



## BlackEconomics.org

### “Is Expanding Entrepreneurship an Answer for US Afrodescendants Today?”

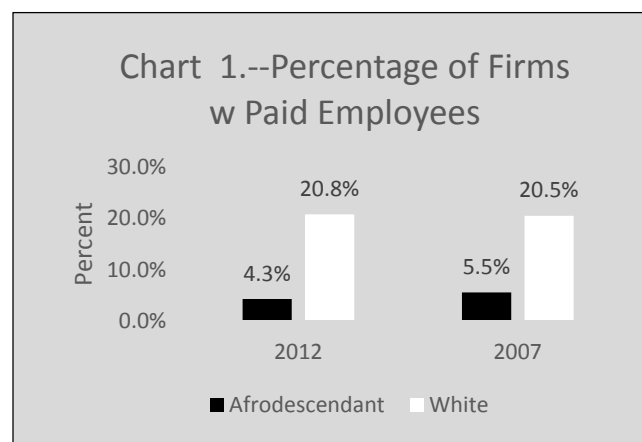
One reasonable way to answer the topic question is to consult available data. In this case, we review recently released, preliminary data from the US Census Bureau’s *Survey of Business Ownership*, which presents a relatively comprehensive picture of US Afrodescendant entrepreneurship for 2012. Until these data were released, the most recently available data were for 2007. What do the 2012 data tell us, and how do they compare with the 2007 data? Can we answer the topic question given these data (see Table 1 on page 3)?

The number of Afrodescendant firms increased 6.2% at an annual rate from 1.9 million in 2007 to 2.6 million in 2012. On its face, this appears to be a positive development. During the same period the number of White-owned firms decreased 0.8% at an annual rate.

Another seemingly positive development is the fact that receipts of these Afrodescendant firms increased 6.7% at an annual rate to \$187.6 billion; receipts of White firms increased just 4.9% over the period. Notably, the \$187.6 billion in receipts comprised about 19% of the total \$1.0 trillion in Afrodescendant income in 2012.<sup>1</sup>

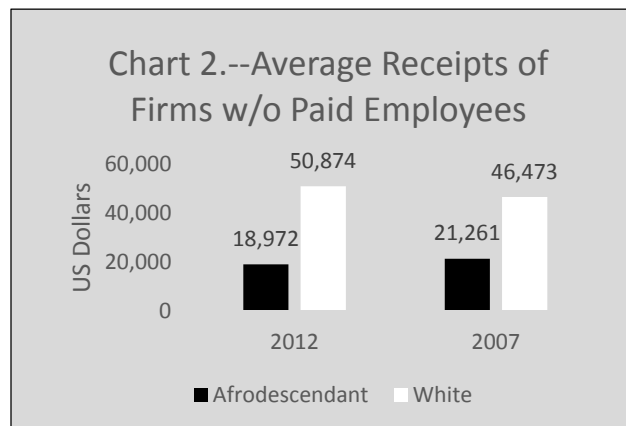
The news brightens further as the number of Afrodescendant firms with paid employees increased 0.8% at an annual rate to almost 111 thousand, while White firms with employees decreased 0.5% at an annual rate from 2007 to 2012 to 4.5 million.

The picture becomes more mixed from this point forward. For example, the percentage of all Afrodescendant firms with paid employees decreased 5.1% at an annual rate. In 2007, 5.5% of all Afrodescendant firms had paid employees; the percentage dropped to 4.3% in 2012 (Chart 1). Favorably, the number of employees of Afrodescendant firms increased 2.8% from 2007 to 2012 to over one million from just over 900 thousand. In comparison, 20.8% of all White firms had employees with a total workforce of nearly 56 million in 2012.



<sup>1</sup> Do not misconstrue this to mean that 19% of Afrodescendant income is spent with Afrodescendant firms. The receipts of Afrodescendant firms may be derived from sales to a variety of ethnic groups. The \$1 trillion in 2012 Afrodescendant income is from Nielsen and the National Newspaper Publishers Associations’ *Resilient, Receptive, and Relevant: The African American Consumer Report 2013*.

