

Federal investment is the portion of Federal spending of taxpayer money intended to yield long-term benefits for the economy and the Nation. It promotes improved efficiency within Federal agencies, as well as growth in the national economy by increasing the overall stock of capital. Investment spending can take the form of direct Federal spending or grants. It can be designated for physical capital—a tangible asset or the improvement of that asset—that increases production over a period of years or increases value to the Government. It can also be used for research and development, education, or training, all of which are intangible, but can still increase income in the future or provide other long-term benefits.

Most presentations in the *Analytical Perspectives* volume combine investment spending with spending intended for current use. In contrast, this chapter focuses solely on Federal and federally financed investment, providing a comprehensive picture of Federal spending for physical capital, research and development, and education and training. Because the analysis in this chapter excludes spending for non-investment activities, it gives only a partial picture of Federal support for specific national needs, such as defense.

Total Federal investment spending was \$696.3 billion in 2025. It is expected to increase by 14.5 percent in 2026 to \$797.6 billion. The Budget proposes a 6.8 percent increase from 2026, for a total of \$1,011.0 billion in 2027.

DESCRIPTION OF FEDERAL INVESTMENT

The Budget uses a relatively broad definition of investment. It defines Federal investment as encompassing spending for research, development, education, and training as well as physical assets such as land, structures, infrastructure, and major equipment. It also includes spending regardless of the ultimate ownership of the resulting asset or the purpose it serves. For the purposes of this definition, however, Federal investment does not include “social investment,” meaning investments in healthcare or social services programs where it is difficult to separate out the degree to which the spending provides current versus future benefits. The distinction between investment spending and current outlays is a matter of judgment, but the definition used for the purposes of this analysis has remained consistent over time and is useful for historical comparisons.¹

Investment in physical assets can be for the construction or improvement of buildings, structures, and infrastructure, including the development or acquisition of major equipment. The broader research and development category includes spending on the facilities in which these activities occur and major equipment for the conduct of research and development, as well as spending for basic and applied research, and experimental development. Investment in education and training includes vocational rehabilitation, programs for veterans, funding for school systems and higher education, and agricultural extension

services. This category excludes training for military personnel or other individuals in Government service.

The Budget further classifies investments as either grants to State, local, tribal, and territorial governments (e.g., for highways or elementary and secondary education) or “direct Federal programs.” The “direct Federal” category consists primarily of spending for assets owned by the Federal Government, such as weapons systems and buildings, but also includes grants to private organizations and individuals for investment, such as capital grants to Amtrak, Pell Grants, and higher education loans to individuals. For grants made to State, local, tribal, and territorial governments, it is the recipient jurisdiction, not the Federal Government, that ultimately determines whether the money is used to finance investment or for current use. This analysis classifies outlays based on the category in which the recipient jurisdiction is expected to spend a majority of the money. General purpose fiscal assistance is classified as current spending, although in practice, some may be spent by recipient jurisdictions on investment.

Additionally, in this analysis, Federal investment includes credit programs that are for investment purposes. When direct loans and loan guarantees are used to fund investment, the subsidy value is included as investment. The subsidies are classified according to their program purpose, such as construction, or education and training. This discussion presents spending for gross investment, without adjusting for depreciation.

¹ Historical figures on investment outlays beginning in 1940 may be found in the Budget’s *Historical Tables*. The *Historical Tables* are available at <https://whitehouse.gov/omb/historical-tables/>.

COMPOSITION OF FEDERAL INVESTMENT OUTLAYS

Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 3–1. The categories include major public physical investment, the conduct of research and development, and the conduct of education and training.

