The Case For Revisiting How We Support Our Entrepreneurial Ecosystem With an Innovative Approach to Affording An Investment In New and Emerging Entrepreneurs

Introduction

As we commemorate the 50th Anniversary of Dr. King's assassination and his "***Poor People's Campaign***," we wanted to take a look at some of the economic trends and challenges facing the underserved and underrepresented in our economic mainstream. In the process of doing this review, we came across several disturbing trends and outcomes.

The data on America's economy reflects a remarkably strong and continuous positive performance after the Great Recession. However, this same data also highlights the ongoing difficult financial circumstances with which a large swath of the American public are living. It is not surprising to even the most casual observer that people of color, and especially, African-Americans, Hispanic-Americans and women, are severely overrepresented at the bottom of the economic ladder.

Symptomatic of our uneven economic recovery, our review of the relevant research documents that roughly **70%** of people in the United States do not have access to $1000 for an unexpected financial expense and **42%** don't have as much as $250 for such an expense. Furthermore, a recent study shows that Black wealth has not improved in the 50 years since Dr. King's assassination and still another suggests that by 2058 Black wealth will be zero.

Further exasperating the matter is the fact that although the federal government is running huge deficits and the national debt is soaring, little to none of the borrowed money is being invested in improving the economic condition of the vast majority of the citizens of this country. Our governmental policies seem to ignore what positive benefits could accrue if we made investment in human capital that uplifts the underserved and underrepresented. We quickly add, that in this note, we speak **not to an increased investment in welfare**, although that might be relevant in certain regions of our country, but rather we are advocating a more targeted increase in training that leads to self-sufficiency and in fact has great potential to reduce the need for welfare and other non-revenue generating support for our citizens.

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

According to a recent CBO report, at current rates, the U.S. debt will be at 95% of GDP by 2028. At the same time, corporate profits are at an all-time high. As a group, our elected officials are adding wealth to those who are already at the top of our economic pyramid. Our national debt that was most recently increased benefits greatly those who are already doing well in our society but that same tax-funded investment offers almost nothing for our failing infrastructure. Our roads and bridges consistently get Ds and Fs for their quality, our electric grid is outdated and in need of modernization, and the upgrade of our air traffic control system is several decades behind schedule.

Paradoxically, at the same time lawmakers are looking to limit access to food stamps. Data from 2006, showed that $59 billion was spent on traditional social welfare programs, while $92 billion was spent on corporate subsidies. That year, the government gave roughly 50% more in corporate welfare to profitable companies than it did in food stamps to our poorest and most economically disadvantaged citizens.

An updated Cato Institute study from 2012 showed that $100 billion was handed out in corporate welfare annually. A partial list shows that for the agribusiness alone:

- $25 billion was handed out in Farm subsidies with the largest 15% of farm businesses getting 85% of the subsidies.
- $6 billion was spent by USDA for rural subsidies to support everything from financial institutions, housing developments and others, including everything from car washes to clam harvesting.
- $4 billion in energy subsidies

We would add to this observation that many recipients of corporate welfare return the kindness of subsidies provided by the US taxpayer by incorporating elsewhere to avoid paying taxes. In 2012, for example, Eaton (an Ohio company) received $31.9 million in federal subsidies and turned around and incorporated in Ireland to avoid paying taxes in the US.

There must be a more cost effective way to stimulate business development and economic growth than giving money (tax breaks and subsidy) to those who are already doing well.

We suggest an option to this strange largess of tax give away below.

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016

Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016

Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

An Alternative to Corporate Welfare: Investing In Supporting Underutilized Human Capital

All the data currently suggest that unemployment is at historic lows for all segments of the population. However, the black community and other communities of color are not benefitting from this trend at the same level as the non-minority population. One option is to address how we fill the thousands of unfilled high wage trade jobs in this country and an equal number of unemployed or underemployed African Americans. The only thing standing between the jobs and job seekers is training, transportation, viable networks and a support structure. Directly relevant to this note, increasing the rate and level of business startup and growth by non-minorities and women may be an even more effective strategy (than mere job training) to close opportunity for employment. Innovative small businesses are often nimble enough to meet the repair and replacement needs of our severely neglected infrastructure, thus serving two key needs ---providing self-employment to these aspiring entrepreneurs and serving our nation by repairing and upgrading our fragile infrastructure.

