Regime Type and Interstate War Finance

JEFF CARTER

The University of Mississippi

AND

GLENN PALMER

The Pennsylvania State University

Governments can finance the higher military spending associated with interstate war through a combination of cutting nonmilitary spending, imposing higher taxes, borrowing, and adopting an inflationary monetary policy. We argue that the incentives of survival-motivated leaders influence the strategies governments use to fund their war efforts and that regime type conditions the use of some finance strategies. Consistent with our expectations, we find that fighting an interstate war is associated with greater reductions in nonmilitary spending in dictatorships than in democracies and that contemporary democracies and dictatorships have largely avoided financing their wars through tax increases and inflation. We find little support for the argument that democracies finance their interstate wars through greater debt than nondemocracies.

Outside of the inherent casualties, perhaps the most consistent characteristic of interstate war is that it is associated with an increase in the economic resources a government spends on the military (Sandler and Hartley 1995). Countries fighting interstate wars between 1950 and 2007 spent an average of $16.2 billion dollars per year on their militaries. During the same period, governments allocated $3.3 billion dollars to military spending when they were not involved in an interstate war.[1] Thus, interstate wars typically require governments to dramatically increase the economic resources dedicated to military spending. We are

[1]These figures are based on military spending data from the Correlates of War's National Material Capabilities data set (Correlates of War 2010) and the MID 4 project (Palmer et al. 2015).

interested in how governments finance their interstate war efforts and how patterns of war finance vary across regime type.

A government can finance an interstate war effort by shifting existing resources away from nonmilitary programs or by spending "new" resources generated through higher taxes, by borrowing money, and/or by adopting an inflationary monetary policy (Rasler and Thompson 1985; Sandler and Hartley 1995). Given the practical importance and scholarly attention given to issues associated with interstate war and how governments allocate their resources, it is surprising how little we know about how contemporary governments finance their war efforts. This is changing, though, as more scholars are beginning to investigate the topic (notable examples include Schultz and Weingast 2003; Slantchev 2011; Poast 2015). However, we are unaware of any existing research that systematically examines the degree to which governments make use of each finance option.

We claim that how a government pays for interstate war is shaped by the domestic political institutions constraining its leader. More specifically, we analyze the degree to which democracies and dictatorships cut nonmilitary spending, increase taxes, increase debt levels, and/or inflate their currencies during a war.[2] We argue that we should see systematic variation in the behavior of democracies and nondemocracies with respect to two of the finance strategies: We expect nondemocracies to shift more of the resources dedicated to nonmilitary spending to the military during a war than do democracies and that democracies increase their debt to a greater degree than do nondemocracies. In contrast, we expect leaders of each regime type to avoid financing a war effort by raising taxes or by inflating their currency. Statistical analyses of all states in the international system from 1950 to 2007 are largely consistent with our expectations. We find that nondemocracies reduce nonmilitary spending during an interstate war to a greater degree than democracies and that neither democracies nor dictatorships significantly increase taxes or inflation during times of war. Contrary to "democratic advantage" arguments, we find little evidence that democracies finance their interstate wars by borrowing significantly more money than dictatorships.

The remainder of the paper consists of six sections. We first identify the options available to a government that needs to finance an interstate war effort. We then develop our theoretical expectations about how regime type influences a leader's incentives to fund a war with a given strategy. The fourth describes our empirical analyses, whereas the fifth presents our results. We conclude with a brief summary and a discussion of some of the larger implications of our findings.

Financing Interstate Wars

Participating in an interstate war requires an increase in the economic resources dedicated to the military (e.g., Sandler and Hartley 1995; Bueno de Mesquita et al. 2003). Broadly speaking, there are two ways to finance the higher military spending associated with war. The first is by shifting resources away from nonmilitary programs. The idea that governments pay for interstate wars by shifting the ex ante distribution of spending toward the military and away from other programs is typically associated with the "guns-versus-butter" trade-off (Anderton and Carter 2009). The logic behind the trade-off is that resource scarcity implies that money spent on the military (guns) crowds out the money available to spend on social programs (butter) and vice versa (among numerous others, Sprout and Sprout 1968; Mintz and Huang 1991;

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[2]We use the different forms of nondemocracy, autocracy, dictatorship, and authoritarian interchangeably in this manuscript.

Garfinkel 1994).[3] Even with scarce resources and a fixed budget, though, it is possible to increase military spending by changing the distribution of government spending without decreasing social spending. A government could achieve this by cutting nonmilitary spending not dedicated to social programs, such as infrastructure projects, debt service, or the compensation of government employees. Thus, governments can finance increased military spending by decreasing the resources it dedicates to social spending or spending on other nonmilitary programs.

Governments can also finance an interstate war by increasing the pool of available resources and allocating the increased resources to the military (Rasler and Thompson 1985). There are three ways to generate additional resources for a war effort. The first is through increased taxation, a strategy that represents the traditional explanation for how states fund war efforts (e.g., Peacock and Wiseman 1961; Tilly 1975; Bank, Stark, and Thorndike 2008; Flores-Macías and Kreps 2013). The potential costs of financing war through higher taxes are that taxes are generally unpopular, can slow economic growth if too high, and often do not raise enough revenue (e.g., Slantchev 2011; Shea 2014).

The second way governments finance interstate war efforts with new resources is to borrow money. Recent scholarship has argued access to cheap credit and borrowing has played at least as large a role as increased taxation in financing interstate war efforts (among others, Schultz and Weingast 2003; Slantchev 2012). The ability to borrow money allows a government to finance a mobilization effort through deficit spending and, importantly, to avoid the politically costly strategies of shifting the existing distribution of government spending or raising taxes (Shea 2014). However, access to international credit and the cost of borrowing varies with lenders' expectations that a sovereign will repay their debts (Schultz and Weingast 1998; Slantchev 2012; Poast 2015). The abilities of various leaders to finance an interstate war through deficit spending may, therefore, vary considerably.

Inflationary monetary policy is the third option for governments financing higher war-time military spending through increased resources. Put simply, a government could increase the resources it dedicates to the military by printing more money (Rasler and Thompson 1985; Capella 2013). This is not necessarily a desirable option as high inflation can damage the economy, which ultimately may endanger the survival of political leaders and regimes (Gasiorowski 1995; Goemans 2008). However, printing money to finance higher military spending is an option available to interstate war participants that control their own currency.

Governments, then, have four options with which they can finance the higher military spending associated with interstate war: shift resources away from non-military spending, increase tax revenue, borrow money, and adopt inflationary monetary policies. In the next section, we consider how a state's political institutions influence leaders' incentives to use each finance option.

Regime Type and Interstate War Finance

There are characteristics and implications of each war finance option that influence its attractiveness to a government's leadership. Further, there is variation in the incentives democratic and nondemocratic leaders face for changing the existing distribution of government spending and for borrowing money. By contrast, the political consequences of higher taxes and inflation are similar in democracies and dictatorships, implying that we should see little variation across regime type in the extent to which governments use these two strategies.

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[3]Although the existence of a generic guns-versus-butter trade-off that operates at all times is questionable (e.g., Domke, Eichenberg, and Kelleher 1983), it appears that some governments do sacrifice social spending in order to increase military spending under some circumstances (Palmer 1990; Whitten and Williams 2011; Carter and Palmer 2015).

Our expectations follow from a set of fairly uncontroversial assumptions. We assume that incumbent leaders are motivated to ensure their own political survival and that all leaders must retain the support of their winning coalitions in order to remain in power (Bueno de Mesquita et al. 2003). The winning coalitions of democrats and dictators systematically vary in two ways. First, the winning coalitions of democratic leaders are larger than those of nondemocratic leaders (Bueno de Mesquita et al. 1999, 2003). Second, members of the general public have relatively more political power and influence *vis-à-vis* a society's military and civilian elite in the winning coalitions of democratic leaders than they do in the winning coalitions of autocratic leaders (Dahl 1971; Acemoglu and Robinson 2006). Thus, democratic leaders best secure their tenure by being more responsive to the public's preferences while dictators retain office primarily by responding to the preferences of the civilian elite and/or military. We also assume that poor macroeconomic performances (e.g., recession, high unemployment, and, importantly, inflation) increase the probability a leader will be removed from power (Bueno de Mesquita et al. 2003; Escribà-Folch 2010; Chiozza and Goemans 2011). Last, we assume that leaders are less likely to use a finance strategy as the costs of doing so increase. These assumptions have several implications for how countries finance their interstate wars. We begin by focusing on the incentives democrats and dictators have to shift the distribution of government spending toward higher military spending.

