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As Athens drowns in debt, wealthy are lying low

ATHENS

Greek moguls reluctant to lend to government or give to social causes

BY LANDON THOMAS JR. AND ELENI VARVITSIOTI

While money pours out of Greek banks, and Europe debates whether Greece deserves its next handout, the people potentially in the best position to help shore up the country's finances are mainly keeping their heads down.

They are among the wealthiest Greeks — whether shipping magnates, whose tax-free status is enshrined in the Constitution, or those who have accumulated riches via their dominance in core areas of the economy like oil, natural gas, media, banking and even cement.

Astute investors, they have been reluctant to lend a hand to the Greek Treasury through the risky proposition of buying government bonds. But they have also been slow to dispense funds to charities trying to combat the mounting social ills that their country's economic collapse has wrought — drawing a sharp rebuke from the head of a foundation created from Greek shipping wealth, which is Greece's largest charitable donor.

Mainly, though, they have done what Greeks from the richest to those of modest means have traditionally done: pay as little as they can in the way of taxes.

Many economists say the oligarchs are a big part of Greece's economic problem, because they have capitalized on the insular, quasi-monopolistic approach to business that is one reason their country has long lagged the far more competitive economies of many other euro zone members.

Assessing the ultimate value of Greek private-sector wealth is a near impossible task, as much of the money exists offshore, secreted away in Swiss bank accounts or invested in real estate in London and Monaco. And now with the country's top vote-getter, the leftist Alexis Tsipras, talking more and more about nationalizing companies and industries and, in the words of his top economic adviser, "taxing the rich," there is even more incentive to lie low.

Of course, the left is not alone in this view.

"Let's be frank — the well-off need to pay their fair share of taxes," Bob Traa, the International Monetary Fund's representative in Greece, said late last year in Athens.

Last year alone, an estimated €8 billion, or $10.1 billion at the current exchange rate, in collectible taxes were in arrears — nearly half of the country's budget deficit.

Wealthy Greeks have every incentive to keep their country in the euro currency union. The question is: Are they willing to bear the cost of doing so?

"The oligarchs want to keep the euro — largely because of the banks which

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GREEK BUSINESSES FEAR EURO EXIT
Small companies cannot even conceive of how they would cope with an eventual return to the drachma. *PAGE 4*

E.U. leaders groping for a way out of debt crisis

BRUSSELS

Infighting and fears of Greek exit from euro zone make task tougher

BY PAUL GEITNER AND NICHOLAS KULISH

With their common currency scraping two-year lows and stock markets dropping around the world, European leaders gathered here Wednesday evening to start mapping a path forward for a Continent in crisis.

In many ways their most important mission may be to quell their own infighting. The demand from France and others for bonds jointly issued by the 17 members of the euro currency union, to pool the borrowing risk, has grown louder — even as the opposition in Germany has grown more rancorous.

The urgency for a solution to the region's debt crisis, now in its third year, may have never been greater. Spain has watched its borrowing costs climb to unsustainable levels, as concerns about the country's banking sector rise. And fears continue to grow that Greece could soon become the first country to depart the supposedly permanent currency union, destabilizing financial markets with unforeseeable consequences.

The Euro Stoxx 50 index, a barometer of euro zone blue-chip stocks, closed down 2.7 percent, while the euro dropped below $1.26.

Fresh reports of policymakers planning for a possible Greek exit, whether in the halls of the European Central

FRED DUFOUR/AFP
President François Hollande during a news conference in Paris on Wednesday.

Bank in Frankfurt or the finance ministries of the national capitals, added to the growing anxiety even as the official denials flew from Germany and elsewhere. As he arrived here for the dinner meeting President François Hollande of France said that "the euro zone must show that it can support Greece."

The leaders of the 27 European Union countries have tried to play down expectations for Wednesday's informal summit meeting, one they said was only a prelude to a formal meeting scheduled for the end of June. "Nothing will be decided here today," said Chancellor Angela Merkel of Germany as she arrived in Brussels. "It's only an exchange of opinions."

