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Center for Strategic and Budgetary Assessments

# UNSTABLE EQUILIBRIUM

ANALYSIS OF THE 2026  
DEFENSE BUDGET REQUEST



TRAVIS SHARP



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**Cover graphic:** A recruit with India Company, Third Recruit Training Battalion, walks down the balance beam during the obstacle course at Marine Corps Recruit Depot, San Diego, August 27, 2020. Photo by Lance Corporal Grace J. Kindred.

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## CHAPTER 1

# Return to the Upward Drift: The 2026 Request and Reconciliation

The fiscal year (FY) 2026 Department of Defense (DoD) budget request, supplemented by reconciliation, would provide the biggest single-year spending increase in nearly a quarter century. This expansion would reverse the previous year's contraction, returning total Pentagon spending (including supplementals) to the 2024 level in real terms. Overall, the 2026 budget would restore the upward drift in defense spending that has persisted for a decade as U.S.–China military competition has intensified.

By returning to the upward drift, the 2026 budget may suggest the Trump administration and Congress have settled into a well-grooved course for defense spending. Nothing could be further from the truth. The 2026 budget is an unstable equilibrium among contending ideas and factions within President Donald Trump's governing coalition. Unresolved tensions exist over defense strategy, DoD's topline, and investment priorities, as detailed in this report.

### **Big Gain in 2026 Reverses Big Loss in 2025**

The 2026 DoD topline of \$961.6 billion comes in two parts (Table 1). First, there is \$848.3 billion requested by the president through the base budget. Second, there is \$150 billion in one-time defense funding added by Congress through the reconciliation law passed in July. Although reconciliation funds remain available until 2029, the administration has assumed \$113.3 billion (about 75 percent) will be spent in 2026. That amount, plus the base budget, sums to the DoD total of \$961.6 billion, representing 9.5 percent real growth over 2025. That is the largest growth since 2003 and the ninth largest since 1948, trailing increases of 11.5 percent and 10.3 percent in 1981 and 1982, respectively, during the Carter–Reagan defense buildup. If Congress increased the 2026 base budget to the level recommended by Senate

appropriators (\$871.7 billion), then real growth would rise to 12.2 percent, surpassing the 1981–1982 levels.<sup>1</sup>

**TABLE 1: BUDGET AUTHORITY IN PRESIDENT'S REQUEST AND RECONCILIATION (CURRENT DOLLAR BILLIONS), FY25 TO FY30**

Totals may not add due to rounding	FY25 enacted	FY26 requested	FY27 projected	FY28 projected	FY29 projected	FY30 projected
<b>DoD (excl. supplemental &amp; reconciliation)</b>	<b>848.3</b>	<b>848.3</b>	-	-	-	-
DoD base budget (discretionary)	848.3	848.3	-	-	-	-
<b>DoD (incl. supplemental &amp; reconciliation)</b>	<b>860.1</b>	<b>961.6</b>	-	-	-	-
Supplemental (shipbuilding, natural disasters)	11.8	-	-	-	-	-
Reconciliation (DoD)	-	113.3	~\$40b in reconciliation funds assumed to remain for FY27-FY29			
<b>National defense (excl. supplemental &amp; reconciliation)</b>	<b>892.5</b>	<b>892.6</b>	-	-	-	-
DoD base budget (discretionary)	848.3	848.3	-	-	-	-
Atomic energy defense activities (discretionary)	33.3	34.1	-	-	-	-
Defense-related activities (discretionary)	10.9	11.3	-	-	-	-
<b>National defense (incl. supplemental &amp; reconciliation)</b>	<b>904.3</b>	<b>1011.9</b>	-	-	-	-
Supplemental (shipbuilding, natural disasters)	11.8	-	-	-	-	-
Reconciliation (DoD)	-	113.3	~\$40b in reconciliation funds assumed to remain for FY27-FY29			
Reconciliation (non-DoD)	-	6.0	-	-	-	-
Nominal growth DoD (excl. suppl. & reconcil.)	0.7%	0.0%	-	-	-	-
Nominal growth DoD (incl. suppl. & reconcil.)	-5.4%	11.8%	-	-	-	-
Real growth DoD (excl. suppl. & reconcil.) (FY25 GDP price index)	-1.5%	<b>-2.0%</b>	-	-	-	-
Real growth DoD (incl. suppl. & reconcil.) (FY25 GDP price index)	-7.5%	<b>9.5%</b>	-	-	-	-

**Sources:** DoD, Office of Management and Budget (OMB).<sup>2</sup>

**Notes:** In billions nominal \$ discretionary and mandatory budget authority. Reconciliation figures reflect administration assumptions about portion of total reconciliation funding that will be spent in FY26. Atomic energy and defense-related FY26 figures do not sum to national defense total because of discrepancy in data reported by DoD and OMB when report went to press. Adjusted for inflation with FY25 gross domestic product chained price index because OMB had not released an FY26 update when report went to press.

In real terms, the 2026 budget returns Pentagon funding to its 2024 level, making last year's shrunk budget—the second-largest decrease since the Cold War ended—seem like an anomaly. The anomaly is easily explained. Last year featured the second-smallest supplemental in 25 years. Only the 2021 supplemental was smaller. It is no coincidence that these two years with small supplementals were also the only years since 2016 with topline cuts.

- 1 Senate Appropriations Committee (SAC), "Senate Committee Approves FY 2026 Defense Appropriations Bill," July 31, 2025, <https://www.appropriations.senate.gov/news/majority/senate-committee-approves-fy-2026-defense-appropriations-bill>; and SAC, "Senate Passes FY 2026 MilCon–VA Appropriations Bill," August 1, 2025, <https://www.appropriations.senate.gov/news/majority/senate-passes-fy-2026-milcon-va-appropriations-bill>.
- 2 Department of Defense (DoD), *Defense Budget Briefing*, June 2025, 4, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2026/FY2026\\_Budget\\_Request.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2026/FY2026_Budget_Request.pdf); Office of Management and Budget (OMB), *Crosscut Tables 2026*, Table 1-3, June 2025, <https://www.whitehouse.gov/wp-content/uploads/2025/04/BUDGET-2026-CROSSCUT.pdf>; and OMB, *FY 2025 Historical Tables*, Table 10.1, March 2024, <https://www.govinfo.gov/content/pkg/BUDGET-2025-TAB/xls/BUDGET-2025-TAB-11-1.xlsx>.

