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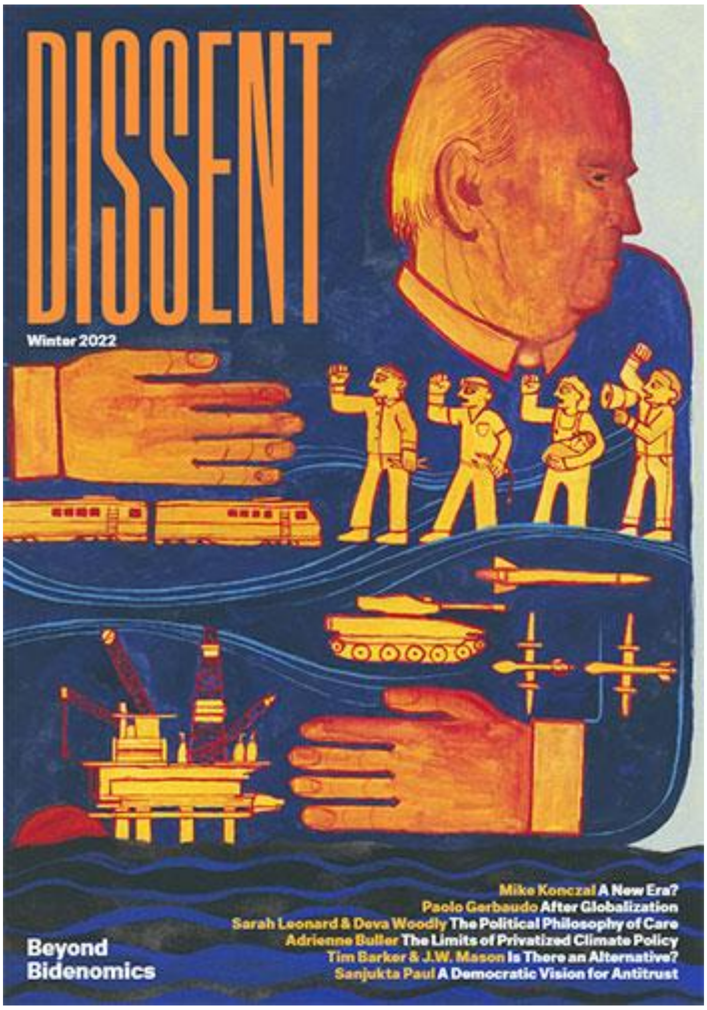
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Family Capitalism and the Small Business Insurrection

The growing militancy of the Republican right is less about an alliance of small business against big business than it is an insurrection of one form of capitalism against another: the private, unincorporated, and family-based versus the corporate, publicly traded, and shareholder-owned.

Melinda Cooper • Winter 2022

Donald Trump delivers remarks at a meeting with small businesspeople at the White House on January 30, 2017. (Chip Somodevilla/Getty Images)

For much of the 2016 presidential campaign, progressive commentators struggled to comprehend the foundations of Trump's popular support. Many assumed that the strident right-wing populism he unleashed was a long overdue reaction to the decades of wage stagnation endured by the industrial working class. True enough, Trump assiduously targeted this demographic during his campaign. Guided by Steve Bannon, he selectively presented himself as an advocate for a blue-collar welfarism of the kind briefly entertained by Richard Nixon—erstwhile friend of the hard-hat worker—and later embodied by Nixon adviser Pat Buchanan. It was this incarnation (one of several personae Trump adopted in 2016) that explains much of the early confusion regarding his political intentions. But while Trump's pandering to Rust Belt Democrats won him critical margins in Ohio and Pennsylvania, the few hundred thousand industrial workers who voted for him were hardly sufficient to constitute a long-term advantage. Nor were they representative of Trump's crusaders as a whole, the most passionate of whom were first politicized by the Tea Party movement.

