A Greek tragedy and an EU crime

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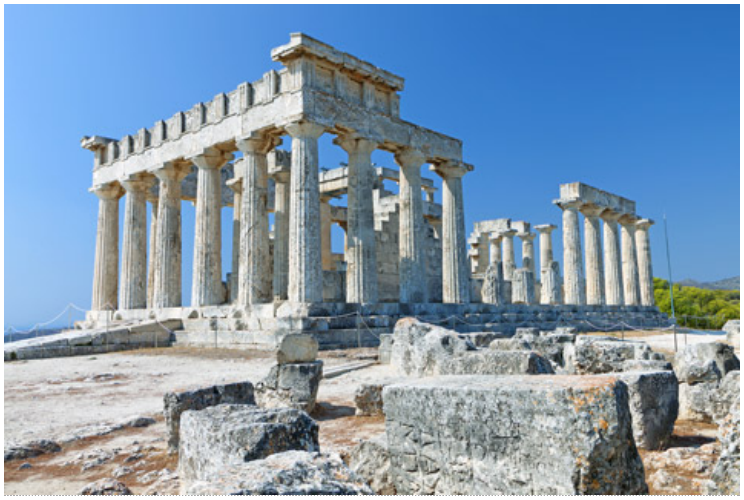

Let's start with being provocative: The utterly corrupt path leading to the Greek debt default theater is filled with faux EU pressures, chicanery and bribes, overt and implied, by all 11 sides.

So what are the corrupt paving stones that make up the path to debt perdition?

1981

It all started with Greece's membership in the European Community. The EU membership entitled Greece to European Regional Integration funds, the Delors Package I. It also brought new sources to borrow from abroad. In 1981 Greek public debt was €8.5 billion (22.8 percent of Greece's GDP), by 1991 it was €48 billion (71 percent of GDP). This is a full 10 years before Greece was made a full member of the EU. Did Greece have the institutional capacity to absorb these funds without corruption? Did anyone think to ask?

January 2001

Greece became the 12th member of the eurozone. While many fretted about such an economically weak country joining the euro, Wim Duisenberg, then president of the European Central Bank, assured all that Greece, with the EU's help, would continue with improvements to its economy that would make euro membership appropriate.

At the time, Greece touted its fiscal reforms to cut the government budget deficit, privatizations and labor market reforms. Today those are the same areas where the troika has demanded action and the Greek government resisted.

2004

Greece admits it may have fudged its bona fides a bit to gain access to the EU club. It seems that since 1999 Greece has not met the deficit target of 3 percent of GDP that applies to all prospective and current members.

As commentators have pointed out, this was in part a consequence of a toothless Eurostat, the EU agency that monitors economic statistics, which was wholly reliant on the data provided by the national governments.

CONTRIBUTOR BIO: AT A GLANCE

L. Burke Files, CACM DDP is an

provided by the national governments.

As Matina Stevis pointed out in The Guardian in 2011, "In a time when the EU issues regulations on the permissible size and shape of fruit, there are no excuses for not having in place a strict framework for the generation of statistical information."

2004 to 2009

Greece is a big spender. Athens hosted the Olympics at extravagant expense. The estimated cost of the Olympic Games is a stunning $14 - 15 billion. No game in the history of the Olympics has lost more than a tenth of that. Associated Press reported in 2012 that eight years after the Olympic Games many of the facilities were left vacant and rotting.

Many Greeks, even the head of the International Olympic Committee, say hosting the 2004 Olympics contributed to the country's debt crisis. The Olympic Games was such a bank buster that it was the tipping point starting Greece's downward slide into debt perdition.

During this time, the Greek government was the third largest arms importer after China and India. As part of an earlier rescue program, Greece agreed to cut its defense spending from over 7 percent of GDP to 4 percent of GDP, which is still twice the euro-zone average. In the three years leading up to the bailout, 2007 through 2009, Greece averaged over $10 billion per year in military spending. Who were the winners? The French and German arms manufacturers. In fact, Greece was Germany's largest arms buyer for this entire time period.

Elected in October of 2009, Georgios Papandreou's government within days discovered that the prior administration had been "playing with the books" and the Greek deficit as a percentage of GDP was revised and doubled overnight to 12.7 percent of GDP – more than 300 percent over target. At the end of this five-year spending party, Greece became the first nation to have its sovereign debt rating cut to below investment grade.

2010

This was the year of bailout for the county. Papandreou's administration cut the budget by 10 percent, froze wages and increased taxes. In February of 2010, more disclosure squeaks out about a significant amount of "off-balance sheet debt." One example was a currency swap arranged with a U.S. investment house that if unwound would add another billion to Greece's debt. The International Monetary Fund mission to Greece returned home and in the vernacular was "slack jaw stunned."

In short, it was worse than even their most dire predictions. In addition to the $400 billion of debt previously recognized, they found another $800 billion of pension liabilities. For a country of 11 million people, about the same population-size as Moscow, that translates into a debt of over $250,000 for every resident. Where did the chicanery, corruption, waste and tax dodging start? It no longer matters by this time.

