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HISTORICAL BACKGROUND TO THE GREEK DEBT CRISIS**

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Putting Politics above Markets: Historical Background to the Greek Debt Crisis

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Abstract

Political clientelism and rent seeking have been the central organizing principles of Greek society since the foundation of the Greek state in the 19th century. The influence of the Eastern Orthodox Church on Greek nationalism and the legacy of the patrimonialist Ottoman empire produced a weak civil society. The result has been a disproportionately large Greek state and public bureaucracy since the 1800s that set the stage for rent-seeking struggles that have followed.

Since the 1930s, political patronage has been disbursed through increases in public sector employment, regulations that limit competition, and the imposition of levies on transactions that benefit third parties. The resulting system has encouraged corruption, discouraged wealth creation and affected popular ideological narratives. The view that the state is good and that markets are bad is widespread, held across the political spectrum, and is understandable in a rent-seeking society where all activities, including market transactions, are seen as redistribution. But the realization of “putting people above markets” has deepened clientelism and produced the current national crisis.

Introduction

One of the insights of Friedrich Hayek's *Road to Serfdom* was that the difference between the communist economic systems of Eastern Europe and the Western systems was not a difference in kind but a difference in degree. The former socialist systems had totally

replaced the market economy with politics, whereas in the Western systems the replacement was partial and was taking place gradually.

Greece has been called by various analysts as the last “real existing socialist state in Europe” and the “last Marxist state” (Michas 2002), terms denoting the predominance of politics in the economy. Yet one could say that Greece more closely fits the model of the post-socialist society described by the late Russian reformer Yegor Gaidar (2007): a form of capitalism where the bureaucracy and its allies consider the state their property and use its mechanisms for personal enrichment.

The fundamental principle that has been dictating the political and economic life of the country since the foundation of the Greek state in the 19th century is political clientelism: Greece has a system in which political support is provided in exchange for material benefits known as “rousfeti” in Greek. The state is the instrument for creating and distributing rents or benefits among various client groups. In this situation, rent-seeking—the attempts by groups and individuals to influence the political allocation of benefits—becomes paramount.

Good Old Days?

The origins of political clientelism and of “rousfeti” in Greece can be traced back to the formation of the Greek state in 1830.

As left-wing historian Kostas Vergopoulos (1975: 15) puts it: “The fundamental structure of Greece has never been civil society...but the state. Ever since the middle of the 19th century nothing could be done in Greece without it necessarily passing through the machinery of the state.” In a certain sense, Greece was post-socialist before socialism was even invented!

The social group that ran the state after liberation from the Ottomans in 1821 was primarily made up of the village notables –the “tzakia.” Their power under Ottoman rule lay not in

their ownership of land but in the fact that they acted as tax-collectors for their Ottoman rulers, who gave them prestige, power and wealth. Their new role as leaders of the Greek state was continuous with the old one. Tax collection was still their major business. However, under the new conditions they did not have to transfer the proceeds to the Ottoman rulers but could keep it themselves. At the same time they could utilize the networks of local allegiances they had built under Ottoman rule and carry them into the new state. Political office gave them seemingly inexhaustible resources. Holding a government office meant that they could grant legal privileges in the economic and social sphere as well as exceptions and exemptions from local regulations.

In Western Europe the state was primarily seen as a protector of certain Lockean rights, especially the right to private property. This conception, as has been frequently noted, went hand in hand with the existence of a ruling class that had vested interests in large property holdings. In the new Greek state—owing to the absence of a large landholding class—the ruling class saw the state not as an instrument for the protection of preexisting assets, but as its source of income par excellence. Hence the conquest of the state apparatus not only served the power ambitions of various individuals; it also became the most important mechanism for the distribution of material rewards and benefits. This was achieved mainly through taxation. According to Aristides Economou, as early as 1866, state revenue in Greece amounted to 31 percent of the national income. In contrast, state revenue in Great Britain was 12 percent and in Belgium 6 percent at that time (cited in Tsoucalas, Part I, 1978: 13).

