



CENTER CITY REPORTS

Getting More Philadelphians Back to Work: Business Density and the Role of Black and Minority Owned Businesses

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CENTER CITY DISTRICT,
CENTRAL PHILADELPHIA DEVELOPMENT CORPORATION

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The pandemic has caused a huge spike in unemployment across the nation. To reduce unemployment and poverty as the health crisis ends and recovery begins, Philadelphia will require far more than a return to the status quo before Covid. We need a sustained effort to increase the number of Black and minority-owned businesses as well as much greater attention to business growth overall.

After losing jobs for decades, Philadelphia enjoyed 10 consecutive years of employment gains from the end of the Great Recession in 2009 until the start of the pandemic at the beginning of 2020. Philadelphia's rate of growth during that decade however, lagged significantly behind other major cities and we added a disproportionately smaller share of family sustaining jobs than most other cities.¹ As a result, poverty declined modestly, but remained stubbornly high. Overall, the poverty rate in Philadelphia in 2018 was 24.5%, highest of the 10 largest U.S. cities; among African Americans, it was 29.4%.

From February to June 2020, Philadelphia lost 75,900 payroll jobs. The city's unemployment rate surged from 5.9% to 17.7%, similar to increases in other northeast cities.² By comparison, Philadelphia's monthly unemployment rate after the 2008-2009 recession reached its highest point in July 2012 at 12.0%.

As Philadelphia faces the challenge of rebounding from an even more severe recession, this report seeks to shed light on the importance of *business density* in providing employment opportunities. Our problem is not simply slow job growth. We seriously lag other cities in the formation of businesses that produce jobs. While education and work-readiness are essential components of any strategy to reduce poverty, it is paramount that we focus more on creating greater *business density*, more businesses in relation to residents, and in particular, more Black-owned businesses in relation to Black population.

Black residents are disproportionately challenged by this crisis, which has been exacerbated by centuries of structural disparities in the nation. Black-owned businesses in the city face the double barriers of racism and limited business density in Philadelphia among all racial and ethnic groups. Recovery will require a significant increase in Black-owned businesses and far more robust job growth and business formation among all groups than we experienced during the last 10 years, if we are going to create opportunity for all Philadelphians.

1: <https://www.centercityphila.org/research-reports/growing-more-family-sustaining-jobs-in-phila>

2: In February 2020, Philadelphia had the highest unemployment rate of the five cities that are the focus of this report. When our unemployment rate surged to 17.7% in June, it was less than Boston's rate of 18.9% and New York's, 20.4%

FIGURE 1: TOTAL BUSINESSES AND BLACK-OWNED BUSINESSES PER 1,000 RESIDENTS, MAJOR CITIES, 2017

	ATLANTA	NEW YORK	BOSTON	WASHINGTON	PHILADELPHIA
Total Businesses ¹	11,968	192,869	12,697	11,845	19,113
Total Population	486,299	8,622,698	683,015	693,972	1,580,863
Businesses per 1,000 Population	24.6	22.4	18.6	17.1	12.1
Black-Owned Businesses	1,208	7,191	444	1,596	1,174
Black Population	256,888	2,094,132	176,868	318,220	663,708
Black-Owned Businesses per 1,000 Black Population	4.7	3.4	2.5	5.0	1.8
Black Business Density as a Percent of Total Business Density	19.1%	15.4%	13.5%	29.4%	14.6%

1: Includes only employer businesses where the ownership is classified by race.

Source: US Census Bureau, Annual Business Survey, 2018; American Community Survey 2017 one-year estimates.

A COMPARISON OF FIVE CITIES:

Using data from the U.S. Census Bureau’s 2018 Annual Business Survey (ABS), the most recent year for which data is available, CCD analyzed the total number of firms in Philadelphia and the number of Black, Hispanic, Asian and white owned firms and compared this to four other Eastern cities: Boston, New York, Washington and Atlanta. Given the substantial difference in geographic size and population among these cities, we created a simple measure of “business density” – the ratio between the number of firms in a city and its population. This enables a shorthand estimate of opportunity: the higher the ratio of firms to residents, the more potential opportunity should exist within the boundaries of the city. We also looked at the ratio of Black-owned firms to Black residents.

The findings show significant differences between cities in the number of businesses per resident, and in particular, the number Black-owned businesses per Black resident. Among our comparison cities, Philadelphia had the lowest number of firms overall in relation to population (lowest *business density*), as well as lowest number of Black-owned firms in relation to Black residents (Figure 1).

