NSBA
National Small Business Association

Issue Brief

Deficit Reduction & Entitlement Reform

Problem:

Despite some short-term improvements made in recent years, 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 COVID-19 pandemic and the legislation enacted in response created an additional set of issues, which need to be considered.

- The Treasury Department released a fiscal year (FY2020) end report showing that the deficit increased to $3.1trillion – $2 trillion more than forecast in the FY2021 President's Budget. That is three times more than the $984 billion deficit in FY2019.
- At 16 percent of gross domestic product (GDP), the deficit in 2020 would be the largest since 1945. The deficit in 2021 is projected to be 8.6 percent of GDP. Between 1946 and 2019, the deficit as a share of GDP has been larger than that only twice.
- As a result of those deficits, federal debt held by the public is projected to rise to 98 percent of GDP in 2020, compared to 79 percent at the end of 2019, and 35 percent in 2007. It would exceed 100 percent in 2021 and increase to 107 percent in 2023, the highest in nation's history.
- Governmental receipts totaled $3.420 trillion in FY2020, $42 billion lower than in FY2019.
- The national debt continues to climb at a staggering pace, reaching more than $27 trillion in October 2020. A combination of recessions, response to the COVID-19 pandemic, defense budget growth, and tax cuts has raised the national debt-to-GDP ratio to record levels. This is a stark contrast to the year 2000, when the federal government had a surplus of $236 billion and the national debt was less than $6 trillion.

Solution:

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

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. The sooner we act to get our debt under control, the easier pill it will be to swallow with more gradual changes we can hope to enact versus driving our economy off a fiscal cliff.