



## **BOOK REVIEW ROUNDTABLE:**

### **How Are America's Wars Financed?**

*Jan. 29, 2019*

#### Table of Contents

1. "Introduction: Funding the 'Forever Wars?'" by Stephen Tankel
2. "War Finance and the Avoidance of Responsibility," by Anthony Dworkin
3. "Democracy, War, and American Grand Strategy," by John M. Schuessler
4. "Feeding the Guns," by Frederico Bartels

## 1. Funding the “Forever Wars”?

*By Stephen Tankel*

In the wake of the Sept. 11 attacks, President George W. Bush urged Americans to go about their lives, to fly on airplanes, to travel, and to go to work.<sup>1</sup> The idea was that Americans should return to normalcy, rather than hunker down in fear. This drive for normalcy was extended to how Americans should pay for the U.S. military efforts in Afghanistan and Iraq — which is to say that they shouldn’t. While a small percentage of the country fought America’s wars, no Americans were asked to pay for them. The U.S. government actually cut taxes during the Bush administration, and financed the entirety of the wars in Afghanistan and Iraq by taking on more debt.

This is not simply a post-9/11 phenomenon. As Sarah Kreps explains in her book *Taxing Wars: The American Way of War Finance and the Decline of Democracy*, financing wars through borrowing has been the new normal since the end of World War II. As Kreps ably illustrates, however, this way of funding wars reached its peak in what she calls the “hide-and-seek” wars in Iraq and Afghanistan. Kreps’ ambition is not simply to detail this trend, but to explain how it came about. Why did U.S. leaders choose to finance these more recent wars through borrowing rather than taxes, and what explains shifting public attitudes toward how to pay for war?

Kreps focuses on democracies in general — since their leaders must answer to the electorate — and on the United States specifically.<sup>2</sup> She argues that democratic theorists are correct in their assessment that individuals are sensitive to war costs, but also that public attitudes toward wartime fiscal sacrifice vary depending on the type of war a country is fighting and on the relationship between state and society, specifically with regard to taxation’s role in the country’s social and political life.

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<sup>1</sup> “The President’s News Conference,” Government Publishing Office, Oct. 11, 2001, <https://www.govinfo.gov/content/pkg/WCPD-2001-10-15/html/WCPD-2001-10-15-Pg1454-2.htm>.

<sup>2</sup> Kreps considers cross-national survey evidence from the United Kingdom and France in the penultimate chapter.

When considering the types of war a democracy fights, Kreps distinguishes between limited and absolute wars. She quotes Robert Osgood to define limited war as “one in which the belligerents restrict the purposes for which they fight to concrete, well-defined objectives that do not demand the utmost military effort of which the belligerents are capable.” These conflicts are typically the type that “demands of the belligerents only a fractional commitment of their human and physical resources,” meaning that the basic functioning of the state can, “continue without serious disruption.”<sup>3</sup> In contrast, absolute wars observe no limits and require states to engage in the massive mobilization of their population and economy. Civilians are not divorced from these conflicts, which take on a sense of existential importance that is not present in limited wars.<sup>4</sup>

Kreps identifies state-society relations as the second factor that shapes a public’s willingness to make fiscal sacrifices in wartimes. These relations encompass both the level of taxation people pay to the government and the services they expect from it. Levels of peacetime taxation rose considerably during major conflicts, including the Civil War, World War I, and World War II. After World War II, they never reduced to previous peacetime levels as a result of the emergence of the modern social welfare state.

Through the end of World War II, the American populace was willing to fund limited wars, which were historically interspersed with absolute conflicts. Two things have happened since that time, according to Kreps. First, the United States has fought only limited wars, which do not animate the American public in the same way that absolute wars do. Second, although on the whole, the American public was willing to accept higher peacetime taxes after World War II, according to Kreps, this also meant they became less willing to accept tax increases. The upshot is that Americans feel less compelled to fund the conflicts in which the United States has engaged since World War II ended.

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<sup>3</sup> Robert Endicott Osgood, *Limited War: The Challenge to American Strategy* (Chicago: University of Chicago Press, 1957), 2-3.

<sup>4</sup> Kreps also notes that civilians are also more willing to pay higher taxes during absolute wars because of a sense of fairness wherein the populace urges a conscription of wealth from those not involved in the actual fighting.

The second part of Kreps' argument is that U.S. leaders have sought to work around this constraint and avoid angering the public by financing America's recent limited wars through borrowing. This approach delays the cost of today's wars, enabling politicians to kick the can down the road and avoid the consequences of continuing to wage them. Kreps observes that, on balance, the public is less likely to respond negatively to debt financing than to new taxes, not least because limited wars will not be the only source of ire even if people are concerned about a growing national debt. In this regard, democratic leaders are able to overcome the domestic constraints that they face in terms of waging today's limited wars, which Kreps argues would not be popular or pressing enough to fund through taxation.

All three reviewers in this roundtable — Anthony Dworkin, John Scheussler, and Fred Bartels — laud Kreps for her contribution to understanding why the U.S. leaders use borrowing to work around the public's unwillingness to pay for open-ended campaigns through dedicated taxation.

Both Dworkin and Scheussler concur with Kreps' explanation of why U.S. leaders are able to keep the country involved in seemingly endless limited wars. Each raises a question that falls outside the main focus of her book: Why do democratic leaders choose to pursue these conflicts? Dworkin argues that, leaving aside the decision to invade Iraq, the answer typically has less to do with the ideology or folly of the people in charge of the U.S. government. Rather, he submits that American leaders are concerned about being held responsible for bad outcomes that might result if the United States does not involve itself in these conflicts.