Arising in the aftermath of the housing crash of 2007, the Tea Party targeted a perplexing range of enemies, from subprime mortgage holders, unemployed workers, and public-sector unions to investment banks and corporate giants. In the eyes of Tea Partiers, who saw themselves as quintessential producers and taxpayers, these heterogeneous enemies were united in their dependence on government welfare, be it in the form of public assistance, state-funded wages, or corporate bailouts. As with Trumpian populism, the eclecticism of Tea Party animosity confounded progressive critique. If Tea Partiers were so enraged by the bailouts of AIG and General Motors, could they not be reeducated as leftists?

The specificity of Tea Party grievances makes more sense if we understand it as a movement of small business owners, many of whom saw the values of their housing and business assets depreciate overnight as a result of the subprime crisis. The Trump diehards who cut their teeth in the Tea Party were not wage workers, nor even misclassified independent contractors, but small businesspeople concentrated in the blue-collar residential construction sector and its white-collar satellite professions of homeware retail, real-estate services, mortgage brokerage, and accounting. It was the meteoric rise and fall of the small business sector—not the long saga of deindustrialization—that gave birth to the current cycle of far-right populism.

When the first wave of Tea Party Republicans swept into Congress in the 2010 midterm elections, some of the most prescient observers pointed to the growing rift between the small and big business wings of the Republican Party and pondered its implications for the future of American capitalism. Writing for *Bloomberg BusinessWeek*, the journalists Lisa Lerer and John McCormick observed that established trade associations such as the Business Roundtable were distancing themselves from Tea Party candidates, fearing that their willingness to sabotage the basic workings of government risked destabilizing the entire American economy. A group of leading corporations including General Electric, DuPont, Alcoa, and Duke Energy expressed their support for an emissions reduction bill in 2009, only to be faced with a barrage of invective from congressional Republicans accusing them of colluding with big government. Tea Party candidates saw big government and big business as acting in unison to suppress the freedoms of the small business owner. In the words of Dick Armey, chair of the Koch-funded organization FreedomWorks, "Big Business is sitting there on fat, pushy duffs looking for government to keep them in business." Only "incompetent companies need bailouts. People who run corporations are basically taking care of themselves. They're not very reliable people and they're very comfortable with Big Government that greases the skids for them."

This same cleavage between small and big business can be seen in Republicans' current war against "woke capitalism"—the stakeholder-driven expression of political preferences on the part of large corporations—which Senator Ted Cruz recently described as a devil's bargain between the "left and its big business allies." In the same op-ed for the *Wall Street Journal*, Cruz urged Republicans to abandon these "fair-weather" friends. True defenders of market freedom would be better off without corporate PAC money constraining their every move. "When the time comes that you need help with a tax break or a regulatory change, I hope the Democrats take your calls," Cruz wrote, "because we may not."

This style of business (or libertarian) conservatism has a long history on the American right, one that has been documented in detail by Kim Phillips-Fein. When the largest publicly listed corporations and their trade associations—chief among them the Business Roundtable—made their peace with the New Deal state in the wake of the Second World War, small business conservatives remained aloof, convinced that big business was just as responsible as big government was for the growth of tax and regulatory burdens. The Business Roundtable continued to collaborate with both major parties even as it rebelled against the Fordist consensus in the 1970s. By contrast, small business conservatives have always rubbed shoulders with the nativist, theocratic, and white supremacist currents of the American far right. Their relationship to the Republican Party, mediated by such figures as Barry Goldwater and Newt Gingrich, takes the form of antiestablishment insurrection.

The long misunderstood but enduringly influential supply-side movement has always had its elite and its popular wings. Establishment figures such as President Gerald Ford's Treasury Secretary William E. Simon and Harvard economist Martin Feldstein celebrated "capital formation" and called for cuts to the capital gains and corporate income tax, while academic and political mavericks such as Arthur Laffer, Jude Wanniski, and Jack Kemp sought to forge an improbable alliance between blue-collar workers and small business by calling for cuts to the individual income tax. Under the renegade leadership of Richard L. Lesher, the U.S. Chamber of Commerce (the largest lobbying group in the United States) created an effective hybrid of hard-right social conservatism and supply-side economic populism. The Chamber's monthly magazine, the *Nations' Business*, addressed all workers—especially blue-collar workers—as self-employed business owners in waiting, and railed against the federal agencies that would violate their constitutional freedoms. The magazine featured articles on tradesmen who had done battle with federal health and safety regulators, long-haul truckers who had freed themselves from union oversight to build their own fleet, and door-to-door salesmen who had escaped the drudgery of nine-to-five employment. In this way, the blue-collar producer was reimagined as an aspirational small business owner rather than a wage worker—a slippage that helps explain the American right's strangely capacious understanding of the working class today. The Chamber's ideal entrepreneurial form was not simply the small business, but the small *family* business, whose natural labor hierarchies and personalized property relations stood in contrast to the suspect anonymity of the corporation.

