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$125 Billion Bailout Of Spain's Banks Is Doomed

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Bailouts: As expected, the European Union rode to Spain's rescue Monday with a $125 billion bailout for that country's banks. The oh-so-brief rally in European and U.S. markets can't hide a simple fact: It won't work.

We don't mean to be downbeat, but another bailout is the last thing Europe needs. As any drunk can tell you, another drink may ease your pain for now, but it will leave you with one heck of a headache later.

That's where Europe is now. After bailing out Greece, then Spain, who's next? Italy? Ireland? Portugal? All could make a case that they're just as deserving — maybe more.

Then there's France. Its new Socialist government has given more pension benefits to workers and lowered the retirement age by two years to 60.

In a time when more — rather than less — austerity is called for, it won't be long before France, too, is bellying up to the beggar's bar. Its banks are in no great shape, having feasted on the rotten bonds of Greece, Spain and Italy. They too will need a rescue sooner rather than later.

What then? As economist Tyler Cowen of the Marginal Revolution blog has noted, the European Central Bank has already lent a trillion euros this year — about $1.25 trillion — to bail out troubled EU debtors.

Yet, there's no sign it's working. By its own admission, the EU is back into recession, with the European Commission predicting a 0.3% drop in GDP this year.

The reason it hasn't worked is these aren't really bank bailouts at all. They're government bailouts. The banks buy government bonds. So bailouts keep the illusion of doing something for banks, while the politicians fiddle.

Those who believe bailouts work need only look at the chart above. On Monday, Spain's 10-year yield stood at 6.5%, up 35% from its 4.85% level on March 1. That's a huge vote of no-confidence by investors.

With Spain's economy cratering, youth unemployment at more than 50%, and overall joblessness at a depressionary 24%, the $125 billion bailout won't go far.

Meanwhile, those who claim "austerity has been tried, but doesn't work," should look at the record.

In 2010 and 2011, a time of "austerity," Spain's spending fell 1% and 3.6%, respectively. But for the 10 years before that, spending rose 7.6% a year on average, according to Juan Carlos Hidalgo of the Cato Institute.

That's hardly austerity. Spain's spending, like many in the EU, is at unsustainable levels. The EU won't get better until its members address their excessive spending. Any other solutions are merely fool's gold.