A Guide to the Hutchins Center Fiscal Impact Measure

*What is the FIM?*

The [Fiscal Impact Measure](https://www.brookings.edu/interactives/hutchins-center-fiscal-impact-measure/) (FIM) is a tool created the Hutchins Center to illustrate how much local, state and federal fiscal policy adds to or subtracts from overall economic growth. When the FIM is positive, policy is expansionary in the sense that it is pushing growth in real Gross Domestic Product (GDP) above its longer-run potential. When the FIM is negative, policy is lowering real GDP growth relative to potential. The FIM is broader than measures of fiscal impetus that rely on the size of the federal deficit because it includes the includes the direct effects of federal, state, and local government purchases as well as the more indirect effects of government taxes and government transfers, which affect private consumption. The FIM is closely related to a measure of fiscal stance developed by Federal Reserve Board staff ([see Cashin et al. 2018](https://www.federalreserve.gov/econres/feds/files/2017061pap.pdf)).

As the figure below illustrates, between 2008 and 2011, the years of the Obama stimulus (The American Recovery and Reinvestment Act) fiscal impact was positive, indicating that government policy was stimulative. For several years after, due to the spending sequesters, the fiscal impact was negative, indicating a restraint on growth. In recent quarters, government spending and taxes have moved from being around zero (neither stimulating nor restraining growth) to slightly positive, reflecting the effects of tax cuts in late 2017 and higher spending by state and local governments. Federal spending, on the other hand, has slowed in the last two quarters and generated a slight drag on GDP growth.

[To learn more about interpreting the FIM, read our methodology.](https://www.brookings.edu/research/the-hutchins-centers-fiscal-impact-measure/)

On July 26, after the release of the 2nd quarter GDP, the Hutchins Center will begin regularly publishing a FIM forecast, which provides a view of how fiscal policies are expected to affect the economy over the next two years. The FIM is updated monthly alongside each GDP release from the Bureau of Economic Analysis.



*How is the FIM different from just looking at the size of the federal deficit?*

The FIM is a broader and more timely measure of the effects of fiscal policy on the economy. First, it measures the effects of both tax and transfer policies on private consumption at both the state and local levels, which are not captured in by the deficit. Second, the FIM includes the impact of state and local purchases. Finally, the FIM more precisely captures the timing of realized government expenditures on near-term measures of economic growth, relative to the slower-moving and budget-focused measure of the deficit.

*What should we expect from fiscal policy in the coming years?*

Under the FIM forecast, the spending and tax policies at federal, state and local levels will boost GDP growth by a little less than half a percentage point in each of the next four quarters, but fiscal stimulus will wane and be about zero starting in the second of 2020. Most of the impact in 2019 is expected to come from spending by the federal government due to the recently agreed-upon budget deal and outlays for social security and health care, which strengthen household consumption. Meanwhile, we project that state and local government spending will slow and have a slightly negative effect on growth over the next year, as a slowing economy puts downward pressure on tax revenues.

*How does the Hutchins Center construct its FIM Forecast?*

The FIM Forecast takes a projected path for spending and tax revenues and projections of the economy and translates them into quarterly estimates of those policies’ contributions to GDP growth. The Hutchins Center uses budgetary and economic projections from the Congressional Budget Office to inform these forecasts. In most cases, we assume that current laws will remain in place over the projection period, but in some instances, we deviate from this assumption.

*Do you actually forecast tax and spending policy at the state and local level?*

No. We assume that nominal spending, taxes, and transfers at the state and local level will rise about in line with our projections of overall GDP growth, and then apply appropriate deflators.

*What do you assume about level of appropriated federal spending in the coming years?*

We assume that federal spending will grow in a manner consistent with the deal reached by congressional leadership and White House negotiators this week for fiscal years 2020 and 2021. Under this assumption, we project that federal discretionary spending will add about 0.2 percentage points to GDP growth in the fiscal year that begins on October 1st, and slightly less in fiscal year 2021.

*Do you expect that federal outlays will pick back up later in the year after falling behind forecasts earlier this year and at the end of 2019?*

No; despite the fact that federal spending has come in lower than initially projected under the 2018 budget deal, we assume that spending will grow only moderately and match a level slightly below that projected under the fiscal year budget. In other words, we’re assuming that the agencies just aren’t going to spend their full appropriations under the 2018 budget deal.

*Why is the FIM projected to drop after Q2 2020?*

In the first quarter of 2019, federal social benefit programs paid out unexpectedly large benefits to consumers. The FIM assumes that consumers will “spend” those benefits gradually over the course of the next four quarters; after that time the effect of those large transfer payments on GDP growth will dissipate and the FIM will reflect the low projected paths for government spending.

*What’s happening at the state and local level?*

For almost a decade after the Great Recession, spending and investment at by state and local governments lagged behind the rest of the economy. In the last year, however, spending by these entities has begun to recover and has showed signs of accelerating. While the future of state and local fiscal policy is uncertain and depends heavily on the performance of the overall economy, we foresee that growth in this sector will grow slightly below the pace of the rest economy in the coming quarters.