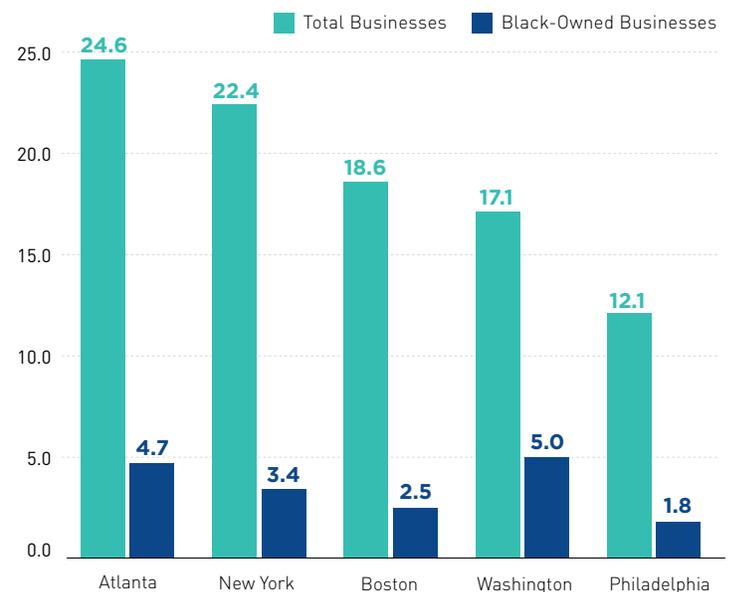
In 2017, Philadelphia had 12.1 businesses per 1,000 residents, less than half the business density of Atlanta, where the ratio was 24.6 per 1,000 residents. New York had a business density ratio of 22.4, Boston, 18.6 and Washington, 17.1. In the nation as a whole, there were 16.8 businesses per 1,000 residents. Philadelphia thus had the lowest number of businesses in relation to its population among the five cities and was the only city in this group with fewer businesses per capita than the nation.³

In all five cities, there is a large disparity between the overall number of firms per resident and the number of Black-owned firms per Black resident. However, as Figure 2 shows, Philadelphia confronts two overlapping challenges: lower business density in general, compounded by a lower density of Black-owned firms in particular.

Locally, there are 1.8 Black-owned firms per 1,000 Black residents, just 14.6% of the overall number of firms per 1,000 residents. In other words, the number of Black-owned businesses in Philadelphia is only 14.6% of the number that would be expected based on the overall level of business concentration and the number of Black residents in the city. Nationally, the ratio is 16%, in New York City, it is 15.4%, in Atlanta, 19.1% and in Washington, 29.4%.

When Philadelphia’s overall low-level of business density is combined with its large disparity between Black and non-Black businesses per capita, the result is that the number of Black

FIGURE 2: TOTAL BUSINESSES AND BLACK-OWNED BUSINESSES PER 1,000 RESIDENTS, MAJOR CITIES, 2017



Source: Census Bureau, Annual Business Survey and American Community Survey 2017 one-year estimates.

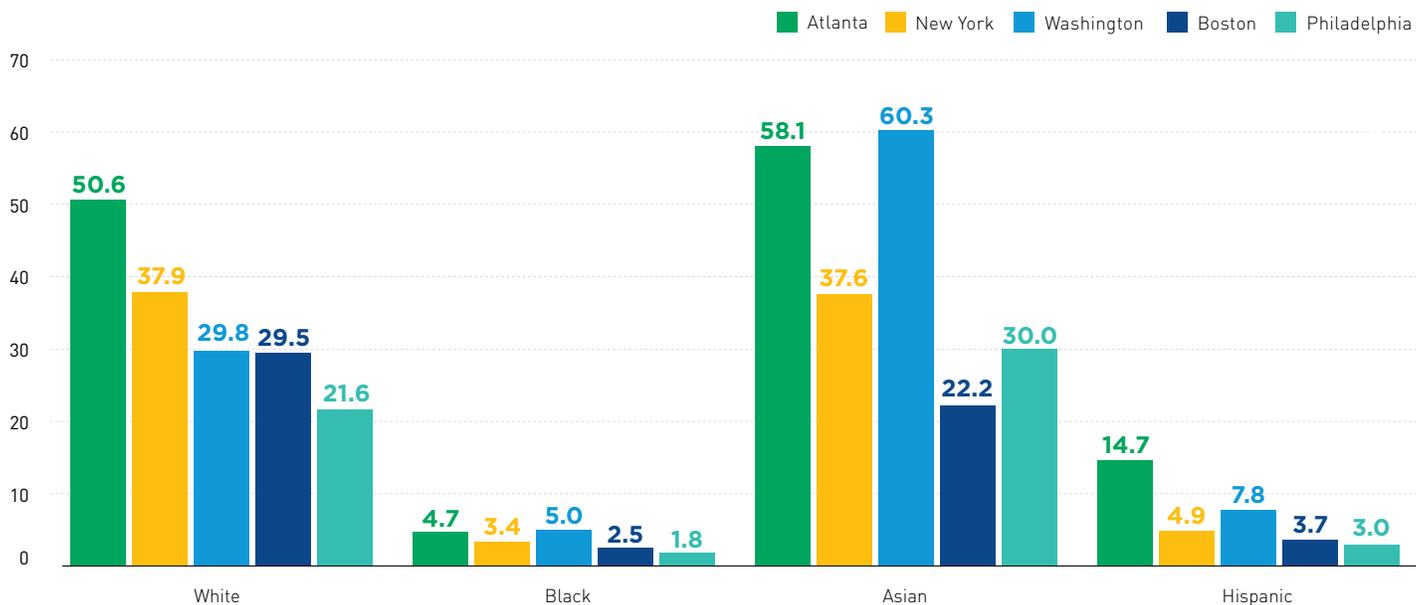
3: These calculations include only those businesses in each city for which ownership by race is determined in the survey.

businesses per Black resident is by far the lowest of the five cities. Philadelphia's 1.8 Black businesses per 1,000 Black residents is 65% below Washington, 62% below Atlanta, 48% below New York, 30% below Boston, and 41% below the national average.