At the same time, during the whole 19th century per capita tax revenue in Greece was higher compared to neighboring countries. Even as late as 1906, when the rate differences were substantially reduced, Greeks were paying higher taxes than their neighbors: 46 francs per person as compared to 35 in Romania, 32 in Serbia, 30 in Bulgaria, and 3 in Ottoman Turkey (Webb 1911: 246).

The largest part of public expenditure was not directed to public works or infrastructure projects but toward meeting administrative costs – i.e., the salaries of civil servants (Michas 1989: 5). Most public buildings in Greece or cultural institutions such as theaters were financed by private donations.

The benefits that the political patrons could distribute took many forms. The most important of these was the provision of jobs in the civil service for their supporters and their kin. This quickly led to an explosion in the numbers of people employed by the state. In 1870 25 percent of the non-agrarian working population derived its living from the state. By the late 1880s Greece had one of the largest civil services in Europe. Thus, per 10,000 inhabitants there were 200 civil servants in Belgium, 176 in France, 126 in Germany and 73 in Great Britain. In Greece the number was 214 (Tsoucalas 1978, Part 2: 5-6).

Salaries in the civil service—especially in the upper ranks—were no match with what the private sector could offer. Thus, a government minister would earn 10000 drachmas a year. The largest cotton thread enterprise, on the other hand, produced an annual net profit of 6000 drachmas a year—i.e., 40 percent less than the ministerial salary (Tsoucalas 1978, Part 2: 14).

The ground for the rent seeking struggles of the future was thus firmly laid. Everybody wanted to join the civil service. As the well known French nobleman and author, Arthur Gobineau, observed at the time: “A whole society seems to be operating on the motto that to the extent that only the state has money one should take advantage of this fact and work as a civil servant” (quoted in Tsoucalas 1985: 212).

Weak Civil Society

The development of political clientelism in Greece was facilitated by the absence of the concept of individual rights. This is usually attributed to the fact that the emergence of Greek

nationalism was not accompanied by doctrines of individual rights and freedoms as in the West. In Greece, as in the other Balkan countries, ethnic majoritarian rule was in continuous conflict with the idea of individual rights.

According to Paschalis Kitromilides (1994), a very important reason for the underdevelopment of a concept of rights was the influence of the Orthodox religion in the formation of Greek nationalist ideology in the nineteenth century. The reception of the ideas of the Western Enlightenment in the Balkans was very different from their reception in the West. In Scotland and North America, for example, the Enlightenment was received in an environment appropriately prepared for it by the experience of Protestantism and growing secularization. In the Balkans on the other hand, they collided immediately with the ideology of the Eastern Orthodox Church.

Kitromilides explains that the preoccupation with the safeguarding of the unity and genuineness of Orthodoxy became the rallying point of a militant conservatism during that period. What developed out of the confrontation of Enlightenment ideas with the Orthodox local traditions was not a liberal nationalism informed by Enlightenment values, but rather a militant nationalist ideology that incorporated basic tenets of the Orthodox creed. The modernizing challenge in the Balkans consisted of the effort to incorporate into Balkan ideological structures the worldview and systems of values that defined Western liberalism. In the 19th century the European idea involved “the code of civil liberty as its fundamental ingredient” (Kitromilides 1994: 77). But this modernizing challenge failed. The common element in the struggles for national independence in Greece (late 1820s), Serbia (1878), and Romania (1880s) was “the defeat of radical conceptions of liberty” (ibid: 78). What was thus lost to Balkan culture in this process were two of the core ingredients of the system of values that informed the Enlightenment worldview: “the critical spirit and the moral temper of individual liberty” (ibid: 65).

