The Winds of Change:

The Progressive Movement and the Bureaucratization of Thrift

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3 March, 2006

(word count: 13,696, excluding title, figures, tables, and appendices)

We appreciate the support of Columbia University's Graduate School of Business and Stanford University's Graduate School of Business. We thank Bill Barnett, Frank Dobbin, Rogers Hollingsworth, Paul Ingram, Doug McAdam, Susan Olzak, László Pólos, John Sutton, and seminar participants at Columbia, Harvard, and Stanford Universities for helpful comments on earlier versions of this paper, and Ming De Leung and Dennis Bogusz for research assistance. We also thank the editor and three anonymous reviewers for their perspicacious critiques.

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Abstract

We study how social movements change political culture and so propel the evolution of non-movement organizations. Specifically, we show how the entrenchment of values espoused by the Progressive movement shaped the early thrift industry in California, displacing the original club-like form of thrift and supporting the rise of a new bureaucratic form. This happened even though bureaucratization involved the centralization of power, which clashed with the Progressive goal of equitably distributing power, and even though impartial bureaucracy contravened the original ideals of thrifts, voluntary saving and co-operation among friends. We draw on social-movement research and organizational theory to argue that bureaucratic thrifts were able to thrive only after the modernizing temper of Progressivism made them culturally appropriate by creating rules and schemas that valorized bureaucracy, efficiency, and rationality. Our study shows how the values championed by social movements become selectively embedded in political culture and so alter the demography of non-movement organizations, often in unexpected ways. It provides a compelling example of the fundamental revolution in American social organization in the twentieth century: the replacement of community-based groups by bureaucracies.

Social movements and formal organizations are two thriving areas of sociological inquiry. Scholars working in these fields have recently pooled their efforts. This rapprochement has been fertile, both theoretically and empirically. We have discovered that many new kinds of organizations arise out of collective action that resembles social movements (Rao 1998; Carroll and Swaminathan, 2000; Schneiberg, 2002; Clemens and Minkoff, 2004) and that established organizations under siege by new insurgent organizations have a limited ability to adopt the beneficial features of their new rivals (Carroll and Swaminathan, 2000). We have also learned that the density and diversity of formal organizations underpin the ability of social movements to organize protests and to enact laws (Zald and McCarthy 1987; Minkoff 1993, 1999; Olzak and Uhrig, 2001; Olzak and Soule, 2004). Finally, we have begun to discover how both business organizations and their opponents mobilize to push for passage of laws designed to defend their interests and for repeal of laws that undermine their interests (Wade, Swaminathan, and Saxon 1998; Ingram and Rao, 2004).

Despite the burgeoning dialogue between social-movement researchers and organizational theorists, some key challenges remain. Students of social movements have tended to analyze the direct effects of movements on state policy (new laws and regulations) but they have generally neglected the cultural effects of movements (Bernstein, 2003; for an exception, see Lounsbury, 2001). But we know that social movements have broad, indirect, and often unintended effects on culture:

> [A]n enormous range of unanticipated effects qualify logically as movement outcomes.… Movements also leave…by-products that lie outside their programs and sometimes even contradict them…. This range of effects far surpasses the explicit demands made by activists in the course of social movements. (Tilly 1998:268; see also Giugni 1998).

For example, although the women's movement failed to pass the Equal Rights Amendment to the U.S. Constitution, the rhetoric of equality between the sexes became a strong thread in America's social fabric. Thus, there is a need to assess the cultural impacts of social movements – their effects on non-movement domains and non-movement organizations.

An emphasis on the cultural effects of movements implies a related challenge for institutionalist theorists: how to specify the pathways of institutional change. Institutions are durable phenomena; their persistence stems from routine reproductive procedures and they do not require recurrent collective mobilization or authoritative intervention (Jepperson 1991). Institutional logics furnish practical guidelines to actors and thereby constrain action (Friedland and Alford 1991). If institutions are durable and if institutional logics constrain action, how is institutional change possible (Clemens and Cook 1999)? How do social movements spawn new logics in domains of social life that are governed by pre-existing logics? How does a social movement's frame become available to actors who are far away from the movement?

These questions pertain to the codification of organizational forms and are therefore of central interest to organizational ecologists, who seek to place codes at the forefront of organizational analysis. Ecologists have proposed that organizational forms are identities that internal and external observers use to understand and judge organizations; that is, forms are social codes that involve both recognition and imperative understanding (Carroll and Swaminathan, 2000; Hannan, Pólos, and Carroll, 2004). We propose that social movements far from an organizational population may supply interpretive schemas – ways of understanding. But how might such interpretive schemas acquire imperative standing? Authorization by the state – the target of most social movements – is a necessary but not sufficient condition for converting interpretive schemas into rule-like codes because laws are only partial codes: they often allow discretion in their interpretation and application (Edelman 1992; Dobbin, Sutton, Meyer, and Scott 1993). Moreover, if a pre-existing code governs an organizational population, how does that code come to incorporate the new interpretive schemas that derive from social movements? How are potential contradictions resolved? How do powerful actors within the organizational population alter the code? These questions indicate the need to shift attention from codes to codification; specifically, to code revalorization.

These considerations motivate us to study how the Progressive movement in California reshaped the early thrift industry. Since the 1950s, scholars have used California Progressivism as a

model for explaining early twentieth-century reform (Deverell and Sitton 1994), in part because the Progressive ethos is still with us today: bureaucratic organizations have become the building blocks of modern society, which valorizes rationality and efficiency above all. Thus, it makes sense that an assessment of the broad cultural impact of social movements begin with the Progressive movement. The early thrift industry is a terrific target for this research because thrifts were highly institutionalized forms of organization, with well-developed identities and social codes. Early thrifts embodied values and norms about the social organizing of saving and borrowing; moreover, thrifts underwent dramatic change during and after the Progressive era, from club-like associations that valued community and mutual aid to impartial bureaucracies that celebrated efficiency and individual rationality (Haveman and Rao 1997).

In this paper, we ask why a bureaucratic form of thrift – the Dayton/guarantee-stock plan – came to dominate the thrift industry, despite contravening the founding ideals of thrift, namely co-operative saving among friends. We argue that values propagated by the Progressive movement led to the rise of this form of thrift. Progressives drew on three sets of values (Wiebe 1962; Kolko 1963; Rodgers 1982). First and foremost was anti-monopolism – an attack on the privilege of large corporations and trusts, and a call for the dispersion of power. Second was a concern for social bonds based not, as in the agrarian past, on ethnicity or location, but on the organic solidarity that followed industrialization. Third was the great esteem accorded efficiency, rationality, and social engineering using bureaucratic organizations. In this paper, we show how this third set of Progressive values penetrated the thrift industry, which was far from the original state-centered objectives of Progressive reformers, and how incorporation of these values fundamentally transformed the institution of thrift in ways that would have surprised many Progressive activists.

Our analysis builds on and substantially extends the work of Haveman and Rao (1997), who described the content and process of institutional change in the early California thrift industry. They traced the content of institutional change to two forces. First, high rates of immigration and internal migration made California a society of strangers and led to the downfall of the original club-like form of thrift. Second, the rise of Progressivism made a very different kind of thrift – the

bureaucratic, business-like Dayton/guarantee-stock form – appropriate as a practical solution to the problem of organizing co-operation among strangers. We use Haveman and Rao (1997) as a point of departure and extend their work in several ways. Their analysis of how Progressivism influenced the thrift industry side-stepped important issues, which we tackle here.

One such issue is that the Progressive movement in California was short-lived: it started in 1906, crystallized into a political party in 1912, and that party disbanded in 1917. How, then, could the values it championed reshape the thrift industry years later? In this paper, we demonstrate that the Progressive movement left visible and potent imprints on political culture, in the form of laws, news media, and role-model organizations. It was these echoes of Progressivism, rather than the Progressive movement *per se*, that reshaped the thrift industry: laws authorized bureaucratic forms of thrift, news media primed thrift managers and members to accept Progressive values, and the city-manager form of government provided an impartial bureaucratic model for thrift managers and entrepreneurs. A second issue is that the Dayton/guarantee-stock form of thrift shifted control from members to managers – a centralization of power that, ironically, contravened one of the tenets of Progressivism. How did the Progressive movement's emphasis on bureaucracy overshadow its other themes, notably the equitable distribution of power? We show that centralization of power was justified by depicting bureaucratic systems as safeguards of the social order.

Third, Haveman and Rao did not offer evidence of the specific mechanisms that legitimated the Dayton/guarantee-stock form. How could a movement that focused on eliminating corruption in government reach the thrift industry? How could cold, calculating bureaucracy be accepted in an industry that valued community and mutuality? Although laws authorizing the Dayton/guarantee-stock form of thrift were enacted by Progressive legislators between 1907 and 1913, the form did not grow until the 1920s. So authorization was not sufficient to explain how the social code governing thrifts was revalorized to embrace bureaucracy. Our analysis includes markers of constitutive legitimation – news media and role-model organizations – that propelled the rise of bureaucratic thrifts. Fourth, Haveman and Rao did not probe the considerable cross-sectional

variation in the strength of Progressivism (Mowry 1951; Rogin 1968). Here, we use two indicators of Progressive ideals that vary across locations as well as over time. Finally, Haveman and Rao did not consider an important alternative explanation, namely that the rise of the Dayton/guarantee-stock plan was due simply to an economic boom. To rule this out, our analysis controls for economic conditions, using a measure that varies both over time and across locations.

The next section describes thrifts and shows that the original (mutual) form of thrift and the Dayton/guarantee-stock form were polar opposites with respect to the institutional pillars of thrift, mutuality and structured effort. After that, we address all the issues neglected by Haveman and Rao (1997). We begin with a description of the Progressive movement and then argue that the impact of the Progressive movement on the thrift industry was selective, rather than total. Next, we elaborate how changes in political culture wrought by the Progressive movement made the Dayton/guarantee-stock form an appropriate solution to the problem of organizing financial transactions among strangers, and derive hypotheses linking political-cultural manifestations of Progressivism to thrifts' vital rates. After describing our research design, we present results of our statistical analysis. We conclude by discussing the implications of our study for social-movement research, institutional analysis, and organizational ecology.

The Early California Thrift Industry

Early thrifts were mutual self-help organizations whose members pooled money to build or buy houses; they resembled the rotating savings and credit associations found in many societies today (Biggart, 2001). Early thrifts reduced uncertainty and induced members to repose faith in each other through formal statements of organizational goals, rules concerning members' roles and responsibilities, and procedures governing how funds were invested and earnings distributed. Thus early thrifts were a form of collectivized agency arrangement: they structured economic transactions that could not be embedded in purely personal relationships by establishing impersonal trust relations (Shapiro 1987). Because early thrifts embodied strong normative expectations, they took on value far beyond the technical requirements of the financial-intermediation task at hand and

became institutionalized systems of moral authority (Selznick 1957:17). Specifically, thrifts came to embody theories of moral sentiment that echoed Adam Smith's (1759 [1976]) prescriptions for the "prudent man" (Haveman and Rao 1997).

There were three basic thrift forms or "plans," as contemporary observers called them (Clark and Chase 1925:32-33). In order of appearance, these were the mutual plan (which had three variants – terminating, serial, and permanent), the Dayton plan, and the guarantee-stock plan. In addition to these three basic plans, four "hybrid" plans emerged, which combined the features of two or three basic plans: mutual/guarantee-stock, mutual/Dayton, mutual/Dayton/guarantee-stock, and Dayton/guarantee-stock (Haveman and Rao 1997, 2006). Table 1 summarizes the features of the seven thrift plans, while appendix 1 provides details. To understand thrift plans, we pored over the writings of contemporary observers (Wright, 1852; Wrigley, 1873; Dexter, 1889; Winters, 1890; California (Building and Loan), 1891a, 1892, 1894-1929; Thompson, 1892; Rosenthal 1920; Myers 1921; Clark and Chase 1925; Riegel and Doubman 1927) and those of later analysts (Bodfish 1931; Donley 1937; Kendall 1965; Teck 1968; Rasmusen 1981). Each column in table 1 represents a plan; each row, a property. For simplicity, we represent each property with a symbol that can take on two values: present (or strongly present) is indicated with a filled circle (●), while absent (or weakly present) is indicated with an open circle (○). Four properties (#6, 7, 8, and 11 in the table) indicate movement away from the original thrift form; hence, we reverse-coded them, so that ○ indicates presence and ● indicates absence, and marked them with an asterisk (*).

