A TALE OF TWO EUROPES

Take the temperature in Thebes and Stuttgart and you quickly find the tensions stoked by Greece’s debt crisis—but there are points of agreement, too

BY HARRY PAPACHRISTOU AND JOSIE COX
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PETZETAKIS LIKES TO call itself the first Greek multinational. The company began making plastic pipes and hoses in the early 1960s and grew steadily over the next couple of decades, opening a plant in Portugal and pushing into Germany. Proud of its role as a pioneer, the firm dreamed of bigger things. Opportunity came when Athens joined the euro at the turn of the millennium. Like other Greek companies, Petzetakis feasted on the easy credit that was suddenly available to it, snapping up smaller rivals around the world.

But when the global financial crisis hit, the firm found itself overstretched. Late last year, it shut its main plant in Thebes, a provincial city of around 30,000 people an hour’s drive north of Athens, and stopped paying its workers. “They employed 150 people from the area,” said former employee Spyros Megaritis two weeks ago. “Since November we don’t work unless we are paid what we are owed.”

The company’s German plant is busier than ever.

Woe is a relative thing in the euro zone -- and nowhere is that more striking than
in a comparison between Greek and German manufacturers. More than 1,600 km (1,040 miles) north of Thebes, in a town outside the German city of Stuttgart, Stefan Wolf also grapples with the consequences of operating with Europe’s single currency. The impact for the CEO of car parts supplier ElringKlinger, though, has been much milder.

Greece’s debt crisis has boosted rival currencies such as the Swiss franc, Wolf said, sitting in an airy room that looks out onto the Swabian Alps. That’s made financing ElringKlinger’s 2008 acquisition of a Swiss company more expensive. “It is hard to predict the extent of costs related to forex overall, but to a limited extent there may be some negative currency effects. On the other hand, though, a weak euro is certainly a good thing for German business and exports and many companies may well benefit.”

These contrasting fortunes tell the story of two Europes -- and the story of the euro itself. Euro zone membership plus low labour costs were supposed to be a winning combination for Greece. In those early days of the common currency, Germany was the sick man of Europe, weighed down by the costs of reunification and an expensive labour market.

Since then, rising labour costs in Greece have forced many manufacturers to shift to Asia or eastern Europe, or even to countries like Germany, where productivity is much higher. Germany, meantime, has thrived. Hard years of reforms have helped it to strong jobs growth and record exports.

Now, Greece is the one facing hard times. To avoid a default, Athens is negotiating with fellow euro zone members and the International Monetary Fund for a second bailout. The country faces massive unemployment, years of austerity budgets and even possible ejection from the common currency.

The euro was meant to bring Europe together. Instead, it’s splitting the currency bloc apart. Greeks are furious that its rescuers, led by Berlin, are imposing ever tougher conditions on the aid Athens receives. Germans are baffled that they should be burdened with the cost of rescuing what they see as a badly managed country.

It’s all, thinks Wolf, part of a much deeper problem. “There is too much country-specific nationalistic pride and egotism,” he said. “The problem is that countries have to start thinking that they are part of a union. Currently they don’t.”

**BY THE NUMBERS**

STUDY THE BASIC numbers and it’s easy to see that despite sharing a currency, Germany and Greece are miles apart -- and not always in the way you might expect. For one thing, Greeks work about 30 percent more than Germans, at least according to the Organisation for Economic Cooperation and Development, which put the average number of hours worked in Greece in 2009 at 2,119 compared with just 1,390 in Germany.

Less surprisingly, the rewards in Germany are considerably better. According to one Greek labour union, average gross annual wages in the Greek private sector stood at 28,548 euros ($41,480) in 2009 against 43,269 euros in Germany.

That gap continues after retirement. An average 40-year-old German, who works until the normal retirement age of 67, could reckon on a pension in the region of 2,200-2,600 euros a month. In Greece, where the mandatory retirement age is 65, many people retire in their late 50s under generous rules that define many types of industrial work as “hard and unhealthy labour.” An average blue-collar worker there can expect a pension of less than half the German level.

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THE INTRODUCTION OF the euro was meant to steadily close some of those gaps -- and in
terms of salaries it has begun to do that. But in Thebes, which hosts some 10,000 companies and is one of Greece’s biggest manufacturing hubs, change has come at the expense of jobs.

The recession has hit the city disproportionately hard. Manufacturing, which accounts for 15 percent of Greece’s economy, had already drifted into the doldrums well before the debt crisis erupted in late 2009. The PMI index for manufacturing has been below the 50-mark, which separates expansion from contraction, in almost every single month since October 2008.

“Fifteen years ago the companies had such demand for labour that they sent out cars with loudspeakers to call the villagers,” remembered Thanassis Karabetsis, a town hall employee. “Now, if you’ve lost your job, you’re finished.”

