**TAKEAWAYS FROM THE FIRST QUARTER UPDATE**  
*By Louise Sheiner and David Wessel*

The spending and tax policies of federal, state, and local governments—which significantly restrained overall economic growth from 2011 through 2014—subtracted ¼ percentage point from growth in Gross Domestic Product growth in the first quarter of 2017, according to the latest reading on the Hutchins’ Fiscal Impact Measure. (The GDP grew at a 0.7 percent annual rate in the quarter, according to the government’s first estimate.)

Smoothing through quarterly ups and downs, 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 domestic product.

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

* State and local spending fell in the first quarter, and has declined on average over the past year, suggesting that state and local governments continue to face pressures to rein in spending. State and local construction spending, which fell sharply during the great recession, remains well below pre-recession levels; state and local employment also remains somewhat below pre-recession levels.
* Federal spending also continues to be quite muted—particularly in defense—consistent with the caps on discretionary spending agreed to by Congress.
* Tax and transfer policies have had little effect on GDP growth over the past year, reflecting the fact that there have been no major legislative changes at either the federal or state and local levels. If the Trump administration and Congress agree on major tax cuts or on increases or decreasesin federal spending, the FIM will provide a gauge of their near-term effects on GDP growth.
* The FIM illustrates the combined effect of local, state and, particularly, federal fiscal policy from 2008 through 2010—the Great Recession and the ensuing slow recovery—added substantially to GDP growth, in part because of the American Recovery and Reinvestment Act, the fiscal stimulus of the Obama administration. The FIM peaked at 3.04 in the second quarter of 2009, adding more than three percentage points to GDP growth. But belt-tightening from 2011 through 2014, government subtracted from overall economic growth. The FIM fell below zero for several quarters in a row.

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