

Young Adults' Race, Wealth, and Entrepreneurship



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The current young adult generation is expected to lead a resurgence in entrepreneurial activities in the United States and these activities are expected to drive economic growth in the coming years. However, young adults may find it difficult to fulfill the expectations of becoming entrepreneurs and drivers of economic growth. This is because entrepreneurial opportunities are typically reserved for the wealthiest and most privileged Americans who have the financial resources needed to invest in starting small businesses, such as savings and access to credit. In contrast, young adults have not had much time to save money, build credit, or accumulate wealth. Moreover, given historic wealth inequalities rooted in racism and discrimination, young adults from racial and ethnic minority groups may be left out of the entrepreneurial resurgence and its economic benefits. This study analyzes nationally representative, longitudinal data to address the questions of whether young adults' wealth can support their entrepreneurial activities by becoming self-employed and whether black and Latino/a young adults leverage their wealth differently to support their entrepreneurial activities. Generally, the probability of being self-employed increases for all young adults as they accumulate wealth. However, wealth may play an outsized role in the self-employment of black and Latino/a young adults. Black and Latino/a young adults may not be able to rely on taking out a small loan at a bank or credit union in order to open their business; instead, they may be forced to use their own limited wealth for pursuing entrepreneurship. Policies are needed that support wealth accumulation (particularly for racial and ethnic minorities), remove discriminatory lending practices, and provide young entrepreneurs with access to credit.

The current young adult generation is expected to contribute to an increase in entrepreneurship given that the number of young adults in their 30s is rising. However, young adults may find it difficult to fulfill this expectation because entrepreneurial opportunities are typically reserved for the wealthiest and most privileged Americans¹ and young adults have not had much time to accumulate wealth.

¹ Hurst, E., & Lusardi, A. (2004). Liquidity constraints, household wealth, and entrepreneurship. *Journal of political Economy*, 112(2), 319-347.

- A 2014 report on the state of entrepreneurship in the US contends that, “Few of these challenges—long-term budget deficits, entitlement spending, global competition, growing inequality, and middle-class stagnation, among many others—can be addressed or solved without sustained and broad-based economic growth. And that kind of growth will not come about without entrepreneurship” (p. 1).²
- The current young adult generation is expected to contribute to the rise in entrepreneurial activities and these activities are expected to drive economic growth in the coming years. However, young adults may find it difficult to realize the expectations of becoming entrepreneurs and drivers of economic growth given that they often do not have the wealth that is needed to start a small business.
- Young adults between the ages of 18 to 31 in 2010 had median net worth of about \$7,000. In other words, young adults accumulate median net worth that is about the value of an inexpensive new car, a year’s tuition at a state institution of higher education, or a modest downpayment on a home. By comparison, the median net worth for all adult-headed households was \$57,000 in 2010—eight times the median amount of net worth accumulated by young adults.³

Wealth has been described as a gateway to entrepreneurship⁴; however, young adults from racial and ethnic minority groups may struggle to find their way through this gateway given current wealth inequalities that have been institutionalized and perpetuated by decades of racism and discrimination.

- Wealth inequalities have been institutionalized and perpetuated by decades of policies and practices regarding owning a home, accessing credit and lending opportunities, and bequeathing inheritances that place Whites at an advantage for accumulating wealth while simultaneously disadvantaging racial and ethnic minorities.⁵
- It is hard to own a home or build equity to be bequeathed across generations when home ownership is restricted to the lowest earning markets and if the institutions designed to assess market quality and home appreciation are inherently biased in

² Ewing Marion Kauffman Foundation. (2014). *The state of entrepreneurship address*. Kansas City, MO: Ewing Marion Kauffman Foundation.

³ Dettling, L., & Hsu, J. (2014). *The state of young adults’ balance sheets: Evidence from the Survey of Consumer Finances*. The Federal Reserve Bank of St. Louis Review, 96(4), 305-330.

Mishel, L., Bivens, J., Gould, E., & Shierholz, H. (2012). *The state of working America* (12th Ed). Ithaca, NY: Cornell University Press.

⁴ Fairlie, R. W., & Krashinsky, H. A. (2012). Liquidity constraints, household wealth, and entrepreneurship revisited. *Review of Income and Wealth*, 58(2), 279-306.

Fairlie, R. W. (2004). Does business ownership provide a source of upward mobility for blacks and Hispanics? In D. Holtz-Eakin & H. Rosen (Eds.), *Public policy and the economics of entrepreneurship* (pp. 153-180). Cambridge, MA: Massachusetts Institute of Technology.

⁵ Bradford, W. (2003a). The savings and credit management of low-income, low-wealth black and white families. *Economic Development Quarterly*, 17(1), 53-74.

Bradford, W. (2003b). The wealth dynamics for entrepreneurship for black and white families in the U.S. *Review of Income and Wealth*, 49(1), 89-116.

- the first place. Likewise, it is hard to take out a small business loan when mainstream credit markets' lending practices are discriminatory.⁶
- For example, black and Latino/a households headed by all adults over age 18 accumulated median net worth wealth values of \$4,900 and \$1,300 in 2010, respectively, compared to the median of \$97,000 accumulated by their white counterparts.⁷ In other words, White households accumulate 20 times the net worth of black households and 75 times the net worth of Latino/a households.
 - These racial wealth gaps are evident at early ages such as in young adulthood, even though there has been less time for advantages and disadvantages to accumulate. The median net worth accumulated by white young adults between the ages of 22 and 25 is \$1,000, compared to the median net worth of \$0 accumulated by black young adults of the same age range. Black young adults fare slightly better on savings and liquid assets, accumulating respective median amounts of \$300 and \$1,000. In contrast, white young adults accumulated medians of \$1,668 in savings and \$6,000 in liquid assets.⁸
 - Limited wealth may disproportionately inhibit the entrepreneurial pursuits of young adults from racial and ethnic minority groups. From this perspective, any wealth that these young adults do accumulate may be important for improving their likelihood of participating in entrepreneurial activities.

