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HANDBOOK ON AFFORDABILITY

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ISBN: 978-1-969284-30-4

The Cato Institute Handbook on Affordability. Edited by Ryan Bourne. Cato Institute, 2026.

Printed in the United States of America

Cato Institute
1000 Massachusetts Ave. NW
Washington, DC 20001
www.cato.org

Contents

Introduction 1
Ryan Bourne

PART ONE 7

1. Monetary Policy 9
Jai Kedia and Norbert J. Michel

2. Fiscal Policy 11
Romina Boccia and Dominik Lett

PART TWO 13

3. Housing 15
Stephen Slivinski

4. Energy 18
Travis Fisher

5. Health Care 21
Michael F. Cannon and Jeffrey A. Singer

6. Transportation 24
Colin Grabow

7. Childcare and Child Raising 27
Chelsea Follett

8. Food 30
Colin Grabow

9. Clothing, Household Goods, and Labor Services 33
Scott Lincicome and Stephen Slivinski

10. Higher Education 36
Andrew Gillen

11. Consumer Financial Services 38
Norbert J. Michel and Solveig Singleton

About the Contributors 41

Introduction

Ryan Bourne

Washington, DC, has deemed 2026 "the year of affordability." Inflation and the cost of living are Americans' number one concern. After experiencing the highest inflation since 1981, voters remain livid that, by January 2026, consumer prices had climbed 24 percent in just five years, while interest rates on mortgages, car loans, and credit cards also rose sharply.

This cost-of-living pressure is a political problem for both parties. High inflation became a political albatross for former President Joe Biden and helped carry Donald Trump back into office. Yet since his January 2025 inauguration, President Trump's own approval rating on handling inflation and prices has deteriorated sharply (Figure 1). This dissatisfaction mainly reflects disappointment that the president hasn't delivered what he promised during the 2024 election: outright lower prices.

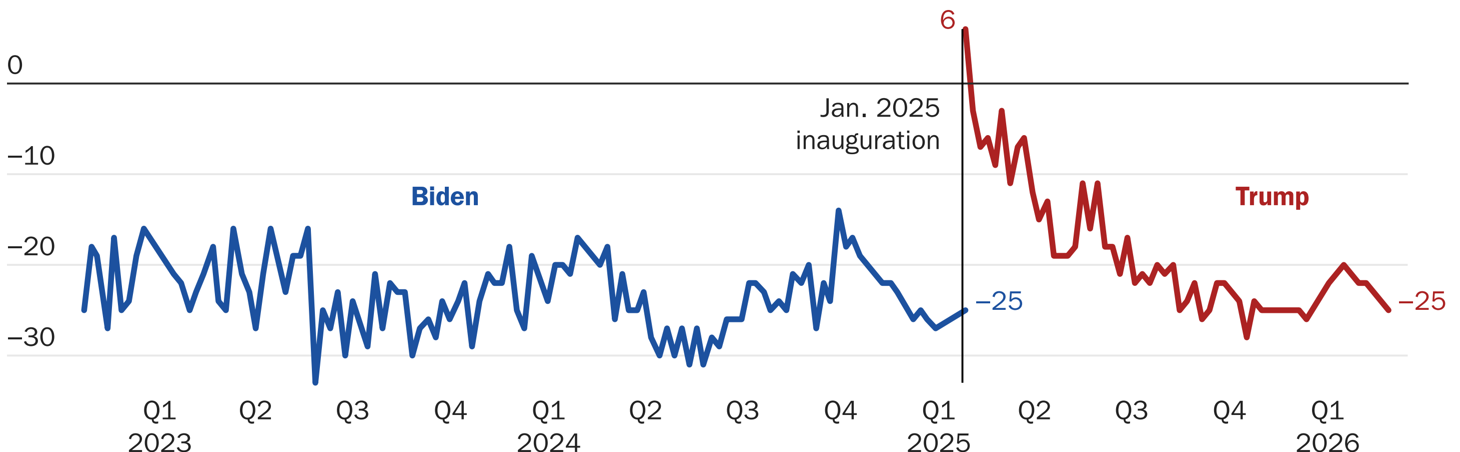
Scarred by grocery, electricity, and used car prices that are more than 30 percent higher than in 2020 (Figure 2), the public now increasingly equates high prices with a poor economy. In a recent Echelon Insights poll, nearly three-quarters of Americans said that only prices falling (i.e., deflation), not inflation slowing or wages growing faster than prices, would convince them that the cost of living was no longer a problem. But inflation—the rate of increase in the price level—has stayed positive, and in 2025 ran significantly above the Federal Reserve's 2 percent annual target. That's before the recent fallout of the Iran war.

All of this makes satisfying voters' affordability concerns a tough political and economic needle to thread. They don't just want inflation to slow to target or even fall below target for a while. They want prices in general to come down, fast. That would require an aggressive tightening of monetary policy to slash economy-wide spending, likely triggering a recession. It's a trade-off the public doesn't fully grasp, and one that neither Congress nor the Federal Reserve is willing to risk. So instead, under mounting pressure to

Figure 1

President Trump's approval rating on inflation has fallen to Biden's end-of-term approval rating

Net job approval of the president on inflation/prices

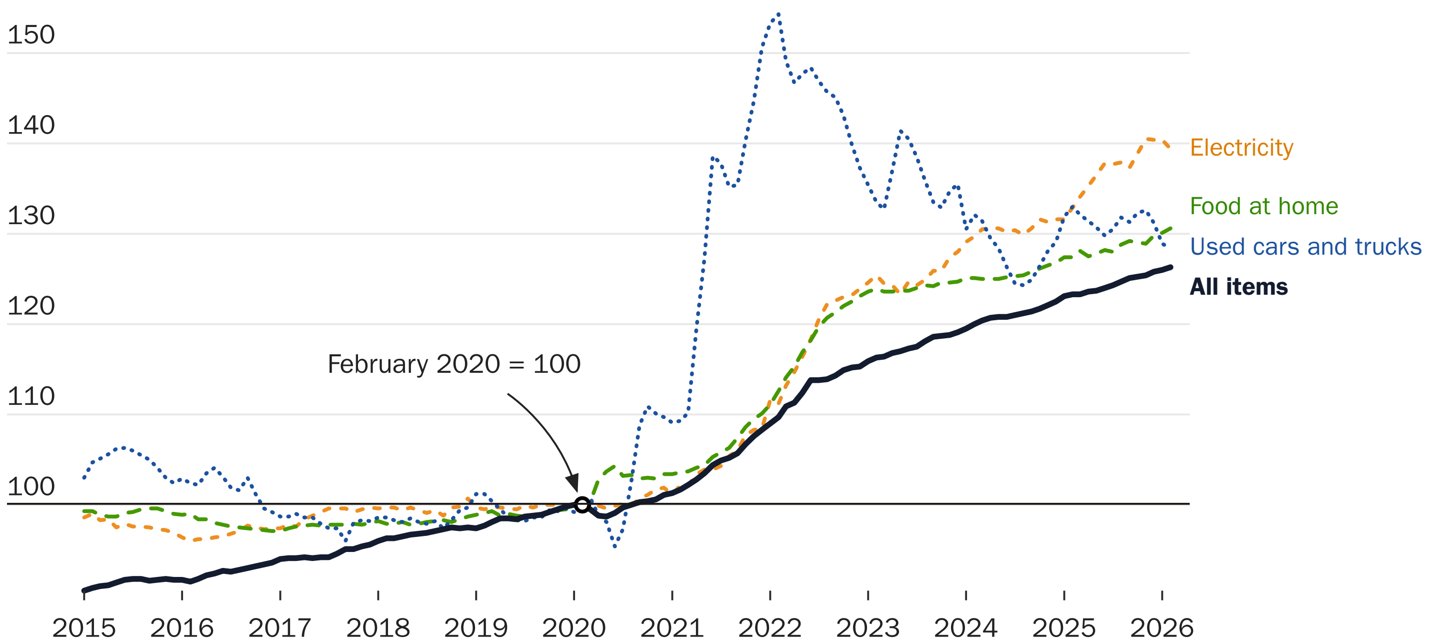


Source: *Economist*/YouGov polls on Biden and Trump.

Figure 2

The price level and prices of essentials have soared since 2021

Consumer Price Index for All Urban Consumers, February 2020 = 100



Source: Bureau of Labor Statistics.

"do something," politicians are rummaging around for sector-by-sector interventions to provide relief on housing, energy, childcare costs, and more.

To date, most affordability proposals in Washington and state capitals flunk basic economics. Price caps, additional subsidies, or mandates might lower prices for some but bring fresh distortions, higher charges, and limited access for others. They dampen the signals that prices send about scarcity and where to direct resources efficiently. Most importantly, they don't make things cheaper to produce. They mainly just reshuffle the burden and paper over the real, industry-specific drivers of high prices.

This handbook aims to bring some much-needed economic rigor to this hopelessly confused affordability debate. It provides two key takeaways, crucial to policymakers:

First, today's frustration over affordability owes mainly to the recent high inflation, which was overwhelmingly created in Washington, DC, through overly expansionary monetary and fiscal policy.

Second, if the goal is to lower prices or broaden options for specific goods, the answer is not price controls, subsidies, and mandates. It is more economic freedom—specifically, removing existing government barriers that restrict supply and block competition.

UNDERSTANDING THE SO-CALLED AFFORDABILITY CRISIS

"Affordability" has become a catchall political buzzword precisely because it's ill defined. Economists instinctively understand affordability in terms of real wages: how much you can buy with what you earn. By that standard, 2025 looked all right. Average weekly earnings grew by 4.3 percent in the year that ended in January 2026, while inflation, measured by the Consumer Price Index, rose 2.4 percent. On various price and earnings metrics, real earnings per employee jumped by $1,200 or more. No wonder President Trump is frustrated that people talk of a worsening "affordability crisis."

Clearly, voters aren't parsing national real-wage calculations. They're angry mainly because everything costs far more than it did just five years ago. Even though inflation

has slowed, people still feel unmoored by prices having jumped so fast. The Biden administration found out the hard way that pointing to wage growth while Americans stare at 30-percent-higher grocery bills only deepens resentment.

What makes the term "affordability crisis" resonate with the public is that it encapsulates four distinct frustrations:

- **Sticker shock.** Prices are still shockingly higher than in early 2020. People remember both the struggle of adjusting to this reality and the lower nominal prices they used to pay.
- **Expensive credit.** Higher interest rates have made mortgages, car loans, and credit cards feel like brick walls blocking major life goals.
- **Stubborn inflation.** Inflation remains above target, and Trump-era policies—tariffs, deportations, deficit spending, pressure on the Fed, the Iran conflict—have raised some prices directly and made people worried that inflation could resurge.
- **Structural price pain.** In industries like housing, childcare, and health care, persistent supply constraints and structural features of the markets make even good wage growth feel as though it gets eaten up by rising bills.

These aren't imagined grievances. But they're not a single issue either. To respond effectively, it's crucial that policymakers distinguish between inflation as a change in the general price level and relative price changes affecting specific sectors.

