From classical to progressive liberalism: Ideological development and the origins of the administrative state

Short title: From classical to progressive liberalism

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Abstract

Early support for expert policymaking through administrative agencies was rooted in concerns over political power. In a context of formal universal male suffrage, late 19th-century liberals (typically well-educated, urban professionals) opposed policies to regulate business out of fear of working-class radicalism. Yet by the 1910s, liberals supported economic regulation—through administrative agencies. We use a formal model to show how potential policy feedback effects made an anti-business coalition between liberals and populists unachievable, and how, by diminishing feedback effects, agencies facilitated a successful coalition to regulate business. Because administrative agencies guaranteed a central policymaking role for credentialed urban professionals, liberals could support farmers and industrial workers against big business while no longer fearing the rising power of their coalition partners. In this way, the strategic dilemma created by a changing distribution of power among social groups explains the development of broad political support for bureaucratic agencies.

Keywords: bureaucracy; American political development; policy feedback; shifting power; ideology

Supplementary material for this article is available in the online appendix.

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In the classic model of delegation to a bureaucratic agency, a politician grants discretionary policymaking authority to a bureaucrat because the bureaucrat has expertise, or information about policy effects, that the politician lacks (Holmström 1984). In American politics, delegation to expert bureaucrats tends to be associated with policies to redistribute wealth or regulate business. The first federal agencies, starting with the Interstate Commerce Commission (ICC), were established to constrain business power (Sanders 1999). Since the early 20th century, the association between redistributive economic policies and administrative expertise has been central to American liberalism.

Yet in the 19th century, expert agencies were one of several means by which liberal reformers *opposed* redistributive demands.[1] While farmers and industrial workers generally supported statutory rules or public ownership, alongside increasing farmer or worker representation in government, classical liberals feared working-class majorities in a context of expanded suffrage. Liberal reformers sought to constrain legislative politics through various policy mechanisms, including expert agencies, civil service reform, laissez-faire economic policies, and the gold standard. For this reason, classical liberals are often sharply contrasted with modern American liberals, who support redistribution and regulation.[2] Strikingly, both classical and progressive liberals supported the same institutions—administrative agencies staffed by experts with discretionary policy authority—for seemingly opposite ends.

Why did American liberalism develop a political commitment to economic regulation through expert policymaking by administrative agencies? Prior scholars argue that agencies provided a compromise between liberal reformers and agrarian populists (Sanders 1999; James 2000). But why agencies and not statutes as a vehicle for such a compromise? We

1. We use the term "expert agencies" to emphasize expert policymaking and the term "bureaucratic agencies" to emphasize the connection to contemporary scholarship on the bureaucracy. While the two terms are conceptually distinct, they refer to the same entities in the historical context of this paper. Notably, all historical agencies discussed in this paper are independent agencies. We leave it to future research to consider whether the feedback effects at the core of our analysis apply beyond independent agencies.

2. In the early 20th century, the term "progressive" distinguished "new liberals" from classical liberals, though both "liberal" and "progressive" circulated in reference to the new liberals (Rossinow 2008).

argue that the key political difference between agencies and statutes was the difference in implications for the future distribution of power. Liberal reformers feared that regulating business would strengthen working-class movements and thereby increase the likelihood of radical reforms that liberals opposed. Agencies limited these feedback effects. Staffed by credentialed urban professionals, agencies enhanced liberal political power and restricted increases in working-class power produced by reforms. Thus, agencies ameliorated a bargaining problem between populists and liberals in a way that statutory regulation could not.

We present a formal model to analyze this bargaining problem. In the model, there are mutual policy gains available for liberals and populists (reflecting a pro-business status quo in the late 19th century). But while a coalition could form to change policy in their shared interest, the resulting shift in power means that the distribution of future policy gains within the coalition becomes too skewed in favor of one side. For this reason, the coalition fails to form in the first place. Establishing a bureaucracy creates a third actor with some degree of political power and shared preferences with liberals, which relaxes conditions for the coalition to form. The model elucidates this strategic dilemma and connects the historical context we analyze to other models of bargaining amid shifting power.

More broadly, this paper explores one mechanism through which institutions provide the "glue" to unite political coalitions despite divergent interests. Because institutions with different structures of decision-making and personnel shape the distribution of power in different ways, advancing policy goals through alternative institutions can either resolve or exacerbate bargaining problems within a (prospective) coalition. Empowering administrative agencies, courts, private companies, religious organizations, or other institutions has important implications for the power of social groups. This affects which political coalitions are able to form, even holding constant the policy goals of potential coalition members.

Related literature

While the role of policymaking expertise within bureaucratic agencies may have had important effects on American state development (see, e.g., Gailmard and Patty 2013), our argument focuses on the historical origins of bureaucratic agencies in the US.[3] In this way, our argument relates to work on the origins of civil service reforms. Huber and Ting (2021) argue that civil service reforms are expected when parties value public goods. Ting et al. (2013) provide empirical evidence from US states for a positive association between party competition and civil service reforms. In contrast, we look at the development of political preferences for insulated bureaucracies directly.

As in Skowronek's (1982) classic account of the origins of the federal bureaucracy, we start from the classical liberals and civil service reformers of the 1860s and 1870s. However, whereas Skowronek presents these reformers as "basically correct" (p. 83) in their analysis of what the American polity required amid the Industrial Revolution, we emphasize the range of reform alternatives and how concerns over the power of social groups shaped support for specific types of reform.[4] Ultimately, Skowronek's key mechanism to entrench support for the bureaucracy in the 1890s is a party realignment reducing electoral pressure on officials in government (pp. 167-9). In contrast, we argue that the key factor in the 1890s was the changing power of working-class movements and big business. Finally, we highlight the combination of class and racial fears among classical liberals in the wake of the 15th Amendment's suffrage expansion. It is no coincidence, we argue, that liberals came to support reform just as disfranchisement laws were being implemented.

3. Gailmard and Patty (2013) focus on institutional effects and do not purport to explain the origins of the federal bureaucracy (p. 19). However, comparative statics of their model in Part 1 point to the degree of uncertainty or complexity of a policy leading to delegation (see pp. 52, 63). Other analyses of the choice of regulation through administrative agencies versus courts also focus on functional characteristics of policymaking through either institution (Glaeser and Shleifer 2003; Stephenson 2005). Rather than analyzing how institutions function for making policy, we investigate how political groups historically perceived institutional alternatives.

4. In emphasizing reform alternatives, our argument aligns with that of Berk (1997). However, Berk focuses on alternative economic institutions, whereas we focus on alternative regulatory institutions.

We contribute to arguments (e.g., Sanders 1999; James 2000) that see bureaucratic agencies as a compromise by explaining how they ameliorated the bargaining problem created by policy feedback effects. In this way, we build on arguments by Shefter (1993) that political coalitions seek to restructure the state to build in the power of their group and Carpenter (2001) on the political influence of bureaucrats beyond direct policymaking. Notably, in our model, the underlying policy preferences of liberals remain the same over time, but their political demands shift based on coalitional choices. Thus, we emphasize the ideological consistency of liberal reformers across the 19th and 20th centuries. In so doing, we also explain the timing of the shift among liberal reformers in the 1890s in response to the changing distribution of power among business and working-class groups.

