ISSUE BRIEF

NSBA
National Small Business Association®

Deficit Reduction & Entitlement Reform

Deficit reduction & entitlement reform is crucial for long-term small businesses success

Problem:

Despite some short-term improvements, long-term debt challenges remain, and in the coming decades, the debt will squeeze budgetary resources that are vital to our economic success and competitiveness will be stymied.

- The Treasury Department released a fiscal year (FY2018) end report showing that the deficit for FY 2018 increased to $779 billion, a $113 billion (or 17 percent) increase from FY 2017 and is projected to approach $1 trillion in 2019.
- The deficit is 3.9 percent of gross domestic product (GDP), up from 3.5 percent in 2017. Not surprisingly, recent legislation plays a large role in the deficit increase. The $113 billion increase comes from flat revenue coupled with increasing spending.
- Revenue was up only $14 billion, or 0.4 percent. This revenue growth rate is the eighth lowest in the past 50 years, and the seven lower years either coincided with a recession or tax cuts/expiring tax increases enacted shortly after a recession.
- As for the national debt, it continues to climb at a staggering pace—currently more than $21 trillion, a stark contrast from 2000 when the federal government had a surplus of $236 billion and the national debt was less than $6 trillion.
- According to the Congressional Budget Office (CBO) – which assumes the continuation of current policies – debt will reach 225 percent of the economy by 2050 and over 600 percent of GDP by 2093. Budget deficits under these scenarios would rise from nearly 4 percent of GDP this year to between 20 and 35 percent of GDP by 2093.
- According to CBO, Social Security costs will rise from 4.9 percent of GDP in 2018 to 6.3 percent by 2093. Further, federal health care spending will grow from 5.2 percent of GDP to 14.3 percent over the same timeframe. In addition, due to continued excessive borrowing, interest on the debt will rise from 1.6 percent of GDP in 2018 to 14.9 percent by 2093.
- As a result of this growth, total spending under current law would grow from 20.6 percent of GDP today to 30 percent by 2050, 35 percent by 2070, and over 42 percent by 2093. In other words, total spending will double as a share of the economy over the next 75 years.
- Roughly half of the U.S. debt is held by foreign countries, such as China, Japan and Saudi Arabia. China alone holds more than $1 trillion in U.S. debt. Interest on U.S. debt is projected to total $7 trillion over the next decade and, by 2026, will become the third largest category of the federal budget, according to the Peter G. Peterson Foundation.

Solution:

For NSBA, meaningful tax reform—that includes deficit reduction and entitlement reform—is critically important in the effort to help grow the economy and help improve the fiscal situation, and there are still plenty of options available to make improvements on both fronts.

- As Congress continues to debate tax reform 2.0, NSBA believes it is imperative future reform address: budget deficits and the debt; rate parity between pass-through entities and C-Corporations; tax permanency and simplification.
- Avoiding economically disastrous growth in the national debt will require an aggressive combination of reduced spending and increased revenue over the long term. Significant progress can be made by offsetting all new spending or tax cuts and by assuring solvency of all major trust funds.

Learn More: Download NSBA's 2018 Taxation Survey

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