A Appendix A: Evidence for the Credibility of the Main Regression Specification
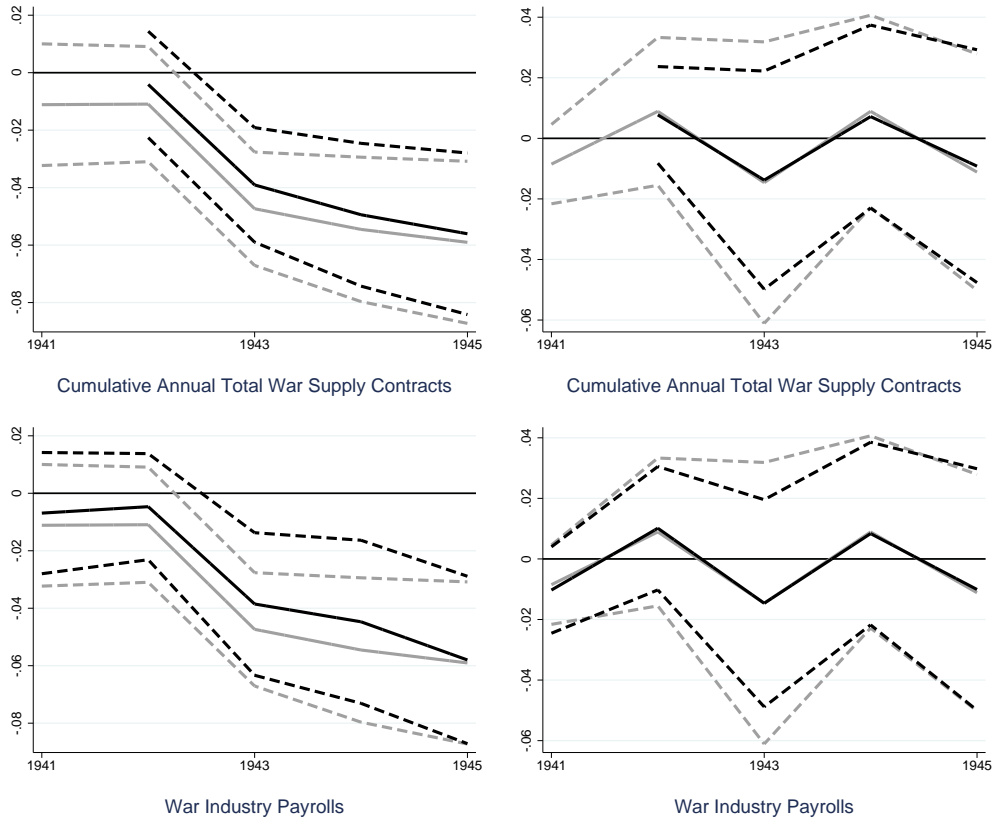
The purpose of this appendix is to address some potential issues with using a single WWII contract variable to establish an effect of war spending on bank balance sheets for the full 1940-1955 period.

Section A.1 expands on the discussion in the main text that argues that the single observation per state is a useful proxy for annual wartime spending. The main text shows comparisons of the effect of the single observation per state on total assets with the effect from war industry payrolls and disaggregated, annual estimates of contract spending. Section A.1 shows a similar comparison for the main components of bank balance sheets.

Section A2 offers evidence that the estimates are stable across subperiods. There are, obviously, two distinct periods: the war period (1940-1945) and the postwar period (1946-1955)and there are significant differences in the economc environments of the two subperiods. One particular concern is a potential Yule-Simpson effect, in which the estimates for the aggregated full period may be misrepresenting the response of balance sheets in both subperiods. It is important to establishing the credibility of the evolution of bank variables to contract spending for the full period (1940-1955) that there are no major difference between the full period and similar regression run on the two subperiods separately. I demonstrate below that estimates for the subperiods considered separately are very similar to estimates for the full period.

A.1 Comparisons of Annual wartime spending and Total Contract Spending.

Below are figures that show the results of comparing the effect of total contract spending variable to wartime payrolls and annual cumulative contract spending on deposits, total lending, Treasury holdings and reserves. These figures are comparable to Figure 2 in the main text.

