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# The politics of small business organization, partisanship and institutionalization: similarities in the contrasting cases of Japan and the US

**Abstract:** Partisanship and institutionalization are more important to group formation and dynamics than is often recognized in the literature on interest groups. This study examines the contrasting cases of small business group formation and dynamics in Japan and the United States to demonstrate how opposition to the party or parties in power was crucial to the timing and nature of the largest small business organizations formed in both countries. Parties are also important to subsequent developments in the organization and institutional interactions of the sector. It is these processes which explain the divergent outcome whereby the US small business sector is identified with the political right and the small business in Japan with the political left.

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## 1 Introduction

In December 2012, the Japanese Communist Party and the Democratic Commerce and Industry Organization (*Minsho*) together with other local small business organizations, demanded that small business in the areas of Japan devastated by the March 2011 Northeast earthquake and tsunami continue to receive subsidies from the government and Japan's Ministry of Finance reluctantly agreed.<sup>1</sup> Six months later in the US, during the summer of 2013 in United States, the National Federation of Independent Business (NFIB), which represents small business and has close associations with the Republican Party, was desperately trying to reign in the right-wing "Tea Party" group of Republicans, including a number of NFIB

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<sup>1</sup> "Disaster-hit small businesses can carryover gov't grants until next year," *Japan Press Weekly*. 15 December 2012. Available from: <http://www.japan-press.co.jp/modules/news/index.php?id=4684>. Accessed 9 October 2013.

members or politicians who had their successful election campaign funded by the NIFB.<sup>2</sup> As these two stories suggest, the largest and most prominent small business organization in Japan is on the political left while the largest and most prominent small business organization in the US is on the political right.

What explains this divergence in the political alignment of small business in Japan and the US? The evidence shows that three factors were strongly influential.

1. **Oppositional Tendency of Small Business:** The main argument in this paper is that due to the heterogeneity of small-business preferences, it is difficult for small business to organize, and when they do, there is a tendency for small business to attach, at their origin, to out-parties. Small business gravitates to a party in opposition to a dominant government party which favors big business. This is particularly true in periods when the government favors large contractors, such as wartime. It is in these crucial historical periods – critical junctures – during which patterns of small business interest associability have been transformed or reinforced. The out-party nature of small business, manifest in its tendency to affiliate with extreme political views, is also demonstrated when the out-party with which small business is affiliated, becomes the government. There is a tense relationship between small business and government even when its champion party is in power.
2. **Institutionalization:** The main alternative to partisan organization is institutionalization. That is, governments in power try to counter opposition party organization by creating institutional mechanisms to appease and secure the political neutralization of small business by public policy aimed at small business. This is only partially successful for the party in power attempting it.
3. **Changes:** Once large numbers of small businesses are organized by an out-party, it becomes difficult for other parties to organize the sector along different partisan lines. It does occur but it is not as successful. As a result, small business becomes dependent on the opposition party or partisan tendency to which it was initially attached. When that partisan tendency or associated party becomes electorally weak, small business will lack the leadership to articulate its demands. However, when the party wants to reinvigorate its electoral influence, small business is an important source of partisan mobilization.

The validity of this argument is demonstrated by the experience of small business in the two very different countries. Japanese small business has always struggled under the dominance of large economic concerns (*zaibatsu*) and foreign competition. From the start it has sought help from the state and

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<sup>2</sup> Lawrence (2013).

through non-partisan collective action, such as cooperatives, to improve its position. This pattern fits well with the common assumption that the Japanese are collectivist and led by the state. In the US, small business falls between two myths: the myth of rugged individualism and the myth of associability.<sup>3</sup> Until well into the 12th century, the myth of rugged individualism seems to be the better explanation for the lack of small business organization. However, this changed from the 1930s and continued into the post-war period up until the 1980s; but the question is why? The reaction of small business to “big government/big business” and partisan dynamics are key to answering this question in both the US and Japan.

The discussion must begin with an exploration of the conditions under which small business interest organizations form. It is particularly difficult for small business to create and sustain interest organization given the diversity of the interests involved. Conventional explanations of interest group formation tend to focus on the role of group creation entrepreneurs. These are present in both Japan and the US, but they cannot explain the timing or success of small business organization. The focus must be turned instead to the interaction of small business with the state. The fate of small business is dependent on the state because it needs the protection of the state, and the state must regulate small business to ensure regulation of the economy is complete and effective. Small business is usually opposed to the state because it rarely receives protection to the extent it demands and because the burden of taxation and regulation is often too heavy for most struggling small businesses. The state prefers large firms, particularly in wartime, because they are more efficient and easier to manage. Small business' opposition to the state is not a constant, however. To the extent that it seeks protection from the market forces and large firms, small business can tend to move to the left and seek state action; but if it wants to avoid regulation and state control, small business tends to move to the political right and seeks to be freed from state imposed burdens. The process of interest group formation in Japan and the US demonstrates this divergence in outcomes. In this context, only partisanship, relatively neglected as a factor in interest group formation, best explains the timing and nature of small business interest organization in the two countries.

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<sup>3</sup> The classic statement of “rugged individualism” can be found in the 1928 campaign speech by Herbert Hoover (Hoover 1928). For a more recent example see Bonnen (1992: p. 195). This would explain the difficulty of small business in forming a successful national organization until World War II. In contrast, the tendency of Americans toward association was noted most famously by de Tocqueville 2000, and more recently in the so-called “neo-Tocquevillian” literature such as Putnam 1995. This suggests that Americans tend to form groups and associations more frequently and spontaneously than others and this is the basis of the success of American democracy.

## 2 Small business political activity and interest group formation

It is difficult for small business to organize because it is so diverse. This is linked to two key issues in the assessment of the political tendencies of small business: size and sector. Small business is usually defined by its size, as one might expect, either in terms of number of employees or its turnover (sales, etc.). However it is also necessary to make a distinction between manufacturing and sales. History demonstrates that artisans or craftspeople and shopkeepers are said to have different political proclivities. Modern small-scale manufacturing widens these differences. Local retail and service providers are not as mobile as manufacturers who can move to avoid regulation and high wage costs in a way that business that depend on a local clientele cannot. In addition, some service providers are different due to their market position and regulatory environment, such as doctors, lawyers and accountants. The small businesses in this study should be assumed to be retail and service providers with less than 30 employees and a turnover of less than 1 million dollars (or equivalent) at the lowest common level of regulation that depend on their local market for patronage and workers. Given the diversity of the potential interests of business of this type, the problems of organizing even a segment of the small business are obvious.

The literature on interest group formation usually begins with Truman's theory of group formation as a result of disturbance in the political system where groups emerge in reaction to the "disturbance" in normal patterns of interaction that compel individuals to band together to defend a common set of interests.<sup>4</sup> In the case of small business in the US and Japan, the economic changes brought by World War II – before, during and in the immediate aftermath – were crucial to the formation of small business organization as we shall see below.