[Table 1 about here]

Table 1 shows striking variation across the seven thrift plans. In the *mutual plan*, all members were on equal footing: all were part owners, saved and repaid home loans on the same schedule, and shared in the association's profits. Mutual-plan thrifts had rigid schedules for dues and loan payments; they enforced these schedules with fines for late payment and early exit. The *Dayton plan* relaxed the mutual plan's rigid rules by replacing installment shares with optional-payment and paid-up shares, allowing early payment of loans, and eliminating fees for membership, late payment, and early withdrawal. The *guarantee-stock plan* introduced non-withdrawable stock, which was paid in at

founding and which was used to insure other members against losses. This joint-stock plan linked owners to savers and borrowers in an internal market for risk and return; it contrasted sharply with the mutual and Dayton plans, which were both co-operatives in which all members were owners. The four *hybrid plans* were recombinations of two or all three basic plans. For example, the *Dayton/guarantee-stock hybrid* combined features of the guarantee-stock and Dayton plans: this joint-stock plan created an internal market for risk and return, separated borrowers and savers, and allowed great flexibility for both.

The properties of the seven thrift forms relate to the institutional pillars of thrift, mutuality and structured effort (Haveman and Rao 1997). *Mutuality* involves co-operative self-help and requires that all members of a thrift play the same three roles: saver, borrower, and owner. *Structured effort* involves clearly defined and rigidly enforced rules for saving and borrowing, including requirements for members to save pre-set amounts at fixed intervals or else pay stiff fines. As the second column in Table 1 shows, properties 1, 4, 6, 7, 8, 10, and 11 relate to mutuality, while properties 2, 3, 4, 5, 6, 7, and 9 relate to structured effort. (Note that three properties of thrifts – 4, 6, and 7 – relate to *both* mutuality and structured effort.)

Figure 1 locates thrift plans in a social space defined by these moral sentiments. Structured effort is on the horizontal axis and mutuality is on the vertical axis; both range from strong (in the bottom left-hand corner) to weak (in the upper right-hand corner). Because the mutual plan, the original thrift form, embodied strong mutuality and rigidly enforced effort and was therefore the most communal, it is in the lower left-hand corner. The Dayton plan is on the far right side because it celebrated flexible saving plans, which dramatically relaxed structured effort, and about half-way up the vertical axis because it allowed paid-up stock, which weakened mutuality by bringing relatively wealthy individuals into thrifts. The guarantee-stock plan is two-thirds of the way up the vertical axis because it recognized a distinction between owners and depositors, which weakened mutuality greatly. The plan farthest away from the original mutual plan, in the upper right-hand corner, is the Dayton/guarantee-stock hybrid. This plan embodied an ideology that celebrated efficient and impersonal bureaucracy rather than mutuality, and flexible and voluntary saving by

rational individuals rather than rigidly structured effort; hence, it was the most bureaucratic and the most marketized of thrift plans.

[Figure 1 about here]

The California thrift industry grew rapidly from its birth in 1872, albeit more in terms of organizational mass than sheer numbers. In 1890, the first year detailed data are available, 108 thrifts operated (California (Building and Loan), 1891a). In 1894, 147 thrifts operated with 34,000 members and 9,000 mortgage loans outstanding; by 1928, the number of thrifts had risen to 208, with 114,000 members and 92,000 mortgage loans outstanding (California (Building and Loan), 1895, 1929). Over this time, distribution of organizational forms changed dramatically, as shown in figure 2. Until 1900, the industry was composed almost solely of mutual-plan thrifts. Starting around 1900, the number of mutuals fell; after 1905, the number of Dayton/guarantee-stock thrifts rose. In 1890, mutuals constituted over 90% of all thrifts operating. By 1919, that number had fallen to 52%; by 1928, to 13%. In contrast, Dayton/guarantee-stock thrifts rose from less than 1% of the industry in 1906 to 20% in 1919 and 71% in 1928. Thus, the institution of thrift evolved from a friendly society (members of a community came together in a club-like association and agreed to a regime of forced saving to create a pool of funds from which to borrow to build or buy homes) to an impartial bureaucracy (individuals with no connection to each other joined a bureaucratic organization to save or borrow as their particular needs dictated). Concomitantly, the social code to which thrifts conformed evolved from valuing community and mutual aid to valuing efficiency, rationality, and bureaucracy.

[Figure 2 about here]

Why did the Dayton/guarantee-stock form of thrift suddenly replace the mutual form? Haveman and Rao (1997) offered a two-part explanation, which hinged on population mobility and political culture. To begin, a shift in human demography brought about the demise of the mutual plan. The mutual plan was an effective solution to problems of financial intermediation in communities where people knew and trusted each other, and who had similar views about frugality. For instance, no mutual-plan thrift failed in California as a result of the financial Panic of 1893

(California (Building and Loan), 1894:94, 1895:2-3). And all thrifts in San Francisco – 78% using the mutual plan – recovered after the earthquake and fire of 1906 (California (Building and Loan) 1926:308). But when California was transformed by large-scale population mobility into a society of strangers, social bonds frayed. Immigration and internal migration together accounted for 65% of California's population increase between 1890 and 1900, and 87% of the population increase between 1900 and 1910 (U.S. Bureau of the Census 1976). Social ties could no longer enforce the ethic of forced saving and the system of collective borrowing from friends, upon which the mutual form of thrift depended. Thus, demographic change rendered this form ineffective. Quite simply, it was ill-suited to the task of organizing saving and borrowing among strangers.

But the Dayton/guarantee-stock plan did not replace the mutual plan simply because it was technically superior. Analysis of their operations shows that the mutual plan had clear advantages, in terms of both effectiveness (doing the right thing) and efficiency (doing it right). Mutual-plan loans, which were secured by the borrower's shares in the association, were less risky than the loans used in the guarantee-stock plan and its hybrids, which could be secured by a variety of assets (Donley 1937:175-224). Defaults on mutual-plan loans were low because borrowers were loath to let down other members of their co-operatives, and shares were better understood than other forms of security and so were more accurately valued by thrift managers than the loans used in the guarantee-stock plan and its hybrids. Moreover, the use of withdrawable shares in the Dayton plan and its hybrids was criticized because mortgages were illiquid assets, but withdrawable shares were highly liquid liabilities; this combination generated a precarious situation (Donley 1937:112-148), similar to that faced by thrifts in the 1970s and 1980s. Given these concerns, we cannot conclude that the mutual plan was supplanted by the Dayton/guarantee-stock plan for purely technical reasons.

If technical pressures cannot explain the rise of the Dayton/guarantee-stock plan, then what can? Haveman and Rao (1997) argued that none of the other forms of thrift in existence around the turn of the century were immediately able to replace the mutual form, because all violated, in some way, the original ideals of thrift. There was a problem, but no acceptable solution. As a result, the industry languished and the number of thrifts fell from 157 in 1898 to 85 in 1918. It took a change

in political culture – the entrenchment of Progressive values – to make possible the rise of the Dayton/guarantee-stock plan and the resurgence in the thrift industry in California. The Progressive movement, which began as a critique of corruption in government, extolled impersonal bureaucracy as a reliable and efficient solution to the problem of regulating social life and celebrated rationality as the motivation for people's actions. Only after this ethos suffused was it possible to conceive of thrifts that would work in a society of strangers: a bureaucratic organization that pooled voluntary saving and borrowing by rational strangers. In other words, the Dayton/guarantee-stock plan fit these new ideals perfectly.

Progressivism and the Thrift Industry

The Progressive Movement in California

The Progressive movement was a popular effort to promote "continuity and regularity, functionality and rationality, administration and management" as solutions to the problem of social order (Wiebe 1967:295). Progressives shared three tendencies: eliminating corruption in politics, restructuring governmental institutions, and believing that government activity must be expanded "to relieve social and economic distress" (DeWitt 1915:4-5). Progressives spoke three distinct but overlapping "languages of discontent" that echoed these tendencies: antimonopolism, the rhetoric of social harmony, and demands for efficiency (Rodgers 1982).

Historians disagree about how coherent the Progressive movement was. Some emphasized Progressives' common goals and characteristics (Mowry 1951; Hofstadter 1955; Rogin 1968). Others pointed out heterogeneity among Progressives, whose ranks included many businessmen (Link 1959; Wiebe 1962; Kolko 1963; Filene 1970). Some questioned whether Progressivism was a movement at all (Link 1959; Olin 1968). A more balanced perspective describes Progressives as a shifting, ideologically-fluid, issue-focused coalition of actors seeking the dispersion of power, harmony and order, efficiency (McCormick 1981; Rodgers 1982). These categories were not systematic sets of ideas but rather ways of talking about society; Progressives could deploy these discourses in different ways and for sometimes opposing purposes (Rodgers 1982). Most recent

accounts of Progressivism have eschewed "the essence-of-Progressvism" debate; for example, depicting Progressivism in California as a political style used by different groups for different purposes (Deverell and Sitton 1994).

The Progressive movement came to California in 1906. Before then, the government in Sacramento was subservient to the interests of the Southern Pacific Railroad (Deverell 1994). Southern Pacific owned several major newspapers and most long-distance transportation facilities in California; it was the largest land owner, the biggest employer, and the richest enterprise in the state. *The Octopus*, a muck-raking "fictional" exposé of Southern Pacific's stranglehold, described the railroad thusly:

> [a] galloping terror of steam and steel, with its single eye, Cyclopean, red, shooting from horizon to horizon, symbol of vast power, huge and terrible; the leviathan with tentacles of steel, to oppose which meant to be ground to instant destruction beneath the clashing wheels (Norris 1901:119).

In a similar vein, a San Francisco newspaper opined:

> In every county in California, the railroad company maintained an expert political manager whose employment was to see that the right men were chosen as convention delegates, the right kind of candidates named and elected, and the right things done by men in office (*The San Francisco Call*, 19 August, 1906; cited in Campbell [1924:68]).

Even those who conclude that Southern Pacific was largely a benevolent enterprise (Orsi, 2005) allow that it was immensely powerful.

Protests against the untrammeled power of the Southern Pacific Railroad began to be voiced after the 1906 Republican convention. The popular governor, George Pardee (who had been elected in 1902 with the help of Southern Pacific), garnered the most votes in a straw poll of delegates. But because Pardee had displeased Southern Pacific by encouraging the establishment of a competing railroad and limiting Southern Pacific's access to the Oakland waterfront, Southern Pacific's political operative, Walter Parker, assembled a coalition of delegates and replaced Pardee with the more pliable James Gillett. Gillett was nominated and then elected Governor. These obvious machinations elicited outrage. Several prominent Republicans left the party; newspapers

attacked Southern Pacific; and a political backlash gained momentum, most notably when reform-minded Republicans formed the Lincoln-Roosevelt League, the forerunner of the Progressive Party.

In 1908, a large number of Progressive-leaning candidates, most members of the Republican party, were elected to the state legislature. The legislature, pushed by the Lincoln-Roosevelt League, passed a constitutional amendment that replaced the all-too-easily brokered conventions with direct elections. This was the first major loss for the Southern Pacific political machine. More losses for Southern Pacific and more gains for the Progressives followed quickly. During the 1910 gubernatorial election, Progressives nominated Hiram Johnson, who defeated Southern Pacific's candidate, Thomas Bell. As a results of the election, Johnson's Progressive supporters gained control over the legislature and began a broad campaign of reforms in 1911. They quickly introduced three political procedures – the initiative, the referendum, and the recall – that collectively increased the electorate's direct political power. They gave women the right to vote. They attacked the state's moral problems by prohibiting slot machines and racetrack gambling, and by putting teeth in an earlier law that gave counties the power to ban saloons. They also granted the California Railroad Commission the power to regulate rates charged by railroads and other public utilities. As a consequence, "[b]y 1912 the Progressive spirit had become so pervasive that any policy … could be strengthened if a way could be found to put it in Progressive language" (Hofstadter 1955:275-276).

Soon Johnson and his followers set their eyes on the national stage. They pushed to nominate Roosevelt as the Republican Presidential candidate, but when the Republican Parry re-nominated Taft, Johnson and others left and formed the Progressive (Bull Moose) Party. Roosevelt carried California but lost the election to Wilson. In 1912, Johnson formed the California Progressive Party and won a second gubernatorial election in 1913. He continued to enhance governmental control over business through regulatory initiatives. In 1916, Johnson ran for election to the U.S. Senate in both the Progressive and Republican primaries. After he won, Johnson abandoned the Progressive Party. By 1917, the California Progressive Party was defunct and its members had joined either the Republicans or the Democrats (Link 1959).

Although the Progressive movement failed to institutionalize itself in California as a political party, it had deep impact on political culture. Progressive activism filtered into Republican platforms, despite resistance by conservatives (Wiebe 1967). The Progressive-led push for an impartial bureaucracy in Sacramento and for state oversight of many sectors of the economy was continued by succeeding Republican administrations (Mowry 1951). Progressive ideals also proved congenial to early outcroppings of New Deal liberalism in the Democratic Party (Wiebe 1967). And the Progressive agenda continued to find a ready platform in the press; indeed, Progressivism depended heavily on reform-minded journalism (Hofstadter 1955:186). Finally, the Progressive movement left its imprint on local governments, as towns across the nation cities adopted "rationalized" administrative apparatuses (Wiebe 1967:164-181; Griffith 1974). Thus, "Progressivism … was not confined to the Progressive Party but affected … the whole tone of American political life" (Hofstadter 1955:5). In other words, the Progressive ethos became part of the *zeitgeist*.