Our model elucidates a mechanism through which administrative agencies are empowered even without consideration of public goods or expertise (conceptualized as information about the state of the world).[5] In modeling bureaucratic agencies as something other than a strategic response to an informational problem, our argument relates to that of Fiorina (1982). But while Fiorina looks at incentives for members of Congress, we investigate group demands for institutions. Unlike De Figueiredo (2002), actors in our model are concerned about the rising power of one's coalition partner, not the rotation of groups in an election. Moe (1990) argues that political coalitions structure bureaucracies in order to preserve their policy preferences into the future, but Moe's argument is in the context of contemporary agency design, whereas we examine the development of political support for the bureaucracy in the first place. We also do not view bureaucratic agencies as inefficient, as do Moe and De Figueiredo. In fact, by limiting feedback effects and thereby solving a commitment problem, bureaucratic agencies are efficiency-enhancing in our model.

5. For a discussion of more recent literature on policymaking through administrative agencies, largely building on the basic setup of Holmström (1984), see Gailmard and Patty (2012). Were the canonical additive shock framework for expertise to be incorporated into the present model, the results would be qualitatively similar. Expertise at most functions as a valence characteristic, increasing the benefit of a bureaucracy for both coalition partners.

Our explanation for the historical origins of bureaucratic agencies answers two questions. First, what is the nature of the coalitional problem that bureaucratic agencies solved? Second, how did agencies operate as an effective commitment device for that coalition?

Our argument

In the late 19th century, liberals repeatedly expressed fears of the rising power of farmers and industrial workers. Liberals anticipated that policies to regulate business would increase the power of these movements, and they therefore opposed such policies despite otherwise having a shared interest in business regulation. Implementing regulation through bureaucratic agencies solved this coalitional problem. Liberal reformers tended to be educated, urban professionals, and they expected that the credentialed professionals staffing agencies would support liberal policies. In this way, agencies altered the expected distribution of power among groups pressuring Congress. Since liberals now had less to fear from the rising power of their coalition partners, agencies operated as an effective commitment device for a coalition to regulate business.

Liberal reformers saw themselves facing two threats. On one hand, newly powerful corporations used their concentrated wealth to corrupt politics. On the other hand, the expansion of suffrage meant that efforts to constrain corporate power risked empowering a newly assertive and racially heterogeneous working class. The gradual removal of property requirements for suffrage prior to the Civil War and the 15th Amendment afterward meant that voting rights had never been as expansive as in the 1870s. With a pro-business status quo, liberals had potential policy gains from aligning politically with industrial workers and agrarian populists, yet liberals feared their political power.

For their part, agrarian populists and industrial workers predominately did not express a preference for expert policymaking through bureaucratic agencies. In conflict with liberal goals, 19th-century labor and farmer movements aimed to increase working-class power. While these movements reflected a rhetorical deference to science and progress common at the time, their central goal was to enhance democracy across economic and political spheres. The political vision preserved in farmer and worker publications and speeches of political leaders was not a democracy fixed by granting policymaking power to experts. To the extent possible, these movements sought to increase worker and farmer representation in government, restructure institutions to embed their policy goals in the normal operations of government, and pass clear statutory rules through Congress or state legislatures in order to directly achieve their ends.[6]

In our model, two players choose to form a coalition or not. Forming the coalition makes it more likely that they successfully pressure a legislator to act on their behalf. The legislator then chooses to move policy based on the utility of each player. With two policymaking periods, the location of policy in the first period influences the weights that the legislator assigns to the utility of each group when choosing policy in the second period. This represents the feedback effect of policy on group power. In forming the coalition, players choose to press for establishment of a bureaucracy, which is modeled as a third actor with the ability to influence Congress. This aligns with how 19th-century liberals anticipated bureaucratic agencies working.

Nineteenth-century liberals saw expert agencies as an opportunity to influence the public and legislators through policy recommendations (McCraw 1984). For example, when one prominent reformer advocated to "clothe this tribunal with all necessary power and dignity, and delegate to it that discretion, necessarily left somewhere, in the application of general laws to monopolies," he imagined that agencies would influence the public and Congress so as to inspire Congress to accept the agency's policies (Adams 1871, p. 61). As another example,

6. For descriptions of worker and farmer goals, see Berk (1997), Fink (1983), Goodwyn (1976), Montgomery (1967), Postel (2007), or Sanders (1999). The historical section below provides further evidence.

during Congressional debates over federal railroad regulation in the 1880s, various parties expressed their expectations for how a potential regulatory commission would affect future policymaking. Proponents argued that "honest, intelligent" men on the commission would provide recommendations to Congress for future legislation, making "radical legislation" less likely (Cushman 1941, p. 47). In these examples, the primary mechanism by which agencies affect future policy is by increasing the political power of experts, whom liberal reformers perceived as political allies.[7]

We conceptualize the public pressure that bureaucrats can exert on Congress in terms of interest groups politics. The power of bureaucrats is not limited to formal policymaking authority, which would be revocable by a future legislative majority. Liberal reformers perceived the credentialed professionals staffing bureaucratic agencies to hold political power to pressure elected officials. This perception is empirically plausible. From the beginning, federal civil servants have operated as an interest group and sought to influence Congress, both on their own and in alliance with other groups such as consumers or labor unions (Skowronek 1982, pp. 180-2; Johnson and Libecap 1994; Carpenter 2001). Liberal expectations were consistent with observable political outcomes, and this plausibly contributed to the success of the progressive coalition in the early 20th century.

In a simple way, the model captures the problem facing a potential coalition to regulate business. Moving policy, which would be in the interests of liberal reformers, empowers their coalition partners and thereby harms liberals in the future. This commitment problem caused by the effect of policy change on future power relates to theories of inefficient conflict in which actors divide a pie (Fearon 1995; Powell 2004). Our model shows how a parallel problem occurs in a legislative policymaking environment with a single policy dimension. The model

7. Nineteenth-century liberal reformers did not appear to consider disagreements among experts. Liberals' overall concern was corruption among those with low education. Because liberals assumed that educated people would choose the correct policies, they perceived the solution to be increasing the number of educated people in government. We expand on this in the historical section below.

also shows how support for expert agencies ameliorates this problem. By empowering a third actor who influences the legislator in the following period, the coalition diminishes the policy feedback effect that otherwise blocks the coalition from forming. This allows the coalition to form, giving both actors an interest in supporting regulation through bureaucratic agencies.

Understood in this way, this dilemma explains the historical timing of the liberal shift toward support for regulation in the 1890s. As the status quo increasingly favors business interests against farmers and workers, the threshold for liberal reformers to join a coalition to regulate business decreases. This aligns with historical events of the 1890s—including the Great Merger Wave of business consolidation, the Pullman strike, and Southern disfranchisement—shifting the coalitional calculus for liberals. In the model, when policy feedback effects are sufficiently large and starting from a point in the parameter space at which no coalition forms, these sorts of parametric shifts cause the game to enter a region in which a coalition forms around support for a bureaucracy.