Scheussler views the decision to wage limited wars with borrowed money as resulting primarily from the fact that American grand strategy since 1945 has aimed at hegemony, which has entailed promoting stability in key regions, including Europe, East Asia, and the Persian Gulf. And this, in turn, has made it harder for the United States to avoid or extricate itself from limited conflicts, even when they are not a last resort and the American public is unprepared to pay for them. Scheussler also asserts that although the public wants to believe that war is a last resort, this is not always the case. As a result, policymakers sometimes overcome popular reticence by overselling the need to go to war. Thus, it is not

simply a matter of whether limited conflicts are worth the financial costs, as Kreps argues, but also whether these conflicts are justifiable, given U.S. interests and other options for pursuing them.

Bartels is less concerned with why the U.S. government uses debt to finance military operations overseas, or how to situate this practice within wider democratic peace theory. His review aims to enrich Kreps' findings by tying them to debates in the broader academic literature on why debt is relevant for international engagements. Bartels also highlights one potential missed opportunity, namely Kreps' failure to situate her excellent analysis in what he believes is a wider shortcoming of governance: Many U.S. government expenditures — not just those funding wars — are obscured or distorted by borrowing. In fairness, Kreps does identify the fact that limited wars account for only part of the national debt, and untangling them from other targets for debt reduction is therefore difficult. Bartels clearly yearns for more discussion of the intricacies of how this works when it comes to the use of financial tools such as the Overseas Contingency Operations account, which has been used to pay for the so-called war on terror.

Like the policymakers she writes about, Kreps clearly made tradeoffs in terms of the scope of her research. She ably demonstrates the historical and political contexts in which the financing of today's wars exists and the domestic constraints that make borrowing preferable, but not necessarily the strategic rationales that inform waging endless limited wars or the mechanisms for financing them through borrowing. Nevertheless, what comes through clearly is the ways in which American leaders have attempted to reduce their own accountability for these conflicts in order to avoid tradeoffs the public is unwilling to make.

Kreps' book came out only months before President Donald Trump announced his intention to withdraw troops from Syria and draw down considerably from Afghanistan.<sup>5</sup>

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<sup>5</sup> Mark Landler, Helene Cooper, Eric Schmitt, "Trump to Withdraw U.S. Forces From Syria, Declaring 'We Have Won Against ISIS,'" *New York Times*, Dec. 19, 2018, <https://www.nytimes.com/2018/12/19/us/politics/trump-syria-turkey-troop-withdrawal.html?login=email&auth=login-email>; Gordon Lubold and Jessica Donati, "Trump Orders Big Troop Reduction in Afghanistan," *Wall Street Journal*, Dec. 20, 2018, <https://www.wsj.com/articles/trump-administration-is-considering-substantial-afghan-troop-drawdown-11545341452>.

Trump has repeatedly emphasized the financial burden of foreign deployments, as Dworkin notes in his review, while progressives in the Democratic party are simultaneously developing a foreign policy vision that emphasizes spending money at home rather than on military action abroad. Yet, Trump's administration (if not necessarily Trump himself) and a large portion of the Democratic opposition are also torn over how to manage the risks of withdrawal from the Middle East and Central Asia. The idea of buying down risk abroad must be balanced with a more clear-eyed assessment of the costs at home. The bill always comes due. Kreps' most important contribution may be to remind us that one value of accountability is that it enables democracies to decide at the time — rather than down the road — whether the bill is worth paying.



## 2. War Finance and the Avoidance of Responsibility

*By Anthony Dworkin*

The United States has been at war in Afghanistan for 17 years, and has spent much of that time at war in Iraq as well. It has also been pursuing low-level counter-terrorism military operations in many other countries around the world. These military actions are often described as part of America's "forever war," and it has indeed often seemed that they would continue indefinitely. Critics have identified a number of factors behind the proliferation of such apparently limitless campaigns, including open-ended legal authorisations, a low level of U.S. casualties, and the blurring of the line between war and peace. In *Taxing Wars*, Sarah Kreps makes a persuasive case that another reason for the rise of endless wars is the disappearance of any mechanism for forcing voters to face up to their financial costs.

Political theorists have argued that democracies are less prone to fight wars because their citizens won't want to pay the associated costs without good reason. But the United States

*Book Review Roundtable: How Are America's Wars Financed?*

<https://tnsr.org/roundtable/book-review-roundtable-how-are-americas-wars-financed/>

seems to have found a work-around: financing open-ended campaigns entirely through government borrowing rather than through dedicated taxation. This, Kreps suggests, has meant that the public pays much less attention to the trade-offs involved in remaining at war. Voters allow the “forever war” to drag on because they don’t find themselves paying any obvious costs. Kreps nicely summarizes this argument by referring to recent conflicts as “Hide-and-Seek” wars in which citizens at home are allowed to forget that their country is at war at all.

Kreps contrasts America’s low-key conflicts against insurgents or other armed groups with the major U.S. wars in which the government has explicitly played on citizens’ patriotic instincts to levy taxes. Political leaders tend not to describe contemporary campaigns as wars at all, preferring euphemisms such as “working...to confront a ruthless adversary,” as Barack Obama characterized the war in Afghanistan in his Nobel Peace Prize speech.<sup>6</sup> In line with counter-insurgency doctrine, much of the military effort involves forms of nation-building that are “more akin to foreign aid...than a conventional war.”<sup>7</sup> Debt financing seems to fit naturally with conflicts that often lack clear beginnings or ends and where the public is often confused about either the war’s goals or the indicators of victory.

