

DRILL HERE, DRILL NOW, So Americans Can PAY LESS at the Pumps Immediately

Well Established Economic Analysis Shows that We Can LOWER OIL PRICES IMMEDIATELY By Opening up New Areas to Oil Development

Two resource economists recently REAFFIRMED well established economic principles that opening up new areas to drilling can lower prices immediately.

“We find that oil that is expected to reach the market some years hence has an immediate impact on oil prices.”

(Coats, Morris, and Gary Pecquet. The effect of opening up ANWR to drilling on the current price of oil. Munich Personal RePEc Archive. 2008. p. 3.)

This study shows that opening up ANWR and offshore areas to drilling can lower prices today significantly.

“ANWR production is likely to be small relative to world production, and we doubt that ANWR production, by itself, would do much to reduce current prices. On the other hand, **if oil firms were allowed to drill in ANWR and many of the other areas that are currently off limits to oil production, it is possible that these areas together might have a significant impact on world oil prices.**”

(Coats, Morris, and Gary Pecquet. The effect of opening up ANWR to drilling on the current price of oil. Munich Personal RePEc Archive. 2008. p. 10.)

This study debunks the mantra of the anti-energy elite that it will take years before more drilling lowers oil prices

“[O]n its website, the Democratic Policy Committee...states that ‘it will require seven to twelve years from approval before there is any oil production from the ANWR area. Therefore, production in ANWR will have no impact on current or short-term gasoline and oil supplies and prices.’

While this is something that everyone seems to know, it is another example that the theory popularly held happens to be wrong.”

(Coats, Morris, and Gary Pecquet. The effect of opening up ANWR to drilling on the current price of oil. Munich Personal RePEc Archive. 2008. p. 2.)

EDITOR OF ACADEMIC JOURNAL ON
ENERGY ECONOMICS: “EVERYONE KNOWS”
INCREASES IN LONG TERM SUPPLY IMPACTS
PRICES TODAY

The academic study was rejected for publication by the prestigious Energy Journal because the author’s conclusions are so obvious and well-known to resource economists.

“Although the referees, and I, are in agreement with your basic argument, I regret to say that we will not be able to publish this work. Basically, **your main result (the present impact of an anticipated future supply change) is already known to economists (although perhaps not to the Democratic Policy Committee).**”

(Smith, James L. “Editor’s decision from the Energy Journal.” Letter to R. Morris Coats. 2 June 2008.)

The idea that long-term increases in oil supply will lower prices today has been established economic theory for at least 40 years.

“If Hotelling didn’t exactly spell this out in his original article, certainly Herfindahl and others had done so by the 1960s. **It is our policy to publish**

only original research that adds significantly to the body of received knowledge regarding energy markets and policy.”

(Smith, James L. “Editor's decision from the Energy Journal.” Letter to R. Morris Coats. 2 June 2008.)

THE ECONOMIC MODELS THAT THE ANTI-ENERGY ELITES CITE TO DISPUTE THE WELL ESTABLISHED ECONOMIC PRINCIPLE THAT LONG TERM SUPPLY INCREASE LOWERS PRICES TODAY ARE DEEPLY FLAWED

Senator Obama has made clear he does not believe more drilling will lower gas prices and he relies on an Energy Information Administration study as proof.

“...the only energy proposal [Senator McCain is] really promoting is more offshore drilling—a position...that will not make a real dent in current gas prices or meet the long-term challenge of energy independence.

George Bush's own Energy Department has said that if we opened up new areas to drilling today, we wouldn't see a single drop of oil for seven years. Seven years.”

(Obama, Barack. "New Energy for America." Lansing, MI. 4 Aug. 2008.)

Speaker Pelosi has specifically pointed to the Energy Information Administration models in claiming that drilling will not lower current oil prices.

“Pelosi refuted oil drilling as a solution, citing an Energy Department statistic that oil and gas production on the Outer Continental Shelf would not begin until 2017, even if the ban were lifted immediately. She also said price changes would be minimal through 2030.”

(“Pelosi Shrugs Off Continued House GOP Protests Over Energy.” [FoxNews](http://www.foxnews.com/story/0,2933,398868,00.html). 6 Aug. 2008. 6 Aug. 2008 <<http://http://www.foxnews.com/story/0,2933,398868,00.html>>.)

“Let me be very clear: drilling for oil in protected areas offshore will not bring down the price at the pump for 10 years - and then only 2 cents. To say otherwise is a hoax on the American people.”

(Pelosi, Nancy. "Book World: Speaker Nancy Pelosi, Author of 'Know Your Power'" Washington Post. 6 Aug. 2008. 6 Aug. 2008 <<http://www.washingtonpost.com/wp-dyn/content/discussion/2008/08/01/di2008080102174.html>)

According to Jim Geraghty of National Review Online, the Energy Information Administration has a history of making terrible predictions, such as predicting in 2007 that the price of oil in 2008 would be around \$60 per barrel. The actual peak price of oil in 2008 was \$147.

“That's right: the EIA, writing in early 2007, assumed that oil prices would decline from their 2006 peak; that in 2008, the price of crude oil would be around \$60 a barrel; that it would continue to decline until around 2013 to a low of about \$50 a barrel; and that the price would then gradually increase to a little under \$60 a barrel by 2030.”