A fair analysis would note that there has been a reputed national push to increase small business startups and entrepreneurship across the country for all segments of our population. However, it is a well-documented fact since the findings of James Lowry and Associates from almost 4 decades ago, small businesses, especially those owned by people of color (and later, we consciously added aspiring women entrepreneurs) have consistently had a very hard if not impossible time finding capital to start and grow their own ventures. The uneven playing field partially created by large (tax payer) subsides to large, politically connected companies makes competing successfully for business frustrating at best and unsuccessful for most undercapitalized small businesses. We can visualize the positive impact our nation could have on small businesses, especially those started by the underrepresented and underutilized entrepreneurs, **IF** some portions of selected corporate subsidies were redirected to these aspiring and emerging business men and women.

We ask the reader to image the positive impact we could have on our economy if **all** segments of our entrepreneurial ecosystem were treated with the concern for access to capital as we show for tax subsidized corporate America. We could level the playing field and give new entrants from our bottom economic segments a fighting chance to enjoy economic prosperity and freedom that comes with successful business ownership.

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

A Proposed Innovation: Repositioning Existing Government Programs that have Enjoyed Long Unexamined Scrutiny to Provide Enhanced Impact on Underutilized Community Assets

There is almost universal bipartisan support for Entrepreneurship as a critical driving force to our state level and national economy. According to the U.S. Census, some 25 - 27 million Americans now own a small business; some 10% of the general adult population and an estimated 10 - 15% of the population under 30 is already engaged in entrepreneurial leadership. Small businesses leaders are the major drivers of the economy, having created over 60% of the new jobs of the last decade and generated over 90% of the new wealth created in the last two decades, according to the US Department of Commerce and the Small Business Administration[1]. The undeniable evidence is that *Entrepreneurial Leadership* is a career choice that millions of U.S. citizens pursue regardless of their respective demographic profile. Entrepreneurs continue to fuel growth with new products and services that revolutionize how we do things in the general marketplace and at home. IPhones, Facebook, Amazon, Wayfair, and perhaps soon, self-driving vehicle have changed American lifestyle forever.

In spite of this impressive overview of the role of entrepreneurs in our national economy, our enthusiasm must be restrained as we see the disproportionate low participation rate in the entrepreneurship economy by people of color and women. The census (2012 update) reports that African-American own 9.5% of US businesses vs. 12.6% of the population; similarly Hispanics own 12.2% of US business vs being 15.2 of the US population. The discrepancy is **significantly much greater** if we look at % of dollar sales with Black owned firms gathering a paltry 1.3% of all US business revenue and Hispanic owned firms only reaching 4.0 % of US sales. One can imagine the dramatic impact on our minority communities if revenue of minority business approximated their percentage of the population. Our innovative approach suggest a relative cost-free (new) way to change the nature of these statistics.

Our nation's most treasured assets are its diverse people and their cultures. To increase productivity, we must provide every opportunity to those willing and able to be entrepreneurs and small business owners. The "network" of opportunity is disjointed and only the connected

---

[1] Also see Katz, J., & Green, R. (2011). *Entrepreneurial Small Business, 3e*.New York: McGraw-Hill Irwin; Kuratke, D. (2009). *Entrepreneurship: Theory Process Practice, 8th Edition*. Mason, OH: Soth-Western Cengage Learning.
Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

are benefitting from record gains in the stock market and increased home values. Communities of color are not reaping the awards of the connected, further exacerbating the country's ability to maintain our rank as a global leader. Our collective response must be robust, responsive and all-inclusive for every citizen who dwells within our nation. It's a national economic and moral imperative to create a system that empowers all communities to thrive, and that taps into our diverse cultures that may yield opportunity and innovation. A dormant economy will stifle innovation and threaten our global competitiveness.

