

Global Safe Assets

In an Era of Policy Uncertainty

**Markus K. Brunnermeier**

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# From Unipolar to 5-polar World?

- **Hypothesis:** Unipolar world order is often followed by multipolar world with **5 poles** (stable and peaceful despite of shifting alliances and rivalries).

## Why 5?

- Why odd number    any power is pivotal if it switches camp (assuming symmetry)
- Why not 3?        2:1 is not sufficiently balanced
- Why not 7,9,...?    Free-riding problem is too severe        (Münkler, Morgenthau, E.H. Carr)

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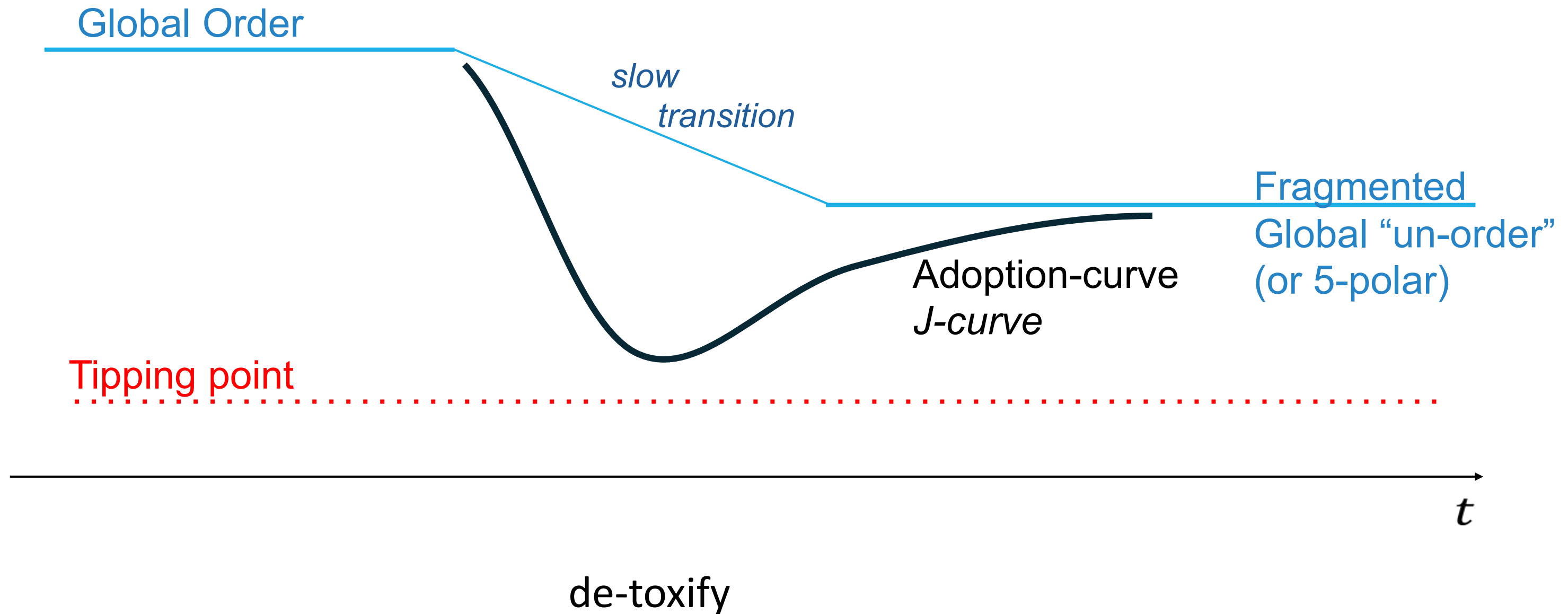
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- 
- **Historical examples:** - always when unipolar momentum
    - *After Thirty Years War:* End of Vienna-Madrid Habsburg        coalition of opponents
      - Austria-Hungary, Spain, France, England, Sweden    (Spain replaced by Russia, Sweden by Prussia)
    - *After Napoleonic Wars* (+ interwar periods):
      - Austria-Hungary, Great Britain, France, Germany/Prussia, Russia
- 
- **Future:**
    - US, China, EU, India, Russia (or Japan)                      Opponents: BRICS

*but transition can be thorny*

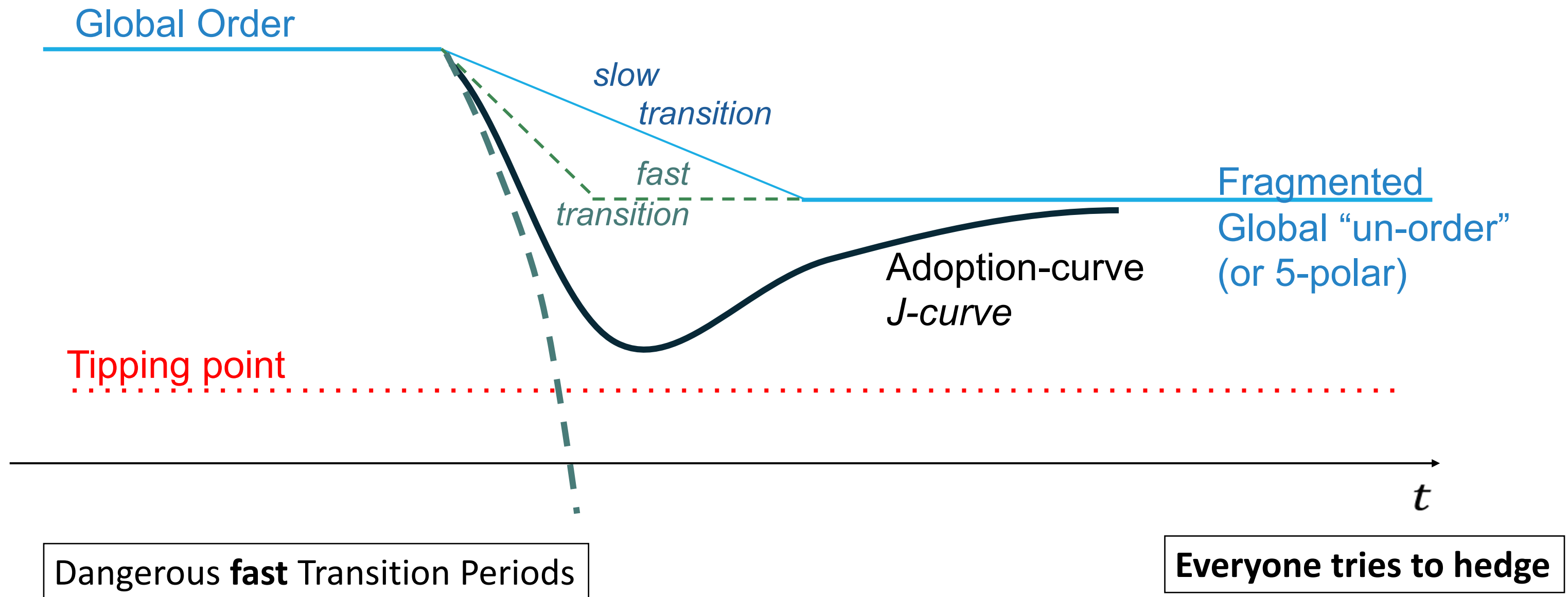
# Resilience in Transformational Transition Periods

- From globalized world order (based on “balance of choke point threats”) to global “un-order”



# Resilience in Transformational Transition Periods

- From globalized world order (based on “balance of choke point threats”) to global “un-order”



# Roadmap

- Global Resilience Paradox
- Unipolar to multipolar world order
- Transition and Resilience
  
- Global Finance
  - Currency: US Dollar                      New digital currencies (?)
  - Safe/Reserve Asset: US Treasury                      ESBies (GloSBies)
  
- Global Trade
  - Tariffs and choke points

# Safe Asset and Service Flows

- Safe Asset

- Currency/Dollar
- Gov. Debt/ US Treasury

Reserve currency

Reserve asset

- “Good friend analogy”

**tradable** asset (no asym. info, no default, **no coercion**)

- “Safe asset tautology”

*it is safe because it is perceived to be safe ... tradable*

Brunnermeier, Merkel, Sannikov  
“Safe Assets” (JPE 2024)

