

Beyond the Broker State: A History of the Federal Government's Policies Toward Small Business, 1936-1961

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In 1914, President Woodrow Wilson called for antitrust legislation to "make men in a small way of business as free to succeed as men in a big way" [14, p. 98]. Wilson was responding to a widespread concern that the competitive advantages of large corporations might enable them to eliminate the opportunity for Americans to open their own small businesses. The rise of chain stores in the 1920s and 1930s renewed this concern that big business posed a threat to small business, a concern that continued to pervade discussion of business-government relations well into the twentieth century. Thus, in 1953, four decades after Wilson uttered his speech on behalf of small business, Congress created the Small Business Administration, prompting a *Fortune* writer to note that "the small-business 'problem' has unquestionably become one of the great and continuing themes of American politics" [5].

My dissertation examines the impact of this concern on federal government policy during the 1930s, '40s, and '50s. Although earlier antitrust legislation had as one of its aims the preservation of small business, the so-called small business "movement" began in earnest during the Great Depression, when congressional anxiety over the fate of small business resulted in the passage of anti-chain store legislation, including the Robinson-Patman Act, often called the "Magna Charta of small business," and the Miller-Tydings "Fair Trade" Act. The congressional champions of small business achieved the creation of House and Senate Small Business Committees in 1940-41, and the establishment of temporary small business agencies during World War II and the Korean War. Congress created the Small Business Administration in 1953, and made it a permanent agency five years later. Although the enthusiasm of the small business advocates has since become a historical memory, their actions left an indelible mark on American government.

My study adds to a growing body of literature on the continuing importance of small business in twentieth-century American history. John Ingham, Philip Scranton, Mansel Blackford, among others, have produced works highlighting the economic contributions of small business [6, 9-10, 1-3]. Yet, historians have paid

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too little attention to the politics of small business. Many have viewed the passage of weak antitrust legislation during the Progressive era as the embodiment of a final accommodation with big business. Robert Wiebe, Gabriel Kolko, and others have noted the influence corporate leaders had on the formulation of antitrust legislation [13, 7]. More recently, Martin Sklar has argued that federal antitrust legislation represented the victory of corporate liberalism over an older small business ethic [11].

In *Beyond the Broker State*, I show that this older small business ideology affected American politics well into the twentieth century. Small business advocates continued to adhere to an ideology that had its roots in Jeffersonian republicanism. Like Jefferson, they believed a propertied middle class provided the social basis for democratic capitalism, and so they described small business as the "backbone of democracy" and free enterprise.

The rapid spread of chain stores in the 1920s and 1930s galvanized small business advocates at all levels of government. Together with independent merchants, they passed state legislation which laid taxes upon chain stores. State legislatures also passed "fair trade" laws allowing manufacturers to maintain minimum retail prices on their goods in an unsuccessful attempt to overcome the chain store's competitive advantage. Congress sided with small business by passing the Robinson-Patman Act (1936), which limited the discounts available to chain stores, and the Miller-Tydings Act (1937), which exempted fair trade agreements from the antitrust laws.

Meanwhile, the small business ideology took on new meaning with the rise of totalitarian regimes in Europe. In the eyes of some Americans, the decline of small business in Europe had contributed to the rise of fascism. Small business advocates believed that if big business controlled the American economy, the federal government would likewise be forced to expand its regulatory powers, thus threatening democracy. Americans had to preserve small business if they were to resist the threat of totalitarianism at home.

In the years after World War II, congressional champions of small business continued to characterize it as an institution essential for the survival of democracy during the cold war. But they had lost faith in the efficacy of antitrust legislation and therefore sought positive aid for small business, including financial assistance and representation within the federal government. Their efforts resulted in the creation of federal agencies to represent small manufacturers during World War II and the Korean War, and eventually culminated in the creation of a permanent Small Business Administration, the first agency to represent all of the nation's small business owners.

