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**Environmental Liability Law and Induced Technical
Change: The Role of Spillovers**

by

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We investigate the incentives of environmental liability law to improve pollution control technology. It is shown that equilibrium choice of abatement technology and of the level of pollution reduction is socially optimal under very restrictive conditions. However, technological spillovers distort the incentives to innovate. The negligence rule turns out to be less sensitive to this problem than strict liability if the due-care standard is set sufficiently close to the second-best level of care.

(JEL: D 60, Q 55, Q 58)