# Safe Asset and Service Flows

## ■ Safe Asset

- Currency/Dollar Reserve currency
- Gov. Debt/ US Treasury Reserve asset
- “Good friend analogy” tradable asset (no asym. info, no default, **no coercion**)
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## ■ Service flows from retrading

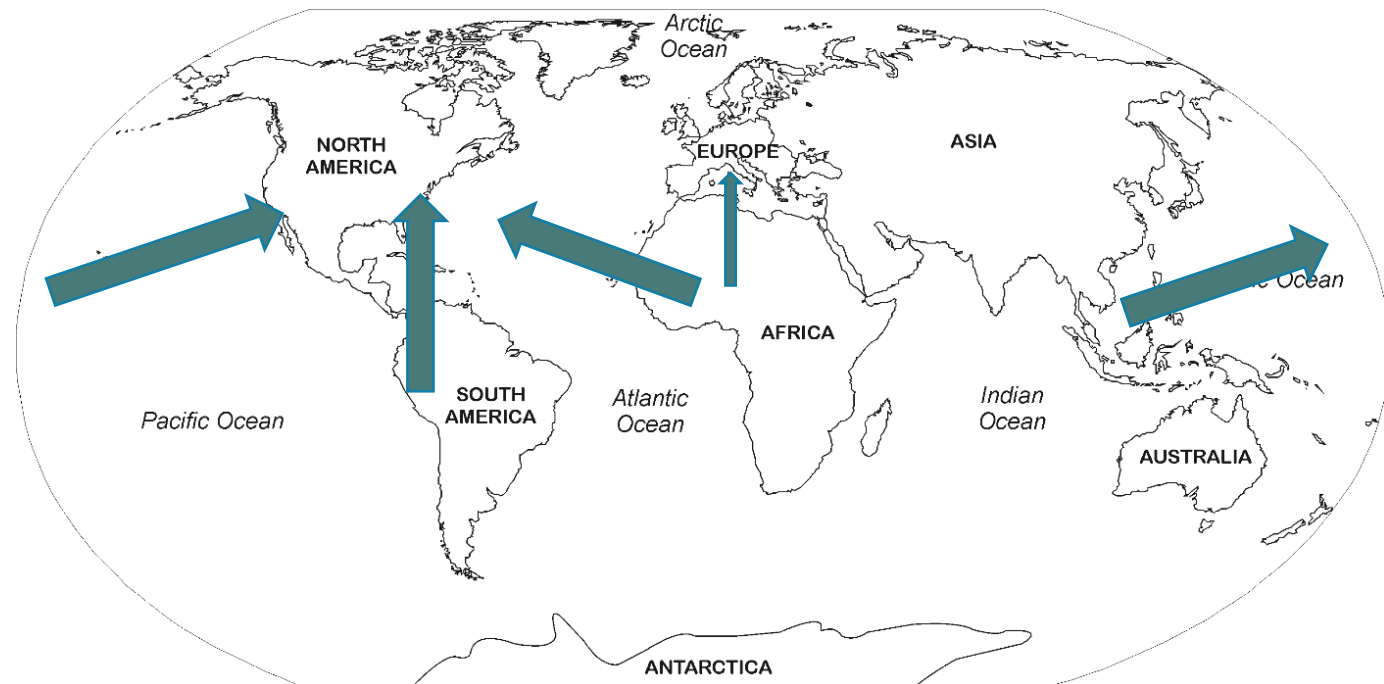
$$P_t = E_t [PV_{r^{**}}(\text{cash flow})] + E_t [PV_{r^{**}}(\text{service flow})].$$

- ... especially large in crisis-times (when volatility is high)
- Convenience yield = interest rate differential
- “Print” dollars/US Treasuries without ever paying back- “bubbly” if  $r < g$

current account can be negative forever

# 3 Exorbitant Privileges

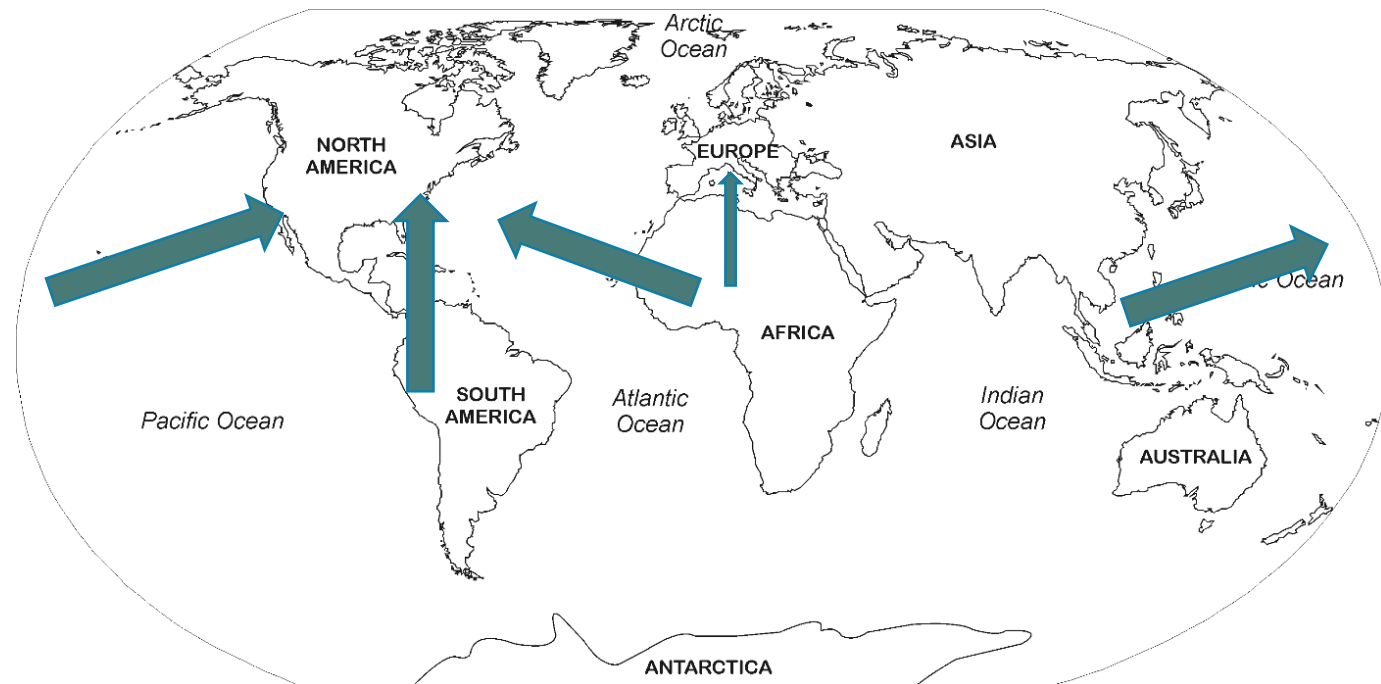
- Structural/permanent:
  1. Convenience yield – interest rate differential
  2. Safe Asset Status – Printing *bubbly* US Treasuries (if  $r < g$ )
- During crisis times:
  3. Flight-to-safety appreciates allows fiscal stimulus



Brunnermeier & Merkel  
“Exorbitant Privileges” (2025)

