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Letter to Senate Small Business Committee on the Role of Entrepreneurship in Reducing the Wealth Gap

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On February 9, Center for Entrepreneurial Opportunity sent a letter to the Senate Small Committee on Small Business and Entrepreneurship leadership to recognize business ownership as a proven pathway to wealth creation and to center it in any economic opportunity agenda.

We show how business ownership generates jobs and wage growth, builds wealth, retains capital in communities, and creates opportunities that break the cycle of poverty.

Read the full letter below.

Dear Chair Ernst, Ranking Member Markey, and members of the Committee:

The Center for Entrepreneurial Opportunity is a national partnership between Third Way, a leading think tank committed to modern policy solutions, and the National Urban League, a historic advocacy organization focused on economic empowerment for underserved communities. Together, we are working to cultivate an economy where disadvantaged communities are full participants and beneficiaries, able to build generational wealth and financial stability through business ownership. We commend the Committee for examining this critical issue and stand ready to support federal policies that unlock entrepreneurial opportunity across America.

Business ownership remains one of the most powerful wealth-building tools available to American families. In this statement, we will demonstrate how entrepreneurship creates pathways out of poverty through four key mechanisms: first, by generating jobs and wage growth that raise living standards; second, by building individual wealth; third, by retaining capital in communities rather than losing it to corporate consolidation; and fourth, by creating opportunities that break the cycle where existing wealth is a prerequisite for success.

I. Entrepreneurship as a Catalyst for Job Creation and Wage Growth

New businesses serve as the primary engine of American job growth. Companies less than one year old have created an average of 1.5 million jobs annually over the past three decades, accounting for roughly 20% of gross job creation nationwide.¹ Yet their impact extends far beyond these numbers: high-growth firms generate 50% of all new jobs in the economy.² This entrepreneurial activity proves especially vital for disadvantaged communities, where self-employed individuals often earn as much as or more than traditional employees.³ These business owners also provide critical local employment in neighborhoods underserved by larger employers.

The broader economic benefits are equally significant. When entrepreneurial dynamism declines, wage growth stagnates. Conversely, robust business formation creates a natural “churn” that enables job-to-job mobility—a key mechanism through which workers secure higher paychecks over time.⁴ Simply put, an economy that supports new business creation is one that delivers both jobs and rising wages for working families.

II. Bridging the Wealth Gap through Individual Ownership

Business ownership represents one of the most direct pathways to building substantial personal wealth in America. Self-employed households have a median net worth of \$380,000—more than four times the \$90,000 median for families headed by traditional wage earners.⁵ This wealth-building power proves especially transformative for communities facing historic economic disadvantages. Black entrepreneurs possess 12 times the net worth of their peers who work for employers, making business ownership a critical tool for closing persistent racial wealth gaps.⁶

For many entrepreneurs, their business represents not just a source of current income but their primary retirement asset. A substantial proportion of business owners plan to fund 60-to-100% of their retirement through the eventual sale of their company.⁷ This exit strategy transforms years of sweat equity into liquid wealth that can support owners and their families for decades. Exit plans like sales to competitors or private equity and transfers to family members or employee stock ownership plans can generate windfalls ranging from hundreds of thousands to millions of dollars, providing retirement security that would be difficult to achieve by saving wage income alone. With proper guidance and planning, business equity can serve as a forced savings vehicle, with owners building tangible assets that appreciate over time and can be transferred to future generations.

III. Building and Retaining Community Wealth

Local business ownership creates a multiplier effect that keeps wealth circulating within communities. Firms often reinvest earnings back into their communities through local hiring, procurement from nearby suppliers, and purchasing facilities to expand operations.⁸ This proves particularly critical for communities of color, where decades of underinvestment have systemically depressed wealth creation opportunities.⁹

Economic development strategies that prioritize minority entrepreneurs can deliver staggering results. If people of color owned businesses at the same rate as white founders, the US economy would gain 1.1 million additional employer firms and approximately 9.5 million more jobs.¹⁰ These numbers represent what is left on the table when opportunity is locked away by barriers to business formation and sustained growth. By supporting

entrepreneurship as a pathway to wealth in underserved communities, policymakers can reverse the wealth extraction that has hollowed out neighborhoods and instead build durable wealth that compounds over generations—funding local schools, strengthening civic institutions, and creating the economic foundation for inclusive and broad-based prosperity.

IV. Overcoming the Barriers to Entry and the Wealth Cycle

Despite entrepreneurship's proven wealth-building power, access to business ownership remains deeply unequal—with existing wealth serving as the primary gatekeeper. Personal and familial wealth are among the strongest predictors of whether an individual can start a business. Those in the top 1% of the wealth distributions are disproportionately self-employed or business owners.¹¹ This creates a troubling cycle: wealth begets business ownership, which begets more wealth. All the while, those without initial capital remain locked out.

This barrier cuts a stark divide across communities. Many white entrepreneurs launch their ventures using “friends and family” capital—informal investments from personal networks that require no credit checks or collateral.¹² Black entrepreneurs, by contrast, often lack access to these social financing channels and simultaneously lack the collateral necessary to secure traditional banks loans.¹³ The consequences are measurable: households with low initial wealth struggle to borrow enough to start firms of viable size. The typical white small business owner holds 2.5 times the liquid wealth of the typical Black owner during the critical first four years of operation.¹⁴ Undercapitalized businesses face higher failure rates, slower growth, and diminished wealth-building potential. Breaking this cycle requires intentional policy interventions that provide alternative pathways to capital.

IV. The Role of Federal Policy

Businesses across the country are calling out for real, lasting change. We urge Congress to make business ownership a cornerstone of its economic opportunity agenda. There will be no economic plan that is complete without a robust push to make starting and scaling businesses easier for more people. What is needed are visible champions who demonstrate they understand the value of business ownership to our economy and to individual wealth and are prepared to act. Congress needs a new blueprint for action that goes beyond short-term interventions and limited bursts of support. The conversation must turn to the entire lifecycle of a business, ensuring entrepreneurs have the conditions needed to start, grow, and succeed at every stage. Congress should also focus on modernizing support systems,

streamlining complex procurement processes, and strengthening local entrepreneurial ecosystems.

Legislation like the *Strengthening Place-based Access, Resources, and Knowledge (SPARK) Act* should be a part of that agenda since it provides the targeted entrepreneurial development assistance that disadvantaged small businesses need. Not only would it empower local organizations to expand their staffs and back-end operations to amplify their services to businesses, but the bill also meets the capital needs of firms through low- to no-cost grants and loans. We commend Ranking Member Markey for his leadership in drafting this legislation and urge the Committee to bring it up for immediate consideration.

V. Conclusion

Business ownership is a fundamental pathway to wealth creation and shared prosperity. Entrepreneurship drives job creation, builds family wealth at rates unmatched by traditional employment, retains capital within communities, and offers a proven mechanism for closing racial wealth gaps. Yet unequal access to capital continues to lock millions of Americans out of this opportunity. The Center for Entrepreneurial Opportunity stands ready as a committed partner in building a comprehensive blueprint for action. We thank you for your leadership on this critical matter and look forward to working together to make business ownership an accessible pathway for all Americans.

Sincerely,

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Director

Center for Entrepreneurial Opportunity

Third Way

ENDNOTES



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