

The 'In-Defense-ible' US Budget Deficit

Kostas Grigorakis, CFA®, Managing Director – Investments, Senior PIM® Portfolio Manager

August 20, 2026

In recent days, US debt reached a landmark figure for the first time: \$40 trillion—yes, with a capital “T.”

Markets frowned, bonds moved in the wrong direction—prices down, yields up—and populist headlines erupted with a familiar blend of alarm and angry admonition. Prominent among them was the battle cry: “We must cut defense; it’s killing us.”

Yet the numbers do not agree. Instead, they point to a jarring reality, as the data below suggest:

In 2019, the US budget stood at \$4.45T, producing a near-trillion-dollar deficit and bringing the national debt to \$22.7T. Defense spending stood at \$0.7T, representing 15.4% of total federal outlays.

Then, in 2020, COVID hit. To address the pandemic shock, the US government dramatically expanded spending on an emergency basis, lifting the budget by a whopping 47.3% to \$6.6T. Defense, however, remained roughly steady at \$0.7T, causing its share of total expenditures to fall to 10.9%—a rare relative rollback.

The pandemic first peaked soon after 2020 and then rapidly receded. The emergency was over, and one would have expected the budget to reflect that by reverting toward the 2019 baseline, adjusted for inflation. But nothing of the kind happened.

Not only did the budget fail to return to its pre-emergency baseline; it continued rising above the COVID-emergency level, growing another 7% by 2025 to a mythical \$7T and bringing the national debt to \$37.6T.

Surprisingly, defense spending rose only to \$0.9T—a modest increase over its pre-COVID baseline and broadly consistent with interim inflation. Moreover, in relative terms, defense remained far below its pre-COVID share of the federal budget: from 15.4% in 2019 to 12.8% in 2025.

Seen from a longer perspective, since 2017 the US budget has ballooned by roughly +82%, while defense spending has risen by only about +50%, effectively falling from 15.2% of national expenditures in 2017 to just 12.8% in 2025.

The picture is startling:

Outside of a dramatic surge in waste, fraud, abuse, there is no good explanation for how a once-in-a-century budgetary emergency has become the new baseline in national finances. And defense spending

Investment and Insurance Products: Not FDIC Insured / No Bank Guarantee / May Lose Value

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC, Member SIPC,
a registered broker-dealer and non-bank affiliate of Wells Fargo & Company.

simply cannot account for it. The ballooning of the US budget is not only unsustainable; it's downright unjustifiable.

Fiscal year	Total federal outlays	Increase from prior year	National defense outlays	Defense as % of budget
2016	\$3.85T	—	\$0.60T	15.7%
2017	\$3.98T	3.3%	\$0.61T	15.2%
2018	\$4.11T	3.2%	\$0.63T	15.4%
2019	\$4.45T	8.2%	\$0.69T	15.5%
2020	\$6.55T	47.3%	\$0.72T	10.9%
2021	\$6.82T	4.1%	\$0.75T	11.0%
2022	\$6.27T	-8.1%	\$0.77T	12.2%
2023	\$6.13T	-2.2%	\$0.82T	13.4%
2024	\$6.75T	10.1%	\$0.87T	12.9%
2025	\$7.01T	3.9%	Apprx. \$0.90T	Apprx. 12.8%

+82% (Total federal outlays 2016-2025)
+7% (National defense outlays 2021-2025)
+50% (National defense outlays 2020-2025)
-15% (Defense as % of budget 2020-2025)

Source and methodology: OMB Historical Tables 1.1 and 3.1 provide total federal outlays and National Defense outlays, respectively. The current OMB series covers actual total outlays through FY2025 and function-level data through FY2031. FRED independently reports FY2025 federal net outlays of \$7.011 trillion, sourced from OMB.

Wells Fargo Advisors does not provide legal or tax advice.

Wells Fargo Advisors did not assist in the preparation of this report, and its accuracy and completeness are not guaranteed. The opinions expressed in this report are those of the author(s) and are not necessarily those of Wells Fargo Advisors its affiliates. The material has been prepared or is distributed solely for information purposes and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Additional information is available upon request.

PM-02252028-5871863