The peculiar distributional character of the Greek taxation system (1995-2008) and the reform that never took place

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Abstract

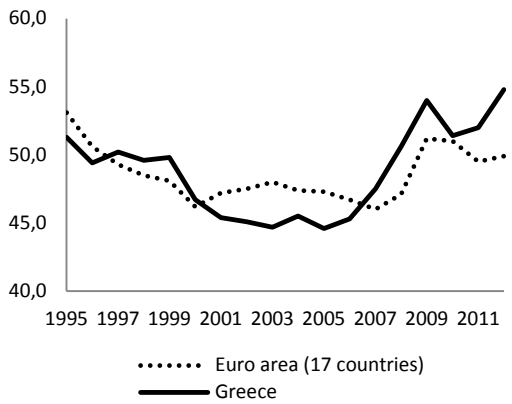
The period 1995-2008 is a period of fundamental transformation for the Greek economy. The dominance of services in the GDP and the decline of manufacturing and agriculture, the expansion of wage earners and the decline of self-employment, the strengthening of large companies versus the smaller ones, the massive influx of immigrants and women in the labour market, the economic expansion to the Balkans and Turkey, the liberalization of the financial system, the euro, are all aspects of a transformation that occurred during that period. So, at a first glance it seems to be a paradox that the structure of the taxation system and its results only changed marginally.

The explanation of this paradox lies in the peculiar distributive (as opposed to re-distributive) character of the taxation system. Namely, the fact that the government interventions during the period 1995-2008 resulted in the distribution of the surplus generated from the robust growth to business elites and specific social groups, instead of using this surplus to fund a reform of the taxation system aiming at a fairer distribution of the tax burden. Unfortunately, the combination of the tax agenda of the conservative party in government (Nea Dimocratia) along with a populist rhetoric of the opposition did not allow the promotion of the so needed tax reform.

The peculiar distributional character of the taxation system, 1995-2010

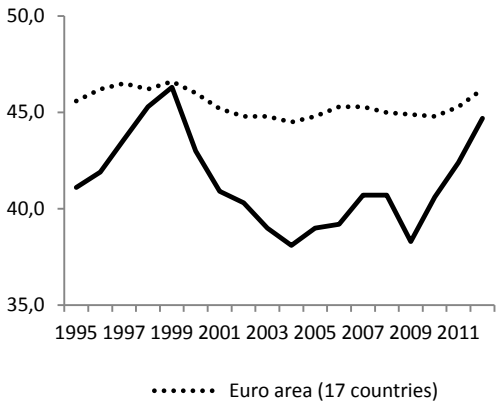
Despite a widely held belief, the Greek state is not a costly one. As shown in Figure 1, public expenses as a percentage of the GDP in Greece do not exceed Eurozone's average. So, even though public expenses in Greece are handled quite inefficiently, poorly targeted and distributed in an unproductive manner,[1] their volume is not particularly exorbitant in comparison to Eurozone standards. The real problem lies in the revenues which are constantly less than expenses and way below the Eurozone average (Figure 2). In that sense, the Greek fiscal problem is a problem of poor revenues and not one of excessive expenses (Figure 3). That is why the structure and function of the taxation system in Greece are of a major importance.