The Financial Resource Question

Source of Finance. The ability to raise capital to launch or expand a business is an indicator of future success. In many respects the sources of financing are similar between nonminority and minority groups. For business startup, roughly 25% of both groups used no financing. For those businesses that did, about 57% of both groups used family or personal savings. However, minority businesses appear less likely to use a business loan as a source of startup financing than nonminority businesses. While 8% of nonminority businesses used private business loans as part of their financing, only 5% of minority groups did. This holds true for owners looking to expand their firms as well. Minority-owned firms are more likely than nonminority to seek financing to expand their business (49% to 41%), but are less likely to use private business loans as part of the financing (3% to 5%). Minority businesses are more likely to rely on personal financing such as family savings, assets, and personal credit cards. Research also finds that minority business owners are more likely to feel discouraged from seeking private loans. In a Census survey, only 16% of non-minorities were discouraged after seeking a loan, while almost 30% of minorities felt the same way. These, in combination with other reasons, may be why minority business owners have a heavier reliance on personal finances. Irrespective of minority grouping, businesses that report acquiring a private loan to start or expand tend to have higher sales and employment. The 5% of minority businesses that reported receiving private startup loans represented about 17% of sales and 19% of employment.

Solutions on how to provide much needed start-up and growth financial resources to the underserved are under constant debate, however data from Treasury's now sunset State Small Business Credit Initiative (SSBCI) suggest a well thought out strategy. The SSBCI created from the Small Business Jobs Act of 2010 allocated $1.5 billion of federal funds to create flexible credit tools for each state and territory. The defunct program shut its doors in fall 2017 as it was only created as one-time stimulus initiative to inject capital into market street. This place-based

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

initiative deployed over 98 percent of federal funds to leverage 10x (as of SSBCI sunset date of September 2017) of private match across the nation.

Figure 1

Figure 2-1: Summary of Interim Program Outcomes by Objective, cumulative through December 31, 2015

Objective	Interim Program Outcomes
Support financing of small business	CAP Median FTEs = 2 Mean Median transaction size = $14,800 All other Median FTEs = 6 Mean Median transaction size = $320,500
Expand access to credit to businesses in LMI, minority and other underserved communities	42% of SSBCI-supported transactions in LMI areas 34% of SSBCI funds expended in LMI areas
Generate new small business lending or investing	$8.4 billion in new capital to small businesses $8.02 in new small business lending or investing for each $1 in SSBCI funds expended
Expend available SSBCI funding	$1.04 billion or 72% expended as of December 31, 2015
Create or retain jobs	190,400 projected jobs created or retained (63,891 created, 126,509 retained) within 2 years of loan or investment closing as reported by businesses

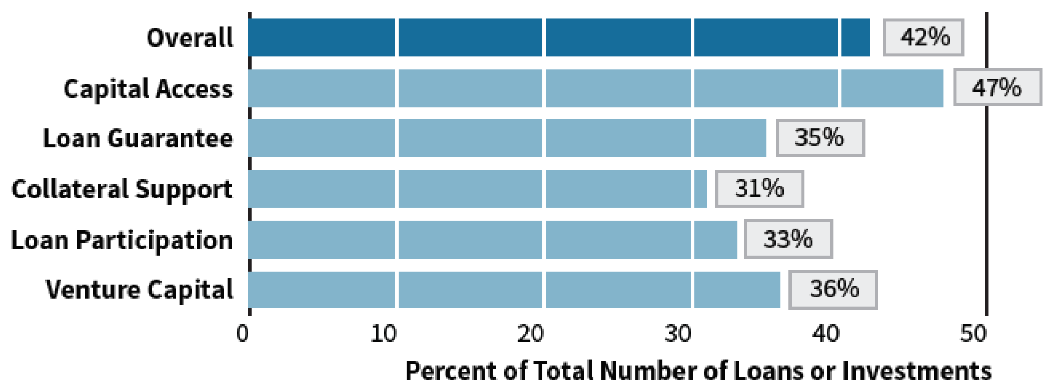
The program created a community of practice that continues to share knowledge and fosters a peer-to-peer network that thrives today by deploying recycled funds. Although the program was not considered a social impact initiative. It successfully allocated 42% of its funds to LMI communities and created a national platform for working collaborating with other federal agencies that encouraged silo-bursting and created a shared-vision in response to tacking the