The problem is that small business organization in the US and Japan was always only partial. This is not a surprise because, as Mancur Olson has argued, the logic of collective action means that groups will not form unless there is an incentive for members to join, for example selective material benefits for members, because otherwise "free riders" would receive the benefits without paying the cost of membership.<sup>5</sup> Given the number of potential members and the diversity of interests, this is a particular problem for small business. In the US and Japan, the benefits attained by individual small business for joining small business interest groups has been important. However, this does not entirely explain how small business interest groups form and why interest organization of small business is so fragmented in both countries.

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<sup>4</sup> Truman (1951).

<sup>5</sup> Olson (1965).

Literature critical of the atomized individualistic assumptions in Olson has tended to focus on the forces behind group formation and not the isolated members who might be potential members. Salisbury, for example, focuses on the “group entrepreneur” who mobilizes resources to create a group for the benefit for a particular “market” of potential members.<sup>6</sup> These entrepreneurs offer a number of benefits such as material benefits suggested by Olson but also “solidary” or social benefits and “purposive” benefits of promoting collective action. Walker takes this further by arguing that powerful “patrons” are required to spur the formation of successful political organizations.<sup>7</sup> This fits the experience of the US and Japan. The first two major small business organizations to form in the US were the National Small Business Association (1937) and the National Federation of Independent Business (1943) created by two strong individuals, De Witt Emery and C. Wilson Harder respectively. Even in Japan, the Chambers of Commerce was initiated by a prominent industrialist, Eiichi Shibusawa. Moreover, one of the most immediate successful small business organizations, the Japanese Small and Medium Enterprise Political Federation or *Nihon Chūshō Kigyō Seiji Renmei* or *Chūseiren* (1956), was created almost single-handedly by the industrialist Yoshisuke Ayukawa. It may be that such groups tend to emphasize their entrepreneurial roots, but historical studies support the notion that key individuals were essential to the formation of these groups.

The relative success of these organizations, however, cannot be explained by entrepreneurship. Ayukawa’s attempt at small business organization failed because it did not effectively manage the intersection between partisanship and engagement with the state. In the US, the narrative of entrepreneurship is more convincing but the relative success and timing in the growth of these organizations crucially turns on partisan strategy and engagement with state institutions. Thus, it can be said that even in the individualistic and entrepreneurial domain of small business, an important role is played by state institutions and political parties in the formation and dynamics of interest organization.

### 3 The role of the state and the institutionalization of small business

One might be skeptical that small business would be dependent on the state but governments have been involved at the earliest stages of small business

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<sup>6</sup> Salisbury (1969).

<sup>7</sup> Walker (1991).

organization. Small business has been organized in various states and given a specific representative status in government. This is most notable in the origins of the Chambers of Commerce and Industry.

The Chambers of Commerce in France originated in the late 18th century and continued the functions of the *standestät* form of interest representation common in late medieval Europe. The Chambers were not just recognized as the legally recognized representatives of entrepreneurs definite interests, they were also viewed as having a public duty and the responsibilities to cooperate with the state in dealing with commercial and industrial problems.<sup>8</sup> This innovation diffused throughout the world. The Japan Chambers of Commerce and Industry or *Shōkōkaigisho* was established by law in 1878 along the lines of similar organizations in Western Europe at the time. It was a business-led but institutionalized initiative which allowed the state to disseminate information for the benefit of business throughout Japan. Most recently its institutional status in Japan was codified in 1955, and the Chambers still maintain strong links to the Japanese state.<sup>9</sup> In the US, the government played a role in the formation of a similar group when the idea was initiated by President William Howard Taft, in a message to Congress in December 1911. As a result of this political initiative and the enabling legislation, 700 delegates from commercial and trade organizations were brought together to form the US Chamber of Commerce in the following year. In both the US and Japan, therefore, the Chambers were the first permanent organization of business.

This idea that the state plays a key role in small business, including its organization, can be demonstrated beyond the Chambers of Commerce concept. Even the normal “background” institutionalization for small business provided by the state is essential, illustrated most recently by economies in transition from communism. As one study put it: “Entrepreneurs require more from the state, in the medium and long run, than the absence of interference. If firms are to be able to grow and yield economies of scale, they need laws of contract so they can take on anonymous dealings and financial regulation so they can get bank loans and outside shareholding.”<sup>10</sup>

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**8** Pendleton (1931: p. 690).

**9** The postwar Chambers of Commerce and Industry in Japan had its legal status enshrined by special law when the group quit an alliance with the federation of large business groups, Keidanren, in 1955. The central government seconds senior bureaucrats to occupy key post in the Chambers of Commerce. Even if the Chambers themselves have local offices throughout Japan and many small firms participate and benefit from them, small business is not represented much as the top levels of the organization and its influence is relatively weak: See Babb (2001: p. 125).

**10** McMillan and Woodruff (2002: p. 165).

In advanced economies the relationship between the state and small business is close. The political economy of small business and the interaction between the state and the sector has an impact on a range of public policies. The relevant public policy domains can be classified as competition policies (including trade, direct investment, and technology), social policies (including assistance and regulation of pensions,<sup>11</sup> wages, parental leave,<sup>12</sup> health and safety, environmental, and employment), and tax policy (financial incentives and disincentives). This was clear when opposition from small business became part of the reason for the failure of the Clinton's health care reforms in the mid-1990s.<sup>13</sup> In many of these areas, there is a tension between small firms and labor organization in trying to find a balance between small business success and reasonable working conditions affecting a significant portion of the workforce.<sup>14</sup> In both indirect and direct ways, policy towards small business can be an important part of larger public policy debates and initiatives.

Small business can take advantage of its involvement in the policymaking process, however. As Young<sup>15</sup> points out in his study of US small business using "niche theory," groups can build upon interactions with policymakers to construct identities and policy domains to the direct benefit of the group or groups involved.<sup>16</sup> He argues that US small business is a case study of an interest or set of interest groups which failed to exploit an opportunity to create a niche which was potentially beneficial for the participants. The problem with Young's approach is that it ignores the crucial role of political parties and partisanship in the formation, consolidation, maintenance and decline of interest groups. In both countries the involvement of the state did not result in sustained independent organization of small business. It was aimed more at the management of small business for state objectives as we will see below.

Partisanship is a better explanation for the formation of small business organization in the US and Japan. Political parties are already noted as important to group formation,<sup>17</sup> but this study will demonstrate the key role of partisanship in building group identity and strength. The two biggest and most influential small business groups in the US and Japan are clearly partisan. Even when the state engages in institutionalized responses to the plight of small business, the

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**11** Gale (1994: p. 716).

**12** Trzcinski and Finn-Stevenson (1991: pp. 448–9).

**13** Reisinger (1997: p. 523).

**14** Krecker and O'Rand (1991).

**15** Young (2008).

**16** Young (2008: p. 440). On "niche theory" see Browne (1990), Gray and Lowery (1996), and Heaney (2004).

**17** See, for example, Heaney (2010), Koger, Masket, and Noel (2009), and Skinner (2004).

motive for policy initiatives is often partisan. The difficulty is to explain why Japanese small business has tended toward the political left and small business organization in the US toward the political right.