We do not mean to say that Progressivism blanketed the California or the U.S. deeply and evenly. Rather, there was great regional variation in support for Progressivism. Electoral support for Progressive candidates was strongest in Southern California in 1910, but Northern California became a Progressive stronghold in 1916 (Rogin 1968). Similarly, between 1911 and 1915, Progressive newspapers were concentrated in Southern California; from 1916 onward, the bulk of Progressive newspapers were published in Northern California.

Reconciling Efficiency and Equality: The Selective Application of Progressive Values

The early wave of Progressive reform emphasized the dispersion of power and promoted a number of anti-monopoly measures as the bulwarks of social order. How did the themes of efficiency, rationality, and bureaucracy become ascendant? How was the potential conflict between the bureaucratic emphasis on efficiency reconciled with the dispersion of power and the ideal of equality?

Beneath the moralistic veneer of Progressive reform was a large swath of middle-class "organization men" – professionals and administrators – who sought to impose systematization,

efficiency, and expertise in order to reduce chaos. As Wiebe (1967:165) put it "Only the professional administrator, doctor, social worker, the architect, and the economist could show the way" and they "formulated their interests in terms of continuous policies that necessitated regularity and predictability." The Progressivist valorization of bureaucracy stemmed from the growth of standardization, the birth of specialized occupations and organizations, and the rise of complex, large-scale technical systems. Supported by a growing cadre of white-collar workers, these modernizing forces triggered the core pattern of Progressive politics, the redirection of decision-making upward within bureaucracies, from ward bosses to city managers, townships to counties, and teachers to superintendents (Hays 1980).

The potential conflict between using hierarchical bureaucracy to seek efficiency and dispersing power to achieve equality was reconciled by the depiction of bureaucratic systems as safeguards of public order. In unconscious echoes of Weber, systems of rules were viewed as mechanisms that defined individual accountability, depersonalized relationships, and thwarted nepotism and favoritism. Since authority flows from facts and the techniques needed to co-ordinate interdependent tasks, bureaucratic systems were presented by their champions as objective, coherent, democratic, and progressive structures. Such systems promised to bring "opportunity, progress, order and community," through which "all men would enjoy a fair chance for success" Wiebe 1967:170). A striking example of how efficiency and equality were reconciled is provided by Shenhav's (1995) account of how mechanical engineers justified rules and procedures as bulwarks of social order and confidence. Engineering societies were formed at the turn of the twentieth century to promote standardization as a way to reduce waste and increase efficiency. Manufacturers were initially reluctant to adopt these systems because they were concerned about the cost and bother of extra clerks, the disruption of work, and impracticality. But they also feared labor unrest, and engineers assured them that adoption of these systems would eliminate strikes.

The Progressive emphasis on efficiency and its reconciliation with the ideal of equality was exemplified by the replacement of the ward-boss model of municipal government by the city-manager form (Wiebe 1967; Griffith 1974). Prior to the Progressive era, cities were run by party

machines, whose ward bosses exchanged favors for votes. As a result, "Corrupt bargains, crude force, and extralegal expedients had become the new standard… The inability of the city government to provide even minimum services … added its measure to the chaos" (Wiebe 1967:5). Progressive reformers saw municipal reform as the antidote to the corruption of patronage politics. The solutions they proposed emphasized disinterested experts and rationalized administration: a city council would appoint an executive officer, the city manager, who would in turn appoint qualified lieutenants to assist him.[1]

These reforms were justified by a rhetoric that drew parallels between the city and a joint-stock corporation: "City management is largely a business problem and must adopt the methods of business" (DeWitt 1915:303). Thus, cities were to be run like corporations: taxpayers were analogous to stockholders, elected officials to boards of directors, and city managers to presidents (Tolbert and Zucker 1983). City managers would create rationalized and centralized bureaucracies that would be insulated from patronage politics (Lineberry and Fowler 1967; Knoke 1982). The city-manager form of government spread across California between 1915 and 1928; it was adopted by municipalities ranging in size from tiny Avalon in Los Angeles county (population in 1920, 586) to Sacramento (population in 1920, 65,908).

The Impact of Progressivism on California Thrifts

Progressive ideals affected thrifts in two ways: through socio-political and constitutive legitimacy. Socio-political legitimacy consists of the ability to "call upon sufficient other centers of power, as reserves in case of need" (Stinchcombe 1968:162) and implies approval of an organizational form by authorities such as the state. In contrast, constitutive legitimacy exists when an organizational form is comprehensible and taken-for-granted as the natural way to achieve some collective goal; when it is justified and explained on the basis of prevailing cultural models and

[1] An advertisement for city manager neatly depicts the emphasis on rationality and impartial expertise: "An engineer of standing and ability would be preferred. He will have complete administrative control of the city, subject to the approval of the board of three elected commissioners. There will be no politics in the job; the work will be purely that of an expert." (DeWitt, 1915:312)

accounts (Meyer and Rowan 1977), and the people involved do not even think of alternatives (Zucker 1983). Below, we discuss each path to legitimacy in turn.

Progressivism and the socio-political legitimation of bureaucracy. Progressive-leaning politicians enacted regulations that gave legal standing to three elements of the Dayton/guarantee-stock form of thrift – guarantee stock, optional-payment shares, and paid-up shares – and thus enhanced its socio-political legitimacy. One such feature was a 5% contingent-reserve fund, which all thrifts were required to create in 1907 (California 1907; Donley 1937:41-43, 46-49).[2] A 1913 regulation strengthened requirements for contingent-reserve funds to 10% for liabilities below $1 million, 7.5% for liabilities between $1 and $2 million, and 5% for liabilities above $2 million. The 1913 law also clearly defined optional-payment and paid-up shares, which embodied a voluntaristic code of individual effort, and differentiated them from the installment shares used by mutual-plan thrifts, which embodied a code of rigidly structured effort for all community members. The upshot was to put the state's imprimatur on voluntary saving, which reflected a belief in rational decision-makers, a central tenet of Progressivism.

Other legal initiatives had broader targets. Rather than sanctioning the particular features of the Dayton/guarantee-stock plan, they required all thrifts to operate more like impersonal bureaucracies and less like neighborhood clubs. For instance, a law passed in 1917 required thrifts to set interest rates on loans in advance. Some legal changes promoted bureaucracy indirectly, by increasing the power of the mandarin overseeing thrifts, the Building and Loan Commissioner. In 1912, his agency's funding was increased greatly, the guidelines governing thrift operations were elaborated, and his powers of enforcement were expanded. In 1915, he was empowered to license agents and was given authority to decide when to close down poorly managed thrifts. Over time, the codification of core Progressive ideals – impartial bureaucracy, rationality, and efficiency – in state law pertaining to thrift legitimated all of the more-bureaucratic, less-club-like forms of

[2] This law did not force pure mutual- and Dayton-plan thrifts to convert to the guarantee-stock form or one of its hybrids; instead, it allowed them to set aside 5% of their shares in a fund that would be tapped only in emergencies. Thus, a small adjustment in operations was sufficient to satisfy the letter of the law. Nevertheless, passage of this law made it clear to all industry participants that the contingent-reserve fund was strongly normatively valued (California (Building and Loan), 1908; Myers, 1921).

organization, especially the Dayton/guarantee-stock plan, which was the most bureaucratic and least club-like.

By 1913, the specific features of the Dayton/guarantee stock plan were authorized. And by 1917, the state had mandated impartial bureaucracy for all thrifts. However, authorization did not immediately lead to wholesale conversions of existing thrifts to the Dayton/guarantee-stock plan and it did not trigger many foundings of Dayton/guarantee-stock thrifts. Not until the 1920s did this form of thrift come to dominate the industry. Authorization by itself was insufficient, perhaps because laws are only partial codes: they often allow discretion in their interpretation and application (Edelman 1992; Dobbin, Sutton, Meyer, and Scott 1993). Therefore, cultural work was required to revalorize the meaning of thrift and make the bureaucratic Dayton/guarantee-stock acceptable. The meaning of thrift not only needed to be reconstituted, it also needed to be integrated with the prevailing cultural order.

Progressivism and the constitutive legitimation of bureaucracy. As noted above, the core dynamic of Progressive politics was the centralization of decision-making (Hays 1980). This ironic dynamic made the centralization of power in thrifts (from members to managers) conceivable. Constitutive legitimation of bureaucracy operated through two kinds of institutions: the news media and role-model organizations. We discuss each in turn below.

One way that a new form comes to mesh with the prevailing cultural order is through ideas purveyed by the news media. In the early twentieth century, this meant newspapers. Exposure in newspapers puts issues on readers' agendas, reminds readers of issues more often than it informs them, primes associations between issues, and makes ideas available to readers (Schudson 1989). In these ways, newspapers alter readers' understandings of society. Moreover, because people who read a newspaper are aware that others are doing the same thing at approximately the same time, the understandings that newspapers instill are shared. Thus, newspapers weave "invisible threads of connection among their readers" (Starr, 2004:24); in doing so, newspapers sustain communities of individuals who share values and ideas (Park 1940). Newspapers, like other media, are "a site on which various social groups, institutions, and ideologies struggle over the definition and construction

of social reality" (Gurevich and Levy 1985:19). Discourse in newspapers reflects as well as creates public opinion about particular issues (Gamson, Croteau, Hoynes, and Sasson 1992); thus, the spread of newspapers affiliated with particular social and political movements indicates the extent to which that movement's values are accepted by the public. In California, Progressive newspapers helped promote the cultural integration of bureaucracy, including in the thrift industry.

Role models are naturalizing analogies for particular ways of acting and organizing (Douglas 1986), visible and flexible prototypes that allow agents in nearby fields to translate and adapt them to suit their interests, resources, and needs. Naturalizing analogies institutionalize new structures by obviating questions and by promoting the integration of new structures with the prevailing order; in these ways, naturalizing analogies make new structures taken-for-granted and unquestioned (Berger and Luckmann 1966; Zucker 1983; Douglas 1986; Schneiberg and Clemens, 2006). "Equipped with such an analogical base, institutions appear as part of the order of the universe and so are ready to stand as the ground of argument (Douglas 1986:46)." The city-manager form of municipal government – which we described above as the archetypical Progressivist structure – was the naturalizing analogy, the role model for the Dayton/guarantee-stock form of thrift.

The emphasis on rationality and efficiency promulgated by Progressive newspapers and incarnated in the city-manager form of municipal government made it appropriate to abandon the original mutual form of thrift and to replace it with bureaucracy. Progressivism appealed most strongly to the very Californians who were most likely to be thrift members: the rapidly growing middle class, which included not only small businessmen and independent professionals, but also salaried professionals, technicians, clerical workers, and salespeople (Mowry 1951). Constitutive legitimation proceeded along two paths. First, when and where the Progressive ideals of rationality, bureaucracy, and efficiency were strong, people were likely to accept thrifts that had two different classes of shareholders (guarantee-stock and ordinary) who earned different returns on their investments. Before the Progressive era, thrifts incorporating guarantee stock were met with reservations because they were essentially non-mutualistic: all stockholders did not receive a proportionate share of profits; instead, guarantee stockholders received higher returns than other

shareholders to compensate them for the risk they took on (Clark and Chase 1925:59). One defender of guarantee stock noted that some viewed such associations as "irregular and unorthodox" (Myers 1921:555) and therefore might be dissuaded from accepting this as a way of organizing thrift. But such concerns were attenuated by the rise of Progressive ideals, which celebrated impersonal bureaucracy.

Second, when and where the Progressive ideals of rationality, bureaucracy, and efficiency were strong, voluntary saving by rational individuals was an acceptable notion. Before the Progressive era, thrifts linking individual savers and borrowers (rather than having all savers be borrowers) suffered from the stigma of being "merely a *bank*" (Clark and Chase 1925:57, emphasis in the original), because relationships between members were closer to those between debtors and creditors than to those between peers helping each other (Clark and Chase 1925:49). This was especially deadly because after the Panic of 1907, banking was vilified in the press; so much so that "the name of a bank … [was] synonymous with all that is dishonest, corrupt, and criminal" (Wiebe 1962:188). As Progressive notions of rational action took hold, these concerns were obviated, which further increased the legitimacy of the Dayton/guarantee-stock plan. Moreover, because the Progressive movement emphasized *individual* rationality (Hofstadter 1955:6-7), the diffusion of Progressive ideals undermined the communal basis of the original mutual form of thrift and supported the rationalistic individualism inherent to the Dayton/guarantee-stock form.

