

Report - April 2013

Launching Low-Income Entrepreneurs

With middle-income jobs in decline, entrepreneurship offers an increasingly promising pathway out of poverty; but few low-income New Yorkers are currently taking this route to economic self-sufficiency.

by Kahliah Laney, with Jonathan Bowles and Tom Hilliard

The following is the introduction to Launching Low-Income Entrepreneurs. Click here to read the full report (PDF).

New York City is now in the midst of a new golden age of entrepreneurship. In recent years, mid-career investment bankers, lawyers and media professionals have bounced back from layoffs by striking out on their own, opening everything from food trucks and restaurants to digital marketing agencies. Twenty-something college grads facing the worst job market in decades have turned to entrepreneurship in droves, establishing Internet startups, design firms and countless other new ventures. And immigrants from Washington Heights to Sheepshead Bay have continued to open food carts, franchises and other businesses at a rapid clip.

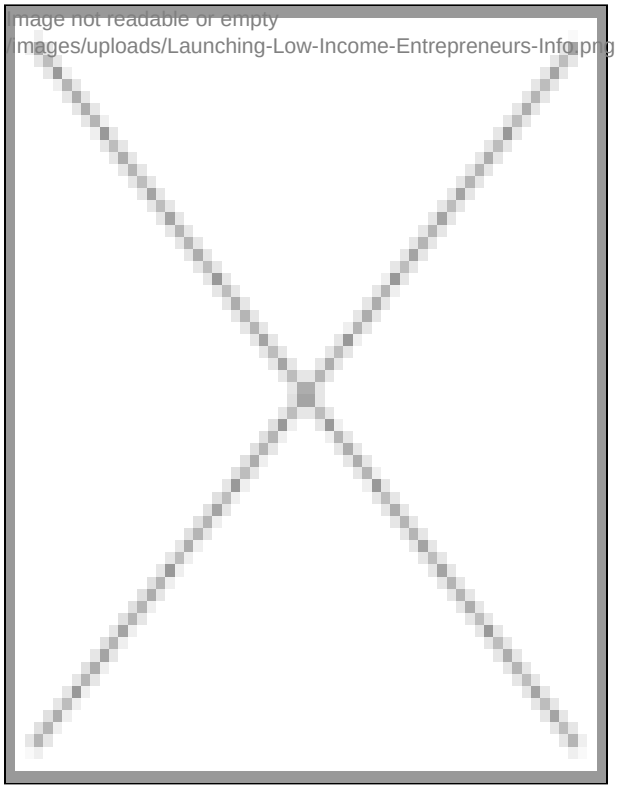
One would think that recent economic conditions—not only an extremely high jobless rate, but a changing economy offering few middle-income jobs for individuals without a bachelor's degree—would also prompt a significant uptick in the number of native-born New Yorkers from low-income backgrounds who see entrepreneurship as a pathway out of poverty. However, this does not appear to be the case.

Interviews we conducted for this report with small business experts, microfinance groups, entrepreneurs and community leaders suggest that low-income New Yorkers who were born in the United States are starting businesses at a fairly low rate. Our analysis of self-employment rates in neighborhoods across the five boroughs confirms this. Each of the 10 ZIP codes in the city with the lowest rates of self-employment have median incomes below $33,000, and in all but one the share of the population that is native-born exceeds the city average. In contrast, neighborhoods with similarly low median incomes where most residents are foreign-born have higher-than-average rates of entrepreneurship. Meanwhile, native-born New Yorkers

who live in affluent neighborhoods have among the highest rates of self-employment in the city.

Given how much capital it takes to start a business, and how much risk is involved, it is hardly surprising that many asset-poor New Yorkers have shied away from entrepreneurship. However, at a time when so many newly created jobs offer low wages and limited opportunity for economic mobility, it is time for policymakers, economic development officials and workforce development professionals to embrace entrepreneurship as one route for low-income New Yorkers to achieve economic self-sufficiency.