A model of political support for expert agencies

We present a bargaining model with players corresponding to political groups in the late 19th-century United States. Player P ("populists") represents groups of farmers or industrial workers.[8] Player L ("liberals") represents the classical liberals, who were predominately urban professionals. We focus on the shared potential gains of these two groups in a coalition against big business. Should this coalition incorporate support for a bureaucracy, this represents the development of a "constituency for bureaucratic autonomy" (Shefter 1977).

In this section, we formalize these elements in a bargaining game. In each of two stages, there is a member of Congress M who lives for a single stage and holds utility over con-

8. We use the term "populists" out of convenience and because the alliance between middle-class urban professionals and agrarian populists was most relevant in supporting administrative agencies at the national level. Of course, there were significant divisions between farmers and industrial workers.

tributions from L and P. Players L and P can decide whether to cooperate to help gain M's attention and achieve legislative change. The weight that M places on each group is a function of where the status quo policy sits, representing the role of policy feedback effects. To mitigate this policy feedback, L and P may choose to organize their coalition around the establishment of a bureaucracy B, which would exert its own influence on M as well.[9] In analyzing this game, we focus on a region of the parameter space that corresponds to the historical context.

Formal definition

Players and preliminaries

In Stage 1, Players P and L choose whether or not a hypothetical coalition would empower a bureaucrat B. They then choose whether or not to form a coalition to increase the probability that M attends to their policy demands. Finally, P and L (and B if empowered) make contribution offers to a member of Congress M contingent on M's choice of policy on the real line. Stage 2 involves a similar interaction that is conditioned by some outputs of play in Stage 1, such as the prior empowerment of B.

When a bureaucracy is established, M weighs B's preferences along with those of P and L, with ϕ being the weight placed on B. This corresponds to bureaucrats' ability to pressure elected officials once established. While we take ϕ to be exogenous, other actors would never have reason to establish a bureaucracy that M subsequently rescinds. To analyze the interesting case, we therefore assume that ϕ is sufficiently large to prevent this.

In this dynamic game, the status quo is inherited from play in the previous stage. Specif-

9. In an extension, we add a veto player V who must approve any legislation proposed by M for it to take effect; this may represent the role of the president or a veto player in Congress. One function that V may serve is to guard against additional future policy shifts, though the exact change in the size and position of the region in which a bureaucracy is enacted is ambiguous. Substantively, our conclusions remain unchanged. See Online Appendix B for details.

ically, in Stage 1, policy reverts to an exogenous status quo (denoted x_0) should no action be taken, whereas in Stage 2, policy reverts to the outcome of policymaking in the previous stage (denoted x_1) should no action be taken.

Sequence of moves

The following sequence plays out:

Stage 1

1. P and L simultaneously decide whether a coalition, if formed, would first push for establishment of a bureaucracy (i.e., they first make offers contingent on whether M activates B), with both needing to agree.

2. P and L simultaneously decide whether or not to enter a coalition, with both needing to agree.

   - If so, Stage 1 offers to M are transmitted (and M is *activated*) with certainty.
   - Otherwise, Stage 1 offers to M are transmitted with probability q.

3. If a coalition has organized around establishment of a bureaucracy, P and L individually and simultaneously make offers to M contingent on whether B is activated, and M decides whether to activate B.

4. P and L (and B if ever activated) individually and simultaneously make offers to M contingent on the policy implemented.

5. If activated, M selects policy. Otherwise, the status quo holds.

Stage 2

6. If M was not previously activated, Steps 2, 4, and 5 repeat.

7. If M was previously activated, Steps 4 and 5 repeat, and M selects policy with certainty.

8. The game ends and payoffs are realized.

Utility functions

Each player has a utility function indexed by the Stage t. The member of Congress M has the following utility function in Stage t:

$$U_t^M = \gamma(x_{t-1}) \cdot \chi_P + \big(1 - \gamma(x_{t-1})\big) \cdot \chi_L + \mathbb{1}_B \cdot \phi \cdot \chi_B$$

where χ_I is the contribution from player I, γ gives the relative importance of a player's contribution as a function of policy in the previous stage (x_{t-1}), $\mathbb{1}_B$ indicates that B has been activated, and ϕ is the weight that M places on B.

Next, player $I \in \{P, L, B\}$ has the following utility function in Stage t:

$$U_t^I(x_t) = -|i - x_t| - k_I + (2 - t)\big(- \delta|i - x_{t+1}|\big)$$

where i is I's ideal point. That is, I is concerned with policy and contributions now, and policy in the future if $t = 1$.

The policymaking environment

We assume that the policy feedback function $\gamma(x_{t-1})$ is a linear function of policy and normalize $\gamma(0) = 0$:

Assumption 1. *$\gamma(x_{t-1}) = -\beta\, x_{t-1}$, with $\beta > 0$ and $0 < \gamma(x_{t-1}) < 1$ at $x_{t-1} \in \{p, l, b, x_0\}$.*

Hence, when $x_{t-1} = 0$, M places a weight of 1 on contributions from L and 0 on contributions from P. As policy moves leftward toward P, the weight placed on P increases linearly at the expense of L.

We show that M's concern for P and L is equal when $x_{t-1} = -\frac{1}{2\beta}$. This is an important cutoff value in the analysis of the model, so we define it as follows:

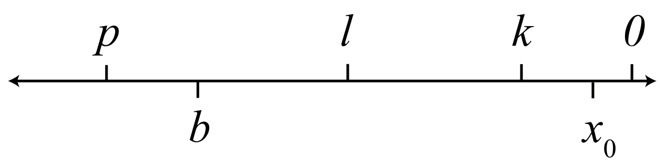

Figure 1: There are three players, P, L, and B, with ideal points p, l, and b, respectively, in a linear policy space. The point k represents the pivot policy, and x_0 represents the status quo policy.

Definition 1. *The* ***pivot policy*** *is* $k \equiv -\frac{1}{2\beta}$.

With the pivot policy defined, we make the following assumptions on player ideal points in order to analyze the bargaining problem relevant to the historical context of interest:

Assumption 2. *The ideal points, pivot policy, and status quo satisfy*

$$p < b < l < k < x_0 < 2l - p.$$

See Figure 1. These assumptions on player ideal points are justified below.

Summary

To summarize, the exogenous parameters are x_0, β, q, p, l, b, and ϕ. The endogenous choices are the amounts of contributions to M, the location of policy, whether to join a coalition, and whether such a coalition is formed around legislative or bureaucratic policymaking. Since this is a sequential game with only exogenous uncertainty, subgame perfect Nash equilibrium (SPNE) is the natural equilibrium concept. We focus exclusively on pure-strategy SPNE.

