

ივანე ჯავახიშვილის სახელობის თბილისის სახელმწიფო უნივერსიტეტი
ეკონომიკისა და ბიზნესის ფაკულტეტი

უნივერსიტეტის დაარსებისა და ეკონომიკისა და ბიზნესის ფაკულტეტის
100 წლის იუბილესადმი მიძღვნილი საერთაშორისო სამეცნიერო კონფერენცია

„კოვიდ 19 პანდემია და ეკონომიკა“



Ivane Javakhishvili Tbilisi State University
Faculty of Economics and Business

International Scientific Conference Dedicated to the Establishment of the
University and the 100th Anniversary of the Faculty of Economics and Business

“Covid 19 Pandemic and Economics”

8 თებერვალი, 2022 / 8 February, 2022
თბილისი / Tbilisi

შრომების კრებული
Proceedings

ISBN 978-9941-491-70-2 (pdf)

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ON THE SUPPLY-CHAININFLATION

Vladimer Papava

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This article examines the economic nature of high inflation which is the result of the economic crisis caused by the COVID-19 pandemic. It is shown that this high-level of inflation is caused by the simultaneous action of factors such as a rise in demand and a fall in supply. At the same time, the fall of the supply is predominant which is caused by breaks in global supply chains. For this reason, this inflation is called “Supply-Chaininflation.” Because the cause of supply-chaininflation is not macroeconomic, the reaction of central banks to this high inflation is inadequate. The solution to the problem of supply chaininflation is based on the construction of new networks of global supply chains that will maximally take into account the risks associated with the COVID-19 pandemic as well as possible new global threats in the future.

Key words: inflation; COVID-19 pandemic; economic crisis; global supply chains; supply-chaininflation.

The atypical economic crisis caused by the COVID-19 pandemic (Papava, 2020) has exacerbated many economic problems. Among them, a significant increase in inflation is particularly relevant (e.g., Acemoglu, 2021a; Krugman, 2022). The problem of high inflation is not only economic but also political as the coined term “Bidenflation” vividly demonstrates (Cassidy, 2021).

To solve the problem of high inflation, the study of the economic features of this phenomenon is of great importance.

As known, the increase of inflation can be caused by a rise in demand or by a fall in supply or due to the combined action of both of these factors (Sachs, 2021). It is necessary to understand which of these factors is determining the high level of inflation during the COVID-19 pandemic.

The rise in demand has played a role given the fact that governments of different countries paid money to their populations to alleviate their social situation during the COVID-19 pandemic (e.g., Papava and Chkuaseli, 2021). Much more significant is the fact that supply disruptions emanating from the collapse of global supply chains have resulted in a fall in supply within the context of the economic crisis caused by the COVID-19 pandemic. At the beginning of this process, there was speculation that the increase in inflation was the result of “short-term supply-side bottlenecks” (Stiglitz, 2021) but it soon became clear that we were dealing with an actual collapse of the global production system (Coyle, 2021).

As one would expect, the rise in inflation in the context of the economic crisis caused by the COVID-19 pandemic is due to the simultaneous action of two factors – an increase in demand and a reduction in supply, although the second factor (i.e., a reduction in supply) is of decisive importance.

At the same time, it should be taken into account that central banks have tools to influence inflation caused by demand growth and in fact do not have any mechanisms for influencing inflation caused by supply fall. It is obvious that central banks will not be able to influence the restoration of broken global supply chains in any way within their competence. Trying to reduce the high level of inflation, central banks (especially those that use the inflation targeting in monetary policy) began to raise interest rates which affects the reduction of demand-pull inflation. This is clear evidence of central bank confusion (Chikobava, 2021; Roach, 2022), as COVID-19-driven inflation is largely the result of falling supply rather than rising demand.

The main mistake that central banks make is that they consider the inflation provoked by the COVID-19 pandemic to be a macroeconomic problem (Galbraith, 2021). In fact, this inflation, as noted above, is the result of a break in global supply chains. In order to adequately reflect this specific phenomenon in economics, the term “Supply-Chainflation” was coined (Pride, Reynolds and Vovk, 2022).

It must be recognized that the disruption of global supply chains is the result of the deglobalization triggered by the COVID-19 pandemic (Marin, 2021). Recovery, as well as the formation of new global supply chains, must take place in the context of a post-pandemic renewed globalization (Rogoff, 2021).

The urgent task of the post-pandemic period is to rethink the principles of the formation of global supply chains, taking into account the increase in the productivity of production factors (Spence, 2022).

In the context of the economic crisis caused by the COVID-19 pandemic, the transfer of production from regions with lower production costs to regions with higher production costs has become a priority (Issing, 2021). This, in turn, will lead to cost-push inflation (McConnell and Brue 2008, 136). This approach does not at all indicate that the creation of global supply chains will have to abandon the principle of economic efficiency in the post-pandemic period. On the contrary, this principle will necessarily remain in force, taking into account the risk factors associated with the COVID-19 pandemic as well as with all kinds of pandemics that may arise in the more or less foreseeable future. The diversification and complication of global supply chains, for its part, increases the economic risks of the functioning of these chains (Acemoglu, 2021b).

The negative effect of breaking global supply chains puts the creation of a model (or even models) for predicting the formation and functioning of supply chains, as well as their response to all sorts of undesirable fluctuations (Spence, 2021), on the agenda of economic science.

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მიწოდების ჩეინფლაციის შესახებ

ვლადიმერ პაპავა

*პროფესორი, ივანე ჯავახიშვილის სახელობის
თბილისის სახელმწიფო უნივერსიტეტი*

ანოტაცია

სტატიაში განხილულია მაღალი ინფლაციის ეკონომიკური ბუნება, რომელიც COVID-19-ის პანდემიით გამოწვეული ეკონომიკური კრიზისის შედეგია. ნაჩვენებია, რომ ინფლაციის მაღალი დონე განპირობებულია ისეთი ფაქტორების ერთდროულად მოქმედებით, როგორცაა მოთხოვნის ზრდა და მიწოდების ვარდნა. ამასთან დომინანტურია მიწოდების ვარდნა, რომელიც მიწოდების გლობალური ჯაჭვების რღვევითაა გამოწვეული. ამ მიზეზის გამო მოცემულ ინფლაციას „მიწოდების ჩეინფლაცია“ ეწოდება. რადგანაც, მიწოდების ჩეინფლაციის მიზეზი არ არის მაკროეკონომიკური, ამიტომ ცენტრალური ბანკების რეაქცია ამ მაღალ ინფლაციაზე ადეკვატური არ არის. მიწოდების ჩეინფლაციის პრობლემის გადაწყვეტა ეფუძნება მიწოდების ახალი გლობალური ჯაჭვების ქსელების შექმნას, რომლებიც მაქსიმალურად გაითავალისწინებენ COVID-19-ის პანდემიასთან დაკავშირებულ რისკებს და ასევე მომავალში შესაძლო გლობალურ საფრთხეებს.

საკვანძო სიტყვები: ინფლაცია; COVID19-ის პანდემია; ეკონომიკური კრიზისი; მიწოდების გლობალური ჯაჭვები; მიწოდების ჩეინფლაცია.