Figure 1: Total general government expenditure
% of GDP



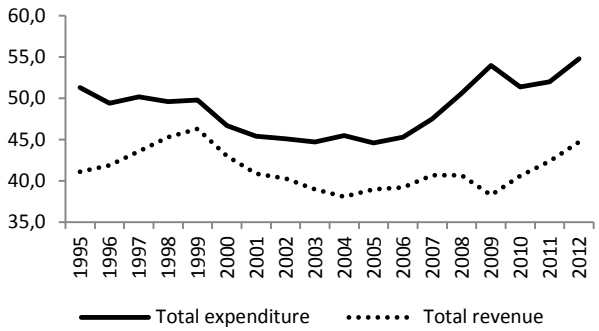
source: Eurostat

Figure 2: Total general government revenue
% of GDP



source: Eurostat

Figure 3: Total general government expenditure & revenue, Greece
% of GDP



source: Eurostat

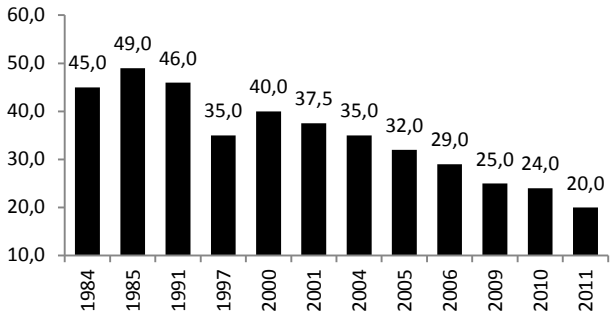
[1] According to Förster & Pearson (2002: 31), the poorest 30% of the Greek population receive only 20.9% of social transfers, the richer 40% receive 41.5% and the other 30% receive 37.7%.In general, social transfers in Greece decrease the poverty rate only by 6% (EU average is 20%) (Dafermos & Papatheodorou 2010: 11). Manatis estimated the redistributive effect of the net social wage in Greece to be almost zero (Maniatis 2003). For an overview see Ioannidis 2012.

Regarding public revenues, the years from 1995 to 2008 are divided into two periods. During the first one (1995-2000) a significant enhancement of revenue can be noticed. During that period the main objective of the economic policy was to meet the Maastricht convergence criteria in order for the country to enter the Eurozone. So, for the first time since 1980 the total government revenue reached 46.3% of the GDP in 1999 (compared to 41.1% in 1995).

This increase came mainly from income taxes. In the year 2000, corporate income tax yielded €5.7 billion (4.1% of the GDP) compared to €2.3 billion in 1995 (2.6% of the GDP). In the case of individual/household income tax, revenues increased from 4.1% of the GDP in 1995 to 5.0% in 2000, almost entirely due to the abolishment of several family tax allowances (Manesiotis & Reischauer, 2002). The revenues from VAT simply followed the growth of consumption (6.8% in 2000 from 5.6% of the GDP in 1995) reflecting the inability to combat shadow economy and improve the collection of VAT.

In short, the increased revenues of the first period (1995-2000) were not the result of a successful strategy to combat tax evasion or of a permanent and sustainable situation resulting from a tax reform. The extra revenues came from the economic growth which increased profits, the expansion of wage earners, the abolishment of a number of tax exemptions of a social nature, from privatizations and from the increased inflow of European funds. During 1995-2000 more taxes were collected but in a peculiar "pre-deposit" manner, in the name of the national effort to enter the euro.

Figure 4: Corporate income tax rate



This is why, immediately after the entrance to the Eurozone there was a sharp decline in the revenues. The pattern of that decline was almost identical with the one of the previous increase. After 2001, the governments of PASOK (socialists) and Nea Dimocratia (conservatives) gradually reduced corporate income tax-rate from 45% in 1995 to 21% in 2004 (Figure 4).[2] From 2004 to 2010, revenue from corporate taxation decreased sharply from 46% of total income tax to 28.7% (or from 4.1% of the GDP in 2000 to 2.5% in 2008).[3] Thus, the implicit tax rate

[2] Laws 2238/94, 2992/02, 3091/02, 3296/04, 3220/04, 3427/05, 3453/06, 3483/06, 3517/06, 3522/06, 3634/08, 3697/08

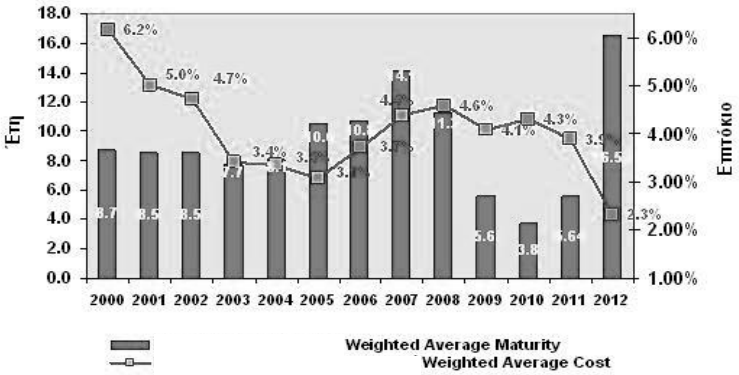
[3] The largest decrease took place during the conservative governments (2004-2008), when income tax revenue from corporations fell in absolute terms by 1.3% despite the fact that profits increased by 35.2%.

of corporate income in Greece (18.6%) remained at levels well below the Eurozone average (27.8%) (Eurostat 2013, p.257).

