today's pandemic crisis, I think there's insufficient thinking about how to change the economic rules, the organization of property relations in particular, how much private property we want. We need to take seriously the fact that the distribution of the burden has to be discussed from a democratic viewpoint, has to be distributed across income groups. Sometimes, the climate activists, environmental activists, are so convinced that the No. 1 problem is the climate that they don't want to hear about anything that sounds like income or wages.

**Some climate activists think the solution is to shrink our economies. They call it "degrowth."**
Which has to be discussed very precisely because then you need to be very careful about what exactly you are proposing to the bottom 50 percent in societies. I think it's possible to design a plan, but we have to be very careful. In France, we had the yellow-vest movement. The government said that it was going to raise the energy tax and carbon tax for the good of the climate, but then people realized that it was using the money to cut the wealth tax on the rich and then people went crazy. Now nobody wants to hear about carbon taxation anymore in France. This government basically destroyed the idea of carbon taxation in France at least for some time. We'll have to return to it because we know that's part of the solution.

If you don't do it in a way that comes with a very ambitious reduction of inequality and a very ambitious change in capitalist economic structure, this is counterproductive. Many people coming from the Green Party in France have been with Macron, have been elected members of Parliament with Macron, and voted to repeal the wealth tax. And I want to ask them, "Okay. Is this your plan? Is this what you have?" In Germany, there's a possibility that the Greens will govern with the so-called center right. I think the environmental movement has to think harder about what's economic doctrine.

**I agree. But I also think there's some basic confusion about the structural conditions we're working with. Since 2009, it seems the sort of conventional view of economists has moved quite a bit about deficit spending and debt. At what point should that level of deficit spending become worrying? Or is there a point? In the U.S., the stimulus for the pandemic has already been twice the size of the stimulus in 2009.**

I think we need to show the people in the U.S., in Europe, that central banks can do things for the people, broadly speaking, and not only to save banks. For instance, I will be very much in favor of using money creation to directly pay for some basic-income transfer in the middle of a recession, directly transfer to everybody. It could be 5 percent of GDP, it could be 10 percent of GDP. I think also people realize that, of course, this is not going to be the magic bullet to solve all problems. At some point, if you want to pay for a welfare state that costs 40 or 50 percent of GDP each year, you have to have progressive taxation.

**My view is dominated by the American experience, but I see more aggressive movement by our central banks, which are operating at a further distance from the democratic impulses, than I do from the legislatures and governments, which are theoretically more responsive to democratic pressures. Why?**

It's easier to print money than to agree about new tax code, new labor law, new corporate governance. But in the end, there are limits to what you can do with this. Over the past ten years, we've been saving banks, but have we solved our problem with rising inequality, with global warming? No. If anything, all this money creation has contributed to enriching those who were already rich, has contributed to finance investment that has kept emitting huge quantities of carbon. Again, all that this money creation has done so far is to prevent a complete collapse of the financial system, but this is not setting the bar very high.

What this shows is that we should all be concerned about how we rewrite the system. Many people find this very boring, and I can tell you when you try to talk about the transformation and the democratization of European institutions, most people stop listening after five minutes. But it's very important because, if a majority could adopt a budget, could set a deficit, an investment plan, especially on the climate — European public opinion today, it's so much in favor of solving the climate crisis — if the parliament with a simple majority could decide to pay for an enormous investment plan, I think it would.

**There are many obstacles to dramatic change, including that one. But if it's truly the case that American GDP could fall by 30 percent this quarter,** **U.S. GDP is likely to be down 30 percent for April through June as a result of the coronavirus, according to a recent estimate by Morgan Stanley economists.** **and by who knows how much by the rest of the year, and those impacts are distributed around the globe, isn't that too big a shock not to remake the global economy?**

Yeah. I would not bet on that. Again, I believe in collective intelligence and collective mobilization. I think the more mobilization we have about how we want to change our economic system, the better. Just waiting for the crisis to become deeper and deeper is not going to solve anything. What's happening right now with this lockdown is terrible for many people. We should do first everything we can to limit the casualties. Right now, that's the biggest concern. Then we should try to use this time to think about the economic system we want. I think this is an issue not only for economists or bankers or government officials. This is really an issue for everyone. We all really need to be concerned about how we're going to organize our public debt, our legal system, how we want to share power in corporations. All these are concrete and complicated issues, but these are issues in which we need to collectively make progress if we want to make this crisis a useful opportunity to change the world.

*Footnotes by Jack Denton*

# V. SESSION 3A: SLIDE PRESENTATION BY PROFESSOR SAM THOMPSON ON HIS PROPOSAL TO HAVE BLACK CHURCHES FORM THE NATIONAL DEVELOPMENT CORPORATION AND NATIONAL DEVELOMENT BANK AS A MEANS OF HELPING TO CLOSE THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP; AND SESSION 3B: SOME INITIAL REACATIONS TO THE NDC AND NDB PROPOSALS

# BLACK BUSINESS OWNERSHIP: AN ANALYSIS AND A PROPOSAL: 1971 AND 2021*

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**Presented at the Last Class on Minority Business Development, November 30, 2021**

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***Based on a draft paper by Professor Thompson of the same title, dated, Nov.29, 2021**

# INTRODUCTION

- MY INTEREST IN THIS TOPIC BEGAN IN MY 1971 MINORITY BUSINESS DEVELOPMENT (MBD) COURSE AT PENN LAW SCHOOL
  - MY PENN PROFESSOR: BOB MUNDHEIM, PARTICIPATED IN SPRING VERSION OF THIS COURSE
  - MY PENN COURSE PAPER TOPIC: BLACK OWNERSHIP: AN ANALYSIS AND A PROPOSAL
  - THE PAPER WAS PUBLISHED IN FOUR ISSUES BY: THE BLACK BUSINESS DIGEST, PART I, NOV/DEC 1971; PART II, DEC 1971; PART III, JAN 1972; PART IV, FEB 1972 (BBD IS NO LONGER PUBLISHED)
  - THE PAPER PROPOSED THE FORMATION OF THE NATIONAL DEVELOPMENT CORPORATION (NDC) AND NATIONAL DEVELOPMENT BANK (NDB) THAT WOULD HAVE AS THEIR DUAL GOALS PROFITABILITY AND THE PROMOTION OF BLACK BUSINESS OWNERSHIP
  - IN THIS PRESENTATION, I PROVIDE A BRIEF OUTLINE OF MY 1971 PROPOSAL AND 2021 REVISION, WHICH IN DRAFT FORM IS IN THE PROGRAM MATERIALS.

# INTRODUCTION

- MY 2021 MBD COURSE HERE AT **PENN STATE LAW** IS EXACTLY 50 YEARS AFTER THE PENN COURSE
- SEVERAL CAVEATES:
  - While the 1971 paper focused principally on Blacks, the 2021 version focuses on the development of business ownership by Black, Brown, and other minorities.
  - Thus, the use of the term Black includes Brown and other minorities, except when it comes to Black churches, which are the vehicle for maintaining control of the NDC and NDB.
  - While the 1971 article focused on the business activities of a “Brother,” the 2021 version focuses on the business activities of a “Brother and Sister.”
  - This is a presentation of the general concept; there would be significant issues in setting out the details.

# COMPARING THE ECONOMIC POSITION OF BLACKS AND WHITES, 1971 AND 2021

**1971 OBSERVATIONS IN SAM'S ARTICLE**

[1] Unemployment among Blacks was generally about twice that of Whites.

[2] "[T]here is a 37 percent tax on the income of Blacks – while they represented 11 percent of the labor force they only received 7 percent of the income." If Blacks received the same income as Whites, Blacks would have 37% more income.

**2021 OBSERVATIONS**

[1] In April 2021, unemployment among Blacks 10%, among Whites 5.9%.

[2] The median household income of Whites is $65.9K and that of Blacks is $41.5K. Thus, "there is a 37 [YES 37] percent tax" on the income of Blacks.

# COMPARING THE ECONOMIC POSITION OF BLACKS AND WHITES, 1971 AND 2021

**1971 OBSERVATIONS IN SAM'S ARTICLE**

[3] The average balance in savings accounts of Whites was $4.4K; the average for Blacks was $824. Thus, for this indication of wealth, black wealth was 18% of white wealth.

**2021 OBSERVATIONS**

[3] The average balance is savings accounts: Whites $51.6K; Blacks is $13.3K. Thus, for this indication of wealth, black wealth is 25% of white wealth. Also, this does not take into account that many fewer Blacks have savings accounts.

# COMPARING THE ECONOMIC POSITION OF Blacks AND Whites, 1971 AND 2021

**1971 OBSERVATIONS IN SAM'S ARTICLE**

[4] The actual words in the 1971 article: "The present disparity in the control of wealth is so great that the gap may never be completely eliminated."

**2021 OBSERVATIONS**

[4] Possibly the gap in wealth has increased from 1971 to 2021. And, I say again, as I did in 1971: "The present disparity in the control of wealth is so great that the gap may never be completely eliminated."

The proposal I make here is designed to help close the gap; not eliminate it.

# REV. LEON SULLIVAN’S 1971 “20 YARD ANALOGY” BETWEEN [1] FOOTBALL, AND [2] MINORITY ECONOMIC PROGRESS: QUOTE FROM MY 1971 ARTICLE, TRUE THEN AND NOW!

- *“As every football enthusiast knows, the game is won or lost between the twenty-yard lines. When the play is near midfield, it is not too difficult to make spectacular runs and complete ten-yard passes; the opposing line is loose, and the defending secondary is all spread out. But when the ball gets inside the twenty-yard line, the real game begins.*
- *“The opposing line stiffens. The defending secondary tightens itself and becomes more alert.*

*“Down there is where it is hardest to move the ball-inside the twenty-yard line.*

*AND HE GOES ON:*

# REV. LEON SULLIVAN’S 1971 “20 YARD ANALOGY” BETWEEN [1] FOOTBALL, AND [2] MINORITY ECONOMIC PROGRESS: QUOTE FROM MY 1971 ARTICLE

- *“That is the situation now, as far as the civil rights movement is concerned. The demonstrations, the sit-ins, the wade-ins, the selective patronage programs and the marches were the spectacular plays. They produced great results. We have come as for as we have as a result of them. The long runs have been made, and they have been spectacularly important.*
- *“Now, though, we have come to the twenty-yard line. Now we must move the ball economically.”*
- Sullivan, L., Civil Rights Leader: "*Build Brother Build*” 1969, pp.162 and 163.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NATIONAL DEVELOPMENT CORPORATION [NDC] AND NATIONAL DEVELOPMENT BANK [NDB]

- **IN RESPONSE TO REV SULLIVAN'S STATEMENT THAT "***Now we must move the ball economically,"* **I SAY IN THE 1971 ARTICLE AND IN THE 2021 UPDATE OF THE ARTICLE:**
  - "[I] suggest that the time is ripe for two new "bread and butter" plays -The National Development Corporation ("NDC") and National Development Bank ("NDB")."
- **PUBLIC BENEFIT CORPORATION**. NDC and NDB would probably be organized as Public Benefit Corps (PBCs), which can pursue profits while also pursuing other goals, such as the promotion of economic development, that is, Benefitability. Became effective in Delaware in 2013.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- THE 1971 ARTICLE SETS OUT THE FOLLOWING BASIC DESCRIPTION OF THE NDC AND NDB:

“[This article] suggests the formation of both a large corporation and large bank which would be owned and controlled by Black people. These two organizations would be known as the National Development Corporation [NDC] and the National Development Bank [NDB]. The corporation would instantly become one of “Fortune’s Largest 500” and the bank one of “Fortune’s Largest 50.” The purpose of the two organizations would be to engage in business activities which would be profitable and of benefit to disadvantaged peoples. The profitability requirement would ensure the continued viability of the organizations.”

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **THE 1971 ARTICLE ELABORATES AS FOLLOWS ON THE NDC AND NDB:**
- **THE TWO INVESTMENT CONSTRAINTS ON NDC AND NDB**: There would be two constraints on all investment decisions:
  - The investment must be profitable. (Profitability), that is “Make a Profit”
  - The investment must promote the welfare of disadvantaged people. (Benefitability), that is “Helping a Brother or Sister”
- **THE FIRST STEP** in organizing NDC and NDB currently is for 5,000 Black and other community leaders throughout the country to agree to become the initial shareholders by each acquiring $1,000 of stock in NDC and $1,000 of stock in NDB.  This would give each of NDC and NDB $5,000,000 in start-up capital.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **THE CAPITAL STRUCTURE:**
- Both NDC and NDB would be organized with Class A and Class B stock
  - **Class A:** Only Black Churches would be holders of Class A.
    - The purchases of stock by the religious organizations would be funded by contributions from members.
    - The stock would be issued in a private offering under the Federal Securities Laws
  - **Class B:** Anyone, including White churches or individuals, could hold Class B stock, which would be issued in an initial public offering (IPO) and follow-on public offerings under the Federal Securities Laws.
  - **Conversion of A to B**: The initial 5,000 black leaders and others who provided the funding for organizing the NDC and NDB would exchange their initial stock for Class B stock upon the completion of the IPO.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **THE CAPITAL STRUCTURE:**
- **High Vote Class A:** The Class A and Class B would each have the right to elect 50% of each board, but there would be a limit on the board seats that could be held by members of the clergy.
  - It is key that control of the business operations be in the hands of professional management.
- **But, Dividends Are Proportionate to Shares Held:** Although the shares held by Black churches would have 50% of the vote for the board, those shares would have a right to dividends that was proportionate to the number of Class A and Class B shares outstanding. For example, assume that 20% of the outstanding combined Class A and B shares were Class A. In such case, those shares would be entitled to 20% of the dividends.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **1971 Capital Proposal**: Raise $25M in the Church Stock Offering of Class A and $150M in the Public Stock Offering of Class B for a total of $175M; RESULTING IN: NDC, TOP 500; NDB, TOP 50, IN SHAREHOLDER EQUITY
- **2021 Capital Proposal to 1971**: Given the growth in the Black church population and inflation, under the same principles as used in 1971, the 2021 Church Stock Offering of Class A would produce $150M and the 2021 Public Stock Offering of Class B would produce $1.5B for a total of $1.65B.
  - Not Top 500 or Top 50

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **THINKING BIG**: Why not $20 billion of Class B stock assuming need?
- First, smaller IPO with follow-on public offerings.
- Second, when emerging from bankruptcy, GM did it, why can't we?
- Third, concerted action could make this a reachable goal.
- Fourth, means half of the Black church parishioners (i.e., approximately 10 million) investing on average $2K in the Class B. With White purchases the average for parishioners would be substantially less than $2K.
- Fifth, $20B may be overly conservative.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **THINKING BIG**: Why not $20 billion of Class B stock assuming need?
- Where would the combined NDC and NDB Rank on the Fortune 500?
  - This would make the combined NDC and NDB about the present size of AMC Theaters or Domino's Pizza when measured by present market cap, that is, aggregate trading value of the stock. These firms are respectively numbers 433 and 434 when measured by market capitalization as of November 26, 2021.
  - This could be the starting point, not the ending point.

