

Ex-Fed Official Accuses Bernanke of “Covert Bailout” of European Banks

By jturbin | December 28, 2011 8:09 PM GMT

The Federal Reserve, led by Chairman Ben Bernanke, has engaged in a “covert bailout” of European banks, according to ex-Fed vice president Gerald P. O'Driscoll Jr.

In a piece published by the [Wall Street Journal](#) on Wednesday, O'Driscoll – a former vice president and economic advisor at the Federal Reserve Bank of Dallas, and a current senior fellow at the Cato Institute – argued that the Fed's temporary U.S. dollar liquidity swap arrangement with the European Central Bank (ECB) is a “fig leaf” to cover up what is essentially a transfer of U.S. dollars to banks in Europe.

“This Byzantine financial arrangement could hardly be better designed to confuse observers, and it has largely succeeded on this side of the Atlantic, where press coverage has been light,” O'Driscoll noted. “Reporting in Europe is on the mark. On Dec. 21 the Frankfurter Allgemeine Zeitung noted on its website that European banks took three-month credits worth \$33 billion, which was financed by a swap between the ECB and the Fed.”

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“No matter the legalistic interpretation, the Fed is, working through the ECB, bailing out European banks and, indirectly, spendthrift European governments,” he added. “It is difficult to count the number of things wrong with this arrangement. “

O'Driscoll went on to point out that “the Fed has no authority for a bailout of Europe.” His source for that claim was none other than Chairman Bernanke himself, who actually stated on December 14 that the central [bank](#) did not have “the intention or authority” to bail out Europe.

“These Federal Reserve swap arrangements foster the moral hazards and distortions that government credit allocation entails,” he continued. “Allowing the ECB to do the initial credit allocation—to favored banks and then, some hope, through further [lending](#) to spendthrift EU governments—does not make the problem better.”

O'Driscoll concluded by saying that “the nontransparency of the swap arrangements is troublesome in a democracy. To his credit, Mr. Bernanke has promised more openness and better communication of the Fed's monetary policy goals. The swap arrangements are at odds with his promise. It is time for the Fed chairman to provide an honest accounting to Congress of what is going on.”