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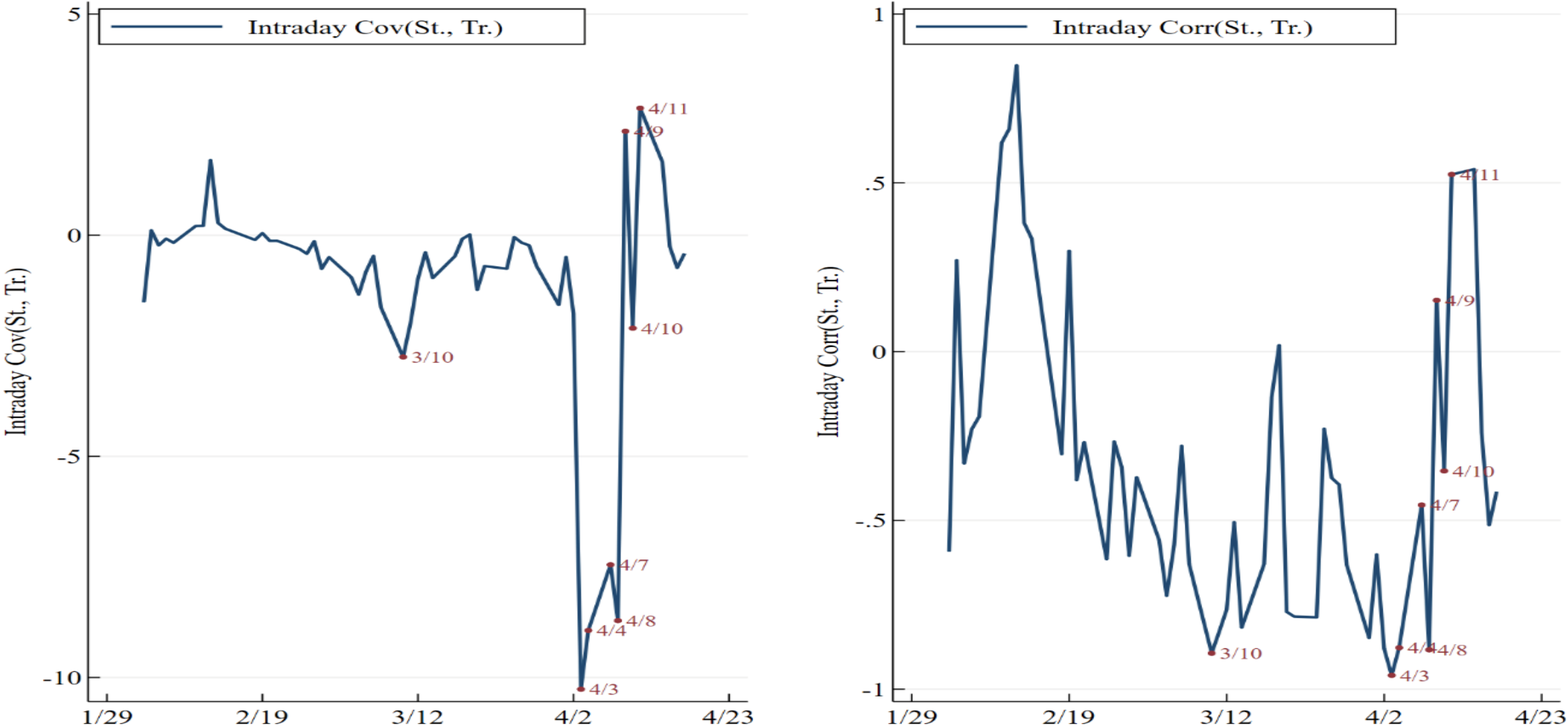
Implies a **stronger dollar**, since US sells “service flow” (not fully included in current account)

# “Global Financial Repression”

- Keep **US Treasury interest rate low**
  - “Convince/coerce” foreigners to buy more US Treasuries
- To **weaken US dollar** to boost US export & reindustrialize
  - “Convince” foreigners to buy fewer risky assets (equity, ...)
    - Cost of capital for US firms increases 😞

# April 2025: “Liberation Day” to “Tariff Withdrawal Day”

- Stock-Bond Covariance/Correlation (daily)



**Figure 1.** Stock-bond covariance and stock-bond correlation. Daily values estimated from intraday data for February to April 2025.

Source: Acharya and Laarits (2025)

# Wobbly Safe Asset Status

- **Uncertainty** about loss of safe asset status
  - Jump to another asset (ESBies, Bund, crypto, ...)
  - No global safe asset
- Weakens US Dollar **exchange rate** desired (?)
- Increase in **term spread** not desired
  - Fed likely to hike interest rate to contain the inflation and support dollar when safe asset status is shaky
  - Higher probability of a **future** loss of safe asset status raises the term spread
  - **Loss of safe asst term risk premium**  
≠ default risk term premium

**Coercion**

“Uncertainty is a tax without revenue”

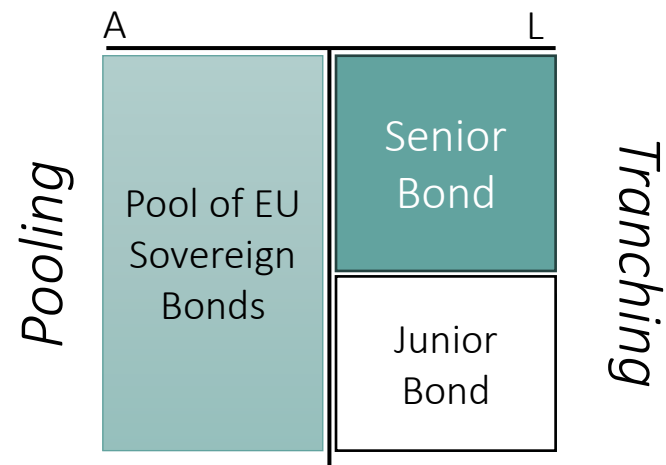
# Triffin Dilemma 1.0 vs. 2.0

- Gradual decline of US relative to world economy

	Triffin Dilemma 1.0	Triffin Dilemma 2.0
<b>Exchange rate</b>	fixed, Bretton woods	flexible, since 1971
<b>Increasing demand for</b>	US Dollar	US Treasuries as <b>safe asset</b>
<b>Fragility</b>	Run on \$/gold	Collapse of US Safe Asset Status
<b>Diminishing “backing” by</b>	Gold	Fiscal capacity

# Response of RoW in Multipolar World

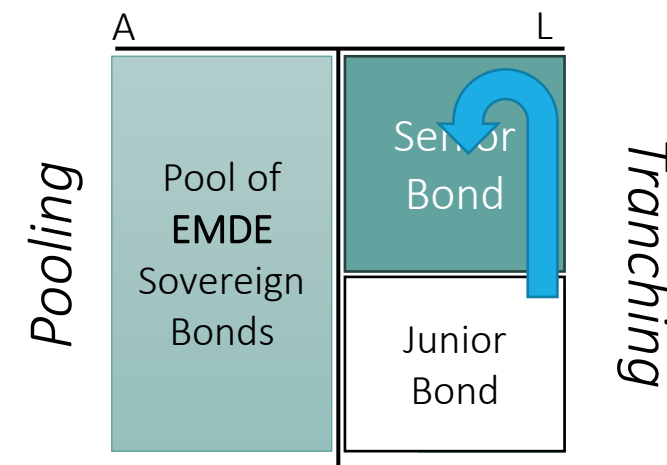
- **Europe:** ESBies/SBBS  
(Sovereign Bond Backed Securities)



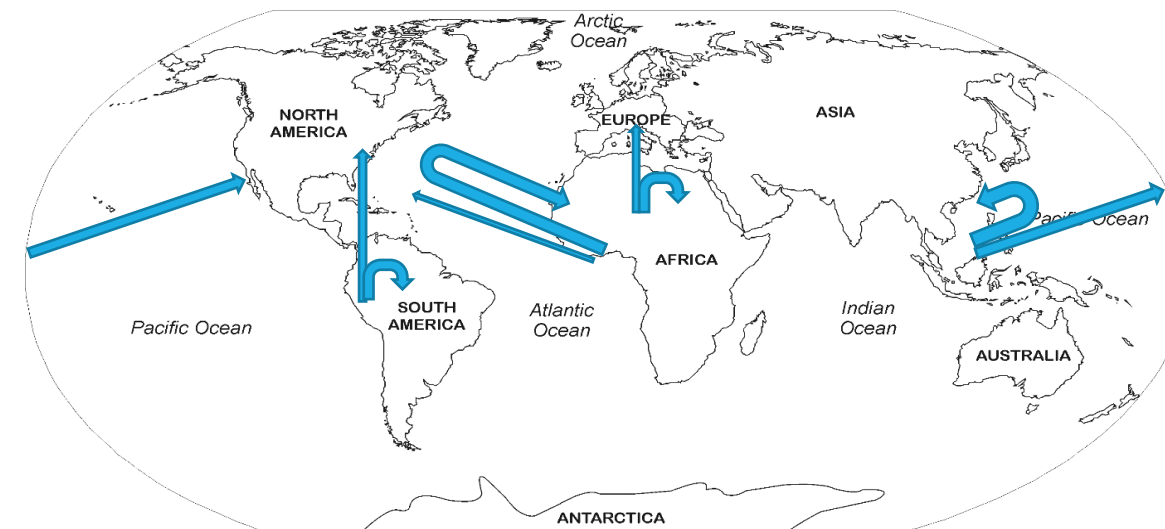
- Regulatory requirements
- beyond German Bund