This report concludes that it is eminently possible to expand the number of low-income entrepreneurs in New York. As this report documents, while relatively few low-income minorities are starting formal businesses, there is no lack of entrepreneurial spirit or creativity among the native-born poor—and many earn money from "side-hustles." Ample evidence suggests that a more strategic focus on promoting, teaching and supporting entrepreneurship in New York and other cities could have a big impact.



This report provides the most comprehensive examination of low-income entrepreneurship in New York. Funded by the Ewing Marion Kauffman Foundation, the report documents current self-employment rates among low-income people (both native-born and foreign-born), details the obstacles that keep larger numbers of native-born individuals from starting businesses and assesses how entrepreneurship among low-income individuals is currently encouraged and supported in New York. The study also features a snapshot of programs in other cities and states that effectively promote and support low-income entrepreneurship. The report is based on an extensive data analysis and interviews with more than 75 entrepreneurs, small business and microfinance experts, community development leaders, workforce development practitioners, economic development officials and educators—both in New York City and around the nation.

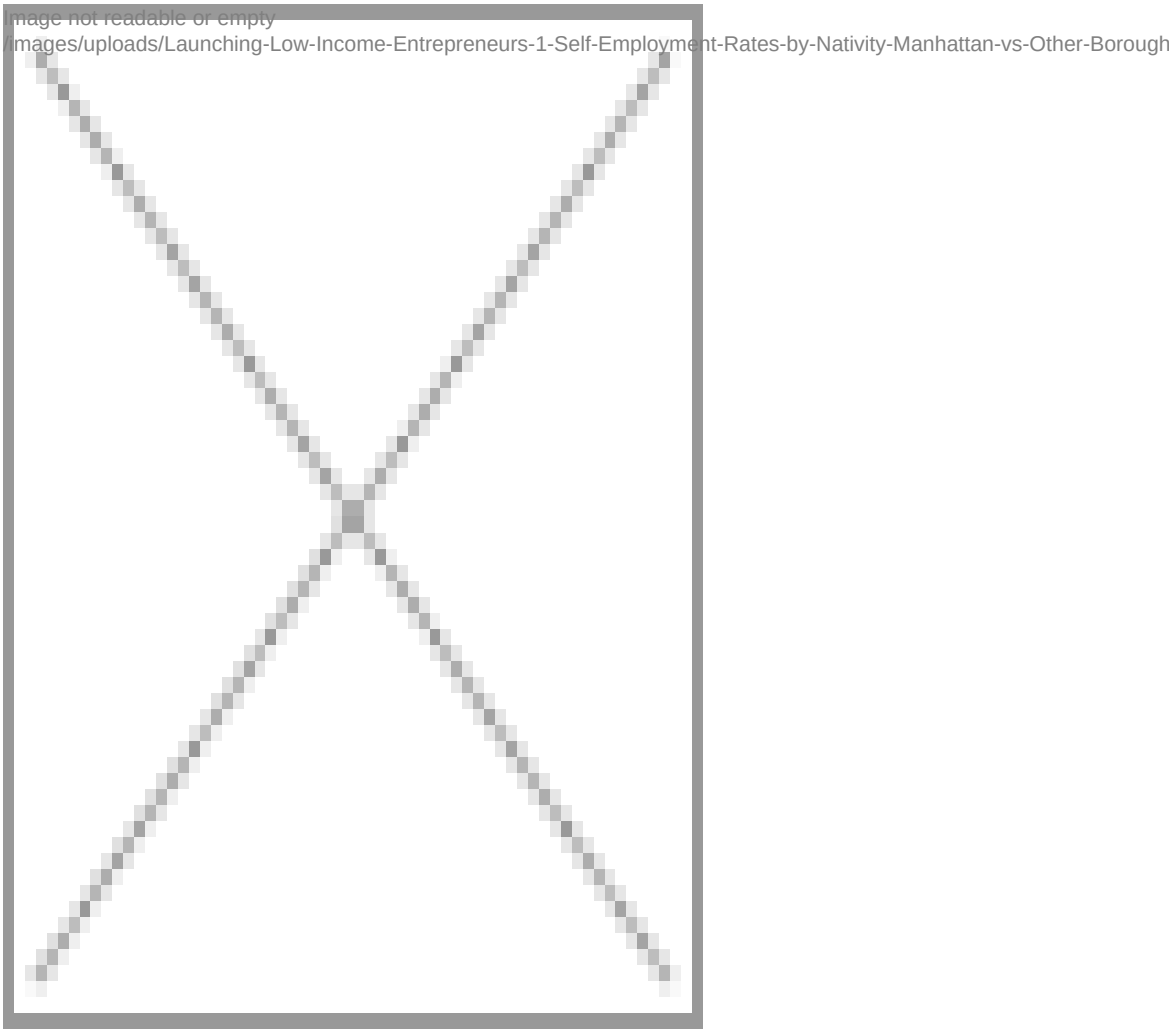
Entrepreneurship has been a proven ticket to financial empowerment and economic mobility for countless immigrants—afact that the Center documented in our 2007 report, "A World of Opportunity." In that study, we showed that massive numbers of immigrants in New York, Boston, Houston and Los Angeles have turned to entrepreneurship and in doing so have transformed neighborhoods as well as their own economic fortunes. Some of these entrepreneurs have been wildly successful, generating numerous jobs for their communities and significant financial rewards for themselves. Many others