If Philadelphia had as many Black-owned businesses for every 1,000 Black residents as Washington, the number of Black-owned businesses would nearly triple, rising from 1,174 to 3,329.

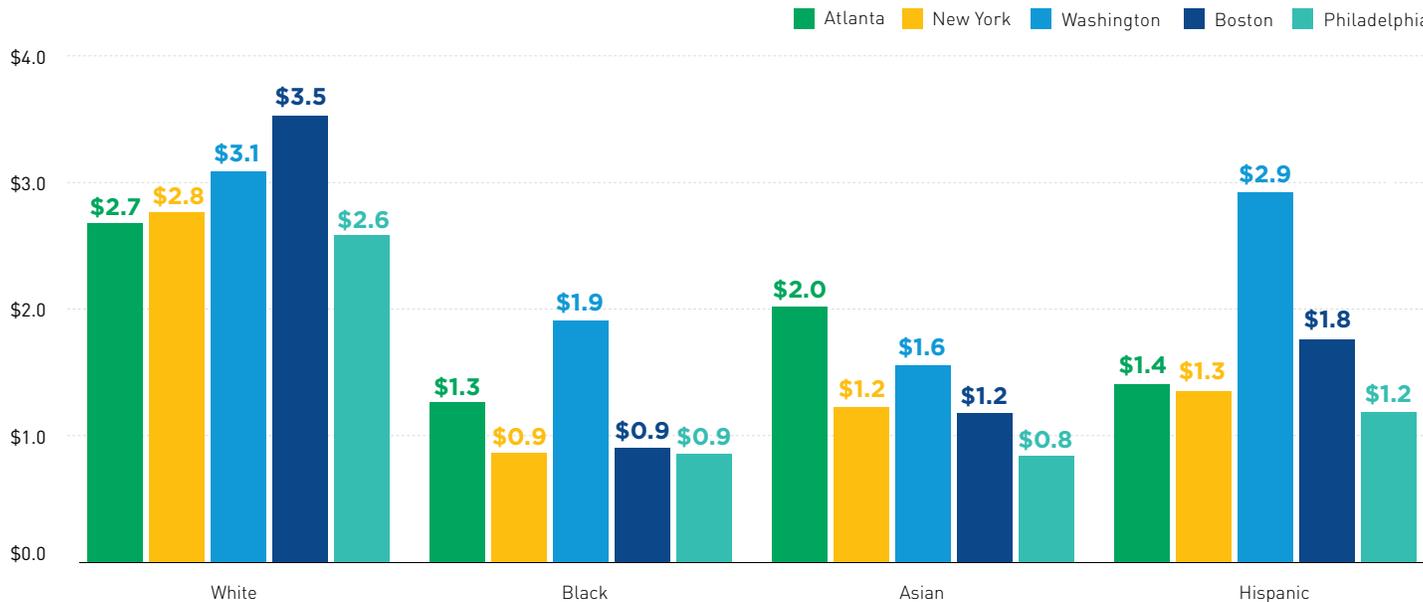
Philadelphia lags in business density, however, across all racial and ethnic categories (Figure 3). The city's ratio of three Hispanic-owned firms per 1,000 Hispanic residents is the lowest among the five cities, while the city also has the lowest number of white-owned firms per 1,000 white residents. Among all racial and ethnic groups, the highest rate of business formation in Philadelphia is among Asians, with 30 firms per 1,000 Asian residents. The city ranks ahead of Boston in this category, but behind New York, and at half the density of Asian firms in Washington and Atlanta.

