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State monopoly in higher education as a rent seeking industry

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Abstract

In Greece, the provision of tertiary education is permitted, by the constitution, only to 'public' institutions where faculty and administrators are civil servants and public officials respectively. We construct an argument and present statistical data that describe the situation observed in Greece, where the community of higher education providers decides in the name of the whole society on the extent to which the provision of these services is a (state) monopoly. We see that in the context of our argument the society has to override the decision of the educational community regarding the provision of these services if it desires to see the community of educational services providers to allocate more time towards their profession and less time towards rent protection and/or extraction. We argue that once reform, that is the removal of the state monopoly, is introduced the educational community will allocate more effort towards educational related activities and less effort towards rent protection while at the same time it will accept a new 'equilibrium' in which education related activities are rewarded more generously.

JEL Classification: I22, I28, K00

Keywords: Higher Education, Policy Reforms, Rent Seeking, Greece.

1. Introduction

In Greece, the provision of tertiary education is permitted, by the constitution, only to ‘public’ institutions where faculty and administrators are civil servants and public officials respectively. universities are financed almost solely by taxes and students pay no tuition fees. Any reform proposals either to transform ‘public’ universities to non-governmental, non-profit institutions or even to permit the establishment of new non-governmental institutions of higher learning introducing the provision of competing services, are usually met by fierce resistance from almost all members of the educational community, that by definition work at the ‘public’ tertiary education institutions, and that are at the center stage of the defense of the status quo. Indeed, the civil servant status of Professors and, as a consequence, the lack of free competition among them as among ‘public’ universities, have been blamed for a significant deterioration of the quality of higher education (Psacharopoulos 2004). Although universities’ poor performance is widely acknowledged, voices in favor of reforming the existing system by introducing criteria such as accountability and efficiency for a more competitive allocation of federal funding usually lead to strong opposition by the university Faculties. Their core argument is that any proposed reforms to deregulate higher education, aim at serving solely the market and not the public interest or academic values. Campaigning continuously against efficiency-enhancing reforms, faculties and most of the tenured Professors in particular, being free of constraints that job evaluation entails, are able to allocate their time to strengthen the coherence and power of their interest redistribute group.

We argue in this paper that when higher education monopoly providers allocate time to organize themselves and protect their monopoly rights, that is they engage in rent-protecting activities to hold on to monopoly rights, they spend, as a result, less time for purely academic activities, that is good teaching and publications in professional journals. In particular, in this paper we describe the situation observed in Greece, where the community of tertiary education providers decides in the name of the whole society on the extent to which the provision of these services is a (state) monopoly. We see that in the context of our model the society has to override the decision of the educational community regarding the provision of these services if it desires to see the community of educational services providers to allocate more time towards their profession and less time towards rent extraction and protection. It also tells us that as long as the educational community can extract and protect these rents there will be an equilibrium at which it will continue the extraction and protection of these rents in perpetuity and at the same time oppose any initiative to introduce reforms that would lead to an end to the state monopoly in tertiary education. We argue that once reform, that is the removal of the state monopoly, is introduced the educational community that now allocates time to extract and protect the monopoly rents and oppose reform, will allocate more effort towards educational related activities and less effort towards rent extraction and protection while at the same time it will accept a new equilibrium in which education related activities are rewarded more generously.

In section 2, we present and analyze the performance of the Greek higher education. Descriptive statistics and data that are available on the spending on tertiary education as a percentage of GDP and certain measures of performance show that in Greece measures of quality and quantity are low, even when accounting for low spending on education. These are symptoms compatible with the existence of a textbook case monopoly that is unproductive and harmful to consumers. At the same time it is compatible with a continuing rent extraction to the monopolist, as relevant economic theory suggests (Tullock 1993, Tollison 1997, McChesney 2001, Hillman 2003, Mueller 2003), or in this case a group of organized individuals that collectively acts as a monopolist.

In section 3, we propose in brief policy measures to abolish state monopoly in tertiary education, overlooking potential objections by the educational community. Policies suggested include the provision of incentives to reform and deregulate the system, encouraging faculties to allocate more time to education related activities as well as more efficient management within every single 'public' university. Section 4 concludes.

2. The case of higher education in Greece: A textbook monopoly to reform

2.1 Professors against taxpayers

In this section we argue that there are a number of members of the Greek educational community that act as monopoly providers of higher education services. It is assumed that there is no mechanism that permits the whole society, which includes not only the service providers but also the service consumers, to decide on the question if this monopoly should be perpetuated. Such a mechanism could be a referendum, but members of the service consuming community- students and their parents- are assumed not to be organized or adequately informed (they are assumed to be turkeys that do not vote for thanksgiving), and thus are unable to promote the implementation of such a mechanism.

