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WEBINAR

THE FY 2027 DEFENSE BUDGET: HOW MUCH IS ENOUGH?

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MODERATOR: MICHAEL E. O'HANLON

Philip H. Knight Chair in Defense and Strategy, Senior Fellow, and Director, Strobe Talbott Center for Security, Strategy, and Technology, Brookings

TODD HARRISON

Senior Fellow, American Enterprise Institute

MARA KARLIN

Visiting Fellow, Strobe Talbott Center for Security, Strategy, and Technology, Brookings

DAVID WESSEL

Senior Fellow and Director, Hutchins Center on Fiscal and Monetary Policy, Brookings

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O'HANLON: Greetings, and welcome to Brookings. I'm Michael O'Hanlon with the Foreign Policy program in the Strobe Talbott Center, and I'm thrilled to have a chance today to discuss the U.S. defense budget with three outstanding colleagues and experts in the field. So the way we'll proceed today, hoping we can keep you from watching the World Cup until the second half, is to outline a little bit of the size, shape, and nature of the U.S. defense budget right now, and explain where the debate is in Congress over the fiscal year 2027 budget. That's the year that begins October 1st of 2026, and for which we have now seen a staggering \$1.5 trillion proposed by the Trump administration, which would be at approaching World War II levels when adjusted for inflation, and far higher than anything since World War II. So there's a lot of money at stake. There are a lot of priorities, a lot of good ideas in that budget, but also the questions of how big it should be, how much is enough, and how should it be provided. And we'll get into a couple of the technicalities on some of the ideas being considered.

To join in this conversation, I have my colleague, David Wessel, who runs our Glenn Hutchins Center on Tax and Fiscal Policy in the Economic Studies program. He's a two-time Pulitzer Prize winner and a two-time New York Times bestselling author, and just a fantastic colleague who has always had a great curiosity about the defense budget as well.

My good friend and colleague, Mara Karlin, here in our Foreign Policy program, also a professor at Johns Hopkins University at their School of Advanced International Studies, and has worked for six secretaries of defense over her career. I like to say that despite that fact, she's still a lot of fun and still very lively and creative in her thinking on the subject. Most recently, she was the assistant secretary of defense for strategy, plans, and capabilities for President Biden and Secretary of Defense Austin, meaning that she developed the national defense strategy of the last administration, building very much on the national defense strategy of Secretary Mattis in the first Trump term. There's been actually a fair amount of bipartisan continuity in much of this conversation and much of this strategy over many years, and that'll be an interesting theme to explore as well today.

And then finally, Todd Harrison from next door at the American Enterprise Institute, also a longstanding good friend and colleague, one of our nation's top experts on defense strategy and the defense budget. Also a very good technologist with degrees from MIT and also a lot of focus and interest, and probably some credit for the creation of the U.S. Space Force, a passion of his for many years. Well, with degrees, again, from MIT, and also the author and creator of one of the defense community's best budgeting tools that you can find online at his think tank, where he helps you think through options that you may wanna consider. And that's really our job today as well. So let me again just remind you how we're gonna proceed.

I'm gonna start with David Wessel to ask him to put the defense budget in broader fiscal and economic perspective, and I'll add a thought or two myself in just a second on that to start that conversation. Then we'll go to Mara Karlin, who, as I noted, has been thinking of what should defense dollars be trying to accomplish? What's the strategy? What's the purpose? What are the priorities? And of course, the Trump administration has its own, but as I noted, there has been a fair amount of continuity, and we'll ask if that continuity is continuing in the second Trump term, whether it should, and whether the dollars are going where they should to support that strategy. Which then leads us to Todd, who will talk about some of the specifics on the defense budget. We'll have a second round of questions to investigate these

ideas further, and then go to you for your Q&A. You can send emails with questions to events@brookings.edu. And I am not going to provide updates to the France-Spain soccer match, so please just hold your breath on, on that. I will point out that France and Spain together spend about \$110 billion a year on their militaries, and the United States is spending almost 10 times that. So even if they're doing better on the soccer field we've got a bigger defense budget.

But to be serious and give you a couple of numbers to start this conversation, let me point out, before handing to David and asking him to really provide a broader context, that I will give a couple of numbers here. Again, in fiscal '26, the year that we're in right now, the United States has a national defense budget of about \$1 trillion, \$1.0 trillion. That's within the context of a US economy that's about 30 trillion. In total, US government spending, federal, state, and local, that's about 10 trillion. So again, to remind you, 30 trillion GDP, 10 trillion total government spending, of which the military is about one trillion, 10% of that greater government total, a little more than 3% of the size of the economy.

The rest of NATO, the rest of the North Atlantic Treaty Organization, spends in the range of 600 billion altogether, including Canada and our 30 allies in Europe. And then we've got allies in East Asia that collectively spend a bit more than 100 billion. And so when you add it all up, the Western world spending close to \$2 trillion a year on the military, the world as a whole closer to three trillion.

So these are just some numbers to situate you and I hope I haven't thrown too many numbers at you again. Right now we are spending about, or we have a 1.0 trillion US defense budget for the current year. The proposal by President Trump is to ramp that number up very fast to 1.5 trillion for fiscal '27, and that's what the Congress is considering right now.

I'm gonna say one more word and then try to be much briefer the rest of the time and pass things off to David. But I think it's only appropriate on what's been a sad week to give a tribute from Brookings to Senator Lindsey Graham, who has done so much on these issues over the years. And obviously he's been a politically contentious figure in many circles, especially in the recent past, but has certainly always put US national security at the forefront of his career, and we mourn his loss and thank him for, and his family, for the service to the nation. But David, with that over to you please to provide us some general context.

