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FROM KLEPTOCRACY TO BANKRUPTCY

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Introduction

This book would not have been written unless I was absolutely convinced that the crisis plaguing Greece is, first of all, socio-political and, only secondarily, an economic one. It was the thrusting of the middle class onto center stage that determined the direction of the political system. And it is the political system that gradually shaped this model of false growth which in turn pushed the Greek economy and society over the edge of the cliff.

There has often been talk about Greece's post-dictatorship era (better known in Greek as the *metapolitefsi*) coming full circle; this time, however, it's not empty rhetoric. The debt crisis marks a dramatic end to a period that saw Greece gain long-term democratic stability and stronger welfare, but also fatal ailments. More accurately, the crisis marks the collapse of a whole model of bogus growth which, as it turned out, was based on kleptocracy, waste, irrationalism, parasitism, lawlessness and impunity.

With all this, collapses the tacit social contract between the ruling elite and the lower and middle class strata which provided the base on which to build the model. The collapse is taking a toll on the ideologies that served this.

The ruling elite ensured tolerance for its highly-profitable games of entanglement between politics and business and its squandering of social and public wealth by using the political system to offer returns to the lower levels of the social pyramid. The returns did not just come in the form of salary and pension hikes, public sector recruitments and political favors. They also came in the form of state tolerance of corruption among the civil service, of tax evasion among small-and medium-sized entrepreneurs and freelance professionals, of illegal construction and, of course, of the wide ranging squandering of public money by an army of small and medium-sized interests. Furthermore, the central authorities put up with different types of lawless behavior that various professional groups relied on to forward their unjust as well as just demands.

So long as the central authorities implemented this tacit social contract, social stability was maintained. Things changed when the state could no longer borrow to feed with easy money and sustain this false growth model. This brought about the collapse of the model.

The fact that this mentality infected the entire social pyramid made it more resistant to change but no less damaging to society's broader interests. It was a chronic condition that corroded values, destroyed rules and stymied the country's growth potential. This lawlessness went unpunished, in fact some times it was rewarded giving rise to a mentality that favored the easy way out and evading social responsibility. This mentality inevitably had a corrosive effect as it cancelled out the rule of law, prevented reform and the establishment of a healthy and productive growth model.

All this, though, concerns the local aspect of the crisis. However, the coin has two sides. The crisis also has a European aspect. Greece is not the black sheep in a virtuous European family, like our European peers originally had it. If that were the case, neither Portugal and Ireland would stake claim to the eurozone rescue fund, nor would Italy and Spain come under attack from the markets. Greece is the weakest link in a not-so-solid chain.

In fact, Greece has turned into a guinea pig. It's the first EU member state to experience shock therapy and an attempt to undo Europe's *acquis communautaire*. The outcome of the experiment will to a large extent determine the future of societies on the European periphery as well as those in the hard core of Europe.

This book is divided into seven sections:

The first section, titled "The post-dictatorship era" traces the roots of the crisis from 1974 to the 2009 elections. Some people like to treat the cycle of *metapolitefsi* as PASOK's full circle. In truth, it is the cycle of the sea of middle class people. It was its own dynamic that came to shape social, economic and political developments. PASOK was perhaps the most authentic expression of this trend, but is no coincidence that New Democracy quickly followed suit. In fact, both mainstream parties tried to manage the same social momentum and, eventually, using similar means. This first section offers a critical look at the essentially transitional early period, which is dominated by late statesman Constantine Karamanlis, the multifaceted changes caused in the wake of PASOK's rise to power in 1981, the brief spell of the conservative Constantine Mitsotakis administration, the return of Andreas Papandreou as prime minister in a different environment, the modernising vision and government policy of Costas Simitis, and the below-the-radar flight of Costas Karamanlis's conservative administration that bequeathed a fiscal bomb to the government of current prime minister George Papandreou.

The second section, titled "The long shadow of kleptocracy," focuses on the tumor of entanglement between politics and business. It looks into the sinful triangle that unites the political system, the mass media and the financial oligarchy, as well as manifestations of corruption at the lower end of the social pyramid.

The third section, titled "The tacit social contract," looks at all stakeholders and all aspects of this informal and unspoken agreement that I have already described. More specifically, it analyzes the political system and the tribe-like parties, the public administration and the role of the unions, the underperforming economy and tax evasion, the absence of a growth blueprint and the threat of debt, the looting of the Athens stock market, the cost of the 2004 Olympic Games, and the impact of illegal immigration on the economy.

The fourth section, titled "A warning from the 2008 riots," offers an interpretation of the spontaneous uprising in December 2008 as a by-product of broader decadence and as a precursor of the debt crisis that unfolded a year later. It is argued that violent uprisings will become a more frequent phenomenon - particularly in western societies - treating them as spasms triggered by a pretext but which effectively vent an accumulated momentum of social indignation. This section also looks into Greece-specific phenomena such as high- and low-intensity terrorism, (self-styled) anarchists and different types of informal social conflict (crime, hooliganism etc).