FIGURE 3: BUSINESSES PER 1,000 RESIDENTS BY RACE AND ETHNICITY, MAJOR CITIES, 2017

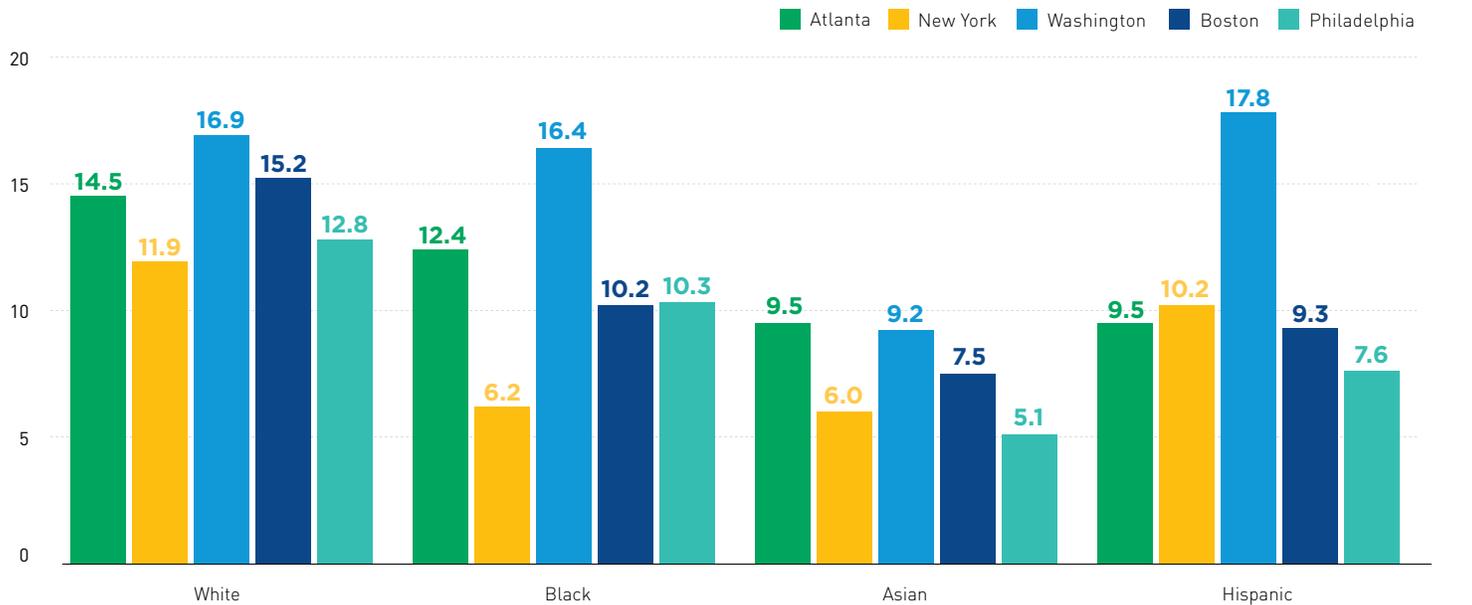


Source: Census Bureau, Annual Business Survey and American Community Survey 2017 one-year estimates.

FIGURE 4: AVERAGE REVENUE PER BUSINESS, BY RACE AND ETHNICITY, MAJOR CITIES, 2017 (\$ IN MILLIONS)



Source: Census Bureau, Annual Business Survey.

FIGURE 5: AVERAGE EMPLOYEES PER BUSINESS, BY RACE AND ETHNICITY, MAJOR CITIES, 2017

Source: Census Bureau, Annual Business Survey.

The economic strength of minority and non-minority owned businesses can also be measured using ABS data on average revenue per firm. By this metric, too, Philadelphia lags. The average revenue for Philadelphia's Black-owned firms in 2017 was \$854,000, well below Washington and Atlanta and slightly below New York and Boston. Average revenue for white, Asian, and Hispanic-owned firms in Philadelphia is also the lowest among the five comparison cities (Figure 4).

ABS also provides information on the number of employees per firm. Black-owned firms in Philadelphia have 10 employees on average, higher than in New York and Boston, but well below the level of Atlanta and Washington, Philadelphia's Asian-owned firms employ 5.1 workers on average, lower than the other four cities, and Hispanic firms have an average of 7.6 workers, also the lowest among the comparison cities. White-owned firms in Philadelphia, have 12.8 workers on average, higher than in New York, but below the other cities (Figure 5).

Despite disparities, the ABS data highlights the paramount importance of Black-owned businesses, as well as Asian-owned and Hispanic-owned businesses, as significant generators of jobs, earnings, and opportunity within Philadelphia. However, not only are the number of Black-owned and Hispanic-owned businesses per capita in the city well below the number of white-owned businesses; the disparities between the number of these minority firms and white-owned firms are greater than in three of the four comparison cities. Finally, these disparities occur in a context in which *the density and performance of all businesses, including white-owned businesses, lags the four other cities.*

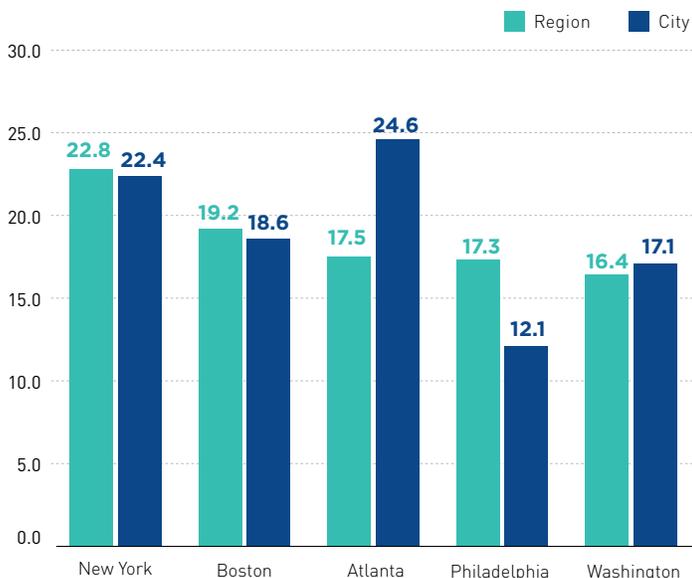
POSSIBLE EXPLANATION FOR DIFFERENCES:

This report does not attempt to offer conclusive explanations for these disparities. Its purpose is to highlight the problem of the *limited number of Black-owned and other minority firms* in Philadelphia and the challenge of *low business density* overall and to move these issues higher on the agenda of public policy discussions about poverty and unemployment. There are however, a number of factors to consider in analyzing the differences between cities and in fashioning an effective response.

Regional Patterns: One important difference between these cities is the extent to which regional economic activity – jobs and businesses – are concentrated in the city. The economy of the Philadelphia metropolitan area is more decentralized than the other regions, with fewer jobs concentrated in the city. This limits the number of nearby employment opportunities for city residents and constrains the economic environment for forming and maintaining a successful business.

