

U.S. debt may force interest rates to rise

United Press International
CLEVELAND — Interest rates could make an about-face and skyrocket again unless steps are taken to reduce the national debt, Cleveland Federal Reserve Bank President Karen N. Horn says.

Horn, former treasurer of Pennsylvania Bell, told a Cleveland City Club audience Friday she sees possible problems next year, including a rise in interest rates.

The federal debt, projected to increase to \$200 billion over the next two years, must be financed by borrowing, she noted.

Such borrowing could wring funds out of the nation's finan-

cial market, drying up funds needed for the economic recovery and sending interest rates up again.

"Over the period (1983-84), we must either curb the rise in federal outlays, increase taxes, or expect to see interest rates driven sharply upwards by the collision of the demand for loanable funds," she said.

Horn said a sharp rise in interest rates could damage the public's trust in the Federal Reserve and prompt Congress to push the Fed to lower interest rates.

"Should interest rates rise early in the recovery Congress may put substantial pressure on the Federal Reserve to abandon

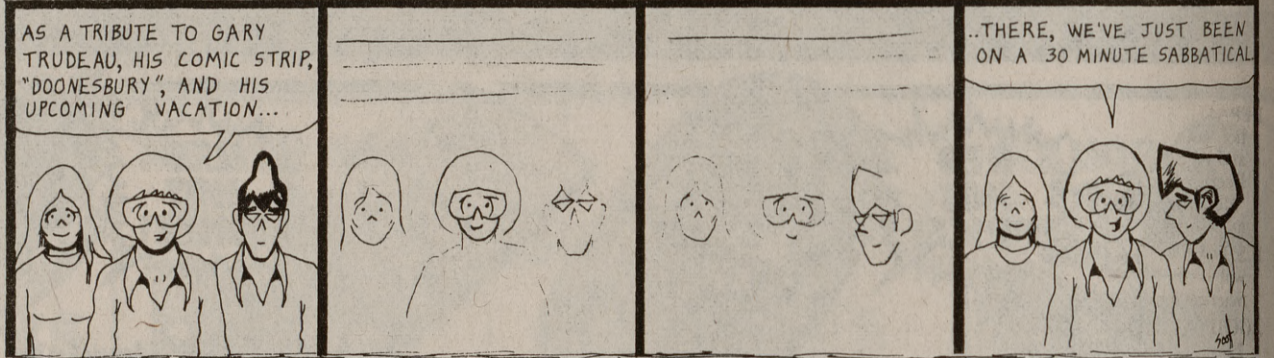
its disinflationary goal," said Horn.

"We allowed an inflationary thrust to develop in the American economy, and through overly permissive monetary policies allowed it to accelerate," Horn said.

She said the progress to bring down inflation "cannot endure without a monetary policy that reduces the growth of money permanently."

She also defended the current drop in interest rates. "The sharp decline in interest rates that has occurred since July, largely in response to reduced inflation, is a most hopeful development," she said.

Warped



Committee may oust solon

Gramm may quit party

United Press International
WASHINGTON — A source on the House Budget Committee says Rep. Phil Gramm, a leading "Boll Weevil" Democrat, will be dropped from the panel in January. Gramm may quit his party in retaliation.

"We're waiting to see what happens when the new Congress organizes," said Gramm's press secretary Larry Neal. "There may be some move to punish him for his conservative voting stance."

The committee source said it is almost certain Gramm will be dropped from the committee in January when the 98th Congress convenes and the Democratic majority makes committee assignments.

The source, a Democrat, said no similar moves will be made against other conservative Democrats on the committee who voted for Reagan's policies.

Neal said Friday Gramm is concerned about staying in a party that "can't make room to

tolerate a conservative on a key committee." If Gramm loses the committee assignment, Neal said, "he might look at some alternatives, including switching parties."

Gramm is not being singled out for his voting record, the source said, but because he sat in on Democratic budget strategy meetings in 1981 and then gave information to the Reagan administration. Gramm has denied that charge.

An aide to House Speaker Thomas O'Neill, D-Mass., said the speaker was not leading any movement to oust Gramm, but that it was possible a move to do so would come from rank-and-file Democratic congressmen.

"They pay a certain price for it (loyalty)," he said. "A lot of them feel there needs to be some kind of discipline."

Neal said there has been no agreement made with Republicans that Gramm would be put on the committee if he left the Democratic Party. "We wish

there was something worked out, but there is no deal."

Gramm is a leader of conservative House Democrats who joined with the Republican minority last year to pass Reagan's tax and budget cuts. The group was given the name "Boll Weevils" because many came from the South, where the boll weevil beetle plagues the cotton crop.

Speculation of a possible party shift by Gramm, who won reelection Nov. 2 as a Democrat with no GOP opposition, has been based on his hiring of Lance Tarrance and Associates of Houston to conduct polls in his district. Tarrance regularly conducts polls for Republican politicians.

"The congressman and Lance Tarrance are old friends," Neal said. "Congressman Gramm had some other polls conducted by a New York firm during the primary campaign and thought they charged a little too much, so he switched to Tarrance."

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