At 9.00 am on a recent Monday morning, an industrial area on the city’s outskirts was marked by empty parking lots and deserted roads. A sign outside an abandoned plant read: “Industrial area, 5,000 square metres, for sale.”

It’s not just the downturn that’s to blame. Thebes, like Greece itself, is as much a victim of the boom years as the bust. Since 2000, Greek labour costs have risen almost 50 percent. In Germany over the same period they are up less than 10 percent. In many ways, entry into the euro created new and unrealistic expectations for the Greeks.

Labour unrest added to the problems. Panagiotis Kalabokas worked at a factory run by German precision tool manufacturer Diamant Winter for 29 years. But in 2009, following a year of strikes, the factory closed, shifting production to other locations, such as Spain. Kalabokas was able to retire but more than 100 workers lost their jobs. “It was a shock to me to see the plant empty, it almost gave me a heart attack,” he said. “Bad management was to blame, but it’s also the labour unions’ fault.”

In all, around 2,000 people have lost their job in and around Thebes in the past year according to Dimitris Dimitriou, chief of the city’s labour council. Unemployment has hit 20 percent, four points above the national average. Even companies which remain open often operate just two to three days a week and are regularly late to pay wages. “Owing two months of salaries is considered normal nowadays,” Dimitriou said. Little wonder that unpaid workers have joined demonstrations against Athens’ austerity measures.

**AUSTERITY BITES**

THE FACTORY CLOSURES and high unemployment have “ravaged households’ buying power,” said Nikos Stratellos, who runs a home-building store and is head of the traders’ association in Thebes.

The paint and tools and building materials in his shop are almost all foreign-made. About a fifth of all stores along the main street have shut. The only store that seems to be busy is a Chinese clothing outlet. “There is no interest at all from anybody to buy the empty stores,” Stratellos said. “Nobody calls up to find out how expensive they are.”

Stratellos believes Athens’ -- and Europe and the International Monetary Fund’s -- response to the crisis is making things worse. “Greece is not the best place to invest,” he said. “Any given day, a new law comes out and changes everything, it’s impossible to make plans.

“Everybody’s in a foul mood, both consumers and us. Only the banks feel good because they are sure to get their money.”

That’s a widespread sentiment in Greece these days. To rein in costs, Athens is forcing hospitals, schools, and police departments in different regions to merge. But many Greeks complain this will only make recovery harder.

Tax officials in Thebes, for instance, complain about plans to move the local tax office to another town. “Instead of chasing tax evasion, the government chases the tax...
officials,” said Alexis Liaskos, who works in the local tax office and recently joined a demonstration to protest cuts.

Similarly, the number of labour inspectors has thinned, so those who remain say they can no longer check whether employers are observing the law.

“Just four people are left to check thousands of companies in the area and they haven’t even a car to go out for checks,” labour council boss Dimitriou said. “Workers are forced to work one day in five. That’s illegal, but cheaper for them than to fire workers and pay the compensation.”

At the city’s main hospital, which was built in the post-euro boom years and sits proudly atop a hill, there are worries about a plan to merge it with a hospital in a neighbouring city.

Locals remember Prime Minister Costas Simitis inaugurating the hospital in 2003 and getting stuck in a lift. The problems have continued ever since -- unopened units, delays to new equipment. “The hospital has never worked properly anyway, and now it’s supposed to shut down for good,” said Lazaros Koligiannis, a pensioner who is afraid all services in the town might disappear.

“This isn’t Germany,” said Thanassis Kokontinis, a local councillor. “We have no ambulances. If the hospital is moved to another town, people will have to drive themselves to the emergency ward.”

But local hospital manager Meletis Bethanis said that unless patients pay more out of their own pocket, the entire health system will collapse: “Seventy five euros in treatment fees is simply not enough.”

THE BLAME GAME

DOES THAT MEAN Greeks think Germany and other euro zone members have no right to demand change?

At the beginning of the debt crisis in late 2009, many Greeks pointed out that Berlin owed Greece a debt for the fact Germany invaded during World War Two. German papers painted Greeks as lazy spendthrifts. But retired factory worker Panagiotis Kalabokas said that clichéd image is simply not true. “When the shift is over in Germany, workers drop everything and go back home. In Greece we work overtime when we have to,” he said.

Some people also believe German companies have played unfair over the years. Dimitrios Papagikas, who runs a city laundry, is still angry that a factory run by Greek white goods manufacturer Izola, once a showcase of Greek industry, closed after what he thinks was unfair competition from a German rival.

But even Papagikas believes Germany is well within its rights to demand reforms in Greece. “It’s only natural,” he said. “Whoever lends wants to make sure he’ll get his money back.”

That kind of pragmatic attitude is a lot more prevalent than you might think along Thebes’ main shopping street, where most people blame Athens for their country’s woes.

“It’s not the Germans who are to blame,” said Evangelia Papadaki, who runs a store selling religious items and pictures. “It’s just our rotten politicians. If a German steals, he ends up in jail.”

