

AIER Research Reports

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Research Reports

AIER publishes over 100 articles per month that are distributed in digital form. Research Reports contains Business Conditions Monthly plus 8 of the most representative, chosen here for popularity, variety, and relevance. These articles are often reprinted in venues around the web, including Seeking Alpha, Intellectual Takeout, Mises Brasil, and dozens of other outlets. To read all of them, go to www.aier.org

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From the Managing Editor

Peter C. Earle
Senior Research Fellow

Private credit has spent the better part of a decade evolving from a niche institutional strategy into one of the defining financial innovations of the post-2008 crisis era. Born partly from regulatory retrenchment - changes in the Basel III capital rules, heightened supervisory scrutiny, and the political aftershocks of 2008 that constrained traditional bank lending - private credit emerged to fill the gap left when regulated balance sheets pulled back from riskier middle-market loans. Asset managers, insurers, and alternative investment firms stepped in with long-duration capital structures, promising borrowers speed and certainty of execution while offering investors yield in a world starved for income. Unlike banks that fund long-term loans with short-term deposits, private credit funds match long-term assets with locked-up capital, theoretically insulating them from classic liquidity runs. In many respects, this has been a positive, market-driven adaptation that expanded financing options and diversified sources of credit across the economy.

Yet innovations that flourish during benign conditions often reveal their stress points only when cycles turn. Recent events surrounding Blue Owl Capital's retail-oriented funds have brought renewed scrutiny to the roughly \$1.8 trillion private credit ecosystem. Rising redemption pressures, adjustments to withdrawal structures, and opportunistic bids for fund shares at steep discounts to net asset value have sparked debate about whether the sector's insulation from liquidity shocks is as robust in practice as it appears in theory. At the same time, activist investors and senior bankers have begun drawing parallels to earlier credit booms, warning that aggressive lending to software companies - now facing rapid technological disruption from artificial intelligence - could expose vulnerabilities in underwriting standards. The use of payment-in-kind structures, creeping leverage through bank financing, and asset sales by some business development companies at modest haircuts all suggest that credit conditions may be tightening beneath the surface even as headline economic data remains resilient.

Yet it would be a mistake to treat the current strains as proof that private credit itself is flawed. The sector represents an improvement over the highly leveraged, maturity-mismatched banking structures that amplified previous dislocations. Direct lenders have financed thousands of middle-market companies that might otherwise have struggled to access capital, often providing bespoke financing that traditional institutions could not deliver under modern regulatory constraints. The entry of insurance capital and long-term institutional investors has

broadened the supply of credit while dispersing risk across a wider array of diverse balance sheets. Warnings about rising defaults must concede that the absence of deposit funding and the alignment of asset-liability duration reduce the likelihood of classic systemic runs. Private credit's evolution is best understood not as a loophole but as a market response to policy choices.

The more important question is not whether private credit will experience losses - it most assuredly will - but how policymakers and market participants respond if those losses intensify. Calls for preemptive intervention misunderstand both the purpose of innovation and the lessons of past crises. Entrepreneurship functions as a discovery mechanism: it reveals which business models are resilient and which were built on overly optimistic assumptions. If a segment of this new corner of the financial markets has mispriced risk or overpledged liquidity, the appropriate response is not rescue but orderly resolution. Allowing underperforming or failing funds to restructure or liquidate, requiring that investors bear the consequences of their choices, and enabling stronger firms to acquire assets at discounted valuations is not cruelty: it is the productive turbulence of learning in markets.

Whether the present episode becomes an obscure business footnote or the opening chapter of a broader credit downturn remains unknowable. Default rates remain relatively modest by historical standards, merger activity is picking up, and significant pools of capital continue to enter the sector. But early warning signs - redemption pressures, widening discounts between asset values and fund shares, and increased reliance on complex financing structures - suggest that the industry is entering a period of testing. If a shake-out does occur, the most constructive outcome would be one in which markets are allowed to function without political theater or taxpayer rescue. Credit markets do not require protection from losses; they require dispassionate pricing. Private credit has delivered real benefits to borrowers and investors alike, and its future depends less on avoiding mistakes than on absorbing lessons.

Peter C. Earle, Ph.D
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March 2026

Business
Conditions Monthly
December 2025

Peter C. Earle
Senior Research Fellow

Note: As of January 31, 2025, data for four of the 24 components of the Business Conditions Monthly indicators have not yet been published. While the remaining suspended economic data are expected to be released prior to the next Business Conditions Monthly report, the resulting estimates should be regarded as preliminary. Interpretations will remain tentative until several months of subsequent releases and revisions have accumulated, allowing for a more stable and reliable assessment of both data quality and overarching trends.

The two most recent inflation data releases offer a mixed but gradually improving signal, with broad disinflationary trends emerging alongside persistent pockets of price strength. January's Consumer Price Index (CPI) report from the US Bureau of Labor Statistics came in notably cooler than a typical start to the year, when firms often reset prices. Headline inflation rose a mere **0.17 percent** month-over-month and the year-over-year rate eased to **2.4 percent**, supported by softer energy and food prices, flat core goods, and modest slowing in rents. At the same time, discretionary services such as airfares, recreation, and transportation remained firm, and the share of categories posting faster price increases broadened, underscoring that progress toward lower inflation remains uneven. The Fed's preferred core Personal Consumption Expenditure (PCE) gauge told a somewhat firmer late-year story, rising **0.36 percent** in December and **3.0 percent** year-over-year, driven largely by recreation services, financial services, and tariff-sensitive goods, while consumers continued rotating spending away from goods toward services even as income growth lagged and the saving rate slipped to a three-year low. Together the CPI and PCE data suggest inflation is gradually stabilizing but still shaped by sector-specific pressures and evolving consumer behavior, leaving the outlook balanced between continued disinflation and lingering strains on household budgets.

US labor market conditions reflect a delicate transition from prolonged cooling toward a tentative, uneven recovery, with recent benchmark revisions reshaping the underlying narrative. Annual revisions to the January jobs report reduced the level of end-2025 payrolls by roughly one million jobs and showed that hiring momentum had been far weaker than previously understood, with average monthly job growth revised down to just 15,000 last year and several months of outright contraction. Despite this backward-looking downgrade, January's headline payroll gain of 130,000

and a drop in the unemployment rate to **4.28 percent**, alongside rising labor force participation and a modest increase in weekly earnings, suggest the labor market may be stabilizing after nearly two years of stall-speed hiring that began in mid-2024 and intensified during 2025. Job creation remains highly concentrated, however, in government-proximate fields, with health care and social assistance accounting for the majority of gains, while federal employment and financial activities continue to contract and manufacturing only recently returned to modest growth. Forward-looking indicators reinforce the picture of a labor market that is no longer tightening but not collapsing either: ADP data showed private payrolls rising just 22,000 in January, reflecting stagnant hiring at both large firms and small businesses even as layoffs remain relatively contained, and wage growth for job changers slowed to about **6.4 percent**, signaling cooling bargaining power. Meanwhile, the Job Openings and Labor Turnover Survey (JOLTS) report points to weakening labor demand, with job openings falling to 6.54 million and the openings-to-unemployed ratio dropping to 0.87: the lowest since early 2021, while quits and layoffs hold at subdued levels, indicating low churn rather than widespread job losses. Taken together, revisions, payroll gains, and vacancy data suggest the labor market has shifted from tight to balanced, with employment growth hovering near breakeven and inflation pressures from wages easing, leaving a recovery path that appears real but still sensitive to broader economic and policy conditions

Activity across the goods-producing side of the economy presents a mixed but strategically driven expansion, with traditional consumer-oriented manufacturing still lagging while investment-heavy sectors show clearer momentum. The ISM manufacturing new-orders index surged into expansionary territory in January — its strongest reading in nearly four years — signaling a pickup in factory demand, supported by depleted inventories and increased capital spending in areas such as aircraft, electronics, primary metals, and energy products. Domestic durable goods production has risen about **1.5 percent** since last spring, led by gains of roughly **6.8 percent** in aircraft and **5.4 percent** in electronics, while output tied more closely to consumer demand (vehicles, furniture, and textiles) remains subdued or declining. Inventory dynamics are playing a key role: retail inventories relative to sales remain about **12 percent** below pre-pandemic norms, wholesale and manufacturer stocks have been drawn down, and imports of real consumer goods have fallen roughly **14 percent** compared with 2024 averages, implying future

production must rise or supply gaps widen. At the same time, forward-looking surveys show growth losing some momentum — the S&P Global manufacturing PMI eased to 51.2 in February, output slipped, and employment fell close to neutral — suggesting that while strategic capital investment and factory construction in semiconductors, chemicals, and transportation equipment point to stronger capacity ahead, the near-term manufacturing rebound remains uneven and concentrated in policy-favored or high-value sectors rather than broad-based consumer goods.

