The Daily Dish

Policy Toward Supply Chain Blockages

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Eakinomics: Policy Toward Supply Chain Blockages

There is a lot of fuzzy thinking going on about supply chain problems and the U.S. economy. (Fuzzy thinking is not new; recall the White House's supply chain task force.) The basic problem, in the end, is the interference of COVID-19 on labor markets. After all, one company's labor shortage is another's supply chain problem.

This realization has led some to argue that the key is to pass the Build Back Better reconciliation bill, on the grounds that its provisions (e.g., child care) will get people back into the labor force. Even assuming that is true (and I have lots of reasons to be doubtful), the timing makes no sense. It will take years to get the new welfare state up and running, have people understand the provisions, and as a result re-arrange their economic lives. This episode of supply challenges will be in the rear view mirror.

The problem is also global. Every country's labor market has been affected, production has been disrupted, and ability to meet the demands of overseas customers limited. The only real policy that can deal with all of this simultaneously is an effective global strategy on fighting the coronavirus. Current efforts appear to fall quite short of that mark.

This does not mean that domestic policy does not matter. After all, supply is only constrained relative to demand. The passage of the American Rescue Plan in March – a poorly timed, excessive $1.9 trillion stimulus – boosted demand for goods noticeably. The greatest manifestation has been a sharp increase in inflation. But it you think about it, at least some of those ships parked off the California coast are attempts to meet stimulus-related demand. In the absence of the stimulus-related shipments, the infamous Christmas shipments would have an easier time being distributed in a timely fashion.