

The monopolistic polluter under environmental liability law: incentives for abatement and R&D

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Abstract This article analyzes the output, abatement, and investment decisions made by a monopolistic polluter under environmental liability law. The model applied considers both integrated and end-of-pipe abatement technologies. We find that in the case of fixed technology, in many instances negligence produces more favorable results than strict liability in terms of social welfare. The reason is that output under strict liability is always less than first-best output, whereas output under negligence is not similarly limited. However, this ranking of liability rules may be reversed when technology is endogenous. Under such conditions investment in both integrated and end-of-pipe abatement technologies under negligence is guided by motives foreign to the social planner, whereas the polluter's calculus under strict liability is similar to that of the social planner.