On the other hand members of the service providing community are supposed to be well informed and organized. As a result, they are assumed to have established a social decision rule that allows the members of this group to collectively decide on the extent to which the provision of these services remains a monopoly. Members of the education service providing group can also individually decide how much of their time to allocate individually to extract personally some of these rents and how much time to allocate to activities that are related to their role as members of the education providing community, like research, teaching, preparing classes and projects and tutoring students.

According to the discussion in Rodrik (1996), it can be justified that one group is better organized as it is the interest group that stands to incur a significant and immediate cost, related to the loss of rent, by any proposed reform. The organization of this group may finally be facilitated, or at least tolerated, by policymakers that control the government apparatus and who act as brokers for the rent that the service providing community receive, as described in Kimenyi and Mbaka (1993) and in Drazen (2000). The lack of a mechanism like a broad referendum that internalizes the opinion of those that stand to win from reform may not necessarily imply that it is not technically available; it may also imply that the interested groups do not proceed to use it, or promote its use, because they do perceive their benefits from using it as too uncertain, or not large enough at an immediate date. The "winners of reform" in our case are students that receive better education, and their parents that will see their children mature with the benefits of a quality education, a process that may take years or even decades to become evident to both child and parent and as a result such issues may indeed be very relevant in their case. The issues of the uncertainty of the benefits from reform and the speed at which they become available to the concerned interest groups are discussed in Rodrik (1996) and issues of uncertainty are discussed in work like Fernandez and Rodrik (1991) and the literature that expands on their contribution, as well as the books of Persson and Tabellini (2002) and Drazen (2000). Finally, as Rodrik (1996) quotes suggestions from Sachs (1994), it may be that the groups that stand to benefit from liberalization, parents and students in our case, simply lack the common sense to understand what is in their interest, till the moment liberalization is introduced at which point they will see the obvious. But it should also be taken into account that reform proposals so far seem not to have taken into account the necessarily political economy considerations, as suggested by Kim and Pirttila (2003)

and Rodrik (1996) among others, that need to address the balance of positive impacts to short term negative impacts in order to build a momentum for sustainable reform. Following also the categorization of Drazen (2000), we have therefore both a powerful interest group that blocks reform because reform is against its individual interest, as also described by Olson (1982), and in addition the group of the beneficiaries of reform is much more numerous, giving, from their respective, the benefits from reform a public goods nature.

We make reasonable assumptions on the technologies that are available to each individual member of the education service providing community. It is assumed that when more time is allocated by the individual towards education related activities, the individual will receive larger payoffs from the provision of these services and a smaller amount of monopoly rents. Furthermore we assume that when the educational community as a whole favors education related activities then the individual providers of educational services are remunerated more generously for any given time they allocate towards these activities, that is there are positive spillovers. We assume that in this case an individual providing these services will receive higher remuneration for its effort, as when the whole educational community focuses on the production of education related services it manages to secure larger funding by the provision of these services as a whole to society to compensate more generously the individual. Of course this general assumption implies an efficient management of the educational system, the detailed description of which exceeds the scope of the current paper. But in itself the assumption that when the whole educational community focuses on education related activities the individual effort allocated to these activities will be rewarded better is sound, and assuming the contrary, on a generalized basis, would be counterintuitive.

Regarding the assumption that the individual can extract rents from the monopolistic provision of educational services, this assumption presupposes the ability of the educational community to impose a monopoly that enables subsequently the individual extraction of a share of the relevant rents. We suppose that the collective decision of the education providers' community can ensure such rents. This can happen by ruling out alternative providers to the members of the existing educational community. With the increase of the monopoly power the society is increasingly forced to turn to the sole provider, the group of established educational services providers, to satisfy its demand for these services. Again there are assumed positive spillovers. When the educational community as a whole favors rent extraction, any individual will find the allocation of time towards rent extracting activities more rewarding.

In our case the assumption is that these rents accrue from the ability of the educational community to block the entry of competition in the education services provision industry. Thus the introduction of a decision making mechanism that will permit the society as whole to eliminate the ability of the existing educational community to affect the decision on permitting the entry of competitors in the market will be an equivalent to a change in the parameters of the rent extracting/protecting technology and as such will significantly alter the decision of the existing educational community as a whole, but also of each member individually. In particular, we argue that they will allocate more time towards education related activities and furthermore vote for the community to favor such activities more than it does under the existing monopoly, which suggests that in spite of the current resistance to change the implementation of change will ultimately be accepted by the educational community. And if there are large enough externalities, such a shift may as well provoke a move from a 'greatest lower bound to a least upper bound' in which education related activities are favored. Such a process could create further support for reform after it's introduction, addressing thus issues raised in the literature, as in Rodrik (1996) and Kim and Pirttila (2003) for example, that suggest that if the intermediate benefits of reform are not large enough a reversal of reform may be chosen by the involved parties.