## 4 Small business political tendencies and potential partisan involvement

Once we accept that small business organization turns crucially on partisanship, we therefore need to look at the political tendencies of small business in partisan affiliation. For example, in most cases, interest groups of workers tend to be affiliated with parties on the political left. The usual argument is that small business is part of the petite bourgeoisie and therefore most naturally on the political right. However, there are differences between types of sectors and their historical development. In some sectors and historical periods, small business can view itself as closer to the working-class and potentially on the political left. Nonetheless, the overwhelming impression from the historical literature on small business, drawn primarily from the European experience, is that small business is firmly right-wing, or at least, the right-wing depends heavily on small business for support so that the two are intimately intertwined.

For example, the standard image is of the “petite bourgeoisie” in France, Italy and Germany as threatened by the growing power of big business, international trade and the growing labor movement at the end of the 19th century such that shopkeepers and craftsmen became vulnerable to mobilization by the political right. It must be admitted that Philip Nord in his *Paris Shopkeepers and the Politics of Resentment* takes great pains to point out that small business is not inevitably on the political right. The Paris shopkeepers he studied were on the political left in the early 1890s but by the turn of the century had been mobilized by the right.<sup>18</sup> Similarly, Jonathan Morris in his *The Political Economy of Shopkeeping in Milan, 1886–1922* demonstrates that Italian shopkeepers shifted from radical politics to support of Mussolini’s Fascist movement in its earliest years.<sup>19</sup> A study of the history of German small business supports the notion of a shift from liberalism to national socialism,<sup>20</sup> but it is still the case that small business played a key role in the rise of Hitler.<sup>21</sup> Therefore, even if we accept the argument that small

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18 Nord (1986: p. 350).

19 Morris (1993).

20 Winkler (1976).

21 Tipton (1979).



business moved from the left to the right from the beginning to the end of the 19th century in Europe, research suggests that the petite bourgeoisie in the end is a pillar of support for the right.

This impression is reinforced by studies of the Poujadist movement in France (named after Pierre Poujade who was a French populist politician active in the 1950s). Poujade and his movement spoke on behalf of small business owners who felt threatened by economic modernization and political change in immediate post-war France. The movement attacked established politicians and the media, and increasingly became nationalistic, even xenophobic, and anti-democratic. The leader of the right-wing French National Front, Jean-Marie Pen, was first elected as a candidate of the electoral group associated with Poujadism, the Union de Defense Commerçants et Artisan (UDCA), which secured 53 seats in the National Assembly in 1956. The movement faded soon after the establishment of the French Fifth Republic in 1958 but the petite bourgeoisie is still considered to be an important support base for the far right in France and elsewhere in Europe.<sup>22</sup> As we will see below, there is also a strong tendency for small business in the US to support the right.

However, the relationship is not that straightforward. The notion of petite bourgeoisie implies an escape from the working-class but not yet part of the managerial class or bourgeoisie. There are significant political differences between the self-employed and employees<sup>23</sup> but whereas some small businesses owners struggle on the economic margins, others might be very wealthy. Therefore, small business is not uniform and not inevitably on the political right. It depends on the patterns of political mobilization and institutionalization as the case of Japan demonstrates.

## 5 Institutions, partisanship and small business organization in Japan

In pre-war Japan, there were two trends in small business organization. One was a spontaneous and sometimes conscious political attempt at cooperativism, including producer and wholesale cooperatives, drawing inspiration from the European left and figures such as the British syndicalist Sidney Webb. The other involved the attempts of the Japanese state to organize producer cartels in times of recession to manage “excess” production. Both of these trends were reinforced

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<sup>22</sup> Veugelers (2000: pp. 24–5).

<sup>23</sup> Form (1982).

by the dominance of the government-sponsored small business organization, the *Nihon Sangyō Kumiai Chuōkai*, or Central Association of Japanese Industrial Unions. It was created by government law in 1909 to permit the organization of small businesses, mostly in manufacturing, and to promote cooperation in areas of mutual advantage, including supplies, finance and facilities. The Unions were usually local or regional cooperatives of similar businesses with the Central Association providing advice and support in line with government policies. Formation of the Unions was voluntary but widespread in certain industrial sectors, especially traditional or low-wage industries.

This was replaced by the movement to Japanese wartime corporatism (1940–1945), similar to and informed by Italian fascism, to force centralized cooperative organization on existing cooperatives and to create new cooperative arrangements for hitherto independent firms. This led to the formation in 1943 of the *Shōkō Kumiai Chuokai*, or The Central Association of Commercial and Industrial Cooperatives, which was an umbrella organization for all small business and replaced all other organizations at a prefectural level throughout Japan. Membership was compulsory for all small businesses. In addition to the manufacturing firms involved in industrial unions as part of the pre-war organization, many more retail and service providers were incorporated into the national system. It was primarily used as an administrative mechanism for the allocation of resources for the war effort. The net effect was that many small firms were forced to merge with other similar firms.

The most prominent post-war Japanese political scientist who studied the nature of Japanese pre-war authoritarianism, Masao Maruyama, is said to have viewed small business as fascist, implying that they sought state control in this context.<sup>24</sup> In fact, the evidence is mixed. There was some support for these arrangements among those on the right and those on the left who had converted to a Japanese form of national socialism. However, there was also considerable resistance and passive acquiescence to the new arrangements. As a result of the war, some firms lost out while others prospered. Forced mergers meant that the nature of the firms changed as well; weaker firms were absorbed by relatively larger firms (but often not much bigger than those they absorbed) and forced cooperativism became the dominant mode of small business organization during the war.

The Central Association of Commercial and Industrial Cooperatives, or *Shōkō Kyōdō Kumiai Chuokai*, was the peak association of wartime cooperatives and was changed to a voluntary organization again after the war in 1946. Despite the purge

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<sup>24</sup> Maruyama is cited approvingly by Shioda (1979: p. 258). This is backed in another case study Mori (1981).

of right-wing nationalists by the Allied Occupation Forces, the organization was still considered too tainted by its collaboration with the wartime regime, and, combined with a trend toward cuts in government funding to such bodies, the organization was dissolved in 1949.<sup>25</sup> This historical background would suggest that the Japanese business movement was firmly on the political right.

The more interesting trend in post-war Japan has been the tendency toward partisan involvement in small business organization with the left. As the political right became dominant in government, small business drifted toward the left or into a position of non-partisan neutrality (though in reaction to partisan differences). Despite being wooed by both the political left and the right, small business reacted to the dominant party in power and adopted an opposition political orientation.

The first independent small business organization after the war emerged in opposition to the “priority production” (*keisha seisan*) policy of the government in 1947, which concentrated resources on three interrelated industries considered to be central to economic recovery – steel, fertilizer and coal. All these industries were either composed of or dominated by larger firms. Opposition to priority production policy is said to have coalesced in the National Small and Medium Enterprise Association, *Zenkoku Chūshōkigyo Kyogikai* or *Zenchūkyō* which formed on 16 May 1947.<sup>26</sup> Even though Priority Production began under the cabinet of the conservative Liberal Party leader Shigeru Yoshida, it was the brainchild of the left-wing economist Hiromi Arisawa. When the Socialist Party came to power at the head of a coalition government involving the Democratic Party and the People’s Cooperative Party that replaced Yoshida in government in May 1947, Priority Production was the centerpiece of their economic policy. The Liberals, now in the opposition, appeared to have mobilized the small business community against their Socialist and Democratic Party rivals who were now in power.