Table 03–1. Composition of Federal Investment Outlays

In Billions of Dollars

Federal Investment	2025 Actual	Estimate	
		2026	2027
Major Public Physical Capital Investment			
Direct Federal:			
National defense	215.4	266.5	347.0
Nondefense	58.5	83.6	74.8
Subtotal, direct major public physical capital investment	273.9	350.1	421.8
Grants	138.5	143.7	161.9
Subtotal, major public physical capital investment	412.4	493.8	583.7
Conduct of Research and Development			
National defense	104.5	84.9	152.8
Nondefense	88.2	90.5	86.7
Subtotal, conduct of research and development	192.7	175.4	239.4
Conduct of Education and Training			
Grants	68.4	51.8	48.1
Direct Federal	–33.6	11.1	72.0
Subtotal, conduct of education and training	34.8	62.9	120.1
Total, major Federal investment outlays	691.2	792.7	1,004.8
MEMORANDUM			
Major Federal investment outlays:			
National defense	320.0	351.4	499.8
Nondefense	371.2	441.3	505.0
Total, major Federal investment outlays	691.2	792.7	1,004.8
Miscellaneous physical investment:			
Commodity inventories	0.1	0.3	2.0
Other physical investment (direct)	5.0	4.6	4.2
Total, miscellaneous physical investment	5.1	4.9	6.2
Total, Federal investment outlays, including miscellaneous physical investment	696.3	797.6	1,011.0

Total major Federal investment outlays were \$691.2 billion in 2025. They are estimated to increase by 14.7 percent to \$792.7 billion in 2026, and increase by 26.8 percent to \$1,004.8 billion in 2027. For 2025 through 2027, defense investment outlays comprise about 46 percent of total major Federal investment, while non-defense investment comprises about 54 percent. In 2026, defense investment outlays are expected to increase by \$31.4 billion, or 9.8 percent, and non-defense investment outlays are expected to increase by \$70.0 billion, or 18.9 percent. In 2027, the Budget projects a defense investment increase of \$148.4 billion, or 42.2 percent over 2026 and an increase in non-defense investment of \$63.7 billion, or 14.4 percent.

Physical Investment

Outlays for major public physical capital (hereafter referred to as “physical investment”) were \$412.4 billion in 2025 and are estimated to increase by 19.7 percent to \$493.8 billion in 2026. In 2027, outlays for physical investment are estimated to increase by 18.2 percent to \$583.7 billion. Physical investment outlays are for construction and renovation, the development or purchase of major equipment, and the purchase or sale of land and structures.

Direct physical investment outlays by the Federal Government are primarily for defense. Defense outlays for physical investment are estimated to be \$347.0 billion in 2027, \$80.5 billion higher than in 2026. Outlays for direct physical investment for non-defense purposes are estimated to be \$74.8 billion in 2027, a decrease of 10.5 percent from 2026.

Outlays for grants for physical investment are estimated to be \$161.9 billion in 2027, a 12.7 percent increase over the 2026 estimate of \$143.7 billion. Grants for physical investment fund transportation programs, sewage treatment plants, community and regional development, public housing, and other State and tribal assistance.

Conduct of Research and Development

Outlays for research and development were \$192.7 billion in 2025. Outlays are estimated to decrease by 9.0 percent to \$175.4 billion in 2026, and decrease by 36.5 percent in 2027 to \$239.4 billion. Roughly half of research and development outlays are for defense, a trend which has remained consistent over the past decade. Physical investment for research and development facilities and equipment is included in the physical investment category.

Non-defense outlays for the conduct of research and development are estimated to be \$86.7 billion in 2027, 4.2 percent lower than 2026.

Conduct of Education and Training

Outlays for the conduct of education and training were \$34.8 billion in 2025. Outlays are estimated to increase to \$62.9 billion in 2026, and increase in 2027 to \$120.1 billion. Grants for this category were \$68.4 billion in 2025.

Direct Federal education and training outlays in 2025 were –\$33.6 billion. They are estimated to be \$11.1 billion in 2026, and \$72.0 billion in 2027. Programs in this category primarily consist of aid for higher education through student financial assistance, loan subsidies, and veterans’ education, training, and rehabilitation. This category does not include outlays for education and training of Federal civilian and military employees. Outlays for education and training that are for physical investment and for research and development are in the categories for physical investment and the conduct of research and development.