The services economy continues to expand but is showing signs of cooling demand, softer hiring, and renewed cost pressures that could complicate the inflation outlook. The ISM Services PMI held steady at 53.8 in January, indicating ongoing growth, yet underlying components weakened: new orders slowed to 53.1, export demand faded, and the employment subindex slipped toward neutral at 50.3, all pointing to a slower pace of hiring even as production accelerated temporarily. Survey respondents increasingly view inventories as excessive and expect activity to soften in coming months, a view reinforced by S&P Global's flash services PMI easing to 52.3 in February (its lowest level since April 2025) alongside declines in new orders and employment. Despite cooling demand, price pressures remain a concern, with input costs rising more broadly in January and prices charged jumping to 58.3 in February, the highest since mid-2025, highlighting ongoing cost pass-through in discretionary areas such as travel, recreation, and transportation. The broader composite PMI has also drifted lower to 52.3, signaling slower overall growth and subdued hiring momentum across the economy. The service sector appears to be transitioning from strong post-pandemic expansion toward a slower, more cost-sensitive phase, where demand growth is moderating, employment gains are flattening, and price dynamics, rather than output, are becoming the central issue for policymakers.

Recent readings on consumer and business sentiment suggest stabilization rather than a full rebound, with confidence improving modestly even as uncertainty and labor-market concerns linger beneath the surface. The Conference Board's consumer confidence index rose to 91.2 in February, supported by a notable improvement in forward-looking expectations around income, employment, and business conditions, while the University of Michigan's sentiment gauge climbed to a six-month high of 57.3 as short-term inflation fears eased and year-ahead inflation expectations fell to **3.5**

percent. American households appear more willing to plan big-ticket purchases and maintain spending on services, yet the picture remains cautious: assessments of current conditions weakened slightly, job security concerns remain elevated, and the perceived probability of losing one's job is still near post-pandemic highs. Small business sentiment tells a similar story of guarded resilience: the National Federation of Independent Business optimism index slipped marginally to 99.3 as rising uncertainty and softer hiring plans weighed on confidence, even as expected real sales improved, credit conditions eased, and capital spending stayed firm, with **60 percent** of owners reporting recent outlays. Hiring intentions have cooled and fewer firms report difficulty finding workers, reflecting a labor market that is no longer overheated, while price-setting behavior shows mixed signals, with fewer businesses raising prices currently but more planning increases ahead. Combined, the sentiment data across households and firms point to an economy that is steady but cautious: inflation fears are easing and spending expectations remain intact, yet persistent uncertainty about growth and employment continues to limit enthusiasm and keep confidence fragile rather than robust.

Recent consumption data point to a resilient but uneven consumer environment, where underlying demand remains intact despite softer headline readings and short-term volatility. December retail sales were flat month over month, likely reflecting a pull-forward of holiday spending into November promotions rather than a collapse in demand, with year-over-year growth easing to **2.4 percent** but discretionary services — such as food service and drinking places — still expanding at a solid **4.7 percent** pace, signaling continued willingness to spend on experiences. Monthly gains were limited to five of thirteen retail categories, led by building materials and sporting goods, while traditional holiday segments like apparel and electronics declined, suggesting the effect of discount-driven demand shifts rather than broad retrenchment.

The core control group of retail sales slipped **0.1 percent**, and overall real consumption growth appears to have moderated to roughly **2.8 percent** in the fourth quarter, a slower but still positive pace supported by wealth effects and expectations for larger tax refunds early in 2026. Meanwhile, the auto sector illustrates the tension between steady demand and mounting affordability pressures: January light-vehicle sales dropped to a 14.85 million annualized rate following strong year-end incentives, with car sales down **3.6 percent** year over

year even as light-truck purchases held up modestly. Elevated auto-loan delinquencies and extended financing terms of up to seven years highlight the strain high rates are placing on household budgets, yet total vehicle sales in 2025 reached their strongest level since 2019, underscoring that consumption remains active but increasingly sensitive to pricing, financing conditions, and seasonal factors such as unusually cold weather.

Industrial production data point to a solid start for the goods-producing side of the economy in 2026, with January output rising **0.7 percent** – the strongest monthly gain in nearly a year – driven largely by manufacturing and a weather-related surge in utility production. Factory output increased **0.6 percent**, supported by gains in machinery, computers and electronics, motor vehicles, and construction-related materials such as concrete, suggesting capital expenditures and onshoring-related investment are becoming key drivers of growth. Durable goods production climbed **0.8 percent**, and business equipment output rose **0.9 percent**, reinforcing signs that firms are advancing capex plans as trade policy uncertainty eases and tax incentives encourage domestic investment. Capacity utilization moved higher into the mid-**76 percent** range, while stronger orders for core capital goods late in 2025 signal continued momentum ahead. Although some of the upside reflects downward revisions to prior months, the breadth of gains across strategic industries and business equipment indicates manufacturing may be entering a modest recovery phase after a prolonged period of softness.

The monetary policy backdrop reflects a Federal Reserve that is increasingly cautious about easing, even as growth moderates and labor-market risks linger. Minutes from the January FOMC meeting show broad agreement to hold rates steady, with only a small minority favoring cuts and a growing share of policymakers emphasizing both credibility and the possibility of keeping policy restrictive for longer – or even tightening again, if disinflation stalls. This more balanced, “two-sided” policy framing comes as economic growth slowed to a **1.4 percent** annualized pace in the fourth quarter, partly due to a prolonged government shutdown that reduced federal services and weighed on consumption and trade. While business investment – particularly in information processing equipment tied to artificial-intelligence spending – remains a bright spot, softer consumer momentum and persistent core PCE inflation near three percent leave the Fed navigating a delicate trade-off between supporting a fragile

expansion and ensuring inflation expectations remain anchored.

Fiscal and trade policy, meanwhile, are introducing significant uncertainty that interacts directly with monetary conditions. The Supreme Court’s invalidation of key tariffs imposed under the International Emergency Economic Powers Act on February 20 has complicated the administration’s fiscal arithmetic by threatening hundreds of billions in expected revenue and raising the prospect of large refunds, potentially widening already substantial budget deficits tied to recent tax legislation. At the same time, the administration’s attempt to replace those tariffs with new global levies has unsettled trading partners and could strain existing agreements with the EU, India, China, and key Asian allies, increasing the risk of renewed trade frictions even as most countries are likely to maintain negotiated frameworks for now. Together, those developments suggest a policy mix in which tighter fiscal constraints, evolving trade rules, and a more cautious Federal Reserve are interacting in ways that could dampen near-term growth volatility while keeping inflation, investment decisions, and global supply chains highly sensitive to political and legal developments.

The US economy continues to push forward, though increasingly under the influence of policy stimulus, financial conditions, and structural shifts rather than broad-based organic momentum. Consumer spending and services activity remain relatively firm (supported by tax relief, easing credit conditions, and gradually-moderating inflation) even as goods production, hiring, and capital investment advance more unevenly. Price pressures are cooling but remain sectorally uneven, leaving elevated living costs and tariff pass-through weighing on real purchasing power and business margins. Labor markets appear balanced yet fragile following sizable downward revisions to prior hiring data, while growth is increasingly driven by investment-heavy manufacturing and resilient experience-based consumption rather than widespread wage gains or strong employment expansion.

At the same time, monetary policy remains cautious amid credibility concerns, fiscal arithmetic has grown more uncertain after tariff-related legal challenges, and evolving trade policies continue to inject volatility into supply chains and corporate planning. Overlaying that backdrop is the accelerating influence of artificial intelligence: rising expectations of productivity gains and capital deepening coexist with anxieties that

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automation may expand opportunities for highly skilled workers while compressing prospects for marginal or routine labor, complicating wage dynamics and longer-term consumption trends. Market behavior, including strong rallies in gold and silver (both of which have fallen from their highs, but remain highly elevated) reflects the broader unease, signaling skepticism not about imminent recession, but about the durability and tradeoffs embedded in the current policy mix. Taken together, the economy appears to be navigating a late-cycle phase marked by slower but still positive growth, easing inflation, and technological transition, leaving the near-term outlook cautiously constructive but highly sensitive to policy decisions and structural changes in productivity.

