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# THE CENTRE OF GRAVITY SERIES

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## Paying for War: How to afford a future of strategic competition

Sarah Kreps



Strategic & Defence  
Studies Centre

# The Centre of Gravity series

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Beyond these books, her work has appeared in the *American Political Science Review*, *World Politics*, *Journal of Politics*, *International Security*, *Journal of Conflict Resolution*, *Security Studies*, *Journal of Strategic Studies*, *Political Science Quarterly*, *International Studies Perspectives*, *Foreign Policy Analysis*, *Polity*, *African Security Review*, the *Duke Journal of Comparative and International Law*, the *International Journal of Sustainable Development and World Ecology*, *Intelligence and National Security*, *Foreign Affairs*, *Foreign Policy*, and *Polity*. Her opinions have been featured in a series of media outlets including *The Washington Post*, *International Herald Tribune*, *New York Times*, *Christian Science Monitor*, *USA Today*, *CNBC*, *The Diplomat*., and *Reuters*.

Dr. Kreps has held fellowships at the Council on Foreign Relations (where she is a life member), Harvard's Kennedy School of Government, and the University of Virginia's Miller Center for Public Affairs. She has a BA from Harvard, MSc from Oxford, and PhD from Georgetown. Between 1999-2003, she served on active duty in the United States Air Force and was a Captain in the Air Force Reserves between 2003-2007.

# Paying for War: How to afford a future of strategic competition

Sarah Kreps

## Executive Summary

- ✦ Wars are expensive and how they are paid for is important for both military capacity as well as political accountability.
- ✦ The two main ways to pay for wars are taxation and debt. In the mid-twentieth century taxes fell out of favour as a way of paying for wars.
- ✦ The public and legislature are less apt to focus on how force is being used when they do not bear the burdens of those wars. As such, how we pay is important for how we fight.
- ✦ We must restore the connection between the public and the policy choices that the government makes about war. So that public approval is a conscious decision informed by an awareness of the stakes and tradeoffs rather than a tacit decision perpetuated by a lack of political awareness.

## Policy Recommendation

- ✦ With the defence budget already rising and expectations of future conflict growing, the Australian government should pre-emptively seek to explain how it will fund future military expenses. Direct war taxes should be the priority over deferred debt for reasons of clarity and accountability. The discussion of resources should also cover the obligations and call on citizens war might force, such as the use of conscription or systems of national service.

The Roman orator Cicero has been credited with saying that ‘endless money forms the sinews of war.’ Wars are costly. Militaries require equipment to fight and win wars. Armies need tanks, air forces need planes, and navies need ships. All of those require money. One of the reasons the 1969 Football War between El Salvador and Guatemala was short lived is because both sides ran out of ammunition due to lack of funds.

Militaries also need to pay the people who fight. During the American Revolutionary War, with the treasury empty, a major financier recommended withholding pay from the soldiers, leading first to dents in morale and then to an army on the verge of revolt.

Wars also call on the citizens themselves to contribute. Not only from their paychecks, but with their time, service and even lives. Just as there has been a trend away from direct taxes to obscure debt to pay for wars, however proposals for national services have fallen out of public and political favor.

Yet the prospect of new wars, and current obligations of long wars such as Afghanistan and Syria raise important questions about the resources that will be required. Given the rising demands on national resources a new era of tension will likely create, this paper examines how states have paid for wars, and highlights some of the challenges of the modern approach.



**Taxation is more visible and direct evidence of war than borrowing.**



## How to Pay for Wars

How do countries generate money for war? Historically, countries could make others pay, such as through conscription and impressment. For militaries in advanced democratic countries, however the two main approaches have been taxing and borrowing. Whether and why countries resort to taxation versus borrowing has important implications for both economic redistribution but also democratic accountability.

Taxation not only provides an efficient source of revenue to fund militaries and the wars they fight, it has social and political virtues. When he advised the British government about how to pay for World War II, John Maynard Keynes endorsed taxation as a way 'to snatch from the exigency of war positive social improvements.'<sup>1</sup> The reason is that it offered both intra and intergenerational equity because it was progressive and did not defer the costs to future generations.

An additional virtue of taxation is that it creates political accountability. Taxation is more visible and direct evidence of war than borrowing. Debt is also unpopular, but the connection with war is more diffuse because war is just one contribution among many to the debt. Moreover, payment on the debt is deferred until long after the war, meaning that leaders contemporaneous with the war do not face accountability. Taxation, by contrast, has both an immediate and direct connection with war.