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

barriers that plague the underserved. This experiment of decentralizing federal funds and providing state economic agencies the opportunity to design programs and deploy capital is successful. Almost all SSBCI -originated programs still exist and continue to provide flexible credit to small business owners across the country.

Figure 2

Figure: 2-6: Percent of SSBCI-supported Loans or Investments (by Number) in Low- and Moderate-Income Communities, by Program Type, cumulative through December 31, 2015

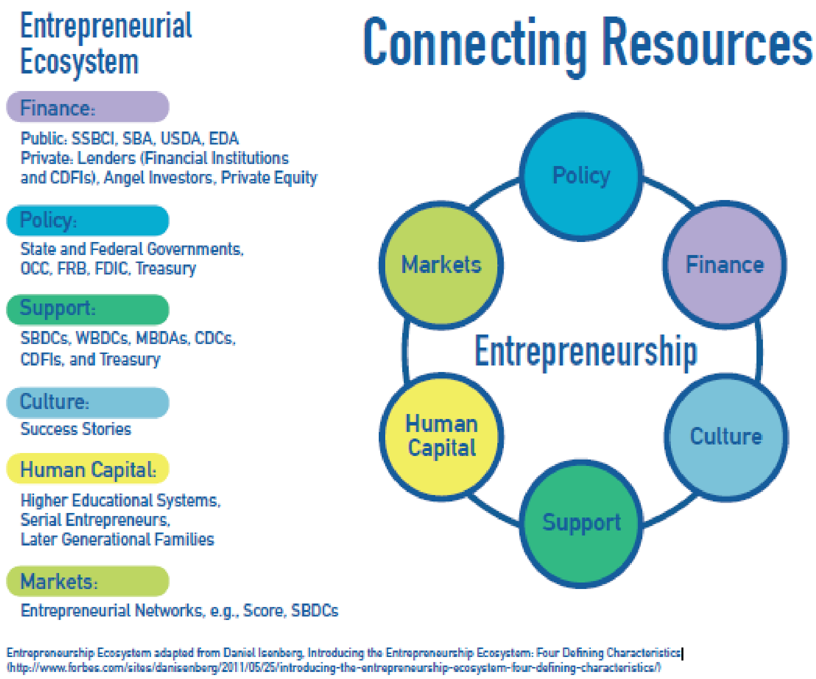


This community or network exist and can be (re)-activated immediately, with congressional support the model could be repositioned to support all marginalized communities including minorities, women and rural populations. The ***All-Inclusive Communities*** (addendum 1) is positioned to pick up where the SSBCI left off and aims to reinvent the SSBCI by modifying it as an approach dedicated to connecting resources for the entrepreneurial ecosystems of selected markets that have the potential to better support underserved aspiring entrepreneurs of racial and gender diversity.

In preparing the communities of color for the next industrial revolution we must rethink how resources are deployed at the local, state, region and national levels. The ***All-Inclusive***

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

Communities model is a systematic approach that connects all domains and resources (private and public) to create viable hubs into "***ecosystems of entrepreneurial diversity and excellence***." Figure 3



Our innovative approach as previewed with selected state and local policy makers has received wide spread and enthusiastic support. The ***All-Inclusive Communities*** model is place driven by state and local jurisdictions and can easily pivot when market conditions change. It's agile and responsive - an ideal solution to impact marginalized communities' ability to access the required resources to thrive in todays' and tomorrows economy. It's important to remember the innovation economy is today not tomorrow. It is our belief that disruptive technology will further help close venture creation opportunity gap for the African-American, Hispanic, women and other underrepresented community segments. The All-Inclusive model places these currently neglected communities into the disruptive mix as creators of disruptive technology and NOT victims of this inevitable march of change. We can use the relational connections embedded in the ***All-Inclusive Communities*** model to connect school children, and those sitting on sidelines in rural and urban communities to the required resources to participate in the fourth industrial revolution. The All-Inclusive communities' model will leverage technology, all its benefits and will aim to be the great equalizer for all communities.

