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OnPOINT

Improving Health Care Affordability

Opportunities for more competition and choice

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For several decades, both prices and overall costs for medical care have grown faster than those of nearly every other sector of the economy.

Health care is by some measures the largest sector in the US economy and one of the most regulated. It represents approximately 18 percent of the US economy. The health care sector includes direct medical care, nursing assistance, and prescription drugs. Costs in these areas have grown significantly—most notably in health insurance premiums and hospital care, but also prescription drugs.[1]

Prices for medical care have grown faster than those in most sectors. Prices for hospital services more than tripled between 2000 and 2025. According to the Chart of the Century by American Enterprise Institute scholar Mark Perry, hospital services had the fastest-rising prices over that period. (See Figure 1.) Medical care services ranked fourth, after college costs.[2] The Center for Economic and Policy Research showed that medical care prices rose more than 19-fold between 1968 and 2024—more than double the rate of the overall price level.[3]

Even though health care costs are highly subsidized by taxpayers for low-income Americans, they still find themselves burdened by out-of-pocket costs for premiums, drugs, and visits to providers. High health care costs and the potential for unexpected health care expenses are the top financial worries for many adults. According to a Kaiser Family Foundation poll, nearly half of Americans say it is very or somewhat difficult to afford health care.[4] In 2024, according to the Bureau of Labor Statistics, health care was 7.9 percent of the average consumer's total expenditures.[5]

Medical care is unlike many other areas of the economy. One important difference is that when you really need it, medical care is harder to do without than many other goods and services. Consumers are less willing to trade off quality for cost in medical care than in other areas. Compounding that problem, medical care is mostly not paid for directly by consumers. At the point of consumption, most medical care payments are made by employers, government, or insurance companies. This wedge between payment and consumption removes the normal incentive to ensure every dollar spent buys a dollar's worth of service. This setup increases inflationary pressures.

Key factors affecting health care prices

Health care costs and prices are high for many reasons. Several of those reasons are more specific to health care than to other sectors. These include, as described above, third-party payers and the difficulty of forgoing health care or sacrificing on quality. In addition, the government adds to these burdens in multiple ways. Tariffs on drugs and medical equipment, for example, boost the prices of those goods.

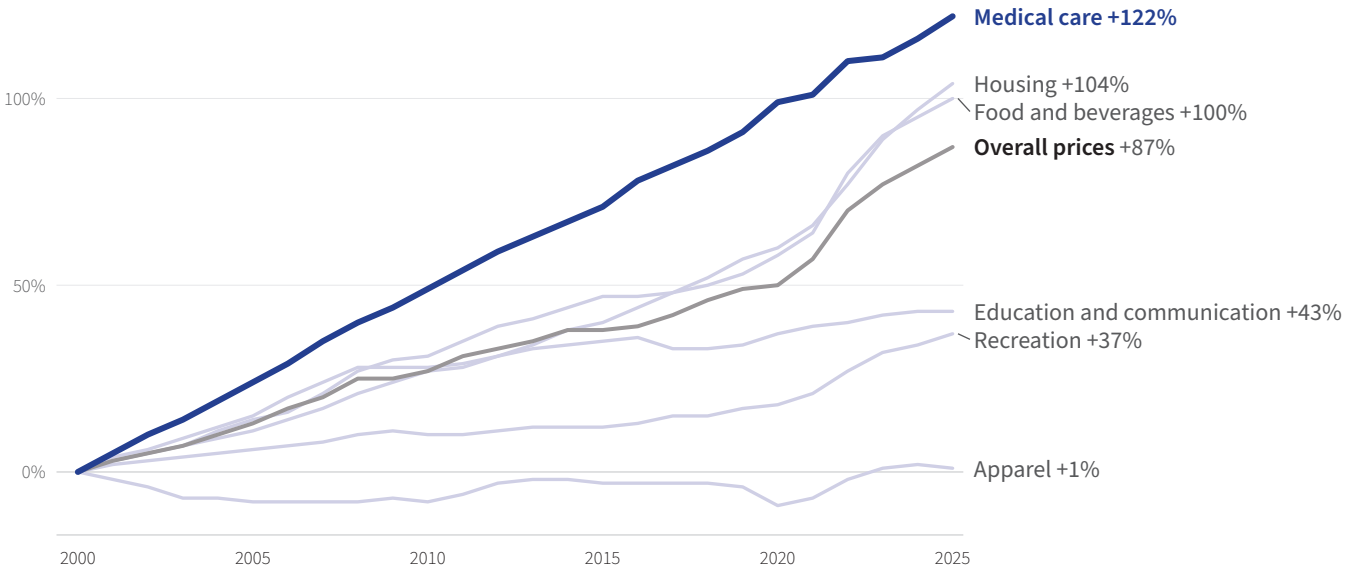
Government also increases costs by mandating benefits in insurance plans, essentially requiring health insurance to be more comprehensive than consumers would otherwise choose. Likewise, accreditation requirements for hospitals, doctors, and nurses can impose quality standards whose marginal costs exceed their marginal value.