# MY 1971 PROPOSAL FOR FORMATION BY Blacks OF THE NDC AND NDB

- **Once the IPOs are complete, the real work would begin:**
- NDC and NDB would begin operating in pursuit of the dual mandates: Profitability and Benefitability; Among other things:
  - A national, real estate, redevelopment sub of NDC could engage in the rejuvenation of housing, possibly funded by NBD.
  - A management consulting sub of NDC could address the problem of the lack of management expertise in the Black community.
  - A Venture Capital subsidiary of NDB could take equity positions in certain minority owned firms.
  - NDC consulting teams could be established in major centers of Black concentration.
  - Most importantly, NDC and NDB could acquire firms that would satisfy the Profitability and Benefitability conditions.

# QUESTIONS COMMENTS IDEAS, PLEASE
# Send Any Comments to My Email Address on the Cover Sheet

- Although this idea is clearly not a “silver bullet” for closing the wealth gap between Whites and Blacks, is it a viable proposal for helping to close that gap?
    - Specifically: could it be a “Game Changer?”
- What is the probability that Black churches and other Black religious organizations would be interested in the idea and investing in Class A stock?
- What is the probability that other religious organizations would support the idea by investing in Class B stock?
- If the proposal were successful, how would the wealth of the religious organizations through their stock ownership translate into wealth for Black, Brown, and other minority communities?

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- I have not figured out the Federal Income Tax (FIT) consequences of the proposal on the religious organizations, their members, and NDC and NDB. Two of these FIT questions are:
  - Do a member's contributions to a church that are earmarked by the member for a purchase by the church of stock in NDC or NDB qualify for the charitable contribution deduction for the contributing member? If not, is there a way of structuring the contributions so that they would be tax deductible? This is referred to as the "Deduction FIT Issue."
  - Given their Dual Mandates of Making a Profit, while Helping a Brother or Sister, could NDC and NDB be structured to qualify as tax exempt organizations? This is referred to as the "Exemption FIT Issue," and the answer is probably no just as it is with Benefit Corporations
- If you have any ideas or suggestions, please send me a note at my email address, which is on the cover.
- THANKS MUCH, SAM

SAM THOMPSON, DRAFT NOV 28, 2021

*A BLACK BUSINESS OWNERSHIP: AN ANALYSIS AND A PROPOSAL 1971 AND 2021*

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REVISION OF PART IV OF THE ARTICLE: PROPOSAL FOR FORMATION OF THE NATIONAL DEVELOPMENT CORPORATION (NDC) AND NATIONAL DEVELOPMENT BANK (NDB)

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FIRST DRAFT NOVEMBER 28, 2021

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[1] I thank my Penn State Law Research Assistants, Ngu Huu Truong, an SJD candidate, and Ivancica Bobek, an LLM candidate, for their helpful comments on this paper.

## I. SCOPE

As discussed more fully in section II.A, this draft article is the successor to section IV of an article I wrote in 1971,[2] and the purpose of this article is to provide reflections on and modifications of the proposal I then made for the formation by Black churches of the National Development Corporation (NDC) and the National Development Bank (NDB). These institutions would have the dual goals of "Profitability and Benefitability." The meaning of the term Benefitability, a made up term, and its relation to current Public Benefit Corporations are addressed in section VI.

In addition to providing an introduction to the 1971 article, Section II explains the meaning of the following terms that are used here and in the 1971 article: "Brother," "church," and "Black church." Section III explains that this proposal would promote the interest of Black and Brown people without discriminating against White people. In fact, many of the employees, including management of NDC and NDB, would be White. Section IV explains why this article is designed to turn "The Most Segregated Time in America," that is, Sunday mornings, into an instrument for addressing the economic deficits in Black and Brown communities in America.

Section V compares the economic positions of Blacks and Whites both in 1971 and 2021, and demonstrates that on an aggregate basis, not much has changed. Section VI discusses the possibility of structuring NDC and NDB as "Public Benefit Corporations" under Delaware law, which first provided for such corporations in 2013. Section VII provides an outline of the broad principles governing NDC and NDB; section VIII demonstrates why the Black church is the instrument that can ensure the purposes of NDC and NDB are pursued into the future; section IX addresses the technical aspects of these two institutions; and section X discusses the initial operations of NDC and NDB after completion of the initial public offerings (IPOs), in which stock of these entities is sold to the public.

Section XI provides some thoughts on the organization and operation of the NDB, which, as a bank, will present challenging regulatory issues. We all know that you cannot avoid the IRS,

[2] The parts were as follows: Samuel C. Thompson, Jr., *Black Business Ownership, An Analysis and a Proposal*, Black Business Digest, Part 1, Nov/Dec 1971; Part 2, Dec 1971; Part 3, Jan 1972; and Part 4, Feb 1972 [hereinafter *1971, Black Business Ownership*].

and section XII provides some basic guidance on some of the many Federal income tax issues NDC and NDB are likely to encounter.

Section XIII discusses the difficulty that will be faced in attempting to bring NDC and NDB to life, and section XIV presents a cautionary note on how competition by many groups could prevent NDC AND NDB from becoming successful.

Finally, the conclusion in section XV is in virtually every word the conclusion of the 1971 article.

## II. INTRODUCTION TO THE 1971 ARTICLE AND SPECIFICALLY TO PART 4 THEREOF

### A. IN GENERAL

In my third year of law school in 1970-71 at the University of Pennsylvania School of Law, I was enrolled in a Minority Business Development (MBD) course that was taught by Professor Robert Mundheim. My paper for the course was entitled *Black Ownership: An Analysis and a Proposal*. The paper, which focused on the gap in business ownership between Black and White Americans, was published in four parts by a magazine known as *The Black Business Digest*, which is no longer published.

The first three parts presented a survey of the then current state of Black business development, and the fourth part set out initiatives and proposals that were designed to address the gap in business ownership.

Part IV provided an analysis of the following four potential gap-closing initiatives:

1. The Community Self-Determination Act;
2. The Ghetto Economic Development and Industrialization Plan ("Ghediplan");
3. Agency for Corporate Transfer; and
4. Black Reparations.

None of these initiatives has been implemented, and they are not discussed further here.

### B. THE 1971 PROPOSAL AND THE 2021 MEANING OF THE TERMS "BROTHER," "CHURCH," AND "BLACK CHURCH"

The proposal made in part IV of the 1971 article is that Black churches organize a National Development Corporation (NDC) and a National Development Bank (NDB), which would have the dual goals of "Making a Profit while Helping a Brother."

While the 1971 version of this proposal talked about "Helping a Brother," obviously, this 2021 version of the proposal has the dual goals of "Making a Profit while Helping a Brother and a Sister." Also, for the purpose of this article, (1) the use of the term Black in this article also encompasses Brown and other minorities, except where the context indicates otherwise, and (2) the term "Brother and Sister" includes any Black, Brown, or minorities person. Also, the term "Making a Profit while Helping a Brother and Sister" is embodied in what I refer to as the dual goals of "Profitability and Benefitability," which will be elaborated on below.

As discussed below, the term "Brother," which was used in 1971, now, 50 years later, means, which it should have in 1971: "Brother and Sister." Also, as demonstrated below, the concept of "Making a Profit while Helping a Brother" is reflected here in the dual goals of Profitability and Benefitability.

As used here, in 2021, the term "church" includes all places of worship, without respect to religion or denomination. However, the term "Black church" includes only those churches that (1) have predominant Black parishioners, and (2) have been traditionally identified as Black churches. For example, when I was growing up in the small town of Steelton, PA, there were three principally all Black churches: (1) Mount Zion Baptist Church in which most members of my extended family were members, (2) the First Baptist Church, and (3) the AME Church. These were the largest Black churches in Steelton when I was born 78 years ago, and they are still the largest.

## III. BENEFITING BLACK, BROWN, AND OTHER MINORITY PEOPLE, WITHOUT DISCRIMINATING AGAINST WHITE PEOPLE

To emphasize, while this proposal would have Black churches own the voting control of the NDC and NDB, the primary purpose of the NDC and NDB would be first, to give Black and Brown people in America the same opportunity for economic success as White people in America, and second, to do so without in anyway discriminating against White people in America. In fact, as envisioned here, many Whites would be employed by the NDC and the NDB, including in executive positions. Thus, the NDC and NDB would be operated in full compliance with both the spirit and letter of all anti-discrimination and other laws.

At the time of the writing of the article in 1971, at least in Pennsylvania, where I grew up, there was not much, if any, discussion about Brown or other minority Americans. In fact, I do not believe that there was a Brown or other minority American in my high school Classes, my college Classes, or my law school classes. Fortunately, that would not be the case today.

## IV. THE MOST SEGREGATED TIME IN AMERICA

When I was growing up in Steelton in the 1950s and 60s, the day and time with the most segregation between Whites and Blacks was not in school, not in school activities like football or basketball, not in stores, not at the Bethlehem steel plant that ran the length of the town; rather, it was on Sunday morning at church time. It was understood that no Blacks would attend a White church and no Whites would attend a Black church. Sadly, this is probably also true today, not just in Steelton, but throughout this country.

But, for every challenge, there can be an opportunity, and this sad structure of segregated churches in this country can be used as a vehicle for attacking the economic inequality in this country.

## V. COMPARING BLACK AND WHITE ECONOMIC POSITION: 1971 AND 2021

Before discussing the technicalities of the NDC and NDB proposals, it is helpful to compare the economic positions of Blacks and Whites at the time of the writing of the NDC and NDB article in 1971 with their economic positions today, literally 50 years later. The following Table A presents observations on the economic positions of Whites and Blacks in both 1971 and 2021 in regard to the following indicators of economic wellbeing: (1) Unemployment, (2) Income, (3) Savings, and (4) Wealth.

**TABLE A, COMPARING THE ECONOMIC STATUS OF WHITES AND BLACKS—1971 AND 2021**

| ECONOMIC INDICATOR | 1971 OBSERVATIONS IN SAM'S ARTICLE | 2021 OBSERVATIONS |
|---|---|---|
| **UNEMPLOYMENT:** | Unemployment among Blacks was generally about twice that of Whites.[3] | In April 2021, Unemployment among Blacks 10%, among Whites 5.9%.[4] |
| **INCOME:** | "[T]here is a 37 percent tax on the income of Blacks – while they represented 11 percent of the labor force they only received 7 percent of the income."[5] If Blacks received the same income of Whites, Blacks would have 37% more income. | The median household income of Whites is $65.9K and that of Blacks is $41.5K. Thus, "there is a 37 [YES 37] percent tax" on the income of Blacks.[6] |
| **SAVINGS:** | The average balance in savings accounts of Whites was $4.4K; the average for Blacks was $824. Thus, for this indication of wealth, Black wealth was 18% of White wealth.[7] | The average balance is savings accounts: Whites $51.6K; Blacks is $13.3K. Thus, for this indication of wealth, Black wealth is 25% of White wealth. Also, many fewer Blacks have savings accounts.[8] |
| **WEALTH:** | The actual words in the 1971 article: "The present disparity in the control of wealth is so great that the gap may never be completely eliminated."[9] | Possibly the gap in wealth has increased from 1971 to 2021. And, I say again, as I did in 1971: "The present disparity in the control of wealth is so great that the gap may never be completely eliminated."[10] |

[3] *1971, Black Business Ownership*, supra at ____.
[4] [ADD CITE]
[5] *1971, Black Business Ownership*, supra at ____.
[6] [ADD CITE]
[7] [ADD CITE]
[8] [ADD CITE]
[9] *1971, Black Business Ownership*, supra at ____.
[10] Id.

It is not necessary for me to summarize this table, except to say, the comparison shows the historical and current deep chasm between the economic status of Blacks and Whites in this country.

## VI. POSSIBLE USE OF THE PUBLIC BENEFIT CORPORATION PROVISIONS OF DELAWARE OR OTHER STATE LAW

### A. WHAT IS A "PUBLIC BENEFIT CORPORATION" (PBC)?

As indicated, the NDC and the NDB would have the dual goals of "Profitability and Benefitability." The term "Benefitability" is a word I made up in 1971 for the purpose of conveying the concept that, rather than operating exclusively for profit, the NDC and the NDB would be operated with the dual goals of making a profit and providing benefits to the Black community. Indeed, if the corporation does not make a profit, it will not for long be providing benefits to anyone.

While I coined this term "Benefitability" in 1971, Delaware and certain other states, have subsequently enacted provisions of their corporate law that specifically allow a corporation to have a goal beyond profitability. Delaware enacted its provision in 2013. These corporations, which are referred to in the Delaware General Corporation Law (DGCL) as "Public Benefit Corporations" or informally as "B Corps," are discussed briefly in this section, which also addresses the possibility of forming NDC and NDB as Public Benefit Corporations under Delaware law.

### B. THE BASIC PROVISIONS OF DELAWARE LAW GOVERNING PBCs

Section 362(a) of the DGCL defines a Public Benefit Corporation (PBC) as a "for-profit corporation . . . that is intended to produce a public benefit or public benefits and to operate in a responsible and sustainable manner."

Section 362(a) goes on to provide that a PBC must "be managed in a manner that balances [1] the stockholders' pecuniary interests, [2] the best interests of those materially affected by the corporation's conduct, and [3] the public benefit or public benefits identified in its certificate of incorporation."

Section 362(b) defines the term "Public Benefit" as, inter alia, a "positive effect (or reduction of negative effects) on 1 or more categories of persons, entities, communities or interests (other than stockholders in their capacities as stockholders) including, but not limited to, effects of an . . . economic . . . nature."

One of the benefits of being a Delaware PBC is that in pursuing the public benefit, the directors are freed from potential liability for not maximizing profits. In this connection, subsection (a) of section 365 provides:

> (a) The board of directors shall manage or direct the business and affairs of the public benefit corporation in a manner that balances [1] the pecuniary interests of the stockholders, [2] the best interests of those materially affected by the corporation's conduct, and [3] the specific public benefit or public benefits identified in its certificate of incorporation.

From this basic description, it seems clear that NDC and NDB could be organized under Delaware law as PBCs, and the assumption here is that they will both be organized as PBCs under Delaware or another state's law.

### C. SOME INTRODUCTORY PRINCIPLES INCLUDING PUBLICLY HELD PBCs

The basic rules governing a Delaware public benefit corporation have been described as follows:

> As defined under the statute, a "public benefit corporation" is a for-profit corporation that is intended to produce a public benefit or public benefits and to operate in a responsible and sustainable manner. The public benefit to be promoted by the corporation must be specified in its certificate of incorporation. Under the DGCL, a "public benefit" is a positive effect (or reduction of negative effects) on one or more categories of persons, entities, communities or interests (other than stockholders in that capacity), including but not limited to effects of an . . . economic . . . nature.
>
> Section 365 of the DGCL addresses the duties of the directors of a PBC. Under Section 365(a), the board of a PBC is required to manage or direct the business and affairs of the PBC in a manner that balances the stockholders' pecuniary interests, the best interests of those materially affected by the corporation's conduct and the public benefit identified in its certificate of incorporation.[11]

An article in The National Law Review says the following about Public Benefit Corporations going public:

> [A] PBC allows a board of directors to make business decisions based not just on the economic interest of the corporation's shareholders (as required by the traditional C-Corporation corporate form), but based also on the PBC's mission, which may focus on the interests of those materially affected by the corporation's conduct, including employees, customers, communities and the environment. With early-stage investors onboard with the PBC corporate form, the public markets are following suit. PBCs are now successfully going public with IPOs; a public C-Corporation converted to a PBC for the first time last month; and a PBC going public via a SPAC for the first time is just a matter of when, not if.[12]

[11] Michael R. Littenberg, Emily J. Oldshue, and Brittany N. Pifer, *Delaware Public Benefit Corporations—Recent Developments*, Harvard Law School Forum on Corporate Governance (Aug. 31, 2020).

