
Laws and Norms: Experimental Evidence with Liability Rules

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Abstract

We study an experiment where participants choose between actions which provide private benefits but may also impose losses on strangers. Depending on circumstances, private benefits are greater or smaller than the negative externalities. We compare three legal environments: no law, strict liability for the harm caused to others, and an efficiently designed negligence rule whereby damages are paid only if the harm exceeds the private benefit. The law may be perfectly enforced (Strong Law) or only weakly so (Mild Law). Strong Law efficiently regulates behavior and does much better than no law. Mild Law also regulates behavior better than no law even though legal sanctions are non-deterrent. Moreover, strict liability does better than the negligence rule when self and group interests conflict, although monetary incentives are the same. We investigate how legal sanctions and social preferences interact to yield this pattern. Individuals trade-off self-interest and social efficiency concerns. Legal obligations reinforce the latter and do so to a greater extent under the strict liability rule.

Keywords: Law and Economics, Experimental Economics, Liability Rules

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