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Is “Affordability” An Attainable Policy Goal?

Concerns about affordability have been a significant focus of the 119th Congress. Affordability is not an official metric that the government or private sector economists report, so discussions of affordability will be subjective or dependent on which data are used as a proxy for affordability. The recent rise in prices alone does not provide any information on how much a household can afford. Instead, economists typically measure affordability using relative proxies (i.e., purchasing power). This In Focus looks at different ways to think about affordability and discusses policy options for addressing affordability concerns.

Is Affordability About Prices?

Affordability concerns intensified following the unusually and unexpectedly high price increases (i.e., inflation) after the pandemic. This period featured the highest inflation rates since the early 1980s. Prices rose by 18% from January 2021 to January 2024 and another 6% since (as measured by the consumer price index [CPI]). However, affordability cannot be equated with some particular price level, because prices continually rise over time. Since 1940, prices have risen in every year except one (2009). One of the statutory goals of the Federal Reserve (Fed) is for prices to rise slowly and steadily (which the Fed has defined as 2% inflation), not stay the same or revert to a previous year’s level. Since 2024, inflation has risen at a more moderate pace, albeit still a little above the Fed’s 2% target. To the extent that affordability concerns are being driven by high inflation, one would have expected them to have been abated since the improvement in inflation since 2024.

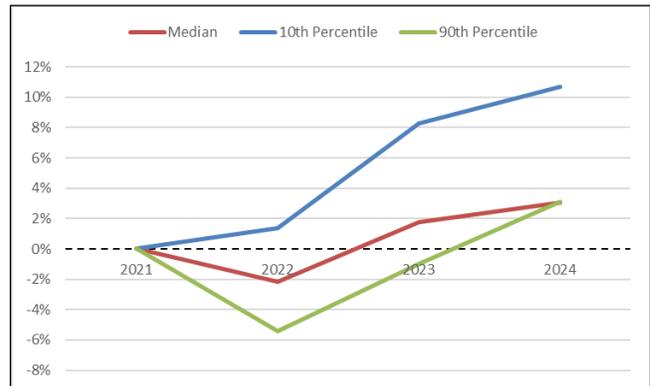
Is Affordability About Incomes?

Economists do not typically focus solely on prices as a measure of affordability, however, because prices alone do not provide any information on how many goods and services a household can afford. *Affordable* is typically a relative concept and can be thought of in terms of prices relative to earnings or income. Like prices, incomes also trend upward over time. So how affordability changes over time depends on how prices change relative to earnings or income. As depicted in **Figure 1**, real (inflation-adjusted) household income increased across the income distribution from 2021 to 2024. This means that, although goods and services became less affordable in a nominal sense during this period, they became more affordable in a relative sense.

Real household income in 2024 for all deciles was the highest ever recorded (data began in 1967), which would indicate that, by this measure, the United States was more affordable than it had ever been. (Household income data are not yet available for 2025, but based on increases in real median earnings in 2025, it is likely that real median income also increased in 2025.) However, real income has not risen every year recently—in 2022, for example,

median and 90th percentiles incomes fell when inflation was particularly high. The growth in real median income was relatively low from 2019 to 2024, although that period includes declines in real income in 2020 and 2021 because of the 2020 pandemic recession, which predated high inflation. Nonetheless, there are several earlier periods when growth was lower. Furthermore, these measures are sensitive to the price index used. The Census Bureau uses a type of CPI in real income that yields lower inflation than standard CPI does. If adjusted by the standard CPI instead, real median income was lower in 2024 than in 2019.

Figure 1. Cumulative Change in Real Household Income for Selected Income Percentiles, 2021-2024



Source: CRS calculations using Census Bureau data.

What Else Is Driving Affordability Concerns?

Given that incomes and earnings have exceeded price increases in 2023, 2024, and 2025 (for earnings), affordability concerns could be coming from a number of other observations. Perceptions of real income may be distorted owing to a timing difference in income versus price increases. For example, some prices at the grocery store might be increasing on a monthly, weekly, or even daily basis, whereas a pay increase may happen once a year. Even if income increases have kept pace with those increased prices, people may not be experiencing that in real time in a smooth way. Relatedly, “sticker shock” can occur in which people focus on the absolute and not relative price change. When inflation was persistently low before the pandemic, people may have not been as attuned to price increases. Although inflation is relatively low again, recent high inflation may make households more focused on any new price increases. Observers have also noted that workers may believe that an annual pay increase is a reward for performance and not see the link to rising prices.