Reducing Nonmilitary Spending

We claim that the political cost of financing the increased military spending associated with war by altering the distribution of resources should be higher for democratic leaders than nondemocratic leaders. This follows from the general spending preferences of the public, civilian elite, and military and their relative political influence in autocratic and democratic leaders' winning coalitions. Variation in the composition of leaders' winning coalitions implies that democrats primarily rely on the support of the public to remain in power. There are several differences between the spending preferences of the general public and the military or civilian elite. First, the general public derives greater benefits from social spending than do the civilian elite who pay for the social welfare state (Przeworski et al. 2000; Boix 2003). Second, members of the military prefer higher military spending than do the general public because they value a stronger military (Nordlinger 1977; Geddes 2003) and have access to private and club benefits not available to the public (e.g., salaries, goods and services at reduced prices at base exchanges). Third, higher military spending can crowd out consumption spending popular among the general public (Sprout and Sprout 1968; Fordham and Walker 2005).

Public opinion research supports these claims. Beyond the general negative relationship between income and support for the social welfare state (Cook and Barrett 1992), the public prefers higher social spending more than do the relatively affluent (Gilens 2012) and very wealthy (Page, Bartels, and Seawright 2013). Further, Bachman, Blair, and Segal (1977) find that members of the military prefer higher military spending than the general public, and Holsti (1998) and Szayna et al. (2007) find that members of the public support reducing military expenditures in order to increase education spending to a greater degree than do members of the military. These spending preferences are consistent with the tendency of members of the military to place a greater importance on military superiority (Szanya et al. 2007) and appear to be driven, at least partially, by socialization within the armed forces (Bachman et al. 2000). We conclude, then, that members of the public prefer their government to allocate more of its available

resources to social spending and fewer resources to military spending than do members of the military or the wealthy civilian elite (Carter and Palmer 2015).

The relative spending preferences of the public and elite imply that shifting existing resources away from nonmilitary purposes, such as spending on social welfare programs, will be relatively more unpopular with the general public than with the wealthy civilian elite or members of the military. As we assume that leaders are motivated by their own political survival, this implies the following prediction:

> **Hypothesis 1.** Nondemocracies should cut nonmilitary spending to a greater degree during interstate wars than democracies.

Increased Taxation

Financing higher military spending through increased taxation underlies most traditional accounts of how countries pay for war (e.g., Tilly 1975). We expect contemporary political leaders, however, to try to avoid funding war efforts through higher taxes for two reasons. First, increasing taxes is generally a politically unpopular move (Ladd et al. 1979). Second, increasing taxes to the extent required to fund a war effort could harm a country's economic performance by slowing economic growth, increasing unemployment, and/or causing a contraction in the economy. Increasing taxes could thus increase the probability an incumbent is removed from power (among others, Goemans 2008). Given the lack of political support and potential for harming the economy, we argue that all leaders will try to avoid financing wars via higher taxation.

There are two reasons to doubt that variation exists in the degree to which democracies and nondemocracies will finance their wars through higher taxes. First, poor economic performance increases the probability a leader will be removed from power in both democracies (Bueno de Mesquita et al. 2003) and nondemocracies (Escribà-Folch 2010). Second, increasing taxes risks provoking a more immediate reaction from the leader's supporters. Although the leader has an incentive to avoid targeting the members of her winning coalition, increased taxes will likely fall to some degree upon her supporters. The appeal of the leader's rivals is greater if they are able to use these higher taxes to mobilize opposition. Giving rivals a potent weapon of this nature is not a desired policy direction to take. Finally, it is not clear to us why democrats or dictators should have an inherent advantage in the ability to finance a war through increased taxation. These arguments imply the following prediction:

> **Hypothesis 2.** We expect no difference in the degree to which democracies and nondemocracies increase tax revenue during interstate wars.

Borrowing and Debt

Several scholars have argued that financing higher military spending through borrowing money is more attractive than doing so via higher taxes (e.g., Slantchev 2011). Borrowing money on the international credit market allows a state to increase its resources more quickly than is possible with taxation, provides macroeconomic stability, and finances a war without having to result to unpopular taxes that can threaten economic growth (Schultz and Weingast 2003; Slantchev 2011; Shea 2014).

We expect democracies to finance their interstate war efforts through debt to a greater degree than dictatorships. There are two reasons for this. First, as Schultz

and Weingast (1998, 2003) argue, the greater transparency and accountability of liberal governments make democracies less likely than nondemocracies to default on loans. This results in democracies being able to borrow more money at lower interest rates than nondemocracies (see also Beaulieu, Cox, and Saiegh 2012).[4]

Second, because countries that lose interstate wars often do not pay back their creditors, a country with a low ex ante probability of winning a war will have to pay a higher interest rate to borrow money on the international market than a country with a high ex ante probability of victory (Slantchev 2011, 2012). As democracies are more likely than dictatorships to win the wars they fight (Lake 1992; Reiter and Stam 2002), lenders should charge democracies lower interest rates during war time than nondemocracies. It thus follows that it should be easier for democracies to raise more money through the international credit market and finance a war through debt than is the case for nondemocracies.

> **Hypothesis 3.** Democracies should borrow more money during interstate wars than nondemocracies.

Inflationary Monetary Policy

The final way in which a government can finance the increase in military spending associated with interstate war is through inflationary monetary policy. We expect governments to avoid funding their war efforts this way, as inflation can lead to poor economic performance. Importantly, inflation can hurt the economic fortunes of both the wealthy civilian elite and the general public (Sobel 2006). Framed differently, inflation can harm the key members of autocratic leaders' *and* democratic leaders' winning coalitions. As a poor macroeconomic performance decreases the probability of autocratic *as well as* democratic leaders remaining in office (Bueno de Mesquita et al. 2003; Escribà-Folch 2010; Chiozza and Goemans 2011), we expect all leaders to avoid financing a war effort through inflation.

There are, however, two reasons to think the incentive to inflate currency during an interstate war might vary across regime type. First, the length of leaders' tenure across regime type might make inflation a more attractive finance strategy for democrats than dictators. On average, nondemocratic leaders serve longer than their democratic counterparts (e.g., Bueno de Mesquita et al. 2003; Chiozza and Goemans 2004). The relatively short-time horizon for democratic leaders implies that they might be able to inflate the currency and leave office before the negative political consequences emerge, an outcome less likely for dictators. Second, the relationship between war outcome and leader survival implies that dictators have a greater incentive to engage in inflationary monetary policy than democrats: Nondemocratic leaders are significantly more likely to be removed from power after losing an interstate war than are democratic incumbents (Chiozza and Goemans 2004; Debs and Goemans 2010). The respective posttenure fates of dictators and democratic leaders—death, exile, or jail for the former and the lecture circuit for the latter (Chiozza and Goemans 2011)—serve to increase the relative importance of winning interstate wars for nondemocratic

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[4]Some have questioned aspects of Schultz and Weingast's "democratic advantage" thesis. Oatley (2010) finds that among developing countries, nondemocracies have higher debt burdens than democracies. Focusing on accountability, DiGiuseppe and Shea (2015) find that credit downgrades have a greater effect on the political survival of autocratic leaders than democratic incumbents. Although these critiques question some elements of Schultz and Weingast's argument, Beaulieu, Cox, and Saiegh (2012) demonstrate that, compared to autocracies, democracies have greater access to credit markets and, once in the markets, better credit ratings. This suggests that, on average, democracies are better integrated into the global economic system than autocracies, a finding consistent with, among others, Bliss and Russett (1998). As long as this is the case, democracies should be able to borrow more money at a cheaper rate during an interstate war than nondemocracies.

leaders. As autocrats are more likely to be punished for losing an interstate war than are democratic incumbents, dictators should be more willing to pursue unpopular war finance strategies than democrats.

Financing an interstate war via inflation is politically risky as it courts poor economic performances that increase the probability a leader will be removed from power. Leaders' tenure and the consequences of losing an interstate war across regime type have countervailing effects on the incentives of democratic and nondemocratic incumbents to engage in inflationary monetary policy during a war. Taken together, these points lead to our final hypothesis:

> **Hypothesis 4.** We expect no difference in the degree to which democracies and nondemocracies inflate their currencies during interstate wars.

The next section describes how we empirically assess our theoretical expectations.[5]

Research Design

We analyze the relationship between regime type and the financing of interstate wars using a country-year dataset of all states in the international system from 1950 to 2007. Testing our hypotheses requires the use of four dependent variables. The first measures the percentage of a government's total expenditures dedicated to nonmilitary spending. *Nonmilitary Spending* is based on data from the Penn World Tables, version 8.0 (Feenstra, Inklaar, and Timmer 2013) and the Correlates of War's National Material Capabilities (NMC) dataset (Correlates of War 2010). The second dependent variable, *Tax Ratio*, measures a government's total tax revenue as a percentage of gross domestic product (GDP). The third dependent variable identifies the degree to which a government finances a war by borrowing. *Debt* represents a state's annual, general (logged) debt in millions of US2000$ and is drawn from the Global Financial Database (2012). Our final dependent variable measures a country's annual (logged) inflation, calculated as the yearly difference between nominal and real GDP growth. *Inflation* is based on data from the Penn World Table, v. 8.0 (Feenstra, Inklaar, and Timmer 2013).