Cumulative Annual Total War Supply Contracts

Cumulative Annual Total War Supply Contracts
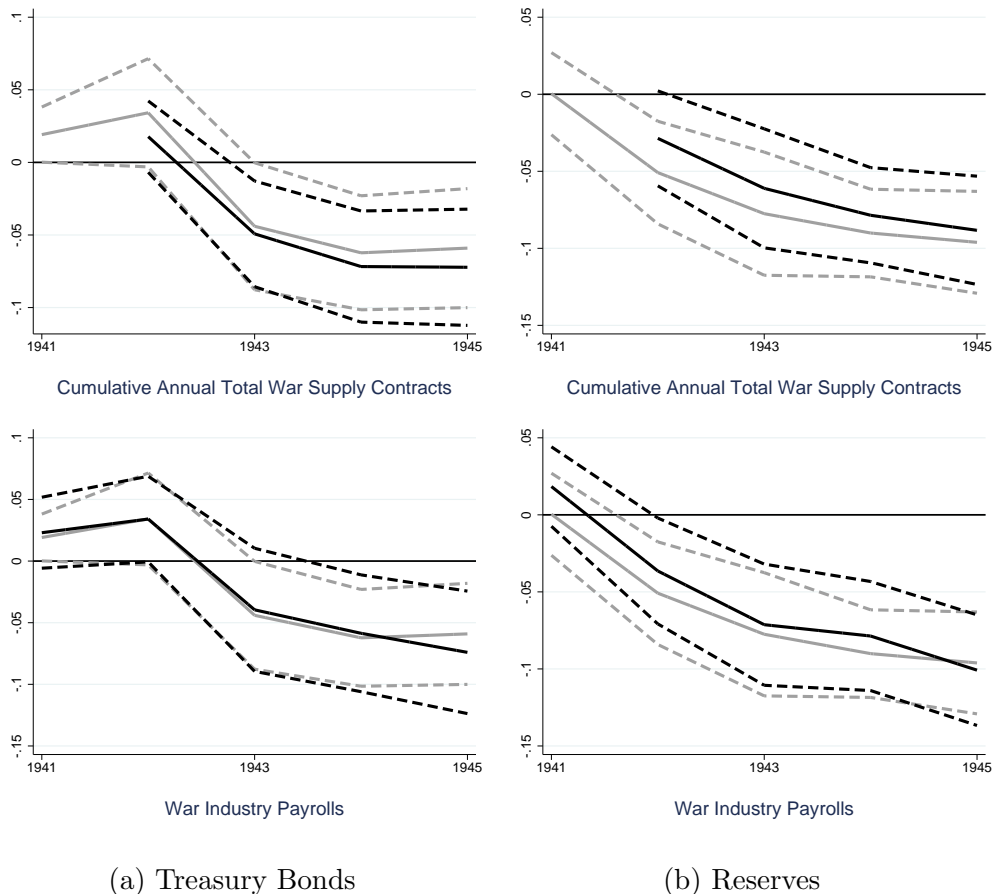
War Industry Payrolls

War Industry Payrolls

(a) Deposits

(b) Total Lending

Graphs show elasticity estimates. Gray Lines Represent Total Contract Spending. Dotted lines are 95% confidence intervals.

Figure 1: Comparison of Total Contract Spending and Measures of Annual War Spending

Graphs show elasticity estimates. Gray Lines Represent Total Contract Spending. Dotted lines are 95% confidence intervals.
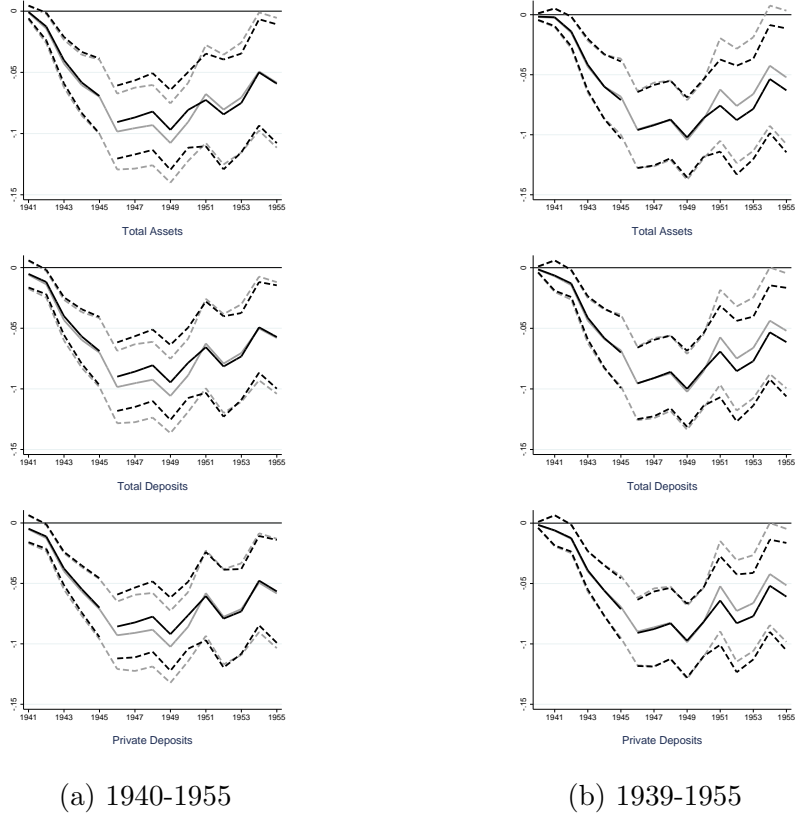
Figure 2: Comparison of Total Contract Spending and Measures of Annual War Spending