2.2. A piece of evidence

Data that is available from OECD on the spending on tertiary education as a percentage of GDP and certain measures of performance show that in Greece measures of quality are low, even when accounting for low spending on education. This seems to be true both in secondary as well as for tertiary education. Thus,

1. Given the expenditure on tertiary education as a percentage of GDP, there are now and average number of students at age 29 (figure 1), a number that has increased significantly in the past 5 years, and which may be related to the introduction of for-pay graduate programs in public universities.
2. There is, for the given expenditure always, a very high number of 21 year-old students while, as we have already seen, at the same time there is an average number of students attending tertiary education at a higher age (figure 2).
3. The tertiary education programs attended by so many students at the entry level of higher education is affecting the student to teaching staff ratio that is the least favorable observed not only in perspective of the amount spent on tertiary education, but also by any absolute measure (figure 3).
4. Many of the young students that attend the tertiary programs are especially unsuccessful in their bid to secure employment, as the low percentage of employed graduates shows (figure 4). This indicator, we note, is not affected by the participation of graduates in the labor market, in the same way, as any unemployment rate would be. That is students that do not participate in the labor market because they have completely given up on the hope of finding a job and are not registered as unemployed do appear in our statistic while if instead we were looking at the unemployment rate they would not appear to the extent that they do not register as unemployed. Psacharopoulos (2004), citing Eurostat, points out that Greece has indeed the highest unemployment among tertiary education graduates under 24, that stands at 28.8%, relative to 12.8% for the EU as a whole.
5. OECD data shows that an exceptionally high percentage of Greek students seeks higher education abroad, with only Ireland having a comparable percentage because a large number of its students attend English universities, in spite of the fact that the cost of the provision of tertiary education is already included in the bill of taxpayers and the cost of studying abroad is significant (figure 5). Psacharopoulos (2004) estimates that this cost is about 10% of the foreign exchange Greece receives from tourism, or 0.5% of the GDP. Psacharopoulos and Papakonstantiou (2005) provide data that confirms that students and their families spend privately more than the state not only in order to prepare for the entrance examinations but also while attending at the university. In private non-recognized officially as tertiary institution, 'colleges' as well as in cram schools ('frontisteria') located sometimes next to universities, professors are recruited to teach classes although the law does not permit this.
6. Finally, given the spending on public tertiary education, of which by law the state is the sole monopolistic provider, the output in publications in sciences and arts is very low (figure 6). As Psacharopoulos (2004) argues, it is not surprising that Greece lags behind in academic output as the civil servant tenure for life status allows professors to escape academic competition. It follows that in fact, tenured professors behave as a monopoly protected interest group allocating most of their time either protecting their monopoly position or rent seeking in the market and/or the 'shadow economy' (cram schools etc).

