

## **Our View: The Biden Put**

Philip K. Verleger, Jr.

October 20, 2022

President Biden has followed the example Alan Greenspan set in 1987 when the former Federal Reserve chairman cut interest rates to reverse the largest one-day drop in the Dow Jones index ever. He then dropped rates several more times to keep share prices high. His strategy became known as the “Greenspan put.”

President Biden has done the same in the oil market by assuring a floor price for domestic producers. According to his recent statement, the US will buy oil for the Strategic Petroleum Reserve if prices fall toward \$70 per barrel, which gives producers a financial guarantee.

In announcing his plan, Biden has done more for domestic producers than any president since Richard Nixon. Most have forgotten that Nixon overruled his Cabinet task force on oil imports when it recommended replacing the oil import quota system, which protected the income of domestic producers, with an import tariff. Biden’s “put” provides similar security.

Although most will say nothing given the industry’s animosity to his administration, US producers are likely cheering Biden’s action behind the scenes. For example, Harold Hamm, CEO of Continental Resources and a former energy adviser to Donald Trump, will welcome this development after his shareholders decided to sell their holdings back to him. Continental can now plow ahead with its drilling efforts knowing that Joe has its back.

Oil exporters, though, should be afraid. Academic research has shown that Greenspan’s put increased investors’ willingness to acquire shares. Ultimately, their buying created a bubble, and shares collapsed. The Biden put will have the same effect.

Still, oil drilling in short-cycle fracking projects will accelerate. US producers will expand their output, no longer fearing a reaction from OPEC+ to drive prices down. Thus, US crude oil production should increase when investors understand the Biden put.

This means the burden of market stabilization will fall on the shoulders of oil exporters as global consumption drops over the next two or three years. Thanks to Biden, US energy dominance could return.