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Why can't Greece shake its corruption problem?

A report from a country where everyone knows a thousand ways around the rules

By **Thanassis Cambanis** | GLOBE CORRESPONDENT AUGUST 22, 2014



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merchant on this island—which means Greece's economic catastrophe had every industry to a standstill. A unthinkable widespread poverty. The European Union contemplated the

local crisis reached up to the highest level, the European Union contemplated the

collapse of the euro. Meanwhile, here on Paros, where the crisis was exacerbated by a global recession that had depressed tourism, mom-and-pop hotels, cafes, and tchotchke shops were going bust.

To avoid calamity, Europe agreed to spend hundreds of billions of dollars to bail out Greece. In return, Greece pledged to overhaul nearly everything about its economy. The government promised to fire half its employees, and liberalized laws on everything from trucking to private universities. Generous pension benefits were slashed, and once-cushy lifetime government gigs were turned over to the free market.

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The reforms were supposed to rout corruption from the senior ranks of government, bring efficiency and a service ethos to a notoriously indifferent government, and make it easy for entrepreneurs to launch new businesses. Many Greeks were anguished, even taking to the streets to protest the overhaul of a welfare system that had given the working poor and lower middle class an exceptionally humane and dignified standard of living. But on the bright side, others saw a window opening: finally, the cozy and corrupt Greek economy would be cracked open by genuine market discipline. Scouring out corruption and entitlements might be painful, but it would also clean up daily life and create genuine opportunities.

Europe came through on its end of the deal: hundreds of billions flowed into the Greek treasury. This year, the island is flush again. The tourists are back, eager to spend their euros. New souvlaki joints fill once quiet alleys. Bars have sprung up in orchards. Small business owners who have exuded anxiety since 2008 are once again smiling and confident.

But not everything has changed in Greece. In daily life here, cheating, bribes, and tax evasion are still a matter of course. Even anticorruption officials reputedly accept bribes, and only one Cabinet minister has gone to prison for embezzlement. At the bottom level, freelance workers and shopowners still hide most of their income, like a workman who got angry when I filed a receipt for the repairs he did at my house.

What's happened over the past five years shows Europe's surprising ability to pull together as a region and avoid a financial disaster. But developments on the ground in Greece offer a less encouraging view of human nature. In response to additional laws and

regulations, Greece's corrupt system has simply upped its game. If anything, the new rules have just given Greeks more official protocol to maneuver around.

Why does this corrupt system survive, when everything points toward how it needs to be improved? Macroeconomists and development theorists have studied this problem for years, examining cases in countries that are abjectly poor and ones that are developed and comparatively rich, like Greece. There have been bold initiatives underwritten by international loans, and pointed local efforts like Italy's long-losing battle against Mafia-driven graft. But conversations with ordinary people in Greece make it clear just why it's so hard to reverse a culture of corruption once it becomes engrained. Even in a relatively prosperous European country, never mind Liberia or India, the most immediate self-interested move is for everyone to keep playing the game.

MY ANCESTORS HAVE LIVED for centuries on Paros, since before Greece fought for independence from the Ottoman Empire in 1821. My grandparents were the first generation to leave the island for Athens, after World War II, but we've been coming here every summer since then.

Although my lineage is pure Greek, I grew up with American attitudes about cheating. I spent my childhood surrounded by a certain moralism that I found appealing: you don't cheat not because you might get caught, but because it's wrong. You pay taxes because it's the law and the government provides security and services in return, regardless of whether your politics are welfare-state liberal or "don't tread on me" libertarian.

This is not how people see the bargain in Greece. Individuals refuse to pay taxes or obey the rules not just because it's cheaper and easier to do so, but also because they don't want to be suckers.

"I took my daughter to the government day care and they put her on the waiting list. The waiting list! Can you imagine?" a man griped to me recently. "And then they expect me to pay taxes! I'll pay taxes when they do their job."

The man wasn't a sidewalk souvenir vendor or otherwise working in the gray market. He was an insurance broker, making small talk in his office while filling out a 20-page form to insure my moped, a glorified bicycle whose Greek government-mandated paperwork was more complicated than an American mortgage application.