And government patent policy balances the benefits of new drug development against the benefits of price competition. By protecting products against easy copying by competitors, patents ensure drug developers have an incentive to innovate and develop new drugs. But when patents expire, competitors can enter the market for any drug, which tends to drive prices down.

1 Centers for Medicare & Medicaid Services, "NHE Fact Sheet," accessed July 1, 2026, https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/nhe-fact-sheet.
2 Gale L. Pooley, "Rethinking the Cost of Living with Mark Perry's 'Chart of the Century,'" *Human Progress*, January 27, 2026, https://humanprogress.org/rethinking-the-cost-of-living-with-mark-perrys-chart-of-the-century.
3 John Schmitt and Emma Curchin, *The High Cost of Living: What Working Families Pay for Health Care* (Center for Economic and Policy Research, January 13, 2026), https://cepr.net/publications/high-cost-of-living-what-working-families-pay-for-health-care.
4 Shameek Rakshit, Lynne Cotter, Matthew McGough, and Gary Claxton, "How Does Cost Affect Access to Healthcare?" Peterson-KFF Health System Tracker, March 10, 2026, https://www.healthsystemtracker.org/chart-collection/cost-affect-access-care/.
5 U.S. Bureau of Labor Statistics, "Consumer Expenditures—2024," news release, December 19, 2025, https://www.bls.gov/news.release/cesan.nr0.htm.

Figure 1. **Medical Care Prices Have Risen Fastest**

Since 2000, medical care prices have more than doubled, outpacing every other major category.



Source: Bureau of Labor Statistics.

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Federal policy recommendations

Remove tariffs. One of the major goals of the Trump administration is to produce more goods domestically. To achieve that goal, it has pursued a unilateral tariff-heavy agenda. That includes imposing tariffs on high-value, brand-name drugs produced overseas. It is also considering tariffs on medical equipment.[6] Tariffs such as these raise domestic prices in both the short and long term. Clearly, President Trump recognizes this, as he exempted generic drugs from the tariff regime.[7]

Drugs are a substitute for hospital and physician care. Their use reduces the strain on hospital and physician services, leading to lower prices all around. Further, while domestic production can alleviate supply chain problems to an extent, it is not a solution.[8] Shifting to domestic production also creates new demands on domestic resources, raising prices outside of health care.

Both Congress and the president can reduce the tariff burden on Americans. President Trump should discontinue his attempts to impose new tariffs. He should also withdraw the tariffs he's placed on pharmaceuticals and other medical equipment. Congress can also improve the situation by passing legislation that limits the president's ability to impose temporary tariffs and even overrules him on some of the tariffs he has imposed.

Streamline the biosimilar approval process. For small-molecule medications, the patent-to-generic pipeline has proven effective, giving drug manufacturers time to recoup the cost of development but then gradually making the treatments fully competitive and lowering their prices. Small molecules are typically produced through chemical processes, are relatively small, and are designed generally for oral use as pills and capsules.

The biologic-to-biosimilar pipeline is much less efficient, meaning many treatments take longer to enter the highly competitive phase, keeping prices high. Biologics are derived from living organisms and are more complex in structure and, therefore, more difficult to manufacture. These often include treatments that require injection via syringe or IV or delivery in liquid form.