Supplementals have caused major swings in DoD spending for decades. Base budgets have tended to change incrementally; supplementals have determined peaks and troughs.<sup>3</sup> When defense funding grows rapidly, supplementals usually drive the action.<sup>4</sup> The 2026 budget continues this pattern, with reconciliation playing the expansionary role of a supplemental.

## Topline Boost Seems Incompatible with Prioritization Strategy

A big increase is not what experts expected for the 2026 defense budget. After Trump's election, many analysts (including the author) predicted the budget would not grow much due to Republican fiscal and defense hawks pushing in opposite directions.<sup>5</sup> The administration's early moves did little to alter this expectation.

In February, DoD started an internal "relook" at the 2026 budget request to shift funds from lower- to higher-priority activities.<sup>6</sup> In March, it distributed interim strategic guidance stressing prioritization, a concept consistent with shifting, not boosting, resources to focus on the most pressing threats.<sup>7</sup> The appointment of prioritization advocates to senior Pentagon positions suggested DoD would optimize current resources.<sup>8</sup> So did the return of fiscal conservative Russell Vought to lead the Office of Management and Budget and the appointment of Elon Musk to steer the Department of Government Efficiency.

The direction of administration policy reversed abruptly on April 7 when Trump said he had approved a defense budget of around \$1 trillion.<sup>9</sup> The likeliest explanation for the U-turn is that the president made a virtue of necessity. Congress had vowed for months to include defense funds in its reconciliation bill.<sup>10</sup> Rather than stand by, the president absorbed into

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3 From FY02–FY26, the standard deviation for base budget annual real growth was 5 percent. For supplementals, it was 628 percent.

4 Congressional Budget Office, *Funding for Overseas Contingency Operations and Its Impact on Defense Spending*, October 2018, <https://www.cbo.gov/publication/54219>.

5 Valerie Insinna, "Trump Admin Will Bring 'Uncertainty,' Opportunities for Defense Industry: Analysts," *Breaking Defense*, November 6, 2024, <https://breakingdefense.com/2024/11/trump-admin-will-bring-uncertainty-opportunities-for-defense-industry-analysts/>.

6 Anthony Capaccio, "Hegseth Set to Seek 8% Spending Shift at Pentagon," *Bloomberg*, February 14, 2025, <https://www.bloomberg.com/news/articles/2025-02-14/hegseth-set-to-seek-8-spending-shift-at-pentagon-as-doge-looms>.

7 Elbridge A. Colby, *The Strategy of Denial: American Defense in an Age of Great Power Conflict* (New Haven, CT: Yale University Press), 276–278; and Alex Velez-Green and Robert Peters, *The Prioritization Imperative: A Strategy to Defend America's Interests in a More Dangerous World* (Washington, DC: Heritage Foundation, August 2024), 25–26, <https://www.heritage.org/defense/report/the-prioritization-imperative-strategy-defend-americas-interests-more-dangerous>.

8 Noah Robertson, "Pentagon Announces Slate of New Officials for Second Trump Term," *Defense News*, January 21, 2025, <https://www.defensenews.com/pentagon/2025/01/21/pentagon-announces-slate-of-new-officials-for-second-trump-term/>.

9 Roxana Tiron, "Trump, Hegseth Tout \$1 Trillion U.S. Defense Budget," *Bloomberg*, April 7, 2025, <https://www.bloomberg.com/news/articles/2025-04-07/trump-hegseth-tout-1-trillion-us-defense-budget>.

10 John M. Donnelly, "GOP Eyes \$100 Billion-Plus for Defense in Reconciliation Bill," *Congressional Quarterly*, January 9, 2025.

his budget plan what Congress intended to do anyway, repeating a maneuver from his first administration.<sup>11</sup> Once the president publicly committed to a \$1 trillion budget, his subordinates had to make it happen—regardless of what they planned prior to April 7 or plotted for the future.

This series of events suggests that defense strategy played little role in determining the size of the 2026 budget. A senior official all but confirmed as much in June when asked about next year's budget. The official answered:

That [the budget's size] has obviously been an active discussion among this team in the beginning of this new administration. The president has said \$1 trillion defense budget and so that's what we did for FY '26. We have not yet discussed what that will look like for '27. But unless the president's tone changes, I imagine we'll stick with \$1 trillion.<sup>12</sup>

This statement portrays the Pentagon as reacting to the president's \$1 trillion public commitment rather than shaping it beforehand. The president's viewpoint, not defense strategy, is offered as the sole reference point for sizing the 2027 budget. Although the president is the rightful arbiter of the budget request's size, DoD planning should inform his decision-making. Based on the statement quoted above, that step may not have happened with the 2026 budget.

These events have put the administration's new national defense strategy into a bind. The strategy development process emphasized prioritization.<sup>13</sup> Yet that theme seems inconsistent with the president having embraced a 2026 defense budget near \$1 trillion fueled by 9.5 percent real growth.<sup>14</sup> The administration will need to explain this incongruity as it presents the strategy to DoD, Congress, allies, and partners. An explanation is necessary because strategy must convincingly characterize the current situation if it hopes to galvanize future action.<sup>15</sup> If the strategy is perceived to be disconnected from current real-world resourcing, then policymakers will pay it less heed when deciding where to spend and what to do. The result would be a strategy greatly weakened in its ability to influence budgeting—a major setback for the United States given the challenging mix of security threats it faces.