In reference to a World War I tax, the *Washington Post* wrote that 'the average citizen feels the effect of the war tax when he arises in the morning and reaches for his tooth brush, and he is reminded of it the last thing at night when he puts on his tax-assessed pajamas and takes a brief journey into the Land of Nod.'<sup>2</sup> The silver lining of visible war taxes was that they give the populace skin in the game when it came to the conduct of war. They cause citizens to think about the wars that are being fought, the stakes, and the value. When they no longer see those stakes as worth the fiscal sacrifice, they then put pressure on leaders to bring an expedient end to war.

Indeed, this connection between the public and the war has been linked to democratic accountability. Political philosophers back to Immanuel Kant observed that a democratic populace that bears the burden of war in blood and treasure, and whose consent was needed for war, would be more cautious about the onset and conduct of those wars compared to if they did not bear those costs or, as in a non-democracy, did not weigh in on the wisdom of a war. The public would be more tuned into the war when they were paying higher taxes or through casualties, and more discerning in terms of the stakes and payoff.

Preferences to continue or withdraw from the war would find themselves reflected in decisions about the continuation of conflict because democratic leaders, who need public approval both for their tenure in office and the sustainability of the wartime effort, had incentives to heed public preferences. Modern-day international relations scholars have attributed the fact that democratic wars tend to be shorter and low cost to this accountability linkage between the public, the costs of war, and leaders' need for public consent.<sup>3</sup>

These questions are of direct policy relevance in an era of increasing tension. With the US naming China as a peer strategic competitor - alongside challenges from Russia, North Korea, Iran and elsewhere - it is not putting it too strongly to say that how America plans to fund its military policies will be just as important as the strategy it devises to shape and use those forces. Long term strategic competition is extraordinarily expensive. With China having the potential to replace the US as the largest economy in the world, America and its allies such as Australia must plan a future where every dollar counts. How the fight is funded will define how it is fought, and perhaps even if it is won.

### The Historical Context of War Paying

For a number of centuries, democracies engaged in war in a way compatible with arguments of socio-economic equity and democratic accountability. In fact, the recent history of taxation has been the history of war. The most significant taxes accompanied major wars. The reason is that wars created enormous revenue needs and taxation became an efficient way to extract revenue from the population to pay for wars. The United Kingdom levied its first income tax in 1799 to fund the Napoleonic Wars, having realized through previous wars that alternatives such as borrowing were inadequate in terms of addressing the national debt or paying the soldiers who were questioning their national loyalties.

The United States introduced a number of war taxes for the nineteenth century wars, and then joined many of the World War I and II democracies in introducing unprecedented tax increases. By the end of World War II, top marginal tax rates were around 95%. Despite the high rates, the public continued to support high levels of taxation to support the war, and public support for the war remained high throughout.

Around the second half of the twentieth century, however, the practice began to change. Taxes increasingly became decoupled from wars. In the United States' context, the move was first evidenced through the increased reluctance over the period of the Korean War, and then explicit resistance in the Vietnam War—the last case of a war tax—to finance wars through war taxes.

It is important to understand why that shift took place. One reason is that after the advent of nuclear weapons, wars became lower intensity since great powers and their allies were eager to avoid escalation at all costs. The shift to lower intensity conflict had two consequences. The revenue needs were now not as explicitly high as they had been during wars such as World Wars I and II. Another is that the stakes of the wars did not elicit the same sense of fiscal sacrifice as before. In earlier wars, the populace was generally willing to pay its share of taxes. During World War II, the American public expressed a willingness to pay *more* than the government had required. When the Korean War started, the public also expressed a willingness to pay taxes but only when it saw the conflict as World War III. Once the limited war realities sunk in, and the ambiguous goals, the sense of public sacrifice quickly atrophied. Recent conflicts have had political objectives that similarly test the magnanimity of the public spirit. One of the objectives of the Afghanistan conflict, for example, was to make it easier to obtain a driver's licence.<sup>4</sup> While the process of obtaining a driver's licence is a proxy for corruption—since each step is an opportunity for graft—it is not easy to explain to the public why this type of conflict is anything more than state-building, and why in fact the public should dedicate its funds to building states abroad rather than its own state at home.