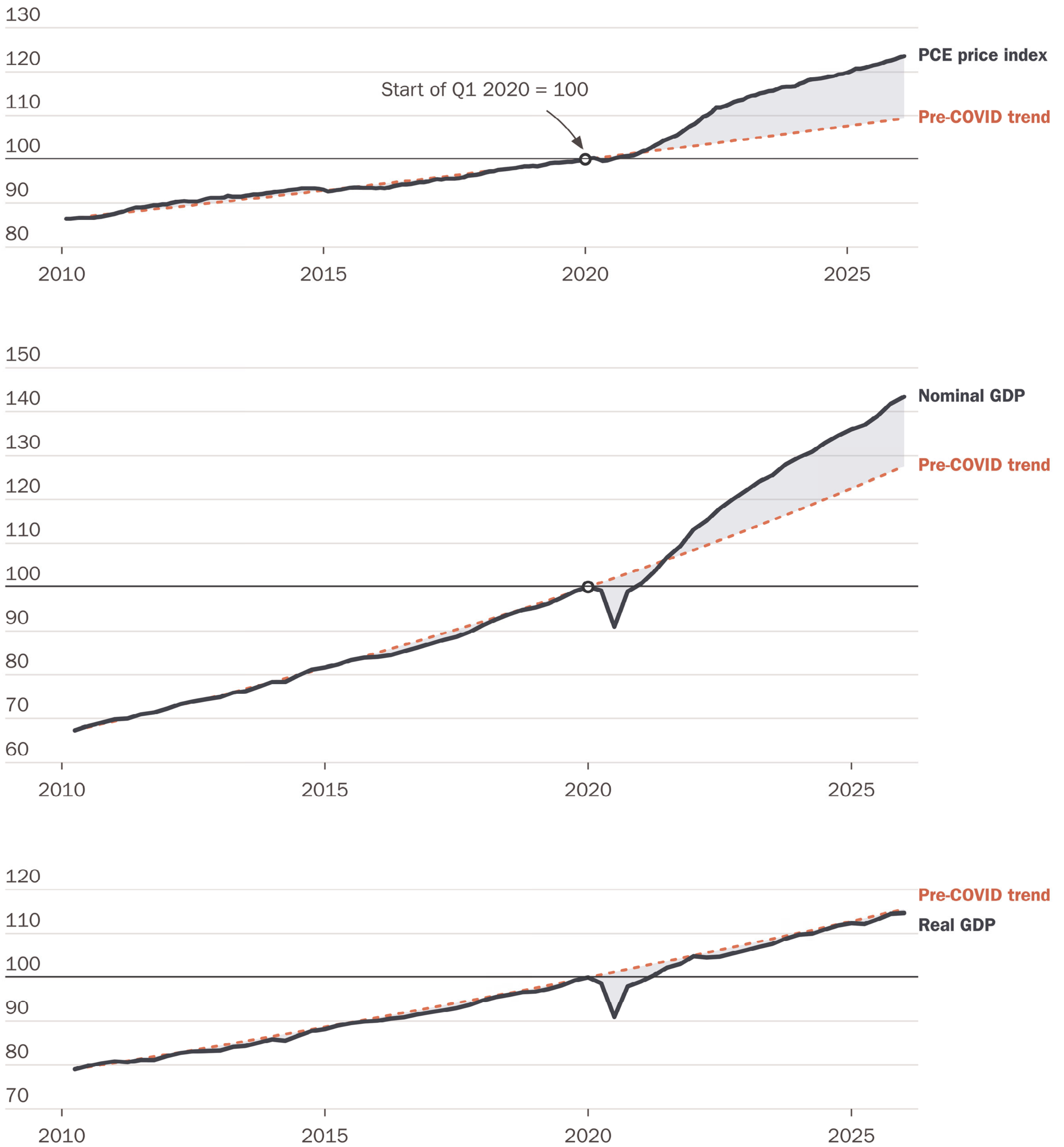
Inflation is a macroeconomic phenomenon. It occurs when broad money and then total nominal spending economy-wide grows faster than its capacity to produce goods and services. That's what causes a dollar to lose purchasing power: too much money chasing too few goods. The Federal Reserve seeks to control inflation through the monetary conditions that shape broad money and nominal spending, by setting short-term interest rates, conducting open-market operations (buying or selling assets), adjusting reserve requirements, and guiding expectations through public communication. Congress either aids or undermines those efforts with how responsibly it manages long-term budgets.

But price hikes of *individual* goods don't always reflect inflation. When voters complain about high rents, childcare costs, or insurance premiums, they are often complaining about **relative price changes** for specific goods or services. The surge in demand for face masks early in the COVID-19 pandemic pushed up their prices. Housing costs rise when zoning laws restrict new supply from meeting rising demand. Improving affordability in specific markets requires structural reform. Only a supply expansion—lowering production costs, opening markets to fresh competition—delivers lower prices without fewer people being able to access a good or service.

This distinction between inflation and relative prices is critical. You can't fix high childcare costs using monetary policy, and you can't fight inflation by revising building codes. Conflating the two is a recipe for disappointment and bad policy.

Yet this confusion permeates the affordability debate. Most of the affordability frustration clearly boils down to the massive jump in the general price level since 2021. That was caused by inflation, and that inflation overwhelmingly reflects excessive macroeconomic stimulus. But most affordability proposals amount to tinkering in individual markets, usually in destructive ways.

The story of recent inflation is not complicated. In spring 2020, the COVID-19 pandemic and lockdowns collapsed both total spending and real production. Policymakers responded with the normal recession playbook: vast spending, borrowing, and money creation to revive economy-wide spending. The Federal Reserve cut interest rates and allowed the broad money supply (M3) to balloon by over $6 trillion. Congress sent out three rounds of checks—$3,200 per adult—and dramatically expanded unemployment, business, and state government aid. Household balance sheets improved. Once the economy reopened fully, households and firms found themselves holding far more money than they wished to hold relative to their income and wealth. They sought to rebalance by spending more on assets, goods, and services, with total spending on final goods and services (Figure 3, Nominal GDP) exploding rapidly and far above its pre-crisis trend. The inflation that followed wasn't a mystery but rather a reflection of too much money chasing the amount of stuff being produced.



Source: Bureau of Economic Analysis.

Notes: Start of Q1 2020 corresponds to December 2019 for monthly PCE data and Q4 2019 for quarterly GDP data. GDP = gross domestic product.

Economists can debate the relative role played by the Federal Reserve's monetary policy or Congress's borrowing, but the vast bulk of "excess" inflation came from macroeconomic policy creating too much money and goosing too much spending. Yes, the pandemic disrupted supply chains, and the Russia-Ukraine war drove up energy prices, just as the war in Iran has recently. These "supply shocks" undoubtedly exacerbated inflation at times. But they don't explain why prices surged across the board or why consumer prices today remain 14 percent above pre-COVID trends. Real output has recovered to pre-pandemic trends (Figure 3), meaning we aren't more supply constrained than expected. What broke from the trend—and stayed high—was total economy-wide spending. That's what drove inflation.

Faulty and self-interested theories muddied this story. The Federal Reserve initially claimed inflation was "transitory," blaming it on temporary supply disruptions and shifts in sectoral spending that the Fed couldn't control and that would quickly unwind. As inflation spread and the Fed realized its error, the Biden administration instead deflected blame toward greedy corporations, landlords, meatpackers—anyone but macroeconomic policymakers.

These "greedflation" theories never passed the smell test. Even if some firms had slightly more pricing power in a world of supply shocks, that would explain only relative price shifts, not broad-based inflation. Temporary profit bumps in some sectors were themselves a symptom of excess demand or global supply disruptions, not a sudden breakdown in competition allowing corporations to gouge customers. And consumers had to be willing and able to pay those higher prices. (They could, because they were holding large money balances.) The problem wasn't greed; it was too much money chasing goods and services.

Still, these faulty theories encouraged misguided policy proposals. If inflation reflected corporate pricing power, the thinking went, the answer must be regulation. Rent controls, junk fee bans, antitrust crusades, and anti–price gouging laws were championed. Yet these could never have fixed inflation, because they don't reduce overall spending growth or meaningfully expand the economy's productive capacity. They would have mainly distorted price signals, resulting in shortages, quality declines, and black markets.

This history matters for today's debates for two reasons.

First, if we forget what really caused inflation, we'll repeat it. "Running the economy hot," reckless budgeting, or lax monetary policy all risk another surge in prices in the future.

Second, many who downplayed the risks of excessive stimulus or denied that inflation had macroeconomic roots now push price controls and mandates to appease voters discontented by the fallout. They're doubling down on their initial bad analysis.

This handbook resets the conversation. High inflation was largely a macroeconomic mistake. High prices in specific sectors beyond that stem from structural issues. Each demands a different solution. Mixing them up risks an affordability mess.

THE WRONG PATH TO IMPROVED AFFORDABILITY

Policymakers under pressure to "do something" about affordability are nevertheless targeting individual, salient prices. But most proposed interventions treat high prices not as crucial signals of scarcity but as political nuisances to be suppressed. The bulk of more recent federal and state "affordability" proposals fit into three categories: price controls, subsidies, and regulatory mandates.

Price controls—such as rent freezes, credit card APR caps, and anti–price gouging laws—ignore the supply-and-demand factors driving high prices and instead force prices to lie about reality. Holding prices below market levels creates shortages, queues, and black markets, as seen in 1970s gas lines or supply collapses in heavily rent-controlled cities. Firms also respond to price caps by cutting quality, hiking hidden fees, or rationing access—distortions that worsen over time as controls bind harder. Price controls are simply a recipe for discoordination and chaos.

Subsidies can lower out-of-pocket costs for subsidized consumers for services such as childcare or health care, but only by shifting the payment burden from consumers

to taxpayers. Subsidies do not reduce costs of provision. By increasing demand, they raise market prices, leaving unsubsidized consumers worse off. And worse still, subsidies rarely come alone: They're usually tied to costly regulatory mandates on staffing and coverage that increase provision costs. Zohran Mamdani's supposedly free childcare plan is a case in point: It would mandate teacher-level pay for childcare workers, pushing up costs that taxpayers would then cover.

Regulatory mandates don't cap prices outright but still distort markets. Banning or restricting institutional investors such as private equity firms and real estate investment trusts from buying single-family homes might shave some local prices by reducing bidding pressure today, but it will shrink rental supply and discourage new rental construction, raising rents in the future. Stretching mortgages to 50 years lowers monthly payments, but it also inflates total interest costs, adds financial risk for taxpayer-backed entities, and drives up home prices by artificially boosting buyers' purchasing power. Other mandates—such as aggressive antitrust enforcement or restrictions on business models—can outlaw the very scale and specialization that make goods and services more affordable.

These proposals share a common flaw: They treat the symptoms of high prices, not their causes. They don't reduce costs or expand supply. They merely reshuffle the bill, hide the trade-offs, and stoke economic dysfunction.

A BETTER APPROACH

This handbook's alternative approach acknowledges two realities.

First, Americans are frustrated about affordability mainly because of recent high inflation delivering a higher price level.

Second, in an election year, policymakers face mounting pressure to "do something" to improve affordability by targeting high-salience sectors like housing, health care, energy, and food. Most existing proposals are ill considered.

Affordability improves as productivity rises and wages grow relative to prices. But that takes time, and voters want visible, near-term price cuts—not promises of future real-wage gains. "Pro-growth policy" is therefore desirable but isn't targeted enough to assuage concerns. Nor is broad "relief" through tax cuts or new checks the answer to today's discontent. While taxes are a major living cost—and state sales taxes raise prices directly—the net impact of broad tax cuts, or indeed government checks, depends on how the policy is financed. In Washington's case, runaway borrowing itself risks unpopular inflation again.

Instead, this handbook offers a more disciplined response to affordability concerns, targeting both inflation and specific relative prices separately.

Part One focuses on restoring a sound macroeconomic foundation to get and keep inflation low. That means keeping the Federal Reserve focused on price stability and having Congress confront federal deficits that could undermine the Fed's independence or fuel future inflation.

Part Two lays out practical, pro-market reforms across sectors that make up over 75 percent of household budgets: housing, energy, health care, transportation, childcare, food, and more. These proposals aim to lower prices by liberating supply, intensifying competition, and removing regulatory choke points that restrict or outlaw lower-cost alternatives.

We don't claim that every reform would be politically easy or would solve all problems. Industries like health care and higher education are heavily distorted by extensive government subsidies fueling overconsumption. Paring these back is desirable policy but would worsen near-term affordability for many consumers who currently receive subsidies. They are beyond our scope.

Instead, the policies we present here would offer meaningful, medium-term relief without relying on price controls, subsidies, or mandates that shift costs or suppress demand. The policy ideas would unlock innovation, improve the responsiveness of markets, and raise real incomes by improving economic efficiency.

The better approach to addressing affordability concerns is surprisingly simple: sound macroeconomy policy coupled with more economic freedom to supply goods and services.

PART ONE

1. Monetary Policy

Jai Kedia and Norbert J. Michel

The post-2021 inflation surge reset the price level upward, heightening anxiety about "affordability." In any given year, some prices, such as for housing and pharmaceuticals, may rise faster than others due to sector-specific supply-and-demand conditions. But all prices share a common macroeconomic determinant: the purchasing power of money. Quite simply, there is no durable economy-wide solution to affordability concerns without a low, stable rate of inflation.

Achieving this requires good management of the US money supply and the value of the dollar. Congress has tasked the Federal Reserve with such management under its dual mandate of stable prices and maximum employment. Overall, the Fed has a poor record of delivering price stability. Under its watch, inflation hit a 40-year high in the aftermath of the COVID-19 pandemic. The Fed was too slow to tighten policy in light of rapidly growing levels of money spending across the economy. Yet politicians increasingly want the Fed to try to fix everything, from housing costs to our ever-increasing federal debt burden.

The Fed should not be tasked with these extraneous responsibilities that seek to pick winners and losers in various sectors of the economy. Not only is the Fed limited in how much it can help specific sectors, but broadening its objectives will also necessarily distract its focus from price stability, a task it already finds difficult enough to accomplish. After all, the Fed can only influence aggregate nominal conditions. It cannot repeal real constraints or override underlying supply-and-demand fundamentals that can also drive changes in the price level.

Ideally, the US monetary system would be fully private, with aligned incentives and competition. But the Fed and the US dollar are so entrenched in our financial system, removing them without viable alternatives would result in high economic costs during the transition. Such a drastic change would also require years of political navigation. This section therefore focuses on more immediate fixes that Congress or the Fed itself can implement to improve price stability.

