



## The Daily Dish

# Housing Policy, Housing Prices, and “Affordability”

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“Affordability” is the buzzword *du jour*. Since shelter costs absorb about a third of the average family budget, it is hardly surprising that Congress is busy trying to make housing affordable. To that end, the Senate has passed bipartisan housing legislation: S. 2651, the [“Renewing Opportunity in the American Dream \(ROAD\) to Housing Act,”](#) and the House just approved H.R. 6644, the [“Housing for the 21st Century Act.”](#)

Now, the trick to any situation where the price is too high (whatever *that* means) is to increase supply. The general approach of policymakers, however, has been to subsidize demand. This temporarily disguises the high price by having taxpayers pick up the subsidy cost. Unfortunately, that simply lures in more buyers and emboldens the existing ones to go bigger - the price gets pushed up in the process.

Given this history, the drafters of these bills do an admirable job of modernizing, targeting, and coordinating the vast array of existing housing programs. That is where the bulk of the action is located. To their credit, however, they make an attempt to craft a supply-side federal policy where one does not naturally reside. For example, both create programs to provide “best practices” for state-local zoning and land-use policies. Similarly, they both attempt to incentivize localities to have a menu of pre-approved house designs.

The idea is to locate houses efficiently and get them built (more) quickly. These are noble attempts that don’t appear likely to matter much. In particular, local zoning practices are actually ones that the locals *want*. Suggestions to the contrary are not “best practice.” They are meddling by the feds and will be met with resistance.

Stepping back, the whole affordability debate focuses too much on prices. Which prices matter? Well, as it turns out, everybody has their own preferred mix of goods and services - what constitutes “affordable” will differ accordingly. Indeed, there will be no single, magic

set of prices that makes everyone happy simultaneously.

Instead, the key to affordability is on the other side of the ledger: wages (real wages) and labor earnings. If you want a good index of “affordability,” skip the Consumer Price Index. Instead, focus on how much growth in aggregate weekly payrolls (the combination of jobs, hours, and hourly wages, which rose at an annual rate of 10 percent in [January](#)) exceeds inflation. That’s the route to affordability.