[12] Benjamin D. Stone, *Public Benefit Corporations are Going Public*, The National Law Review (March 2, 2021)

## VII. INTRODUCTION TO THE NATIONAL DEVELOPMENT CORPORATION (NDC) AND THE NATIONAL DEVELOPMENT BANK (NDB)

### A. THE BACKGROUND

The current interest in Black ownership did not develop from a vacuum. It is the result of an evolutionary process of both Black concern and Black action in the marketplace.

The first major benchmark of Black economic activity was the 1955 Montgomery bus boycott which was led by Dr. Martin Luther King. In Montgomery, Blacks refused to spend their dollars to ride on segregated busses; the demand was for equal public accommodations. Similar boycotts spread to other cities and led to direct action mechanisms such as sit-ins and stand-ins.

The second major benchmark was the Philadelphia Selective Patronage campaign which took place in the early 1960s. In Philadelphia, Blacks refused to spend their dollars where they could not work. Public accommodations were not enough; Blacks also demanded jobs. The Philadelphia program led to the formation of Operation Breadbasket, which continued to apply Selective Patronage techniques.

From the concept of Selective Patronage, there evolved a third major benchmark: training of the so-called "hard-core." To meet this task, Black people throughout the country formed Opportunities Industrialization Centers.

But Black people are not concerned with jobs alone, they have also become interested in ownership as manifested most clearly in the fourth major benchmark of the 1960s: the growth of community development corporations. This evolutionary process has approximated the following pattern:

1. Boycott for Equal Public Accommodation,
2. Don’t Buy Where You Can’t Work,
3. We will Train the Untrainable, and
4. “Buy Black, Bank Black, Think Black.”

This structure reflects the priority of the economic demands of Black people: First, Blacks demand to be treated as men and women; second, Blacks who are capable of working demand the opportunity for a job; third, Blacks without skills demand to be trained; and fourth, Blacks demand their proportionate share of ownership, including business ownership.

### B. REVEREND SULLIVAN’S FOOTBALL ANALOGY

The discussion above demonstrates that it becomes progressively more difficult to obtain success in racial equity as one moves from, for example, (1) the right to equal access to public accommodations, to (2) economic parity. For example, the Civil Rights laws have essentially eliminated discrimination against Black customers at restaurants. But, these laws have had little impact in promoting equal percentage ownership between Whites and Blacks of restaurants.

The deceased Reverend Leon Sullivan of Philadelphia, whose church was active in economic development in the 1960s and 1970s, analogized this increasing difficulty to the progress of a football team on the offensive:

*As every football enthusiast knows, the game is won or lost between the twenty-yard lines. When the play is near midfield, it is not too difficult to make spectacular runs and complete ten-yard passes; the opposing line is loose, and the defending secondary is all spread out. But when the ball gets inside the twenty-yard line, the real game begins.*

*The opposing line stiffens. The defending secondary tightens itself and becomes more alert. Down there is where it is hardest to move the ball-inside the twenty-yard line.*

*That is the situation now, as far as the civil rights movement is concerned. The demonstrations, the sit-ins, the wade-ins, the selective patronage programs and the marches were the spectacular plays. They produced great results. We have come as for as we have as a result of them. The long runs have been made, and they have been spectacularly important. Now, though. we have come to the twenty-yard line. Now we must move the ball economically.*[13]

### C. THE 1971 AND 2021 NDC AND NDB "BREAD AND BUTTER" FOOTBALL PLAYS CALLED HERE

Realizing that now the ball must be moved "economically" several unique "Bread and Butter" plays have been tried, including the four addressed in section VII.A above. Here I suggest in 2021, as I did in 1971, that the time is ripe for two new "Bread and Butter" plays: The National Development Corporation (NDC), and The National Development Bank (NDB).

As was the case in 1971, now in 2021, the proposal for the NDC and NDB are the logical steps in the pursuit of Black business ownership.

As was demonstrated in the 1971 version of this article, within a very short period, this proposal could have given Black people control of (1) a major corporation which in 1971 would have been one of "Fortune's Largest 500," and (2) a major bank which in 1971 would have been one of "Fortune's Largest 50." While these were the proposals in the 1971 article, now in 2021, I believe it is possible to have NDC and NDB be even larger than the top 500 or top 50, respectively.

The NDC and NDB would complement community development corporations and other local Black economic entities by approaching the problem of economic development from a national perspective. Thus, the NDC and NDB are not a substitute for local economic action by privately owned firms, and indeed, the NDB would provide bank financing for businesses which are owned and controlled by Blacks and other disadvantaged peoples and that compete with the NDC. As is the case generally, such competition should enhance the operational efficiency of the NDC. The NDB could also provide financing for community development corporations.

[13] Leon Sullivan, *Build Brother Build*. 162-163 (1969).

Unlike other proposals which are premised on the support of the government or White churches, the success of NDC and NDB will be a direct function of the will of Black people; they both are doable. It is not suggested that this proposal is "The Answer" or "The Solution." However, after revisiting this proposal after 50 years, I am convinced that it can make a major contribution to the welfare of many people and also greatly promote the development of Black business ownership.

## VIII. THE MECHANISM FOR PERMANENT CONTROL OF NDC AND NDB: THE BLACK CHURCHES

In 2019, there were 46.8 million people in the U.S. who identified themselves as Black, and this was roughly 14% of the country's population, and a 29% increase since 2000.[14] Of this 46.8 million, approximately 53 percent, or approximately 23 million, identify themselves as "Historically Black Protestants."[15]

[WHO OWNS THE STOCK]

Although the Black church developed as a result of the most sinister form of racial discrimination, as discussed above, it now represents the most valuable resource of Black people. As Reverend Sullivan said in 1969: When linked together the Black churches form "the most formidable network of communication and co-operative power among Black people in the entire nation."[16]

The evolution of much of the Black economic action has been centered around the Black church and the Black minister:

> Martin Luther King at Montgomery,
> Leon Sullivan with Selection Patronage, OIC, in Philadelphia,
> Jesse Jackson with Operation Breadbasket in Chicago, and
> Deforest Brown with the Hough Area Development Corporation.

The public entrepreneurship displayed by these Black Protestant ministers is substantial empirical evidence of the validity of the Weber thesis that the "Protestant ethic" was the precursor of the "spirit of capitalism."[17] The suggestion here is that the spirit of capitalism which

[14] *Facts About the U.S. Black Population*, Pew Research Center, at https://www.pewresearch.org/social-trends/fact-sheet/facts-about-the-us-Black-population/, visited Nov 26, 2021.

[15] *Religious Composition of Blacks*, Pew Research Center available at https://www.pewforum.org/religious-landscape-study/racial-and-ethnic-composition/Black/, visited Nov. 26. 2021.

[16] Leon Sullivan, *Build Brother Build*, supra at 70.

[17] Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, translated by Tolcott Parsons (1958).

has been manifested in the Black church be mobilized to give Black people ownership and control of a major industrial corporation and a major bank.

Black churches can be used as a corporate control mechanism for ensuring perpetual Black control of the NDC and the NDB. Also, Black churches are a latent equity cushion that can be utilized on a continuing basis to partially finance the two organizations. Furthermore, the churches can be utilized as a marketing device to provide (1) captive customers for the products sold by NDC, and (2) captive depositors in and borrowers from NDB.

For me personally, the ubiquity of the Black church was illustrated when several years ago my son and I visited Reverend Martin Luther King's church in Montgomery, Alabama, in the heart of the old South. I expected to find the church in the middle of a Black neighborhood. But, to my surprise, it was located approximately 250 yards from the Capital building of Alabama, where in 1963 George Wallace gave his inaugural speech in which he said: "I say . . . segregation today . . . segregation tomorrow . . . segregation forever." This shows that in many respects the Black church can be found in both expected and unexpected places in this country.

## IX. BASIC PRINCIPLES GOVERNING THE NATIONAL DEVELOPMENT CORPORATION (NDC) AND THE NATIONAL DEVELOPMENT BANK (NDB)

### A. INTRODUCTION

In this section, I discuss several of the organizational principles that would likely govern NDC and NDB. These are just initial thoughts, and experienced corporate and business lawyers would have to collectively determine the legal structure governing each of these firms.

Each of NDC and NDB would be organized as a holding company, which would own both wholly and partially owned subsidiaries throughout the world. As indicated, the purposes of NDC and NDB would be to make a profit while helping a "Brother and a Sister". Consequently, there would be two constraints on all investment decisions:

- The investment must be profitable,(Profitability), and
- The investment must promote the welfare of disadvantaged people (Benefitability).

There are three basic elements that are necessary for the effective organization and operation of NDC and NDB: management, equity capital control, and consumer attitudes.

In 1971, Black people were almost bankrupt when it came to (1) managerial expertise, and (2) equity capital, and those two elements are needed in order to pierce the barriers of negative consumer attitudes. The same is, in many respects, true in 2021. The NDC and NDB can be used to concentrate the Black resources of management and equity capital in such a way that the problem with consumer attitudes will be minimized. As indicated, the fundamental vehicle for ensuring permanent Black control of NDC and NDB is Black churches.

The first step in organizing the NDC and the NDB is for 5,000[18] Black leaders and others throughout the country to agree to become the initial shareholders. This group should include

[18] The original proposal was for 4,000.

Blacks and others from various occupations and political and religious persuasions. They should join together to promote Black economic development through collective Black business power. Of course, the mechanics of the investment would have to be determined.

### B. INITIAL SEED CAPITAL FOR NDC AND NDB

While in 1971, I proposed $2 million in initial capital coming from 4,000 leaders making a $500 investment, I now propose 5,000 leaders each investing $1K in NDC and $1K in NDB, which would fund each of NDC and NDB at $5 million. These initial contributions should be enough to cover the organizational expenses of these two firms. It is important to the success of NDC and NDB that the support comes from a wide group of Black leaders and not just a few. It should be possible to organize this offering as a private offering under the Federal Securities laws.

### C. THE BOARDS OF DIRECTORS AND SHAREHOLDER VOTES

The following are some of the general principles that will apply to the board of directors and shareholder votes. First, the board of directors will be elected separately by (1) the Class A shares, which will be held by the churches, and (2) the Class B shares, which will be held by the general public. Each Class will have a fifty percent vote on each issue presented to the shareholders, and a majority vote will prevail, except that with respect to certain major transactions, such as a decision to sell all or substantially all of the assets of NDC or NDB, a 66 and 2/3 percent vote of the shares of each class voting separately will be required.

While several members of the board should be members of the clergy, there will be a requirement that two-thirds of the board be business and legal leaders who are not members of the clergy. Although the Class A and Class B could each elect members of the clergy, the total could not exceed one-third of the board members. It is important to the success of NDC and NDB that these institutions be under the perceived and actual control of experienced management, starting at the board level. This will help to signal to those entities with which the NDC and NDB interact that the key decisions are being made by the professional managers of the firm.

The non-clergy members of the boards of each of NDC and NDB will consist of top Black and White business, educational, and legal leaders who have a demonstrated interest in promoting the public good and contributing to the success of both NDC and NDB.

In order to provide for a broad representation on the board of directors, the country could be divided into regions with the churches electing members of the board on a regional basis, while the individual shareholders elect directors at large.

Continuity of management will be facilitated by having a staggered board of directors, with three-year terms for each director and one-third of the directors elected each year.

### D. THE MECHANICS OF CHURCH VOTING OF CLASS A SHARES: MAJORITY VOTE OF PARISHIONERS

A church's shares would be voted by (1) a representative of the church at the annual or extraordinary meeting of shareholders, which would be held by ZOOM, or (2) proxy. The votes of each church will be determined by a majority vote of the church members. In this way the masses of Black people would be (1) developing a greater understanding of business operations, and (2) exercising the prerogative of business ownership.

Standards and procedures would be developed to ensure an efficient and fair voting process at the churches.

### E. DIVIDENDS

Dividends should be distributed according to the relative capital contributions of each Class.

### F. THE PRESIDENTS AND MANAGEMENT TEAMS

The first task of each board should be to form an executive search committee which would be charged with the task of finding and hiring the Black or other person who is best qualified to be president of a large corporate conglomerate that is focused on the dual mandates of NDC and NDB, that is Profitability and Benefitability. Once appointed, the president, with the assistance of the search committee, should be charged with the responsibility of assembling a complete management staff.

### G. INVESTING BY NDC AND LENDING AND FINANCE BY NDB

Upon the completion of the staffing of each of NDC and NDB, the boards should direct the managements to prepare, for the boards' review,

> (1) in the case of NDC investment alternatives in various subsidiaries which will meet the two investment constraints: Profitability and Benefitability; and
>
> (2) in the case of NDB, a plan for the acquisition of a bank or banks and the development of (a) a lending strategy for the banking operations, and (b) an operational strategy for the investment bank, which would be part of NDB.

### H. THE CLASS A AND CLASS B SHARE OFFERING

Immediately after organization of NDC and NDB, the management should be directed to begin planning for two simultaneous offerings of securities that would be initial public offerings of the shares of NDC and NDB in transactions that are registrable under the Federal Securities Act of 1933. After the public offering, the two companies would become subject to the reporting requirement, including the annual report and proxy statement requirements, of the Federal Securities Exchange Act of 1934.

The first offering would be limited to Black churches. They would receive Class A voting stock which after completion of the public offering of Class B stock would carry the power to elect 50% of the board of directors. Before a church would be permitted to sell its Class A shares, the corporation and all other Class A shareholders would be given the right to buy the tendered shares. This mechanism would ensure that control of NDC and NDB is perpetually in the hands of Black people.

A second offering of Class B common stock would be made to the general public. The Class B would carry the power to elect 50% of the board. Immediately upon completion of the offering, the initial voting common stock issued to the 5,000 original investors would be exchanged for Class B stock. It would be fully disclosed to the potential investors in Class B stock that the value of such stock will be impacted by the fact that NDC and NDB have, like any other Public Benefit Corporation, the dual goals of pursuing Profitability and Benefitability. And, any offering of Class B stock would be based on expectations of the market's appetite for shares of these firms.

The Class B would have a liquidation preference over the Class A, thereby ensuring that in a liquidation of NDC or NDB, the holders of the Class B would be paid before the holders of the Class A, which are held by the churches. It may seem strange to give the Class B a liquidation preference over the Class A, which will be held by churches; however, the liquidation preference and possibly other provisions may be needed to support the trading value of the Class B stock. And without that trading value, it is unlikely that investors will purchase the Class B shares.