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11 Tony Bertuca, "How GOP Defense Hawks Delivered a Massive Military Budget," *Inside Defense*, March 27, 2018, <https://insidedefense.com/share/194643>.

12 DoD, "Background Briefing on FY 2026 Defense Budget," June 26, 2025, <https://www.defense.gov/News/Transcripts/Transcript/Article/4228828/background-briefing-on-fy-2026-defense-budget/>.

13 Clementine Starling-Daniels and Theresa Luetkefend, "Questions Congress Should Ask about DOD 'Peace through Strength' Plan," *Defense News*, April 16, 2025, <https://www.defensenews.com/opinion/2025/04/16/questions-congress-should-ask-about-dod-peace-through-strength-plan/>.

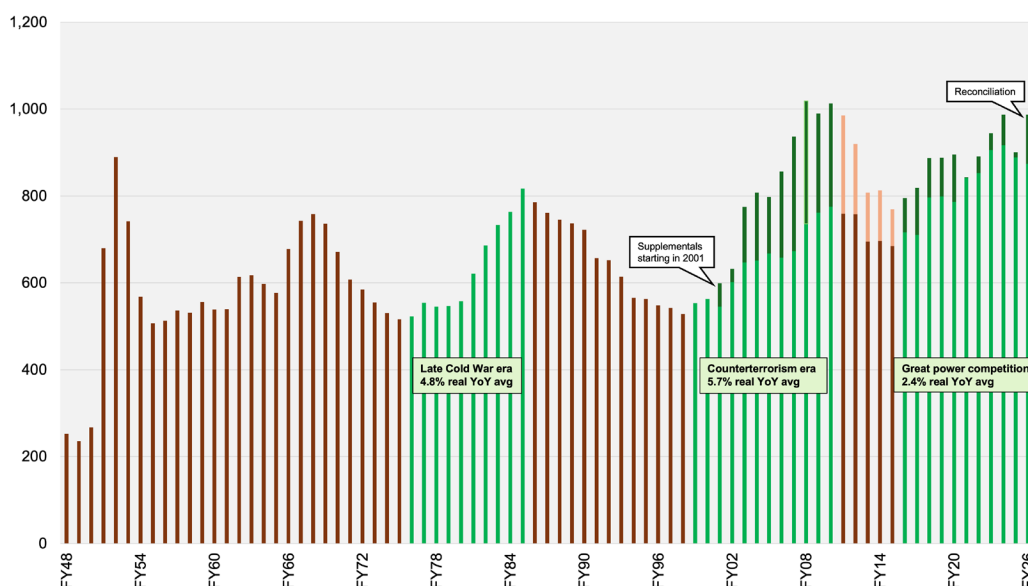
14 Jennifer Lind and Daryl G. Press, "Strategies of Prioritization: American Foreign Policy after Primacy," *Foreign Affairs*, July/August 2025, <https://www.foreignaffairs.com/united-states/strategies-prioritization-lind-press>.

15 Hal Brands, *What Good Is Grand Strategy?* (Ithaca, NY: Cornell University Press, 2014), 3.

## Two Cheers for the Upward Drift

At 11 years and counting, the current upward drift in defense spending has lasted longer than the late Cold War spending surge and nearly equaled the counterterrorism-era build-up's duration (Figure 1).<sup>16</sup> Experts often claim the United States is neither spending enough nor investing adequately in the most needed capabilities to meet the pacing threat from China.<sup>17</sup> Those criticisms have merit; however, they do not mean Washington has been unresponsive to the international security environment.

**FIGURE 1: DOD TOPLINE WITH THREE UPWARD DRIFT PERIODS (CONSTANT FY26\$ BILLIONS), FY48 TO FY26, INCL. SUPPLEMENTALS AND RECONCILIATION**



Sources: DoD, OMB.<sup>18</sup>

**Notes:** In billions FY26\$ discretionary and mandatory budget authority. Figure does not break out supplementals prior to FY01. Reconciliation figures reflect administration assumptions about portion of total reconciliation funding that will be spent in FY26. YoY: year over year.

The United States has steadily raised defense spending since 2016 despite the political and domestic challenges it has faced during that time. Whatever its limitations as a strategic competitor, Washington is still capable of progressively intensifying its defense effort across presidential administrations over a prolonged period. That is no guarantee of long-term success, but it does give American planners something to work with.

<sup>16</sup> The term “drift” describes the budget’s nonmonotonic upward direction.

<sup>17</sup> Seth G. Jones, “The President’s Defense Budget Misses the Mark,” *Wall Street Journal*, June 27, 2025, <https://www.wsj.com/opinion/the-presidents-defense-budget-misses-the-mark-17d02713>.

<sup>18</sup> DoD, *Defense Budget Briefing*, 4; OMB, *Crosscut Tables 2026*, Table 1-3; and DoD, *National Defense Budget Estimates for FY 2025*, April 2024, Tables 2-1, 5-6, 6-8, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2025/fy25\\_Green\\_Book.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2025/fy25_Green_Book.pdf).

## Conclusion

The question is whether the upward drift will continue next year and beyond. The 2026 budget request materials released to date omitted the future spending projections that are normally included in the annual budget. The administration's intentions therefore remain unknown.

From a defense planner's perspective, what is the ideal structure for the 2027 defense budget? Should it rely on reconciliation, a supplemental, a bigger base budget, a flat base budget, or a mix of these approaches?

The concluding chapter analyzes those options and recommends a bigger base budget plus a supplemental. That recommendation rests on an assessment of a key tension evident in the 2026 budget: the different investment priorities in reconciliation versus the base budget. The next chapter examines that tension.