Small Business and Big Government in the 20th Century

My dissertation examines one aspect of government growth in the twentieth century. For decades, the broker-state model of government has dominated scholarly discussion of this issue. Social scientists defined politics as the complex interplay of organized interest groups, with the government acting as a broker between them. Furthermore, many scholars argue that the brokers themselves are driven by a "bureaucratic imperative" to enlarge their domains. However, we need to move beyond the "broker-state" model to understand the federal government's growing involvement in the small business sector. There was no small business

interest--politicians tried repeatedly, but failed, to organize small business into a cohesive interest group. Instead, the government's policies toward small business can best be understood as the result of three interrelated factors: crisis, ideology, and political entrepreneurship.

Belief in a crisis of small business united an otherwise diverse group of politicians in support of small business legislation. Congressional small business advocates were drawn from all ends of the political spectrum and included Senators Robert Taft, Hubert Humphrey, James Murray, and Representative Wright Patman. Crisis rhetoric overcame any reservations about government aid for "free" enterprise. Hence, during the Great Depression and World War II, liberals and conservatives agreed that small business people faced a crisis and needed federal aid. The return of peacetime prosperity did not alleviate their concern. In good times and bad, members of Congress played on public sentiment for small business by resorting to crisis rhetoric.

Yet this crisis rhetoric did not reflect reality. Congressional champions of small business worked from a mistaken assumption of market failure, believing that the economy would grow increasingly concentrated and thereby fail to provide enough opportunities for those hoping to open their own small businesses. Small manufacturers fared far better than expected during the crisis years of World War II, and independent tire dealers (a group I studied in depth) actually increased their market share. Again, in the 1950s, small business generally held its own. The persistence of small business belied repeated prophecies that "the end is near."

Congressional small business advocates also offered faulty economic reasoning in support of their legislation. Motivated by conspiracy theories and a hatred of big business, the authors of the Robinson-Patman Act assumed that chain stores could not justify their quantity discounts. Subsequent investigations demonstrated, however, that the chains could justify discounts even larger than before; thus, paradoxically, this small business legislation ended up benefiting large corporations. Small business advocates argued that fair trade price fixing would guarantee the survival of "independent" enterprise; but, small merchants soon found themselves dependent upon the terms set by large manufacturers of brand-name goods. The failure of these policies substantiates economist Joseph Phillips' conclusion that "almost no laws have been enacted that enhance the position of the small firms" [8, p. 111].

Certain ambiguities in the ideology of small business contributed to this failure. The ideology necessitated concessions to the competitive ideal which limited the effect of anti-chain store legislation. Loopholes enabled discounters to find ways around the intent of these laws. In short, this legislation reflected the ambivalent feelings of Americans: many still felt sentimental toward the small business owner, but as consumers, Americans desired the lower prices offered by large chain stores.

Let me conclude by discussing the implications of my history. First, it challenges the notion that Americans had reached a consensus over the issue of big business by the end of the Progressive era. My study shows that although the issue of big versus small business no longer dominated the presidential agenda, it remained a live issue in Congress. From the 1930s through the 1950s, congressional small business advocates secured passage of legislation over the opposition of corporate interests, thus suggesting the pluralistic character of politics in this period. Furthermore, although the debate over big business never again

matched the heat of the 1912 presidential election, American presidents were still concerned with "doing something" for small business, if only to attract the votes of small business owners.

Beyond the Broker State also contributes to our understanding of the importance of political entrepreneurship. Since the 1960s, policy entrepreneurs claiming to represent consumers and other unorganized interests have succeeded in passing legislation favorable to their cause. The legislative activity of the small business advocates represents an earlier expression of this phenomenon. In fact, valuable parallels can be drawn between small business advocates and consumer activists. Both groups represented unorganized interests that are difficult to define. There was no sustained grass-roots movement for legislation on behalf of small business owners or consumers. Like the consumerists, small business advocates achieved some legislative victories, but the absence of an organized group of business owners limited their influence.

Today, politicians and policy makers continue to debate how to plot the future course of small business. A historical look backward provides a sobering lesson in the limitations of government aid to small business but also the hopeful realization that this social institution has proven to be remarkably resilient. The United States has not become a land made up entirely of "organization men" (and women). Many Americans are still driven by what Adam Smith called "the contempt of risk and the presumptuous hope of success" [12, p. 211]. Thus, the future economic landscape of America will, in all likelihood, be inhabited by millions of men and women pursuing a way of life that has survived the turbulence of the twentieth century.

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