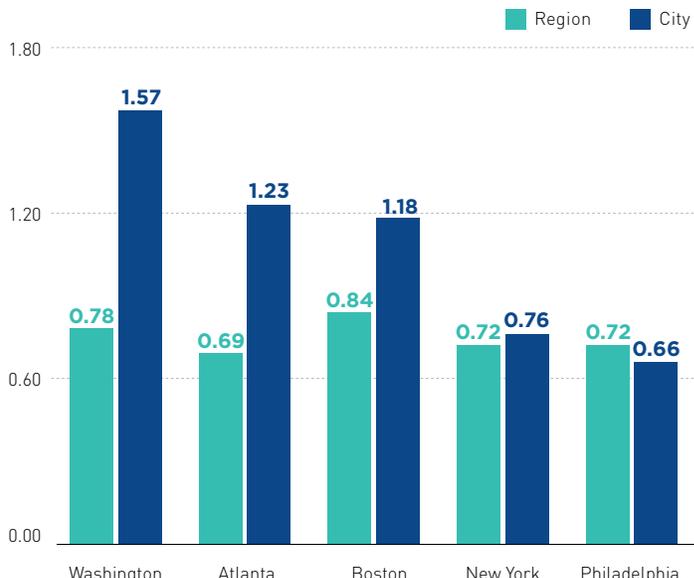
The degree of decentralization of economic activity in the Philadelphia region is evident when comparing ABS data on the total number of businesses per 1,000 residents at the city and regional level. Philadelphia's 12.1 firms per 1,000 residents is *30% below* the regional level, while Atlanta's 24.6 firms per 1,000 residents *exceeds* its regional density by 41%. In New York, Boston, and Washington, businesses per capita at the city and regional level are comparable (Figure 6).

FIGURE 6: BUSINESSES PER 1,000 RESIDENTS, CITY AND REGION, 2017



Source: Census Bureau, Annual Business Survey and American Community Survey 2017 one-year estimates.

FIGURE 7: JOBS PER WORKING AGE RESIDENT



Note: Atlanta and Boston city are represented by Fulton County, GA, and Suffolk County, MA, respectively.

Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages and Census Bureau, American Community Survey 2017 one-year estimates.

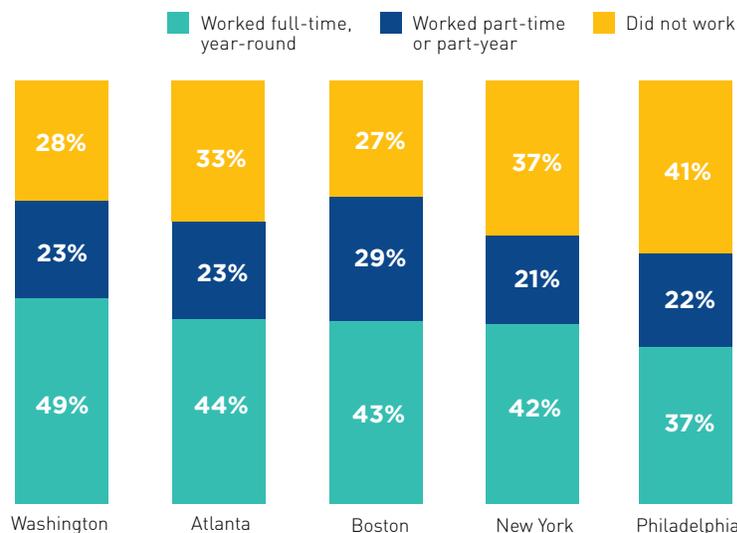
The lower level of business density in Philadelphia could be a reflection of the competitiveness of the city relative to its suburbs as a business location.⁴ Philadelphia’s wage tax is almost four times the regional median and our business income and receipts tax has no counterpart in the surrounding counties, but adds a 20% to 50% premium cost on businesses located in the city. The pandemic has demonstrated the extreme vulnerability of the City’s budget due to its high dependency on taxes that are avoidable by relocating a business or working from home, beyond the city boundaries. This reinforces the differences in income, wealth and disposable income between the city and suburbs, creating a further limitation for small business formation.

Economic decentralization is also evident in the distribution of jobs in the Philadelphia region. Atlanta has 1.23 jobs per working age resident, Boston has 1.18, Washington has 1.57, New York has 0.76, and Philadelphia has only 0.66. Philadelphia is the only city among this group where the number of jobs per working age resident in the city is lower than in the metropolitan area. In Atlanta, Boston, and Washington, the number of jobs per working age resident in the city far exceeds the regional average. In New York, the difference between city and region is smaller, but job density in relation to population is still greater in the central city (Figure 7).

A lower concentration of jobs correlates with lower workforce participation rates. Among the comparison cities, Philadelphia has the lowest percentage (37%) of residents over the age of 16 who

work full-time (Figure 8). While many factors can influence the work status of city residents, the nearby availability of employment makes it easier to access opportunities.

