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Darling vetoed Lehman Bros takeover

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Former Chancellor of the Exchequer Alistair Darling has admitted he had vetoed a deal two years ago for Barclays to buy troubled US investment bank Lehman Brothers, whose collapse preceded the world financial crisis.

Mr Darling said he had rejected the Barclays buyout because he knew Lehman Brothers was in deep financial trouble and he did not ultimately want the British taxpayer to be underwriting an American bank.

The demise of Lehman Brothers in 2008 was widely seen as a tipping point that triggered the world's biggest economies' descent into recession.

"I am not hostile to British banks taking over American banks or foreign banks but at the time of this crisis we knew Lehman's was in deep trouble and when I got a call on the Friday afternoon asking what the British reaction would be if Barclays took it over," Mr Darling said. "My first reaction was 'If this is such a good deal how come no American bank is going to go near it?'"

"You tend to find with a good deal like that the Americans would be all over it and we wouldn't have got a look in. But when I heard America was walking away alarm bells ring."

Mr Darling was speaking as he addressed the Cheltenham Literature Festival to reflect upon his three years at the Treasury during the worst recession since the Great Depression.

Host Will Hutton asked Mr Darling whether the claims made by Hank Paulson, the former US Treasury Secretary, last year in a book were true - that he had vetoed the Barclays rescue deal.

"Yeah I did. Imagine if I had said yes to a British bank buying a very large American bank which they collapsed the following week," Mr Darling said. "Everybody sitting in this room and your children and your grandchildren and their grandchildren would be paying for years to come."

"Although there was no offer on the table at that time, I spoke to Hank Paulson and said 'Look there's no way we could allow a British bank to takeover the liability of an American bank', which in effect meant the British taxpayer was underwriting an American bank."

"As you know Lehman's collapsed that Sunday night which precipitated a whole chain of events which led to the crisis that we are talking about. Actually, although I didn't intend to do it, I did Barclays a very big favour because they picked up Lehman's for next to nothing on the Monday afternoon."

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