Kreps details these various features of today’s indefinite conflicts but also makes clear that the absence of taxation is not solely a feature of shapeless and unconventional war. Nor is the failure to collect taxes only present in the United States. Rather, it is a function of the fact that democracies no longer fight epic wars on the scale of World War II and that high levels of taxation have become routine in these countries during peacetime. War taxes have essentially become taboo for *any* contemporary conflict, both in the United States and other developed democracies, according to Kreps, who argues, “By the latter half of the twentieth century, it had become almost inconceivable that wars would lead to higher taxes.”<sup>8</sup> Indeed, as she notes, even in relatively conventional recent U.S. wars, such as the Persian Gulf War of 1991, war taxes remained off the table.

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<sup>6</sup> Sarah Kreps, *Taxing Wars: The American Way of War Finance and the Decline of Democracy*, (Oxford: Oxford University Press, 2018), 156.

<sup>7</sup> Kreps, *Taxing Wars*, 210.

<sup>8</sup> Kreps, *Taxing Wars*, 150

Although Kreps emphasizes the rise of social welfare spending in particular, it's not clear why the fact that voters have become accustomed to paying a relatively high level of taxes for social goods would automatically lead them to oppose tax increases dedicated to another purpose, i.e., national security. A full explanation, as Kreps at times says, is likely to involve voters' sense that their country's normal military posture should include an ability to take limited conflicts in stride. Nevertheless, the key point is that the accountability provided by tax increases has disappeared from all contemporary conflicts. In that sense, the fact that voters do not focus on the costs of particularly diffuse conflicts, like the campaign against jihadist terrorists, appears over-determined in Kreps' account. If all of today's conflicts are "Hide-and-Seek" wars, the "forever war" is the most hidden of the hidden.

Kreps' argument about the disappearance of any focal point that would concentrate voters' minds on the tangible costs of wars is convincing. As she observes, Americans often disapprove of government borrowing to fund wars as much as tax increases, but they are less likely to pay attention to the steady increase of public debt. But this leads to a wider point that emerges from Kreps' account, although it lies outside the main focus of her book: If contemporary wars take place against a background of public obliviousness to their costs — and even sometimes to the fact that they are occurring at all — we still need to explain why presidents and political leaders both in the United States and in other countries (including, increasingly, E.U. member states) so often choose to pursue them. Immanuel Kant contrasted the caution of democracies when it comes to engaging in a war with the ability of an unaccountable leader to "decide upon war, as upon a kind of pleasure party, for insignificant cause."<sup>9</sup> But the wars Kreps describes do not mostly seem like the self-indulgent whims of leaders freed from democratic oversight. Some, like the initial U.S. invasion of Iraq in 2003, were motivated by the ideology of the governing administration. But in other cases, the presidents who launched or prolonged these wars did so to avoid being held responsible for a bad outcome.

On Kreps' account, President Lyndon Johnson escalated America's involvement in Vietnam because he feared that "if he did not intervene, he would be cast as the one who lost

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<sup>9</sup> Immanuel Kant, "Toward Perpetual Peace," in Immanuel Kant, *Practical Philosophy*, ed. Mary Gregor, (Cambridge, Cambridge University Press, 1996), 324.



Vietnam.”<sup>10</sup> In his recent memoir, Ben Rhodes describes how military leaks calling for a surge in Afghanistan “were boxing [President Barack] Obama into sending troops into Afghanistan and setting him up to take the blame for any bad outcomes that followed if he didn’t — even though those outcomes were likely to happen anyway.”<sup>11</sup> Obama proclaimed in 2013 that the war against al-Qaeda “like all wars, must end,” but he instead became the first American president to be at war for every day of his term of office, after the rise of the Islamic State stoked fears of terrorism among the U.S. public. While voters’ lack of attention to the costs of war allows conflicts to drag on, leaders may equally feel pressure to pursue these conflicts to avoid being held politically accountable for the consequences of calling a halt. In this way, the diffusion of public attention to these costs is part of a broader pattern of avoidance of responsibility as well as a foreign policy culture that privileges military action. Together, these factors create a bias toward continuing conflicts even when there are no realistic end-goals in sight.

At the same time, there are limits to the extent to which U.S. voters have tuned out recent wars. Even in the case of limited conflicts, the public does appear to differentiate between wars that are worth fighting and those that were launched for deceptive or misguided reasons, and to hold political leaders and parties accountable for launching these wars through elections. The Iraq War turned out to play a major role both in Obama’s victory over Sen. Hillary Clinton in the Democratic primaries and in his success in the general election in 2008. One analysis based on opinion polls and voter surveys concluded that “the Iraq War was, through direct and indirect pathways, ultimately the single most important contributor to Obama’s presidential victory.”<sup>12</sup>

Looking forward, there are signs that the United States may be entering a period in which there is greater political attention to the costs of its overseas military campaigns. President Donald Trump has repeatedly emphasized the financial burden of foreign deployments and recently shocked his own officials and allies by announcing the withdrawal of troops from

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<sup>10</sup> Kreps, *Taxing Wars*, 122.

<sup>11</sup> Ben Rhodes, *The World as It Is: A Memoir of the Obama White House*, (New York: Random House, 2018), 66.

<sup>12</sup> Gary C. Jacobson, “George W. Bush, the Iraq War, and the Election of Barack Obama,” *Presidential Studies Quarterly* 40, no. 4 (June 2010): 208, <https://www.jstor.org/stable/23044817>.

