**TAKEAWAYS FROM THE SECOND 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—had a small positive effect on growth in Gross Domestic Product in the second quarter of 2017, according to the latest reading on the Hutchins’ Fiscal Impact Measure. (The GDP grew at a 2.6 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.

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

* A boost in federal spending this quarter contributed to GDP growth. However, caps on discretionary spending agreed to by Congress continue to mute that impact relative to the period during the Great Recession and the ensuing recovery.
* Those gains were offset by a decline in spending at the state and local levels, which, after recovering slightly last year, have turned down again. While state and local employment has crept back towards its pre-recession levels, it remains 1.4% lower than its peak in 2008 and has fallen over the last two quarters. State and local gross investment, despite picking up in 2016, has turned south again. Real construction spending fell this quarter to levels 25 percent lower than their peak in 2008.
* 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 decreases in federal spending, the FIM will provide a gauge of their near-term effects on GDP growth.

**RELATED TOPICS**