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The Political Roots of Small Business Identity*

McGee Young
Marquette University

A divided and largely hapless small business lobby failed to advocate effectively on behalf of small firms in the post-New Deal era. While interest-group scholars have accepted collective action-based arguments for patterns of under-mobilization, this article challenges conventional wisdom by examining historical and institutional causes of small business political fragmentation. It shows a fractured small business community emerging out of the populist era, and subsequent policy developments institutionalizing divisions and rivalries among competing factions. During the New Deal, when opportunities arose to forge a new consensus among small business groups, policymakers instead followed old scripts and reinforced received identities. Consequently, small business never came to occupy an important space in the post-New Deal political order.
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***McGee Young** is Assistant Professor of political science at Marquette University in Milwaukee, Wisconsin, whose research examines interest group development in American politics. He is the author of a forthcoming book entitled* Developing Interests, *which traces the rise of small business and environmental interest groups over the course of the twentieth century. He can be reached at* mcgee.young@marquette.edu.

Introduction: The Small Business Conference and the Rise of Small Business Associationalism

In the post-New Deal years, advocacy prospects looked bleak for small business owners, and nothing seemed to capture the situation like the 1938 White

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House Conference on Small Business. Ordinarily staid affairs, White House conferences had been frequently utilized by the Roosevelt Administration as a forum for receiving policy advice from the private sector. This one would be different, however. Sensing that business support had eroded to a critical level, Franklin Roosevelt asked his Commerce Secretary Daniel Roper to convene a session with small business owners in hopes of shoring up political support in advance of the November elections. Roper assembled a thousand small business owners in a Washington, DC, convention hall. With invitations extended mostly to those who had written to the White House with complaints, the attendees included a significant number of discontented small business owners who used the opportunity to assail the President and his policies.[1]

The conference highlighted deep divisions within the small business community. To the extent that small businesses were already organized, it was through sectoral associations like the National Association of Independent Tire Dealers or peak associations like the Chamber of Commerce, which did not typically restrict membership based on size. As trans-sectoral, small-business-specific groups began to appear, what they claimed to represent varied wildly. For example, in attendance at the conference, but denied the opportunity to speak, was DeWitt Emery, the owner of a foundering print shop in Akron, OH, who had recently organized the National Small Business Men's Association (NSBA). On the conference eve, Emery announced the formation of his group and suggested that an appropriate federal policy might be to listen to the demands of small businessmen, who "just want to be left alone."[2] In contrast to Emery's group, a consortium mainly comprising small retailers also announced plans to form a national small business association, and cheered Pennsylvania Governor George Earle's demand that "we've got to have government spending on a large scale to produce mass purchasing power."[3] Dozens of other organizers descended on the conference as well, each seeking to take advantage of the salience of the small business issue to organize a national small business group.

Once inside the convention hall, bedlam broke loose among the delegates. "From start to finish the small business conference was a scene of almost constant turmoil," reported the *New York Times*.[4] Some delegates clashed with each other, and at least one was forcibly removed by the police! Rumor had it that Roper was seeking a voice for small business that could sit on a government council on a

1. Roger Pepper, *Pressure Groups among "Small Business Men"* (New York: Arno Press, 1979 [1940]), 16.

2. Milton Bracker, "'Small' Business Baits New Yorkers: Meeting Wrangles at Capital on Eve of Roosevelt Parley and Gets Nowhere," *New York Times*, 2 February 1938 (1857–Current file): 1. Retrieved 18 September 2007, from ProQuest Historical Newspapers, The *New York Times* (1851–2004) database.

3. Bracker, "'Small' Business Baits New Yorkers."

4. Felix Belair, Jr., "Roars of Protest: Roper Quickly Breaks Up Session in Groups on Assigned Topics," *New York Times*, 3 February 1938, (1857–Current file): 1. Retrieved 18 September 2007, from ProQuest Historical Newspapers, The *New York Times* (1851–2004) database.

permanent basis.[5] But, if this were indeed true, administration officials could only conclude that small business was ill-prepared to unify behind a fully representative association. Practically the only point on which conference attendees agreed was the fact that the Roosevelt Administration had been a source of problems rather than solutions.[6] So much antipathy towards New Deal policies was on display that stunned conference organizers could hardly muster the enthusiasm to present a watered-down list of policy recommendations to the President.[7]

Why was the small business community so divided during a time in which government officials were actively searching for new ways to support small business? How do we explain the pattern of small business interest group development that emerged in the post-New Deal era? As Harmon Zeigler has detailed, between 1938 and the early 1960s, hundreds of new small business groups formed in the hopes of mobilizing some of the estimated three million small business owners across the United States.[8] Yet, nearly as many groups subsequently failed and no group emerged as the dominant voice for small business. The two that arose as the most capable advocates were DeWitt Emery's NSBA and C. Wilson Harder's National Federation of Independent Business (NFIB), which was organized out of Burlingame, CA. Emery's group was stridently and dogmatically anti-New Deal, offering caustic assessments of federal economic policies in frequent press releases and periodic congressional testimony. Conversely, the Federation seemed intently focused on the question of antitrust, specifically protections afforded to small retailers through the Clayton Act and the Robinson-Patman Act. There was little congruence between the two groups and at one point the Association successfully sued the Federation for libel.[9]

In tracing the historical roots of small business group development, this article finds that small business suffered from competing identities—primarily manufacturing and retailing—and that the rivalries that handicapped small business groups in the 1940s and 1950s were deeply embedded in governmental policies and institutional arrangements.[10] By the early 1940s, policymakers all but refused to work with any small business groups as Congress and the White House sought to develop programs to aid small firms. Indeed, the signal administrative

5. This rumor originated in reports that the White House was planning to revive a post-NRA business advisory council to help set policy. See "A Body of Advisers: University Professors Invited," *New York Times*, 13 January 1938 (1857–Current file): 1. Retrieved 18 September 2007, from ProQuest Historical Newspapers, The *New York Times* (1851–2004) database.

6. Pepper, *Pressure Groups*, 16–34.

7. Pepper, *Pressure Groups*.

8. L. Harmon Zeigler, *The Politics of Small Business* (Washington, DC: Public Affairs Press, 1961).

9. Zeigler, *The Politics of Small Business*. Tellingly, the judgment assessed a mere one-dollar penalty.

10. The Small Business Act of 1953 identified a small business as "one that is independently owned and operated and which is not dominant in its field of operation," a definition that has left quite a bit of room for interpretation. Small Business Act (67 Stat. 232), 30 July 1953. Historically, retailers, wholesalers, and other independent distributors allied together, thus the term retailers will generally apply to those in the distribution sector.

development of the time—the creation of the Small Business Administration (SBA) in 1953—succeeded largely without input from any national small business groups. Rather, it emerged out of a bargain between Congress and the Eisenhower administration related to the termination of the Reconstruction Finance Corporation (RFC) as a way to maintain a politically popular business lending program.[11] Small business suffered in comparison to other economic groups in part because the very processes of state development that worked to repair latent factionalism elsewhere worked against the unification of small business interests. In the political context of post-New Deal America, an association organized around a "small business" identity was doomed to fail.

If a small business advocacy niche existed in the 1940s, it hindered more than facilitated the development of effective trans-sectoral small business lobbying associations. As such, the development of this niche presents a good opportunity to reconsider the contextual factors that give rise to new interest groups. Small business politics was not unique in the way that its representative associations faced economic, political, and institutional constraints on their advocacy efforts, but this case does provide a clear illustration of the way that an advocacy niche can constrain political alternatives. Moreover, examining the small business advocacy niche of the 1940s places the impotence of small business lobbying efforts at that time in their appropriate historical context. Many scholars of small business have been puzzled by the failure of representative small business associations to make headway in the era of interest group liberalism. This research helps put to rest lingering questions emanating from those studies.[12]

To reach a better understanding of interest group development, and the mid-century politics of small business in particular, this work builds on scholarship that has encouraged us to rethink the historical development of interest groups.[13]

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11. Addison W. Parris, *The Small Business Administration* (New York: F.A. Praeger, 1968), 24.

