

Black- and Latinx-owned small businesses and liquid wealth

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Small business ownership is commonly thought to not only be a vehicle for financial stability and wealth building, but also a way to close the racial wealth gap. Small businesses are known to be a key component of

the small business owner's financial wellbeing (Gentry and Hubbard 2004), but it is not at all clear from current evidence that small business ownership alone closes the wealth gap. In fact, recent studies have shown that Black- and Latinx-owned small businesses have lower revenues, profit, and cash margins (Farrell, Wheat, and Mac 2020; Fairlie and Robb 2008); are more likely to close and have fewer employees (Fairlie and Robb 2008); and have less access to credit (Federal Reserve System 2017) than White-owned small businesses. Sufficient revenues and profit, the ability to hire employees, and access to credit are some key components of a wealth-generating small business, and racial disparities among these suggest that small business ownership may not close the gap.

This brief examines the liquid wealth of typical [small business](#) owners, and shows that there is no meaningful narrowing of the gap in liquid wealth available to Black, Latinx, and White small [business owners](#). Other studies have found that Black business owners have higher wealth than non-business owners (Association for Enterprise Opportunity 2017), and that wealth mobility among Black business owners is similar to White business owners (Bradford 2014). This brief shows that, among a sample of business owners, the gap persists through the first few years of a business ownership.

Although there is much to learn to fully understand how small business ownership and wealth interact, this brief measures the liquid wealth of typical small business owners over the first four years of their business operations, with a specific focus on measuring differences between Black, Latinx, and White small business owners.

Small business assets represent a meaningful share of total small business owner assets, comprising more than 40 percent of the financial assets of the typical owner (Gentry and Hubbard 2004). In previous work, the JPMorgan Chase Institute highlighted the importance of cash by

studying small businesses' deposit accounts, and in June 2020 released a report showing how small business outcomes are different based on the small business owner's race.

1. Black- and Latinx-owned firms are well-represented among firms that grow organically, but underrepresented among firms with external financing.
 2. Black- and Latinx-owned businesses face challenges of lower revenues, profit margins, and cash liquidity. Previous JPMorgan Chase Institute research has shown that each of these, but especially cash liquidity, are important factors in predicting small business exit.
 3. Firms with Black owners, particularly owners under the age of 35, were the most likely to exit in the first three years. In the first three years of business, Black- and Latinx-owned small businesses have exit rates 2-6 percentage points higher than White-owned small businesses. However, if firms survive until the fourth year, exit rates among small business owners in each racial group are similar.
 4. Black- and Latinx-owned businesses with comparable revenues and cash reserves are just as likely to survive as White-owned businesses. Higher business cash reserves, measured as typical balances divided by typical cash outflows, are associated with similar exit rates to White-owned small businesses.
 5. Racial gaps in small business outcomes are evident across cities, even in cities with large Black or Hispanic populations.
- Finding One: Levels of small business owner liquid wealth increase modestly over the first four years.
 - Finding Two: The typical White business owner has over 2.5 times the liquid wealth of the typical Black business owner in each of the first four years.

Implications

Encouraging new small business starts alone may not close the liquid wealth gap, and policies that support small businesses should consider differences in the liquid wealth available to small business owners. The typical Black and Latinx households have 32 and 67 percent of the liquid wealth of the typical White household, respectively (Farrell et al 2020). It is unsurprising, then, that Black, Latinx, and White small business owners start their businesses with very different levels of liquid [wealth](#). These differences persist through the first four years of business ownership, even among a sample of successful small [business](#) owners.

Provided by University of Cincinnati

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