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Athens scrambles as coffers go bare

ATHENS

Agents are often stymied trying to find and collect from Greek tax evaders

BY LIZ ALDERMAN

As Greece's troubles ripple through the euro monetary union, a fresh crisis is brewing: The government is likely to run out of money as soon as July, shortly after pivotal elections this month.

Despite its recent €130 billion, or $161.7 billion, bailout deal, Athens is already having a hard time paying many of its bills. Officials, scrambling for solutions, have considered dipping into funds that are supposed to be aiding its troubled banks. By midsummer its coffers might be so empty that some are even suggesting doling out i.o.u.'s.

To understand one reason the government's finances are so tight, ask Nikos Maitos, a veteran in the Greek financial crimes investigation unit.

When he and a team of inspectors recently prowled the recession-hit island of Naxos for tax evaders, the local radio station broadcast his license plate number to warn residents. In many corners of Greece, a longstanding aversion to paying taxes has been aggravated by the country's wrenching recession and the punishing effects of prolonged spending cuts and tax increases.

"One repercussion of the crisis is that people are harder to find," Mr. Maitos, an imposing, burly man, said last week in his sweltering office on the edge of Athens. "And when you do find them, they don't have money."

Approaching a June 17 election that could determine whether Greece stays in the euro currency system or whether it starts an unraveling of Europe's monetary union, Greek leaders have sounded a warning. The government will soon face a €1.7 billion shortfall, as tax revenue and other sources of potential income dry up. All told, the government is owed €45 billion in back taxes, only a tiny fraction of which will ever be recovered, tax officials in Athens say.

The gap is widening as the so-called troika of lenders — the International Monetary Fund, the European Central Bank and the European Union — withholds €1 billion in bailout money earmarked for government financing, to see whether new leaders elected on June 17 will honor Greece's payback commitments.

In the worst case, Greece would temporarily stop paying bills for salaries, pensions, fuel and imports of food and pharmaceuticals.

But even if the troika does pay, the situation underscores the harsh reality also playing out in other troubled euro zone economies. Prolonged austerity is making it harder, not easier, for governments like Greece to return to financial self-reliance, as businesses and individuals have less and less to give toward taxes — and growing incentives to avoid paying what they owe.

Mr. Maitos is one of thousands of officials whose work it is to flush out whatever tax revenue they can to help Greece stay afloat. But even the tax collectors, who have had to take large pay cuts, are struggling as budget reductions leave some unable to pay for the gasoline needed to reach their targets.

"After two and a half years of austerity, it's really a difficult time to bring in revenue," said Harry Theoharis, a se-

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EIRINI VOURLOUMIS FOR THE IHT

Nikos Maitos, a Greek tax collector, was recently confronted by a man with a bullwhip.

INSIDE • THE EURO CRISIS

NO MAGIC WAND TO WAVE
Europe's woes are not going to be solved by central banks, but by writing off debt loads, James Saft writes. *PAGE 14*

U.S. COMPANIES FEEL EUROPE'S PAIN
Technology firms are expected to suffer sharp declines in revenue as demand slumps on the Continent. *PAGE 14*

E.U. officials take steps toward centralized banking regulation

FRANKFURT

BY JACK EWING
AND JAMES KANTER

Under growing international and financial market pressure to fix the region's bank problems, European officials on Tuesday took a step toward surrendering a cherished national prerogative by proposing to shift banking regulation to a central authority.

If endorsed by European leaders, the plan by the European Commission ...ould spread the cost of bank rescues ...d demonstrate that governments ...e willing to cede power to the ..., centralized institutions that many economists say are needed to stabilize the currency union.

Pressure for bold action by the German chancellor, Angela Merkel, and other euro zone leaders escalated Tuesday after a conference call by finance ministers and central bankers from the Group of 7 nations, which include Germany, Japan and the United States.

While participants said little about the conversation afterward, it is likely that European leaders were urged to move more forcefully to quell a banking crisis in Spain and to keep Greece from leaving the euro zone.

"There's no question that markets remain skeptical that the measures taken

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Goldman chief testifies; judge turns testy

Window on Wall Street

PETER LATTMAN

NEW YORK For someone who has not practiced law in 30 years, Lloyd C. Blankfein has been spending quite of bit of time in the courtroom.

Mr. Blankfein, the chief executive of Goldman Sachs, testified Monday for the second time in 15 months in an insider trading case at U.S. District Court in New York.

He took the witness stand in the trial of Rajat K. Gupta, 63, a former Goldman director who has been charged with leaking corporate secrets about the bank to Raj Rajaratnam, the former hedge fund manager.