A Financing Options for Our Innovative the All-Inclusive Communities Model

While we think the logic of the above comments will find favorable responses from most readers, regardless of their political orientation, the reality is that we need to also suggest how we

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

might financial support the innovative concept. We suggest a high potential funding source below that already is budgeted but just needs to be redirected toward a more urgent and timely issue than that for which it has been historically purposed.

Why Sugar Subsidies Should Be Revisited - There have been many studies and reports written on the sugar subsidy programs. As the subject has been well analyzed we will not attempt to reassess the program and in fact agree with many of the analysis. As has been stated, the US sugar industry receives enormous government support and protection from foreign competition. The program has changed over time, becoming a complex set of rules developed to promote sugar production primarily at the expense of US consumers. The program also has an effect on foreign producers and consumers that have significantly reduced the world sugar price. As a result of the program, the price of sugar in the US has been almost twice as high as the price of sugar on the world market. This has cost US consumers an average of about $2.4 billion per year with producers benefitting by about $1.4 billion per year. Therefore, the net cost of the income transfers to producers is $1billion per year.

The current Sugar Subsidy is roughly $1.2 billion, with consumers paying about 3.5 billion more each year in artificially inflated prices for commodities that use sugar, including baked goods, beverages, candy, cereal, dairy products, snack foods, and hundreds of other products. The program has additional costs, in that between 1997 and 2011, it is estimated that nearly 127,000 jobs were lost in sugar using industries.

Sugar Policy Modernization Act – Late last year, a bipartisan group of lawmakers introduced legislation to modernize and reform the sugar subsidy program. This bill requires, among other things, that the sugar industry pay back taxpayer dollars they receive when they forfeit on government loans. These changes will produce revenue savings that can be used to invest in the training of underserved candidates interested in jobs where there is a severe shortage of workers. The ***All Inclusive Communities*** model would suggest that we faze in (timing to be determined) the approximate $1.0 billion in sugar subsidy from these national dollars into a more diverse economy that is activated by the ***All Inclusive Communities*** model. We would give priority to the states such as Florida, Louisiana, Hawaii and Texas which coincidentally have a large population of minorities and can immediately benefit from new venture start up and growth that would result from implanting a place based intervention in the entrepreneurial ecosystem of their local economies.

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem

We already know that small business generates NEW jobs and is the main wealth generated besides home ownership. We see this strategy as worthy of a creative government moving from legacy and outmoded subsidies to innovative and forward thinking investments in human capital. This new innovative investment strategy has the potential to change the world AND lessen the unfair burden imposed on US sugar consumers who are directly impacted by these once useful but now only costly government expenditures of our tax dollars. Similarly, we know that some $68 billion in corporate subsidies are still untouched by this suggested reallocation of our tax dollars… but that is not particular relevant to our look at the sugar subsidy which are very, very difficult to continue to justify to American tax payers.

Conclusion

While reforming the sugar support system alone will not solve the corporate welfare problem, it will be a good first step and set a precedent for weaning corporations from their dependence on government help. By reallocating the funds from sugar subsides to the All-Inclusive Initiative, we organically re-build our economy from within and connect and distribute resources to those who will lead our nation into a shared economy and fourth industrial revolution.

Figure 1: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 17, figure 2-1) October 2016
Figure 2: SSBCI Program Evaluation of the US Department of the Treasury State Small Business Credit Initiative, (page 21, figure 2-6) October 2016
Figure 3: All Inclusive Communities Model- Entrepreneurial Ecosystem adapted from Daniel Isenberg, Introducing the Entrepreneurial Ecosystem