Figure 1

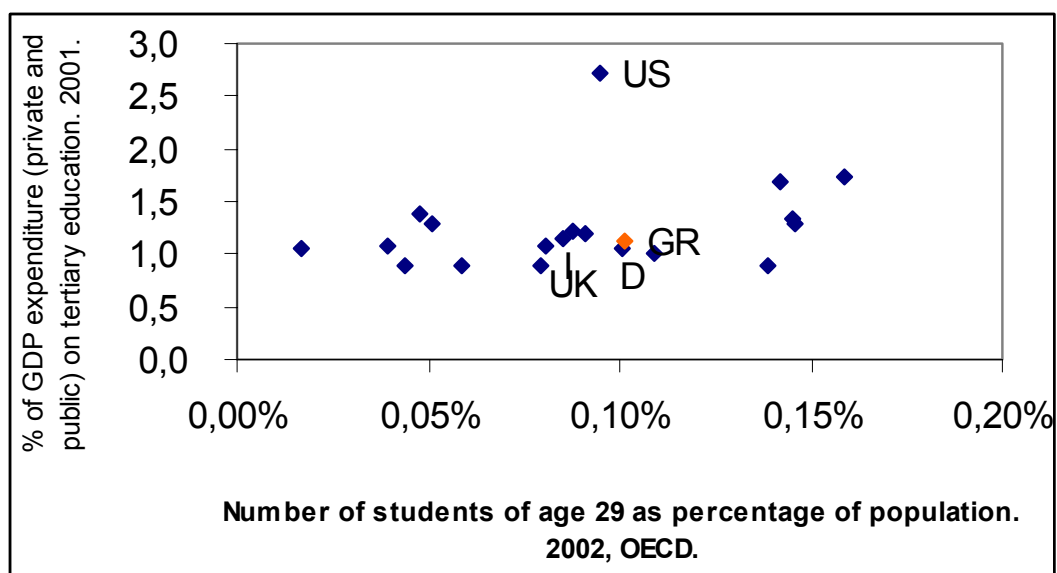


Figure 2

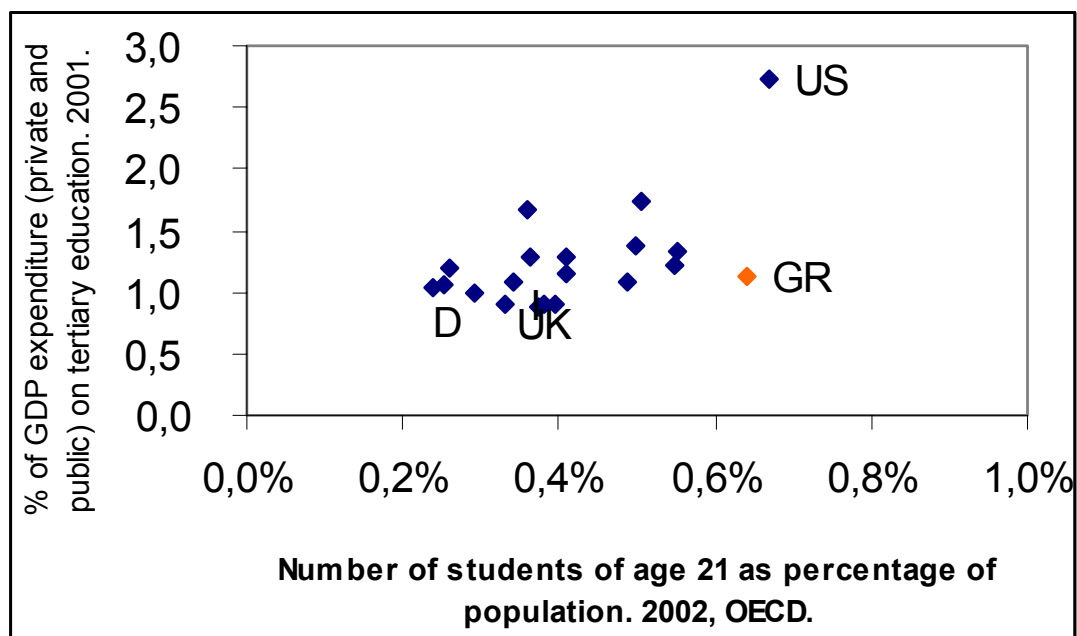


Figure 3

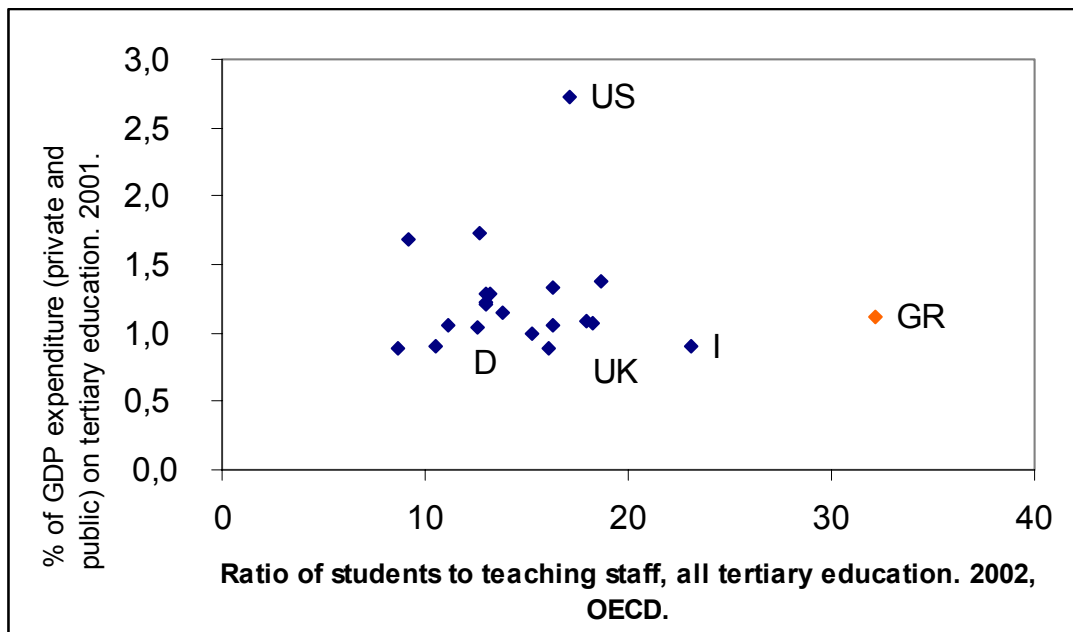


Figure 4

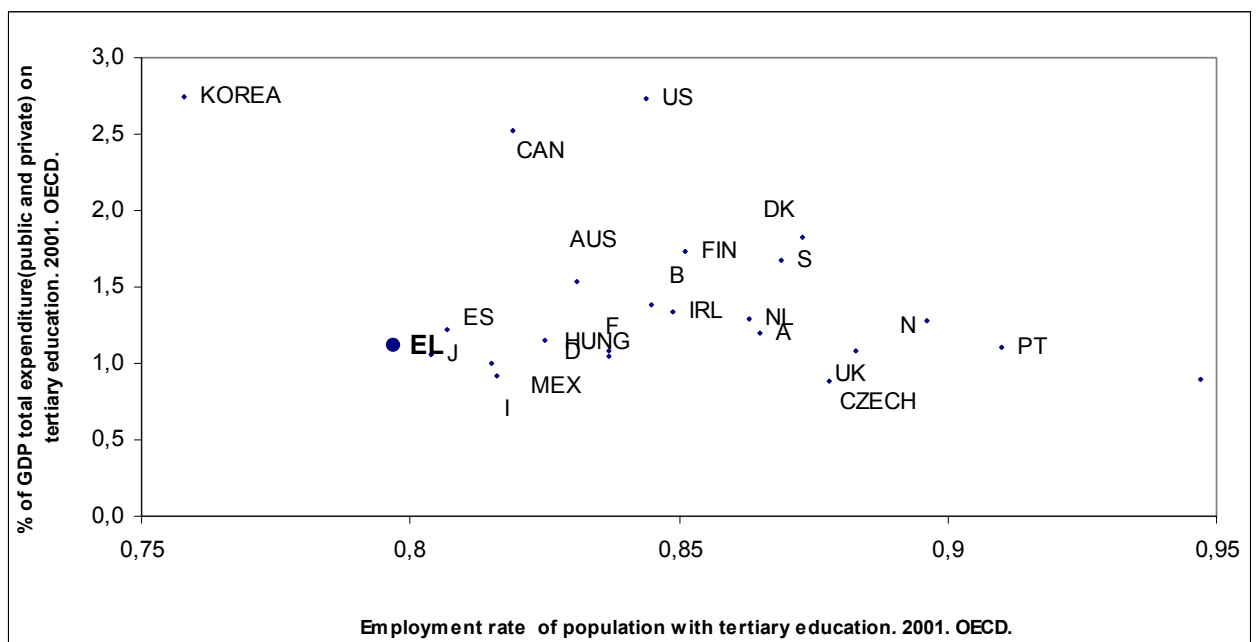


Figure 5

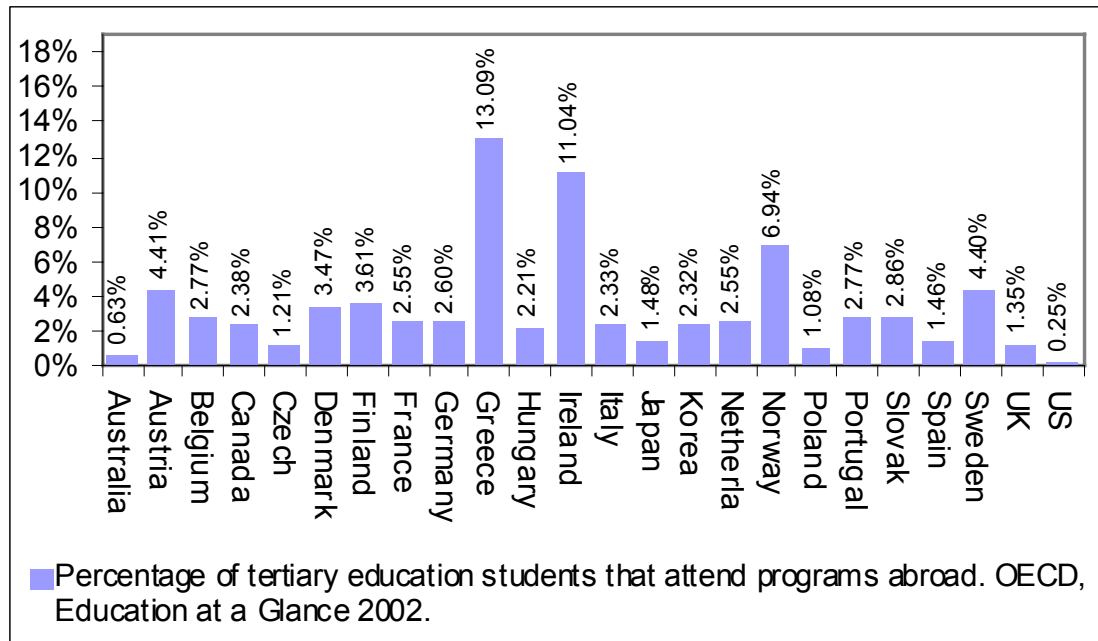
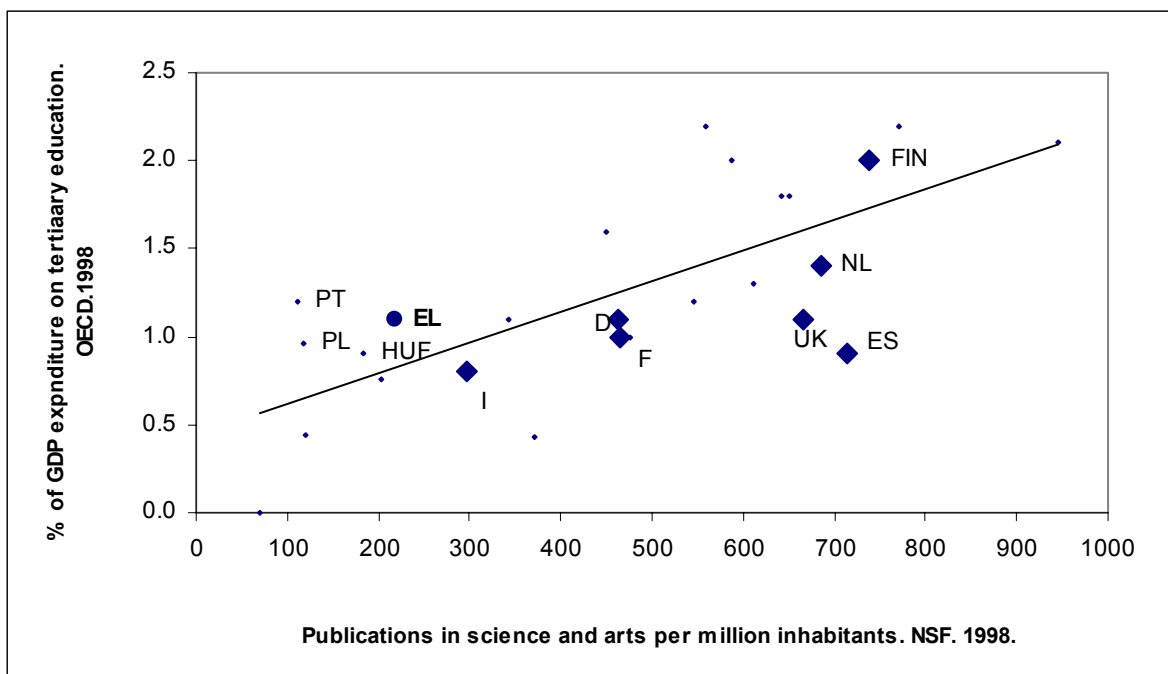


Figure 6



In sum, for the given expenditure on higher education as a percentage of GDP compared to other OECD countries, publications in arts and sciences and attendance of tertiary programs at the age of 29 are not favorable. And although there is very high attendance in tertiary programs at a low age, there is ample evidence that the education received by those many students is of very low quality, indeed mismatching market needs. Thus, it seems that these tertiary programs lack coherence, as measures of quality like the student to instructor ratio are very unfavorable. Also the data documents an unreasonable inability of graduates to find employment, which also points to serious qualitative insufficiencies. Finally, the exceptionally high percentage