ISSUE BRIEF

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. If we do not address our record-high national debt and annual budget deficits, our global competitiveness will be stymied.

- The Congressional Budget Office (CBO) estimates that the federal deficit will be $559 billion in 2017, slightly lower than its last projection, but it also sees steadily rising deficits in the future. The $35 billion drop is largely due to lower-than-expected spending on entitlement programs — though the office also projects a slight decline in individual tax revenues as well.
- Still, the budget scorekeeper has about the same overall estimate for the amount of debt the country will add over the next 10 years — about $8.6 trillion.
- The federal government ran a $587 billion deficit in 2016, the first time the deficit had increased since 2009. CBO now projects deficits to drop in 2018, largely because of a quirk in when certain payments are due, before rising consistently through 2027.
- CBO expects deficits to run below 3 percent of gross domestic product (GDP) through 2019, before an uptick of spending on Social Security, Medicare and net interest pushes the deficit up to 5 percent of GDP in 2027.
- By 2027, CBO projects that federal spending will rise from close to 21 percent to 23.4 percent of GDP, even with a dip in discretionary spending. The deficit that year is projected to be $1.4 trillion, or about 2.5 times the size of 2017's projected deficit.
- Revenues are expected to grow more modestly between 2017 and 2027, from 17.8 percent of GDP to 18.4 percent. The 50-year average for revenues is 17.4 percent.
- The CBO projects that over the next decade, if current laws remained generally unchanged, budget deficits would eventually follow an upward trajectory—the result of strong growth in spending for retirement and health care programs targeted to older people and rising interest payments on the government's debt, accompanied by only modest growth in revenue collections. Those accumulating deficits would drive debt held by the public from its already high level up to its highest percentage of GDP since shortly after World War II.

Solution:

To address these issues, NSBA supports a two-pronged approach to reduce annual budget deficits and lower the national debt which includes broad, pro-growth tax reform and much-needed entitlement reform.

- Overhaul and simplify the tax code by broadening the base, lowering all individual and corporate tax rates, and making business taxes more globally competitive for U.S. business.
- Reform Social Security and Medicare to strengthen their finances and promote generational equity.
- Implement these reforms now to allow policy changes to phase in gradually, which would make changes less disruptive, more politically viable, and give individuals and businesses time to plan and adjust.

Learn More:

Download NSBA's 2015 Taxation Survey
Download NSBA's Tax Reform Checklist
Read NSBA's latest updates on tax and budget issues