Comments on model assumptions

Coalition formation

This model focuses on the formation of a coalition between P and L. While P and L have a shared interest in moving policy from the status quo, they also have different ideal points, which represents the conflict of interest between them. Assuming $l < k < x_0$ provides the relevant case in which L faces a trade-off in joining the prospective coalition. On one hand, L's ideal point is to the left of the status quo ($l < x_0$), which creates a shared policy interest for P and L. On the other hand, L's ideal point is to the left of the pivot policy ($l < k$), which implies that L starts out as the more powerful player (i.e., M has greater concern for L's utility), but if M sets policy at L's ideal point in Stage 1, L is less powerful than P in Stage 2. In the 1870s and 1880s, liberal reformers had influential voices in newspapers, academic institutions, and policymaking (McCraw 1984; Cohen 2002), and they risked losing this influence with the rising power of working-class movements. By the assumption $x_0 < 2l - p$, player L prefers the status quo to policy at P's ideal point. Hence, the model setup reflects the historical context in which liberals would benefit from moving policy leftward but feared that doing so would empower agrarian populists and industrial workers.

The two-period structure of the model introduces the potential for a bargaining failure between P and L. The policy feedback function links the power of each group to policy across periods. For convenience, we assume the policy feedback function to be linear. This allows us to examine the effect of shifting the rate at which moving current policy affects future power, but none of our results requires this linearity.[10] The feedback function represents how radical policies (favorable to populists) were historically perceived as increasing populist power in the future. For this reason, groups are not only concerned about the effects of policies in the

10. As an alternative, one could let there be a connected one-dimensional policy space $\mathbb{P} \subseteq \mathbb{R}$ and assume that $\gamma(x') > \gamma(x'')$ whenever $x' < x''$, that $\gamma(x_0) \geq 0$, that $0 \leq \gamma(x) \leq 1$ for all $x \in \mathbb{P}$, and that there exists an $\tilde{x} : l < \tilde{x} < 2l - p$ such that $\gamma(\tilde{x}) = 1/2$. The steepness of the function γ would then determine whether a bargaining failure occurs.

present but also how today's policies affect likely future policies.

The coalition's institutional choice

Having P and L mutually decide whether a coalition implies a bureaucracy (i.e., both must agree) before mutually deciding whether to join a coalition avoids a technical problem. If players first decide whether to form a coalition and next decide whether the coalition supports a bureaucracy, there might be no coalition at all even if a coalition in support of a bureaucracy were mutually agreeable. In this circumstance, once players have entered a coalition, nothing stops one player from vetoing the bureaucracy to ensure that there is a coalition supporting legislative policy. This is substantively implausible, as in reality the other player would likely drop out of the coalition in response. By avoiding this issue, our analysis focuses on the coalition's commitment problem arising from policy feedback effects.

For parsimony, we rule out the possibility that L and P wait until Stage 2 to establish a bureaucracy. If there is no bureaucracy as of Stage 2, policy would necessarily go to one player's ideal point before the game ends. As such, that player would never benefit from agreeing to establish a bureaucracy in Stage 2.

Congressional politics

The member of Congress M aggregates preferences within the coalition, and a player's power in legislative politics is operationalized as the weight M places upon that player's contributions. This setup avoids difficulties of who is the proposer, both within the coalition and between the coalition and M. We presume that greater power means more ability to win intra-coalitional battles and pressure Congress to pass one's preferred policy. The parameter $q < 1$ captures the increased chance of victory in a coalition, where victory means making an issue salient and commanding M's policymaking attention (in which case we say that M

is *activated*).[11] While it is a simplification that a coalition wins for sure, we interpret this to represent that the populists and liberals together have a large, politically powerful majority that is more likely to win compared to each group on its own.

We model a bureaucratic agency as an additional player B relevant to Congressional politics. We assume that the bureaucrat's ideal point b is interior to p and l, so that the bureaucracy institutes an efficient division of pie between P and L. This is consistent with agency leaders historically having similar preferences to liberal reformers, but perhaps being somewhat more favorable toward redistribution (see Cohen 2002 for examples). The key feature of B is that it has independent power to influence M's preferences over policy.[12] This creates the potential for B to solve the bargaining problem between P and L created by policy feedback effects. In this way, our model builds on prior work on Congressional commitment (e.g., McNollgast 1999) by explaining why a subsequent Congress does not simply revisit a bureaucrat's authority or directives in the future. Player B's legislative influence serves as a commitment device by altering the preferences of future Congresses.

Model analysis without a bureaucracy

As a baseline, we first analyze policymaking when players cannot form a bureaucracy. That is, in the sequence of moves, Steps 1 and 3 are deleted, as is Step 4's reference to B. Necessarily then, no bureaucracy is established and we have $\mathbb{1}_B = 0$.

11. It is intuitive and convenient to assume that if M is activated in Stage 1, then M remains activated in Stage 2. This can be interpreted to represent that a recently raised but unsettled issue remains salient.

12. It is formally equivalent in our model for B to (i) directly set policy and then induce M to not rescind B's policymaking authority, or (ii) select a particular legislative policy and induce M to choose that policy. For convenience and conceptual clarity, we employ the latter approach.

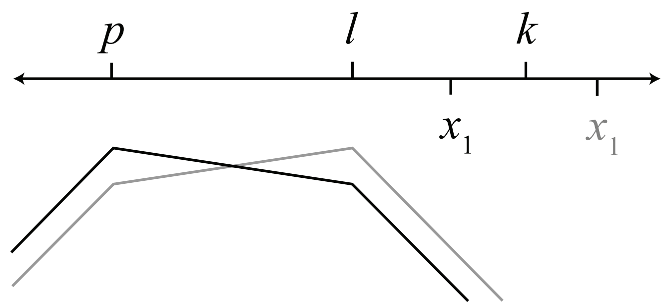

Figure 2: Player M's utility function in Stage 2 for different values of Stage 1 policy x_1, given that no bureaucracy was established. When $x_1 > k$, utility is the gray line, and M's ideal point is l. When $x_1 < k$, utility is the black line, and M's ideal point is p.

Stage 2

M's preferences over policy derive from the willingness of P and L to pay for it. To move policy, M considers the weighted joint utility of P and L, as depicted in Figure 2.[13] Because this is the last stage and there is no concern for future policy, P and L most prefer their respective ideal points. Then, except in a knife-edge case, the policy maximizing this function (denoted x_2^*) must equal either p or l, because M (except when indifferent) always places more weight on one of P and L. If M were to select any other policy, one player would be willing to pay M more to select x_2^* than M would forgo by deviating. In the knife-edge case in which M is indifferent between p and l, we assume that M sets policy to l.[14]

We are now ready to characterize the values that x_2^* takes:

Lemma 1. *The optimal policy x_2^* is as follows:*

13. The process by which P and L make contribution offers to M is a menu auction. We suppose that they use *truthful* strategies, i.e., the difference between any two points in contribution offered (when nonzero) equals the change in utility experienced by the player (accounting for M's weights on contributions). Such strategies always constitute an equilibrium and are coalition-proof (Bernheim and Whinston 1986).