Affordability concerns may also arise because of increased prices for certain categories of expenditures. Individual prices can and do fluctuate to varying degrees, with some

exceeding and others lagging overall inflation. For example, the prices of housing, food, and energy have risen more rapidly than overall inflation since January 2021, as seen in **Table 1**. However, the prices of all other categories have risen less than overall inflation in that period, with, for example, appliance prices relatively flat and information and information processing prices falling. Economic theory predicts that when only some sectors of the economy (such as information technology) experience rapid productivity gains, prices in those sectors will fall while prices in other sectors will rise. In that case, the rising prices may make a greater impression on perceptions of affordability than the falling ones would. Further, people spend a larger percentage of their incomes on certain items, such as housing, which accounts for over 40% of expenditures in the CPI basket. So the faster increase in housing-related prices may be more apparent to people than other price changes are.

Table 1. Percent Change in Prices Since January 2021

Selected Category	Percentage Change 1/21-1/26	Share of CPI Basket (12/25)
Overall CPI	24%	100%
Food	27%	14%
Energy	32%	6%
Housing	29%	44%
All items less food, energy, and shelter	19%	44%
Apparel	11%	2%
Appliances	2%	2%
Information and Information Processing	-5%	3%

Source: CRS calculations based on Bureau of Labor Statistics data.

Inflation measures such as CPI may not always be the best measure for broader affordability concerns. For example, CPI does not incorporate the effects of interest rates or asset prices (including house prices), both of which can fluctuate and cause certain expenses (such as mortgage payments) to become more expensive than inflation would suggest. Inflation is hard to measure, and official figures could be too low currently. However, there are also known biases that cause the inflation rate to be overstated, such as improvements in quality of products that may not be fully accounted for in the official data.

People’s expectations and societal norms also affect their perceptions of affordability, and those norms change over time. This factor is hard to quantify but may nevertheless be a significant contributing factor to perceptions. For example, one factor that may affect perceptions is income inequality. If inequality increases (as it has over the longer run), lower-wage workers may feel like they can afford less compared to others, even if they are better off in absolute terms. Income inequality, as defined by a commonly used measure known as the Gini index, stayed relatively unchanged between 2021 and 2024, however. Earnings

inequality data (which is available through Q3 2025) also appears to have been relatively unchanged between the highest and lowest earnings deciles in recent years. But research suggests that, since 2022, earnings inequality has increased between the 50th and 10th percentiles and 25th and 10th percentiles. Tackling inequality and affordability can be at cross-purposes, however. Some policies to boost incomes could also result in higher prices.

How Can Policy Address Affordability?

Policy can affect both absolute and relative prices. For absolute prices, contractionary fiscal policy (reducing the budget deficit through lower government spending or higher taxes) and monetary policy (raising interest rates) can reduce the inflation rate or turn it negative. Instead of raising interest rates to prioritize reducing inflation, the Federal Reserve has been reducing rates. Likewise, deficits have been unusually large relative to gross domestic product since FY2019.

Many Americans would like prices to return to where they were before inflation surged. Note that even if inflation returned to around 2% (where it was for decades before 2021), prices would continually rise, not fall to previous levels. Policy that would reduce overall prices (i.e., cause deflation) can lead to negative economic outcomes, such as lowered employment and wages. Deflation is typically associated with a recession. A decline in the price level large enough to return to pre-pandemic prices has not occurred since the Great Depression.

Another policy option to lower or cap prices is to enact price controls either broadly or for specific goods. Price controls typically set a ceiling on prices or price increases for specified goods or services. For example, rent control is a common type of price control that typically caps rent increases at a certain percentage. The last time price controls were put in place for a broad set of goods and services was in the 1970s in a failed attempt to lower inflation. As occurred during this period, price controls can distort market signals and lead to supply shortages, which typically result in further price increases once the controls are removed or changed.

In individual markets, a number of options are available to Congress that could result in either lower prices or a slower rise in prices of specific goods and services. Congress has targeted market reforms to lower prices of specific goods or services. For example, in the 119th Congress, the House and Senate have passed bills aiming to increase housing supply, which could affect housing prices. Broader policies that would increase competition—such as antitrust policies—or reduce trade barriers—such as lowering or removing tariffs—could affect the prices of many goods and services. However, so long as inflation remains positive, as is forecasted, reducing the prices of some goods would be offset by higher prices of others. As the historical record indicates, micro policies that reduce specific prices have never resulted in an overall decline in the price level.

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