6 "Trump Administration Initiates Section 232 Investigation on Medical Supplies," White & Case, September 26, 2025, https://www.whitecase.com/insight-alert/trump-administration-initiates-section-232-investigation-medical-supplies.
7 Annika Kim Constantino and Angelica Peebles, "Trump Administration Sets up to 100% Tariffs on Some Imported Drugs, with Many Companies Exempt," CNBC, April 2, 2026, https://www.cnbc.com/2026/04/02/trump-pharmaceutical-tariffs-100percent.html.
8 "Baby Formula Shortage," *PBS NewsHour*, accessed July 2, 2026, https://www.pbs.org/newshour/tag/baby-formula-shortage.

The government should consider ways to streamline the biologic-to-biosimilar process, as it did with generics. Legislation to accomplish this has already been proposed, and it should be taken up by Congress.[9]

Make Obamacare affordable by reducing requirements. Health care is among the most regulated industries. Regulations not only prevent consumers from accessing the goods and services they prefer, but they also tend to raise costs.

The Affordable Care Act imposes cost-increasing regulations on the health care industry. It requires insurers to cover broad sets of benefits for everyone who enrolls and to spend a certain percentage of premium revenue specifically on care. This spending requirement is known in health care policy as the medical loss ratio (MLR). The effect of mandated benefits on prices is clear. Insurance consumers face trade-offs between more benefits and higher premiums. But mandating benefits imposes a uniform choice on all consumers, raising premiums for everyone. Eliminating benefit mandates would allow plans to offer lower-cost options.

The MLR is a simple, beneficial-sounding policy. But research suggests it has the unintended consequence of making insurers less cost-conscious, which leads to higher premiums.[10] Congress should remove the MLR requirement and let insurance companies compete for beneficiaries by offering lower prices.

Remove obstacles to telehealth. More telehealth can increase the supply of practitioners. Many arguments in favor of telehealth focus on the direct savings from remote treatment, such as less travel and less need for facilities. Another significant advantage of telehealth is that it increases the supply of practitioners beyond those within driving distance of the patient. Telehealth users are not limited to nearby physicians or nurses. Instead, they can choose from a multitude across the country. Increased competition for patients reduces these practitioners' prices and improves their quality, just as the internet reduced prices for many other goods and services.

To expand telehealth, Medicare should permanently remove the restrictions loosened during COVID, such as allowing non-behavioral care to cross state borders, allowing controlled substance prescriptions, and expanding the provider types that may use telehealth to include physical therapists and occupational therapists. Medicare should also broaden geographic eligibility beyond just rural areas. All Americans should be able to take advantage of telehealth regardless of their location. Lastly, Medicare should permanently remove regulations that require in-person visits before using telehealth.

Expand price transparency. History shows that the best way to reduce prices sustainably is to expand market forces. Health care is somewhat immune to these forces because insurance is ubiquitous and payment is indirect. In some situations, such as emergencies, out-of-pocket payment and price shopping for health care are infeasible. But when shopping is possible, it should be encouraged.

Health savings accounts (HSAs) have long been a prominent way to make consumers price conscious. The idea is that when patients spend their own money, they will shop for health care the way they do for other services—by making sure every dollar spent buys at least a dollar's worth of services. For HSAs to achieve this goal, patients must know the prices of the health care they buy. President Trump has directed hospitals to post prices, but health care needs more price transparency.

HSAs should be available to people beyond those with high-deductible plans. For HSAs to succeed, they need to be used broadly enough that providers cannot ignore consumer demand for posted prices. Last year, Congress expanded HSAs to people with catastrophic and bronze plans, but they should be open to everyone, regardless of plan type or insurance coverage.

State policy recommendations

Eliminate certificate-of-need rules. Government regulations frequently suppress the supply of health care facilities and services. Certificate-of-need (CON) laws require hospitals and other operators to prove to regulators that the community needs additional capacity before building. These requirements increase the cost of building new health care facilities, if they are allowed to be built at all.

