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Defense Spending: What To Expect in CY 2021

Authors: Steven Michael Hyjek, Adrienne Ramsay
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At approximately \$740 billion (plus), the Department of Defense will remain the Agency with the largest share of federal discretionary spending no matter who wins the November elections. However, in 2021, the overall discretionary budget will deal with greater pressures from Democrats to create more room for domestic programs in an effort to make a stand against the dramatically increasing federal deficit. This might mean parity of spending, as it had in the past, or reductions in Defense top-line for additional domestic spending.

Historically, the national debt has been 42 percent of gross domestic product (GDP), but following the expenditure of more than \$3 trillion on the COVID response, the Congressional Budget Office is projecting that by 2021 debt will be 108 percent of GDP, greater than at the end of World War II. Congress may continue to balance spending allocations for national security, which is a quintessential government function and generates significant economic benefits for all 50 states, while also increasing funding for domestic programs to address social justice, health care, and other domestic issues. These political issues will have to be weighed against the economic benefits of increased debt, the need for increased revenue through tax increases, and the political atmosphere – all while the economy seeks to recover from the pandemic. However, until the cost of debt spending becomes prohibitive (i.e., increase of interest rates for Treasury-issued bonds), many of these measures will not be adopted or adhered to during final negotiations.

Depending on the party control of the Administration, Senate, and House next year, there is strong evidence that there will be discussion and possible implementation of debt limiting measures like sequestration or a redux of the bipartisan budget agreement. The results will likely impact jobs and investment across this country.