Capital Market Performance

Ticker	Short Name	%1M	%3M	%1YR	3 Year Annualized Total	5 Year Annualized Total	10 Year Annualized Total
▶ SPR	S&P 1500 Composite Index	+48%	+3.03%	+16.44%	21.0188	13.0218	15.2124
▶ SPXT	d S&P 500 Total Return	-.27%	+2.14%	+17.17%	21.8527	13.5489	15.5540
▶ SPX	d S&P 500 INDEX	+32%	+2.54%	+16.49%	21.8277	13.5272	15.5376
▶ MID	d S&P 400 MIDCAP INDEX	+2.77%	+9.45%	+15.71%	12.9201	8.3707	11.7729
▶ RTY	d RUSSELL 2000 INDEX	-.47%	+7.73%	+22.42%	13.5301	4.4064	11.1727
▶ SXXP	d STXE 600 (EUR) Pr	+4.13%	+11.52%	+14.30%	14.9822	12.3891	9.5715
▶ TLT US	d ISHARES 20+YR TR	+2.37%	-.25%	-1.54%	.1016	-5.6315	-1.0848
▶ QLTA US	d ISHARES AAA - A	+68%	--	+1.89%	5.6392	.3376	2.4938
▶ CRY	d TR/CC CRB ER Index	-.78%	+5.23%	+1.08%	5.0564	9.6808	6.7306
XAU	Gold Spot \$/Oz	+4.05%	+26.17%	+78.79%			
XAG	Silver Spot \$/Oz	-12.52%	+76.39%	+186.05%			
ILM3NAVG	Bankrate 30Y Mortgage Rates Na	-.32%	-3.14%	-11.75%			
ILM1NAVG	Bankrate 15Y Mortgage Rates Na	-.54%	-2.97%	-15.11%			
MB301ARM	5 Year ARM	-3.51%	-7.43%	-13.55%			
ILA3NAVG	Bankrate 30Y Fixe Mtg Refis Na	+1.17%	+58%	-6.85%			

(Source: Bloomberg Finance, LP. Data subject to shutdown limitations.)

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Certificate-of-Need Laws Still Fail Patients – Even After a Decade of Reform

Thomas Savidge
Research Fellow

About 10 years ago, economist Matthew Mitchell and the Mercatus Center published a short video titled “The Wrath of CON: How Certificate-of-Need Laws Affect Access to Health Care.” The video described certificate-of-need (CON) laws, an obscure niche in healthcare policy known best by a handful of policy wonks and healthcare professionals, and the barriers CON laws create.

Under the video’s humor lay a dark truth: CON laws hurt patients and providers at their outset and the laws’ continued existence compounds that harm. Repealing CON laws can help improve access and affordability in healthcare.

Fortunately, over the past decade, many states have moved to reform or repeal their respective CON laws. However, there is still much progress to be made. Mitchell’s 2024 paper, “Certificate of Need Laws in Health Care: Past, Present, and Future” and a 2025 review of academic literature from economists Charles J. Courtemanche and Joseph Garuccio provide updates on CON laws and guidance for future research and policy.

WHAT IS CON?

Certificate-of-Need (CON) laws require the approval of states’ health planning agencies for health care providers to engage in regulated actions such as opening or expanding facilities or purchasing equipment. Additionally, in many states with CON regulations, the decision to grant a CON is made by a board whose members may work for incumbent providers. This is sometimes referred to as a “competitor’s veto.” Mitchell also notes that in all but six CON states, incumbent providers are allowed to participate in the process and object to the application of a would-be competitor and often use the objection as leverage against the potential competitor from encroaching on their territory. Mitchell calls it “a type of territorial collusion that would be a *per se* violation of the Sherman Antitrust Act were it not facilitated by the state.”

CON laws were first applied to healthcare by New York State in 1964, and by 1970, 25 additional states had similar regulations. In 1974, Congress passed the National Health Planning and Resources Development Act (NHPRDA), where the federal government threatened states into adopting CON regulations by saying they would withhold federal funding for healthcare for any state without CON laws.

The desire to push CON came from a misguided belief that such regulations could, in Mitchell’s words, “cause

hospitals to acquire fewer beds, fill them with fewer patients, and therefore spend less money.”

The threats to withhold federal funding never materialized, but by the early 1980s every state had a CON program for healthcare. As Medicare reimbursement switched from retrospective (hospitals get paid whatever they spend with little incentive to control costs) to prospective reimbursement (hospitals are paid a fixed, predetermined amount for services), CON policies were reexamined.

Finding that CON laws did little to control costs, especially under prospective reimbursement, policymakers in DC rolled back CON requirements. While the federal CON requirements were repealed, most states maintained CON regulations, which led to greater variation among state CON regulations. By 1990, eleven states had followed suit and repealed CON laws, with only Wisconsin reinstating the program. By 2000, Indiana, North Dakota, and Pennsylvania had repealed most CON laws. 2000 Wisconsin has since re-repealed its CON regulations. In 2016, New Hampshire was the last state to fully repeal CON.

In their 2025 review of the academic literature on CON, Courtemanche and Garuccio find “in at least some cases, CON laws restrict both entry of new competitors and expansion of existing hospitals. The reduction in competitors increases the number of procedures in hospitals.” They continue by noting such findings provide:

[L]ittle evidence that this translates to increased prices or higher hospital profitability, and hardly any research tests for reduced closure rates. Studies on hospital efficiency and quality of care for procedures performed exclusively at hospitals mostly point to null or negative effects, but evidence on quality is more favorable for services that can be provided outside of hospitals.

While there may be other factors at play (such as government subsidies, the Affordable Care Act implementation, or the variation of CON laws among states), costs can still be passed onto patients without changing prices. Higher costs may look like longer wait times (whether in a hospital or fewer scheduling options), staffing shortages, or the opportunity cost of patients traveling to see a specialist either on the other side of their state or in other states.

Medicaid is a joint federal-state program that funds If one thing is clear, CON regulations have failed to deliver on the promise of affordable and accessible healthcare.

MITCHELL’S FINDINGS ON STATE EXPERIMENTS WITH CON REFORM

As of December 2025, 15 states have fully repealed CON regulations. Additionally, numerous states have reformed their CON regulations to shrink the healthcare services that require a CON. Mitchell’s map is reprinted as Figure 1 (below) and table is reprinted as Table 1 (next page).

Figure 1 (below) summarizes the number of health care services subject to CON regulation while Table 1 identifies the services most commonly regulated. Arizona, Minnesota, and New Mexico limit CON requirements to ambulatory services while Indiana, Ohio, and South Carolina (as of 2025) only apply CONs to nursing homes. Hawaii regulates the most activities, requiring CON approval for 28 services and technologies. Mitchell finds that nursing home beds are the most frequently regulated, followed by psychiatric services, new hospitals, and intermediate care facilities for individuals with intellectual disabilities. Investment thresholds triggering CON review vary from state to state and are generally lower for non-hospital providers (a \$3 million expenditure trigger for ambulatory services in Maine) than for hospitals (excess of \$12.365 million in capital expenditures in Maine).

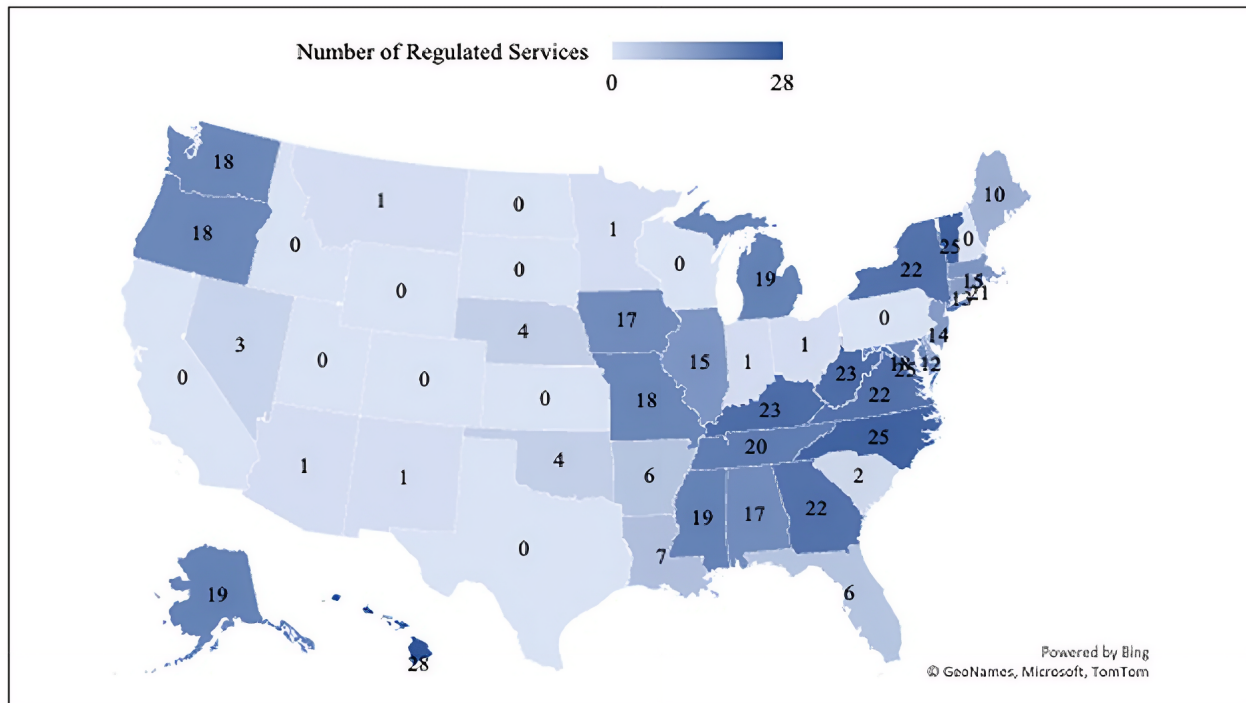
From Mitchell’s findings and his survey of the academic literature, he finds that CON laws are generally associated with high variable costs in general acute hospitals, fewer available hospitals, higher Medicaid costs for at-home care and long-term care, and higher health expenditures. The more stringent and numerous the CON laws in the state, the worse access and affordability for healthcare.

