

ed more reforms to keep the deficit below 3% in 2010. Mr Papathanasiou has already announced unpopular measures, including a wage freeze for civil servants and a one-off tax for high earners. More spending cuts are on the way. But structural reforms such as modernising the health-care and pension systems remain stuck.

The gloomy atmosphere is taking its toll on Costas Karamanlis, the prime minister, and his conservative New Democracy party. Last month Mr Karamanlis marked his fifth anniversary in the job by telling a journalist he felt "exhausted" and might step down if New Democracy loses the election that may come next year or even sooner. With only a one-seat majority in parliament, the party trails the opposition Socialists by over seven points, say polls.

Corruption scandals still beset the government. This week a former director of Greece's competition watchdog was convicted of bribe-seeking. A former minister, Aristotle Pavlidis, is accused of involvement in a bribery scandal over subsidised ferry routes. Mr Pavlidis, who insists he is innocent, has resisted pressure to resign from parliament. Disgruntled conservatives fear that, as Mr Karamanlis and his government focus on anarchists and fiscal discipline, their grip on power is slipping. ■

The German economy

Clunk-clicked

BERLIN

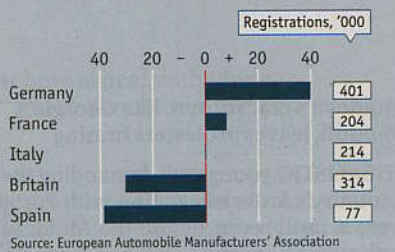
Germany's cash-for-clunkers scheme shows some readiness to spend

ARE Germany's leaders stubborn penny-pinchers, oblivious to the financial crisis and the urgent need for more fiscal stimulus? This was the charge when Chancellor Angela Merkel teamed up with France's Nicolas Sarkozy to resist pressure to do more at the G20 summit in London. Or are they reckless spendthrifts, wasting billions on schemes that boost their popularity but do little for the economy? Such was the complaint on April 8th, when the grand coalition between Ms Merkel's Christian Democratic Union (CDU) and the Social Democratic Party (SPD) more than tripled the amount available for its cash-for-clunkers scheme, which gives Germans a €2,500 (\$3,330) handout to scrap their old cars and buy new ones.

The government had set aside €1.5 billion for this, as part of a stimulus package worth €50 billion in February. But the offer "zeroed in on the German soul", as one newspaper put it. By early April, 1.2m had applied to take it up, twice as many as expected. Ms Merkel, facing an election in September, is in no mood to disappoint

Up, for some

New passenger car registrations
March 2009, % change on previous year



them. Nor is her SPD challenger, Frank-Walter Steinmeier, the foreign minister. So they threw an extra €3.5 billion into the pot, which now has enough in it to please 2m car-buyers.

This has lit the economic gloom with a rare flash of euphoria. In March car sales had jumped by 40% from March 2008, to the highest level since the boom after unification, putting Germany far ahead of other countries (see chart). The frenzy is mainly for small cars, the sort that drivers of decade-old clunkers most like to buy.

But fretting about debt and inflation is equally characteristic of the German soul. Many commentators have criticised the scrapping bonus. Singling out one industry for subsidy, even if it accounts for 20% of industrial production, is economically dubious. The bonus may rob sales from other deserving industries, from white goods to beer—as well as from future car sales. In France, which offered a scrapping bonus in the mid-1990s, sales slumped by 20% in the year after its expiration.

The small-car bias means foreign carmakers benefit more than German ones. In March domestic producers captured just 36% of the bonus bounty, even though their normal market share is over 60%. Germany wins brownie points for upholding Europe's single market. But the scheme will do little for the likes of Daimler, which is contemplating layoffs, or Karmann, a supplier that has just filed for bankruptcy. Car production, which depends heavily on exports, has dropped to its lowest in 15 years. Writing in *Handelsblatt* newspaper, Ferdinand Dudenhöfer, an industry analyst, calls the cash-for-clunkers results "anything but exhilarating".

But ex-clunker drivers' elation is boosting the business climate overall, argues Ulrich Kater, an economist at DekaBank in Frankfurt. Production should pick up once carmakers clear their stocks of unsold cars. In Berlin sales of French-built Peugeots have tripled. Yet Christian Spreigl, head of local distribution, is not worried about a post-bonus slump. He says 85% of recipients are buying a new car for the first time, trading in one bought second-hand.

That is stimulus enough for now, says the government. The tax cuts and extra

spending in its two stimulus packages add up to 1.4% of GDP this year, reckons Bruegel, a think-tank in Brussels, well above the total European average of 0.9%. America's stimulus is worth 2% of GDP, but that does not account for "automatic stabilisers" like unemployment insurance, which are more generous in Germany.

Nonetheless, the buzz over a further stimulus will not go away. A subsidy for workers who have had their hours reduced could be extended from 18 to 24 months. There is talk of state-supported "transfer companies" where employers could temporarily park unneeded workers. Corporate tax might be cut. Plenty of politicians in Berlin insist there will be no new stimulus. But by doling out more cash for clunkers the government seems more afraid of voters than of debt. ■

Croatia and Europe

A Balkan state in balk

ZAGREB

Hopes of early European Union accession recede in Croatia

WHEN Albania and Croatia formally joined NATO at the beginning of April, Albanians celebrated with gusto. They intend to follow this up before the end of the month by seeking the status of a candidate for European Union membership. By contrast, glum Croatia did little more than issue a NATO postage stamp. Beseated by bad economic news—Goran Sarajevka, the chief economist of Zagreb's Banka, predicts that in 2009 GDP will shrink by 3.7% and unemployment will rise sharply—and by reverses on the path towards EU membership, most Croats were unmoved by NATO accession.

What a difference from the time when Ivo Sanader, Croatia's prime minister, was elected to a second term in 2007. Then the economy was booming and EU accession ►►

