Testimony

Testimony to the Council of the District of Columbia on Bill 22-92

WILL RINEHART | APRIL 26, 2017

My name is William Rinehart and I am the Director of Technology and Innovation Policy at the American Action Forum. In recent years at the Forum, we have produced a number of reports related to the topic discussed in DC-B92, tracking labor changes in the sharing economy, conducting some of the first econometric analyses of this data, and detailing policy changes to help consumers. Today, I would like to share some of the conclusions I have drawn from my work in this area.

First, on the issue of licensure, it is important to remember the dynamic effects of these requirements. If implemented, they would become a barrier to entry, increasing the cost of doing business. While the rules seem to target commercial operations with the aim of boosting affordable housing, households towards the bottom of DC's income brackets will be also be discouraged.

Second, studies centering around on-demand arrangements tend to show counterfactual dynamic effects. Work by Samuel Fraiberger and Arun Sundararajan, for example, find that peer-to-peer rental markets change the allocation of goods significantly, substituting rental for ownership while increasing consumer surplus. Moreover, their work suggests that "below-median income consumers will enjoy a disproportionate fraction of eventual welfare gains." The JPMorgan Chase Institute has confirmed this insight in their analysis of real consumer data. Those at the bottom gained the most.

Similarly, few reports have conducted a proper economic analysis, which would embed the presence of Airbnb and other short term rentals within the analysis as a variable. In other reports on this topic, the number of short term rentals and their time on the market is first determined. Then, the size of the rental market is estimated from Census data and this sum of the rentals is subtracted. Second, and separate from this original analysis, other studies that have quantified the relationship between rental supply and rental prices are consulted, which is combined to calculate the effect of the service. In the technical language, these studies commit serious errors of endogeneity, which economists, statisticians, data scientists, and social scientists all aim to reduce in their work.

Third, rental prices went down by over 3 percent last year due to new inventory. DC isn't alone. The expansion of housing options in Seattle, San Francisco and New York City have to keep rents down. While there might be some small effect in rent prices due to this bill, most regional economists agree that housing expansion is the far easier way to accomplish the same goal of affordable housing.

If you have any further questions about this research, I am reachable via email or phone.

Again, thank you for your time.