Another reason for the shift away from war taxes after World War II is that peacetime tax levels remained high after World War II. In every war prior to World War II, the United States would increase taxes but then reduce them in the years following. To support the modern social welfare state that had taken root during the 1930s



**Around the second half of the twentieth century, taxes increasingly became decoupled from wars.**

and 1940s, which consisted of a set of programs that the major political parties supported, the country needed revenue, and generated that revenue through high peacetime tax levels. Those peacetime tax levels, however, had the effect of creating a political ceiling in terms of leaders' ability to raise taxes further. In short, tax dollars increasingly went to welfare, away from warfare, while both went on the nation's credit card. (Debt overall increased.) In the United States, that point was made manifest when President George HW Bush raised taxes in 1990—for reasons unrelated to the Persian Gulf War—and paid the political price in losing the 1992 election based on a political opposition that dogged him for his tax increase. Individuals not only think taxes are high enough, but that those high taxes should cover a range of programs. A study that queried Americans on their attitudes toward war taxes found an enormous degree of skepticism about the basis for a war tax. Many responded along the lines that they are already taxed and that a war tax would be 'double taxation.' One respondent in the study asked, 'Let's have a breathing tax, walking tax, enough!'<sup>5</sup>

## Israel has become more cost sensitive when it comes to wars and how they fight those wars.



American politicians have anticipated this reaction and avoided war taxes altogether in recent wars. Members of the political left have attempted to introduce a war tax periodically since 2007, but enthusiasm has been restricted to isolated voices and never been embraced by mainstream of the political spectrum.

### The Broader Trend Away from Taxation

The American aversion to funding wars through taxes is analogous in other advanced, industrialized democracies. Evidence from both the UK and France suggests that the specific notion of a war tax would be very as unpopular as polls of Americans suggest, with about 20% support in each of these countries.

Contemporary experiences in India and Israel, two democracies that are engaged in frequent skirmishes with neighbors and arguably face more existential security crises than countries such as the United States, Australia, and those in Europe, further corroborate the broader move away from war taxes.

Israel has become more cost sensitive when it comes to wars and how they fight those wars. Spending on defense has declined from 30% of GDP in 1975 to 16% in 2002 to just 5% in 2015. The changes reflect the move away from large-scale war in a way that is consistent with the post-World War II trend. Wars have gone from driving up spending to being relatively small events. The 2006 Lebanon War cost less than the amount that Israel receives in military grants from the United States every year. It has also moved away from making appeals for fiscal sacrifice during these wars. During its 1967 war, the Israeli government levied a 15 year tax loan funded through a 7% to 12% income tax for individuals and 9% for

businesses. In the early 1980s, the government again levied a tax to finance operations, this time a value added tax and a 'loan' of salaried workers to the government. Since that war, Israel has neither fought a major conventional war nor has it solicited fiscal sacrifice from the public in the form of explicit war taxes.

The experience is similar in India. The country is the world's largest democracy, a nuclear-weapon state, and has an enduring rivalry with its neighbor, Pakistan. Rather than fighting large-scale conflicts, the two countries have engaged in smaller scale skirmishes, bounded by the threat of destructive escalation. Wars that do result do not become occasions for fiscal sacrifice even though the country's populace appears to support the war itself. An illustrative example is the 1999 Kargil conflict, a low intensity conflict that erupted at the Line of Control between India and Pakistan. The conflict lasted about two months, cost \$1.5 billion—about 0.3% of India's GDP that year, and an increase of 18% of defense expenditures that year—enough that the Finance Minister proposed a 'Kargil tax.' As he noted, the tax would be concentrated at higher economic levels, issuing his 'trust that these relatively better-off sections of society would bear this additional burden cheerfully.'<sup>6</sup>

The Kargil War did generate considerable public attention, support, and even a sense of fiscal sacrifice. Online sites generated support for the Army Welfare Fund, urging that ‘the debt of gratitude the nation owes these heroes is incalculable. Nevertheless, ordinary citizens like you and me must find some small way to chip in.’<sup>7</sup>

India did not ultimately introduce a Kargil tax. The low intensity conflict meant that revenue needs remained relatively low. More problematically, however, is that it would have been impossible to introduce the tax before the general elections that autumn, and waiting until after the election would seem post-hoc, so they punted. Thus, India joined the ranks of other democracies that have not passed along the costs of war to their citizens in the form of war taxes but rather paid for these wars through the existing budgets or through delayed debts.

The pattern is nearly ubiquitous with advanced industrialized democracies. In Denmark, for example the operational costs of operations in Afghanistan, exceed those in the regular budget. A security tax is a political non-starter, but so is austerity in the form of cutting social welfare programs. Parliament ultimately ends up finding the funds to cover the overflow, but it counts—almost certainly correctly—on having a public that cannot parse expenditures, if it is paying attention to budget debates at all.