WESSEL: Great. Thanks, Mike. I'm glad to provide the context, but I'm glad when we get to the differences between the components of the defense budget that we have Mara, Todd, and Michael here. People in my world who think about macro policy tend to think of defense budget as some big black box that we don't really understand. If you look ahead, if you look at the Congressional Budget Office's projections, defense is not driving our debt up. CBO projects that debt will go from a hundred percent of debt to GDP today to about a hundred and twenty percent of debt to GDP over the next ten years. But some of that may be making unrealistic assumptions about how fast defense spending will go up. Defense is not driving the debt up because the drivers are, of course, Social Security and Medicare. But defense is very big. It's half of all the annual appropriated funds, and the rest of annually appropriated

funds, sometimes called discretionary, are things that we consider, and a lot of them are investments in the future like R&D and infrastructure and stuff like that.

As Mike said, the president is proposing a very large defense budget. The combination of the FY twenty-seven budget and this extra three hundred and fifty billion dollars he's trying to get through a different process known as reconciliation, that equals what annual outlays are for Social Security, which is the biggest program of all.

Now, measured against the size of the economy, we're talking three and a half to four percent of GDP. That's something we can afford if we choose to. It's lower than it was in the past. In the '50s, we were spending eight percent of GDP at defense. But it's really important that at that time, the debt to GDP ratio was coming down.

So the president is proposing a big defense budget at a time when we have unsustainable fiscal trajectory. And so I think that raises an important question. And that question is We have-- there-- Budgeting is about trade-offs, and the president and Congress at the moment seem to be avoiding trade-offs.

There, there are ways we could offset. If defense spending is really important, we should think about ways to pay for some of it, either by cutting some other places in defense or raising taxes. And there's some ideas floating around on that, but none of them are politically popular. And finally, I think that it's important when Congress and the president are thinking about how much do we need to spend on our national defense, that they explain to us what exactly is the strategy.

And from where I sit, it's totally confusing, and I hope that Mara and Todd and Michael can help us understand where it's confusing in a good way and where maybe it's confusing but it go-- moving in the right direction. And I think it also requires some trust on the part of the public that the money is being well spent, and that relies on Congress doing oversight.

And secondly, that we are sticking with a military that is nonpartisan and follows the leadership of the president and the Congress, but is not totally pol-politicized. And I'm afraid that the trust in the military is being eroded by some of the personnel decisions that Secretary of Defense Pete Hegseth is making, and I think that's a problem.

And finally, we can talk about this a little later, putting defense into what's called the mandatory part of the budget is a bad idea. It avoids oversight, it avoids explicit trade-offs, and we are at a moment in our fiscal trajectory where we can't do everything we wanna do. We have to decide what's important and what's be nice to have, but not important.

And at the moment, the budget process is failing to do that. Over to you, Mike

O'HANLON: David, thank you for a great framing, and appreciate very much the perspective. Mara, could I please ask you to start to pick up where David left off and begin to explain the strategy, not only what President Trump has just said, but a little bit of the lineage going back to his first term and your time at the Pentagon, and just where we stand?

We're in the year 2026. You know, we- this is a century where we had the 9/11 attacks, the war on terror, the rise of China, the return of Russia as a great power, the return of great power rivalry. A lot's been going on, not to mention all the technological developments. So over to you to help make sense of this, please.

KARLIN: Great. Thank you so much, Mike, and for pulling together such a terrific panel. That said, I will have to add on to David's confusion. I'll have a little bit of my own as well to highlight. I appreciate the desire to start with strategy. I think that's always the right place. You can fill your budget bucket in all of the different ways, but if you don't know what you're trying to achieve, it's not terribly worthwhile.

As you note, Mike, there has been continuity in our defense strategy more or less for about a dozen years or so. In 20- kind of '14, '15, '16, the Obama administration Pentagon was really trying to increasingly focus on the challenges posed by China and Russia. It invariably was getting pulled deeper and deeper into issues in the Middle East and Europe, though, at the time, given the surge of ISIS and given the Russian invasion of Crimea respectively.

But there was this real desire to focus on China and Russia, to sort of see those as as kind of reshaping the global security ecosystem. The Trump administration very much built on that with their 2018 National Defense Strategy, where in fact they put it out and said that is the priority, worrying about those two countries.

And as the first Trump administration continued, increasingly that narrowed to China. And then the Biden administration comes in and very much zeroes in on China, the argument being there's really no other country that can kind of fundamentally reshape the global security order, to say nothing of the economic order, political order e- etc.

That continues throughout the Biden administration, along with invariably the stresses that come from both Europe and the Middle East. But you do see efforts to make the US military more capable and modernized in line with the challenge posed by China. You see meaningful efforts to increase US posture in the Indo-Pacific, given the concern about China, and then in particular to knit with different allies and partners as well.

So then we get to a couple months ago when the Trump administration comes out with its national defense strategy. And here's where I would say we see a real break with this continuity, and frankly a break with the bipartisanship that has characterized how folks have thought about these threats for a long time.

You know, the real emphasis of this strategy is on the Western Hemisphere, right? The real threat is seen in this strategy as kind of these alleged narco terrorists as they're so named. That makes sense when you see what's coming out of the White House at that time as well with the national security strategy.

So that's the priority. You then see China mentioned, but in a pretty circumscribed way, just the first island chain. And in general, the language reads a lot softer than almost any recent defense strategy. You see a desire to downgrade involvement in European affairs. A little bit

of mention of the Middle East, but in no way signaling that we would be starting this massive conflict.

And so here's where I think there's some valuable, some notable confusion worth highlighting, because traditionally, a national defense strategy is a decoder ring. It's going to tell you where the secretary of defense will put their energy and attention. It'll tell you who the winners and the losers are in the budget, in force employment debates, et cetera. And this is when we look at this budget, this very large budget, as you note, that's really at kind of World War II levels, and frankly, the number isn't really merited by the strategy. If one were really to just prioritize the Western Hemisphere and this quite circumscribed focus on China as a major threat and not be involved in most other regions of the world, in, in fact, the Trump administration could have put out a quite tiny defense budget request. So I, I leave you with a bit of perplexity.