On the other hand, revenues from VAT increased only slightly (6.8% of the GDP in 2000, 7.1% in 2008) despite the multiplication of private consumption while the tax burden of the households remained stable (5% of the GDP in 1995, 4.8% in 2008). Nonetheless, it should be noted that the composition of taxes collected from households changed at the expense of wage earners and pensioners. During the period 2002-2008, participation of employees and pensioners in personal income tax revenues increased from 49% to 55%, while participation by the professionals, merchants, farmers, craftsmen and businessmen fell from 51% to 45%.

There are four factors that permitted/financed the revenue reduction.

The first one is the state's ability to borrow more and at better terms. Due to the euro, the Greek governments could borrow at a lower interest rate but it could also extend the repayment time period (for more details see Argeitis et. al., 2011). Indeed, the average long-term nominal interest rate decreased from 20.7% in 1994 to 3.6% in 2005 while the average debt maturity rose from 1.6 years in 1994 to 10.5 years in 2005.



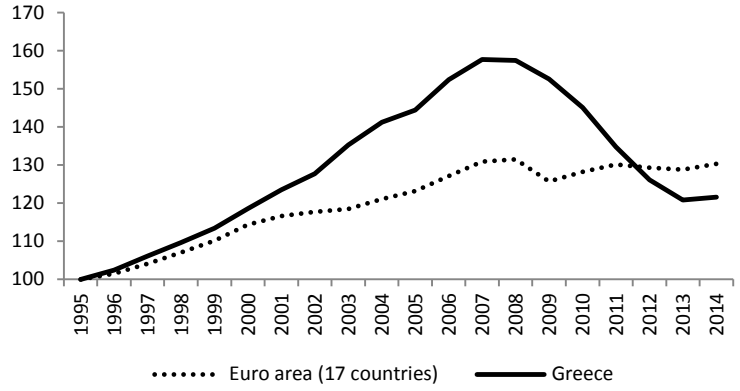
The second factor was the robust growth of that period. From 1995 to 2008 the Greek real GDP annual growth rate was 3.6%, way above the Eurozone average (Figure 5). Growth means increased incomes/profits and increased incomes/profits yield more tax revenues.

The third factor was the significant growth of wage earners. During the period 1995-2008, the wage earners increased from 54% of total employment to 65%. Given the fact that "employees do not tax evade" the increase of their number created a kind of broadened tax base which in turn sustained the level of personal income tax revenues (at the same time the revenues from self-employed declined). As a result during the period 2002-2008, nominal revenues from personal income tax increased twice as fast compared to the nominal increase of total revenues (15% vs. 7%).

The fourth factor was the privatizations which after 1996 took a snowball form. During the period 1996-2000, privatization offered revenue of 32.2 trillion drachmas,