Not incidentally, the Chamber of Commerce had close links with Amway, the direct sales company cofounded in 1958 by Chamber board member Jay Van Andel and his childhood friend Richard DeVos. In an interview with the *Nation's Business*, Van Andel explained the origins of the company's name, an abbreviation of the American Way: "We decided to use the idea of free enterprise—of the small businessman being able to go off on his own. We believed then, and we still do, that this is the heart and soul of the American ideal—to make your own way. You can start your own business, whether a fruit stand, a farm or whatever, and you can do your own thing in life." The son of a car dealer and an electrical contractor, respectively, Van Andel and DeVos claimed to be orchestrating a free association of small businessmen. In reality, Amway was perfecting a unique way of organizing business into an elaborate structure of self-replicating contractual relationships, one in which everyone who was not a company leader assumed the hybrid identity of exploiter and exploited.

In 1979, *Fortune* magazine included DeVos and Van Andel in a list of the top fifty "invisible rich"—invisible because they had amassed fortunes through privately held companies as opposed to shares in a public corporation. (The richest of all was Charles Koch, chairman and chief executive of the family company Koch Industries.) In the same period, Amway distributors—referred to by the company as "independent business owners"—were making an average of $76 per month. Amway's entire marketing strategy rested on its ability to present such vast disparities in wealth as differences of degree, not kind.

Former Amway salespeople have highlighted the centrality of familial ties to the company's structure. Distributors were not only encouraged to sell to their immediate social circles, but were also instructed to enroll relatives in distribution, with husbands and wives assigned to gender-appropriate roles inside and outside the home. Beyond its value as a tax shelter, DeVos and Van Andel were interested in the family structure's unique ability to exploit the unpaid labor of wives and children and conscript new "generations" of distributors into company culture. "We do not recruit men alone or women alone to sell our products when we can recruit the whole family," DeVos proclaimed. "It is time in America for the family concept to be reaffirmed, time for us to be prodded back to our basic responsibilities as parents, time for us to believe in the family so strongly that we will be willing to make whatever rearrangements of priorities are necessary to make our own homes the incubators of the American dream." In Amway's enduringly noncorporate business model, labor and management relations are reabsorbed into the family, which serves as the connective tissue between the smallest and largest production units. More akin to a Russian doll than a pyramid scheme, the alliance between the DeVos and Van Andel dynasties subcontracts its labor to a circle of smaller family entities, who in turn preside over their own family tree of progressively smaller contractors.

Amway's cultish qualities set it apart from the mainstream of American business. Yet in many respects, its contractual innovations were simply an extreme example of the new organizational dynamics that were gaining traction throughout American workplaces in the 1970s, as corporate structures were dismantled into networks of private contractual relations, union power was undermined, and the standard employment contract was displaced by the independent contractor. Even Walmart, the world's largest public corporation by revenue, started out as a family-owned company whose labor management relations were modeled on the gendered hierarchies of the small family farm. As historian Bethany Moreton has observed, Walmart's founder, Sam Walton, artfully deflected the small business critique of the soulless big-box retailer by absorbing the household model of production into the corporation, relegating generations of women to low-paid service labor and appointing men the age of their sons to manage them.