O'HANLON: Thank you, Mara. And Todd, maybe you can add or subtract from the perplexity, but also help us break down the defense budget itself. I'll just remind folks as I hand to you that 1.0 trillion national defense budget I mentioned earlier for the current year, fiscal '26, it includes the entire Department of Defense/War.

It also includes nuclear weapons activities, as you well know, at the national Nuclear Security Administration within DOE. It does not include the Department of Homeland Security. It does not include all of our Veterans Affairs costs, which are in excess of \$300 billion a year, but of course are intended to take care of people who have already served and their families.

And it does not include foreign assistance. So it's a lot of money for the military itself and the nuclear weapons of the military. I hope you can help us explain and understand it, and over to you.

HARRISON: Yeah, no, thanks, Michael. And, you know, I'll pick up where Mara left off. You know, I was a bit perplexed as well seeing the budget numbers come out first and then the actual budget request. And I will tell you, the way that I make sense of it all in my head is that this is not at all a strategy-driven budget. This is a budget-driven budget. And if you look at the, you know, the tweets, the Truth Social posts by the president, and the statements of the people around him, it makes very clear that this budget was driven by a budget number, a budget target an arbitrary level that was set based on 5% of last year's GDP which will not be 5% of next year's GDP, by the way. Hopefully GDP is still growing. But yeah they set this arbitrary level.

And then at relatively the last minute in the budget development process, the department was told, "Come up with a request that gets you to this number, this \$1.5 trillion number," and so they did. And you know, at first I thought, well, you know, this must be like an all-of-the-above budget request where, you know, you can have A or B or C, or you can choose D, all of the above. And so they choose D. And as I've dug into it, I've realized that's not quite right. It's close, but I think it's more like an all-you-can-eat buffet if I can use an analogy here where even though everything is available to you and you can take as much of everything as you want there's still some things you don't want, right? So if there's frog legs on the buffet, I'm not gonna eat 'em. I don't care if they're free. I don't care if they're included. I'm not

putting those on my plate. But what it does mean is you don't have to make hard choices. You don't have to choose between the fried shrimp and the fried chicken. You can have both, right?

And I think that is the real lesson of this budget, and that's why I say it is absolutely not a strategy-driven budget, because they didn't have to make hard choices. They made some easy choices, things that they didn't want anyway but they didn't have to make the hard trade-offs. Like, do you want, you know, a fourth-generation fighter jet, buy some new fourth gen or do we wanna continue buying the fifth gen fighters like the F-35 we have in production, or do we wanna invest in sixth generation fighters? Do all of 'em, right? You can do all three at once if you have a virtually unlimited budget. You don't have to make those hard trade-offs.

Now what that naturally leads to is you may put more things on your plate than you're actually gonna be able to eat, right? There's still a limit to how much the department can consume in terms of this funding. And, you know, we can talk about that in, in some more detail later because I don't think they actually intend this to be like a one-year budget authority number, especially with the reconciliation. I think it is actually more like a five-year budget number that they're trying to get pre-funded up front, but they actually plan to spend it at a slower pace over the next five years.

But then there's reasons they may not end up doing that because if you look at last year's reconciliation request that went through you know, \$152 billion, they're now saying they wanna obligate all that money by the end of this fiscal year, have all the money obligated. Because if they don't, there's actually a sequester cut that would kick in and would take a percentage off of any unobligated balances that remain. So they're trying to avoid that by rushing to obligate by the end of this fiscal year. You know, so I, I think that is the real story of this budget is they didn't have to make hard choices, so they throw everything out there.

Now, where, where are we gonna end up? It's very uncertain if the, if this \$1.5 trillion top line is gonna make it through Congress. You know, they've got the base budget mechanism for \$1.1 trillion of it, roughly 1.15. You know, they got \$350 billion in reconciliation. Then you throw into it, they just submitted a \$67 billion supplemental request.

You know, are they gonna be able to get all these things through? It is increasingly looking doubtful that will happen. You know, what do they keep? What do they cut? And it's not as if it's a clear division in this budget that, you know, the base budget is the core stuff they definitely wanna keep, and the reconciliation is extra nice-to-haves. That's not how it looks at all. It looks like there are a lot of things they put in reconciliation that are very high priorities to the administration and to Congress. And there's some things they put in the base budget that look like they're probably not that high of a priority, and if push came to shove, they may be willing to cut some of the things in the base budget.

So I think it's a real mix, and I think it creates a real mess that, you know, folks in Congress are gonna have to, you know, sort through as we get to the budget endgame here about what to cut, what to keep, because DoD didn't make those hard choices, and they didn't really communicate them at all how they would prioritize things if they don't get the \$1.5 trillion. So I'll stop there, and we can pick up more details as you want.

O'HANLON: Yeah, that's really good framing. Thank you all. What I'm gonna do next is I'm going to summarize the eight categories that appear within the \$350 billion, what I call the pot of gold request.

Again, the more technical terms for those of you trying to catch up on your budget-ese, you've heard David and Todd and Mara talk about reconciliation, which is a certain process in Congress, or mandatory funding, which is the same kind of process we use to fund Social Security and Medicaid, we don't usually use for the defense budget. The 350 billion pot of gold would be such mandatory funding violating traditional norms, although this, you could argue the damage was really done and the precedent was set last year when, as Todd just said, they allocated a little more than \$100 billion in this mandatory pot.

Anyway, the \$350 billion pot of gold being requested for fiscal '27, that would bring the grand total national defense budget up to \$1.5 trillion, include three big categories. One for the defense industrial base, \$113 billion. Another for drones, basically, next-generation technology, \$102 billion. And then finally, munitions and missiles, 47 billion. Bearing in mind that there's also that supplemental request for the war supplemental for the Iran operation that would largely be munitions and missiles itself, which as Todd just said, is another 67.

So again, defense industrial base is 113 billion. Next generation technology, including drones, 102. And then finally, munitions and missiles, 47. And there are five more categories. And I'm gonna ask, starting with Todd, reverse order this time, comment on any or all of them you wish in terms of which are the most worthy and whether you think mandatory funding makes sense for any of them.

