

Inflation, War Bond Ownership, and the Rise of Republicans in the 1950s

NBER SI: Development of the American Economy

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July 10, 2023

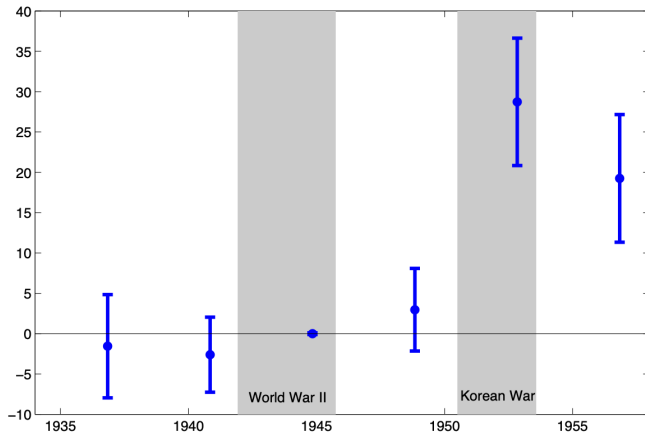
How do real asset losses due to inflation affect political preferences?

Setting: WWII bond drives, post-WWII inflation, and political outcomes in the 1950s

- Massive war bond drives successfully pushed Americans to invest in E bonds during WWII
- Inflation episodes 1946–48 and 1950–51 significantly eroded the purchasing power of these bonds
- Opinion polls indicate that inflation was voters' top concern in the 1952 presidential election; voters largely blamed the Democrats for inflation
- We show that counties with more WWII E bond purchases shifted towards Republicans by a larger margin in the 1950s presidential elections

Preview of results

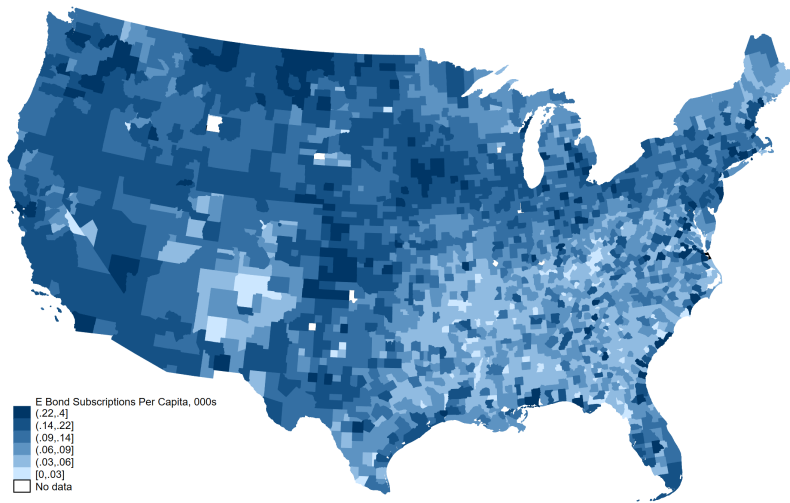
Effect of 1944 E Bond Subscriptions on the Republican Vote Share, Presidential Elections 1936–56



How did WWII E Bonds work?

- Highest annual return of any government bond during WWII
- Purchase restricted to individuals
- Widespread participation: > 85 million Americans subscribed (total US population was 138 million in 1944, including children)
- Two main sales mechanisms:
 - ① Payroll deduction programs
 - Employers could opt in, then employees at participating firms
 - Workers were encouraged to put 10% of their paychecks towards bond purchases
 - ② War bond drives
 - Organized locally

