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Publication Date

2022-09-30

CAL-IN-SACRAMENTO FELLOWSHIP PROGRAM, FALL 2022

DIVERSITY AND ENTREPRENEURSHIP IN CALIFORNIA

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In the spring of 2021, IGS launched a two-year Diversity and Entrepreneurship Fellowship as part of the Cal-in-Sacramento Fellowship program. Now in year two, IGS and the Matsui Center are proud to showcase students' original research on the challenges and opportunities facing women- and POC-owned small businesses and diverse entrepreneurs in California. This series includes op-eds, blog posts, policy briefs and other research products. Learn more at <https://igs.berkeley.edu/matsui-center/fellowships/cal-in-sacramento>.

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In California, Women- and POC-owned Small Businesses Feel the Crunch of a Rising Cost of Living

Jackson Smith

Throughout the past two years, California's beloved small businesses have faced perhaps some of their darkest days. The arrival of the COVID-19 pandemic in 2020 forced the state to quickly take measures to protect its residents from a rapidly-spreading novel virus. The ensuing lockdown and pandemic disruptions caused thousands of small businesses to shutter, and many owners experienced their entire livelihoods essentially vanishing. To add insult to injury, these businesses have now also been slammed by a recent period of unprecedented inflation in which Americans saw soaring costs for housing, groceries, and gas.

"Everything's been impacted," said Aaronette King, an Oakland native and owner of caterer Eat Play Events & Catering. "After the pandemic, I pay roughly 30% more for the same ingredients and I've had to raise my prices." Yahshimabet Selassie, fellow Oaklander and CEO of bakery Yahshi Bakes, shared a similar experience. "I'm constantly thinking about pricing because I want to keep it in a price range that's accessible but that's difficult to do. For example, I've had to raise the price of a cookie from \$3 to \$5 because of inflation."

California's small business woes and cost of living crisis were merely laid bare by the pandemic and inflation, not caused by them. California has long held the distinction of being one of the most expensive states in the nation for both renters and homeowners. According to the state Department of Finance, the median home price in October 2021 for a single-family home was \$798,440.¹ Moreover, in 2021, the average hourly salary required to rent a 2-bedroom apartment in the state was \$39.03, over two times the state minimum wage.² In the more granular context of California's small business economy, small businesses therefore must contend with costs of living that frequently outpace the salaries of their employees. In San Francisco, MIT estimates a "living wage" to be \$28/hour, or \$58,240 per year, much higher, for example, than the typical annual salary of \$27,827 for food service employees in the city.³

The cost of living crisis is especially challenging for businesses reliant on hired labor, including businesses in industries like food service and retail that typically pay wages at or near minimum wage. King continued that her business has been unable to keep up with the exploding gig service economy. "You have platforms like Instawork, where they're able to pay workers \$25-\$35 an hour. I can't afford to pay that. So, it kills off the smaller caterer that has an event and needs extra catering staff, but their labor budget is only \$25 an hour."

Yoko Kumano, co-owner of Japanese kitchenware store Umami Mart in Oakland's historic Temescal neighborhood, also noted a drop off in applicants to her business. "I think this was a result of the cost of living because so many people have moved out of the Bay Area. So, the people that we do have remaining all have very deep roots in the area due to their family and friends here. However, when we were ready to hire back after the pandemic, about one-third to a half of our pre-pandemic staff had moved away."

This isn't to argue that minimum wage workers should be paid less for the sake of the survival of small businesses—all business owners I spoke with for this piece expressed a strong desire to pay their employees a fair, living wage. However, some small businesses are suffering in California, and

¹ https://www.dof.ca.gov/Forecasting/Economics/Economic_and_Revenue_Updates/documents/2021/November_2021.pdf

² <https://www.statista.com/statistics/203384/us-two-bedroom-housing-wage-by-state/>

³ <https://livingwage.mit.edu/counties/06075>

particularly in its urban areas, for the simple fact that they are increasingly unable to pay wages that can sustain more than just an employee's basic needs in areas with a very high cost of living.

California's women- and POC-owned businesses have been hit especially hard by both the pandemic and the overall cost of living. "I think that childcare is a particularly burdensome expense for women," continued Kumano. "Even though we like to think society is equal in parenting, a lot of the burden falls on the woman. So, if the mother is in charge of taking care of the child both financially and in raising them, it can really just be too much around here. In fact, I had a colleague move to the North Bay along with her business because the cost of childcare was too expensive in this area." The Bay Area does indeed harbor some of the highest costs of early childcare; Children's Council San Francisco estimated that the cost of full-time childcare can range between \$1,700 to \$2,459 in the city *per month*.⁴ Considering the area's already exorbitant cost of living and doing business, an exodus of family-run businesses would not at all be unexpected; expecting parents to pay roughly the annual rent of a one-bedroom apartment until their children enter elementary school is a monumental ask.

Moreover, Selassie expressed that people very often do not understand the dire implications that the rising cost of living holds for small business owners of color. "Small business, for black and brown communities, is really a form of survival," she recounted. "I would argue that a lot of times white people have a very different business journey. A lot of stories seem like 'I quit my day job, my parents gave me a loan, and I decided to open a restaurant.' The sense of entitlement, especially among people who aren't from the Bay, is deeply infuriating." Accordingly, though people of color make up about 61% of the Bay Area's population,⁵ [data from UC Berkeley's Institute of Governmental Studies](#) shows that just 29.9% of its small businesses are POC owned.⁶ "What people aren't getting is that [this type of support] isn't the reality in our communities; it requires an immense amount of sacrifice to climb up the ladder as a black person."

Though these interviews dealt with objectively negative aspects of operating a small business, all three business owners with whom I spoke showed a remarkable and steadfast commitment to remaining in and serving their communities. "I'm never leaving Oakland," declared King when asked if she's ever considered relocating her business. "I'm from here. And because if I don't stay and fight for Oakland, then who will?" However, it cannot be up to already overworked and underappreciated local business owners to save themselves.

The clearest path toward lowering the cost of living is tackling our housing crisis head-on. Though the state legislature has passed landmark legislation like SB-9 and SB-10 to greatly expand the housing supply and therefore eventually help bring down rents and home prices, some jurisdictions like San Francisco that would particularly benefit from more affordable housing have also [attempted to circumvent the laws' provisions](#).

Most Californians would readily agree that the state's cherished small businesses need to be protected for the immense diversity, curiosity, and cultural value that they bring to our communities. Yet, many also are not making the connection that cost of living is an **integral issue** with whether small businesses are able to survive here. Lawmakers need to embrace measures of lowering cost of living, such as zoning for higher-density housing or expanding early childcare options, that allow small business owners and their employees to live and work in the same city affordably. Otherwise, the state's small businesses may continue to face a difficult and uncertain future.

⁴ <https://www.childrenscouncil.org/families/understanding-child-care/child-care-costs/>

⁵ <https://bayareaequityatlas.org/indicators/race-ethnicity#/>

⁶ <https://www.urbandisplacement.org/wp-content/uploads/2022/01/UDP-Business-Vulnerability-Report-Final.pdf>