

Our View: Negative Interest Rates Have Destroyed the “Oil Weapon”

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A recent paper in *Foreign Policy* by Jason Bordoff of Columbia University asserts that governments of consuming countries remain fearful of high oil prices. As a result, Bordoff believes oil-exporting countries can still wield the “oil weapon.” The CEO of Russia’s Rosneft echoed this view on June 5.

Bordoff, though, seems unaware of developments in economic research over the past decade. Larry Summers and the research team of Atif Mian, Ludwig Straub, and Amir Sufi have pointed consuming countries toward a tool they can employ today to erase past anxiety over the economic impact of higher oil prices. Negative interest rates, a consequence of excess savings, provide this new freedom from worry.

In 2020, governments of major consuming countries used that freedom when they quickly reversed the Covid-19 pandemic’s global economic impact by freely compensating voters with cash. The same technique can be used to support consumers should oil exporters push prices up. And, by letting prices rise while issuing payments to citizens to offset the higher costs, consuming nation governments can hasten the end of oil.

The leaders of oil-exporting countries must worry that consuming countries will use this newfound freedom to marginalize them permanently, strand their reserves, and leave them destitute forever.