# Review of: "The Shortage of Professionals/Skilled Workers: Its Impact on the Inflation Rate in the Eurozone"

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The resurgence of inflation, which has given rise to the cost of living crisis, is a major problem that is worthy of research. Therefore, any new paper investigating the reasons for the resurgence of inflation, and what to do about it, should receive due attention. This paper is no exception.

Unfortunately, however, the paper presents a simplistic model that does not take into account several factors that have led to the resurgence of inflation. At the beginning of the paper, the authors put forth a limited list of the factors that have led to the resurgence of inflation, including the disruption of supply chains in the course of the Covid pandemic, the spikes in the prices of commodities and key energy sources, and the Ukrainian war. Subsequently, the model is specified in such a way as to contain two explanatory variables only, the vacancy ratio and inflationary expectations, without explaining how these two variables are related to the disruption of supply chains, spikes in energy and commodity prices, and the Ukrainian war.

I am not sure about the shortage of skilled workers as an explanation for the current inflation. If that was caused by Covid, it should have been reversed now that Covid is out of the way. I think that the problem in the post-pandemic era is that employers want skilled workers to work at low wages and under unhealthy conditions. This is why some skilled workers may find it unattractive to work. The shortage of skilled workers cannot happen all of a sudden and persist because we did not hear of this shortage before the pandemic. Moreover, Europe has been going through deindustrialisation, which reduces the demand for skilled workers. Otherwise, how do we explain the observation that some engineers are working as hamburger flippers?

A full list of the factors that can be considered to explain the resurgence of inflation includes the following: the semiconductor chip crisis, the energy crisis, the food crisis, the global supply chain crisis, wage-push inflation, profit-push inflation, productivity slowdown, inflationary expectations, and globalisation. Some of these factors have a long-run effect, such as the productivity slowdown, which is associated with deindustrialisation, eroding the ability of the economy to produce the goods people want to buy. Inflationary expectations are considered by the authors, but I believe that causation runs from inflation to expected inflation, not vice versa. I am glad, however, that the authors see the current inflation as having been caused by supply, rather than demand, factors.

A model in which inflation is determined by the vacancy ratio and inflationary expectations cannot possibly explain the reversal of the inflation rate in 2023, which has materialised simply because of the decline in energy and food price inflation. It is not that, all of a sudden, the skilled labour shortage problem was resolved just like that in 2023. And, as I said before, it is my humble view that inflationary expectations do not cause inflation—rather, the opposite is true.

The authors find that the impact of the vacancy ratio on the current inflation rate is either positive but insignificant or even implausibly negative. I must warn of the hazard of saying that a coefficient is “positive but insignificant” because when it is insignificant, the sign does not count. “Insignificant” means insignificantly different from zero, which is statistically zero. “Implausibly negative” implies that the authors believe in the soundness of their model to the extent that if the results are not supportive, then the findings are “implausible”. I thought that the idea behind testing models is to confirm (or otherwise) their validity. There could be some plausible explanation for the negative sign, such as missing variables. Most importantly, however, I would like to see how the model explains the reversal of inflation in 2023.