The deliberations of thrift managers at the annual conventions of the California Building-Loan League provide striking insight into how the revalorization of thrift occurred. Thrift managers clearly recognized the need to remake the institution of thrift so that it fit the new cultural order. One speaker, who later became the president of the League, summarized it pithily: "We must establish a new ideal of thrift applicable to the new changing conditions of American life" (California Building-Loan League 1922:67). The initial step was to redefine thrift and link it to efficiency:

> The word thrift has too generally been associated with stinginess, meanness, parsimony, when its true significance is *the elimination of waste*…. Progress is dependent on the *proper use* of man-power, material and money; hence, thrift signifies

> the elimination of waste, or the *proper use* of human capacity and resource. (California Building-Loan League 1922:67-68, emphasis in the original).

To this end, the League adopted a code of ethics, which held "that thrift [should] be extolled and a waste of time, money, effort, material or natural resources [should] be condemned (California Building-Loan League 1922:47)."

Just as engineers used manufacturers' fear of strikes to justify systematic rules and procedures, and just as local reformers proposed to eliminate disorder and corruption by adopting the city-manager form of government, thrift executives argued that bureaucratic and rational procedures were essential to instill confidence among savers and borrowers alike. One thrift organizer argued that "We are selling an idea instead of a mere investment account. Our business should be to acquire confidence and respect for the wholesomeness and safety of our business" (California Building-Loan League 1928:163). To this end, a League executive noted that adopting the Dayton/guarantee-stock form "will … have a tendency to instill confidence in our methods" (California Building-Loan League 1928:59). Contemporary academic observers of thrifts, such as Professor Burtchett of U.C.L.A., approved: "Emotionalism and paternalism are gradually receding into the background of the building and loan movement; sentimentalism is giving way to clear-cut business principles" (California Building-Loan League 1928:94).

Legitimacy and thrifts' vital rates. The actions of thrift managers and entrepreneurs were, like the actions of businessmen in other industries, affected by the extent to which Progressive ideals were enshrined in political culture. Thrift managers, entrepreneurs, and members were influenced by Progressivist scripts promulgated by local newspapers and the model incarnated in municipal governments. Thrift managers and entrepreneurs also attended to state law, not just its coercive elements, but also its normative shadings. These influences were seen in thrift foundings and form conversions – the two mechanisms by which an organizational form can grow in numbers. We consider each in turn.

Acceptance of the core Progressive ideals of bureaucracy, rationality, and efficiency legitimated the Dayton/guarantee-stock plan, both socio-politically and constitutively, and so

promoted foundings of this form of thrift.[3] As state law developed to celebrate the efficiency, rationality, and appropriateness of impersonal bureaucracy, thrift founders were pushed to use organizing templates that fit those official expectations (Meyer and Rowan 1977; DiMaggio and Powell 1983). The more the press trumpeted Progressive ideals, and the more rational bureaucracy was adopted by local governments, the more likely thrift entrepreneurs and potential thrift members were to use organizational models that embodied principles of rational, efficient bureaucracy, because doing so would seem natural and appealing to potential members. In sum, as state requirements came to embody the Progressive values of rationality, bureaucracy, and efficiency, as the press promoted a Progressive agenda, and as local governments adopted bureaucratic and supposedly efficient forms, thrift forms that embodied rationality, efficiency, and bureaucracy – most notably, the Dayton/guarantee-stock plan – were legitimated, both socio-politically and constitutively. In turn, increased legitimacy made thrifts with this plan more likely to founded.

We further propose that when and where the Progressive values of rationality, bureaucracy, and efficiency were strong, and thus the socio-political and constitutive legitimacy of the Dayton/ guarantee-stock plan was high, existing thrifts were more likely to convert to that plan. Models of problemistic search (Cyert and March 1963 [1992]; March and Simon 1958 [1993]) suggest that organizations will alter their structures when they are performing below aspiration levels. Any thrift that did not fit the needs of the new "society of strangers" created by massive internal migration and immigration would hear complaints, lose members, and fail to attract new members. Such a thrift could be expected to change its form, despite the inherent difficulties (Hannan and Freeman 1984;

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[3] Our analytical framework contains one unavoidable ambiguity. Shifts in political culture, whether carried by the news media or exemplified by local governments, can drive changes in the set of organizations founded through two different mechanisms. First, there may be a relatively stable set of people who are likely to launch a new enterprise, whose choices of organizing templates may be influenced by political culture. Second, some potential entrepreneurs may opt out and choose not to launch new ventures when the political winds blow in direction that does not favor their preferred organizing template, while other potential entrepreneurs become more likely to launch ventures when the political winds blow in a direction that favors their preferred kind of organization. Like everyone who studies organizational founding, we cannot define the population of potential entrepreneurs with any precision. Hence, we are unable to determine whether changes in the set of organizations founded occurs as a result of changes in choices or changes in the set of potential entrepreneurs. Recognizing this ambiguity, we offer predictions about only those phenomena we can observe empirically – founding rates.

Barnett and Carroll 1995) because the liabilities of change shrink when an organization's constituencies accept the content of change and are willing to supply resources to effect change (Minkoff 1999). Decision makers' choice of a new form would be constrained by the set of organizational forms that were seen as appropriate (constitutively legitimate) and those that met the coercive and normative expectations of the state (socio-politically legitimate) (Meyer and Rowan 1977; DiMaggio and Powell 1983). In other words, decision makers' choice sets were shaped by the temper of the times – the spirit of Progressivism. The Dayton/guarantee-stock plan became the destination of choice for thrift managers and members who sought to change their association's form.

Form conversion, like any core organizational change, involves substantial process costs (Barnett and Carroll 1995). All organizations must acquire external legitimacy for their revised structures (Meyer and Rowan 1977). In the case of the thrift industry, ideological barriers to change were especially high because each plan was infused with value beyond the technical requirements of the financial-intermediation task at hand (Selznick 1957:17). Hence, change was a less likely response than was disbanding to any misalignment between thrift structures and social ideals (Haveman and Rao 1997). But larger thrifts had more to lose if they disbanded, and so were more likely to adjust their structures to improve fit with social mores (Haveman and Rao 1997). Thus, when the socio-political and cognitive legitimacy of the Dayton/guarantee-stock plan was high, existing thrifts, especially large ones, found it easier to jettison their founding ideals and convert to that plan.

Research Design

To investigate relationships between the Progressive movement and organizations' vital rates, we study California thrifts from 1906, when the first Dayton/guarantee-stock thrift was founded, to 1928, just before the onset of the Depression. We analyze thrifts' vital rates at the0020county level, for two reasons. First, thrifts in this time period operated on a small scale, with members drawn from a single town or a group of nearby communities, all within a single county.

Second, support for Progressive values varied greatly across the state (Mowry 1951; Rogin 1968). We recognize that the county is not always the ideal unit of analysis. It may be too large, too small, or just right. Some counties consist of multiple communities whose members seldom interacted (*e.g.*, in Santa Barbara County, people who lived near Santa Barbara did not interact much with people who lived near Santa Maria); in such cases, the county is too large a unit of analysis. Other counties consist of a single community whose members interacted with people in other nearby counties (*e.g.*, San Francisco County, which is contiguous with the City of San Francisco and where people often interacted with people living in Marin and Alameda counties); in such cases, the county may be too small a unit of analysis. But most counties consist of communities whose members did interact (*e.g.*, Ventura County, where people living near Ventura and Oxnard interacted often with each other, and who interacted more with each other than they did with people living in Santa Barbara County to the north or Los Angeles County to the south). Both obvious alternatives to the county as unit of analysis are worse: the city is often too small and sometimes just right, while the labor-market area, which encompasses multiple counties, is often too large and sometimes just right.[4]

Data and Measures

Dependent variables. Our data on thrifts come from annual *Reports* of the California Commissioner of Building and Loan (California (Building and Loan), 1891a, 1892; 1894-1929), which contain detailed information on all thrifts that operated between before 1928. We created annual records for each thrift and updated all variables at calendar year-end. We determined the plan used by each thrift in each year by perusing the detailed financial statements given in the *Reports*. Although these data are rich, there are some gaps: No *Reports* were published in 1897, 1901, 1902, 1903, 1904, or 1907. If a thrift had the same form before and after a gap in records, we assumed its form remained constant during that gap. If a thrift had a different from before and after a gap in

[4] One county (Imperial) was created in 1907. The analytical procedures we use require fixed regions. Therefore, we set county boundaries at their 1907 limits; in other words, we mapped 1907 boundaries onto data for 1906.

the records, we assumed its fo0072m changed at the midpoint of the gap. (For a justification of this approach, see Petersen 1991). For years when reports were not published), we linearly interpolated or extrapolated data on size.

We analyze two means by which an organizational form can grow: through foundings of new organizations and conversions of existing ones. Specifically, we analyzed the rate of founding of Dayton/guarantee-stock thrifts and the rate of conversion into the Dayton/guarantee-stock plan by other kinds of thrifts. To analyze foundings, we noted when each county experienced the founding of a Dayton/guarantee-stock. Each county was in the risk set from 1906, when the first Dayton/guarantee-stock thrift appeared, to 1928. To analyze conversions, we looked at thrifts that had forms other than the Dayton/guarantee-stock plan, and noted when they converted to the Dayton/guarantee-stock plan. Each thrift left the risk set after it converted or died, or in 1928, at the end of our observation period. Because our research design focuses on a single form of thrift, it obviates any concern arising from differences between forms of thrift in the degree to which they were suited to the needs of a migratory society – their actual, rather than perceived, effectiveness.

Independent variables: The entrenchment of Progressive values. To measure the cumulative encoding of Progressive ideals in state regulations concerning thrifts, we distinguished two periods, based on our analysis of state laws, which is summarized in appendix 2. A period of expanding regulation ran until 1917; a period of full regulation ran from 1918 to 1928. We created a binary indicator variable set equal to zero during the first period and one during the second. We also constructed an index of the rationalized bureaucratic constraints imposed on thrifts by the state. This index started at zero in 1906 and increased to one in 1908, two in 1913, three in 1914, four in 1916, and five in 1918. This alternative measure provides a more nuanced portrait of the period during which state regulator control over thrifts was expanding.[5]

We gathered data on newspapers from annual catalogues (N.W. Ayer & Sons, various years). These catalogues listed every newspaper published in every town and city across the country. They

[5] This index is based on the simplistic assumption that at each step the bureaucratic requirements impinging on thrifts increased by an equal amount. This seems more reasonable than attempting to quantify differences in the impact of various legislative initiatives, something we could not do with any precision.

also reported the political affiliation, if any, of each newspaper. We made two counts: total number of newspapers published in each town or city and number affiliated with Progressivism.[6] We aggregated municipal-level data to counties. To map towns to counties, we used a website containing historical data on postmarks (www.pbbooks.com/caindex.htm).

We determined which municipalities in California had adopted the city-manager form of government from Chang (1918) and Ridley and Nolting (1931-1933). For each county, we created a binary indicator variable set equal to zero before any municipality had adopted the city-manager form of government and one after the first municipality adopted that form. We created a second measure, which incorporated information about another bureaucratic form of municipal government, the commission. These data came from Chang (1917) and Rice (1977). The commission generally preceded the city manager. Therefore, we created for each county a binary indicator variable set equal to zero before any municipality in that county had adopted either the commission or the city-manager form of government, and one after the first municipality adopted either form. This offers an earlier temporal marker for Progressive forms of municipal government. (Note that during our study period, no city in California that adopted these forms of municipal government abandoned them.)

Control variables. Our analyses contain several control variables. First, we controlled for the geographic mobility of the state populace, because we follow Haveman and Rao (1997) in reasoning that a more mobile populace would be better suited to Dayton/guarantee-stock thrifts, which celebrated bureaucracy instead of mutuality and trust in a settled community, and flexibility instead of structured effort. We measured migration as the number of people migrating into California from other states plus the number immigrating into California from other countries within a year, divided by the state's population at the start of the year. These data came from Thompson (1955); we linearly interpolated between decennial data points to create annual data. Second, we controlled for the presence of other important financial institutions in each county, specifically the aggregate

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[6] Newspaper circulation would have been a more precise indicator, but since data on circulation are spotty, the number of newspapers is a sound proxy for the prevalence of a particular ideology (Carroll, 1987).

size (mass) of banks. Bank mass was correlated with economic conditions: it rose when the local economy expanded and fell when the local economy contracted or entered a recession. Including this variable allows us to obviate any concern that our results are merely due to an economic trend or to unobserved heterogeneity in economic conditions.[7] Statistics on bank mass came from annual *Reports* of the Board of Bank Commissioners (California (Bank) 1905-1928). To adjust for inflation, we deflated assets for each bank, using historical estimates of the GDP deflator compiled by Johnston and Williamson (2005).

