Analysis: More U.S. Drilling Didn't Drop Gas Price

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WASHINGTON (AP) — It's the political cure-all for high gas prices: Drill here, drill now. But more U.S. drilling has not changed how deeply the gas pump drills into your wallet, math and history show.

A statistical analysis of 36 years of monthly, inflation-adjusted gasoline prices and U.S. domestic oil production by The Associated Press shows no statistical correlation between how much oil comes out of U.S. wells and the price at the pump.

If more domestic oil drilling worked as politicians say, you'd now be paying about $2 a gallon for gasoline. Instead, you're paying the highest prices ever for March.

Political rhetoric about the blame over gas prices and the power to change them — whether Republican claims now or Democrats' charges four years ago — is not supported by cold, hard figures. And that's especially true about oil drilling in the U.S. More oil production in the United States does not mean consistently lower prices at the pump.

Sometimes prices increase as American drilling ramps up. That's what has happened in the past three years. Since February 2009, U.S. oil production has increased 15 percent when seasonally adjusted. Prices in those three years went from $2.07 per gallon to $3.58. It was a case of drilling more and paying much more.

U.S. oil production is back to the same level it was in March 2003, when gas cost $2.10 per gallon when adjusted for inflation. But that's not what prices are now.

That's because oil is a global commodity and U.S. production has only a tiny influence on supply. Factors far beyond the control of a nation or a president dictate the price of gasoline.

When you put the inflation-adjusted price of gas on the same chart as U.S. oil production since 1976, the numbers sometimes go in the same direction, sometimes in opposite directions. If drilling for more oil meant lower prices, the lines on the chart would consistently go in opposite directions. A basic statistical measure of correlation found no link between the two, and outside statistical experts confirmed those calculations.

"Drill, baby, drill has nothing to do with it," said Judith Dwarkin, chief energy economist at ITG investment research. Two other energy economists said the same thing and experts in the field have been making that observation for decades.

The statistics directly contradict the title of GOP presidential candidate Newt Gingrich's 2008 book "Drill Here, Drill Now, Pay Less," as well as the campaign-trail claims from the GOP presidential candidates.

Earlier this month, GOP front-runner Mitt Romney said of his solution to higher gas prices: "I can cut through the baloney ... and just tell him, 'Mr. President, open up drilling in the Gulf, open up drilling in ANWR (the Arctic National Wildlife Refuge). Open up drilling in continental shelf, drill in North Dakota, drill in Oklahoma and Texas.'"

Sen. Lisa Murkowski, R-Alaska, said on the Senate floor last week, "With oil prices above $100 a barrel and gasoline soaring toward $4 a gallon, greater production is not a political opportunity, it is a legislative imperative."

Supporters of the controversial Keystone XL pipeline say it would bring 25 million barrels of oil to the United States a month. That's the same increase in U.S. production that occurred between February and November last year. Monthly gas prices went up a dime a gallon in that time.

The late 1980s and 1990s show exactly how domestic drilling is not related to gas prices.

Seasonally adjusted U.S. oil production dropped steadily from February 1986 until three years ago. But starting in March 1986, inflation-adjusted gas prices fell below the $2-a-gallon mark and stayed there for most of the rest of the 1980s and 1990s. Production between 1986 and 1999 dropped by nearly one-third. If the drill-now theory were correct, prices should have soared. Instead they went down by nearly a dollar.

The AP analysis used Energy Department figures for regular unleaded gas prices adjusted for inflation to 2012 dollars, oil production and oil demand. The figures go back to January 1976, the earliest the Energy Department keeps figures on unleaded gas prices. University of South Carolina statistics professor John Grego, New York University statistics professor Edward Melnick and David Peterson, a retired Duke University statistics professor, looked at the analysis, ran their own calculations, including several complicated formulas, and came to the same conclusion.

When U.S. production goes up, the price of gas "is certainly not going down," Melnick said. "The data does not suggest that whatsoever."

The calculations "help make the point that U.S. production and demand have little to do with the price of gasoline in the U.S., and lend support to the notion that there is not a great deal we in the U.S., acting alone, can do to affect the price of gasoline," Peterson wrote in an email. He pointed out that Energy Department figures show that gas prices in the U.S. seem to rise and fall similarly to gas prices in Europe, showing that it has little to do with American drilling.

And that's the key. It's a world market, economists say.

Unlike natural gas or electricity, the United States alone does not have the power to change the supply-and-demand equation in the world oil market, said Christopher Knittel, a professor of energy economics at MIT. American oil production is about 11 percent of the world's output, so even if the U.S. were to increase its oil production by 50 percent — that is more than drilling in the Arctic, increased public-lands and offshore drilling, and the Canadian pipeline would provide — it would at most cut gas prices by 10 percent.

"There are not many markets where the United States can't impose its will on market outcomes," Knittel said. "This is one we can't, and it's hard for the average American to understand that and it's easy for politicians to feed off that."

If drilling activity rises around the globe for a sustained period of time, gasoline prices can fall as that new supply eventually finds its way to market, but the U.S. can't do it alone, oil analysts say.

Politicians — especially those in the party that's not occupying the White House — have long harped on high gas prices when expedient. Then-Sen. Barack Obama said in 2008, when he was running for president, that "here in Ohio, you're paying nearly $3.70 a gallon for gas, 2-1/2 times what it cost when George Bush took office."

But Obama, who has seen gas prices go up 73 percent since he took office, was singing a different tune last week in his weekly radio address: "The truth is: The price of gas depends on a lot of factors that are often beyond our control. Unrest in the Middle East can tighten global oil supply. Growing nations like China or India adding cars to the road increases demand. But one thing we should control is fraud and manipulation that can cause prices to spike even further."

The political party of the president doesn't seem to matter to the price at the pump either. Since 1976, the average monthly gas price, adjusted for inflation, during Democratic presidencies has been $2.25; under Republicans it's been $2.34. Obama had the steepest monthly average at $3.05 and Bill Clinton the cheapest at $1.68.

When Bush and running mate Dick Cheney campaigned in 2000, they argued that as oil executives they could get oil prices down, with Bush saying, "I would work with our friends in OPEC to convince them to open up the spigot, to increase the supply."

Yet it was during the last few months of Bush's term in 2008 that gas prices hit their highest: $4.27 when adjusted for inflation.