12. For research that specifically examines small business groups, See Zeigler, *The Politics of Small Business*; John H. Bunzel, *The American Small Businessman* (New York: Alfred Knopf, 1962); Pepper, *Pressure Groups*. For a broad survey of the growth of small business in American society, see Mansel G. Blackford, *A History of Small Business in America*, 2nd ed. (Chapel Hill: University of North Carolina Press, 2003). On the role of ideas in small business politics, see Sandra Anglund, *Small Business Policy and the American Creed* (Westport, CT: Greenwood Publishing, 2000). For a history of federal policy towards small business, see Jonathan J. Bean, *Beyond the Broker State: Federal Policies toward Small Business, 1936–1961* (Chapel Hill: University of North Carolina Press, 1996) and Jonathan J. Bean, *Big Government and Affirmative Action: The Scandalous History of the Small Business Administration* (Lexington: University of Kentucky Press, 2001).

13. Daniel Tichenor and Richard Harris, *A Question of Representational Bias: The Dynamics of Interest Group Politics in America* (New York: Cambridge University Press, forthcoming); Theda Skocpol, *Diminished Democracy* (Norman: University of Oklahoma Press, 2003); Elisabeth S. Clemens, *The People's Lobby: Organizational Innovation and the Rise of Interest Group Politics in the United States, 1890–1925* (Chicago: University of Chicago Press, 1997); Christopher Bosso, *Environment, Inc.: From Grassroots to Beltway* (Lawrence: University Press of Kansas, 2005); Maryann Barakso, *Governing NOW: Grassroots Activism in the National Organization For Women* (Ithaca, NY: Cornell University Press, 2005).

A historical empirical approach is a natural partner to a theoretical framework centered on the notion of an advocacy niche, since, by their very nature, advocacy niches are constructed over long periods of time. Yet, scholars of interest groups who have developed the niche concept have paid little attention to how niches are formed or to how variability in niche formation might impact the identities and capacities of the groups that come to inhabit a particular niche. Indeed, the prevailing theory is that an interest group simply develops an identity by "defining. . .a niche for itself."[14] Yet, the suggestion that an interest group can define its own niche rests on theoretical assumptions that place interest groups outside of history. Instead, I posit that like other political actors, interest groups are bound by institutional, economic, and political constraints. The virtue of a historical perspective is that it allows us to both explore the importance of context on the processes of niche definition and identify limits on the capacity of groups to define their own identities and their own niches.

Advocacy Niches and Group Identity

Niche theory in political science has mainly been advanced by the work of William Browne and the collaboration between Virginia Gray and David Lowery.[15] Browne characterizes niches in terms of issues, which provide interest groups the ability to differentiate themselves from their competitors as they pursue support from policymakers. Taking his cues from transactions cost economists, Browne suggests that interest groups utilize issue niches to construct identities that maximize the potential for productive interaction with government officials. Thus, niches are valuable because they allow organized interests to signal to others their core identities and to enter into political debates under conditions that either "enhance or expand their resource base or . . . that can likely be won through low cost participation with policy participants."[16] By contrast, Gray and Lowery argue that an organization's niche is partly defined by factors beyond its control and that organizational identities are determined by more than just

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14. William P. Browne, "Organized Interests and Their Issue Niches: A Search for Pluralism in a Policy Domain," *Journal of Politics* 52 (May 1990): 502.

15. William P. Browne, *Private Interests, Public Policy, and American Agriculture* (Lawrence: University Press of Kansas, 1988); Browne, "Organized Interests and Their Issue Niches;" David Lowery and Virginia Gray, "The Population Ecology of Gucci Gulch, or the Natural Regulation of Interest Group Numbers in American States," *American Journal of Political Science* 39 (February 1995): 1–29; Virginia Gray and David Lowery, "A Niche Theory of Interest Representation," *Journal of Politics* 59 (1996): 91–111; Virginia Gray and David Lowery, *The Population Ecology of Interest Representation* (Ann Arbor: University of Michigan Press, 1996). See also Michael T. Heaney, "Outside the Issue Niche: The Multidimensionality of Interest Group Identity," *American Politics Research* 32 (November 2004): 611–51; Bosso, *Environment, Inc*; Donald P. Haider-Markel, "Interest Group Survival: Shared Interests Versus Competition for Resources," *Journal of Politics* 59 (August 1997): 903–12.

16. Browne, "Organized Interests and Their Issue Niches," 501.

interactions with policymakers and other elites. Rather, interest groups exist as part of larger communities of interests and must carve a "realized niche" out of a pre-existing "fundamental niche." In other words, the political environment presents organized interests with an opportunity to occupy a particular representational perspective, but factors like competition for scarce resources and government attention will limit the number and scope of groups that vie for space in a given area. For Gray and Lowery, the utility of niche theory lies in its ability to "explain why interest communities are structured in one way or another by examining how interest groups construct viable realized niches."[17] While the research that has emerged out of these theoretical constructions has illuminated the behavior of interest group communities, neither of these perspectives is attentive to the historical construction of interest group niches nor do they recognize that interest group identity may be just as strongly conditioned by the circumstances under which group leaders form a group as by their tactical decisions.

In recognizing the duality of niche development—the effects of historical factors as well as entrepreneurial decisions—I suggest that we refer to this process as "advocacy niche development." The construction of a niche is not simply issue dependent, as suggested by Browne, because other factors influence the process of identity development. Neither, however, are the constraints of what Gray and Lowery refer to as a fundamental niche merely the product of exogenous circumstances. Rather, the possibilities for political mobilization, as I will show, are deeply tied to processes of economic, political, and institutional definition as interpreted by historically situated actors.

The case of small business presents an opportunity to examine the utility of the concept of advocacy niche development. In the 1940s and 1950s, a trans-sectoral small business niche began to materialize, as political entrepreneurs within and outside of government started to articulate a defined presence for small business in American politics. This happened in two parts. First, political institutions were created to attend to general small business interests. The House and Senate created select small business committees, the Department of Commerce created a small business division, and, as the federal government took control of production during World War II, Congress created small business agencies to assist in the conversion of small firms to wartime production.[18] Second, the growth of new small business groups signaled constituent interest in a trans-sectoral small business niche. A bevy of new groups were created following the aforementioned White House Conference on Small Business in 1938, and others followed over the next decade.[19]

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17. Gray and Lowery, "A Niche Theory of Representation," 95.
18. Bean, *Beyond the Broker State*.
19. Zeigler, *The Politics of Small Business*.

The challenge for existing theory lies in the fact that overlapping jurisdictions and conflicting interests prevented the small business niche from affording the types of advantages that normally allow interest groups to thrive in such an environment. Virtually none of the interactions between broadly based small business associations and institutional actors within the niche provided the former with an opportunity to expand their resource base. Nor did these interactions provide small business advocates with low-cost policy victories, as Browne suggested was important. Instead, the advocacy niche came to deny to small business groups the very type of sustaining engagement with the political system that had nourished the interest group system as a whole.[20]

Interest Groups and American Political Development

I make the case for a historical perspective on niche construction as a way to assess the constraints that interest group environments place on political entrepreneurs. If small business groups had difficulty finding an identity that would capture the sympathies of a broad coalition of small business owners, perhaps the political, economic, and institutional context of small business development prior to the 1940s created barriers that precluded the articulation of a trans-sectoral identity. Even though interest group entrepreneurs and political leaders sought the formation of a broadly representative small business association, the advocacy niche allowed only particular types of small business groups to form, those whose identities matched the contours of historical development.

Although scholars have not sought to explore explicitly the historical construction of advocacy niches, efforts have been made to understand interest groups from a historical perspective. This research, which uses the analytical tools developed by scholars in the mainstream of historical institutionalism, has entailed a turn toward conceptual frameworks that take into explicit account the impact of state institutions. The functionalism implicit in much of the pluralist and collective action literature—specifically the idea that state institutions are ciphers for organized economic and social interests, themselves derivatives of economic and social cleavages—has been replaced by a strong notion that state institutions possess considerable autonomy.[21] Rather than interest groups controlling the levers of power, state institutions have come to be seen as pivotal arbiters of access and influence. "Fit" and "opportunity" have replaced "capture"

20. Theodore Lowi, *The End of Liberalism* (New York: Norton, 1969). While Browne would agree that absent these types of relationships a niche would fail to materialize, he has no explanation for why these types of relationships would fail to develop. See Browne, "Organized Interests and their Issue Niches."