The Trump administration has already started to address CON laws. Through its Rural Health Transformation Program incentives, it is encouraging states to drop their CON laws and let the market determine what facilities are needed and where, taking the decision out of the purview of bureaucrats and competitors.[11] CON laws are generally state policies, so not much can be done at the federal level. But states themselves should drop their CON laws and let providers build where they identify gaps. More providers will increase competition and reduce prices for consumers.

[9] Biosimilar Red Tape Elimination Act, S. 2305, 118th Congress, 1st Session (2023), https://www.congress.gov/bill/118th-congress/senate-bill/2305.
[10] Randolph W. Pate et al., "The Unintended Consequences of the ACA's Medical Loss Ratio Requirement," *Health Affairs Forefront*, October 15, 2025, https://www.healthaffairs.org/content/forefront/unintended-consequences-aca-s-medical-loss-ratio-requirement.
[11] McKenzie Richards and Lindsey Zea, *2025 Playbook for Certificate of Need Repeal* (Cicero Institute, December 19, 2025), https://ciceroinstitute.org/research/2025-playbook-for-certificate-of-need-repeal.

Recommendations for Lawmakers

At the federal level:

- Remove existing tariffs on health care goods,
- Abandon potential new tariffs on health care goods,
- Streamline the biosimilar approval process,
- Remove the mandate for benefits in regulated insurance plans,
- Eliminate the medical loss ratio requirement for regulated insurance plans,
- Expand acceptance of telehealth in Medicare,
- Reduce regulations of telehealth in Medicare,
- Expand price transparency and availability of health savings accounts, and
- Pursue scope-of-practice reform in Medicare and other federal programs.

At the state level:

- Repeal certificate-of-need laws,
- Pursue scope-of-practice reforms,
- Accept more out-of-state licenses,
- Reduce regulations of telehealth, and
- Expand acceptance of telehealth in Medicaid.

Reform scope-of-practice rules. Scope-of-practice reform has long been a goal of health care policy experts. Scope-of-practice regulations are restrictions on the services doctors, nurses, pharmacists, and other practitioners may provide. These are typically state rules. They not only limit the number of people who can provide services but also prevent practitioners from providing services outside their scope of practice. Pharmacists could be allowed to prescribe for routine conditions and refill chronic medications. To achieve many of these scope-of-practice reforms, states can join licensure compacts or adopt mechanisms for license reciprocity. Medicare and other federal health programs could also support this initiative by discontinuing requirements for supervision of qualified non-physician providers.

Expand telehealth. Even without federal intervention, state governments can work to expand access to telehealth.

States can join interstate licensure compacts and adopt reciprocal licensure for out-of-state providers. Currently, about one-fifth of states remain outside the state compacts for physicians, nurses, and psychologists. California, Massachusetts, New York, and Oregon have yet to join any of these compacts. Joining means accelerated licensure for out-of-state practitioners, which lowers the cost of practicing and, in turn, the cost to patients in that state.

As Medicare did, states should stop requiring patients to have an in-person visit before they access telehealth.

States can also cover telehealth visits under Medicaid. Telehealth coverage should include more provider types and an expanded set of visit formats such as video, audio-only, remote monitoring, and asynchronous visits (visits in which a practitioner reviews recorded or previously transmitted information). And patients should be able to access telehealth from home, not just at pre-approved provider sites. The more locations open to telehealth, the more convenient it is for patients and the more competition there is.

Conclusion

Health care is one of the costliest portions of the US economy. It is highly subsidized and highly regulated, both of which increase costs. It has been a driver of unaffordability for decades. Consequently, the government has intruded more and more into the industry, which has, ironically but predictably, worsened the problems. Critics claim that markets do not work in health care. A more accurate diagnosis is that government has failed to let markets work in health care. It is time to chart a different course: reduce government interventions and let consumers direct the industry.

About the author

Jeremy Nighohossian is a senior fellow and economist at the Competitive Enterprise Institute. He focuses on health care antitrust, competition, and reimbursement policies. Jeremy writes about how government regulation stifles innovation, reduces quality, and raises costs. Jeremy holds a PhD in economics from Texas A&M University and a BS in chemical engineering from the University of Illinois.



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