Syria and a scale-back of forces in Afghanistan.<sup>13</sup> While it remains to be seen whether, and how quickly, these initiatives are implemented, Trump has made clear that he is operating according to a rather different calculus of political costs and obligations than his predecessors. At the same time, politicians and writers from the newly energized left wing of the Democratic party are developing a foreign policy vision that accentuates the need to spend money at home rather than on military action abroad. These developments suggest that America could see a greater public sensitivity to the trade-offs that the “forever war” and other limited conflicts require, even in the absence of tax increases targeted explicitly at sustaining them.

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<sup>13</sup> Mark Landler, Helene Cooper, and Eric Schmitt, “Trump to Withdraw U.S. Forces from Syria, Declaring ‘We Have Won Against ISIS,’” *New York Times*, Dec. 19, 2018, <https://www.nytimes.com/2018/12/19/us/politics/trump-syria-turkey-troop-withdrawal.html>; Dan Lamothe, Josh Dawsey, Missy Ryan, and Paul Sonne, “Trump Orders Major Military Withdrawal from Afghanistan as Mattis Departs,” *Washington Post*, Dec. 21, 2018, [https://www.washingtonpost.com/world/national-security/trump-agitating-for-major-military-withdrawal-from-afghanistan-advisers-say/2018/12/20/oc35f874-04a3-11e9-b5df-5d3874fiac36\\_story.html?utm\\_term=.2c8eoodboad6](https://www.washingtonpost.com/world/national-security/trump-agitating-for-major-military-withdrawal-from-afghanistan-advisers-say/2018/12/20/oc35f874-04a3-11e9-b5df-5d3874fiac36_story.html?utm_term=.2c8eoodboad6).

### 3. Democracy, War, and American Grand Strategy

By John M. Schuessler

War taxes, as Sarah Kreps notes in her new book *Taxing Wars*, were once a mainstay of American war finance, at least through World War II. The Second World War is the archetype of what Kreps calls a “Liberty Bond” war, with leaders drawing on a public spirit of fiscal sacrifice to finance war directly through taxation. More typical today are “Hide-and-Seek” wars, like those in Iraq and Afghanistan, so-called because war taxes have become anathema to the public, Kreps argues, and have given way to less obvious forms of war financing, especially borrowing. With the public shielded from the direct costs of war, the institutional constraints that normally keep democratic wars short and inexpensive have been weakened.<sup>14</sup> Indeed, it is hardly a coincidence that the shift away from war taxes has coincided with a period in which the United States has waged protracted wars in strategic backwaters like Vietnam and Afghanistan, with mounting public opposition nevertheless not intense enough to preclude years of stalemated fighting.<sup>15</sup>

Why, then, have war taxes been taken off the table? Here Kreps makes a two-part argument, the first bearing on the public’s appetite for fiscal sacrifice during war (or lack thereof) and the second bearing on the implications for how leaders finance war, directly or indirectly. Her argument is compelling on its own terms and buttressed by a rich array of evidence drawn from the American experience with war.

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<sup>14</sup> For the argument that democracies should be prone to selecting into short, low-cost wars, see Dan Reiter and Allan C. Stam, *Democracies at War* (Princeton, NJ: Princeton University Press, 2002). Reiter and Stam’s work triggered an important debate on the relationship between democracy and victory in war. On that debate, see Michael E. Brown, Owen R. Cote Jr., Sean M. Lynn-Jones, and Steven E. Miller, eds., *Do Democracies Win Their Wars?* (Cambridge, MA: The MIT Press, 2011).

<sup>15</sup> The United States is by no means alone among democracies in the difficulties it has had in waging such “small wars.” See Gil Merom, *How Democracies Lose Small Wars: State, Society, and the Failures of France in Algeria, Israel in Lebanon, and the United States in Vietnam* (Cambridge, UK: Cambridge University Press, 2003).

As far as the public's appetite for fiscal sacrifice, Kreps argues that two factors have converged in the post-1945 period to diminish the public's willingness to pay war taxes. First, major wars like World War II, with high stakes and clear metrics for success, have given way to limited wars with ambiguous objectives and only a tenuous connection to Americans' sense of security. Second, the welfare state now competes directly with the warfare state for tax dollars. Americans expect the former to take precedence over the latter when the two are pitted against each other. Tax increases, in general, are off the table, as Americans feel they already pay enough in taxes to fund both guns and butter. Elected leaders, in turn, have picked up on anti-tax attitudes among the public and have become loathe to finance wars in ways that court public opposition, lest they be unduly constrained in their decision-making. The result is a clear trend away from war taxes and toward indirect forms of war finance, in particular borrowing, so as to limit the public's exposure to the costs of war. This has profound implications for how democracies wage war in general, and for American grand strategy specifically.

## Democracy and War: Bottom-Up or Top-Down?

Kreps describes *Taxing Wars* as challenging both bottom-up and top-down views of democratic accountability, staking out a middle ground “between those who suggest that leaders are captives of the public's institutional checks and those who believe that leaders can altogether shunt major decisions about war and peace away from the public's gaze.”<sup>16</sup> This is the right ground to occupy. In my own work on democracy, deception, and war, I emphasize, like Kreps, that democratic leaders want to secure as much domestic support for war as possible, but can hardly count on unified backing.<sup>17</sup> Instead, they must grapple with some level of opposition, which only grows more intense as the benefits of war less clearly outweigh the costs. Importantly, Kreps and I agree that democratic leaders retain enough agency to overcome the domestic constraints that they face, even when those constraints are fairly formidable. Granted, the featured political strategies are different: Kreps focuses on the lengths to which leaders will go to shield the public from the financial

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<sup>16</sup> Sarah Kreps, *Taxing Wars: The American Way of War Finance and the Decline of Democracy* (Oxford, UK: Oxford University Press, 2018), 11. See also 48–49.