21. For a synopsis of these intellectual developments, see Paul Pierson, *Politics in Time* (Princeton: Princeton University Press, 2004).

and "iron triangle."[22] Indirectly, this research provides insight into how advocacy niches are constructed. In particular, scholars interested in the political economy of historical institutionalism provide key insights into how state institutions, patterns of economic development, and political alignments shape the development of political, and, by extension, interest group identities.[23]

Consider, as an illustrative example, the recent debate between Jacob Hacker and Paul Pierson and Peter Swenson on the influence of business over the Social Security Act (SSA) during the New Deal.[24] The central theoretical question animating this debate is how to explain eventual business support for the SSA in light of evidence suggesting coolness toward the idea initially. Hacker and Pierson assert that institutional and political forces shaped business interests, such that, while business initially opposed a large federal retirement program, once the benefits became clear and once it became evident that the SSA would not be dismantled, business began to look for ways to reap advantages from it.

If Hacker and Pierson emphasize the institutional and political roots of business preferences over social policy during the New Deal, Swenson counters by arguing that the SSA was not passed over the objections of business, but rather reflected the economic interests of certain businesses even if those interests were not fully articulated or expressed during the policymaking process.[25] As Swenson puts it, "macroeconomic forces exogenous to the institutional system can play a

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22. See Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Belknap, 1992); Anne Costain, *Inviting Women's Rebellion: A Political Interpretation of the Women's Movement* (Baltimore: Johns Hopkins University Press, 1992); Stephen Engel, "Organizational Identity as a Constraint on Strategic Action," *Studies in American Political Development* 21 (Spring 2007): 66–91.

23. Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (New York: Cambridge University Press, 2001); John Mark Hansen, *Gaining Access: Congress and the Farm Lobby, 1919–1981* (Chicago: University of Chicago Press, 1991); James Livingston, *Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, NY: Cornell University Press, 1989); Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America, 1865–1896* (New York: Cambridge University Press, 1997); David Brian Robertson, *Capital, Labor, and State: The Battle for American Labor Markets from the Civil War to the New Deal* (Lanham, MD: Rowman and Littlefield, 2000); Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1998); *Martin Sklar, The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics* (New York: Cambridge University Press, 1988); Stephen Skowronek, *Building a New American State: The Expansion of National Administrative Capacities, 1877–1920* (New York: Cambridge University Press, 1982); Robert H. Wiebe, *The Search for Order, 1877–1920* (New York: Hill and Wang, 1967).

24. Jacob S. Hacker and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics and Society* 30 (2002): 277–325; Peter A. Swenson, "Varieties of Capitalist Interests: Power, Institutions, and the Regulatory Welfare State in the United States and Sweden," *Studies in American Political Development* 18 (April 2004): 1–29; Jacob S. Hacker and Paul Pierson, "Varieties of Capitalist Interests and Capitalist Power: A Response to Swenson," *Studies in American Political Development* 18 (April 2004): 186–95; Peter A. Swenson, "Yes, and Comparative Analysis Too: A Rejoinder to Hacker and Pierson," *Studies in American Political Development* 18 (October 2004): 196–200.

25. Swenson, "Varieties of Capitalist Interests."

decisive intervening role in determining where capitalists' interests lie."[26] Business preferences are not monolithic, suggests Swenson; rather they are influenced by a variety of interests generated out of segmented market structures. For example, some large firms stood to benefit from the creation of a federal social security program, while others might have found that such a program would put them at a disadvantage relative to their competitors.

The critical takeaway point from this debate is that economic development and political development intersect at the point where interests are defined and preferences are set. Both Hacker and Pierson, in arguing that political and institutional contexts matter, and Swenson, in countering that economic conditions matter, suggest that entrepreneurial political actors are constrained by external forces. As we turn our attention to the politics of small business, the lessons should be clear. Efforts to create a trans-sectoral small business group would be stymied by institutional policy legacies, by macroeconomic conditions that would shape political preferences, and by patterns of political support for various small business factions. The DeWitt Emerys and C. Wilson Harders of the small business world sought to create organizations that stood as representatives of all small business, yet their understandings of small business were shaped by the peculiar historical construction of the small business advocacy niche.

The broad contours of the process of small business niche construction—a process that will be described in some detail below—follow the terrain of economic, political, and institutional developments in the late nineteenth and early twentieth centuries. As Chandler has described, sequential revolutions in production and distribution at the turn of the century upended traditional forms of economic production, created a new class of giant corporations, and reconfigured political affiliations.[27] Economic developments in the late nineteenth century disconnected small manufacturers from small retailers, as the threats from large industrial corporations manifested sooner and differently than the threats that emerged out of the growth of chain stores. The macroeconomic conditions that caused firms to size up their interests differently intersected with new public policies that reinforced sectoral differences among small businesses. Feedback effects from these policies, in conjunction with new policies that reinforced the distinctions between different types of small business, became intertwined with partisan political commitments. By the time of the New Deal, small manufacturers were firmly encamped with Republicans while small retailers found the Democratic Party more responsive. Ultimately, the combination of partisan affiliations, institutionalized policy legacies, and economic forces constrained the articulation of a unified small business identity by entrepreneurial organizers in the late 1930s and 1940s.

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26. Swenson, "Varieties of Capitalist Interests," 3.
27. Alfred Chandler, *The Visible Hand* (Cambridge, MA: Belknap, 1977).

Small Business Origins

The idea of small business as a distinctive form of economic organization first began to manifest itself politically in the final years of the nineteenth century.[28] Until this time, nearly all of American business was small, and only after sufficient numbers of large, industrial firms had begun to be targeted for political action did the appellation of "small business" become relevant or useful.[29] Some small retailers, frequently referred to as independents, supported the populist movement and hoped that predations by railroads, department stores, and other economic behemoths might be curtailed. Mostly limited to small towns and lacking organization, the impact of the independents was negligible. After William McKinley's decisive victory over the populist coalition in the 1896 election, independents began to organize along sectoral lines. For example, in 1898, the nation's retail druggists banded together to form the National Association of Retail Druggists, which became one of the first national advocates for small business interests in the retail sector.[30] Conversely, many small and mid-sized manufacturers cast their lot with the GOP, hoping that their newly formed National Association of Manufacturers (NAM) would be able to utilize its close ties with William McKinley and Marc Hanna to boost exports.[31] NAM stood to benefit immensely from the 1896 elections. Not only had it successfully attached itself to a winning political coalition, it had done so under the auspices of uniting the nation's small and mid-sized manufacturers. McKinley promised his supporters a sound economic policy based on protectionism, adherence to the gold standard, and expansion into foreign markets through negotiated trade agreements. While small manufacturers were squeezed by the merger movement

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28. A definitive history of the term "small business" does not yet exist. However, in the context of nineteenth-century discourse, a "small business" typically referred to the amount of business that a firm would do. For example, an entrepreneur might say, "I do a small business." As a category of business, "small concern" was a more typical descriptor. See, for example, "Article 6—No Title," *New York Daily Times,* 24 November 1852, (1851–1857), 4. Retrieved 20 August 2007, from ProQuest Historical Newspapers The *New York Times* (1851–2003) database.

29. Chandler, *The Visible Hand*; Wiebe, *The Search for Order*; Blackford, *A History of Small Business in America.*

30. Maryann Feldman and Yda Schreuder, "Initial Advantage: The Origins of the Geographic Concentration of the Pharmaceutical Industry in the Mid-Atlantic Region," *Industrial and Corporate Change* 5 (June 1996): 839–62. There were some earlier trade associations, although they were not necessarily targeted at small businesses within a sector. These included the United States Brewers Association (1862), The Carriage Builders National Association (1872), The American Paper and Pulp Association (1878), the Laundrymens National Association of America (1883), the National Association of Brass Manufacturers (1886), the National Wholesale Lumber Dealers Association (1894), and the National Association of Retail Grocers (1896).