### I. THE TRADING VALUE OF THE CLASS B SHARES AND SELL RIGHT IN CERTAIN CIRCUMSTANCES

It is anticipated that a public market for the trading of the Class B common stock would be developed, just as it has developed with some Public Benefit Corporations. In that case, there would be no reason for the holders of Class B to have any type of right to put the stock back to NDC or NDB.

However, to ensure that there is a market for such shares on the death of the holder thereof, if there is no active trading market for the shares at the time of a holder's death, the beneficiary of the estate would have a right to put the stock back to the company for book value of the shares. This would ensure that no shareholder who is an individual would be forced to take less than book value for his or her shares.

### J. MINIMUM CAPITAL RAISING GOAL

#### 1. IN GENERAL

The minimum goal for proceeds from the combined public offerings of NDC and NDB should be consistent with the expected cash needs of the business. But assume that within a reasonable period of time, each company could put approximately $10 billion to work for a total of $20 billion.[19] This would make the combined NDC and NDB about the present size of AMC Theaters or Domino's Pizza when measured by present market cap, that is, aggregate trading value of the stock. These firms are respectively numbers 433 and 434 when measured by market capitalization as of November 26, 2021.[20] Thus, with a $20 billion capital raise, NDC and NDB likely would be within or close to within the largest 500 companies within the U.S.

Thus, if these initial public offerings were successful, both companies would have a significant amount of cash with which to begin operations. These operations would encompass building businesses, buying businesses, and financing businesses that would satisfy both the Profitability and Benefitability goals. Obviously tight controls on any money raised would be essential.

[19] The original proposals was for $175 million.
[20] Largest American Companies by Market Capitalization, available at https://companiesmarketcap.com/usa/largest-companies-in-the-usa-by-market-cap/?page=5, visited Nov. 26, 2021.

## 2. THE BLANK CHECK COMPANY, SPAC, ISSUE

NDC and NDB could be treated as "Blank Check Companies" under the SEC rules under the Securities Act of 1933 regarding Special Purpose Acquisition Companies (SPACs).[21] If so, this would require NDC and NDB to return to the investors funds that are not spent within 2 years of the IPO. If this rule applies, obviously an alternative would have to be employed, such as by only raising capital once the business to be built or company to be acquired has been identified.

In fact, even if the full $20 billion could be raised in one offering, it might be wise to stagger the offerings to match the needs of NDC and NDB for funds.

## 3. THE 1971 CAPITAL RAISING GOAL

The 1971 article said essentially the following regarding the capital raising plan for NDC and NDB:

Providing that the management is able to produce a sufficient number of attractive investment projects, the minimum goal for proceeds from the two offerings should be $175 million. The church stock offering (Church Stock Offering) should aim for minimum proceeds of $25 million which is equivalent to an investment of $5 each for 5 million of the total 11 million parishioners of Black churches. The public stock offering (Public Stock Offering) should aim for minimum proceeds of $150 million which is equivalent to one million Black families - less than one fifth of all Black families - investing an average of $150 each. Upon completion of the offerings NDC would have been about the 250th largest U.S. corporation when ranked according to invested capital.

The projected proceeds could very well be overly conservative. There will be many Whites and White-controlled churches and other institutions who will want to invest in the Class B stock. Since Black control of NDC and NDB is ensured, Whites should indeed be encouraged to invest. Given the correct type of marketing effort, NDC and NDB might be able to raise as much as $1 billion, in which case they together would be one of the 50 largest corporations with regard to invested capital.

In any event, if Black people can be convinced that the benefits of NDC and NDB will accrue to themselves and their children, brothers and sisters, a substantial sum of equity could be raised.

Also, the churches could provide a yearly infusion of equity capital to ensure the growth of NDC and NDB.

[21] For a basic discussion of SPACs see Samuel C. Thompson, Jr., *Mergers, Acquisitions and Tender Offers*, section 6:9 (2010, Updated 2021).

### 4. A 2021 CAPITAL RAISING PROPOSAL THAT IS THE SAME AS THE 1971 PROPOSAL ON A PER CAPITA BASIS WITH THE CONTRIBUTION LEVELS NOT ADJUSTED FOR INFLATION

As indicated above, today, 50 years after the original proposal, there are approximately 23 million Black people who identify themselves as "Historically Black Protestants."[22] This is more than twice the 11 million Historically Black Protestants in 1971. Applying the same assumptions today that were applied in 1971, the Church Stock Offering would aim for minimum proceeds of approximately $50 million which is approximately equivalent to an investment of $5 each for 11 million of the total 23 million parishioners of Black churches today.

And, the Public Stock Offering would aim for minimum proceeds of $300 million which is equivalent to two million Black families - less than one fifth of all Black families - investing an average of $150 each.

Thus, the combined Church Stock Offering and the Public Stock Offering would raise approximately $350 million.

Under the financing assumptions in 1971, NDC and NDB would jointly have been about the 250th largest U.S. corporation when ranked according to invested capital. However, applying analogous assumptions today, NDC and NDB jointly would not be anywhere close to the top 500 companies when ranked according to invested capital.

### 5. A 2021 CAPITAL RAISING PROPOSAL THAT IS THE SAME AS THE 1971 PROPOSAL ON A PER CAPITA BASIS WITH THE CONTRIBUTION LEVELS ADJUSTED FOR INFLATION

The above capital raising assumptions in both 1971 and 2021 are based on assumed investments of $5 per individual and $150 per family. Thus, although there are adjustments for the number of individuals and families, there is no adjustment for inflation in the amount of the assumed investments.

Between 1971 and 2021 "[c]ore inflation averaged 3.80% per year . . . for an inflation total of 545.88%."[23] Assuming conservatively 500% inflation over this period, the $5 investment per parishioner in 1971 would be a $25 investment in today's terms, and the $150 investment by families in 1971 would be a $750 per family investment today. This would result in 2021 in an aggregate investment by parishioners of $1.5 billion, which is $750 per family, multiplied by 2 million families.

[22] *Religious Composition of Blacks*, Pew Research Center available at https://www.pewforum.org/religious-landscape-study/racial-and-ethnic-composition/Black/, visited Nov. 26. 2021.

[23] *CPI Inflation Calculator*, https://www.in2013dollars.com/us/inflation/1971?amount=1.

### 6. COMPARING 1971 AND 2021 CAPITALIZATION LEVELS OF NDC AND NDB ON A PER CAPITA BASIS WITH THE CONTRIBUTION LEVELS IN 2021 ADJUSTED FOR INFLATION

The following table summarizes the conclusions reached above for both the assumed Church Stock Offering and Public Stock Offering regarding the financing of NDC and NDB:

(1) as proposed in 1971 under the then existing population and participation assumptions, and

(2) as determined in 2021 under the present population and participation assumptions but with the levels of both the Church Stock Offering and the Public Stock Offerings computed after taking account of inflation.

**TABLE B, FUNDING LEVELS FOR NDC AND NDB--1971 AND 2021**

| | 1971, CHURCH STOCK OFFERING | 1971 PUBLIC STOCK OFFERING | 2021 CHURCH STOCK OFFERING | 2021 PUBLIC STOCK OFFERING |
|---|---|---|---|---|
| **COMPUTED WITH POPULATION ADJUSTED BUT WITHOUT AN ADJUSTMENT IN THE CONTRIBUTION LEVELS** | $25M | $150M | $150M [CHECK THIIS NUMBER] | $300M |
| **COMPUTED WITH BOTH (1) POPULATION ADJUSTED, AND (2) CONTRIBUTION LEVELS ADJUSTED FOR INFLATION** | NA | NA | $150M CHECK THIIS NUMBER] | $1.5B |

The above table demonstrates that applying in 2021 analogous assumptions to those applied in 1971 regarding (1) the church population, and (2) the participation rates, and in the case of 2021, taking into account the inflation adjusted participation amounts, NDC and NDB would raise in 2021 equity capital of $1.65B. [DOUBLE CHECK] In 1971 the capital raised under these assumptions would only have been $175M.

### K. THINKING BIG: HOW ABOUT $10 BILLION OF EQUITY CAPITAL FOR EACH OF NDC AND NDB FOR A TOTAL OF $20 BILLION?

Why not shoot for $20 billion in equity capital over a short period of time, assuming there are good uses for the funds? I know the reader is saying $20 billion is “Pie in the Sky; there is no way NDC and NDB are going to be able to raise that type of money.” But, here are some reasons why this type of capital raise may be possible over time and consistent with needs for sound investments and loans by NDC and NDB.

First, the IPO need not encompass the full $20 billion; there could be a smaller IPO with follow-on public offerings of shares of NDC and NDB. In both the initial IPO and in the follow-on public offerings, the amounts raised should be deployed consistently with the dual goals of Profitability and Benefitability. Thus, there could be an IPO for a smaller by immediately deployable amount, followed by subsequent public offerings of shares by the publicly traded NDC and NDB as the need for cash arose. Of course, each stock offering should be in an amount consistent with the needs of NDC and NDB in pursuing the dual goals: Profitability and Benefitability.

Second, when emerging from bankruptcy, GM carried out the third largest IPOs in U.S. history for slightly less than $20 billion. If a bankrupt GM can pull off a $20 billion IPO, NDC and NDB, with the support of millions of Americans, should be able to effectuate a series of public offerings that in the aggregate would raise approximately $20 billion.

Third, while a $20 billion offering or offerings would clearly be large, concerted action by the Black church community with the assistance of sympathetic White people and institutions could, in my judgment, make this a reachable goal.

It should be noted that a $20 billion offering by NDC and NDB would translate into about half of the Black church parishioners (i.e., approximately 10 million) investing on average a total of $2,000 in the Class B stock of NDC and NDB. In view of the fact that many purchasers of the stock of these companies likely would be making purchases that are far in excess of the average investment, it would appear that the required investment of the half of the parishioners who it is assumed would be participating would be substantially less than $2,000.

The potential for $20 billion in proceeds from the offerings could very well be overly conservative. There will be many Whites and White-controlled churches and other institutions that will want to invest in the Class B stock. Since Black control of NDC is insured, Whites should indeed be encouraged to invest. Given the correct type of marketing effort, NDC might be able to raise as much as it can profitably invest, in which case it likely would become one of the largest corporations in America. In any event, if Black people can be convinced that the benefits of NDC and NDB will accrue to themselves and their Brothers and Sisters, a substantial sum of equity could be raised. Also, the churches could provide a yearly infusion of equity capital to insure the growth of NDC.

## X. AFTER THE IPOs

Once the stock offerings are completed, NDC and NDB would immediately begin organizing and capitalizing their subsidiaries. One subsidiary of NDC, which would meet the Profitability and Benefitability requirements would be a national, real estate, redevelopment firm which would engage in the rejuvenation of housing in areas where needed. Such a firm would provide both jobs and housing for disadvantaged people. Another subsidiary might be an international trade firm that specializes in African trade.

A management consulting subsidiary could be formed to address the problem of the lack of management expertise in the Black community. In addition to providing advice to outside firms it could provide expert management assistance for the operating subsidiaries of NDC. The management consulting sub might take an equity position in certain clients, where there would be no conflict of interest or other impediment.

Consulting teams could be established in major centers of Black concentration, and each team could sell its services to minority businesses with the expectation of making a profit for both NDC and the individual firms. Possibly NDC would take a minority stock position in some of the firms. The consultants could be particularly helpful in providing national marketing information. Also, with the economic muscle and management expertise of NDC behind them, the firms would probably find it easier to obtain bank financing. Furthermore, NDC could be helpful in convincing governmental institutions and White-controlled businesses to provide markets for the goods and services of the firms.

On the NDB side of the equation, one of the first projects will likely be the acquisition of banks and other financial institutions that could have a significant impact on lending to minority businesses. Further, as indicated, NDB would have a sub that engaged in investment banking. Also, NDB likely would have a subsidiary that engaged in venture capital, which involves making investments in promising start up firms.

## XI. A COUPLE OF NOTES ON NATIONAL DEVELOPMENT BANK (NDB)

Banks are subject to complex regulation at the Federal and sometimes the state level. Consequently, extreme care must be exercised in dealing with any banking law issue.[24] This section provides a brief introduction to some of the basic issues that would be faced by NDB.

NDB likely would be organized as a bank holding company or a financial holding company under the Federal Bank Holding Company Act, which is administered by the Federal Reserve Board. A financial holding company can engage in a broader range of activities than a bank holding company. Hereafter, the term bank holding company encompasses also a financial holding company.

Like most bank holding companies, NDB would conduct most of its business through subsidiaries, such as a national bank, which is subject to regulation by the Office of the Comptroller of the Currency (OCC) or a state bank, which would be regulated by the state where the bank operates.

[24] For a general discussion of banking regulation see chapter 17 of Samuel C. Thompson, Jr., *Mergers, Acquisitions and Tender Offers* (2010, Updated 2021).

The banking laws would require that NDB to be completely separate from NDC, because, for example, a bank holding company may not own a subsidiary that is engaged in the manufacturing business. However, the shareholders of the two could be the same. As a practical matter, although there may be a significant overlap in shareholders initially, since the two companies would be publicly traded, the common shareholdings would likely dissipate rapidly.

The NDB would act both as (1) a commercial bank specializing in the financing of hard to finance businesses, and (2) an investment bank specializing in, for example, taking closely-held minority owned firms public. It might also engage in the venture capital business. While at the time of the writing of the original article in 1971, NDB could only be located in one state, under the amended Bank Holding Company Act, now there essentially is no geographic limitations on it and its subsidiaries. Also, it could make loans anywhere. Further, there would be no territorial limitation on the residence of the depositors, and branches could be established in various foreign nations.

In addition to providing the equity capital for the NDB, both the individual and church shareholders of NDC and NDB could provide a captive source of depositors for NDB.

## XII. A NOTE ON THE FEDERAL INCOME TAX TREATMENT OF INVESTMENTS IN AND OPERATIONS OF NDC AND NDB

Clearly the formation of the NDC and NDB will present several, and possibly unique, issues under the Federal Income Tax (FIT) law, and under other tax laws. The purpose of this document is to take a first cut at the following two FIT issues relating to the organization and operation of the NDC and NDB:

> First, could contributions to a church or other religious organization (hereinafter church) qualify for a tax deduction for the contributing person if the contribution is made under the explicit or implied condition that the amount contributed be invested by the church in stock of NDC or NDB? This is referred to here as the Deduction Issue.
>
> Second, given the dual mandates of NDC and NDB, that is it possible to structure them in a way that they would be exempt from the FIT?

## XIII. DIFFICULTY IN MARKETING THE NDC AND NDB CONCEPTS

It will not be an easy task to convince the masses of Black people of the merits of NDC and NDB. The staff will be required to spend considerable time working on concepts for marketing the stock. After the initial funding of the Class A, a large percentage of the budget would be devoted to the preparation of the Class B stock offerings.

During the time the offerings are being prepared, the board of directors of NDC and NDB might decide to organize and capitalize an entertainment subsidiary to be known as the National Development Entertainment Corporation. This subsidiary could engage in the production of musical concerts throughout the country. It could be operated by a small staff and on a limited budget. In addition to providing an income it would also provide publicity for NDC and NDB and thereby enhance the marketing potential for the stock offerings.

