



# The Wealth Gap and Its Effect on the Racial Disparities in The Startup Ecosystem

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Minority Business Ownership  
Class 2B Presentation  
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# The Wealth Gap

- Racial disparity has manifested a dramatic wealth gap along racial line, as illustrated in the following charts and data compiled by the FED.<sup>1</sup>

1. Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu; *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*, (September 28, 2020)

# Wealth Gap Statistics

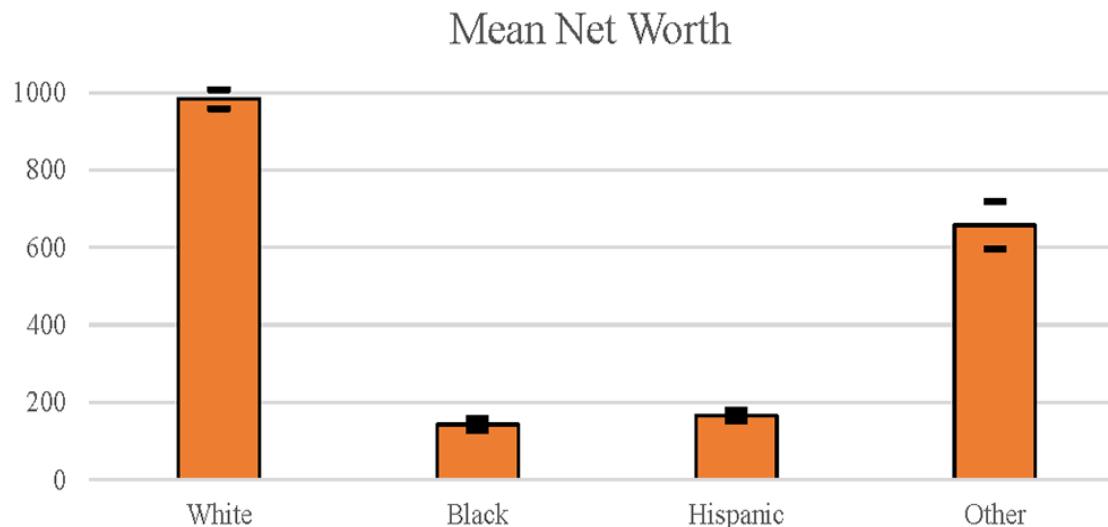
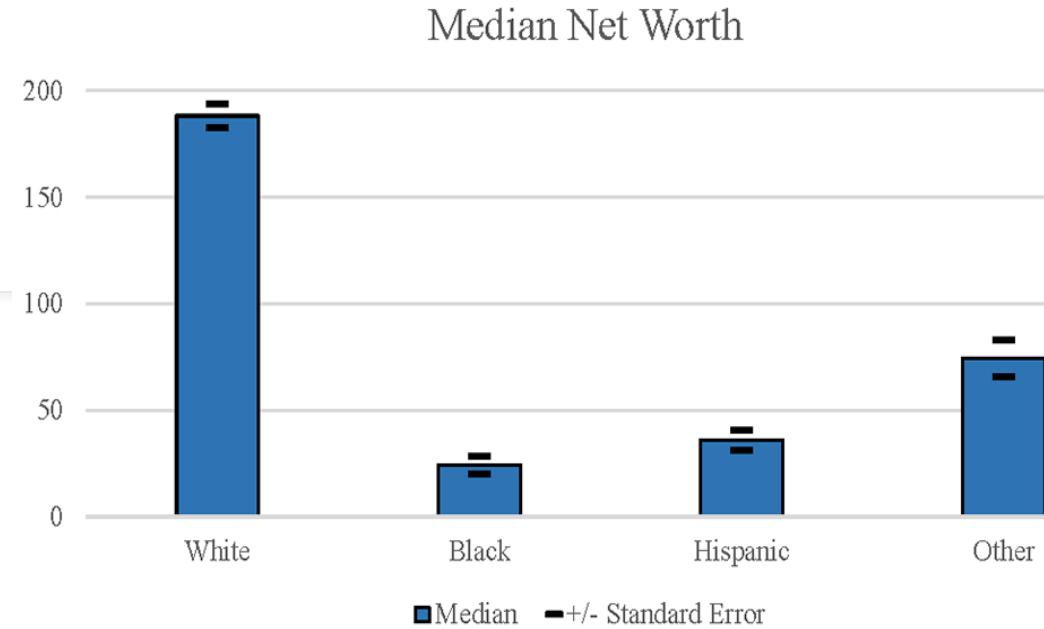
- White Families have the highest level of both median and mean family wealth with 188,200 and 983,000 respectively <sup>2</sup>
- Hispanic families have 36,100 and 165,000 <sup>3</sup>
- Black families have 24,000 and 142,500 respectively <sup>4</sup>
- It is important to note that for regardless, among each race/ethnicity group, the mean is substantially higher than the median <sup>5</sup>
  - This reflects the concentration of the distribution of wealth at the top of each group

2.. Id.