31. Albert Steigerwalt, *The National Association of Manufacturers* (Ann Arbor: University of Michigan Press, 1964); Cathie Jo Martin, "Sectional Parties, Divided Business," *Studies in American Political Development,* 20 (Fall 2006): 160–84.

of the late 1890s, the 1897 Dingley Tariff, which raised average tariff rates to nearly 50 percent, and a commitment to challenging the capacity of organized labor to disrupt economic recovery kept McKinley firmly in their good graces. As a policy pairing, the protective tariff and anti-unionism fit the needs of small manufacturers quite nicely. With the tariff in place, small firms escaped the pressures of foreign competition while locating niche markets in which they could thrive.[32] For survival in the domestic market, anti-unionism was critical, as low wages provided a key competitive advantage for smaller firms. So critical was the fight against organized labor that by 1902, NAM had switched its focus from expanding exports to resisting unionization efforts in small and mid-sized manufacturing facilities.[33] The main threat to small manufacturers came from the AFL, which sought control over the shop floor and primarily targeted small and mid-sized companies.[34] These smaller firms were attractive targets for unionization efforts because they lacked the resources to break a union strike. While business-friendly courts came to the rescue in notable cases in Danbury, CT, and St. Louis, worries persisted that unionization would force small firms into bankruptcy.[35]

Complicating the development of small business political identity was the timing of the threats facing different types of small firms. The rise of large-scale manufacturing had begun to threaten smaller competitors well before the turn of the century. Indeed, scholars have pointed to the Sherman Antitrust Act as grounded in a defense of small business.[36] By contrast the revolution in distribution, as Chandler termed the reorganization of the way consumer products were transported and sold, did not begin to catch up to small businesses in the retail sector until the early years of the twentieth century.[37] Except for the railroads, whose pricing schemes made life difficult for wholesalers and other distributors, big business failed to directly impact the daily lives of most small

32. Blackford, *A History of Small Business*.

33. Martin, "Sectional Parties"; Philip Burch, "The NAM as an Interest Group" *Politics and Society* 4 (1973): 97–130. Martin's analysis emphasizes the importance of the party system for the failure of NAM to achieve status as a peak association for manufacturing interests. Yet, Martin also discounts the fact that NAM was primarily comprised of small- and medium-sized manufacturers and that such a goal was more aspirational than practical. That small- and medium-sized manufacturers faced a more immediate threat from organized labor can also explain the impetus behind the shift to an explicit anti-labor agenda. That shift was certainly critical to the survival of NAM in the early twentieth century.

34. David Brian Robertson, "Voluntarism Against the Open Shop: Labor and Business Strategies in the Battle for American Business Markets," *Studies in American Political Development* 13 (Spring 1999): 146–85.

35. Daniel Ernst, *Lawyers Against Labor* (Urbana: University of Illinois Press, 1995).

36. See Sklar, *The Corporate Reconstruction of American Capitalism*, Chapter 3; William Letwin, *Law and Economic Policy in America, the Evolution of the Sherman Antitrust Act* (New York: Random House, 1965); Lawrence Friedman, "Law and Small Business," in *Small Business in American Life*, ed. Stuart Bruchey (New York: Columbia University Press, 1980), 310.

37. Chandler, *The Visible Hand*.

business owners in retail until after 1900. As the historian Harold Livesay put it, the most marked impact of the rise of big business before the turn of the century was a "pervasive angst" that roiled political discourse but netted few actual victims.[38]

Whereas industrial concentration impacted small manufacturing firms well before the turn of the century, it was not until after 1900 that the number of chain stores began to rise dramatically. In 1900, only 4,500 chain stores existed across 700 different chains in the United States. Although the A&P had become a household name, most rivals had yet to emulate that success. By the end of the decade, however, 3,000 chains had organized 13,500 stores across the country. The number of chains and their stores grew steadily each year through the beginning of the Great Depression. Although some chains acquired existing stores, the bulk of chain store expansion occurred through the opening of new stores.[39]

Thus, while small businesses in the manufacturing sector became politically active before the turn of the century, their counterparts in retail and distribution remained mostly indifferent to the ebb and flow of national politics until after 1900. Macroeconomic conditions precluded small business owners from forging a unified front to challenge the rise of corporate capitalism. Small manufacturers tried to ally themselves politically with their larger brethren, while small retailers waited nervously until the chain stores, department stores, and mail order houses more directly threatened their existence. Because small manufacturers aligned themselves with larger firms, their targets became overseas markets and intransigent labor unions. By the time small retailers came to terms with the threats they faced, their political options had become quite limited. Rather than confronting the broader corporate system, small retailers instead engaged the political process in a more constrained fashion, aiming merely to eliminate the advantages that made the chain stores such a threat.

Policy Feedback and Reinforcement

While the political economy of small business identity forged distinctions between classes of small entrepreneurs, the institutional context of policy development began to entrench these differences following the 1912 elections, when Democrats gained unified control over the national government. On the surface, Woodrow Wilson's "New Freedom" promised to free all entrepreneurs

38. Harold C. Livesay, "Lilliputians in Brobdingnag," in *Small Business in American Life,* ed. Bruchey, 342.

39. United States Federal Trade Commission, "Chain Stores: Final Report" (Washington, DC: Government Printing Office, 1935), ix. The opening of new stores was responsible for 89 percent of chain store growth.

from the oppression of the trusts, yet Wilson's policies, in particular the Clayton Act, signaled affinity with small businesses in the distribution sector while irking small manufacturers.

The impact of the Clayton Act on small business hardened the growing distinction between small business sectors by explicitly protecting small businesses in the distribution sector and, by reaching out to organized labor, threatening the existence of many small manufacturers. Most importantly for retailers and independent distributors, Section 2 of the Clayton Act barred price discrimination in cases where goods were of comparable "grade and quality." By requiring comparable goods to be sold for the same price, this provision aided businesses struggling to compete with emerging chain stores and big urban department stores, which were leveraging their market power to induce discounts from their suppliers.[40] Conversely, the Clayton Act implicitly rebuked small businesses in the manufacturing sector by exempting labor unions from prosecution under antitrust law. Although hardly the boon that labor had hoped for, this provision undermined one of the key elements of small manufacturing firms' political strategy.[41] Infuriated business owners wrote letters howling over the "revolting" exemption given to labor above their own trade associations.[42] More galling, Democrats simultaneously crippled business opposition by investigating the lobbying practices of NAM.[43] While business allies in Congress inserted a last minute provision that blunted the language of the labor provision and rested enforcement of the Clayton Act in the newly constituted and arguably more business friendly Federal Trade Commission, small manufacturers were hardly comforted by these concessions in the face of a much larger affront.[44]

As it turned out, for small business, the effects of the Clayton Act were not felt as much in the actual implementation of antitrust policy, but rather in the way that the Act reinforced the political alignments and identities of distribution and manufacturing sectors. Democrats' willingness to restrict discounting for large retailers and chain stores earned the allegiance of many independent retailers, even as it became apparent that the Clayton Act was only minimally effective against such practices. On the other hand, despite the weakness of the Clayton Act as a weapon for organized labor, small manufacturers despised the Democrats for their willingness to exempt labor unions from antitrust

40. U.S. Federal Trade Commission, "Chain Stores: Final Report."

41. The 1913 Underwood Tariff took out the other leg. See Alfred Eckes, *Opening America's Market* (Chapel Hill: University of North Carolina Press, 1995).

42. Ernst, *Lawyers Against Labor*, 186.

43. Albert K. Steigerwalt, "The NAM and the Congressional Investigations of 1913: A Case Study in the Suppression of Evidence," *The Business History Review* 34 (Autumn, 1960): 335–44.

