

Unleashing growth for maximum impact

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ECONOMICS**

**How governments can invest for
economic growth and resilience**

Accenture Public Service

2021-2022



From the public service leadership team

We are inspired by governments' tremendous responses to the COVID-19 crisis. Many have risen to the occasion with new agility, innovation and a pragmatic approach to supporting citizens and businesses through uncharted territory. Governments' strategic investments and structural reforms and the type and magnitude of political and fiscal responses have had and will continue to have a direct impact on the global economy.

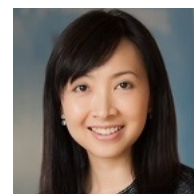
Moving forward, governments should continue to act as economic stabilizers, ensuring minimal economic scarring and driving economic and social renewal over the long term. We partnered with Oxford Economics, a leader in global forecasting and quantitative analysis, to help government leaders chart this course—leading with impact by investing to maximize returns as they architect the next wave of relief and stimulus packages.

This is a watershed moment. And it's why this report is so timely. It offers government leaders insights and actions to orchestrate public and private investments for long-term impact despite continued uncertainty. With the right investments and by using the right policy levers, governments can maximize the impact of stimulus, recovery and resilience funds to achieve the best outcomes possible.

**Ryan Oakes**

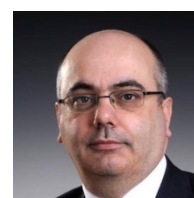
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The pandemic sent shock waves across the global economy, and governments acted quickly and decisively with large fiscal support creatively targeted to help protect jobs, household incomes and businesses during a volatile time.

With the path out of the pandemic still unpredictable, especially with new variants and variation in vaccination rates, where and when should governments invest to maximize economic recovery, sustainability and resilience?

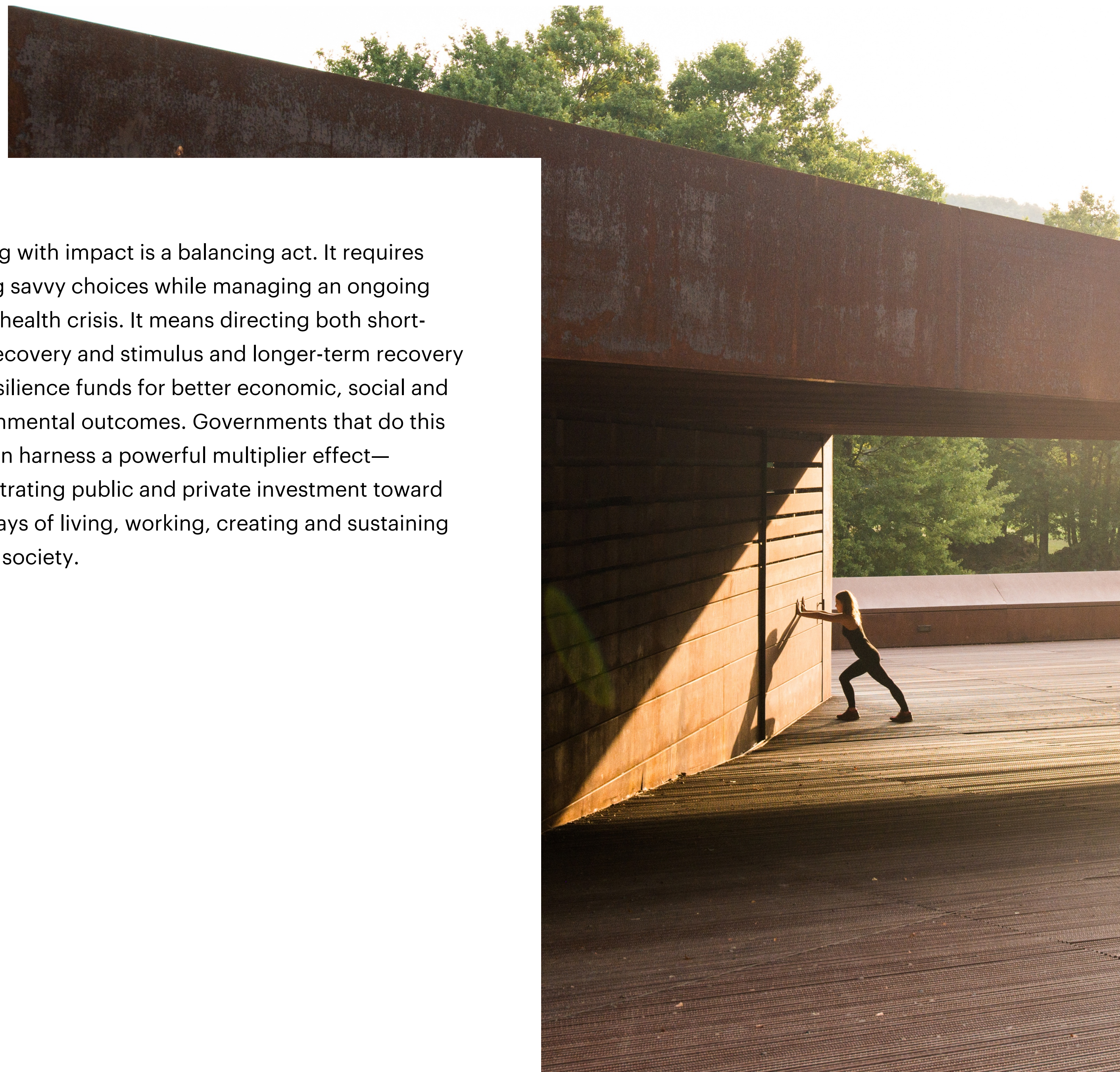


The power of generational change

As responsive as governments have been over the last year and a half, they face substantial challenges to balance the urgent needs of citizens with long-term economic growth in the context of well-managed public debt. Short-term, demand-side fixes to “put out the fires” are not enough. What’s needed are long-term investments and plans to unleash the economy’s full growth potential into the future. Starting now.

This report explores how government leaders can use funds to maximize economic recovery and resilience in an evolving world. This means addressing longstanding structural weaknesses and sustaining the short-term COVID-19 rebound as governments continue to manage new variants. It also means driving digital and green transformation, future-proofing against potential risks, and building new public service capability. It’s how the public sector can turn bold vision into meaningful action that allows people to thrive.

Leading with impact is a balancing act. It requires making savvy choices while managing an ongoing public health crisis. It means directing both short-term recovery and stimulus and longer-term recovery and resilience funds for better economic, social and environmental outcomes. Governments that do this well can harness a powerful multiplier effect—orchestrating public and private investment toward new ways of living, working, creating and sustaining across society.