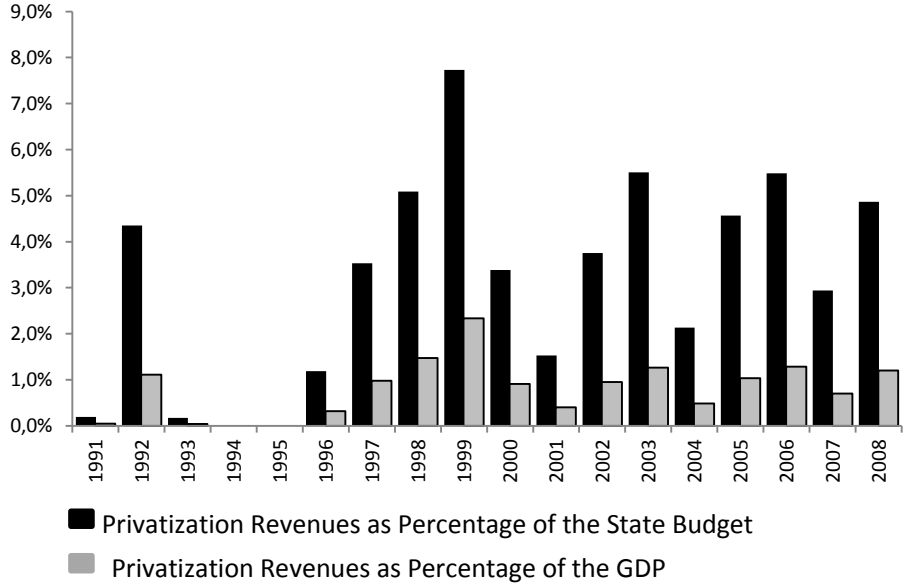
contributing annually to 5% to 8% of budget revenues and 1.5% to 2.5% of GDP. Consequently, during the period 2000-2008 privatization revenue accounted for about the 5.5% of the annual Budget revenues (Ioannidis 2012). Over 80% of revenue came from the privatization of the telecommunications (27%), banks (about 27%), transport (15%) and services (10%). So, privatizations were crucial to the achievement of fiscal adjustment but also to the ability to lower taxation rates.

Figure 5: Real GDP growth, 1995=100



source: Eurostat

Figure 6: Privatizations in Greece



Source: Ioannidis 2012

In conclusion, the increased revenues resulting from growth, wage earners expansion but also from privatizations did not lowed the volume of the debt neither financed a taxation reform of progressive nature. On the contrary, as long as the debt was manageable (despite the intense growth after 1995, public debt continued to fluctuate close to 110% of the GDP) and an adequate financing of the state budget was insured, the surplus permitted the reduction of the corporate tax rate and the tolerance of tax evasion by specific social groups. In that sense, governmental interventions in the tax field during the period 1995-2008 were highly distributive –in contrast of redistributive– since they resulted in the distribution of the surplus coming from growth among business elites but also among extensive, but nonetheless quite specific, social groups. For this reason, the fluctuations of the level of tax revenues over the period 1995-2008, are only marginally associated with the economic cycle (Manesiotis & Reischauer, 2002) but are closely related to the electoral one (Christodoulakis & Skouras, 2009).

In short, tax avoidance and tax evasion from almost everybody apart from wage earners and pensioners has grown into a structural feature of the Greek taxation system characterizing the higher as well as the lower income brackets. Some, such as high-status professionals (like surgeons, private practitioners, lawyers etc.) and the self-employed evade tax due to the opportunities they have to hide their true incomes;[4] others, such as farmers and engineers due to the institutionalized understatement of their earnings;[5] managers and executives due to the autonomous taxation of their income; big corporations due to the 500 tax-exemptions available;[6] small and medium enterprises through a scheme of calculating their tax obligations by themselves (aftopereosi) and so on. Throughout the period 2002-2008, around 86% of the self-employed and the farmers declared annual incomes of less than €10,000 (in 2002 prices – Figure 6). For these categories of employed it seems that economic growth had no positive effect in terms of income (!) According to the tax statements of the year 2010, wage-labour is the source of taxable income for 50% of those who declared an income of more than 150.000€ and 40% of those who declared more than €500,000(!) Like elsewhere, there is an amount of highly paid employees in Greece as well, however, the fact that they constitute 40% of the people who declare annual income more than half a million Euros is a world class phenomenon.