German officials said that Ms. Merkel, after arriving, met briefly with Greece's caretaker prime minister, Panagiotis Pikrammenos. Ms. Merkel, they said, told Mr. Pikrammenos that

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World News

Companies in Greece fear loss of euro

ATHENS

BY LIZ ALDERMAN

For the past couple of weeks, the phone at Tasos Ioannidis's five-star hotel on the breezy island of Mykonos has been ringing steadily, but not with the types of inquiries he wants to field.

"People are saying they don't want to confirm a stay or make deposits," said Mr. Ioannidis, who owns the Belvedere Hotel, perched on a cliff over the Aegean Sea. "They are afraid of what could happen to their money if Greece leaves the euro and returns to the drachma."

Worries that Greece might default on its debts or even leave the European currency union have deepened since May 6, when Greeks voted in shocking numbers for a leftist party willing to tear up Greece's $170 billion international bailout agreement. These days, even though 80 percent of Greeks say they want to stay with the euro, talk of "drachmageddon" can be heard in conversations all around Athens — in executive suites, at family shops and even in nightclubs.

"A return to the drachma would be a nightmare," said Mr. Ioannidis, whose bookings began to trail off a few months ago and slumped badly after the election. "It would create a panic for businesses and also for people wanting to do business with Greece."

Any departure from the euro, if it did occur, would not come quickly, even if a new government repudiated Greece's bailout terms; orchestrating the process would be legally complicated and lengthy. European leaders might also move to prevent a Greek default or departure at the 11th hour, considering the almost unending uncertainties.

But these days, few people are taking chances.

Big tourism operators like TUI of Germany and Kuoni of Britain are demanding the addition of so-called drachma clauses to contracts with Greek hoteliers, in case the euro is no longer in use in Greece. British newspapers are filled with advice columns for travelers worried about the wisdom of planning a vacation in Greece, or even Portugal or Spain, should the euro crisis worsen. Large multinational companies like the telecommunications provider Vodafone, the consumer products conglomerate Reckitt Benckiser and the beverage maker Diageo have taken to sweeping cash every day from euro accounts back to Britain to limit their exposure.

But coming up with a Plan B is proving difficult for Greek businesses, especially smaller ones. There are so many unknowns involved that many of them cannot even conceive of how they would cope. Economists say the drachma would be devalued by an estimated 50 percent to 70 percent compared with the euro.

"How do you prepare for the apocalypse?" asked Dimitrios Manolis, the owner of AlfaSolid, a small company that makes design software. He has had to whittle his staff of six engineers down to two, as companies he did business with have collapsed amid a credit squeeze. "If Greece leaves the euro, there will be no work for me," he said.

Dimitris Mamoglu, the owner of a fine-jewelry store near Syntagma Square in Athens, said small businesses had "absolutely no plans" to handle a return to the drachma. "Nobody can calculate how much money or time it would take to change over," he said.

Tens of thousands of Greek businesses could collapse from one day to the next, said Constantine Mihalos, the president of the Athens Chamber of Commerce and Industry. About 85 percent of Greek companies employ fewer than 10 people, and many are already near bankruptcy as the Greek economy nose-dives and bank credit dries up.

With a devalued currency, inflation would rise rapidly, and Greek companies would struggle to pay the euro-denominated bills of their suppliers. Trade with other countries would slow sharply for a while, as suppliers halted deliveries, further crippling Greek businesses that depend heavily on imports.

Even large Greek exporters that might benefit from a devalued currency are opposed to a return to the drachma, fearing damage to the country's image as a place to do business.

The troubled Greek banking system would face a serious run as depositors pulled their funds. An estimated €250 billion, or $317 billion, has already left Greek banks since the crisis first broke three years ago. In the days after the elections this month, more than €700 million was pulled out, a pattern that Greek bankers expect to continue until greater political and economic certainty is restored.

The International Monetary Fund estimates that a Greek departure from the euro would lop more than 10 percent from the Greek gross domestic product for at least the first year after a return to the drachma.

"A return to the drachma would be a nightmare. It would create a panic for businesses."

After that, the thinking goes, a new dawn would break, as the weakened Greek currency lowered the cost of Greek labor and products like olive oil. As was the case when Argentina dropped its currency's peg to the dollar in the past decade, businesses and consumers in other countries would eventually start buying Greek goods and services once they improved in value.

That might help the tourism industry, as vacationers came seeking bargains. But hopes of a broader export-led recovery may be little more than a chimera, said Mr. Mihalos, the chamber of commerce president.