(Geraghty, J. The Campaign Spot Blog [Internet]. National Review Online. 2008 Aug –[cited 2008 Aug. 6]. Available from: [http://campaignspot.nationalreview.com/.](http://campaignspot.nationalreview.com/))

Powerlineblog: Because of these (erroneous) projections of the price of oil, the Energy Information Administration had predicted that more drilling would not lower prices today.

“Currently crude oil is at around \$120 per barrel, not \$60. At the elevated prices we are now experiencing and are expected to experience in the future, vastly greater quantities of [offshore] oil (or ANWR oil, or shale oil) can profitably be exploited, and those resources can make a vastly greater contribution to our economic well-being.”

(Hinderacker, J. Power Line Blog [Internet]. John Hinderacker. 2008 Aug –[cited 2008 Aug. 6]. Available from: <http://www.powerlineblog.com/archives2/2008/08/021171.php>.)

ATTACKS BY THE ANTI ENERGY LEFT ON THE EDITOR OF THE ENERGY JOURNAL FOR BIAS ARE SILLY

***Attack:** The rejection letter's author, Dr. James Smith, is a paid consultant for Big Oil and is obviously biased in saying that this is a well-established principle of economics.*

REBUTTAL: Given how damning this evidence is and how irrefutable its claims are, it is no surprise that liberals are reacting viciously with personal attacks upon the integrity of Dr. Smith. It is true that Dr. Smith is a consultant for several energy companies, but **he is also a consultant for the Department of Energy and the Alaska Oil and Gas Conservation Commission—hardly positions that would be given to rabid defenders of Big Oil.**

Dr. Smith's credentials are impeccable. He is an editor at the Energy Journal, an authoritative academic publication for energy economics. One of the founding members of the parent organization of the journal, the International Association for Energy Economics, was a top energy economist for the Carter administration, another clear indication of the journal's lack of bias.

Dr. Smith received both his Masters and Doctorate from Harvard and is specialized in energy economics. In fact, he is the Chair of the Southern Methodist University Oil and Gas Management program. It would be difficult to find a more authoritative source on this topic.

It is also important to remember that Dr. Smith was not the only economist who thought this principle was well established. **Both of the independent peer reviewers of the study came to the same conclusion as Dr. Smith.**

But the best evidence that Dr. Smith is unbiased is the fact that he didn't publish Dr. Coats' study. This study would have been very

helpful to the oil industry in arguing for more drilling. If Dr. Smith was the right-wing partisan in the pocket of Big Oil that some have claimed he is, then why would he have rejected a study for publication that would have helped the oil industry? The only answer is that he rejected it because he is not biased and realized that the study did not contribute anything new to the field of resource economics because its conclusions are so well-known.

Attack: Several other economists dispute the idea that drilling now will lower prices immediately.

REBUTTAL: It is important to distinguish economists generally from energy or resource economists who specialize in analyzing oil prices and supply and demand dynamics. The study's lead author, Dr. Morris Coats, as well as Dr. Smith are both energy economists who make it their business to know about oil prices. **Pointing to a bunch of economists who have nothing to do with this field of economics is meaningless.**

Finally, it is important to note that not a single economist cited by liberals has been able to refute the specific studies that Dr. Smith points to in his rejection letter as having established this principle decades ago. **While those who favor drilling can point to specific studies from the 1930s and 60s to support their claim that this principle is well-established in resource economics, opponents have not come forward with evidence to contradict them.**

Attack: If this is so well-known, why haven't more economists come forward and said they agree with this theory?

REBUTTAL: As stated before, this is not a matter of how many economists each side can list since only resource economists actually have specialized knowledge in this field. However, it is important to note that while the media might not have covered them, many economists and financial experts have spoken out about the fact that drilling for more oil will lower prices today. Martin Feldstein, the former Chairman of the President's Council of

Economic Advisors, wrote an op-ed in the *Wall Street Journal* on July 1 about this topic. While he is not a resource economist, he is an authoritative and widely-respected economist.

Larry Kudlow, a former economic advisor to President Reagan, has also made his position clear. Additionally, **here is a list of nine other financial experts or economists who have come out in favor of drilling to lower prices who, when added to those economists already mentioned, bring the total to fourteen different experts:**

1. Joe Battipaglia
Market Strategist, Stifel Nicolaus
2. Jerry Bowyer
Chief Economist, Benchmark Financial Network
3. Vince Farrell
Scotsman Capital Management
4. Jim LaCamp
Portfolio Manager, Portfolio Focus, RBC Wealth Management
Co-Host, Opening Bell Radio Show, Biz Radio Network
5. Donald L. Luskin
Chief Investment Officer, Trend Macrolytics LLC
6. Steve Moore
Sr. Economics Writer, The *Wall Street Journal* Editorial Board
7. James Pethokoukis
Sr. Writer, U.S. News & World Report (Money & Business)
8. Robert P. Murphy
 - a. Economist, Institute for Energy Research
9. Kevin Hassett
Economist, American Enterprise Institute