

How the economics of oil could sway the US presidential election

Emilie Rutledge, July 9th, 2024



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Oil continues to influence global economics and politics like no other finite natural resource. In the 2024 US presidential election, the strategic commodity will be an important domestic issue.

As the biggest producer and consumer of oil on the planet, the US has a particularly strong relationship with the black stuff. And the candidates know it.

Donald Trump has promised to “drill, drill, drill” and reportedly courted the financial backing of industry giants. Those giants have responded by donating US\$7.3 million (£5.7 million) to Trump’s campaign – three times more than for his 2020 run.

Meanwhile, Joe Biden has attempted to reduce dependence on fossil fuels with his green energy policy and other legislation. Yet at the same time he has overseen an increase in domestic oil production and promised motorists he will keep petrol prices low.

It’s an important promise in the US, a country whose love affair with cars is well known. Out-of-town shopping malls, long highways and a lack of government investment in public transportation have fuelled car dependency, with many cities being designed around huge road systems.

So, it is perhaps unsurprising that pump prices are a significant factor influencing voters. Research has even shown that gasoline prices have an “outsized effect” on inflation expectations and consumer sentiment. As fuel prices go up, confidence in the economy goes down.

And while many European and Asian countries have shifted towards alternative energy sources, the US has not reduced its dependence on fossil fuels when it comes to transport. Electric models make up only 8% of vehicles sold in the US, compared to 21% in Europe and 29% in China.

Any rise in gasoline prices ahead of the US summer “driving season” – when holidays and better weather encourage more road travel and gasoline consumption is estimated to be 400,000 barrels per day higher than other times – would be a serious concern for the Democratic party.

Yet it’s also true that whoever is in the White House actually has limited ability to influence gasoline prices. Around 50% of the pump price is the cost of crude oil, the price of which is set by international markets.

And despite producing enough oil domestically to cover its consumption, the US continues to trade its oil around the world. Back in 2015, Congress voted to lift restrictions on US crude oil exports that had been in place for four decades, allowing US companies to sell their oil to the highest international bidder.

To complicate things further, some US refineries can only deal with a certain type of crude oil, which has to be imported. Neither international events nor foreign production decisions are under the control of a US president.

Indeed, oil price spikes caused by political crises in other oil producing regions illustrate how continued dependence on oil itself, whether domestically produced or imported, leaves the US exposed to global market shocks which could in turn influence electoral outcomes.

After Russia’s full scale invasion of Ukraine in 2022 and production cuts from countries such as Saudi Arabia in 2023, the Republican party used a rise in gasoline prices to attack Biden’s environmental policies which had reduced domestic oil drilling and ended drilling leases in the Arctic.

Big oil, little oil

So, while the US president has little say over the price of fuel that voters pay, domestic oil and gas regulations have a role to play, as oil producers make up a significant body of influence in the US.

Aside from the big firms backing Trump, the structure of the US oil industry is unique among oil producing states in that it is dominated by a very large number of small independent producers who earn money from the extraction and sale of oil from their land.



Some campaigners have blamed Biden for price rises at the pump. ZikG/Shutterstock

In most oil-producing countries, subsurface oil is owned by the state. But in the US, the mineral rights are owned by the private landowner who can earn royalties by allowing oil companies to drill on their land. In 2019, there were 12.5 million royalty owners in the US. Operating alongside them are some 9,000 independent fossil fuel companies which produce around 83% of the country's oil and account for 3% of GDP and 4 million jobs.

Those companies drilling on state-owned land pay a royalty rate to the government, which up until recently was as low as 12.5% of the subsequent sales revenue. Biden's decision to raise the rate to 16.67% did not go down well with oil producers.

Despite that raise and Biden's pledge to forge ahead with the US energy transition, the domestic oil and gas industry expansion has continued under his watch. In 2023, US oil production grew to unprecedented levels, averaging 12.9 million barrels per day and forecasters predict a 2% production increase in 2024.

Surging US oil production may help with the Democrats' re-election bid, but rising gasoline prices will not – even though their levels depend on much more than Biden's energy policies. Instead, it may be that the international economics of oil markets drive voters' decisions – and determine who wins and who loses in November 2024.