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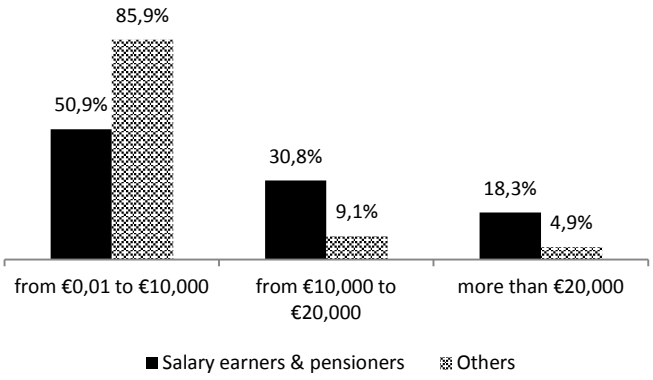
[4] For estimations regarding the tax evasion of every occupational group see Artavanis et. al., 2012; Matsaganis & Flevotomou, 2010.

[5] Rural income is taxed based on assumptions about its level which are close to the one third of the real level; the construction sector pays VAT not according to the real cost but according to the "objective values" or to the "minimal cost in building" which are given prices way below the actual market prices

[6] Therefore, as Stathakis mentions, the problem of low tax revenues is not only due to tax evasion but also due to the multitude of legal tax exceptions (Stathakis, 2011). Regarding tax evasion of big corporations see Kanellopoulos, 2002.

Figure 7: Declared earnings by different occupational groups, 2008



source: Ministry of Economics, Statistical Bulletin of Taxation.

The crucial point is that this situation ensured broad social consensus because the sources of income of a narrow majority of the population were (and still are) highly fragmented and self-employment remains at high levels (for the relation among self-employed and shadow economy see Williams, 2010; Tanzi, 1999; ILO, 2002). So, while not everybody profited the same, those who profited, even if just a little, were not few. The big losers of this tax policy were the employed, the pensioners, the unemployed and in general the poorest groups of society. They were the ones who were "picking up the tab" but at the same time were deprived of the so-needed services of a welfare state which ultimately never thrived because the ones who could pay for it didn't.

The necessary reform that never took place

Given the above, there are several reasons making the reform of the taxation system in Greece necessary. Firstly, there is a justified demand for a fair distribution of the tax burden among the different population groups. Secondly, strengthening the welfare state and also restoring the balance between public spending and revenues should primarily be based on revenue growth rather than cost-cutting.

The third reason has to do with the recession of the Greek economy itself. Given that no recession has been successfully combatted with austerity policies and since neither external borrowing nor printing money is feasible, the real question concerns the sources available to fund a development program. Leaving aside what is necessary at a European level, the only possible domestic policy is to reallocate the existing spending as well as enhancing the tax system. In other words, a tax reform could promote not only a fairer redistribution of the tax-burden but also the "discovery" of funds for public investment.

In that sense, tax reform in Greece is necessary not only for social reasons but for economic ones as well since it could be an integral part of a progressive exit strategy from the crisis. However, the tax agenda of the conservative party in government (Nea

Dimocratia) in conjunction with a populist rhetoric from the opposition didn't allow the realization of this so badly needed reform. There are two examples: the new system of income taxation (Law 4110/2013) and the controversy over the taxation of real estate.

The new system of income taxation

It is a common assumption in Greece that the main problem of the previews taxation system was the numerous special tax regimes. A large amount of personal and corporate income is not being taxed at all due to tax-exceptions or it is under-taxed due to autonomous taxation –meaning not taking into account other incomes.

Based on the above, the proper solution would be the taxation of the total taxable income using the same progressive taxation scale (Rapanos, 2012; Hellenic Economic Chamber, 2010). Instead, the government chose to abolish the taxation scale for everybody apart from employees and pensioners. Law 4110/2013 introduces a new way of taxing income which differentiates taxation (and tax rates) according to the source of income. Unlike in the past, when there was one tax scale and many exceptions, today there are as many exceptions as in the past (all kept in place) and five different modes of taxation: one for employees and pensioners, another one for farmers, another for self-employed and entrepreneurs, another for income from rents and finally one for income from securities.

With the new mode of taxation, the tax burden for higher incomes (over €50,000) has been reduced for everybody except for the employees. It is well known that the differentiation of the modes of taxation favor the wealthier income groups because they exhibit greater variety of sources of income (taxing two "packages" of 50,000€ yields less revenue than taxing one "package" of 100,000 €). For example, during the year 2010 about 39,000 people declared income of over €100,000 with an average personal income of €149,000. If these people were to be taxed according to the taxation scale of the wage earners they would have to pay about €54,000. But by being taxed on the basis of the source of their income, they will pay only 42,000€ i.e. 22% less tax.