## XIV. NOTES OF CAUTION MADE IN 1971 AND REPEATED IN 2021

I must render three caveats. First, there are numerous legal complexities attendant with the proposals herein for the formation of a National Development Corporation ("NDC") and a National Development Bank ("NDB"). I have deliberately avoided a detailed discussion of the legal problems.

Second, the success of the NDC and NDB will not be obtained if numerous Black groups begin competing with each other to be the first to launch these organizations. Competition among various groups will dilute the collective assets of Black people, thereby ensuring the failure of this proposal. Consequently, I urge forbearance on those of you who might be disposed to immediately begin promoting a similar concept.

Third, if this concept gets implemented there will be a lot of money raised, and wherever there is money, there will be people who would like to spend some of it. Consequently, it is incumbent on both (1) the boards of NDC and NDB, and (2) the boards of each subsidiary to have effective controls to ensure that all funds are properly spent and accounted for. Full transparency and legitimacy in this regard is key to the success of NDC and NDB.

## XV. CONCLUSION

The NDC and NDB concepts are flexible. They can be altered in an unlimited number of ways. However, the basic theme is:

*BLACK CONTROL THROUGH THE BLACK CHURCHES WITH EQUITY CAPITAL FROM A MASS OF BLACK AND OTHER PEOPLE OF GOODWILL.*

# VI. COURSE SYLLABUS SUMMARY FOR PART I, ANALYSIS OF THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP; PART II, THE LAWYER'S ESSENTIAL TOOLS IN REPRESENTING A MINORITY OWNED SMALL BUSINESS; AND PART III, THE BIG IDEAS FOR HELPING CLOSE THE GAP

**THE LAWYER'S ROLE IN HELPING CLOSE THE MINORITY-WHITE GAP[2] IN BUSINESS OWNERSHIP ["MINORITY BUSINESS DEVELOPMENT" OR "MBD"]:**

**FALL SEMESTER 2021**

**OCTOBER 28, 2021**

Part I, *Introduction and in-Depth Analysis of the Minority-White Gap in Business Ownership,*

Part II, *The Lawyer's Essential Tools in Representing a Minority-Owned Small Business*,

Part III, *The Big Ideas for Addressing the Minority-White Gap in Business Ownership*

**PROFESSOR SAMUEL C. THOMPSON, JR.**

## a. INTRODUCTION

This seminar will meet once a week for approximately two hours during the Fall semester of the 2021 school year. As discussed below, the seminar is broken into the following three parts:

Part I, *Introduction and in-Depth Analysis of the Minority-White Gap in Business Ownership*;

Part II, *The Lawyer's Essential Tools*; and

Part III, *The Big Ideas for Addressing the Minority-White Gap in Business Ownership*.

## b. STUDENT PRESENTATIONS AND PAPERS

As a general matter, for Parts I and II, students will make presentations on the assigned material. The last session, which is Part III, will have outside presentations. During the exam period, the students will make presentations on their papers for the course.

[2] Although much of the analysis will focus on the black-white gap in business ownership, the principles discussed could inform an understanding of such (1) a brown-white gap, (2) an American Indian-white gap, and (3) any other racial gap. A student could focus his or her paper for Part III of the course on any minority-white gap issue.

### c. OPEN ACCESS

Although only Penn State Law students will be able to take the course for credit on an in-class basis, a recording of each session in Parts I (*The Minority-White Business Ownership Gap*) and Part II (*The Lawyer's Essential Tools in Representing a Minority-Owned Small Business*) of the course will be available over the Internet on the Penn State Law website without charge to anyone, including law students at other law schools and practicing lawyers. An announcement of the availability of the recordings will be made on Penn State Law's website. Although remote participants will not be able to react on a real-time basis, they could send by email questions or comments to the presenters at the sessions or Professor Thompson.

Part III of the course (*The Big Ideas for Addressing the Minority-White Gap*) will be held on the last day of class, November 30, 2021, from 4 pm to 6 pm. In addition to being available by recording on the Penn State Law website, this session will be available live over the Internet on Zoom. The presenters at this session will be leading professionals who are involved in various ways of helping close the gap.

Professor Thompson's goal in structuring this course on an Open Access basis is to help put as many law students and lawyers as possible in a position to make a real difference in the development of minority-owned businesses.

### d. PART I

Part I, *Introduction and in-Depth Analysis of the Minority-White Gap in Business Ownership,* will focus on understanding the current state of the differences between white and minority business ownership and the underlying reasons for such differences. This section of the course will run for the first five weeks.

### e. PART II

Part II, *The Lawyer's Essential Tools In Representing a Minority-Owned Small Business*, will focus on some of the basic tools a lawyer needs when advising on the formation and operation of a small business, including a practical introduction to the following concepts: (1) the organization and operation of the basic forms of business (*i.e.*, corporation, partnership, and limited liability company (LLC), (2) the federal income tax considerations in the choice of business entity (*i.e.*, C corporation, S corporation, partnership, or LLC), (3) the private placement exception to the registration requirement of the Federal securities laws , (4) negotiating Small Business Administration assistance for a minority-owned business, and (5) the drafting of an agreement for the acquisition of a small business. In looking at each of these topics, consideration will be given to any issue that is unique to minority businesses. This section will run for eight weeks, and it is planned that each student will make a joint presentation on the assigned topics with a practicing lawyer. A detailed syllabus for Part II is set out in a separate document entitled: SYLLABUS FOR PART II OF MINORITY BUSINESS DEVELOPMENT COURSE FALL 2021.

### f. PART III

Part III, *The Big Ideas for Addressing the Minority-White Gap in Business Ownership*, will focus on (1) a critique of various existing private and public proposals for addressing the gap, and (2) the development of new public and private proposals for tackling this persistent problem. As indicated, this Part will be held on November 30, 2021 from 4 to 6, and will be available on a real time basis as well as by recording.

In the last 30 minutes of this session Professor Thompson will present the draft of a 2021 revision of an article he published in 1971 entitled *Black Business Ownership: An Analysis and a Proposal*, which was published in 1971 in four issues of *Black Enterprise* magazine, which is no longer published. The article was based on a paper Professor Thompson wrote in his third year of law school at Penn Law for a course on Minority Business Development. That course was taught by Prof (later Dean) Robert Mundheim, who participated in a similar program in connection with the Spring session of this course.

### g. COURSE MATERIALS

- Materials for Part I, First Five Weeks
  - The materials for each of these sessions were assembled by Professor Thompson. The materials for the first session are in Thompson, *Understanding the Problem with Minority Business Ownership: An Introduction to Background Documents and Theories* [*Understanding the Problem*]
- Materials for Part II, Weeks Five through Thirteen
  - Therese H. Maynard, Dana M. Warren, Shannon Treviño, *Business Planning: Financing the Start-Up Business and Venture Capital Financing*, Third Edition [*Business Planning*]
- Materials for Part III, Week Fourteen
  - To Be Available on Canvas at the time of the session on November 30, 2021

### h. COURSE SLIDE PRESENTATIONS

- Slide presentations will be available for the first 13 sessions and may be available for certain of the presentations in the *Big Ideas* last class, the 14th session. These presentations will be included in the materials for the particular session.

### i. ASSIGNMENT FOR CLASS 1

- *Understanding the Problem*, See the Assignment Sheet and Materials for Class 1.

### j. ASSIGNMENT FOR CLASS 2

- Student presentations on an article or articles dealing with: *Understanding the Problem.* To be assigned in the first session. See the Assignment Sheet and Materials for Class 2.

### k. ASSIGNMENT FOR CLASS 3

- Student presentations on an article or articles dealing with: *Understanding the Problem.* To be assigned in the first session. See the Assignment Sheet and Materials for Class 3.

### l. ASSIGNMENT FOR CLASS 4

- Student presentations on an article or articles dealing with: *Understanding the Problem.* To be assigned in the first session. See the Assignment Sheet and Materials for Class 4.

### m. ASSIGNMENT FOR CLASS 5

- Student presentations on an article or articles dealing with: *Understanding the Problem.* To be assigned in the first session. See the Assignment Sheet and Materials for Class 5. below.

### n. ASSIGNMENTS FOR CLASSES 6-13

- Selected materials in the *Business Planning* casebook, plus handouts.
- Assignment Sheet for Classes 6-13 will be distributed.
- It is planned that for each session, a student and an assigned practicing attorney will make a joint presentation on the assigned topic.

### o. ASSIGNMENT FOR CLASS 14

- For Class 14, there will be a *Round Table Discussion of the Issues* with several professionals who are experts on various aspects of the issues. This session will run from 4 p.m. to 6:30 p.m. on November 30, 2021.

## VII. COURSE SYLLABUS FOR PART I, SESSIONS 1 TO 5, ANALYSIS OF THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP, MATERIALS WITH ASSIGNED STUDENT [PDF TBA]

**THE LAWYER'S ROLE IN HELPING CLOSE THE MINORITY-WHITE GAP[3] IN BUSINESS OWNERSHIP ["MINORITY BUSINESS DEVELOPMENT" OR "MBD"]:**

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**PROFESSOR SAMUEL C. THOMPSON, JR.**

### a. MATERIALS FOR CLASS 1, INTRODUCTORY DISCUSSION LED BY PROFESSOR THOMPSON

| NUMBER | TOPIC | PAGES |
|---|---|---|
| 1 | EXCERPTS FROM: CBO, THE DISTRIBUTION OF HOUSEHOLD INCOME, 2017 (OCT. 2020) | 1 TO 7 |
| 2 | EXCERPTS FROM: CENSUS BUREAU, INCOME AND POVERTY IN THE UNITED STATES: 2017 (SEPT. 2020) | 8 TO 21 |
| 3 | BROOKINGS, EXAMINING THE BLACK WHITE WEALTH GAP (FEB. 27, 2020) | 22-25 |
| 4 | US BUREAU OF LABOR STATISTICS, RACE, ECONOMICS, AND SOCIAL STATUS (MAY 2018) | 26-37 |
| 5 | BUREAU OF LABOR STATISTICS, LOBOR FORCE CHARACTERISTICS BY RACE AND ETHNICITY, 2018 | 38-46 |
| 6 | PROFESSOR DARITY, DUKE UNIVERSITY, *THE TRUE COST OF CLOSING THE WEALTH GAP*, NEW YORK TIMES, APRIL 30, 2021 | 47-50 |

[3] Although much of the analysis will focus on the black-white gap in business ownership, the principles discussed could inform an understanding of such (1) a brown-white gap, (2) an American Indian-white gap, and (3) any other racial gap. A student could focus his or her paper for Part III of the course on any minority-white gap issue.

| | | |
|---|---|---|
| **7** | **FORMER CHIEF JUSTICE OF THE DELAWARE SUPREME COURT, LEO STRINE, TOWARD RACIAL EQUALITY: THE MOST IMPORTANT THING THE BUSINESS COMMUNITY CAN DO, (DEC. 29, 2020)** | **51-59** |

### b. MATERIALS FOR CLASS 2, WITH ASSIGNED STUDENTS

| NUMBER | TOPIC | STUDENT PRESENTERS |
|---|---|---|
| 1, FIRST HOUR | CLASS NO. 2, FIRST HOUR, NO. 1, FAIRLIE, WHY ARE BLACK BUS LESS SUCCESS THAN WHITE BUS, 2014 | KEIRA FRAZIER |
| 2, FIRST HOUR | CLASS NO. 2, FIRST HOUR, NO. 2 FAIRLIE, BLACK, WHITE ACCESS TO CAPITAL 2020 | KEIRA FRAZIER |
| 3, FIRST HOUR | CLASS 2 NO. 2, FIRST HOUR, NO. 3, FAIRLIE, NATIONAL REPORT ON EARLY-STAGE ENTREPRENEURSHIP IN THE UNITED STATES: 2020 (FEB. 2021) | KEIRA FRAZIER |
| 4, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 4, PIKETTY CAPITAL HOW MUCH IS R GREATER THAN G LIBERTY STREET 2015 | GABRIELLE TOCK |
| 5, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 5, PIKETTY, DOES CAPITAL INCREASE INEQUALITY? LIBERTY STREET 2015 | GABRIELLE TOCK |
| 6, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 6, PIKETTY'S R IS GREATER THAN G THESIS ADDITIONAL MATERIALS, PROF SAM THOMPSON [OPTIONAL] | GABRIELLE TOCK |
| 7, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 7, PROF THOMPSON'S HYPO ILLUSTRATING PIKETTY'S THEORY AND WHY IT SHOWS THE NEED FOR PROGRESSIVE INCOME AND WEALTH TAXES | GABRIELLE TOCK |
| 8, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 8, FED SURVEY OF CONSUMER FINANCES REPORT ON WEALTH INEQUALITY 2019 | GABRIELLE TOCK |
| 9, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 9, MCKINSEY, THE-ECONOMIC-IMPACT-OF-CLOSING-THE-RACIAL-WEALTH-GAP 2019 | GABRIELLE TOCK |
| 10, SECOND HOUR | CLASS NO. 2, SECOND HOUR, NO. 10, PATIN, WEALTH GAP, RACIAL DISPARITIES, STARTUP ECOSYSTEM 2018 [OPTIONAL] | GABRIELLE TOCK |

### c. MATERIALS FOR CLASS 3, WITH ASSIGNED STUDENTS

| NUMBER | TOPIC | STUDENT PRESENTERS |
|---|---|---|
| 1, FIRST HOUR | CLASS NO. 3, FIRST HOUR, NO. 1, FAIRLIE, FINANCING BLACK OWNED BUSINESSES, STANFORD MAY, 2017 | TAYLOR WASHINGTON |
| 2, FIRST HOUR | CLASS NO. 3, FIRST HOUR, NO. 2, BLACK BANKS BATTLE TO KEEP ALIVE, 2020, WSJ | TAYLOR WASHINGTON |
| 3, FIRST HOUR | CLASS NO. 3, FIRST HOUR, NO. 3, FED RESERVE RACIAL AND ECONOMIC EQUITY ACT BILL TEXT PROPOSED 2020.05.08 | TAYLOR WASHINGTON |
| 4, FIRST HOUR | CLASS NO. 3, FIRST HOUR, NO. 4, BLOOMBERG, THE FED WAKES UP TO RACE, JAN 2021 | TAYLOR WASHINGTON |
| 5, SECOND HOUR | CLASS NO. 3, SECOND HOUR, NO. 5, KAUFFMAN, NATIONAL REPORT ON EARLY STAGE ENTREPRENEURSHIP | GARRETT YOUNG |
| 6, SECOND HOUR | CLASS NO. 3, SECOND HOUR, NO. 6, KAUFFMAN ACCESS TO CAPITAL 2019 | GARRETT YOUNG |
| 7, SECOND HOUR | CLASS NO. 3, SECOND HOUR, NO. 7 KAUFFMAN, TRENDS IN VC, ANGEL INV AND CROWD FUNDING | GARRETT YOUNG |

d. MATERIALS FOR CLASS 4, WITH ASSIGNED STUDENTS

| NUMBER | TOPIC | STUDENT PRESENTERS |
|---|---|---|
| 1, FIRST HOUR | CLASS 4, FIRST HOUR, NO. 1, ICIC HELPING ENTREPRENEURS OF COLOR GROW THEIR BUSINESS | IVANCICA BOBEK |
| 2, FIRST HOUR | CLASS 4, FIRST HOUR, NO. 2 MCKINSEY, BUILDING ECOSYSTEMS-FOR-BLACK US-BUSINESSES-NOV 2020 | IVANCICA BOBEK |
| 3, FIRST HOUR | CLASS 4, FIRST HOUR, NO. 3 BROOKINGS EXPAND ECO; INVEST IN BLACK BUS | IVANCICA BOBEK |
| 4, SECOND HOUR | CLASS 4, SECOND HOUR, NO. 4 CITI, CLOSING THE RACIAL INEQUALITY GAPS | BARBARA SIMIC |
| 5, SECOND HOUR | CLASS 4, SECOND HOUR, NO. 5, PRESIDENT BIDEN'S JANUARY 26, 2020 INITIATIVE ON RACIAL EQUITY WITH COMMENTS BY SUSAN RICE, DOMESTIC POLICY ADVISER | BARBARA SIMIC |