The fifth section, titled "A profile of George Papandreou" analyzes the ideological and political character of George Papandreou, his course to the helm of PASOK and the premiership, and his early carefree steps as Greece's captain despite the fact that the crisis had already broken out. Furthermore, it analyses the battle of succession within New Democracy and the significance of Antonis Samaras's victory in the opposition party's leadership contest in providing a counterweight in the domestic political system.

The sixth section, titled “Europe at the crossroads” starts out with a critical account of the fundamentals of the EU project and speculation about its prospects before the crisis struck. This is followed by a critique of certain aspects of the dynamics of the global economic system, such as casino capitalism, which have a direct impact on the prospects of Europe, the economic decline of the West and the debt-creating mechanism. Finally, it analyses the euro crisis which struck at the euro area’s weakest link, Greece. Contrary to the previous chapters which focused on the local aspect of the Greek crisis, the sixth section analyzes the European aspect of the Greek crisis in relation to the role of big players such as Germany. It deconstructs depictions of Greece as the black sheep in a virtuous family – an impression advanced by senior EU officials. If this were an accurate representation, then Ireland and Portugal would have been spared the rescue mechanism; also Spain and Italy would be spared the attacks by the markets.

The seventh, and final, chapter titled “The EU/IMF deal and bankruptcy” is a thorough and systematic analysis of the journey toward Golgotha for the Greek economy and society. It answers the question whether there was indeed a different path that could have been taken in the autumn of 2009, it explores the motives of the key figures, it deconstructs the “Memorandum-or-bankruptcy” dilemma, it puts the shock therapy under scrutiny, it sheds light on the so-called “memorandum party”, it explains the prospect of a debt haircut, it outlines the consequences of delegitimizing power, it outlines the so-called Indignant movement, it describes the political game regarding a cross-party consensus and analyzes the mid-term fiscal program and the Eurogroup agreement of July 21.

Finally, the conclusion examines the likely scenarios of how the Greek crisis might unfold.

SAMPLE PARAGRAPHS

The ailing public sector

It is widely admitted that the broad public sector has a relatively high cost of operation, but that the services it provides to citizens are, as a rule, below par. On a practical level, this means that it has a very low level of production. Greek public spending is at more or less the same level as the eurozone average, without, however, Greeks enjoying the number of benefits citizens of other member states do.

Had a systematic effort been made to curb waste in public spending, several billion euros would have been saved. Only a handful of ministers, however, were prepared to shoulder the responsibility and the political cost of clashing with a vast ocean of major and minor vested interests, which leached funds that were precious for growth and distributed them as though they were their own personal wealth. The overwhelming majority of ministers tended to demand more funds rather than save funds through streamlining operations. As a rule, the ministers behaved like lords of the land, interested only in their own fiefdoms rather than in the good of the state and society as a whole.

One of the main consequences of the development model adopted after the fall of the junta and the transition to democracy in Greece, was that funds distributed through the budget generally produced much less than they could have. This goes for every area, from education to arms procurements, from research to public health, and from social policies to public works. In other words, there is a management problem throughout the breadth and depth of the state, which is better in some areas and worse in others. This problem does not just concern the blight of corruption, which acts as a brake to the developmental process. It also concerns waste stemming from mistaken decisions, bad scheduling and the survival of a plethora of counterproductive factors. The biggest revolution that could probably occur in the Greek State would be a thorough cleanup of these Augean Stables. Doubtlessly, this would neither be an easy nor a peaceful process. It would require iron will at a central government level, to compel ministries and all the offshoots of the broader public sector to draw up a complete record of operations in the first phase, and, in the second, to redesign the entire construct from the base up. Such an endeavor would expose state bodies that, considering their size and annual funding, consistently underperform. Yet funding is, in fact, given even to bodies that have no output at all and which should have been shut down a long time ago, with their employees channeled to other areas. Naturally, such an examination would also reveal the dense web of bodies with questionable or even overtly non-existent relevance that has emerged from an endless string of reforms aimed at favoring the state apparatus.

The “right” to evade taxes!

The deficit in public revenues in Greece in comparison to the eurozone average for the 1996-2009 period came to about 5.3 percent of GDP annually. Tax evasion is like a tumor that eats away not just at the body of the economy, but at the very concept of social equity and cohesion as well. Greece has the sorry privilege of separating its citizens into two categories in terms of taxation: salaried employees/pensioners and

everyone else. We have achieved the paradox that while salaried workers are mostly underpaid, they comprise, according to official statistics, the most affluent strata of society. Yet we all know of the ocean of freelance professionals, merchants and farmers who systematically and regularly evade paying their taxes. On top of that there is, of course, the provocative tax-dodging of large companies.