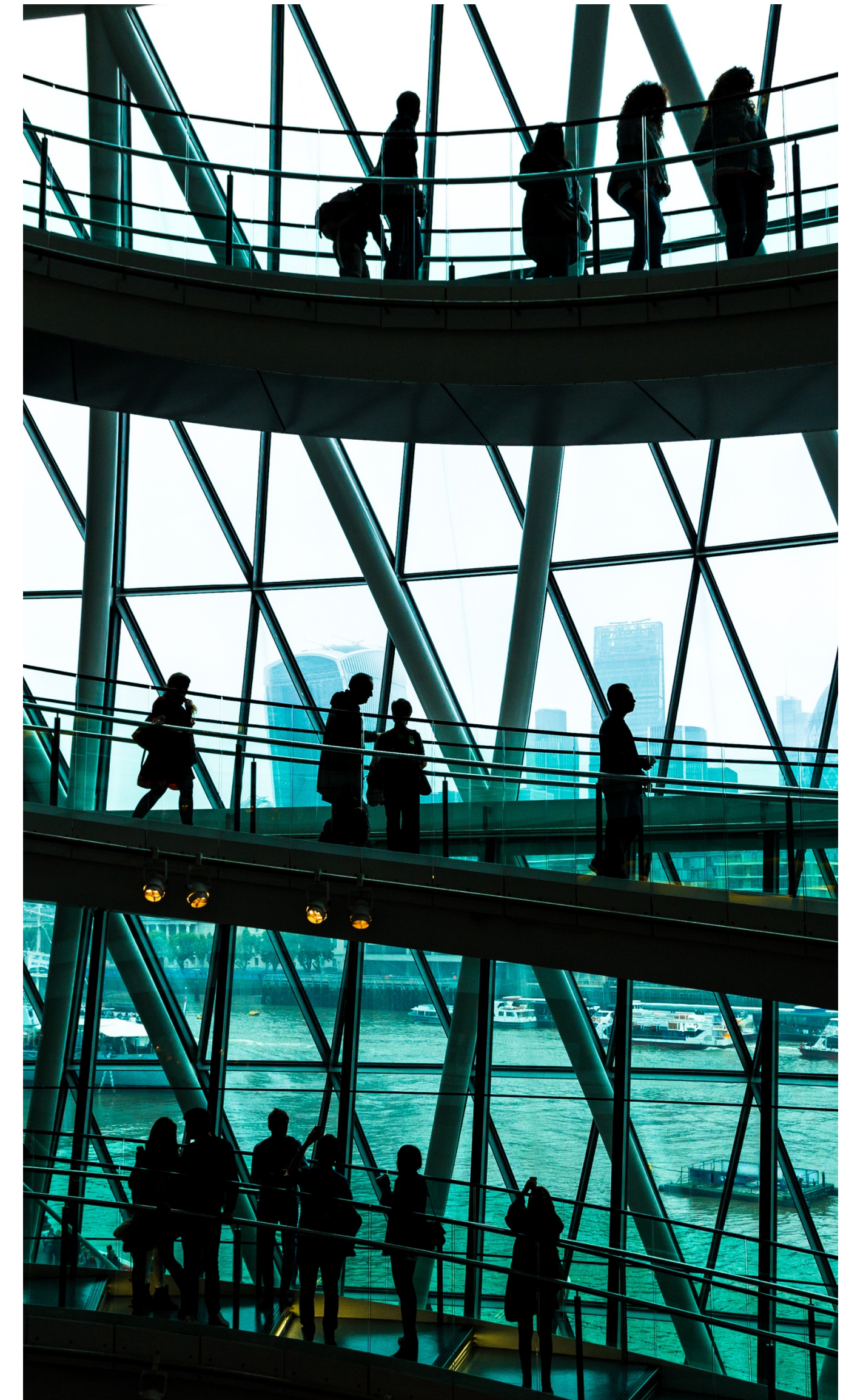


Competitiveness on the global stage

What governments do now to support economic recovery will influence how they compete on the world stage in the future. To fully unlock the upside potential and lead with impact, governments should quickly deploy several key policy levers:

- **Support and transform the labor market.**
How the labor market is managed as job protections schemes end, jobs are reallocated to new growth sectors, shortages arise in some sectors and people are supported with new skills.
- **Minimize long-term economic scarring.**
How economic forecasts differ from before the pandemic to the current forecasts.¹
- **Encourage spending of excess savings.**
How excess savings built up during the pandemic will be unwound to supercharge a consumer boom.

The pace and focus of recovery also depends on how governments navigate **long-term structural issues, competitive strengths and weaknesses**, as well as **short-term crisis impacts** in their initiatives.



Competitiveness on the global stage

Long-term strengths and weaknesses

Existing strengths and weaknesses will shape countries' recovery and should be at the heart of the development of economic recovery plans. These structural factors include competitiveness, digital technology, public administration and e-government, the environment, sector structure, labor markets and inequality, skills, and R&D and innovation (Figure 1).

Structural and competitiveness benchmarking assessment

Figure 1: Structural and competitiveness strengths and weaknesses will continue to play a role in the extent of resiliency and recovery. As governments plan their future investments, their countries' individual strengths and weaknesses are key guideposts.

| Indicator | Unit | Time period | Germany | UK | US | Australia | Singapore |
|--|---------------------------|-------------|---------|-----|-----|-----------|-----------|
| Competitiveness | | | | | | | |
| WEF overall competitiveness index | Rank out of 141 countries | 2019 | 7 | 9 | 2 | 16 | 1 |
| Digital and technology | | | | | | | |
| WEF ICT adoption pillar | Rank out of 141 countries | 2019 | 36 | 31 | 27 | 29 | 5 |
| Public administration and e-government | | | | | | | |
| World Bank governance indicator for government effectiveness | Rank out of 209 countries | 2019 | 15 | 21 | 19 | 16 | 1 |
| UN e-government | Rank out of 193 countries | 2020 | 25 | 7 | 9 | 5 | 11 |
| Environment | | | | | | | |
| Yale Environmental Performance Index | Rank out of 180 countries | 2020 | 10 | 4 | 24 | 13 | 39 |
| Carbon emissions per capita | Tonnes per capita | 2019 | 2.2 | 1.4 | 4.0 | 4.2 | 2.1 |
| Labour market and inequality | | | | | | | |
| WEF labour market pillar | Rank out of 141 countries | 2019 | 14 | 9 | 4 | 23 | 1 |
| Unemployment rate | % labour force | Dec20 | 4.4 | 4.9 | 6.8 | 6.8 | 3.3 |
| Labour supply | % growth | 2019-25 | 0.6 | 2.6 | 2.3 | 10.2 | 0.7 |
| Skills | | | | | | | |
| WEF competitiveness index skills pillar | Rank out of 141 countries | 2019 | 5 | 11 | 9 | 13 | 19 |
| Population with tertiary education | % 25-34 population | 2019 | 33 | 49 | 50 | 52 | na |
| R&D and innovation | | | | | | | |
| WEF competitiveness index innovation pillar | Rank out of 141 countries | 2019 | 1 | 8 | 2 | 18 | 13 |
| Patent applications per capita | Rank out of 141 countries | 2019 | 5 | 19 | 13 | 22 | 15 |

Source: Various Poor ■ ■ ■ ■ Excellent

Competitiveness on the global stage

Short-term crisis impacts

With an objective view of these influences of economic recovery, governments have the foundation to plan with focus for future impact. But there are significant upside and downside risks and a high degree of uncertainty to the Oxford Economics' baseline outlook, both in the short and medium term (Figure 2).

Key scenario features and probabilities

| | | |
|--------------------|--|---|
| ↑ Market Stress | Return of inflation (10%) <ul style="list-style-type: none"> • Inflation rises amid rising commodity prices and inflation expectations and low labor market participation. • Higher inflation persists, with central banks avoiding early rate rises. • Bond yields surge in the near term and equities fall. • Global growth slows and economic scarring is significant. | Long COVID (20%) <ul style="list-style-type: none"> • A surge in Delta cases triggers renewed restrictions. • The global economy falters and markets weaken, before rebounding briefly as restrictions ease. • Recovery is sluggish as new virus variants result in the reimposition of some restrictions. Risk aversion persists. • Economic scarring from the pandemic is significant. |
| | Consumer boom (20%) <ul style="list-style-type: none"> • Household, business and market sentiment improve as economic certainty increases. • Consumer spending booms as savings accumulated during the pandemic are rapidly unwound. • Policy tightening is brought forward but remains gradual. • Economic scarring from the pandemic is limited. | Consumer hesitancy (15%) <ul style="list-style-type: none"> • The return to normal is delayed amid vaccine hesitancy and a sluggish reduction in voluntary social distancing. • Consumer caution restrains spending in the near term, even as restrictions are removed. • A solid recovery follow as confidence returns. • Economic scarring from the pandemic is contained. |

Figure 2: Oxford Economics' Global Risk Survey identifies risk scenarios, probabilities and impacts to the baseline economic forecast