of tertiary education attendants that choose to migrate abroad also reveals the judgment of the attendants of tertiary education that the services provided by the Greek universities are of sufficiently low quality for them to seek education abroad, in spite of the extremely high cost such a decision entails, a cost that is added to the tax that the interested groups have already paid for the maintenance of Greek state universities, since no deduction or voucher is offered to those that opt out of the state monopoly.

All the above pieces of evidence are directly compatible with the assertion of a low quality of the education services supplied for a given price by the monopoly provider. This low quality, we stress, is documented not by an absolute measure of educational performance but from measures of quantitative and qualitative performance given the amount of expenditure, as a percentage of GDP and in comparison to the relative performance of other OECD countries that with similar expenditure as a percentage of GDP seem to manage obviously better results, as in all qualitative measures enrolment Greece appears either on or near the inefficiency frontier.

2.3. Rent seeking Professors: Fatigue and overworked?

Monopoly providers in higher education both in Greece and in most of the continental EU member states, although they steadily resist reform proposals for opening the system to competition through the establishment of non-governmental institutions, used to attribute poor quality and mismanagement to reasons such as ‘fatigue’ or underfunding, emphasizing overcrowded classes and insufficient government spending (Perotti 2002). Most of the times, they also accuse politicians for pork-barrel politics in higher education as new departments and universities of poor quality are founded by the state mainly in rural peripheries with the purpose to satisfy local demands as well as to increase national students’ accession rates. They refer specifically to politicians who use their rent-creating power through founding new departments, in order to maximize in return voting gains both locally and nationally.