The Fed implements monetary policy mainly by influencing short-term borrowing costs to pursue its macroeconomic goals. This transmission mechanism is indirect and imperfect. At best, the Fed can foster better business conditions during turbulent economic periods by setting policy objectively and transparently. At worst, the Fed can set its targets so poorly that monetary policy itself becomes a source of economic volatility, especially when the Fed enjoys broad discretion and is burdened with mandates beyond its fundamental mission. Congress should therefore narrow the Fed's responsibilities and focus on reforms that bind it to transparent, objective monetary policy.

FEDERAL POLICIES TO AVOID HIGH INFLATION

- **Adopt rules-based monetary policy.** Congress should mandate that the Fed conduct rules-based monetary policy. The 2015 FORM Act offers a template for such legislation. Under such a system, the Federal Open Market Committee (FOMC) would set the interest rate target according to an arithmetic rule linking the interest rate to macroeconomic indicators such as inflation relative to target and a measure of economic slack (e.g., unemployment or an output gap), rather than using ad hoc discretion. The FOMC could revise the rule at preset intervals, perhaps at the framework review it conducts every five years. But while the rule is in effect, the FOMC must follow it.

Any deviation from the rule should require a public written justification, a clear plan to return to the rule, and testimony to Congress. A rules-based system would tend to anchor inflation expectations, reduce policy-driven volatility, and lower inflation risk premia in borrowing costs. It would also help shield the Fed from political pressure to lower rates aggressively, so risking higher inflation.

- **End the interest-on-reserves program.** Congress must revoke the Fed's ability to pay interest on bank reserves. Under this system, known as IOR, the Fed has transferred billions of dollars from the Treasury to large banks. IOR contributed to the Fed losing nearly $200 billion in 2023 and 2024, as higher interest rates ballooned payments. This quasi-fiscal policy leads to a conflict of interest with the Fed's mandate of price stability, because tighter policy mechanically means larger interest payments to banks. And because these payments show up as reduced remittances to the Treasury, IOR functions as a backdoor spending channel, effectively allowing the funding of projects outside the normal appropriations process by creating a "deferred asset" on its balance sheet.
- **Exercise balance sheet discipline.** Concurrently with the end of IOR, Congress must force the Fed to reduce the size of its balance sheet and tightly constrain future large-scale asset purchases through its policy of "quantitative easing." Otherwise, in the next downturn, the Fed will again be tempted to massively expand its balance sheet. Injecting such excess liquidity into the economy can drive money growth, as it did post-pandemic, eroding the value of the dollar and raising the price level. Congress should mandate that the Fed revert its balance sheet to pre-financial-crisis levels by limiting the Fed's assets to 10 percent or less of US commercial banks. Importantly, Congress must provide the Fed with an appropriate timeline (ideally 5 to 10 years) to achieve this—not so short that it releases too many reserves into the US economy too quickly, but not so long as to beget inaction.
- **Remove the Fed from bank supervision and financial stability roles.** The Fed should be removed from its role as a financial supervisor and regulator. When the Fed increases rates to fight inflation, this tightening can expose losses and liquidity strains at the same banks the Fed is supposed to supervise. Separating this regulatory function from monetary policy would therefore sharpen accountability and help keep the Fed focused on price stability. There are several other financial regulators—the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, to name two—that could subsume the Fed's supervisory responsibilities. Finally, Congress should remove all financial stability mandates it has placed on the Fed, such as those in Title I and Title II of the 2010 Dodd–Frank Act. These types of mandates serve only to further distract the Fed from its core monetary responsibilities.

2. Fiscal Policy

Romina Boccia and Dominik Lett

Persistent and large federal deficits increase long-run inflation risks when they raise doubts about how the government will finance its obligations. When debt grows faster than the economy, investors begin to anticipate one of three outcomes: higher future taxes, spending cuts, or inflation that erodes the value of government debt. Absent congressional actions to stabilize the debt by reducing spending or raising taxes, inflation becomes the inevitable option.

Even with an independent Federal Reserve, large and rising debt can undermine the central bank's core focus on keeping inflation low. If interest costs spiral and threaten financial stability, the Fed will face pressure from officeholders, the Treasury Department, and the markets to lower government borrowing costs, perhaps by keeping interest rates lower than would otherwise be consistent with hitting its inflation target.

In the short term, high deficits can worsen inflation. Take the 2022 inflation surge. Supply disruptions certainly contributed to inflation at times. But overwhelmingly, it was the effects of unprecedented deficit-financed spending coupled with loose monetary policy that drove the sharp surge in consumer demand that increased prices.

When fiscal policy injects large amounts of borrowed money into the economy while monetary policy remains accommodative, inflationary pressures can build quickly. Sustained deficits increase the risk of higher and longer-lasting inflation, requiring higher interest rates for longer to bring inflation back under control. For instance, the Fed had to raise interest rates sharply in the late 1970s and early 1980s to restore price stability after inflation expectations had become entrenched. Rebuilding fiscal and monetary credibility is far more costly than maintaining it in the first place.

There are several channels through which persistent and large deficits raise inflation and interest rate risks:

Higher inflation expectations: If investors and households believe future deficits may be financed through money creation, long-term inflation expectations rise.

Higher borrowing costs: Investors demand higher yields to compensate for inflation and fiscal uncertainty. As debt grows faster than the economy, this puts upward pressure on Treasury rates, which flow through to higher borrowing costs on mortgages, business loans, and credit card balances.

Interest cost feedback loop: As debt rises and interest rates increase, federal interest payments grow, further worsening deficits and increasing fiscal pressure.

Demand pressures: Persistent and large deficit spending can contribute to pushing consumer demand beyond what the economy can supply, particularly when production is constrained and monetary policy remains loose.

Risk to central bank independence: High and rising debt increases the risk that monetary policy becomes subservient to fiscal considerations—so-called fiscal dominance—where concerns about debt-service costs and financial stability make it harder to prioritize low inflation.

On the flipside, sound fiscal policy supports price stability. When Congress credibly commits to stabilizing and reducing the debt, it helps keep inflation expectations stable and lowers the interest costs investors demand to compensate for fiscal uncertainty. Lower long-term rates reduce borrowing costs for families and businesses and slow the growth of federal interest payments, freeing up resources for capital investments that grow the economy.

Congress should reduce deficits immediately and reform unsustainable health care and retirement programs that are the main drivers of growing debt levels.

FEDERAL POLICIES TO AVOID HIGH INFLATION AND INTEREST RATES

- **Adopt credible fiscal rules.** Putting America on a sustainable budget path starts with adopting clear and enforceable fiscal targets to reduce budget deficits. Stabilizing the publicly held debt as a percentage of gross domestic product (GDP), achieving primary budget balance (balanced budgets excluding interest costs), or limiting deficit spending as a share of GDP all have their own merits. What matters most is that Congress adopt a realistic, clear, and binding budget target, ideally anchored in a constitutional amendment, that is backed by specific policies to reduce budget deficits.
- **Establish an independent fiscal commission.** A fiscal commission modeled after the Base Realignment and Closure (BRAC) process could provide Congress with the political cover needed to implement difficult but necessary reforms to unsustainable entitlement programs, especially Social Security and Medicare. Such a commission should be composed of independent experts tasked with clear fiscal goals, such as stabilizing the public debt or reducing the federal deficit to 3 percent of GDP. Commission members would be empowered to make recommendations that take effect unless Congress passes a joint resolution of disapproval.
- **Rein in emergency spending.** Over the past three decades, Congress has increasingly used emergency designations to bypass well-intentioned fiscal rules and expand the size and scope of government spending. Congress should reform emergency powers and require full offsets for any new emergency spending. This would deter vast borrowing during crises, which—as the recent pandemic experience has shown—can worsen inflationary pressures and undermine price stability.
- **Reform Social Security to lower the path of spending.** Social Security is the largest federal spending program and on an unsustainable trajectory, with $28 trillion in unfunded obligations. Congress, or an independent fiscal commission acting on behalf of Congress, should consider transitioning Social Security toward a predictable flat benefit focused on preventing senior poverty rather than replacing pre-retirement income. Congress should also consider automatic stabilizers that align program spending with available revenues based on economic and demographic developments, such as indexing eligibility ages to rise with improvements in longevity and reducing the generosity of future benefit increases as the worker-to-retiree ratio shrinks. Finally, Congress should also consider universal savings accounts, which would allow individuals to save after-tax income and withdraw the principal and gains tax-free at any time for any purpose, without restrictions.
- **Limit spending growth in Medicare.** Medicare spending is projected to grow faster than GDP indefinitely. Congress should cut baseline spending and cap spending growth, ideally converting Medicare into a Social Security–style cash-transfer program that sends risk- and income-adjusted payments directly to enrollees.
- **Convert Medicaid to smaller, fixed block grants.** Medicaid's matching-grant structure encourages states to overspend, ignore fraud, and shift costs to federal taxpayers. Congress should cut Medicaid spending and convert the program to a fixed block grant, ending the scams that have contributed to wasteful and fraudulent Medicaid spending.
- **Reduce federal aid to states.** Many federal programs overlap with state responsibilities, driving up costs by imposing bureaucratic requirements while also reducing accountability by obscuring which level of government is responsible for program outcomes. States should fund their own K–12 education, housing, community development, and transit programs, among others, to tailor policies to local conditions and compete to deliver better results at lower cost.

PART TWO

3. Housing

STEPHEN SLIVINSKI

Housing is the largest single expense for most American households. Since 2020, average house prices have grown by more than 50 percent and rents have grown by at least 30 percent. These are both substantially above the general rate of inflation (around 25 percent). The median sale price for a single-family home is 5 times the median household income, up from 3.5 times in the 1990s.

Unsurprisingly, housing costs have been on the front line of affordability politics. Some politicians have advocated rent freezes or controls as a means of relief. Federal policymakers, including the president, have advocated severely restricting how institutional investors can invest in and own single-family homes to moderate house prices, and for government institutions to support 50-year mortgages to lower monthly payments. Both sets of policies would introduce new inefficiencies to deal with the symptoms of housing market dysfunction, rather than address the underlying drivers of high prices.

Like all prices, house prices are determined by the interaction of demand and supply. As incomes and the population grow, the demand for housing services increases. For decades, federal policy has amplified this demand with support from Fannie Mae and Freddie Mac and the Federal Reserve's direct purchases of mortgage-backed securities. These interventions expand borrowing capacity and have contributed to structurally higher housing demand.

Even more important dysfunctions come on the supply side. For example, there is broad evidence that decades of restrictive land-use regulations explain a significant portion of high house prices. These laws—zoning rules, urban growth boundaries, height restrictions, and more—limit the responsiveness of the housing supply relative to growing demand, particularly in high-growth metropolitan areas. The result of the growing gap between the desired housing and what actually gets built is rising prices.

The cost of construction also matters. Federal and state laws that artificially increase the cost of both materials and labor drive up prices too. Overall, misguided policy means we are left with millions fewer homes than people want or would be willing to pay for, given other conditions in the market.

Unwinding federal demand support is a worthy long-term goal toward creating a more efficient housing sector. But the near-term effect will be worse affordability for some. The simplest and best solution to improving housing affordability today is therefore expanding all types of housing options by removing government-imposed barriers to and cost pressures on new construction.

FEDERAL POLICIES TO IMPROVE HOUSING AFFORDABILITY

- **Eliminate tariffs on home construction materials and appliances.** Key homebuilding inputs—such as lumber, aluminum, steel, gypsum, and household appliances—are made more expensive by both existing and newly imposed import tariffs. These trade barriers are hidden taxes on housing construction. Estimates from the National Association of Home Builders (NAHB) indicate that the cost of building materials has increased by 34 percent since December 2020. The recent tariff actions alone raised the cost of construction for the homebuilders the NAHB surveyed by an average of $10,900. Congress and the executive branch should eliminate or suspend these tariffs to reduce per-unit construction costs and allow homebuilders to meet demand at more affordable prices.

- **Sell off federal land for private housing development.** Several Western states are predominantly composed of federally owned lands. Much of that land is not environmentally sensitive or reserved for conservation but is locked out of productive use nonetheless. The federal government can create a process—much as they have already done around Las Vegas—to identify and expedite the opening of appropriate parcels (ones that don't already have a special designation, like national parks) for the purposes of private development. The Bureau of Land Management controls approximately 250 square miles of land within existing city limits or 2–10 miles outside those cities (primarily in the West) that could be sold to developers and lead to the building of an estimated 1.5 million new homes over the next 10–20 years. Permitting private use of such land near existing infrastructure could help reduce per-unit development costs and improve the responsiveness of supply.