Pandemic Impact →

| Scenarios | Assumptions* | | | | | Impacts | | | | | |
|---------------------|----------------------------|-----------------------------|--|-----------------------|-------------------------------------|---|--|--|--|--|--|
| | Public health restrictions | Investor sentiment | Monetary policy | Fiscal policy | Economic scarring | % deviation of world GDP from baseline in: 2021 2022 2023 2024 2025 2026 | | | | | |
| Long COVID | 🚩 Tighter restrictions | 🚩 Equities decline markedly | 🟢 US policy rate rise delayed 12 months | In line with baseline | 🚩 Greater than in baseline | [Bar chart showing significant negative deviation in 2022-2026] | | | | | |
| Consumer hesitancy | In line with baseline | 🟡 Equities decline | 🟢 US policy rate rise delayed 6 months | In line with baseline | 🟡 Slightly greater than in baseline | [Bar chart showing moderate negative deviation in 2022-2026] | | | | | |
| Return of inflation | In line with baseline | 🚩 Equities decline markedly | In line with baseline | In line with baseline | 🚩 Greater than in baseline | [Bar chart showing significant negative deviation in 2022-2026] | | | | | |
| Consumer boom | In line with baseline | 🟢 Equities rise further | 🟡 US policy rate rise brought forward 6 months | In line with baseline | 🟢 More limited than in baseline | [Bar chart showing positive deviation in 2022-2026] | | | | | |

Source: Oxford Economics

*Flags indicate the implications of each assumption for global GDP (green more positive than in the baseline, amber slightly more negative, and red significantly more negative).

The global economy: From crisis to recovery

As of August 2021 Oxford Economics forecasts a robust global economic recovery with GDP growth at 5.9% and 4.8% in 2021 and 2022 respectively after a 3.5% contraction in 2020. Data, leading indicators and projections suggest that the United Kingdom, United States and Singapore will have strong economic growth in the second half of 2021. This will contribute to very strong whole-year rebounds in GDP in 2021, before growth slows (but remains strong) in 2022. The Eurozone’s recovery is expected to occur slightly later as vaccination progresses and lockdown restrictions end (Figure 3).²

With the exception of Australia—where a boost to labor participation rates and return to pre-COVID immigration levels in the medium term will allow a stronger jobs recovery—job recovery across the United States, Eurozone and Singapore will be less strong than the recovery in GDP (Figure 4). This is because of a lack of spare labor capacity, working age demographics and a slower return to pre-COVID-19 immigration levels in these countries among other factors. The gradual unwinding of job-support schemes will also impact employment levels, although the timing and effects of this are still uncertain.

Select countries: GDP growth

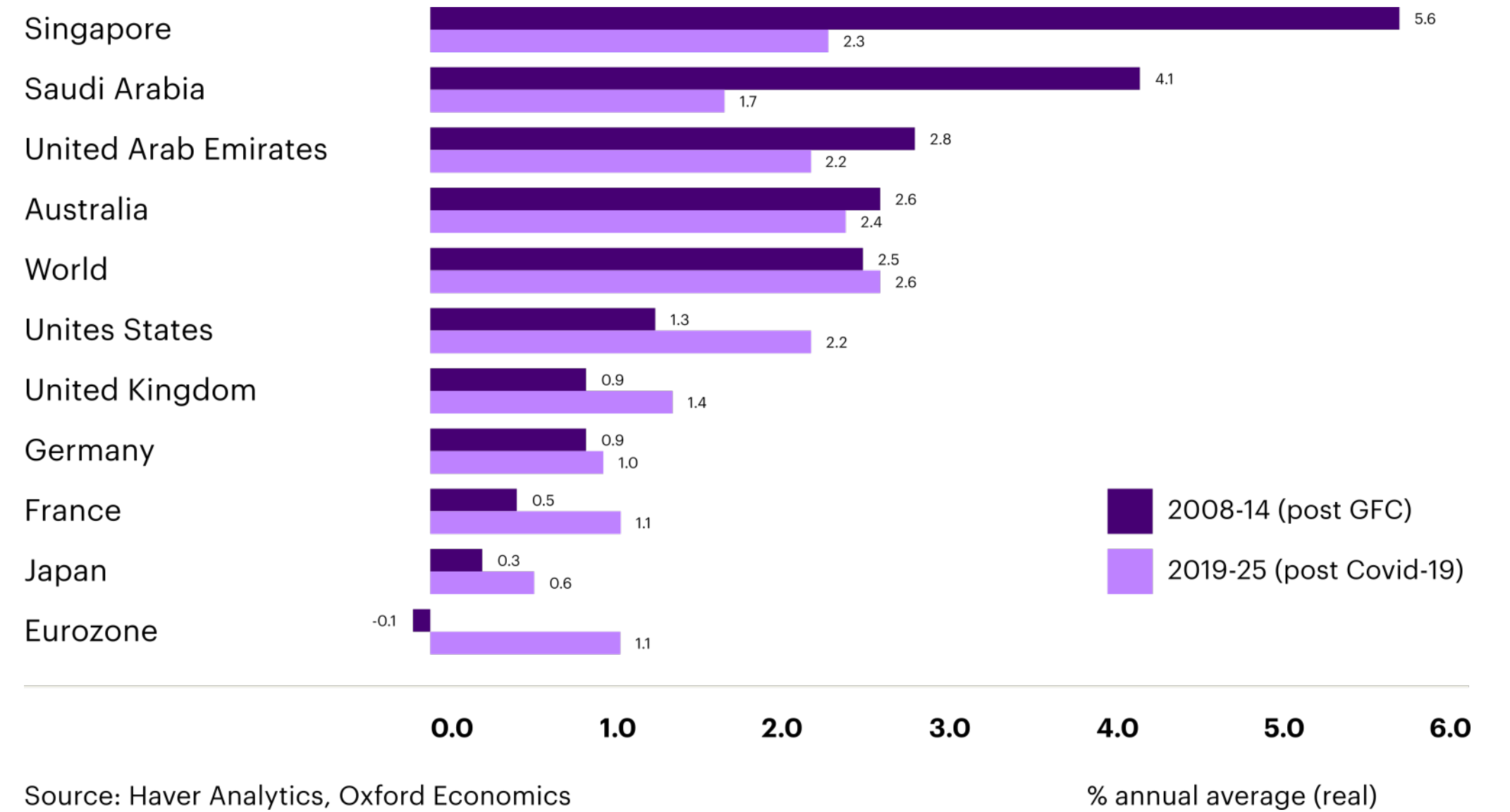


Figure 3: Economic recovery is expected to be strong globally, but occur at different rates across countries

