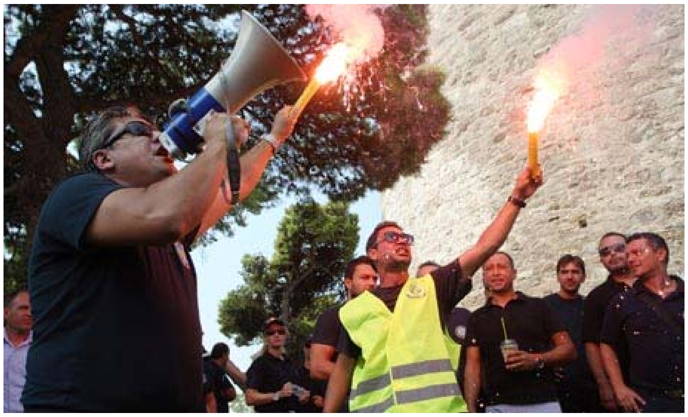
theguardian

ECONOMICSBLOG
BY THE GUARDIAN TEAM AND THE WORLD'S LEADING ECONOMISTS

Primary Greek tax evaders are the professional classes

Greece is riddled with corruption, but a study shows that banks, politicians and professional workers are largely to blame

Phillip Inman, economics correspondent
guardian.co.uk, Sunday 9 September 2012 13.57 EDT



Coast guards hold flares and shout slogans during a protest against budget cuts in Thessaloniki on 8 September 2012. Photograph: Sakis Mitrolidis/AFP/Getty Images

There is one good reason for Greece to stay in the euro: to combat corruption. It is a sad fact that the country is riddled with it and needs outside pressure and support to sort things out. Athens is not the only place in Europe wrestling with corruption, but we'll come to that later.

Even if Greece and its prime minister, Antonis Samaras, could overcome the huge loss of pride and reap some of the economic benefits of quitting the single currency, they would still be left with a corrupt economy, much of which strengthens the power of unions and trade associations.

City economists tend to ignore the problem when they assess the pros and cons of euro membership. They have arrived at the collective opinion that leaving the eurozone is the best, if not the only, option for Athens. Central to the argument is that an independent drachma would immediately be devalued, making Greek exports more competitive and at a stroke wiping out many, if not all, of the country's debts.

There is also a political dimension that is centre stage at the moment, following proposals for closer union and control from Brussels and, in Greece's case, by the International Monetary Fund (IMF).

Yet these economists ignore the challenges that beset a nation where very few people pay their taxes, where public-sector jobs are secured through family ties and where contracts for work, public or private, are rarely signed without someone in a position of power asking for a backhander.

Greek banks are at the centre of the problem, as in Italy and Spain, where bankers perpetuate all the worst corrupt practices.

Martin Sandbu, chief leader writer on economics at the Financial Times, recently chided the southern Europeans for not jumping at the chance to join a European banking union. He argued that the loss of control over a crucial pillar of the economy to a higher EU authority was worth it when set against the chance to end the insidious and corrupt relationship between bankers, politicians and the professional classes, which had so far proved impossible to break.

It may seem conspiratorial to argue that corruption is at the heart of the Greek malaise, but it is one of the main reasons Berlin is adamant Athens has had all the help it is going to get, without some evidence the cuts are going through. For German politicians, cuts to sacred state subsidies and increases in tax revenues are a crude indicator that corruption is being tackled, however tentatively.

Supporting the view that Greece is beyond helping itself, an in-depth study of how Greek banks, politicians and professional workers behave was published last week by two economists from the Booth school of business at the University of Chicago and a Greek academic based at the Virginia Polytechnic Institute.

Interestingly, their report, Tax Evasion Across Industries: Soft Credit Evidence From Greece, which documents the hidden, non-taxed economy, blames the current malaise not on dodgy taxi drivers or moonlighting refuse collectors, but on the professional classes.

They found that €28bn (£22.4bn) of tax was evaded in 2009 by self-employed people alone.

As GDP that year was €235bn and the total tax base was just €98bn, it is clear that this was a significant sum. At a tax rate of 40%, it amounted to almost half the country's budget deficit in 2008, and 31% in 2009.

The chief offenders are professionals in medicine, engineering, education, accounting, financial services and law. Among the self-employed documented in the report are accountants, dentists, lawyers, doctors, personal tutors and independent financial advisers.

The authors, Adair Morse and Margarita Tsoutsoura from the Booth school of business and Nikolaos Artavanis from Virginia Tech, were given unprecedented access to the records of one of the top 10 Greek banks. They found that, when professionals approached the bank for a loan or mortgage, their tax returns showed their debts almost exceeded their incomes (debt payments ate up 82% of their incomes). For the beleaguered tax authority, this meant their income was too low to qualify for income tax.

On average, they found the true income of self-employed people to be 1.92 times their reported income. Under generally accepted loan criteria, home ownership figure than the UK (80% versus 68%).

customers would need to show that their debts, after their mortgage payments were taken into consideration, were less than 30% of their income.

Of course, several countries lost control of banking regulation in the runup to the financial crash, including the UK, Ireland and Spain. But it is noticeable that the two countries that have so far done the least about the corrupt relationship between banks and their customers – Greece and Spain – are the two countries in the worst trouble.

Unlike Ireland, which has exposed a wealth of corrupt practices, Spain continues to hide the extent of its bad loans, especially to property developers who are friends of the bank chiefs who sanctioned their loans.

To emphasise the global scale of the problem, the authors point out that World Bank studies show that 52% of corporations worldwide hide some of their income from the tax authorities, and 36% of European companies do so. Corruption is everywhere as companies and individuals seek to preserve their status, incomes and standard of living.

Brussels, while enforcing strict rules on Athens, has struggled to contain the rampant corruption that infects its own business and farming subsidies. With that in mind, it may seem a bit rich to lecture the Greeks, but an appreciation of paradox has never been the eurocracy's strong point.

The Greeks have begun to crack down on tax evasion. Only this weekend, raids on 11 people found tens of millions of euros' worth of undeclared property and assets in New York, London and various offshore tax havens.

The Greek finance ministry's financial crimes unit conducted the raids, and says it has many other groups in its sights.

However, broader attempts to crack down on the professions were blocked last year by the Greek parliament. MPs voted against a bill mandating tax audits on people who had incomes below a minimum threshold. The bill targeted 11 professions, including vets, architects, engineers, economists, doctors, lawyers and accountants.

The authors found, almost as an aside to their central examination of tax evasion, that the occupations represented in parliament "are very much those that evade tax, even beyond lawyers".

They said: "Half of non-lawyer parliamentarians are in the top three tax-evading industries, and nearly a super-majority in the top four evading industries."

;