We require three explanatory variables to test our hypotheses. The first, *Interstate War*, is coded one if a state participated in an interstate war in year *t* per the Militarized Interstate Dispute (MID) data set v. 4.0 (Palmer et al. 2015) and zero otherwise. The second measures a state's type of government. To do this, we utilize *Democracy*, operationalized as a state's score on the *Polity2* index in year *t* per the Polity IV dataset (Marshall and Jaggers 2005). We use a scalar measure (ranging from 0 to $+20$) for *Democracy* because dichotomous treatments (e.g., *Democracy* is equal to 1 if *Polity2* is greater than or equal to $+7$) have limited within-panel variation and, therefore, yield inefficient and inconsistent parameter estimates with a fixed effects estimator (among others, Beck 2008). Our third necessary variable is a multiplicative interaction term between *Democracy* and *Interstate War*. This interaction term allows us to identify how interstate war affects our four dependent variables both within and across regime type.

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[5]Note that we expect regime type to influence the relative degree to which democratic and nondemocratic leaders seek to finance most interstate wars through cuts to nonmilitary spending and debt. We accept the point made by Bueno de Mesquita et al. (1999, 798) that political institutions are unlikely to affect the behavior of leaders if an interstate war is fought over unusually high stakes (e.g., an existential wars in which the losing nation would cease to exist). However, few interstate wars, especially since World War II, concern existential stakes, with only South Vietnam in 1975 being removed from the Correlates of War list of members of the interstate system through defeat in war. Our theoretical expectations should hold for most contemporary interstate wars.

Our statistical models include a set of control variables. *Capabilities* proxies the resources a state could draw upon in an interstate war. A country with fewer total resources would have to mobilize proportionally more of its resources to get the same level of war effort as a country with greater total resources. This would alter the degree to which a country shifts nonmilitary spending to the military and/or increases its total resources to finance a war effort. *Capabilities* is measured as a country's Composite Index of National Capabilities score in year t (Correlates of War 2010).

Economic development may influence each of our dependent variables and likely has an effect on our key independent variables. Compared with poorer states, wealthier states allocate more resources to social spending (Bueno de Mesquita et al. 2003), extract more in taxes (Thies 2005), are able to borrow money at cheaper interest rates (Beaulieu, Cox, and Saiegh 2012) and, according to our data, have lower levels of inflation. Given the complex relationship between regime type and economic development, it is important to include a state's *GDP per capita* in our statistical models. This variable is taken from Gleditsch (2002).

Our models include a variable that measures a state's political capacity. All else equal, a state's ability to translate raw resources into war materiel is increasing in its political capacity (Organski and Kugler 1980). This implies that, compared with states with low political capacity, states with high political capacity should be able both to mobilize more domestic resources for interstate war and to need fewer resources for interstate war, as they make better use of the resources they have. We operationalize *Political Capacity* as a state's relative political extraction, defined as its actual tax ratio divided by its predicted tax ratio (Kugler and Tammen 2012).[6]

Alliances identifies the number of formal alliances a country has. Burden sharing could allow countries with more alliances to mobilize fewer resources to fight an interstate war than countries with fewer alliances (e.g., Olson and Zeckhauser 1966). This would allow countries with fewer allies to limit the degree to which they have to finance their own war efforts. *Alliances* is drawn from the Alliance Treaty Obligations and Provisions (ATOP) dataset (Leeds et al. 2002).

Time-series cross-sectional data present methodological issues concerning both unit heterogeneity and temporal dynamics (among others, Beck 2008). Unmodeled unit heterogeneity exists when the expected value of a dependent variable varies by cross-sectional units (e.g., Beck 2008). Failure to account for these unit effects can result in biased point estimates (Cameron and Trivedi 2005). A series of joint F tests revealed the presence of statistically significant unit effects in models of all our dependent variables. Our primary analyses are conducted using linear regression with fixed country effects. We use fixed effects estimators because they are able to account for systematic, unobserved country-level heterogeneity without relying on the untenable assumption made by random effects models—and violated by our data—that the explanatory variables in a model are uncorrelated with the unit effects (e.g., Cameron and Trivedi 2005). To ensure that our findings are not sensitive to our choice of estimator, though, we reestimated all our primary models using ordinary least squares regression with robust standard errors clustered by country and linear regression with a random country effect. The results of these models are similar to our primary analyses and are reported below.

Turning to dynamic issues, panel unit root tests indicate that our four dependent variables are not integrated. They exhibit, however, fairly high levels of temporal dependence: The correlation between our respective dependent variables at time t and $t - 1$ varies between .72 (*Inflation*) and .96 (*Debt*). Diagnostic results

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[6]Given the relationship between *Political Capacity* and *Tax Ratio*, as a robustness check, we estimated models of *Tax Ratio* that did not include *Political Capacity*. These models led to the same substantive inferences reported here.

indicate that including a one-year lag of the dependent variable eliminates the presence of statistically significant autocorrelation in our primary models of *Tax Ratio* and *Inflation* but not of *Nonmilitary Spending* or *Debt*. Removing the remaining autocorrelation among the errors required the addition of a two-year lag of the dependent variable in our primary model of *Nonmilitary Spending* and two-year and three-year lags of the dependent variable in our models of *Debt*.

As with most time-series, cross-sectional analyses of international behavior, our data contain a number of missing observations. We used multiple imputation via Amelia II (Honaker, King, and Blackwell 2007) to estimate values of the missing observations and thus avoid the inefficiency and selection bias associated with analyzing incomplete datasets and listwise deletion. The multiple imputation model was specified with one-year lags and leads and empirical lower and upper bounds on variables with missing observations in order to improve the model's predictive performance (Honaker, King, and Blackwell 2007; Honaker and King 2010). Further details about the imputation process are included in the Supplementary Appendix. The multiple imputation model produced five complete datasets of 8,485 country-year observations.

We want to emphasize three aspects of our analyses. First, the parameters reported in our results tables represent the mean values of the coefficients and corrected standard errors and significance levels as computed by Rubin's (1987) method, yielded by the estimation of identically specified statistical models on each of the five *Amelia II*-generated datasets (Honaker, King and Blackwell 2007).[7] Second, each of our tables reports the results of three statistical models. The first represents our primary model and is a linear regression model with fixed country effects. The second model in each table is a linear regression model with random country effects, whereas the third is a pooled OLS model with robust standard errors clustered on countries. The third aspect applies to our use of multiplicative interaction terms to model the conditional relationships we hypothesize. Using the interaction terms prevents us from drawing accurate inferences directly from our results tables for two reasons. First, the coefficient associated with a constituent variable or interaction term represents the effect of that variable given that the other variables associated with the interaction term are equal to zero (Braumoeller 2004). Second, the standard error associated with the constituent variable or interaction terms is incorrect because it does not take into account the variances of or the covariance with the other variables associated with the interaction term (Brambor, Clark, and Golder 2006). We, therefore, analyze the relationships between interstate war and our four dependent variables within and across regime type with a set of postestimation simulations based on the coefficient and variance–covariance matrices of our statistical models.[8] Accordingly, we focus most of our discussion in the following section on the results of our post-estimation simulations.

Empirical Results[9]

We discuss our statistical results as they apply to each of our four dependent variables in turn, beginning with those pertaining to nonmilitary spending.

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[7]Using Schafer and Olsen's (1998) notation, the standard errors are computed by taking the square root of $T = \bar{U} + (1 + \frac{1}{m})B$, where T is the total variance associated with the mean coefficient estimate, $\bar{U}$ is the within-imputation variance of the estimated coefficient [$\bar{U} = \frac{1}{m}\sum_{i=1}^{m} Ui$], B is the between-imputation variance [$B = \frac{1}{m-1}\sum_{i=1}^{m}(Q - \bar{Q})^2$], and $1 + \frac{1}{m}$ is a correction factor to account for simulation error in $\bar{Q}$. We used the program developed by Cyrus Samii to calculate the standard errors and p values (available at https://files.nyu.edu/cds2083/public/).

[8]Details about the postestimation simulations are available in the Supplementary Appendix.

[9]We will make available the data and code needed to replicate all the analyses associated with this manuscript upon publication.

Table 1. Interstate war, regime type, and nonmilitary spending, 1950–2007

	Model 1		Model 2		Model 3	
	β	SE	β	SE	β	SE
Interstate War	−6.8	1.29***	−7.08	1.24***	−6.97	1.79***
Democracy	0.22	0.01***	0.22	0.01***	0.18	0.004***
Interstate war × democracy	0.19	0.03***	0.22	0.03***	0.19	0.02***
Capabilities	−89.05	196.25	−53.82	95.3	−21.13	45.32
GDP per capita	1.89	0.14***	0.74	0.11***	0.08	0.05
Alliances	−0.1	0.04*	−0.15	0.04***	−0.13	0.03***
Political capacity	−0.24	0.26	0.29	0.24	0.27	0.18
Nonmilitary spending$_{t-1}$	0.42	0.02***	0.44	0.02***	0.48	0.02***
Nonmilitary spending$_{t-2}$	0.17	0.01***	0.16	0.01***	0.19	0.01***
Nonmilitary spending$_{t-3}$			0.1	0.01***	0.14	0.01***
Constant	15.94	4.17***	15.71	2.44***	13.15	2.75***
U			2.53	0.13***		
Observations	8,276		8,076		8,076	
R^2	0.64				0.67	
F statistic	476.56				1055.57	
Prob > F						
χ^2 statistic			7,692.76			
Prob > χ^2	<0.01		<0.01		<0.01	

Model 1: linear regression with fixed country effects; Model 2: linear regression with random country effects; Model 3: ordinary least squares with standard errors clustered on country.
Two-tailed significance tests: *$p \leq$ .1; **$p \leq$ .05; ***$p \leq$ .01.