In states that did repeal CON laws, Mitchell found that hospital charges in states without CON are **5.5 percent** lower five years after CON repeal. Additionally, safety-net hospitals in states without CON had higher margins than similar hospitals in states with regulation. While repealing or reforming CON will not fix all healthcare policy challenges, doing so can help increase affordability and healthcare access.

WHAT COMES NEXT?

As Mitchell’s map shows, many states have the opportunity to reform and repeal CON to their betterment. States such as West Virginia (one of the most stringent CON states) have residents that seek healthcare in neighboring states like Pennsylvania (0 CON regulations) because there is greater access to care outside of the state.

Figure 1. Number of Health Care Services in Which a CON is Required (2023)



Reprinted from Mitchell MD. Certificate of Need Laws in Health Care: Past, Present, and Future. Inquiry. 2024 Jan-Dec;61.

To this end, there are a myriad of options for CON reform. Aside from a full immediate repeal or a regulatory sunset provision, state policymakers can also eliminate the competitor’s veto.

Preventing incumbent providers from participating in the CON review process (including requesting hearings and appeals) can help reduce cronyism in the CON application process. Increasing transparency in the CON application process and CON laws can also help reduce cronyism as well.

Americans are strained by the cost of healthcare. Reforming CON laws can help alleviate some of that strain. A full repeal can provide even greater help.

Table 1. Services Regulated by CON (2023).

Regulated services	Number of states that require CONs for the service
Nursing Home Beds/Long-Term Care Beds	34
Psychiatric Services	31
New Hospitals or Hospital-Sized Investments	29
Intermediate Care Facilities (ICFs) for Individuals with Intellectual Disabilities	28
Hospital Beds (Acute, General, Med-Surg, etc.)	27
Long-Term Acute Care (LTAC)	25
Ambulatory Surgical Centers (ASC)	24
Cardiac Catheterization	24
Rehabilitation	24
Substance/Drug Abuse	24
Open-Heart Surgery	22
Radiation Therapy	21
Magnetic Resonance Imaging (MRI) Scanners	20
Positron Emission Tomography (PET) Scanners	19
Neonatal Intensive Care	18
Organ Transplants	18
Home Health	17
Obstetrics Services	16
Computed Tomography (CT) Scanners	15
Hospice	15
Linear Accelerator Radiology	15
Mobile Hi Technology (CT/MRI/PET, etc.)	15
Renal Failure/Dialysis	13
Burn Care	11
Assisted Living & Residential Care Facilities	10
Swing Beds	10
Lithotripsy	9
Gamma Knives	8
Ultrasound	2
Subacute Services	1

Source. Mitchell et al,²⁸ updated by author.

March 2026

Warsh or Not, The Fed's Next Chair Will Inherit Too Much Power

Nicolas Cachanosky

Senior Fellow, Sound Money Project

President Trump has nominated Kevin Warsh to succeed Jerome Powell, whose term as Federal Reserve Chair expires in May 2026. Trump has made no secret of his desire to influence monetary policy. He has consistently called for “Too Late” Powell to bring rates down and seems to believe the president should have a say in interest rate decisions. But the real problem goes beyond Mr. Trump: the next Fed chair will inherit far too much discretionary power.

The Fed has spent nearly two decades accumulating emergency authorities that never sunset and expanding its reach beyond its statutory mandate. It operates with little oversight from or accountability to Congress. The Fed's ever-expanding powers, when combined with political pressure, is a recipe for disaster.

Three areas illustrate the pattern. First, consider the Fed's standing overnight repurchase agreement (repo) facility. The Fed deployed a repo facility in 2008 and 2019 to deal with market disruption. But, in July 2021, it transformed this crisis tool into permanent market infrastructure. The Fed's standing repo facility now provides up to \$500 billion daily in liquidity. What began as emergency support became a permanent backstop with no sunset clause.

Second, consider the emergency lending powers authorized under Section 13(3). The Fed rolled out six emergency lending facilities in 2008: Primary Dealer Credit Facility (PDCF), Term Securities Lending Facility (TSLF), Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Commercial Paper Funding Facility (CPFF), Money Market Investor Funding Facility (MMIFF), and Term Asset-Backed Securities Loan Facility (TALF).

The Fed's emergency lending powers were purportedly constrained by Dodd-Frank (section 1101). The 2020 COVID-19 pandemic showed, however, how weak those constraints were. Four facilities (CPFF, PDCF, TALF, and the Money Market Mutual Fund Liquidity Facility (MMLF), which was just a slightly revised AMLF) were revived, and five new facilities were established.

These new facilities included the Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF), Paycheck Protection Program Liquidity Facility (PPPLF), Main Street Lending Program (MSLP), Municipal Liquidity Facility (MLF) New. Whereas the older facilities might generally be reconciled with the Fed's emergency lending facilities, the newer facilities permitted the Fed to extend credit to entities Congress never authorized it to support.

What began as a crisis improvisation in 2008 became standard practice in 2020, with few constraints on what the Fed could do through its lending facilities.

Third, consider the regulatory authority the Fed has asserted in recent years. It has denied master accounts to cryptocurrency-focused institutions like Custodia Bank. A master account provides access to the Fed's payment rails and has traditionally been granted to regulated depository institutions. Yet, the Fed has repeatedly denied applications from crypto banks. These denials demonstrate how discretionary power enables the Fed to pursue policy goals beyond its statutory remit.

The Fed is not blind to its expanded discretionary powers. Federal Reserve officials have openly acknowledged the institution's expanded role. Former Chair Ben Bernanke defended the Fed's crisis interventions as “necessary” to prevent financial collapse because, at the time, “no federal entity could provide capital to stabilize AIG and no federal or state entity outside of a bankruptcy court could wind down AIG.” But perceived necessity doesn't grant legitimacy.

The accumulation of discretionary power increases the risk of politicization. When the Fed wields significant power and discretion over credit allocation, market functioning, and financial access, the president's appointments to the Fed's Board of Governors are all the more important. It is also more tempting to apply political pressure. Politicians will find it difficult to resist if the Fed might be used to improve their re-election odds. The Fed's independence and credibility suffer as a result.

The accumulation of discretionary power — and trillions of assets on the Fed's balance sheet — also makes financial institutions more dependent on the Fed. If financial institutions come to expect support from a big, powerful Fed in times of stress, they will be encouraged to take on excessive risk. This moral hazard creates a positive feedback loop, where dependent financial institutions require a bigger, more powerful Fed. The end result is a Fed that continuously increases its regulatory reach.

Perhaps worst of all, the accountability mechanisms in place have generally failed to keep up with the Fed's expanded powers. Congress checks in twice a year. But, unlike other major federal agencies, the Fed lacks an independent inspector general. It has gained abilities to influence corporate and municipal bond markets, but it still operates under an oversight structure designed for a much narrower scope.

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The Fed's power problem is not limited to a particular chair or administration. It is institutional. Over the last two decades, the Federal Reserve has accumulated vast discretionary powers that enable mission creep and invite political pressure. Whoever follows Powell will inherit this vast discretionary power — and, if history is any guide, will be tempted to expand it further. But the Fed's credibility and independence will suffer until its discretionary power is reined in.

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Indebted to the Printing Press: Fiscal Dominance Is No Longer Theoretical

Alexander William Salter
Senior Fellow, Sound Money Project

The Congressional Budget Office just released its newest budget outlook. It isn't pretty. The 2026 deficit is projected to hit \$1.9 trillion and grow to \$3.1 trillion in 2036. America's slow-moving debt crisis shows no signs of waning.

