**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 SECOND QUARTER UPDATE, 09/27/18**  
*By Louise Sheiner and Sage Belz*

According to the latest reading from the Hutchins’ Fiscal Impact Measure, federal, state and local fiscal policies added to the pace of economic growth in the second quarter. Fiscal policy at all levels of government contributed 0.7 percentage points to GDP growth in the second quarter, its highest contribution in over two years. Overall GDP rose at an inflation-adjusted annual rate of 4.2 percent.

The FIM now sits above what we estimate to be neutral—that is, the level at which fiscal policy’s contribution to GDP is in line with potential real GDP growth. While we expect the FIM to be positive, on average, the most recent reading suggests federal policies are providing additional stimulus to the economy beyond what is consistent with trend growth.

During the Great Recession, fiscal policy added significantly to economic growth. But in 2011, the FIM fell below zero for almost four years, indicating that fiscal policy subtracted from economic growth. Over the last eight quarters, however, the FIM has rebounded.

In the second quarter, real federal spending increased at an annual rate of 3.7 percent, in large part because of higher defense spending. Real state and local spending rose about 2 percent in the second quarter. Spending in the sector fell over most of 2017, but has showed signs of a modest recovery in recent quarters, fueled in large part by an upturn in investment spending. Nonetheless, real state and local construction remains 16 percent lower than its level in 2008, while state and local employment sits just below its pre-recession peak.

Tax and transfer policies had a positive effect on GDP growth in the second 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.