44. Sanders, *Roots of Reform*, 293.

prosecution. After World War I, a reinvigorated NAM led the charge to erase any gains that labor may have made in the prior decade.[45]

Compounding the problems of small retailers were oligopsonistic conditions in many sectors, allowing chain stores to coerce manufacturers into a bidding war. Competition between manufacturers for product placement in chain stores drove down prices of goods for chain stores and increased costs for goods sold to independents. Court decisions reinforced this relationship, holding that the Clayton Act only required competition be preserved between manufacturers and distributors rather than between distributors as well. Further muddying of the Act enabled manufacturers to decide for themselves whether or not their buyers would be classified to receive discounted prices. Accordingly, chain stores generally received discounts while independents—even those who had formed cooperatives—paid full price for their goods.[46]

Small Business, Chain Stores, and the Democratic Party

A burgeoning, if decentralized, anti-chain store movement erupted in the 1920s, suggesting that the Clayton Act's protections for competition were insufficient for insuring the survival of independent entrepreneurs. Fearful trends had emerged in the retail sector as chain stores and mail order catalogues proliferated. Chain stores' pricing advantages posed a serious threat to the ranks of local businesses.[47] As late as 1919, independent retailers accounted for 96 percent of total retail sales, but by the end of the 1920s, chain stores had cut into that number by more than 15 percent.[48] By itself, the Great Atlantic and Pacific Tea Company (as the A&P was more formally known) increased the number of its stores more than threefold during that span, with nearly 16,000 of the more than 100,000 chain stores in operation by 1930.[49] Fearing further chain store expansion, anti-chain store movements mobilized in towns across the country. By 1929, opposition groups had become organized in more than 400 cities and towns.[50] For the most part, independent retail supporters advocated chain store taxes that would negate the advantages that the chains were afforded by virtue of their purchasing power and greater efficiency. While national chain store legislation was not introduced until 1938, a flurry of legislation was passed at the state level beginning in the late 1920s.[51]

45. Allen Wakestein, "The NAM and Labor Relations in the 1920s," *Labor History* 10 (1969): 163–76.
46. Joseph Palamountain, *The Politics of Distribution* (Cambridge: Harvard University Press, 1955), 189–90.
47. Chandler, *The Visible Hand*.
48. Palamountain, *The Politics of Distribution*, 7.
49. Bean, *Beyond the Broker State*, 26.
50. Palamountain, *The Politics of Distribution*, 160.
51. Ellis W. Hawley, *The New Deal and the Problem of Monopoly: A Study in Economic Ambivalence* (Princeton: Princeton University Press, 1966), 261.

Research on chain store taxation has focused on economic determinants of state tax policy, such as the number of independent retailers in a given state[52] or the concentration of a mobilized subgrouping of independents such as grocers.[53] But the mobilization of anti-chain store forces also occurred in the political context of small business development and reflected the growing partisanship surrounding efforts to aid small firms. Increasingly, it was Democrats who articulated the grievances of small independents, in particular those whose own political identities were forged in the populist, agrarian tradition. If we examine the twenty-four states that enacted chain store taxes between 1927 and 1937, some striking patterns become quickly apparent (see Table 1). First, nearly all of the states that enacted chain store taxes during this period came from what Elizabeth Sanders has described as "periphery" regions, where the populist tradition retained its pull and independent stores shouldered a much heavier proportion of the distribution burden.[54] This pattern is consistent with what previous studies of chain store taxation have found. Equally striking, however, is the Democratic Party dominance in these states. Obviously, the Solid South is well represented, but even traditionally competitive states like Pennsylvania and Indiana passed chain store tax legislation. Among the states that enacted chain store taxes, Democrats controlled over seventy-five percent of seats in the state legislatures at the time of passage and only two states with Republican Governors enacted a chain store tax.

At the federal level, Texas Democrat Wright Patman introduced a national chain store taxation bill in 1938 that aimed to restrict chains to a single state and reduce the number of chains allowed to operate within a state. The mechanism for such restriction was a progressive tax that increased with each store per chain, and was then multiplied by the number of states in which the chain operated. The bill's potentially devastating consequences elicited a strong backlash, and after two years of debate, Patman was forced to drop it. One measure of its effect would have seen A&P forced to pay $524 million in taxes out of $882 million in total sales. While strong small business sentiment existed in Congress, chain stores had earned the support of many manufacturers and farmers and few others were prepared to eliminate what had become an integral part of the retail sector.[55] Still, the debate over chain store taxes illuminated the continuing alliance between Democrats and small businesses in the distribution sector.

52. Paul Ingram and Hayagreeva Rao, "Store Wars," *American Journal of Sociology* 110 (September 2004): 478.

53. Thomas Ross, "Store Wars: The Chain Store Movement," *Journal of Law and Economics* 29 (April 1986): 125–37.

54. Sanders, *Roots of Reform*; Carl Ryant, "The South and the Movement against Chain Stores," *Journal of Southern History* 39 (May 1973): 207–22.

55. Palamountain, *The Politics of Distribution*, 176–80.

Table 1
Party Control in States Passing Chain Store Taxes

	States with chain store taxes		
Median year	**% Dem**	**Avg dem %**	**Avg dem %**
Enacted	Governor	Upper house	Lower house
1934	91*	77*	78*

Alabama, Colorado, **Delaware**, Florida, Idaho, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, **Michigan**, Minnesota,** Mississippi, Montana, North Carolina, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, Virginia, West Virginia, Wisconsin***

	States without chain store taxes in 1934		
Median year	**% Dem**	**Avg dem %**	**Avg dem %**
Enacted	Governor	Upper house	Lower house
1934	79	59	63

Arkansas, Arizona, **California**, Connecticut, Georgia, Illinois, **Kansas**, Massachusetts, Missouri, Nebraska, Nevada, **New Hampshire**, **New Jersey**, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Rhode Island, Utah, **Vermont**, Washington, Wyoming

Bold indicates republican governor.
*Percentages refer to year enacted.
**Data unavailable.
***Coalition of Democrats and Progressives.
Source: Chain store tax data from Bruce Robert Morris, *The Economics of Special Taxation of Chain Stores* (Arno Press, 1979); State party data from Burnham, W. Dean. Partisan Division of American State Governments, 1834–1985 (Computer file). Conducted by Massachusetts Institute of Technology. ICPSR ed. Ann Arbor, MI: Inter-university Consortium for Political and Social Research (producer and distributor).

Small business advocacy niche development thus increasingly reflected partisan politics as independents in the distribution sector faced growing competition from chain stores in the first decades of the twentieth century. Unable for the most part to forge effective trans-sectoral alliances, small retailers relied on sympathetic Democratic lawmakers to push through protective legislation. While results were mixed, at best, the lasting institutional effects were unambiguous. In failing to broach the problem of chain stores in a way that would bridge the gap with small businesses in manufacturing (a virtual impossibility at this point anyway), small retailers, wholesalers, and distributors reaffirmed the split identity of small business and further reduced the likelihood of reconciliation in the future.

Small Business, Corporate Capitalism, and the Republican Party

On the other side of the small business fault line, businesses involved in manufacturing sectors began the 1920s by trying to implement private controls on production using their trade associations. Drawing on their experiences during the war years, when government controls reduced much of the uncertainty and economic instability that had characterized the pre-war economy, business leaders sought to replicate government restrictions by creating voluntary trade associations that would standardize accounting procedures, provide joint advertising for products, and share statistical information related to production and distribution.[56] While terribly ineffective on the whole, trade associations created an excellent opportunity for certain firms to engage in what Olson later termed "the exploitation of the great by the small."[57] A few very large firms, which also tended to benefit substantially from restraints on competition, subsidized most of the trade association activity. These firms underwrote the costs of association and provided the technical resources necessary to coordinate economic activity. But they lacked the ability to enforce agreements, despite efforts to shame members into refraining from cheating. Instead, the sudden availability of detailed information regarding competitors' trade secrets tended to exacerbate the very type of activity that trade associations had meant to suppress. The most intrepid small firms could use the trade association's data to their own advantage, yet still fly under the radar because of their size.[58]