- **China:**
  - Remove capital controls
  - Rule-by-law (instead “of”)

## EME: GloSBies



flight-to-safety across  
asset class instead borders



# In sum

- Arrange with **geopolitical shift** away from rule-base multilateralism
  - Risk approach: Diversify
  - Resilience approach: Agility mode                      adjust/don't commit
- 3 Exorbitant Privileges – current account can be negative forever!
  - US tries to keep “them”, but to weaken dollar by coercion
  - Safe asset = tradable asset (not consistent with coercion/capital controls)
- Safe asset status:      **Shaky US**                      **Shared**                      **Loss**
  - Extra **risk premium** on US Treasury  
positive comove with US Exchange Rate, US Stocks
- How should Europe, EME, China “hedge” themselves?
  - ESBies, GloSBies

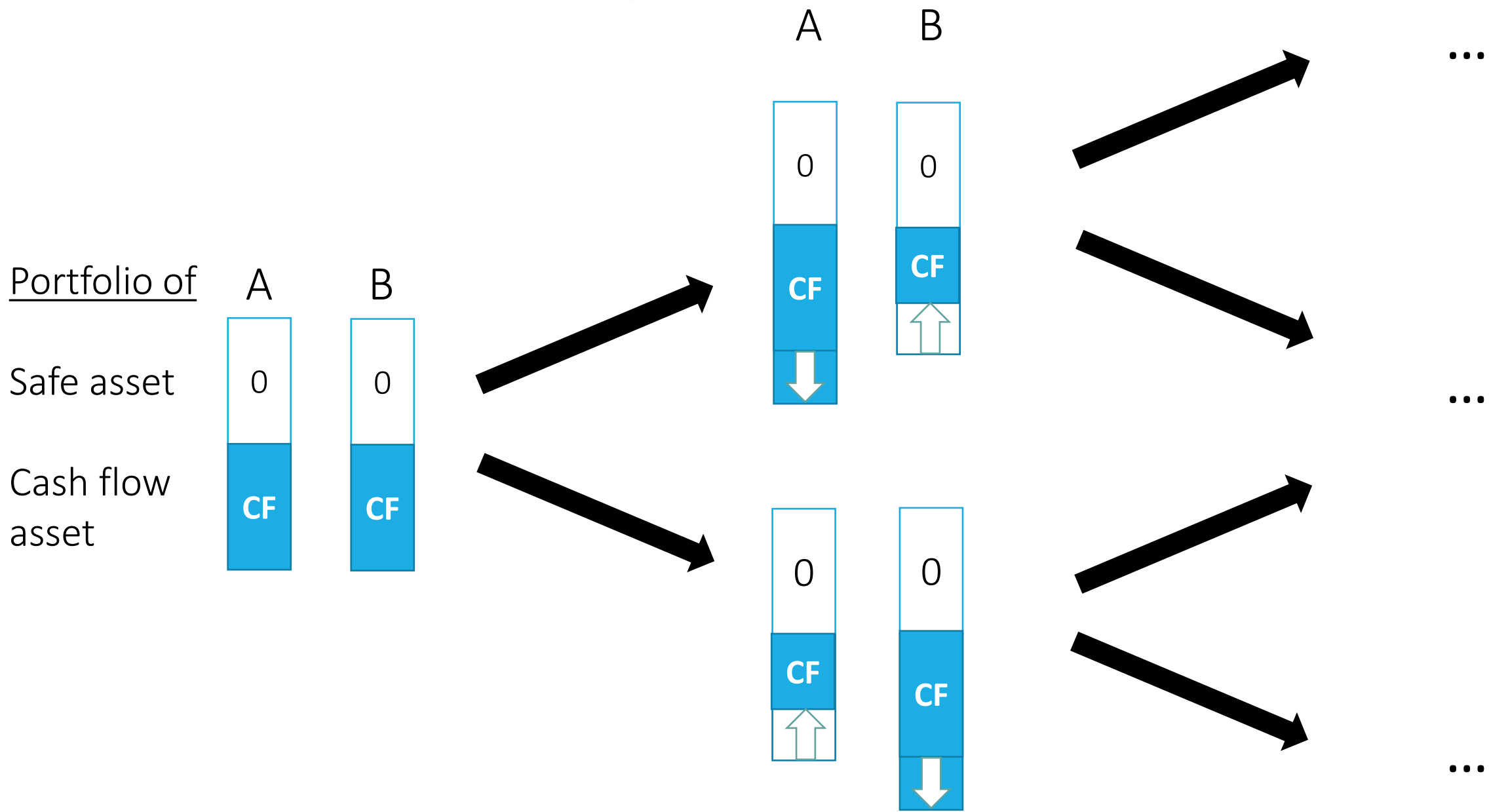
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Thank You

# What's a Safe Asset? What is its Service Flow?

$$\frac{B_t}{\phi_t} = E_t [PV_{r^{**}}(\text{primary surpluses})] + E_t [PV_{r^{**}}(\text{service flow})]$$
 Example: = 0



See Brunnermeier, Merkel, Sannikov (JPE 2024). "Safe assets"

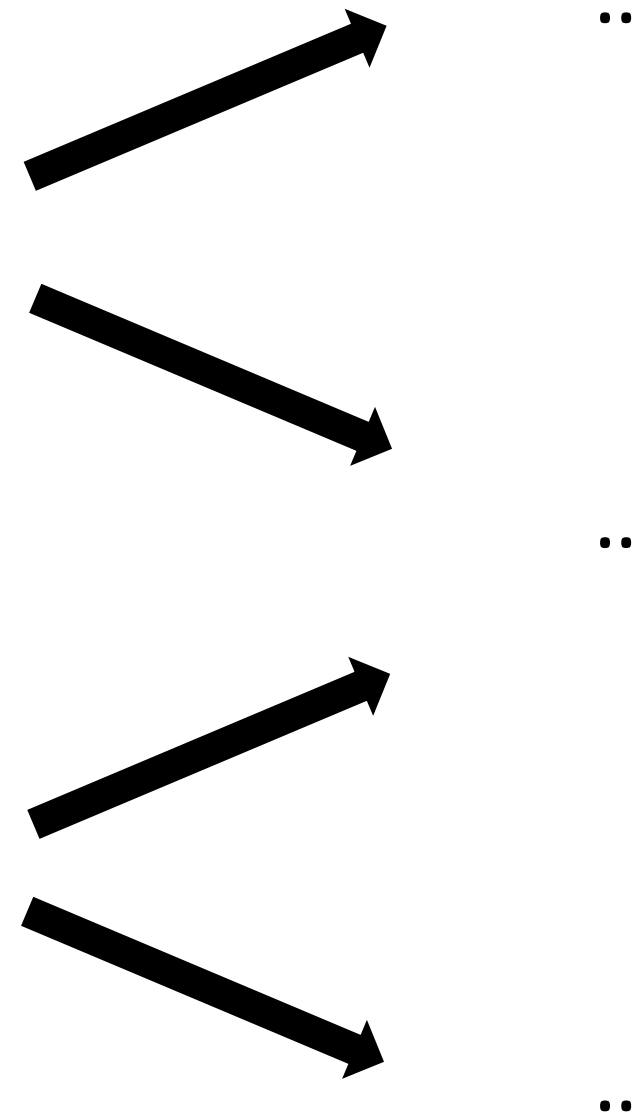
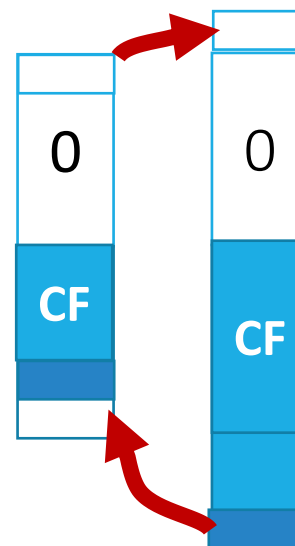
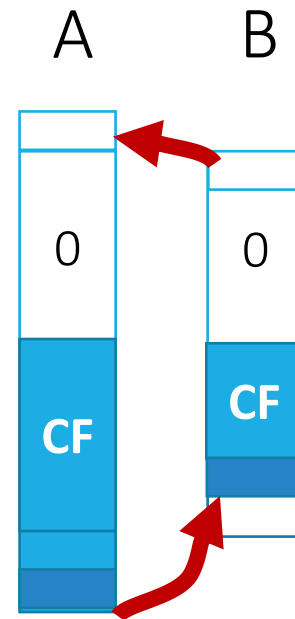
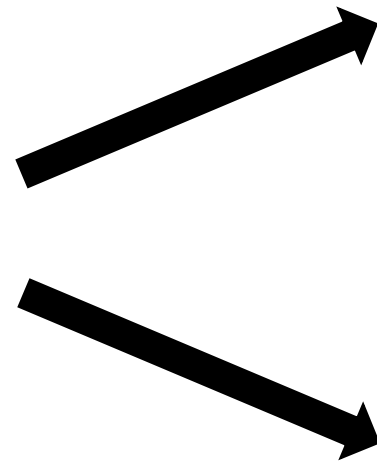
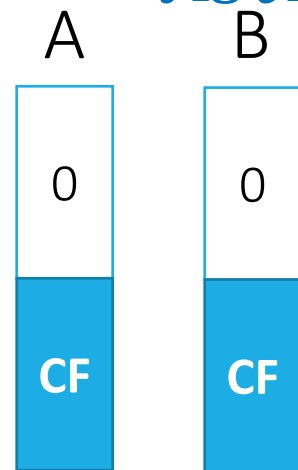
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- Value come from **re-trading**