The negative outlays in this category are explained by changes in accounting for the Federal Direct Student Loan Program. In 2025, outlays for this program were –\$78.7 billion, mainly due to the impacts of loan modifications and reestimates. There were much smaller negative subsidies and reestimates in this program for 2026, yielding total estimated outlays for the Federal Direct Student Loan Program in 2026 of roughly –\$29.8 billion. In 2027, outlays for this program are estimated to be \$21.2 billion and are only associated with loan subsidies for the 2027 cohort, as no modifications or reestimates for 2027 have been made.

Major Federal investment outlays will comprise an estimated 12.4 percent of total Federal outlays in 2027 and

3.0 percent of the Nation’s gross domestic product. Budget authority and outlays for major Federal investment by subcategory may be found in Table 3–2 at the end of this chapter.

Miscellaneous Physical Investment

In addition to the categories of major Federal investment, miscellaneous categories of investment outlays are shown at the bottom of Table 3–1.

Outlays for commodity inventories are for the purchase or sale of agricultural products pursuant to farm price support programs and other commodities. Outlays for other miscellaneous physical investment are estimated to be \$4.2 billion in 2027.

Detailed Table on Investment Spending

Table 3-2 provides data on budget authority as well as outlays for major Federal investment. Miscellaneous investment is not included in this table. 🌿

Table 03–2. Federal Investment Budget Authority and Outlays

In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
TOTAL FEDERAL INVESTMENTS						
Major public physical investment						
Construction and rehabilitation:						
National defense:						
Military construction and family housing	17,693	17,586	27,740	12,952	17,460	20,211
Atomic energy defense activities and other	7,708	4,236	6,800	4,754	6,192	9,922
Subtotal, national defense	25,401	21,822	34,540	17,706	23,652	30,133
Nondefense:						
International affairs	799	702	642	612	633	662
General science, space, and technology	3,163	1,681	2,219	1,902	2,139	2,023
Water resources projects	8,446	6,880	2,856	8,221	12,170	6,812
Other natural resources and environment	28,952	18,182	14,337	12,430	13,554	20,916
Energy	–4,027	5,178	3,525	4,972	5,271	5,279
Postal service	2,058	3,062	2,579	2,356	2,937	2,600
Transportation	123,443	120,176	83,799	103,427	103,660	110,307
Veterans hospitals and other health facilities	6,932	10,371	11,383	3,906	5,703	5,842
Administration of justice	59,794	1,988	936	1,883	12,064	6,522
GSA real property activities	682	1,742	11,742	3,133	3,970	4,320
Other construction	28,234	19,050	6,565	24,521	28,656	31,276
Subtotal, nondefense	258,476	189,012	140,583	167,363	190,757	196,559
Subtotal, construction and rehabilitation	283,877	210,834	175,123	185,069	214,409	226,692
Acquisition of major equipment:						
National defense:						
Department of War	253,784	230,869	508,712	196,517	241,389	315,414
Atomic energy defense activities	1,622	1,674	1,764	1,275	1,507	1,524
Subtotal, national defense	255,406	232,543	510,476	197,792	242,896	316,938