simply make enough to live on. Most turned to entrepreneurship in the first place because they saw it as the quickest and most logical path for them to provide for their families.

But while so many immigrants—including newcomers who are both poor and poorly educated—have turned to entrepreneurship, many fewer native-born poor people have done so.

Citywide, the native-born self-employment rate is 8.6 percent, which is considerably lower than the foreign-born self-employment rate of 10.9 percent. But even this modest rate is inflated because it includes affluent native-born entrepreneurs, particularly in Manhattan and Brooklyn. For example, in Manhattan, roughly 97,000 native-born residents—or 13.3 percent of the working-age native born population—are self-employed, compared to only 124,000 (or just 6.7percent) in the other four boroughs combined.

In the Bronx, Queens and Staten Island, the native-born self-employment rate is roughly half that of the foreign-born self-employment rate. In the Bronx, where working-age residents tend to be poorer and less educated than people in the rest of the city and nation, only 17,000 native-born residents (4.4 percent of the total) have started their own incorporated or unincorporated businesses, compared to 33,000 foreign-born residents (10.2 percent). In Queens, where nearly 48 percent of residents are foreign-born, 35,700 or 6.3 percent of native-born residents are business owners while nearly 90,000 or 11.5 percent of immigrants are. In Staten Island, 6.7 percent of native-born residents are self-employed, compared to 10.5 percent of immigrants.



Similar trends are apparent within individual low-income neighborhoods. For instance, in the Highbridge/South Concourse section of the Bronx, the native-born self-employment rate (3.8 percent) is less than a third the foreign born self-employment

rate (12.9 percent). Meanwhile, the native-born self-employment rate is less than half the foreign-born self-employment rate in several other disadvantaged communities, such as Central Harlem (7.3 percent native-born vs. 16.8 percent foreign-born), Jamaica (3.6 percent vs. 9.2 percent), Morissania/Belmont (4.1 percent vs. 11.5 percent) and Ozone Park/Woodhaven (4.9 percent vs. 13.4 percent).4

Overall, there is a remarkably strong correlation between self-employment, median income and place of birth at the neighborhood level. This was apparent when we examined self-employment rates in the city's 55 Census-defined neighborhoods. We divided the 55 neighborhoods into three groups—a bottom third, representing the 18 neighborhoods with the lowest rates of self-employment; a middle third featuring the 18 neighborhoods with the next highest rates of self-employment; and a top third of the 19 neighborhoods with the highest self-employment rates in the city.

The bottom third—18 neighborhoods with self-employment rates between 3.9 percent and 7.4 percent—are both poorer than the rest of the city and have a disproportionate share of native-born residents.5 Averaged together, the 18 neighborhoods with the lowest self-employment rates have a median income of $25,150, a foreign-born share of 32.2 percent and a 6.1 percent self-employment rate. For example, Brownsville/Ocean Hill has a 4.5 percent self-employment rate, a median annual income of $19,900 and a 72 percent native-born population. The Soundview/Parkchester area of the Bronx has a 5.6 percent self-employment rate, a median annual income of $22,700 and a population that is 70 percent native born. Additionally, East New York, Co-op City, the Rockaways, Morrisania, Bed-Stuy, East Harlem, Mott Haven and Staten Island's North Shore all have higher than average proportions of native-born residents, low median incomes and among the lowest self-employment rates in the city.