As a matter of fact, as figure 3 above shows, Greece is not among the big spenders in tertiary education and its 27/1 ratio of students to teaching staff is the worst among OECD countries. As argued, ‘fatigue’ then comes up as an explanation, as Professors seem being too busy and overworked, classes appear overcrowded and students too many and demanding. However, as Perotti (2002) correctly emphasizes, what matters for the teaching load is the number of Full Time Equivalent (FTE) students and not the head count of students. It seems, at first glance, that funding from the Greek government is insufficient, actually around \$ 4157 per student expenditure, \$ US – PPS against 9063 average in the EU- (OECD 2001). But the system allows students to get enrolled without an exit deadline, and so relatively few of them are usually attending courses. It is estimated that only $\frac{3}{4}$ of students are ‘active’ and in fact, only 30% of them do attend classes. As a consequence, the ratio of students to teaching staff is much lower than the official 27/1, and, as a consequence, universities may well be funded than it initially appears as far as attending students is concerned.

Questions to under funding may relate to salaries, which are fixed by the levels of civil servant salaries and paid for by the Ministry of Education (and not the universities) or operational costs, which are also always paid regardless if their height is reasonable or not. But the fact that the performance of Greek universities is low even when adjusting for the level of funding, in addition to the abovementioned considerations, suggests that other parameters are also important in shaping the outcome observed.

Given the rigid pay structure of the civil servants, that is applied to university teaching staff in Greece, the rationale examined in Posner (1993) for judges may indeed apply also in this case. If that is the case, university teaching staff and professors should care about keeping control of time allocation so they can protect and hide rents as well as choose to enjoy leisure or engage in moonlighting (seek additional money elsewhere), leaving the inferior, non-tenured staff to do the teaching and any other administrative jobs. Perotti (2002) describes indeed very well the discrimination against the non-tenured staff. The unfair, anti-academic and exploitative way that many tenured, full professors usually treat the non-tenured staff. He also presents data that shows that in most of the times, the so-called candidates or 'outsiders' in Italy have in the average more publications in international refereed journals than commissioners ('insiders', tenured Professors). Buchanan and Devletoglou (1970) on the same lines, confirm that this type of closed systems allows a discriminating treatment that favors certain established groups to extract and protect rents at the expense of the most qualified academics.

Inevitably, since the perpetuation of the monopoly requires the support of lawmakers, politicians, who act to maximize support from the voters, are also involved in a way also outlined in Drazen (2000). In the case of Greece, as free higher education provision substitutes for monopoly providers (faculties), politicians invest, by transferring taxpayers' money, in power, well-organized groups, such as the tenured teaching staff and administrators with fixed contracts and permanent for-life jobs. It should not be underestimated that as 'men of letters', Professors in particular retain a heavy influence on public opinion, an asset that they used to sell to politicians in order to keep their present academic status quo intact. In this context, and with limited or asymmetric information -as cost of receiving information is very high-, to the public; in fact, politicians tend to 'mitigate' any opposition/reform voices within higher education (young professors, students-consumers and student's families). Thus, very few talk to the public about the merits of academic emulation or about tertiary education's status quo inefficiency, corruption and mismanagement. As education remains 'state provided', politicians as utility-maximizers, allocate taxpayers' money to bribe and gain power groups' support, by buying academic votes and influence over society in particular. Thus, the status quo prevails and the public remains uninformed as far as the merits of academic competition and deregulation is concerned.

Consequently, faculties defending the established time allocation settings, in most of the times, share the same interests with political entrepreneurs who rationally -at least in short term- protect the rigid, monopoly provision in higher education. The present tenure system that lies at the root of academic conservatism, gives faculties full power to succeed in defending their rents realized by existing time-allocation and keep academic life as quiet and 'convenient' as possible so they are free of constraints to maximize their interests and set of priorities (Raines and Leathers, 2003). As a consequence, and as our model confirmed, they do allocate time to defend monopoly provision at the expense both of academic quality and consumers' (students) and taxpayers' preferences.

Unfortunately, groups as university faculties, accustomed to a rent, used to fight much more vigorously against its removal than they do for its introduction (Mueller, 2003). If, thus, rent dissipation is so wasteful in that case, then there is an additional reason for a reformist, forward

looking politician to urgently implement appropriate measures to fight so much inefficiency, social waste and unfairness in higher education.

3. Policy implications

We have argued that education providers that are operating in an environment that secures monopoly rents will rationally allocate effort to secure these rents and rationally choose to perpetuate the existence of this monopoly. These efforts will come at the expense of the effort they allocate to the provision of education related activities.

We also argued that the abolition of the said monopoly, in spite of the objections currently raised by members of the educational community, will result in the members of the educational community spending less time towards rent extraction/protection and more time towards educational activities, something that should benefit the consumers of these services. At the same time while the structural intervention will refocus the whole community towards educational activities and lead to the reduction of monopolistic rents extracted by the providers of these services, their rents from the provision of the services they are expected to provide will increase and compensate, at least partly, for their loss.