<sup>17</sup> John M. Schuessler, *Deceit on the Road to War: Presidents, Politics, and American Democracy* (Ithaca, NY: Cornell University Press, 2015).

costs of unpopular wars while I emphasize the pressures leaders face to shade the truth when candor would trigger a contentious debate over whether war is justified. But there is more overlap than not on the core question of how constraining democratic institutions are when it comes to leaders' ability to make war: At one and the same time, institutional constraints can be both biting and yet surmountable by leaders with sufficient skill and will.<sup>18</sup> Moreover, in both cases it is ultimately the public's aversion to tradeoffs that incentivizes leaders to behave badly. Just as the public's preference for the "impossible trinity" of more guns, more butter, and no additional taxes encourages leaders to pile on debt, so does the public's desire to believe that war is a last resort, even when it is anything but, that leads to the blame-shifting and overselling that regularly characterize the democratic road to war.<sup>19</sup> The public fundamentally does not reward politicians who are forthcoming about the trade-offs inherent in major decisions about war and peace. Instead, it rewards those who pretend that no such trade-offs exist.<sup>20</sup>

## American Grand Strategy and "Hide-and-Seek" Wars

The trend that Kreps seeks to explain — the fall of "Liberty Bond" wars and the rise of "Hide-and-Seek" wars in the post-1945 period — is one that she understandably finds problematic. If the public is largely shielded from the costs of war, it has less incentive to hold leaders accountable for the results, leading to wars that are longer, less decisive in

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<sup>18</sup> For an extended debate on how hard President Franklin Roosevelt had to push against institutional constraints to facilitate America's entry into World War II, see Marc Trachtenberg, *The Craft of International History: A Guide to Method* (Princeton, NJ: Princeton University Press, 2006), chap. 4; John M. Schuessler, "The Deception Dividend: FDR's Undeclared War," *International Security* 34, no. 4 (Spring 2010): 133–165, <https://doi.org/10.1162/isec.2010.34.4.133>; Dan Reiter and John M. Schuessler, "FDR, U.S. Entry into World War II, and Selection Effects Theory," *International Security* 35, no. 2 (Fall 2010): 176–185, <https://www.jstor.org/stable/40981247>; Dan Reiter, "Democracy, Deception, and Entry into War," *Security Studies* 21, no. 4 (2012): 594–623, <https://doi.org/10.1080/09636412.2012.734229>; "Democracy, Deception, and Entry into War," *H-Diplo/ISSF Roundtable* 5, no. 4 (2013), <https://issforum.org/ISSF/PDF/ISSF-Roundtable-5-4.pdf>; Schuessler, *Deceit on the Road to War*, chap. 2; and Christopher Darnton, "Archives and Inference: Documentary Evidence in Case Study Research and the Debate over U.S. Entry into World War II," *International Security* 42, no. 3 (Winter 2017/18): 84–126, [https://doi.org/10.1162/ISEC\\_a\\_00306](https://doi.org/10.1162/ISEC_a_00306).

<sup>19</sup> On the "impossible trinity," see Kreps, *Taxing Wars*, 138, 214. On blame-shifting and overselling, see Schuessler, *Deceit on the Road to War*, 3–4, 14–16.

<sup>20</sup> Schuessler, *Deceit on the Road to War*, 126.

outcome, and less obviously beneficial than one would normally expect from a mature democracy. In Kreps' own words, "In a context where wars are smaller scale, less important, and less likely to generate propensities for public sacrifice, leaders have incentives to merely 'not lose' while sparing resources from the war that the populace would rather dedicate elsewhere."<sup>21</sup>

This is all well put, and important for those participating in the democracy and war debate to consider. However, Kreps could have done more to put the trend in grand strategic context. What, in other words, has been animating American grand strategy since 1945? And how has it led to "Hide-and-Seek" wars? Above all, I would argue, postwar American grand strategy has aimed at hegemony, or preponderance.<sup>22</sup> As part of its hegemonic grand strategy, the United States has sought to underpin stability in key regions like Europe, East Asia, and the Persian Gulf by extending security guarantees to allies in those regions.<sup>23</sup> The goal has been to reassure allies sufficiently that they were not tempted to build up their own power, undermining America's hegemonic position.<sup>24</sup>

Geography has complicated the equation by making reassurance more difficult, however. Separated from its allies, the United States has had difficulty making credible commitments to them: Allies understandably wonder whether the United States will take advantage of its geographic position and leave them in the lurch when a crisis erupts. Persistent doubts about the credibility of U.S. commitments help to explain, in turn, why policymakers have been so obsessed with projecting strength and resolve, to the point of treating reputation as *if it were* a vital interest. Policymakers, notes historian Robert McMahon, "have argued with remarkable consistency, privately as well as publicly, that demonstrating the credibility of

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<sup>21</sup> Kreps, *Taxing Wars*, 217–18.

<sup>22</sup> For the argument that postwar American grand strategy is best characterized in hegemonic terms, see Christopher Layne, *The Peace of Illusions: American Grand Strategy from 1940 to the Present* (Ithaca, NY: Cornell University Press, 2006). See also Melvyn P. Leffler, *A Preponderance of Power: National Security, the Truman Administration, and the Cold War* (Stanford, CA: Stanford University Press, 1992).

<sup>23</sup> On "America's hegemonic role as peacetime regional stabilizer," see Layne, *The Peace of Illusions*, 27–28.

