



How governments can build economic resilience despite uncertainty

Goldilocks strategies help
increase resilience despite a
higher-cost environment



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1

Following the worst cyclical inflation crisis in 40 years, economies are less resilient and consumers more concerned about the rising cost of living.

2

Ongoing disruption and structural mismatches between supply and demand are helping keep the costs of basic goods and services high, even as cyclical inflation fades.

3

Government leaders should pursue Goldilocks strategies that are **just right** for increasing local economic resilience without reigniting cyclical inflation.

After the worst cyclical inflation crisis in nearly 40 years, low-middle income households are being pinched by higher food¹ and utility prices,² and higher borrowing costs around the world.³ According to the recent EY Future Consumer Index, the rising cost of living remains the biggest concern for consumers globally.⁴ This higher-cost environment impacts everyone, increasing deprivation;⁵ it is doubly hard on the poorest, who experience a higher rate of inflation.^{6,7}

Years of public spending, to mitigate critical supply shocks in the wake of the COVID-19 pandemic and the war in Ukraine, helped

prevent the worst economic outcomes and even contributed to better-than-expected levels of global growth in 2024, but it has not come without a cost. Like households, many governments are in a more economically precarious state, with significantly higher debt-to-gross domestic product (GDP) ratios and servicing costs.⁸ This complicates many governments ability to deliver. The World Bank found that the total value of interest payments has quadrupled for the 75 poorest countries, outstripping public investments in education and health care combined.⁹

More disruption is on the horizon due to global warming, emerging technologies, aging populations and fragmenting trade. As a result, future resilience to shocks such as those experienced over the last several years depends on how well governments prepare economies today to weather the challenges of tomorrow. Prompted with the need to reduce debt and prevent an inflationary rebound, however, public resources will be in short supply as most governments practice fiscal restraint.



How, then, can public sector leaders build economic resilience despite a higher-cost, more restrictive fiscal environment?



Four Goldilocks approaches for building economic resilience

Much like the fabled Goldilocks who struggled to find food and lodging that was **just right** for her needs, government leaders must identify policies that are just right for increasing economic resilience that don't require more spending or risk restimulating cyclical inflation. Goldilocks strategies resist actions that are too hot, or fiscally stimulatory, or that are **too cold**, or coercive and interventionist, and instead focus on creating conditions that are **just right** for increased economic productivity and diversified, and, in some cases, a localized supply of basic goods and services. While specific solutions will differ across contexts, there are four overarching Goldilocks approaches that can help governments increase economic resilience despite the public fiscal crunch:

1 Removing barriers to economic productivity

Rising costs for basic needs are impacting low-middle income families' ability to improve their standards of living. In some cases, rising costs have even made it more economical for families to reduce their labor participation. In the US, for example, the number of dual-income households fell between 2019 and 2023 as childcare costs rose by 32% over that same period.¹⁰ A focus on addressing such cost barriers to economic and labor productivity can help enable economic growth. For example, governments can:

- **Institute a tiered childcare tax credit.** Several countries are experimenting with childcare tax credits or public subsidies to reduce families' economic burden. Australia tiered eligibility for childcare subsidies to rebalance supply between un-, under- and overserved areas, after initial expansion of the subsidy during the COVID-19 pandemic reduced household costs but increased overall childcare prices.¹¹ The US government

slashed child poverty by 30% by expanding eligibility for an existing childcare tax credit and paying half of the annual benefit sum in a monthly payment.¹²

- **Establish targeted, temporary cash payments to cover household financial gaps.** The International Monetary Fund (IMF) has found that temporary, budget neutral, direct cash payments to citizens are an effective means of allaying economic distress,¹³ while recent experience has shown it can also increase economic growth more broadly. The city of Seattle in the US created a program providing monthly US\$500 payments for low-income residents, which resulted in employment nearly doubling and savings rates increasing by 42%.¹⁴ Results from a 10-year public-private partnership cash transfer program in Kenya also showed significant, sustained local economic growth and entrepreneurialism, with little inflationary impact.¹⁵

2 Enhancing market competition and service access

Following years of consolidation, many sectors of the economy are dominated by a few global companies. As companies consolidate, consumers and workers have fewer choices and less price transparency. Over-consolidation also creates a lack of service redundancy, increasing the risk from disruptive events. While government and business leaders have turned to onshoring and nearshoring to address supply chain risks exposed by the COVID-19 pandemic, they can go further to enhance competition. For example, governments can:

- **Use public oversight to increase price transparency.** Following the 2022 energy crisis, the US state of California created an enforcement watchdog agency to identify oil and gas price gouging,¹⁶ while the US federal government also started an oversight initiative to combat junk fees, or unexplained service fees, that are adding to consumer bills.¹⁷ Such consumer protection measures can help incentivize corporate transparency that enables consumer choice.

