**The Hutchins Center Fiscal Impact Measure shows how much fiscal policy adds to or subtracts from overall economic growth. Use the graph below to explore the total quarterly fiscal impact as well as its components: taxes and spending at the federal, state and local levels. (Methodology »)**

**TAKEAWAYS FROM THE FIRST QUARTER UPDATE, 07/27/18**  
*By Louise Sheiner and Sage Belz*

According to the latest reading from the Hutchins’ Fiscal Impact Measure, federal, state and local fiscal policies contributed more than half a percentage point to GDP growth in the second quarter of 2018, their largest contribution in more than two years. Overall GDP rose at an inflation-adjusted annual rate of 4.1 percent.

The FIM has increased over the past eight quarters and now sits above what we estimate to be its neutral level—that is, the level at which fiscal policy’s contribution to GDP is in line with potential real GDP growth. The most recent reading on the FIM suggests federal policies in particular are providing additional stimulus to the economy beyond what is consistent with trend growth. Historically, federal fiscal policies make up a smaller part of the economy (about 7 percent on average) than do state and local expenditures (about 11 percent). But in recent quarters, slugglish growth in state and local investment coupled with tax cuts and increased spending at the federal level has narrowed that difference.

Federal spending increased at an annual rate of 3½ percent in the second quarter, in large part because of higher defense spending. State and local spending contributed little to GDP growth this quarter, reflecting the sector’s persistent weakness in recent years. Real state and local construction has grown by less than 5 percent since 2016, and remains 25 percent lower than its level in 2008. Employment in the sector has registered almost zero growth in the last year, and continues to sit below its pre-recession levels.

Tax and transfer policies had a positive effect on GDP growth this quarter. Spending on the federal government’s three largest benefit programs—Social Security, Medicare and Medicaid—continue to increase at a moderate pace, while taxes on personal income have declined since the enactment of new tax legislation at the start of the year. The FIM reflects the gradual translation of lower taxes into spending and GDP growth.

The comprehensive revisions to the national accounts released with the second quarter GDP estimates had little effect on previous values of the FIM.