Nonmilitary Spending

Our analyses indicate that nondemocracies and democracies each decrease nonmilitary spending during an interstate war and that the respective cuts are significantly greater in nondemocracies. Our regression results are reported in Table 1. Based on postestimation simulations of Model 1 in Table 1, Figure 1 presents the expected peace-time and war-time values of *Nonmilitary Spending* in a full democracy (blue diamond) and a full autocracy (red square), with 95 percent confidence intervals (black lines).

Figure 1 indicates that during times of peace, democracies and nondemocracies allocate 85.5 percent and 76 percent of total expenditures to nonmilitary spending, respectively. During an interstate war, autocratic nonmilitary spending is reduced by 10.8 percent, whereas nonmilitary expenditures are reduced by only 4.3 percent in democracies. Figure 1 illustrates that interstate war is associated with a reduction in the proportion of total expenditures dedicated to nonmilitary spending and, consistent with our expectations, that the decrease is in nondemocracies. We more formally assess how interstate war affects nonmilitary spending within and across regime types in Figure 2.

Panel A in Figure 2 presents the predicted difference in peace-time and war-time allocations of nonmilitary spending in democracies (blue diamond) and autocracies (red square). The difference is statistically significant when the confidence interval does not contain the zero line. Panel A in Figure 2, therefore, indicates that the 7.4 percentage point reduction in nonmilitary spending in nondemocracies and the 3.3 percentage point reduction in nonmilitary spending in democracies are each statistically significant. Substantively, this finding implies that democratic and nondemocratic regimes finance the increased military spending associated with interstate war at least partially through a reduction in nonmilitary spending.
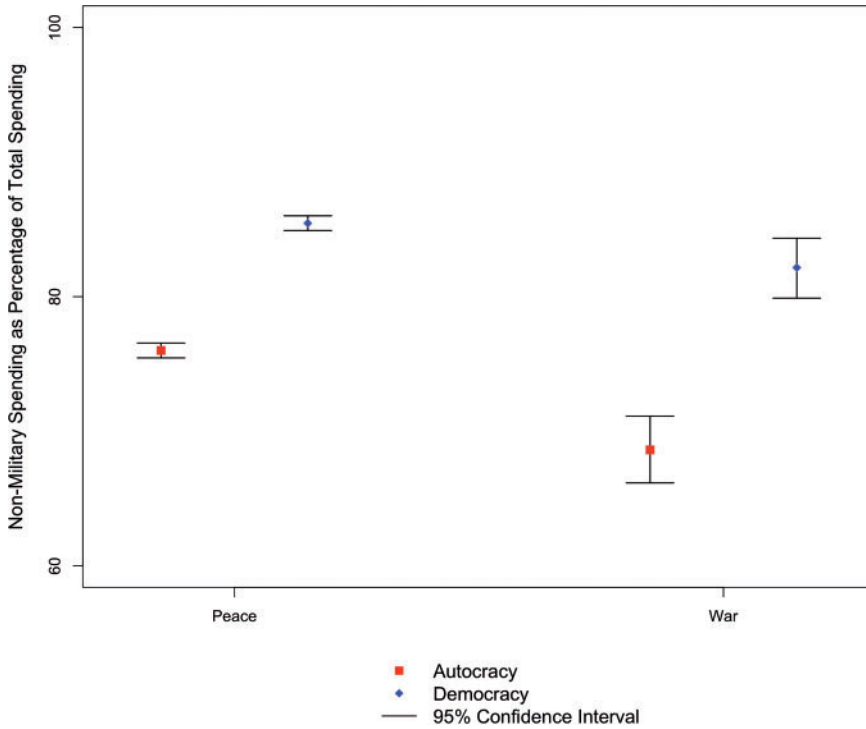
Figure 1. Interstate War, Regime Type, and Nonmilitary Spending, 1950–2007

Panel B in Figure 2 reports the difference across regime type in the change in nonmilitary spending associated with interstate war participation (black circle), with 95 percent confidence intervals (black line). This offers a direct test of Hypothesis 1. As the confidence interval lies completely below the zero line, autocracies cut nonmilitary spending during interstate war to a significantly greater degree than do democracies, consistent with our theoretical expectations.

We also analyzed the relationship between regime type, interstate war, and nonmilitary spending using postestimation simulations of Models 2 and 3 in Table 1. The substantive inferences yielded by these analyses echo those presented here: Autocracies and democracies both reduce nonmilitary spending during an interstate war and the decrease is larger in nondemocracies. For space considerations, we report these results in the Supplementary Appendix.

Turning to the control variables, we find that nonmilitary spending is increasing in a state's economic development. Our results suggest that an increase in a state's number of formal allies is associated with a decrease in the resources it dedicates to nonmilitary spending. We find no relationship between a state's capabilities or relative political capacity and the proportion of total spending dedicated to nonmilitary programs. The coefficients on the lagged dependent variables indicate the presence significant temporal dependence in states' nonmilitary spending.

Tax Ratio

Table 2 reports the results of our models of interstate war, regime type, and tax revenue. Again, as our use of interaction terms prevents us from directly assessing the effects of the independent variables on taxation, we focus our discussion on our postestimation simulations of Model 4.
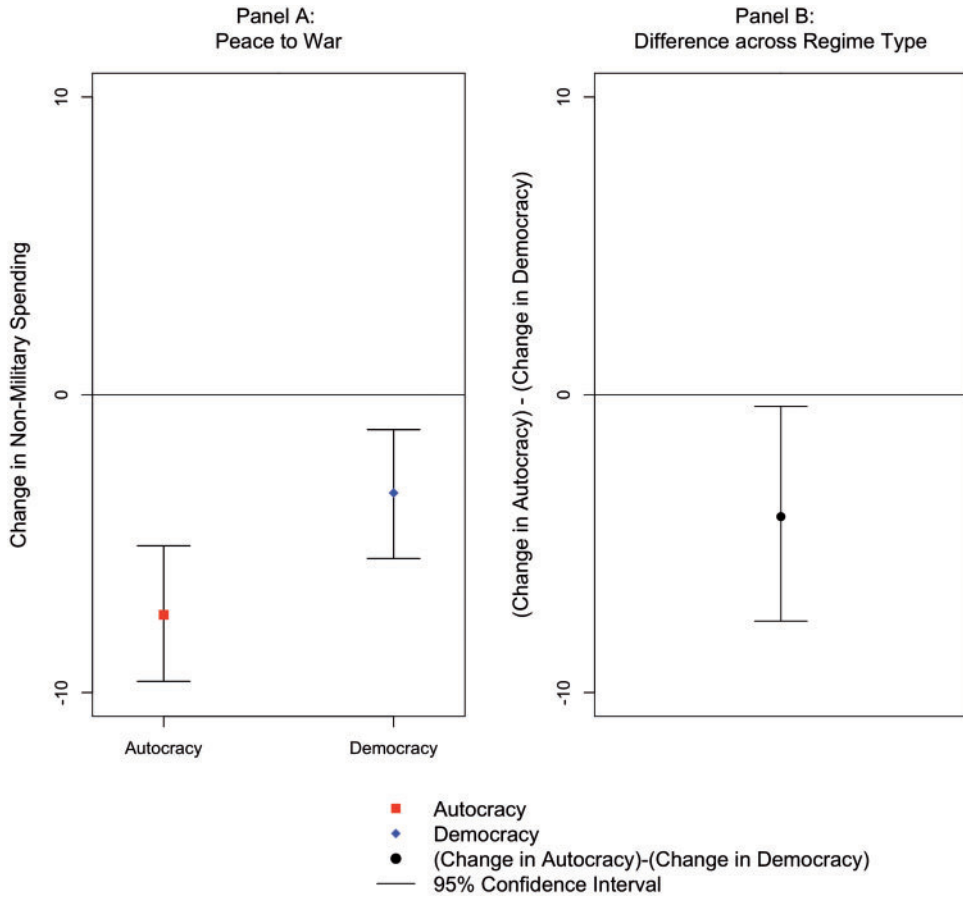
Figure 2. Interstate War, Regime Type, and Nonmilitary Spending, 1950–2007

Based on Model 4's parameter estimates, Figure 3 graphically presents the predicted *Tax Ratio* of a full democracy (blue diamond) and a full autocracy (red square) when states are at peace and involved in an interstate war. Dictatorships and democracies are expected to extract 15.2 percent and 16.1 percent, respectively, of their GDPs in taxes during times of peace. Figure 3 suggests that neither autocracies nor democracies increase taxes as a function of their involvement in a war. Specifically, autocracies are estimated to have a tax ratio of 15.5 percent during an interstate war, whereas democracies extract an estimated 15.6 percent of GDP in taxes when fighting a war. We test whether the changes in peace-time to war-time patterns of tax revenue are significant within and/or across regime type in Figure 4.