For others, however, the absence of a concept of rights from the political culture of the country can be explained by reference to political factors. Of central importance in this model is the historical division between societies that emerged from the Habsburg Empire (Croatia, Czechoslovakia) and those that emerged from the Ottoman Empire (Greece, Serbia, Romania, etc). The difference in the political organization of the two empires—absolutism in the former versus patrimonialism in the latter—set the parameters for the subsequent ideological and political evolution of the nations that emerged from them. The political legacy of countries like Greece that emerged from a patrimonial empire was a weak civil society. What came to dominate these societies was a conceptualization of democracy that decisively underplayed the liberal aspect, that is, the aspect related to individual rights and the rule of law (Diamantouros and Larrabee 2000: 28-36).

An Anatomy of the Present

Much water has of course flowed under the bridge since those days. Greece experienced wars, revolutions, occupations, bankruptcies, dictatorships, earthquakes, etc. Yet if there was one thing that remained constant throughout this period it was the system of political clientelism as the central organizing principle of Greek society.

Of course some things changed: from the middle of the 1930s onward, political parties ceased being simply loose coteries of personalities heading extended patronage networks and became more centralized. The clientelistic orientation, however, remained intact.

Another thing that changed was the rhetoric that legitimized the distribution of benefits. Client groups today receive benefits in the name of “social justice” (κοινωνική δικαιοσύνη) or of “national necessity” (εθνική αναγκαιότητα) or of “acquired rights” (κεκτημένα δικαιώματα).

We can briefly distinguish three types of benefits that a party in power provides today to its clients:

- a) Employment in the public sector;
- b) The establishment of rules and regulations that limit competition and create “closed shops;”
- c) The imposition of levies on transactions for the benefit of organized groups that are not part of the transaction.

The following is an elaboration of each:

a) *Civil Service*. Providing a job in the civil service continued through the years to be one of the main instruments used by the political class to ensure the loyalty of voters. But a very significant change took place in 1911. An article in the constitution was adopted which granted life employment to those employed in the civil service. The people who introduced this constitutional article had the best intentions. They wanted to provide the civil service with continuity. Until that time, every party that came to power used to fire the previous lot and hire its own people. However, instead of getting a more rational bureaucracy, Greece simply got a bigger bureaucracy. Political parties continued to staff the civil service with their supporters, only now they could not fire the previous lot, so the bureaucracy grew enormously.

Today, according to the Athens Chamber of Commerce, there are around 1,2 million people employed by the state—this includes clerks, teachers, doctors, and priests—which amounts to almost 27 percent of the total working population of the country (*France24* 2010). Thus one out of four working Greeks is employed wholly or partly in the public sector. More than 80 percent of public expenditure goes to the wages, salaries and pensions of the civil servants.

Getting a civil service job in Greece is widely perceived as being granted a sinecure and not as a contractual obligation to work. The resulting inefficiency of the civil service reinforced a system of promotions based on seniority and not on merit or talent. One can only move up the ladder more quickly if one has good connections with politicians and trade unionists.

However, if the bureaucracy is not very efficient in the traditional economic sense of the word, it is extremely efficient in producing a vast corpus of law and regulations which enhances its power. It is estimated that from 1974 until today—that is, in the course of 35 years—100,000 laws and regulations were passed, which amount to 2,857 per year or eight laws per day. (Avrantinis 2010)

This maze of laws hinders any attempt by reform-minded politicians to introduce changes.

When I served as a communications advisor to the minister of trade, Andreas Andrianopoulos, in 1992, the biggest problem we had was trying to find out which particular laws were in effect before we could change them. And until one finds the relevant laws—which can take months—the groups opposing the changes have all the time to organize and fight the proposed reforms.

b) *Rules limiting competition.* The second way the system of benefits operates is by setting up closed shops and rules that limit competition. In Greece one can find a whole set of laws mandating opening and closing hours of various enterprises, or defining the geographical proximity where two similar establishments can operate, setting minimal prices for various professional services, issuing licenses and preventing or limiting competition.

Lawyers, for example, represent one of the most heavily regulated professions. Their presence is compulsory in many transactions including in the signing of any contract concerning the buying and selling of real estate from which they receive a fee fixed by the state. Moreover, the state also mandates that lawyers charge a fixed minimum fee for their

various services, which of course prevents competition from new entrants into the profession. Similar rules apply to engineers and architects. They all receive a minimum fixed percentage of the price of the construction as their fee.