Last year, Mr. Blankfein testified against Mr. Rajaratnam, who was convicted of insider trading. What Mr. Blankfein told jurors Monday echoed his testimony during Mr. Rajaratnam's trial, which largely related to outlining certain Goldman board meetings and the secrecy surrounding the information discussed.

Though many spectators in the packed courtroom were eager to hear Mr. Blankfein, his testimony was largely tedious. A prosecutor used him to introduce numerous bone-dry exhibits to the jury, including the minutes and agendas of Goldman board meetings.

But the ever-entertaining Judge Jed S. Rakoff, who has grown increasingly frustrated at the slow pace of the trial, tried to liven up the proceedings.

After Mr. Blankfein was sworn in, a prosecutor took him through a series of biographical questions. Mr. Blankfein, the son of a postal worker, said he had been raised in the New York City borough of Brooklyn and had attended high school there before graduating from Harvard University. The prosecutor then turned to his career at Goldman, skipping over his stint as a lawyer.

Judge Rakoff seized upon the omission and interrupted the questioning. "I'm sure you want to hide the fact that the witness is a lawyer," the judge said to the prosecutor. He turned to Mr. Blankfein.

"Did you go to law school?" the judge asked the witness.

Mr. Blankfein said that he had, and that he had worked as a corporate tax lawyer for four and a half years. (He graduated from Harvard Law School in 1978 and practiced at Donovan, Leisure, Newton & Irvine in New York.)

"But then you got religion and moved on," said Judge Rakoff, eliciting laughter in the courtroom.

"It was a mutual decision," said Mr. Blankfein, breaking into a smile.

Mr. Blankfein, 57, joined a unit of Goldman Sachs, J. Aron, in 1981 and rose through the bank's fixed-income, currency and commodities unit. In 2006, he became Goldman's chief executive after Henry M. Paulson Jr. became U.S. Treasury secretary.

MICHAEL APPLETON FOR THE NEW YORK TIMES

Rajat Gupta, a former Goldman Sachs director, leaving court in New York. Lloyd Blankfein testified Monday at Mr. Gupta's fraud trial.

Lawyers' sparring on legal issues in the insider trading trial provoked the judge.

Some Goldman executives and lawyers accompanied Mr. Blankfein to the courtroom Monday, including Gregory Palm, the bank's general counsel, and Steven R. Peikin, a lawyer at Sullivan & Cromwell who works with Goldman. To avoid the throng of photographers and TV cameras waiting outside the courthouse, Mr. Blankfein and his entourage received permission to drive their car into a parking garage below the building and enter through the basement.

(Mr. Blankfein was not even the most famous person in the U.S. courthouse Monday. Paris Hilton walked through the building's front entrance in the afternoon, smiling for the cameras. She is the defendant in a lawsuit brought by a lingerie company.)

Mr. Blankfein is the third Goldman official to testify at Mr. Gupta's trial. He follows William W. George, a Harvard Business School professor and Goldman director, who told the jury about the confidential nature of the bank's board meetings; and Stephen Pierce, Goldman's head of equity capital markets, who discussed the secrecy surrounding the bank's attempt to raise $10 billion in September 2008.

Byron D. Trott, a former senior banker at Goldman who left to start his own firm, also testified. He told the jury about the top-secret nature of the $5 billion investment Goldman received from Warren E. Buffett during the financial crisis — news that Mr. Gupta is accused of feeding to Mr. Rajaratnam before it was announced publicly. Prosecutors also say Mr. Gupta provided confidential information about Procter & Gamble.

The trial, now in its third week, has been bogged down by lengthy conferences out of the jury's earshot, during which the two sides spar over legal issues. Those disputes often have continued during the jury's midmorning and midafternoon breaks.

During one of those arguments Monday, Judge Rakoff seemed to reach his boiling point. "We have spent far too much time in this trial arguing every point to the nth degree," Judge Rakoff said, his voice rising in anger. "I don't want to hear anything more from either side and I want the jury in here right now."

Despite the judge's best efforts, the government did not finish its direct examination of Mr. Blankfein on Monday. That presented a scheduling problem for the court. The trial does not resume until Wednesday; testimony will not take place Tuesday because of a long-planned speech that Judge Rakoff is scheduled to give in Washington.

A prosecutor told the judge that Mr. Blankfein's daughter has her high school graduation ceremony Wednesday and that Mr. Blankfein hoped to resume his testimony Thursday.

At the day's end, Judge Rakoff told Mr. Blankfein that he would try to accommodate his schedule but could not guarantee it. Mr. Blankfein explained that it would be l[illegible] to get to the courthouse after his daughter's graduation and a celebratory lunch in Yonkers, north of New York City.

