Britain Ups Loan Rate to Record 11.5%

By Colin Chapman
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LONDON, July 27—Reacting sharply to the sudden run on the pound earlier this week, the British government today lifted Bank of England minimum lending rates to 11.5 per cent, the highest level the country has ever known.

Immediately after World War II, the total interest rate was 2.5 per cent, equal to today's rise.

British Prime Minister Edward Heath is convinced that the money market earlier this week was wrong to discount worth the pound. Heath contends that with the pound now worth 20 per cent less than a year ago compared to other major European currencies—is under-valued.

He is gambling that Britain's new interest rate, the highest in Europe, will produce a flood of money back into the country, restore confidence in the pound and enable the government to reduce minimum lending rates to a more acceptable figure.

Financiers in London see several reasons for the pound's feebleness earlier this week. One is that British interest rates have not been tempting enough to attract foreigners, and multinational companies, to buy pounds. It is this that the lifting of lending rates is designed to correct.

British financial circles expect the high rate to be short-lived, lasting days rather than weeks. First signs were encouraging. Tonight the pound had recovered all it had lost during the plunge of the last few days, and its rate against the dollar stood at 2.5125.

Another reason for weakness of the pound has been Britain's very large balance of payments deficit, made worse because the country needs to import so many raw materials, and commodity prices have been at record levels.

London experts feel that the dollar has probably found its level. Indeed, recent statistics indicate it is undervalued. Thus speculators turned their attention to the weaker pound.

Heath's move may get money rolling back into London again and the pound may look stronger at the start of next week, but the real test will come when the lending rate comes down again.

There is a secondary danger, a world interest rate war causing money to ebb and flow with each major country competing for money by hoisting rates. British Chancellor of the Exchequer Anthony Barber expressed concern about this as he flew off to Washington today for a meeting of the International Monetary Fund to discuss long-term currency reforms.

Heath's government is putting a brave face on the latest episode of the country's economic problem. Heath spent the day in discussion with top union leaders about the pay and prices policy.

Heath said cheerfully afterwards that the meeting was "one of the best" the government has had with the unions, while Victor Feather, head of the Trades Union Congress, said: "We agreed with the government we could not have a return to economic stop-go."

Barber reaffirmed the governments determination to maintain the present high growth rate at all costs and to cut inflation.

Britons appeared unconvinced, with the stock market recording overall falls over the week. Perhaps more significant "as a housewives' verdict on the government's failure to tackle rising prices: the Conservatives were trounced in two parliamentary by-elections today. The minority Liberal Party comfortably won two seats that had been Conservative strongholds.

Least convinced of all were vacationers leaving London's damp and stormy summer for the beaches of Spain, Portuga, and the Mediterranean. About one in three who had paid in advance for their vacations on package tours were met at airports by couriers and told they would have to pay up to $25 a person more because of the decline of the pound.

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