<sup>24</sup> As Layne puts it, "a core premise of U.S. grand strategy is that it is better for the United States to defend its allies than it is for them to stand on their own two feet." See Layne, *The Peace of Illusions*, 126. A more sympathetic take on this logic can be found in Stephen G. Brooks and William C. Wohlforth, *America Abroad: The United States' Global Role in the 21<sup>st</sup> Century* (Oxford, UK: Oxford University Press, 2016).

American power and American commitments ranked among the most critical of all U.S. foreign policy objectives”; indeed, they “have often evinced as much concern for generalized perceptions of power, reputation, and prestige as they have with the preservation of more tangible interests.”<sup>25</sup> One could argue that the United States has fought multiple wars for the sake of its reputation, most prominently in Korea and Vietnam during the Cold War as well as in Iraq more recently.<sup>26</sup> The public, as Kreps notes, has been reluctant to pay up for these wars, questioning whether the limited stakes justify it, which in turn has forced leaders to play “hide-and-seek” with the costs.

## Conclusion

The clear implication of Kreps’ compelling book, and of the discussion of democratic accountability and American grand strategy above, is that if the United States wants to persist in pursuing a hegemonic grand strategy, then its leaders will have to continue to shield the public from the costs. Only a more restrained grand strategy, disciplined by a narrower conception of national security that is focused on clear threats, will be able, at the limit, to draw on the spirit of public sacrifice that makes the “Liberty Bond” approach possible and thus reverse the decline of democracy.<sup>27</sup>

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<sup>25</sup> Robert J. McMahon, “Credibility and World Power: Exploring the Psychological Dimension in Postwar American Diplomacy,” *Diplomatic History* 15, no. 4 (Fall 1991): 455, 458 <https://www.jstor.org/stable/24912130>. See also Layne, *The Peace of Illusions*, 127.

<sup>26</sup> On Korea and Vietnam, see McMahon, “Credibility and World Power,” 458–60, 466–68. On the 2003 Iraq War as a war for reputation, see Jeffrey Record, *Wanting War: Why the Bush Administration Invaded Iraq* (Washington, DC: Potomac Books, 2010). To a surprising degree, the evidence cuts against the notion that reputation deserves the importance that policymakers have ascribed to it. See, for example, Ted Hopf, *Peripheral Visions: Deterrence Theory and American Foreign Policy in the Third World, 1965-1990* (Ann Arbor: The University of Michigan Press, 1994); Jonathan Mercer, *Reputation and International Politics* (Ithaca, NY: Cornell University Press, 1996); and Daryl G. Press, *Calculating Credibility: How Leaders Assess Military Threats* (Ithaca, NY: Cornell University Press, 2005). For a contrary view, see Alex Weisiger and Keren Yarhi-Milo, “Revisiting Reputation: How Past Actions Matter in International Politics,” *International Organization* 69, no. 2 (March 2015): 473-495, <https://doi.org/10.1017/S0020818314000393>.

<sup>27</sup> The case for a restrained grand strategy is made in Barry R. Posen, *Restraint: A New Foundation for U.S. Grand Strategy* (Ithaca, NY: Cornell University Press, 2014). See also John J. Mearsheimer and Stephen M. Walt, “The Case for Offshore Balancing: A Superior U.S. Grand Strategy,” *Foreign Affairs* 95, no. 4 (July/August 2016): 70–83, <https://www.foreignaffairs.com/articles/usa/2016-06-13/case-offshore-balancing>.

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## 4. Feeding the Guns

*By Frederico Bartels*

One of the few things hanging on my office wall is a World War I British propaganda poster by Bert Thomas. It proclaims, simply: “War Bonds. Feed the Guns!”<sup>28</sup>

It is a daily reminder that wars, military engagements, and preparedness take money. Not just any money. My money. And yours too. Further, there is something old-fashioned and comforting about the idea that a society would choose to support its armed services and their mission through voluntary war bonds.

The poster speaks to the heart of Sarah Kreps’ new book, *Taxing Wars: The American Way of War Finance and the Decline of Democracy*, which discusses how the United States has historically funded its war efforts. Kreps’ work on this issue is commendable, and the connection between the U.S. military, its use, and America’s debt is an underexplored topic in the political discourse. All in all, the book is an important contribution to understanding how funding the military and America’s war efforts is perceived and received in society. Kreps’ identification of what she calls “the impossible trinity” in which government leaders

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<sup>28</sup> Bert Thomas, “War bonds. Feed the guns!” 1915, <http://www.loc.gov/pictures/item/2003675391/>



operate is especially relevant. Indeed, if the book has one take away, this is it. Her discussion of this topic is both comprehensive and correct.

However, there are two noteworthy areas where the book is not as detailed or precise: the relevance of debt for international engagement and the distortion of government spending by U.S. borrowing.