The construction industry, which has never conformed to classic corporate principles of organization, offers a slightly different model. Here, the largest builders have always operated as "a federation of small independent companies" rather than an integrated corporation, and family-owned companies are still common at every level of the contractual chain. Yet the building trades unions were once so powerful that they afforded project-based workers the same kinds of protections that were normally associated with the long-term contract of employment. Today, only a small percentage of construction workers are unionized, which leaves the lowliest subcontractor exposed to the unmediated authority of the owner-manager. When a large real-estate dynasty such as the Trump Organization initiates a new development project, it contracts with a cascade of smaller (often family-based) companies, many of which will in turn hire their own contingent of temporary workers to complete the task at hand. The arrangement resembles Amway's structure of mutually encased family businesses, with the smallest spousal production units inescapably tethered to the fortunes of the founding family. But while these relationships between family businesses are hierarchical by nature (and, in the case of the Trump Organization, very often abusive), owner-managers of both the smallest and largest family companies share common interests that do not extend to the dependent worker or misclassified independent contractor. Without the protective buffer of widespread unionization, the construction company has come to function as the "precapitalist" household unit of production, in which the worker is subject to the same kind of paternalist authority as is next-of-kin.

In many respects, the Tea Party movement looked like a direct descendant of the Chamber of Commerce's antiestablishment populism. Much like the Chamber in the 1970s, the Tea Party expressed a visceral hatred of meddling government departments, such as the Environmental Protection Agency and IRS. It called for the repeal of any government program it saw as catering to the undeserving poor, and decried government bailouts of big banks and big business as "corporate welfare." It was vociferously opposed to even the most market-friendly kinds of government-sponsored health insurance, arguing that small businesses stood to lose more from the Affordable Care Act than large corporations, with their already established healthcare plans and low overhead costs. (In fact, small business employees have enjoyed unprecedented coverage following passage of the ACA, and insurance premiums have stabilized for the first time in years.) The Tea Party was distrustful of free trade, from which small business has much less to gain than large corporations, and was opposed to the naturalization of undocumented migrants, who have long furnished small businesses with a reliable source of cheap labor by virtue of their precarious legal status. The Tea Party's notoriously contradictory support for Medicare reflected the ambivalent position of small business owners, who saw themselves as deserving of government-funded insurance while also resenting the costs of payroll taxes on behalf of employees. Much like the Chamber of Commerce of the 1970s, the Tea Party celebrated the small family business as the epitome of free enterprise. When Barack Obama prepared to restore the estate tax that George W. Bush had repealed, the Family Research Council and other anti-tax think tanks condemned the move as a targeted attack on family businesses (which they conveniently assumed to be small): "The death tax unfairly targets family businesses.

Large, publicly traded corporations pay no death tax at all. Thus, family businesses undergo repeated trauma as they are passed from one generation of employers to the next, while their publicly traded competitors continue through generations unscathed." Finally, the Tea Party was more interested in cuts to the individual tax as opposed to the corporate income tax, reflecting the fact that the vast majority of small businesses are pass-through entities, the earnings of which are reported on (or "passed through") the owner's individual income tax returns.

Ted Cruz seemed to be channeling Ronald Reagan when, at the height of Tea Party electoral dominance in 2012, he told the *Wall Street Journal* that "Republicans are and should be the party of small business and of entrepreneurs." But while Reagan (the former Hollywood freelancer) instinctively identified with the spirit of small business conservatism, as president he oversaw an effective marriage of convenience between large corporations and small businesses. With the rise of the Tea Party, many commentators concluded that small business conservatives had gained the upper hand. No longer extremist anti-government voices on the margins of political life, they seemed to have taken full possession of the Republican Party and were prepared to take down big business and the entire government apparatus with it. The Tea Party's brinkmanship when it came to the debt ceiling was so out of the ordinary that even the Chamber of Commerce expressed its reservations.