Similar restrictions apply to the operation of drugstores. You are only allowed to own and operate a drugstore in Greece if you hold a degree in pharmacology. The same applies to opticians. You can only own a shop selling spectacles if you hold a degree in optics!

Another area that is heavily regulated is the transport of goods. Because of the geomorphology of Greece, road transport is very important. It is estimated that over 96 percent of the overland trade is conducted by trucks. Rail transport plays an insignificant part. Only truckers who have medallion licenses are allowed to operate. At the same time, the prices they charge are fixed by the state in the most minute detail—and the rise in price is usually above the level of inflation. All attempts (though half-hearted) that have been made to abolish the system of medallion licenses have been in vain.

Size is not related to the power of the interest groups. Indeed, some very small groups are able to extract significant rents. One such group is the union of loaders—a group of 100 people that operates in the central vegetable market in Athens. This market is very important because it acts as a reference point for the setting of the prices in other peripheral vegetable markets. Producers bring their goods to the market. The only people who are allowed to unload the goods from the trucks using forklifts are the members of the local union of loaders. The price for their services is fixed by the state. Officially, no one else is allowed to unload. In practice, however, the goods are unloaded by immigrant labor that the producer employs while at the same time paying members of the union for what they would have been entitled to had they done the job themselves. In other words, the producer pays loading costs twice. First he pays immigrant laborers at market prices and then he pays the members of the

union at the price fixed by the state. If he refuses to do so and waits for the local union loaders to unload his wares, he can be certain that he will have to wait for such a long time that his tomatoes turn to pulp (Pelagidis and Mitsopoulos 2010: 405-410).

c) Levies. The third way by which the political distribution of benefits operates is through the imposition of levies on transactions benefitting “client groups” that are not a party to the transaction.

The following are some examples. If you want to start a business in Greece, you have to pay one percent of the starting capital to the lawyers pension fund.

If you have a business and you want to advertise your brand or product you have to pay an amount equal to 20 percent of the advertising expenses to the pension funds of the journalists.

Each time you buy a ticket on a boat, 10 percent goes to the pension fund of the harbor workers. A part of the ticket price that covers the insurance of passengers goes to the sailors’ social security fund.

If you sell supplies to the Army, you will have to pay 4 percent of the money to the pension funds of the military officers. When you buy a ticket at a soccer game, 25 percent of the amount goes to the pension funds of the police.

It is estimated that there are more than 1,000 such levies whose total cost amounts, according to some calculations, to over 30 percent of the country’s GDP (ibid).

In some cases levies are imposed for the benefit of groups that are no longer in existence. In the older days in some islands like Santorini, boats could not dock at the harbor. The passengers had to be transported from the ship by lighters operating small boats, including row boats. Today, lighters no longer exist since the ships can now dock on all the islands.

What continues to exist, however, is the special levy that passengers have to pay to the union of lighters as part of the price of their ticket. All this is done in the name of “social justice.”

There is a fourth and very significant type of benefit that clientelist politicians provide: public procurement to private enterprises. In Greece, good political connections are precious to businesses because they shield otherwise uncompetitive firms or grant them monopoly rents. With time, some of these private interests have become more powerful than their political patrons.

“Fakelaki”

In the Greek political system, rent-seeking easily shades into corruption. According to figures provided by Transparency International and the World Economic Forum, Greece has the second most corrupt public sector in the European Union after Bulgaria (Pop 2009).

Part of this corruption is related to the massive production of laws and regulations by the bureaucracy. This veritable maze of laws and regulations ensures that any entrepreneur can easily find himself or herself accused of tax-evasion or some other misdeed and forced to pay exorbitant fines. Greasing some bureaucrat’s hand ensures that this will not take place. You will not meet even one businessman in Greece who has not been obliged during his lifetime to bribe tax controllers.

