ENTREPRENEURSHIP IN UNDERINVESTED AREAS

Chair: Brett Palmer, President, Small Business Investor Alliance

Panelists:

- *Aron Betru, Managing Director, Center for Financial Markets, Milken Institute*
- *John Dearie, Founder and President, Center for American Entrepreneurship*
- *Maryann Feldman, Faculty Director, CREATE; Professor of Finance, UNC Kenan-Flagler Business School; Heninger Distinguished Professor in Public Policy, UNC Chapel-Hill*

Brett Palmer opened the session by recognizing that within the discussion surrounding entrepreneurship, there are some sectors that are being left out of the conversation. Aron Betru explained how Milken institute has been addressing this issue under the larger umbrella of wealth inequality in the U.S., specifically bringing to attention disproportional growth opportunities among different communities. In particular, Betru explained that despite the consecutive months of job growth within the U.S., there has actually been a 91 percent drop in access to capital for the African American community during the same period. Betru added that the flow of capital is not the end goal, but rather a means to achieve the vision of economic security for individuals and communities.

John Dearie joined in the conversation by pointing out the geographic concentration of economic growth since the great recession. Dearie explained that startups are important to economic growth, as they are disproportionally responsible for innovation, which drives gains in productivity. However, new business formation has mostly been clustered around four cities and also has not been a major concern for policymakers in Washington, D.C. in the past. However, with the new entrepreneurship caucus founded by the House of Representatives and Senate in 2019, Dearie suggested that we can "now move the needle to get at the two issues facing the country."

Maryann Feldman also questioned, as an academic, what the system of innovation looks like. "Only six cities have experienced growth in employment and wages," said Feldman, "and this prosperity is seen in college towns." Feldman particularly brought to attention how academic discoveries were not coming to fruition, unlike the abundant commercialization of products of academic labs in the past. This is a problem we must address, said Feldman, and the problem is systematic. Feldman also referenced a recent paper of hers that analyzes the closure of banks and the availability of financing to minority entrepreneurs, emphasizing that such issues have affected minority entrepreneurs, as well as local industries that are not in the realm of venture capital investments.

Palmer then asked the panelists if there would be some insight from other countries. Dearie spoke about the success of the Yozma initiative in Israel, where a lot of entrepreneurship was happening, but with zero venture capital. The government provided one-to-one matched funding to private investment that came into Israel, which created a vibrant venture capital environment.

Dearie suggested that there could be a way to borrow this idea, to incentivize diversification of venture capital more equitably among geographic regions.

Palmer then followed up with an inquiry about the appropriate size and structure of funds that could also touch upon the issue of inequality. Betru responded by bringing in the consolidation of banks post-2008, explaining that consolidation will increase fund sizes, leading to deal sizes that are not appropriate to serve the smaller entrepreneurs that are actually the most innovative. He emphasized that we need to find a better balance between compliance and growth. Feldman also questioned whether using ROI as the criteria to judge these small businesses was appropriate, given the nature of the businesses. Feldman explained that the companies are not yet attractive based on ROI, but the government does not understand the unique opportunity for it to seed these companies.

Dearie agreed with the other panelists, adding that the Dodd-Frank Wall Street Reform and Consumer Protection Act "overreached." The rule was written so broadly, said Dearie, that it shut down banks involved in venture capital investments. However, the banks that were participating in VC, Dearie explained, were actually the ones providing capital into the middle section of the country.

Palmer brought the conversation to an end by asking the final question: "What are some of the myths about underserved communities?" Betru answered that there is a myth that businesses within opportunity zones are not worth investing in. Most opportunity zone funds are flowing into real estate, he said, but this is merely because the opportunity cost of investing in businesses in these zones is higher compared to investing in real estate, not because the companies are not investable. Dearie suggested that entrepreneurs cannot ignore policies and that entrepreneurs and policymakers need to get together to solve problems. Feldman concluded by saying there is so much dissatisfaction regarding regulations, but what is really important for the community to understand is that this is a fragile system, and "we want to tune it, not destroy it."