But the other five include so-called Golden Dome, that's, you know, sort of our modern era missile defense, what was called Star Wars back in Reagan days, and that would be 17 and a half billion. Maritime superiority and the Golden Battleship, President Trump's personal design, which would be about 8 billion in this, out of this 350. Air superiority, fighter jets, 14 billion. Space superiority, satellites and, and launch vehicles presumably, 12 billion. And then finally perhaps reflecting Secretary Hegseth's own proclivities, the warrior ethos budget of about 36 billion.

So Todd, if I could start with you, what do you have to say about those eight categories, the amount being requested, the mechanism being requested, the relative priority? You don't have to go through all eight, but any of the ones that you wanna touch on, please.

HARRISON: Yeah, no, it's a great rundown, and I think it's a mixed bag.

In terms of the kinda the bigger question of does this belong in reconciliation, you know, what's considered a mandatory appropriation in budget terms. And first, just for anyone who's not a budget nerd, mandatory and discretionary don't mean what the, they mean in English when you're talking about a budget. Mandatory just means it's a permanent appropriation. Discretionary, you have to do it every year. What's weird about using mandatory in this way is, it's a one-time use. It's not recurring. So it just happens once, and it's only to get through the, get around the rules in the Senate to make it something you can pass with, you know, a simple majority instead of 60 votes in the Senate.

That, setting that aside, is this an appropriate way to use it? I would say yes and no. There are some things in here that appear to be intended, although they don't communicate this very well, as being a catch-up. You know, trying to catch up on things that maybe were not fully funded in the past and trying to rebuild industrial base and stockpiles.

So I would say in particular, the investments in missiles and munitions that you see in the reconciliation budget I think that may very well make sense. And if you look at the quantities that they're talking about for a lot of these systems, it's not realistic that you could execute these quantities in one year. That's why I say I think it really is more, it's more like a multi-year procurement program with pre-funding. They're accelerating the funding to get the money in the bank but then you can execute it over many years in the future. And I can see that as a one-time, let's catch up, let's get going on, on, you know, restocking our inventories. Yep, I got it. I can go along with that.

There are also some space capabilities and some things that are space and Golden Dome where we do need to accelerate. Things like, you know, the airborne moving target indication mission, which is basically radars a constellation of satellites with radars that can spot missiles, aircraft other flying objects, drones of a certain size. And you can do that from space rather than being dependent on our, you know, radar aircraft, which are vulnerable on the ground and in the air. And we've lost one of those already in Iran. And our ground-based radars, which we've lost several of to drones during the Iran conflict. We have to accelerate moving that mission area to space. I think reconciliation funding is a legitimate way to try to do that, to try to jumpstart that process, pre-fund it. And there's over \$7 billion in the reconciliation budget specifically for that mission area, airborne moving target indication.

Also, I would note there's about 4 billion additional funding in the supplemental package for the same thing. So there's, I think there's a lot of questions there about are they trying to even accelerate it even more than reconciliation would because they thought supplemental might happen first.

So I think there are a lot of different areas. The parts that I think absolutely don't belong in here are these big pots of money they created in defense-wide accounts that have very little description with them. You know, things like you know, the \$30.5 billion for major equipment within the OSD budget. Well, what's the major equipment? They also had over 50, I think, \$54 billion in the Defense Autonomous Warfare group line item. That is a single program element that's got \$54 billion in it. That's unprecedented. If you read the budget description with it, it gives very little detail. You know, it's supposed to be investments in drones and things like that, but, like, tell us quantities, tell us specific types of drones. Like tell us what you're gonna be using it for, and that detail's not there. That, it appears they haven't figured that out yet. So I think 54 billion is quite a reach trying to ask that much money for something that has not yet been well defined.

So I think that there are areas here where they've really overshot and they've tried to just throw everything in there and ask for a super high number. And I wonder if they almost expect that they're not gonna get that full number, that Congress will cut them back down quite a bit. But they were just trying to reach that overall \$1.5 trillion level, so they thought, "What the heck? Let's throw it in there."

So I think it is a mixed bag, and that's where I think it gets back to the priorities. When Congress really has to adjudicate this and you get to the end game, Congress is gonna have to sort through this and say, "Okay, what are the, what things in here are serious things that really do need to get funded one way or the other, and we'll have to figure out how to make that happen, and what are the other things that were just budget gimmicks or just filler to try to reach an arbitrary top line and we can just ignore those and move on?"

O'HANLON: Thank you very much, Todd. Mara, same question to you. With those eight categories, the biggies being industrial base, drones and new technology, and missiles, munitions, and then the other five smaller ones, how would you react to that request?

KARLIN: Well, first of all, I want to go back to Todd's all-you-can-eat buffet because everyone feels a little bit sick after an all you can eat buffet, no matter what sort of choices you made. And I just highlight that because the messiness of what we're talking about should also give you a little bit of a stomach ache. And in particular, the lack of information. I mean, within those categories as Todd was highlighting, there's actually not much detail of what this is all going to go toward.

So all of us are taxpayers. We should expect some level of transparency as to what our dollars will go toward, and at a minimum, we should expect that our representatives, the Congress, will be getting that. And I don't know that we see evidence for this which I find a little bit worrisome. So in, in particular, some -- I guess the third point I would just highlight is, you know, there's always this tension when you're building a defense budget.

There's, like, the stuff you want that you know you need but you know industry can't really deliver in the time that they're supposed to. And so folks, I think, have genuine debates. Do you put it in anyway so it's a signal to industry and it's a broader signal that this is important? The great case study is the submarine industrial base over the last few years.

The alternative, of course, is to say, "No, if it's going in my budget," and obviously this is where appropriators' heads always are, "if it's going in the budget, I have to actually show that this is -- that I'm gonna be able to buy this thing and that it will deliver in the time that it is supposed to." And that's where I find some of these categories to just be really curious.