This situation is not only provocative from a societal point of view, it is also destructive from a narrow economic perspective. It is all these middle strata that feed the import market of consumer products and broader non-productive activities. It is mostly they who keep deposits abroad. It is they who raise prices to levels that are out of the reach of the overwhelming majority of wage-earners. It is they who cancel the effectiveness of any economic policy; official statistical data is necessarily constructed on these numbers which diverge significantly from reality.

The Greek tax system has not only become a mechanism for redistributing income, but also a deterrent in any effort for modernization and tangible growth. Political parties turn a blind eye to this because they do not want to take on this vast section of the working and middle class, which also staffs party mechanisms and comprises a significant portion of their electorate.

In fact, mid-size business owners and freelance professionals make open claims to the right to dodge taxes based on the fact that tax evasion has enjoyed a high level of indulgence, even by its victims. In the public mind, it was not behavior that went against society and no more was it a crime. This weak tax conscience can be in part explained by the fact that Greek society has historical reasons to be wary of the state. This explains - but does not justify - the behavior, which inevitably leads to a vicious cycle. It is worth noting that from the moment that certain businesses in a sector can evade taxes either with impunity or minimal risk, you get unfair competition. This, in turn, compels businesses that have every intention of abiding by the law to shirk their tax payments so that they can survive.

Every time the state needs money it imposes more taxes (i.e. the emergency solidarity tax), which falls on the shoulders of the usual beasts of burden: those who declare their incomes. Systematic tax evaders are once more allowed to get away. Even if a drastic increase in public revenues were not of vital importance, this is a scandal that must be brought to an end for two reasons:

The first is ethical and political, so that social equity is not so severely maimed. The second is that the tax system ought to function as a tool for development. The bigger the size of tax evasion and tax dodging, the greater the burden on the shoulders of those who are taxed on their total income. According to data from the General Secretariat of Information Systems, 5,530,000 individuals submitted tax declarations. Of these, some 3,009,000 taxpayers declared incomes of up to 12,000 euros and paid, on average, a tax of 11 euros per year. About 1,830,000 taxpayers declared incomes of 12,000-30,000 euros and paid an average tax of 1,140 euros. Some 632,000 taxpayers declared incomes of 30,000-75,000 euros and paid an average tax of 6,650 euros, while 59,000 taxpayers declared incomes of over 75,000 euros and paid an average tax of about 34,000 euros.

In order to make up for the losses from tax evasion and tax dodging, governments usually raise the tax coefficients and impose additional direct taxes. This, however, comprises a serious counterincentive to investment in Greece at a time when other EU member states have adopted serious initiatives to attract foreign investment and

to reduce tax coefficients. Given that increasing public revenues has always been a matter of vital importance, the solution to the problem is a serious shakeup at this level as well. This means two things: First, using new policy tools and approaches to clamp down on tax evasion, and, second, reevaluating every tax and tax break from the bottom up. The classic form of tax evasion may be the privilege mainly of freelance professionals and the self-employed, but large businesses also have their own ways for paying less taxes and making profits at the expense of consumers. Triangular transactions, for example, are one of many notorious methods of tax evasion. It is also a common practice for large businesses in a particular sector to come to an agreement amongst themselves on the price of their commodity. Meanwhile, the more this practice of harmonized prices is tolerated and brings massive profits to the companies involved, the more other businesses are compelled to follow their lead so they do not find themselves at a disadvantage. Rigging the terms of market competition is a crime, but in Greece, the Competitiveness Committee has been a weak service for years, incapable of carrying out its mission even to the bare minimum. Effectively, it has existed for the sake of existing.

The debt noose

One doesn't have to be a great economist to see that the Greek economy is marching into a dead end. This has been clearly illustrated by the current account balance, which revealed a large deficit for many consecutive years, without this deficit being linked to the achievement of productive investments. The graph below is revealing in terms of the evolution of the current account balance in Greece and other EU member states.

Greece ranks last in the EU in regards to direct foreign investment and comes low on the global scale as well. Meanwhile, what few foreign investments have been made are directed, as rule, to acquiring Greek companies rather than creating new ones. Every once in a while, capital has flowed in for investment in the stock exchange, from which large profits were made after a certain period of time. But, this capital not only made no contribution whatsoever to growth, but it also leached precious funds from the Greek economy.

There has also been little domestic investment to speak of. A small rise was seen from 1995 and up until Greece's accession to the eurozone, as well as in the period leading up to the 2004 Olympic Games. Most of these, however, were gross investments for residences and other forms of construction (some 60 percent of gross investment for the formation of fixed capital).

