TYPE 1 AND TYPE 2 DEBT

WHAT IS TYPE 1 AND TYPE 2 DEBT?

Type 1 Debt is borrowing for both spending and the purchase of newly created assets that directly contribute to GDP

Examples:

- Mortgage loan for a new house
- Credit card purchases
- New car loan

Type 2 Debt is borrowing to purchase EXISTING assets such as a house, car, or company

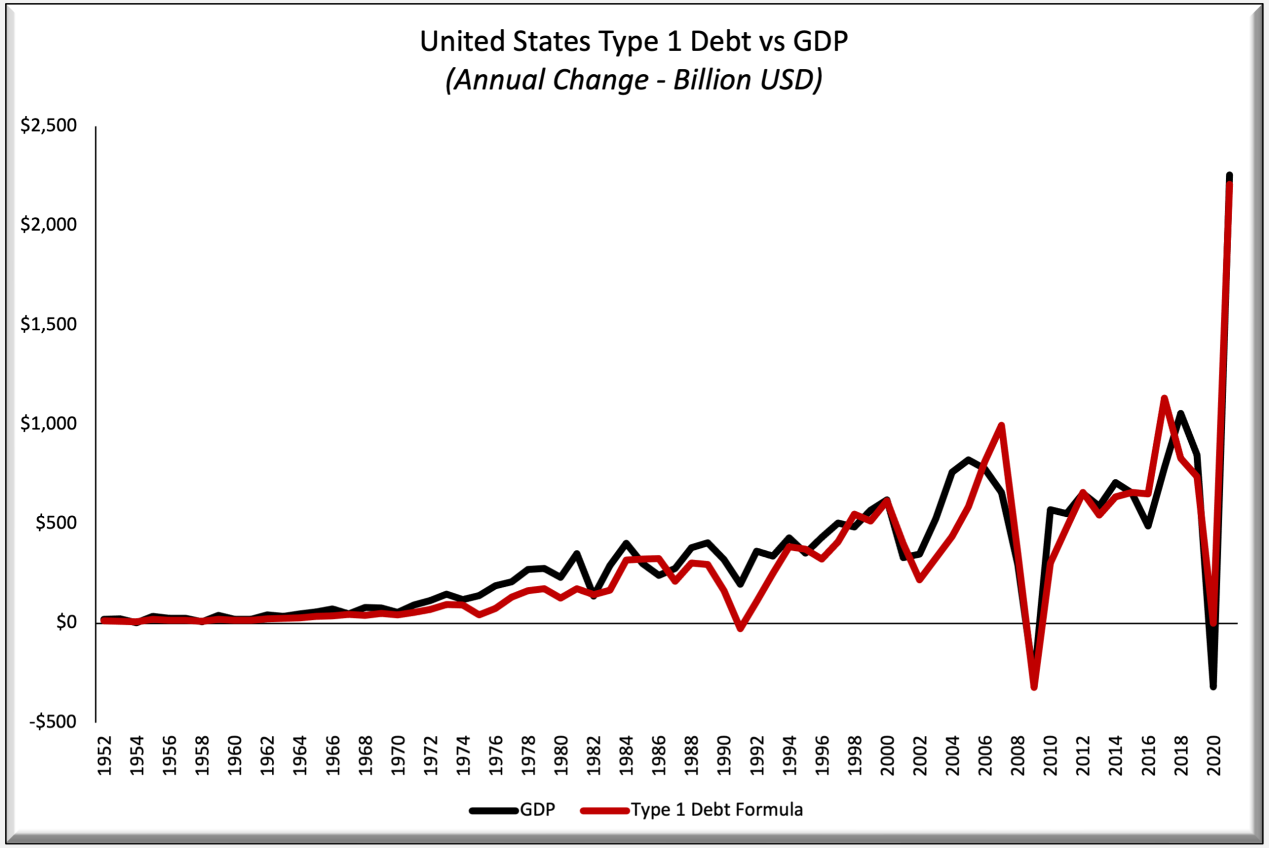
Examples:

- Mortgage loan for an existing house
- Existing shares purchase
- Car loan for used car

