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The Experts: How the U.S. Oil Boom Will Change the Markets and Geopolitics

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Jerry Taylor: Prices Will Drop Minimally While Geopolitical Changes Will Depend on U.S. Motives

More crude-oil production, of course, means lower crude-oil prices than would otherwise be the case. But given that crude-oil prices are a function of global supply and global demand, this new North American production is unlikely to change crude-oil prices—and thus, gasoline prices—as much as you might think.

The Energy Information Administration estimates that U.S. crude-oil production (plus lease condensate) will increase from 5.74 million barrels per day in 2012 to 7.47 million barrels per day in 2020. This 1.73 million barrel per day increase in U.S. production, however, is in the context of an 88.8 million barrel per day world crude-oil market at present. If everything else remained the same and the market responded to new supply as it has in the past, this new U.S. production would reduce world crude-oil prices by all of about 2% (for the economically minded, I'm using long run demand and supply elasticities of $-.48$ and $.36$, respectively).

What stepped-up U.S. production means for geopolitics depends upon what you think motivates U.S. policy makers. If you believe that we are entangled in the Middle East primarily because of our reliance on crude shipped through the Persian Gulf, then you might conclude that oil independence will reduce our presence in that region. If, on the other hand, you think that U.S. policy makers would be more inclined to embrace aggressive policies in the Middle East (say, to knock off anti-American regimes or hunt-down terrorists) were it not for our reliance on OPEC crude, then you might conclude that oil independence will lead to even more U.S. involvement in that region. If you believe that we're entangled in the Middle East for many reasons—such as our interest in the security of Israel and our desire to keep any one state from dominating the region's lucrative oil resources—then you might conclude that nothing will change.

Which will it be? Who knows?

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