### e. MATERIALS FOR CLASS 5, FIRST HOUR— WITH ASSIGNED STUDENT

| NUMBER | TOPIC | DISCUSSION LEADER: |
|---|---|---|
| **1, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 1, PPP BACKGROUND INFORMATION ON THE PPP 2021.08.21, SCT** | **JAMIRCA NUESI** |
| **2, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 2 FAIRLIE, THE IMPACT OF COVID-19 ON SMALL BUSINESS OWNERS** | **JAMIRCA NUESI** |
| **3, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 3, PPP TOP-LINE-OVERVIEW-OF-FIRST-DRAW-PPP, TREASURY 2021.01.08** | **JAMIRCA NUESI** |
| **4, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 4, PPP TOP-LINE-OVERVIEW-OF-SECOND-DRAW-PPP** | **JAMIRCA NUESI** |
| **5, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 5, PPP GUIDANCE-ON-ACCESSING-CAPITAL-FOR-MINORITY-UNDERSERVED-VETS-AND-WOMEN-OWNED BUSINESS [OPTIONAL]** | **JAMIRCA NUESI** |
| **6, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 6, PPP FAIRLIE, IMPACT OF PPP ON MINORITY BUS, JAN 2021.01.08** | **JAMIRCA NUESI** |
| **7, FIRST HOUR** | **CLASS 5 FIRST HOUR, NO. 7 BLACK BUS HARDER GETTING A PPP, NYT [OPTIONAL]** | **JAMIRCA NUESI** |

CONTINUED

| | | |
|---|---|---|
| 8, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 8 LENDING DISCRIMINATION WITHIN THE PAYCHECK PROTECTION PROGRAM [OPTIONAL] | JAMIRCA NUESI |
| 9, FIRST HOUR | CLASS 5 FIRST HOUR NO. 9, PIKETTY ON COVID AND INEQUALITY | JAMIRCA NUESI |
| 10, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 10, REPORT ON FAIRLIE'S TESTIMONY RE SMALL BUSINESS AND COVID [OPTIONAL] | JAMIRCA NUESI |
| 11, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 11, FAIRLIE'S TESTIMONY RE SMALL BUSINESS AND COVID | JAMIRCA NUESI |
| 12, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 12, KERRIGAN TESTIMONY RE SMALL BUSINESS AND COVID [OPTIONAL] | JAMIRCA NUESI |
| 13, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 13, SCHOAPS TESTIMONY RE SMALL BUSINESS AND COVID [OPTIONAL] | JAMIRCA NUESI |
| 14, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 14 PINDER TESTIMONY RE SMALL BUSINESS AND COVID [OPTIONAL] | JAMIRCA NUESI |
| 15, FIRST HOUR | CLASS 5 FIRST HOUR, NO. 15 PENN STATE ALUMNA BUILDS NONPROFIT TO HELP BLACK & BROWN FOUNDERS SUCCEED, AUG 2021 | JAMIRCA NUESI |
| 16, FIRST HOUR | CLASS 5, FIRST HOUR, NO. 16, NASDAC BOARD DIVERSITY RULE | JAMIRCA NUESI |

### f. MATERIALS FOR CLASS 5, SECOND HOUR— WITH ASSIGNED STUDENTS AND PROFESSOR BERDEJO DISCUSSING HIS ARTICLE: FINANCING MINORITY ENTREPRENEURSHIP

| TIME ALLOTED TO DISCUSSION | TOPIC | |
|---|---|---|
| | **CLASS 5 , NO. 1, BERDEJO - *FINANCING MINORITY ENTREPRENEURSHIP*, WIS. L. REV., 2021** | **STUDENT ASSIGNED TO MAKE THE 10 MIN PRESENTATIONS** |
| **1, First 20 MINS** | **10 MIN PRESENTATION FOLLOWED BY A 10 MIN DISCUSSION OF THE INTRO AND SECTION I** | **KEIRA FRAZIER** |
| **2, Second 20 MINS** | **10 MIN PRESENTATION FOLLOWED BY A 10 MIN DISCUSSION OF SECTION II** | **IVANCIA BOBEK** |
| **3. Third 20 MINS** | **10 MIN PRESENTATION FOLLOWED BY A 10 MIN DISCUSSION OF SECTION III AND CONCLUSION** | **IVONA SIMIC** |

# VIII. COURSE SYLLABUS FOR PART II, SESSIONS 6 TO 13, THE LAWYER'S ESSENTIAL TOOLS IN REPRESENTING A MINORITY-OWNED SMALL BUSINESS

**THE ESSENTIAL TOOLS FOR ADDRESSING THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP**

**PROFESSOR THOMPSON, PENN STATE LAW**

**FALL SEMESTER 2021**

**THE LAWYER'S ROLE IN HELPING CLOSE THE MINORITY-WHITE GAP[4] IN BUSINESS OWNERSHIP ["MINORITY BUSINESS DEVELOPMENT" OR "MBD"]:**

PART I, *INTRODUCTION AND IN-DEPTH ANALYSIS OF THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP,*

PART II, *THE LAWYER'S ESSENTIAL TOOLS IN REPRESENTING A MINORITY-OWNED SMALL BUSINESS*,

PART III, *THE BIG IDEAS FOR ADDRESSING THE MINORITY-WHITE GAP IN BUSINESS OWNERSHIP*

**PROFESSOR SAMUEL C. THOMPSON, JR.**

**ASSIGNMENTS FOR: PART II, *THE LAWYER'S ESSENTIAL TOOLS IN REPRESENTING A MINORITY-OWNED SMALL BUSINESS***

**CLASSES 6 THROUGH 13: SEPTEMBER 28 – NOVEMBER 16**

**NOTE: PART III OF THE CLASS, ROUNTABLE DISCUSSION, WILL TAKE PLACE ON TUESDAY NOVEMBER 30, FROM 4 TO 6:30 PM**

**NOTE: THE SCHEDULE FOR THE PAPER FOR THE COURSE:**

**DISCUSSION WITH SAM THE TOPIC FOR THE PAPER, OCTOBER 26**

[4] Although much of the analysis will focus on the black-white gap in business ownership, the principles discussed could inform an understanding of such (1) a brown-white gap, (2) an American Indian-white gap, and (3) any other racial gap. A student could focus his or her paper for Part I and Part III of the course on any minority-white gap issue.

**OUTLINE/FIRST DRAFT OF PAPER DUE BY 5 PM TUESDAY DECEMBER 7, SAM'S COMMENTS BY 5 PM WED DECEMBER 8;**

**DRAFT AND FINAL PRESENTATIONS 5 PM TO 8 PM TUESDAY DECEMBER 14, SAM'S COMMENTS BY 5 PM WED DECEMBER 15;**

**FINAL PAPERS DUE TUESDAY DECEMBER 21**

### a. COURSE MATERIALS

- MATERIALS FOR PART II
  - THERESE H. MAYNARD, DANA M. WARREN, SHANNON TREVIÑO, *BUSINESS PLANNING: FINANCING THE START-UP BUSINESS AND VENTURE CAPITAL FINANCING*, THIRD EDITION [*BUSINESS PLANNING*]
  - IN CONNECTION WITH THE ASSIGNED READINGS, PLEASE SKIM ANY APPLICABLE DOCUMENT IN APPENDIX B
  - MATERIALS RELATING TO SBA FINANCING TO BE DEVELOPED, FOR CLASS 13, NOVEMBER 16 [TO BE DISTRIBUTED]

### b. ASSIGNMENT FOR CLASS 6, SEPT 28 [CLASS LEADER: SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP, CHARLOTTE N.C.; ASSIGNED STUDENT: GABRIELLE TOCK]

#### i. FIRST HOUR

- BUSINESS PLANNING, CH 1, INTRO, PAGES 1-18 (WHAT IS BUSINESS PLANNING?, CLIENTS, ENTREPRENEURS, THE DEAL LAWYER), 26-27 (INTRO TO ETHICAL OBLIGATIONS, 43-44 (LAWYERS INVESTING IN CLIENTS), 59 (LAWYERS AS DIRECTORS OF CLIENTS)

#### ii. SECOND HOUR

- BUSINESS PLANNING, CH 2, CHOICE OF BUSINESS ENTITY, PAGES 69-83 (KEY ATTRIBUTES OF DIFFERENT FORMS OF ENTITIES), 101-122 (NON-TAX CONSIDERATIONS IN CHOICE OF FORM) [THIS IS A LONG ASSIGNMENT BUT SHOULD BE A QUICK READ]

### c. ASSIGNMENT FOR CLASS 7, OCT 5 [CLASS LEADER: SRINIVAS M. RAJU, PARTNER, RICHARDS, LAYTON & FINGER, P.A, WILMINGTON, DEL; ASSIGNED STUDENT: IVONA SIMIC]

#### i. FIRST HOUR

- BUSINESS PLANNING, CH 3, OVERVIEW OF LLC LAW, PAGES 135-140, 146-155 (FORMATION AND OPERATING AGREEMENT), 159 (FREEDOM OF CONTRACT), 169 (INTRO TO FIDUCIARY DUTIES), 189-195 (CHANCELLOR STRINE IN AURIGA CAPITAL ON DEFAULT FIDUCIARY DUTIES), 203-206 (DISSENTION AND DEADLOCK); SKIM GENERIC SAMPLE LLC OPERATING AGREEMENT PAGES 812-824

ii. SECOND HOUR

- BUSINESS PLANNING, CH 5, INCORPORATION PROCESS, PAGES 275-319 (CHOICE OF STATE, ARTICLES, ORGANIZATIONAL MEETING, CAPITAL STRUCTURE, ROLE OF SHAREHOLDERS, ROLE OF DIRECTORS, AND DEL OR CALI) [THIS IS A LONG ASSIGNMENT]

d. ASSIGNMENT FOR CLASS 8, OCT 12 [CLASS LEADER: ERIN REEVES MCGINNIS, PARTNER, NELSON MULLINS, NEW YORK CITY, ASSIGNED STUDENT: IVANCICA BOBEK]

i. FIRST HOUR

- BUSINESS PLANNING, CH 4, SELECTED ISSUES UNDER THE FEDERAL SECURITIES LAWS, PAGES 211-233 (OVERVIEW, PRIVATE PLACEMENTS, AND INTRASTATE EXEMPTION)

ii. SECOND HOUR

- BUSINESS PLANNING, CH 4, SELECTED ISSUES UNDER THE FEDERAL SECURITIES LAWS, PAGES 233-251 (CROWDFUNDING, REG A, RULE 144 AND SECTION 4(a)(1-1/2)), 264-266 (SOX), 271-272 (BLUE SKY), 275-278 (SUMMARY OF EXEMPTIONS)

e. ASSIGNMENT FOR CLASS 9, OCT 19 [CLASS LEADER: RICHARDSON JEAN, ASSISTANT STATE ATTORNEY, MIAMI/DADE STATE ATTORNEY'S OFFICE AND GRADUATE LLM TAX STUDENT, UNIVERSITY OF MIAMI SCHOOL OF LAW; AND PROFESSOR THOMPSON: ASSIGNED STUDENT: GARRETT YOUNG]

i. FIRST HOUR

BUSINESS PLANNING, CH 2, CHOICE OF BUSINESS ENTITY, PAGES 122-134, TAX CONSIDERATIONS IN CHOICE OF FORM; ERIC SOLOMON, SLIDE DECK: INTRODUCTION TO ISSUES ARISING FROM ADVISING A SMALL MINORITY-OWNED BUSINESS: TAX CONSIDERATIONS

ii. SECOND HOUR

BUSINESS PLANNING, CH 2, CHOICE OF BUSINESS ENTITY, PAGES 122-134, TAX CONSIDERATIONS IN CHOICE OF FORM; ERIC SOLOMON, SLIDE DECK: INTRODUCTION TO ISSUES ARISING FROM ADVISING A SMALL MINORITY-OWNED BUSINESS: TAX CONSIDERATIONS

f. ASSIGNMENT FOR CLASS 10, OCT 26

i. FIRST HOUR [CLASS LEADER: SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP., CHARLOTTE N.C.; ASSIGNED STUDENT: BARBARA SIMIC]

- BUSINESS PLANNING, CH 6, EQUITY-BASED COMPENSATION: STOCK OPTIONS, INCENTIVE COMPENSATION, AND RELATED FOUNDER ISSUES, PAGES 335-344 (INTRO AND STOCK OPTIONS), 347-351 (NONQUALIFIED

STOCK OPTIONS); 365-373 (RESTRICTED STOCK) ASSIGNED STUDENT BARBARA

ii. SECOND HOUR [CLASS LEADER: [CHRIS L. BOLLINGER, PARTNER, SCHIFF HARDIN LLP, CHICAGO, ILL.; ASSIGNED STUDENT: TAYLOR WASHINGTON]