Jobs in the civil sector are not only perceived as sinecures but also as instruments of personal enrichment. Many employees would use the infrastructure of the state apparatus for their own ends which in effect means that services that are supposed to be free have in fact been “privatized.”

The provision of health services is a case in point. When a Greek has to undergo surgery in a public hospital, he knows that he will have to grease the surgeon’s hand with some money

under the operating table. Such payments can range anywhere from 1,000 to 20,000 euros depending on the kind of surgery and are of course illegal since the services in public hospitals are supposed to be free. This practice—or institution—has a name: “fakelaki,” meaning “the little envelope” and deriving its name from the envelope in which you enclose the money for the doctor.

Another case in point is education. State secondary education is free in principle. Yet in practice teachers lack the motivation and professionalism to provide students with an adequate education. As a result, most parents are forced to pay for private tutoring—in many cases provided by the very same teachers who teach the students in state schools. No student can expect to enter a university or learn a foreign language if he relies on what he learns in state schools.

As a result, services that are in principle free require considerable expenditure on the part of the population. Needless to say, this is especially hard on lower income groups who are supposed to be the prime beneficiaries of such “free” public services.

Rent Seeking and the Economy

The preponderance of the state in Greece as an income generating mechanism implies very intense and fierce rent-seeking struggles.

This, as Gordon Tullock (1984) argued, means that a considerable amount of resources that could otherwise be used to generate wealth and income are wasted in fighting over the slices of a shrinking economic pie. When the state, as is the case in Greece, becomes heavily involved in providing benefits to some people at the expense of others, individuals and groups will invest more resources into efforts designed to shape political outcomes to their advantage. Thus, for example, allocating jobs in the civil sector on the basis of “rousfeti”

(politically allocated benefits), is not only detrimental in the sense of the sub-utilization of existing talent, but also wasteful because in trying to acquire this coveted position the individual is wasting resources in establishing patron-client relationships—resources that he could have used to generate wealth.

Many economists have argued that this is a main cause of the underdevelopment of Third World countries. As Anne Krueger (1974) pointed out when she studied some of these countries, regulation was so extensive that the government had the power to create “rents” equal to a large percentage of national income. Economist Yannis Sournaras estimates (in Gardner and Hope, 2010) that if Greece opened up its closed professions, this would amount to a 13.2 percentage point increase of its GDP.

Moreover the system creates a wrong set of incentives among young people who have to make decisions about their careers. In having to decide between an uncertain future in the private sector and a secure, potentially lucrative job in the civil sector, it comes as no surprise that most young people express their preferences for the latter.

This is also reflected in the marriage market. Recently I investigated the preferences for male spouses on the basis of data provided by marriage agencies located in Athens. The professions that came at the top of the list were civil servants and military people!

The high cost of bureaucracy also discourages the creation of domestic and foreign enterprises. Those bureaucratic costs in Greece are equivalent to 20 percent of income per capita, compared to 5.3 percent in OECD countries. According to the World Bank, it costs about \$3096 to obtain all the permits and comply with the procedures to start a new business in Greece. In the United States it takes \$675 (World Bank 2010). It has been estimated that the amount of bribes that a medium-sized enterprise in Greece has to pay to corrupt tax officials equals 3 percent of its annual turnover. Moreover, the high costs of bureaucracy—

including the costs of corruption—are among the main reasons foreign companies mention for not investing in Greece (Avrantinis 2010: 3). During the years 1996-2008, Greece has occupied the last place on the OECD list of 30 countries concerning its ability to attract foreign direct investment. For example, Shell and BP recently decided to leave Greece. Their decision was partly influenced by the heavy fines that corrupt tax officials imposed on them because they refused to pay bribes (Avrantinis 2010).