The Liberals viewed the Socialists as a powerful competitor because the Socialists had significant and growing support from small business. The Socialists had run the largest number of candidates with small business backgrounds in the 1947 general election and obtained a similar proportion of the small business vote as the Liberals. Indeed, the Socialists in the immediate post-war period were viewed as strongly pro-small business, and immediately after entering office, the Socialists pushed for the formation of an independent Small Business Agency. However, the Socialists were immediately at odds with small business.<sup>27</sup>

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<sup>25</sup> Hari (1992: p. 101).

<sup>26</sup> Ibata-Arens and Ōbayashi (2006: p. 139).

<sup>27</sup> The following paragraphs are drawn from earlier research in (Babb 1996: pp. 150–76).

Inflation was rampant and requisitioning of much basic food and other supplies needed to be strictly enforced. As the labor movement grew in strength fostered by the Socialist government, labor costs rose dramatically and supply of materials worsened. The opposition Liberal Party tapped into this dissatisfaction.<sup>28</sup> The Liberals spearheaded campaigns against Socialist coal nationalization plans, relying on small coal operators to lobby aggressively, and attacked controls on food distribution, including an ill-conceived government plan to shut down all restaurants in late 1947. This swing to the Liberal Party culminated in a land-slide victory in the 1949 General Election on a scale that allowed them to form a stable one-party government for the first time since the war.

The Liberal Party did not become the party of small business, however. Once in power again, it was soon accused of being insensitive to the needs of small business as deflationary policies in the early 1950s led to widespread insolvencies and lack of finance. This lack of concern was dramatized when in 1952 the Liberal Party Minister of International Trade and Industry, Hayato Ikeda, reportedly said in response to criticisms of the impact of his austerity policy on small business, “I do not care if five or ten small businesses collapse and the owners kill themselves.”<sup>29</sup> Given the large number of small businesses in the Japan, Ikeda’s position was untenable and he was forced to resign.

On the left, the defeat of the Socialist Party in 1949 was paralleled by the rise of the Communist Party and the extreme left. It was in this context that one of the most important small business organizations emerged: the Association of Democratic Merchants and Industrialists, or *Zenshōren*, sometimes also called *Minshō* or *Minshōren*. The Communist Party began to dominate the left-wing small business movement in a way that it was unable to do in the labor or farmers movements which remained predominantly Socialist.<sup>30</sup> Thus, despite evidence that small business initially wavered between the Socialist left and the Liberal right in the immediate post-war period, an important segment of small business affiliated itself with the Communist left. The far left was not the party in power and so it had the ability to mobilize and organize small business in a way that both the Socialist and the conservative Liberal and Democratic Parties, as the parties of government, could not.

Indeed, the political right in Japan was too associated with big business. During the wartime regime, led by the military and the many right-wing politicians, small business was under pressure to merge with larger firms as noted

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<sup>28</sup> Sakano (1948: pp. 68–70).

<sup>29</sup> Ishikawa and Yamaguchi (2010: p. 63).

<sup>30</sup> Shindō (1976) and Zenshōren History Editorial Committee (1961). The tendency of the official and semi-official histories of *Minshō* to put an emphasis on the major role played by the relatively small Japan Communist Party betrays the political orientation of the group.

above. After the war, the traditional ties of large economic conglomerates, *zai-batsu*, centered on the family holding companies that had bankrolled the major pre-war political parties, reformed into enterprise groups, *keiretsu*, which now supported the main post-war conservative parties.<sup>31</sup> The conservative right was the party of big government and big business in the eyes of many.

This helps to explain why it was not until 1956 that a small business organization emerged on the political right. The Japanese Small and Medium Enterprise Political Federation, *Nihon Chūshō Kigyō Seiji Renmei* or *Chūseiren*, was founded by Yoshisuke Ayukawa, intent on building a partisan link between a major small business organization and the ruling conservative party, the Liberal Democratic Party (LDP), which had formed as a result of a merger between the Liberal and Democratic Parties in 1955. This initiative was initially a success. Many chapters of the oldest post-war small business organization, the *Zenchūkyū*, joined the *Chūseiren*. However, in 1957 the LDP attempted to revise the Law on Small and Medium Enterprise Organizations to the disadvantage of most of his members. Many had hoped that Ayukawa, with his connections to the LDP, could block or amend the law. In fact, Ayukawa compelled the organization to support the legislation and in doing so alienated many members with his high-handed actions, as most in the organization opposed the legislation. *Chūseiren* was fatally weakened, and it continued to decline into the 1960s before being absorbed into other organizations.

In April 1957 as a response to this situation, a new organization for small business, Japanese Small and Medium Entrepreneurs *Dōyūkai*<sup>32</sup> was established. It started with only 70 members but, in a direct criticism of Ayukawa and his *Chūseiren*, it declared itself democratically managed, willing to cooperate with other groups and, crucially, not politically fixed to any party. This organization gradually expanded by creating more and more chapters until it formed a truly national organization in 1969, the Small and Medium Entrepreneurs (SME) *Dōyūkai* National Conference, or *Chūshō Kigyōka Dōyūkai Zenkoku Kyōgikai* or *Chūdōkyō* for short. In a sense, the political potential of small business for the political right in Japan was neutralized by the replacement of *Chūseiren* with the *Dōyūkai*. In fact, most *Chūseiren* branches drifted into the SME *Dōyūkai*, and *Chūseiren* disappeared in the 1960s. Small business owners did affiliate with the

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<sup>31</sup> For a bold and classic statement of pre-war/post-war continuity in the business community see Dower (1990) but for a more nuanced and detailed treatment of history and trends in the relationship between big business and political parties see Babb (2001, 2002).

<sup>32</sup> The term “*Dōyūkai*” is a notoriously difficult to translate. It is literally, “association of friends” but this does not have the same nuances as in the Japanese so it is left untranslated by most scholars.

conservative Liberal Democratic Party but only through the constituency organizations of individual politicians on a personal basis. The demise of *Chūseiren* saw the end of explicit center-right partisan small business organization in Japan.