Trump was not the Tea Party favorite in 2016; this was Cruz. Yet it became clear during the Republican primaries that he personified its spirit much more convincingly than Cruz. More than any other Republican candidate, Trump projected the image of the plainspoken businessman who had started off "small" and made it "big" in the non-college-educated world of construction. He strenuously denied that his father funded his first forays into business and presented himself to his base as a self-made entrepreneur who rose from a "relatively small real estate company based in Brooklyn" to become a billionaire resident of the "best block of real estate anywhere in the world," on Fifth Avenue, in the heart of New York City. For all his billions, Trump was fluent in the language of small business resentment. "I've never had the 'security' of being on the government payroll," he boasted. "I was the guy who made the payroll. It hasn't always been so easy either. In the 1990s, the government changed the real estate tax laws and made those changes retroactive. It was very unfair. . . . Now we have crazy overregulation. You can barely buy a paper clip without being in violation of some government policy." Addressing a crowd of small business owners invited to the

White House in the first few months of his presidency, Trump told them: "I understand you. I have been there."

Trump's self-presentation as a friend to small business proved critical in his efforts to sell his 2017 tax cuts bill to a broader public. The details of the bill were worked out by Trump's five supply-side advisers—including Arthur Laffer, who played a central role in designing Reagan's individual income tax cuts in 1981. And although Trump's tax cuts included shameless concessions to the wealthiest corporations, it was the small business component that Trump and his advisers relentlessly publicized. In their primer on "Trumponomics," Arthur Laffer and Stephen Moore (cofounder of the Tea Party-affiliated Club for Growth) praised Trump for sticking to his guns when it came to protecting the interests of small business. Trump's integrity on the matter, they wrote, "only intensified our appreciation for his uncanny political sixth sense about voters." Channeling the spirit of Tea Party populism, they noted that "corporations are not popular with voters. Americans tend to think that corporations are faceless and greedy behemoths." On the other hand, "most Americans love small business and the little guy taking on the corporate raiders. It's in America's DNA to admire and cheer for those who risk everything, put out the shingle, and start a small business based on a few thousand dollars, lots of sweat equity and a good idea." In particular, Laffer and Moore congratulated Trump on his proposal for massive cuts to income on pass-through entities.

Yet while supply-siders could plausibly sell individual income tax cuts as a boon to small business in the early 1980s—when most pass-through entities and non-C corporations were effectively small—things are no longer so simple. When Reagan implemented the Kemp-Roth individual tax cuts in 1981, the bulk of business income came from the large, publicly traded C-corporations, and as such was subject to the corporate income tax. At this time, most pass-through entities were genuine small businesses, the majority of which were organized as sole proprietorships. (Real-estate investment and development companies were an exception in that they, too, were often organized as a type of pass-through, though they presided over vast asset portfolios.) Subsequent reforms to state and federal tax law, however, have significantly increased the incentive to organize one's business as a pass-through entity, and the size and scale of these businesses has since changed beyond recognition. The first of such reforms was Reagan's 1986 tax legislation, which lowered the marginal rate on individual income tax to below that of the top corporate income rate. The second change occurred gradually as a growing number of states introduced new legal structures, such as the limited liability company (LLC), which made it easier for businesses to be taxed as partnerships. As a result of these changes, more companies chose to unincorporate and adopted the pass-through structure instead.

Some of the largest, most successful, and asset-rich companies today are registered as private, non-C corporations, and the bulk of all business income is now derived from pass-through entities—a reversal of the hierarchy that prevailed in the 1980s. While it is true that the majority of genuine small businesses continue to be structured in the pass-through form of sole proprietorship, most pass-through *income* is now being produced by a small sliver of hedge funds, private equity firms, and real-estate partnerships. Increasingly, big business masquerades as small business for tax purposes. The Trump Organization—a holding company for more than 500 pass-through entities—is just one of the many conglomerates that have learned to deploy this masquerade to maximum effect.

When Trump took to the road in the fall of 2017 to sell his tax cut plan, it seemed only natural that he would turn to those workers who have long played the role of the aspirational blue-collar businessman in the Republican imaginary: independent truck drivers. Standing against a backdrop of rigs adorned with a banner that read "Truckers for Tax Cuts," Trump told the invitation-only crowd of drivers that he would bring "lower taxes, bigger paychecks, and more jobs" for small family-owned businesses. "For the many American truckers who file taxes as sole proprietors, S corporations, or partnerships," he announced, "we will cap your top tax rate at a maximum of 25 percent—substantially lower than what you're paying now. The more than 30 million Americans who have small businesses will see . . . a 40 percent cut in their marginal tax rate." This, he claimed, would be the biggest tax cut for small business in eight decades. In fact, it is doubtful that anyone in his audience would have benefited from these cuts; the 40 percent cut to the marginal tax rate that Trump bragged about would apply only to the wealthiest of pass-through business owners, including himself.