## The Impossible Trinity

The most important contribution Kreps' work makes is to identify what she calls the "impossible trinity" in which America's current political leaders operate. When there is a military engagement or even international competition, politicians are faced with three distinct and reinforcing factors: the need for extra defense resources, the unwillingness of the public to have its taxes raised due to the ceiling effect, and the public's desire to maintain the current levels of welfare funding. Kreps does a fine job of exploring each of these three elements, and tracing their evolution over time. In her words,

[L]eaders carrying out wars in the post-World War II era are increasingly confronting something of an impossible trinity. During even limited wars, they needed to increase spending on defense, wanted to continue funding social programs that the public had come to value, yet could not readily increase taxes because of a ceiling on the public's tolerance for fiscal sacrifice.<sup>29</sup>

Kreps properly identifies high levels of peacetime taxation, and how those high levels were reached, as a central factor in how attitudes toward war-related taxation change over time. The highly capable taxing system allows the government to extract more resources from society without the need for substantial legal changes. Additionally, these high levels of taxation generate a belief in society that the government has enough money to prosecute wars. Previous academic literature shows the history of American wars as going hand-in-glove with the development of its taxation system. For instance, the creation of the income

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<sup>29</sup> Sarah Kreps, *Taxing Wars: The American Way of War Finance and the Decline of Democracy*, (Oxford: Oxford University Press, 2018), 138

tax in the United States is closely associated with efforts to fund the civil war as well as World War I.<sup>30</sup>

The crucial point is that there are substantive consequences for high-level, peacetime taxation. As Kreps observes, “Those high peacetime levels of taxation ... would create less room for maneuver [sic] when it came to contemplating war taxes for subsequent wars, and would inflict greater punitive consequences when leaders experimented with doing so.”<sup>31</sup>

The book explains how higher baselines of taxation have interacted with the public opinion to further limit the options politically available for the government leadership and what the public will accept in further taxation. As such,

Earlier wars started from a baseline of relatively low tax levels, providing room for leaders to levy war taxes without having to concern themselves about negatively affecting domestic programs since there were few such programs anyway. Higher peacetime levels of taxes in post-1945 wars have created a “ceiling effect” in the minds of the public, a sense that the high baseline taxes should cover both guns and butter without having to further increase taxes for a military operation.<sup>32</sup>

The ceiling effect is part of the political calculation of how to fund the government. America’s increasing budget deficit can be seen as a political response to this effect. Since the perception is that the population would not tolerate tax increases to pay for their preferred government programs, political leaders view borrowing as a politically less risky alternative.

Thus, politicians are responding to the preferences of the population when they see increased borrowing as the sole solution to this impossible trinity. It is the prevalence of the will of the people, which indicates the opposite of the democratic decline described in the book’s subtitle. The question is whether this public-preferred imperfect solution will be

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<sup>30</sup> Kirk J. Stark, and Joseph J. Thorndike, and Steven A. Bank, *War and Taxes* (Washington, DC: The Urban Institute Press, 2008).

<sup>31</sup> Kreps, *Taxing Wars*, 107.

<sup>32</sup> Kreps, *Taxing Wars*, 142.

sustainable in the financial environment of the coming years.<sup>33</sup> So far, politicians have been able to accumulate debt and increase deficits without major consequences for themselves or the country.<sup>34</sup> Nonetheless, there might come a time when America's mounting debt will catch up with U.S. decision-makers.

## The National Security Relevance of Debt

While *Taxing Wars* focuses on the domestic effects that debt has on the military, it fails to adequately address two facets of the relationship between debt and war. First, is the question of why debt is relevant for international engagement, a topic that has been explored in the broader academic literature.<sup>35</sup> Second, is that Kreps' focus on defense expenditures misses the bigger picture that all of government expenditures in the United States have been obscured or distorted by borrowing.

Some scholars have highlighted the importance of being able to incur debt for the country's external posture. Kreps' decision to eschew discussing this issue is understandable in some respects — it is, after all, covered elsewhere in the literature and was not the main focus of her research. However, the book would have been more comprehensive if she had engaged with it. Indeed, it is a complementary view that, in concert with Kreps' work, expands our understanding of how the United States finances military engagements and why this is important. Two different takes on this issue illustrate how such a discussion would have complimented the arguments made in Kreps' book.

Professors Kenneth Schultz and Barry Weingast have identified the ability to raise money as a major factor when analyzing the advantage of democracies in long-term competitions,

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<sup>33</sup> "The Budget and Economic Outlook: 2018 to 2028," Congressional Budget Office, April 2018, <https://www.cbo.gov/system/files/115th-congress-2017-2018/reports/53651-outlook.pdf>

<sup>34</sup> Alison Acosta Fraser, "Five Reasons to Worry About US Debt," Heritage Foundation, July 2, 2013, <https://www.heritage.org/budget-and-spending/commentary/five-reasons-worry-about-us-debt>.

<sup>35</sup> Such as Gary W. Cox and Mark Dinecco, "The Budgetary Origins of Fiscal-Military Prowess," Oct. 15, 2018, available at SSRN, <https://ssrn.com/abstract=3162629>; and Kenneth A. Schultz and Barry R. Weingast, "The Democratic Advantage: Institutional Foundation of Financial Power in International Competition," *International Organization* 57, no. 1, (Winter 2003): 3-42, <https://www.jstor.org/stable/3594824>.

such as the Cold War.<sup>36</sup> They point out that “[t]here are in general three different ways that states can pay for extraordinary expenses associated with international competition: raising taxes, borrowing, or printing money.”<sup>37</sup> Of these three, borrowing money is the least disruptive to the society that is supporting the competition, since it is possible to minimize its impact on the domestic constituency. “Over the course of an extended rivalry,” Schultz and Weingast note, “... one strategy is clearly superior in terms of promoting economic efficiency: raising public debt through voluntary borrowing.”<sup>38</sup> The context of extended rivalry is analogous to the picture painted by the current National Defense Strategy, which points to Russia and China as strategic competitors for the United States.<sup>39</sup> Thus, the ability to acquire new debt when it is truly needed should be seen as an important element in confronting the threats that the United States is facing.

