**What is the FIM?**

The Fiscal Impact Measure (FIM) is a tool created by experts at the Hutchins Center to illustrate how much fiscal policy adds to or subtracts from overall economic growth. When the FIM is positive, policy is expansionary in the sense that 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 includes both the direct effects of government purchases as well as the more indirect effects of government taxes and government transfers. The FIM is closely related to a measure of fiscal stance developed by Federal Reserve Board staff (see Cashin et al. 2018).

As the figure below illustrates, between 2008 and 2011, fiscal impact was positive, indicating that government policy was stimulative. For several years after the budget 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 read more about how to interpret the FIM, read our methodology.](https://www.brookings.edu/research/the-hutchins-centers-fiscal-impact-measure/)

This week, the Hutchins Center will begin publishing its FIM forecast, which provides a view of how fiscal policies are expected to affect the economy over the next two years.



**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 first quarter of 2020. Most of the impact in 2019 is expected to come from spending by the federal government on social security and health care, which strengthens household consumption. Over that same period, we project that other federal spending will grow more slowly than in the past and have about a net zero impact on growth. 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 private sector 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.

**How do you forecast policy at the state and local level?**

Rather than forecasting the universe of spending policies by state and local governments, we take a cue from the economy about the path of tax revenues at this level, which are very informative about their capacities to spend in the future. More specifically, we assume that spending, taxes, and transfers at this level will grow about in line with our projections of overall GDP growth.

**Does the FIM Forecast assume that the Federal spending caps enacted under the Bipartisan Budget Act of 2018 will expire in October 2019?**

No; we assume that Congress will reach a budget deal that will allow the existing caps to remain in place past fiscal year 2019, and that federal spending will grow with its longer-run projected path after that time. As a result, we foresee a more stimulus from federal spending in 2020 than would occur if the budget caps were to expire and be replaced with lower spending levels.

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

TBD. We should work out our answer on this. Right now, we are assuming that spending is not going to particularly pick back up and match its projected levels under the FY 2018 budget deal. In other words, we’re assuming, like CBO (according to Tedeschi), that the agencies just aren’t going to spend their appropriations under the 2018 budget deal. We’re not sure if this is totally valid.

**Why is the FIM projected to drop after Q2 2019?**

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 boosting effect of those large transfer payments 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 strong tax revenue will continue to prop up investment and hiring by these governments for the next several quarters, and slow thereafter.