the feet of the US government, which is the largest borrower in the world. The dynamic of the incentive is such that the US government wants to borrow more and more and more to take full advantage of their ability to pay current dollars back in debased dollars. So instead of borrowing because they need to fund a new project, they are borrowing imperialistically. What this means is that if the US government runs out of lenders (i.e., bond buyers), they will find ways to create more of them. It is worth stepping back for a minute and asking, "If US Treasury Bonds are so valuable, then why does supply exceed demand by so much?" As mentioned earlier, when discussing BlackRock's recent revelation, it is common knowledge now that bonds are a terrible investment. The asset actually finds ways to exploit people's desire to live beyond their means, and governments find more and more innovative ways to have their bond buying proxy lenders lend money to them. The key to the strategy is collateral.

As mentioned earlier, the US government will create proxy lenders in order to create more bond buyers. We saw this with the housing and student agencies like Fannie Mae. Fannie Mae becomes the lender to new homebuyers, and they turn around and buy US Treasury Bonds to support their balance sheet. The reason the agencies are able to be such large lenders is 1) they have the backing of the US Treasury, despite being essentially centralized lenders to them, and 2) mortgage lenders can confiscate the house if their borrowers fail to make good on their loan. Home buyers qualify for loans by putting up their house as collateral. People who live beyond their means have to find other assets to pledge in order to play the borrowing game. They are borrowing to live, not to exploit a lender. The quality of their collateral will determine their creditworthiness. Home buyers put up their homes. Car buyers put up their cars. Student loans have no collateral to pledge, so Sallie Mae determined that these loans would be immune to bankruptcy. A borrower would have to die (or successfully fake their death) in order to be released from a student loan, assuming there is no cosigner to go after. Thus far, the examples of collateral (homes and cars) are fairly easy to value and are vital to people's livelihoods. Most people would go to the ends of the Earth to avoid having a lender foreclose on their home or their car.

Of course, we saw in 2008 that when the value of the collateral plummets at the same time as everything else is plummeting, people are far less inclined to make good on a loan for something whose carrying value has fallen far below the loan itself. Many people had multiple homes that they were perfectly happy to walk away from. The 2008 crisis shined a bright light on the risks that threaten the entire system if the collateral underpinning the system becomes devalued significantly over a short period of time. The 2023 mini banking crisis showed a similar problem when US Treasuries were swiftly devalued by the Fed's unprecedented 5% rate rise in 2022. The BoE was the first to suffer (see the earlier discussion on the UK Pension bailout) in September of 2022, but by March of 2023, five major banks failed and were no longer. UK Gilts and US Treasuries were no longer