Select countries: Employment

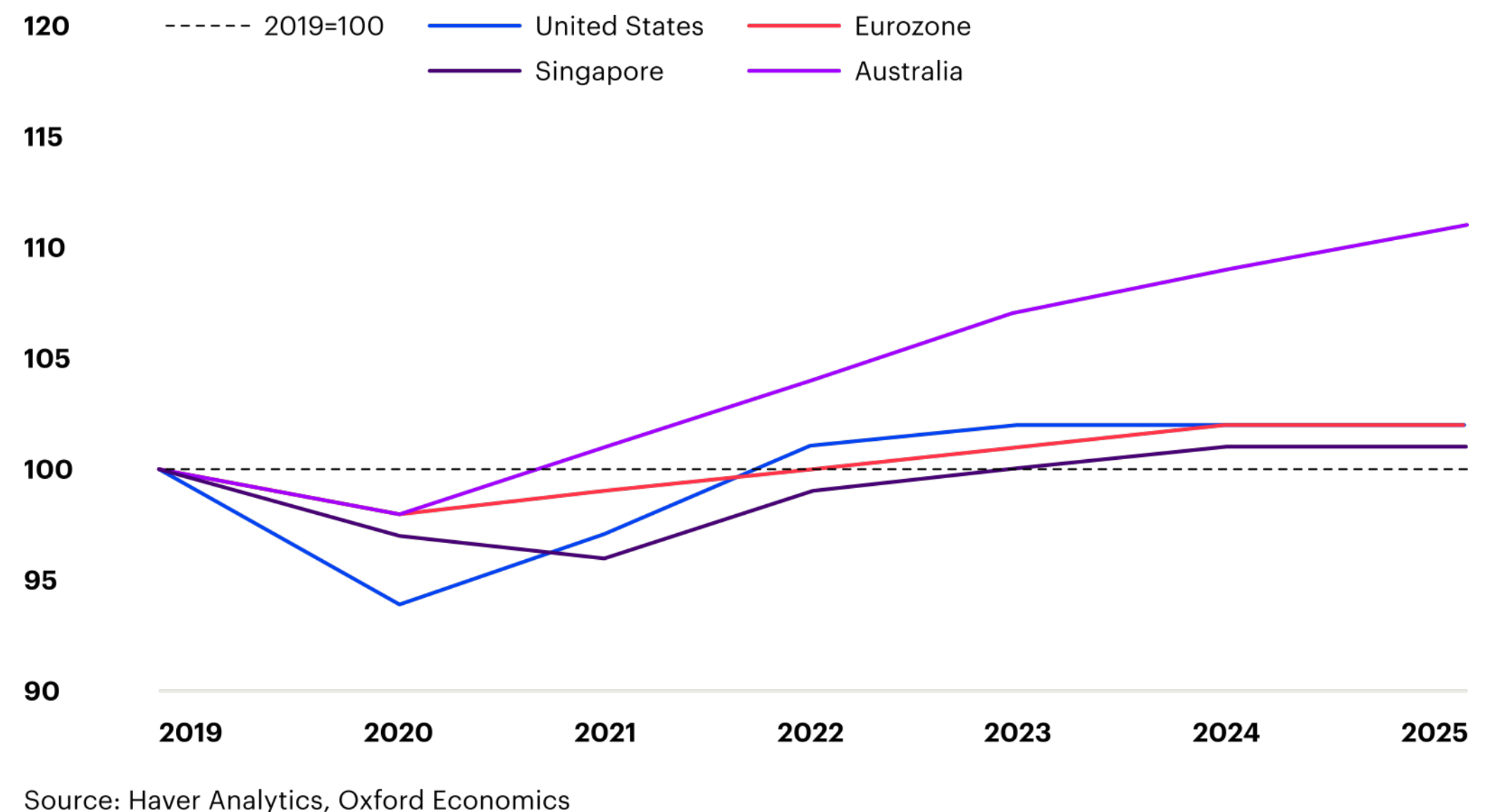


Figure 4: Job recovery across most geographies is not expected to be as strong as GDP recovery

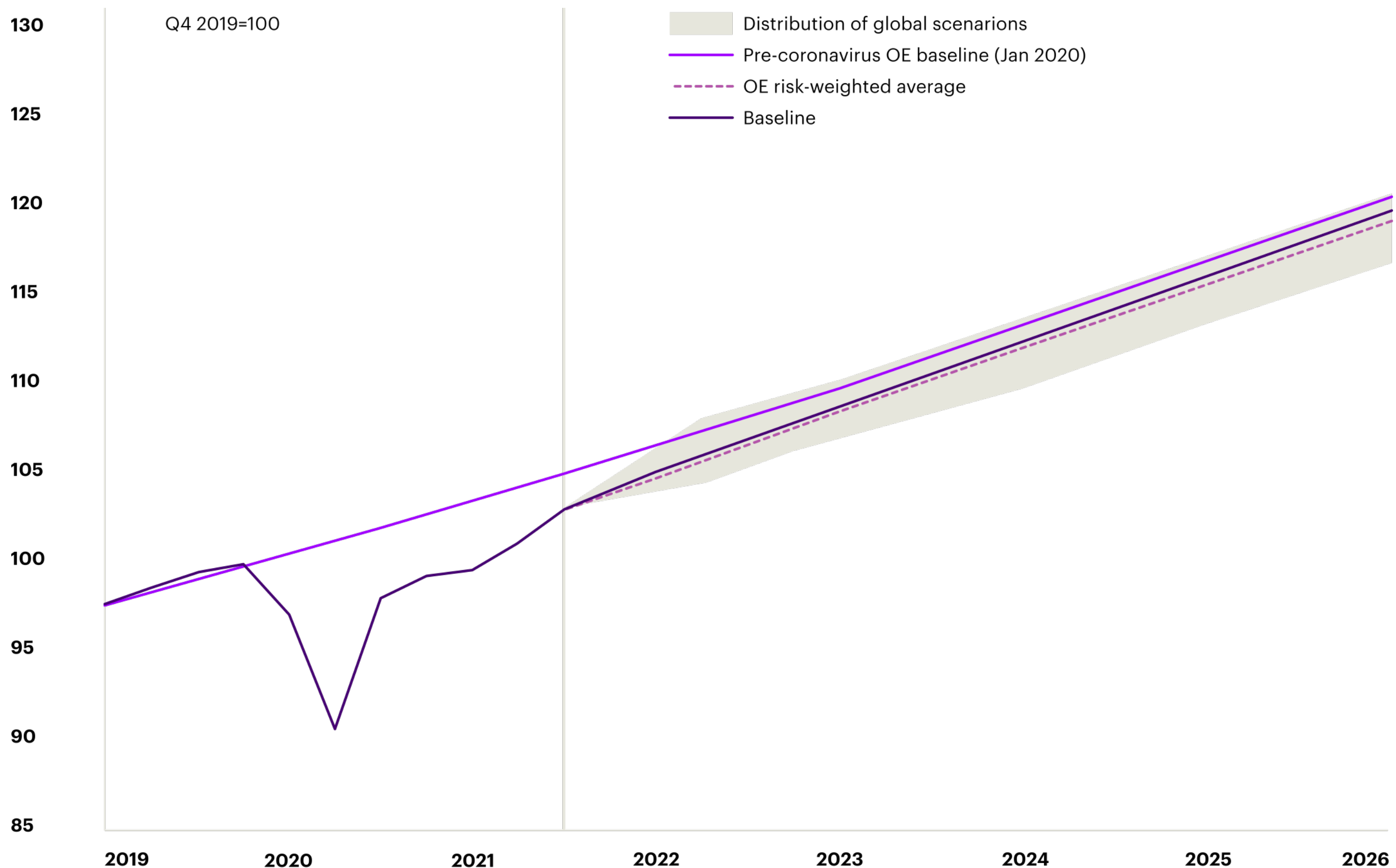
Competitiveness on the global stage

Short-term crisis impacts

Upside risks have risen in recent months. There are growing hopes of a consumer boom as savings accumulated during the pandemic are unwound. However, concerns remain over coronavirus variants and potential market disruption. While the risks around the baseline forecast still lie to the downside, it is to a far lesser extent than earlier in the pandemic (Figure 5).