However, taxing income according to its source, benefits not only the wealthiest income groups but also a broader group of taxpayers (constituting almost 29% of the taxable population): those who have income coming from rental properties (this income is also taxed with another set of tax rates).[7] The new system of taxing income from rental properties results in a direct transfer of funds from the poorest income groups to the middle ones;[8] the ultimate aim being to ensure their political tolerance

[7] 10% for income up to 12,000 euro and 33% for income exceeding 12,000 euro.

[8] For example, a taxpayer with an annual income of €24,000, €12,000 of which are obtained from rental properties and the rest from a wage, will pay tax of €1,570 (income up to 9,000 euro obtained through wages or pensions is no subject to taxation). If the same amount of income is gathered entirely from salaries, he/she will have to pay tax of €3,390. On the contrary, a taxpayer

to the new system. A tax payer who is working part time (or a pensioner with a low pension) and complement their income with a relatively low income from rent, they will have to pay more tax than they used to. On the contrary, a middle income tax payer with higher wages and higher earnings from rents will pay considerably less tax.

The same distorted logic applies regarding the taxation of the self-employed. It is well known that in Greece –as elsewhere– the self-employed tax-evade more than the rest of the tax-payers due to their enhanced ability to hide income from the tax authorities (Schneider, 2011). Nonetheless, the government, in order to amplify the tax revenues from the self-employed, did not adopt a strategy to combat tax-evasion through measures aiming at specifying the real incomes. Contrariwise, the government chose to tax the income already declared at a higher rate.

Table 1: Impact of the new system of taxation of personal income by occupational group

Professional group	In comparison with the previous mode of taxation	
	Increase in tax	Reduction in tax
Wage earners with income…	…over €26,000. (20% of the employees)	…from €5,000 to €26,000
Professionals & self –employed with income…	…up to €57,000 (97% of the self-employed)	…over €57,000
Farmers with income…	…up to €22,000 (98% of the farmers)	…over €22,000
Income from rents…	…up to €50,000	…over €50,000
Income from multiple sources…	…up to €9,000.	…over €9,000.
Income from stocks & bonds	All taxpayers with income from loyalties, stocks or bonds are paying less tax due to the reduced tax rate (from 25% to 10%)	

The new system treats the self-employed as companies, meaning that from now on the self-employed will be taxed according to their net profits (income minus expenses) at a rate of 21% (up to income of €50,000). Except of the economic issues, this mode of taxation raises significant ethical questions as well. Literally speaking, there is no such thing as a "poor company" but there are poor self-employed people; a person might go bankrupt but he/she can never "close down" – a company can; a company does not have "household members to care for" as a person may have; the income according to which one is entitled for benefits is not the same thing with profit and so on. In any case 21% is a high tax rate if applied to low incomes (i.e. €10,000) and a low tax rate if applied to higher incomes (i.e. €45,000). The new system of taxation for the self-employed penalizes the ones who were declaring their true

with income of €9,000, €4,500 of which comes from rents, will pay tax of €450. If the same amount of income was entirely due to wages, he/she would not have to pay any tax.

incomes and benefits the ones that were tax-evading. A self-employed that declares their true income, up to €30,000, will pay more tax. On the contrary, someone who was hiding income will also pay more but, ultimately, considerably less than they should have. Finally, the highlight of the new system is the taxation of agricultural income with a flat rate of 13% regardless of the size of the income. Poorer and richer will be taxed with the same tax rate.

In conclusion, the new taxation system favors the higher income groups but makes significant concessions to the middle income groups as well. Under the new system, the wealthiest groups, the self-employed and the shop-owners who were tax-evading, as well as the richer farmers and the major landholders, are being favored. The ones who were tax-evading "a bit" will pay more tax but not as much as they should, and the ones who were declaring everything will pay considerably higher taxes. This is due to the fact that the new system, instead of incorporating procedures that incommode income hiding, chooses to tax under-declared income at higher rates.