Panel A in Figure 4 presents the predicted difference in peace-time and war-time tax revenue (as a percentage of GDP) in democracies (blue diamond) and autocracies (red square), whereas Panel B reports the difference across regime type in the change in nonmilitary spending associated with interstate war participation (black circle). The results reported in Figure 4 indicate that, on average, during the period from 1950 to 2007, interstate war was not associated with significant increases in taxation among autocracies or democracies (Panel A) nor were the relative changes in patterns of tax revenue significantly different across regime type (Panel B). The findings in Figure 4 are consistent with our

Table 2. Interstate war, regime type, and tax revenue, 1950–2007

	Model 4		Model 5		Model 6	
	β	SE	β	SE	β	SE
Interstate war	0.24	0.49	0.2	0.44	0.11	0.38
Democracy	0.01	0.02	0.01	0.02	0.01	0.01
Interstate war × democracy	−0.02	0.02	−0.01	0.03	−0.01	0.03
Capabilities	−28.1	50.15	−23.25	25.89	−19.4	38.7
GDP per capita	1.2	0.24***	0.81	0.16***	0.51	0.08***
Alliances	0.25	0.07***	0.22	0.06**	0.2	0.04***
Political Capacity	7.39	0.26***	6.67	0.29***	5.39	0.28***
Tax ratio$_{t-1}$	0.29	0.01***	0.25	0.01***	0.32	0.01***
Tax ratio$_{t-2}$			0.18	0.01***	0.24	0.01***
Constant	−6.59	1.89***	−4.74	1.1***	−3.22	1.43***
U			1.63	0.06***		
Observations	8,477		8,276		8,276	
R^2	0.53				0.58	
F statistic	552.5				336.37	
Prob > F	<0.01				<0.01	
χ^2 statistic			4,048.31			
Prob > χ^2			<0.01			

Model 4: linear regression with fixed country effects; Model 5: linear regression with random country effects; Model 6: ordinary least squares with standard errors clustered on country.
Two-tailed significance tests: *$p \le .1$, **$p \le .05$, ***$p \le .01$.
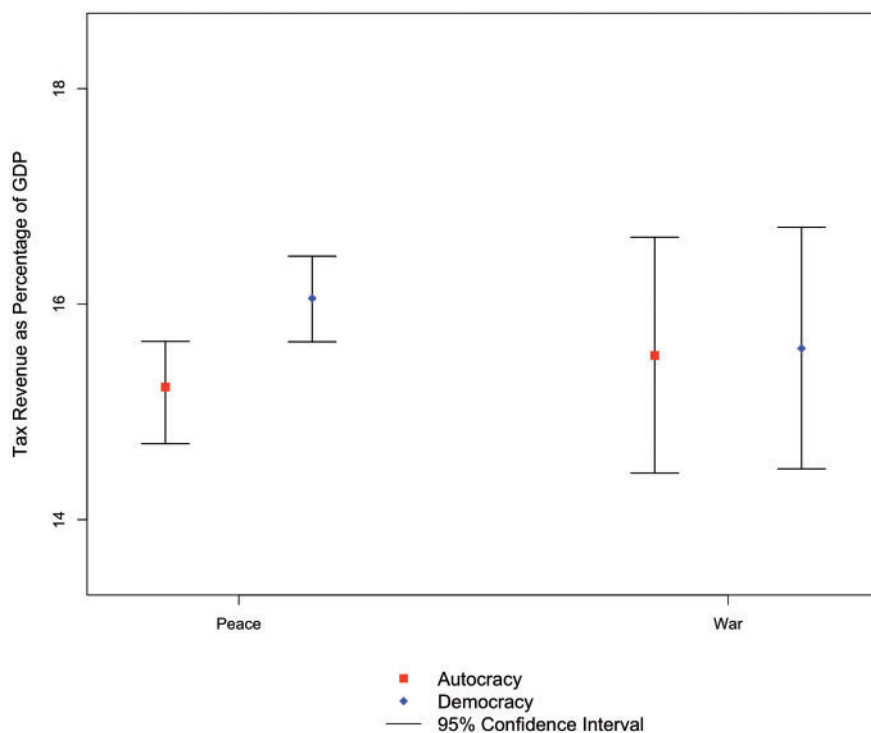
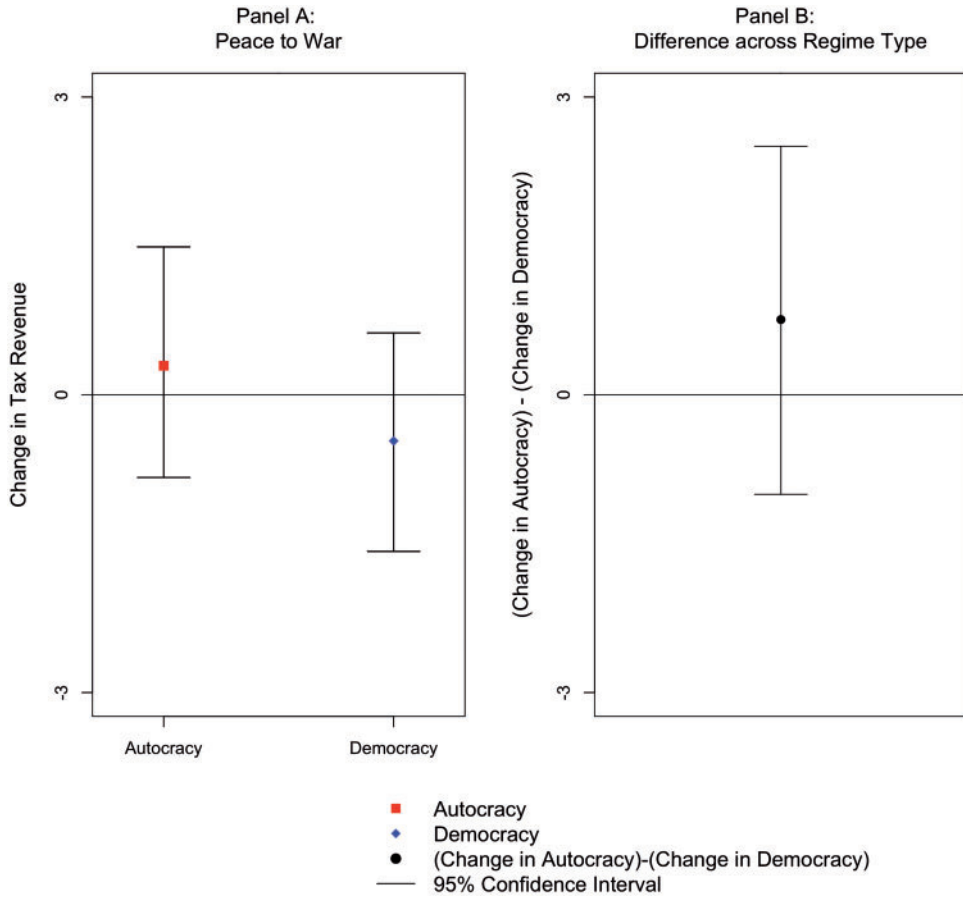**Figure 3.** Interstate War, Regime Type, and Taxes, 1950–2007

Figure 4. Interstate War, Regime Type, and Taxes, 1950–2007

theoretical expectation that both dictators and democrats avoid financing their interstate wars through increased taxation.[10]

Several of our control variables appear to influence patterns of taxation. We find that a state's tax revenue is increasing in its economic development, number of formal allies, and political capacity. However, we find no statistical relationship between a state's total capabilities and the percentage of GDP it extracts in taxes. The coefficients on the lagged dependent variables indicate the presence of temporal dependence in a state's extraction of tax revenue.

Debt

Our models of the relationship among debt, interstate war, and regime type are presented in Table 3. Based on postestimation simulations of Model 7 in Table 3, Figure 5 reports predicted levels of debt (in billions of dollars) in a full autocracy (red square) and a full democracy (blue diamond) during times of peace and

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[10]To ensure our findings are not a function of our decision to use a fixed effects estimator, we ran postestimation simulations of Models 5 (random country effects) and 6 (pooled OLS with clustered standard errors) in Table 2. These analyses were consistent with the results discussed, showing that, on average, neither democracies nor nondemocracies significantly increased the percentage of GDP extracted in taxes during interstate wars. These results are available in the Supplementary Appendix.

