This week, my congressional committee will hold a hearing to examine how the Federal Reserve bails out European banks, propping up spendthrift European governments in the process. Unfortunately this bailout comes at the expense of American citizens, in the form of higher prices and diminished savings down the road.

A good analysis of the Fed's "swap" scheme first appeared in the Wall Street Journal back in December, in an article by Gerald O'Driscoll entitled, "*The Federal Reserve's Covert Bailout of Europe*." Essentially, beginning late last year the Fed provided U.S. dollars to the European Central Bank in exchange for Euros--sometimes as much as $100 billion at a time. The ECB then funneled those dollars to European banks to provide liquidity and prevent crises from bank insolvencies. Since the currency swap was not technically a loan, the Fed did not have to embarrass itself by openly showing foreign bank debt on its balance sheet. The ECB meanwhile did not have to print new Euros and expose the true fragility of big European banks.

The entire purpose of this unholy arrangement was to obscure the truth: namely that the Fed was bailing out Europe with U.S. dollars.

But why is it the business of the Federal Reserve to bail out European banks that find themselves short of dollars to pay their dollar-denominated contracts? After all, those

contracts often were hedges taken to protect banks against weakness of the Euro. Hedges are supposed to reduce risk, but banks that miscalculate should suffer their own losses accordingly. It's not our business if the ECB chooses to create moral hazards by providing liquidity to European banks, but why should the Fed prop up Europe’s bad decisions!

The Fed has promised to provide unlimited amounts of dollars to the ECB, should circumstances require it. It boggles the mind. Of course when Fed officials first entered into these swap agreements with the ECB last September, they did so quietly. The American public only found out via websites of the ECB, the Bank of England, or the Swiss Central Bank.

The Fed already has pumped trillions of dollars into the economy since 2008, and US banks currently hold $1.5 trillion of excess reserves. So why don't American banks lend those excess trillions to European banks if they really need dollars? If US banks could earn 1 or 2 percent on those loans, they might just be interested. But they can't compete with the ½ percent interest rate charged by the Fed to the ECB. That's one glaring example of the harm caused by the Fed's ability to create money and loan it at below-market interest rates.

The Fed argues that these loans will be temporary, merely providing a little boost to get Europe over the hump. But that's what they thought a few years ago when such lines of credit to the ECB were set to expire, only to see the Fed reauthorize them. What happens if the European financial system collapses? Will the Fed be left holding a bunch of worthless Euros? Will the ECB simply shrug and turn over the collateral it received from European banks, maybe in the form of bonds from Ireland, Italy, or Greece? Have the 17 individual central banks backing the ECB pledged their gold holdings as collateral?

The Fed has placed a hundred-billion dollar bet on the future of the Euro, with the strength of the dollar on the line. This is absolutely irresponsible, and directly contrary to market discipline. Let private banks, European or otherwise, take their own risks. Let foreign central banks inflate their own currencies and suffer the consequences. In other words, it’s time to apply market principles to banks and money.