So not only do you have a whole bunch of kind of major alleged priorities of the administration, like almost all Golden Dome funding put into this 350, I think there's also just an open question of whether or not any of this will deliver in a time that, that can actually make sense. So how do you deal with this catch-up notion? Offhand I would say the Golden Battleship makes the least amount of sense just writ large when I think we look at the contours of future conflict.

The only thing that is more problematic, of course, though, is the warrior ethos bucket because I don't really know what it includes. You know, does it include -- I could make up a bunch of answers. I can make up answers that involve professional military education answers that involve training. We've seen some major personnel changes, for example, you know, more than two dozen senior military leaders that have been pushed out or fired. What's a warrior ethos and is that something that makes sense to prioritize? Offhand, I'm

quite, quite skeptical of it. And I just think we're -- the less information that gets shared with the public, the more uncomfortable one should be with what is a historically high budget

O'HANLON: Thank you. And David, over to you. And the specific question, if I could just put it to a point, but speak to whatever parts of this conversation you'd like.

But do you agree with Todd that there may be some worthy elements within this three hundred and fifty billion mandatory slash pot of gold request that we can go ahead and encourage Congress to approve as such? Or do you think if they are worthy, all the more reason to resort to the traditional method and not get, you know, not make up a whole new set of rules when we're already having trouble enough with the federal budget?

WESSEL: Right. Look, I think the important thing to note, the difference between the discretionary budget, the annual appropriation, and mandatory funding, is it takes essentially sixty votes in the Senate to get the former and fifty votes in the latter.

Secondly, I think that this is an example of government malpractice, this idea that we just have all this money sloshing around. And I hold the Congress partly responsible if they just go ahead and do it. I think they're setting a bad precedent by putting this stuff in mandatory. Fast-forward a couple years, if we get Democrats in charge, we'll decide that pre-K should go in mandatory. And one of the downsides is that the appropriation process is inherently about trade-offs. There -- the committees have to resolve something, they often have a top line to work with. And I think the administration is trying to avoid any kind of debate between guns and butter, domestic and military priorities, by pretending we just need to spend all this money 'cause it's a dangerous world.

But I also think that the context is important. Remember what I said before our budget is on an unsustainable trajectory. We are gonna have to make some choices. And as Todd said, this whole exercise is in a pretense that we don't have to make choices. And so with a different party in power, we'll do the same thing. We'll decide we can have universal basic income, and health, Medicare for all, and we don't have to make choices. And this is not -- this is gonna get us into trouble.

And finally, I would be more sympathetic if, if they had said, "Look, there are some offsets here." I'm no expert in this, but my friend Mark Cancian, who I know you know, who's at CSIS, points out that TRICARE For Life, which is a money insurance program for people who are retired from the military, not for active people, is 13.6 billion dollars. It's the equivalent of the F-35 program. It's better insurance than any of us in the private sector get. And there are ways to cut that back without screwing people, but it's politically unpopular. And so I think it's irresponsible to propose this sort of defense budget and pretend that we don't have to do some belt-tightening somewhere else.

O'HANLON: Excellent. So I have one more round of questions.

WESSEL: Mike, I think Todd wanted to make a point on the battleships. He wants to defend battleships, I think.

O'HANLON: Absolutely. Go for it, Todd.

WESSEL: And aircraft carriers too while you're at it.

HARRISON: Yeah I, no I forgot you know, to, to address the battleship issue, 'cause, you know, that's in here. And far from defending it, you know, I think that's one of those examples of things that got thrown in because they didn't have to make tough choices. Because, you know, if you look at everything the Navy has been talking about for, like, at least a decade now it's about, you know, going, you know, rebalancing from surface to subsurface. It's about rebalancing from large aggregated platforms to smaller disaggregated platforms. It's about moving from crewed systems to uncrewed systems, and the battleship goes exactly in the opposite direction in all of those dimensions, right?

So to bring back up the the buffet analogy, it's kinda like, you know, your friend at the buffet points and says, "You ought to try that dish over there." And it looks really weird, and it's probably not something you would normally pick up, but hey, it's free, so you go and you put it on your plate. I think this is one of those things that quickly gets discarded.

The question is, how many billions of dollars do we spend on it before we cancel this program? And the fielding schedule for this in the budget request is quite ridiculous. I mean, no one in the Navy can say in a, with a straight face that we're gonna go from starting a brand-new clean ship design in FY '27 to procuring the lead class ship in FY '28, to going to all the way by FY '31, being at full rate production, ready to buy them at one per year. That doesn't pass the laugh test, right? And that's what's in this budget request. By the way, the lead ship would cost \$17 billion. That's the about the price of an aircraft carrier. And so are we just setting ourselves up to spend a few billion dollars chasing, you know, this weird idea before we eventually have to cancel it, and then things go back to the way they were before?

O'HANLON: Well, I think it could be—even though I'm supposed to be just the moderator, I'm gonna throw out an opinion—I think it could be even worse than that, Todd, because of opportunity cost. If you have constraints on shipbuilding because of shipyards and workforce, now you're gonna have them build a ship for which there probably is not a pressing need that, and on a timetable that's not promising, you're taking them away from building submarines and other things we do need in the short term. And I'll give the Trump administration a lot of credit for trying to promote the industrial base writ large, but I would submit to them that this is a distraction from their own agenda if I could temporarily leave my moderator role.

But now I'm coming back to it, and I've got one more broad question for each of you. It's, it's the same question, but maybe you can answer it in different ways at different levels of specificity and generality, which is, what would you like to see change overall in our budget? And now, step away from the specifics of the 350 billion pot of gold for the Pentagon, the 1.5 trillion.

David, I'll invite you to say, what should our goal be for reducing the deficit, and how, without getting into too many details, which programs would you be willing to cut and which revenues would you be willing to increase on the presumption, because I think I know you

well enough to be pretty sure you consider our current deficit too big for our long-term good, not only our long-term fiscal health, but our long-term military power, since it's, you know, it's the economic foundations of the country that produce the weaponry that we need.