A.2 The Effect of War Spending on Wartime and Postwar Subsamples

In a nutshell, estimates of the effect of contract spending on banking variables for the 1940-1945 and 1946-1955 subsamples are essentially the same as those for the full sample. This should reassure the reader that the inclusion of wartime estimates is not causing problems for estimates of the postwar effect of contract spending and vice versa. The stability of results across subsamples, I believe, reinforces the idea that what is being captured by the regression specification can be thought of, crudely, as a a simple OLS results for each individual year, but with the added benefit controlling for unobservables. Further, given the consistency of the estimates across subperiods, potential misrepresentation of the effect of the war on both periods separately is not an issue. One possible exception is the response

of total lending. There is some difference in the estimate after 1950 for the full period and the postwar sub period. However, the effect on the interpretation of the results is minimal as for both periods the effect is statistically zero.

Figures 3 and 4 shows the effect of total war spending on the banking variables discussed in the main text for the wartime and postwar subperiods. Full period estimates have been overlapped onto estimates of the two subperiods. The subsample regression specifications are the same as the full period, with the exception that the Korean War variable is not included in the wartime estimates. Panel A of each figures starts the analysis in 1940 while panel B begins the period in 1939.Both subperiod estimates are relative to 1940 or 1939 respectively. As these figures show, estimates are not that different between the full samples and regression run for the wartime and postwar subsamples. This suggests that the postwar estimates are not distorted by the inclusion of wartime estimates and there is no trade off between including the additional information of the wartime evolution of deposits and potential bias in postwar estimates. The other thing these figures illustrate is that the analysis of the evolution of the response of bank variables to contract spending is unaffected if the analysis begins in 1939 as opposed to the 1940. This further reinforces the point made in the main text that for the most part WWII contract spendingcan be thought of as an exogenous shock to bank balance sheets and that issues of bias from historical factors are minimal.

| (a) 1940-1955 | (b) 1939-1955 |

Gray lines are full sample estimates. Black lines are individual subperiod estimates. Dotted lines are 95% confidence intervals.

Figure 3: Comparison of Contract Spending's Effect on Bank Assets for the Full Period and subperiods

Figures 4 show the response of Treasury holdings, reserve holdings and total loans. One thing that should be noted here is that in the case of total loans (Figure 3) splitting the sample does have an effect on long run estimates. However, while the estimates of the mean effect are clearly different, this has no material effect on my analysis since, like the full period results, the subsample results are not statistically significant after 1950. This difference in thefull sample and the postwar subsample is being driven by Nevada and North Dakota specifically. Dropping those two states brings the estimates for the postwar period in line with the estimates for the full period. However, these states were not dropped from the main analysis because, as already stated, the results remain statistically insignificant after 1951 anyway.
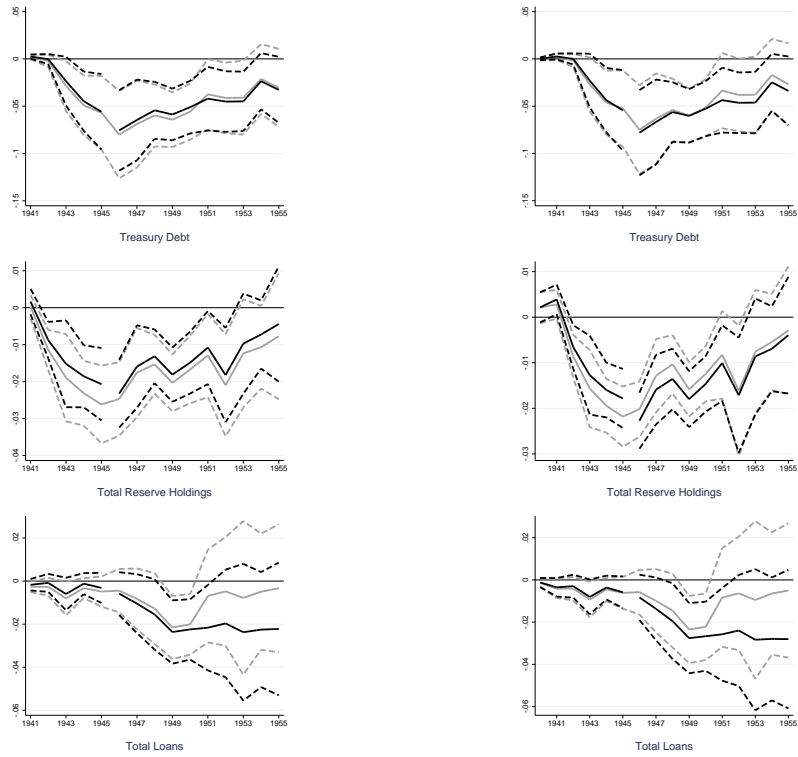
(a) 1940-1955   (b) 1939-1955

Gray lines are full sample estimates. Black lines are individual subperiod estimates. Dotted lines are 95% confidence intervals.

Figure 4: Comparison of Contract Spending's Effect on Bank Assets for the Full Period and subperiods