Therefore, despite the success of the SME *Dōyūkai*, it was the organizations of the left that become more prominent and influential in the 1960s and 1970s. The main left-wing small business organization, *Minshō*, was increasingly successful and began to grow in membership dramatically. This was a period in which the Japanese Communist Party (JCP) began to rebuild its support base, and though *Minshō* has never been officially affiliated with the JCP, its success was in large part because of membership services which relied on networking with supporters of the JCP. For example, *Minshō* would offer to help small firms with the tax returns or if they were audited. Often the local JCP party branch would know a sympathetic member of the local tax office who could deal with the return or they would use their expertise or political activists to create such as time-consuming burden for local tax officials that they were deterred from auditing *Minshō* member firms.<sup>33</sup> The types of small business which supported *Minshō* and the Communist left were the smallest and most marginal urban business, especially those in the retail and service sectors.<sup>34</sup>

There was an attempt on the left to counter the dominance of the JCP and *Minshō* in small business organization. The formation of the National Small and Medium Enterprise Labor Conference Federation, *Zenkoku Chūshō Kigyō Rōmu Kyōkai Rengokai* or *Zenkokurōkyō* for short, in 1964 was a national organizational initiative supported by some in the Japanese Socialist Party (JSP) and its affiliated labor unions. Moreover, the timing was intriguing in that it fit with early attempts at so-called “structural reform” of the Japan Socialist Party to transform the party from a working-class party into a mass electoral party. However, the name of the organization reflects internal JSP sensitivities by referring to the position of small business owners as essentially laborers. The organization was renamed the National Small and Medium Enterprise Organizations Federation, or *Zenkoku Chūshō Kigyō Dantai Rengokai* or *Zenchūren*, in 1974 and was cited as one of the key Socialist constituency organizations in the small business sector as late as

<sup>33</sup> One example given for Kyoto in the 1970s was that tax returns from *Minshō* members were not looked at too closely, see Steiner (1980: p. 405). Under Japanese law, civil servants cannot become political party members but the Japanese Communist Party has a long history of maintaining secret membership among Japanese civil servants.

<sup>34</sup> Japanese electoral studies clearly demonstrate the historical tendency of the smallest and least financially viable firms to support the left. See Rōyama et al. (1955: pp. 37–8), which is the earliest and mentions *Minshō* specifically, Horie and Iwao (1978: pp. 71–91), and Mitake (1985: pp. 181–5). The small numbers used in each study and lack of specificity of type of interest organization limits one’s ability to generalize the findings completely, however.

**Table 1** Japanese small business organization timeline.

Government-sponsored Organizations	Independent Organizations
1878 – present <i>Shōkōkaigisho</i> Japanese Chambers of Commerce and Industry Extended in 1964 through the <i>Zenkoku Shōkō Kai Rengō Kai</i> (National Federation of Commerce and Industry Unions)	1947–1956 <i>Zenkoku Chūshōkigyo Kyogikai</i> or <i>Zenchūkyō</i> National Small and Medium Enterprise Association Origin: Opposition to left government Purpose: Political, Right, Advocacy
1909–1943 <i>Nihon Sangyō Kumiai Chuōkai</i> Central Association of Japanese Industrial Unions Purpose: Umbrella/Administrative (voluntary)	1951 – present <i>Zenkoku Shōkō Dantai Rengō Kai</i> Association of Democratic Merchants and Industrialists Origin: Political Activists, left-wing Purpose: Political, Left, Advocacy/Advice
1943–1946 <i>Shōkō Kumiai Chuokai</i> The Central Association of Commercial and Industrial Cooperatives Purpose: Administrative (compulsory)	1956–1960s <i>Nihon Chūshō Kigyō Seiji Renmei</i> Japanese Small and Medium Enterprise Political Federation Origin: Entrepreneur Purpose: Political, Right
1946–1949 <i>Shōkō Kyōdō Kumiai Chuokai</i> The Central Association of Commercial and Industrial Cooperatives Origin: Government Purpose: Umbrella, Administrative (voluntary)	1957 – present <i>Chūshō Kigyōka Dōyūkai Zenkoku Kyōgikai</i> Japanese Small and Medium Entrepreneurs Origin: Non-partisan entrepreneurs Purpose: Advocacy
1956 – present <i>Zen Chūshō Kigyō Kumiai/Dantai Chuō Kai</i> English: National Federation of Small Business Associations (NFSBA) Purpose: Umbrella, Administrative (privatized in 2005)	1964 – present <i>Zenkoku Chūshō Kigyō Dantai Rengokai</i> National Small and Medium Enterprise Organizations Federation Origins: Japanese Socialist Party (JSP) and its affiliated labor unions Purpose: Political left, Advocacy

1990.<sup>35</sup> This organization, however, never rivaled the Communist Party supported *Minshō* in size, activity or influence.

<sup>35</sup> Japan Socialist Party, eds. (1990: p. 308).

The lesson of the Japanese case is that parties in power failed to attract small business. The pre-war and wartime corporatism of the right tended to alienate small business, while the cooperativism of the left was more popular with small business, if politically ambiguous. However, the Socialist Party undermined their chances in the late 1940s and never recovered because they were too heavy handed in the regulation of small business, and the priority production program did not benefit a wide enough constituency. The initiative then shifted to the Communist left which dominated small business organization in the initial post-war period when political allegiances were set. The political right attempted to challenge the dominance of the left but failed for similar reasons in the late 1950s as the Socialists had when they were in power in the late 1940s. The conservatives were insensitive to the needs of small business when in power in the 1950s, and an attempt by a group entrepreneur to organize the small business in support of the conservative LDP failed due to conflict with the party in power. This does not mean that partisan approaches failed completely. Indeed, the only party consistently out of power at key junctures was the Japanese Communist Party, which effectively emerged as the strongest champion of small business precisely because it could organize small business against governments led by other political parties.

## 6 Institutions, partisanship and small business organization in the US

A similar process occurred in the US, though the result was the shift of small business to the political right. There was substantial movement towards small business organization during the period of progressive deterioration of small business conditions after World War I, first due to the rise of supermarkets and large manufactures in the 1920s and then, due to the Great Depression in the 1930s. Even then, small business made only fitful and unsuccessful attempts to organize itself.<sup>36</sup> It was not until 1937 that the National Small Business Association was founded in the mid-West.<sup>37</sup> By 2011 it represented over 150,000 small businesses providing services as well as engaging in policy advocacy. As noted above it was primarily created by a small business entrepreneur, Dewitt McKinley Emery, but, significantly, in opposition to the policies of the Democratic Party administration of the time. This mobilization against the party in power was crucial.

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<sup>36</sup> Blackford (2003: pp. 91–100).

<sup>37</sup> For a short official history of the organization, emphasizing the entrepreneurial roots of the organization and its opposition to the government of the time, see <http://www.nsba.biz/docs/70thprogram.pdf>. Accessed 22 November 2010.



The same partisan motives were behind the formation of the most important independent business association in the US, the National Federation of Independent Business, in 1943.<sup>38</sup> It is still the largest group with 600,000 members (as of 2011) and maintains representatives in Washington DC and all 50 state capitals. The timing of its formation during the war is important. Most contracts were government contracts that tended to go large firms. There were few if any programs that encouraged the use of small business for procurement and the supply of essential goods and materials; this made it difficult for many small businesses to operate. Indeed, Young argues that it was the fragmentation of the small business communities and inability of Democratic policymakers to create a new policy niche for small business that made small business organization stall.<sup>39</sup> He documents the rivalry between competing groups though often suggests that the division was primarily between small manufacturers and small retailers with roots stretching back to the late 19th century.<sup>40</sup> Small manufacturers tended to be involved in the National Association of Manufacturers and supported the Republican Party,<sup>41</sup> whereas small retailers tended toward the Democratic Party in the 1920s and 1930s due to competition from chain stores.<sup>42</sup> Even in the US, it was not inevitable that small business would be primarily identified with the political right.

However, the problem with Young's account of the cleavages seems to clash with the fact that the two small business organizations which did form in 1937 and 1943, the National Small Business Association and the National Federation of Independent Business (NFIB) respectively, were very critical of the Democratic administration of Franklin Delano Roosevelt and both had strong tendencies toward cooperation with the Republican Party.

