

# The debacle of northern rock

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The Debacle of Northern Rock Struggling bank Northern Rock will be nationalized, after the government rejected two private takeover bids. The mortgage lender will be placed under temporary public ownership because both bids had failed to meet the government's criteria for protecting taxpayers. The new board and the company will operate at arm's length from the government, with complete commercial autonomy for their decisions. Prime Minister Gordon Brown, much to the hesitant approval of Economist.com, has agreed that nationalization was the best solution available. Under the nationalization approach, the taxpayer should see its outstanding loans to Northern Rock repaid in full, with interest and that the business can be returned to the private sector as financial markets stabilize. There were two private proposals, one from Virgin Group and one in-house bid from the bank's management team. Neither bid, concluded the Prime Minister delivered value on the dollar for taxpayers. Under the plan, \$49 billion dollars must be paid back to the taxpayer within three years. The government repeatedly insisted a private sale was its preferred option. However, after five months of intense speculation about the future of Britain's most public casualty of the global credit crunch, Brown said that nationalization was the best choice until market conditions improve. According to Alistair Darling, the private proposals involved risks for taxpayers and significant government subsidy. Both also involved bidders paying below the market rate while the government continued to provide guarantees and financing. Now the plan finds itself under the scrutiny of the Economist who has opined from the start that nationalization was not the proper solution. Northern Rock would remain nationalized until the current financial climate improves.

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Northern Rock has been a thorn in the Prime Minister's side and far too much time has been spent trying to avoid the "white elephant in the middle of the room" by allegedly exploring suitable private sector buyers. The so-called temporary nationalization is a source of embarrassment for the Prime Minister and his government. The assurances of Alistair Darling, that the government had been correct in its decision to save the bank and there had been "almost universal agreement" to intervene when the bank's problems first came to light in September last year hold little weight.

Indeed, even now, the nationalization is not being handled properly. Even now, there is no offered plan on how to relieve taxpayers for the treasury guarantees. It appears that the Prime Minister seeks to bring the bank back to what it was, meaning a viable institution. However as admirable as these goals are, there are no guarantees as to the managers of this mission. One must bear in mind that the lofty ambitions of the former managers were what lead to the downfall of the bank. Who is to say that the new team will not do further damage Moreover, there is still the very real threat of competition that Northern Rock brings to the banking world.

Finally the Economist predicts that P. M. Brown will only make matters worse in the future by his "business as usual" approach. In dumping assets and closing branches, it is again the taxpayer that suffers. It is simply a matter of how much time it would take. Indeed, there will be unfair competition and ultimately that will play unfairly into the politics of the election in two years.