TYPE 1 FORMULA

Type 1 Debt = Type 1 Private Debt Items + Deferred Spending Adjustment

- *This equation roughly yields the amount of new GDP for a given year*



TYPE 1 FORMULA CONT'D

Equation Components	Operations	1999	2009	2019	Source
New Mortgage Debt	+	16	4	10	Federal Reserve Z.1
Other Long Term Household Loans	+	6	4	18	Federal Reserve Z.1
Other Short Term Household Loans	+	11	(11)	(7)	Federal Reserve Z.1
All Other NFB Loans	+	11	0	26	Federal Reserve Z.1
ROW Loans to NFBs	+	16	(13)	4	Federal Reserve Z.1
TGA	-	(0)	64	8	Federal Reserve Z.1
Type 1 Total	=	60	(80)	43	
GDP		45	(43)	81	BEA

TYPE 1 PRIVATE DEBT ITEMS FOR THE US

- New CRE construction and Household mortgages for new homes
- Bank loans to HHs and NFBs
- HH consumer credit
- NFB corporate bonds
- ROW loans to NFBs

DEFERRED SENDING ADJUSTMENT “TGA ADJUSTMENT”

- The “TGA Adjustment” to Type 1 accounts for the deferred spending of the proceeds that remain in the TGA, as a result of treasury issuing securities but not yet spending it.

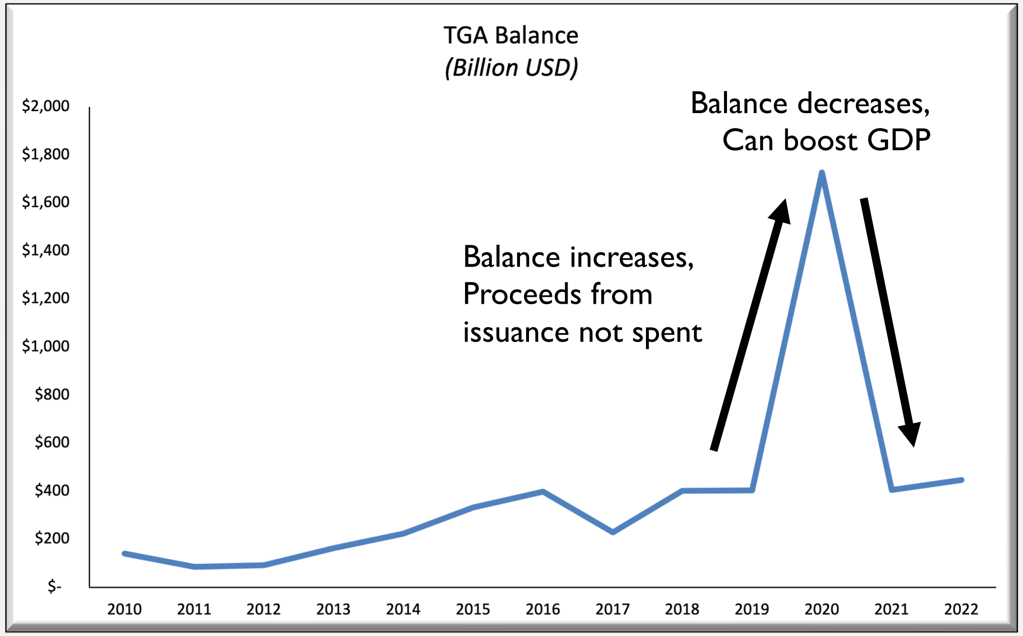
- This adjustment is to account for the unique years of 2020 and 2021, since **most debt that is issued by the government is spent right away**

- This adjustment has generally been immaterial in other years

"TGA ADJUSTMENT" CONT'D

- An annual **increase** in the TGA balance means debt was issued and purchased, but not spent, which means that benefit to household income, and thus usually also spending, has not yet occurred and increased GDP

- An annual **decrease** in the TGA balance means the proceeds were finally spent and added to GDP, without any additional debt being issued for that year



GOVERNMENT TYPE 1 DEBT INCREASE CONTRIBUTION TO GDP INCREASE

- Historically, government debt growth has primarily been financed by private sector purchases which are in turn financed by increases in private sector Type 1 Debt. In other words, an increase in government Type 1 debt has been accompanied by a commensurate increase in private sector Type 1 debt

- Therefore, the increase in government Type 1 debt in not included in our equation, since to add it would be to double count the impact on GDP related spending.

- Note that the government spending that is additive to GDP is primarily military and infrastructure spending. Government transfer payments are not added to GDP, since they get added to GDP when the recipient spends the proceeds.

For further information on Type 1 and Type 2 Debt please visit us at www.tychosgroup.org/join-the-list and/or email contact@tychosgroup.org for any questions or comments