World: GDP

Figure 5: There are downside risks around the baseline economic forecast, but they are less than earlier in the crisis

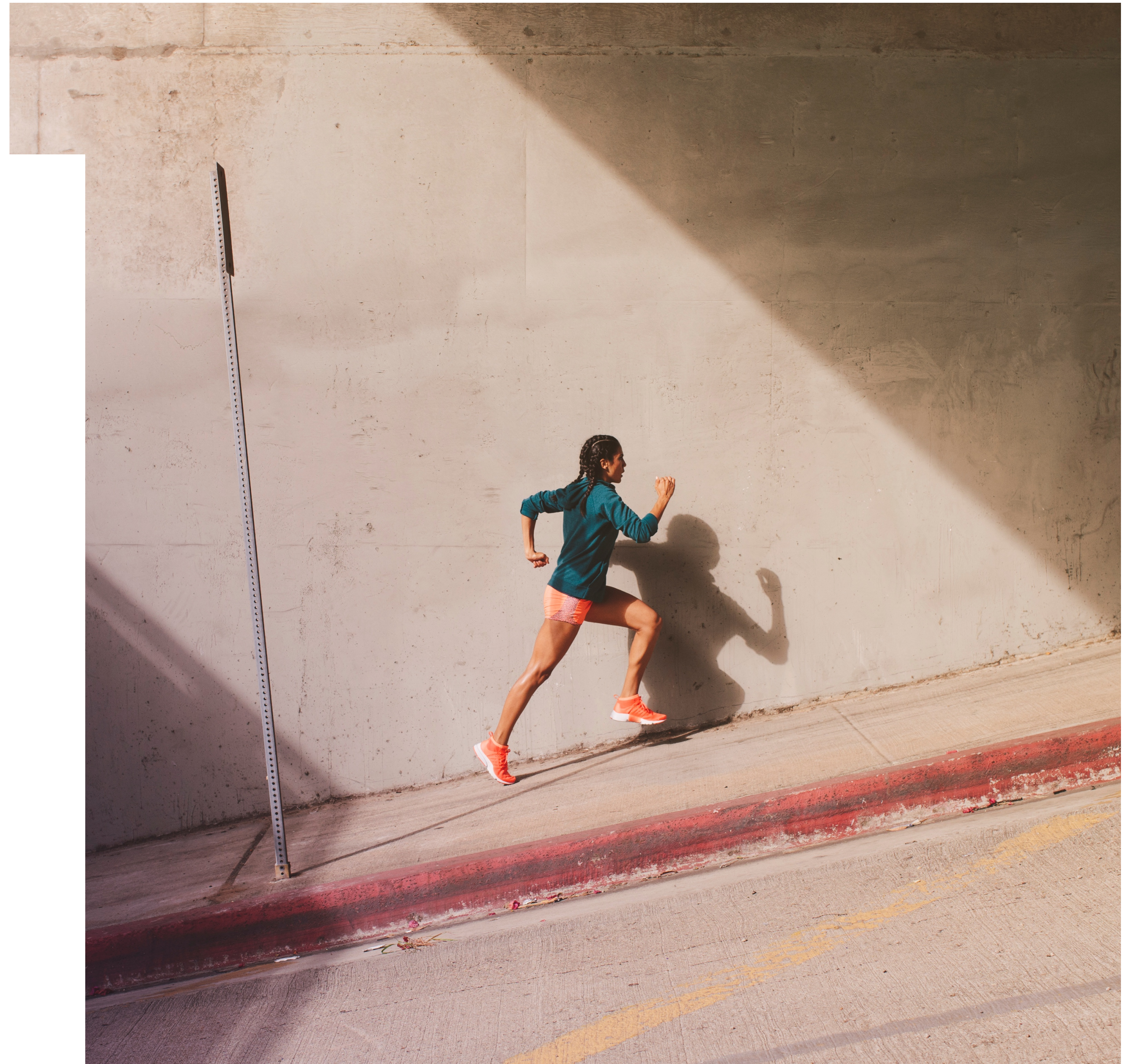


Source: Oxford Economics/Haver Analytics

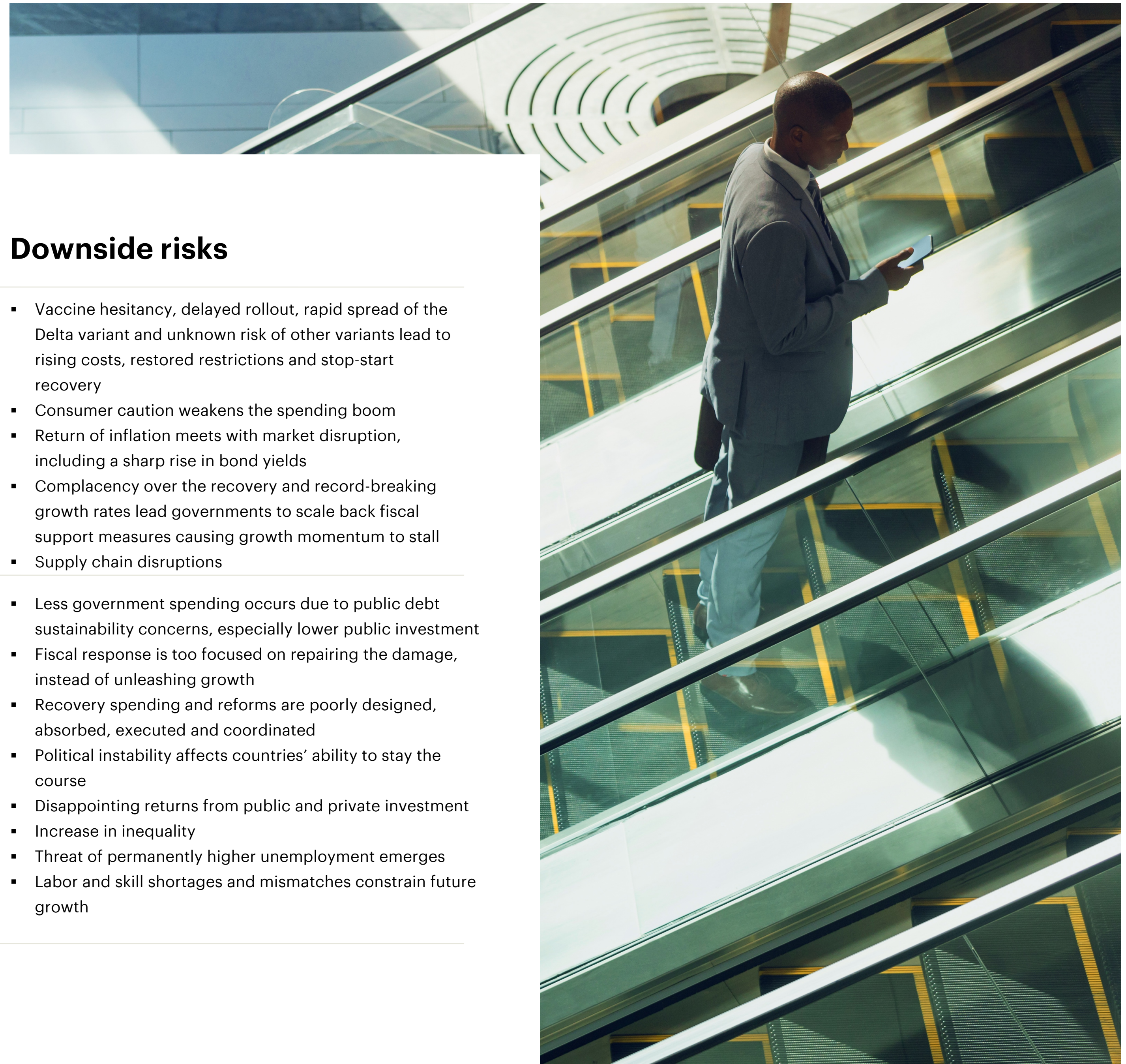
Competitiveness on the global stage

Today and Tomorrow

The next page summarizes critical upside opportunities and downside risks that governments should expect to navigate over the short and medium term. The challenge for the public sector is to “up its game” through reform and policy to support a more resilient and sustainable future while managing the downside risks and their potential economic scarring effects. If the upside opportunities materialize and governments “get things right,” nations could see a golden period of economic growth.



