The Federal Reserve is Secretely Bailing out Europe

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Former High-Level Federal Reserve Official: Fed Secretly Bailing Out Europe

Yes, We Are Bailing Out Europe

Federal Reserve chair Ben Bernanke told Congress that the Fed would not bail out Europe.

But he might have been less than forthcoming.

Former Vice President of the Federal Reserve bank of Dallas, Gerald ODriscoll, says that the Fed is secretly bailing out Europe:

O'Driscoll wrote in a Wall Street Journal editorial:

> America's central bank, the Federal Reserve, is engaged in a bailout of European banks. Surprisingly, its operation is largely unnoticed here.
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> The Fed is using what is termed a "temporary U.S. dollar liquidity swap arrangement" with the European Central Bank (ECB). There are similar arrangements with the central banks of Canada, England, Switzerland and Japan. Simply put, the Fed trades or "swaps" dollars for euros. The Fed is compensated by payment of an interest rate (currently 50 basis points, or one-half of 1%) above the 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.
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> The two central banks are engaging in this roundabout procedure because each needs a fig leaf. The Fed was embarrassed by the 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.

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