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Book review

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Rosella Cappella Zielinski, *How States Pay for Wars*. **Cornell University Press, Itaca and London 2016., 187 pgs. (ISBN 978–1–501–70249–5).**

The book presents war finance concept analysis, where the author does not settle only with financing processes' description but also suggests conceptual model for decision making regarding war finance options, based on selection of case studies. The basic argument of the book is that during political leaders' decision making regarding war finance, the main challenge is finding balance between the total cost of war and states' capability to find resources necessary for war. The author of the book sheds light upon the question of war finance; why and when is armed conflict supported by taxation, printing, domestic debt or external funding. She explains that state leaders control costs of war, the capacity of the state to extract resources, but also use war finance policy to meet other domestic goals beyond the war effort- such as redistribution of wealth. Her argument is that all before mentioned makes war finance a function of political decision making, which has implications on war outcome, state economic health, state autonomy and leadership survival.

The book consists of an introduction, which reflects upon study of war finance; chapter "How States Pay for Wars" discusses key concepts and describes the author's theory of long-term finance for interstate wars; chapters "Truman and the Korean War", "Johnson and the Vietnam War", "Britain and Currency Reserves during World War II and the Crimean War" and "Taxation and Currency Reserves during the Russo-Japanese War" analyze war finance throughout different armed conflicts; chapter "Confronting the Costs of War, 1823-2203" encompasses descriptive statistics as a foundation for further studies in this area; and a conclusion.

The introduction of the book reflects upon study of war finance, which was first initiated in 1975. Interesting information was given about World War I financing; some states financed mostly by taxation, some raised taxes but did not manage to cover the costs, some borrowed both domestically and from allies abroad, some did not engage in foreign debt, and even though the war was inflationary for all, some states printed money more frequently than others. The author explains that borrowing causes high interest rates, printing results in inflation, taxation tackles inflation but is politically unfavorable, whilst borrowing from abroad results in outside influence and causes dependency. Three hypotheses are proposed. They are the following: leaders favor direct resource extraction when they fear inflation, when public support for the war is high and when revenue can be extracted; indirect resource extraction and external financing is favored when fear of inflation and public support for the war are low or when there has no extraction capacity; external funding is necessary when war inputs have to be purchased from abroad whilst state has no currency to pay for it. There is also one corollary hypotheses saying that when fear of inflation and public support are high, but revenue cannot be raised, state building is in effect. The before mentioned hypotheses encompass all the important elements of conceptual model for decision making regarding war finance options.

The author explains how states confront the cost of fighting a war and is concerned with the term *budgetary cost of the war*. The first part of chapter one explains key concepts and provides definitions of different means regarding how states pay for wars. The author notes that financing allies who contribute to war effort is included in budgetary cost, providing an example of USA during the WWI. It is followed by definitions of: war finance; direct resource extraction which includes forced labor, forced savings plans, and direct taxation; indirect resource extraction which includes indirect taxation, domestic debt, printing, austerity measures, war bonds, and the use of existing coffers; as well as external resource extraction which includes securities floated on foreign markets, interstate or sovereign-to-sovereign loans, grants, plunder, and diaspora remittances. It is stated that states combine different types of war finances and that it's a dynamic process whilst long wars provide the richest insights. The second part of chapter one describes the author's theory of long-term finance for interstate wars. She uses before mentioned hypotheses as arguments to support the claim that leaders take into account public support for war effort and inflation, in order to maximize their in-state power, and that regardless of leaders' preferences states must possess the capacity to implement selected finance option. An important fact is stressed, and that is that information about length, cost or ultimate economic impact of the conflict at the war's onset is always limited.

Chapters two, three, four and five give examples of different war finance examples in Korean War, Vietnam War, World War II, Crimean War, and Russo-Japanese War. The second chapter states that Korean War was financed through taxation, with minimal reliance on austerity, whilst Vietnam War was paid by general public debt with minimal reliance on taxation. It further describes that financing Korean War can be divided in two parts: from June 1950 to mid-1951, characterized by both high fear of inflation and support for war; and from mid-1951 to the end of war, during which fear of inflation was reduced. The third chapter describes how the Vietnam War was financed through domestic debt for the first two years of the US engagement, and from June 1968 by taxation. The author explains how Truman during Korean War raised taxes at the beginning of the war when public support was high, whereas Johnson raised taxes when support for Vietnam War was decreasing, which lead to increased political cost of tax increase. She further divided the Vietnam War finance in two phases: the first phase from March 1965 to Fall 1966 when fear of recession, no inflation was present; and the second phase from January 1967 to June 1968 characterized by fear of inflation an direct resource extraction. Chapter four describes how during World War II Britain had to use external extraction, but was able to finance Crimean War through taxation and domestic debt. The author explains the difference in financing these two wars with the source of war inputs and the ability to cope with low currency reserves. British external war finance during World War II is explained through four phases; Britain had to ask United States for a costly loan in order to match German war production. The Chapter further explains that during Crimean War, Britain was able to confront the Russian army by producing majority of goods for the war in state.

The fifth chapter talks about taxation and currency reserves during the Russo-Japanese War, in which Japan financed its' war effort trough taxation and foreign debt at lower interest rates the Russia.

The Sixth chapter encompasses descriptive statistics as a foundation for further studies in this area. The author mentions that economists suggest states should tax less and borrow more when the cost of war rises. She claims that the cost of war alone does not necessarily dictate how much of a war is financed by taxation, and that war finance is a product of both domestic interests and the international political environment.

Conclusion of the book states that the war finance strategy is a function of leader's preferences and state capacity, and that leaders are constantly balancing their desire to win the war and stay in power. It further states that the way in which a state pays for long wars shapes states' economy and society' relationship to the war effort and that those opportunities are shaped by state's location of war inputs, resource extraction and dynamics of the war. The author tried to explain the complexity of war finances trough domestic politics influenced by international forces, public support of the armed engagement, expectation of battlefield success, and location of kinetic war effort.

The big advantage of this book is its writing style simplicity, which makes it easily understandable to a wide range of audience without particular political economy knowledge. The not so good side of the book is the strong focus on particular case studies as opposed to some other examples which are not explained in nearly enough details, which is probably due to the fact that some sources are more available then others. Also, detailed analysis are focused on democratic states, whilst the decision making process in non-democratic states is not discussed enough. In conclusion, it is valid to state that, in spite its shortfalls, the book presents a valuable contribution to scientific literature regarding political decision making in war finance context.