AFP American Free Press

Fed's Covert Bailouts Exposed

January 06, 2012

Obama and Geithner have declared that the U.S. should not be bailing out Europe. Yet this is exactly what is happening.

By Peter Papaherakles

In an article published by *The Wall Street Journal* on Wed. Dec. 28, ex-Fed vice president of the Dallas Federal Reserve Bank, Gerard P. O'Driscoll Jr., accused Ben Bernanke of being engaged in a covert bailout of European banks by the Fed.

O'Driscoll, currently a senior fellow at the Cato Institute, said the Fed's "temporary liquidity swap" arrangement with the European Central Bank (ECB) is in reality a thinly veiled transfer of U.S. dollars to European banks. This financial arrangement has been designed to confuse observers, he said, and has largely succeeded in the United States, due to the media not talking about it, whereas in Europe it is widely discussed.

O'Driscoll explains how it works:

"Simply put, the Fed trades or swaps dollars for euros. The Fed is compensated by payment of an interest rate (currently over 50 basis points, or one half of 1 percent) above overnight index swap rate. The ECB, which guarantees to return the dollars at an exchange rate fixed at the time the original swap is made, then lends the dollars to European banks of its choosing."

O'Driscoll explains:

"The Fed was embarrassed by revelations of its prior largess with foreign banks. It does not want the debt of foreign banks on its books. A currency swap with the ECB is not technically a loan. The ECB is entangled in an even bigger political mess. What the heads of many European governments want is for the ECB to bail them out. The central bank and some European governments say that it cannot constitutionally do that. The ECB would also prefer not to create boatloads of new euros, since it wants to keep its reputation as an inflation fighter intact. To mitigate its euro lending, it borrows dollars and lends them to its banks. That keeps the supply of new euros down. This lending replaces dollar funding from U.S. banks and money-market institutions that are curtailing their lending to European banks—which need the dollar to finance trade, among other activities. Meanwhile, European governments pressure the banks to purchase still more sovereign debt."

While a currency swap is technically and legally not a loan, in reality it is a loan. It is a legal loophole for the Fed to bail out Europe. The Fed is lending to the ECB, and the ECB is lending to commercial banks and governments. That is a bailout.

On Dec.14, Bernanke declared that the Fed did not have the "intention or the authority" to bail out Europe. He also promised more transparency of the Fed's monetary policy goals. President Obama as well as Treasury Secretary Timothy Geithner have also declared that the United States should not be bailing out Europe. Yet this is exactly what is happening. O'Driscoll feels that it is time for the Fed to tell Congress what is going on.

While Mr. Bernanke is at it, he might want to explain to Congress how come the Fed is able to find billions and trillions to lend Europe, backed by the credit of the U.S. taxpayers, while the U.S. taxpayers themselves get no relief.

—

Peter Papaherakles, a U.S. citizen for more than 35 years, was born in Greece. He is AFP's outreach director. Contact Pete at 202-544-5977 with promotion ideas.