The explanation for small business favoring the Republican Party over the Democratic Party can be found in the relationship between the Democratic Party and large manufacturing firms. This relationship was forged during the war but there was also a common interest between big firms and the Democratic Party in improving the working conditions of unionized workers who supported the Democratic Party.<sup>43</sup> Increased wages and better working practices, together with economy of scale and enhanced productivity, acted to the mutual benefit of

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**38** These facts on National Federation of Independent Business are drawn from the organization's website: <http://www.nfib.com/about-nfib>. Accessed 22 November 2010.

**39** Young (2008).

**40** Young (2008: p. 438).

**41** Young (2008: pp. 445–7).

**42** Young (2008: pp. 449–51).

**43** Amongst the numerous studies to support the notion of such an alliance are Hamby (1972), Koistinen (1973) and McQuaid (1978).

organized workers and large manufacturing firms. Extending minimum wages and worker protection became common cause of unionized workers and large firms. The Republican Party, in contrast, was able to build on its traditional reputation as the party which attempted to protect small farmers and craftsmen.<sup>44</sup> Despite the fact it also represented key segments of big business, it was still able to set itself up as the champion of free enterprise and opposed to big manufacturers, organized labor and the Democratic Party. Thus, the war cemented the relationship between small business and the Republican right against the Democratic left.<sup>45</sup>

In contrast, when the Republicans were in the White House during the Eisenhower administration, the NFIB and the American Association of Small Business supported attempts to create a small business agency as a replacement for Roosevelt's New Deal Reconstruction Finance Corporation; this occurred even though other organizations even further to the right, such as the National Small Business Men's Association and the Conference of American Small Business Organizations opposed any government involvement in small business.<sup>46</sup> It is true that Young<sup>47</sup> suggests that the NFIB support was nominal and the failure of any organization to push for a small business agency at the time explains the delay in its formation until later. Thus, the tendency was for the NFIB to support Republican administrations and oppose Democratic administration small business policy. The NFIB was also supportive of Eisenhower's foreign aid policy though normally skeptical of the idea.<sup>48</sup> Finally, the lack of health care legislation in the Eisenhower administration was put down by NFIB and other small business organization influence.<sup>49</sup>

Even when there was conflict between the NFIB and the Nixon administration over tax and health care policy, Nixon took the criticism of the NFIB seriously and modified or abandoned the legislation.<sup>50</sup> While the NFIB has been officially non-partisan because it funded candidates in both the Republican and Democratic parties who supported its ideals, the overwhelming support from the organization has gone to Republican candidates.<sup>51</sup> In addition, the NFIB had been central to the political fortunes of the Republican Party. It was one of the most influential organizations in the formation of Reagan economic policy.<sup>52</sup> The NFIB was

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<sup>44</sup> Dicke (1996: p. 14).

<sup>45</sup> A good case study of how this was done can be found in Shermer (2008).

<sup>46</sup> Blackford (2003: p. 134).

<sup>47</sup> Young (2008: p. 41).

<sup>48</sup> DiBacco (1967: p. 24).

<sup>49</sup> Quadagno (2004: p. 31).

<sup>50</sup> Quadagno (2004: p. 34).

<sup>51</sup> See, for example, Neustadt and Clawson (1991: p. 227).

<sup>52</sup> Kumar and Grossman (1986: p. 99) and Jenkins and Eckert (2000: p. 317).

also a major force behind the Republicans who assumed control over Congress in the late 1990s under President Clinton,<sup>53</sup> and have been the most prominent opponents of the Democratic administrations of Clinton and Obama, especially focused on their health care proposals. The NFIB has consistently maintained friendly if strained relationships with Republican administrations but is strongly adversarial toward Democratic Party administrations. Thus, the organization seems to grow and thrive through its partisan opposition.

It is strange that political science studies of US small business seem to downplay this partisan dimension. Young does point out the shift to reliance on large firms during World War II as the decisive blow to small business.<sup>54</sup> But the partisan implications of the failure of the Democratic Party in government to institutionalize small business prior to the war are not made as clear as they might have been. Moreover, Young's arguments about the fragmentation of small business interest organization in the US are not surprising either considering the experience of Japan. Comparative study suggests that fragmentation is common, so the causes of division and rivalry might have more to do with the nature of small business as an interest rather than the particular groups, personalities and policymakers in the US at the time.

Comparative study of small business organization in other nations demonstrates the importance of partisan and institutional linkages. Excessive emphasis on leadership and entrepreneurial strategy can lead to missing the partisan and institutional links that are important in the US as well. This is not to deny that entrepreneurial efforts and strategies play a role to the formation and even the viability of small business interest groups. Most important, however, is that these organizations bear the imprint of the circumstances in which they are formed and the success of the group depends on how it mobilizes supporters. This formation and mobilization occur for or against the party in power, its policies and institutional initiatives toward small business. The success of certain groups over others bears the imprint of the partisan response of small business in each country.

When the Small Business Administration was formed in 1954, Young argues this was a lost opportunity for the small-business sector but, at this point, the partisan cleavages were set so that it was not a real opportunity at all. As others have noted, the formation of the Small Business Administration cannot be considered evidence for small business influence in the period and in fact may point to the contrary.<sup>55</sup> Democratic Party dominance of the

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53 Davidson (1996: p. 39).

54 Young (2008: p. 457).

55 Blackford (2003: pp. 134–5).

Congress and often of the White House as well, created deep and bitter antagonism between small business and the political elite to the advantage of the political right in opposition.

Thus the image of small business on political right in the US is an outcome of partisan competition. This experience allows us to put in context the late 1950's literature which suggested that small business was a source of right-wing political extremism, most notably the view that small business support played a role in the rise of McCarthyism.<sup>56</sup> This was the period in which Seymour Martin Lipset did his early work on social class and politics which specifically examined the relationship between small business and the political right which culminated in his classic work, *Political Man*.<sup>57</sup> However, when the US case is contrasted with that of Japan, we can see that this tendency is the outcome of a dynamic of small business organization developing in the context of partisan competition between parties in power and in opposition.

**Table 2** US small business organization timeline.

<b>Government-sponsored Organizations</b>	<b>Independent Organizations</b>
1912 Chambers of Commerce and Industry	1937 – present National Small Business (Men's) Association Origin: Entrepreneur Purpose: Anti-New Deal, Advocacy
1938 National Advisory Council of Independent Businesses	1943 – present National Federation of Independent Business Origin: Entrepreneur Purpose: Anti-New Deal, Advocacy
1964 – present SCORE (Service Corps of Retired Executives) Association	1943–1950s The Conference of American Small Business Organizations Origin: Entrepreneur Purpose: Anti-New Deal, Advocacy
1982 National Business Association	1981 – present National Association of the Self-Employed Purpose: Advocacy, no electoral activity

<sup>56</sup> Trow (1958).

<sup>57</sup> Lipset (1955) and (1959). It should be noted that the political scientist John Bunzel, however, presented a more favorable picture of small business in his work in the same period, though the conservative tendencies of small business are confirmed (Bunzel 1956, 1962).