## Consequences

Democratic populaces have become increasingly detached from the wars their countries fight. Since the 1970s, most countries have moved away from the draft and turned to an all-volunteer military. Many countries are now moving toward unmanned aerial vehicles, or drones, which also remove individuals from the messy, and lethal side of war. Democratic leaders are effectively inoculated from the type of scrutiny that they received when citizens came into direct contact with the costs of war. Former American President Obama acknowledged just that when he reflected on his use of drones for counterterrorism. He noted that ‘the very precision of drone strikes and the necessary secrecy often involved in such actions can end up shielding our government from the public scrutiny that a troop deployment invites. It can also lead a president and his team to view drone strikes as a cure-all for terrorism.’<sup>8</sup>

As the president implied, the sense that problems could be solved with precision weapons and drones, made it tempting to use force. Without scrutiny, since the public and legislature were less apt to focus on how force is being used when they did not bear the burdens of those wars, those conflicts could continue.

Countries have many reasons they go to war and stay in war, so the erosion of accountability linkages that resulted because democratic countries no longer elicit sacrifice from their constituents is not the only reason. Nonetheless, a clear theoretical logic exists, as does the empirical observation that democratic wars have become longer and longer. The war in Afghanistan began in 2001 and continues. The war in Iraq began in 2003 and despite great political fanfare promising an end to hostilities, that war continues in some form to this day.

## A way ahead

The theory of democratic accountability in wartime hinges on a populace that bears the burdens of war in some visible way so that they are invested in the conduct of that conflict. The less visible those burdens, the more detached they become, the less accountable the war, and the more likely it is to continue unchecked. The question then is how to bridge that gap and create the type of accountability linkage that was thought to explain democratic behavior in wartime.

The most straight forward policy response is also the one that is most politically untenable, and that is an actual war or security tax. In 2007, three members of Congress proposed a surtax of 2% for low and middle income individuals and up to 12-15% for those at higher incomes.<sup>9</sup> The tax proposal was considered a non-starter. In 2009, members tried again, calling the tax the ‘Share the Sacrifice Act’ that would impose a 1% tax on many Americans, and 5% for the wealthiest, arguing that ‘if this war is worth



**Democratic populaces have become increasingly detached from the wars their countries fight.**

## The public and legislature were less apt to focus on how force is being used when they did not bear the burdens of wars.

fighting, then it is worth paying for.<sup>10</sup> Yet again, members of his own party retreated quickly from the proposal, suggesting that they would not pursue a tax ‘in the middle of a recession,’<sup>11</sup> although subsequent efforts have produced a similar dead-end.

One idea that speaks to the spirit of a war tax and might have more political palatability is a small fuel tax. During the Iraq War, the Marine Corps commandant lamented that Americans ‘continue to be spectators’ of the war but instead should be required to pay a 5 cent tax on fuel to give them a sense of investment in the conflict.

To be sure, the politics of such a tax increase are delicate precisely because the prospect of a tax has the tendency of animating an otherwise quiescent, inattentive public even if the tax itself has salutary budgetary consequences. Events in France in late 2018 reflect how politically toxic an

initiative-specific tax can be. After President Macron proposed a fuel tax to address climate change, massive protests erupted in France, prompting him to withdraw the proposal. In a less fraught way, a recent referendum in the United States further reinforced the unpopularity of fuel taxes. Washington State voted in a recent referendum against a carbon tax. Both of these should have been initiatives that a progressive-public favors—a best case scenario—but the public was not persuaded. Which corroborates the earlier point about opposition to initiative-specific taxes in the post-war world of high peacetime taxes. In some ways, of course, the public attentiveness is exactly the point. But the policy effectiveness also has to be balanced with the political realities of a public antithetical to these taxes.

Another tack is to tie the war to some sort of public service. During previous wars of the 20<sup>th</sup> century, some groups such as churches devised civilian alternative service that allows individuals to fulfill their duty and provide a contribution to the country through non-military types of service. A number of countries already have some type of national service. Some countries such as Israel and Taiwan have service either in the military or in some alternative such as policing, firefighting, and the environment. Other countries such as Nigeria have a National Youth Service Corps, a one-year commitment for those who graduate from college, in which individuals provide teaching, engineering, and accounting expertise. Sweden had mandatory military service for more than one hundred years, abolished it in 2010, and re-introduced selective conscription in 2018, meaning that about 4000 men and women will be called up, or about 4% of the relevant age cohort. Those who conscientiously object can opt for alternative service in the civilian reserve.<sup>12</sup>

Proponents of national service in the United States have argued for both military and civilian service. Military officials tend to resist the idea of mandatory military service in terms of individual motivation and quality in the ranks, but civilian service would have a number of virtues. One is that the program could provide a form of livelihood and accomplishment for individuals between the ages of 16-19 who



might otherwise have few opportunities. Another is to unite the country toward a common purpose. A third is to cultivate leaders. A fourth is to convey the sense of sacrifice required of citizenship. Whereas some individuals can accomplish that through military service, others could contribute through volunteering in inner cities, hospitals, or faith-based groups.<sup>13</sup>

The point of all these proposals, from taxation to public service, is to create a connection between the public and the policy choices that the government makes so that their approval is a conscious decision informed by an awareness of the stakes and tradeoffs rather than a tacit decision perpetuated by a lack of political awareness.