Aside from shipbuilding, most of the Greek industrial base has eroded in the 30 years since the government nationalized large areas of industry. Wealth-generating businesses diminished, and tens of thousands of laid-off workers were absorbed by the state to reduce unemployment.

Today, Greek exports of manufactured products account for only 10 percent of gross domestic product, compared with a 30 percent average for the rest of the euro zone. In addition, Greece's adoption of the euro hastened a steady shift away from agricultural production. Today, Greece imports nearly 40 percent of its food, most of its medicine and almost all of its oil and natural gas, a situation that may lead to shortages if international suppliers halt business for a period.

Should that happen, observers say, Greece may need to prepare for civil unrest.

"If we go to the worst case, and I pray that we don't, it's going to be a complete Greek tragedy before normalcy is restored," Mr. Mihalos said.

As Athens drowns in debt, moguls are lying low

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are so deeply integrated in the euro system," said Costas Lapavitsas, an economist at the University of London. "But they are keeping quiet about it."

But as children go hungry in Greek schools and the streets of Athens become home to growing numbers of desperate, jobless Greeks, pressure is mounting on the country's rich to do what the state can no longer effectively do: write checks. After all, philanthropy is a Greek word. But with many wealthy Greeks still fearful of showing their financial hand, private giving to date has been relatively meager.

"I get the sense that almost nothing is being done," said Andreas Dracopoulos, co-president of the Stavros Niarchos Foundation, which was set up in 1996 to put to charitable use the fortune of its shipping-mogul founder. "Everyone is saying, 'Let someone else do it,' and so far I am seeing little action."

In January, the foundation said it would donate €100 million to help Greeks cope with the economic crisis.

Analysts guess that the value of Greek shipping assets alone is about $85 billion — although they hasten to add that those assets underpin a substantial debt burden of around €300 billion for the industry, which is heavily dependent on financing vessels that can cost hundreds of millions of euros each. And in the slack global economy, shipping — and shipping magnates — are feeling the pinch.

Thanassis Martinos, a second-generation shipping heir, said his company, Eastern Mediterranean, was having one of its worst years and likely to lose money in 2012. Still, he and some other shipping billionaires said they were doing their bit.

In addition to charitable giving, Mr. Martinos said it was important that the wealthier in Greece contribute by providing jobs for the country's increasingly rootless youth, among whom employment is above 50 percent. That is why, despite the slump in his business, he said he had refrained from laying off workers.

"The biggest problem is not feeding young people," he said. "It is giving them jobs."

Several shippers said they had donated to a campaign organized by the trade group that represents Greek shipowners in Athens, although its president, Theodoros E. Veniamis, declined to say how much money it hoped to raise.

"Everyone is saying, 'Let someone else do it.'"

What the shipping magnates are not doing, though, is paying taxes. As with all shipping companies here, for example, Mr. Martinos's fleet of tankers is based offshore, although the administrative offices are in Athens.

Greece's income tax revenue is 7.3 percent of gross domestic product, well below the 11 percent average for euro zone countries, according to Eurostat, the European Union statistical agency. Even so, there has been little talk by recent governments or even by Greece's financial backers about imposing taxes on shippers — a move, it is assumed, that would prompt them to take their business elsewhere.

That is a blow Greece would have trouble absorbing. The shipping industry employs about 200,000 people. And it brought in €13 billion in foreign exchange in 2010, making it the country's top single foreign exchange earner.

Would shipping's special tax exclusion change under a leftist government? It is hard to say. Euclid Tsakalotos, a top economic adviser to Mr. Tsipras, said last week that the first thing Mr. Tsipras would do was to "tax the people that past governments have been afraid of taxing."

Mr. Martinos said such an outcome was unlikely, given shipping's vital role in the economy. Greek shippers are also some of the country's largest investors, owning large tracts of real estate and interests in tourism, banking and media.

Many shipowners and other wealthy Greeks argue that their countrymen will not vote in large numbers for Mr. Tsipras if they become convinced that it means a forced march out of the euro zone. But privately, they cannot ignore the increasingly grim economic and social environment — which is why some have bolstered their already tight security systems by hiring more bodyguards.