And then for Mara and Todd, accordingly, you know, when you look at broad categories of military spending, whether it's geographic zones, Europe, Middle East, Pacific, whether it's personnel readiness, innovation, whether it's robotics or traditional platforms, where would you be willing to see some cuts, if anywhere, and where would you like to see even more resources perhaps than the Trump administration has proposed?

So I'll go in the original order, David, Mara, and Todd.

WESSEL: Right. Thanks. And I hope that Mara and Todd can speak to a question which I've been thinking a lot about but don't have any answers to, is, so we've learned a lot from the Ukraine-Russia situation and from Iran blocking the Strait of Hormuz, and it suggests that we need to be thinking hard about how we use our defense resources in a world of drones and AI and uncrewed vehicles, and I think that requires a great deal of adaptation and flexibility that I don't think we're known for.

Look, the basic problem is we don't have enough revenue to pay for the promises we've made, and we have to make some big decisions about our priorities. And I would argue that we need to weigh the defense priorities, which are incredibly important, against other priorities. Because as you suggest, Mike, we are not gonna have a strong military unless we have a strong economy. And that means dealing with some tough issues about how do we limit healthcare spending, how do we think about putting Social Security on a solvency course, how do we think about things like immigration? And to do these in isolation will lead us to bad decisions. So I, what I hope will happen, not in this presidency, but after this presidency, that we'll have some leadership, and they'll sit down and say, "Look, we can't have everything. We are gonna have to raise some taxes."

And I think the argument is pretty strong now that we are probably gonna have to raise taxes on capital. Labor share of income is falling. It was falling before AI. It's likely to fall more because of AI. Capital is taxed at a lower rate. The more of our national income that goes to capital, the worse it is for the budget. But we don't want to do it in a way that cuts off our growth. So that's one thing we need to do.

And secondly, if we want to make room for big defense spending, we have to have some domestic priorities. And that means maybe we don't, that future generations will have to pay more in Social Security taxes or will have to pay more get slightly lower benefits for people in higher income buckets like mine. But if we don't ever have the conversation where we have to say these things are all going against each other because it's all dollars, we're just gonna be on a, make an unsustainable trajectory even more unsustainable. It's like having two all-you-can-eat buffets in the same restaurant

O'HANLON: Just one point for emphasis and clarification. When you talk about capital versus labor, what's the specific change, or what's an example of a change that you'd like to see to reallocate, rebalance?

WESSEL: I think we need to think a lot about how our tax system works. And our tax system has largely depended on taxing labor income—wages rather than capital gains. And the question is there a way to rejigger our tax system that takes account of the fact that the share of national income that goes, going to profits seems to be rising and may rise further with AI? So there are a lot of proposals kicking around about different ways to tax business that are not completely screw business and tax a few billionaires and say you've done something.

So it's complicated, and there are trade-offs there too. You don't wanna do things that hurt new investment, but there may be things you do to tax old capital. I mean, for instance, I mean, this is a favorite of a lot of our colleagues. The fact that you can get really rich and not pay any taxes on your capital gains, and then pass it all to your kids, and they don't pay any taxes, is not something that you wanna do in a, I think, in a world where more and more of the national income is going to a wealthier tier.

O'HANLON: Got it, thank you. Mara, over to you on how would you like to reprioritize the allocation of defense resources in the context of a conversation about how much is enough?

KARLIN: Great. Thank you. So I was recently in Ukraine and went all over the country, including pretty close to the front lines. And what was striking was to see how this war really is like World War I and World War III meet each other on the same battlefield. So you're driving and there's fishermen netting, right, cheap fishermen netting overhead in various areas so that it can confuse and distract drones. Nevertheless you see drones, of course getting shot down. And then you also have ballistic missile attacks for which one has to, you know, run down to a bunker for.

And so I just highlight that because while, of course, the way the U.S. thinks about how it would wage future war is going to look different than how others do, it's just a reminder that building the future, designing and building the future U.S. military means you have to find ways to operate both at the higher end of conflict and very much at the lower end of conflict.

So for example, the investment in nuclear modernization, that makes a lot of sense. You need those sort of high-end capabilities. You also need high-end conventional capabilities. So I would say undersea investment, they this budget makes some investments in submarines. I think that's really smart. That's a comparative advantage for the United States.

Areas like space resilience also make a lot of sense as well. And then you know, wanting to invest in autonomy both in the air, on the ground, and undersea, ideally cheap autonomy plus ways to counter, of course, that, that autonomy and then artificial intelligence more broadly.

I assume we are in somewhat of a readiness hole given events of the last few months, so probably do need to re-look how much is allocated on that front. But I will not do that terrible thing and only tell you what I want to spend money on. I would also tell you where I would take some money from. So I would look, for example, on personnel.

I think there are absolutely end strengths that one can take particularly as it relates to the Army and given just how the department is increasingly ingesting artificial intelligence. David brought up something that's really controversial that doesn't make it wrong and not worth considering, which is can you re-look things like TRICARE For Life?

You know, when sequestration first hit, the department was willing to start brainstorming all of these ideas, commissaries, for example that maybe didn't make as much sense but were seen as kind of radioactive and ultimately it didn't make much, you know, not much progress happened on that.

And then frankly, one other area of cuts I would say is actually organizationally. I would cut a number of combatant commands. I would look at fourth estate cuts as well.

O'HANLON: Before I go to Todd, just for those who, you know, hear people make sweeping comments about how this or that percent of the entire defense budget is wasteful.

If you had to just give a, I'm not asking for a detailed calculation, but a gut sort of sense of the kinds of proposals you just offered, if you were to do them all, how much savings are we talking about out of a trillion-dollar-a-year defense budget?

KARLIN: Yeah, I think that's a really good question, right? We're talking percentages. We're not talking dozens of percentages.

O'HANLON: Single-digit percentages.

KARLIN: Yes, although personnel does add up over time. That's probably the one that would be the most meaningful out of what I just highlighted.

