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American small businesses needn't go extinct

By Barry C. Lynn

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The dream of owning a successful small business is still alive in America and remains an essential part of our national self-image. But along the main streets and rural byways of the country today, in place of countless small businesses supporting millions of families in tens of thousands of communities, the banners of a few giant corporations now fly.

Where the independent pharmacist counted pills, we see a CVS employee. Where family livestock farms dotted the landscape, we see immense operations run by Smithfield and Tyson. Where the buttonmakers of New York and Los Angeles sold their wares, we see the imported products of Li & Fung. Where our community bank stood, we see Bank of America. Where the local grocer marketed local fruit, we see Wal-Mart. Where the local general-merchandise store stacked jeans, we see, well, Wal-Mart again.

It's not only mom-and-pop operations that are vanishing. It's also smaller advertising agencies, law firms and medical offices. It's happening, too, in the pharmaceutical and software industries, which only a decade ago displayed vibrant competition among upstart ventures. One recent study, based on data compiled by the Organization for Economic Cooperation and Development, [placed the United States second to last out of 22 rich nations in the percentage of workers who run their own businesses](#). Only Luxembourg ranked lower.

The American small business is increasingly becoming an American myth: Self-employment in nonfarm businesses has fallen by nearly half over the past 50 years.

President Obama is proposing various initiatives to strengthen small businesses, including [a \\$30 billion fund for community banks](#) that agree to lend to local entrepreneurs, in an effort to spur job creation and help the still-fragile economy. But the problems besetting small business in America far predate the Great Recession, and undoing the de facto exclusion of small entrepreneurs from so many of the country's business activities will require more than fresh cash.

Ask an economist why so many small businesses have given way to giant chains, and you'll hear a lecture on the dynamics of capitalism and free markets, and how the creative destruction of small, independent businesses is a natural and benign process. Yet specific political moves and decisions in Washington over the past several decades have made it much easier for the people who control large-scale corporations to displace small proprietors.

One of the most important was a radical change in 1981 in the enforcement of U.S. antitrust laws. Until then, small entrepreneurs were protected by a legal framework created during the Second New Deal, which began in 1935. Many histories of the era focus on the FDR administration's initial decision to all but suspend antitrust laws. But after the Supreme Court declared the National Industrial Recovery Act unconstitutional, the administration (along with numerous populist allies in

Congress) reversed course and adopted a very aggressive competition policy designed to protect citizens against excessive corporate concentration.

In practice, this was achieved through more strategic enforcement of antitrust laws, including cases against the chain stores that emerged during the Progressive Era. For instance, the Roosevelt, Truman and Eisenhower administrations all took action against the A&P grocery chain, the Wal-Mart of midcentury America. The populists also promoted competition through such all-but-forgotten market laws as the Robinson-Patman and Miller-Tydings acts, which limited the ability of large trading companies to use pricing power to exert control over producers and thereby gain an advantage over smaller retailers.

Supreme Court Justice William O. Douglas expressed the profoundly political goal of such legislation in a 1949 case that focused on efforts by big oil companies to control independent gas stations. "When independents are swallowed up by the trusts and entrepreneurs become employees of absentee owners," Douglas wrote, the result "is a serious loss in citizenship. Local leadership is diluted. He who was a leader in the village becomes dependent on outsiders for his action and policy."

The populists in the Roosevelt, Truman and Eisenhower administrations and in Congress were comfortable with concentrated economic power: They accepted outright monopoly, for instance, in the case of many utilities, as long as the public had a say in their management, and they accepted heavy industry in the hands of a few large companies, as long as they were forced to compete. But in retail and farming, the populists opted to protect the market system that allowed individual owners to deliver their products and services to their neighbors free from predation by distant powers. The result was a restoration of the republic of small proprietors established by Thomas Jefferson and James Madison in the early 19th century.

Although Americans began to hear the term "deregulation" when President Jimmy Carter dismantled the Civil Aeronautics Board, what Carter-era reformers envisioned was a shift of regulatory power from micromanaging agencies to more-hands-off antitrust officials. Soon after President Ronald Reagan took office, however, officials in his administration made clear that, to them, "deregulation" meant shifting that power from public to private hands.

Instead of protecting competitive markets, Reagan officials said they would use anti-monopoly laws to promote "consumer welfare," which they defined largely as lower prices. It no longer mattered how much power was consolidated, as long as the consolidation appeared to result in the delivery of less-expensive goods.

A generation after the introduction of this approach, the result is clear. The seemingly endless variety of products in our stores is controlled by an ever smaller number of immense trading companies that, increasingly, charge us higher prices. And we have witnessed the greatest consolidation of economic power since the days of J.D. Rockefeller and J.P. Morgan.

The good news is that, thanks to the ceaseless creative energy of American entrepreneurs, we are seeing a renaissance of small farms and [farmers markets](#) across the country, and a resurgence of local business communities in cities including Austin, Salt Lake City and Phoenix. But as vibrant as

these movements may be, they operate mostly at the margins. Many of our most gifted entrepreneurs remain under siege by rivals armed not with better products or better business models, but more money.

Take John Cottam, who opened the Spectacle optical shop in Salt Lake City in 1985. Cottam, who in earlier ventures designed glasses for singer Elton John and the classic 1982 film "Blade Runner," told me that every day he must contend with the Italian eyewear goliath Luxottica. Over the past decade the people who run this company have rolled up control of thousands of retail outlets across America, under such brands as LensCrafters, Pearle Vision, Target Optical and Sunglass Hut -- many of which compete directly with Cottam.

To compound the challenge, Luxottica has also acquired many of the brands -- such as Oliver Peoples and Oakley -- that Cottam's customers expect to find at the Spectacle. "All of us little guys are nervous," Cottam said. "There's always that fear that they will control everything."

Then there's Sam Calagione, who built Dogfish Head Craft Brewery into a regional success in Delaware and Maryland. However, the shelf space across the country for his ales is limited not by the tastes of America's beer drinkers but by the people in charge of Anheuser-Busch InBev and SABMiller, two foreign-owned trading companies that directly control some 80 percent of all beer sold in America.

Or consider what any American entrepreneur faces if he or she decides to go head to head in any line of business against Wal-Mart.

The woes are even present in franchising; although many franchise operations remain true to their cooperative spirit, a growing number function like pyramid schemes, with money flowing from the many small franchisees to a tiny group of managers who control the brand.

For more than two centuries, small businesses have been a prime source of wealth and well-being in America, creating jobs, bringing better ideas to market, building middle-class communities and, in the case of many immigrants, instilling the practices and values of American society. Today, we can recover the right to make a living by serving our own neighbors and our own communities through our own open markets. We may have to adapt some of our laws to account for new conditions, but the basic models we need await us in our own recent past.

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