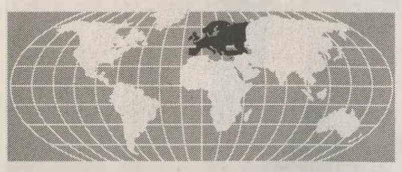
Peter Nomikos, a 33-year-old shipping scion, has started to raise money from Greek businesses and individuals and then, through a foundation he has set up in the United States, use the proceeds to buy back as many of Greece's deeply discounted bonds on the open market as possible. The plan would be to help bring down the country's staggering debt burden, which is now €350 billion — 165 percent of the country's G.D.P.

Mr. Nomikos is also building a microbrewery on Santorini, the island of his shipping forefathers. He says that he hopes to create a few jobs in the community and that he plans to contribute 50 percent of the profit to the foundation.

"No single person is rich enough to bail out Greece — not least myself," he said.

BRIEFLY

Europe



MOSCOW

Putin signals backing for bill cracking down on protests

President Vladimir V. Putin signaled his support Wednesday for a bill that would increase fines 200-fold for those taking part in unsanctioned protests.

The bill received preliminary approval by the Duma, or lower house, on Tuesday. Three opposition parties opposed it. In remarks broadcast from a meeting with his party, United Russia, Mr. Putin described the bill as "strengthening democracy."

Allegations of widespread fraud in the Duma election in December led to mass street protests, unprecedented in post-Soviet Russia. The protests have evolved into regular rallies and, in Moscow, Occupy-style protests. (AP)

PRAGUE

Farmers block traffic to protest austerity moves

Czech farmers caused traffic problems around the country Wednesday as they blocked roads to protest a new government austerity program.

The protesters said cuts in diesel subsidies enacted Wednesday and a proposed sales tax on wine would make their products more expensive and less competitive because farmers in other European Union countries, except Slovakia, received such subsidies.

Prime Minister Petr Necas cited the budget deficit in defending the new cuts, which his center-right government approved along with a plan to increase the sales tax on retail goods and to raise the income tax for the highest earners. (AP)

ANKARA, TURKEY

Syria lets Kurd separatists set up bases, Turkey says

Syria is allowing Kurds seeking autonomy from Turkey to establish bases in Syrian territory, as ties between the two countries deteriorate, the Turkish interior minister said Wednesday.

The minister, Idris Naim Sahin, said Turkish intelligence had indicated that Syria was allowing rebels to establish themselves in areas close to the Turkish border, describing the development as an apparent act of revenge against Turkey.

Turkey has reacted to the uprising in Syria by urging President Bashar al-Assad to step down, by accepting some 23,000 Syrian refugees and by shielding civilian and military members of the Syrian opposition. (AP)

GENEVA

W.H.O. chief elected to 2nd term

Dr. Margaret Chan, a Canadian-trained medical doctor who was health director of Hong Kong before becoming director general of the World Health Organization, was elected Wednesday to a second five-year term. She said in a statement that she would fight for universal health coverage as "the single most powerful concept that public health has to offer." (AP)

PRAGUE

Russian military jet in crash landing

A Russian military jet's landing gear collapsed as it touched down Wednesday at a Czech Air Force base just east of Prague, injuring six people, one seriously, when it rolled off the runway, broke apart and caught fire, officials said. (AP)

ELOY ALONSO/REUTERS

Miners manned burning barricades on a highway in Pola de Lena, northern Spain, on Wednesday, the first day of strikes to protest the government's spending cuts in the sector.

E.U. leaders groping for a way out of debt crisis

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Germany would do what it could to stabilize Greece's position in the euro zone. But Ms. Merkel added that Athens sticking to the agreements with its lenders were the necessary path to this ultimate goal.

Investors, at least, expressed their support for German prudence Wednesday. In a debt auction, Germany sold almost €4.6 billion, or $5.8 billion, of its two-year bonds priced to yield 0.07 percent — the lowest ever for those securities. At that yield, or interest rate, investors are essentially handing their euros to Germany for safekeeping, expecting nothing in return.

The E.U. leaders' formal summit meeting on June 28 and 29 will come only after the new elections in Greece on June 17. That election is being treated as a referendum on whether Greece indeed hew to the harsh bailout terms it agreed to with its international lenders just a few months ago.