Competitiveness on the global stage



Upside opportunities

Downside risks

| | | |
|------------------------|---|---|
| <p>Today</p> | <ul style="list-style-type: none"> ▪ Mass vaccination rollout allows economies to fully reopen ▪ Households unleash savings faster than assumed in the Oxford Economics' baseline ▪ Consumer, business and market confidence rises ▪ Fiscal support/stimulus funding exceed plans ▪ Monetary policy tightening remains gradual/is delayed (in response to recovering growth and temporary higher inflation) | <ul style="list-style-type: none"> ▪ Vaccine hesitancy, delayed rollout, rapid spread of the Delta variant and unknown risk of other variants lead to rising costs, restored restrictions and stop-start recovery ▪ Consumer caution weakens the spending boom ▪ Return of inflation meets with market disruption, including a sharp rise in bond yields ▪ Complacency over the recovery and record-breaking growth rates lead governments to scale back fiscal support measures causing growth momentum to stall ▪ Supply chain disruptions |
| <p>Tomorrow</p> | <ul style="list-style-type: none"> ▪ Higher public investment boosted by low borrowing costs and special funds ▪ Governments modernize, reform, and absorb and execute higher spending better than in the past ▪ Government plans are targeted, better designed and well-executed to multiply value of investments ▪ Public investment creates large and persistent fiscal multiplier ▪ High private investment is spurred from higher levels of and better-quality public investment ▪ Higher economic return from digitization ▪ Proactive labor market and skills training support a future-ready workforce | <ul style="list-style-type: none"> ▪ Less government spending occurs due to public debt sustainability concerns, especially lower public investment ▪ Fiscal response is too focused on repairing the damage, instead of unleashing growth ▪ Recovery spending and reforms are poorly designed, absorbed, executed and coordinated ▪ Political instability affects countries' ability to stay the course ▪ Disappointing returns from public and private investment ▪ Increase in inequality ▪ Threat of permanently higher unemployment emerges ▪ Labor and skill shortages and mismatches constrain future growth |

Rise to the occasion

To lay the foundation for future economic growth, governments should consider higher levels of public investment compared to the past, taking advantage of low borrowing costs, the general consensus supporting an activist fiscal policy and special funding and plans in place. These four fundamentals can contribute to greater returns.

- 01 Architect a dynamic fiscal strategy**
- 02 Think big and act bold in national initiatives**
- 03 Target investments for maximum impact**
- 04 Boost capacity to execute successfully**



01

Architect a dynamic fiscal strategy



Architect a dynamic fiscal strategy

Many governments are in a period of spending more, despite rising deficits and debt. The United States, Europe and Australia have robust spending plans in the near and medium term. With the exception of Singapore, which had the lowest deficit in 2020, fiscal balances are still projected to be in deficit by 2025 for the United States, Eurozone and Australia. Overall, this level of spending on programs like renewable power generation, transportation infrastructure, the last mile of broadband and other initiatives should not create major concerns around public finance sustainability. In fact, it can pave the way for a stronger recovery as compared with the austerity-era measures which followed the Global Financial Crisis.

As savvy government leaders understand, the goal is to target, time and scale spend to spur sustainable growth with maximum multiplier effect. The emergency pace of spending during the crisis is an anomaly. Public capital spending is more gradual as investment projects take longer to plan and complete, and governments must build the internal capacity to manage them successfully. This is why fiscal policy will continue to be so critical during this period. It is key to supporting the near-term recovery and managing the extent of longer-term economic scarring. Fiscal policy should be dynamically evolving and forward looking, rather than overly indexed on “how things have always been done.” There must be room to target opportunity areas and shift priorities toward longer-term growth objectives.

Lead with impact

- Target public investments that have large and permanent fiscal multipliers that leverage additional private investment.
- Direct funds that will contribute to boosting inclusive, sustainable growth over time.
- Avoid approaches where multiple projects are proposed bottom-up, which often result in a mix of small and uncoordinated projects without transformation muscle.
- Prioritize spending on key areas such as digital transformation and sustainability.
- Sequence spending in line with government and economies' absorptive capacity while aiming to increase capacity at the same time.

02

Think big and act bold in national initiatives



Think big and act bold in national initiatives

“Crisis fighting” is only one part of what governments must do to support economic resilience. They must also develop long-term national initiatives in collaboration with the private sector aimed at raising potential economic growth and that serve as springboards to reshape the economy over time. In addition, governments must consider how to build their capacity to implement large scale investment programs, with a focus on ensuring sufficient labor and skills to execute as needed. Countries have already begun to put forward these plans, which combine higher public investment with critical reforms and government modernization. Their level of spending and ambition is notable. For example, the United States and the European Union have made significant budgets available to support key priorities.

Some nations are addressing an accumulated lack of investment with the stimulus funds. Case in point: Australia is investing A\$110 billion in the Government’s infrastructure pipeline (e.g., road and rail, road safety, community infrastructure) over the next decade to make progress closing infrastructure gaps. The US Senate recently passed a US\$1 trillion infrastructure bill.³ Countries are also focusing on their own digital and green programs relative to targets set by other countries—the United Kingdom, South Korea and Japan have all pledged carbon neutrality by 2050.⁴

Lead with impact

- The Next Generation EU (NGEU) fund has a strong, supply-side focus to permanently raise the rate of growth, addressing structural impediments and emphasizing digital and green investments. Member states must spend funds on public investments and reforms.⁵
- The American Jobs Plan is heavily focused on structural stimulus, with notable investments in infrastructure and manufacturing, R&D, supply chain resiliency and workforce development.⁶
- The United Kingdom’s National Infrastructure Strategy (NIS) combines goals for net-zero carbon emissions and productivity with efforts to reduce regional disparities in areas such as digital connectivity and economic opportunity.⁷

03

Target investments for maximum impact



Target investments for maximum impact

Governments should allocate increased funding and investment to lead with impact, emphasizing renewed public investment and taking full advantage of fiscal multipliers.⁸ These multipliers will vary over time and across countries based on existing circumstances such as how much the investment will uplift current capacity and address bottlenecks.

Not surprisingly, digital multipliers are very promising. Extensive evidence shows that the uptake of digital technologies has important effects on productivity, growth and job creation, as well as driving improvements in well-being and access to products and services. Estimates show the long-term return on investment for digital technologies is 6.7 times that of non-digital investments.⁹

The catch? There is a risk of limited macroeconomic impact and disappointing returns if government digitization is not well designed or implemented. Leading practices from countries like Singapore, which have seen a better return on digital investments, reveal how to best allocate and target funds, leverage complementary factors and policies, and balance investments across e-government, infrastructure, skills and digital adoption in the business community.