14. When the status quo is the pivot policy k, M weighs P and L equally and is indifferent among all policies in $[p, l]$. To guarantee that players have a best response in Stage 1 and thus the existence of an equilibrium, we require the function mapping current policy to future policy be right-continuous; otherwise, players might want to place policy a strictly positive but arbitrarily small distance to the right of k, an impossibility. For this reason, we assume in Stage 2 that M sets policy to l when indifferent.

$$x_2^* = \begin{cases} p & x_1 < k, \\ l & x_1 \geq k. \end{cases}$$

Proof. All proofs are in Online Appendix A. □

This constitutes part of the bargaining problem faced by P and L. The policy that M implements in Stage 2 is linked to what it implements in Stage 1. Even if some policy between p and l might be efficient in Stage 1, it changes the bargaining position that players later face in Stage 2. Thus, this feedback effect may lead P and L to fail to take full advantage of their opportunity to move policy in Stage 1. This may occur either through the optimum that M implements not being in $[p, l]$ or through L's failure to join a coalition.

The last question to analyze in Stage 2 is whether P and L can agree to form a coalition to increase the probability that M attends to policy and implements x_2^* rather than allowing x_1 to prevail (given that M was not already activated in Stage 1). It should be clear that if $x_2^* = l$, both players benefit from moving policy and will want to join a coalition. But if $x_2^* = p$, Assumption 2 (particularly $x_0 < 2l - p$) ensures that L will not benefit from shifting policy, in which case there is no coalition. Stage 2 outcomes are therefore as follows:

Lemma 2. *Suppose that M was not previously activated. When $x_1 \geq k$, a coalition forms. When $x_1 < k$, no coalition forms.*

When policy is to the right of k, L is relatively powerful. In this case, if policy change happens, it moves to L's ideal point, and P prefers this over the status quo. So in this last stage of play, L and P are able to come together and form a coalition. If policy is to the left of k, then P is more powerful. In this case, policy change means that p is implemented. This makes L worse off, so L refuses to join a coalition to help move policy.

Stage 1

Continuing the analysis in the absence of an option for a bureaucracy, we now analyze Stage 1. In order to find the policy that M chooses, we first determine which policy maximizes the weighted joint utility of P and L. We then determine if players wish to join a coalition.

We can significantly narrow down the policies that may be optimal:

Lemma 3. *In any equilibrium, x_1^* must equal one of p, l, or k.*

The points p and l may be optimal because one group will have a (weakly) larger weight than the other, so setting policy equal to its ideal point may maximize joint surplus right now. But the prospect of shifting power, and therefore continuing shifts in policy in the future, creates the possibility that even if M is most concerned about L, M may not choose L's ideal point in the first period. Instead, M may set $x_1 = k$ in anticipation that policy will subsequently move leftward to l, precluding a future shift to p.

We are now ready for a proposition summarizing Stage 1 outcomes:

Proposition 1. *There exists a threshold T such that a coalition forms if and only if $x_0 > T$.*

When the status quo policy sits to the left of T, L does not benefit enough from shifting policy to join the coalition, as it will subsequently empower P and enable a further shift away from L's ideal point. Only when policy sits sufficiently far to the right of L's ideal point does it become worthwhile for L to endorse a policy shift.

Player L's failure to join a coalition produces a bargaining failure, meaning that there is a positive probability that $x_t \not\in [p, l]$ for some $t \in \{1, 2\}$. The status quo policy is extreme to both players, so if they could only join together and push for policy change, they could fully take advantage of their potential for shared gains. But exploiting these shared gains now necessarily implies that P enjoys greater policy benefits than L in future periods. Fearful of a future shift in power, L declines to join the coalition, which makes it possible that shared gains are forgone.[15] Inefficiency arises because the location of policy in Stage 1 is unavoidably tethered to a specific location of policy in Stage 2.[16]

As in Fearon (1996), there is a commitment problem, with P unable to commit not to pay M to move policy to p in the future. In contrast to Fearon's strategic environment in which players divide an economic pie, an analogous problem plays out when the object that players are bargaining over is policy. In a linear policy space, the division among players need not be bounded by zero below or a finite value above. This unboundedness produces a particular kind of inefficiency associated with a legislative policymaking environment.

Model analysis with a bureaucracy

We now examine when this bargaining failure leads P and L to form their coalition around a bureaucracy. In the model, a bureaucracy is only useful because it is able to perpetuate itself by exerting pressure on the policy that M chooses to implement in the future. Therefore, while ϕ is exogenous in our analysis, players only benefit from it being sufficiently large to provide protection against later reversal. The question of empowering a bureaucracy is thus only relevant under the following additional assumption:

Assumption 3. *The utility weight that M places on B satisfies $\frac{-1-\phi}{2\beta} < b$, i.e., $\phi > -1-2\beta b$.*

15. In another potential type of bargaining failure, P and L form a coalition, but the result is policy that remains extreme to both players' ideal points. Specifically, L is sufficiently powerful to force a policy of k now to ensure that L receives l in the next stage. But both players would have gained if P could have committed not to attempt to move policy to p in Stage 2. For parsimony and to correspond to the substantive case of interest, our proceeding analysis of empowering a bureaucracy sets this possibility aside, assuming formally that $x_0 < T'$ (as defined in the proof to Proposition 1).

16. The inefficiency need not depend on our use of negative absolute value utility; this merely simplifies our presentation of results. Presently, there is a jump discontinuity in $\max x_2^*(x_1)$ at $x_1 = k$, where $x_2^*(x_1)$ is the set of M's optimal equilibrium choices of x_2 given x_1. But even if $x_2^*(x_1)$ were a continuous (and increasing) function, a bargaining failure may occur if $\frac{d}{dx_1}x_2^*(x_1)$ is sufficiently large (in the differentiable case). Endowing L and P with quadratic utility, for example, admits this possibility when the policy feedback function is sufficiently steep.

Compared to the results of Lemmas 1 and 3 above, the ability to activate a bureaucracy can change how Stage 2 plays out, and in turn, Stage 1. With a bureaucracy, B's political influence (given Assumption 3) ensures that in any stage in which B is activated, B's ideal point is implemented. Thus, there exists a region of parameters in which a bargaining failure would otherwise occur, but L now knows that a policy shift in Stage 1 leads to policy at b rather than p in Stage 2. Given this, L is willing to join a coalition to establish a bureaucracy in Stage 1. In turn, P may agree to establish a bureaucracy because doing so is necessary for L to join a coalition seeking policy change. Then, given that players form a coalition pushing for a bureaucracy in Stage 1, M also chooses to locate policy in that stage at b.[17]

We are now ready for a result showing when a coalition between P and L forms and whether this coalition supports empowering a bureaucracy:

Proposition 2. *There exists a threshold T^B such that the following holds:*

- *When $x_0 < \min\left\{T^B, T\right\}$, no coalition forms.*
- *When $T^B < x_0 < T$, a coalition forms around establishing a bureaucracy.*
- *When $T < x_0$, a coalition forms without a bureaucracy.*

This proposition states that when the prospective coalition between P and L has the option to support a bureaucracy, the region in which a coalition forms expands. In part of the space in which players would not previously form a coalition, it is now possible for a coalition to form. While L otherwise would have worried that setting policy at l in Stage 1 would subsequently cause policy to run away to p in Stage 2, empowering B ensures that P and L can join together to achieve an efficient outcome. This result is illustrated in Figure 3.

If we imagine the status quo x_0 changing over time, we can map the different regions of Proposition 2 onto historical development. When policy feedback effects are sufficiently

17. Players would never wait until Stage 2 to establish a bureaucracy, at which point there would be no mutual gains from doing so.

