Can Policy Deliberation and Enactment Correct Market Inattention?

Evidence from the Building Energy Benchmarking Law in Philadelphia

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Abstract

This study shows that an energy efficiency policy that addresses market failure of imperfect information corrects behavioral failure of tenant inattention. It also highlights the effects of policy deliberation and enactment, as opposed to policy implementation that is often the focus of policy analyses and evaluations. We study the building benchmarking law in Philadelphia that requires commercial building owners to report and disclose building energy use information. We find that before the law was implemented and new information became publicly available, the deliberation and enactment of the policy already impacted the renting market: rents for existing ENERGY STAR (ES) buildings increased among tenant-paying (energy bill) buildings and dropped among owner-paying buildings – tenants in ES buildings realize that they pay lower energy bills and would consider higher rents acceptable while those in non-ES buildings find out they pay higher bills and would demand a lower rent to compensate. These results indicate that policy deliberation and enactment, which involve extensive public discourses, campaigns, and media coverage, can enhance attention by market participants.

Keywords: Market failure, Behavioral failure, Inattention, Salience, Policy deliberation, Policy enactment, Policy implementation, Building benchmarking, Energy efficiency

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