STATE AND LOCAL POLICIES TO IMPROVE HOUSING AFFORDABILITY

- **Enact broad-based zoning reform.** Most of the housing supply constraints in high-cost US metropolitan areas come in the form of local zoning laws that mandate what types of housing (if any) can be built on existing parcels of land. These rules often mandate large lot sizes, ban multifamily housing from vast swaths of residential land, or impose costly aesthetic and design requirements. Economists have estimated that the increase in housing costs due to local government regulations—what they term a "zoning tax"—can be as high as $500,000 per quarter-acre in certain metropolitan areas. This isn't a problem for just single-family homes. Over 40 percent of the cost of building an apartment complex is the result of local government regulation. Reform should be geared to allowing more development on existing parcels (increasing density through "upzoning") and expanding the amount of land available for development. That should include allowing different types of residential (single-family and multifamily) to exist in the same zones, as well as expanding mixed-use zones (commercial and residential).
- **Eliminate minimum parking requirements.** Rules that require a minimum number of parking spots per square foot of building artificially restrict the amount of land available for housing. They also increase the cost of building new housing units, particularly apartment units. A recent estimate suggests that minimum parking requirements can add an average of $50,000 or more per unit in development costs. Removing or sharply reducing these requirements would allow the market to determine the right balance of housing and parking.
- **Loosen urban growth boundaries.** Many cities, such as Portland, Oregon, and some in California, have limits on how far development can expand beyond the city center into agricultural or undeveloped areas. Most studies find this land rationing substantially drives up land prices within the boundaries and leads to development forms that homebuyers would otherwise spurn. While the effect on finished home prices varies, research shows that in high-demand areas, growth boundaries can meaningfully raise house prices, especially when zoning inside the boundary remains restrictive and demand is expanding. Liberalizing or eliminating these boundaries could therefore dampen house price inflation and broaden the variety of homes available.
- **Allow accessory dwelling units (ADUs) and manufactured housing on residential lots.** Removing local prohibition on ADUs (small units on an existing home's lot) and manufactured homes increases housing supply diversity. This could expand lower-cost alternatives to conventional single-family development. Allowing ADUs on existing residential property can also lower prices for all housing options overall in an area: A study of California's recent reforms estimates that a 0.5 percent increase in ADU density (measured by the number of units per mile) was accompanied by a 3 percent decline in housing costs.

- **Eliminate or lower minimum lot size requirements.** Requiring a certain number of acres per housing structure creates an artificial scarcity of units on every individual residential-property parcel. A recent study estimates that in cities that doubled their minimum lot sizes, house prices went up by 14 percent and rents by 9 percent. For the median-priced home in the sample studied ($185,000), this translates to an increase of $26,000. Reducing or eliminating these requirements would enable "missing middle" housing—such as duplexes and cottage courts—that open up cheaper options.
- **Reform building codes.** Building codes should ensure safety, not obstruct innovation or impose costly aesthetic mandates. Existing building codes often fail to account for innovations in design and engineering or require attributes that do not pass a cost-benefit test. Estimates suggest that extraneous changes to these codes account for 11 percent of the cost of building a new apartment building, for instance. States and cities should revise their codes to allow innovation, modular construction, and materials that meet performance-based standards.
- **Liberalize occupational licensing.** Government regulation routinely increases labor costs in the construction industry through licensing that reduces the number of electricians, plumbers, contractors, and related occupations. This reduces workforce supply and increases the price in ways not usually accompanied by a significant and commensurate increase in quality. Studies indicate that the "wage premium" of licensing is as high as 18 percent. To make it easier for skilled tradespeople to work, states should recognize out-of-state licenses and reduce barriers to entry.
- **Streamline and expedite permitting, reduce discretionary review, cut fees, and decentralize inspections.** Even where zoning allows new housing, the permitting process can be slow, costly, and opaque. Homebuilder surveys estimate that permitting fees average more than $7,500 for a 2,600-square-foot house. Meanwhile, the time it takes to receive permits can sometimes exceed several months and the inspections required can be time-consuming, because they in turn require a government inspector to fit a given project into their overloaded schedule. States and localities should instead automatically approve applications that comply with zoning laws—so-called by-right development—and eliminate discretionary reviews in favor of clearly stated criteria that, if met, guarantee approval. A challenge culture should be encouraged in local permitting offices by imposing "shot clocks" of no more than a few weeks for permit decisions. The permit fees should be lowered too. Finally, local governments should allow inspection and building-plan review from private-credentialed specialists, not just government inspectors.
- **Pare back impact fees.** Homebuilder surveys estimate that impact fees—taxes on the homebuilder meant to approximate the infrastructure cost of new construction—can exceed $16,000 per home on average. Most of those costs are passed on to the homebuyer. Where impact fees are used, they should be narrowly tailored, predictable, and designed to reflect true marginal infrastructure costs. Better yet, localities should explore more transparent and efficient financing tools—like user charges—that more closely align infrastructure costs with usage.

4. Energy

Travis Fisher

America's energy future is uncertain. Across much of the United States, electricity and natural gas prices are rising, with little relief in sight. The timelines for building new energy infrastructure—including natural gas pipelines, electric transmission lines, and power plants—extend into the next decade. Now, more than a year into President Trump's second term, his 2024 campaign pledge to cut energy bills by half seems impossible.

In this critical moment when America needs more power, delivered quickly and at low cost, the heavily regulated power grid is proving sclerotic rather than dynamic. Artificial intelligence, data centers, advanced manufacturing, and electrification are driving the first sustained surge in electricity demand in a generation. Although average electricity prices are only slightly outpacing overall inflation, looking at averages downplays that utility customers in 17 states faced higher real electricity prices from 2019 to 2024. As a result, millions of American families were delinquent on utility bills in 2025. A harsh winter in the early weeks of 2026 has only deepened the affordability problems faced by many families and businesses.

Particularly in states seeing aggressive electricity price increases, policymakers are under pressure to do something. Newly elected governors such as Virginia's Abigail Spanberger and New Jersey's Mikie Sherrill have made the affordability of utility bills a major policy priority. Unfortunately, many of the energy policies embraced by state policymakers place upward pressure on prices, such as Governor Spanberger's decision to rejoin a regional cap-and-trade system.

The price of gasoline fell from historic highs of about $5 per gallon in June 2022 to just above $3 per gallon in February 2026, improving transportation affordability. Contrary to former President Barack Obama's 2012 statement that "we can't just drill our way out of the problem" of high gasoline prices, increasing domestic supply did in fact drive down the global price of oil and refined oil products like gasoline. Crude oil prices fell far enough through 2025 to cause some producers to scale back production. Since then, of course, the war with Iran has seen the oil price (and so gas prices) jump again.

To ensure that the energy sector can meet the demand of new industries without soaring costs for households, a similar liberalization agenda is needed to remove barriers to new energy supply. At the federal level, improving energy affordability requires restoring predictable permitting and regulation that will allow new investments to flourish. At the state level, it requires expanding the bounds of competition and removing supply constraints. None of this depends on discovering new fuels or inventing new machines: It depends on allowing markets to function without undue interference.

Federal Policies to Improve Energy Affordability

- **Ease permitting burdens.** Today's energy affordability problems are institutional. Federal permitting processes add high costs through years of delay and significant litigation risk while offering little additional environmental benefit. The best-case scenario for major projects—particularly pipelines for hydrocarbons or transmission lines for electricity—is a multiyear permitting process that withstands judicial review and lawsuits. The median result is simply delay and administrative headaches. For example, transmission lines routinely take more

than a decade to plan, site, and place in service. However, in the worst-case scenario, developers abandon projects due to ongoing legal challenges, or permits are revoked by one administration after being granted by the previous one. President Trump has revoked permits for offshore wind facilities, for example, and former President Joe Biden revoked permits for pipelines.

- **End the executive power cycle of regulation.** The energy industry is capital-intensive and thrives under policy certainty and stable rules and regulations. Agencies in Washington must stop this game of political ping-pong. Because the executive branch under both parties seems willing to go tit for tat until projects of all types face cancellation, Congress should remove as much arbitrary permitting discretion as possible from the executive branch. The American people should connect their rising utility bills to Washington's obsession with executive power and demand an end to this cancel-happy dynamic. Fortunately, members of both major political parties are fed up with the status quo, so bipartisan, broad-based, and technology-neutral permitting reform appears to be on the table this year.
- **Finish rescinding the endangerment finding.** The Environmental Protection Agency (EPA) recently finalized a rule to reverse the endangerment finding, which was the EPA administrator's judgment in 2009 that greenhouse gases (GHGs) endanger public health or welfare. After multiple attempts to remake the automobile industry and the US power grid using GHG regulations—at great expense to American consumers—the Supreme Court in *West Virginia v. EPA* found that the EPA's regulatory proposals ran afoul of the major questions doctrine, meaning the agency had attempted too broad a reform without clear authorization from Congress. The GHG issue, however, could be teed up again before the Supreme Court, as challenges have already been filed against the Trump EPA's rescission of the endangerment finding. If the Supreme Court rules that the EPA does not have clear authority from Congress to regulate GHGs, that will prevent the next administration from implementing costly regulations on automobiles and power plants. Likewise, Congress could amend the Clean Air Act to clarify that the EPA has no authority to regulate GHGs.
- **Eliminate tariffs on energy infrastructure inputs.** The Trump administration has ramped up tariffs on a wide variety of materials used by America's energy industry. For example, high tariffs on basic inputs such as steel, aluminum, and copper raise the cost of widely used equipment, including electric transmission lines and power transformers. By one estimate, the US power industry imports about 80 percent of the transformers used at power plants, meaning tariffs directly raise the cost of electric infrastructure components. Likewise, most utility-scale batteries deployed in the US are imported from China, so tariffs increase the cost of battery storage, one of the fastest-growing technologies on the grid. Overall, these tariffs could reduce energy security and slow American manufacturing growth, which relies on low-cost electricity. Finally, tariffs that have recently expired should remain expired.

STATE AND LOCAL POLICIES TO IMPROVE ENERGY AFFORDABILITY

- **Repeal all resource-specific mandates.** More than half of US states have renewable portfolio standards (RPS), which specify the amount of renewable energy that must be part of a state's electricity mix (typically as a percentage). These mandates, along with even more specific ones for offshore wind or other technologies such as rooftop solar, raise the cost of electricity. A recent study by Lawrence Berkeley National Laboratory concluded: "Behind-the-meter solar and renewables portfolio standards (RPS) increased prices." Moreover, the same study found that renewable energy does not increase prices per se—only that *binding mandates* increase electricity prices. These mandates should be repealed.

- **Repeal 100 percent clean-energy goals.** Presently, 24 states and the District of Columbia have goals to achieve either a 100 percent carbon-free electricity system or a net-zero economy by a certain date. These policies should be fully repealed because they limit the supply of energy and force consumers into higher-cost options. The US energy sector continues to decarbonize on its own, and using binding mandates to accelerate the pace of decarbonization would be costly for American families and businesses. States involved in carbon tax or cap-and-trade schemes should likewise repeal those policies if they want to prioritize affordability.

- **Maximize dynamic competition in electricity service.** Monopoly utility regulation creates perverse incentives to drive up costs and shifts risk to utility customers. Privately financed, contract-based electricity systems can serve customers separately from incumbent utilities. This approach—outlined in a recent Cato briefing paper and labeled "Consumer-Regulated Electricity"—would protect existing ratepayers, accelerate supply, and attract new industries without subsidies. The states of Ohio, New Hampshire, Utah, and Oklahoma are at the forefront of this trend, which continues to gain steam after the American Legislative Exchange Council approved model legislation.

5. Health Care

Michael F. Cannon and Jeffrey A. Singer

By most any measure, the United States has the most expensive health sector in the world. Prices are higher than in other nations. Per capita health spending is more than twice the Organisation for Economic Co-operation and Development (OECD) average. In 2025, US health spending was equivalent to 18.5 percent of national income, well above the OECD's 2024 average of 9.3 percent.

Most proposals to address health care affordability seek to increase government health care subsidies. Yet subsidies cannot solve the United States' health care affordability problems—they *are* the problem. Yes, subsidies enable more medical consumption for recipients and increase incomes for the health care industry. But they don't make health care cheaper to produce. The first-order effect is to shift who pays—from patients to taxpayers—and in doing so reduce taxpaying households' ability to fund their own care (or anything else).

Worse, subsidies can increase the underlying prices and health insurance premiums, which makes health care less affordable and makes subsidies seem more necessary. Subsidies and mandates that expand insurance coverage reduce the share of health spending that patients pay themselves, which makes patients, insurers, and providers less sensitive to rising prices and unnecessary treatments. Government subsidies can also lead producers to increase private-sector prices through additional channels apart from how they distort incentives for patients.

If subsidies reliably delivered affordability, the US would be a patient's paradise. Instead, it is the world leader in subsidizing and mandating health spending. Between tax-financed government programs and compulsory private spending, government compels US residents to spend 14 percent of national income on health care, a larger share of gross domestic product than *total* health spending in any other advanced country. Subsidies and compulsory spending are so extensive, US patients are less sensitive to prices and wasteful spending than patients in nearly every other advanced nation.