## 7 Partisanship and institutionalization

Now that it has been established that partisan dynamics explain the ways in which small business was organized, it needs to be noted that subsequent institutionalization of small business also has a partisan dimension. That is, superficially universal benefits for small business, provided as a result of policies and agencies created by governments, are often really partisan countermeasures against existing small business organization. Parties in government attempt to institutionalize benefits but also aim at helping the incumbent party electorally.

In the case of Japan, it is understandable that Calder's study of small business policy in his book, *Crisis and Compensation*,<sup>58</sup> tended to over-emphasize *Minshōren*, the far left business organization, because the success of the organization in the context of partisan competition did spur the ruling party to adopt small business friendly policies. In the 1960s and 1970s left local governments backed by both the Japanese Communist Party and the Japan Socialist Party formed in many major cities. In Kyoto and Tokyo, these local governments instituted policies to support small business including generous provision of financial support. The ruling LDP, which was in electoral decline in this period, adopted some of these policies and instituted similar national schemes.

This argument is supported by the work of Ibata-Arens and Obayashi,<sup>59</sup> who note that the extension of the Chambers of Commerce and Industry by the government in 1962 to smaller firms in villages and townships not yet represented by the existing Chambers of Commerce tied small business even more fully into government administration; this happened through the creation of the *Zenkoku Shōkō Kai Rengō Kai* (*Zenkokuren* for short) or the National Federation of Commerce and Industry Unions. This was a Ministry of International Trade and Industry administered association used to promote government policies with membership and dues compulsory. It is difficult to prove that the Liberal Democratic Party was attempting to use this initiative to its partisan advantage, but local association officials were also commonly members of local LDP constituency support organizations (*koenkai*), and the initiative came in the process of the collapse of the pro-LDP organization, *Chūseiren*, and in a bureaucratic style of the *Chūseiren* founder, the LDP politician Ayukawa.

By the 1970s, the aim of these programs was to counter-act the growing success of the left in Japan's major cities. Of course they also had the added benefit of assisting small business in the rural and semi-rural constituencies

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<sup>58</sup> Calder (1988: pp. 312–48).

<sup>59</sup> Ibata-Arens and Ōbayashi (2006: pp. 141–2).

which supported the LDP. The problem was that the LDP was supported by both small business and larger firms, the latter of which were more powerful. Thus, some policies which were nominally aimed at small business actually tended to benefit big business more or operated at the expense of small business. For example, structural adjustment policies which were intended to benefit declining industries, often composed primarily of small firms, were often carried out at the expense of smaller firms.<sup>60</sup>

A similar situation unfolded in the US in the 1960s. Democratic Party administrations in the 1960s attempted to counter-act the tendency for small business to move towards the right and the Republican Party with small business initiatives of their own, including the establishment of the Small Business Administration. This also included formation of two other associated organizations, the National Business Association<sup>61</sup> and SCORE,<sup>62</sup> which provide small business service and advice. Given their connection with official government agencies, neither had an advocacy role. Democratic administrations appeared to have attempted to undermine right and Republican small business organization with non-partisan institutionalized alternatives. However, this was hardly non-partisan as the Democratic Party aimed to take credit for helping small business, and it was often done to benefit Democratic Party constituencies, such as ethnic and racial minorities.

Therefore we can see in the contrasting cases of the US and Japan important similarities in the dynamics of small business interest group formation. In both countries the largest and most important organizations were indirectly partisan and formed in opposition to the ruling party or parties at critical junctures. The response of the opponents of these small business organization was also partisan but channeled through the seemingly non-partisan institutional arrangements.

## 8 The decline of parties and weakened small business organization in Japan

Partisanship and institutional responses can also help explain the divergent outcomes in small business influence in the US and Japan in recent decades. In Japan

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<sup>60</sup> Peck, Levin and Goto (1987: p. 121).

<sup>61</sup> A short official history of the National Business Association can be found at: <http://www.nationalbusiness.org/NBAWEB/General/about.htm>. Accessed 22 November 2010.

<sup>62</sup> A short official timeline summarizing SCORE's history can be found at: <http://www.score.org/milestones.html>. Accessed 22 November 2010.

it is a case of partisan decline on the left paralleled by the decline of small business organization. In the US, partisan mobilization has reinvigorated US small business organization and provoked further institutional response.

The decline of the left in Japan began in the 1980s as the vote for the two main left parties, the Japanese Socialist Party and the Japanese Communist Party dipped significantly in the 1980 and 1986 general elections. This decline was also seen in small business organization on the left. For example, in 1986, the remaining branches of the National Small and Medium Enterprise Labor Conference Federation, *Zenkoku Chūshō Kigyō Rōmu Kyōkai Rengokai* merged with the *Zenkoku Chūshō Shōkōgyō Dantai Rengokai* to form a new version of the National Small and Medium Enterprise Organizations Federation, or *Zenkoku Chūshō Kigyō Dantai Rengokai* or *Zenchūren*,<sup>63</sup> in a last ditch effort bid to strengthen center-left influence in the small business movement.

It is true that as late as 1989, both JCP/*Minshō* and the JSP/*Zenchūren* experienced an upsurge in support when the conservative Liberal Democratic Party (LDP) forced through legislation introducing a sales tax in Japan and lost control of the Upper House of the Japanese parliament for the first time since its formation in 1955. Small business opposition was one of the key factors in this defeat. However, for the rest of the 1990s the vote for the left collapsed. At the same time, continuing deep recession in Japan, together with deregulation of the economy in an attempt to restart economic growth, hit small business hard.

With the demise of the electoral left, the number of members of left-wing small business organization has also declined. The combined total of the Japan Socialist Party and Japanese Communist Party vote was 23% in both 1969 and 1990 with it close to 20% for most of the intervening period. The total for the two parties has fallen from 15% in 1993 to approximately 8% in the most recent general elections (2009 and 2012).<sup>64</sup> This is paralleled in the decline of left small business organization. In 2013, *Minshō* vaguely proclaims that it has more than 20,000 members and 30,000 regular readers of the newspaper it produces, which is a serious decline in the number of its supporters from its recorded peak of over 365,000 members in 1983.<sup>65</sup> The small business organizations affiliated to

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<sup>63</sup> It might be noticed that this organization was already called *Zenchūren* in 1974, but subsequent name changes and then the merger in 1986 led to a resurrection of this name. The 1974 *Zenchūren* is called *old Zenchūren* and *Zenchūren* is the name of the organization from 1986 to the present day.

<sup>64</sup> Ishikawa and Yamaguchi (2010: pp. 245–58).

<sup>65</sup> Current data from “Zenshoren to wa.” Official website of the *Zenkoku Shōkō Renmei* at: <http://www.zenshoren.or.jp/shoukai/index.html>. Accessed 6 August 2013; past data from Calder (1988: p. 345). The numbers given Calder cannot be independently confirmed but the scale of the decline is clearly dramatic by all accounts.

the Japanese Socialist Party appear to have disappeared.<sup>66</sup> Indeed, the JCP has inherited many of the remaining fragments of left small business organization, especially in Kyoto and Osaka; this has meant that small business groups have been forced to shift to the far left to consolidate to survive. The weakness of the small business sector in general is due to factors independent of the left, but since the left was a major advocate for small business in the 50 years after the war, the decline of the left cannot help but reinforce the weakness of small business organization in Japan.