In comparison, the middle third—18 neighborhoods with self-employment rates between 7.4 percent and 9.8 percent—actually had lower median annual incomes than the bottom third ($23,718, on average) but much higher levels of foreign-born residents. In all but two of these 18 neighborhoods, the share of the population that is foreign-born exceeds the citywide average (36.8 percent). For instance, in Jackson Heights, where 63 percent of residents are foreign-born, the median annual income is $22,900, but the self-employment rate is 9.6 percent. In University Heights/Fordham (40 percent foreign-born), the median income is just $14,811 but the self-employment rate is 9.3 percent. Other neighborhoods with median incomes below $25,000 but fairly high rates of self-employment include Elmhurst/Corona (9.3 percent), Sunset Park (9.1 percent) and Bensonhurst (9.0 percent).

The native-born residents who are turning to entrepreneurship in greater numbers have more financial resources. Greenwich Village, the Upper West Side, the Upper East Side and Turtle Bay all have some of the highest self-employment rates in the city and are also among New York's wealthiest neighborhoods, with median annual incomes of between $59,600 and $70,700. Brooklyn's Park Slope, Carroll Gardens and Brooklyn Heights—with self-employment rates of 12.3 percent and higher—all have lower median annual incomes than the top neighborhoods in Manhattan, but they are still higher than average, and residents have much higher levels of educational attainment. (Overall, the 19 neighborhoods with highest self-employment rates have an average median income of $38,583, a foreign-born share of 32.5 percent and a self-employment rate of 12.6 percent.)



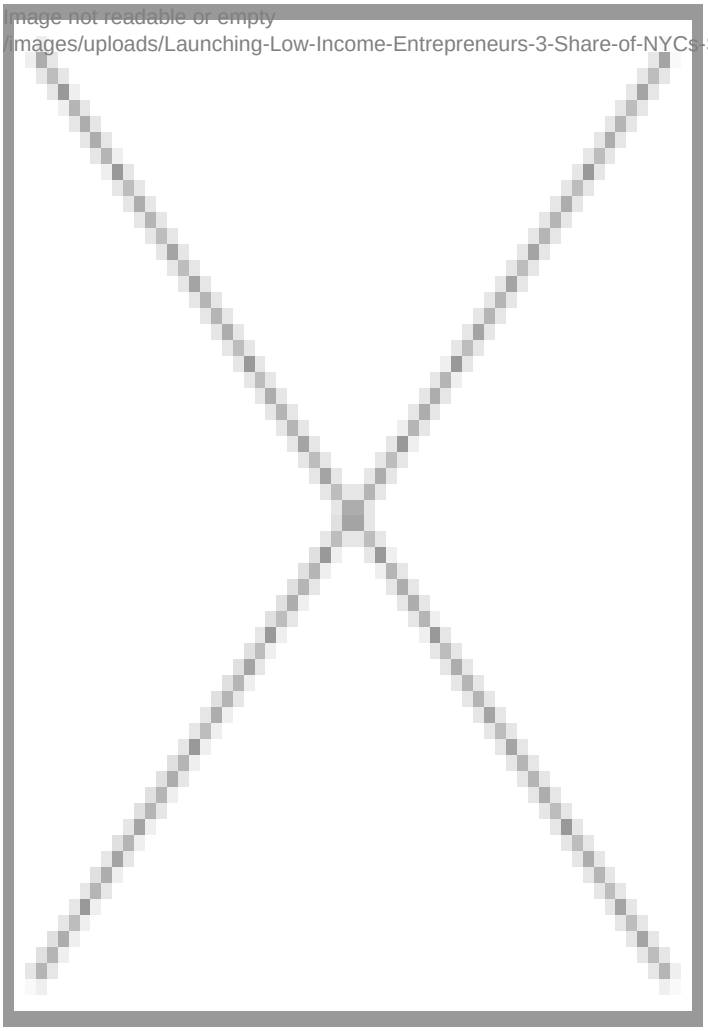
Our research uncovered additional data suggesting that low-income, native-born residents in New York are not pursuing entrepreneurship in large numbers. For instance, we examined the number of establishments per capita for the 50 ZIP codes in the city with the lowest median incomes—all of which have median individual incomes under $25,000.6 The ZIP codes with a larger share of native-born residents than the city average have 1.2 establishments per capita, whereas the ZIP codes with a smaller percentage of native born residents than the city average have 1.9 establishments per capita. For example, there are just 0.7 establishments per capita in Bed Stuy's 11221 ZIP code, where the median income is $20,667 and 73.4 percent of the population is native-born. However, in Bensonhurst's 11204 ZIP code, which has a similar income level ($21,281) but a smaller share of native-born residents (54 percent), there are 2.4 establishments per capita.7