## CHAPTER 2

# Reconciliation Invests More Narrowly Than the Base Budget

The Trump administration and its congressional allies have argued that reconciliation and the 2026 base budget request encompass a shared vision for defense. The administration called it “one budget, two bills.”<sup>19</sup> Lawmakers echoed that message. As Representative Mike Rogers, House Armed Services Committee chairman, said, “President Trump has a visionary strategy of Peace through Strength, and this [reconciliation] investment is how we begin to execute it.”<sup>20</sup>

Projecting unity is good politics; however, one should not assume that aligned rhetoric automatically equals aligned resourcing.

Comparing the specifics of reconciliation with the base budget reveals less harmony than policymakers have claimed. Reconciliation does not make balanced investments across the joint force, but the base budget request does. This fundamental difference is evident in the allocations by appropriation title and military service. Overall, the plans’ differing priorities present several risks that policymakers must manage.

### The Risk of Reconciliation’s Hyper Focus on Investment

Reconciliation overwhelmingly supports investment (procurement along with research, development, test, and evaluation [RDT&E]), whereas the base budget request dedicates

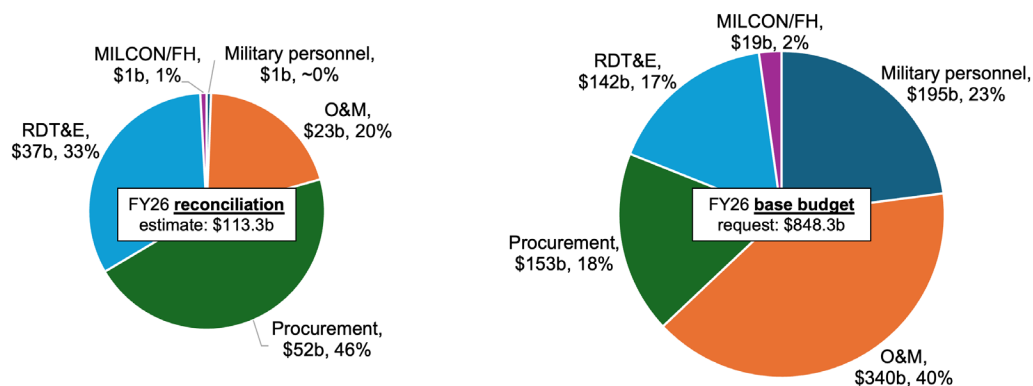
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19 DoD receives funding through two appropriations bills, defense and military construction–veterans affairs, but it wisely avoided the confusing tagline, “one budget, three bills.” DoD, “Background Briefing.”

20 Senate and House Armed Services Committees, “Statements on Reconciliation Legislation,” April 27, 2025, <https://armedservices.house.gov/news/documentsingle.aspx?DocumentID=5062>.

most funds to operation and maintenance (O&M) and military personnel (Figure 2). Many observers will find this unsurprising. After all, reconciliation originated in Congress, which for years has disproportionally added money for procurement and RDT&E while cutting money for O&M and military personnel.<sup>21</sup> Reconciliation thus reflects existing legislator preferences.

**FIGURE 2: ALLOCATIONS BY APPROPRIATION TITLE, RECONCILIATION VS. BASE BUDGET REQUEST (CURRENT DOLLAR BILLIONS), FY26**



Source: DoD.<sup>22</sup>

**Notes:** In billions nominal \$ discretionary and mandatory budget authority. Reconciliation figures reflect administration assumptions about portion of total reconciliation funding that will be spent in FY26. Reconciliation funds are not subject to the same rules as regular appropriations, so the categorizations here express purpose rather than legal restrictions. Using *ex post* public estimates of reconciliation's contents, rather than administration assumptions, does not appreciably alter the results reported in Figure 2.<sup>23</sup> O&M includes revolving funds. Air Force and Space Force base budget figures include non-blue funding. O&M: operation and maintenance. RDT&E: research, development, test, and evaluation. MILCON/FH: military construction/family housing.

Reconciliation's investment influx will only generate fielded capabilities if it is supported by future funding for O&M, military personnel, and military construction. Without that support, investment dollars will yield little. In Trump's first presidential term, for example, more investment spending led to only modest increases in force structure.<sup>24</sup>

<sup>21</sup> Travis Sharp and Casey Nicastro, "Hardwired for Hardware: Congressional Adjustments to the Administration's Defense Budget Requests, 2016 to 2023," *Aether* 3, no. 1, Spring 2024, 10–11, [https://www.airuniversity.af.edu/Portals/10/AEtherJournal/Journals/Volume-3\\_Number-1/Sharp\\_Nicastro.pdf](https://www.airuniversity.af.edu/Portals/10/AEtherJournal/Journals/Volume-3_Number-1/Sharp_Nicastro.pdf).

<sup>22</sup> DoD, *Defense Budget Overview*, 6–21, Tables A-1 and A-9; and Department of the Navy, *FY 2026 Budget Highlights*, June 2025, 1–21, <https://s3.documentcloud.org/documents/25984321/fy2026donbudgetdocs.pdf>.

<sup>23</sup> The author performed this robustness check using data from John G. Ferrari and Elaine McCusker, *The Importance of Defense Spending in the Budget Reconciliation Bill* (Washington, DC: American Enterprise Institute, July 2025), <https://www.aei.org/research-products/working-paper/the-importance-of-defense-spending-in-the-budget-reconciliation-bill/>.

<sup>24</sup> Travis Sharp, "Modest and Balanced: The U.S. Defense Budget Buildup during the First Trump Administration, 2017–2020," *Defense and Peace Economics*, April 2025, <https://doi.org/10.1080/10242694.2025.2477110>.



Pentagon planners closely consider future support costs when building the base budget request, but lawmakers do so less consistently. Congress-led reconciliation thus has created a bill for future support funding that the Pentagon base budget will likely have to pay.<sup>25</sup> This happens every year with appropriations, but reconciliation's size and ambition have amplified the effect. Because the base budget request lacked outyear projections, there is no way to determine how well DoD has prepared for this challenge.