Table 03—2. Federal Investment Budget Authority and Outlays—Continued

In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
Nondefense:						
General science and basic research	434	571	1,455	534	585	598
Postal service	1,480	492	1,328	1,628	1,693	1,547
Air transportation	17,326	5,543	4,556	4,361	7,108	8,020
Water transportation (Coast Guard)	23,923	1,394	1,182	1,695	3,616	6,397
Other transportation (railroads)	7	6	408	6	6	6
Hospital and medical care for veterans	3,304	5,839	6,887	2,245	3,840	4,551
Federal law enforcement activities	4,323	3,537	2,614	3,459	3,799	3,200
Department of the Treasury (fiscal operations)	551	163	105	1,178	888	883
National Oceanic and Atmospheric Administration	1,707	1,267	1,356	1,112	826	883
Other	6,108	5,889	8,128	9,650	10,765	9,734
Subtotal, nondefense	59,163	24,701	28,019	25,868	33,126	35,819
Subtotal, acquisition of major equipment	314,569	257,244	538,495	223,660	276,022	352,757
Purchase or sale of land and structures:						
National defense	-48	-34	-38	-51	-33	-35
Natural resources and environment	514	551	483	399	452	452
General government	-134	-177	-25	-134	-177
Other	317	358	354	95	74	129
Subtotal, purchase or sale of land and structures	649	698	774	309	316	546
Other physical assets	3,075	2,556	2,437	3,394	3,075	3,712
Subtotal, major public physical investment	602,170	471,332	716,829	412,432	493,822	583,707
Conduct of research and development						
National defense:						
Defense military	117,739	76,807	211,028	98,190	78,744	145,788
Atomic energy and other	6,106	6,025	6,406	6,319	6,140	6,967
Subtotal, national defense	123,845	82,832	217,434	104,509	84,884	152,755
Nondefense:						
International affairs	249	92	92	249	98	96
General science, space, and technology:						
NASA	9,597	9,707	6,053	10,248	9,943	8,631
National Science Foundation	6,472	6,398	2,637	6,977	7,393	6,257
Department of Energy	6,985	6,641	5,750	6,858	7,678	7,842
Subtotal, general science, space, and technology	23,054	22,746	14,440	24,083	25,014	22,730
Energy	5,657	3,985	-262	4,643	5,550	6,364
Transportation:						
Department of Transportation	1,123	1,361	1,098	1,123	1,264	1,296
NASA	764	764	475	795	731	583
Other transportation	23	22	30	24	35	25
Subtotal, transportation	1,910	2,147	1,603	1,942	2,030	1,904
Health:						
National Institutes of Health	45,687	46,055	41,057	45,873	44,768	43,131
Other health	2,830	2,648	2,018	1,710	1,586	962
Subtotal, health	48,517	48,703	43,075	47,583	46,354	44,093
Agriculture	2,707	2,774	2,360	2,814	2,537	2,806
Natural resources and environment	2,680	2,624	1,198	2,529	2,473	1,292
National Institute of Standards and Technology	1,844	2,326	653	986	3,059	3,906
Hospital and medical care for veterans	1,839	1,852	1,833	1,773	1,760	1,797
All other research and development	796	1,618	1,648	1,620	1,647	1,700
Subtotal, nondefense	89,253	88,867	66,640	88,222	90,522	86,688
Subtotal, conduct of research and development	213,098	171,699	284,074	192,731	175,406	239,443

Table 03—2. Federal Investment Budget Authority and Outlays—Continued

In Millions of Dollars

Description	Budget Authority			Outlays		
	2025 Actual	2026 Estimate	2027 Estimate	2025 Actual	2026 Estimate	2027 Estimate
Conduct of education and training						
Elementary, secondary, and vocational education	48,059	48,242	40,392	67,737	48,702	44,918
Higher education	-39,592	18,707	70,323	-34,432	12,097	73,751
Research and general education aids	3,888	3,057	1,719	3,881	3,209	2,514
Training and employment	5,602	5,742	4,520	3,798	6,905	6,843
Health	2,495	2,718	1,623	2,642	3,299	3,036
Veterans education, training, and rehabilitation	18,489	25,487	24,952	16,499	22,125	24,694
General science and basic research	1,181	1,021	624	1,240	1,343	1,119
International affairs	753	654	230	836	755	723
Other	23,259	24,114	22,214	23,821	25,008	24,024
Subtotal, conduct of education and training	64,134	129,742	166,597	86,022	123,443	181,622
Total, Federal investment	879,402	772,773	1,167,500	691,185	792,671	1,004,772

