Addressing America's Ongoing Supply Chain Crisis

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Ranking Member Westerman, Distinguished Members of the Committee, thank you for the opportunity to testify today. I am an adjunct professor of economics at George Washington University, where I teach transportation economics. Until this past January, I was Deputy Assistant Secretary for Research and Technology at the U.S. Department of Transportation. I have served in the past as Acting Assistant Secretary for Economic Policy at the U.S. Treasury under Secretary Steven Mnuchin; Chief Economist at the U.S. Department of Labor under Secretary Elaine L. Chao; and chief of staff of the Council of Economic Advisers in the White House under President George W. Bush.

Covid-19 brought the term "supply chains" into everyday vocabulary and made it a household word. Beforehand, everyone took supply chains for granted.

Due to the pandemic, the Federal government increased the demand for goods and reduced the supply of workers by sending out stimulus checks. In March, 2020, President Trump signed into law the CARES Act, a $2.2 trillion stimulus package; and in December, 2020, he signed the Consolidated Appropriations Act, which included another $900 billion in spending. This spending kept the economy going during the pandemic and gave individuals who had lost their jobs a stream of income.

However, by 2021, the economy was on the road to recovery, and additional stimulus reduced work incentives and began to cause inflation. In the third quarter of 2020, GDP rose by 33.8 percent at an annual rate, followed by an increase of 4.5 percent in the fourth quarter. Nevertheless, despite this strong growth, in March 2021, President Biden signed the American Rescue Plan, with another $1.9 trillion in spending.

The economy saw strong annualized growth of 6.3 percent in the first quarter of 2021 (the quarter the American Rescue Plan was signed), and 6.7 percent in the second quarter of 2021. Due to supply chain shortages, the increase for the third quarter of this year was 2.1 percent.

Signing into law the American Rescue Plan, with additional checks mailed out, and expanded unemployment benefits, was as though Uncle Sam gave everyone coupons to eat at McDonalds but told employees not to show up for work. In such a case, it is easy to see that there would be lines and shortages since consumers have spending power while workers stay home.

The Federal government is still sending out checks, such as child credits, without requiring that people work or develop other habits to keep them out of poverty.

The American stimulus programs had global effects. Demand also went up in Asian manufacturing centers.

Now producers can't get the inputs they need—so they are ordering more—and employers can't get the workers they need, slowing economic growth. New data released yesterday from the Bureau of Labor Statistics show that there were over 11 million unfilled jobs in October. At the same time, hiring declined by 80,000 to 6.5 million, contributing to a widening of the gap between job openings and hires to a record 4.5 million.

According to Mickey Levy of Berenberg Capital, many of the bottlenecks in supply chains have been generated by (largely unanticipated) robust product demand that has stretched producers and productive capacity. The boom in product demand in the United States has stemmed from excessive monetary and fiscal stimulus. Final sales to domestic producers, a broad measure of aggregate demand, has risen 19.2 percent since its decline in the second quarter of 2020. If it were not for the robust product demand, businesses would not be demanding so much labor and they would not be so stretched.

The problems with supply chain,s combined with an accommodative monetary policy, are resulting in an increase in prices. Inflation is over 6 percent. Gasoline averages over $3.50 a gallon, reaching over $5 a gallon in some areas.

This will not end soon. America is part of a global economy. Covid is shutting factories in Asia, and these foreign lockdowns will continue into 2022, due to lack of vaccines in other countries.

In addition to holding hearings and asking the Federal Reserve to wind down its accommodative monetary policy, I would like to offer two recommendations as to how to repair supply chains. First, Congress would be wise not to pass the Build Back Better Act in its current form, because it provides unneeded fiscal stimulus and disincentives to work. Second, Congress could move port workers to the National Railway Act (which oversees airline and railroad workers) from the National Labor Relations Act.

Build Back Better. In November, the labor force participation rate—the share of the civilian noninstitutional population either working or looking for work—stood at 61.8 percent, compared to 63.3 percent before the pandemic. That corresponds to approximately 3 million Americans no longer working or looking for work. The unemployment rate declined to 4.2 percent. Firms added 210,000 workers to payrolls, and would have added more if employers could find people willing to work.