Rather than create more government subsidies, policymakers should eliminate supply-side regulations that reduce price competition and affordability. Health insurance regulations cause premiums to double for many consumers; eliminating them would cut many premiums in half. Clinician licensing regulations increase prices by blocking specialization and the division of labor (and the integrated health systems that make greater use of the division of labor).

Making health care affordable requires wholesale reform of the demand side of health care too. But the measures below offer immediate, supply-side policy changes that would broaden choice and improve affordability.

FEDERAL POLICIES TO IMPROVE HEALTH CARE AFFORDABILITY

- **Remove federal and state regulatory barriers to quality, affordable health insurance.** In the individual market, federal and state health insurance regulations are causing premiums to double for most enrollees, while denying consumers their choice of doctors and hospitals. The evidence comes from a market that Congress exempts from all federal health insurance regulation, including Obamacare. In 2018, President Trump removed arbitrary restrictions the Obama administration had imposed on that market. Trump interpreted the law as allowing insurers in the "short-term" health insurance market to sell long-term health insurance—an interpretation that multiple federal courts upheld. The Congressional

Budget Office found that deregulation made comprehensive coverage available to most consumers at premiums 60 percent below the lowest-price Obamacare premiums, with broader choice of doctors and hospitals. Moreover, deregulation did so without disrupting Obamacare. Former President Joe Biden revoked that regulatory relief. Congress should make it universal and permanent.

- **Recognize medicines and medical devices approved in other countries.** The Food and Drug Administration (FDA) routinely blocks access to medicines and lifesaving vaccines because the agency does not recognize regulatory certifications from other countries. From 2000 to 2010, the FDA blocked 37 novel medicines already available in Canada and/or Europe—including medicines for diseases for which it was blocking *all* therapies. The FDA already recognizes manufacturing-facility inspections by regulators in the European Union, Switzerland, and the United Kingdom. European Union nations all recognize one another's regulatory certifications. Congress should recognize safety and efficacy certifications by other countries' regulators, which would remove the regulatory barriers that prevent US residents from purchasing medicines available in other nations. US doctors and patients could access often lower-price drugs and medical devices from European Union nations and other nations that already recognize other countries' regulatory certifications, such as Canada, the United Kingdom, Switzerland, Australia, New Zealand, and Israel. The FDA's monopoly on drug approval produces what all monopolies do: a high-cost, low-quality product. Ending the monopoly would allow innovation and competition in the challenge of certifying drug safety and efficacy without delaying access or stifling innovation. The World Health Organization writes that regulatory recognition and similar measures "will benefit . . . patients, health care providers and industry."
- **Eliminate prescription regulation.** The FDA makes medicines less affordable by requiring patients to obtain unnecessary and costly prescriptions. Adults can safely self-medicate with many medicines—including birth control pills, HIV prophylaxis, and GLP-1s—for which the FDA currently requires a prescription. Overall, prescription regulation increases prices, increases the nonprice costs of obtaining medicines, reduces access, and ironically reduces patient safety. While direct-to-consumer platforms such as TrumpRx, Cost Plus Drugs, Amazon Pharmacy, and GoodRx can theoretically reduce prices by injecting transparency and competition, the more effective reform would be to strip the FDA of its power to require prescriptions.
- **Remove unnecessary prescription requirements.** If Congress cannot take prescription regulation power from the FDA, then Congress should enact rules that automatically remove prescription requirements after a certain period of time, which would allow consumers to purchase more medicines directly. Greater over-the-counter access would reduce the price and nonprice costs of medicines.

STATE AND LOCAL POLICIES TO IMPROVE HEALTH CARE AFFORDABILITY

- **Remove state regulatory barriers to quality, affordable health insurance.** Like the federal government (see above), states can use deregulation to provide relief from excessive health insurance premiums. In 2014, when former President Barack Obama saw that Obamacare's health insurance regulations would increase premiums and deny care to patients in US territories, he exempted territories from those regulations. Each state can grant its residents access to that same exemption, opening their markets to high-quality, affordable health insurance, by deeming health plans available in US territories to be in compliance with that state's laws. Insurers including Aetna, Blue Cross Blue Shield, Cigna, Humana, and UnitedHealthcare already operate in territories and collectively have networks in all 50 states.
- **Eliminate clinician licensing.** Licensing protects doctors, not patients. What protects patients

is a complex web of board certification, hospital affiliation and training verification, competition, innovation, reputation, other private-sector organizations and protections, fraud prosecutions, medical-malpractice liability, and the incentives that medical-malpractice liability insurers create for providers to improve quality. Licensing increases health care prices. One study found "more rigid regulations increase the price of a well-child visit by 3–16 percent." When low-quality care harms patients, licensing boards are the last to the party. Physicians have no fear of their regulators. Patients would suffer no loss of consumer protection from licensing repeal.

- **Recognize clinician licenses from other states.** If states cannot repeal licensing outright, they could recognize licenses issued by all other states. One study found that universal licensing recognition "increased the proportion of people who have personal doctors or health care providers, especially older adults, and reduced the proportion of people who did not see doctors because of costs." If states cannot recognize all other states' clinician categories and licenses, they should do so for as many states as possible.
- **Free all clinicians to practice to the full extent of their training.** Licensing prevents lower-price clinicians from providing services they are competent to provide, thereby forcing patients to go to higher-price clinicians without any improvement in quality. There are many opportunities for regulators to reduce medical prices by expanding clinicians' scopes of practice. There is strong evidence that nurse practitioners provide primary care comparable to that of physicians. As the study above found, just allowing nurse practitioners to prescribe reduces well-child-visit prices by 3–16 percent. Seven states, the US Public Health Service Commissioned Corps, and the Military Health System permit appropriately trained clinical psychologists to prescribe psychiatric medications. Colorado, Idaho, and Montana, along with the United Kingdom and the Canadian provinces of Alberta and Ontario, enable pharmacists to test and prescribe medicines for routine, self-limited health issues and conduct preventive screenings—this saves patients time and money they would spend getting these routine services from physicians' offices. Removing regulatory barriers to the division of labor would increase competition and consumer choice, reducing prices. Conversely, states should avoid licensing new and emerging health care professions such as lactation consultants and sexual assault nurse examiners, because regulation would reduce patients' access to their services.
- **Remove employment barriers to international medical graduates (IMGs).** Many competent health professionals from other nations could help expand the US clinician workforce and improve access to care. Most states require these professionals to complete a residency program in the United States first. States could grant provisional licenses to IMGs who legally reside in the US and have held a license and practiced in other countries for a reasonable period. By the end of 2025, 18 states had enacted or proposed reforms to allow provisional licensing.
- **Recognize competing medical school certifications.** States grant monopolies over medical school accreditation to the Liaison Committee on Medical Education for MDs, to the American Osteopathic Association for DOs, and to the Accreditation Council for Graduate Medical Education for both MD and DO residency training programs. Recognizing additional certification organizations would enable more medical schools and residency programs to compete to train physicians, increase the supply of the medical workforce, and help reduce prices for physician services.
- **Repeal "certificate of need" (CON) laws.** CON laws require health care providers like hospitals to get permission from a government panel before entering the market. They are cronyism. Incumbents use CON regulation to limit competition from new providers, which can reduce access and choice for health care consumers. By restricting supply, CON laws may increase prices and reduce health care quality. Repealing these laws would open the health care provider market to new and innovative entrants, boosting competition and consumer choice.

6. Transportation

Colin Grabow

Transportation is one of the largest and most unavoidable expenses for American households. In 2024, the average household spent $13,318 on transportation, an amount second only to housing when employer-provided benefits are excluded. For most families, these costs are not discretionary: Reliable transportation is essential for getting to work, accessing health care, purchasing groceries, and participating in daily economic life. The cost of transporting goods shapes the prices of nearly everything Americans buy, from food and fuel to housing materials and consumer products.

Automobiles remain the primary mode of personal transportation. Just under 70 percent of Americans drive themselves to work, with additional commuters traveling by carpool, making car dependence central to most households' budgets. Yet the costs of owning and operating a vehicle, as well as of traveling by air or shipping goods by water, are significantly inflated by public policies that restrict competition or raise input costs without delivering commensurate consumer benefits. Tariffs, regulatory mandates, and protectionist transportation laws often function as hidden taxes on mobility, raising prices, limiting consumer choice, and burdening both US households and taxpayers.

By eliminating outdated tariffs, rolling back costly mandates, and opening transportation markets to greater competition, policymakers could reduce household financial strains without new spending programs. Many of the reforms outlined below are well within Congress's authority and could deliver tangible cost savings to families by reducing costs directly (by cutting taxes and input costs) and indirectly (by strengthening competitive pressure and supply-chain flexibility).

FEDERAL POLICIES TO IMPROVE TRANSPORTATION AFFORDABILITY

- **Repeal the "chicken tax."** The so-called chicken tax, a 25 percent tariff on imported light trucks, adds thousands of dollars to the cost of pickups. For example, an imported $30,000 pickup—the approximate starting price for new such vehicles—faces an extra $7,500 in tariffs. The tax was imposed in the 1960s in retaliation for West German and French tariffs on US chickens. Although the foreign tariffs were removed long ago, the chicken tax remains. Congress should remove this tariff and immediately make trucks more affordable for families, small businesses, and farmers.
- **Remove most-favored-nation (MFN) tariffs on passenger cars.** Cars are subject to a 2.5 percent MFN tariff. For an imported auto valued at $60,000—the current average price of a new full-size car—auto tariffs add $1,500 in extra costs. Higher import prices also shift demand toward domestic models; meeting that extra demand often means producing higher-cost units at the margin, so domestic prices rise too. Eliminating these tariffs would put money back in consumers' pockets while improving competition among automakers.
- **Repeal Section 232 tariffs on autos and auto parts.** In 2025, President Trump imposed 25 percent tariffs on imports of autos and certain auto parts under Section 232 of the Trade Expansion Act of 1962. Subsequently, the Trump administration concluded several trade deals that reduced these tariffs, typically to 10 percent (imports from the United Kingdom) or 15 percent (imports from the European Union, Japan, and South Korea).

But Americans are still left paying unnecessarily higher costs. Repealing these tariffs would reduce vehicle costs by thousands per car and improve manufacturers' supply-chain efficiency.

- **Repeal Corporate Average Fuel Economy (CAFE) standards.** CAFE standards are federal rules that require automakers to achieve a minimum average fuel economy across the vehicles they sell in a given model year. These requirements impose high costs on automakers through technological investments to ensure compliance. For example, a government analysis found that per-vehicle compliance costs for 2026 ranged from $1,144 to $2,718 across different scenarios. Under these complex rules, regulators impose laxer standards on trucks and SUVs, apparently as a sop to American automakers. CAFE standards essentially punish companies for making smaller, cheaper cars—one reason such vehicles have largely disappeared from the market. Rolling back or abolishing CAFE would lower prices and, in the longer term, provide families with a greater ability to buy vehicles that meet their needs.
- **Repeal Section 232 tariffs on steel and aluminum.** Steel and aluminum tariffs imposed under Section 232, currently set at 50 percent, have helped make American steel some of the world's costliest. Such costs are a substantial burden on manufacturers, including automakers, that rely on steel and aluminum as key inputs. For perspective, a 2025 analysis found that 25 percent tariffs on steel and aluminum could increase new car prices by $1,500 or more, depending on the model and material composition. Eliminating these tariffs would lower production costs, with savings for consumers.
- **Repeal the Jones Act.** The 1920 Jones Act restricts the domestic water transport of goods to vessels that are US-flagged and built in US shipyards. Ships complying with the law—a measure passed supposedly for national security reasons—are approximately four times as costly to operate and five times as costly to construct as internationally flagged ships, resulting in substantially higher shipping costs and reduced competition for other transportation modes. These costs are passed on to US businesses and consumers. A 2024 paper found that the law imposes a $1.4 billion welfare burden on Puerto Rico alone, while another study released the same year calculated that eliminating the Jones Act would deliver a $769 million benefit to East Coast energy consumers. Repealing or reforming the law would reduce shipping costs, resulting in lower prices for households nationwide.
- **Repeal the Foreign Dredge Act.** This 1906 law imposes Jones Act–style requirements on vessels engaged in dredging, resulting in inefficiencies and dramatically higher costs. A December 2025 paper found that European dredging firms could complete US projects at 40–60 percent of the US contract value. The higher costs this law produces and the limited size of the US dredging fleet lead to extended project timelines and impede the efficient operation of US ports and waterways, incurring further costs that are passed on in part to American households.
- **Repeal the Passenger Vessel Services Act.** The Passenger Vessel Services Act of 1886 limits the domestic waterborne transport of passengers to US-flagged and US-built vessels. The law is particularly costly for ferry operators, who cannot purchase vessels from more efficient overseas shipyards. Repealing this law would substantially lower the capital costs of the country's more than 140 ferry systems, allowing for fare reductions for the American families that rely on such transportation.
- **Privatize US air traffic control.** The US suffers from a reliance on what the Government Accountability Office described in a 2025 report as "numerous aging and unsustainable air traffic control systems." The inefficiencies of such a system inevitably raise costs. In contrast, Canada's modern, privatized system cut consumer costs by over one-third between 2006 and 2016 while also improving efficiency. US privatization could realize similar benefits, reducing airline operating costs, minimizing delays, and lowering ticket prices.

