An employee at one of the social insurance agencies in Greece described recently what happened after he proposed to use Excel to calculate benefits at the counter, instead of doing so by hand, for every beneficiary, day in, day out: his colleagues accused him of wanting to take their job. It is easy to mock this ludditism or to ascribe it to cultural traits. The favorite one in Greece is the Ottoman occupation, which ended in 1821. Colonial legacies are no laughing matter, but they’re no longer an excuse for Greece in 2015.

In fact, the fear was not unreasonable: the time-savings were considerable. If an hour was wasted on these calculations per day, this amounted to a month’s worth of labor days over the course of a year just for one employee. It’s more appropriate, accordingly, to take note of the fact that unemployment benefits, currently at €360 per month, are only available for the first 12 months of unemployment; after that, you are helpless in a country where the unemployment rate is at 25%, 35% if you are under 35, and over 50% if you are under 24.

Absent a private labor market that can absorb workers, resistance to modernization stems from the need to survive, not entitlement. By 2014, almost 280,000 public servants (including fixed term contract employees) had been fired since the start of the crisis, out of 952,000; this is almost one third. This remarkable fact is missed when Greece is condemned for not doing enough, although a long way still remains.

Eurozone leaders just concluded a fraught marathon of negotiations, before agreeing to extend the assistance program to Greece. The problem was that “trust” in the capacity and will of the Greek government to execute just such necessary reforms has withered. For that trust to be regained, not only should strict conditions be enforced on Greek governments; the terms imposed also have to address the real problems at hand. This is not possible when key misconceptions prevail.

Probably the most critical one is that the key problem in Greece is the state. But is it the problem or the symptom? Take, for instance, the stereotype of “overpaid” public sector employees. Many salaries in public television and state owned enterprises were indeed scandalous (with pensions being a major issue). But no one is outraged that a Greek judge earns €30,000 a year, when his or her counterpart in the U.S. earns on average $170,000—adjusting for purchasing power, that would be about €70,000, i.e. more than double current levels. Ireland, the UK, Denmark and Switzerland pay their judges in excess of €100,000 and another 9 European countries pay them in excess of €50,000. Germany and France, surprisingly, do not, but their rule of law is not faced with the problems besetting Greek justice. When Greece’s partners are demanding “decompressing the wage distribution across the wage spectrum,” it is doubtful whether they have such adjustments in mind; even more so their anti-statist allies within Greece.

 But if one wants a “free market” or a well-functioning economy, one should be prepared to pay for the institutions that make it work—the more so the weaker your starting point. Civil servants in all the advanced countries enjoy comfortable salaries, pensions, and benefits, for a reason: market logic says that if you want the best people, you have to lure them. No good enforcement of contracts and laws, no free market. Public employees who are political appointees and are low-paid lack status and respect; they are thus also bribable. It pays to keep the state weak.

The problem in Greece today, in fact, is not a bloated or overpaid state: employment in general government and public corporations in 2008 in Greece was about 8%, when the OECD average was 15%--again, a point typically missed. The real problem (apart from contractors, who are being reduced, and disproportionate state-owned enterprises) is a state that is corrupt, inefficient, and where resources are directed not on merit but on patronage. For these pathologies to be addressed, investment in both the skills of employees and in technology is necessary. The Greek state has so much work to do, it needs more and *better trained* people *in the right places,* like tax collection, assessment, effective regulation, planning—and fewer people in the wrong ones or hired for the wrong reasons.

Other typical assumed culprits are bureaucratic inefficiency and regulation. We are told that “too much” of them is stifling business. Inefficiency is indeed a pervasive problem. One study before the crisis calculated that 17 billion euros were lost per year in labor hours due to bureaucratic inefficiencies such as the one I recounted above. This was half as much over the Greek budget deficit in 2007! On this, progress is not negligible: for instance, in the last few years, all utilities can be paid online, when before one had to wait in line for each, as personal checks were not available—the lost labor hours can easily be underestimated.

But regulation is another matter. Much of it, indeed, is counterproductive and nonsensical. But if it were the main problem in Greece, you’d expect Greeks to pool resources and share the costs, for instance by creating larger firms. How can we then explain the paradox that Greece has one of the highest rates of *small* business enterprises, with all the inefficiencies these entail? Bad regulation does harm and has to end, but it’s not stopping entry into the market: every Tom, Dick, and Mary can open shop in Greece (and then wail about not making ends meet). Reducing red tape and making entry even easier *without addressing the pathologies that keep Greek firms small and inhibit collaboration* will only increase the market anarchy that reigns in Greece and make economic outcomes worse. Lots of boom and bust startups, lots of wasted savings, and lots of failed entrepreneurs without a social safety net.

Greece, moreover, we are told, is the land with “closed professions,” like engineers, lawyers and taxi drivers; “opening” them is another key Troica demand. But if a profession is closed, one expects fewer professionals and higher prices. Yet in Greece, numbers in closed professions, such as lawyers, pharmacies, and taxi-drivers, per capita are much *higher* than in other advanced countries. Greece has 380 lawyers per hundred thousand, when the European average is 140. What the state has done is guaranteed minimum income to these professions and secured profit margins without limiting numbers. As always, such regulation originates in the interest groups themselves; the state responds to demand. Blaming the state rather than the real culprit is a typical reaction inhibiting progress. Corruption needs two parties.

The issue is therefore not “opening” “closed” professions, but addressing the problems that direct individuals to choose oversupplied professions, ones that, moreover, also typically involve individuals or small partnerships, not collective entities or firms. Otherwise, the excess of professionals in these sectors will simply have nowhere to go. And the Greek state will step in to offer a substitute welfare program, a capacity abused by all parties; this is the root of clientelism.

The state, the closed professions, and regulation are therefore attracting all the ire, when in fact they are the symptom, not the cause. This ire has merged with a right-leaning attack on the state within Greece, which is masquerading as support for the free market, when in fact it is the same old pathology of Greek elites, a disdain for rules and restrictions—without which free markets cannot thrive.

The main problem in Greece, instead, is a private sector that works nepotistically and cannot absorb new labor. Not because of government regulations, as they would have you believe, but because of patterns that have stymied growth for decades and have exploited a weak state for gain. A strong Greek preference for self-employment is reinforced by the family-based business structure and the habit of treating employees as subordinates rather than investments (what technocrats call “human capital”). When employers treat their employees as “investments” to be valued, firing is not as easy. We forget that regulations, for instance labor protection, are passed because those with power abused it to excess.

At the top, these pathologies merge with the seeking of influence in the political arena for business gain (whilst blaming the state for complying) and using wealth for consumption rather than expansion. Many in the private sector detest these practices and are seeking change; but they are not dominant. Unless “vested interests” are truly tackled, Greece will find herself unable to meet the demands placed on her.

The government has, apparently, expressed the “ambition” “to modernise and significantly strengthen the Greek administration.” Only by creating a robust and *efficient* state, capable of thwarting pressure from private interests and generating incentives for greater collective action in the economy, can progress be expected. My mother, who was English, used to have two jokes about Greeks: that they were “all chiefs and no Indians” and that “if they ever got organized, they’d be dangerous.” That pretty much sums it up.