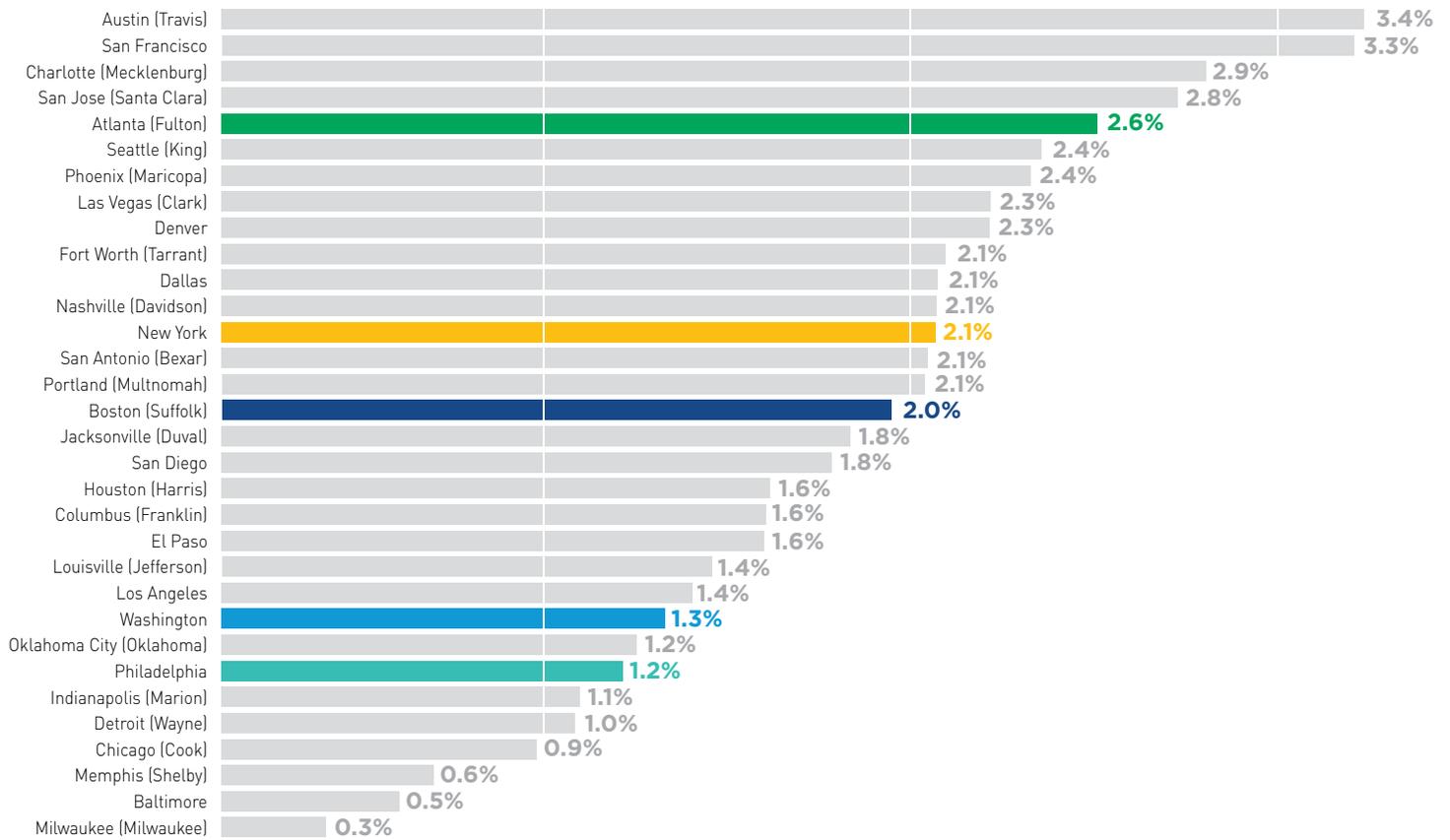
FIGURE 8: WORK STATUS OF POPULATION AGE 16 AND OVER, 2017



Source: Census Bureau, American Community Survey 2017 five-year estimates.

4: The degree of business decentralization in Philadelphia may seem surprising, given the city’s strong hub-and-spoke transit system converging in Center City and University City. Philadelphia has a very high concentration of its jobs (42%) within Center City, based on 311,000 jobs that were located there at the beginning of 2020. At the same time, University City held another 10% of the city’s jobs. However, outside of these nodes, there are very few other large job clusters in Philadelphia. The Navy Yard and Temple University North Philadelphia campuses each held a 1% share of the city’s jobs at the beginning of 2020. No other employment node elsewhere in Philadelphia rose above a 1% share of the city’s jobs.

FIGURE 9: AVERAGE ANNUAL EMPLOYMENT CHANGE, LARGE URBAN COUNTIES, 2009-2019



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages. Numbers are rounded to nearest 1/10th so two cities shown with the same rate of growth with one bar longer than the other are the result of rounding (i.e. both 1.19 and 1.22 are shown as 1.2)

Economic Growth: The rates of growth in these urban areas varied considerably in the past decade. Fulton County, Georgia, where Atlanta is located, was among the fastest growing major urban counties in the U.S. since the 2008–2009 recession, with jobs increasing at an average annual rate of 2.6% from 2009 to 2019. Jobs in New York and Suffolk County, Massachusetts (where Boston is located) increased 2.1% and 2.0% annually, respectively, a level of growth that was typical among major counties. Annual average employment growth in Philadelphia was only 1.2% over this period, among the lowest of large urban counties (Figure 9).