WESSEL: So the CBO option on TRICARE For Life, which would scale it back but no retiree would have to pay more than five grand a year, they say would save \$54 billion over 10 years. So that's not peanuts, but compared to a trillion dollars, it's not gonna get you there.

O'HANLON: Good. Okay, thank you. Todd, over to you. Same question.

HARRISON: Yeah, I would say, you know, the number one thing I would wanna see changed is the budget process itself in Congress. It is not working. It has not been working since around 2010. If you just look at the number of days each year on average the department spends under a CR, which is just inefficient way of operating in itself. And then now the latest level of dysfunction of using budget reconciliation, mandatory funding as an end run around regular appropriations, this is not a sustainable process. And if the election ends up changing control of one chamber of Congress, it will not be possible you know, come January.

So it, I think there needs to be some fundamental look on the congressional side at just how do we reform the budget process to get it working again. Open the aperture to things like changing the start date of the fiscal year, rejiggering the committee structure. You know, I'm

talking a lot of third rails here. But I think we're at that kinda point, like we were in the early 1970s where Congress realized it just wasn't working. I think that they need to do some serious inward-looking reform like that.

In terms of how DoD actually spends its money, which I should say up front, I've long time said this, when the budget's going up or the budget is coming down, it's more important how you spend your money than how much you spend. You know, and I still believe that's true whether it's you know, half a trillion dollar budget or a \$1.5 trillion budget. This is where I think the national defense strategy actually got some things right. If you look at the inward-facing parts of the strategy where it talks about how to reform itself, I think there's a lot of goodness in there.

And, you know, the strategy made clear that, you know, they want to you know, increase the speed of innovation. They want to increase the department's ability to scale production when necessary. And also they wanna lower the cost per effect- and how we achieve things on the battlefield.

So all of those, I think, are exactly the right priorities. I would want to invest more in those things and in some cases, investing more actually means cutting some other things. Things that, you know, do not go faster, do not speed, do not scale and don't have an effective, you know, cost per kill. You know, those would be kind of my priorities overall. But within that, I think things that help you satisfy that are new classes of missiles and munitions. I don't know that you're gonna get that much more scale or be able to lower the cost effectively for our existing munitions. They're what we have now. We actually need more of them, no doubt. But we need to be building new generations and new classes of weapons for the future that are built from the beginning with the idea that they will scale production, right? Instead of building little science fair projects that, you know, maybe you can build a few dozen a year, we need to build things with the design criteria upfront that, "Hey, we wanna build tens or hundreds of thousands of these per year." You know, and that, that changes the design altogether.

You know, I think space absolutely is a huge force multiplier and gives you the ability to do things on a global scale. You know, many of our space capabilities, they are not theater-specific. And so it gives you an inherent multi-theater capability, whereas in our other domains we are limited. That, you know, a ship can only be in one theater at a time. You know, an aircraft squadron can only be in one theater at a time. And there's a cost to switching them between theaters in time and in, you know, opportunity cost. You know, I would be looking at drones, at AI, at new types of missiles and munitions, at moving more mission areas to space where possible.

But the biggest thing I think is we've gotta reform this budget process on the congressional side because it's just not working, and it's causing inefficiency throughout the defense enterprise.

O'HANLON: Great, thank you, excellent answer. So we have 10 minutes left. Here's what I'd like to do. I'm gonna put out one provocation, which is designed to sort of, just frame the broader defense budget conversation, see if any of you wanna comment.

And then I'm going to give you each one last crack. We've got a couple of questions that have been incoming, and I'll put them all on the table, or both on the table for you as you answer them if you wish and also add any further final comments.

Here's the provocation, or maybe a premise that I use in thinking about the defense budget. For taxpayers who worry that there's a lot of waste in the defense budget, well, you're right, but there are also I think a lot of big things the defense budget gets right. You've heard some discussion of them today. I would argue that the all-volunteer force and the way in which we compensate the all-volunteer force has been a bipartisan success for decades. And basically, the way I would simplify it and summarize it is we pay people in the military enough money where, compared to their cohort of age, experience, and educational attainment, but more importantly, skills, the military pays better than average in the United States, and that's the way it should be given what we're asking. In fact, it often pays at the 80th or 90th percentile in terms of, you know, for a given cohort of age experience.

And also, the retirement system's been improved. It used to be you had to serve for 20 years, then you got a very nice pension. But if you served for 19 and a half, you got nothing. Now it's more like a traditional kind of pension system where you can, you know, you can match funds from your own pay, but the government is offering a certain amount. And after you've been in for a couple of tours, you've got a certain minimal retirement package, and I like that. And even though David's put out a good idea for TRICARE reform, military healthcare is generally pretty good. So I think military compensation is about where it should be.

And training, the side of readiness that relates to how we get people ready to fight in realistic combat conditions, United States military since Vietnam has gotten very good at this. Whether it's Top Gun for the Navy, Nellis for the Air Force, the various national training centers for the Army, Quantico or not Quantico, but Twentynine Palms and you know, Lejeune for the Marines. The way in which we train, first at the low unit level, the squad, company level, and then work up towards integrated exercises involving thousands of people every couple of years or so for a typical unit, it's generally been proven to produce the force that did amazing things throughout these last 20 years.

Even though we as a nation gave pretty hard missions, and the missions overall were not always achieved, the specific tactical performance of the military has been excellent, and I think it's because the people and the training and the equipment have all been generally pretty good. Does anybody wanna comment on that before we go to the final round?

WESSEL: Oh, yeah. I think the, the only thing, I mean, Mike, you know a ton about this more than I do. And I agree that if we're asking people to put their lives on the line, they should be well compensated. There's always gonna be a balance between how much do you pay them and what their retirement is. And if you're recruiting, I don't think there's a lot of 18 or 19-year-olds who are worried about their retirement.

But one thing that does alarm me is what the military tells us of the fraction of 18 to 24-year-olds who can, who, who are eligible to be recruited. It's something, it's - was it 20%? Okay, based on you know, all the health things and everything. And so that's a troubling sign of a

problem in our economy that is gonna infect the, affect the military. It's gonna mean they're gonna be harder to recruit. They're gonna have to pay even more.

