



More supply chain trouble could be on the horizon

By Sabri Ben-Achour and Erika Soderstrom

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Our weekly “Econ Extra Credit” newsletter is an unexpected way to learn about the economy, one documentary film at a time. Sign up to watch, and learn, with us. Supply chain challenges, initially brought on by pandemic distributions have been exacerbated by the war in Ukraine and COVID lockdowns in China.

These disruptions have led to higher prices and headaches for consumers and businesses. But there might be more supply chain shocks to come, warns Scott Lincicome, director of general economics and trade at the Cato Institute, a libertarian think tank.

Marketplace’s Sabri Ben-Achour spoke with Lincicome about the possible supply chain issues we may face next. The following is an edited transcript of their conversation.

Sabri Ben-Achour: So lay it on us, what are the supply chain shocks we should be keeping an eye out for this coming year.

Scott Lincicome: First, we have the implementation of gig worker law in California called AB5, that essentially bans a common owner operator model of trucking, that could affect about 70,000 truckers in California. That could put additional strains on the west coast supply chain, which of course, feeds a lot of the United States in terms of imports from Asia. Compounding matters on the west coast, are labor negotiations between port unions and the ports for the entire west coast. The labor contract that handles all west coast port traffic, which represents about half of all U.S. import traffic, that contract has actually expired. And now the negotiations are underway with the potential for a work stoppage or a strike this fall. Both sides promise that things are going to be okay. There are a lot of contentious issues that could bog down talks, most notably the issue of port automation. And then finally, affecting not just the west coast but the entire country, are labor negotiations for rail and freight rail, which handles a significant chunk of U.S. supply chain volume. There, President Biden has appointed an emergency committee to oversee labor negotiations. There, the disagreements are not only over automation, but also on wages and benefits and other issues. That emergency committee is supposed to forestall any sort of work stoppage or strike, but its jurisdiction, its authority to stop that type of problem, ends in September.

Ben-Achour: So you’ve got a problem facing truckers, you’ve got labor issues at ports and you’ve got a potential strike on the rail system. Is anyone trying to get out in front of these issues at this point? I mean, if we see them coming.

Lincicome: Yeah. The Biden administration to its credit has been involved in the port negotiations and has, by law, is involved in the rail negotiations. The question, however, is whether politics will allow them to resolve the issue in a way that is satisfying to all parties. The fact is that the administration is closely aligned with the labor unions involved in these negotiations and is a strong political supporter of the labor unions, and they are strong supporters of the administration. And so that's going to put the administration in a bit of a difficult position, when it comes to potentially having to resolve negotiations where the labor unions don't want to give in on certain issues, don't want to compromise. So while they certainly are paying attention, they could be quite constrained in the amount of work they can do to resolve any potential disagreements. And then on AB5, the administration actually has broadly supported AB5 and a national legislation called the PRO Act. And so they certainly are not going to get involved there, they're just going to let the law operate as it stands.

Automation, a tough nut to crack

Ben-Achour: You know, on the question of automation in ports, that seems like a tough nut to crack because automation is at the, you know, core of how productive these ports can be. But at the same time, there's a great fear that it would displace jobs. Do you see a way out of that one?

Lincicome: There is a way out but it could prove difficult. The fact is that the port companies have been trying to convince labor that additional automation might not kill many jobs at all, because it will actually increase the amount of business that the ports have. So while ports would become more productive, there wouldn't be a significant decrease in hours. But that's going to be a really hard sell to the labor unions that have really staked out a very hard position that any type of automation is, necessarily, a job killer. Another area of negotiation here will be re-training on crane and computer equipment so that workers that are currently employed can transition to the new equipment and more automated environment. So those types of things can perhaps be worked out, but just getting over the initial hurdle of the union's opposition to automation, writ large, is going to be difficult.

The good news ...

Ben-Achour: How likely do you think it is that all these three issues would sort of converge into some sort of supply chain perfect storm?

Lincicome: I don't think that we're going to see a worst case scenario. The stakes are simply too high. You know, with so much American attention devoted to supply chains and devoted to port issues, with the Biden administration well aware of these issues and with November midterm elections coming up, almost everyone has an incentive to try to resolve these issues. But the fact is that there are a lot of disagreements and when you're dealing with three different issues, not simply one, there's always the chance that one or more of them go off the rails, no pun intended.