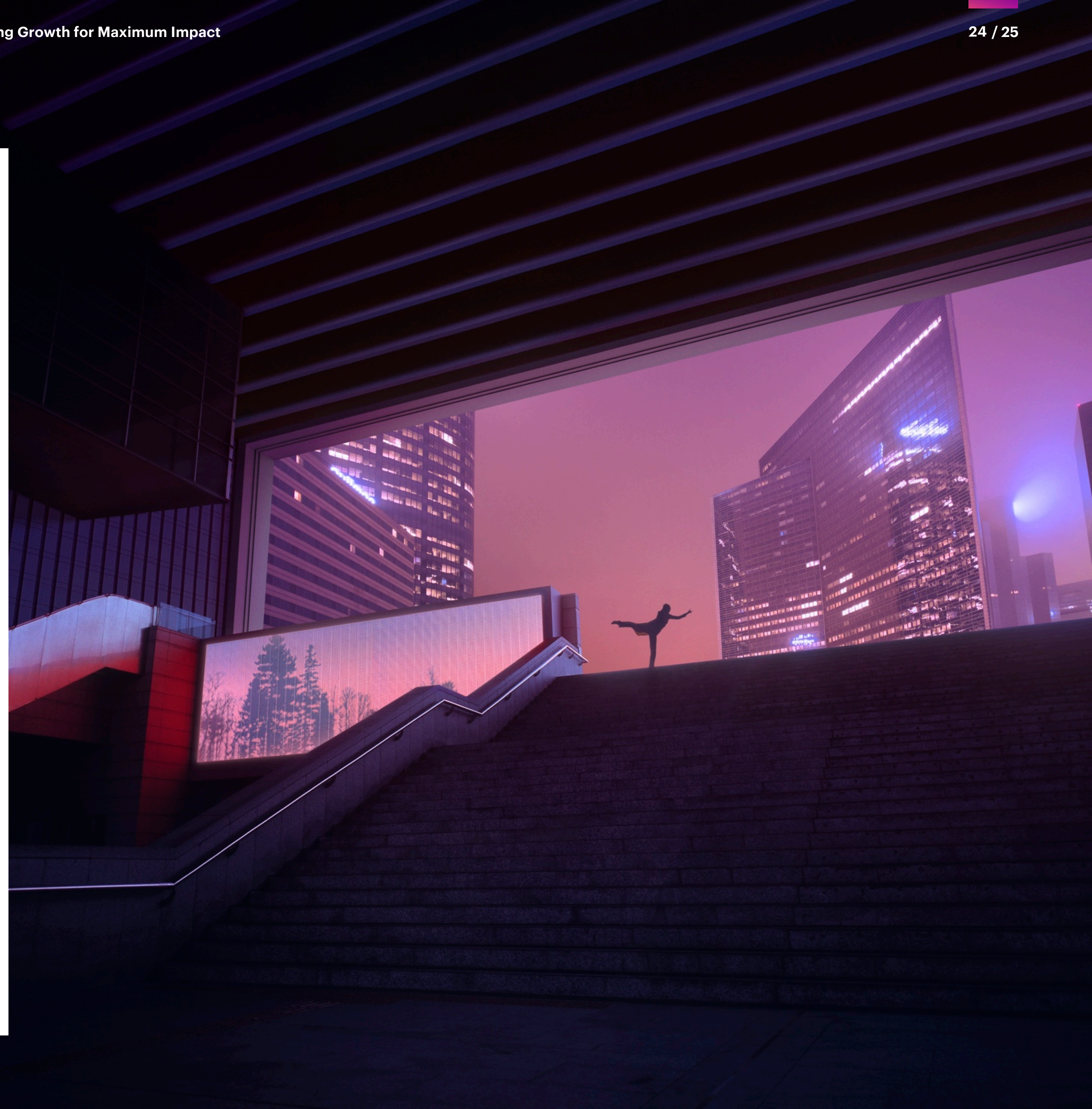
Multipliers associated with investments in the green economy also promise a large upside, especially for countries more susceptible to declining growth from climate change. Take Spain, for example. Estimates from the Government of Spain indicate that implementation of the Spanish National Energy and Climate Plan will boost economic output by 1.8% of GDP in 2030, and create quality employment, estimated at 250,000 to 360,000 additional jobs between 2020 and 2030.¹⁰

Lead with impact

- Increase institutional capacity to model and quantify economic and social impacts of fiscal multipliers for major programs.
- Understand and leverage the dependencies between programs, and track progress and adjust if performance targets are not met.
- Consider the design, operational, process changes, as well as complementary policies, that impact investments in digital and green to maximize returns.
- Experiment with scenario planning in order to understand alternate future scenarios and limit risks accordingly.

04

**Boost capacity
to execute
successfully**



Boost capacity to execute successfully

There continues to be a large and fast influx of funding, and governments' ability to absorb and execute within and across agencies—and across sectors—can make or break the impact. Problems could cut into value delivery, economic and social returns, increasing costs, delaying project timelines, impacting quality or unintentionally crowding out other activities.

There are a range of governance and administrative actions that governments can take to boost their capacity. Digital transformation is chief among them. From digital portals that facilitate communication and collaboration to the development of a central digital agency to boost administrative capacity, digital offers the speed and efficiency that's non-negotiable here.

However, technology is not the full answer. Better program design, implementation, monitoring and oversight are fundamentals of success that should not be overlooked. In addition, the supply of labor and skills will be a critical aspect of public investment moving forward as ways of working evolve rapidly. As such, a key priority is reskilling and upskilling the public workforce to feel empowered for the future of work—confident in their ability to apply the latest tools and technologies and extract actionable insights from data. It's not just about making informed decisions about processes and service delivery. It's about creating a new future of data-driven policy making as well.

Lead with impact

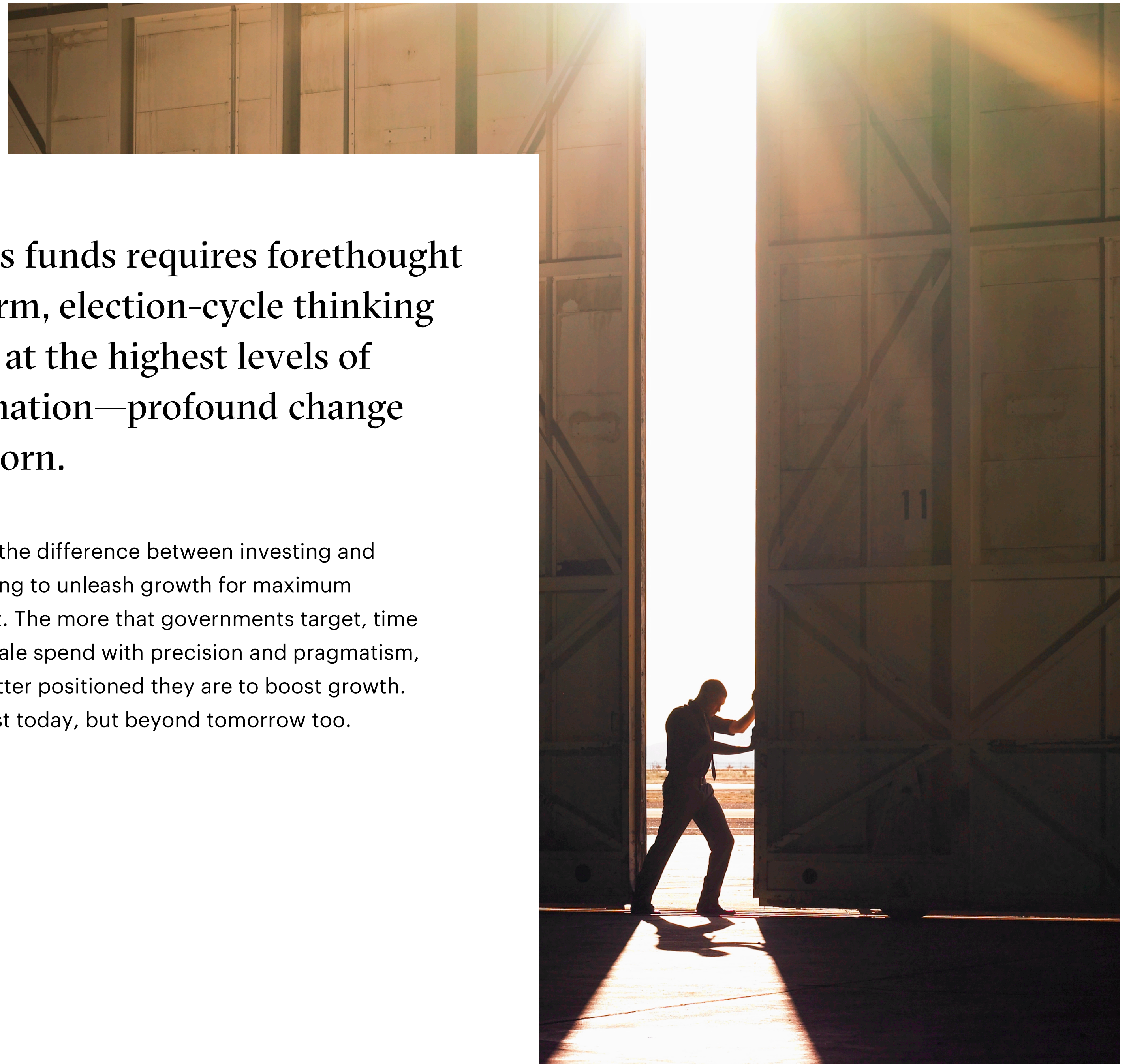
- Encourage strong leadership and political vision to ensure the effective use of funds.
- Develop strong governance frameworks.
- Reform procurement to increase efficiency and speed to action. Reform can include adjusting thresholds for procurement rules, expediting spend through sole source or direct contracting, relaxing approval requirements, greater use of direct awards, and more.
- Think and act beyond boundaries to improve collaboration across agencies, industry partners and the broader ecosystem.
- Create strong quantitative frameworks and methodologies to evaluate the potential of specific initiatives and track and report on their impact.
- Reimagine how government work is done to boost productivity and employee satisfaction and prepare the workforce with the skills they need for the future.