Of the small business organizations still active in Japan today, only the SME *Doyūkai* seems to be prospering or at least continuing to consolidate its position as a representative of small business. It has consistently added chapters throughout Japan such that only one small corner of northern Japan is without a major local branch. However, the *Doyūkai* is a relatively exclusive organization like its namesake for big business, the *Keizai Doyūkai*. It has only around 38,000 members out of a potential population of tens of millions of small business owners – it is an elite group and not a mass organization similar to *Minshō* at its peak. It is also an explicitly non-partisan organization. Its modest and relative success typifies the decline of partisan mass organization of small business in Japan.

The demise of left-wing small business organization, and the failure of conservative or center-right small business organizations to fill the void, has left small business relatively unorganized, especially when compared to the broad sweep of post-war Japanese history. There is no effective partisan champion of small business in Japan today.

## 9 The partisan dimension to small business interest group pluralism in the US

In contrast to the decline of small business organization in Japan, there have been periods of small business organizational vitality in the US linked to key partisan shifts in recent years. For example, there was an increase in small business organizational activity at the beginning of the decade in the 1980s. It appeared as part of the movement against big government expressed most clearly by the Republican Party under President Ronald Reagan (1980–1988). Beginning in the late 1970s, the Republicans, as the party of opposition in the build-up to these junctures, appeared to have been the champion of small business as underdogs against big government and big labor.

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<sup>66</sup> Japan Socialist Party, eds. (1990).



One such group formed in the early 1980s was the National Association of the Self-Employed, a non-profit and non-partisan organization formed in 1981 with a membership exceeding 100,000 in 1988.<sup>67</sup> This was an example of a number of organizations that were focused on what they term ‘micro’ businesses with <10 employees. They play an advocacy role and are involved in government consultation but not in electoral politics. This suggests that there is some vitality in small business organization in the US when the Republicans are in opposition, but when the Republicans are in power, small business organization tends to be quiescent or focus on selective benefits for members.

After the Democratic Party returned to power under Clinton there was a mobilization of small business against health reform but it was short-lived as the proposal was defeated. The problem for the Republican Party is that it also has significant support from big business, which does not always have the same interests as small business and that once it was in power for a sustained period, it would be open to the same attacks that it made on the Democratic Party in power. Scattered evidence supports this hypothesis.<sup>68</sup> For example, there were numerous if diverse Democratic Party initiatives to attract the small business constituency in the early years of the 21st century during the Republican administrations of George W. Bush. The Democratic Party was particularly successful in cultivating support at the local level where it is strong electorally and minority businesses were numerous.<sup>69</sup>

When the Democrats had retaken the White House and Congress in 2008 attempts to attract small business continued. The new chair of the Democratic National Committee elected on 21 January 2009 was Virginia Governor Tim Kaine who emphasized the policies he implemented “that led to dramatic increases in state contracting for small businesses though significantly focused on women and minority-owned businesses.”<sup>70</sup> The Obama administration’s health care reform legislation, signed into law on 23 March 2010 was able to skillfully overcome the small business opposition upon which the Clinton administration initiative

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<sup>67</sup> A short official history of the organization can be found at the following web address: <http://www.nase.org/About/HistoryOfNASE.aspx>. Accessed 22 November 2010.

<sup>68</sup> Howard County Democratic Party (Maryland) (2006).

<sup>69</sup> “Minority business issues need a voice,” *Milwaukee Journal Sentinel*, 13 February 2008. Democratic Party has historically supported minority small business (see Democratic Party 1980 for example) so the question must be asked if in recent years there has been a more concerted strategy to woo small business or that opposition to the existing government has consolidated more small business support behind the Democratic Party. It has also been argued that the demographics of minority support is changing and creating a need to take the issues of small business more seriously. See for example, “Black Caucus shows constituent changes,” *Washington Times*, 6 May 2005, and Harris (2010).

<sup>70</sup> [http://www.democrats.org/about/bio/gov\\_tim\\_kaine](http://www.democrats.org/about/bio/gov_tim_kaine). Accessed 18 October 2010.

founded. More surprising was the effort put by the Democrats in two pieces of legislation aimed at helping the small business sector before the half-term elections in 2010.<sup>71</sup> The impact of these initiatives, if any, is unclear, especially given the possible negative influence of Obama's health care plans on small business but the attempt is noteworthy.

In contrast, the NFIB has been able to keep its activists focused in support of the Republican Party. The NFIB was particularly effective in mobilizing support in contests over swing seats and in those states in which the incumbent administration is Democratic. These local initiatives can maintain the tradition of support for the organization and its favored party. The NFIB supports Democratic Party candidates in some cases, but only where the candidates have effectively voted against the Democratic Party position consistently. Thus, the organization can hardly be seen as non-partisan.<sup>72</sup> More surprising was NFIB support for Tea Party candidates because it was not clear that business as a whole was in favor of the movement with its potential to damage the unity of the Republican Party.<sup>73</sup> The NFIB endorsed and supported many Tea Party candidates<sup>74</sup> but the aim of these efforts has been to reinvigorate the Republican Party on the right, so again cannot be seen as non-partisan.

## 10 Conclusions

This study has shown that in both the US and Japan, institutionalization and partisanship are crucial to the development and success of small business organization. It is true that small business organization in these cases supports the existing literature in terms of the importance of systemic shocks to periods of group formation, fragmented pluralism and incomplete coverage of groups which one would expect from collective action dilemmas, and the role of group entrepreneurs and diverse incentives to entice small business into such organizations.

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71 H.R.4818: Small Business Reform Act of 2010 and H.R. 5297: Small Business Jobs and Credit Act of 2010.

72 Berman (2010).

73 "Why Business Doesn't Trust the Tea Party: The Tea Party's small-government slogans may be appealing, but its policies could throw the U.S. economy into chaos," *Business Week*, 13 October 2010.

74 NFIB endorsed Tea Party candidates in the 2010 election cycle include Mike Lee (Utah), Tim Scott and Nikki Haley (South Carolina), Paul LePage (Maine), Sharron Angle (Nevada), Jesse Kelly (Arizona), Jeff Landry (Louisiana), Ken Buck (Colorado). At the same time, two NFIB endorsed candidates lost to Tea Party candidates (Alaska Senator Lisa Murkowski and Carly Fiorina, senatorial candidate in California).

This study has demonstrated that institutionalization is as important in the US, where state interference is opposed by small business, as it was in Japan, where state intervention is often welcomed. Even more important is the role of partisanship, which is sometimes noted in studies of small business organization but the dynamics of partisanship are often ignored.

The comparative dimension of this study is helpful because it demonstrates how under different partisan and institutional circumstances, small business can end up on the left or on the right. The pattern seen in the US is not the result of a natural affiliation between small business and the right, nor the inevitable tendency of Japanese small business to the left, but the product of historical legacies of partisanship and institutionalization.

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