- BUSINESS PLANNING, CH 7, INTELLECTUAL PROPERTY PROTECTION—A PRIMER FOR THE NON-EXPERT, PAGES 391-397, 399-400, 405-407, 409-411 (WHAT IS INTELLECTUAL PROPERTY?), 415-421, 426-427 (PROTECTING INTELLECTUAL PROPERTY), 442-443 (IMPACT ON EARLYSTAGE COMPANY)

g. ASSIGNMENT FOR CLASS 11, NOV 2, [CLASS LEADERS: SABRINA CONYERS, PARTNER, MCQUIRE WOODS, LLP, CHARLOTTE N.C.; ASSIGNED STUDENT: KEIRA FRAZIER]

i. FIRST HOUR

- BUSINESS PLANNING, CH 8, CAPITAL RAISING AND OVERVIEW OF VENTURE CAPITAL, PAGES 445-465 (INTRO AND FORMS OF CAPITAL) 476-479 (RAISING CAPITAL)

ii. SECOND HOUR

- BUSINESS PLANNING, CH 8, CAPITAL RAISING AND OVERVIEW OF VC, PAGES 480-495 (VC AND THE VC INVESTOR), 505-515 (TAKING ON VC INVESTMENTS)

h. ASSIGNMENT FOR CLASS 12, NOV 9 [CLASS LEADER: SABASTIAN V. NILES PARTNER, WACHTELL, LIPTON, ROSEN & KATZ, NYC, ASSIGNED STUDENT: SKYLER MORGAN]

i. FIRST HOUR

- BUSINESS PLANNING, CH 9, VENTURE CAPITAL FINANCING—PREFERRED STOCK ATTRIBUTES, PAGES 517-526, 529-532, 535-537, (INTRO AND CONVERTIBLE PREFERRED, DIVIDEND PREFERENCES, AND LIQUIDATION PREFERENCES); 566-568 (CONVERSION RIGHT), 577-578 (DILUTION), 593-595 (PRICE PROTECTION), 617-619 (REDEMPTION RIGHTS), 630-633 (VOTING RIGHTS) [THIS IS A LONG ASSIGNMENT]

ii. SECOND HOUR

- BUSINESS PLANNING, CH 10, DOCUMENTING THE TRANSACTION: VENTURE CAPITAL FINANCING AGREEMENTS, PAGES 659-660, 675-681 (LETTERS OF INTENT), 681-693 (VC INVESTMENT DOCS—OVERVIEW, PREFERRED SPA, AND DUE DILIGENCE), 693-696 (CHARTER AMENDMENT AND INVESTOR RIGHTS AGREEMENT), 720-722 (RIGHT OF FIRST REFUSAL), 728-729 (VOTING AGREEMENTS AND DRAG ALONG RIGHTS), 736-740 (CLOSING CHECKLIST) [THIS IS A LONG ASSIGNMENT]

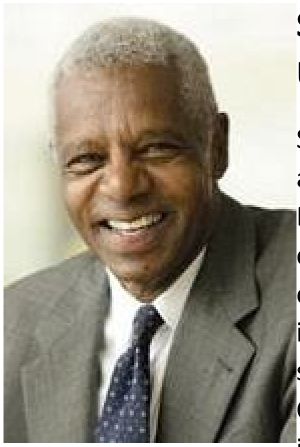
i. ASSIGNMENT FOR CLASS 13, NOV 16 [CLASS LEADERS: CASSANDRA HAVARD, PROFESSOR, UNIVERSITY OF BALTIMORE SCHOOL OF LAW, AND ETHAN W. SMITH, MANAGING PARTNER, STARFIELD & SMITH, FORT WASHINGTON, PA, ASSIGNED STUDENT: JAMIRCA NUESI]

    i. FIRST HOUR [INTRO TO SBA FINANCING, SEE SLIDES FOR THE SESSION

    ii. SECOND HOUR [ADVANCED ISSUES IN SBA FINANCING, SEE SLIDES FOR THE SESSION

j. LAST DAY OF CLASS TUE NOV 30; ROUNDTABLE DISCUSSION FROM 4 TO 6:30

# IX. SPEAKERS' BIOS



## Samuel C. Thompson Jr., Professor, Penn State Law in University Park

Samuel C. Thompson, Jr. directs Penn State's Center for the Study of Mergers and Acquisitions. He is also a Professor of Law and the Arthur Weiss Distinguished Faculty Scholar. He teaches mergers and acquisitions, focusing on corporate, securities, tax, accounting, and antitrust aspects of these very complex transactions. He also periodically teaches basic federal income tax, international tax, and corporate tax. In addition, beginning with the Spring semester 2021, he is teaching a course entitled: The Lawyer's Role in Helping Close the Minority-White Gap in Business Ownership. Because of the importance of the topic, the University is permitting the course materials and recordings of the sessionsto be available at no cost over the Internet, and the materials and recordings can be accessed here: https://pennstatelaw.psu.edu/minority-business-development-course. Professor Thompson has served in two governmental tax policy positions. First, for a year in the 1970s he was an Attorney-Advisor in the U.S. Treasury's Tax Legislative Counsel's Office. Second, for a little over a year in the 1990s he was the tax policy advisor, on behalf of the U.S. Treasury Department's Tax Assistance Office, to the South African Ministry of Finance in Pretoria, South Africa. In that role, he assisted with the revision of South Africa's income tax system. He has served as (1) a consultant on merger and acquisition issues to the Federal Trade Commission, (2) a professor in residence at the European Commission's Antitrust MergerTaskforce in Brussels, and (3) an Attorney Fellow in the Office of Mergers and Acquisitions of the Securities and Exchange Commission. He has presented tax policy testimony before the U.S. House of Representatives, the U.S. Treasury, and the IRS. Professor Thompson has been a full professor at the University of Virginia School of Law and the UCLA School of Law, and he was the dean of the University of Miami School of Law. He also served as the Jacquin D. Bierman Visiting Professor of Taxation at the Yale Law School. He was formerly the partner in charge of the Tax Division of Schiff Hardin, a Chicago based law firm. Professor Thompson is the author of over twenty books, including the following two treatises which are published by the Practicing Law Institute: (1) a two volume treatise entitled BusinessTaxation Deskbook, and (2) a five volume treatise entitled Mergers, Acquisitions, and Tender Offers. Heis also the author of more than seventy-five articles on corporate and international tax, and on corporate, antitrust, and securities issues relating to mergers and acquisitions. He has a (1) B.S. from West Chester University in Pennsylvania, where he was on the varsity football team, (2) an M.A. in Business and Applied Economics from the Graduate School at the University of Pennsylvania, (3) a J.D.from the University of Pennsylvania's Law School, and (4) an LL.M. in taxation from the NYU School ofLaw. From 1966 to 1969 he served in the USMC rising to the rank of captain and receiving the Navy Commendation Medal with Combat V for service in Vietnam

**Sabrina Conyers, Partner at McGuireWoods LLC., Charlotte, North Carolina**

Sabrina is a partnership and corporate tax attorney with more than 17 years of experience providing domestic and international tax planning, general corporate, corporate governance, private equity, and real estate finance planning and advisory services to clients.

Sabrina has served as lead counsel, negotiator, and facilitator for transactions ranging in value up to $2 billion. Her clients include corporations, investment banks, private equity funds, and private companies including partnerships, S Corporations and real estate developers. She represents clients across a multitude of industries in structuring, negotiating, and documenting the tax consequences of their partnerships and joint ventures, mergers and acquisitions, real estate and REIT transactions, domestic and cross-border financings and other corporate combinations and reorganizations. Sabrina serves as a trusted resource to her clients, partnering with them as she advises on transactions involving limited partnerships, limited liability companies, joint ventures, and other strategic alliances.

**James W. Houck, Interim Dean, Penn State Law and the School of International Affairs**
**Vice Admiral, JAG Corps, U.S. Navy (Ret.)**
**Distinguished Scholar in Residence, Penn State Law and the School of International Affairs**
**Director, Center for Security Research and Education**

Vice Admiral (Ret.) James W. Houck is the interim dean and a Distinguished Scholar in Residence at Penn State Law and the School of International Affairs and the inaugural director of the Center for Security Research and Education at Penn State. He joined Penn State in 2012 after a 32-year career in the United States Navy, beginning as a qualified destroyer officer of the deck and culminating in appointment as the 41st Judge Advocate General of the U.S. Navy. From 2013-2017, he served as the interim dean of the unified Dickinson School of Law and the School of International Affairs, as well as interim dean of Penn State Law in University Park for the school's first two years. As a member of the Penn State Law and School of International Affairs faculty, he focuses on national security law, international law, law of the sea, law of armed conflict, and legal issues within the military. He teaches the groundbreaking national security law course Leadership in Crisis Simulation. In 2020, by vote of the graduating 3L class, he received the Penn State Law J.D. Teaching Award for excellence in teaching.

As the Judge Advocate General of the Navy, Admiral Houck was the principal military legal counsel to the Secretary of the Navy and Chief of Naval Operations and led the 2,300 attorneys, enlisted legal staff, and civilian employees of the worldwide Navy Judge Advocate General's Corps. He also served as the Department of Defense Representative for Ocean Policy Affairs and oversaw the Department of the Navy's military justice system. Among his assignments as a Navy lawyer, Admiral Houck served as deputy legal counsel to the Chairman of the Joint Chiefs of Staff, and as principal legal counsel to the Commander, U.S. Atlantic Fleet, and the Commander, U.S. Naval Forces Central Command in Bahrain. Admiral Houck served in the Navy's Office of Legislative Affairs and was also a Navy prosecutor and defense attorney.

As the interim dean, he oversaw the separation of the unified Dickinson School of Law into two separate law

schools, Penn State Law, located on Penn State's largest, central campus in University Park, and Dickinson Law in Carlisle. As interim dean of Penn State Law and the School of International Affairs, he led efforts to integrate both schools with a variety of disciplines across the University Park campus and beyond.
Admiral Houck is a member of the Council on Foreign Relations and has previously served as a member of the Secretary of Defense's Independent Review Panel on Sexual Assault in the Military, the Hoover Institute's Arctic Security Initiative, and the Easter Seals Command Council, which supports military service members, veterans, their families, and families of the fallen.

## Dana Peterson, Chief Economist at The Conference Board

**Dana Peterson** is the Chief Economist & Center Leader of Economy, Strategy & Finance at The Conference Board. Peterson joins The Conference Board from Citi, where for many years she served as aNorth America Economist and later as a Global Economist. Her wealth of experience extends to the public sector, having also worked at the Federal Reserve Board in Washington, D.C. Dana's wide-ranging economics portfolio includes analyzing global economic themes having direct financial market implications, including monetary policy; fiscal and trade policy; debt; taxation; ESG; and demographics. Her work also examined myriad US themes leveraging granular data. In addition, Dana conducted multi- asset research and wrote publications with other Citi research teams – both US and global – including strategists covering rates, equities, credit, foreign exchange, commodities, political analysis, and asset allocation. Peterson's research has been featured by US and international news outlets, both in print and broadcast. Publications and networks include CNBC, FOX Business, Bloomberg, Thomson-Reuters, the Financial Times, and the Wall Street Journal. She is the1st Vice Chair of the New York Association for Business Economics (NYABE), and a member of NABE, and NBEIC. She received an undergraduate degreein Economics from Wesleyan University and a Master of Science degree in Economics from the University of Wisconsin-Madison.

## SESSION 1: PENN STATE LAW STUDENTS OF MINORITY BUSINESS FALL 2021

**Gabrielle Dominique Tock**
3L, graduating May 2022
Pittsburgh, PA, United States

**Keira Frazier**
2nd Year Law Student (2L) at Penn State Law -
J.D. Candidate, 2023
Bloomsburg, Pennsylvania, United States

**Jamirca Nuesi**
2L
New Jersey, United States

**Skyler Morgan**
3L
Atlanta, Georgia

**Garrett Young**
2L- Class of 2023
Green River, Wyoming, USA

**Taylor Washington**
2L- Class of 2023
Memphis, Tennessee, USA

**Barbara Šimić**
LL.M. student
Zagreb, Croatia

**Ivona Šimić**
LL.M. student
Zagreb, Croatia

**Ivančica Bobek**
LL.M. student
Zagreb, Croatia

## SESSION 2: DISCUSSION OF POTENTIAL MINORITY BUSNIESS DEVELOPMENT SOULTIONS TO “THE PROBLEM”: PANELISTS

### Glenn Carrington, Dean, Norfolk State Business School

Glenn Carrington Since 2017 Dean Carrington has been leading the way to prepare business students for the real business world and entrepreneurship--through school administration strategy and management, aggressive fundraising efforts, advocacy among business partners and with personal passion. Prior to Norfolk State, he spent more than three decades with leading professional accounting firms, serving Fortune 500 clients with a focus on corporate taxaccounting and financial transactions. Early in his career, he served in the IRS Chief Counsel's office, beginning as an attorney-advisor in the Treasury Department's Honors Program. He is recognized for his hard work, teaming and fostering of mutual respect and appreciation among all the professionals, business executives, faculty and students with whom he has worked.

### Marcia J. Griffin, Co-founder and CEO of HomeFree USA

Marcia Griffin is on a mission to strengthen people, elevate partners, and enhance communities acrossAmerica. As founder and president of HomeFree-USA, Marcia has helped thousands to achieve and retain the dream of homeownership and greater wealth. HomeFree-USA enjoys a remarkable 0%
foreclosure rate among families that have participated in the organization’s pre- and post-purchase guidance programs. Serving as a bridge between financial institutions and the community, Marcia addresses the needs of homebuyers and homeowners with targeted education, distinctive marketing strategies and lender. A recognized homeownership expert and frequent featured guest speaker, she isa member of the Freddie Mac Affordable Housing Advisory Committee, she leads the Fannie Mae Affordable Housing Advisory Committee, the Ocwen Financial Community Advisory Council, America’s Homeowner Alliance, Wells Fargo Housing Foundation Steering Committee and the Affordable HousingAdvisory Councils of the Federal Home Loan Bank of Atlanta, and the Mortgage Bankers Association.
Marcia is a tireless advocate for nonprofit homeownership organizations. Under her leadership, her organization funds and strengthens the capacity of 53 other nonprofits that represent the interests of 4.5 million diverse families across the country.

**Sabastian V. Niles, partner at Wachtel, Lipton, Rosen & Katz, New York City**

Sabastian V. Niles is a Partner at Wachtell, Lipton, Rosen & Katz where he focuses on rapid response shareholder and stakeholder activism and preparedness, takeover defense and corporate governance; risk oversight, including as to ESG, cybersecurity and crisis situations; U.S. and cross-border mergers, acquisitions, buyouts, investments, divestitures and strategic partnerships; and other corporate and securities law matters and special situation. Sabastian advises worldwide and across industries, including technology, financial institutions, media, energy and natural resources, healthcare and pharmaceuticals, construction and manufacturing, real estate/REITs and consumer goods and retail. He has counseled boards of directors and management teams on self-assessments, engagement with institutional investorsand proxy advisory firms and navigating activist situations involving Barry Rosenstein/JANA Partners, Bill Ackman/Pershing Square, Carl Icahn, Daniel Loeb/Third Point, David Einhorn/Greenlight Capital, Glenn Welling/Engaged Capital, Jeff Smith/Starboard Value, JeffreyUbben/ValueAct, Jonathan Litt/Land & Buildings, Keith Meister/Corvex, Mick McGuire/Marcato, Nelson Peltz/Trian, Scott Ferguson/Sachem Head, Paul Singer/Elliott Management, Relational Investors and Tom Sandell/Sandell Asset Management, among many others. In addition to serving as Consulting Editor for the New York Stock Exchange's CorporateGovernance Guide, Sabastian writes frequently on corporate law matters and has been a featured speaker at corporate strategy and investor forums. His speaking engagements have addressed topics such as Shareholder Activism; The New Paradigm of Corporate Governance; Hostile Takeovers; Strategic Transactions and Governance; M&A Trends; Board-Shareholder Engagement; Confidentiality Agreements in M&A Transactions; Negotiating Strategic Alliances with U.S. Companies; Current Issues in Technology M&A; Corporate Governance: Ethics, Transparency and Accountability; and Developments in Cross-Border Deals. Sabastian received his juris doctorate from Harvard Law School, where he co-founded the Harvard Association of Law and Business (and continues to serve on the Advisory Board) and won the U.S. National ABA Negotiation Championship representing the Harvard Program on Negotiation. He receivedB.S., B.A. and B.S. degrees in Finance, Economics and Decision & Information Sciences, respectively, from the University of Maryland, where he won two National Championships and four Regional Championships in intercollegiate mock trial.