But this isn't solely a fiscal problem. It also has an unappreciated monetary dimension. If we've learned anything from the inflation surge of 2021-22, it's that the boundary between fiscal and monetary policy can dissolve much faster than many economists once assumed. We had better come to terms with this quickly, or else money mischief and fiscal folly will become our new normal.

For years, concerns about "fiscal dominance" were largely theoretical possibilities discussed in graduate seminars. Things have changed. The pandemic response showed how fast large deficits and central bank balance sheets can become intertwined. Inflation is the most obvious consequence, but by no means the only one – nor perhaps even the most severe.

In normal times, monetary policy and fiscal policy are institutionally separate. Congress and the White House decide how much to tax and spend. The Federal Reserve controls the money supply and targets interest rates to stabilize prices and employment. The Fed is said to be "independent" because it can tighten policy even if doing so makes government borrowing more expensive. In truth, the Fed is not independent from political oversight. But this basic story is still a reasonable approximation of day-to-day operations.

Fiscal dominance flips that relationship. It occurs when large government deficits and debt burdens effectively constrain the central bank's choices. Instead of focusing on price stability, the central bank must consider the government's financing needs. Major monetary tightening might restore price stability, but it also drives up debt-service costs. If deficits are large enough and persistent enough, monetary policy becomes collateral damage.

We recently watched this happen in real time. In 2020 and 2021, Congress enacted extraordinary pandemic relief packages totaling trillions of dollars. Deficits reached levels not seen outside of world wars. At the same time, the Federal Reserve expanded its balance sheet dramatically, purchasing massive quantities of Treasury securities. The central bank defended these actions as necessary to stabilize financial markets. But the effect was unmistakable: deficits were effectively monetized.

To "monetize" a deficit means the central bank creates reserves to buy government debt, increasing the monetary base. When that expansion is large and persistent, it can

spill into broader money growth, and hence aggregate demand. The result, combined with supply constraints and stimulus checks, was predictable: inflation climbed to **9 percent** by mid-2022, the highest in four decades.

Yes, supply chains were tangled. Yes, transportation and energy prices spiked. But inflation of that magnitude required excess demand. And excess demand requires excess money and credit. The main culprit was the central bank's financing of massive government spending.

The Fed ultimately reversed course, raising its interest rate target aggressively in 2022 and 2023. Inflation came down, but the damage was done. Fiscal matters have deteriorated even further since then.

Federal debt held by the public is near **100 percent** of GDP. Annual deficits are projected to remain elevated for the foreseeable future, driven not by temporary emergencies but by structural imbalances: entitlement spending, demographic pressures, and insufficient revenues. With the low interest rates of the 2010s behind us for the foreseeable future, interest payments on the debt are becoming one of the fastest-growing components of federal spending.

That matters immensely for monetary policy. When rates rise, the Treasury must refinance maturing debt at higher yields. Higher yields mean higher annual interest costs. Higher interest costs mean larger deficits – which require more borrowing. The problem compounds.

In this unstable environment, the temptation to lean on the central bank becomes nearly irresistible. Political leaders may not explicitly demand monetization. But they don't have to. Central bankers feel the pressure implicitly. When debt levels are high, tight monetary policy becomes fiscally painful.

Fiscal dominance subjugates monetary policy to political, and often partisan, needs. If markets begin to suspect that the Fed will ultimately accommodate deficits to avoid fiscal strain, inflation expectations can drift upward. Investors demand higher risk premia. The cost of stabilizing prices rises further.

The United States is by no means doomed. It has great productive capacity, deep capital markets, and global reserve-currency status. But those safeguards are not foolproof. At most, they are well-built storm walls – but the waves can topple them if they're big enough.

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Rents, AI, and Commodity Prices: What Drove State- Level Growth in 2024?

Jason Sorens
Senior Research Fellow

Measuring state-level prices with adequate precision requires a lot of data collection, and there's always a long lag between the time period measured and the release of the data. The Bureau of Economic Analysis has now released its data on state-level prices and inflation for 2024, a year when US growth patterns diverged from their pandemic-era patterns.

California, believe it or not, was the fastest-growing state economy in 2024, once you adjust for inflation. Typically, California has featured about average nominal growth rates and higher-than-average inflation rates, resulting in lower-than-average real growth rates. But in 2024, that longstanding pattern reversed.

Indeed, the entire Pacific Coast did well in 2024, as did indeed much of New England and the Carolinas. The Mountain West and the Midwest suffered by comparison (Figure 1, below).

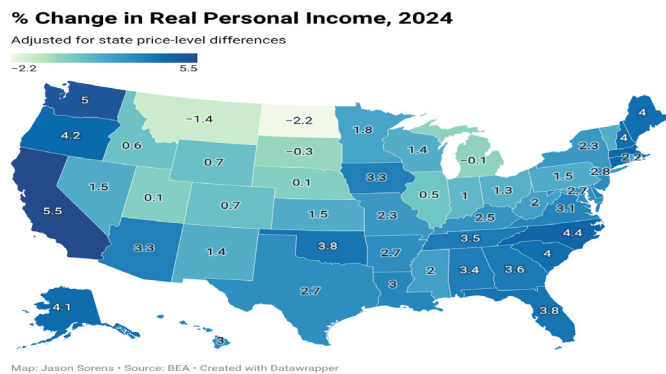


Figure 1: Map of State Real Personal Income Growth

How much of the growth in the Pacific Coast and New England states came from faster nominal income growth, and how much came from lower inflation? To answer this question, let's look at nominal growth rates first (Figure 2, below). The Carolinas were the fastest-growing states by nominal income, followed by Idaho and California. The Dakotas and Nebraska stand out for slow nominal income growth. Most of New England is comfortably, but not dramatically, above average.

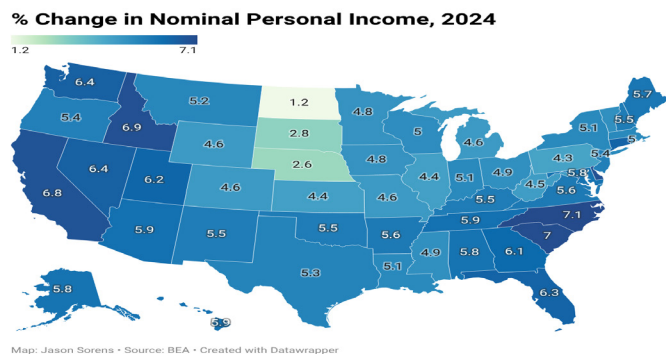


Figure 2: Map of State Nominal Personal Income Growth

The gap between nominal and real growth rates represents inflation. But let's map inflation on its own (Figure 3, below). That Massachusetts had the lowest inflation rate in the US in 2024 may be a bit of a surprise. All the Pacific states are also low, as is New Hampshire. Montana had the highest inflation in the country, followed by Idaho, Utah, and Nevada. It's worth noting here that low-population states tend to have the biggest year-to-year swings in inflation rates. It's not that they tend to be higher or lower, just more volatile and less predictable.

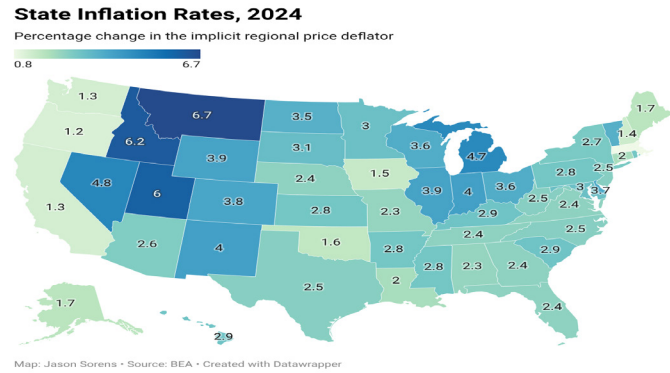


Figure 3: Map of State Inflation Rates

It's possible that growing housing demand in the Mountain West states may be responsible for their low real growth rates. If the people moving to the Mountain West states are productive workers, we would expect nominal growth rates to rise as well. Retirees, by contrast, don't add as much to the productive capacity of an economy.

To look at the housing component specifically, I have mapped changes in state real price parities for rents in Figure 4 (below). These numbers represent state-level change in rents *relative to the US average*. So a positive figure means that rents rose more rapidly in the state than in the US in 2024, and a negative figure means that rents rose more slowly in the state than in the US that year, not necessarily that they fell in absolute terms.