3.. Id.

4.. Id.

5.. Id.



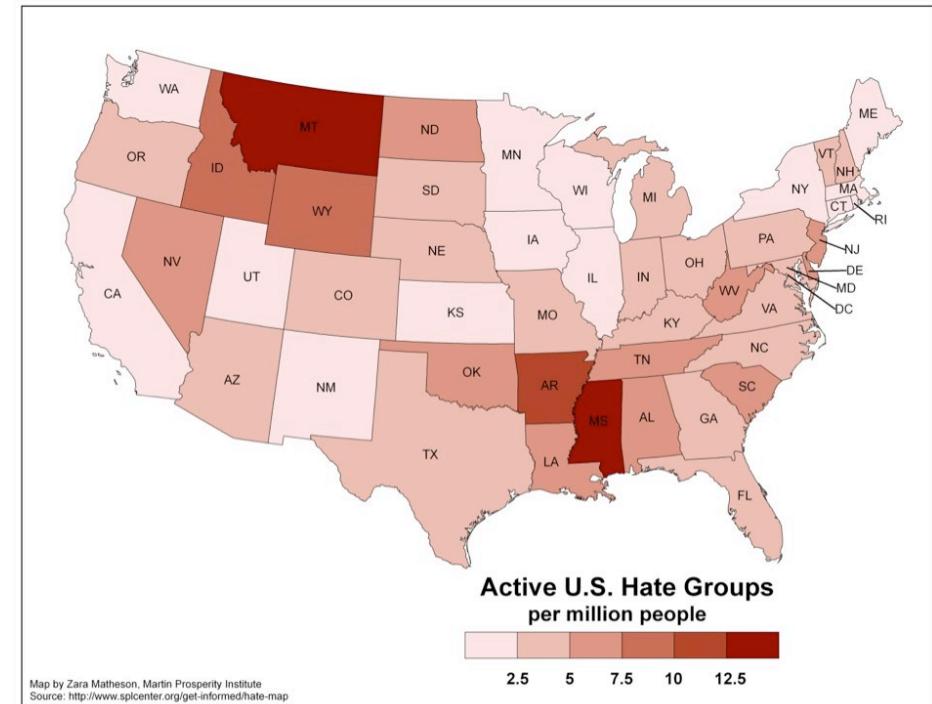
# What Caused the Wealth Gap?

- The wealth gap is a result of complex and longstanding societal, governmental, and individual factors that differ by race and ethnicity<sup>6</sup>

6. Id.; Lynnise E. Pantin, "The Wealth Gap and the Racial Disparities in the Startup Ecosystem," *Boston College of Law Faculty Papers* (August 2018).

# The Effect of Race-Neutral Federal Policies

- The U.S. has a long history of racial inequality that has led to the wealth gap<sup>7</sup>
    - But this history has been bolstered by the government (both federal and state) that can be traced all the way back to 1619 when the first African slaves were forced to come to the US Colonies

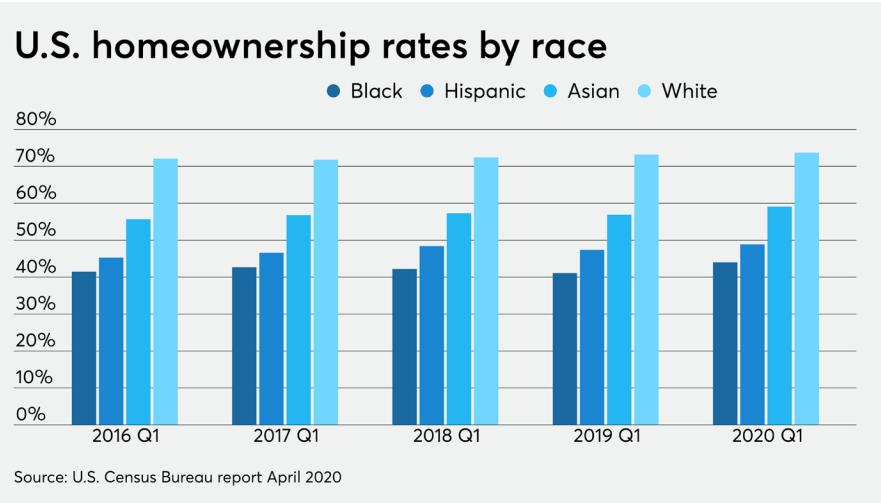


<sup>7</sup> Lynnise E. Pantin, "The Wealth Gap and the Racial Disparities in the Startup Ecosystem," *Boston College of Law Faculty Papers* (August 2018).