At this point we need to ask whether the growing militancy of the Republican right can be adequately explained by the triumph of small over big business, as Tea Partiers and Trump himself would have us believe. Even the most sophisticated commentators have taken the Tea Party at its word on this matter. But as Trump's example reminds us, what is at stake here is less an alliance of the small against the big than it is an insurrection of one form of capitalism against another: the private, unincorporated, and family-based versus the corporate, publicly traded, and shareholder-owned. If most family enterprise was confined to the small business sector in the 1980s—when public corporations accounted for the bulk of big business—this shorthand does not apply today, as more large companies go private and dynastic wealth surges to the forefront of the American economy. The historian Steve Fraser has noted that the "resurgence of what might be called dynastic or family capitalism, as opposed to the more impersonal managerial capitalism many of us grew up with, is changing the nation's political chemistry." The family-based capitalism that stormed the White House along with Trump stretches from the smallest of family businesses to the most rambling of dynasties, and crucially depends on the alliance between the two. Without its network of subcontracted family businesses, the dynastic enterprise would collapse as a political and economic force. Meanwhile the many small business owners that gravitate toward Trump are convinced that their own fortunes rise and fall along with his.

It is no accident that Trump's most significant donors hail from the same world of privately held, unincorporated, and family-based capitalism as he does. In 2020, *Forbes* named Koch Industries as the largest privately held company in the United States. The Mercers, who did so much to underwrite Trump's rise to power, owe their wealth to Renaissance Technologies, a privately held hedge fund that was subject to the so-called "small business" tax on pass-through income. Trump's education secretary, Betsy DeVos, was born into a business dynasty that made its fortune through the privately held Prince Corporation. When she married Dick DeVos in 1979, she sealed an alliance between the Prince family and Amway, still one of the largest private companies in the country. Most of Betsy DeVos's personal income derives from pass-through entities like LLCs and limited partnerships, which means that the Trump tax cuts would have saved her tens of millions of dollars. Amway itself is structured as an S-corporation, a type of pass-through that also would have qualified for Trump's 40 percent marginal tax cut to small business.

As the scions of private dynastic capital invest the halls of power, they have also inflated the fortunes of their own trade and political associations. Organizations such as the Koch-funded American Legislative Exchange Council and the theocratic Council for National Policy (the latter with its close connections to the DeVos and Prince dynasties) once existed on the far fringes of the American right. Today their progeny—from Americans for Prosperity to FreedomWorks and the Family Research Council—dictate the form of Republican Party politics, while the once all-powerful

Business Roundtable and other corporate trade associations watch from the sidelines. The newly ascendant organizations would like to convince us that theirs is the voice of small family business ranged against the vested power of the corporate and bureaucratic elite. More plausibly, however, they represent a shift in the center of gravity of American capitalism, which has elevated the once marginal figure of the family-owned business to a central place in economic life at every scale. If the large publicly listed corporation was still the uncontested reference point for American business at the turn of the millennium, it is now being increasingly challenged by a style of family-based capitalism whose reach extends from the smallest to the most grandiose household production units. The infrastructural basis of today's far-right resurgence is neither populist nor elitist in any straightforward sense: it is both. The collapse of the public corporation into a thicket of privately contracted commercial relations has weakened the old union-mediated bonds among workers and created real economic intimacies, however fraught, between the small family-owned business and the dynastic enterprise. To prevent the emergence of some more dangerous version of Trump, we would need to build an alternative set of economic and affective solidarities potent enough to dismantle this clientelist symbiosis of households.

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Correction: An earlier version of this essay gave the incorrect year for the Kemp-Roth tax cuts. They passed in 1981, not 1980.