Additionally, public housing developments across the five boroughs—where nine out of ten residents are black or Latino, and the median household income is $20,700—appear to have the lowest rates of business formation in the city. In 2012, there were approximately 218,000 working-age residents living in New York City Housing Authority (NYCHA) buildings, but only 286, or 0.13 percent, reported owning their own business.

"Entrepreneurship among low-income, native-born minorities is quite low," observes Andre Taylor, founder of the Taylor Insight Group, a New York-based consultancy that encourages entrepreneurship among minorities. "While there have been statistics suggesting occasional surges in entrepreneurial activity among African-Americans, my experience among the minority population in general is a resistance to launching a business."

Citywide, native-born Whites make up 39 percent of all self-employed workers (59 percent of whom have at least some college education), compared to just 5.6 percent for African Americans, 5 percent for native-born Hispanics and 1 percent for native-born Asians. In the Bronx, Brooklyn and Queens, foreign-born residents make up the majority of the self-employed, but among the native-born in those boroughs, whites predominate: In Brooklyn, 36 percent of the self-employed are native-born White, compared to 7 percent African American and 5 percent native-born Hispanic. In Queens, where foreign-born residents

make up the vast majority of business owners, 22 percent are native-born White, compared to just 5 percent African American and 3 percent Hispanic.



The different rates of entrepreneurial activity by nativity and race are not unique to New York. A 2013 report by the Kauffman Foundation found that 490 out of every 100,000 immigrants in the U.S. start a business each month (an entrepreneurial activity rate of 0.49 percent), nearly double the rate of native-born Americans (which have an entrepreneurial activity rate of 0.26 percent).9 Additionally, the African American rate of business creation is just 0.21 percent, lower than the rates for whites (0.29), Asians (0.31 percent) and Latinos (0.40 percent).10

But while the rate of business formation among low-income minorities is low, many of those we interviewed believe therenow exists a tremendous opportunity to change this. “There is a huge potential to increase the number of low-income non-immigrant entrepreneurs,” says Donna Kelley, an associate professor of entrepreneurship at Babson College.

“There is an opportunity to do something in the Harlems and the Bed-Stuys and those other communities where you have folks who can be turned on and given the skills and tools to be entrepreneurs,” adds Sheena Wright, president and CEO of United Way of New York City and former head of the Abyssinian Development Corporation. “There are real opportunities and resources that can be used to really move the needle on entrepreneurship for low-income people.”

With fundamental changes to the economy punishing those without post-secondary credentials, Kelley, Wright and others believe more low-income individuals could begin to view entrepreneurship as an attractive option. After all, the manufacturing businesses that once offered decent-paying jobs and an opportunity for mobility for people with limited skills have largely moved overseas, and a significant share of the new jobs created in recent years offer extremely low wages, no benefits and

little opportunity for upward mobility. In this economic environment, those who previously shunned the idea of starting a business in favor of the safer route of getting a job might view entrepreneurship in a whole new light.

There is also growing evidence that public and private sector initiatives in New York and elsewhere to promote and support entrepreneurship among low-income people can have an impact—from the annual Lemonade Day that gives young people the confidence that they can be a successful entrepreneur to programs that promote and teach entrepreneurship to kids in public schools or community colleges.

