

What Is “Affordability”— and How Do We Improve It?

By Aaron Steelman

With the inflation surge that followed the COVID-19 pandemic still fresh in Americans’ minds, “affordability” has emerged as one of the defining political issues of 2026. But policymakers are often confused about the root causes of rising prices and what can be done to make life less expensive.

To help clarify the debate, the Cato Institute recently released its *Handbook on Affordability*, outlining more than 100 reforms that would improve living standards through sound money and economic freedom rather than government intervention.



✦ If you pay attention to public policy, it's difficult to go a day without hearing a politician or pundit talk about "affordability." The concept itself is simple enough: In short, it's the ability to buy goods and services. Or, in today's parlance, it generally refers to something more specific: the ability to buy the basic necessities of life, though people can reasonably disagree about what those things are, as the basket of items deemed essential has changed dramatically over time.

Such discussion is fueled by public anxiety, with Gallup reporting in April that "affordability continues to be the main financial challenge for US households, with concerns about various costs far outpacing all other financial worries."

Clarifying what affordability means, and what actually drives higher prices, is important, especially because many policies aimed at addressing affordability would just make matters worse. Fortunately, though, there are better solutions.

The Macro

Any discussion of affordability has to start with macroeconomic policy, in particular monetary policy and fiscal policy, and in that order. They are the two primary drivers of inflation, meaning a *general* increase in the prices of goods and services in the economy.

First, monetary policy. The Federal Reserve pursued highly accommodative policies when the COVID-19 pandemic started, dropping interest rates to effectively zero in the spring of 2020 and keeping them there through the spring of 2022. Not surprisingly, that led to a sharp increase in prices, with inflation soaring in June 2022 to more than 9 percent, according to the Consumer Price Index (CPI). This was the highest number on record since the early 1980s, when then-Fed Chair Paul Volcker had to raise interest rates to nearly 20 percent to break the back of inflation that had plagued the

1970s, contributing to a deep recession. Those policies were required, however, to set the conditions for a long period of relative price stability and economic prosperity—and to put stagflation behind us.

The Fed was understandably concerned about the toll the pandemic would take on the economy and wanted to boost it as much as possible. But it kept its foot on the gas for far too long. By June 2022, the Fed had only just started raising interest rates, which wouldn't reach their post-pandemic peak for more than another year. During this time, the Fed's balance sheet—in short, its total assets on hand—mushroomed from \$4.3 trillion to \$8.9 trillion. It has since fallen to about \$6.7 trillion, but that still represents a 50 percent increase since the start of the pandemic. Not surprisingly, the inflation rate remains stubbornly higher than the Fed's target of 2 percent—in fact, more than twice so—with the latest measure of the CPI coming in at 4.2 percent in May, due in part to higher energy prices.

While the Fed was stoking inflation, changing policy only just before it became an outright conflagration, Congress was engaged in massive fiscal stimulus through the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and the American Rescue Plan Act of 2021—to name just a few measures. That, too, boosted prices through a variety of channels. However unwise that spending may have been, the Fed had the capacity to offset its inflationary effects at least partially by tightening the money supply, but it failed to do so.

What may be puzzling to some, though, is why the high inflationary period we have gone through has driven the affordability debate. Large and unexpected increases in prices are distortionary, do damage to the economy, and should be avoided. But during much of this time, wages rose faster than inflation, meaning that many people were still able to keep up with their previous spending patterns.

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When you see how people believe they are actually doing, however, things become clearer. In a December 2025 poll from Echelon Insights, only 21 percent of respondents thought their income had kept up with rising costs, with just 28 percent saying they believed the government’s economic statistics. Most tellingly, fully 74 percent of respondents said that *only a decline in prices*—that is, deflation, not just disinflation—would convince them that “inflation and costs are no longer a problem.”

... and the Micro

In addition to bad monetary and fiscal policy, which can drive up prices across the economy, there are a number of regulations and mandates that can push up costs for consumers in *specific sectors*. Cato recently released its *Handbook on Affordability*, edited by Ryan Bourne, the R. Evan Scharf Chair for the Public Understanding of Economics, which addresses nine such areas: housing, energy, health care, transportation, childcare and child raising, food, higher education, consumer financial services, and clothing, household goods, and labor services.

Scholars from across Cato’s many policy

groups and centers came together to create “an affordability agenda” with more than 100 reforms at the federal, state, and local levels—including easing zoning restrictions, ending occupational licensure requirements, and repealing tariffs and trade quotas—that would make it easier for consumers and producers to engage in voluntary exchange, buying and selling goods and services at prices much closer to what a free market would bear. That is what is needed—not price controls and wage subsidies, favored by activists on both the left and the right.

The handbook also includes chapters outlining macro reforms: making the Federal Reserve follow a transparent monetary rule and focus more closely on price stability, while proposing changes to get the federal budget, and especially entitlement spending, under control.

The Affordability Discussion Isn’t Going Away

Writer Matt Yglesias recently titled an essay “I’m Sick of ‘Affordability.’” I can’t say that I blame him. It can be exhausting to hear people talk about a somewhat nebulous concept so frequently, especially when the measures they propose would make things worse, all in the name of “helping workers.” But inflation has recently started to outpace wages once again, and it’s not clear when that will stop. People are rightly aggrieved. They want to do better for themselves, their children, and their grandchildren, and they see that goal as increasingly hard to attain.

Thankfully, there are policies that would drive prices down, policies that would also likely have the salutary effect of increasing economic growth and wages simultaneously. It’s time to implement them. ♦

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