

Eco prof asks interest rates reappraisal

A TAMU economics professor called for reappraisal of all statutory limits on allowable interest rates "to avoid a possible flight of capital from Texas should market interest rates exceed statutory limits."

Dr. W. Philip Gramm proposed such action during testimony before the Economic Development Committee of the Texas Senate.

"While Texas consumers and businessmen are going to have to bear the burden of the economic disruption produced by the federal government," the TAMU professor noted, "we can continue to prosper

if we provide a sound business environment by removing any limits on the ability of Texans to cope with market conditions."

"States which had low legal maximum credit rates have seen residential construction and consumer finance lending virtually cease in 1973-1974 as the savings of their citizens were loaned out in other states," he said. "If interest rate maximums are maintained they should be tied to the prime rate to minimize the disruption of the Texas economy."

Gramm said a federal deficit of

\$70 billion in fiscal 1975 will produce government absorption of 80 per cent of all funds raised on the American capital market and will drive interest rates up substantially by the end of the year.

"The federal government has but two options in financing its huge deficit," Gramm said.

"It can sell bonds on the open market and compete loanable funds away from private industry or it can print money through the Federal Reserve Bank to finance the deficit."

Over the last decade the deficits

have on the average been financed 60 per cent by borrowing and 40 per cent by printing money, he said.

"Though interest rates could continue to edge downward through the summer, when the impact of the deficit financing hits the credit market, interest rates are going to begin to rise," Gramm predicted.

"While the Congress does not seem to be concerned by the prospects of converting the President's proposed \$52 billion deficit into a \$70 plus billion deficit, simple arithmetic reveals the problem," Gramm said.

"If we monetize only 40 percent of the deficit, the money supply will grow by 25 percent and if historic patterns of behavior are repeated, the demand for goods and services will rise by a similar amount. Even with the most rapid economic recovery in American history, increases in production will not exceed 15 percent and could well be less than one-third of that amount."

Given such a gap between growth in demand and growth in supply, Gramm said, double digit inflation "seems inevitable."

"If the Federal Reserve Bank

does not monetize substantial quantities of the federal debt, 80 percent of all savings will be siphoned off by government and interest rates will be bid up until private investment has fallen to about one-half of last year's level," he added. "While we can only guess what the interest rate might be under such circumstances, Federal Reserve Bank economists do not dismiss the possibility of a 20 percent interest rate."

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Newcomers hold party

The Texas A&M Newcomers Club is sponsoring a game party Feb. 19 in the A&M United Methodist Church Fellowship Hall.

The club is open to first and second year residents of the area who are wives of full time faculty or staff members at A&M, or who are themselves full time faculty of staff members. However, the game party is open to non-members as well.

Anyone interested in joining the club or receiving information about the party may contact Mrs. Douglas Slack, club president, at 693-2438.

House against Bell rate rise

AUSTIN (AP) — The House rushed to the Senate on Tuesday a "sense of the legislature" resolution expressing support for Atty. Gen. John Hill's suit to block Southwestern Bell Telephone's announced rate increase for intrastate long distance calls.

Hearing on the attorney general's suit for a temporary injunction is set for Feb. 18 before state District Court Judge Tom Blackwell of Austin.

House members voted 87-48 for the resolution stating that the legislature "does hereby approve, ratify and authorize the action of the attorney general" in filing the suit.

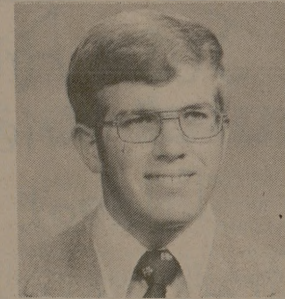
Rep. Jim Nugent, D-Kerrville, the sponsor and the chairman of the House Transportation Committee, which is considering telephone rate regulation bills, said the measure was not intended to expand Hill's authority. He said Hill already had all the authority he needed to challenge the \$45 million increase that Bell intends to put into effect March 1.

"This is an attempt to tell the attorney general to get after it and find out if he can get a fair hearing," Nugent said. He said he knew of no more rapid means to check the increase, if it can be stopped legally, than through a court case.

The resolution was offered, Nugent said, "so the attorney general and the people will know how we feel about it."

Nugent later said the resolution was not intended to give his committee a sounding on House feeling toward regulation of telephone companies by the state, a major issue of this legislative session.

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