The Greek system can feel like a Mexican standoff. Citizens won't obey the law until the

government fulfills its duties. The government shirks its duties because it doesn't have enough revenue to govern responsibly. Small-time tax cheats refuse to bend until the corrupt elite is tried and imprisoned. The government says it can't punish scofflaws because it doesn't have the resources. And so the vicious circle turns.

Merchants watch out for the tax man. If they know the customer, they don't issue the legally required receipt. Workmen offer discounts: 20 percent off a job if you pay under the table. Beach touts pick up old receipts and give them to new customers. Only nerds check carefully and demand a fresh receipt.



EDUCATION IMAGES/ UIG VIA GETTY IMAGES

The electrician who rewired my house called in a panic after I deposited the payment in his bank account.

Beach touts in Paros, Greece, sometimes pick up old receipts and give them to new customers as a way to avoid paying taxes to the government.

“Can you take it back?” he pleaded. There was no way to erase the transaction. Now he would have to pay value-added tax (as he was legally obligated to do).

“There goes all my profit,” he complained. That wasn't true, but it irked him that he'd have to share a few hundred euros of his take with the government.

Cheating is so common that the few who don't do it feel like saps. Among them are salaried employees who don't have the option to hide their income. They must pay their ever-increasing tax bills, carrying a disproportionate share of the burden, and yet they don't see any improvement from the government. Complaining is a social lubricant, whether it's about the tab you escaped, or the one you paid.

“Sixteen thousand euros, my friend, that's the name of my pain,” an antique dealer told me. “After you pay that, nothing feels good.”

“You must have made a nice profit if your tax bill was that high,” I said.

“I'm barely living,” he said.

IT'S TEMPTING to blame all this misbehavior on some kind of national character. I admit at times I've thought that myself, but I've observed enough to know that it's not that simple. A whole web of social structures undergirds bad attitudes and practices. Historians go even deeper; they start the story with the Ottoman Empire, which dominated the region, including most of Greece, from 1453 until the end of World War I.

Greece still carries the traces of Ottoman rule, under which it chafed for four centuries. The sultanate in Istanbul tried to crush provincial uprisings, but was remarkably tolerant toward territories that paid their tribute and created no problems. The Ottomans ruled through a combination of neglect and stifling bureaucracy, which gave rise to a system of institutionalized bribes. The sultan milked his provincial governors, who in turn squeezed the citizenry. Taxes were just another negotiable kickback.

That Ottoman legacy is still alive, nearly two centuries after the first parts of Greece won independence. The Greek elites mirror the predatory habits of the sultanate, while the citizens act as if evading taxes is a heroic act of revolt against the occupier. "You know what they say about the rotten fish, don't you? It stinks from the head," said a restaurant owner who for most of my lifetime has avoided ringing up dinner bills at the cash register.

Those officials and the plutocratic elite have escaped the crisis relatively unscathed. One minister, Akis Tsochadzopoulos, who stole an obscene amount of money from defense contracts, was sentenced to 20 years in jail. For the most part, however, the rich and powerful have been left alone even as small business owners and pensioners have been squeezed by huge tax hikes and massive cuts in benefits. For the vast numbers of Greeks in that category, it's hard to appreciate why they should be more accountable than the government itself. Even the new tax inspectors sometimes turn out to be on the take, shopowners say, offering to take a bribe in exchange for a lower fine that goes to the treasury.

Suspicion breeds suspicion, and everyone has a horror story. A doctor who is a family acquaintance told me that he used to be a model citizen, declaring all his income and scrupulously paying taxes. Then, he said, some years ago he was hit with a huge bill by the tax inspector.



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“We know you hide 40 percent of your income,” the inspector told him. “So we’ve charged you accordingly.” The doctor promptly stopped reporting his full income, and has been strategically lowballing it ever since.

After Greece instituted tax hikes, demonstrators rallied outside Parliament against the increases, claiming that they were being driven out of business.