We presented statistical evidence that suggests that the existence of the state monopoly in Greece is associated with the provision of low quality and quantity services for a given price, something that standard economic theory suggests is compatible with the existence of rents that accrue to the monopolistic provider at the expense of the consumer. A first policy suggestion would therefore be for the government that is funding with taxpayers money the cost of operating the monopolistic universities, to collect and widely publicize performance indicators. Since rent-protecting faculties usually present their activities as productive and socially beneficial, denying that their gains are privileged rents from rent seeking and rent protection activities (Hillman 2003), further research is needed in order to reveal the secret violations of efficiency by the monopoly providers.

As part of a reform agenda, voting blocks of students-consumers and taxpayers have to become organized and information has to be expanded to them in order to keep them abreast of the welfare reduction they suffer under the current system and that it is for them cost effective to resist and address the efficiency of the system (Rodrik, 1989; Tollison, 1997). Such measures also assist to neutralize the expenditures of the monopoly providers to defend the status quo. Such an effort will have to address the fact that the students/consumers and taxpayers are the classic examples of large 'Olsonian groups' facing 'free riding' in organizing. The publication of the facts has to be done in a way that will take into account the fact that such groups tend to be very diverse, lack coherence and power and, hence, do not strongly perceive the incentive to initiate actions on their own to express preferences and defend rights to exercise some control over the quantity, quality and differentiation of the academic services received. Thus policy has to contribute some guide to the system, as suggested by Raines and Leathers (2003).

Since average politicians care to a great extent to elect, or re-elect, themselves and given that taxpayers' and students'/consumers' votes outnumber those of faculties, even when we include Professor's influence to the public, a policy initiative that informs taxpayers and consumers about their losses and in particular that structures incentives for them to organize themselves, exert influence over education issues and claim to impose their preferences should actually help the initiating politicians to gain votes and support from the vast groups of people gaining from deregulation.

Another step, to be taken at the same time, is to make funding to universities conditional on the performance indicators, as suggested in Belfield (2003). But in order to make the evaluation and assessment of universities' performance meaningful, greater freedom in the provision of education by each university is needed. Today, the complicated and non-transparent rules that allocate resources provided by the taxpayer to the universities that give faculties a motive to divert their time away from teaching and research are paired with equally complicated and non-transparent rules that determine the way education services are provided. Making funding conditional on performance indicators when universities are unable to shape their academic programs freely will result them being evaluated for performance which is not the result of their decisions and merits. Concerning this policy suggestion, Perotti (2002) suggests that as a result a public market would be created and a meaningful competition between individuals and universities would begin, weakening the rents extraction opportunities that the current system seems to offer. Hillman (2003) also suggests that as a consequence of this policy in favor of 'public markets', operational costs and red tape are expected to shrink, and the system will start to behave in a more efficient way, as universities would begin to face pressures for high quality teaching, research and publish and compete for students-consumers and the associated revenues by producing institutional prestige. At the same time, like also suggests our argument, faculties will start to realize that their rent-protecting opportunity does not yield the highest personal return and start to feel pressures for alternative use of time and resources towards purely academic activities. It is reasonable to assume that along with the development of such a 'public market' the presently observed mismatch between tertiary education output and labor market demands will also begin to diminish as the forces of academic competition will adapt academic programs to the needs of the job market in an effort to make these programs more attractive to prospective students through an increased probability of find an attractive job placement after graduation.

4. Conclusions

Building on a growing literature that examines the economic behavior of rent seeking, we applied this behavior to the Greek higher education. We argued that once reform is implemented, faculty members that now fiercely resist reform would start allocating their time on teaching and research rather than rent protection and seeking as they do today. Thus, once reform is introduced, those that now fiercely resist it will, rationally, accept the new status quo and adapt to it. This prediction becomes relevant as the data that is available indicated that the market of tertiary education in Greece shows clearly the textbook symptoms of a monopoly in which the monopoly power of the provider is indeed exercised to the detriment of the consumer, that is low quantity (or quantifiable quality) for a relatively high price. Thus there seem to be significant gains to be made by the consumer of the services, gains that remain unrealized under the current system because society yields to the fierce resistance to reform in which the rent beneficiaries engage.

The proposed avenue of reform, the literature suggests, should include as first steps gathering information to expose the existing rents and use this information to inform the public about the welfare loss it suffers. In this context, it is clear that further research is needed in order to reveal and measure the secret violations of efficiency by the monopoly providers. At the same time, it is of cardinal importance to use the expected welfare gains for the education service consumers as the support for the politicians that will promote the necessary reforms to expand. Reforms need also to include both the increase of the freedom of universities to shape their academic programs and the linking of the government funding they receive with measures of academic performance that will allow the meaningful comparison of the performance of the different universities and other tertiary education institutions.

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