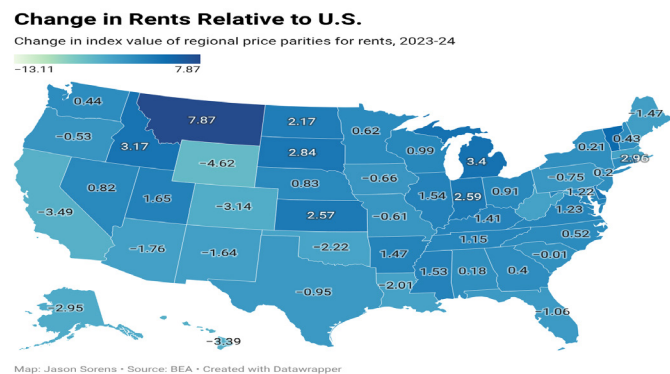


Figure 4: Map of State Real Personal Income Growth

California had the third-lowest growth rate of rents in the US, after DC and Wyoming. That’s a dramatic turnaround for what is still America’s most expensive state for housing. The fact that the state maintained high nominal income growth alongside slow rental inflation implies that California’s slow rental inflation may be a result of new housing supply, rather than falling housing demand. If so, that means that the housing reforms that the state has enacted are starting to have an effect on production and rents. It’s plausible as well that the AI boom, in full swing already by 2024, had positive effects on California’s economy.

Montana had the fastest growth rate of rents in the US in 2024. Note that Montana’s famous housing reforms did not go into effect until at least September 2024, because they were under a district court injunction until then. The state’s high court upheld the reforms only in March 2025. There’s no way developers could have built that many homes between September and December 2024, even if they had filed building permit applications immediately after the injunction was lifted.

Why did the Great Plains states do so poorly? One possibility is commodity deflation. Export price indices for agricultural commodities (Figure 5, below) and mining, including oil and gas (Figure 6, below), declined after the pandemic, through 2023 and most of 2024.

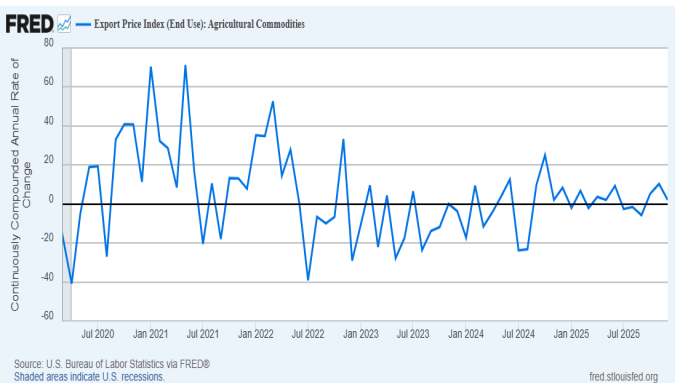


Figure 5: Growth Rate of US Export Price Index for Agricultural Commodities Rates

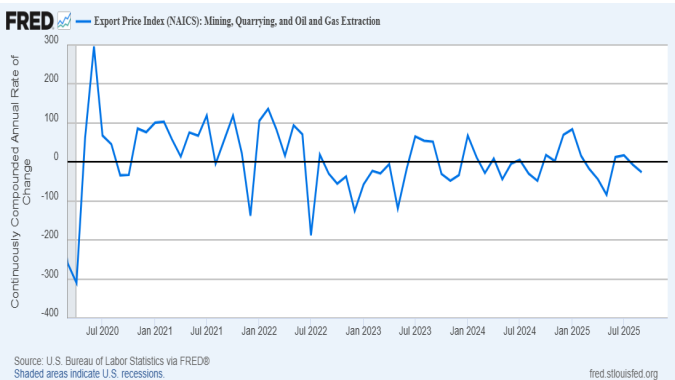


Figure 6: Growth Rate of US Export Price Index for Mining, Quarrying, and Oil and Gas Extraction

When the prices of commodities fall in global markets, the incomes of commodity producers tend to fall, unless they can significantly increase production. Low incomes in states reliant on commodities also impact the wages of, and demand for, local service industries. Global price fluctuations are far outside the control of state governments, but they are a fact of life for commodity producers and the firms that serve them.

Foreclosures are a disproportionate channel by which institutional investors acquire homes. For example, INVH reported that **37 percent** of the houses they acquired between September 2015 and September 2016 were from distressed sales. Typically, large investors renovate homes before renting them out. Invitation Homes reported spending about \$39,000 per purchased home on renovations in 2021. Large investors may have a comparative advantage in buying and renovating homes because they have full-time teams working in specific regions according to established procedures and buying materials in bulk. Thus, large institutional investors increase the average quality of the US housing stock.

It’s important not to overinterpret one year of state-level data, since these numbers can be so volatile. Over the long run, the evidence suggests that state policies that respect freedom of contract and private property rights promote real income growth. In the short run, random price fluctuations can have an outsized impact on averages. In 2024, it appears that commodity prices, the AI boom, and housing reforms (especially in California and possibly also Washington and Oregon) had a significant effect on state inflation-adjusted growth rates.

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Economic Data Revisions Show the Limits of Real- Time Measurement, Not Malfeasance

Peter C. Earle
Senior Research Fellow

Every time the government releases major revisions to employment data, a familiar chorus emerges: claims that something must be wrong, that statistics are being manipulated, or that hidden agendas are at work.

A government that is consistently mendacious — regardless of which party holds power — will, needless to say, tend to cultivate conspiratorial instincts among the public. Yet much of the commentary simply misunderstands how economic measurement actually works. Revisions are not evidence of conspiracy; they are evidence that statisticians are updating early estimates with better information.

In a world where people demand timely data, revisions are the unavoidable cost of speed. If we want to understand what is happening in the labor market right now — not a year from now — then we have to accept that the first draft of the numbers will evolve, sometimes substantially.

Revisions are the price of monthly unemployment data. Imagine being asked to give details of a boat heading to shore while you're on the pier: at 10 miles, you ascertain very rough details; at 2 miles, more detail is seen; and at one mile, or when the ship arrives, your observations are about as good as they can get.

The United States is both a massive and a massively complex economy, and for that reason early payroll estimates rely on incomplete surveys, statistical modeling, and assumptions about seasonal patterns; later revisions incorporate more complete employer reports and administrative data. The fact that the picture becomes clearer over time is not a flaw — it is precisely what should happen when measurement improves. And just as with observations coming into focus, the updated picture may involve adding or eliminating early indications.

The nonsense begins when revisions are portrayed as proof that the labor market was secretly collapsing or booming all along. In reality, revisions often reflect changes in timing, classification, or sampling, not dramatic shifts in economic reality. A downward revision of payrolls, for example, does not mean millions of workers suddenly vanished; it means the initial estimate overstated hiring because the data were incomplete or a model misinferred outcomes of some other change.

The labor market usually evolves gradually, but our measurement of it becomes sharper as more information arrives. Treating revisions as scandal rather than statistical refinement is akin to accusing a weather forecast of dishonesty because tomorrow's prediction differs from yesterday's. It is similarly worth noting that a revision of one million jobs in a total workforce of over 171 million is

less than six-tenths of one percent: material as a headline, but diminishing for the macroeconomic baseline. (As I have pointed out previously, the timing of large revisions has proven more significant than their absolute magnitude.)

One reason for the upward drift of revisions stems from how much the nature of work itself has changed. America possesses a huge, complex economy that involves many stages of production and increasingly diverse forms of employment: contract work, gig arrangements, remote roles, hybrid schedules, and short-term project-based hiring.

Unreported employment plays a role as well. Capturing that evolving, multifaceted structure in real time is extraordinarily difficult. Firms report employment at different intervals, workers move across multiple jobs, and new industries emerge faster than traditional surveys were designed to track. The more dynamic the economy becomes, the more likely early estimates will require adjustment as fuller information arrives.

Economic estimates rely on statistical models because real-time data are incomplete. For example, the Bureau of Labor Statistics (BLS) birth-death model is designed to infer job creation from firm formation and closure before hard counts are available. In stable periods, such models smooth volatility and improve timeliness, but when business cycles turn or structural shifts occur, their assumptions can lag reality. That gap between modeled estimates and later benchmark data is one reason large payroll revisions sometimes emerge, reflecting the difference between projected firm dynamics and what actually occurred.

There is also a deeper tradeoff at play. Policymakers, investors, and households want monthly updates because decisions cannot wait for perfect data. Financial markets react within seconds of a jobs report; central banks calibrate interest-rate policy based on labor-market momentum; businesses plan hiring around perceived trends. Waiting a year for flawless numbers would render the data almost useless for real-world decision-making. Revisions, therefore, are not a failure of economic statistics — they are the tradeoff of receiving a rough (and indeed, sometimes erroneous) but timely signal as opposed to precise, woefully outdated noise.

Even more curious is that many self-described libertarians — and even some Austrian economists ostensibly familiar with the intractable franchise of economic measurement that undermines central planning — nonetheless resort to allegations of collusion when data recalculations emerge.