During 2010, the very first year of austerity, Greece increased military spending to €7.1 billion, a 13 percent increase over the year before accompanied by a €1.8 decrease in social spending. It has been claimed by many that the 2010 bailout was linked to buying six stealth frigates and 15 search and rescue helicopters from France, 223 Howitzers from Germany, as well as two "remanufactured" German submarines. The fact that the Greek government, already over their heads in debt, agreed to this in the same year as the bailout certainly lends some weight to the intimated corrupt foundations of the 2010 bailout.

2011

Standard & Poor's downgraded Greek debt to CCC, making it the lowest rated sovereign debt. Yet banks continued to hold it as "zero-risk" assets under the official risk rating system.

2013

Antonis Kantas, a deputy in the Greek defense ministry, was arrested by the Greek government for bribery, corruption and actions against the Greek state's interest. He told prosecutors in a plea bargain process that he took so many bribes that he could not even recall how many he took. In the end he admitted to taking bribes from six German, two French, two Swedish and two Russian companies. He has reportedly admitted to taking over €15 million in bribes related to defense purchases.

To get a sense of the scale of the problem, it has to be borne in mind that Kantas is just one lower level official.

2013 was the same year that social democratic PASOK member Akis Tschatzopoulos, a 30-year member of the government and the defense minister from 1996 to 2001, was convicted along with 16 of 18 co-defendants on charges relating to corruption on taking bribes related to defense contracts.

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2014

Germany imposes a €37 million fine on Rheinmetall for bribes in connection with Greek arms sales. Daimler was put under investigation for bribes paid to Greek officials.

So – the path to euro membership was built on corrupt paving stones. The corruption continued after Greece joined the euro. Could anyone have done anything to prevent this? Yes, with the help of some well-known mathematical techniques the problems were easily discoverable.

After all, modern mathematics began in Greece in the 6th century B.C. with Pythagoras. Just next door in Italy, double entry book keeping was developed in the 1400s.

But first and foremost, Benford's Law, one of our favorite mathematical analysis tools for detecting mischief, would have pointed to a number of inconsistencies. First discovered by Simon Newcomb in 1881, it was later rediscovered by General Electric physicist Frank Benford in the 1930's. As explained below, applying Benford's Law would have exposed Greece's statistics problems and prevented the mistakes made in admitting Greece to the euro. What is the EU's excuse for not spotting the manipulation?

What went wrong with the EU and their powers of analysis? Did they do their KYC (Know Your Country)? All models and all figures were screaming that reality was markedly different from the numbers that were fed to the EU.

Let's begin with some simple analysis of Greek population, accounting, economic data and their budget numbers.

Greece, at the time of its admission to the euro, was already a heavily indebted nation. Even the figures that Greece chose to share showed it to be a very sick patient. It had some of the highest debt levels per person in the EU. At over 37 percent, Greece had the largest number of "self employed" people of any EU nation, and a mélange of state enterprises drowning in inefficiencies and corruption. Stefanos Manos, the former Greek finance minster said in 1992 that the Greek National Railway Company was so inefficient it would be cheaper by half to end rail service and provide everyone with cab fares.

The sentiment was echoed more recently by Michael Lewis, the author of Money Ball. On top of this, the World Bank in 2010 estimated that even early in this century over 27.5 percent of Greece's GDP derived from the shadow economy – untaxed and undeclared. Other countries with comparable shadow economies are the UAE 26.3 percent, Slovenia 26.6 percent, Yemen 27.4 percent, South Africa 27.6 percent, and Lao PDR 29.7 percent. How can it be a comforting thought that Greek obligations were backed by an underground economy on par with Yemen, and Laos? How did the EU let Greece in the euro under those conditions?

$$P(d) = \sum_{k=10^{n-2}}^{10^{n-1}-1} \log_{10}\left(1 + \frac{1}{10k+d}\right)$$

Benford's Law

The economic numbers, the debt, the productivity, the underground economy, all were horrible incongruent with the statistics fed to the EU by Greece.

In a 1999 Journal of Accountancy article, Mark Nigrini showed how Benford's Law can be used in the detection of fraud and chicanery with numbers.

Benford's Law tells us that we should expect to find patterns in the digits of tabulated data sets such as populations, water bills as Frank Benford showed, election results, and financial data. Benford's Law states that if we randomly select a number from a table of physical constants or statistical data the probability that the first digit will be a "1" is about 0.301, rather than 0.1 as we might expect if all digits were equally likely.

The distribution of first digits according to Benford's Law is as follows: 1 - 30.1 percent, 2 - 17.6 percent, 3 - 12.4 percent, 4 - 9.6 percent, 5 - 7.9 percent, 6 - 6.6 percent, 7 - 5.1 percent, 8 - 5.1 percent, 9 - 4.5 percent. There is also a probability for second digits but for us this is sufficient to illustrate a few points.

Bernhard Rauch, Max Göttsche, Gernot Brähler and Stefan Engel analyzed a number of EU nations' macro economic data in Germany's Economic Review, including Greece's data. The results are fascinating: Greece's economic data, expressed as a deviance from what Benford's Law would predict, was further from the expected distribution than that of any other EU member.

