Germany is continuing its push for controls over Athens' budget, despite being rebuffed by Greece and other euro-zone countries at Monday's European summit.

Behind Chancellor Angela Merkel's quest for strict supervision of Greek spending lies growing frustration in Berlin that Greece has failed to meet its deficit-cutting targets or overhaul its economy, which were the conditions of its €110 billion ($145 billion) bailout in 2010.

With Europe set to decide in coming weeks on a second bailout package for Greece totaling over €130 billion, Germany is looking for a way to ensure that Greece meets its part of the bargain.

Ms. Merkel said late on Monday after the summit that strict outside controls are needed "if a country doesn't comply with requirements. That hasn't been the case with Portugal or Ireland," which also have euro-zone bailout programs, "but it is the case with Greece, and that has made such supervision necessary," she said.

Greek politicians and media have reacted angrily in recent days to Germany's pressure, viewing it as a humiliating curb on national sovereignty. Athens newspaper To Vima called it a demand for "unconditional surrender" of Greece's budget, while other commentators brought up Germany's bloody wartime occupation of Greece.

The tensions between Berlin and Athens are a symptom of a fading confidence around Europe that Greece's bailout program will work—but also of a failure by policy elites to come up with an alternative to ever-deeper austerity.

Since 2010, Greece has persistently fallen behind its targets for reducing its budget deficit, thanks to a combination of its slow implementation of promised economic overhauls and a worsening recession caused partly by the spending cuts and tax increases it has enacted.

Few in Europe believe Greece will regain its solvency for many years. Many Greeks are increasingly convinced that austerity measures are counterproductive.

Athens' stubborn budget shortfall means the new bailout package will probably need to be substantially bigger than planned. Some European officials say €145 billion is realistic. Lawmakers in Ms. Merkel's ruling coalition are growing increasingly restive, fearing that German taxpayers are throwing good money after bad.

The German government insists that more-decisive
implementation of austerity and structural reforms can break Greece's downward spiral. Berlin officials say they aren't wedded to the specifics of their proposal, floated last week, to appoint a European "budget commissioner" with veto powers over Greek policies, but they want deeper outside involvement in some form.

"We're at a crossroads," says an aide to the chancellor. "Greece's implementation has to improve. Even when the Greek Parliament passes laws, nothing changes."

Greeks who believe their government has to learn to live within its means say the Germans have a point, even if Berlin's pressure has been diplomatically clumsy.

"They are right to be frustrated," says George Kyrtos, publisher of the CityPress newspaper in Athens and a prominent political commentator. Greece's international creditors already are deeply involved in drawing up the country's tax and spending plans, he says, but "the budget that is voted on in Parliament is another thing, and the budget that is actually implemented is something else."

Among the issues that have frustrated euro-zone inspectors is Greece's struggle to reduce its bloated public-sector staffing level. Despite promising last year to lay off 30,000 civil servants, the government so far has removed fewer than 1,000. About 10,000 took early retirement instead, putting an additional burden on Greece's creaking pension system, while the remainder are still in their posts.

Structural reforms aimed at improving Greece's productivity and future economic growth also have made little headway. Greece last year passed legislation to scrap restrictive regulations governing some 150 professions, from hairdressers to bakers to lawyers. The reform was supposed to unleash competition and growth in service sectors, which make up more than two-thirds of Greece's economy.

But despite the change in the law, the change never became reality. Many professions remain under the control of professional guilds that uphold old turf rules, fix prices and restrict opportunities for newcomers.

"There has been no change in mind set. There is still no sense in the community that things really have to change," says Panagiotis Petrakis, professor of economics at Athens University.

German officials fear the obstacles to reforming Greece will grow in the months ahead. Greece is likely to hold elections in April, which are widely expected to produce a weak government with fragile support in Parliament.

The conservative New Democracy party under Antonis Samaras is seen as becoming the largest force in Parliament, while garnering only around a third of the vote—meaning it may need support from far-right populists to form a government.

Meanwhile, communist and far-left groups are expected to do well at the expense of the center-left Socialists whose support has collapsed since they won the last elections in late 2009.

The increasingly polarized political scene is symptomatic of the mounting economic strains on the Greek population. "Greek society is disintegrating; you have an impoverished middle class, so you can expect radicalization," says Mr. Kyrtos.

Germany is leading a euro-zone push to get the leaders of all Greek political parties to promise in writing that they will carry out the fiscal and structural reforms that will accompany the new bailout program.

That way, Berlin hopes, Greece will stick to its pledges no matter who is in government.

Yet even better implementation of Greece's tough overhauls won't erase the doubts about whether Greece can ever repay its towering debts, or become an internationally competitive economy within the euro zone.
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