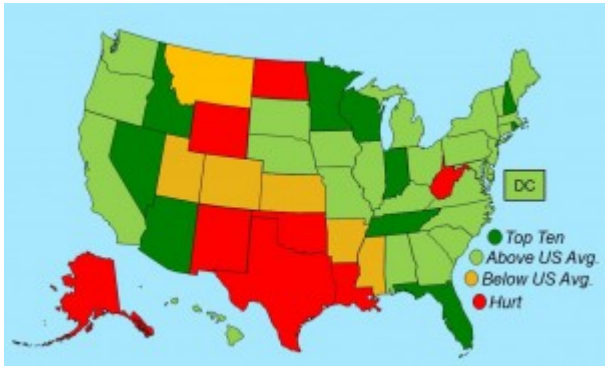
The rapid fall in oil prices seems to have taken everyone by surprise. I've noted before that it puts the viability of the Keystone XL project in doubt. But its other effects are worth considering.

Overall, the fall in prices should have a beneficial effect on the U.S. economy. Since gasoline is cheaper, people can buy the gas they need and have money left over to increase spending on other things, as if they had gotten a tax cut. The flip side is that producers will get less money, so they'll have less to spend — in effect, a large wealth transfer from producers to consumers. This isn't zero-sum in terms of the U.S., in part because we still import a substantial part of our oil. However, there will be winners and losers domestically, as this map from a very helpful RFF paper demonstrates;



The losers are the big energy producing states — colored red on this map (and Red States in political terms as well.) The big winners are scattered around the country, but many other states also come out well ahead. Since this is happening on Obama's watch, you'd think this would benefit the Democrats in states like Florida and Nevada and to a lesser extent elsewhere (but not matter in Idaho!). On the other hand, it may more deeply entrench Republican control of states like West Virginia. Internationally, of course, there will be similar economic effects: this will be economically good for the Vermont-like oil-consuming countries like Japan and bad for the Texas-like oil producers like Saudi Arabia and Russia.

What about the effect on the environment? There's already apparently been an increase in demand for larger, lower-fuel efficiency cars. The increasing strict CAFE standards should limit the effect of that change in demand. You might also forecast an increase in the amount of driving when gas is cheaper. That effect seems to be small, however. According to the Energy Information Administration, gas prices today have very little effect on driving. For the more wonkishly inclined, the short-term price elasticity is about -0.03, which means that the price of gasoline has to fall by about a third to raise vehicle miles driven by 1%. In the past, prices had a larger effect on driving; the reasons for the change include an aging

population that drives less and more urbanization. In any event, the effect on U.S. air pollution (including carbon emissions) should be relatively negligible.

The falling prices should also take some of the air out of industry demand for expanded oil and gas drilling on the continental shelf and in other environmentally sensitive areas. The political pressure should also diminish — we're not likely to hear crowds chanting "Drill, Baby, Drill" in the next Presidential campaign, even if their policy views haven't changed. So there may be positive environmental effects of falling oil prices in terms of environmental preservation. for offshore waters and federal lands.