

Our View: Refilling the SPR

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Financial markets can be extremely sensitive, particularly during disruptions. One wrong word or announcement at an inappropriate time can create financial contagion. Economists have coined the term “Minsky moment” to describe such events. While the term is historically associated with financial crises, any financial market, including oil, can experience one. Bloomberg’s Enda Curran wrote recently that a simple destabilizing incident such as an increase in interest rates could send markets into crisis if investors demand cash.¹ One of my teachers, Charles Kindleberger, co-wrote a book titled *Manias, Panics, and Crashes*.² Initially published in 1978, it became a bestseller in 2008 after a 2005 reissue.

US Secretary of Energy Jennifer Granholm has created an oil market Minsky moment. Her actions could spread to global financial markets, exacerbating a very tense situation. Granholm accomplished this feat by telling reporters that the Department of Energy plans to buy oil to replenish the US Strategic Petroleum Reserve stocks that are still being sold to calm world markets. Granholm’s action is the equivalent of setting a crowded theater ablaze and then screaming “fire.” Her announcement is possibly the stupidest economic policy statement I have witnessed in over fifty years.

The announcement from DOE is a mistake even though, as CNN reports, the agency likely will not buy oil for the SPR for two or three years. As Secretary Granholm explained, “As we are thoughtful and methodical in the decision to draw down from our emergency reserve, we must be similarly strategic in replenishing the supply so that it stands ready to deliver on its mission to provide relief when needed most.”

These words seem sensible and comforting. Granholm wants to assure the public that DOE is working to stabilize prices today and will do so again in the future.

However, markets do not behave in considered, thoughtful ways. Markets react impulsively to headlines, and those reactions can quickly build momentum. As a result, a well-intentioned statement can start a process that quickly gets out of control. This danger is why Federal Reserve Chairman Powell was so careful on Wednesday to emphasize that a seventy-five basis point increase in the Federal Funds rate was not on the table.

Oil markets today are in a precarious position. Sanctions on Russia may remove three or four million barrels of oil from the world market. At the same time, distillate markets are experiencing extreme shortages. At such times, the authorities in financial markets know to avoid any statements that might incite additional buying in physical or cash markets. At such times, every effort must be made to calm markets.

¹ Enda Curran, “What’s a Minsky Moment, and Why the Worries About One?” *The Washington Post*, March 21, 2022 [<https://tinyurl.com/yb7aejp4>].

² Charles P. Kindleberger and Robert Z. Aliber, *Manias, Panics and Crashes* (New York: Palgrave Macmillan, 2005) [<https://tinyurl.com/yc3xakcd>].

Here, the United States took precisely the correct steps in March when President Biden announced that the US would release over 180 million barrels from strategic stocks to moderate price pressures. Secretary Granholm has neutralized the positive impact of that news.

A classic sentence by Milton Friedman explains how easily markets can tip into chaos: “Because no great strength would be required to hold back the rock that starts a landslide, it does not follow that the landslide will not be of major proportions.” Secretary Granholm foolishly failed to “hold back the rock.” Indeed, she pushed a boulder down the hill. The United States needs officials who are well-educated and knowledgeable regarding financial markets, not political hacks.