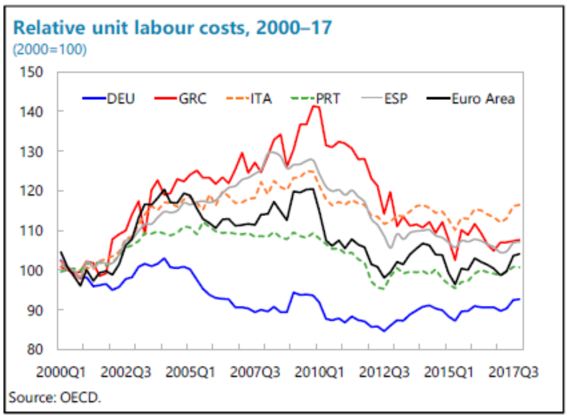
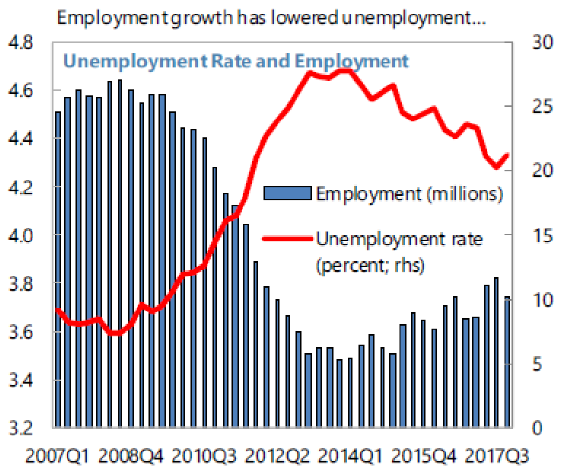
Final comment on Juselius and Dimelis "The Greek crisis: A story of self-reinforcing feedback mechanisms" submitted to *Economics: The Open-Access, Open-Assessment E-Journal*

The authors do not want to acknowledge that they are **wrong with the price competitiveness facts**.

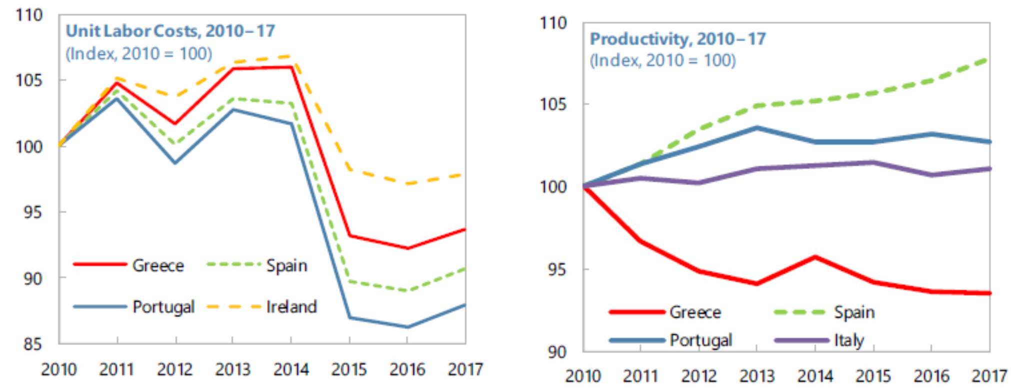
- The Greek REER was increasing from 2000 through 2009 signalling a **loss of price competitiveness**.
- From 2010 through 2015-17 the Greek REER declines significantly showing an **improvement in price competitiveness**.
- When Greece was **losing competitiveness** (REER going up) the **unemployment rate was low**; when Greece was gaining competitiveness (REER going down) the unemployment rate was high.
- The improvement in price competitiveness is mainly driven by a decline in wages (not productivity gains) under high unemployment.
- The econometric estimation gives a **negative sign** in the relationship between unemployment and price competitiveness which is at odds with the PSS theory prediction.

The IMF's Greece Country Report No. 18/248, July 2018 shows, once again, the price competitiveness-unemployment facts that the authors deny:





Lower unit labor costs have helped regain competitiveness... ...but the decline was based on lower wages rather than productivity gains.



Sources: Bank of Greece; ECB; Elstat; Eurostat; OECD; WEF; World bank Doing business; and IMF staff estimates.
1/ Data is from World Economic Forum, The Global Competitiveness Index Historical Dataset.
2/ Data is from World bank Doing business 2018.
3/ Data in 2017 is only available for Greece.

To understand the economic mechanisms of the Greek Great Depression of 2008-2016 the authors should look at **credit and other quantity variables** (as well as to emigration). The Greek banks were "forced" by the Troika to cut credit to the economy which together with budgetary cuts and nominal wage/pensions reductions, caused aggregate demand to collapse and unemployment to surge. The resulting shrinkage of imports closed the trade deficit. This "treatment" was applied to the patient several times. Thus, the economy went through a depression.

Be that as it may it seems plausible that there were/are several self-reinforcing feedback mechanisms at work in Greece. But the one highlighted in the paper is most probably not the relevant one.