Still, the presence of trade associations did little to compensate for the increasing disparity between small and large firms in the manufacturing sector. Adding to the threat of economic insecurity was continued pressure from labor unions intent on organizing shop floors across the country. By 1920, the AFL's interwar membership had peaked at over four million workers, a reflection of the friendly political climate that had characterized the previous decade.[59] In response, manufacturing firms went on the offensive once Warren G. Harding replaced Woodrow Wilson in the White House. While NAM led efforts at the national level to scuttle the gains labor had won under Wilson, an open-shop movement coalesced at the local level.[60] Both in urban manufacturing centers

56. Robert F. Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York: Fordham University Press, 1976).

57. Olson, *The Logic of Collective Action*.

58. See Hawley's discussion of "chiselers" in *The New Deal and the Problem of Monopoly*, 37.

59. J. David Greenstone, *Labor in American Politics* (New York: Knopf, 1969), 28–29.

60. Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920–1935* (New York: Cambridge University Press, 1994), 142.

like Philadelphia and in rural towns across the South, firms drove unions and their representatives off of their shop floors and out of their negotiations with employees.[61]

Political efforts notwithstanding, small manufacturers benefited most from a booming post-war economy. Despite the economic insecurity wrought by the emergence of large competitors and the persistent organizing by trade unions, small business actually fared reasonably well for much of the 1920s. The post-war economy, characterized by rising consumerism, allowed small firms to keep pace, despite looming indications of peril.[62] The proportion of non-farm self-employed individuals actually increased slightly over the course of the decade, from 6.5 to 6.6 percent at the cusp of the Great Depression.[63] Economic prosperity reinforced efforts like Herbert Hoover's "Associative State," a policy designed to organize business interests into a more cooperative and less viciously competitive relationship.[64] As was the case with small businesses in retail and distribution, as long as political identities revolved around sectoral group identity, it would be next to impossible to unify the small business community.

In sum, political development in the decades after 1896 reinforced a growing cleavage between small businesses engaged in manufacturing and those engaged in distribution. In particular, the Clayton Act institutionalized differences by establishing protections for retailers while also aiding labor unions at the expense of small manufacturers. Economic prosperity and increasingly divergent policy goals in the 1920s mitigated any need to find common ground. Small manufacturers continued to resist labor organization while those engaged in distribution sought to curb chain store growth. Neither faced the perilous conditions that motivated other economically marginal classes to forge common alliance. In particular, the experiences of small business stand in stark contrast to that of farmers, who had been beset by factionalism and rivalry only to unify in the face of crushing economic conditions.[65] Even the divided labor movement

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61. Howell John Harris, *Bloodless Victories: The Rise and Fall of the Open Shop in the Philadelphia Metal Trades, 1890–1940* (New York: Cambridge University Press, 2000).

62. Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: Princeton University Press, 2005).

63. Blackford, *A History of Small Business*, 95.

64. Herbert Hoover's "associative state" stands out as a particularly important example of the way in which government policies reinforced sectoral alignments among all businesses. See Ellis W. Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,'" *Journal of American History* 61 (June 1974): 116–40; Brian Balogh, "'Mirrors of Desires:' Interest Groups, Elections, and the Targeted Style in Twentieth Century America," in *The Democratic Experiment: New Directions in American Political History*, ed. Meg Jacobs, William J. Novak and Julian E. Zelizer (Princeton: Princeton University Press, 2003), 230.

65. Hansen, *Gaining Access*.

found common ground in the pursuit of procedural guarantees to organize.[66] During the 1920s, small business did well while farmers and laborers suffered. The New Deal political realignment turned this ordering on its head; as Elizabeth Clemens noted in a slightly different context, the last became first and the first became last.[67]

The Depression and the Coming of the New Deal

If the 1920s reinforced divisions among small businesses, the combination of the Great Depression and the New Deal created an opportunity for reconciliation among small business interests. Both small manufacturers and small retailers suffered massive losses during the Depression and new institutional arrangements promised to remake the relationship between business and government. Yet, the persistence of old political identities and policy traditions discouraged policymakers from fundamentally reorganizing small business politics. Instead, partial and halting efforts to reach out to the small business community produced confusion, dismay, and disarray among competing small business interests.

The election of FDR in 1932 should have provided hope for many small business owners. After all, Roosevelt was especially concerned with the "forgotten man at the bottom of the economic pyramid."[68] If small business owners did not epitomize the forgotten man, they at least resembled him. However, three factors contributed to the failure of small business to win attention from the Roosevelt administration. First, small business owners had not forged a unified political identity. The interests of retailers and the interests of manufacturers scarcely overlapped. Second, small business owners in the manufacturing sector had supported Republican candidates for the better part of a generation. Third, the Roosevelt administration was inclined to prioritize the needs of large businesses in the immediate economic recovery programs.[69] Thus, the New Deal meant more of the same for small business. Where labor benefited from sweeping new legislation codifying basic workplace rights and farmers earned immediate assistance to compensate for collapsed commodity prices, small manufacturers had to compete with large firms under onerous new NRA codes and small retailers were handed the Robinson-Patman Act, a poorly conceived piece of legislation aimed at curbing cost-advantages enjoyed by chain stores.

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66. Ruth O'Brien, *Worker's Paradox: The Republican Origins of New Deal Labor Policy, 1886–1935* (Chapel Hill: University of North Carolina Press, 1998).

67. Clemens, *The People's Lobby.*

68. Pepper, *Pressure Groups*.

69. Bunzel, *The American Small Businessman*; Ziegler, *The Politics of Small Business*.

The New Deal and the Small Retailer

Depending on one's perspective, the Robinson-Patman Act stands as either the Magna Carta of small business or one of the worst pieces of legislation ever crafted by the United States Congress.[70] For Congressional small business advocates, Robinson-Patman represented a triumph of principles, a leveling mechanism that made it possible for the "little guy" to compete with mass-marketers selling through chain store outlets.[71] Detractors point to the lack of economic analysis supporting the Act, the poor drafting of the Act rendering it ambiguous and unclear even to experts, and a history of court decisions that have "muddled rather than clarified" the intent of Congressional sponsors.[72]

Brought to Congress by the United States Wholesale Grocers Association (USWGA), the Robinson-Patman Act attempted to reduce competition facing wholesale distributors from chain stores. Acting as wholesalers, chain stores had preempted intermediary firms by handling the shipping, warehousing, and distribution of goods between manufacturers and retail outlets. Not only did this organizational innovation cut costs by eliminating wholesale distribution, but chain stores also received "functional" discounts from manufacturers for managing distribution. The USWGA and other trade associations sought to protect their market share by prohibiting such discounts for chain stores, requiring manufacturers to "cost-justify" their discounts. Moreover, the wholesalers included language that would provide the Federal Trade Commission with authority to establish limits on quantity discounts as a further buttress against chain store expansion.

Despite strong support from Southern Democrats, opposition to the Grocer's bill in the Senate forced Patman to accept a watered down final version.[73] A weak substitute was sent to a conference committee resulting in a hastily compiled compromise bill that amalgamated the two bills without sorting out all of the differences.[74] Amending Section 2 of the Clayton Act, the final version of Robinson-Patman required manufacturers to cost-justify their quantity discounts, but allowed chain stores to receive the same functional discounts as wholesalers. Palamountain characterized the final bill as a "mélange of partially incongruous and often vague provisions."[75]

Still, the Robinson-Patman Act is significant because it underscores the importance of political institutions for advocacy niche construction. In primarily

70. Hugh Hansen, "Robinson-Patman Law: A Review and Analysis," *Fordham Law Review* 51 (May 1983): 1113–1216; Bean, *Beyond the Broker State*, 38.

71. Bean, *Beyond the Broker State*, 35–36.

72. Hansen, "Robinson-Patman Law," 1117.

73. Huey Long proclaimed that he "would rather have thieves and gangsters in Louisiana" than chain stores. Hansen, "Robinson-Patman Law," 1118.

74. Palamountain, *The Politics of Distribution*, 228.

75. Palamountain, *The Politics of Distribution*.

addressing the issue of price maintenance, Robinson-Patman continued the sectoral distinction made salient by earlier policies. The New Deal did not sort out the interests of small business, so rather than taking comprehensive action on behalf of small business as a whole, New Deal programs instead reinforced the separate, multiple identities that had come to characterize small business interests.