- **Reform occupational licensing for interoperability and labor market access.** Regulating entry to specialized professions through registration, certification or licensing can lower the supply of available workers – by an estimated 17%-27%¹⁸ – contributing to cost pressures. The US state of Arizona has led the way on universal licensing recognition, which enables skilled workers to apply for legal recognition of professional licenses from other states.¹⁹ In an era of a more mobile workforce, strategic occupational licensing deregulation could help fill labor shortages, promote competition and bolster public finances. For example, the Migration Policy Institute has estimated that college-educated immigrants forgo annual earnings of US\$39 billion nationally in the US due to underemployment and lack of qualification recognition, leading to approximately US\$10 billion in uncollected local, state and federal tax revenues.^{20,21}

3 Enabling consumer debt sustainability

Personal debt servicing costs are playing an increasingly outsized role in a higher cost of living for low-middle income households, as household debt-to-income ratios rise in many places around the world. With more people (and countries) using debt to pay for daily essentials,²² increasing economic resilience requires identifying non-fiscal strategies that can help prevent the slide to (and recovery from) default. For example, governments can:

- **Facilitate individual and class debt restructuring and reduction.** Governments can help facilitate exit strategies for consumer debtors most at risk of default. The Bank of Thailand, for example, introduced a slew of debt relief measures, including extending a reduced minimum repayment rate for credit card debt, and expanded options for repayment and loan consolidation, to help prevent household debt default as its value soared to 90.8% of the nation's GDP.²³ The UAE took a different approach, by introducing an insolvency law for individuals as a means of attracting new capital and increasing regional market competitiveness.²⁴

- **Seed proactive household savings.** Governments can play a vital role in incentivizing and enabling household savings and financial stability. The UK, for example, incentivizes household savings for home buying or retirement through its Lifetime ISA accounts, for which it provides a 25% matching bonus, up to £1,000 per year.²⁵ Across the Atlantic, the US city of New York established a public-private partnership nonprofit model to establish the NYC Kids RISE Save for College program. By pooling resources from the city, philanthropy and local community, the program automatically enrolls and provides eligible New York City public school students with an initial US\$100 deposit in a scholarship and savings account that can be increased through community donations, philanthropic scholarships and additional rewards based on meeting certain milestones.²⁶ In the first three years of the program's pilot, more than 10,000 kindergarten through second-grade students accumulated over US\$3.5 million in assets for college and career training.²⁷

4 Empowering community-based land and economic development

With the transition to hybrid and remote work, the composition of many cities is changing, providing new economic opportunities for rural and urban areas alike. With consumers placing an increased emphasis on affordability and sustainability, local governments have a vital role to play in adapting the local economy. For example, governments can:

- **Reform land use laws.** In some cases, government regulations set up to ensure local community control can hamper public transformation. Revisiting the value of existing zoning and other land use regulations can help identify reforms to unlock the supply of scarce basic goods. To address housing scarcity, for example, the state of California passed several laws to establish by-right zoning for accessory dwelling units (ADUs) in 2016. By removing any special permits for development of additional dwellings on private land, the reforms eventually led to a 13% increase in shares of housing

permits in the Bay Area, and by 19% in Southern California²⁸ – two of the state's most expensive, housing-scarce regions.

- **Maximize the value of public infrastructure investments.** Public infrastructure remains a productive area for government investment. Beyond public use, these investments can also provide a vital talent and business attraction tool that governments can use to reinvigorate or diversify the local economy. The cities of Ahmedabad and Chandigarh in India, for example, became talent hubs where salaries outpaced the national average, in part due to municipal investments in social and physical infrastructure to support “work from anywhere” talent and businesses.²⁹ Rural US cities have used financial, tax and local service credit incentives to attract remote workers in “pay-to-move” programs.^{30,31}

Conclusion

To identify which Goldilocks approaches are just right for the local context, policymakers should analyze:

- Key obstacles to local workforce and household productivity
- Gaps in local supply, value chains and asset utilization
- Ways to enable local economic investment and social mobility
- Public policy levers and partnerships needed to enable improvement

By employing these strategies, government leaders can begin to help rebuild resilience despite higher costs, taking steps to address long-standing imbalances in the economy.

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