Two risks naturally follow. First, future base budget requests might underfund support associated with reconciliation investments because Pentagon priorities differ or the support costs are imperfectly understood. Second, Congress might underfund support for reconciliation investments, even if included in future DoD requests, because legislators habitually favor procurement and RDT&E. Ironically, Congress could underfund support for its own reconciliation investments.

Nowhere is the risk of underfunding support greater than with unmanned autonomous systems priced to be affordable in large numbers in order to create "precise mass."<sup>26</sup> Reconciliation dedicated 9 percent of investment funds to precise mass systems, a higher percentage than the aircraft and shipbuilding portfolios in the base budget request.<sup>27</sup> Yet total lifecycle costs to field precise mass could end up being higher than expected, according to CSBA research.<sup>28</sup> If that proves true, reconciliation investments would be mere down payments on larger costs to come.

Policymakers in DoD and Congress should work together to fund fully the support costs associated with the procurement and RDT&E investments stemming from reconciliation. Both the base budget request and legislative action should emphasize these costs because DoD and Congress have a shared interest in maximizing reconciliation's return on investment.

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25 Todd Harrison, "Is Reconciliation the New OCO?" American Enterprise Institute, July 14, 2025, <https://www.aei.org/foreign-and-defense-policy/is-reconciliation-the-new-oco/>.

26 Michael C. Horowitz, "Battles of Precise Mass: Technology Is Remaking War—and America Must Adapt," *Foreign Affairs* 103, no. 6, November/December 2024, 34–41, <https://www.foreignaffairs.com/world/battles-precise-mass-technology-war-horowitz>.

27 The 9 percent figure was derived by dividing Dumbacher et al.'s estimate of precise mass funding in reconciliation (\$8 billion) by the reconciliation investment funding reported in Figure 2 (\$52 billion procurement + \$37 billion RDT&E = \$89 billion). Erin D. Dumbacher, Michael C. Horowitz, and Lauren Kahn, "Will Trump's 'Big Beautiful' Defense Spending Last?" Council on Foreign Relations, July 2025, <https://www.cfr.org/expert-brief/will-trumps-big-beautiful-defense-spending-last>. For base budget capability portfolios, see DoD, *Program Acquisition Cost by Weapon System*, July 2025, [https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2026/FY2026\\_Weapons.pdf](https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2026/FY2026_Weapons.pdf); and Brandi Vincent, "Billions for New Uncrewed Systems and Drone-Killing Tech Included in Pentagon's 2026 Budget Plan," *Defense Scoop*, June 26, 2025, <https://defensescoop.com/2025/06/26/dod-fy26-budget-request-autonomy-unmanned-systems/>.

28 Travis Sharp, "CCA Sticker Shock: Coming Soon to a Congressional Hearing Near You?" *Breaking Defense*, May 22, 2025, <https://breakingdefense.com/2025/05/cca-sticker-shock-coming-soon-to-a-congressional-hearing-near-you/>.

## How Support Costs for Precise Mass Might Exceed Expectations

*By Eli Glickman*

The U.S. defense community has grown increasingly excited about unmanned autonomous systems, particularly those fieldable in large numbers to generate precise mass.<sup>29</sup> A central idea behind these systems is that they will cost significantly less than highly capable manned systems. Nearly every public assessment of their cost, however, refers exclusively to procurement unit cost, the price of buying one system.

Procurement is only one part of total lifecycle cost. For many systems, procurement cost is less than operating and support (O&S) cost, the price of using and sustaining a system throughout its service life.

The O&S costs of precise mass systems are unknown. As former Air Force Assistant Secretary Andrew Hunter said about the Collaborative Combat Aircraft (CCA), a flagship precise mass system, “My expectation is sustainment costs for CCA are likely to be lower than a crewed platform, and I would expect by a reasonable margin...But...our costers have to really dig into that...More to come on how that plays out.” In other words, the Air Force has an unconfirmed hypothesis that CCA support costs will be relatively low.<sup>30</sup>

Precise mass O&S costs might exceed expectations because cost estimation is difficult for new weapons systems with novel applications. The Navy designed the Littoral Combat Ship (LCS) to be a relatively inexpensive small combatant.<sup>31</sup> The ship was planned to use a minimal crewing model that would lower O&S costs. Things did not work out as hoped. Minimal crewing undermined ship resilience because there were fewer personnel to identify problems and fix them at sea.<sup>32</sup> The Navy increased crew size in response, driving up O&S costs.

Countless mistakes occurred with LCS. For precise mass, one lesson is that initial assumptions about reduced manning may not pan out and costs may rise as a result. Precise mass systems are not immune from this risk because, though unmanned, their operation, maintenance, storage, and sustainment will still require human labor.

29 David Vergun, “Pentagon to Increase Low-Cost Drone Production in U.S.,” *DOD News*, July 16, 2025, <https://www.defense.gov/News/News-Stories/Article/Article/4246987/pentagon-to-increase-low-cost-drone-production-in-us/>.

30 Josh Luckenbaugh, “Air Force Mulls Choice between Affordability, Capability for Collaborative Combat Aircraft,” *National Defense*, December 10, 2024, <https://www.nationaldefensemagazine.org/articles/2024/12/10/air-force-mulls-choice-between-affordability-capability-for-collaborative-combat-aircraft>.

31 Robert O. Work, *Naval Transformation and the Littoral Combat Ship* (Washington, DC: CSBA, 2004), <https://csbaonline.org/research/publications/naval-transformation-and-the-littoral-combat-ship/publication/1>.

32 Jonathan Panter and Jonathan Falcone, “The Unplanned Costs of an Unmanned Fleet,” *War on the Rocks*, December 28, 2021, <https://warontherocks.com/2021/12/the-unplanned-costs-of-an-unmanned-fleet/>.