"I live in Yonkers, so I know," Judge Rakoff said.

"I'm going to a [illegible]taurant in Yonkers, which y[illegible] probably know," Mr. Blankfein said.

"If it's the one I'm thinking of, I can't afford it," Judge Rakoff said.

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E.U. bank union plan takes a step forward

EURO, FROM PAGE 1

thus far are sufficient to secure the recovery in Europe and remove the risk that the crisis will deepen," Jay Carney, the White House press secretary, said Monday.

The European Commission's proposal for banks is designed to avoid future situations like the one now afflicting Spain, in which the ills of one institution, Bankia, threaten to destroy what little credibility the government has left with financial markets.

But the plans will not do much to help the banks in Spain and Portugal that require immediate assistance. The proposals would require formal approval from E.U. governments and the European Parliament, and one of the most important measures would not be expected to go into force until 2018.

In that sense, the move is yet another example of the Union's inability to keep up with the fast-moving pressures created by the crisis that began in Greece and now is threatening Spain.

Doubts about Spain deepened Tuesday after the treasury minister, Cristóbal Montoro, suggested that the government's borrowing costs were rising to levels that might eventually cut the country off from debt markets.

Still, endorsing the plan for a more integrated banking system would demonstrate that European leaders were willing to endow centralized institutions with powers that in the past were closely guarded by national governments.

The proposals "form one of the cornerstones of a future banking union for Europe," Michel Barnier, the European commissioner responsible for the internal market, said during an interview Tuesday, a day ahead of the formal announcement.

The detailed proposal for steps toward a so-called banking union comes a day after Germany indicated it might provide greater support for its most indebted euro zone partners in exchange for more centralized control over government spending in Europe.

"The world wants to know how we expect the political union to complement the currency union," Ms. Merkel, the German chancellor, said late Monday.

Ms. Merkel has made similar statements in the past, but they take on added weight in the current crisis. While the German economy has been remarkably impervious to the problems so far, the country conducts most of its trade with other European countries and cannot remain aloof forever, economists say.

"They'll start to give way," said Richard Barwell, an economist at Royal Bank of Scotland. "They realize they can't let the Spanish go and the whole euro zone crumble into pieces."

But while European leaders have demonstrated plenty of good intentions in recent days, they still face electorates skeptical about a more powerful European government, as well as the built-in inertia that comes from having to find consensus among 17 euro zone nations.

"I wouldn't be expecting in the next weeks or months total capitulation" by Germany, Mr. Barwell said.

Mr. Barnier said his proposals on banking were expected to be acceptable to Germany and to most other member states, as he had reviewed the contents with ministers and diplomats over recent weeks and months.

The main point of his proposals, Mr. Barnier said, was to shield taxpayers from the kinds of bills they had confronted after a string of bank collapses in recent years in Britain, Belgium and Ireland.

"Prevention is far less expensive than cure in the case of banks," Mr. Barnier said. "But even if there are failures in future, taxpayers shouldn't have to foot the bill," he said.

Mr. Barnier's proposals would require countries that have not yet done so to set up so-called resolution funds, with the money possibly shared by countries. The law would also require national authorities to intervene in troubled banks by firing management or forcing sales.

The plans also require some private investors in failing banks to bear the costs previously been borne by governments and ultimately taxpayers.

That measure would take effect Jan. 1, 2018, to ease concerns in the financial community that the measures would adversely affect lenders' ability to raise new capital during a period in which many banks were already facing difficult business conditions.

"We are taking away the implicit state guarantees for banks, so that is adding to the need for a transitional period," Mr. Barnier said. "It's important to wait until 2018 as we wanted to avoid mixing this up with the current problems," he said.

Most of the other rules are supposed to go into force in 2015.

Meanwhile, the small island nation of Cyprus demonstrated this week the need for a more coherent system to deal with banking crises.

Michalis Sarris, the chairman of Cyprus Popular Bank, the country's second-largest bank, said the country may have no choice but to seek European funds for bank rescues. "If one looks objectively at the situation, it's hard to see how it can be avoided," Mr. Sarris said.

Cyprus Popular and the country's other large banks have been devastated by their exposure to the Greek economy.

Pressure on Europe is also coming from the administration of President Barack Obama, which is concerned about the effects of the euro zone crisis on the U.S. economy. American officials have pressed European ministers to act quickly and forcefully to prevent financial contagion from Spain and Greece.

Japan, too, has its concerns about Europe. Its finance minister, Jun Azumi, said in Tokyo on Tuesday that he had agreed with his G-7 counterparts to cooperate in addressing the European crisis. He said he also he voiced concern about the crisis's influence on the volatility of yen, which is threatening to wreak havoc on Japan's export-led economy.