Table 3. Interstate war, regime type, and debt, 1950–2007

	Model 7		Model 8		Model 9	
	β	SE	β	SE	β	SE
Interstate war	0.67	0.57	0.76	0.52	0.78	0.47
Democracy	0.03	0.02	0.02	0.01*	0.02	0.01**
Interstate war × democracy	−0.03	0.02	−0.02	0.02	−0.02	0.01
Capabilities	6.39	35.59	15.35	12.21	11.28	10.89
GDP per capita	−0.4	0.14**	−0.01	0.09	0.09	0.06
Alliances	0.003	0.01	0.01	0.01	0.01	0.01
Political capacity	−0.01	0.51	−0.1	0.41	−0.12	0.31
Debt_{t-1}	0.22	0.01***	0.25	0.01***	0.29	0.01***
Debt_{t-2}	0.14	0.02***	0.17	0.02***	0.21	0.02***
Debt_{t-3}	0.12	0.01***	0.16	0.01***	0.2	0.01***
Constant	7.75	1.17***	3.36	0.7***	1.74	0.35***
U			0.83	0.08***		
Observations	8,076		8,076		8,076	
R^2	0.36				0.38	
F statistic	118.61				109.08	
Prob > F	<0.01				<0.01	
χ^2 statistic			2,652.79			
Prob > χ^2			<0.01			

Model 7: linear regression with fixed country effects; Model 8: linear regression with random country effects; Model 9: ordinary least squares with standard errors clustered on country.
Two-tailed significance tests: *$p \leq .1$, **$p \leq .05$, ***$p \leq .01$.
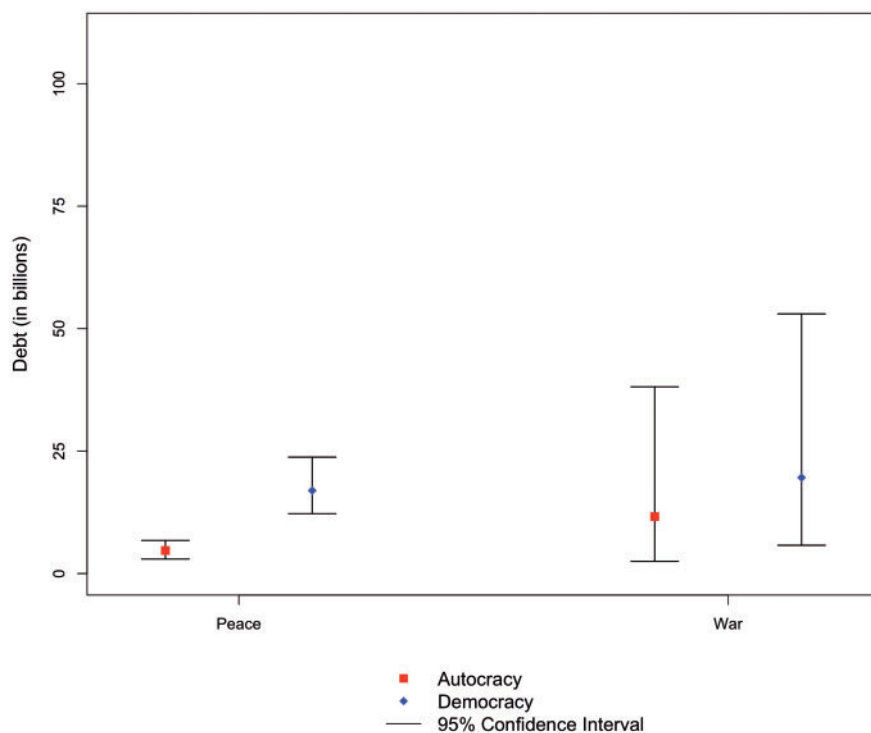
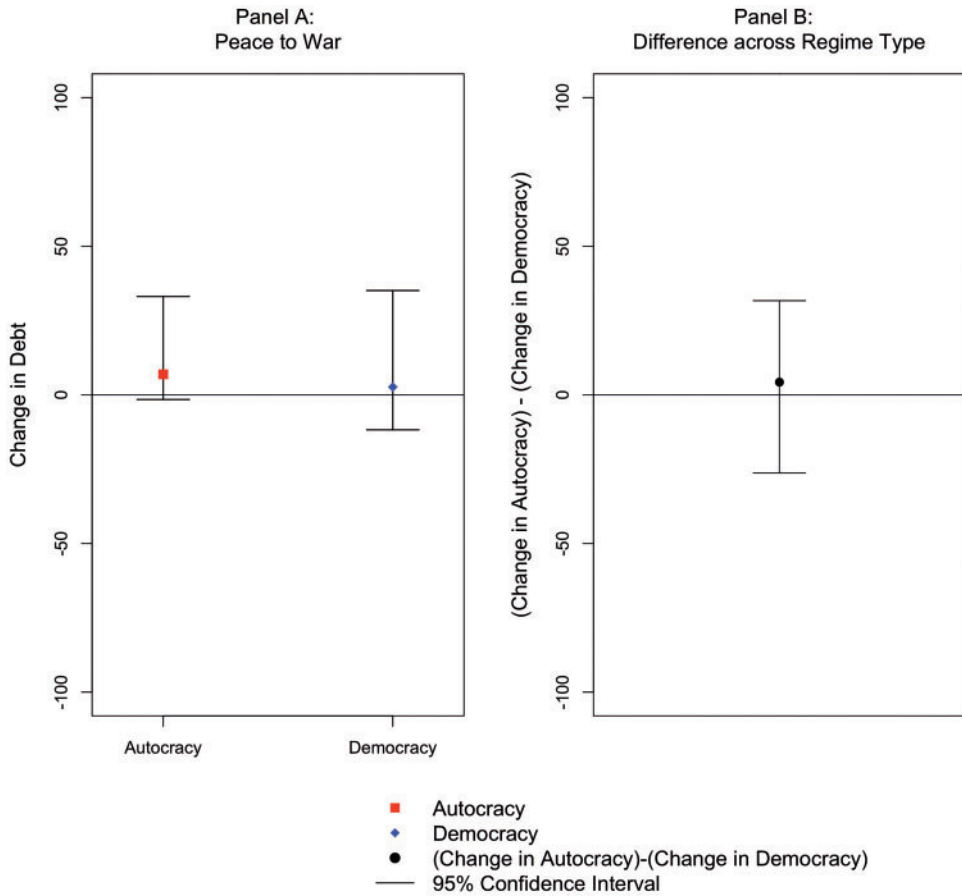**Figure 5.** Interstate War, Regime Type, and Debt, 1950–2007

Panel A:
Peace to War

Panel B:
Difference across Regime Type

Figure 6. Interstate War, Regime Type, and Debt, 1950–2007

interstate war. We exponentiated the predicted logged values of debt yielded by our regression models for expositional purposes.

Figure 5 suggests that both autocracies and democracies increase their debt levels during times of war. Autocracies are expected to owe $4.7 billion in debt during peace years, whereas democracies are predicted to be $17 billion in debt when at peace. These peace-time differences in debt appear to grow when states go to war. Autocratic debt is expected to increase to $11.6 billion during an interstate war, whereas democracies at war are predicted to have an annual debt burden of $20 billion. It is worth briefly noting that Figure 5 suggests that on average, democracies have more debt than nondemocracies, a result consistent with research that demonstrates democracies can borrow money at lower interest rates than nondemocracies (e.g., Beaulieu, Cox, and Saiegh 2012) but not the finding that autocracies have higher debt burdens than democracies among developing countries (Oatley 2010).

Figure 6 formally assesses how involvement in an interstate war affects debt levels within and across regime type. Panel A in Figure 6 presents the difference in autocratic (red square) and democratic (blue diamond) debt levels as states move from peace to war. As the confidence intervals about both predicted differences contain the zero line, Panel A indicates that the increases in autocratic and democratic debt associated with interstate war participation are not statistically significant at the 95 percent level. Further, Panel B in Figure 6 indicates that the

Table 4. Interstate war, regime type, and inflation, 1950–2007

	Model 10		Model 11		Model 12	
	β	SE	β	SE	β	SE
Interstate war	−0.13	0.06*	−0.01	0.06	0.05	0.09
Democracy	0.01	0.002**	0.001	0.002	−0.001	0.002
Interstate war × democracy	−0.01	0.005*	−0.01	0.002*	−0.02	0.005**
Capabilities	16.76	3.22***	3.2	1.56**	1.44	4.14
GDP per capita	−0.07	0.01***	−0.09	0.01***	−0.08	0.01***
Alliances	0.01	0.01	0.01	0.005**	0.01	0.005**
Political capacity	0.03	0.05	0.0001	0.03	0.03	0.04
Inflation$_{t-1}$	0.54	0.01***	0.54	0.01***	0.59	0.01***
Inflation$_{t-2}$			0.13	0.01***	0.17	0.004***
Inflation$_{t-3}$			0.08	0.01***		
Constant	1.42	0.14***	1.3	0.07***	1.18	0.08***
U			0.14	0.03***		
Observations	6,622		5,339		5,909	
R^2	0.43				0.53	
F statistic	351.06				506.46	
Prob > F	<0.01				<0.01	
χ^2 statistic			3,954.71			
Prob > χ^2			<0.01			

Model 10: linear regression with fixed country effects; Model 11: linear regression with random country effects; Model 12: ordinary least squares with standard errors clustered on country.
Two-tailed significance tests: *$p \leq .1$, **$p \leq .05$, ***$p \leq .01$.

respective changes in autocratic and democratic debt are not significantly different from one another. This finding runs against our expectation that democracies borrow significantly more money than autocracies during interstate wars.[11]

We find little evidence that our control variables influence a country's level of debt in Table 3. Model 7 suggests that a state's debt is decreasing in its level of economic development, but this relationship is not apparent in either Model 8 or Model 9. None of our models finds a relationship between a state's debt and its capabilities, political capacity, or number of allies. The statistically significant lagged dependent variables indicate that a state's level of debt exhibits strong temporal dependence.