Ideological Effects

Greece is a society dominated by rent seeking rather than wealth producing activities. The fact that two thirds of the electorate is living partly or wholly on government hand-outs significantly affects the ideological narratives that are popular in the country. Marx was once again right on the mark with his thesis that people's consciousness is influenced by their economic mode of existence. The rent-seeking worldview occupies a hegemonic place in Greece. All narratives from the left to the right simply represent different nuances of the overriding theme: "The State is good, markets are bad."

That view is understandable. In societies where rent seeking dominates, all activities—including activities related to the market—are seen as redistribution. That perspective applies also to the activities of the entrepreneur which are seen not as wealth creating but as a form of the redistribution of existing wealth marked by pervasive inequality.

This state of affairs strengthens animosity toward markets and the demand for more laws and regulations. This in turn is skillfully exploited by various groups that use that demand to pass laws and regulations to promote their own interests.

Furthermore, in Greece market-oriented ideologies are not simply viewed as alternative political discourses but as discourses that are somehow alien to the Greek soul and to Greek

national identity. Thus the critique of free-market liberalism also takes on a xenophobic tone that frequently denounces “Anglo-Saxon neoliberalism.”

That characteristic also applies to the parties on right. The New Democracy conservative party may occasionally be pro-business but it is rarely pro-market. During the last elections of September 2009, the party spent as much time trying to convince the electorate that it is not market-liberal as it spent attacking its socialist opponents. But deeds speak louder than words. During its five years in power (2004-2009), ND increased the civil service by 100,000 people while state expenditures shot up from 42 percent to 51 percent of GDP.

Another ideological effect of the rent-seeking society is the extensive opposition to privatization. In part, this is due to the resistance of various interest groups who know that privatization will make them lose their privileges. Yet such opposition is also a rational response of an electorate that in effect experiences all public services not as free but as already having been “privatized.” Thus, the average person tends to associate privatization with corruption and increased payments on his part. The more people experience their life as subject to corruption, the more they clamor for more laws, regulations and restrictions on the market—without realizing that these laws and regulations are the very reason for the corruption they experience. Therefore you find the paradox in countries like Greece that the widespread mistrust and corruption that exist are seen as resulting from the operations of the market, and people thus clamor for increased state intervention.

A third ideological effect of rent seeking is the predominance of conspiratorial theories. In societies where economic activities are viewed as a zero-sum games, the individual always feels that he is surrounded by enemies, and that he is in constant struggle with “dark forces” that seek to undermine his wealth and take away his assets. Considerable anger and discontent will be generated, but the object of the anger is diffuse, and many have trouble

identifying the source of their discontent. It is then in the interest of politicians to scapegoat someone whom they can blame for the problem. In Greece, Germans, foreign speculators, hedge funds, George Soros and “Anglo-Saxon ultraliberalism” have all been blamed for the country’s crisis.

Even a rational politician such as Prime Minister George Papandreou has not been immune to the temptation to resort to conspiracy theories. Talking about the Greek financial mess at the Davos meeting in 2010, he said, “This is an attack on the eurozone by certain other interests, political or financial, and often countries are being used as the weak link, if you like, of the eurozone” (Quoted in *The Economist* 2010).

What of the Vision of the Left?

Clientelism in Greece went hand in hand with the development of an oversized state apparatus where various social groups competed not to enforce different policies but to reap personal gains. As the Greek academic T. Pelagidis says: “The Greek state is huge yet hollow. It intervenes in all aspects of economic and social activity yet at the same time it has been taken over from within by organized groups that pillage the national welfare in the same way the Vikings were pillaging the European societies a few centuries ago.” (quoted in Michas 2009)

One of the main criticisms the left has been leveling at capitalism is that capitalism puts “markets above people.” At the same time, the left believes that political intervention is needed to restore the people to their rightful place—lifting them, that is, from their tragic position of slaves of the market to the superior position of lords and masters of the market.

What makes the case of Greece interesting is that Greece in a certain sense can be said to provide the perfect realization of this leftist vision, the vision of “putting people above

markets.” Greek politicians have indeed always placed “people,”—that is, their “clients”—above markets, with the tragic results we see today.

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