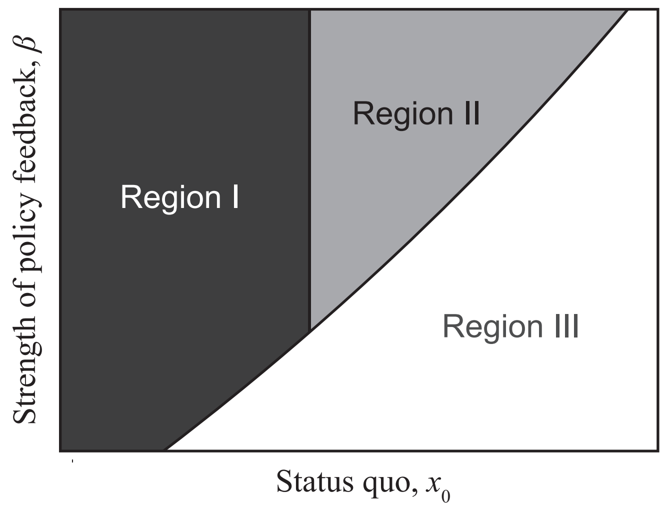

Figure 3: An illustration of Proposition 2. In Region I, $x_0 < \min\left\{T^B, T\right\}$ and no coalition forms. In Region II, $T^B < x_0 < T$ and a coalition forms around establishing a bureaucracy. In Region III, $T < x_0$ and a coalition forms without a bureaucracy.

large (β is high), a rightward shift in x_0 in Figure 3 moves the outcome of the game from no coalition (Region I) to a coalition with a bureaucracy (Region II). In the next section, we relate this rightward shift in x_0 to the historical context of the late 19th century. Multiple events in the 1890s contributed to move the status quo in a pro-business direction, and liberals correspondingly came to support business regulation around 1900. As the model shows, implementing regulation through bureaucratic agencies relaxes the constraint on liberals to join a coalition to regulate business. This helps to explain the timing of the ideological shift from classical to progressive liberalism, and why bureaucratic agencies were a central part of the political response to rising business power.

Historical perspective

This section provides historical information on the players and strategic context represented by the formal model. The historical summary supports our argument that liberals favored expert agencies due to their effect on the distribution of political power. Given this motivation, changing factors in the 1890s (corresponding to a rightward shift in x_0) explain the development of the coalition between liberals and populists around agencies. We conclude with a discussion of support for expert agencies within Congressional politics.

Liberal reform

> Two enemies, unknown before, have risen like spirits of darkness on our social and political horizon—an ignorant proletariat and a half-taught plutocracy.
>
> —Francis Parkman (1878, p. 4)

Liberal reformers are represented by player L in the model. Player L's ideal point is in-between that of the populists P and the status quo x_0. In the model, liberals' concern about business is represented by x_0 being to the right of L. Nonetheless, liberals generally supported pro-business policies until the 1890s (Cohen 2002). Liberal support for the pro-business status quo despite their unhappiness with business corruption corresponds to Region I of Figure 3. With working-class reform movements on one hand and business power on the other, liberal reformers faced a dilemma.[18]

From one side, liberals perceived farmers and industrial workers to be demanding "class legislation" to benefit themselves at the expense of the public interest. In the late 19th century, liberals expressed alarm at the rising political activities of farmers and industrial workers, even warning of revolutionary violence. After the Civil War draft riots and the Great Strikes of 1877, these fears were potentially plausible. The predominant labor organization of the 1880s, the Knights of Labor, officially opposed the wage system and grew rapidly

18. A political group called "liberals" first coalesced on the national political scene in the late 1860s as a faction of the Republican party opposed to the Reconstruction policy of Radical Republicans. The Liberal Republican movement advocated ending federal efforts to protect Black rights in the South in order to focus on economic issues such as civil service reform and free trade. Socially, liberal reformers tended to come from the emerging urban middle, professional class and were connected through political organizations (Free Trade League, Civil Service Reform League) and publications (*The Nation*, *North American Review*, *The Atlantic*). See Cohen (2002), Foner (1988), Sproat (1968), and Wiebe (1967) for accounts of classical liberalism.

from 28,000 members in 1880 to about 800,000 in 1886 (Fink 1983). In response, liberals opposed both labor and agrarian efforts at economic reform (Sproat 1968). For example, E.L. Godkin, editor of *The Nation*, characterized proposed reforms to regulate railroad rates as "spoliation pure and simple" with "the security of all property" at stake (1873, pp. 36-7).[19]

Given the threat posed by expanded suffrage, liberals feared that supporting any labor legislation would produce a slippery slope. As Godkin wrote in *The Nation*, policies supporting labor "may not do much harm in themselves, but their effect on the mind of the poor is to keep alive the vague hopes and the confusion about the nature and duties of government out of which Communism springs" (Godkin 1876, p. 302).[20] Foner (1988, p. 492) describes the fear "that strong government could be used for the wrong purposes" leading liberals in the late 1860s to oppose government intervention entirely, though many of these same individuals supported an activist state prior to the Civil War. Liberals opposed policies in favor of workers or farmers because they feared that supporting these policies would increase working-class political power and thereby make future radical policies more likely.

The other horn of the liberals' dilemma was the rising power of business. Scandals of the 1860s and 1870s, such as Crédit Mobilier, directed national attention to business corruption, and liberals staunchly condemned these abuses (Foner 1988; McCormick 1981). In the 1870s, liberal reformers across the country expressed concern about growing corporate power, especially that of the railroads (Miller 1971). A leading Liberal Republican, Sen. Carl Schurz (R-MO), raised alarm at business power in the Senate, as did Godkin in *The Nation* (Sproat 1968). Charles Francis Adams Jr. and his brother Henry Brooks Adams published a book in 1871 about railroad corruption (McCormick 1981). Adams (1871, p. 59) condemned

19. For liberal reformers, class and racial fears were linked. Charles Francis Adams Jr. wrote that "Universal suffrage can only mean in plain English the government of ignorance and vice:—it means a European, and especially Celtic, proletariat on the Atlantic coast, an African proletariat on the shores of the Gulf; and a Chinese proletariat on the Pacific" (quoted in Foner 1988, p. 497). Alongside "depredations of Negro government" in the South, Francis Parkman (1878, p. 2) bemoaned the "hordes of native and foreign barbarians, all armed with the ballot."

20. Sproat provides further examples of liberal fears of revolution (pp. 163, 211, 220, 229, 231, 238).

"the sturdy corporate beggars who infested the lobby" of legislatures. The term "Gilded Age" itself (the title of a novel published in 1873) was coined by two liberal writers condemning the era's "corrupting influence of wealth" (Rossinow 2008, p. 23). Nonetheless, liberals of the late 19th century predominately opposed business regulation out of fear it would encourage working-class radicalism.