Economic data are never more than snapshots: taken of changing phenomena through a moving lens, gradually

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coming into focus as more information arrives but never exceeding a certain level of certitude. Large revisions can change the narrative of a particular year, but they rarely overturn the broader trajectory of employment trends. Instead of fueling conspiracy theories, they should remind us that a modern economy is too large and too complex to be measured perfectly in real time. Sense begins where we recognize that revisions are not evidence of manipulation; they are the natural consequence of trying to map a living, breathing labor market while it is still in motion.

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Tariffs and the New Economic Lysenkoism

Peter C. Earle
Senior Research Fellow

Kevin Hassett's recent call to "discipline" Federal Reserve researchers over a New York Fed study on tariffs is not just a political swipe. It is a troubling signal about the growing willingness of policymakers to delegitimize economic analysis they find inconvenient or unsupportive.

Disagreement with research is a normal, healthy part of scientific inquiry. But attempts to intimidate researchers because their findings conflict with a preferred narrative undermine the credibility of policymaking itself. At a moment when trade policy is already generating uncertainty across markets, this kind of rhetoric risks turning economic debate into a loyalty test rather than an evidence-based process.

The New York Fed study in question found that US firms and consumers absorbed the vast majority of tariff costs in 2025, with importers bearing roughly **94 percent** of the burden early in the year and still around **86 percent** by November. These findings are not outliers. Similar conclusions have been reached by researchers at the Kiel Institute, Harvard University, Yale Budget Lab, and the Congressional Budget Office, all of which point to high pass-through of tariffs into US import prices.

The basic economic mechanism is well understood: when tariffs are imposed, domestic buyers often face higher costs because foreign exporters rarely slash prices enough to offset the duties. Hassett may disagree with the methodology or emphasis, but calling the research "an embarrassment" that would fail a first-semester economics course dismisses a body of evidence that aligns with decades of empirical trade literature.

Hassett's principal criticism — that the study focused on prices rather than quantities — deserves debate, not disciplinary threats. Economists have long examined tariff incidence through price movements precisely because they reveal who ultimately pays. Quantity adjustments, wage effects, and currency adjustments can matter, but they are separate channels that require rigorous modeling and time to evaluate. Simply asserting that tariffs will raise domestic wages or improve consumer welfare does not invalidate evidence showing that price pass-throughs are substantial. Policy analysis requires grappling with tradeoffs, not declaring victory by ignoring uncomfortable metrics.

More concerning is the broader context. The administration has repeatedly attacked institutions and analysts whose conclusions diverge from its messaging, from pressuring private sector economists to dismissing unfavorable labor statistics.

Federal Reserve officials, including Minneapolis Fed President Neel Kashkari, have warned that such attacks risk compromising the central bank's independence, a cornerstone of credible monetary policy. Although the Federal Reserve's current credibility may be open to debate, deliberately undermining it further is imprudent. A strength of the Federal Reserve system lies in its decentralized research structure, where district banks produce analysis that does not necessarily reflect official policy positions. Demanding punishment for economists who publish data-driven findings erodes that institutional integrity and sends a chilling message to researchers across the policy landscape.

There is nothing wrong with policymakers arguing that tariffs could produce broader strategic benefits, whether through reshoring, geopolitical leverage, or sectoral wage gains. Those claims should be debated openly, supported by models and evidence, and tested against real-world outcomes. But dismissing empirical research as "partisan" simply because it challenges a policy narrative turns economic discourse into political theater where bully pulpits have the advantage.

If policymakers want to persuade markets and the public, they should present competing analyses. Hassett could have assailed the Fed study on the basis of tradeoffs, methodological assumptions, or competing interpretations of the data, rather than resorting to vacant dismissal.

Ignoring the economic effects of tariffs in the face of strong empirical evidence risks veering into a form of modern economic Lysenkoism where political loyalty takes precedence over analysis and communal scientific review. (Trofim Lysenko was a Soviet agronomist who rejected established genetic science, instead promoting politically-favored agricultural theories that aligned with Stalinist ideology. Under his influence, dissenting scientists were silenced, imprisoned, or purged, illustrating how injecting ideology into research handily squelches scientific progress.)

The issue here is not whether tariffs are good or bad policy, although the administration has already conceded the harms associated with them. It is whether economic research can proceed without fear of reprisal when its conclusions prove inconvenient. Undermining that principle will surely generate a measure of sycophantic political applause, but carries long-term costs — not only for American economic health, but for scientific inquiry itself.

28 Homes Rebuilt in a Year: Why LA's Fire Recovery Is Stalled

Julia R. Cartwright

Senior Research Fellow in Law & Economics

One year after fires tore through the Los Angeles region, devastation remains etched into the landscape, not only in the thousands of empty lots, but also in the near absence of rebuilding. More than 13,000 homes were destroyed across Los Angeles County; 12 months later, just 28 have been rebuilt.

What should have been a story of recovery instead reveals deeper institutional failure. Despite political urgency, partial regulatory reforms, and repeated promises of speed, reconstruction has stalled under the weight of a collapsing insurance market, regulatory overreach, labor shortages, and soaring construction costs. This slowdown has laid bare the fundamental limitations in California's institutional capacity to respond effectively to large-scale crises.

County records offer a sobering picture of post-fire reconstruction. As of February 5, 2026, 13,142 parcels had been damaged or destroyed, representing 14,834 housing units. Los Angeles County received 6,116 rebuild applications and issued 2,894 permits, roughly **47 percent** of applications. Construction is underway on about 1,420 projects, yet only 28 buildings have reached completion.

Permitting has, to be fair, moved faster in fire zones than elsewhere in California. The average permitting timeline in Los Angeles County's fire zones is roughly 100 days — far faster than the up to 24 months for comparable projects in the Pacific Palisades outside designated fire areas, and quicker than the roughly eight months typically required in Altadena. Even so, this expedited fire-zone process remains well above the national norm, where permits are issued in about 64 days even absent disaster-related pressures.

California's past performance offers little comfort that rebuilding will accelerate. In Malibu, only about **40 percent** of the 488 homes destroyed in the 2018 Woolsey Fire have been rebuilt, suggesting that time alone does not resolve the state's underlying constraints.

Under public pressure, lawmakers moved to partially reform the California Environmental Quality Act, a statute that subjects most construction in California to lengthy and expensive environmental review. On June 30, 2025, Governor Gavin Newsom approved Assembly Bill 130 and Senate Bill 131, which capped public hearings, shortened agency review timelines, expanded the Permit Streamlining Act, and introduced a “near-miss” review process. While officials touted these changes as a turning point, their effects remain unclear. Permitting may be faster in fire zones, but high construction costs, persistent administrative friction, and minimal completed rebuilding suggest that procedural reforms have left deeper economic and regulatory barriers largely intact.

The most immediate constraint is insurance — or, more precisely, the lack of it. Many homeowners simply cannot afford to rebuild because they are uninsured or severely underinsured. This is not a mystery, nor is it the result of homeowner negligence alone. For decades, California's insurance market has been distorted by Proposition 103, passed by voters in 1988. The measure requires insurers to obtain state approval before raising rates and restricts them to using historical data when pricing risk. Insurers are prohibited from accounting for current or future fire risk, climate conditions, or even their own reinsurance costs.

As wildfire damages mounted, particularly after the catastrophic 2017 and 2018 fire seasons, insurers concluded they could no longer operate profitably in the state. The response was predictable. In 2023, seven of California's twelve largest insurers paused or restricted new policies. In late 2024, months before the fires, companies including State Farm and Allstate canceled thousands of policies or exited high-risk areas altogether, disproportionately affecting communities like the Pacific Palisades and Altadena.

The result is a cruel paradox. The state insists on rebuilding in fire-prone regions while simultaneously preventing insurers from pricing risk honestly. Homeowners are left exposed, reconstruction stalls, and at least 600 property owners have already chosen to sell what remains of their land rather than rebuild.

Even for those with financing, California's regulatory environment imposes steep costs. The state is estimated to have more than 400,000 regulations, and its building codes are among the strictest in the nation. California's building regulations routinely exceed national model codes, mandating advanced energy efficiency standards, solar requirements, and green building measures years before they are adopted elsewhere. Much of California falls into high seismic design categories, requiring structural reinforcements that substantially raise construction costs. Accessibility rules under Chapter 11B often go beyond federal ADA standards, increasing design complexity and expense. Layered atop onerous land-use controls and costly environmental review requirements, these rules make rebuilding slower, more expensive, and less accessible, especially for small contractors and middle-income homeowners.

Labor and materials further compound the problem. The US construction sector needs to add an estimated 723,000 workers annually through 2028 just to keep up with existing demand. California's construction labor market is particularly constrained. Construction employment is heavily regulated through prevailing wage mandates,

skilled-and-trained workforce requirements, apprenticeship rules, and stringent Cal/OSHA standards. Combined with immigration restrictions and independent contractor reclassification rules, these policies raise hiring costs and reduce labor supply.