- **Repeal prohibitions on airline cabotage.** US law forbids foreign air carriers from transporting passengers within the US on domestic flights. Ending this prohibition and opening domestic routes to foreign airlines would increase competition and reduce fares. Notably, a 2020 paper calculated that a single European carrier entering the US market could generate $1.6 billion in annual consumer welfare gains, equivalent to lower ticket prices for millions of travelers.
- **Repeal "Buy America" laws.** Several US laws require the use of domestic content in federally funded infrastructure projects, resulting in higher costs, longer project timelines, and lower quality. One study of local content laws estimated that a Buy America requirement to use domestic steel in federally funded highway projects between 2009 and 2011 alone increased construction costs by $652 million annually. Degraded infrastructure and higher public expenditures from these mandates impose indirect costs on American households, ranging from increased vehicle wear and tear to lost productivity and higher tax burdens.
- **Repeal the Davis–Bacon Act.** Passed in 1931, the Davis–Bacon Act inflates the cost of new infrastructure by requiring that contractors and subcontractors on projects funded with federal dollars pay workers no less than the "prevailing wage" for their occupation in the area. In practice, this typically means that workers must be paid a union wage. A 2008 paper estimated that these rules add almost 10 percent to construction costs, increasing the price tag of infrastructure by billions of dollars across the US, a burden ultimately borne by US taxpayers.

STATE AND LOCAL POLICIES TO IMPROVE TRANSPORTATION AFFORDABILITY

- **Repeal state dealer franchise laws.** Many if not all states have laws that restrict or prohibit automakers from selling cars directly to consumers. These restrictions—increasingly anachronistic in an age of online sales—reduce competition and retail efficiency, thereby increasing costs. A 2001 Consumer Federation of America report concluded that these laws raised new automobile prices by 6–8 percent, while a National Automobile Dealers Association estimate placed the effect at 2.2 percent. Such estimates suggest a cost ranging from hundreds to thousands of dollars per vehicle. Allowing manufacturers to sell directly to consumers would increase competition, streamline the purchasing process, and lower prices.

7. Childcare and Child Raising

Chelsea Follett

Raising kids is costly, and childcare is often the biggest pinch point. There are some economic reasons for this: Childcare is labor-intensive, as one adult can supervise only so many children. When wages rise elsewhere in the economy, childcare employers must compete for workers who have increasingly lucrative options elsewhere.

Simultaneously, modern parents often invest more in children's safety and enrichment than past generations. Such forces push up the relative price of childcare, particularly in high-income areas. For instance, the average annual cost of full-time center care in Washington, DC, for infants was as high as $26,193 in 2024.

Growing a family can feel more expensive still due to other costs: larger houses, bigger cars, more food, and new clothing. The biggest cost for many families is the opportunity cost. For mothers in particular, temporarily exiting the labor force can reduce lifetime earnings or promotion opportunities, an issue exacerbated by regulations discouraging family-friendly or remote-work arrangements.

To support families with children, policymakers often favor increased government spending. But things like baby bonuses or unpriced childcare are expensive and primarily pass on costs to other taxpayers. In the case of childcare subsidies, associated regulations on staffing and government standards of care often drive up the cost of provision, making childcare more expensive, including by eradicating cheaper, more flexible options.

A better approach to make raising a family more affordable is to remove misguided regulations that drive up the costs of raising a family. Chapters 3 and 8 in this handbook detail how such an approach could reduce housing and food prices, respectively—core expenses to families with children. The recommendations below apply the same approach to childcare and other goods and services associated with raising children.

Federal Policies to Improve Childcare and Child-Raising Affordability

- **Expand the childcare workforce by broadening EB-3 visas.** Congress can treat childcare as a shortage occupation for immigration purposes by exempting EB-3 slots for verified childcare employment. More workers would strengthen competition and moderate prices. Previous research has found that a 10 percent increase in low-skilled immigration may reduce childcare costs by 2 percent.
- **Expand the supply of au pairs.** The au pair program (part of the J-1 visa) lets young international visitors (ages 18–26) live with an American host family, providing up to 45 hours of childcare per week in exchange for room, board, a stipend, and cultural immersion. Congress should raise the age limit (Canada caps au pair age at 35) and lift English-proficiency requirements, while allowing more choice in au pair housing arrangements and employment duration.
- **Simplify in-home care by reducing household-employment fixed costs.** Many families would prefer nannies or nanny-shares but face high administrative and legal fixed costs (including withholding, classification, and reporting). Congress could add flexibility by allowing household employees to work as independent contractors, reducing such costs.
- **Stop federal childcare funding from entrenching state "supply caps."** The Child Care and Development Block Grant/Child Care and Development Fund

requires that providers receiving grant funds meet group-size limits, age-specific child-to-provider ratios, and staff qualification requirements. These drive up childcare prices by reducing the range of options available to parents. Congress should amend these programs to sever the link between federal funds and restrictive childcare rules.

- **Reform Head Start degree mandates.** Federal law and regulations require that at least 50 percent of Head Start teachers nationwide hold a bachelor's degree (or the equivalent) in early childhood education. These credential floors shrink the pool of workers and encourage state governments to set similar rules for local childcare providers.
- **Remove federal barriers to remote and hybrid work.** Over 90 percent of parents with young children prefer remote or hybrid work, and women's participation in the labor force is at record highs because of more teleworking mothers. Working from home can cut the childcare "coverage hours" parents need by eliminating drop-off/pickup windows and sick days. Congress should ban state "convenience of the employer" rules that subject remote workers to double taxation, modernize tax nexus laws so that states can tax only businesses with a substantial physical presence there, and set minimum residency-and-work thresholds before employees owe state income tax.
- **Eliminate baby formula protectionism.** Trade barriers and other government policies keep over 98 percent of US-consumed baby formula domestic in origin. The 2022 FORMULA Act eased tariffs and labeling rules to allow more imports during a formula shortage, but it has now expired. Lasting mutual recognition of other developed countries' standards and letting European Union–approved formulas bypass FDA labeling requirements could mitigate future shortages and increase supply, lowering prices.
- **Reduce tariffs on big-ticket childhood necessities.** Congress should similarly oppose tariffs that raise the prices of car seats, strollers, high chairs, cribs, and other children's essentials. One 2025 estimate claims such tariffs may cost families as much as $5,000.

STATE AND LOCAL POLICIES TO IMPROVE CHILDCARE AND CHILD-RAISING AFFORDABILITY

- **Relax staff-to-child ratios and group-size caps to expand childcare capacity.** Easing ratios lets providers serve more children with the same staff, enabling lower-cost offerings. Raising the mandated infant ratio by just one child per staff member may lower childcare costs by 9–20 percent.
- **Eliminate childcare worker credential mandates.** Degree and diploma requirements for childcare workers shrink the labor pool and raise costs. Requiring lead teachers to have a high school diploma may increase infant childcare costs by 25–46 percent. Likewise, adding a year of required director education may reduce the number of day care centers by 3.2–3.6 percent—tightening supply and pushing prices up, particularly in poorer areas. Washington, DC, now even requires childcare providers to possess a college degree, forcing out numerous experienced providers. These mandates should be abolished. Providers would remain free to advertise workers' qualifications and parents could choose what quality-price bundle they desire, broadening the range of affordable options.
- **Make home-based childcare legal "by right" and override exclusionary zoning.** Home day cares are among the fastest ways to expand childcare capacity because they have lower fixed costs than large centers. Zoning and permitting hurdles choke off this supply channel. Allowing home-based childcare by default increases entry, expands neighborhood options, and broadens quality-price bundles for parents.
- **Trim facility mandates that force families to buy bundled "amenities."** Rules like minimum square footage, outdoor-space requirements, and similar childcare center standards raise capital costs and push providers toward pricier models. Eliminating these regulations would let providers compete on different combinations of price and features—improving affordability through unbundling and entry.

- **Reduce unnecessary paid supervision driven by legal ambiguity.** Some families purchase unneeded childcare because of legal risks surrounding when it's reasonable to leave children home. As of summer 2025, 11 states have enacted "Reasonable Childhood Independence" protections that narrow when unsupervised activity is treated as neglect. Babysitting is expensive—UrbanSitter's 2026 national average is $29.87 per hour for two children—so even small reductions in forced paid hours can translate into meaningful savings.
- **Expand school choice to reduce the "good school" housing premium.** Families bid up home prices to buy access to better schools, pushing up rents and mortgages. Broader school choice—open enrollment, charters not tied to address, portable funding, simpler private-school accreditation—lets families access quality without paying for a specific neighborhood, compressing the "good school" housing price premium. (This reduces price dispersion but is not a substitute for expanding housing supply.)
- **Subject car seat mandates to cost-benefit review.** Increases in the legal age at which a child must remain in a car seat raise the cost of a third child by forcing parents to buy larger vehicles to accommodate three car seats. In 2025, a new minivan's average cost was $59,031. The expense makes third-borns so costly that one study estimates extended-age car seat requirements prevent "approximately 8,000 annual births, around 141 times greater than plausible estimates of the number of lives saved." States should subject such mandates to transparent cost-benefit review, a process that would likely mean revising them.

8. Food

COLIN GRABOW

Few prices hit closer to home than groceries. Food is one of the most visible indicators of rising living costs, and grocery store receipts have become a symbol of the broader affordability squeeze. Since January 2020, "food at home" prices have climbed by over 30 percent, far more than double the increase seen over the entire previous decade.

Much of this reflects general inflation. But food prices have also been pushed up at times by specific shocks—COVID-era demand shifts to eating food at home, supply disruptions for produce, and the war in Ukraine driving up commodity prices. As a result, food prices have risen even faster than overall inflation since 2020.

Voters have noticed. In a December 2025 Echelon Insights survey, 83 percent of Americans surveyed said groceries were either "very expensive" or "somewhat expensive"—the highest response for any core expense. This sticker shock has made the food system a political target, via misguided policy proposals such as price controls on staples, anti–price gouging laws, antitrust investigations, and even government-run grocery stores.

This is dangerous territory. The retail grocery industry in the US is highly competitive, with thin profit margins, complex international supply chains and logistics, and enormous consumer choice at various price points. Political interference—especially price-fixing—risks serious disruptions. It's especially galling to see these interventionist proposals given that food prices are elevated not just by global markets and inflation but also a dense web of existing public policies that restrict supply, limit competition, and raise costs throughout the food system.

From the farm gate to the grocery aisle, government interventions already reduce labor availability, constrain production decisions, and block lower-cost imports, thereby imposing costs ultimately borne by consumers.

Rather than reaching for damaging price controls or socializing grocery stores, policymakers could bolster food affordability by removing measures that prevent markets from functioning most efficiently, such as trade restrictions and exclusionary zoning rules. Reforms that expand competition, improve labor availability, and allow prices to accurately reflect supply and demand can lower grocery bills while strengthening the resilience and efficiency of the food system.

Other sections of this handbook present policies that would reduce food costs indirectly, such as repealing the Jones Act to lower food transportation expenses, improving port efficiency to reduce logistics bottlenecks, and eliminating tariffs on materials for agricultural tools and machinery. But the food-specific reforms here enhance the message: If politicians want lower grocery bills, they should stop driving up the cost of producing and selling food.

FEDERAL POLICIES TO IMPROVE FOOD AFFORDABILITY

- **Repeal the US sugar program.** The US sugar program relies on domestic marketing allotments, tariff-rate quotas (TRQs), and prohibitively high out-of-quota tariffs to restrict sugar supply while supporting domestic prices well above world-market levels. These policies raise costs for food manufacturers and consumers alike, particularly for products that use sugar as a key ingredient. For a sense of scale, the US price of raw sugar in January 2026 was approximately 125 percent higher than the world price (33.4 cents per pound versus 14.8 cents). Repealing the sugar program and allowing sugar to be imported at world prices would immediately lower input costs

across a wide range of foods. Various studies estimate that the program costs US consumers between $2.5 billion and $3.5 billion annually, making it one of the most regressive and costly agricultural protections still in place.