Perhaps most importantly, many residents of disadvantaged communities are already demonstrating significant entrepreneurial potential. Much of this is under the radar of policymakers and the media, but hundreds if not thousands of low-income residents in New York are earning income from informal “side-hustles,” from cutting hair in their apartment to day care. “There is a tremendous opportunity here, because there’s just such a huge amount of entrepreneurial talent, energy and desire,” says Magnus Greaves, a serial entrepreneur who co-founded 100 Urban Entrepreneurs, which supports young entrepreneurs from economically disadvantaged communities.

Increasing the number of low-income, native-born entrepreneurs in New York, however, may not be possible without first addressing the obstacles that prevent many from even considering entrepreneurship and make it difficult for those who do start businesses to get off the ground. For instance, people living in poverty often have limited exposure to entrepreneurial role models and mentors, a problem since entrepreneurs often get the confidence to start a business after seeing family, friends and members of their community succeed with their own ventures. Low-income individuals are also more likely to have limited financial literacy skills, not to mention paltry savings, poor credit histories and limited access to friends and family who can help finance a new business. And some are deterred from starting a business because earning even meager income from such a venture might cause them to lose government benefits, such as Medicaid, food stamps or housing subsidies.

Meanwhile, even as New York economic development officials have smartly ramped up support for entrepreneurs in recent years, there has been little focus on encouraging more low-income people to consider entrepreneurship. Although a number of centers offer workshops and one-on-one technical assistance for small business owners and would-be entrepreneurs, several low-income communities across the five boroughs lack these resources. “We have a lot of entrepreneurial assistance in New York City, but we have to do a better job at connecting them to urban entrepreneurs and being sure we have right mechanism of engagement in place,” says Bishop Mitchell Taylor, founder and CEO of the East River Development Alliance, a community organization headquartered in Queensbridge Houses, the largest public housing community in the nation.

Meanwhile, the workforce development centers that help jobless New Yorkers find work generally steer clear of recommending entrepreneurship, and the already small number of programs that teach entrepreneurship in the city’s public schools have been cut back in recent years.

New York certainly isn’t the only city that could be doing more. Marc Morial, the president and CEO of the National Urban League and an entrepreneur himself, says that policymakers around the country have largely failed to make expanding low-income entrepreneurship an economic and educational priority. “We haven’t created the kind of ecosystem which begins in high school or junior high through community college to nurture and support this idea.”

New York could be a leader in this area. As we detail in this report, there are many achievable steps that city economic development leaders, community-based organizations, workforce development providers and education officials could take to expand the pool of low-income entrepreneurs. Doing so could make a world of difference for low-income New Yorkers, spark economic growth in many distressed neighborhoods and bolster the city’s overall economy.

Click here to read the full report (PDF).

RELATED PRESS

Low Income New Yorkers Less Likely to Start a Business, Study Finds

WNYC, by Ilya Marritz, April 25, 2013

Editorial: Assessing How the Bronx Fared This Year

Norwood News, December 31, 2015

Could Entrepreneurship Help Low-Income New Yorkers Achieve Economic Self-Sufficiency?

New York Observer, by Kim Velsey, April 25, 2013

Nonstarters (PDF)

New York Daily News, by Phyllis Furman, April 26, 2013

Analyzing Challenges Impacting Low-Income Entrepreneurs

NY1, April 30, 2013

Op-Ed: Fixing the Start-Up Boom's Class Bias

Next City, by Jonathan Bowles, April 25, 2013

Op-Ed: Fixing the Start-Up Boom's Class Bias

Next City, by Jonathan Bowles, April 25, 2013

Mayor De Blasio Lays Out His Vision For A More Equitable New York City

Fast Company, by Jessica Leber, February 11, 2014

Breaking Down the Door to Silicon Valley

Next City, by Alexis Stephens, October 17, 2014

CENTER FOR AN URBAN FUTURE
120 Wall Street, 20th Floor, New York, NY 10005

cuf@nycfuture.org © All Rights Reserved.