A critical balancing act

Making the most of recovery and stimulus funds requires forethought and rigor. It is about rebalancing short-term, election-cycle thinking with more long-term, structural thinking at the highest levels of government. This is where true transformation—profound change that reverberates across generations—is born.

It is a unique time for the public sector to lead with impact. As countries around the world look to emerge stronger from the pandemic, governments have a challenge and a responsibility. They should ensure that recovery and stimulus funds are allocated to maximum effect with robust checks and balances—and a meaningful plan for lasting change. Efforts should focus on architecting the right fiscal response, targeting investments for maximum effect and making deep changes and reforms to amplify investments.

That's the difference between investing and investing to unleash growth for maximum impact. The more that governments target, time and scale spend with precision and pragmatism, the better positioned they are to boost growth. Not just today, but beyond tomorrow too.

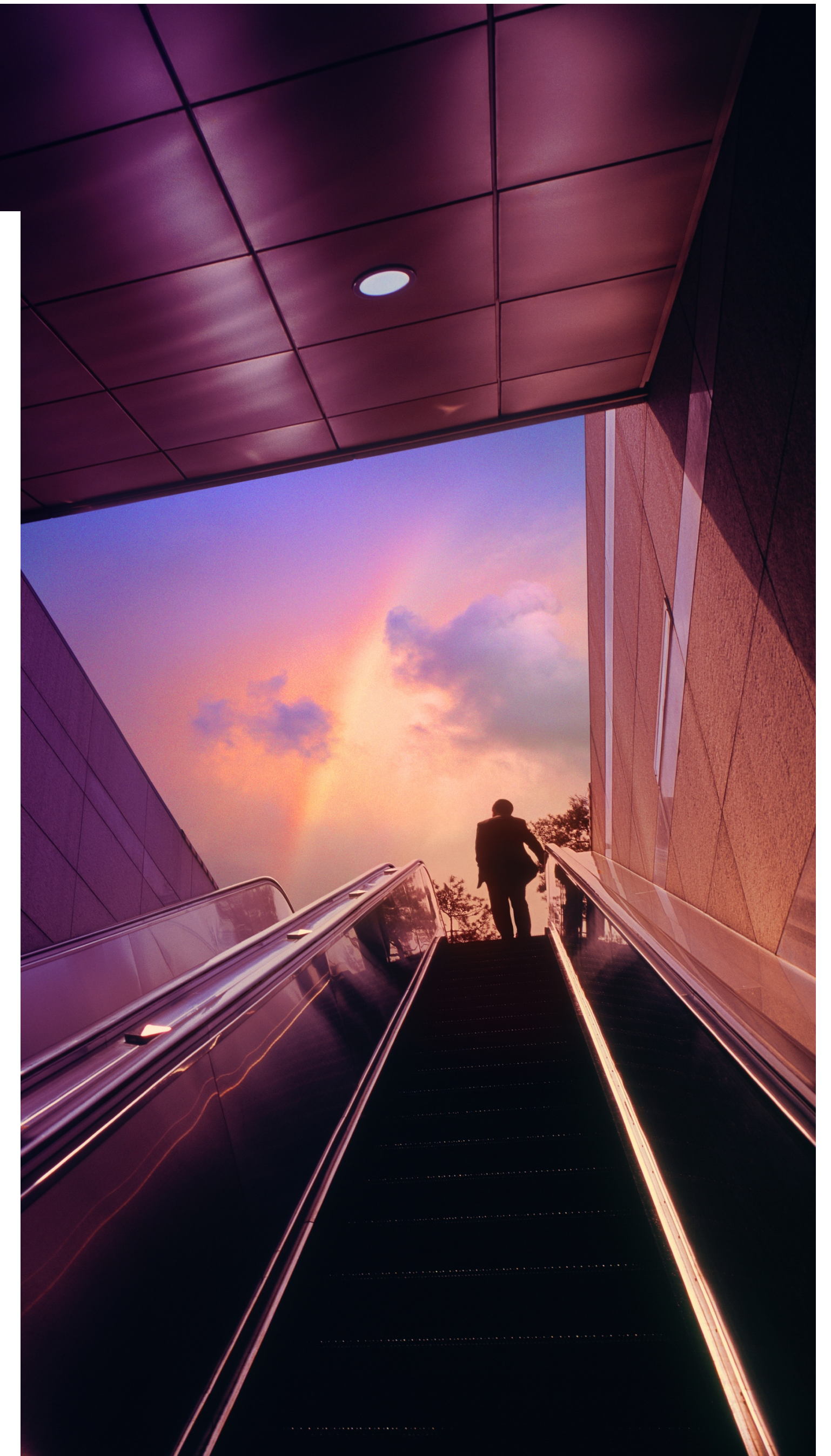


Rapid response for the next shock

As unprecedented as the COVID-19 crisis has been, the hard truth is that the world will face more unplanned crises in the future. Building rapid response and recovery capabilities in anticipation of the next shock is a fundamental part to supporting future growth.

Key capabilities include:

- Continuity of operations and services
- The right governance to calibrate between health risk and economic scarring
- Becoming data-driven in policy planning and action
- Using a range of policy levers across supply and demand side



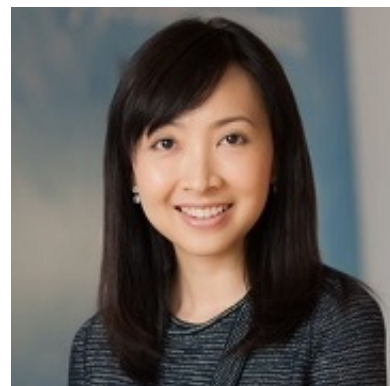
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About

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References

- ¹ The structural health of economies pre-COVID-19, the emergency fiscal response measures adopted during the pandemic and the level of ambition of post-COVID-19 government investment and reform plans means that some countries by 2025 will emerge with less economic scarring than others. While economic scarring is projected to be negative for most advanced economies, the scale of scarring is relatively small compared to the Global Financial Crisis.
- ² The link between vaccination rollout and lockdown stringency extends to a link to short-term economic growth. Countries that have been first to relax restrictions and open up most/all sectors of the economy are set to enjoy the earliest and strongest rebounds in economic growth, especially countries like the United Kingdom that suffered the largest declines in GDP in 2020 and are thus starting from a lower base with large pent-up demand.
- ³ Emily Cochrane, “Senate Passes \$1 Trillion Infrastructure Bill, Handing Biden a Bipartisan Win,” August 10, 2021 at [nytimes.com](https://www.nytimes.com)
- ⁴ “Carbon neutrality by 2050: the world’s most urgent mission” at [un.org](https://www.un.org)
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- ⁶ American Jobs Plan: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/03/31/fact-sheet-the-american-jobs-plan/>
- ⁷ NIS: <https://www.gov.uk/government/publications/national-infrastructure-strategy#:~:text=The%20National%20Infrastructure%20Strategy%20sets%20out%20the%20government's%20plans%20to,zero%20emissions%20target%20by%202050>
- ⁸ A fiscal multiplier is the amount of economic output growth obtained from an increase in fiscal spending or reduction in taxation.
- ⁹ Huawei and Oxford Economics (2018)
- ¹⁰ Spanish Global Commission on the Economy and Climate (2018)