- **Repeal all tariffs and trade barriers on food products.** Beyond sugar, many food products sold in the US are subject to tariffs, TRQs, and other trade barriers that restrict supply and raise prices. These protections apply to products ranging from beef and dairy to peanuts and infant formula. With Americans importing more than $194 billion in food products in 2024, even modest tariffs translate into billions of dollars in higher consumer costs. Scrapping these outdated protections would open supply, force domestic producers to compete more efficiently, and bring down grocery bills.
- **Remove tariffs on farm equipment, fertilizer, and other key agricultural inputs.** Tariffs on farming inputs such as equipment, fertilizer, steel, and other critical agricultural inputs raise production costs for farmers and are ultimately passed on to consumers as higher food prices. These higher input costs ripple throughout the food system. When farmers, who imported $12.7 billion in farm and gardening machinery in 2021 alone, pay more for machinery, repairs, fencing, storage, and fertilizer, they either scale back production or charge higher prices to remain viable. Eliminating tariffs on agricultural inputs would immediately reduce production costs, improve farm productivity, and ease upward pressure on food prices.
- **Reform the H-2A agricultural guest-worker program.** Labor accounts for roughly 13 percent of total farm expenses, but in labor-intensive specialty crops it can exceed one-third of total costs. Inflexible visa rules and the reluctance of potential domestic workers limit production levels, placing upward pressure on food prices. The H-2A visa program, which allows foreign workers to temporarily work for US farmers, helps address these pressures. However, it is hampered by more than 200 complex and often duplicative rules that deter participation. By streamlining requirements, reducing regulatory complexity, and allowing year-round access to H-2A visas, Congress could expand the legal farm workforce, improve labor stability, and reduce a significant cost of food production.
- **Repeal the Renewable Fuel Standard (RFS).** The RFS mandates the use of biofuels in transportation fuel, increasing demand for corn-based ethanol. This policy raises the price of corn and everything that depends on it, such as animal feed, meat, and dairy. It also pushes up prices for other crops as farmers shift production to meet ethanol demand. A 2009 Congressional Budget Office report estimated that these effects increase food expenditures by 0.5–0.8 percent. Repealing the RFS would reduce artificial demand for corn, ease pressure on agricultural markets, and help lower food prices across the economy.
- **Abolish federal milk marketing orders.** Federal milk marketing orders are a New Deal–era system that sets minimum prices for milk and other dairy products across different regions of the country. While intended to stabilize farm incomes, these price controls function as a hidden tax on consumers by inflating retail milk prices and distorting production decisions. A 2005 report from the Organisation for Economic Co-operation and Development estimated that US dairy policies impose an implicit tax of roughly 26 percent on milk consumers. Milk marketing orders also complicate interstate commerce and discourage efficiency by relying on rigid pricing formulas disconnected from market demand. Abolishing them would allow milk prices to reflect true supply and demand, resulting in lower consumer costs and encouraging a more competitive, efficient dairy sector.
- **Abolish crop commodity programs.** The federal government operates several crop commodity programs that provide payments to producers when prices or revenues for certain crops fall below government-set benchmarks. Although these programs are often justified as stabilizing farm income

or reducing market volatility, they weaken market signals by insulating producers from risk and price fluctuations. This encourages an inefficient allocation of land and capital, disconnects crop choices from consumer demand, and drives up farmland values and rents. Over time, these distortions raise production costs and reduce competition, effects that ultimately ripple through the food system and contribute to higher prices for consumers.

- **Eliminate fruits, vegetables, and specialty-crop marketing orders.** Federal and state marketing orders for fruits, vegetables, and specialty crops empower producer groups to mandate minimum prices, restrict output, impose product standards, and require industry-funded promotion. These rules raise consumer prices by limiting competition and preventing producers from responding flexibly to market demand. Supply controls—such as volume restrictions, size requirements, and limits on grades or varieties—can force edible food out of the market, increasing costs while generating food waste. Marketing orders also tend to favor large, established producers at the expense of smaller farms, new entrants, and consumers. Eliminating these programs would lower prices and allow consumer preferences rather than regulatory mandates to guide production.

STATE AND LOCAL POLICIES TO IMPROVE FOOD AFFORDABILITY

- **Reform or repeal state alcohol distribution laws.** Many states require alcohol to be sold through a mandatory "three-tier" distribution system that separates producers, wholesalers, and retailers, often prohibiting direct sales across tiers. Introduced in the aftermath of Prohibition, these rules now function primarily as protectionist barriers that raise prices and limit consumer choice. Mandatory middlemen add markups at each stage of distribution while preventing small producers from reaching consumers efficiently. States that permit direct-to-consumer shipping of wine, beer, or spirits show that competition can coexist with public safety. Reforming or repealing these restrictive distribution mandates would reduce costs for households and restaurants while expanding choice and competition.
- **Abolish government-operated liquor stores.** Thirteen states operate government-run retail liquor stores. As monopolists and government enterprises, these stores face reduced incentives to offer low prices, innovate, or operate at maximum efficiency. Indeed, a 2013 study found that liquor prices were 6.9 percent lower in states with licensed, privately run liquor stores than in those with government-operated retailers. Transitioning to a competitive, privately operated retail system would increase competition, improve efficiency, and lower consumer costs.
- **Relax or abolish exclusionary zoning that restricts food retail and distribution.** Local zoning and land-use rules frequently block or delay new grocery stores, warehouses, and distribution centers through restrictive land-use laws, including zoning, minimum parking requirements, density caps, and lengthy approval processes. These barriers limit competition and raise food prices by preventing retailers and logistics providers from entering high-demand areas, especially in growing suburbs and urban neighborhoods. In some cities, zoning rules effectively cap grocery store sizes, ban "big-box" food retailers, or prohibit warehouse facilities, forcing food to be transported from distant locations at higher cost and preventing many outlets from operating at their most efficient scale. State and local governments should relax or abolish these restrictions, thereby allowing market forces to better serve consumers, improve logistics, and reduce grocery costs.

9. Clothing, Household Goods, and Labor Services

Scott Lincicome and Stephen Slivinski

Government policies artificially inflate the prices of everyday essentials, shrinking American workers' real incomes and lowering their living standards. Chapters 3 and 8 in this handbook address how government policies raise the cost of housing and food, respectively. But the same is true of other important products and services, including clothing, household goods, home services, and popular leisure activities.

Higher prices for household necessities are often misattributed to corporate behavior. Policies targeting US companies, such as price controls or "gouging" bans, risk creating shortages and various market distortions without fixing the problem.

In reality, suppliers of household goods face cost pressures from tariffs and other trade restrictions on the inputs they need to provide their product or service. There are also direct tariffs on finished clothing and household goods, while entrepreneurs trying to offer lower-priced household service sectors are often confounded by restrictive licensing regimes that keep out new market entrants. The cost of doing business further increases due to mandated price floors on labor, with evidence suggesting that in some sectors much of this is passed on to consumers in the form of higher prices.

Rather than imposing price controls, mandating employer behavior, or engaging in risky and questionable antitrust cases—which inflate certain prices and distort the efficient allocation of resources—policymakers at the federal, state, and local levels could improve affordability by removing artificial restrictions on trade, work, and competition.

FEDERAL POLICIES TO IMPROVE CLOTHING, HOUSEHOLD GOODS, AND LABOR SERVICES AFFORDABILITY

- **Cut most-favored-nation tariffs and tariff-rate quotas (TRQs) on apparel, footwear, accessories, and their inputs.** Clothing and footwear are aggressively taxed in the US tariff schedule, often 10–20 percent and exceeding 30 percent on some items. Inputs like cotton, leather, and wool also face high tariffs or TRQs. These taxes are regressive, disproportionately hitting low-income households and buyers of mass-market goods. For example, cashmere sweaters face a 4 percent tariff while polyester faces 32 percent. Men's leather dress shoes are tariffed at 8.5 percent—mass-market rubber or plastic shoes at 48 percent. Repealing these tariffs would deliver immediate savings, especially for low- and moderate-income consumers.
- **Roll back punitive and add-on tariffs.** Section 301 tariffs, Section 232 tariffs, and Section 122 tariffs stack on top of existing duties for imports from China. Because lower-income Americans purchase a disproportionate share of Chinese imports, tariffs on those imports weigh heavily on the poor. In total, the average applied tariff on Chinese imports (the US's third-largest source of imports) is 37.8 percent. Between 2018 and 2022, Section 301 tariffs imposed billions in annual costs on apparel, footwear, and furniture, all of which consume an outsized share of low-income household budgets. Other Section 232 and Section 122 tariffs further raise the price of necessities imported from other countries.

Repealing these tariffs would directly lower prices for goods at the core of household budgets.

- **Restore the de minimis exemption.** The de minimis rule (Section 321) allowed duty-free entry for low-value parcels, facilitating smooth e-commerce and lowering costs. Eliminating the exemption raises consumer costs by an estimated $13 billion annually. That tax burden again falls disproportionately on low-income areas: 73 percent of the imported parcels destined for the lowest-income ZIP codes were de minimis–eligible, compared to 52 percent in the wealthiest ZIP codes.
- **Relax restrictive rules of origin in US trade agreements.** Many US free trade agreements contain "yarn-forward" rules requiring sourcing within member countries at every stage of production. Complicated yarn-forward rules and similar restrictions limit sourcing flexibility and raise costs. Producers pay on either the front end for pricier inputs or the back end when they lose preferential (lower) tariff rates. Both outcomes raise consumer prices. Relaxing these rules would allow producers to source more efficiently and pass savings on to consumers.
- **Eliminate tariffs on household appliances.** Appliances have faced repeated tariff increases in the past decade, with concomitant increases in domestic retail prices. After 50 percent tariffs on washing machines were imposed in 2018, for example, US washer prices rose 12 percent. The tariffs also caused the prices of dryers (which were not directly tariffed) to rise, as sellers tried to recoup tariff costs through complementary items. Government-inflated appliance prices are especially burdensome for two reasons: because these goods are already expensive, and because new-home purchases trigger spending spikes—averaging $7,000—in home-related goods and services including appliances. Removing appliance tariffs would provide immediate relief on big-ticket household spending, especially surrounding high-cost life transitions.
- **Remove input tariffs that cascade into household appliance prices.** Section 232 metal tariffs, raised to 50 percent in June 2025 (with a United Kingdom exception), increased input costs for metal-intensive goods. Appliance prices were nearly 4 percent higher in June 2025 compared with pre-2025 trends. Earlier metal tariffs, according to one report from the US International Trade Commission, raised steel-product and aluminum-product prices by 2.4 and 1.6 percent, respectively; reduced production in downstream industries; and cut total output by $3.5 billion. Repealing input tariffs would reduce downstream price pressures by both eliminating the direct cost of tariffs and spurring expanded output and appliance abundance.
- **Expand and liberalize the H-2B worker visa route.** The H-2B program grants a capped number of visas to temporary, nonagricultural workers in sectors like landscaping, hospitality, construction, and forestry. Few native-born Americans take these temporary jobs, so year-round labor squeezes persist. For many American employers, the only source of legal foreign workers is this restricted program. Employers must also pay government-calculated prevailing wages that exceed all state minimum wages and are nearly double the federal minimum wage. Removing visa caps, allowing year-round employment, and eliminating prevailing wage mandates would ease labor pressures and reduce service prices.

FEDERAL AND STATE POLICIES TO IMPROVE CLOTHING, HOUSEHOLD GOODS, AND LABOR SERVICES AFFORDABILITY

- **Repeal minimum wage laws.** Mandating a higher hourly wage increases businesses' cost of providing services. There are many ways businesses can and do react to this regulation, including by cutting jobs, hours, or opportunities for young and/or low-skilled workers relative to more experienced workers. But in some popular service industries, such as fast food, childcare, grocery retail, hairdressing, and limited-service hotels, there is empirical evidence that much of the cost increase is passed through into higher consumer prices.

STATE AND LOCAL POLICIES TO IMPROVE CLOTHING, HOUSEHOLD GOODS, AND LABOR SERVICES AFFORDABILITY

- **Eliminate unnecessary occupational licensing barriers and the boards that enforce them.** Licensing laws restrict competition in transportation, food service, medical care, and home services, muting the price reductions that typically accompany an expanded supply of affected goods and services. The boards that enforce these laws often have substantial powers to interpret the laws and are eager to use that power to keep out competitors, particularly in cases where the board members are themselves service providers who choose to exercise their veto power over the market. Research finds that:
  - Stringent nurse-practitioner licensing raises child checkup prices by 3–16 percent.
  - Comparing strict licensing regimes to more lenient ones for home technicians, prices are over 15 percent higher for low-cost jobs and up to 50 percent higher for jobs exceeding $1,000.
  - After Virginia deregulated hair braiding in 2012, the number of beauty shops grew 7 percent faster than in bordering states.

  Licensing affects 22 percent of US jobs as of 2024. Easing or eliminating license requirements would expand supply and reduce prices in the most heavily regulated fields such as health care, personal care, and maintenance.
- **Repeal gig economy restrictions.** Reclassifying independent contractors as employees increases labor costs by 29–39 cents per dollar of pay. After California reclassified its workers, self-employment in the state fell 10.5 percent and total employment in affected occupations fell 4.4 percent. When New York City extended its minimum wage laws to food delivery freelancers, Uber raised delivery fees by 58 percent. Mandates like these increase costs and reduce the supply of workers who value flexible work opportunities, both of which raise consumer prices.