- Insures by partially completing markets

Reduces  $Var_t[\tilde{g}_c]$

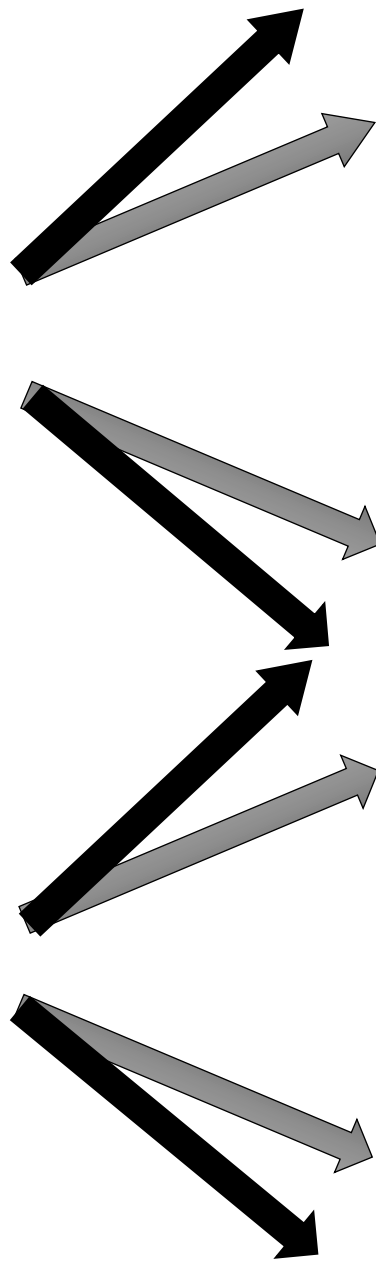
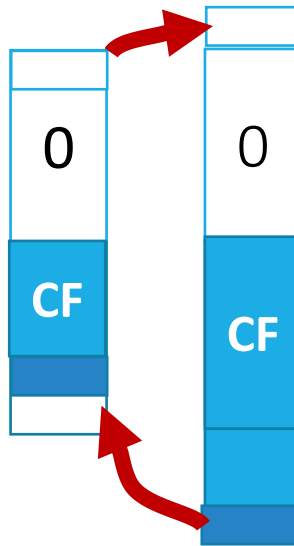
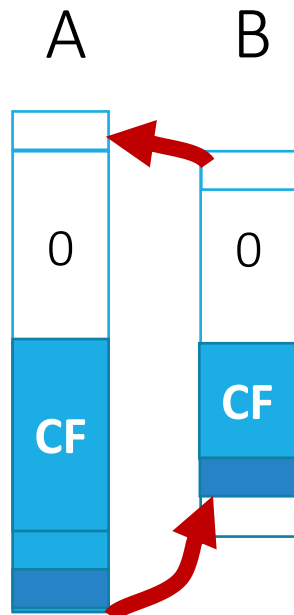
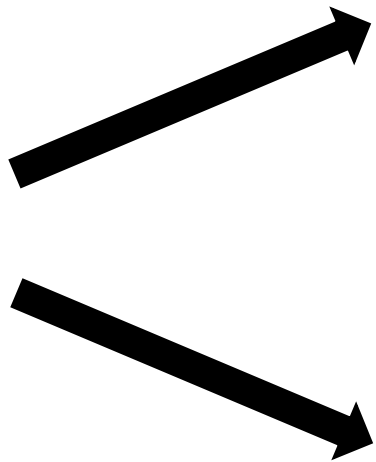
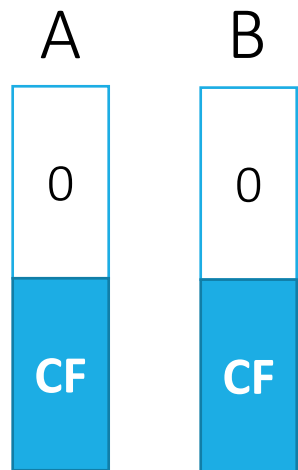


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...

**In recessions:**

- Risk is higher
- Service flow is more valuable
- Cash flows are lower  
(depends on fiscal policy)

...

- Can be “bubbly” = fragile

...

# Roadmap

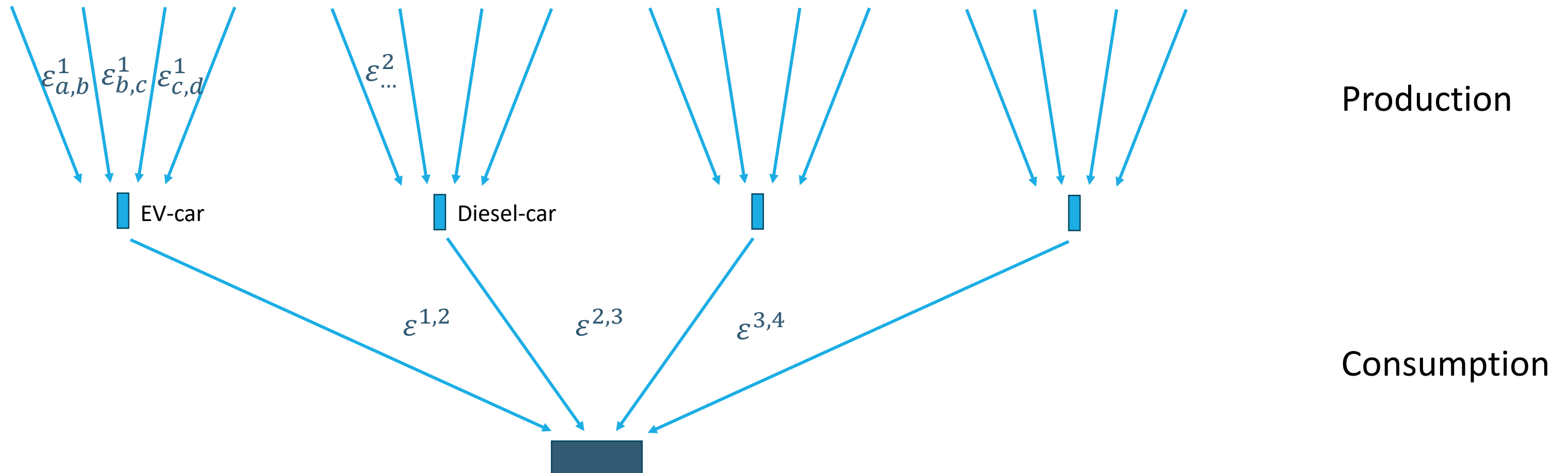
- Global Resilience Paradox
- Uni-polar to multi-polar world order
- Transition and Resilience
  
- Global Finance
  - Currency: US Dollar                      New digital currencies (?)
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# Trade: Choke Point Analysis 101 production chain