In the analysis of foundings, we controlled for the number (density) of thrifts in each county and the rest of the state. Since our analysis focuses on the Dayton/guarantee-stock form, we distinguished between thrifts with that form and thrifts with any other form.[8] In the analysis of conversions, we included two organizational attributes: size and age. We measured size as assets under administration; we deflated thrift assets to correct for inflation, using historical estimates of the GDP deflator compiled by Johnston and Williamson (2005). We measured age as years since founding. We logged both variables to improve fit with the data. In the analysis of conversions, we also controlled for density-dependent push and pull factors, using the ratio of the density of thrifts using the Dayton/guarantee-stock plan in the focal county to the density of thrifts using the focal thrift's plan in the focal county.[9]

<u>Model Specification and Estimation</u>

Founding. Founding can be understood as an arrival process, where each new thrift is an addition to the population under study – here, the population of Dayton/guarantee-stock thrifts within a county. We have exact founding dates for all thrifts, so we estimate event-history models,

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[7] We searched for other proxies for economic conditions – housing starts, property values, and (un)employment levels – but those data were not available in annual time-series at the county level.
[8] We also gathered data on county population and on the total number of newspapers in the county. But these variables were highly correlated with the aggregate assets of banks and the number of Dayton/guarantee-stock thrifts: correlations averaged 0.93. To avoid multicollinearity, which biases point estimates as well as inflating their standard errors in non-linear models, we did not include those variable in the analyses we present here. We re-estimated all models using these variables in place of bank mass and thrift density. Those alternative results do not differ materially from the ones shown here.
[9] We could not include these two factors as separate variables because they were highly correlated.

rather than more-aggregated event-count models. This approach maximizes the use of information. We modeled founding as a semi-Markov process, which assumes that the founding rate does not depend on the time path of prior arrivals but rather on characteristics of the population and its environment, and time since the last founding event (Tuma and Hannan 1984).

We used the Cox proportional-hazards model introduced by Kalbfleisch and Prentice (1980), which is quite flexible with respect to time dependence. This model takes the following general form:

$$r(t) = h(t)\ \exp[\beta' \boldsymbol{x}_{it}]\ ,$$

where $r(t)$ is the rate of founding of Dayton/guarantee-stock thrifts between t_0 and t_1 and ${}_j(t)$ is an unspecified ("nuisance") function of time between foundings; $\boldsymbol{x}_{it}$ is a vector of time-varying variables measured for each county i, either at the start of the calendar year under study (for stock variables) or during the prior calendar year (for flows); and β is a vector of parameter estimates. We used the stcox procedure in the Stata statistical package (Stata, 2006), which controls for right censoring. We checked to see that the proportionality assumption was not violated using a Stata utility (stphtest), which makes use of Schonfeld residuals. Since there are multiple observations for each county, we estimated robust standard errors, clustering on county, to correct for non-independence.

We used a dataset containing one observation per county per year, plus one observation for each founding into the focal county (1,484 records on all 58 counties in California between 1906 and 1928, including records of 150 founding events). We split observations on counties into annual spells so we could update independent and control variables. We further split these annual spells whenever a Dayton/guarantee-stock thrift was founded in the focal county in the focal year. The first spell for each county each year begins on January 1st. If no founding occurred in that county that year, the spell ends on December 31st. If one founding occurred in that county that year, the first spell ends on the day the first thrift was founded; the second spell starts one day later and ends on December 31st. If two foundings occurred in that county that year, the first spell ends on the day the first thrift was founded; the second spell starts one day later and ends on the day the second

thrift was founded; the third spell starts one day later and ends on December 31st. We proceeded analogously in the rare cases where three or more foundings occurred in a county in a single year.

Form conversion. Like founding, form conversion is a discrete event that occurs over time. And like founding, form conversion can be modeled as a semi-Markov process. But unlike founding, form conversion can be studied at the level of the individual organization, rather than the population into which organizations are being founded (here, thrifts in a particular county). We estimated models of the following general form:

$$r(t) = \exp[\beta' \boldsymbol{x}_{it}] \ ,$$

$r(t)$ is the rate of conversion into the Dayton/guarantee-stock plan by the focal thrift between t_0 and t_1; $\boldsymbol{x}_{it}$ is a vector of time-varying variables measured for each thrift i, either at the start of the calendar year under study (for stock variables) or during the prior calendar year (for flows); and β is a vector of parameter estimates. The analysis covered all thrifts *except* Dayton/guarantee-stock thrifts. We split observations on each thrift into annual spells so we could update independent and control variables. Thrifts exited the sample when they converted to the Dayton/guarantee-stock plan or when they failed. The resulting dataset consisted of 1,746 annual observations on 145 thrifts from 1906 to 1928 inclusive, which underwent 21 conversions. We used the streg procedure in the Stata statistical package (Stata, 2006). Since there are multiple spells for each organization, we estimated robust standard errors, clustering on thrift, to correct for non-independence.[10]

Results

Tables 2 and 3 present descriptive statistics for the variables used in our multivariate analyses. Tables 4 and 5 contain multivariate analyses of foundings and conversions.

[Tables 2 to 5 about here]

Founding. In table 4, model 1 is a baseline model containing only control variables. It shows strong effects of California-wide population migration and the density of Dayton/guarantee-stock

[10] As a robustness check, we estimated rare-events logit models of conversions. This analysis produced similar results to the ones we present here.

thrifts in the focal county. Models 2 through 7 add indicators of the strength of Progressive values one at a time. Model 2 adds the state-policy indicator, which has a statistically significant positive effect, as predicted. Model 3 substitutes the state-policy index, which captures in greater detail the cumulative encoding of Progressive ideals in state regulations concerning thrifts. This variable also has a significant positive effect, as expected. Model 4 includes the number of newspapers in the focal county that supported Progressivism. This variable has the expected positive effect, but it is non-significant, which fails to confirm our prediction. Model 5 substitutes the percentage of newspapers in the county that were Progressive, which also has a non-significant effect on the founding rate. Model 6 includes the indicator for city-manager government. This has a significant positive effect on the founding rates of Dayton/guarantee-stock thrifts, as expected. Model 7 substitutes the indicator for either city-manager or commission government. This variable also has a significant positive effect.

Finally, model 8 includes three indicators of the strength of Progressivism: binary indicators for state policy and for city-manager government, and the number of Progressive newspapers. The effects of state policy and municipal government are robust, as the parameter estimates on state policy and city-manager government remain statistically significant. The effect of Progressive newspapers remains non-significant. These results partly support our prediction that as the Progressive ethos diffused throughout California, it promoted foundings of thrifts that had bureaucratic organizational forms. The impact of Progressivism was quite strong. Between 1918 and 1928, founding rates of Dayton/guarantee-stock thrifts were almost ten times what they had been earlier (exp[2.24]=9.4). And founding rates of Dayton/guarantee-stock thrifts were almost nine times higher when at least one municipality in the focal county had adopted the city-manager form of government (exp[2.16]=8.7).

Form conversion. Now we turn to conversion into the Dayton/guarantee-stock form. Model 1 in table 5, which is a baseline model, shows that larger thrifts were more likely to convert to the Dayton/guarantee-stock form, and the rate of conversion increased as the demography in the focal county shifted from the focal thrift's form to the Dayton/guarantee-stock form. Recall that we

expected a positive effect of thrift size, since larger thrifts had more to gain from converting to the Dayton/guarantee-stock form, rather than disbanding and then reforming as new enterprises with that form. As in table 3, models 2 through 7 add indicators of the strength of Progressive values one at a time. Model 2 adds the state-policy indicator. The effect on the conversion rate is statistically significant and positive, as expected. Model 3 substitutes the state-policy index, which also has a significant positive effect. Model 4 substitutes the number of Progressive newspapers. This variable has a significant positive effect on the conversion rate, as expected. Model 5 substitutes the percentage of newspapers in the county that labeled themselves as Progressive. The coefficient on that variable is positive, as expected, but only marginally significant (p=.10). Models 6 and 7 include the indicators for municipal government. As expected, both effects are statistically significant and positive.

Finally in model 8, the full model, we see that these results are robust: the coefficients on all three variables of interest remain positive and statistically significant. Holding all else constant, an increase in thrift size from the average to one-half standard deviation above average increased its likelihood of converting to the Dayton/guarantee-stock form over ten times. From 1918 to 1928, conversions to the Dayton/guarantee-stock form were over ten times as frequent as from 1906 to 1917, inclusive (exp[2.44]=11]). If a Progressive newspaper was founded in a county that formerly had none, thrifts in that county were over twice as likely to convert to the Dayton/guarantee-stock form. Finally, after at least one municipality in a county adopted the city-manager form of government, the rate of conversion to the Dayton/guarantee-stock plan rose by more than five-fold (exp[1.69]=5.4).

Discussion

We argued that a society-wide social movement, the Progressive movement, explains the dramatic increase in the number of thrifts with an impartial, bureaucratic form – the Dayton/ guarantee-stock plan. But in California, the Progressive movement focused on eliminating corruption in government, started in 1906, crystallized into a political party in 1912, and that party

disbanded in 1917. So how could the Progressive movement have propelled the rise of the Dayton/guarantee-stock form of thrift, which was far removed from the field of state politics and which did not take off until the 1920s? Although the Progressive Party was short-lived, its core ideals – bureaucracy, rationality, and efficiency – permeated the political culture of California. The spread of these ideals took three forms. First, as part of their general reform of California's political economy, Progressive-leaning politicians formulated regulations that authorized the Dayton/ guarantee-stock form as an alternative to the mutual form. Second, the press adopted the Progressive label and promoted Progressive ideals long after the political party disbanded; this created a shared symbolic environment in which bureaucracy became accepted as a solution to many problems of collective action, including thrift. Third, local notables pushed for the overhaul of municipal government, which had been captured by party bosses, and the installation of new bureaucracies that were intended to be impartial and efficient; these local structures served as role models for thrift organizers. Thus, Progressive ideals of rationality, efficiency, and bureaucracy were strong when bureaucratic state regulation was extensive, when and where Progressive papers were numerous, and when and where local governments were bureaucracies. When these conditions were met, Dayton/guarantee-stock thrifts were founded and other kinds of thrifts converted to the Dayton/guarantee-stock form. Our findings have implications for the study of social movements, institutional analysis of organizations, and organizational ecology.

Contributions to research on social movements. Our findings demonstrate how large-scale social movements affect the composition of organizational populations far removed from the site of movement action. Social-movement scholars have long lamented the emphasis on the origins of social movements and the neglect of their consequences (Giugni 1998). A growing body of research has focused on movements' political impact, and has demonstrated how vital organizations are for political influence (Clemens and Minkoff, 2004; Olzak and Soule, 2004). But there is still little work on the cultural impact of movements (Bernstein, 2003; but see Lounsbury, 2001), and extant research does not take into account how such cultural impacts can be partial and often unintended (Tilly 1999).

Our study addresses this gap by documenting the selective impact of the Progressive movement on the California thrift industry. Progressives pursued contradictory agendas: efficiency and bureaucracy as well as equality and the dispersion of power. The bureaucratic elements of the Progressive ethos became ascendant and permeated the thrift industry. As a result, a movement committed to the dispersion of power had the ironic effect of triggering the centralization of power in thrift managers; this reflected a dynamic that was seen elsewhere (Hays 1980). By showing how the Progressive movement left a selective imprint on the political culture, one that emphasized bureaucracy at the expense of equality, our study joins Edelman (1992) and Dobbin, Sutton, Meyer, and Scott (1993) in documenting how social movements can have effects that are at variance with the movement's original goals.

Contributions to institutional analysis of organizations. Our study also enlarges the reach of the institutional perspective on organizations. A pressing problem is to discern how institutional change is possible when institutions are durable and when actors within a field are subject to pre-existing institutional logics (Clemens and Cook 1999). Our study suggests that the Progressive movement played an important role in deinstitutionalizing the original logic of thrift and institutionalizing a new logic. It sheds light on the question of how the frames of social movements originating far away from an organizational population become encoded into the population's institutional logic. The Progressive movement was an initiator movement (McAdam 1995) that had myriad ripple effects as it diffused across social domains and generated spin-off movements

How did the Progressive movement generate a spin-off movement in the thrift industry? Progressives pushed for the passage of regulations that authorized the bureaucratization of thrift. But authorization – socio-political legitimacy – was insufficient. Although these laws were in place by 1913, the Dayton/guarantee-stock form did not proliferate until several years later. Before the new organizational form could proliferate, Progressive ideals had to be made cognitively available to executives in the thrift industry and translated to that particular context; in other words, constitutive legitimacy was required. The new media – Progressive newspapers – created a shared symbolic environment and boosted the constitutive legitimacy of impartial bureaucracy in the minds of thrift

organizers. More important for constitutive legitimation was the spread of a naturalizing analogy, the impartial and bureaucratic city-manager form of municipal government, which served as a prototype that thrift organizers could adapt to their own industry. When and where cities were being recast as bureaucracies, it became "natural" for thrifts to be redefined in the same way.