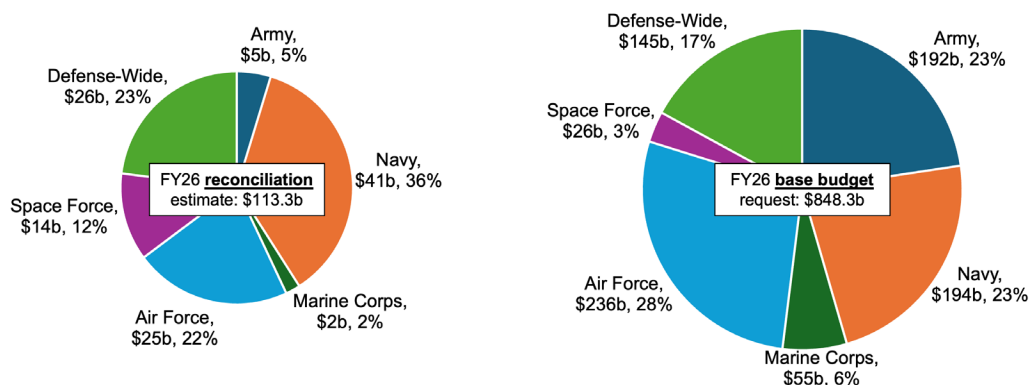
If support costs for precise mass systems exceed expectations, then the systems cannot be fielded in large numbers without increasing budgets—undercutting the affordability logic at the heart of the entire endeavor. To avoid that fate, developers must do everything possible to hold down O&S costs, including through technology and concepts of operations. Meanwhile, policymakers in DoD and Congress should pay closer attention to O&S costs and be prepared to intervene at the first sign of trouble.

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## The Risk of Budgetary Overdependence in the Space Force and Army

Turning to the military services, reconciliation allocates much more (proportionally) to the Space Force and Navy—and much less to the Army—than the base budget request (Figure 3). This difference is not surprising because reconciliation reflects legislator preferences. For years, Navy and Space Force programs have been top recipients of congressional budget additions.<sup>33</sup> Reconciliation continues the pattern.

**FIGURE 3: ALLOCATIONS BY MILITARY SERVICE, RECONCILIATION VS. BASE BUDGET REQUEST (CURRENT DOLLAR BILLIONS), FY26**



**Source:** DoD. See sourcing for Figure 2.

**Notes:** In billions nominal \$ discretionary and mandatory budget authority. See notes for Figure 2.

Due to these funding arrangements, the Space Force is too dependent on reconciliation funding and the Army is too dependent on base budget funding. Reconciliation accounts for 34 percent of Space Force funding, the highest percentage of any service. On the other hand, the base budget comprises 97 percent of Army funding, also highest among the services.

(Although the Navy received a disproportionate share of reconciliation funds, its percentages are less extreme than the Space Force or Army).

A service's optimal strategy is to secure funds for its top priorities through both processes: the executive branch's base budget request and the legislative branch's appropriations and reconciliation. Faring well in both venues guards against single points of failure. By this standard, the Space Force and Army face more budgetary risk than other services.<sup>34</sup>

Of the two, the Space Force's position is far worse. Its reliance on reconciliation resourcing makes it extraordinarily vulnerable to political disruptions. Policymakers in DoD and Congress should funnel more of its future funding through the base budget to hedge against risk on Capitol Hill.

## Conclusion

Work remains to be done to harmonize the differing priorities in reconciliation and the base budget. Because the risks primarily involve future support, the first major opportunity to make improvements will come in the FY 2027 budget. The final chapter offers an assessment and recommendation for how to structure that budget.

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34 Ferrari and McCusker, *Importance of Defense Spending*, 6; Harrison, "Is Reconciliation the New OCO?"; and Robert S. Wilson, *FY 2026 Defense Space Budget: Emergence of Golden Dome* (Arlington, VA: Center for Space Policy and Strategy, Aerospace Corporation, August 2025), 2–3, <https://csps.aerospace.org/papers/fy-2026-defense-space-budget-emergence-golden-dome>.

## CHAPTER 3

# Recommendation: Bigger Base Budget and Supplemental in 2027

The 2026 defense budget is an unstable equilibrium. As the previous chapter showed, reconciliation invests narrowly but the base budget spends broadly across the joint force, creating the risk of underfunding reconciliation investments.

The planning puzzle is how to manage that risk in the FY 2027 budget while pursuing international objectives and navigating domestic constraints. To help solve that puzzle, this chapter analyzes options from the perspective of a planner trying to maximize security with the resources provided by political leaders. The analysis focuses on budget structure rather than budget size, though a sizing benchmark is offered at the end.

### **Four Options for Structuring the 2027 Budget**

Policymakers have four options for structuring the FY 2027 defense budget: another reconciliation bill, a supplemental, a bigger base budget, or a flat base budget. The options are combinable, though selecting a single base budget option is necessary. The options are variable in size and can support different DoD topline. Choosing an option or combination of options therefore does not automatically lead to a specific spending recommendation—except in the case of a flat base budget, which would be the same size as the enacted 2026 base budget.

Different groups support different options. House Republicans have proposed passing additional reconciliation bills.<sup>35</sup> The National Defense Strategy Commission recommended using supplemental funding to support multiyear investments in the industrial base.<sup>36</sup> Force developers have argued for channeling more funds through a bigger base budget to regularize planning.<sup>37</sup> Finally, advocates of restraint have campaigned for keeping budgets relatively flat.<sup>38</sup>

## Factor 1: Intensity of Focus on China

Two factors stand out as especially important to evaluating the budget options. The first is the intensity of focus on China, an internationally oriented consideration. This is the extent to which a budget option concentrates spending on the pacing threat of China. Intensity can be measured as the proportion of total spending perceptibly dedicated to capabilities directly relevant to a China conflict. Budget options with higher intensity signal the U.S. commitment to preventing Chinese aggression. Intensity is thus integral to the deterrence goal at the heart of U.S. strategy.

