



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

THE REALITIES OF ECONOMIC SECURITY

Warwick J. McKibbin

Panel on The Realities of Economic Security

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What is Economic Security?

Robust Growth with Low, Stable Inflation

A macroeconomic perspective

Economic security is not just national self-sufficiency — it requires stable macro foundations that sustain welfare over time

Maintain robust economic growth

Sustained productive capacity expansion, driven by capital accumulation, technological progress and human capital development

Long-run fiscal sustainability

Government revenue and expenditure trajectories that are consistent with stable debt-to-GDP over the long run

Minimize Macroeconomic Volatility

Fiscal space

Sufficient fiscal capacity to deploy counter-cyclical policy when shocks hit, without triggering a debt crisis

Monetary space

Independent central bank with credible inflation framework, preserving the ability to cut rates in downturns

Resilient financial system

Well-capitalised banks, robust regulation, and automatic stabilizers through openness to trade and capital markets

National Economic Security Depends On

Domestic Foundations

Endowments and productive capacity

Natural resources, human capital, and technology — or secure access to them through global markets and alliances

Strong institutions

Rule of law, independent central bank, and political consensus on the foundations of economic policy — particularly property rights, fiscal rules, and monetary frameworks

Credit allocated to productive uses

Financial systems that channel capital to the highest-return investment — not systematically biased toward political constituencies by regulation or tax policy

International Foundations

Peaceful rules-based international order

Functioning multilateral institutions, enforceable contracts, and dispute resolution mechanisms that underpin cross-border trade and investment

Strong alliances

Trusted partners provide mutual insurance against shocks and amplify the automatic stabilisation benefits of openness

Access to goods and services through trade

Diversified suppliers and access to comparative-advantage goods prevent strategic concentration — autarky is not security

Threats to National Economic Security (1 of 2)

Geopolitical Fragmentation

Trade wars and tariffs

McKibbin, Noland & Shuetrim (PIIE WP 25-13) model Trump's 2025 Liberation Day tariffs under 5 scenarios using G-Cubed: all reduce US and global growth and raise inflation; retaliation amplifies losses

Breakdown of rules-based order

Unravelling the rules-based order raises risk premia globally

Alliance erosion

Strong alliances and peaceful international order are foundational conditions for economic security — their erosion undermines the coordinated response capacity needed to manage a range of national and global shocks.

Debt Overhangs and Fiscal Stress

Elevated sovereign debt limits fiscal space

Debt-to-GDP near post-WWII highs; high government debt reduces the capacity of countries to respond to shock. Fiscal policy is more effective if globally coordinated

Monetary and financial system fragility

Monetary space requires resilient financial systems and credible central banks independent of political influence

Threats to National Economic Security (2 of 2)

Climate Shocks and Energy Transition

Coordination around Reducing Greenhouse Gases

Countries need coordinated actions to address climate change at the lowest cost. One option is the Climate Asset and Liability Mechanism (CALM) that coordinates national climate policy through a common carbon price control by a carbon bank and a long-term national carbon market

Uncoordinated transition raises costs

G-Cubed simulations show uncoordinated decarbonization creates energy price volatility and competitiveness spillovers; compatible carbon pricing between major emitters (especially US-China) can minimize economic costs

Critical mineral dependencies

Clean energy supply chains concentrated in a few countries create new strategic vulnerabilities analogous to oil dependence, compounding the geopolitical fragmentation threat

Demographic Pressures

Aging slows growth and strains fiscal capacity

Liu and McKibbin (2019) modelling shows ageing in industrial countries reduces aggregate growth via lower saving, investment and labour supply — with effects transmitted globally through capital markets

China faces a sharper demographic cliff

Working-age share peaked in early 2010s after one-child policy; creating opportunities in capital flow dynamics as US, China and Africa age at different rates

Long-run fiscal sustainability at risk

Many economies, especially the US, are following unsustainable fiscal deficits which together with further fiscal deterioration from demographic trends further risks crowding out the drivers of economic growth

The Policy Challenge: Balancing National Economic Security and Efficiency

G-Cubed modelling shows threats interact and compound — no single policy lever addresses all simultaneously

Security vs. Openness

McKibbin-Noland-Shuetrim (PIIE WP 25-13): tariff retaliation worsens all parties' outcomes; openness to trade and capital markets provides automatic stabilisation that pure security strategies forgo

Fiscal Sustainability vs. Stimulus

Excessive fiscal debt prevents fiscal stabilisers from automatically stabilising the economy and limits the extent of fiscal stimulus available in an economic crisis.

Green Transition vs. Energy Security

A coordinated carbon price signal that is consistent across economies provides the long-run price signal needed to coordinate energy investment; Climate Asset and Liability Mechanism (CALM) approach avoids short-term price spikes while maintaining a lower cost trajectory towards net zero with flexibility on timing balancing environmental benefits with economic costs.

Demographics vs. Fiscal Space

Aging raises entitlement spending which worsens fiscal space. Liu and McKibbin (2019) show ageing in industrial countries reduces saving, investment and labour supply — eroding the growth base at the same time as spending pressures rise, compounding long-run fiscal sustainability risks particularly in the US.