10. Higher Education

Andrew Gillen

The price of attending college has increased dramatically over the decades. The most direct cost, published undergraduate tuition and required fees, averaged around $5,200 per year in 1970 and declined slightly by 1980. But costs then steadily rose, to just under $6,800 by 1990, $9,200 by 2000, $13,000 by 2010, and around $15,600 by 2020 (all figures in inflation-adjusted dollars). Adding other costs such as room and board, and subtracting grant and scholarship aid, indicates that the average net total cost of attending college is now $22,500 per year.

Policies intended to make college more affordable have failed spectacularly. The federal government's biggest tools—student loans and tax credits—can theoretically improve affordability. In practice, however, they've fueled rising prices by giving colleges more room to harvest aid for their own purposes.

When the HOPE tax credit was introduced in 1998, some colleges responded by raising prices while others cut students' institutional aid "roughly dollar-for-dollar." The same thing happened with Grad PLUS loans, launched in 2006: Graduate program prices "increased by $0.75 per $1 increase in average per-student Grad PLUS loans." Even accounting for colleges recycling some of that captured revenue into institutional aid, net prices increased by $0.64 per new $1 in lending. Colleges rather than students thus benefited from most of the funding.

State funding of public colleges tells a similar story. Lawmakers assume that if states increase their funding, colleges will reduce their tuition prices. But four decades of data from 1980 to 2024 show there is no relationship between changes in state funding and changes in tuition, meaning that there's no reliable way to "buy" lower tuition by increasing state funding.

Worse, higher education subsidies, by encouraging many more students to attend college, drive credential inflation—students needing higher degrees to obtain positions in the workforce that previously didn't require them. This makes life less affordable by burdening many graduates with unnecessary costs and debts for a given career.

Ultimately, reducing subsidies and curbing this overconsumption is desirable policy. The One Big Beautiful Bill Act took some welcome steps in that direction, ending the highly inflationary Grad PLUS program and limiting other federal student loans. But because rolling back aid can raise short-term costs for students, our near-term focus here is instead on supply-side reforms that would boost competition and affordability without dumping yet more money into a broken system.

FEDERAL POLICIES TO IMPROVE HIGHER EDUCATION AFFORDABILITY

- **Reform accreditation to reduce entry barriers.** For their students to be eligible for federal financial aid programs like Pell grants or student loans, a college must be approved by an accreditor. Accreditors are essentially peer-review groups of colleges. In other words, the government requires new colleges to seek the approval of their would-be competitors—an obvious conflict of interest and one that functions as an unnecessary barrier to entry for new colleges. Accreditors also tend to demand costly and increasingly outmoded things, such as libraries teeming with physical books. Reforming accreditation to allow for outcome-based approval for new providers, faster recognition for new

accreditors, and narrower, risk-based oversight rather than one-size-fits-all gatekeeping would open pathways for new types of education to enter the market. This would in turn pull prices down and potentially increase less expensive education options beyond traditional multiyear degrees.

- **Abolish subsidies for low-performing colleges.** One of the most valuable functions of profits and losses is determining which operations should continue and which should go out of business. But both the federal and state governments routinely keep low-performing colleges alive with indiscriminate subsidies. This needs to stop. The ideal solution is to end all subsidies, but absent that, at the federal level, accountability metrics based on learning or labor-market outcomes should be used to restrict participation in federal aid programs like Pell grants and student loans. Legislation in 2025 took a good step in this direction, establishing an earnings floor to cut off programs whose graduates earn too little, but there is still lots of low-hanging fruit, such as accountability metrics that account for student loan debt. At the state level, similar accountability metrics should be used to shutter underperforming public-college programs. These zombie programs and colleges absorb funding, freeze talent in low-productivity employment, and contribute to credential inflation. Allowing these programs and colleges to die would allow the market to reallocate funding and talent to more productive and innovative programs and colleges.

STATE AND LOCAL POLICIES TO IMPROVE HIGHER EDUCATION AFFORDABILITY

- **Eliminate legislatively imposed monopolies and cartels.** Many states have laws that restrict competition. For example, as of early 2025, Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, South Carolina, and Texas had laws or regulations that mandated use of a single accreditor for at least some types of institutions. States with these mandates should rewrite their laws and regulations to allow colleges to choose from among all authorized accreditors.
- **Shift state support to students rather than colleges.** There are many advantages to funding students in the form of financial aid instead of colleges in the form of direct subsidies. Student-based funding allows for a closer alignment between the justification of the funding and the funding itself; allows for targeted funding (e.g., providing additional funding for low-income students); is less prone to political interference and infighting; encourages a healthier competition among colleges (for students rather than political favor); suffers from fewer public relations problems (e.g., a college building an overpriced sports stadium); empowers students; and encourages more cost control. It is already the case that most federal funding is provided to students, but most state funding is provided directly to colleges. Thus, states could marginally increase the effectiveness of their funding by shifting from direct funding (sometimes called state appropriations) to financial aid funding.

11. Consumer Financial Services

Norbert J. Michel and Solveig Singleton

Consumer financial services—payments, checking and savings accounts, mortgages, and small-dollar credit—are part of the plumbing of a modern economy. Their "prices" include interest rates, fees, minimum balances, and product availability.

These products are heavily regulated by state and federal government. Laws should protect consumers from fraud and ensure that institutions honor their obligations. But regulation tends to protect incumbent firms, impede business efforts to address changing consumer demand, and raise the cost of financial services for all Americans.

The post–2008 financial crisis regulatory expansion illustrates the stakes. The Dodd–Frank Act of 2010 spawned approximately 400 separate financial rulemakings. It expanded the authority of existing federal regulators, created new federal agencies, and dramatically altered the regulatory framework for multiple financial sectors. It imposed unnecessarily high compliance burdens on firms and likely contributed to the sluggish recovery after the crisis. One estimate found that repealing the Dodd–Frank Act would have increased US gross domestic product by an average of about 1 percent from 2017 to 2026. Yet lawmakers and regulators continue to expand inessential regulation that will further raise the costs ultimately borne by consumers.

In recent years, Congress, executive branch leaders, and many states have sought to expand controls on financial service fees. Former President Joe Biden and many states enacted rules to combat "junk fees." President Trump called for credit card companies to cap interest rates at 10 percent for one year. Some states extended regulation of payday-loan interest rates to new small-dollar-credit offerings such as buy-now-pay-later and wage-advance services.

Price controls on finance charges harm consumers. For example, low-income borrowers have less access to credit in states with interest rate caps. Capping credit card interest rates at the federal level would limit access to credit for borrowers who need it most.

The best policy for financial services is to remove regulatory barriers that suppress entry and competition. Innovative uses of data are already helping those with no traditional credit history. Competition has reduced charges such as the fees on overdraft coverage, a popular option for cash-strapped consumers. With more freedom, the sector could deliver services at lower cost still.

FEDERAL POLICIES TO IMPROVE CONSUMER FINANCIAL SERVICES AFFORDABILITY

- **Refocus enforcement on fraud and scams.** Most Americans believe that laws should protect consumers from fraud (64 percent) and ensure that financial institutions fulfill obligations to their account holders (53 percent). Yet consumers reported losing $12.5 billion to fraud and scams in 2024, while state and federal enforcement resources were often focused elsewhere. Congress, the Federal Trade Commission, the Justice Department, the Federal Bureau of Investigation, and other relevant agencies should shift enforcement resources to investigate and prosecute perpetrators of fraud, returning the profits of crime to consumers.
- **Avoid price controls on consumer finance.** Caps on interest rates or fees do not eliminate risk or operating costs. If lenders may not charge more for high-risk loans, they become less willing to

extend credit to high-risk consumers. That forces consumers to shift to inferior substitute products. Evidence from payday-lending restrictions shows that borrowers often move to overdrafts and late bill payments. To promote affordability, policies should promote competition and expand consumer choice through increased supply, not impose ceilings that shrink supply.

- **Repeal the Dodd–Frank Act.** Rather than dealing with the causes of the 2008 financial crisis, the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act exacerbated and compounded the existing regulatory framework's many problems. The resulting regulations held back the economy's recovery, introduced even more moral hazard, and expanded the number of firms deemed too big to fail. The 800-plus-page act required hundreds of new financial rulemakings, expanded existing federal regulators' authority, created new federal agencies, and imposed unnecessarily high compliance burdens on banks and nonbanks.
- **Repeal the qualified mortgage and ability-to-repay rules.** These rules come with huge trade-offs, disproportionately burdening small banks, discouraging lenders from offering low-value mortgages for small homes, and reducing the supply of mortgages while increasing costs to consumers.
- **Repeal the Durbin Amendment.** This provision of the Dodd–Frank Act capped the interchange fees paid by merchants to debit card companies. Financial service providers adapted by offering fewer rewards, scaling back services, and increasing other fees. One study estimates that this caused consumers to lose between $22 and $25 billion in value.
- **Shutter the Consumer Financial Protection Bureau (CFPB).** The CFPB was intended to protect consumers but has repeatedly embraced price controls that harm them. For example, the CFPB's proposed cap on overdraft fees—rejected by Congress—would have reduced availability of popular overdraft services and raised minimum balances. The CFPB unfairly targets legitimate businesses, and its funding mechanism makes it unaccountable to legislators. The overall effect of the CFPB is to raise costs while limiting customer choice.
- **Eliminate the Credit Card Accountability Responsibility and Disclosure (CARD) Act.** The CARD Act of 2009 required credit card issuers to give 45 days' notice before increasing interest rates or fees, limited rate increases on existing balances, and regulated late fees. These rules limited credit card issuers' ability to adjust their exposure to increased risk. In response, card issuers reduced access to credit for high-risk consumers, raised interest rates overall, and raised annual fees. Studies showed a significant decline in the percentage of subprime households holding credit cards.
- **Expand the availability of national financial charters to a wide range of firms.** Fintech firms seeking to operate nationwide must often obtain a money-transmitter license in every state, which is costly and hinders the firms' expansion. The availability of national charters would reduce duplicative licensing costs and expand competition in payments and basic accounts. Difficulty in obtaining national charters limits consumer choice: For example, Walmart offers many financial services at low rates but currently cannot obtain a national charter to expand its offerings.
- **Reform the Bank Secrecy Act (BSA).** US banks spend about $59 billion annually complying with the BSA, largely due to the law's low-value reporting mandates regarding anti–money laundering and "know your customer" rules. Ideally, the BSA should be repealed. At a minimum, the Financial Crimes Enforcement Network's Geographic Targeting Order should be rescinded. The order, which requires financial service providers in some regions to file Currency Transaction Reports for cash transactions over $1,000, will crush small providers of services such as money orders, currency exchange, and wire transfers and harm their customers.

STATE AND LOCAL POLICIES TO IMPROVE CONSUMER FINANCIAL SERVICES AFFORDABILITY

- **Oppose harmful regulation of beneficial earned wage access (EWA) options.** EWA programs allow employees to access their already-earned wages before payday. Some states treat EWA services as loans: This discourages employers and fintechs from offering EWA services, because lending is heavily regulated. For example, a 2024 Connecticut decision made it unlawful to charge fees for EWA without a license, discouraging employers from offering EWA at all. State policies that discourage EWA offerings mean that workers run short of cash or resort to more expensive alternatives. The best policy would be to eliminate interest rate caps and restrictive licensing rules that hamper wage advance and lending services at the state level. A reasonable alternative is state or federal safe harbors for EWA products.
- **Eliminate restrictive rules for payday lenders.** Payday lenders offer short-term unsecured loans. The fees for payday loans appear high, but this price reflects the high risk borne by payday lenders, and data show that consumers understand how the fees work. These loans, which are regulated at both state and federal levels, give consumers who lack access to traditional banks' services the ability to get cash quickly in emergencies. The Federal Deposit Insurance Corporation discouraged banks from dealing with payday lenders as part of Operation Choke Point. In addition, the CFPB's rules regulate lenders' attempts to collect repayments. The most onerous rules, however, are state-level limits on interest rates, payday-loan bans, or other aspects of payday lending. All these rules limit lending or increase lenders' costs and may reduce access to payday loans, leaving borrowers with less desirable, higher-cost options such as pawnshop loans, bankruptcy, or overdraft services.

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Despite the achievement of the nation's Founders, today virtually no aspect of life is free from government encroachment. A pervasive intolerance for individual rights is shown by government's arbitrary intrusions into private economic transactions and its disregard for civil liberties. And while freedom around the globe has notably increased in the past several decades, many countries have moved in the opposite direction, and most governments still do not respect or safeguard the wide range of civil and economic liberties.

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