U.S. SMALL BUSINESS ADMINISTRATION
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Research Summary

The Impacts of COVID-19 on Racial Disparities in Small Business Earnings

By Robert Fairlie, Santa Barbara, CA. 59 pages.
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People of color, particularly Black Americans, have been underrepresented among the self-employed. Their ventures also tend to be smaller. This has contributed to income and wealth inequality. The COVID-19 pandemic disrupted all small businesses, and disproportionate losses may have worsened inequality for small business owners of color.

This report explores how the COVID-19 pandemic impacted business earnings by ownership race and ethnicity. It provides new evidence on how the pandemic affected different business owners and provides insight into small business challenges for weathering future crises.

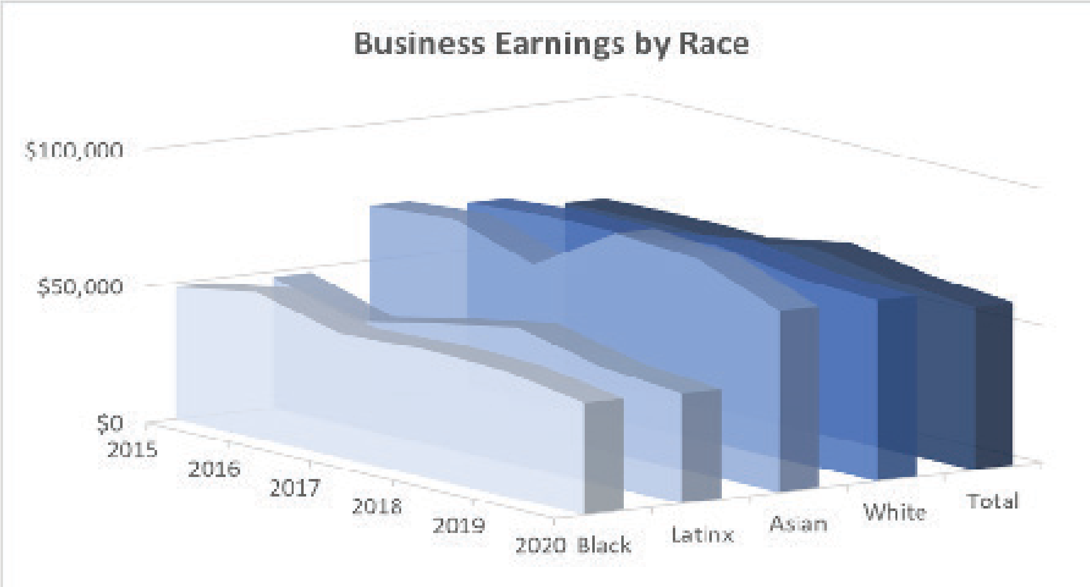
This report was prepared for the Office of Advocacy under contract number 73351021R0008.

Key Findings

During the COVID-19 pandemic, business owners of color had business earnings losses that were disproportionately large compared to White business owners. Black business owners suffered the largest losses. The losses incurred by Black, Latinx and Asian owners widened overall earnings inequality.

- From 2019 to 2020, business owners' earnings overall dropped by 5 to 17 percent. For Black business owners, earnings dropped between 11 and 28 percent; for Asian owners, between 15 and 21 percent; for Hispanic owners, between 7 and 19 percent; and for White owners, between 2 and 15 percent.
- Controlling for pre-pandemic owner, business, and geographical characteristics and time trends, the COVID pandemic had negative impacts on business earnings of about 16-19 percent. When controlling for other variables, Black business owners still experienced a disproportionate negative impact on business earnings of 12 to 14 percent higher relative to White business owners.
- Model results for Latinx and Asian business owners indicated disproportionate negative impacts on business earnings. However, the estimates are not statistically significant. This could mean the negative results might make an overstatement or that the model was not able to control for relevant missing variables due to a lack of available data, such as business owner credit score.
- Factors that lead to business earnings losses during the pandemic included education, geographic location, and industry. Having less than a bachelor's degree led to higher losses, as did having a business in the West or South. Additionally, industries such as Leisure and Hospitality or Wholesale and Retail Trade suffered disproportionately.
- Education and industry concentrations were main drivers in affecting business earnings changes for pre-COVID to post-COVID. Black and Latinx business owners tend to have less formal education while Asian owners tend to have more. All groups have different industry concentrations.

This document is a summary of the report identified above, developed under contract for the Small Business Administration, Office of Advocacy. As stated in the report, the final conclusions of the full report do not necessarily reflect the views of the Office of Advocacy. This summary may contain additional information, analysis, and policy recommendations from the Office of Advocacy.



- Geographical concentrations, or regional and central city/rural areas tended to place business owners of color at a higher risk of business earnings losses in the pandemic, although less than industry concentrations.

Policy Implications

Smaller businesses are more likely to struggle for survival when the economy enters a downturn. Minority-owned businesses, often smaller ventures, are vulnerable during these periods. Policymakers should be aware of these characteristics when crafting policies to support small businesses to avoid worsening inequality. This could take the form of supporting the smallest businesses first or with more resources before turning to larger small businesses.

Policymakers should also gauge whether COVID accelerated the shift towards online shopping, and assess how this has affected small businesses, particularly minority-owned businesses.

Data and Methodology

The study uses the Annual Social and Economic (ASEC, or March) Supplement to the U.S. Census Bureau's Current Population Survey (CPS) as a data source. The CPS collects data on the working status and demographics of the population. Those that worked for themselves as their main job in the previous year are considered self-employed/business owners. Business earnings is calculated from survey questions about earnings. Note that, in this context, incorporated business owners report their earnings from their business as wage and salary. For consistency, self-employment and wage and salary earnings for all business owners are added and viewed as business earnings.

Regressions with business earnings as the dependent variable for before (2019) and after (2020) COVID-19 are used to determine the impact on business earnings by owner race. Trends prior to COVID and differences in businesses, owners, and geographical characteristics are controlled for.

This report was peer reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the Office of Advocacy at advocacy@sba.gov or (202) 205-6533.

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This report is available on the Office of Advocacy's webpage at **https://advocacy.sba.gov**. To stay informed of Advocacy's research, visit **https://advocacy.sba.gov/subscribe.** By selecting the Small Business Regulation & Research category, you can choose to receive email notices of Advocacy research, regulatory communications, or The Small Business Advocate newsletter.