Yes, foreign competitors have thrived. But “Greek businessmen gobbled up the easy bank loans they got and let their firms perish,” she added.

George Dimopoulos, who owns a clothes store, said that while Berlin’s demands may not suit Greece, at least the Germans are “frank. We have to learn to live on 400 euros a month to become competitive. Getting out of the euro wouldn’t solve anything. We’d just shut the borders and then become like Albania used to be.”

None of that makes relations between Germans and Greeks any easier when they do meet. High-school teacher Costas Haremis visited Leipzig with his class last year as part of a student exchange programme. “A couple of Germans attacked us verbally on a public bus,” he said. “What did you come here for? You want us to feed you?” We tried to make fun of it, not take it seriously.”

Despite that, Haremis plans to take another class to Leipzig. “I hope the mood is better this time,” he said.

THE VIEW FROM GERMANY

ON THE STREETS of Stuttgart, it’s not pragmatism you find but indifference, despite

CONTRAST IN FORTUNES: The headquarters of GFT Technologies in Stuttgart, southern Germany (top), and a shuttered precision tools factory on the outskirts of Thebes in Greece. REUTERS/MICHAELA REHLE, JOHN KOLESIDIS
polls that show Germans angry about the Greek bailouts, as well as those of Ireland and Portugal.

One reason for the tangible lack of concern could be Germany’s economic boom. Growth has been so good that Berlin took in 10.1 percent more in taxes in the year to May. That’s allowed Chancellor Angela Merkel's government to soften its fiscal stance and put tax cuts back on the agenda.

It also means that Germany’s Mittelstand companies -- the mid-sized enterprises that famously drive Germany’s economy -- are flourishing. Though many of those companies’ executives are aware of the financial turmoil in some of their favourite holiday destinations, few have been badly hit by the crisis, at least at home.

In Stuttgart, “we haven’t felt a direct impact of the Greek sovereign debt crisis on our business. We operate very regionally and therefore have no exposure to the periphery countries which are currently struggling,” said Stefan Huebner, managing director of a wine manufacturing company in the industrial neighbourhood of Untertuerkheim, as he wanders around his grand wine cellar housed in a Second World War bunker. “Generally we were pleasantly surprised by the lack of impact from the financial crisis in 2008 and 2009 too.”

Not every company is completely shielded, of course. GFT Technologies supplies IT solutions to the global financial services industry. CEO Ulrich Dietz says that while the impact of the crisis is limited, it is noticeable in two distinct ways.

First, 800 of his 1,300 employees work in Spain, where unemployment is more than 20 percent. “The high unemployment rate, especially in the young generation, is very taxing and our workers down there are finding the whole situation kind of depressing,” he said.

At the same time, the euro’s weakness against emerging market currencies over the past few months has “really impacted us” in places such as Brazil. “Because the euro is weak, the real is becoming very expensive when we do business with Brazil.”

A QUESTION OF RISK

As Germany’s bankers and bosses scrutinise the Greek bailout, there is little unanimity.

“For Germany the financial bailout package is primarily about avoiding having to find out what would happen if the global financial system were to falter like we saw during the Lehman crisis,” said Holger Schmieding, Chief Economist at Berenberg Bank in London. “Naturally, it’s also about Greece, but primarily it’s about removing the risk of contagion.”

GFT boss Dietz believes that the euro zone should discuss Greece leaving the euro zone. The country “cannot be saved with this financial help on a six-month basis. If Greece did exit the euro it would save Germany, France and other countries a lot of money.”

Others are less keen on such a drastic move. “We can’t just chuck them out!” said Thomas Voehringer, CEO of Voehringer GmbH, a family-run wood manufacturing company with about 180 employees.

Voehringer believes that cutting a “weak link out of a chain” is not the answer, preferring instead to muse about more innovative and creative ways to save the Hellenic Republic.

“I sometimes wonder whether Greece can’t just sell some of its islands to some super-rich people. Perhaps that would solve the problem!” he adds, echoing a common suggestion in Germany.

Plenty of Germans point to differences between the Greek and German work ethic. Voehringer relates a story about a friend who went sailing in Greece and had to wait for hours to pay a port charge of 4.25 euros. “There were four people at the pay station, but one was watching TV, another reading the paper or doing other things,” he said.

“My friend said that he would have preferred to have paid 25 euros and not had to wait. Perhaps this mentality and lack of efficient bureaucracy is the reason why Greece is now in trouble?”

But there’s also recognition that the banks should carry some of the liability. “Everyone should pay up who is accountable, whether public or private,” Wolf said. “Anyone who holds Greek bonds has to pay and admit responsibility.

If you buy into a company and that company fails, you also have to carry the financial burden. All deals come with a risk and this risk has to be accepted even if things go wrong.”

(Editing by Simon Robinson and Sara Ledwith)