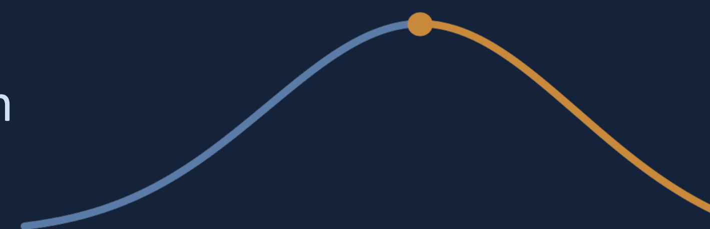
VENICE · GLOBALISATION & FISCAL POPULISM

Markets manufacture safety.

The safety of public debt is not just a matter of solvency. It is *produced* — jointly by a solvent government and a financial system that absorbs the risk of rolling the debt over.



THE PAPER

The Safe-Debt Laffer Curve

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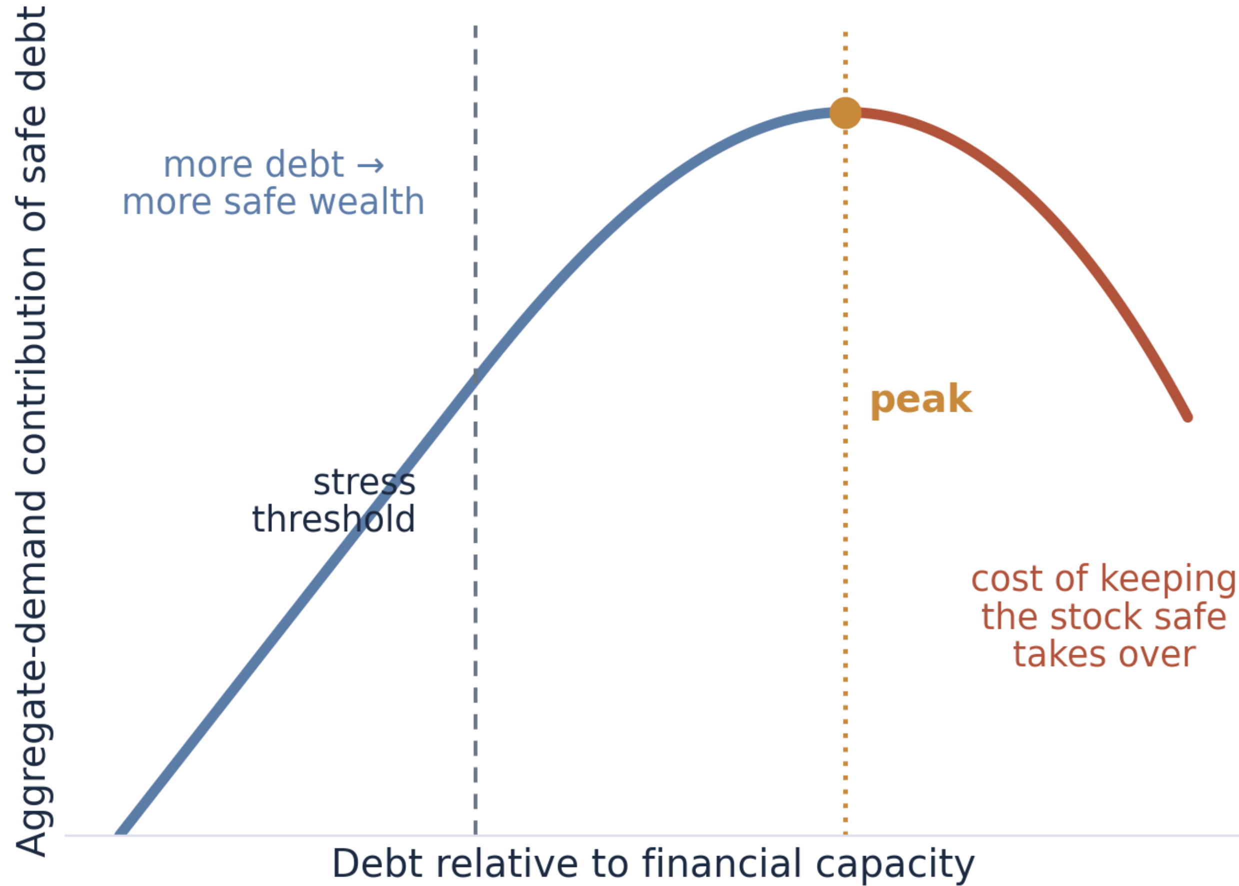
The safe-debt Laffer curve



Below the peak

More debt produces safe wealth — aggregate demand and the safe rate rise.

Above the peak

The fiscal cost of preserving safety dominates the direct wealth effect.

Why it bites

The premium reprices the entire stock — not just the marginal dollar.

*Safe debt can drain **aggregate demand** — without becoming unsafe.*

Where is the U.S.? Close to the peak.