Determining whether expenditures qualify as “China focused” presents well-known problems. For example, funding for aircraft carrier operations in the Western Pacific might simultaneously support deterring China, Russia, and North Korea.<sup>39</sup> Broadly speaking, however, it is reasonable to assume that RDT&E and, to a lesser extent, procurement funds focus more intensely on China than O&M and military personnel funds. RDT&E emphasizes emergent threats, which today emanate mostly from China, but O&M supports current operations all over the globe.

The budget options vary in how intensely they focus on China. As chapter 2 illustrated, reconciliation concentrated RDT&E and procurement funds on a narrower set of primarily China-centric priorities than the base budget request, which devoted large spending shares to O&M and military personnel related to non-China tasks. Similarly, recent supplementals have targeted RDT&E and procurement spending on the Indo-Pacific region.<sup>40</sup>

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35 Mia McCarthy, Jordain Carney, and Cassandra Dumay, “House Republicans Want Another Megabill. One GOP Senator Says It Could Be ‘Damaging,’” *Politico*, August 11, 2025, <https://www.politico.com/news/2025/08/11/another-megabill-senate-republicans-have-their-doubts-00499987>.

36 The author served on the commission’s staff. National Defense Strategy Commission Final Report, July 2024, xii, <https://www.rand.org/nsrd/projects/NDS-commission.html>.

37 Dumbacher et al., “Will Trump’s ‘Big Beautiful’ Defense Spending Last?”

38 Daniel R. DePetris, “Trump’s Big, Bloated Defense Budget,” *Newsweek*, May 7, 2025, <https://www.newsweek.com/trumps-big-bloated-defense-budget-opinion-2068708>.

39 Travis Sharp, *Did Dollars Follow Strategy? Analysis of the 2020 Defense Budget Request* (Washington, DC: CSBA, 2019), 12–17, <https://csbaonline.org/research/publications/did-dollars-follow-strategy-a-review-of-the-fy-2020-defense-budget>.

40 Cameron M. Keys, *FY2024 National Security Supplemental Funding: Defense Appropriations* (Washington, DC: Congressional Research Service, April 25, 2024), <https://www.congress.gov/crs-product/IN12274>.

In general, reconciliation and supplementals offer higher intensity because they augment the base budget and thus do not have to support everything it does. Additionally, Congress plays a bigger role crafting them and can concentrate funds more easily than the Pentagon, which has a resourcing process strongly oriented toward balance.<sup>41</sup>

## Factor 2: Implementation and Political Risk

The second factor for judging the budget options is implementation and political risk, a domestically oriented consideration. Implementation risk is the organizational, procedural, or technical difficulty associated with a budget option. Political risk is the extent to which a budget option corrodes the coalition-building process required to fund the military under the American form of government. Like all risks, implementation and political risk can be measured by the probability and impact of specific events.<sup>42</sup>

The budget options have varying implementation and political risks. These risks are nuanced, and analysts may disagree about their likelihood. Nevertheless, advocates of the different options should be pressed to account for the potential risks of their preferred option.

- **Reconciliation: higher risk.** Reconciliation will likely shortchange support activities and certain organizations due to lawmakers' penchant for procurement and RDT&E spending. Its flexibility to allocate funds over time and across accounts should ease implementation. However, DoD's unfamiliarity with executing reconciliation funds may undercut that advantage. Reconciliation is a partisan process that requires unified government for its expedited procedures: It is not available every year. Using it again to fund defense would likely alienate Republican fiscal hawks and Democratic moderates. Overall, reconciliation risks eroding the bipartisan support for upward-drifting defense budgets that has held since 2016 across administrations of both parties.
- **Flat base budget: higher risk.** A flat base budget request will almost certainly be increased by Congress, as it has repeatedly done in recent years. Congressional additions will likely neglect support activities and certain organizations, a risk identical to reconciliation (and inherent to Congress-led resourcing). A flat base budget would have to make internal tradeoffs to add funds for top priorities, but that rebalancing process is always quite difficult. Politically, a flat base budget faces the normal hurdles (and potential delays) associated with appropriations. It will likely upset Republican defense hawks,

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41 Philip J. Candreva, *National Defense Budgeting and Financial Management: Policy and Practice* (Charlotte, NC: Information Age Publishing, 2017), 222–224.

42 Implementation risk and political risk could be assessed separately, but the analysis combines them in the interest of parsimony.

who condemned the 2026 request for being flat.<sup>43</sup> Overall, a flat base budget risks being out of step with the defense policy trajectory that has been embraced by the U.S. government for a decade.

- **Supplemental: lower risk.** Supplementals are a well-understood process that the U.S. government has regularly used to fund defense for a quarter century. Because DoD and Congress tend to craft a supplemental together, it presents less risk of underfunding support activities and certain organizations than does a Congress-led option such as reconciliation. A supplemental offers less funding flexibility than reconciliation, but its familiarity should help DoD with proper execution. Politically, a supplemental faces the same hurdles as base budget appropriations. Depending on its size, Republican fiscal hawks may oppose it. Additionally, advocates of regular budgeting will criticize using a supplemental in a nonemergency context.<sup>44</sup> Overall, a supplemental offers a familiar option for making targeted increases to the base budget.
- **Bigger base budget: lower risk.** A bigger base budget request is most likely to fully fund support activities and key organizations because money will initially be allocated via DoD's balance-oriented resourcing process. Of course, Congress may undo parts of this balance because a bigger base budget limits expansionary opportunities (such as supplementals) that can function as holding pens for congressional interest items. A bigger base budget will likely increase funds across many areas, unhelpfully obscuring emphases and tradeoffs. Politically, a bigger base budget faces the usual obstacles associated with passing appropriations. Depending on its size, Republican fiscal hawks may oppose it. Overall, a bigger base budget offers a reliable option for structuring next year's defense budget.