- Choke-points in a production chain

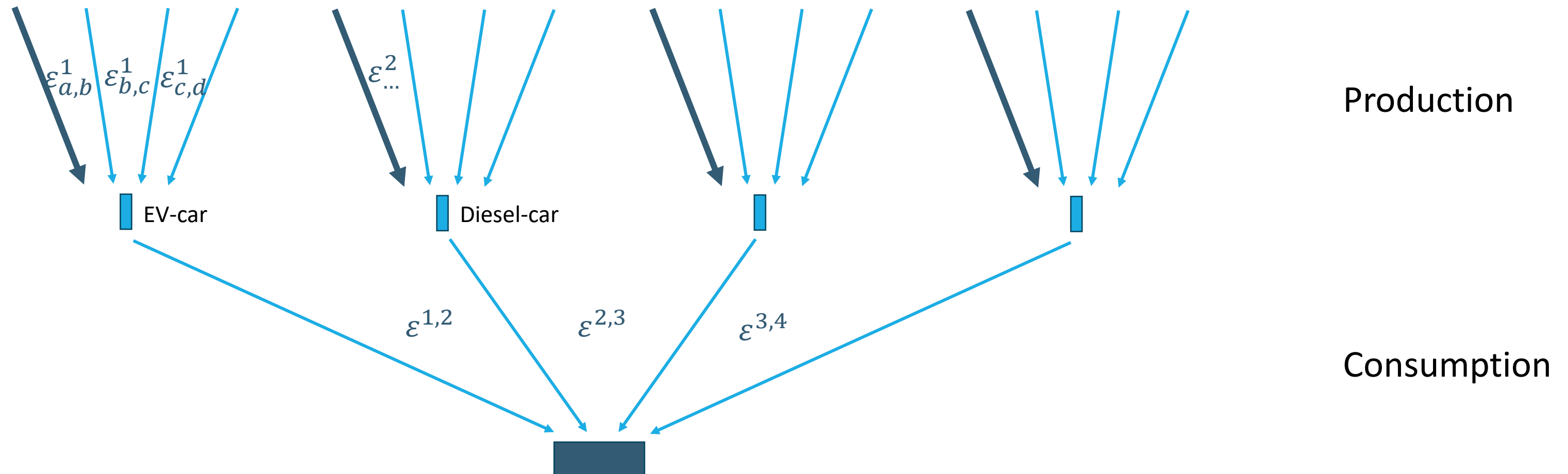


- If  $\varepsilon^{1,2} = \infty$ , then elasticities of substitutions of production  $\varepsilon^1_{a,b}, \dots, \varepsilon^1_{c,d}$  don't matter.
- Essential consumption good, ( $\varepsilon^{1,2} = 0$ , Leontief): antibiotic

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# Trade: Choke Point Analysis 101      production chain

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  - Essential consumption good, ( $\varepsilon^{1,2} = 0$ , Leontief): antibiotic
  - Universal/essential input: Microchip, oil, ...,  $\varepsilon^{2,3}, \varepsilon^{3,4}$  don't matter, but systemic if essential input
- } → Choke point

# Trade: Choke Point Analysis 101

# production network

- Input-output table/matrix – elasticity networks


- Do we need a mega matrix of  $\frac{N^2}{2}$  cross price-elasticities?
- For first-order **tail impact**: large shocks lead to asymptotic impact on GDP, Drew-Becker (2023)  
it does **not** depend on
  - $\varepsilon$  : - exact estimate of  $\varepsilon$
  - Links: - not intensity
  - Up/down
  - Size: - granularity in steady state**but on**
  - only if  $\varepsilon > 1$
  - existence
  - how downstream
  - granularity/size in extreme tail scenario

# Cost Efficiency, Risk- and Resilience Management

- Cost efficiency:

Increasing Returns to Scale  
- specialization via globalization  
(put all eggs in one basket)

**Risk  
management**

- Risk Diversification:

Correlation (*coefficient*)

**Resilience  
management**

- Resilience:  
Over time

Adaptability (*adjustment cost*)  
- scale up/down after realization  
- “navigate risk”

# Cost Efficiency, Risk- and Resilience Management

- Cost efficiency:

Increasing Returns to Scale  
- specialization via globalization  
(put all eggs in one basket)  
opposite of fragmentation via  
- **reshoring, friendshoring**

**Risk  
management**

- Risk Diversification:

Correlation (*coefficient*)  
- **multi-sourcing**

**Resilience  
management**

- Resilience:

Adaptability (*adjustment cost*)  
- scale up/down after realization  
- “navigate risk”  
- prepare/invest in adaptability prior

# Trade Tension: Free Globalization vs. Industrial policy

- The West's best response to China's **strategic industrial policy**  
following different economic model & values
- Don't throw out rulebook, but fine-tune - sophisticated **response**:
  - Buy cheaply subsidized Chinese products... and say "thank you" (e.g. solar panels),
  - **except if**
    - Static: **current** choke (threat) point (antibiotics,...)  
IRS that leads to permanent trade imbalance
    - Dynamic: **future** choke point threats  
loss of innovation leadership, destruction of own IRS and standard setting  
In this cases impose tariffs and conduct own industrial policy
  - For products for which China has already innovation leadership  
Impose FDI requires (similar what China did in earlier)

# Conclusion: Geoeconomics and Resilience

- Change in world order
  - Interdependency: multilateral, globalization “Balance of choke points”
  - National resilience: bilateral, transactional, small countries suffer – Multipolar world
  - (Fast) transitions can hit tipping points if J-curve effect is too pronounced.
    - Global resilience is a common good.
- **Global Finance:** “Balance of financial terror” & Implications for global safe asset
  - Provide alternative for US Treasury ESBies GloSBies
- **Global Trade:** Choke point analysis
  - Elasticity of substitution: along production chain/across network (tricky)
  - Time dimension: resilience to bounce back
    - After shock: rebuild new links
    - Prior to shocks/moves: invest in adaptability Threat sufficient to avoid **systemic** shock (since against opponent, not nature/random)

# Geoeconomics & Resilience

- **Economic Statecraft:** The use of economic instruments (e.g., trade policies, sanctions, foreign aid, investment) to advance a country's foreign policy goals.
- **Offensive: Economic Power Projection**  
to influence other countries through its market size, technological capabilities, and financial resources.
- **Defensive: Economic Security - Resilience**  
Protecting a nation's economic interests from external threats
  - Economic coercion, disruptions to supply chains, cyberattacks
- **Co-opetition:** states compete and cooperate - strategic rivalry or alliance.

# Geopolitical Shift

- Old:           **Multi-lateral**                   **rule based**                   **global framework**
  - Foundation: **Mutual interdependencies – non-resilience**
    - Numerous choke points, just-in-time, multilateral liquidity provisions
- New:           **Bilateral**                   **transactional**                   **sphere of influence**
  - **Coercion and Uncertainty** driven from bargaining process
  - National **resilience**, just-in-case ⇒ less global resilience
- Powershift from **small countries** to large countries/blocks  
small countries will become part of **sphere of influence** of large countries