On a positive note, the average salary of employees of Afrodescendant firms increased 3.2% at an annual rate from 2007 to \$30,044 in 2012. The average salary of employees of White firms increased only 2.7% over the period to \$39,578. If this case continues to hold up in the future, it is possible that the average salary of Afrodescendant firms could approach parity with the average salary of White firms in a few decades.



An unfavorable outcome reflected in the 2012 data is that, although the number of Afrodescendant firms without paid employees increased 6.5% from 2007 to 2012, these firms' receipts increased only 4.1% at an annual rate, meaning that average receipts per firm fell 2.3% from \$21,261 in 2007 to \$18,972 in 2012 (Chart 2). This would place recipients of these receipts at or below the poverty line. In contrast, the average White firm without employees had receipts of \$50,874 in 2012 compared with \$46,473 in 2007.

Taking a big picture perspective, we see that the growth in the number of Afrodescendant firms outpaced that of White firms from 2007 to 2012. However, the majority of that increase in the number of Afrodescendant firms is accounted for by firms without paid employees. Most unsettling is that average receipts of these small, nonemployee Afrodescendant firms saw a significant annual average decline from 2007 to 2012.

Therefore, we can surmise that small, nonemployee Afrodescendant firms did not fare so well over the 2007 to 2012 period. Given that most new Afrodescendant entrepreneurship involves small, nonemployee firms, the picture does not look very bright. One perspective is that small Afrodescendant firms cannot generate enough receipts to keep the owners out of poverty—especially when accounting for the “cost of goods sold.” On the other hand, it might be wise to continue starting as many small, nonemployee Afrodescendant firms as possible recognizing that many may be lost to attrition, but that some will grow into larger, employer firms.

What the data tell us is that starting small, nonemployee firms is not, in and of itself, an answer today for Afrodescendants seeking to achieve income equality—assuming that income equality continues to be one of our important goals. However, if we are successful in growing small firms into larger employing firms, and if the average salary of Afrodescendant firms with employees can approach parity with White-owned firms over the next few decades, then those small Afrodescendant firms may evolve into an answer that we are seeking.

**Table 1.—Survey of Business Ownership Data, 2012 and 2007**

Categories	2012		2007		2007-2012 Annual Average Percentage Changes	
	White	Afrodescendant	White	Afrodescendant	White	Afrodescendant
Firms w and w/o paid employees	21,748,125	2,593,188	22,595,146	1,921,864	-0.76%	6.18%
Total receipts of firms w and w/o paid employees	12,986,133,845,000	187,637,723,000	10,240,990,714,000	135,739,834,000	4.86%	6.69%
Firms w paid employees	4,523,536	110,786	4,639,743	106,566	-0.51%	0.78%
% of firms w paid employees	20.8%	4.3%	20.5%	5.5%	0.26%	-5.08%
Receipts of firms w paid employees	12,109,855,327,000	140,541,859,000	9,406,549,498,000	97,144,898,000	5.18%	7.67%
Number of paid employees	55,902,101	1,045,120	52,518,201	909,552	1.26%	2.82%
Annual payroll of firms w paid employees	2,212,497,907,000	31,399,980,000	1,824,109,379,000	23,334,792,000	3.94%	6.12%
Average salary of firms w paid employees	39,578	30,044	34,733	25,655	2.65%	3.21%
Firms w/o paid employees	17,224,589	2,482,382	17,955,403	1,815,298	-0.83%	6.46%
Receipts of firms w/o paid employees	876,278,517,000	47,095,864,000	834,441,216,000	38,594,936,000	0.98%	4.06%
Average receipts of firms w/o paid employees	50,874	18,972	46,473	21,261	1.83%	-2.25%

Sources: US Census Bureau *Survey of Business Ownership*: 2012 data at <http://www.census.gov/econ/sbo/getdata.html>; and 2007 data at <http://www.census.gov/econ/sbo/historical.html?2007>.

B.B. Robinson  
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