**TAKEAWAYS FROM THE THIRD QUARTER UPDATE**  
*By Louise Sheiner and Sage Belz*

The combined effect of federal, state and local spending and tax policies —which significantly restrained overall economic growth from 2011 through 2014— had little effect on growth in Gross Domestic Product in the third quarter of 2017, the latest reading on the Hutchins’ Fiscal Impact Measure shows.

Persistent weakness in state and local spending offset the modest contributions of federal spending and tax and benefit programs to GDP in the third quarter. Worries about unfunded pension liabilities and weaker than expected tax revenues this year appear to be restraining spending on both current operations and infrastructure.

The Hutchins’ FIM has been hovering near zero over the past year, suggesting that, on balance, local, state and federal fiscal policies have neither subtracted from nor added to the change in GDP. The GDP grew at a 3.0 percent annual rate in the third quarter, according to the government’s first estimate.

A few highlights from the most recent update to the FIM:

* Federal spending increased at an annual rate of 1.1 percent this quarter, but increased just ½ percentage point over the past year. Caps on discretionary spending agreed to by Congress have kept spending growth well below GDP growth.
* Spending by state and local governments fell in the third quarter, a sixth consecutive quarter of negative or very weak growth. The sector has yet to fully recover from the Great Recession: state and local employment remains almost 1 percent lower than it was in 2008, and inflation-adjusted construction spending is 30 percent lower. Growing pension obligations and negative revenue surprises have pushed states and localities to restrict budgets. Pension contributions as a share of payroll, for example, have [increased almost 6 percentage points](http://publicplansdata.org/quick-facts/national/) since 2008.
* Tax and transfer policies helped offset a modest decline in personal income this quarter. Over the past year, however, transfers at all levels of government have had little effect on GDP growth, reflecting the lack of major legislative changes at either the federal or state and local levels. If the White House and Congress agree on tax reform or changes in federal spending, the FIM will provide a gauge of their near-term effects on GDP growth.