Our detailed mapping of the legitimation of Progressive ideals in California showed that socio-political legitimacy preceded constitutive legitimacy. We speculate that such a sequence is likely when new logics of organizing contravene existing logics. Authorization makes a way of organizing permissible, but actors may still feel constrained by old logics until mass media and naturalizing analogies dismantle their cognitive constraints.

Contributions to organizational ecology. Organizational ecologists seek to study organizational forms as social codes – identities that involve both recognition and imperative understanding (Carroll and Swaminathan, 2000; Hannan, Pólos, and Carroll, 2004). Our analysis shows that a social movement far removed from an organizational population may supply interpretive schemas – ways of understanding and judging organizations. Specifically, our analysis shows that "market" forms of organization can be the outcomes of political culture, rather than efficiency pressures. When the first thrifts were founded, highly personal and community-oriented values caused the mutual plan to prevail. But in the 1920s, as the Progressive ethos of bureaucracy became dominant, foundings of Dayton/guarantee-stock thrifts rose, as did conversions of other kinds of thrifts to the Dayton/guarantee-stock plan. The Dayton/guarantee stock plan thrived because it resonated with Progressive values that celebrated impersonal connections brokered by bureaucratic structures. Financial intermediation in the Dayton/guarantee-stock plan was a transparent bureaucracy (in the Weberian sense of the word, not the pejorative modern connotation). Individuals rather than groups were the building blocks of Dayton/guarantee-stock thrifts, entry and exit were easy for savers and borrowers alike, the roles and responsibilities of all members were set up to appeal to their shared goal of improving their economic position, and minimal communal obligations were exacted from members. Thus our findings echo Polanyi's (1944) famous dictum that markets are social and ideological constructions.

Our analysis of the rise of bureaucratic forms of organizing in the thrift industry suggests that ecologists should attend to codification as well as to codes – to processes of organizational-form change and inertia as well as to the content of organizational forms. Some of the most interesting and important processes are those that convert interpretive schemas into imperative codes (Hannan, Pólos, and Carroll, 2004:5). Our study shows that laws can be enacted to authorize new forms of organization – new social codes – but those new forms thrive only when they are integrated into the prevailing cultural order by the media and by naturalizing analogies. Our study also shows that considerable cultural work is needed to turn interpretations into imperatives, to revalorize social codes. Thrift organizers had to reconceptualize thrift as efficiency and justify bureaucracy on the grounds that it would improve investor confidence. This work of translation, compilation, and codification was crucial for the bureaucratization of thrift.

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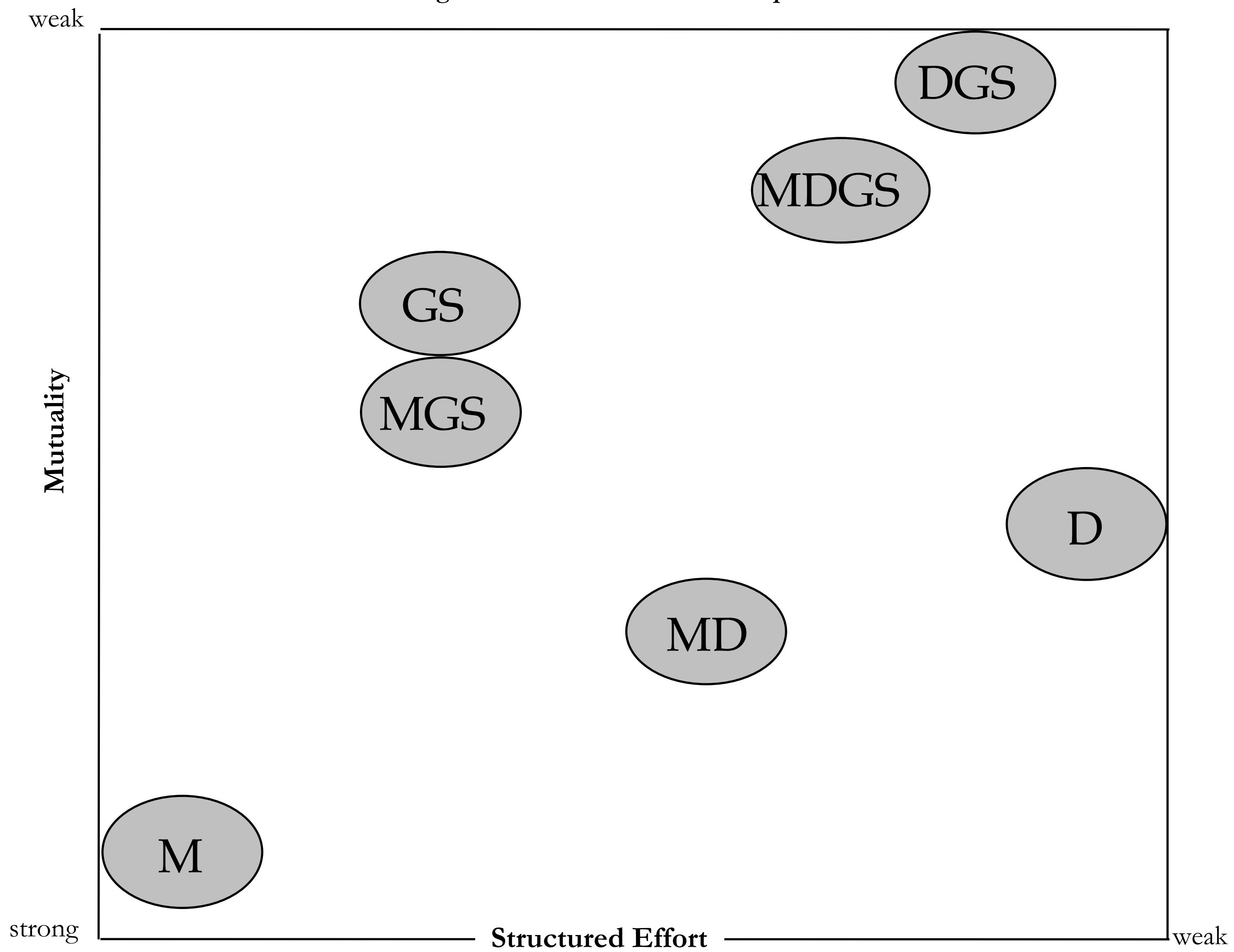
Table 1: Early Thrift Organizational Forms

Organizational-Form Properties	Relates to Mutuality (M) &/or Structured Effort (SE)	Mutual (M)	Dayton (D)	Guarantee Stock (GS)	Mutual-Dayton (MD)	Mutual-Guarantee Stock (MGS)	Mutual-Dayton-Guarantee Stock (MDGS)	Dayton-Guarantee Stock (DGS)
1. All savers had ownership stakes	M	●	●	○	●	○	○	○
2. Membership (entry) fees	SE	●	○	○	○	○	○	○
3. Installment-share subscriptions: pay fixed amounts at fixed intervals	SE	●	○	●	●	●	●	●
4. Fines for late payment of installment shares	M & SE	●	○	●	●	●	○	○
5. Fees for early withdrawal of installment shares	SE	●	○	●	●	●	●	○
6. Optional-payment share subscriptions: pay variable amounts at variable intervals (*)	M & SE	●	○	●	○	●	○	○
7. Paid-up share subscriptions or investment certificates: pay full amount at start (*)	M & SE	●	○	○	○	○	○	○
8. Guarantee stock: non-withdrawable, used to guarantee loans and interest on savings accounts (*)	M	●	●	○	●	○	○	○
9. Loans had fixed contractual periods (borrowers could not pay off loans early)	SE	●	○	●	○	●	○	○
10. Borrowers secured their loans by pledging shares with a par value equal to their loan amounts (mutual-plan loans)	M	●	●	○	●	●	●	○
11. Borrowers could use other assets than shares to secure loans (definite-contract loans) (*)	M	●	●	○	●	○	○	○
Number of properties that relate to mutuality		**7**	**4**	**2**	**5**	**3**	**1**	**0**
Number of properties that relate to structured effort		**7**	**0**	**5**	**3**	**5**	**2**	**1**

Notes: The mutual plan includes the terminating, serial, and permanent variants. For most properties, a value of 1 in a cell indicates presence; a value of 0 indicates absence. Four properties that are reverse-coded (1=absence, 0=presence) are marked with an asterisk (*).

Sources: Wright (1852), Wrigley (1873), Dexter (1889: 70-112), Thompson (1892), Rosenthal (1920), Myers (1921), Clark and Chase (1925: 32-78), Riegel and Doubman (1927), Bodfish (1931: 32-231, 317-327), Donley (1937), Kendall (1965), Teck (1968), Rasmusen (1981).

Figure 1: Thrift Plans in Social Space



Legend: **M** mutual plan, **D** Dayton plan, **GS** guarantee-stock plan, **MD** mutual/Dayton hybrid, **MGS** mutual/guarantee-stock hybrid, **MDGS** mutual/Dayton/guarantee-stock hybrid, **DGS** Dayton/guarantee-stock hybrid.

Figure 2: Number of California Thrifts, by Form, 1891-1928

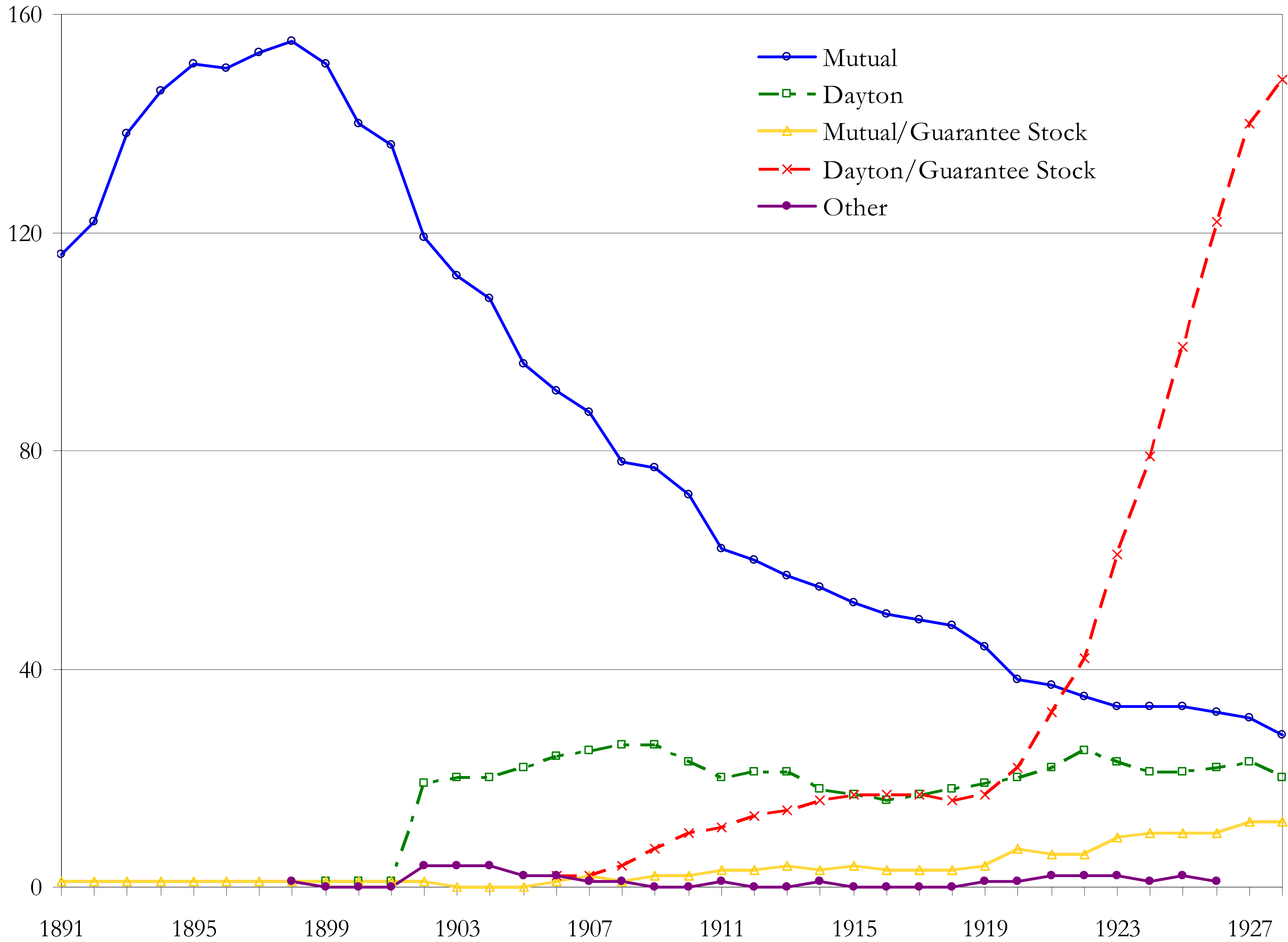


Table 2: Descriptive Statistics for the Analysis of Dayton/Guarantee-Stock Thrift Foundings

Variable	Mean	Std. Dev.	Min.	Max.
California migration (scaled by population)	3.76	0.75	2.65	5.48
County bank mass (constant dollars, $millions)	0.54	1.66	0	11.4
Dayton/guarantee-stock thrift density – focal county	2.86	10.7	0	72
Other thrift density – focal county	1.70	3.63	0	46
Dayton/guarantee-stock thrift density – other counties	41.0	44.0	0	148
Other thrift density – other counties	75.8	17.1	48	118
State policy indicator (=1 1918 to 1928, inclusive)	0	1	0.52	0.50
State policy index (steps)	0	5	3.45	1.88
Number of Progressive newspapers in the county	0.26	0.65	0	6
Percentage of newspapers in the county that were Progressive	1.43	4.77	0	50
Indicator for city-manager government	0.19	0.39	0	1
Indicator for city-manager or commission government	.033	.047	0	1

Notes: These statistics are based on 1,484 observations on all 58 counties in California between 1906 and 1928, inclusive.