Similarly, professors Gary W. Cox and Mark Dinecco discuss wars, especially early modern wars from the mid-17th century to 1913, as “largely a matter of out-spending one’s opponent.”<sup>40</sup> Thus, they point out that the ability to borrow money is one of the most important factors in winning a war. Their work focuses on how credible budgets confer on democracies a substantive advantage when borrowing money. Their argument explains the advantages gained by nations that can finance their wars through debt, instead of focusing solely on the domestic impact of debt-financed wars. As such, they explore the intersection between government resources and wars from a different and complementary angle to Kreps.

## Obscuring Government Expenditures

Kreps’ primary missed opportunity, however, is her failure to situate the excellent analysis she offers about wartime funding in a wider discussion of the shortcomings of governance.

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<sup>36</sup> Schultz and Weingast, “[The Democratic Advantage](#).”

<sup>37</sup> Schultz and Weingast, “[The Democratic Advantage](#),” 6–7.

<sup>38</sup> Schultz and Weingast, “[The Democratic Advantage](#),” 7.

<sup>39</sup> “Summary of the 2018 National Defense Strategy of the United States of America,” U.S. Department of Defense, January 2018, <https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf>.

<sup>40</sup> Cox and Dinecco, “[The Budgetary Origins of Fiscal-Military Prowess](#).”

Namely, that all government spending in the United States has become increasingly obscure in the modern era. Federal budgeting has become less transparent and harder for the population to understand. The scale of the U.S. budget further reduces the likelihood that the average citizen will be able to comprehend. It is hard to conceive of how to spend \$1 billion, let alone \$4 trillion a year.

American citizens have made or tolerated a political choice to allow Washington to run continuous budget deficits, artificially creating the impression that the government is able to go farther with U.S. tax dollars than it really can.<sup>41</sup> As a result, the average citizen pays an artificially shrunken bill for the range of government services provided. The Congressional Budget Office (CBO) estimates that for each dollar spent by the federal government, Americans pay 80 cents in taxes,<sup>42</sup> creating an inflated sense of what U.S. tax dollars can pay for. And there's no sign of this changing. The CBO projects that the government will run ever-growing deficits into the foreseeable future.

Moreover, the government has removed most of its welfare state expenditures from the regular budgeting process. Funding for these programs are on autopilot, with virtually all receiving automatic increases year after year.<sup>43</sup> Between these so-called “mandatory spending” programs and interest payments on the national debt, most of the federal budget is, essentially, unreachable. The annual appropriations process, which is itself problematic, only addresses discretionary spending.<sup>44</sup> This leaves only around 30 percent of the annual budget open for discussion by Congress and influence from the public.

Obscuring further the public's understanding and visualization of the federal budget, are such tools as off-budget expenditures, discretionary budget caps, emergency spending, and — especially relevant for Kreps' argument — the Overseas Contingency Operations (OCO)

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<sup>41</sup> “[The Budget and Economic Outlook: 2018 to 2028.](#)”

<sup>42</sup> A rough approximation based on CBO numbers projections for FY18 for April 2018, of 4.1 trillion in outlays and 3.3 trillion in revenues. Available at: <https://www.cbo.gov/topics/budget>.

<sup>43</sup> “Mandatory Spending in 2017: An Infographic,” Congressional Budget Office, March 5, 2018, <https://www.cbo.gov/publication/53625>.

<sup>44</sup> Romina Boccia and Justin Bogie, “Fix the Broken Budget Process,” in *Blueprint for Balance: A Federal Budget for Fiscal Year 2019* (Washington, DC: Heritage Foundation, 2018), <https://www.heritage.org/blueprint-balance/blueprint-balance/fix-the-broken-budget-process>.

account. OCO is used to fund U.S. contingency efforts abroad and is, unfortunately, absent from Kreps' treatment of how the United States chooses to fund its military and its operations in the current era.

OCO's existence represents an admission by the government that the regular defense peacetime budget is insufficient to fund military operations. This belies the public assumption, which Kreps identifies, that the government has enough resources to provide both guns and butter. Yet, because budgets have become difficult to understand, the population continues to believe that the federal government has enough resources to fund all its activities.

The existence and use of OCO reflects a political choice to partially fund the operations of the Department of Defense in a regime of exemption.<sup>45</sup> This political choice is borne out of the impossible trinity Kreps adeptly describes, and is one which goes to the core of the book's argument. A discussion of OCO and how it changes the political debate for politicians dealing with the defense budget is necessary to better understand how the United States currently funds the military and its operations. Its absence is notable in a book that explores how American society chooses to fund its military.

## **Conclusion**

The war bonds advertised in the Thomas poster on my wall represent a voluntary contribution to a democratic state's war effort that, for now, belongs to history. This is especially true at a time when the federal government obscures its real financial capabilities and relies on borrowing and increased debts to fund its regular work. Although Kreps' book contains little on the possible future of war funding, when the importance of debt in international competition — as discussed by Schultz and Weingast — is juxtaposed with the overreliance on borrowing that Kreps illustrates, the connection between debt and national security becomes clear. It also becomes clear that American political leaders need to address the mounting budget deficit and debt.

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<sup>45</sup> Emil Maine and Diem Salmon, "The Future of Overseas Contingency Operations: Due Diligence Required," Heritage Foundation Issue Brief No. 4294, <https://www.heritage.org/defense/report/the-future-overseas-contingency-operations-due-diligence-required>.

All in all, Kreps does an outstanding job describing and navigating through the changes in the funding mechanism and in attitudes toward war funding experienced in the United States. Her book provides a historical perspective that enhances the understanding of anyone interested in the confluence between public finance and military activities. At its core, *Taxing Wars* is thought-provoking — a characteristic of a truly valuable book.

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