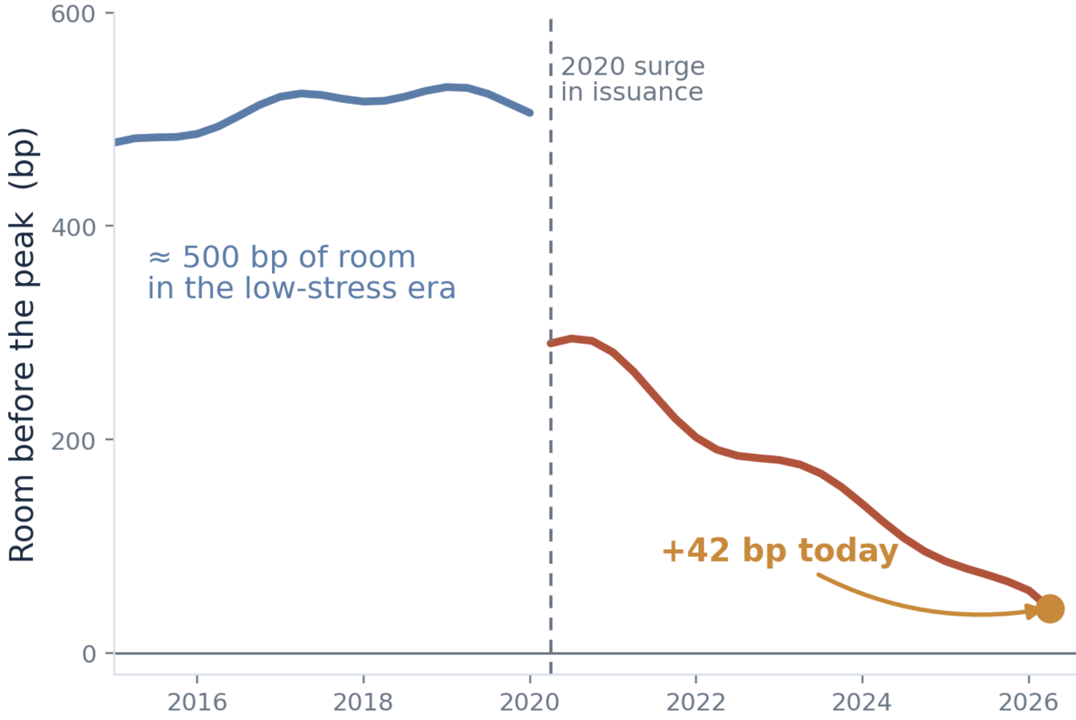
+42 bp

room before extra debt stops adding safe wealth — a baseline, with risks to the downside.

What we look at — quarterly, around the post-2020 surge: the Treasury debt due to roll over, the dealer capacity that absorbs it, and the premium charged to hold it.

- **Stretched:** rollover needs have grown far faster than that dealer capacity.
- **Turned:** the premium once fell as supply rose; since 2020 it rises with supply — the convenience-yield cushion has weakened.

Preliminary sign diagnostic. *Convexity, central-bank purchases, convenience demand, and measurement all push this gap toward — and plausibly past — zero.*

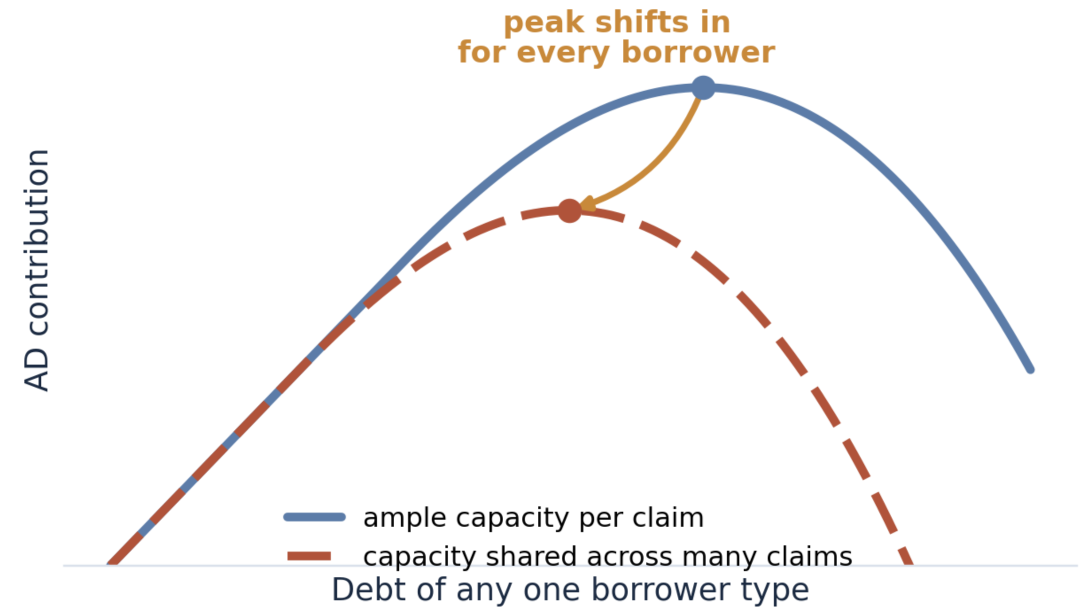


Why it bites: *an extra dollar of debt reprices the whole stock, not just today's premium — slow to arrive in full, but the relevant concept in steady state.*

*The constraint is no longer how many safe assets we can issue — but how **expensive is to make them safe**.*

A parting thought: a world of crowding out

- Claims now compete for the same balance sheets: developed-market debt crowds out **emerging-market debt**; corporate debt crowds out public debt.
- Every borrower draws on the same finite capacity to absorb rollover risk — so effective capacity **per type of debt** falls.
- Lower capacity per claim pulls each borrower's peak **inward**: all hit the safe-debt limit at lower debt.



The capacity to manufacture safety is finite — and ***increasingly shared****.*

Backup: Two Channels to Failure Modes

	Emerging markets	Advanced safe-asset issuers
Failure mode	Debt becomes risky	Debt stays safe but costly to keep safe
Market signal	Sovereign spread / default risk	Safety-production premium; intermediation strain
Policy margin	Credibility, external financing, FX mismatch	Maturity, issuance mix, financial capacity

Same logic, different door: *emerging markets live the sovereign-risk version; advanced economies are now meeting the safe-debt-production version.*