Building material costs have increased across the country, driven by multiple factors and compounded by current trade policy. Roughly seven percent of residential construction inputs are imported. Softwood lumber, the primary material used in homebuilding, is an illustrative example. Canada supplies approximately **85 percent** of US softwood lumber imports and nearly a quarter of total domestic supply. Current tariffs of **34.5 percent** are up from **14.5 percent** last year, pushing costs even higher for builders already stretched thin. As a result, rebuilding in fire-damaged communities becomes not only slower but increasingly unaffordable.

A full year removed from the fires, Los Angeles has learned an uncomfortable lesson: disaster response is only as effective as the institutions that support it. Streamlined hearings and expedited permits cannot overcome a broken insurance market, regulatory overload, labor constraints, and punitive cost structures. Until California confronts these structural barriers head-on, rebuilding will remain slow, expensive, and unequal, and the next fire will likely replay the same grim story.

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Delayed Data Unlikely to Resolve Disagreements at Fed

William J. Luther
Director, Sound Money Project

Delayed data confirms inflation remained well above target in December. The Personal Consumption Expenditures Price Index (PCEPI), which is the Federal Reserve’s preferred measure of inflation, grew at an annualized rate of **4.4 percent** in the last month of 2025. The PCEPI grew at an annualized rate of **3.1 percent** over the prior three months and **2.9 percent** over the prior year.

Core inflation, which excludes volatile food and energy prices, also remained elevated. Core PCEPI grew at a continuously compounding annual rate of **4.3 percent** in December 2025. It grew at an annualized rate of **3.1 percent** over the prior three months and **3.0 percent** over the prior year.

The outsized price increases were widespread, if uneven. Goods prices grew at an annualized rate of **4.7 percent** in December, and were up **1.7 percent** year-over-year. The prices of durable goods grew at an annualized rate of **6.8 percent** in December, whereas the prices of non-durable goods grew **3.6 percent**. Services prices grew **4.2 percent** in December. They grew **3.4 percent** over the prior year.

UNCERTAINTY CLOUDS THE POLICY OUTLOOK

Stubbornly high inflation readings over the back half of 2025 led the Federal Open Market Committee to pause its rate cuts last month, with the federal funds rate target range held at **3.5 to 3.75 percent**. FOMC members appear to be divided on whether – and, if so, when – to begin cutting rates again.

Back in December, the median FOMC member projected the federal funds rate would eventually settle around **3.0**, albeit sometime after 2028. But the distribution of projections offered anything but certainty. Four FOMC members projected a longer run midpoint of the federal funds rate target range at or above **3.5 percent**; five members projected a midpoint between **3.0 and 3.5 percent**; five members projected a midpoint at **3.0**

percent; and four members projected a midpoint below **3.0 percent**.

The median FOMC member projected just one 25-basis-point cut this year. Here, too, FOMC members offered little certainty, however. Seven members projected the federal funds rate would remain at or above its current range this year. Four projected one 25-basis-point cut; four projected two cuts; and three projected more than two cuts.

Back at the office, a colleague complains about the city’s rising crime: “Decent people are going to have to work here and live somewhere else.”

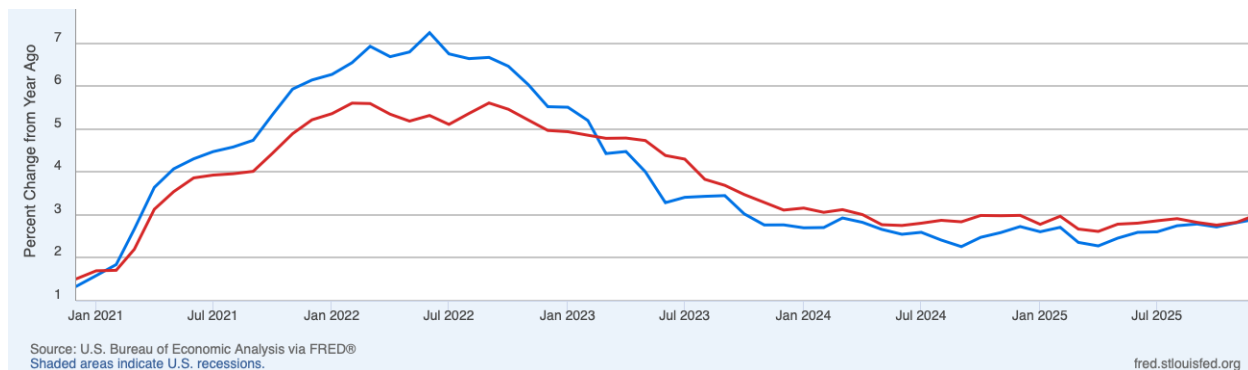
CAUSE FOR CONFLICT

Why do the FOMC members’ assessments of the proper path for interest rates differ so much? They all have access to the same data, the same models, and an army of economists. Three factors stand out: data problems, policy shocks, and political pressure.

Last year’s government shutdown disrupted the usual flow of data, which has still not been totally restored. Today’s Personal Consumption Expenditures release is roughly one month behind schedule, and the Bureau of Economic Analysis does not expect to be back on track until the end of April. There are also concerns about data quality. When an underlying survey is not conducted, the effects of that missing data might linger on in ways that are difficult to discern. That sows doubt, prompting FOMC members already keen to take a wait-and-see approach to wait a little longer.

The last year has also been marked by significant policy changes. The Trump administration has ramped up immigration enforcement, reduced regulations, slashed government employment, rolled back green-energy efforts, and overhauled the tax code. It captured and removed former Venezuelan President Nicolás Maduro and has sent an armada to the Middle East, with potentially large and

Figure 1. Headline and Core Personal Consumption Expenditures Price Index Inflation, December 2020 – December 2025



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long-lasting implications for American energy costs. These policy changes affect productivity and, with it, estimates of potential output, maximum employment, and the longer run neutral rate of interest. But how and to what extent? The various contributors are so numerous and of uncertain magnitudes that it is anyone's guess.

Fed officials are particularly focused on President Trump's tariffs. At the post-meeting press conference in January, Fed Chair Jerome Powell said "our economy has pulled through pretty well [...] given the very significant changes in trade policy." That is partly because the tariffs ultimately imposed by the Trump administration were much lower than those initially announced and the retaliatory tariffs imposed by other countries were more limited than expected, he said. But it is also because "a good part of it hasn't been passed through to consumers yet." Powell explained how the Fed models the effects of tariffs:

At the beginning, it was very much of a forecast; now, it's — every, every cycle that goes by, it becomes more informed by actual data. And we were — we — our forecasts were not far off. What changed was, as I think I said earlier, what changed was what was implemented was smaller than what was announced. In addition, we didn't see retaliation internationally, and I think people did generally expect that because we saw that in the past. And that really mattered too. And then the other thing is the pass-through — didn't know how fast that was going to be to consumers, didn't know how much exporters would take, how much companies in the middle would take, and how much the consumer would take. And it turns out it's a lot of companies in the middle — who, by the way, are pretty strongly committed to passing the rest of it through, which is one of the reasons why we need to keep our eye on inflation and not declare victory prematurely.

As Powell's statement makes clear, there was a lot FOMC members didn't know when tariffs were announced last year, some of which they still don't know today. Today's Supreme Court decision on Trump's use of the International Emergency Economic Powers Act further complicates the analysis. Resolving all that uncertainty takes time — and data.

Finally, some FOMC members may be concerned with the perceived increase in political pressure on the Federal Reserve. President Trump has consistently called for lower interest rates over the last year. He is believed to have pressured then-Vice Chair for Supervision Michael Barr to

step down. He attempted to fire Governor Lisa Cook. He nominated then-CEA Chair Stephen Miran to fill a vacancy at the Fed, presumably to push for lower interest rates. And his Department of Justice opened an investigation into Chair Powell. With these events in mind, some FOMC members may be reluctant to lower the federal funds rate target *even if they think a cut is warranted by the data* on the grounds that doing so would reduce the Fed's credibility.

IMPLICATIONS FOR THE MARCH MEETING

FOMC members disagree about the proper path for the federal funds rate. Those disagreements stem from competing views on the many policy shocks realized over the last year and how best to deal with political pressure from the president. Data disruptions make it more difficult than usual to resolve those disagreements. The most recent PCEPI release illustrates the problem well: it arrives roughly a month behind schedule and may be distorted by the efforts taken to deal with missing surveys.

Given the context, it seems likely that the FOMC will continue to hold its federal funds rate steady in March. Indeed, the CME Group puts the odds of a March rate cut at just **4.0 percent**.



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