June 17 is also evolving into a deadline for European leaders to offer some sort of hope to the Greek people. The first round of voting echoed as a cry of pain and frustration, resulting in high tallies for extremist politicians but no viable governing coalitions. In the process the Greeks dislocated the euro bloc's fragile and often impromptu crisis policy.

The German central bank, the Bundesbank, warned in its monthly report Wednesday that the Greek situation was "extremely worrying," but that easing Greece's bailout terms "would damage confidence in all euro-area agreements and treaties and strongly weaken incentives for national reform and consolidation measures."

"I think a damp squib is all you can expect from this meeting," said Steven Saywell, head of currency strategy for Europe at BNP Paribas in London. "Mr. Hollande will propose euro bonds and Frau Merkel will say, 'No, thank you.'"

Instead, less controversial measures, like increased funding for the European Investment Bank, repurposing of existing European structural funds and even jointly issued bonds for specific projects, are likely to be pursued. Spain's prime minister, Mariano Rajoy, has called for more aggressive action by the European Central Bank.

Mr. Hollande, whose victory at the French election came on the same day as the initial round of Greek voting, has promised to find a way to generate economic growth not just in France but for reeling economies like Greece. The French president has proposed that euro member nations pool their resources to make funds available for initiatives intended to promote growth. In the process, he has set himself as an opponent of Ms. Merkel and the austerity policies associated with her stance for fiscal rectitude.

Many analysts, though, say Mr. Hollande is just politicking ahead of next month's parliamentary vote in his own country. But the disagreement with Ms. Merkel has threatened more and more to grow into a real rift between the European Union's two most important members — one that in the growing turmoil could be as hazardous to the bloc as a Greek default, albeit in a subtler way.

Although the German and French finance ministers praised one another and spoke of their friendly and cooperative relations following their first meeting in Berlin on Monday, the level of frustration in the German capital over Mr. Hollande's vocal demand for euro bonds has become increasingly evident.

Thomas Steffen, a deputy finance minister, in an address on fiscal policy on Wednesday, said that a change of government should be coupled with a discussion "without one partner suddenly throwing all principles overboard and, for example, immediately and with flying colors switching camps to support euro bonds."

Many economists believe that jointly issued debt, known as euro bonds, offers the surest way to end the crisis and for European states to move toward. But in Berlin many policymakers view them with skepticism, as a way for other countries to tap the creditworthiness of Germany rather than facing up to difficult but necessary economic reforms. "It is clear who wants what from whom," Mr. Steffen said. "A lot of people want something from us."

"We will all have to keep our spending in check, pay off our debts and swiftly introduce healthy reforms."

And while talk has focused on how isolated Ms. Merkel has become in her stance against euro bonds and in favor of pressing deficit cuts, she is far from alone. Many East European countries, which sacrificed to get into the euro zone, suffered through their own austerity programs and are still poorer than Greece, have little sympathy for Athens. And the Austrians, Finns and Dutch have thus far hewed to Ms. Merkel's line.

The Italian Prime Minister Mario Monti — whose country has the highest debt load in the euro zone after Greece, as a percentage of gross domestic product — supports the idea of euro bonds even though he has acknowledged they are probably a long way off.

Jyrki Katainen, the Finnish prime minister, made clear his opposition to any immediate use of euro bonds on Wednesday, and he said that he did not expect euro bonds to be the focus of discussions over dinner. "Everybody understands that euro bonds wouldn't help us in this crisis," Mr. Katainen said. "In any case it would take a long, long time to launch one if somebody wanted to do it," he said, adding that, "I don't think we are the only one who is opposing this idea."

Ms. Merkel said Wednesday that the German Constitution and the European treaties forbid countries from assuming one another's debts. "Aside from that, I don't believe that they would make any contribution to boosting growth in the euro zone," Ms. Merkel said.

"The hard truth is that there are no magic solutions to solving this crisis," the Netherlands' caretaker prime minister, Mark Rutte, said Wednesday. "We will all have to keep our spending in check, pay off our debts and swiftly introduce healthy reforms."

"This is what will kick-start growth in a highly competitive world," Mr. Rutte said, "and offer the young a new hope and a future."

Nicholas Kulish and Melissa Eddy reported from Berlin. David Jolly reported from Paris. James Kanter reported from Brussels.