The initial priorities of the new government must be to ensure that vaccines are widely distributed in order to end the pandemic and target relief to families and businesses that are struggling to stay afloat. Once the economy has strengthened, however, the country needs to confront serious and growing budget problems. Annual budget deficits are projected, under current conditions, to rise toward $2 trillion within a decade and bring $104 trillion in new debt over the next three decades. Financing that debt will consume 44% of all federal tax revenues—a crippling burden.1 To avoid this outcome, the top three budget priorities should be:

- Short-term relief
- Taxes and spending
- Entitlement reform

Washington has already committed $3.4 trillion to protect health and relieve widespread economic distress. In addition to supporting the health-care system and distributing vaccines, vulnerable families need relief from government-ordered shutdowns of the economy. This means continuing supplemental unemployment benefits of $300 per week, which, combined with regular unemployment benefits, will cover approximately 100% of a typical worker’s lost wages.2 Lawmakers should also ensure grants and loans to keep struggling businesses afloat, including assistance to maintain payrolls and prevent layoffs. Finally, modest assistance of perhaps $100 billion can aid state and local governments that are suffering the deepest revenue losses.

*This issue brief was completed before the inauguration and updated as of January 26.*
The proposed $2,000 relief checks are unnecessary for most families who have lost no income. House proposals to provide state and local governments with $1 trillion in aid and restore the full state-and-local tax deduction for high-income earners fail to target those who need relief from the pandemic. Although the economy remains weak, the falling unemployment rate and stronger than expected recovery mean that another $2 trillion–$3 trillion “stimulus” spending is unnecessary—especially given the past failure of broad Keynesian demand management—and will only add to the government’s rising deficits. Of course, Washington should not sabotage the economic recovery by even considering Biden’s trillions in proposed new taxes until the economy has returned to full strength.

2. Taxes and spending
Biden and Congress should “pay for” all post-recovery spending.

Given the country’s economic condition, it is self-defeating to immediately offset stimulus provisions with large tax increases or spending cuts. But after the economy recovers, the escalating national debt cannot be ignored. This debt—which was just under $17 trillion at the end of 2019—is now projected by the Congressional Budget Office (CBO) to rise by an additional $16 trillion through 2030, and by $104 trillion over three decades (assuming no new spending, the scheduled expiration of most of the 2017 tax cuts, and low interest rates). The result: a national debt that is 195% of GDP. Financing that debt would swallow almost half of all federal tax revenues.

A binge of new federal spending not balanced by additional tax revenue, or even a slight increase in interest rates above the baseline, could send the debt much higher, further imperiling the economy.

In this context, Biden’s proposed $11 trillion in new spending over the decade—only partially offset by $3 trillion in new taxes—is extremely ill-advised. Instead, Congress should offset any new non-Covid, “stimulus” legislation with tax changes or, preferably, spending cuts. The better option is not to add new initiatives at all so that the limited universe of plausible spending cuts and tax increases can remain available to close the underlying $104 trillion in new deficits that are already projected. Biden and Congress should also reimpose statutory caps on discretionary spending that were enacted in 2011 but that will expire in 2021.

Finally, lawmakers should not classify normal spending programs as antirecession stimulus in order to avoid paying for them. While Democrats and some Republicans have proposed trillions in infrastructure spending, there is widespread agreement among economists that infrastructure is among the least effective stimulus approaches, in part because the projects require several years of planning before the first shovelful of dirt is moved.

3. Entitlement reform
Congress and the new administration should begin the difficult task of reforming the finances of Social Security and Medicare.

Offsetting new spending with added tax revenue or spending cuts elsewhere will avoid digging the debt hole deeper, but it still leaves the $104 trillion in new deficits that are already baked in to the 30-year budget baseline. These deficits are driven almost entirely by escalating Social Security and Medicare shortfalls because payroll taxes and premiums are already insufficient to fully fund benefits.

The funds (raised by new debt) transferred from the U.S. Treasury to cover annual Social Security and Medicare shortfalls will rise from $400 billion to $1.5 trillion between 2018 and 2030—nearly the entire (non-pandemic) increase in annual budget deficits over that period. By 2050, the Social Security and Medicare systems will collect 6% of GDP in payroll taxes and other dedicated revenues and yet will spend 20% of GDP on benefits (and the additional interest costs from the new debt).
Reform is imperative: there are no plausible tax increases or other spending reductions large enough to cover Social Security and Medicare shortfalls. Lawmakers should begin designing reforms that can be gradually phased in after the economy recovers. There are a number of ways to bring Social Security deficits under control, including raising the eligibility age, raising the payroll tax rate, trimming the benefits of highest-income retirees, raising the limit on the wages subject to the tax, or some combination of all of the above. Medicare reforms might include measures such as further raising premiums for retirees with higher incomes, adjusting the payroll tax rate, or moving to a premium support model that provides seniors with more options to shop around for competing private plans.⁷

Regardless of the approach ultimately taken, it is not too early for the White House and Congress to begin working toward a solution. They can start by establishing bipartisan commissions to produce legislation addressing the increasingly dire finances of each entitlement program.

**Read more:**

Brian Riedl, “A Comprehensive Federal Budget Plan to Avert a Debt Crisis,” Manhattan Institute, October 2018
Riedl, “Spending, Taxes, and Deficits: A Book of Charts,” Manhattan Institute, October 2020


**Endnotes**

1 Unless otherwise specified, national debt projections in this paper come from the Congressional Budget Office, “The 2020 Long-Term Budget Outlook,” Sept. 21, 2020, and “An Update to the Budget Outlook: 2020 to 2030,” Sept. 2, 2020. Figure 9 (p. 18) of the Long-Term Budget Outlook projects that, by 2050, interest payments will cost 8.1% of GDP, or 44% of the 18.6% of GDP collected in federal taxes.


5 Ibid.


As President Biden assumes office, his administration and the 117th Congress face several pressing tasks. Among them: accelerating the pace of recovery from the pandemic, helping to get schools reopened and students back on track, and restoring safety to the many American cities afflicted by unrest and rising violence. In these briefs, Manhattan Institute fellows offer actionable ideas for the new government—proposals for educational pluralism, executive branch prudence, economic revitalization, evidence-based criminal justice reform, fair and efficient health care, near-term fiscal relief, and long-term fiscal discipline. Each brief contains specific recommendations for Congress or the new administration, along with links to further reading. Taken together, these recommendations represent an agenda for fostering the growth and opportunity that America desperately needs in the wake of the pandemic.