E Bond Subscriptions per Capita, 1944



Advertisements urged Americans to buy and keep bonds



Source: National Archives, WWII poster collection

Two major inflation episodes 1945–52

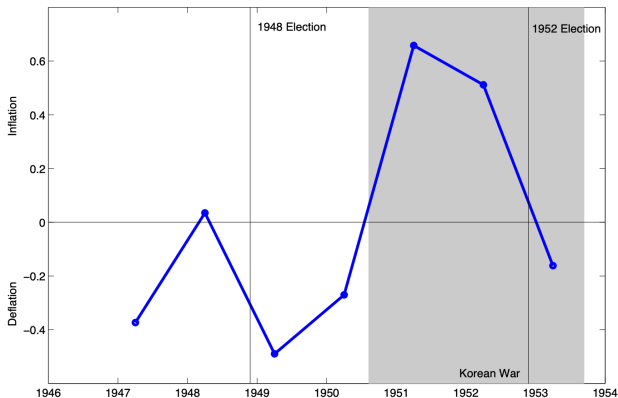
① 1946–48

- Widely anticipated
- After removal of wartime price controls, rationing
- *But* deflation widely expected to follow
 - Large deflation after WWI, deflation had been typical after inflationary episodes
 - Deflation did occur in 1949, but much smaller than expected

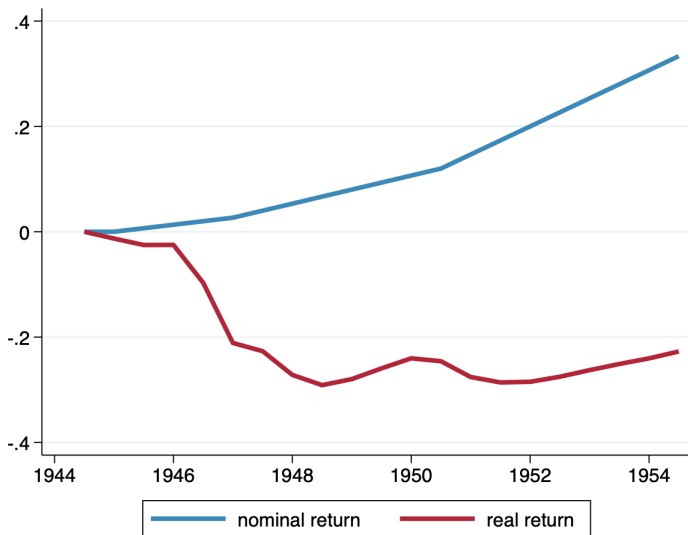
② 1950–51

- Unanticipated
- Driven by the outbreak of the Korean War in June 1950
- Dramatic shift in inflation expectations as it became clear that a big deflation would not occur

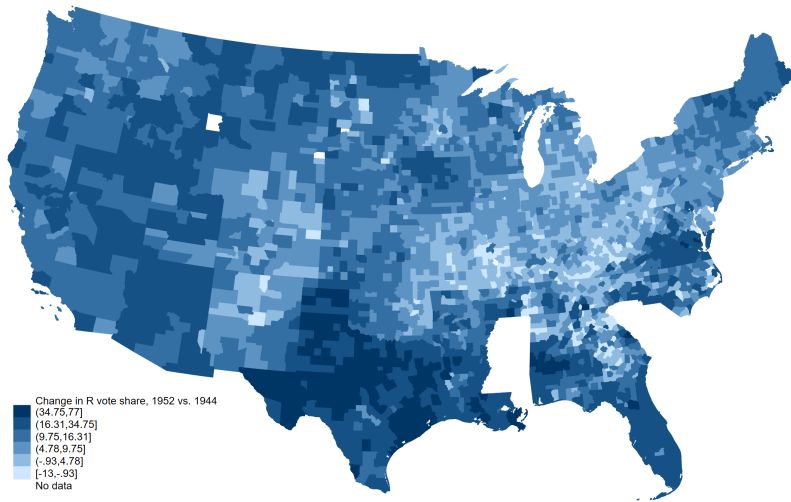
Margin by which SCF respondents expected inflation (+) or deflation (-)