# The Effect of Race-Neutral Federal Policies (Cont.)

- At the start of the 20<sup>th</sup> Century, the federal government began development of policies to support wealth building by encouraging home ownership and education through <sup>8</sup>
  - The New Deal
  - Social Security
  - Worker protections
    - Minimum wage
    - Establishment of unions
  - Federal Housing Authority
  - G.I. Bill

# The Effect of Race-Neutral Federal Policies (Cont.)

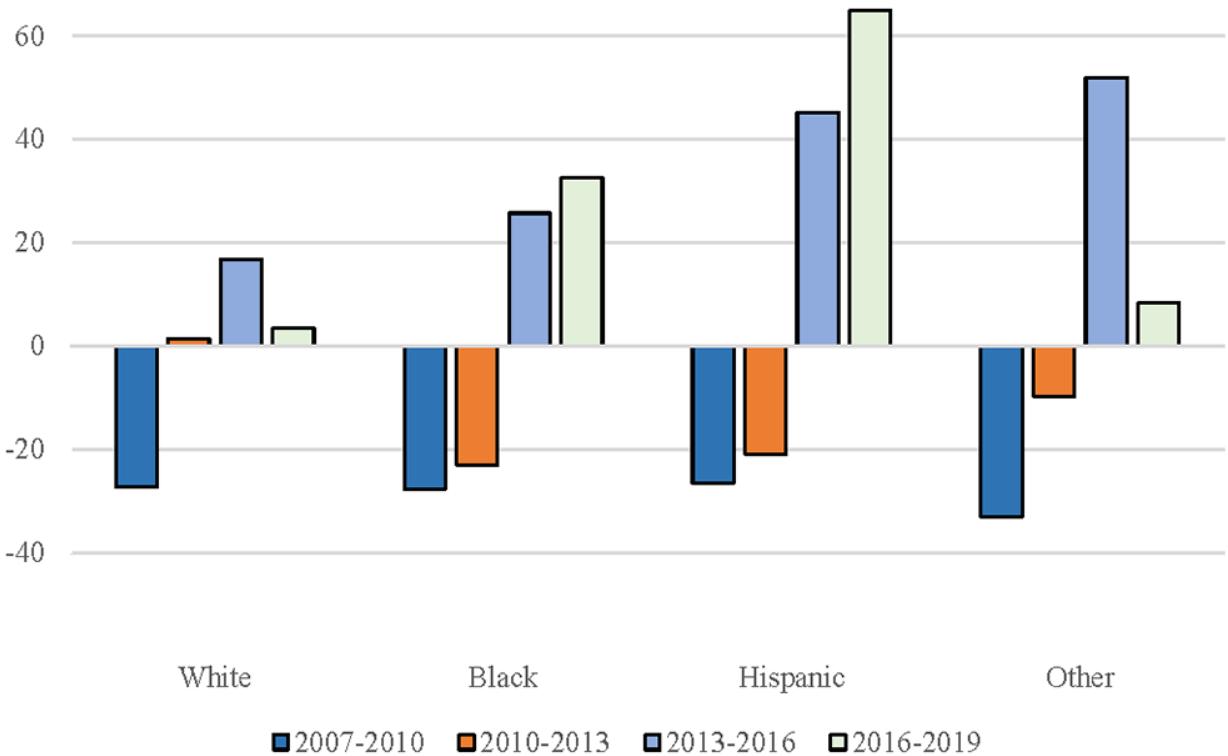


- Race-neutral policies are not limited to the pre-civil rights era<sup>9</sup>
  - Discrimination in lending and congressional sanction of the practices of redlining, housing projects, contract buying, blockbusting,<sup>96</sup> predatory lending, and racial covenants in low-income, urban minority communities further contributed to the wealth gap
  - Evidence shows that discrimination in mortgage lending is still occurring
    - Black families are TWICE as likely to be denied a home loan as compared to their white counterparts

9. Id.

# Recent Trends in Wealth-Holding

- Between 2016 and 2019, median wealth rose for all race and ethnicity groups, although not to the level prior to the Great Recession of 2007-2010.<sup>10</sup>
- Growth rates for the 2016-19 period were faster for Black and Hispanic families, rising 33 and 65 percent, respectively, compared to White families, whose wealth rose 3 percent, and other families, whose wealth rose 8 percent.<sup>11</sup>
- However, the faster growth in wealth for Black and Hispanic families only resulted in **modest** changes in the gaps in wealth between these families and White families , indicating that the wealth gap is perpetuated by generational wealth and historically racist practices<sup>12</sup>



10. Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu; *Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances*, (September 28, 2020).