## Stuart S. Rohatiner, CPA, Gerson/Preston/Klein/Lips/Eisenberg/Gelber

Stuart S. Rohatiner brings more than 25 years of experience and achievement to Gerson Preston.   Mr. Rohatiner has extensive working relationships with the firm's various international and domestic clients. He is highly proficient in using tax research software programs to solve complex tax issues for the firm's clients. Mr. Rohatiner advises international and domestic corporations, business owners and investors on tax-efficient structures and transactions to save or lower taxes on international joint ventures, acquisitions, sale of businesses and recapitalizations. Recently, Mr. Rohatiner has been involved in helping a significant amount of US taxpayers come into tax compliance in the US under the Internal Revenue Services' offshore voluntary disclosure programs. He works closely with the top attorneys in town. Mr. Rohatiner has clients in Europe, Canada, the Far East, Latin America and Central America.  In addition, Mr. Rohatiner manages staff accountants and assists them in career development. He has meticulous attention to detail, client service and has proven capabilities for uncovering accounting fraud; which he has done for previous clients.

Mr. Rohatiner is also an attorney and joined the firm in 1998 after graduating with honors from the University of Miami School of Law, where he specialized in taxation.  He was awarded the book award in International Finance Law. Mr. Rohatiner started his career with a top four accounting firm in NYC and worked with a powerhouse investment bank after graduating from Boston University, School of Management, with honors. Boston University is considered one of the premier schools in the country for international studies.

He has been a valuable speaker on tax issues, he was a volunteer teacher at Miami Edison Senior High, an appointee to political office in North Bay Village and a board member of The Locust Project, Miami, Florida, a not for profit, set up to showcase the work of young and upcoming artists.  He has been quoted in national financial publications and all over the US by the Associated Press.

Mr. Rohatiner implemented Miami Job Summer Connect/Overtown Youth Center Summer Internship Program at the firm providing Miami youth from the inner city with opportunity to obtain work experience and accounting skills. Program is in its third year.

He was recently appointed to the Overtown Youth Center Board, Financial Oversight Committee – Capital Improvement Campaign New Market Tax Credits.

Mr. Rohatiner and his wife, Judith, have two kids, Layla and Zoe, and reside in North Bay Village.  He is an active member of Temple Beth Shalom on Miami Beach and a long-time Miami Heat season ticket holder.

**Publications:**

– Program connects Overtown students with summer employers, Miami Herald, Neighbors Section. July 3, 2018. https://www.miamiherald.com/news/local/community/miami-dade/downtown-miami/article214080169.html

– Manager Minute, South Florida Sun Sentinel

**Speaking engagements:**

– "Tax Law Changes Under Tax Cuts and Jobs Act ("TCJA")." South Dade Chapter of Florida Institute of Certified Public Accountants ("FICPA).

– "Top 10 International Tax Audit Initiatives by LB&I. How to get prepared."  International Tax Conference, Harvard Club, New York City, Transnational Taxation Network. 2017. https://www.ttntaxation.net/pdfs/Speeches_Miami_2017/8.StuartRohatiner-IRSComplianceCampaigns.pdf

– "Financial Advising for Athletes," 2018 Global Entertainment and Sports Conference, University of Miami Law School.

– "You Got Played, Structuring Wealth for Athletes and Artists," 2018 STEP (Society of Trusts and Estate Planning) Caribbean Conference.

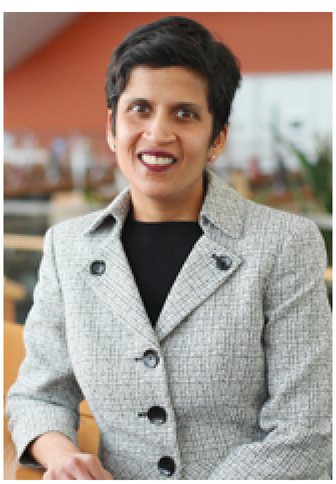
– Tax planning for US retirees moving offshore.” Miami Herald Newspaper Private Wealth Series, Coral Gables Museum.
– “Financial Literacy, Budgeting and Introduction to Investing for High School Students” Alonzo & Tracy Mourning Senior High School.
– “Financial Literacy, Budgeting, Saving, Retirement Planning and Investing for Adults.” Overtown Youth Center.
– “Success in Educational Seminars that work in Miami-Dade Public Schools. Tips on what works.” Council for Educational Change Meeting.

## Ethan W. Smith, Co- Founder & Managing Partner at Starfield Smith, PC., Fort Washington, PA

Ethan is a co-founder and Managing Partner of Starfield & Smith. He focuses his practice in commercial law, with an emphasis on government guaranteed lending, conventional commercial lending and real estate law.

- Designated closing counsel for several Certified Development Companies
- Represents lenders in SBA licensing, compliance, regulatory enforcement, and guaranty purchase matters
- Represents lenders before the US Small Business Administration
- Active writer and speaker on government guaranteed lending issues nationwide

Ethan has prepared loan documents and performs compliance reviews for loan files for hundreds of SBA 7(a), 504, conventional, and USDA B&I commercial loans. He has also closed numerous other conventional commercial financing transactions and complex commercial transactions.
Ethan also enjoys hiking, spending time with his family, and gardening.



## Shoba Sivaprasad Wadhia, Associate Dean for Diversity, Equity and Inclusion, Samuel Weiss Faculty Scholar and Clinical Professor of Law, and Director of the Center for Immigrants' Rights Clinic, Penn State Law inUniversity Park

Shoba Sivaprasad Wadhia is Associate Dean for Diversity, Equity, and Inclusion; the Samuel Weiss Faculty Scholar; and Clinical Professor of Law at Penn State Law in University Park. Her research focuses on the role of prosecutorial discretion in immigration law and the intersections of race, national securityand immigration. She has published more than thirty law review articles, book chapters and essays on immigration law. Her work has been published in Duke Law Journal, Emory Law Journal, Texas Law Review, Washington and Lee Law Review, Harvard Latino Law Review, Administrative Law Review, and Columbia Journal of Race and Law. Wadhia has published two books with New York University Press: Beyond Deportation: The Role of Prosecutorial Discretion in Immigration Cases (2015) and Banned: Immigration Enforcement in the Time of Trump (2019). Wadhia is the author of Immigration and Nationality Law: Problems and Solutions, with Steve Yale-Loehr and Lenni Benson, published by CarolinaAcademic Press in 2019. Wadhia is the inaugural Editor-In-Chief of the American Immigration Lawyers Association (AILA) Law Journal, a partnership between AILA and Fastcase. In 2019, she served as the Enlund Scholar In Residence at DePaul University School of Law. Her scholarship has been cited in numerous law journals and by federal appellate court judges, including Judge Richard Posner (article on deferred action), Judge Paul J. Watford (article on the role of discretion in speed deportation), and JudgeKim McLane Wardlaw ("See generally" citation to book Beyond Deportation). In 2019, Wadhia testified before Congress on the historical role of prosecutorial discretion and deferred action in immigration cases. She regularly authors opinion pieces on a range of immigration topics, and has published such pieces in the Los Angeles Times, Philadelphia Inquirer, The Hill, blog for the U.S. Supreme Court (SCOTUSBlog), blog of the Harvard Law Review, American Constitution Society, American Immigration Council, Yale Journal on Regulation's Notice & Comment, and Immigration Law Professors Blog. She has also served as an expert witness, lead author or co-counsel in connection with Deferred Action for ChildhoodArrivals (DACA), the asylum ban, the travel ban, and prosecutorial discretion more generally. At Penn State Law, Professor Wadhia teaches doctrinal courses in immigration and asylum and refugee law. She is also the founder/director of the Center for Immigrants' Rights Clinic (CIRC), where she supervises students in three areas: 1) community outreach; 2) legal support in individual immigration cases; and 3)policy work for institutional clients. CIRC has earned a national reputation for its high-quality work product and impact in the community. 2018 marked the 10-year anniversary of CIRC. CIRC was honoredwith the Excellence in Legal Advocacy Award in 2017 by the American-Arab Anti-Discrimination Committee and named legal organization of the year in 2019 by the Pennsylvania Immigration ResourceCenter. Wadhia has received many local and national awards for her scholarship, teaching, and service, including Pro Bono Attorney of the Year by the American-Arab Anti-Discrimination Committee in 2003,

leadership awards by the Department of Homeland Security's Office of Civil Rights and Civil Liberties and Office of the Inspector General in 2008, 2017 Honoree by the National Immigration Project, Arnold Addison Award for Town and Gown Relations by the Borough of State College in 2019, and the 2019 Elmer Friend Excellence in Teaching Award by the American Immigration Lawyers Association. In 2020, Wadhia won the university-wide Rosemary Schraer Mentoring Award and was named a Fastcase 50 Awardee, which honors 50 of "the law's smartest, most courageous innovators, techies, visionaries, & leaders." Prior to joining Penn State, Professor Wadhia was deputy director for legal affairs at the National Immigration Forum in Washington, D.C. She has also been an associate with Maggio Kattar, P.C. in Washington, D.C., where she handled asylum, deportation, family, and employment-based immigration benefits matters.

## SESSION 3B: SOME INITIAL REACTIONS TO THE NDC AND NDB PROPOSALS: PANELISTS

### Pastor Jonathan E. Ford, Pastor at Taylor Tabernacle, Philadelphia, PA

Pastor Jonathan Ford is a true Philadelphia son.  Born and raised in the Germantown and Mt. Airy sections of Philadelphia, he attended Central High School.  While matriculating at Central he was president of the 246th class for two consecutive years and was an all-star football athlete.  After graduation from Central, he was accepted to the Wharton School at the University of Pennsylvania.  While there, he participated in the varsity football program and helped the Penn Quakers win an Ivy League Championship.  He was also initiated in the Delta Eta chapter of Kappa Alpha Psi fraternity. After graduation, he began his professional career in New York City at Price Waterhouse Coopers, specializing in information technology for financial services companies.  Entrepreneurial pursuits led Jonathan to establish RMD Concessions with other business partners.  RMD focused on food and retail concessions in airports and sport facilities.  After a successful three-year stint, Jonathan returned to management consulting and the Philadelphia area by taking a senior position with KPMG Peat Marwick in their electronic commerce practice.  He was recruited from there to join Automated Financial Systems, the leading commercial lending solution provider in the United States, with over 90 of the top 100 banks in America utilize their products and services.  Jonathan Ford joined as the director of consulting services to lead the company's business re-engineering and change management practices.  After several successful years in corporate America, Rev. Ford left to pursue entrepreneurial opportunities again.  He is currently the managing partner for UHP Wireless Network, a US Small Business Administration 8(a) certified minority firm specializing in wireless technology for businesses and municipalities.

Pastor Ford has always remained closely tied to his home church, Taylor Tabernacle.  In 1996, he was ordained as a deacon and in 1999 as a licensed minister.  After serving as assistant pastor for several years, he was unanimously voted and installed as the senior pastor for Taylor Tabernacle in 2009. Pastor Ford is a much sought-after speaker for churches, businesses, men's and youth groups across the region.

Pastor Ford is also the executive director of Turning the TIDE, a technology and business training center operated as a separate non-profit subsidiary of the church.  Turning the TIDE has received several federal grants to support its renowned program, Project ECHO, which focuses on providing job training and job placement services, along with entrepreneurial training for ex-offenders.  Turning the Tide was recognized in March 2007 by the U. S. Department of Labor with it "Compassion Award" for its exemplary services and long-term success.  Under Pastor Ford's leadership, Turning the TIDE has also become one of the leading faith-based organizations to provide HIV/AIDS education, counseling and rapid-testing in the city of Philadelphia.

Pastor Ford is a desired speaker and thought leader for faith-based partnerships and programs.  He has been a speaker at the White House, on behalf of President Bush's Center for Faith-Based Initiatives and on numerous other occasions for the U.S. Justice Department and the U.S. Department of Labor.

In May 2010, Pastor Ford received the Distinguished Leadership Award from Community College of Philadelphia.  The award is given to individuals who have demonstrated outstanding contributions to higher education and the Philadelphia community at large. In addition, Pastor Ford is past Chairman of

the board of directors for The Partnership CDC, an organization dedicated to proving affordable housing and employment opportunities to low income individuals and families in Philadelphia. He has also served on the advisory board for the Center for Urban and Theological Studies (CUTS). CUTS is one of the oldest theological seminaries in Philadelphia.
Pastor Ford is married to N'Jameh Samuels and they have three (3) sons: Jordan, Jackson and Jacob.

## James M. Griffin, Co-founder and COO of HomeFree USA

James (Jim) M. Griffin Jim's career spans more than 45 years in mortgage banking with a focus on affordable housing and direct experience in mortgage lending, management of specialized loan programs, inner city real estate development, housing consulting, and the provision of transitional housing and support for homeless families. He has worked across the U.S. and abroad serving as a financial advisor and public housing policy consultant to HUD, U.S.A.I.D., World Bank, and numerous city, state and foreign governments.

## Richard Hoskins, Professor Northwestern University School of Law and Doctor of Religions, University of Chicago, Divinity School

Richard Hoskins combines a successful career as a trial lawyer in sophisticated civil and criminal matters with more than 20 years of teaching at Northwestern Law, as well as four years at the University of Virginia Law School. He is a senior partner, former chair of the Intellectual Property Group, and former member of the Executive Committee at Schiff Hardin LLP in Chicago. A graduate of Northwestern Law, he began his career as an associate at Davis Polk & Wardwell, New York, then served as an Assistant United States Attorney for the Southern District of New York, before returning to Chicago. The distinctive focus of his teaching is the interaction between the practice of law in the courtroom and the analysis of law in the classroom. Mr. Hoskins is the recipient of the Robert Childres Award for Teaching Excellence, the award for Outstanding First-Year Course Professor, and the Dean's Teaching Award.

## J.B Todd McCoy, Atty Lawyer, Bilotti and Associates, Media, PA and a deacon at Taylor Tabernacle

Todd McCoy has been representing businesses throughout the region and nation for over twenty years. His litigation experience is both varied and deep. In addition to extensive experience representing employers and insurers in workers' compensation litigation, Mr. McCoy has been involved in complex insurance coverage and reinsurance litigation, products liability, construction litigation and other commercial and casualty cases.

Mr. McCoy received both his undergraduate degree in 1989 and his law degree in 1993 from the University of Pennsylvania. He devotes considerable time working with high school students and other community interests in Philadelphia. He is admitted to practice before the Supreme Court of Pennsylvania, the United States Court of Appeals for the Third Circuit, and the United States District Court for the Eastern District of Pennsylvania. Mr. McCoy is an active member of the Pennsylvania Bar Association and the Delaware County Bar Association.