Academic economists have been fascinated by the persistence of Greek corruption since the reforms. Yannis Ioannides, an economist at Tufts University, and Costas Azariadis, an economist at Washington University in St. Louis, surveyed the topic for a forthcoming book published by MIT. In it, they offer suggestions on stanching the corruption: they’d like to see the government mount a genuine effort to punish wrongdoers at the top, coupled with a robust new independent watchdog agency to catch tax cheats and embezzlers.

Still, they’re not optimistic these measures would change what they call “the entire value system of nihilism and antisocial behavior that parents and schools have allowed to percolate through Greek society.” Research has shown that Greece’s culture of mistrust and cheating is far more extreme than anywhere in Europe. According to surveys, 80 percent of Greeks believe it’s all right to claim government benefits to which they are not entitled, while 20 percent disapprove. In most of Europe, the ratio is almost exactly flipped.

A look around the world doesn’t offer much inspiration that corrupt cultures can mend their ways. There have been some successes: New York’s Tammany Hall was once synonymous with total corruption. So were Hong Kong and Singapore. Time and reform turned them into models of efficiency, relatively speaking, though the latter two are notably undemocratic today. More common are the kinds of marginal improvements seen in places like Rwanda or the former Soviet republic of Georgia, where reformers have steadily improved police, courts, and some other government services but where graft, bribery, and inefficiency are still serious problems.

Some observers argue that Greece’s economic near-death experience wasn’t deadly enough. “People didn’t starve in the streets,” said Yiannis Vlahos, a surgeon who also writes a column for Estia, one of Greece’s oldest newspapers. “We didn’t suffer enough. Now things are a little better and everyone thinks they got away with it.”

His daughter, a marketing executive, lists a litany of banal ignominies visited upon her by the state: she had to take three full days off work to stand in line to register with the Greek tax authorities so she could pay her taxes online. She can't count on public education or health care for her children, and must instead pay for private schools and doctors. When a neighbor encroached on a family summer home, it took 20 years for the courts to issue a ruling.

“Only one thing has changed,” she said of the reformed Greece. “Now I ask for receipts.”

WHEN I WAS A KID in the 1970s, Paros regularly ran out of water during the summer. There was no sewer system, and mosquitoes flourished in the septic tanks whose stench marred the scenic whitewashed alleys. No one had a swimming pool, and most of the roads were unpaved.

Today Paros has a better infrastructure than Beirut, the far more cosmopolitan and wealthy capital city where I live and work. A custom-built miniature garbage truck circulates every morning through the ancient streets, and immigrant workers roam around picking up litter.

The carpenter drives an Audi and the restaurateurs send their kids to university in Athens or London, but almost everyone I talked to swears to me that they still have to cheat to make ends meet. No amount of unearned money, apparently, will ever be enough.

Jokes aside, it's obvious that there's really no such thing as national character—just culture and history. By their nature Americans aren't less prone to lie, cheat, steal, or kill than people from any other country. Habitual high-scorers on Transparency International's Corruption Perceptions Index, like the Scandinavians and Singaporeans, aren't wired to be more honest than low-scoring North Koreans and Somalis.

Corruption persists because it is a system, and it provides benefits in places where the



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After Greece instituted tax hikes, demonstrators rallied outside Parliament against the increases, claiming that they were being driven out of business.

state does not. Inefficient states create incentives for people to pay bribes to get things done—a building permit, a health department seal of approval, a new passport.

Scandinavia is less corrupt than other parts of the world because it's a better deal to not cheat; you pay really high taxes, but the government really does give you everything you need.

Overcoming corruption, therefore, requires almost unimaginable transformation. You have to build an entirely new system—for instance, a new tax code and incorruptible people to collect the taxes—and you have to convince individuals to completely overhaul their personal behavior and their view of authority. One only has to spend a few weeks in Greece to see why, not just here but in places like India and Afghanistan, this is such a Herculean task.

The resistance lies in institutions, in political cultures, and in expectations that have become deeply ingrained in daily life. Cultures and institutions are made of people; people and policies can both change. But some places, like Greece, have been stuck in these feedback loops of corruption and stagnation for so long—for their entire modern history—that it's hard to see where the reservoir of a new public morality would come from. You'd have to look back to Pericles, two and a half millennia ago, to find a Greek leader who could claim with a straight face to be “not only a patriot but an honest one.”

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