## Conclusion

Debates about perpetual war have taken many forms. Some observers have suggested that the turn to light footprint warfare<sup>14</sup>—particularly drones that tend to conduct strikes that are out of sight and therefore out of mind—erodes the connection between the war and the public, making it possible to carry out conflict without public scrutiny. Others have suggested that the move to conscription shrouds the human costs of war and therefore makes it more likely. Still others have pointed to the improvements in battlefield medicine<sup>15</sup>—with far fewer individuals dying in war but instead coming back wounded and therefore not part of the ‘body count’—as making war more palatable.

All of these considerations play a role in terms of disconnecting the public from the conduct of wars abroad. They do not take into account the shift in how governments have paid for wars, however, and in particular, the shift away from war taxes as a mechanism for further eroding the democratic accountability linkages between the public and the conflicts fought under its national banner. Without closer linkages, the public will remain disconnected from the wars that are fought, and the length of recent wars of the past will become prologue.

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## Policy Recommendation

✦ With the defence budget already rising and expectations of future conflict growing, the Australian government should pre-emptively seek to explain how it will fund future military expenses. Direct war taxes should be the priority over deferred debt for reasons of clarity and accountability. The discussion of resources should also cover the obligations and call on citizens war might force, such as the use of conscription or systems of national service.

## Endnotes

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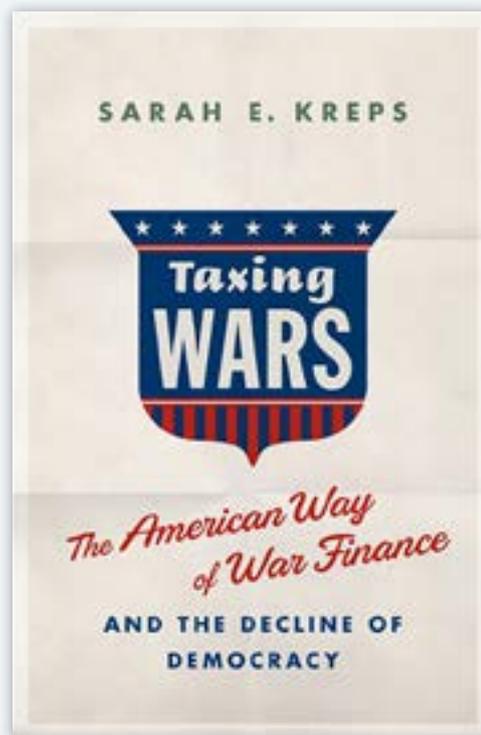
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### **TAXING WARS: THE AMERICAN WAY OF WAR FINANCE AND THE DECLINE OF DEMOCRACY**

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The phrase “endless war” has entered the vernacular in reference to wars that began after the 9/11 terrorist attacks and continue to this day. Why have those wars lasted longer than any in modern history? One view is that the move to an all-volunteer force and drones have allowed the wars to continue almost unnoticed for years. *Taxing Wars* offers a novel argument. It suggests that how citizens bear the burden in treasure has also changed, with recent wars financed by debt rather than taxes. Because they have no skin in the game, citizens have few incentives to pressure leaders to bring the wars to an end and wars continue unchecked.

Political theorists and economists going back to Immanuel Kant and Adam Smith associated the democratic conduct of war with war taxes rather than debt finance. They argued that the visibility of taxes compared to debt acted as reminders of the war and were exactly the reason why democracies tended to fight shorter and less costly wars. Bearing these burdens caused



the populace to sue for peace when the costs mounted. Leaders in a democracy, responsive to their citizens, would have incentives to heed that opposition and bring wars to as expeditious an end as possible.

In the second half of the twentieth century, democracies increasingly moved away from war taxes. Instead, borrowing—and its comparatively less visible connection with the war—has become a permanent feature of contemporary wars. The move serves leaders well because reducing the apparent burden of war has helped mute public opposition and any decision-making constraints. By unraveling accountability linkages, however, the move away from war taxes tarnishes the basis for democratic restraint in wartime. Contemporary wars have become correspondingly longer and costlier as the public has become disconnected from those burdens. Given the trends identified in the book, the recent past observed with lengthy wars in Afghanistan and Iraq is likely to be prologue.



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