For many years now the public debate has been split between the efforts of the working and middle class to maintain the privileges and rights acquired over time and the neoliberal call for a general dismantlement of all labor and pension rights in order to bring down the overall cost of labor. Unions and workers in the public and private sectors are extremely leery of rhetoric concerning fiscal discipline, structural reform and modernization, because their experience has – not unjustifiably – taught them that as a rule this will all come to count against them. At times these came in the form of lost privileges, but more often than not they came in form of lost labor rights.

In Greece, there is no doubt that fiscal discipline and structural reform, modernization more generally, have become imperative, but these are annulled

politically because they are used as a vessel to impose neoliberal policies. This is the most fundamental reason why there is such a strong level of reaction, especially from those who will end up footing the bill. The reaction grows even stronger when they witness the provocative squandering of wealth of questionable provenance and the even more unjust distribution of responsibilities, which goes to widen the gap in the distribution of national income even further. It would be an entirely different proposition if every social group were called upon to bear the cost, each according to its means.

According to official data, the distribution of disposable income by social group is as follows:

<u>Population group</u>	<u>Disposable income</u>
10%	26.87%
10%	15.41%
30%	32.16%
20%	14.30%
30%	11.26%

Source: Hellenic Statistical Authority, National Center for Social Research (Kathimerini, 19-12-2004)

Rude awakening

Every society can withstand cutbacks. In the case of Greece, however, these are not restricted to curbing consumption and giving up a few social benefits. These are wave upon wave of austerity measures, which essentially eat away at the fundamental constants on which millions of Greeks have built their lives, such as employment, incomes and pensions. For the first time since the end of World War II, the survival of the middle class as a whole is at stake and with it the propagation of the existing social structure. The crisis is beginning to culminate into an economic and social crash, and the result is that wage-earners are not making enough to cover their ongoing expenses, the ranks of the unemployed are growing and small and medium-sized businesses are going bankrupt en masse.

In 2010, the political climate was bred by a combination of fear and hope: the fear of bankruptcy -- stoked by threats that the state would run out of money to pay salaries and pensions, and that an exit from the euro would become unavoidable, leading to the devaluation of bank deposits – and hope that the sacrifices would amount to something and would lead the country out of the crisis. This is why, as a whole, society adopted a tolerant attitude. By the end of 2010, however, the mood began to shift. Even those citizens who had championed the Memorandum – the debt deal signed with the EU and the IMF – in the belief that it would lead to a much-coveted exit from the crisis, were forced to rethink their position in light of the facts. The main reason why the mood shifted was that hope was beginning to wear thin. The so-called one-way street to salvation – according to government rhetoric – was seen to be leading to a dead-end. The policy being applied sank the economy into a self-perpetuating recession, leaving more and more economic debris in its wake, without, however, reaching any of its fiscal targets. The more time that went by,

meanwhile, the more “fat” was trimmed off the middle classes (who saw their savings dwindle) and the more the financial ruins began turning into social ruins. The main characteristic of the second phase of the crisis was that fear was replaced by certainty that the worst would happen, and hope that Greece would overcome the crisis was replaced by despair. Despair was no longer a sporadic phenomenon restricted to the confines of the family. The more it built up and began acquiring the dimensions of a social phenomenon, the more it began turning into social rage. Even those who had accepted the Memorandum as a necessary evil lost trust in the government of George Papandreou. They realized that it was incapable of offering a solution.

The delimitation of power

By the end of 2010 and early 2011 it became abundantly clear that under the weight of successive painful austerity measures and the end of hope for coming out of the crisis, the political authority began to lose its legitimacy.

It was the time when Greek society, bombarded by propaganda of every ilk, began staggering, caught between depression, despair, self-flagellation and rage. Of all these contradictory states of mind, the one that prevailed was rage. It was that which brought rise to the attacks against politicians.

The politicians and the media, which used the harshest of terms to condemn the attacks, failed to consider why citizens who just two or three years ago would make a point to shake the hand (even in servile manner) of a powerful politician would reach a point in December 2010 of lynching that same politician. The answer lies in the economic and social crash experienced to a greater or lesser degree by the working and middle classes. It is this crash that transformed a preexisting lack of trust in the political elite into the delimitation of the political system as a whole. The populace is not innocent, but the onus lies with the ruling class.

The delimitation of power also bred the “I won’t pay” movement, especially at toll booths and on public transportation. The refusal to pay, of course, is not a solution. But, this is only one side of the coin. The other side concerns the issue of public displays of disapprobation: Why did so many citizens from so many different walks of life engage in a practice that they would have considered vulgar not so long ago? This was about more than a mere desire to get out of paying or to break the rules. It was also a tangible reaction to the imposition of arbitrary and unfair measures at a time when people’s incomes were dwindling. More and more citizens began to feel that the existing political system was not acting in the best interest of society.