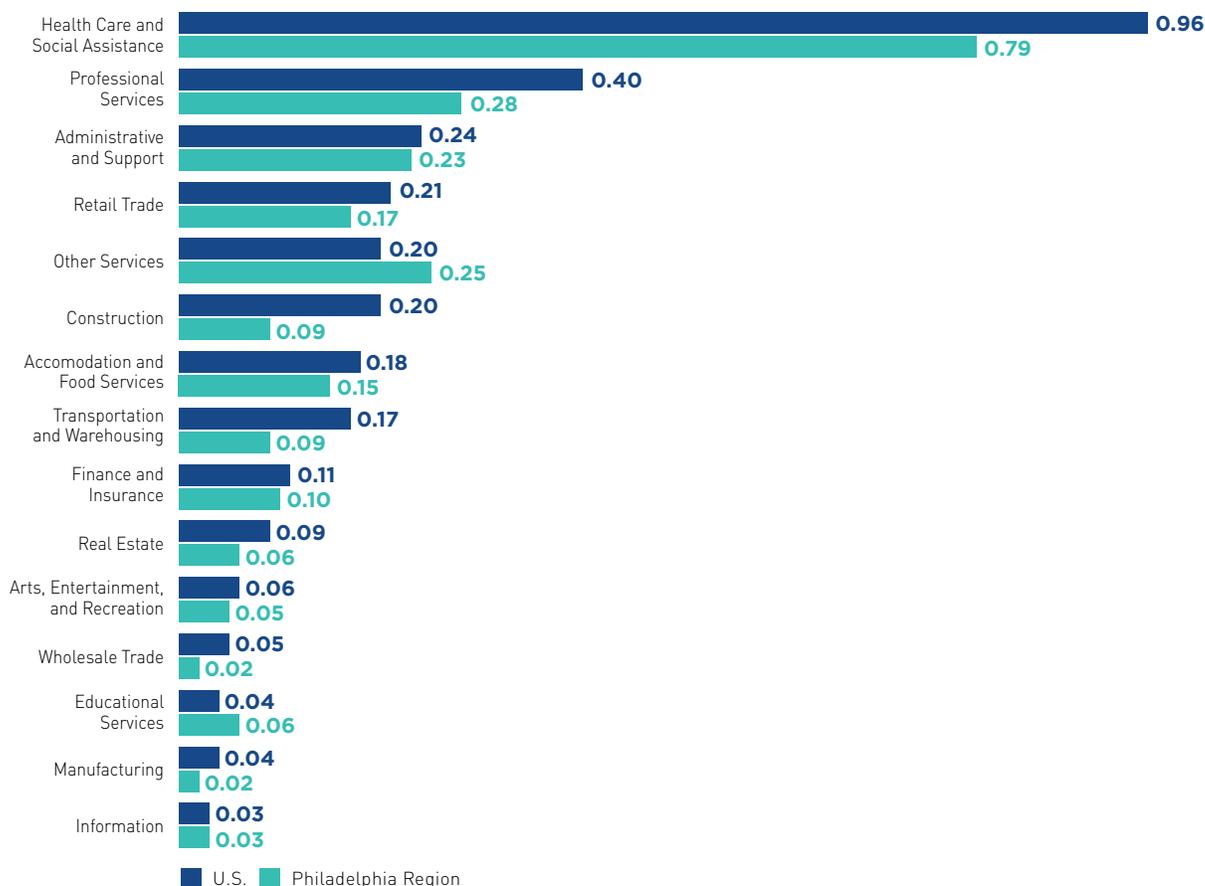
Differences in growth rates affect more than the number of new jobs that become available each year. Slow growth, combined with a concentration of Philadelphia’s recent growth in lower wage jobs, curtails the demand for goods and services by residents and workers that can fuel and sustain new business formation. Limited growth also limits the purchase of products and services by existing businesses. Conversely, an expanding economy provides more fertile ground for the formation and growth of all businesses, including Black and other minority-owned businesses.

Industrial Structure: Data on Black and minority ownership of businesses by industry sector are only available at the regional level, so it is not possible to identify the specific sectors in which Philadelphia lags the other comparison cities. However, the regional data is illustrative (Figure 10).

In the Philadelphia metropolitan area and in the nation as a whole, Black-owned business density is the greatest in health care and social assistance, professional services, administration and support, retail trade, and other services. However, Black business density in the Philadelphia region lags the nation in every industry sector except educational services and other services. The largest gaps between the region and the U.S. are in health care and social assistance, professional services, construction, and transportation and warehousing. In percentage terms, the largest differences between the Philadelphia region and national Black business density are in wholesale trade (Philadelphia Black-owned business density is 59% lower than the U.S.), construction (56% lower), manufacturing (56% lower), and transportation and warehousing (46% lower).

For most industry sectors, Black-owned business density in the Philadelphia region is generally below levels in the New York, Boston, Washington and Atlanta metropolitan areas. The Philadelphia region lags these regions in professional services (the D.C. region’s Black business density is more than 4 times that of Philadelphia), construction (New York’s density is 3.5 times Philadelphia), and transportation and warehousing (Atlanta’s density is more than 3 times Philadelphia). The Philadelphia region’s business density is comparable to the other regions in administrative and support services, educational services, health care and social assistance, arts, entertainment, and recreation, and other services.