The proposals for more financial integration "form one of the cornerstones of a future banking union for Europe."

"The Europeans gave us powerful assurances that they will move swiftly" to address the crisis, Mr. Azumi said.

European leaders are also under pressure from the European Central Bank, which will hold its monthly monetary policy meeting Wednesday amid speculation that it could cut interest rates or take other steps to calm market fears. But Mario Draghi, the E.C.B. president, may hold off on any moves until he sees concrete evidence that European leaders are will to take more political risks to fight the crisis.

Jörg Asmussen, a member of the executive board of the E.C.B., on Tuesday delivered what amounted to a rebuke of procrastination by European leaders.

Speaking at a conference in Latvia, Mr. Asmussen noted that the Baltic country, which ties its currency closely to the euro, responded to a crisis in 2008 by pushing through a severe austerity program quickly and coupling it with economic overhauls. Now the economy is growing again and unemployment is falling.

"When adjustment is inevitable, it is better to take the medicine right away than to let the fever rise for months," Mr. Asmussen said.

James Kanter reported from Brussels. David Jolly contributed reporting from Paris, Nicholas Kulish from Berlin, Annie Lowery from Washington and Hiroko Tabuchi from Tokyo.

Running short of cash, Athens stymied in tax collection

GREECE, FROM PAGE 1

nior Greek Finance Ministry official who helps oversee the country's tax payment system. "You can't keep flogging a dead horse."

Salaries and pensions in the private and public sectors have been cut by up to 50 percent, contributing to a €495 million revenue shortfall in the four months ended in April, according to the Greek Finance Ministry. With less cash, consumers have curbed spending, leading thousands of tax-paying businesses to fail.

Income that was expected from a higher, 23 percent value-added tax required by the bailout agreement has instead fallen short by around €800 million in the first four months of 2012. That is partly because cash-short businesses that were once law-abiding have started hiding the money to stay afloat, tax officials said.

Greece's General Accounting Office said recently that the state collected 25 percent less revenue in May compared with a year earlier.

That has left a caretaker government scrambling for a Plan B. One thought is to take billions of euros from a special fund reserved to recapitalize Greek banks, which have suffered from a flight of deposits amid political uncertainty and fears that Greece may abandon the euro for its own currency. Doing so, though, would require the troika's approval. Other notions, like i.o.u.'s and scrip, so far are only that — ideas merely being floated.

To some extent, government officials say the tax-avoiding mentality is starting to change amid an aggressive enforcement campaign aimed at 500 high-wealth individuals and companies, including former ministers and heads of state agencies and enterprises. People took notice when a former defense minister was arrested in April on charges of corruption and making false declarations related to his income and taxes.

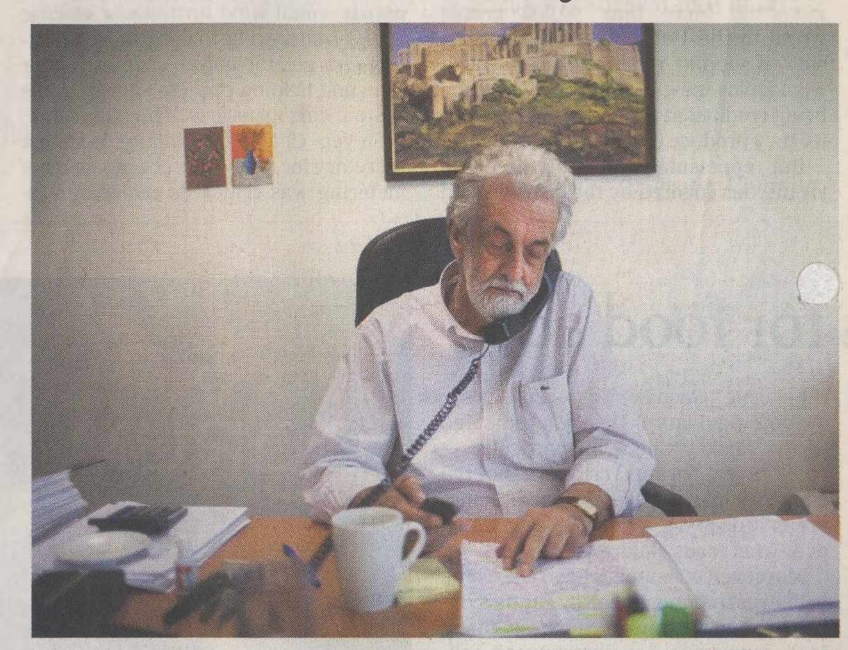
"They are awed when they see inspectors now because of recent cases showing people will be prosecuted or made to pay," Mr. Maitos said.

