The price we pay for global supply chain

One is product shortages, as with the shortage of personal protective equipment early in the pandemic and recently with infant formula. But are we willing to pay higher prices for less reliance on the global supply chain?

A nationwide shortage of baby formula continues due to supply chain crunches tied to the coronavirus pandemic.

Jim Watson/AFP via Getty Images

Numerous items available in America are manufactured in other countries.

This includes many products offered by iconic brands like Nike, Levi's and Black & Decker. And the made-in-America index ranks which cars are indeed American products and which are just portrayed as such.

The global supply chain touches everyone, some in unexpected ways.

But COVID-19 has disrupted global supply chains. This includes delays in shipments arriving into and being unloaded at American ports, or parts simply being unavailable from suppliers.

The net result of all such chaos has been a surge in prices, which has contributed to inflation that has not been seen for over four decades.

Global supply chains exist because they offer economic advantages, largely in reduced costs. As water always flows to the lowest level, so will product demand flow to the lowest costs. This is why many products that we rely upon are imported from China and other countries, where labor costs are lower compared to the United States.

But there is a price to be paid for reliance on a global supply chain.

First is a lack of robustness. A chain is only as strong as its weakest link. Global supply chains tend to have fewer redundancies, since competition drives business to those entities that are most efficient and can offer the lowest prices.

This lack of redundancy means that if one company's production is disrupted, parts may become unavailable, creating a shortage that cannot be filled by the limited number of other companies available to fill the void. With preferences to keep inventories low, to further reduce holding costs, a production disruption means that parts may be unavailable. The cascade effect of such shortages percolates through the supply chain, which could

shut down seemingly unrelated producers because the end product cannot be assembled.

Second is product shortages. As supply chain links bend and break, the entire final product delivery process creates shortages. Human nature is such that when shortages appear, demand increases, with panic buying and localized stockpiling. This was seen in early 2020 with toilet paper and cleaning products. The recent baby formula shortage is demonstrating such responses. As products are perceived by consumers to be unavailable or in short supply, rising demand pushes prices higher. The current surge in inflation for some products may be a lingering byproduct of this phenomenon.

Recall that when face masks were in short supply early in the pandemic, the supply chain was being filled with masks imported from Asia, since American companies had mostly closed down due to foreign competition taking over their market with lower prices. When demand for face masks increased, there was no domestic supply chain available.

Though many (particularly politicians) tout the "made-in-America" mantra, and support buying American, the problem is that everyone wants global supply chain prices with "made-in-America" production and manufacturing. For most products, this is a non-sequitur.

Having a fully domestic supply chain is impractical in a global world. Yet there are some products that are sufficiently critical that the price for a domestic supply chain may be worth paying. The problem is that such products change based on unpredictable health and societal events.

In the fall of 2019, no one could have foreseen the surge in demand for personal protective equipment like medical N95 masks. What remains is anticipating the next product that relies on a global supply chain that will be

needed in unimaginable quantities. No one's crystal ball can offer such forecasts with precision and accuracy.

Global supply chains work, until they stop working. They also provide incentives for countries to work together and avoid conflicts, given the economic incentives of peace, as Russia is now discovering.

Are Americans prepared to pay a higher price for less reliance on a global supply chain? The current surge in inflation provides a test bed to answer this question.

Send letters to letters@suntimes.com

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