Inflation

Our final set of analyses examines the relationship among inflation, interstate war participation, and regime type. Table 4 reports the results of our regression models.

We used the parameter estimates reported in Model 10 of Table 4 as the basis for our primary set of postestimation simulations. As with our analysis of debt, we exponentiated the logged values of inflation yielded by our regression model for expositional purposes. Figure 7 graphically presents the mean peace-time and war-time inflation for full autocracies (red square) and full democracies (blue diamond). When at peace, mean inflation is 9.9 percent in dictatorships and 9.2

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[11]We conducted a set of simulations based on Models 8 and 9 in Table 3 to ensure that the results reported in Figures 5 and 6 were not caused by our use of a fixed effects estimator. Our additional analyses suggest that the substantive increases in autocratic and democratic debt in times of interstate war are not statistically significant at the 95 percent level nor do the relative changes in debt vary significantly across regime type. These results are available in the Supplementary Appendix.
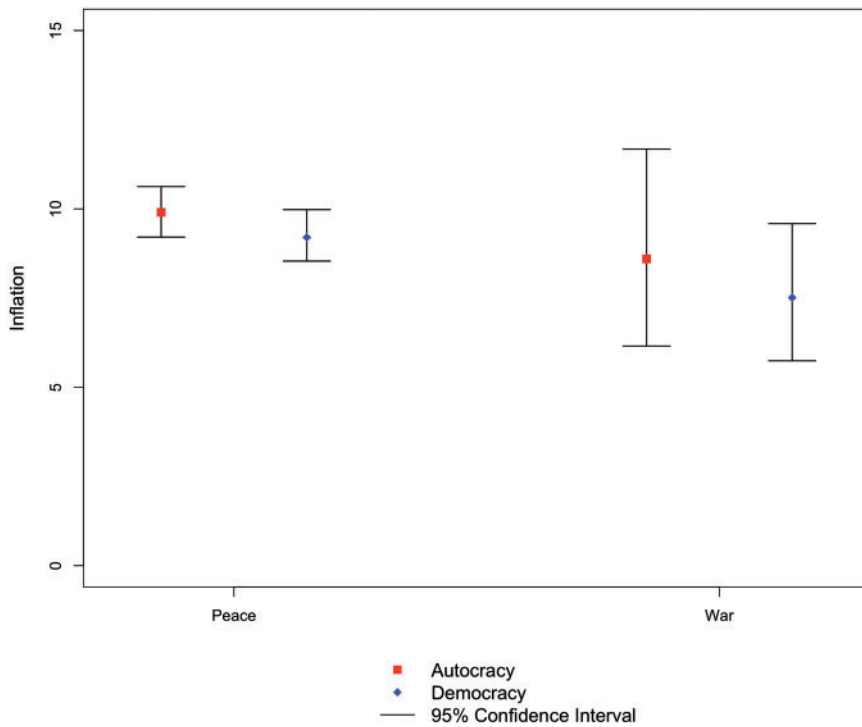
Figure 7. Interstate War, Regime Type, and Inflation, 1950–2007

percent in democratic countries. Figure 7 suggests that involvement in an inter-
state war is associated with a reduction in annual inflation, to a predicted 8.6 per-
cent in autocratic regimes and 7.5 percent in democracies. We formally assess the
effect of interstate war on inflation within and across regime type in Figure 8.

Panel A in Figure 8 presents the expected change in annual inflation in a full
autocracy (red square) and a full democracy (blue diamond) as they move from
being at peace to involved in an interstate war. As the 95 percent confidence in-
tervals around the expected differences include the zero line, Panel A indicates
that the mean reductions in autocratic and democratic inflation identified in
Figure 7 are statistically insignificant. Panel B reports the difference in the
changes in predicted inflation associated with participation in an interstate war
across regime type. The 95 percent confidence interval clearly includes zero: The
difference in the reductions of autocratic and democratic inflation during inter-
state wars is statistically insignificant. The results reported in Figure 8, then, are
consistent with our theoretical argument that both democratic and nondemo-
cratic leaders should try to avoid financing interstate war through inflation.[12]

With respect to our control variables, we find that a state's inflation is decreas-
ing in its level of economic development and increasing in its number of formal
alliances and capabilities.[13] We find no relationship between inflation and a
state's political capacity. The statistically significant coefficient on the lagged
dependent variable indicates temporal dependence in our inflation series.

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[12]We conducted a set of postestimation simulations check the robustness of our findings to the use of a random
effects estimator (Model 11) and a pooled OLS with clustered standard errors estimator (Model 12). These analyses
also indicate that inflation does not significantly change as a function of interstate war within autocracies or democ-
racies. We report these results in the Supplementary Appendix.

[13]Note that the coefficient on *Alliances* is statistically significant in Models 11 and 12.
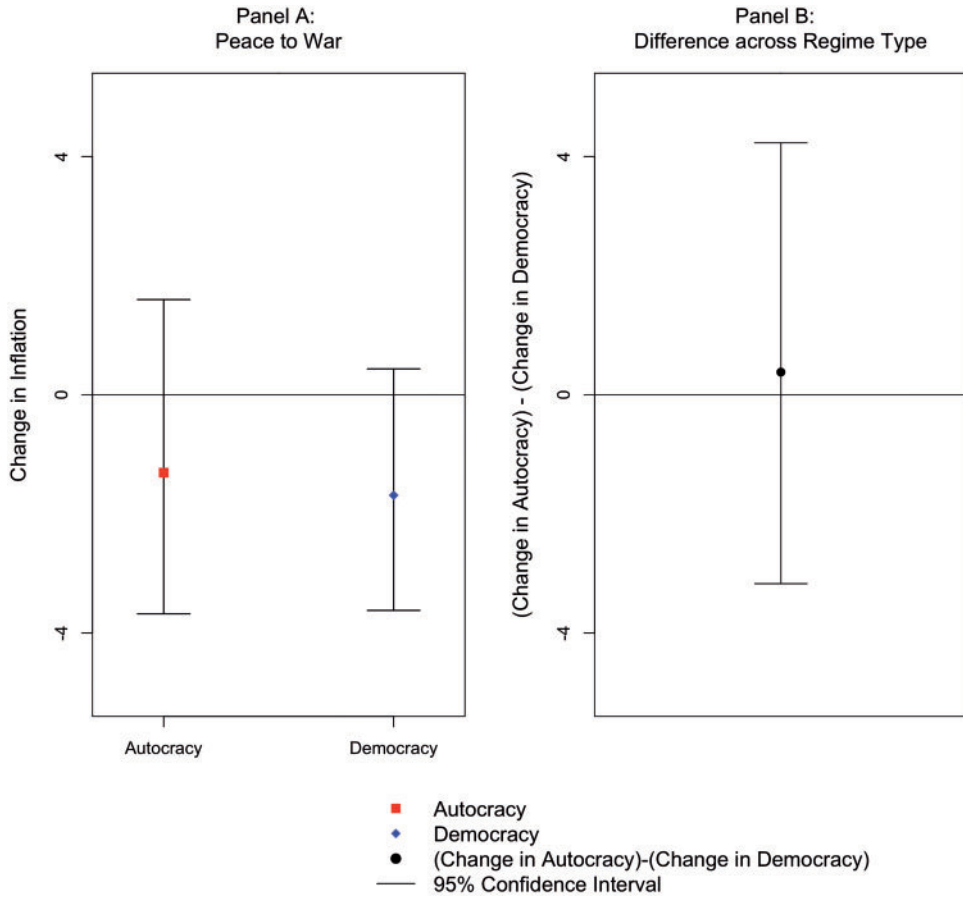
Figure 8. Interstate War, Regime Type, and Inflation, 1950–2007

Additional Analyses

The results reported thus far are based on statistical analyses that make two salient assumptions: We treat the use of the four finance options as independent and we treat all interstate wars equally. These research design decisions reflect the approach taken by the existing scholarship on interstate war finance in which the use of particular war finance options are analyzed separately and it is assumed that all wars have the same effect on the use of given finance options. To determine whether these decisions affect the results we have reported, we estimated a set of models that allow for the finance options to be related to one another, and to determine whether the adaptation of those options are affected by characteristics of a war, specifically, its duration, expected costs, and stakes. Due to space constraints, we briefly describe the results of these models here and fully present our analyses in the Supplementary Appendix.