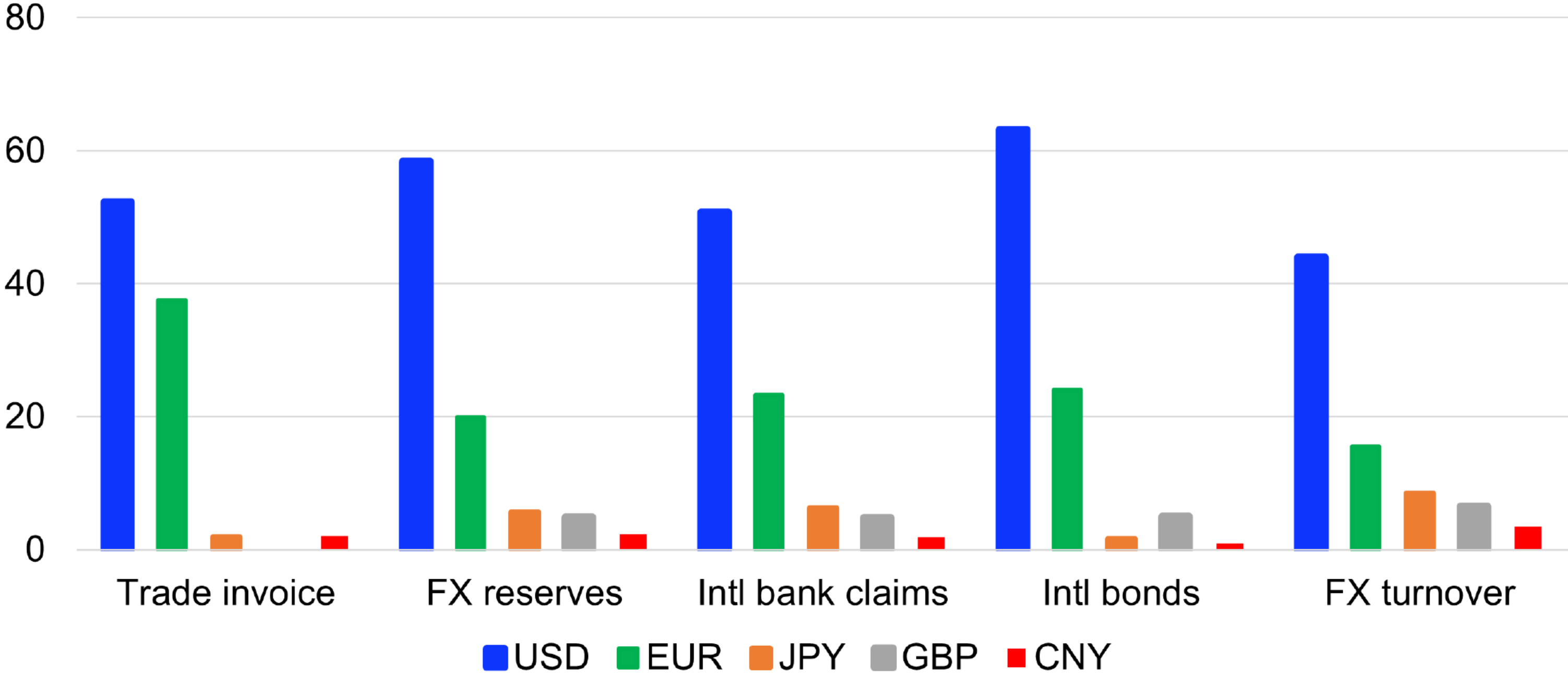
# Global Resilience Paradox: Finance and Trade and Finance

- **Pre: Mutual interdependencies** ⇒ to ensure peace/**international stability**
  - Finance: Dollar and US Treasuries at the center + Swaplines + multilateral organizations  
Large reserve holdings, US invests in FDI – Bretton Woods II  
“Balance of Financial Terror” (Summers)
  - Trade: “Just-in-time”, Global Value Chains “Wandel durch Handel”  
**Trade choke** & counter choke points (# sufficiently high, exact # not relevant)

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**Trade choke** & counter choke points (# sufficiently high, exact # not relevant)
- **Post:** individual country **Resilience** ⇒ less global resilience
  - Finance: Reserves (from US Dollar to gold, ...?)
  - Trade: “Just in case”, autarky, self-reliance  
Minimize **choke points**
- *“Local/national resilience undermines global resilience”*
  - Global resilience as global common good
    - Underinvestment

# Current Dominance of the US Dollar + US Treasuries



■ IMF calculations (data until 2023) – Gourinchas 2025

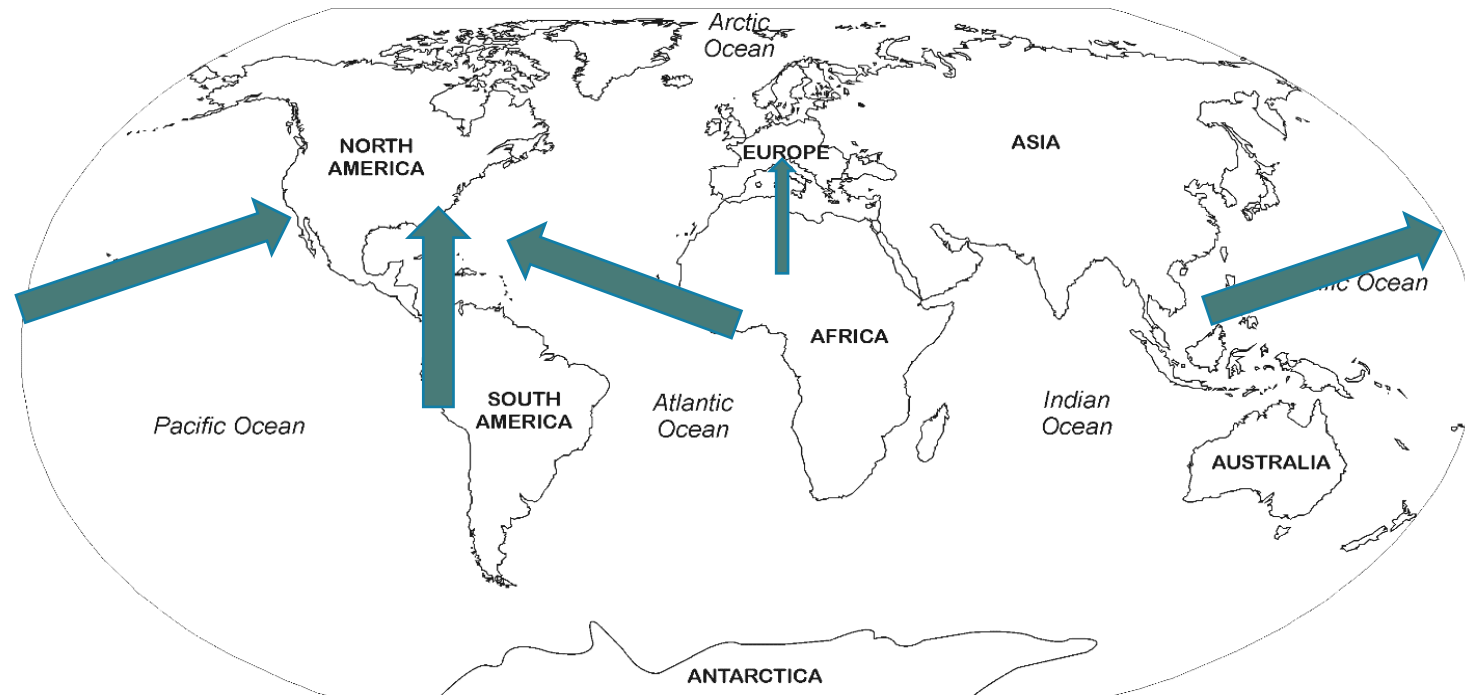
# Global Financial Architecture

- Flight-to-safe asset US Treasury
  - Risk-on, Risk-off
  - Tightening of US Monetary Policy
- Cross-border capital flows to safe asset
- Exorbitant privilege to issue global safe asset
- When risk rises
  - AD can issue safe asset at low interest rate  
run stimulus program
  - EMDE has to pay high interest rate  
run austerity program
    - The “poor” countries insure the “rich” against risk shocks.
- Source of the Problem:  
Safe Asset (reserve assets) are **asymmetrically** supplied
  - Exorbitant privilege is not symmetrically distributed across countries

# International: Flight to Safety

- Risk-on, Risk-off

Flight-to-safe asset



- Problem: Safe asset is *asymmetrically supplied* by AE

Flight-to-safety → cross-border capital flows

- Debt issues at times of global crisis

- For AE at inflated prices eases conditions

- For EME at depressed prices worsens conditions

- *Paradox: “Poor insure rich Paradox”*

# What's a Safe Asset? What is its Service Flow?

- **Good friend analog:**

- Can sell at
  - (i) high price and
  - (ii) low-bid ask spread in crisis times (info insensitive)

1. In personal need: (idiosyncratic risk)

2. In crisis times: (systematic risk/hedge)

- Negative CAPM- $\beta$
- Precautionary savings
  - Low (cash flow) interest rate  $r < g$  “Exorbitant Privilege”