Small Manufacturers and Economic Recovery

If small retailers were somewhat satisfied with the Robinson-Patman Act, small manufacturers were frustrated by the fact that the early economic policies of the New Deal were designed with the interests of large firms in mind. The suspension of antitrust enforcement and other industrial recovery efforts aided big business at the expense of the economic recovery of small businesses. As the New Deal lurched toward each new strategy for coping with the depression, small business owners felt increasingly alienated from Democratic relief efforts. As John Bunzel put it, "The 'unholy alliance' of big labor, big government, and big business is, to the small businessman, one of the most pernicious and corrupting tendencies in industrial society."[76] Reflecting on the early New Deal, sociologist William Ogburn wrote, "The cause of the small businessman was championed by the last Democratic president in office; but the difficulties of the man who would be a small entrepreneur are even greater under the present Democratic resident at the White House."[77]

The most far-reaching effort of the early New Deal to regulate business practices was the National Industrial Recovery Act and its bureaucratic manifestation, the National Recovery Administration (NRA). Created amidst great fanfare and optimism, the NRA promised something for businesses large and small.[78] Even labor stood to benefit from minimum wage and maximum hours stipulations and collective bargaining provisions. Still, for the most part, the NRA continued the tradition of segregating policy solutions for small businesses in the manufacturing and distribution sectors. For independent retailers and wholesalers, the NRA outlawed many of the rebates and special discounts negotiated by chain store representatives that had given them an extra advantage over their independent competitors.[79] On the other side, representing many smaller manufacturers, NAM agreed that the system of production envisioned under the NRA was better than uncontrolled competition.[80] Yet, labor provisions

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76. Bunzel, *The American Small Businessman*, 120.
77. William F. Ogburn, "The Future of the New Deal," *American Journal of Sociology*, 39 (May 1934): 844.
78. Hawley, *The New Deal and the Problem of Monopoly*; Gordon, *New Deals*.
79. Palamountain, *The Politics of Distribution*, 193.
80. Gordon, *New Deals*, 173.

struck at the competitive advantage enjoyed by small manufacturers, and smaller businesses of all types suffered from the delegation of code-setting authority to "politically aggressive industry factions."[81] Before long, the contradictions built into the NRA soured the entire business establishment on the program and any temporary protections for small firms were scuttled with the rest of the program.[82]

Less immediately noteworthy but ultimately more beneficial to small firms was the RFC, a holdover from the Hoover era. The RFC assumed the responsibility for making loans to businesses for capital expansion and other investments so that businesses could avoid having to draw funds from tight credit markets in the private sector. Yet, even the RFC failed to appreciate the complicated politics of small business. Initially, Jesse Jones, the RFC Administrator, kept the purse strings pulled tight, insisting that only loans for working capital would be approved, and that firms must show substantial collateral and a long record of fiscal health before receiving any funds.[83] Consequently, the extraordinary outlays of money from the RFC were largely reserved for large firms, which reinforced negative impressions of Democratic policymakers on the part of smaller businesses. Of the 35,000 loans made by the RFC, the 298 loans that exceeded $1 million accounted for 55 percent of the $3.3 billion distributed between 1934 and 1946.[84] The only small business owners in a position to meet the stringent conditions of the RFC were manufacturers who, for both historical and policy reasons, were not generally sympathetic to the New Deal to begin with. Any political benefits from RFC loans that might have been earned were negated by a long history of distrust. Affirming the obvious, a study commissioned by the Temporary National Economic Committee (TNEC) found that the federal government failed to adequately provide for the capital needs of small businesses during the New Deal.[85]

If the New Deal failed to harness the machinery of government on behalf of the independent business owner, the Rooseveltian shift to "Dr. Win the War" seemed to sign small business's death warrant. Roosevelt's ineffective pre-war policy initiatives were reflected in the abortive attempt to woo small business in anticipation of the 1938 midterm election. However, renewed concern for the viability of small business arose as the United States entered into wartime production. When the shift to a wartime economy became official, the national government took responsibility for organizing the production of nearly the entire

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81. Gordon, *New Deals*, 178. For a different interpretation of the NRA see Donald R. Brand, *Corporatism and the Rule of Law: A Study of the National Recovery Administration* (Ithaca, NY: Cornell University Press, 1988).

82. Hawley, *The New Deal*.

83. Hawley, *The New Deal*, 320.

84. Blackford, *A History of Small Business*.

85. Blackford, *A History of Small Business*.

range of goods and services for the country. Because of the unprecedented scale of production required for the war effort, most small firms lacked the capacity to compete for government contracts. Moreover, a scarcity of raw materials meant that war production requirements would force cutbacks in the production of other types of goods. Cognizant of these threats, small business advocates in Congress moved quickly to protect small firms from bankruptcy by requiring governmental procurement agencies to provide contracts or subcontracts to small manufacturers.

Congressional Leadership

The war effort brought into greater relief the multitude of problems facing small businesses in the late 1930s. While Wright Patman was busy fighting the chain stores, other small business problems remained unresolved. With Roosevelt's failed Small Business Conference as a forewarning, Congress avoided engaging the small business interest group community and instead created TNEC, chaired by Wyoming Senator Joseph O'Mahoney, and charged it with the responsibility to investigate the "monopoly problem" facing Americans.[86] From 1938 through 1941, TNEC produced reports assessing the costs and benefits of various efforts to protect small business, finding chain store taxes and price maintenance to be ineffective while calling for stricter enforcement of more traditional antitrust laws.[87] But Congressional supporters of small business realized that despite the work of TNEC, a more institutionalized forum for the investigation of small business problems was necessary to ensure continued support. In 1940, Montana Democrat James Murray won approval for a special small business committee in the Senate. House Republicans followed suit in the summer of 1941, creating an unofficial small business committee to investigate claims that small businesses were being left out of government contracts. Not to be outdone, Wright Patman and his Democratic colleagues organized the House Select Committee on Small Business in late 1941.

Beyond the Robinson-Patman Act and the monopoly investigations of TNEC, Congress did little to address the problems facing small retailers, yet it did take action on behalf of small manufacturers. The newly constituted small business committees held a plethora of hearings, but as select committees, they lacked the legislative authority necessary to make a policy difference. Rather it was in the preparation for entry into World War II that Congressional small business advocates were able to create institutions that would support smaller

86. Bean, *Beyond the Broker State*, 77, 96. O'Mahoney was an important Democratic figure in the Senate, and a vocal opponent of FDR's court packing plan.

87. Bean, *Beyond the Broker State*, 101.

manufacturers. As mobilization for World War II began, it quickly became apparent that small manufacturing firms were unable to contribute to the war effort without help. They lacked the capital to retool their production lines in order to meet government demand, and they faced critical shortages in raw materials that would have obviated any retooling efforts. Despite political support from Congressional small business committee members, from the Truman Committee, and from the Division of Contract Distribution, an office within the Office of Production Management, the Roosevelt Administration refused to provide assistance to small manufacturing firms. Finally, in February 1942, James Murray introduced legislation that created a Smaller War Plants Division (SWPD) within the newly established War Production Board to oversee small business contracting. In addition, Murray's bill established a Smaller War Plants Corporation (SWPC) to finance conversions of small manufacturing firms to war-related products and award subcontracts.[88]

The creation of the SWPD and SWPC signaled that the federal government was willing to directly support smaller manufacturers. For the first time, Congress intervened with an explicit, positive program to help preserve small firms.[89] While restricted to manufacturing enterprises and conducted under the auspices of war production, the programs of the SWPD and SWPC heralded a new model for protecting small business. The economic upheaval occasioned by the war made possible a policy innovation that marked a new phase in small business policy history. Congress was creating an advocacy niche in which it would be responsible for doling out billions of dollars in aid to local firms. Even though this was a temporary, small-scale program, the SWPC administered over 50,000 government contracts during its three-year existence totaling more than $5.7 billion. The SWPC also played a central role in facilitating subcontracting opportunities for small firms, parceling out more than 52,000 subcontracts. Although meting out defense contracts dominated the activity of the SWPC, it also made 5,808 loans to small businesses to help meet the costs of conversion.[90]