In response to the dilemma created by expanded suffrage and corporate power, liberal reformers advocated policies to increase the power of "honest, intelligent men" in government. Perceiving the primary problems to be legislatures and parties, liberal reforms aimed to curtail the power of these institutions or restrict access to them. Free trade, gold, and laissez-faire did so by denying the right of policies (through legislatures) or the distribution of economic benefits (for partisan interests) that protectionism, flexible monetary policy, and economic regulation allowed. In an era when government administrators came from a wide variety of backgrounds, ethnicities, and educational attainments, civil service reform would protect the influence of well-educated, generally Anglo-Saxon liberals (Hoogenboom 1968). Though classical liberals viewed universal male suffrage to be "a fixed fact," with "no possibility of disfrachising the ignorant," they hoped these policy reforms would tilt the balance of power back toward the well-educated and socially respectable.[21]

Liberal support for expert administration was of a piece with these other policies. In an 1870 essay, Godkin bemoaned the ignorance and corruption of legislatures, arguing that government had not advanced with science and industry. Godkin advocated empowering "the upper or educated classes of society ... a kind of intellectual state" for "safekeeping the interests of civilization" against the barbarians (pp. 418-9). In so doing, Godkin cites agencies as an innovation toward this end. Charles Francis Adams Jr. envisioned and advocated discretionary policymaking by expert agencies, contrasting legislative incompetence,

21. "Limited Sovereignty" (1879, p. 189); the same author declared, "The right of voting cannot be taken away, but the subjects of voting can be much reduced" (p. 190). See also Sproat (1968, p. 255). Clearly, those expressing this view underestimated the prospects for disfranchisement in the South.

irresponsibility, and corruption with a tribunal of members bearing "an experience and ability, a knowledge of details, and a zeal in their occupation" (1871, pp. 59-60). Adams writes that "[t]he legislature should enact its general laws ... and discretionary action under the general law should be devolved upon tribunals specially created to take cognizance of them" (Adams 1871, p. 56; see also Cohen 2002, p. 104). While commissions were a fairly common tool of legislatures in the 19th century (Mashaw 2012), Adams and other liberal reformers re-envisioned commissions as redoubts of expertise within government.

Godkin, Adams, and other liberal reformers viewed the political problem they faced to be too much political power by the ignorant, who supported policies out of corrupt or private interests.[22] Agencies addressed this problem by increasing the political power of educated professionals. Liberal reform efforts sharply contrasted with reform proposals of farmers and industrial workers, who generally sought legislative action or representation in government, not expert administration.

The working-class reform movements

In general, 19th-century working-class reformers did not link economic regulation to expert administration. In the model, player P, corresponding to working-class movements, has no reason to support empowering the bureaucrat B except as a device to make a coalition possible. Moreover, P would be better off if L would support moving policy without empowering B. As a matter of history, proposals for expert agencies were presented by liberal reformers but largely absent from reform plans of industrial workers and farmers.

Industrial workers: In the late 19th century, labor activists sought to expand democracy and increase the political power of workers. The Knights of Labor formally declared "an

22. Classical liberals sidestepped the issue of disagreement among the intellectual elite. Assuming that anyone of sufficient intellect or education agreed on the public interest, they had no reason to fear future appointments of ideologically distant experts. This belief was plausible in an age before mass higher education, when the college-educated were more socially and economically homogeneous. In 1900, college students made up only about 2% of 18- to 24-year olds (see Snyder 1993, p. 64).

inevitable and irresistible conflict between the wage-system of labor and republican system of government" (quoted by Fink 1983, p. 4). Terence Powderly, leader of the Knights in the 1880s, argued that inevitably each class makes legislation to serve its own interests, and hence workers need representatives of their own class in government.[23] This is the opposite of liberal reformers' efforts to diminish working-class power and representation.

Rather than envisioning a restructured state with expert administrators, 19th-century labor reform proposals emphasized "specific correctives on the operation of the free market" (Fink 1983, p. 7). The central demand of the labor movement in the 1870s and 1880s was the eight-hour day, which needed no expertise to be implemented. As another historian writes, the labor movement in this period "had no conception of an active role for the machinery of the state . . . [beyond] enacting just and general laws applying impartially to all citizens" (Montgomery 1967, p. 259). Unlike classical liberals, labor reformers in the 19th century predominately did not envision expert administration within their reform program.

Agrarian populists: As with industrial workers, the reform demands of agrarian populists were "anti-statist" (Sanders 1999; James 2000). Rather than seeking expert administration, populists primarily sought clear statutory rules—analogized to the simplicity of the Ten Commandments (James 2000, p. 31)—and greater representation of farmers in government.[24] These elements can be seen in two of the most prominent populist policies: the subtreasury system for a fiat currency and railroad regulation.

Populist advocates of the subtreasury system, such as Harry Tracy (1894), emphasized its local, public, and democratic character.[25] In a lengthy description of the proposal, Tracy

23. After arguing that lawyers dominate legislatures and make laws for their own benefit, Powderly states, "I would not deny the lawyer the right to take his seat in Congress or in the State Legislature, but side by side with him should sit the representatives of other professions and callings according to the number of those who follow those callings and professions" (1890, p. 152).

24. See Sanders (1999, p. 388) for a list of specific agrarian demands. Postel (2007) challenges Sanders's anti-statist interpretation by arguing that many populist proposals called for large expansions of federal power. However, Postel underplays how populists perceived and argued for these proposals. Populist advocates emphasized the local, public, and democratic, character of their proposals, not centralized administration.

25. Tracy, a prominent populist in the 1890s, presented the most detailed elaboration of the subtreasury

includes a central bureau but describes it very briefly and wholly as an information clearinghouse and coordinating device. The determination of how much money to issue is presented as a simple algebraic problem based not on expertise but on how much produce farmers bring to subtreasury warehouses. Local officials are directly elected, and the system is entirely public, with no role for private bankers. Two decades later, these aspirations remained recognizable during debates over the Federal Reserve Act.[26]

The first of the "Granger commissions" to regulate railroads was the Illinois Railroad and Warehouse Commission, established in 1871. Yet farmers were not the only group involved in crafting the Illinois "Granger law." Moreover, the Illinois State Farmers' Association, a political organization of farmers which formed in 1873, supported "strict legislative regulation" (Miller 1971, pp. 90-1). Farmer leaders in the legislature vocally opposed the commission, arguing that it was too easily co-opted by railroad corporations: "Farmer conventions, although far from consistent in this matter, tended to support bills that provided for schedules without reference to the board of commissioners" (Miller 1971, p. 92). The legislature simultaneously passed detailed rate regulations for railroads and grain elevators, and the Illinois commission only developed its own rate schedule in response to a court decision as a way to defend the "reasonableness" of legislative rate-setting (Miller 1971). The purpose of the commission was not for an expert to make policy, but rather for information and enforcement.[27]

That farmers generally favored statutory regulation is also evident in debates over federal railroad legislation. In the House of Representatives, the prominent populist proposal of John Reagan (D-TX) excluded any commission (Berk 1997; Sanders 1999). Reagan proposed to regulate rates by statute, declaring that he had no need for a commission or "the assistance

proposal of which the authors are aware.