Our statistical models estimate the extent to which involvement in interstate war influences patterns of nonmilitary spending, taxation, debt, and inflation independent of each other. To account for the possibility that the decision to use a given war finance option is related to the decision to use some other finance option, we use two estimators that allow for interdependence among interstate war finance options. The first is a simultaneous equations model that estimates the errors associated with the respective dependent variables as jointly normally

distributed (Roodman 2011).[14] The second is a three-stage least squares estimator that jointly models nonmilitary spending, taxes, debt, and inflation as endogenous to one another (see Greene 1998 for technical details).

The results of these two models are very similar to the analyses we have presented. Specifically, they indicate that nondemocracies reduce nonmilitary spending to a significantly greater degree than do democracies; nondemocracies and democracies do not significantly differ in the extent to which they increase debt during wars (although as with our original analyses the estimated values are greater for democracies); and nondemocratic and democratic states show no difference in their patterns of taxation during war-time. The one difference yielded by these models is that war-time inflation increases to a significantly larger extent among democracies than nondemocracies when we model the four dependent variables in the simultaneous equation framework but do not fully endogenize them.

Our primary analyses treat all interstate wars equally, as does most quantitative conflict research. There are at least three ways in which this design might miss important variation in how governments pay for interstate wars. First, a government's optimal finance strategy could change over the course of a war. For example, the rate at which a government can borrow money on the international credit market could change while an interstate war is ongoing, altering the relative attractiveness of financing a war through debt. To allow for the possibility that war duration affects finance strategies, we estimated a set of models that include as explanatory variables the cubic polynomial of the number of years a country has been at war and interacted each of these variables with *Democracy*. Modeling war duration using a cubic polynomial allows the models to capture nonlinearities in war finance. These models indicate that our general findings hold when we control for war duration: Autocracies appear to reduce nonmilitary spending to a significantly greater degree than democracies during an interstate war, but the differences in the other war finance strategies do not appear to be statistically different across regime type.[15]

Our decision to treat interstate wars uniformly could also miss the consequences of a selection effect for patterns of interstate war finance. Specifically, if the wars democracies fight are systematically less costly and/or involve lower stakes than the wars nondemocracies fight, it could be the case that nondemocracies systematically use less politically convenient financing methods than democracies.[16] We estimated two sets of models to address the possibility that variation in the costs and the stakes of interstate war across regime type are driving our results. To model the costs of interstate war, we included a variable that measures the annual change in a state's military spending in our models and interacted this variable with regime type and interstate war involvement. This allows us to model whether and, potentially, how the amount of resources a government needs to allocate to the military to fight a war affects the relationship between regime type and interstate war finance. The results indicate that our substantive findings continue to hold: Regardless of how much military spending increases during a war, nondemocracies reduce nonmilitary spending to a greater degree than democracies and there is no statistical difference across regime type in the increase in taxes, debt, or inflation. The results also suggest that the extent to which a government uses a given finance option is marginally increasing in the extent to which military spending increases during a war.

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[14]This was done with the CMP module in Stata 13. We thank an anonymous reviewer for suggesting this estimator.

[15]We find, too, that the use of the some finance strategies varies over the course of an interstate war. For example, inflation decreases for the first couple of years during a war before increasing in year three among democracies, but is relatively flat for the first four years of a war before decreasing among nondemocracies.

[16]We thank an anonymous reviewer for raising this issue.

We last investigate the possible effects of variation in the stakes of interstate wars across regime type. If, for example, the wars democracies fight systematically concern less important matters than the wars nondemocracies fight, democracies would not require as many resources to fight as would nondemocracies. Accurately identifying the stakes of an interstate war ex ante is extremely difficult because (1) conflicts can escalate far beyond the initial participants (e.g., World War I) and (2) governments' demands of what is required to end a war, and thus the stakes of a war, are endogenous to how they are faring on the battlefield (e.g., Slantchev 2003). Nonetheless, scholars generally agree that disputes about territory are more likely to escalate and more likely to involve fatalities and higher levels of fatalities than disputes about other issues (e.g., Vasquez 1995; Braithwaite and Lemke 2011). We, therefore, estimated a set of models that distinguish between interstate wars fought over territorial or other issues according to the MID project (Palmer et al. 2015). Our analyses suggest that controlling for the war's stakes affect some of our findings but not others. For example, after controlling for stakes, we continue to find no significant difference across regime type in the changes in taxation or debt levels associated with involvement in interstate war, although both regime types appear to have large substantive increases in debt during territorial wars. When controlling for stakes, however, we find that nondemocracies reduce nonmilitary spending to a significantly greater degree than democracies during nonterritorial wars (consistent with our initial results), but not during those wars fought over territorial issues. In other words, the involvement of nondemocracies and democracies in territorial war does not lead to different effects on nonmilitary spending. We also find that fighting a nonterritorial war has no significant effect on inflation but that, compared with peace-time, inflation is significantly lower for democracies and nondemocracies during territorial wars and that the reduction is greater among nondemocracies.

Discussion and Conclusion

Waging interstate war is one of the most expensive actions a government can undertake. Despite this fact, research on how states pay for their wars historically has been relatively sparse. Fortunately, scholars increasingly are investigating how governments finance the increase in military spending associated with interstate war (e.g., Schultz and Weingast 2003; Flores-Macías and Kreps 2013; Poast 2015). We argue that a useful framework for understanding how governments fund their war efforts is to focus on the incentives of survival-motivated incumbents. Our statistical analyses of the period from 1950 to 2007 are generally consistent with our expectations and support the larger theoretical approach of understanding state and interstate behaviors as a function of the decisions made by self-interested leaders.

The analyses presented here offer answers to the two questions asked at the beginning of this article: (1) how do governments pay for war? and (2) do democracies and dictatorships differ in how they pay for war? Our results suggest that contemporary governments finance the increased military spending associated with interstate war through a combination of reducing nonmilitary spending and debt. We find statistically significant reductions in the proportion of total dedicated to nonmilitary spending and substantively large, but statistically insignificant, increases in annual debt in both autocracies and democracies. Our statistical analyses indicate that neither democracies nor dictatorships systematically increase the proportion of resources they extract in taxes from their countries or engage in inflationary monetary policy.

Our results, then, suggest that autocracies and democracies primarily finance their interstate wars in the same way: cutting nonmilitary spending and borrowing money. However, we find some variation in the extent to which democracies and

dictatorships use these two finance options. Consistent with our expectations, our analyses indicate that nondemocracies reduce nonmilitary spending during an interstate war to a significantly greater degree than do democratic regimes. We argue that this finding stems from variation in the spending preferences of the key members of democratic and nondemocratic winning coalitions: Members of the public prefer greater social spending than members of the military or wealthy civilian elite (Szanya et al. 2007; Gilens 2012), so democratic leaders are more constrained from reducing nonmilitary spending during an interstate war than are dictators (Carter and Palmer 2015).

We find less support for the idea that democracies are able to finance their interstate wars through debt to a greater degree than nondemocracies. The idea of a democratic advantage in war-time borrowing is most closely associated with the research of Schultz and Weingast (1998, 2003), who demonstrate that liberal states historically had access to international credit at lower interest rates than illiberal states during competitions for control of the interstate system (a finding consistent with the more nuanced and systematic analysis of Beaulieu, Cox, and Saiegh 2012). Our results, however, suggest that the democratic advantage in access to cheaper credit does not necessarily translate into democracies financing their wars through greater debt than nondemocracies in the contemporary interstate system. To borrow the language of Most and Starr (1984), our findings suggest that just because democracies have the opportunity to run up greater debts than nondemocracies during an interstate war does not mean that they are willing to do so.

Our results indicate that democracies do not alter spending priorities very much during war involvement: They do not significantly increase taxes, borrow more, engage in inflationary policies, or, compared with nondemocracies, cut nonmilitary spending. We see these results as consistent with the view that democratic leaders chose their wars carefully or at least with more caution than do autocratic leaders (e.g., Reiter and Stam 2002). Democratic leaders appear to select those wars that can be fought without requiring politically painful changes in spending priorities or in the means of revenue enhancement.

This article contributes to the growing literature on interstate war finance by analyzing how governments fund their war efforts through reducing nonmilitary spending, increasing taxes, debt, and inflation and whether the use of these respective finance options varies across regime type. Our results suggest that contemporary governments fund the higher military spending associated with interstate war through a combination of lower nonmilitary spending and debt and, to a lesser degree, that the use of these two finance options varies across regime type.

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