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'Without fear and without favour'
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Eurozone's need of a safe asset is real and cogent

The "European safe bonds" (ESBies) proposal recalled by Dr Dr K P V O'Sullivan (Letters, June 13) testifies that the need of a safe asset in the eurozone is real and cogent. A jointly guaranteed debt remains the most logical solution for this problem; it obviously requires a huge political capital invested in the perspective of a political union that actually is not here and will not materialise in the foreseeable future. From this cold bath of reality comes my disputed idea of gradual "mutualisation of risks".

Basically, if the issuance of a common debt is impossible, the assumption of a gradual joint guarantee on the maturing debt to be refinanced certainly has more chances: each country continues to pay its own debt and the rest of the eurozone intervenes only in case of (real) impossibility to repay it. In this way the spread between the government bonds would progressively disappear by definition. One could note that a federal budget is not needed in this framework, let alone the political union.

The presence of persistent spreads between eurozone government yields can be tolerated only if the supply of the safe asset is predominant with respect to the residual debt. In the US for example, spreads between states' debts without federal guarantee surely exist, but this debt is a tenth of the size of the federal one and its weight is steadily decreasing over time. It's the federal debt that covers the role of a safe asset, for the US and the entire world economy. Hence the current situation that sees diverging government spreads between peripheral and core countries in the eurozone has a feeble relationship with what happens in the US; it's irregular, and not sustainable in the long term.

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