After examining the entrepreneurial activities of white, black, and Latino/a young adults, a new study finds that the percentage of young adults who are self-employed increases along with their wealth. However, wealth may be more important for the self-employment of black and Latino/a young adults, who have fewer financial resources than their white counterparts yet must rely more heavily on these resources.⁹

- The percentages of self-employed young adults rises along with the percentiles of accumulated liquid assets, illiquid assets, debt, and net worth. For example, less than 10% of young adults are self-employed when they have net worth valued between

⁶ Blanchflower, D., Levine, P. & Zimmerman, D. (2003). Discrimination in the small-business credit market. *The Review of Economics and Statistics*, 85(4), 930-943.

Oliver, M., & Shapiro, T. (2006). *Black wealth / White wealth: A new perspective on racial inequality*. New York, NY: Taylor & Francis Group.

⁷ Mishel, L., Bivens, J., Gould, E., & Shierholz, H. (2012). *The state of working America* (12th Ed). Ithaca, NY: Cornell University Press.

⁸ Friedline, T. & Elliott, W. (2011). Predicting savings for White and Black young adults: An early look at racial disparities in savings and the potential role of Children's Development Accounts (CDAs). *Race and Social Problems*, 3(2), 99-118.

⁹ This study used nationally representative, longitudinal data from the 1997 National Longitudinal Survey of Youth (NLSY97), measuring self-employment outcomes in 2011. The samples included young adults who were white ($N = 4,742$), black ($N = 1,879$), and Latino/a ($N = 2,327$). The analyses controlled for such things as young adults' gender, education level, household income, and employment status and their parents' education levels, business ownership, home ownership and wealth. Propensity score weighted logistic regressions examined whether young adults' liquid assets, illiquid assets, debt, and net worth measured at age 25 were associated with being self-employed at age 30.

- the 10th and 90th percentiles. This percentage increases to nearly 30% when young adults have net worth above the 90th percentile.
- Blacks' and Latinos/as greater wealth accumulation is associated with an increased likelihood of self-employment; however, wealth accumulation is unrelated to Whites' self-employment. This suggests that wealth may actually be playing an outsized role for pursuing entrepreneurship among racial and ethnic minority groups when compared to their white counterparts.
 - Given that they contend with discriminatory lending practices,¹⁰ black and Latino/a young adults may not be able to rely on taking out a small loan at a bank or credit union in order to open their business. Instead, they may be forced to use their own limited wealth for pursuing entrepreneurship. In contrast, white young adults may have an array of financial resources in addition to their own wealth that they can leverage for opening a business, such as receiving family inheritances and or taking out small loans from banks or credit unions.
 - For Whites, unexpectedly losing their jobs is associated with their self-employment. This suggests that white young adults may be prompted to create employment opportunities for themselves when they are forced to do so by being unexpectedly pushed out of the labor market. By comparison, an unexpected job loss is unrelated black and Latino/a young adults' self-employment.

To help all young adults realize their entrepreneurial potential, policies are needed that support wealth accumulation (particularly for racial and ethnic minorities), remove discriminatory lending practices, and provide young entrepreneurs with access to credit.

- Policies are needed to support wealth accumulation among young adults from racial and ethnic minority groups. Given the institutionalized racism and discrimination exhibited within historic wealth inequalities, it is unlikely that young adults from racial and ethnic minority groups will receive inheritances or other wealth transfers from their parents that are comparable to the inheritances or other wealth transfers received by their more advantaged, white peers.¹¹ Government intervention is likely needed to assist these young adults in accumulating wealth.
- Two policies and programs that have potential for helping young adults generate wealth by automatically opening and progressively incentivizing savings are Individual Development Accounts (IDAs) and Children's Savings Accounts (CSAs; also referred to as Child Development Accounts [CDAs]).¹² However, policies and

¹⁰ Chatterji, A., & Seamans, R. (2012). Entrepreneurial finance, credit cards, and race. *Journal of Financial Economics*, 106(1), 182-195.

Institute for Local Self-Reliance. (2014). *Access to capital for local businesses*. Washington, DC: Institute for Local Self-Reliance.

¹¹ Oliver, M., & Shapiro, T. (2006). *Black wealth / White wealth: A new perspective on racial inequality*. New York, NY: Taylor & Francis Group.

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¹² Friedline, T. (2014). Extending savings accounts to young people: Lessons from two decades of theory and research and implications for policy. In R. Cramer & T. Williams Shanks (Eds.), *The assets*

- programs that minimize student loan borrowing and regulate credit card and alternative financial service companies may additionally help to minimize debt and generate wealth for young adults from racial and ethnic minority groups.¹³
- Policies are needed to remove discriminatory lending practices and provide young entrepreneurs with access to credit, such as government regulation and oversight of financial institutions' lending practices. Young adults—especially those from racial and ethnic minority groups—may struggle to secure financing for their small businesses if financial institutions will not lend to them. As long as discriminatory lending practices continue, these young adults may disproportionately continue to rely on their own limited, accumulated wealth for pursuing entrepreneurial activities.

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Sherraden, M. (1991). *Assets and the poor: A new American welfare policy*. Armonk, NY: M.E. Sharpe.

¹³ Elliott, W., & Lewis, M. (2015). *The real college debt crisis: How student borrowing threatens financial well-being and erodes the American Dream*. Santa Barbara, CA: ABC-CLIO, LLC.

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