The Build Back Better Act will do further harm to supply chains because it will provide more incentives to keep workers out of the labor force. The bill would result in 9 million fewer Americans working over the next decade, according to University of Chicago professor Casey Mulligan.

Professor Mulligan calculates that expansion of the Affordable Care Act and Medicaid would take 4.5 million workers out of the labor force; paid family leave would take out another million; and new affordable housing subsidies would reduce workers by another half million. He calculates that 10 other provisions would shrink the workforce by an additional 2.5 million workers.

This is because the bill provides an array of benefits that people could get only if their incomes were below a certain level. Working would mean that incomes for many Americans would be too high to get the benefits, so they would be better off staying at home. Additional entitlements will discourage work.

These additional benefits would worsen supply chain problems by providing more entitlements to individuals, further increasing aggregate demand.

Move Port Workers from National Labor Relations Act to National Railway Act. Even in today's supply chain chaos, some ports have congestion and backups—Los Angeles, Long Beach, and Oakland—and some do not—such as Miami, Savannah, and Charleston. Florida, Georgia, and South Carolina are right-to-work states, where workers do not have to join unions as a condition of employment, and their ports do not have backups. The rules governing union contracts affect port congestion.

On July 1, 2022, about 15,000 International Longshore and Warehouse Union dockworkers' contracts at 29 West Coast ports will be up for renewal. Adding the contract negotiations to current supply chain problems will be like throwing gasoline on a fire. Prior contract negotiations, in 2002, 2008, and 2014 have resulted in months of slowdowns and billions of dollars in losses. During past negotiations, agricultural producers have seen exports rotting on the docks, and consumers have had to wait for shipments. Ports on the East Coast and Gulf Coast are represented by the International Longshoremen's Association (ILA), and do not have the same regular problems with contract renewals.

The big fight will be about automation. In a press release, ILWU Local 94 President Danny Miranda said, "any efforts to automate port terminals for the primary purpose of increased offshore corporate profits comes at a cost that our local communities and country cannot afford." The president of ILWU Local 63, Mike Podue, who represents marine clerks at the ports of Los Angeles and Long Beach, said "Robots don't pay taxes, people do."

Port workers are currently under the jurisdiction of the National Labor Relations Board (NLRB), covered by the National Labor Relations Act (NLRA). Placing port employees and collective-bargaining agreements under the National Mediation Board (NMB)—under RLA jurisdiction—would ensure that port operations are legally bound to continue during negotiations. Congress could move port workers from the National Labor Relations Act to the jurisdiction of the National Railway Act, as are airports and railroads, to avoid shut downs and strikes. Labor disruptions at the ports are allowed under the NLRA, but not under the RLA without government permission after a long period of mediation.

Congress passed the Railway Labor Act in 1926 to ensure that commerce was not disrupted by labor disputes between railroad employee unions and management. In 1936, it expanded the RLA to cover unionized airline employees. Today, when disputes arise in the railroad and airline industries, these disagreements can be resolved without loss to commerce. For example, in a 2011 dispute between railroads and employees that almost shut down all the railroads, a Presidential Emergency Board developed a resolution ending in an agreement between the parties within a month. Ports are no less critical to U.S. infrastructure and trade, and should have the same protections as railroads and airlines.

Railroad crews cannot decide to stop working on the tracks, and airline crews cannot withhold fuel from planes. But after the West Coast port contracts expire on July 1, 2022, port workers will be able to not show up for shifts in order to hold out for higher wages.

As the supply chain problems have shown, interference to commerce is harmful, and Congress could perform a public service by passing legislation to minimize disruptions. The current NLRA system is not designed to ensure ongoing operations in the event of port disputes. Passed in 1935, the NLRA covers most private-sector employees—including those who work in ports staffed by the ILWU and the ILA—and establishes employees' rights to unionize and engage in collective bargaining, strike, or air their grievances through other means. The NLRB is the independent agency that investigates and arbitrates unfair labor practices. Its authority does not cover disputes over expiring contracts or the renegotiation of contracts.

The United States is already in the fortunate position of having sufficient quantities of vaccine and a high share of population vaccinated. However, we are still dependent on our labor force to keep supplies moving through ports, onto rail and trucks, and to the rest of the country.

Thank you for giving me the opportunity to testify today.