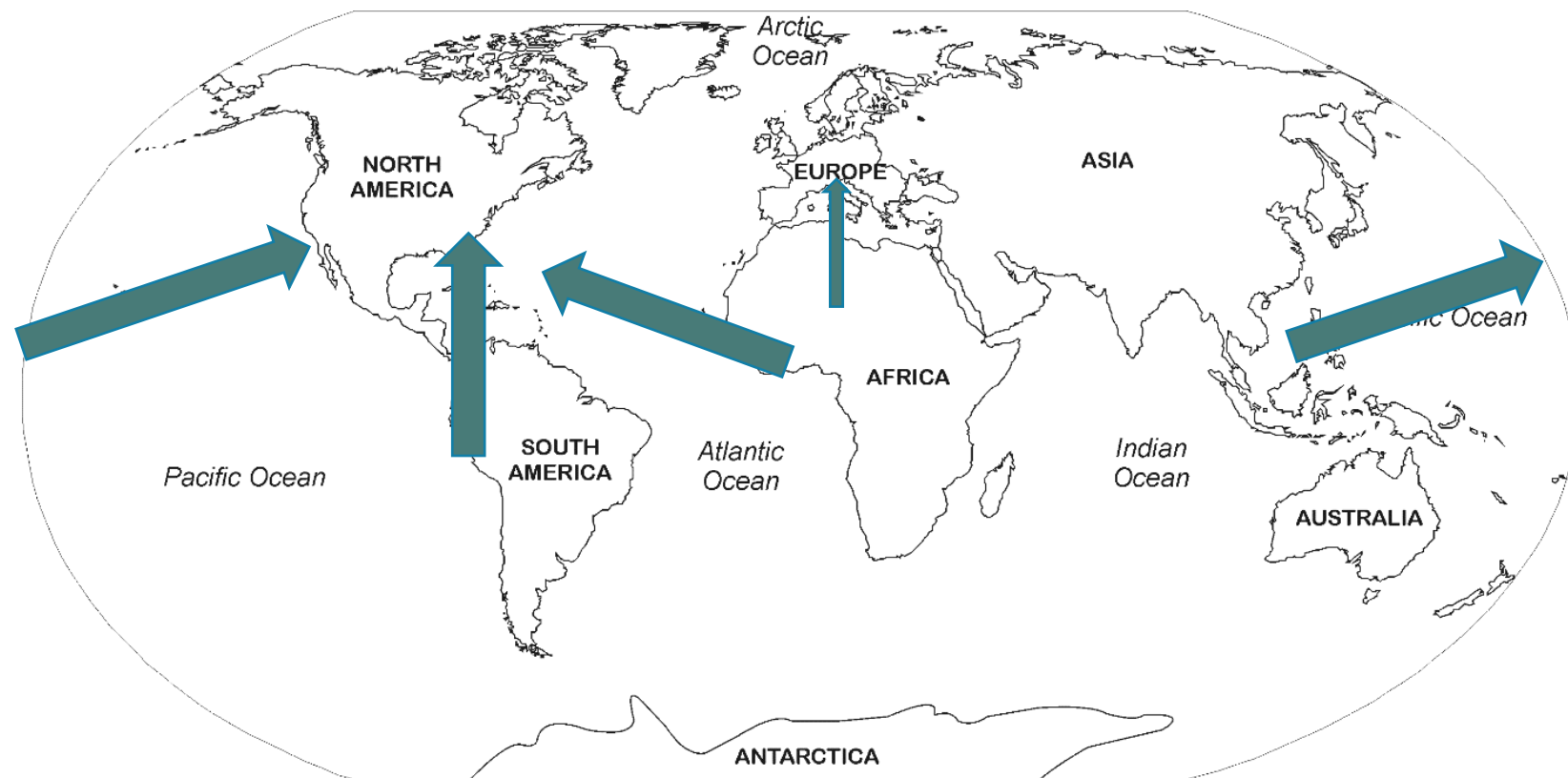
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Example: interest = 0

# International: Flight to Safety

- Risk-on, Risk-off      Flight-to-safe asset
- Problem: Safe asset is *asymmetrically supplied* by AE  
Flight-to-safety      ➔      cross-border capital flows



# Two Approaches

- Approach 1: “Buffer Approach” *(traditional)*
  - Lean against sudden stop (flight-to-safety) capital outflows

## In a uni-polar world

- Precautionary Reserves
- IMF liquidity lines
- Central Banks Swap line arrangements

} Official sector

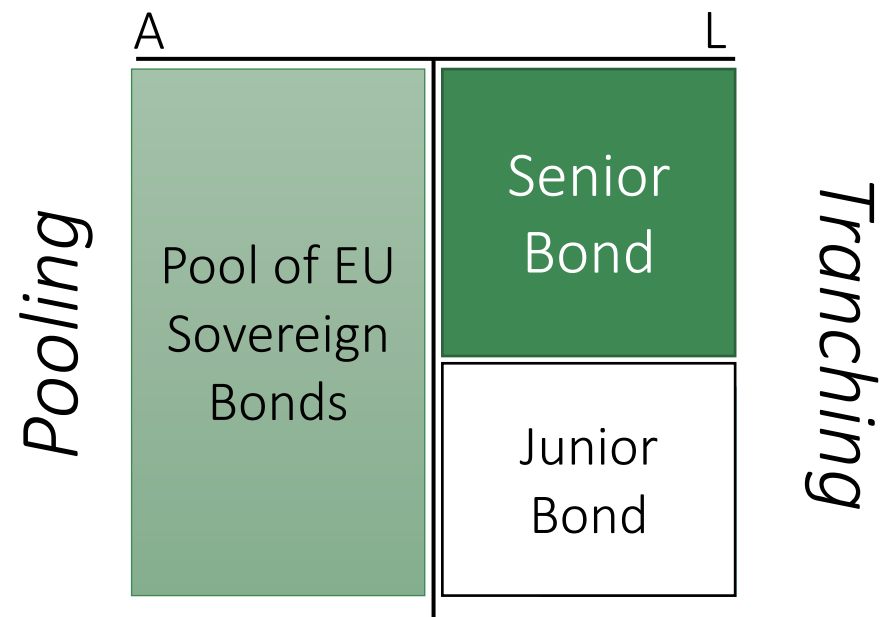
## In a multi-polar world

- “Design” more safe assets                      ESBies/SBBS in Europe

- Approach 2: “Rechanneling Approach” *(new proposal)*
  - “Global Safe Asset from & for Emerging Economies”

# Europe: ESBies/SBBS

- EU as one of the poles provides a deep and liquid safe asset market
- ESBies/SBBS (Sovereign Bond Backed Securities) Euro-nomics group 2011, 2016, 2017

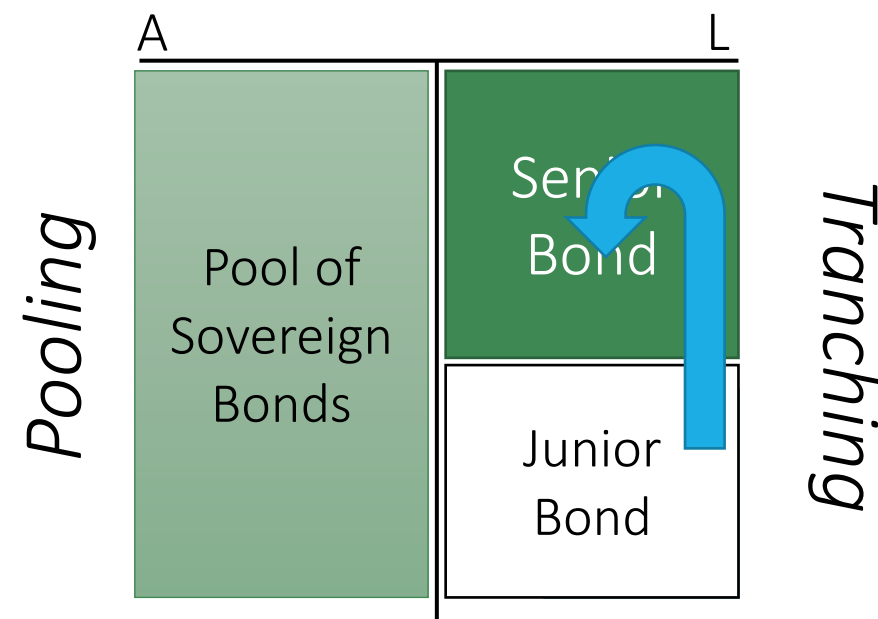


- What role does the ESM play?
- Regulatory requirements
- Europe will also enjoy “exorbitant privilege” - less asymmetric supply of safe asset

**China** will open financial account

# Emerging Economies: Rechanneling Approach with GloSBies

- Address root cause: Safe asset is supplied asymmetrically
- Create globally supplied safe asset for EME via pooling & tranching



*Rechannel:*

Instead of cross-border  
Across asset classes

# International: Flight to Safety

- Risk-on, Risk-off → Flight to safe asset
- Channels back some of flight-to-safety capital flows  
fewer cross-border capital flows

