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From a rock to a hard place [1]

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At last, after four months of dithering, the UK government has finally decided to nationalize the failed bank, Northern Rock. To their credit, and as if to show how far they have grown from their Old Labour roots, they declare that this nationalization will be "temporary". But as the economist Milton Friedman once noted, "Nothing is more permanent than a temporary government programme".

This particular temporary measure may indeed last a lot longer than the government intends. It's going to be very difficult for the government to extract itself from this business. The new boss that they have put in charge ? Ron Sandler, who has appeared at Adam Smith Institute seminars on financial-services regulation ? is, it seems, not being paid £1m a ayear to stabilize the bank and quietly return it to the private sector. On the contrary, he says he intends the Rock to "compete vigorously" with the other banks and mortgage lenders.

Right: so the government is going to be running an enterprise which aims to take on, and take business from, the private sector. Until recently the Rock had a fifth of the mortgage business, so it remains a potentially big player that the government's got hold of. And that's not good: London's reputation as a financial market has rested on the fact that governments have let the market get on with it and do not interfere in the running of particular firms.

The government says that nationaization is good for the taxpayer (though estimates suggest that the process could cost us each £3,500). But it's not good for the existing shareholders, who threaten the government with court action over their 'theft' of the bank. The government will brush off these gadflies ? but they will be buzzing around, irritating ministers, for years.

There will be even less joy for ministers when they see a bank that they control evicting people and repossessing their homes because (thanks to the credit crunch) they can't pay their mortages. The press will have a field day with that.

If I were a minister now, I think I'd be stepping down and planning my career in the City.

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