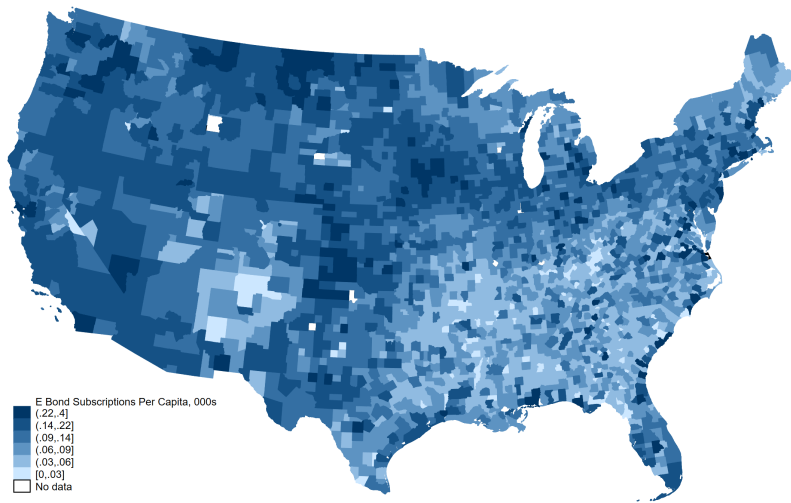
Cumulative return on June 1944 E bond purchase



Change in Republican vote share, 1952 vs. 1944



E Bond Subscriptions per Capita, 1944



Response of Republican vote share (OLS)

Presidential elections 1936–56

	(1)	(2)	(3)	(4)	(5)
Post-1944 X					
E Bonds per capita, 1944	16.145** (2.712)	18.204** (2.890)	16.345** (2.735)	18.389** (2.708)	18.671** (2.697)
Bank deposits per capita, 1944	3.245** (0.493)	3.226** (0.494)	2.477** (0.472)	2.132** (0.493)	2.495** (0.498)
War production per capita		-0.125* (0.060)	-0.343** (0.063)	-0.402** (0.063)	-0.443** (0.063)
Median wage income			0.004** (0.000)	0.004** (0.001)	0.002** (0.001)
Share incomes top coded			-1.519 (1.573)	-2.257 (1.571)	-1.130 (1.552)
% black				11.486** (1.049)	14.903** (1.122)
Adult population (000s)				-0.004** (0.001)	-0.002* (0.001)
% urban				0.013+ (0.007)	0.003 (0.007)
% agricultural workers					-13.228** (2.437)
% owner-occupied housing					7.676** (1.523)
Observations	17,932	17,932	17,920	17,914	17,914
R-squared	0.965	0.965	0.966	0.967	0.967

Robust standard errors clustered by county in parentheses.

All regressions include county FE and state X year FE.

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Response of Republican vote share (IV, WWI bonds)

Presidential elections 1936–56

	(1) OLS	(2) IV-2SLS	(3) IV-2SLS	(4) IV-2SLS
Post-1944 X				
E Bonds per capita, 1944	16.345** (2.735)	33.778* (14.944)	25.419+ (14.301)	29.443* (14.516)
Bank deposits per capita, 1944	2.477** (0.472)	0.456 (1.356)	0.261 (1.496)	0.386 (1.485)
War production per capita	-0.343** (0.063)	-0.419* (0.168)	-0.365* (0.167)	-0.439* (0.173)
Median wage income	0.004** (0.000)	0.004** (0.001)	0.003** (0.001)	0.001 (0.001)
Share incomes top coded	-1.519 (1.573)	-1.034 (1.784)	-2.121 (2.002)	-0.647 (2.090)
% black			8.686** (1.233)	11.766** (1.340)
% urban			0.024* (0.011)	0.016 (0.011)
% agricultural workers				-13.117** (3.192)
% owner-occupied housing				6.334** (1.783)
Observations	17,920	8,305	8,305	8,305
R-squared	0.966	0.862	0.867	0.868
Kleibergen-Paap F Statistic		16.96	17.33	16.84

Robust standard errors clustered by county in parentheses.

All regressions include county FE and state X year FE.

Columns (3) and (4) also include adult population, not shown due to space constraints

** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Robustness checks so far

- Use congressional elections in lieu of presidential
- Drop the South
- Drop the “far west”
- Drop the northeast
- Drop counties with smallest populations
- Longer/shorter panel

Please tell us what other robustness checks you'd like to see

Thank you for listening!