While Romania, Belgium and Latvia's economic data possessed abnormally distributed data, Spain and Portugal's data appears to be more or less spot on. Moreover the Greek divergence from expected results began in 2000, the year before Greece's full admission to the euro. This may not be surprising, as Greece was denied initial membership in the Eurozone.

The Greeks have admitted that the numbers were "managed" and that management continued for quite some time until the financial crisis. It appears that even after the initial deception was exposed, Greek officials figured they could go on as usual. As with many addicts, when other people are not watching, the self-abuse starts again. Dimitris Reppas, the first Greek minister for administrative reform, was once caught whispering to a fellow minister on a stage: "When the troika is here, (IMF, ECB, and EU) always say yes, yes. They'll leave again."

Reppas is yet another politician who cannot tell what is in his country's best interest or if a microphone is switched on or off. Was the EU not listening or willfully ignorant so their companies could sell more to Greece?

We can thus see that the entire Greek debt crisis, from beginning to end, is a modern horror story of fraud, deception and massive corruption at a scale that tests the imagination. It is not just the Greek side whose actions are swimming in corruption, but many of those in the rest of the EU are positively marinating in their own corruption.

It is a case of Alexis (Tsipras) In Wonderland. He has followed the white rabbit down the hole. The only way he can get away from the Queen of Debt is to walk toward the looking glass in order to get away from it. He must face many problems now.

First and foremost, he must aggressively tackle the massive corruption under pinning all of Greece including the courts, the tax man, the state enterprises, all of it.

Greece must address corruption now and forever. If not, why bother doing anything as the government will ultimately fall. It is the end times for any government that is overly corrupt like Iraq, Libya, Ukraine, Detroit, MI or Bell City, CA. The end time comes for a government when the people no longer pay them any attention. When the government is made totally ineffectual by corruption, it has become utterly irreverent to its citizens. This can leave a dangerous power vacuum.

The Greek government has purchased billions of dollars of military equipment based upon contracts greased with bribes. All of those agreements are voidable, as there was material unlawful consideration as part of entering into the agreements. Return the merchandise and demand a triple refund as a penalty for the fraud and corruption involved. Go back 15 years or more and unwind all transactions involving bribes.

Demand immediate cooperation from all Greek government officials who took bribes. Demand they come forward and disclosure the nature of the bribes. Pursue all domestic and foreign companies who have been paying bribes. Fine them, fine them heavily or seek criminal prosecution of the management for those companies, in particular the arms dealers. Fine the corrupt fraud feasors until Greece is solvent.

Stop buying votes. It is so transparent to have the tax collectors take a holiday on election years. Why not bundle up a few hundred euros, pop a red ribbon on it and mail to everyone in the electorate and call it what it is: a bribe.

Pay employees of the government good wages and demand fidelity or jail. If they are found to be corrupt, require the convicted employees forfeit their free health care, their retirement, and possible even their freedom.

The leaders of Greece bribed their way into a hole supported by an electorate who kept electing the same idiots, who bribed the citizens to be elected. No one was blind, no one is free from the shame. It is time to stop pointing fingers and pay what they borrowed.

But the same goes for the EU and the lenders. The EU needs to stop facilitating and encouraging Greek corruption with its own corrupt, malfeasant mismanagement. Instead of lecturing Greece about Europe's high minded ideals, Europe needs to accept responsibility for closing its eyes and allowing the corrupt Greek governments of the past to make a mockery of EU institutions. The Troika is part of the problem. The EU banks and business leaders bribed their way in for Greece contracts paid with the borrowed money.

Forgive Greece, and look into your own homes for the seriously corrupt practice of bribing a down and out buyer to borrow a bit more to buy more of what they cannot afford. Checkbook therapy does not work for people or nations.

Act fiscally sober. One cannot borrow money and spend one's way out of debt. All one can do is kick the default can down the road for a bigger implosion. Continuing to take the same actions and expect different outcomes is madness. If Greece can stop corruption, in the tax department Greek tax revenue would be expected to increase by 25 percent.

If Greece officials can stop taking bribes to buy over-priced expensive weapons that are not needed, Greece could save 7 percent to 8 percent of its GDP. If the Greek judiciary would be funded sufficiently to bring to trial Greek corruption cases, a disincentive can be put into place.

The 5th Century B.C. Greek legislator, Solon, established the Seisachtheia – a debt relief that was to help with serfdom and slavery. However, it was also used as a political tool. As Aristotle writes, just before the announcement of the debt cancellation, Solon informed his friends to borrow large sums. The opportunistic borrowers were cleared of any debt by the Seisachtheia, hence making those who listened to Solon and borrowed heavily very wealthy.

Even Themistocles claimed that one has no value as a leader if one cannot enrich one's friends. This tradition continues – not just in Greece but around the world. The idea of someone coming into office thinking "It's My Turn Now" is the root of the problems and ultimately leads to the collapse of a government.

Greece's problems are indeed a Greek tragedy, but EU crimes play a key role. It is and has been bad theater.