Table 3: Descriptive Statistics for the Analysis of Conversion to the Dayton/Guarantee-Stock Plan

Variable	Mean	Std. Dev.	Min.	Max.
Log[thrift age]	3.03	0.61	0	3.99
Log[thrift size] (constant dollars)	7.48	1.37	0	11.6
California migration (scaled by population)	3.71	0.69	2.65	5.48
County bank mass (constant dollars, $millions)	1.75	2.39	0	11.4
Ratio of Dayton/guarantee-stock density and own-form density	0.89	3.88	0	68
State policy indicator (=1 1918 to 1928, inclusive)	0.36	0.58	0	1
State policy index (steps)	2.66	2.04	0	5
Number of Progressive newspapers in the county	0.46	0.93	0	6
Percentage of newspapers in the county that were Progressive	1.13	3.24	0	33.3
Indicator for city-manager government	0.22	0.41	0	1
Indicator for city-manager or commission government	0.39	0.49	0	1

Notes: These statistics are based on 1,866 annual observations on all 145 thrifts that did not have the Dayton/guarantee-stock form in California between 1906 and 1928, inclusive.

Table 4: Event-History Analysis of Foundings of Dayton/Guarantee-Stock Thrifts

Model	1	2	3	4	5	6	7	8
California migration (scaled by population)	1.01*** (.189)	.570*** (.174)	.689*** (.185)	1.05*** (.201)	1.00*** (.188)	.850*** (.200)	.958*** (.204)	.548** (.190)
County bank mass (constant dollars, $millions)	.228° (.118)	.217° (.113)	.209° (.115)	.147 (.155)	.229° (.120)	.372*** (.098)	.419*** (.123)	.287* (.130)
Dayton/guarantee-stock thrift density – focal county	.052*** (.015)	.049*** (.015)	.052*** (.015)	.060*** (.018)	.051*** (.016)	.021 (.014)	.021 (.017)	.026 (.017)
Other thrift density – focal county	.033 (.044)	.083* (.041)	.147* (.065)	.043 (.050)	.030 (.045)	.034 (.028)	.050° (.027)	.081* (.035)
Dayton/guarantee-stock thrift density – other counties	.005 (.008)	.0003 (.008)	.003 (.008)	.007 (.009)	.005 (.009)	.004 (.006)	.007 (.006)	.002 (.006)
Other thrift density – other counties	-.018* (.008)	.031* (.014)	.093* (.047)	-.011 (.010)	-.020* (.009)	.005 (.012)	.008 (.012)	.047** (.017)
State policy indicator (=1 1918 to 1928, inclusive)		2.86*** (.707)						2.24** (.720)
State policy index (steps)			1.17* (.485)					
Number of Progressive newspapers in the county				.260 (.162)				.208 (.157)
Percentage of newspapers in the county that were Progressive					-.025 (.038)			
Indicator for city-manager government						2.29*** (.544)		2.16*** (.530)
Indicator for city-manager or commission government							2.56** (.803)	
Log[pseudo-likelihood]	-839.6	-831.9	-832.7	-837.8	-838.0	-791.8	-789.9	-786.8
Degrees of freedom	6	7	7	7	7	7	7	9

Notes: This table is based on analysis of 1,484 observations on all 58 counties in California between 1906 and 1928, inclusive. In that time, 150 Dayton/guarantee-stock thrifts were founded. Robust standard errors, clustered on county, are in parentheses below parameter estimates. ° indicates p<.10, * p<.05, ** p<.01, *** p<.001, two-tailed t tests.

Table 5: Event-History Analysis of Conversions by Thrifts to the Dayton/Guarantee-Stock Plan

Model	1	2	3	4	5	6	7	8
Constant	-5.88	-13.3***	-15.0***	-10.8	-7.64	-14.0***	-16.9***	-14.0***
	(7.41)	(4.16)	(2.75)	(10.9)	(8.38)	(3.91)	(2.35)	(3.17)
Log[thrift age]	1.52^{o}	1.44***	1.42***	1.53	1.54*	1.52***	1.64***	1.34***
	(.925)	(.391)	(.304)	(1.01)	(.924)	(.426)	(.352)	(.299)
Log[thrift size] (constant dollars)	.683**	.588***	.521**	.503*	.700**	.483***	.385*	.470**
	(.225)	(.192)	(.184)	(.219)	(.231)	(.144)	(.154)	(.158)
California migration (scaled by population)	-3.38***	-1.35	-.885°	-1.78	-3.01*	-1.05	-.514	-.877
	(.998)	(.841)	(.467)	(2.18)	(1.28)	(.774)	(.426)	(.547)
County bank mass (constant dollars, $millions)	.083	.065	.073	.051	.101	.133	.291°	.019
	(.135)	(.082)	(.069)	(.131)	(.139)	(.148)	(.171)	(.108)
Ratio of Dayton/guarantee-stock density and own-form density	.080**	.019	.006	.071*	.079**	.001	-.030	.003
	(.029)	(.025)	(.024)	(.036)	(.028)	(.028)	(.038)	(.027)
State policy indicator (=1 1918 to 1928, inclusive)		3.77***						2.44***
		(.868)						(.587)
State policy index (steps)			.949***					
			(.096)					
Number of Progressive newspapers in the county				.886*				.786***
				(.358)				(.189)
Percentage of newspapers in the county that were Progressive					.143°			
					(.087)			
Indicator for city-manager government						4.42***		1.69*
						(.786)		(.807)
Indicator for city-manager or commission government							5.72***	
							(.649)	
Log[pseudo-likelihood]	-29.4	-15.0	-1.33	-19.8	-28.1	-12.2	8.77	-2.72
Degrees of freedom	6	7	7	7	7	7	7	9

Notes: This table is based on analysis of 1,822 observations of all 145 thrifts in California between 1906 and 1928 that did not have the Dayton/guarantee-stock form. Collectively, these thrifts underwent 51 conversions, 21 of them to the Dayton/guarantee-stock form. Robust standard errors, clustered on each thrift, are in parentheses below parameter estimates. ^{o} indicates $p<.10$, * $p<.05$, ** $p<.01$, *** $p<.001$, two-tailed t tests.

Appendix 1: Detailed Descriptions of Thrift Plans

The earliest thrifts were organized on the mutual plan. In these associations, people met at regular intervals to contribute savings to a common pool and borrow to build or buy houses. Three variants of this plan – terminating, serial, and permanent – existed at different points in time. The terminating variant was, as its name implies, a self-liquidating organizational form; it was dissolved when all members had built or bought houses (Dexter, 1889:9-15; Bodfish, 1931:2-3). Members borrowed in turn, paying interest on their loans and installments on their shares. Precedence in borrowing was established by competitive bidding; the winning bid included a premium. The borrowing member executed a mortgage in favor of the association. The association's earnings consisted of loan premia, interest paid by borrowers, fines charged for delinquency in dues or loan payments, and fees levied for entry and early exit. Earnings were divided among members in proportion to their investments. When the contributions for each share accumulated to the par value, the association was terminated, mortgages were cancelled, and assets were divided among its members in proportion to the number of shares they owned. Shares were invested over the full life of the association; members wishing to withdraw all or part of their shares early had to give advance notice and pay stiff penalties. Although the earliest California thrifts (founded in 1872) were terminating associations, only two remained by 1890.

Once a terminating association was disbanded, all the goodwill, knowledge, and other resources that had it built up evaporated. To overcome that loss, the serial variant was developed in Rochester, New York, in 1874 (Dexter, 1889:43) and introduced to California soon after (Bodfish, 1931:325-326). In this plan, the shares of cohorts of members were liquidated rather than the association itself. New series of shares were issued to new cohorts of members at intervals. Accounting for each series was separated in the association's books. Thus, the serial variant constituted a series of terminating associations organized under a single professional management (Bodfish, 1931:87). This variant of the mutual plan quickly became popular; by 1890, it constituted 91% of California thrifts.

Finally, the permanent variant differed from the serial in that individual installment-share accounts were opened and closed instead of cohorts of accounts. Each member's shares started and matured without reference to other members' shares. This innovation, which ensured a less lumpy flow of funds, freed members from having to queue up for loans. This variant of the mutual plan was developed in Rochester, New York, in 1882 (Dexter, 1889:55,75). It never became popular in California: there were never more than ten permanent thrifts operating.

Despite their differences, all mutual-plan thrifts – terminating, serial, and permanent – had important commonalties. Their very names – they were labeled "associations" or "societies" rather than "companies" – signaled mutuality. Mutual-plan thrifts flourished as "a way to borrow rather than a way to lend, overcoming the problems of moral hazard and adverse selection by pooling the resources of acquaintances" (Rasmusen, 1988:415). One early commentator described their essentially co-operative nature this way: "The members save money together. They lend money to each other. They

divide the profits with each other. They work together to help each other (Rosenthal, 1920:10)." Mutual-plan thrifts relied on process-based trust (Zucker, 1986); *i.e.*, on the common background expectations of members to define, consensually and automatically, the standards of reciprocity. Structural constraints were strong: members paid regular weekly or monthly contributions to the common fund; there were membership and early-withdrawal fees; loans were secured by shares whose par value equaled the face value of the loan, so all borrowers were also savers; and delinquency in payment of dues and interest was punished by fines and, in extreme cases, by forfeiture of membership.

The Dayton plan, which originated in Dayton, Ohio in 1873 (Clark and Chase, 1925:44), broke from the mutual plan in four respects. First, it replaced traditional installment-share accounts with two new types of accounts: optional-payment shares, into which members paid dues at times that were convenient time to them in amounts that were convenient to them, and paid-up shares, into which the full par value was paid at inception. These new kinds of accounts obviated fines and forfeitures for late payment. Second, the Dayton plan invoked neither penalties for withdrawal before an agreed-upon term nor limits to the amount that might be withdrawn; instead, members' shares were withdrawable at any time for the full amount of dues paid in and dividends credited. Third, bids and premia for allocating loans were abolished; instead, management set a fixed interest rate and processed loans in order of application. Fourth and finally, borrowers could pay more than the minimum and so retire their loans earlier than the contracted term.

By eliminating the rigid rules governing saving that were central to the mutual plan, the Dayton plan accommodated people with irregular incomes (Clark and Chase, 1925:45; Donley, 1937:40). Because it imposed far less structure on its members than the mutual plan did, the Dayton plan embodied a radically new, voluntaristic code of individual effort; it was premised on impersonal, bureaucratic, institution-based trust rather than personal, process-based trust (Zucker, 1986; Shapiro, 1987). But in increasing flexibility, the Dayton plan also reduced mutuality. The existence of two types of accounts created a division between investors – between holders of optional-payment and paid-up shares. Rosenthal (1920:94) reported that "no feature of the [Dayton] plan has been more severely criticized … than the feature which permits these associations to issue certificates of paid-up stock." Criticism arose because the Dayton plan accommodated wealthy individuals who had large sums of money to invest all at once, in sharp contrast to the individuals of modest means and limited incomes who could accumulate investments only slowly over time and who, up to this point, were typical thrift members. In sum, its innovations made the Dayton plan far less concerned with structured effort and enforced saving than the original mutual plan. They also made the Dayton plan somewhat less mutualistic than the original mutual plan; however, thrifts organized under this plan were still co-operative collectives in which all members were owners. This plan had modest success in California; at its peak, in 1909, there were 26 Dayton-plan thrifts operating.