The taxation of real estate

Land taxation is another example of the political economy of the Greek taxation system. It is well known that for historical reasons real-estate ownership in Greece is not as concentrated as it is in Western or Central Europe. Nonetheless, the dispersion of real-estate ownership is not as high as it is believed to be.

Figures from the Ministry of Finance show that the total value of urban property owned by individuals is close to €520 billion, by businesses close to €250 billion while the value of the rural parcels is between 300 and 500 billion euros. Therefore, the total value of private owned land in Greece is close to one trillion euros. Leaving aside the fact that to this day the Greek state does not know the exact value and allocation of the rural parcels, when it comes to private owned urban land we know that 34% of the owners owns 74% of the total land value, while the richest 2% of the owners (property over €500.000) hold 20% of the total land value (Table 2).

Table 2: Distribution according to the value of urban real estate held by individuals

	% of people	% of urban real estate value
from €0.01 to €300,000	**94,8%**	**67,4%**
Of which…		
from 0.01 to 50,000€	49,8%	12,3%
from €50,000.01 to €100,000	24,4%	18,8%
from €100,000.01 to €200,000	15,8%	23,7%
from €200,000.01 to €300,000	4,8%	12,6%
over €300,000	**5,2%**	**32,6%**

Of which: over €1,000,000	0,5%	8,5%

Source: Ministry of Finance

However, tax revenues from real estate were extremely low up until 2009, around 350-400 million euros per year. Given the false wide-spread belief that land ownership is highly fragmented, it was argued that by not taxing real-estate the state is implementing a kind of social policy which is in favor of the majority of the small-owners. Nonetheless, the available data shows beyond any doubt that under-taxation of real estate was not part of a social policy but a way to favor the major landowners (the Church is among them) who own the bulk of the land value. A policy aiming at protecting small owners would exclude land value up to a certain amount from taxation (i.e. €50,000 or €100,000) and would tax the rest. Instead of that, all land-value was under-taxed.

Under the pressure to boost revenues, the Papademos administration (PASOK-socialists, with the support of Nea Dimocratia-conservatives and the nationalistic LAOS – Popular Orthodox Party) took on the challenge of increasing property taxation from 400 million euros to €3 billion annually. Once again, this happened in a "strange" way. The government chose to tax only buildings connected to the electricity network, therefore the tax-weight fell on housing taxation. Since these buildings constitute only a small portion of total property (approximately €500 billion) the amount charged was quite significant (over €600 for houses of 100 square meters), while the absence of special provisions for the unemployed resulted in the penalty of a power-cut in the event of non-payment, which attributed a particularly onerous feature to this taxation measure.

Due to the social reactions, the new coalition government that emerged from June's 2012 elections (Nea Dimokratia with the support of PASOK and the Democratic Left party), pledged to introduce another way of land taxation that would replace the previous one. The aim was to derive the same amount of revenue by widening the tax base and thus by lowering the tax-weight placed on the poorest. In theory, this would have worked in favor of the small-residential property owners, while farmers and small-parcel owners would have to pay only a few euros. On the contrary, the major landowners and the holders of high value urban real estate would lose out.

The technical committee established to elaborate a proposal (in which the author was a member), suggested the inclusion of ecclesiastical and monastic property, introduced an un-taxable value of 50,000-100,000 euros and proposed the exception of the unemployed and other specific groups from this taxation. According to the committee's proposals, the new land tax regime would have yielded the same amount of tax but at the same time 90% of homeowners would have to pay from 50% to 95% less tax than they did under the previous system.

However, the committee's proposals ran into powerful interests. Prominent members of the Parliament, mainly coming from the conservative party (like Mr. Mitsotakis, Paulopoulos and Voridis) strongly opposed these proposals, the largest private TV

station of the country started a crusade against the new taxation scheme and the Hellenic Property Federation demonstrated its preference to the previous law; the Left main opposition party raised a Parliamentary Question to the Prime Minister under the title "Property tax: from income theft to the confiscation of the citizens' property". In the name of "employees and pensioners" an agenda of tax-exception for the richest 3% of the Greek society was promoted (those are the ones who were supposed to contribute more than 80% of the total revenues of the tax proposed by the technical committee). In the end, the Ministry of Finance rejected these proposals using the Troika as a scapegoat and chose a flat rate reduction of 10% on the tax that every tax-payer had to pay.

