

A white line graphic on a green background, resembling a stylized mountain range or a jagged line graph. It starts low on the left, rises to a peak with a small rectangular notch at the top, and then descends with several smaller peaks and valleys towards the right.

# Function 920: **Allowances**

# Repeal the Davis–Bacon Act

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016–2020	2016–2025
\$8,112	\$8,142	\$8,158	\$8,251	\$8,447	\$8,633	\$8,818	\$9,056	\$9,233	\$9,404	\$41,110	\$86,254

## Heritage Recommendation:

Repeal the Davis–Bacon Act and prevent states from imposing prevailing wage restrictions on federally funded construction projects. This proposal saves \$8.1 billion in 2016, and \$86 billion over 10 years.

## Rationale:

The Davis–Bacon Act requires federally financed construction projects to pay “prevailing wages.” In theory these should reflect going market rates for construction labor in that area. However the GAO and Inspector General have repeatedly criticized the Labor Department for using self-selected statistically unrepresentative samples to calculate the prevailing wage rates. Consequently, actual Davis–Bacon rates usually reflect union rates that average 22 percent above actual market wages.

The Davis–Bacon Act requires taxpayers to overpay for construction labor. Construction unions lobby heavily to maintain this restriction—it reduces the cost advantage of their nonunion competitors. But it needlessly inflates the total cost of building infrastructure and other federally funded construction by 10 percent.

The Congressional Budget Office has estimated that the Davis–Bacon Act applies to a third of all government construction—many state and local projects are partially or wholly funded with federal dollars. Without prevailing wage restrictions these projects would have cost \$7.8 billion less in 2013. Congress should repeal the Davis–Bacon Act and prohibit states from imposing separate prevailing wage restrictions on federally funded construction projects. Doing so would save taxpayers tens of billions of dollars.

## Additional Reading:

- James Sherk, “Examining the Department of Labor’s Implementation of the Davis–Bacon Act,” testimony before the House Committee on Education and the Workforce, April 14, 2011, <http://www.Heritage.org/research/testimony/2011/04/examining-the-department-of-labors-implementation-of-the-davis-bacon-act>.

## Calculations:

Savings are expressed as budget authority and were calculated by comparing current federal construction spending of \$277 billion annually, as found in U.S. Census Bureau, “Construction Spending: Value of Construction Put in Place at a Glance, November 2014,” January 2015, <https://www.census.gov/construction/c30/c30index.html>, to spending levels in the absence of Davis–Bacon. Both spending levels were increased at the same rate as growth in discretionary spending, according to the CBO’s most recent August 2014 baseline. Davis–Bacon increases construction costs by 9.9 percent, as documented in Sarah Glassman et al., “The Federal Davis–Bacon Act: The Prevailing Mismeasure of Wages,” The Beacon Hill Institute, February 2008, <http://www.beaconhill.org/BHISTudies/PrevWage08/DavisBaconPrevWage080207Final.pdf>, and it extends to 32 percent of all public construction spending.

# Open Access to Drilling and Conduct Lease Sales

SAVINGS IN MILLIONS OF DOLLARS

2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2016-2020	2016-2025
\$0	\$400	\$1,000	\$700	\$300	\$800	\$900	\$400	\$600	\$567	\$2,400	\$5,667

## Heritage Recommendation:

Open access to energy exploration and development on non-park, non-wilderness lands, and remove bans on drilling off America's territorial waters. This proposal saves \$5.7 billion over 10 years.

## Rationale:

An abundance of untapped energy lies beneath America's ground and off the coasts. The United States is the only country in the world that has placed a majority of its territorial waters off-limits to oil exploration. Furthermore, production on federal lands is decreasing while production on private and state-owned lands is skyrocketing.

Congress should lift the ban on exploration in the eastern Gulf of Mexico and the Atlantic and Pacific coasts, and should conduct more lease sales off Alaska's coasts. Another obvious area in which to expand oil production is Alaska's Arctic National Wildlife Refuge (ANWR), where an estimated 10.4 billion barrels of oil lie beneath a few thousand acres that can be accessed with minimal environmental impact. Congress should require the Secretary of the Interior to conduct lease sales if a commercial interest exists to explore and drill. Congress should also provide the funding, if necessary, for the federal government to hire personnel to conduct new lease sales after opening America's territorial waters and currently blocked onshore areas.

Federal and state governments would stand to benefit as well since increased production would increase revenues from bonus bids (for new leases), royalties, rents, and increased economic activity. States receive 50 percent of the revenues generated by onshore oil and natural gas production on federal lands and Congress should apply this allocation offshore as well. Drilling off states' coasts and allowing them a larger share of the royalty revenue would encourage more state involvement in drilling decisions. Offshore drilling would promote state and local government participation in allocating funds as well, whether closing a state's deficit or coastal restoration and conservation.

## Additional Reading:

- Nicolas Loris, "Ten Actions Congress Can Take to Lower Gas Prices," Heritage Foundation *Backgrounder* No. 2689, May 12, 2012, <http://www.Heritage.org/research/reports/2012/05/ten-actions-congress-can-take-to-lower-gas-prices>.

## Calculations:

Savings based on 2014 CBO budget options, specifically option 1, in CBO, "Options for Reducing the Deficit: 2015 to 2024," November 2014, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/49638-BudgetOptions.pdf>. The CBO score includes savings figures through 2024. Because there is no trend in the savings, we assume that 2025 savings are equal to the average savings levels estimated by the CBO for 2016-2024.

# Empower States to Control Energy Production on Federal Lands

## Heritage Recommendation:

Open access to energy exploration and development on non-park, non-wilderness lands, and remove bans on drilling off America's territorial waters.

## Rationale:

Much of the growth is occurring on private and state-owned lands, while oil and gas output on federal lands has been in decline. States are in the best position to promote economic growth and to protect the environment, which is why state regulators should manage energy production and resources in their respective states. The federal government owns nearly one-third of United States territory. Congress should consider privatizing some of that land, and in the meantime, transferring the management of federal lands to state regulators would encourage energy resource development on the federal estate while maintaining a strong environmental record.

States should be able to control the environmental review and permitting process to develop energy resources on federal land that is not Indian land, part of the National Park System, the National Wildlife Refuge System, or a congressionally designated area. The proposed Federal Land Freedom Act<sup>71</sup> would allow states to develop programs that satisfy all applicable federal laws required to produce energy on federal lands. Therefore, states would have complete control of their energy programs. Further, states would submit a declaration of their program to the Departments of Agriculture, Energy, and the Interior, and the program would not be subject to judicial review. Doing so would reduce the budgets for those federal agencies conducting the environmental review and permitting.

## Additional Reading:

- Nicolas Loris, "Energy Production on Federal Lands: Handing Keys Over to the States," Heritage Foundation *Issue Brief* No. 3979, June 27, 2013, <http://www.Heritage.org/research/reports/2013/06/energy-production-on-federal-lands-handing-keys-over-to-the-states>.

## Calculations:

No specific savings are assumed for this proposal.



## Endnotes: Allowances

71. H.R. 2511—Federal Land Freedom Act of 2013.