And the second thing, and I don't really know all the ins and outs of this, is that the balance between who has to be in the military to do the job and when do you use civilians, and do you really have to be physically fit if you're sitting at a console arguing drones with, like, a Game Boy, that's beyond my competence, but I think it's not something we should take off the table.

O'HANLON: Excellent. Mara or Todd, anything to comment, or should I just go to the final round?

HARRISON: Yeah. I can't help but jump in on both of those. So you know, on military compensation, I don't disagree that, you know, the current level is a perfectly reasonable level. I think what we ought to look at is rebalancing among the different forms of compensation.

We should do that based on evidence, not based on conjecture, and not based on lobbying and special interests, right? Because absolutely things like TRICARE for life, you're gonna have very strong lobbying efforts from the retiree community who benefits from that directly. Whereas, you know, the 18-year-old potential recruits have absolutely no voice in that lobbying process. But they're actually the most important voice, because does that benefit help recruit them, and will it help retain them for the first 20 years of their career? Let's look at some evidence on that and see if where we're putting our compensation dollars actually makes the most sense, where we're getting the most bang for the buck in terms of our goals of recruiting and retention and the types of skills we want to attract.

In terms of readiness, I would say that, you know, readiness is always in the eye of the beholder. A lot of times what we talk about are just the inputs to readiness, not actual readiness itself, because we don't do a good job of measuring it. But also there are many different types of readiness. And I would say that the politics around readiness debates, which a lot of times is budget politics, it has a systemic bias towards near-term forms of readiness, specifically operational readiness, the ability to go out and conduct operations tonight or tomorrow and structural readiness. That is, having a large enough force structure.

The readiness politics tend to bias you in favor of those things, and what they-- the politics tend to shortchange modernization readiness, and most importantly, mobilization readiness, which gets back to what David was talking about earlier. Our long-term economic strength, our long-term industrial strength the strength of our workforce.

That matters when it comes to a strategic mobilization, and we often completely leave that out of the readiness debate. Because the truth is that your near-term operational and structural readiness can actually be eating your long-term modernization and mobilization readiness, and we don't like to acknowledge that we're making those trade-offs when we actually are.

O'HANLON: Although I tend to just use different words. To me, readiness by the basic word means the near term. Modernization is crucial, but is a different word, different concept, but I hear you very much.

Final question, one minute for each of you. The question that came in from the audience, "Why do we even talk in terms of percent of GDP when we're having these defense budget debates?" I'll start with Mara on that, but then if anybody else wants to also comment, we've heard incoming questions about whether we should get rid of tanks and get rid of aircraft carriers. That deserves more than one minute, but that's a frequent sort of barroom discussion these days in the era of drone warfare and long-range missiles, and I'd like to hear maybe a word or two from each of you on that.

So Mara, we'll start with you, and then finish up with 60 seconds for each panelist. Thanks.

KARLIN: Sure. It's stupid that we look at percentage of GDP. But it's really easy to calculate and lets you look at a bunch of different countries. But I think it is continually unhelpful, and yet nevertheless, you need some sort of target to have one conversation. So we do focus on it, such as it is. I feel your frustration.

Should we get rid of tanks, should we get rid of aircraft carriers? Probably not. I mean, just if we can go back to the Russia-Ukraine war it seems as though every few months someone has a big lesson learned that this war has rendered a certain platform obsolete, and then a few months later it becomes clear that's not accurate at all. And so I'm just a little bit hesitant to do.

And then finally, your question on the all-volunteer force. The things that worry me the most about the all-volunteer force are not the compensation piece. What worries me are the increasing divide between the American public and their military, and in particular, the decreasing public support for the US military that we've seen over the last eight years or so.

O'HANLON: As you wrote about in your excellent recent book. Todd, to you, please.

HARRISON: Yeah, no, a lot to cover there. You know, I would say some of the, you know, big takeaways here, things that worry me you know, I share Mara's concern about the increasing gap between the military and our society. I think that we do need to you know, really have a broader discussion about what are our strategic aims, what is our defense strategy, because I think we have lost consensus on that. You know, is China a threat? Is the Western Hemisphere a priority? How do these things rank well, relative to one another?

In terms of the changing, you know, way that war is fought, I too am skeptical when anyone says a certain part of your force is now suddenly irrelevant. I would say specifically when it comes to tanks and aircraft carriers, you know, what you know, conflict in the past few years has taught us, if anything, is we need to rethink the way we're gonna use these systems. Because we have a lot of invested infrastructure in tanks and in aircraft carriers, that is not going away anytime soon. You know, what we use them for, what we put on them how we arm them, how we use them within you know, operations, that can change. And that's what I think we ought to be looking at, and that extends more broadly throughout the military that as

the way war is fought is changing, we've got to be agile in terms of our doctrine, our operational concepts and in terms of the small changes you can make that can greatly improve the effectiveness of existing weapons and platforms.

You know, a lot of things to focus on there, but you know, I think that there are a lot of challenges still ahead. This administration's gotta do a better job of communicating what their priorities are to Congress, and Congress has gotta do a better job of actually fostering that debate so that we can have a transparent, rational debate about these issues.

O'HANLON: Thank you. David.

WESSEL: Let me just, I'll be really quick. Debt percentage of GDP is a measure of what you can afford. If you were looking at buying a \$500,000 house, it depends whether you're someone who make \$2 million a year or \$40,000 a year. So measures -- economists use percentage of GDP because it's a measure of what you can afford, as well as the point that Mara made about international comparisons. But having a goal of so much percent of GDP, that's become a vice rather than—I mean, defense as a percentage of GDP has become more of a vice than a, an attribute.

O'HANLON: Thank you very much to everybody. Thank you to our men and women in uniform and their families and all who serve, and wishing you a happy summer and best going forward.

Signing off from Brookings. Goodbye.