So successful was the SWPC in the eyes of Congress that when the Korean conflict broke out and the United States committed itself to the war, Congress recreated a special small business agency to help insure that small firms received their share of government contracts. Calling it the Small Defense Plants Administration (SDPA), Congress imbued the organization with similar powers as the SWPC, although the RFC maintained control over the popular lending program. In its short life, the SDPA awarded $54 million worth of business to small

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88. Bean, *Beyond the Broker State*, 105.
89. Bartholemew Sparrow, *From the Outside In* (Princeton: Princeton University Press, 1996).
90. Addison W. Parris, *The Small Business Administration* (New York: F. A. Praeger, 1968), 6.

firms and subcontracted $2.3 million in government prime contracts.[91] In 1953, the SDPA and the RFC were eliminated as part of the Eisenhower Administration's effort to root out corruption and what it perceived as wasteful government spending. However, in order to avoid the appearance of unfairly penalizing smaller firms, Eisenhower agreed to support the creation of the Small Business Administration, which inherited the RFC lending program and the SDPA contracting program, if on a somewhat smaller scale. Still, the SBA was seen as a great source of political capital for members of Congress, who continually sought to utilize it to support politically favored firms.[92]

Small Business in a Historical Perspective

If Congress seemed intent on creating a small business advocacy niche, why did this shift in policy not congeal the small business lobby into a more unified coalition? Why did small business not respond to the outlay of distributive benefits by organizing itself into trans-sectoral associations that would push for larger budgets and more comprehensive federal support?[93]

The answer to the puzzle is that the same embedded factionalism that prevented reconciliation in earlier times informed the political identities of new trans-sectoral associations. Hardened partisan loyalties betrayed new political opportunities as emerging small business groups brought with them the legacies of the past. The crisis of the Great Depression and the opportunity of the New Deal had the potential to reorganize the politics of small business, but Roosevelt's recovery efforts instead reinforced the perception that small businesses in manufacturing and distribution had divergent interests. Instead of crafting small business policy that would transcend differences among different factions, Democrats initially linked the fortunes of small manufacturers to the recovery efforts designed for large firms, while small retailers were offered limited protection from price discrimination. While evidence can be found that the NRA, RFC, and the Robinson-Patman Act provided some relief for small businesses during the New Deal, these policies did little to break down existing factional lines within small business sectors.[94]

New national small business groups of the late 1930s and early 1940s were organized with an eye to the patterns of conflict that had defined small business politics since the turn of the century, which reinforced the

91. Parris, *The Small Business Administration*, 8.

92. Bean, *Big Government and Affirmative Action*.

93. See Theodore Lowi, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (July 1964): 677–715.

94. See Hawley, *The New Deal*; Gordon, *New Deals*; Ross, "Winners and Losers under the Robinson Patman Act," *Journal of Law and Economics* 27 (October 1984): 243–71.

institutional arrangements of the earlier generation. The DeWitt Emerys of the small business world organized their associations around themes that resonated the deepest with potential members. Among manufacturers, no theme was more effective at boosting membership than the charge that Democratic policies consistently and intentionally ran counter to the interests of small business. In many ways, Emery simply modeled his organization after the groups that he had seen be successful in Ohio in the 1920s. As we saw, during the 1920s, NAM and the Chamber of Commerce lurched rightward, with NAM's James Emery and his counterparts at the Chamber launching attacks on organized labor and any hints of government intervention in the economy.[95]

By World War II, Democrats had begun to make small manufacturing a policy priority, but the interest groups representing small manufacturers, including the increasingly popular NSBA, were deeply skeptical of any Democratic proposals.[96] Consequently, elected officials ignored the organized representatives of small business, which quickly eliminated opportunities for interest group participation in policymaking and implementation. As one staff member put it, "There is no greater 'racket' than the average small business organization. . . It would be most difficult to pick a representative small business man from the usual small business organization."[97] By the time Congress created the Small Business Administration in 1953, virtually no organized small business groups actively supported the legislation. The NFIB was agnostic toward the agency while the NSBA actively opposed it. Thus, it is not surprising that scholars seeking to understand the politics of small business in the 1950s found little evidence of the cozy "whirlpools of influence" that characterized other policy arenas.[98]

Conclusion

Economic, political, and institutional transformations at the turn of the twentieth century established multiple, competing, and sometimes antagonistic political identities among small businesses. As an advocacy niche began to

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95. Richard Gable, "NAM: Influential Lobby or Kiss of Death?" *Journal of Politics* 15 (May 1953): 254–73; Larry J. Griffin, Michael E. Wallace and Beth A. Rubin, "Capitalist Influence to the Organization of Labor Before the New Deal: Why? How? Success?" *American Sociological Review* 51 (April 1986): 147–67.

96. The one notable exception was the Smaller Business Association of New England (SBANE), which primarily comprised small manufacturing firms. However, SBANE was a relatively small organization with few ambitions to grow and was rooted in the local political economy of the Northeast.

97. Memo from J.M. Frier to George F. Meredith, "Proposed Programs for Small Business," 2 September 1947. National Archives, RG 46, Box 34, Select Committee on Small Business, Correspondence and Data (Newsprint to Progress Reports), Folder marked "Progress Reports."

98. See, for example, Zeigler, *The Politics of Small Business*; Bunzel, *The American Small Businessman*.

develop, the types of associations that formed reflected these preexisting constraints on political mobilization. By the time entrepreneurs organized national, trans-sectoral small business organizations, the historical development of the small business advocacy niche precluded a unified voice emerging from the small business community. Where we might have expected policy feedback effects to have entrenched small business groups in the modern advocacy state, as happened in other policy arenas, instead the largest national associations were left to founder in relative obscurity.

This article provides a fresh perspective on the importance of advocacy niches for interest group development. While existing research on American political development has encouraged us to examine the political, economic, and institutional contexts of associational politics, I have demonstrated how a historical perspective improves our understanding of advocacy niches, and by extension the formation of different types of groups. Interest group scholars interested in the formation and development of groups can look to the case of small business to see how the context of niche development caused new trans-sectoral small business associations in the 1930s and 1940s to fail to take advantage of new political opportunities. In no small bit of irony, Democratic Party policies during and after World War II that were designed to aid small business would primarily have benefited firms whose most vocal supporters were organized around the premise that small businesses were most harmed by Democratic policies. By contrast, firms with the strongest historical ties to Democrats, small retailers, found in their moment of triumph—the Robinson-Patman Act—a pyrrhic victory that did little to address the underlying structural challenges facing their businesses. The political identities that framed the debates of the post-New Deal era were not a product of the time; rather, they represented the historical development of the notion of small business as a unique economic and political actor.

Just as more is revealed about interest groups by framing the question historically, our understanding of political development and the specific contribution of organized interests will profit from a melding of institutional and neopluralist perspectives.[99] If a combination of instrumentalism and economic rationalism has largely defined the study of organized interests, my work encourages further research that considers how historical and organizational constraints on organized interests define both their character and their capacity to seek political influence. Moreover, as we seek to understand more about the durability of certain types of policy arrangements and puzzle out the pivotal moments when paths of political development are forged, organized interests offer powerful

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99. David Lowery and Virginia Gray, "A Neopluralist Perspective on Research on Organized Interests," *Political Research Quarterly* 57 (March 2004): 163–75.

insights into the developmental sequences that define these processes. Indeed, as many of the proponents of a "path dependency" analytical frame have noted, it is the organizational response to institutional change that yields the strongest feedback effects.[100] While the assumptions of historical institutionalism have long stood in contrast to the pluralist and Olsonian traditions of interest group scholarship, this article has shown that the emerging literature on interest groups and political development offers an exciting and illuminating approach to the study of American politics.

100. Douglass North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990); Jacob Hacker, *The Divided Welfare State* (New York: Cambridge University Press, 2002); Pierson, *Politics in Time*.