## Recommendation for Budget Structure

Combining the two factors leads to an overall assessment of the four budget options (Figure 4). At one extreme is reconciliation, the high-risk, high-reward option. It risks polarizing the politics of defense but would funnel flexible funds to China-relevant capabilities. At the other extreme is a bigger base budget, the perennial favorite of institutional Washington and budgeting experts. It presents far less political downside but probably would not focus as intensely on China due to the Pentagon's overriding concern with budgetary balance.

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43 Lauren C. Williams, "Gimmicks: GOP Lawmakers Slam Trump's 'Trillion-Dollar' Defense-Spending Proposal," *Defense One*, May 2, 2025, <https://www.defenseone.com/policy/2025/05/gimmicks-gop-lawmakers-slam-trumps-trillion-dollar-defense-spending-proposal/405043/>.

44 Steve Ellis, "What Counts as a U.S. Spending 'Emergency'?" *Inkstick*, April 8, 2024, <https://inkstickmedia.com/what-counts-as-a-us-spending-emergency/>.



**FIGURE 4: ASSESSMENT OF FOUR OPTIONS FOR STRUCTURING FY27 DOD BUDGET**

		<b>Intensity of China focus</b>	
		<b>Higher</b>	<b>Lower</b>
<b>Implementation &amp; political risk</b>	<b>Higher</b>	<b>Reconciliation</b>	<b>Flat base budget</b>
	<b>Lower</b>	<b>Supplemental</b>	<b>Bigger base budget</b>

Source: CSBA analysis.

Lying between the two extremes are a supplemental and a flat base budget. A supplemental offers the ideal pairing of lower risk and higher intensity, but because it merely augments the base budget it only plays a supporting role. A flat base budget features the unappealing combination of higher risk (because Congress will almost surely increase it and likely do so haphazardly) and lower intensity (because it will likely resemble the base budget status quo).

Based on this assessment, the report recommends that policymakers structure FY 2027 defense spending as a bigger base budget plus a supplemental. That combination of options avoids the severest implementation and political risks while providing a focused signal of U.S. commitment to preventing Chinese aggression.

### **Budget Sizing Benchmark: \$1+ Trillion for DoD in 2027**

The overall size of this bigger base budget plus supplemental package would depend on several unknown factors, including DoD's estimate of the support costs associated with July's reconciliation law. As a point of departure, however, recent CSBA research found that at least 2 percent real growth was necessary to protect high-priority investments and avoid potentially unmanageable tradeoffs.<sup>45</sup>

Applying that growth rate to the DoD-estimated FY 2026 topline (\$961.6 billion) would lead to a FY 2027 Pentagon topline of \$1 trillion, which, per the recommendation above, should be divided between a bigger base budget and supplemental. A smaller supplemental in the

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<sup>45</sup> Travis Sharp, Casey Nicastro, and Evan Braden Montgomery, *Relook Playbook: Defense Budgeting Insights from a CSBA Rebalancing Exercise* (Washington, DC: CSBA, April 2025), <https://csbaonline.org/research/publications/relook-playbook-defense-budgeting-insights-from-a-csba-rebalancing-exercise>.

\$10 billion to \$20 billion range would be ideal because it could focus intensely on China without absorbing extraneous funds that would heighten implementation and political risk. Splitting the difference, a \$15 billion supplemental plus a \$985 billion base budget is a useful benchmark for the 2027 DoD budget.

One complication in 2027 is the leftover funds from July’s reconciliation law. According to DoD estimates, those funds will equal about \$40 billion (out of \$150 billion total) for the 2027–2029 period. Some policymakers might propose using those funds to supplant a supplemental or increases in the base budget. For example, they might suggest no supplemental plus a flat base budget request around \$960 billion, with the leftover \$40 billion from reconciliation pushing the total to \$1 trillion, equaling the package recommended above.<sup>46</sup>

Although that alternative proposal would hit the mark size-wise, its greater reliance on leftover reconciliation funds would skew it toward procurement and RDT&E. As a result, it would prove less effective at managing the risks identified in the report. Thus, policymakers should treat leftover funds from July’s reconciliation law as adding to, not substituting for, the recommended package. Under that approach, the 2027 DoD topline—composed of a bigger base budget, supplemental, and leftover reconciliation funds—would exceed \$1 trillion.

A \$1 trillion or more DoD budget in 2027 would make headlines as a big number. In inflation-adjusted terms, though, the DoD budget surpassed the \$1 trillion threshold 20 years ago. A \$1 trillion DoD budget would merely continue the upward drift in defense spending that has marked the Obama, first Trump, and Biden presidential administrations. It would represent only an incremental increase over the 2024 topline under Biden and the 2026 topline under Trump. As defense spending adjustments go, \$1 trillion in 2027 would be far from radical.

There are always arguments for spending much more or much less on defense, but rapid large-scale spending adjustments do not last long in peacetime in the United States.<sup>47</sup> When it comes to defense budgeting for long-term strategic competition, steadily increasing resources with bipartisan support would put the United States in a strong position to defend its interests.

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<sup>46</sup> The assumption here is that all \$40 billion of the leftover reconciliation funds are committed in 2027 rather than spread over 2027, 2028, and 2029.

<sup>47</sup> Travis Sharp, “Wars, Presidents, and Punctuated Equilibriums in U.S. Defense Spending,” *Policy Sciences* 52, no. 3, September 2019, 367–396, <https://doi.org/10.1007/s11077-019-09349-z>.

## LIST OF ACRONYMS

CCA	Collaborative Combat Aircraft
CSBA	Center for Strategic and Budgetary Assessments
DoD	U.S. Department of Defense
FH	family housing
FY	fiscal year
LCS	Littoral Combat Ship
MILCON	military construction
OMB	Office of Management and Budget
O&M	operation and maintenance
O&S	operating and support
RD&E	research, development, test, and evaluation
SAC	Senate Appropriations Committee







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