11. Id.

12. Id.

# The Entrepreneurial Ecosystem



- Entrepreneurship is the pinnacle of the American dream<sup>13</sup>
  - Entrepreneurship Theory: the idea that entrepreneurship is a viable means of economic development because it facilitates new businesses, creates jobs, and fosters innovation by creating new products and services
- Even President Obama was beguiled by the idea of repairing the economy by promoting the entrepreneurial spirit of the American people<sup>14</sup>
  - “Entrepreneurs embody the promise of America: the idea that if you have a good idea and are willing to work hard and see it through, you can succeed in this country. And in fulfilling this promise, entrepreneurs also play a critical role in expanding our economy and creating jobs.”

13. Id.

14. Id.

# Effect of the Wealth Gap on Start-ups

- The wealth gap, as it creates to entrepreneurship and business startups, is especially important to recognize <sup>15</sup>
- A catch-22 is created <sup>16</sup>
  - Entrepreneurship is a compelling solution to wealth inequality
    - Recognized by President Obama in his attempt to repair the economy post-Great Recession
  - BUT wealth inequality can be an impediment to success in entrepreneurship
    - A fact that proponents of the entrepreneurship theory fail to consider



15. Lynnise E. Pantin, "The Wealth Gap and the Racial Disparities in the Startup Ecosystem," *Boston College of Law Faculty Papers* (August 2018).

16. Id.

# Effect of the Wealth Gap on Start-ups (Cont.)



- Entrepreneurs are typically <sup>17</sup>
  - White
  - Male
  - Middle-Class
  - Some college education
- Investors in start-ups tend to be primarily <sup>18</sup>
  - White
  - Male

17. Id.

18. Id.

# Two Ways the Wealth Gap Impacts Startups

- The use of existing wealth is common to finance startups<sup>19</sup>
- The amount of existing wealth affects one's ability to access outside sources of capital such as loans or investors<sup>20</sup>



19. Id.

20. Id.

# Entrepreneurship Among People of Color

- Rates of entrepreneurship are lower for people of color than for others<sup>21</sup>
  - Less likely to own start-ups
  - If they do, the average value of their business is significantly lower than the average value of their White counterparts

NOTE: entrepreneurship among people of color is on the rise

- Black women are the fastest growing group

21. Id.

## Entrepreneurship Among People of Color (Cont.)

- Although rates of entrepreneurship among people of color are on the rise, they are not having the same financial success at raising money as their White counterparts<sup>22</sup>
  - Entrepreneurs of color have fewer assets, lower wealth, and less disposable income to invest in their business
- This is due, in large part, to structural barriers that perpetuate inequality based on race, which parallel the contributing factors to the wealth gap<sup>23</sup>
  - I.E. slavery, segregation, and other facially neutral policies as mentioned earlier

22. Id.

23. Id.

# The Problem With Entrepreneurship Theory

- The Entrepreneurship Theory fails to address the wealth gap<sup>24</sup>
  - The two driving forces of success under the entrepreneurial theory are
    - The ability to generate wealth
    - Homeownership
  - Both of which are more favorable/available to white people



24. Id.

# The Problem With Entrepreneurship Theory (Cont.)

- Accessing external sources of capital<sup>25</sup>
  - Statistically speaking, startup funding almost exclusively goes to White men
    - The average initial capitalization of Black entrepreneurs is 57 percent of their White counterparts, which has a negative impact on their chances of operating a successful business
- Because traditional methods of financing, such as bank loans, angel investments, or venture capital are often out of reach for entrepreneurs of color, they have historically relied on credit cards,<sup>175</sup> personal loans, or friends and family to finance their business, in addition to pooling resources with members of their community<sup>26</sup>
  - Crowdfunding has also become a recent trend among those hoping to fund a startup, which was encouraged through the JOBS Act
    - However, there is no indication that this will have a meaningful impact on lessening the wealth gap

25. Id.

26. Id.

# Recommendations to Narrow the Wealth Gap



- Improvements to the Entrepreneurship Ecosystem <sup>27</sup>
  - Increasing access to financial capital
  - Increasing access to social capital
  - Increasing access to credit and alternative credit models
- Improvements beyond just entrepreneurship → the bigger picture <sup>28</sup>
  - Investing in federal policies
  - Expanding homeownership
  - Increasing intergenerational wealth for people of color

27. Id.

28. Id.