

The 6th Floor

EAVESDROPPING ON THE TIMES MAGAZINE

SEPTEMBER 1, 2012, 7:00 AM

How Greek Taxpayers Hide 11 Billion Euros a Year

By *DAN KEDMEY*

After a brief summer holiday, the euro crisis is back. Adam Davidson's [latest column](#) previews seven dramas coming to the Euro zone this fall. As usual, things begin with Greece, which has to cut its budget by an additional 11.5 billion euros in order to secure the next round of debt relief. In a surprising twist, that may be the exact amount of money that Greece loses from tax evaders each year.

Margarita Tsoutsoura, a finance professor at University of Chicago, says tax evasion is an open secret in her home country. "You encounter it in everyday life," she says. "When you go to a restaurant, they will not give you receipts. When you go to the doctor, they will not give receipts." Tsoutsoura wanted to know just how much money was tucked away in this paperless economy. But how could she tally up secret stashes of cash, short of peeking under people's mattresses? It turns out the Greek banks had already taken a peek for her.

Banks have an incentive to estimate the "true" incomes of their clients, so that they know how much money to lend them. Over the years, banks have created estimates of true incomes by gathering data on occupations, salaries and loan histories. One of Greece's largest banks shared this wealth of data with Tsoutsoura and her research colleagues. A result is a [new study](#) that provides startling insights into the culture of tax evasion.

For starters, the average self-employed worker in Greece makes almost twice as much money as he or she reports on tax forms. And among the self-employed, those who are doctors, lawyers or other highly paid professionals with scant paper trails - due to the fact that they provide a service and don't have a detailed inventory of inputs - tend to be the most agile tax evaders. The total loss to the government is more than \$11 billion euros a year, enough to resolve Greece's immediate budget crisis.

So why hasn't the government cracked down on tax evasion? It could have something to do with a recent riot on Hydra, where more than 200 people [attacked the police](#) for arresting a local tax evader. As one local hotel owner put it, both sides overreacted to "the common incident of tax evasion."

Tsoutsoura says, "It will take some time for this culture to change." Time, unfortunately, is a luxury Greece does not have, as its creditors demand immediate and far-reaching austerity measures. Read the [full column](#) to see how the next few months could seal the euro's fate.

Copyright 2012 The New York Times Company | [Privacy Policy](#) | [NYTimes.com](#) 620 Eighth Avenue New York, NY 10018