The guarantee-stock plan replaced installment shares with non-withdrawable stock paid in by the association's founders. Guarantee stock (also called permanent-capital, contingent-reserve and

reserve-fund stock) was used as security for the association's loans; it was "subject to all the conditions and liabilities attaching to the paid in capital stock of other classes of corporation … [and was to] protect and guarantee all other stockholders and creditors against any loss and when once paid must be kept unimpaired" (California, 1907; see also Myers, 1921; Rosenthal, 1920:121). Guarantee stock was similar to the capital of a bank or any other joint-stock corporation: guarantee stockholders owned both a thrift's assets and its liabilities. Even more than the Dayton plan, the guarantee-stock plan depended on institution-based trust (Zucker, 1986; Shapiro, 1987); here, the formal manifestations of trust involved the form's legal structure (joint-stock corporation) and its contingent-reserve fund.

Guarantee-stock thrifts first appeared around 1890 in California, Kansas, Ohio, and Oregon (Bodfish, 1931:116,320; Clark and Chase, 1925:44). They offered two forms of savings account, installment shares and investment certificates (Donley, 1937:48). Installment-share accounts were similar to installment stock in mutual-plan thrifts; however, installment shares in guarantee-plan thrifts were liabilities, not equity, and paid interest, not dividends. Investment certificates were similar to modern certificates of deposit in that the entire amount was paid up at the start; they had fixed rates of return and dates of maturity.

This plan created a division between owners (guarantee stockholders) and depositors (holders of installment accounts and investment certificates) and so created the potential for conflict between different classes of stakeholders (Teck, 1968). Because excess earnings after the payment of contracted liabilities accrued to guarantee stockholders, in good times guarantee stockholders could anticipate higher earnings than investment certificate-holders or installment shareholders; however, in bad times, guarantee stockholders could lose their investments.

The destruction of mutuality caused by the introduction of guarantee stock was noted, disapprovingly, by several commentators. For example, one analyst complained that "all semblance of mutuality in the treatment of the public was abandoned in the guarantee capital stock concerns" (Donley, 1937:83) and that guarantee-stockholders "sought profit for themselves and not for the mutual benefit of the borrowing or investing public" (Donley, 1937:85). This plan also created a division between savers and borrowers. Loans under this plan were definite-contract loans that did not have to be secured by ownership shares or investment certificates. Thus loans in the guarantee-stock plan differed in fundamental ways from loans in the mutual and Dayton plans; most notably, definite-contract loans were far riskier than mutual-plan loans since the lender did not control the security (Donley, 1937:44-46,175-224). In sum, then, the guarantee-stock plan was far less mutualistic than the original mutual plan, as well as being somewhat less concerned about structured effort. Perhaps because of its assault on mutuality, the guarantee-stock plan never took off in California.

The four hybrid plans were recombinations of two or all three basic plans. Some arose through planned change to meet idiosyncratic local needs; others were created by errors in replication that could not be rectified by reorganizing along more orthodox lines after operations had begun (Clark and Chase, 1925:33). The mutual/guarantee-stock hybrid incorporated most properties of the mutual plan:

it allowed individual installment-share equity accounts, enforced saving by penalizing late installment-dues payments and early withdrawal of installment shares, and allowed borrowers to pledge their installment shares as security for their loans. It also incorporated properties of the basic guarantee-stock plan: the non-withdrawable capital stock paid in by the founding officers at start-up was used to insure ordinary installment stock. Thus in this hybrid, there were two classes of equity: guarantee and installment stock (Donley, 1937:50). Additionally, as in the pure guarantee-stock plan, there was one kind of savings account: the investment certificate. This plan first appeared in 1899 (Clark and Chase, 1925:43); in California, this plan achieved some success, mostly after 1920.

The mutual/Dayton hybrid took three properties from the mutual plan: installment shares, fees for early withdrawal of installment shares, and fines for late payment of installment shares. This hybrid took all other aspects of financial administration from the Dayton plan, in particular the existence of optional-payment and paid-up shares. In contrast, the mutual/Dayton/guarantee-stock hybrid took from the mutual plan installment stock and fees for early withdrawal of installment shares; from the Dayton plan, the properties that supported voluntary saving; and from the guarantee-stock plan, the contingent-reserve fund. These hybrids first appeared in California in 1904 and 1915, respectively, but neither was very popular.

The plan that came to dominate the California thrift industry by the end of our study period, the Dayton/guarantee-stock hybrid, embodied the ideals of bureaucracy and voluntary saving. For both savers and borrowers, this plan was a concrete expression of the idea that prudence and virtue did not require forced clock-like regularity, but could be achieved through voluntary and occasional saving. This plan created sharp distinctions among owners, savers, and borrowers. A sharp distinction existed between savers and borrowers because all loans under this plan were definite-contract rather than mutual-plan loans. This plan further distinguished between ordinary and guarantee stockholders. By the end of our observation period, this plan dominated the California thrift industry by the end of our observation period, with 71% of thrifts operating in 1928 having this plan. California was early to accept the Dayton/guarantee-stock plan; not until the 1930s did it dominate the thrift industry nation-wide.

Appendix 2: The Elaboration of the Policy Regime Concerning California Thrifts

Year	Details	Data Source
1872	The laws of California are codified. Ten sections of the Civil Code are devoted to "land and building corporations," and set out procedures for incorporating thrifts.	CCC 1872, Title XVI Donley:24
1888-1890	A sharp increase in thrift foundings and density (56 in 1888, 130 in 1890; 94/130 incorporated 1887-1890), combined with the threat of an invasion by agents of nationals, creates demand for more adequate legislation to govern thrift operations. The California Building-Loan League is formed to combat entry of the nationals. It agitates for reformed legislation. The Commissioner of the Bureau of Labor Statistics also urges tighter supervision of thrifts.	RBBC 1891:96 RBLS 1888:293 Bodfish:317-319 Donley:25
1891	(March 31st) The first law focused on thrifts is passed. It repeals sections of 1872 Civil Code pertaining to thrifts. It grandfathers in thrifts established earlier. It covers entrance fees; amounts of fines and forfeitures of shares for delinquent dues payments, fees, or interest; interest on advance payment of loans; maturing and retiring shares; allocating capital for loans (loans only to members; bidding premia and interest rates); collateral requirements (real estate loans required members to pledge shares with withdrawal value equal to mortgage value; loans could exceed appraised value of property); procedures for collecting on delinquent loans (including foreclosure procedures); borrowing funds from banks to make loans to members; and apportioning profits and losses. However, this law contains no provisions for effective supervision or enforcement by the Board of Bank Commissioners. Instead, thrifts are merely required to report annual officer lists and summary financial data.	RB&LA 1891:5-10 RB&LA 1892 RBBC 1892:4 S&ACC 1891, Ch. 174 Donley:26-28,30-35
1893	**The Board of Commissioners of Building and Loan is established** with two members. It is granted substantial powers of supervision, examination, and license. Annual license fees are imposed on thrifts to pay the costs of state supervision. The law also stipulates that withdrawals from thrifts require a 30-day written notice and that not more than one-half of any month's receipts can be applied to withdrawals that month.	S&ACC 1893, Ch. 188 RCB&L 1895 Bodfish:130 Donley:26-27,32-33
1901	Definite-contract loans are accommodated by an amendment requiring the pledge of only one installment share as security.	S&ACC 1901, Ch. 104 Donley:45-46
1905	The Commissioner is given authority to take over a thrift for violating its charter or its by-laws, for insolvency, or for conducting its business in an unsafe manner. The exercise of this power was limited by the fact that if the Commissioner took over a thrift, he could not appoint a temporary custodian. Instead, he would have to liquidate it, which was a drastic and undesirable remedy that was almost never used.	S&ACC 1905, Ch. 504 Donley:107
1907	**All thrifts, mutual or joint-stock, are required to create contingent-reserve funds (guarantee stock) equal to 5% of their shares**. Higher rates of return are allowed on contingent-reserve funds (guarantee stock). Paid-up shares, investment certificates, and optional-payment shares are first officially allowed, although they were used before this date. Thrifts are also allowed to make loans to non-members; there is no need to pledge even one share as collateral.	RBCB&L 1907 S&ACC1907, Ch. 502 Donley:41-43,46-49

Note: Dates in bold-face type indicate substantial changes in the public-policy regime regarding thrift.

Legend: Acronyms used to denote primary data sources:

CCC	Civil Code of California	RB&LA	Report of the Building and Loan Associations by the Board of Bank Commissioners
RBBC	Report of the Board of Bank Commissioner	RBLS	Report of the Bureau of Labor Statistics of the State of California
RCB&L	Report of the Commissioner of Building and Loan	S&ACC	Statutes and Amendments of the Code of California

Appendix 2: The Elaboration of the Policy Regime Concerning California Thrifts

Year	Details	Data Source
1911	A single Commissioner replaces the two-person board. The Commissioner is appointed by the governor at his pleasure, rather than appointed to a definite four-year term. This office therefore comes to be a tool of the governor (Hiram Johnson, a Progressive).	S&ACC 1911, Ch. 354 Donley: 51
1912	**The Building and Loan Commission Act greatly increases funding for the Commissioner**, forms a bureau, appoints a deputy commissioner and secretary, and expands the guidelines governing thrift operations. The Commissioner is given the power to takeover unsafe, insolvent, and poorly managed associations subject to court approval, to inventory assets, and to organize the liquidation. **This Act includes a special provision for guarantee stock**: the Commissioner is given the authority to enforce liabilities. Finally, the Commissioner is given the power to require thrift officers to attest to the schedule of property they report.	RCB&L 1912
1913	**Paid-up and optional-payment shares** are clearly defined and differentiated from installment shares and contingent-reserve capital. Returns on optional-payment shares are limited to between 75% and 90% of the rate of return on installment shares (so as to discourage "casual" savings plans and encourage enforced regularity in saving). Paid-up shares (investment certificates) are allowed full returns. **Contingent-reserve fund requirements** are made a function of total investment certificate liabilities: 10% for liabilities below $1 million, 7.5% for liabilities between $1 million and $2 million; 5% for liabilities over $2 million.	S&ACC 1913, Ch. 294 & 296 Donley: 51-53
1914	Mortgage loans are limited to 75% of the property value. However, no provision is made for enforcement of this law. For instance, no state appraiser is appointed until 1928. Thus this is merely a standard for sound practice, not a serious requirement.	Donley: 53
1915	**The Commissioner is empowered to license agents**: those who sell stock, shares or other certificates of thrifts. The Commissioner is authorized to levy fines of up to $1,000 and jail sentences of up to 12 months for agents of associations that did not comply with state requirements. The Commissioner (or at the Commissioner's discretion, a thrift's board of directors) could take possession and liquidate any failing association (one with "badly frozen assets," to quote Donley: 53). Thus **the Commissioner determined whether a failing thrift would continue to operate**, not the thrift's board of directors. Refusal to comply with the Commissioner's demands is made a misdemeanor, punishable with a $500 fine and/or 90-day imprisonment by the local sheriff).	S&ACC 1915, Ch. 134 Calif. 1915 Gen Laws RCB&L 1915 Donley: 53-54 RCB&L 1924
1917	**Thrifts are required to set interest rates on loans in advance. Another deputy is authorized**, which increases the Commissioner's ability to supervise thrifts. **Licensing rules for agents are strengthened:** no employee other than an officer, director, employee, or agent with more than one year of service in a thrift can sell shares or certificates without a license from the commissioner. Finally, a fund is created to defray the Commissioner's inspection expenses.	RCB&L 1917, 1923
1921	The Commissioner is authorized to examine thrift officials under oath, conduct audits, and appoint special auditors. The Commissioner and his deputies are authorized to execute bonds of up to $5,000.	RCB&L 1923
1925	The Commission examiners are instructed to personally inspect a set of randomly-selected mortgaged properties in each thrift they visit. Misleading advertising is penalized. The licensing of new associations is made contingent on employee fitness certificates.	Donley: 94 RCB&L 1926
1928	A property appraiser is hired onto the Commissioner's staff.	Donley: 93-94

Note: Dates in bold-face type indicate substantial changes in the public-policy regime regarding thrift.

Legend: Acronyms used to denote primary data sources:

CCC	Civil Code of California	RB&LA	Report of the Building and Loan Associations by the Board of Bank Commissioners
RBBC	Report of the Board of Bank Commissioner	RBLS	Report of the Bureau of Labor Statistics of the State of California
RCB&L	Report of the Commissioner of Building and Loan	S&ACC	Statutes and Amendments of the Code of California