26. For instance, Rep. Oscar Callaway (D-TX) argued for a money supply that would "answer automatically to the demands of commerce ... not subject to the control of any individual or board, safe from the domination of any coterie of financiers" (quoted in Sanders 1999, p. 472 n. 132).

27. Contrast Illinois farmers supporting strong statutory regulation with Adams's (1871, p. 56) support for "general laws." Later reflecting on the Granger laws, Adams (1875, p. 423) called them "preposterous."

of any railroad expert" (Sanders 1999, p. 189). Advocating specific statutes to regulate railroads, the head of the National Grange explained, "The people ... want no board of railroad commissioners. They want just and wholesome laws, with well defined provisions for enforcing them" (quoted in Sanders 1999, p. 457 n. 52). Overall, James (2000, pp. 102-3) describes "a well-articulated and deeply felt agrarian aversion to railroad commissions." As a general pattern, liberal reformers favored expert agencies; populists did not.

The changing strategic context

As we can see, multiple groups supported reform in the late 19th century, but in contradictory ways. Liberal reformers (L) envisioned restructuring the state to enhance the role of experts. In contrast, groups of industrial workers and farmers (P) demanded strong statutory rules without expert agencies. The absence of a coalition between liberal reformers and populists corresponds to Region I of Figure 3. As long as policy feedback effects (represented by β) remain sufficiently high, moving the status quo x_0 to the right shifts the outcome of the game from Region I to Region II—where a coalition forms to regulate business through expert agencies. Understanding the coalitional problem in this way points to multiple historical shifts underlying the development of this coalition.

In the 1890s, multiple trends tilted the status quo toward business at the expense of working-class movements. Between 1895 and 1904, a series of business consolidations known as the Great Merger Wave transformed the American economy (Lamoreaux 1985). What had been defensibly "a nation of freely competing, individually owned enterprises" was increasingly viewed to be "a nation dominated by a small number of giant corporations" (Lamoreaux 1985, p. 159). At the same time, mass-based unionism within newly dominant corporations was hobbled. By 1890, the Knights of Labor had severely declined in membership, superseded by the more conservative American Federation of Labor (Fink 1983), and in 1894, the US army violently suppressed the Pullman strike and imprisoned its leaders (Cohen 2002).

In the South, substantial numbers of working-class voters of both races were disfranchised between 1890 and 1910, defanging Southern populism and facilitating the consolidation of the planter-dominated Jim Crow political order (Perman 2003). Each of these factors benefited business interests and increased the shared interests of working-class and liberal reformers.

Consistent with this timing, historians point to the period around 1900 as pivotal in the development of broad support for business regulation through expert agencies. Wiebe (1967, pp. 166-7) identifies a "broad reappraisal" toward urban problems among middle-class professionals and a consequent turn to expert administration evident around 1900. More specifically, McCormick (1981) points to the years 1905-1907, during which state-level regulatory boards proliferated. Labeling this a "turning point" in the development of the administrative state (p. 268), McCormick argues that these years constituted "a decisive break with nineteenth-century patterns of governance" (p. 266). In the first decade of the 20th century, liberal reformers abandoned their earlier opposition to government regulation and now envisioned expert agencies intervening broadly in the economy to solve social problems.

Congressional politics

The model shows how an increase in business power at the expense of working class reform movements (corresponding to a rightward shift in x_0) causes liberals and populists to form a coalition supporting expert agencies. If the coalition is successful, a member of Congress M chooses a policy in light of contributions from P and L (and B, if present). While simple, this formal device represents political interactions through which legislators pursue support from influential constituencies.[28] Historically, members of Congress (MCs) seeking both liberal

28. In Online Appendix B, we add a veto player V with an ideal point randomly drawn each stage to equal one of p, l, or x_0. This reflects potential constraints on M due to veto players in Congress or divided government. In the extension, V's presence may make the radical policy p less likely, potentially benefiting L and decreasing the need for a bureaucracy. However, V may also obstruct policies that L supports, harming L and making a coalition more valuable. While it may be the case that liberals had less to fear with veto players like a president or Congressional leaders, the fragmented US political system also potentially increased the urgency of forming a pro-reform coalition—and hence liberals' need for expert agencies as a

and populist support were crucial to the inclusion of expert agencies in reform legislation.

In the late 19th and early 20th centuries, MCs from regions with an economic mix of farming and manufacturing provided a geographic constituency in favor of expert administration. As Sanders (1999, p. 390) describes, "The diverse regions had large middle classes, good public-service-oriented state universities, and significant experience with state-level regulatory bureaucracy." In order to regulate business, agrarian populists required the support of MCs representing non-agrarian states, and they "yielded, without too much opposition, to the bureaucratic turn" out of political necessity (Sanders 1999, p. 394). Amid debates in Congress over economic reform, MCs from diverse regions, who in turn relied upon urban liberal and middle-class support, pushed to include expert agencies in regulatory bills.

The influence of diverse-area MCs was enhanced by Democratic party leaders pursuing political support from the urban middle class (James 2000). As early as the 1880s, Democratic leaders sought to attract liberal-oriented Mugwumps by including expert agencies in reform legislation.[29] James (2000, p. 117) writes that "Democratic leadership was both visible and effective in its effort to ... secure Mugwump commission legislation without alienating their agrarian Democratic base." In the 1910s, Democratic leaders responded to a similar split among Republicans by including agencies in reform legislation to woo Progressives. Agrarian support alone was insufficient to win nationally, and hence party leaders sought to attract urban, middle-class voters by supporting expert agencies.

Conclusion

The ideological valence of expert agencies has varied over time and across groups of reformers. In the 19th century, expert agencies were one mechanism among others, including laissez-

commitment device.

29. The term "Mugwump" refers to Republicans who supported Grover Cleveland in 1884 due to James G. Blaine's perceived corruption and includes substantial overlap with liberal reformers discussed above.

faire and the gold standard, for liberal reformers to limit democratic politics in response to working-class demands for economic redistribution. Yet in the 20th century, populists and liberals achieved redistributive policies and constrained business power through expert agencies. By limiting feedback effects that liberals feared would increase working-class power, agencies facilitated the formation of a coalition to regulate business. This explains the development of an ideological connection between support for economic regulation and expert policymaking through bureaucratic agencies.

To explain the development of bureaucratic agencies, our argument emphasizes competition for power among social groups rather than strategies of political actors in formal institutions. Whereas prior scholars emphasize party competition or support for public goods, we show that the earliest advocates of expert agencies were motivated by threats to the political power of educated professionals—concerns that combined class and racial fears. Expert agencies solved a strategic problem for these liberal reformers. Since agencies empowered credentialed urban professionals, liberals could support policies to restrain big business while no longer fearing the rising power of their coalition partners.

The development of a coalition around expert agencies provides one example of how institutional demands shape political coalitions. Governments can distribute resources to different social groups through a variety of institutional forms: expert administration, private firms, religious organizations, local democratic institutions, and so on. But to the extent that political actors form alliances with an eye toward the future distribution of power (and by extension, resources), the institutions to implement a coalition's policy demands can affect whether or not that coalition forms in the first place. In this way, the strategic problem facing potential coalitions amid a changing distribution of power constitutes an important driver of institutional change.

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