Tax collectors got another potential lift recently when the government started enforcing a 1995 law that allows them to gain access to bank accounts of suspected tax evaders.

But Nikos Lekkas, a top official at the financial crimes agency where Mr. Maitos works, glowered as he recounted how he believed Greek banks had obstructed nearly 5,000 requests his team had made since 2010 for account data in a bid to collect huge sums of back taxes.

"The banks delay sending the information for eight to 12 months," he said. "And when they do, they send huge stacks of documents to make it confusing. By the time we can follow up, much of the money has already fled."

In the past two years, the agency managed to assess back taxes worth €650 million on 210 of the cases, he said.



PHOTOGRAPHS BY EIRINI VOURLOUMIS FOR THE INTERNATIONAL HERALD TRIBUNE

Lining up at a tax office in Athens, above. Nikos Lekkas, top, an official at the Greek financial crimes unit, said that banks had obstructed requests from his office for data.

But only 65 percent of the amount could actually be collected.

A particular challenge lies in what Mr. Lekkas calls the "big fish" — the 18,300 offshore businesses belonging to wealthy Greek individuals and companies.

"It's hard to know who is behind these firms, but there's a huge pool of money [illegible] could tap it," he said. Still, the auth[illegible]ties are trying to trace them through property records, and they recently seized several large properties linked to offshore companies whose owners owe tens of millions of euros to the state.

Within Greece's borders, though, collectors are left to go mostly after smaller tax evaders, often with mixed results.

During a surveillance trip on the resort island of Santorini, Mr. Maitos said he and two colleagues observed a gas station owner insisting on cash-only transactions to avoid declaring taxes. When confronted, the man lashed at them with a leather bullwhip, while cursing the state for taking his money.

Officials said things might improve drastically once Greece's entire tax system is computerized, a move that is supposed to be completed by the end of this year. Already, taxpayers can file their returns onlin[illegible] but first they must wait in long lines at tax offices to get an encrypted code that enables them to do so.

Agents in the field now wield computers that enable supervisors to remotely view assessments, an innovation designed to reduce the rampant corruption of the past, when tax bills would be lowered for a bribe.

Once the system is more automated, tax officials say they are confident Greece could quickly roll toward the dream of achieving a primary surplus.

Charalambos Nikolakopoulos, the head of the Greek tax collectors' union, said there was no need for troika overseers or other outsiders to help straighten things out.

"Yes, we need change," Mr. Nikolakopoulos said. "But things will only improve in Greece when we get a stable government that will impose its political will."

Niki Kitsantonis contributed reporting from Athens and Paul Geitner contributed from Brussels.

Attorney gets record term in prison for inside trading

NEWARK, NEW JERSEY

BLOOMBERG NEWS

Matthew Kluger, an attorney, has been sentenced to 12 years in prison for insider trading, the longest term ever imposed for that crime and one that exceeded the 11 years given last year to Raj Rajaratnam, a co-founder of the Galleon Group of hedge funds.

Garrett Bauer, a trader who joined Mr. Kluger in an operation that prosecutors said generated $37 million in illegal profit, was sentenced Monday to a nine-year term. Mr. Kluger, 51, stole corporate merger tips from four law firms over 17 years and passed them to a middleman, Kenneth Robinson, who gave them to Mr. Bauer, 44. Mr. Robinson was scheduled to be sentenced Tuesday.

All three men pleaded guilty last year in U.S. District Court in Newark, New Jersey, where Judge Katharine S. Hayden, said Monday that she wanted to send a strong message about the "radiating effect of the loss of confidence in the market" caused by insider trading. She said Mr. Kluger stole tips from "white-shoe firms" in a "brazen" scheme that was conducted in a "thuggish" manner.

"This particular scheme is tremendously clear," she said. "People stay out of the stock market, in part, because they think it's skewed toward the insiders. This case has given insight to the lack of credibility for the small investor."

Lawyers for Mr. Kluger and Mr. Bauer, a day trader, said they would appeal the sentences. Mr. Robinson, 46, who cooperated with the authorities and secretly recorded the other men for the F.B.I., is expected to get a shorter sentence. Prosecutors praised the terms imposed on Mr. Kluger and Mr. Bauer.

"The length of the sentence reflects Kluger's enormous and lengthy betrayal of trust," said Paul J. Fishman, the U.S. attorney for the district of New Jersey. "This 17-year insider-trading scheme may well have been the longest of its kind."

In pleading guilty in December, Mr. Kluger admitted to stealing data on about 30 transactions when he worked at law firms. The companies included Sun Microsystems, 3Com and Acxiom.