

**Our View:
Blas Is a Terrible Economist
A Serious Recession Is Coming**

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Javier Blas posted an opinion on Bloomberg today. In his view, the oil industry has little to fear from the coming recession because the current US economy resembles the one in early 1990:

Back then, the Federal Reserve spent several months tightening its monetary policy, raising interest rates from 6.5% in early 1988 to almost 10% in late 1989. Economic activity was slowing already, with the business cycle largely exhausted, by the time Saddam Hussein invaded Kuwait in August 1990, sending oil prices to what was then a record high of \$41.15 a barrel. The US economy promptly fell into recession. Although oil demand slowed, it still kept growing, posting an annual year-on-year expansion in both 1990 and 1991.¹

Blas is wrong. This is not surprising for two reasons. First, Blas is a reporter, not an economist. Second, Blas is too young to remember Paul Volcker and the monetary tightening that began in 1980.

As a reporter, Blas has covered oil and OPEC, not the Federal Reserve. Had he successfully covered the central bank, as several of his colleagues have, he would understand that conditions are very different today than in 1990. The inflation mentality is working its way through most developed economies, and there is a global grain shortage and prospective famine that will drive up other prices. Meanwhile, employers are having difficulty finding workers.

(Note to Javier: The unemployment rate today is 3.6 percent. It was 5.2 percent at the start of the 1990 recession.)

The US economy is very tight. Europe may already be in recession. And global inflation is rampant. Blas misses this point because he is uneducated in economics.

This is a Volcker moment. Central banks will tighten and tighten. In addition to raising interest rates, the Federal Reserve will begin liquidating the \$9 trillion in assets it purchased during the pandemic. In its most recent decision, it announced it would start selling \$47.5 billion of its mortgage and treasury holdings in June. The sales will increase to \$90 billion per month in September. The European Central Bank will follow suit.

¹ Javier Blas, "The Oil Market Needn't Fear a Calamitous Recession," Bloomberg, May 17, 2022 [<https://tinyurl.com/4bun47vy>].

Here, a statement made to the Investment Bankers Association by William McChesney Martin, Fed chairman from 1951 to 1970, is pertinent: “The Federal Reserve, as one writer put it, after the recent increase in the discount rate, is in the position of the chaperone who has ordered the punch bowl removed just when the party was really warming up.”²

This recession will be long and harsh. The energy picture will be entirely different when the global economy emerges from it in 2025, especially if economic relations between the United States and China continue to sour.

By then, oil-exporting countries may be begging consumers to “please buy my oil.”

² “The Punch Bowl Speech: William McChesney Martin,” *Conversable Economist*, June 24, 2013 [<https://tinyurl.com/5a52xmx4>].