FIGURE 10: BLACK-OWNED BUSINESSES PER 1,000 POPULATION, 2017



Source: Census Bureau, Annual Business Survey and American Community Survey 2017 one-year estimates.

As noted earlier however, many of these regional disparities are a subset of the lower level of business density for all businesses in Philadelphia and the surrounding region.

Local Support for Minority Business: Local government can assist with minority business development and growth in a variety of ways, including by assisting with access to capital, the direct purchase of services, developing business networks, and with training and technical assistance. One factor that could explain differences in business formation across the five cities could be the level of investment in local programs to promote minority business.

In fiscal year 2021, Washington will spend \$6.60 per capita on programs for small and minority business development, compared to \$0.59 per capita in Philadelphia, \$0.92 in New York, and \$3.43 in Boston. (See the descriptions of city programs in Appendix A.) These differences could reflect the different priorities placed by different governments on investments in economic development and on minority business development in particular.⁵ Businesses in Washington also have the benefit of both a local commitment to contract with minority firms and federal requirements.

While data does not exist to quantify or compare private sector efforts to purchase goods and services from minority and Black-owned businesses, as noted in the section on economic growth above, cities with faster growing economies have more opportunities to make good on promises of greater inclusion.

Access to Capital: Access to capital is a critical issue for all minority-owned businesses. According to the Federal Reserve in 2016, “Forty percent of non-applicant Black-owned firms did not apply for financing because they were discouraged (i.e., they did not think they would be approved), compared with 14% of white-owned firms and 21% of Hispanic- and Asian-owned firms.”⁶ The Federal Reserve’s most recent 2019 *Report on Minority-Owned Firms* found that the share of Black-owned firms that applied for financing dropped from 56% in 2016 to 45% in 2018. For those who did apply for financing, 31% of Black-owned firms received approval for the financing they applied for compared to 49% of white-owned firms.⁷ The financial disparities are clear among Black-owned firms and their peers.

5: For a discussion of how economic development fits into Philadelphia’s public spending priorities see, Investing the Proceeds of Growth www.centercityphila.org/research-reports/investing-the-proceeds-of-growth-2

6: <https://www.fedsmallbusiness.org/survey/2017/report-on-minority-owned-firms>

7: <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/20191211-ced-minority-owned-firms-report.pdf>

CONCLUSION:

For at least the next year or two, Philadelphia's municipal budget is going to be severely constrained, limiting the ability to support new initiatives. Further, Philadelphia's financial responsibilities as both a city and county will continue to place additional burdens on local government to support functions that in other regions derive support from surrounding suburbs. On the other hand, in the short term, there may be extra relief coming from the federal government.

However, the city's low level of *business density* among all firms compounds the challenges experienced by Black-owned and other minority firms. As local leaders plan for recovery and seek to expand opportunity and reduce poverty, Philadelphia must focus more strategically on the factors that create a more conducive environment for the growth of all businesses at the same time as placing a special emphasis on the growth of Black and other minority-owned firms.

APPENDIX A:

CITY PROGRAMS TO SUPPORT MINORITY BUSINESS DEVELOPMENT

Atlanta: Invest Atlanta⁸ is an quasi-governmental economic development authority led by the mayor with board members from the Urban Residential Finance Authority, Downtown Development Authority, and the Atlanta Economic Renaissance Corporation. This robust partnership gives multilevel assistance for startups, small and medium sized businesses, and large corporations wanting to locate in Atlanta. Invest Atlanta administers 11 small business loan programs, with the Community Business Loan program targeted "to build a more inclusive culture of entrepreneurship."

Boston: The city's Office of Economic Development¹² operates a Small and Local Business Development program that offers grants, training, and partner consultants to give support to business.

New York: The Department of Small Business Services,¹¹ similarly, has an economic development focus giving financial support to small businesses and access to resources to training and certification for minority-owned businesses.

Philadelphia: The city's Office of Economic Opportunity, through the Department of Commerce,¹³ works to support minority, woman and disabled-owned businesses through registration of businesses and contracting. There are a few loans available for small business though the Department of Commerce for business financing. PIDC¹⁴, Philadelphia's public-private economic development corporation, also has a program for minority, woman and disabled-owned businesses through a contract line of credit. This agency also provides funding for small businesses through a working capital and equipment loan.

Washington: The Department of Small and Local Business Development (DSLBD)⁹ has the mission of supporting economic development and retaining small, locally owned businesses. In partnership with several other departments, DSLBD aids small business through the Capital Connection¹⁰ program providing tax and bookkeeping services, credit repair, and directly connecting businesses to lenders. Additionally, DSLBD provides a variety of loans and is the hub of for all local resources provided by federal, local, and nonprofit agencies. By local law, the City also produces an annual public report on minority and disadvantaged business contracting: <https://www.slideshare.net/DSLBD/DC/fiscal-year-2019-green-book-final-version>

8: <https://www.investatlanta.com/>

9: <https://dslbd.dc.gov/service/small-business-resource-center-0>

10: <https://dccapitalconnector.com>

11: <https://www1.nyc.gov/site/sbs/index.page>

12: <https://www.boston.gov/departments/small-business-development>

13: <https://www.phila.gov/departments/department-of-commerce/investing-in-neighborhoods/>

14: <https://www.pidcphila.com/who-we-are/who-we-serve/minority-women-disabled>