

Ailing Economy: Debt Buildup Called Cause

What ails the American economy? Why, in the face of strongly growing spending by consumers and the Federal Government, has the economy faltered, and why have American workers been unable to increase their output of goods and services?

Economic growth has slowed to a crawl. From April through June, the nation's total output, adjusted for inflation, grew at an annual rate of only 1.1 percent. Productivity - the output per hour of all persons employed in private businesses - rose by only one-tenth of 1 percent last year. In nonfarm businesses, productivity actually fell by three-tenths of 1 percent.

Business spending on plant and equipment has stagnated. Corporate profits have weakened. The stock market, after a spectacular two-year run-up that ignored the sluggish recovery, has sustained sharp setbacks. Rising interest rates and the weak economy were factors in yesterday's drop of 36.14 points in the Dow Jones industrial average. [Page D1.] Although not all economists agree, the main suspect in the choking off of the nation's economic growth is the excessive buildup of debt. "We have simply been living way beyond our means," M. Louise Curley, an economist at Scudder, Stevens & Clark, the investment advisory concern, says.

Some economists worry that, after three and a half years of expansion since the severe 1981-82 recession, the

economy may be headed for another slump. Even more troubling to many is the economy's failure to recover fully from that severe recession or to show a healthier rate of growth. Since the middle of 1984, the American economy has grown at only 2 percent a year. The Administration's View

The Reagan Administration's budget director, James C. Miller 3d, has defended its assumption that the economy will accelerate to a growth rate of 4.5 percent in 1987 after the current slowdown, saying that "the very factors that explain why real growth is less than anticipated in 1986 also explain why we believe the economy will perform better than expected in 1987."

But some economists believe that the Administration's projected speedup for next year is a means of justifying its budget projections, with an assumed reduction in the deficit.

The most publicized contributor to the debt explosion has been the Federal budget deficit, of course. Since 1981, when the gross Federal debt reached \$1,003.9 billion, or more than a trillion dollars, it has soared to \$2,112 billion this year. That estimate is almost certainly low. According to the Government, the annual budget deficit is expected to reach \$220 billion this fiscal year, partly because economic growth was slower than expected. That would break 1985's deficit record of

\$212.3 billion.

But the soaring American debt is driven not just by Federal budget deficits. Business borrowing has grown, much of it to finance highly leveraged mergers and acquisitions, and so has consumer borrowing. According to the Federal Reserve, total private and public debt reached \$8.2 trillion in 1985, twice as much as in 1979. It has grown at double-digit rates, far faster than national income during the past four years.

That pace has broken a stable relation between total debt and income. For two decades before 1982, total domestic debt had held steady at about 160 percent of the rising gross national product. Since 1982, the ratio of total debt to G.N.P. has leaped to 200 percent.

Raymond M. Mullaney and Ronald L. Garner of the Capital Companies, a Boston-based financial services concern, consider this shooting up of total debt "profoundly disturbing."