The political economy of the Greek taxation system: final comments

The fact that the Greek tax system is unfair and inefficient is well documented. Nonetheless, what usually escapes our attention is that its stability is attributed to the fact that it relies on a wide social alliance including not only powerful business elites but also broad social groups, especially those of the self-employed, prestigious scientific professionals (like lawyers, doctors, mechanics etc.) and farmers. The common feature of this alliance is the persistent under-taxation which they enjoy, an under-taxation which results in the over-taxation of employees and pensioners.

It is important to stress that the privileged of that system are not necessarily rich. A coffee-shop owner in the small island of Ikaria may earn the same amount of money as a bank clerk; but it is most probable –almost certain– that the former has paid less tax than the latter (for the same amount of income). Consequently, the clear class-structure of the taxation system cannot be described according to an outdated division among the "rich" on the one hand and the "people" on the other. This class-structure penetrates the various groups of people and taxes each and every person according to the level and sources of their income. Therefore we have as many tax categories as sources of income. Given that, the fragmentation of taxation does not help the development of a common tax consciousness.

The structural transformation of the Greek economy during the last 20 years, the expansion of wage earners, the entrance to the Eurozone and the reduced cost of borrowing this created, paradoxically renewed the opportunities for tax-exception, tax-avoidance or simply tax evasion by the wealthiest groups of the population and protected almost all the privileges established in the past. This policy resulted in higher tax inequality at the expense of wage earners and pensioners. Unfortunately, the governmental interventions of the last 3 years did not take any action to change the above mentioned features. Today, the Greek taxation system is as unfair and undefined as it used to be. The only difference is that the overall taxation burden has almost doubled.

Addressing these problems and trying to yield higher tax revenues after five years of deep recession is even more difficult because additional issues have risen in the meantime.

To start with, the tax reform was delayed for far too long. After five years of continuous recession a significant part of the accumulated wealth has been used, not to mention the fact that tax-evasion begins to acquire features of a survival mechanism rather than wealth-producing. Secondly, the implementation of unjust measures, such as horizontal cuts in wages, pensions or social benefits, question the government's intentions. Thirdly, the conservative party (Nea Dimocratia) does not want to oppose the few social groups that continue to support its government. Finally, the political polarization that exists is not conducive for the development of a dispassionate dialogue.

The study of modern Greek history demonstrates that Greek politics are characterized by intense discursive polarization which results in the development of the so called "identity politics" as opposed to "issue politics" (Voulgaris; 2005). In this context, the major political parties, no matter of their ideology, do not necessarily form social alliances according to the preferred solution in a number of issues. Instead, they tend to formulate cleavages based on a collective political identity (the Left Vs. the Right, the Good Vs. the Corrupted, the patriots Vs. the traitors and so on) which cut across the social classes. In this setting, a highly polarized political discourse plays a greatly significant role. Conflicts on issues relating to the production sphere, to the distribution of wealth or to the distribution of power among different social groups or classes tend to be solved in an inner-party way. In other words, the political ability of the major parties to govern depend primarily on their ability to produce through internal persuaders a composition of the different economic and social demands and then "export" that composition in a form of a governmental policy (Ioannidis, 2012). In that sense, the political parties play a role equivalent to the one Poulantzas attributed to the state: the hierarchical integration of conflicting interests (Poulantzas, 2001; Jessop 1985). The ultimate outcome is that the political party is being transformed into society and society into a political party. The clientistic character of the political system is instrumental due to its ability to enhance the system's capacity to consolidate conflicting interests. The peculiar distributional nature of the Greek taxation system can be seen as the result of a policy that is promoting the neoliberal economic agenda while at the same time maintaining strong clientistic relationships.

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