The Several Lives of Mickey Mouse: The Expanding Boundaries of Intellectual Property Law

Ben Depoorter
UC Hastings College of the Law, depoorter@uchastings.edu

Follow this and additional works at: https://repository.uchastings.edu/faculty_scholarship

Recommended Citation
Available at: https://repository.uchastings.edu/faculty_scholarship/1018
The Several Lives of Mickey Mouse:
*The Expanding Boundaries Of Intellectual Property Law*

BEN DEPOORTER†

**ABSTRACT**

This article develops a theory of legal evolution that links private property right allocations in intellectual property goods to changes in economic values arising from developing technology. Rather than simply resulting from interest group pressure and rent-seeking, the emergence of intellectual property rights is best described as a response to increasing economic value and diminishing transaction costs, resulting from synergies between new technologies and intellectual content. In this process of legal change in intellectual property, the inherent uncertainty as to the usefulness of technology in protecting content leads to increased efforts of legislative and judicial capture by both content providers.


† Professor of Law, Ghent University and Olin Research Fellow in Law, Economics, and Public Policy, Yale Law School; LL.M, 2003, Yale Law School; Ph.D., 2003, Ghent University; M.A., 2001, Hamburg University; J.D., 1999, Ghent University. For comments and discussion I express my gratitude to Joseph Bromley, Guido Calabresi, Tyler Cowen, Jef Demot, Fernando Gomez, Wendy Gordon, Henry Hansmann, Dennis Khong, Mark Lemley, Stan Liebowitz, Francesco Parisi, Susan Rose-Ackerman, Katie Sutton, Alec Stone Sweet, Sven Vanneste, and Richard Watts. In particular I would also like to thank Giuseppe Dari Mattiacci, Robert Schuwerk and Henry Smith. I benefited significantly from their comments on this work. I also thank my colleagues at the Department of Legal Theory and History of Law at Ghent University and at the Centre for Advanced Studies in Law and Economics. Several of the ideas in this paper have been presented at conferences, including the Annual Conference of the European Association of Law and Economics at Ghent University, the SERCIAC Conference on the Economics of Copyright Law in Madrid, and the Graduate Workshop at Yale Law School. I would like to extend my gratitude to the participants of those conferences. During my research on this topic, I benefited from the hospitality of the Yale Law School and Boalt Hall at the University of California at Berkeley. I also acknowledge the financial support of the Belgian American Educational Foundation, the Special Research Fund of the Ghent University School of Law and the Olin Center for Studies in Law, Economics, and Public Policy at Yale Law School.
and consumers. The resulting social mechanism predicts a back and forth of the legal allocation of use rights between producers and users.

As a matter of allocative efficiency, however, there exists considerable friction between the “multi-component” or complementary nature of works and the continued extension of property right-protection to increasingly smaller units of intellectual and scientific creation. As an economic model of fragmentation demonstrates, the uncoordinated exercise by right holders of their exclusion rights might lead to sub-optimal levels of production. In light of this, doctrines of fair use, blocking patents, equivalent patents, and generic trademarks serve as important points of moderation of the deadweight losses that might ensue when dealing with the uncoordinated exercise of control rights over complementary property rights.

---

**TABLE OF CONTENTS**

I. Introduction ........................................................................................................................................... 3

II. The Proliferation of Intellectual Property Rights .................................................................................. 6
    A. Introduction ........................................................................................................................................ 6
    1. Copyright Law: Creators and Artists at the Wheel ............................................................... 8
    2. Patent Law: Inventors as Entrepreneurs ............................................................................. 11
    3. Trademark Law: Ownership in Words and Signs ............................................................... 13
    B. The Backlash against Intellectual Property Rights .............................................................. 14
    C. Explaining the Emergence of Intellectual Property Rights ................................................. 17
       1. Current Explanations .............................................................................................................. 18
       2. The Origins of Property Rights in Information Goods .................................................. 24
       3. The Evolutionary Mechanism of Intellectual Property Law ............................................ 34

III. Property Fragmentation: A New Paradigm in Intellectual Property Policy ........................................ 41
    A. The Societal Effect of Propertization and Fragmentation of Intellectual Property Rights ........ 41
       1. Fragmentation of the Public Domain .................................................................................. 41
       2. The Divided Nature of Intellectual Property Goods ......................................................... 42
    B. Patent Law .................................................................................................................................... 45
       1. Patent Law and Exclusion Rights ...................................................................................... 45
       2. Formal Example .................................................................................................................... 46
       3. The Imperfect Patent Licensing Market ............................................................................ 47
       4. Safeguards and Legal Caps on Dysfunctional Fragmentation of Innovation .................. 50
    C. Copyright Law ............................................................................................................................. 53
       1. Copyright Law and Exclusion Rights ............................................................................... 53
       2. A Formal Model .................................................................................................................... 53
       3. Safeguards ............................................................................................................................ 54
       4. The Emergence of Efficient Institutions: Copyright Pooling .......................................... 55
I. INTRODUCTION

With the Supreme Court’s decision in *Eldred v. Ashcroft*, the issue of the expanding boundaries of intellectual property law emerges once again as a topic of wide debate. In *Eldred*, a 7-2 majority of the Supreme Court upheld the constitutional validity of the Copyright Term Extension Act ("CTEA"), also known as the "Sonny Bono Act" or "Mickey Mouse Act." Brushing aside free speech issues, the Court noted that

1. The Act was dedicated to the memory of pop singer and Republican Congressman Sonny Bono, who died in a skiing accident at Lake Tahoe. The author of “I Got You Babe” was a firm supporter of perpetual copyright laws. Congress increased the term of copyright protection by twenty years, and honored Sonny Bono by naming this legislation after him. However, the members of Congress “also rejected many of the amendments he had offered, establishing that there are limits on the type of sentimentality they are willing to engage in.” Symposia, The Constitutionality of Copyright Term Extension: How Long is Too Long?, 18 CARDOZO ARTS & ENT. L.J. 651, 651 (2000).

2. The Act is also informally referred to as the "Mickey Mouse Act" because of the involvement of the Walt Disney Company. For Disney, the CTEA extension was timely as it prevented the first "Mickey Mouse" cartoons, such as "Steamboat Willy," from entering the public domain. The Walt Disney Company and the Hollywood film industry lobbied hard to clear the CTEA through Congress. Disney handed contributions to eight of the Senate bill’s 12 sponsors and to 10 of the House bill’s 13 sponsors. The National Republican Senatorial Committee received $20,000 in unrestricted “soft money” following a visit by Disney Chairman Michael Eisner to Senate Majority Leader Trent Lott. See Daren Fonda, Copyright Crusader, THE BOSTON GLOBE, Aug. 29, 1999. Helped in part by Europe’s recent harmonization to the term of life plus 70 years, and the commotion surrounding the Starr report, the Act passed relatively unnoticed through Congress. However, popular backlash followed shortly. See, e.g., Ian McPherson, Copyright Becomes a Tool of the Cartels, NETNACS, Oct. 2002, available at http://www.netnacs.com/downunder/archive/du-0016.htm; John Naughton, Mickey Mouse Threatens to Block All Ideas in Future, THE OBSERVER, Feb. 24, 2002, available at http://www.observer.co.uk/business/story/0,6903,655907,00.html.

3. The majority opinion of the Supreme Court held that when Congress has not altered the traditional contours of copyright protection, further First Amendment scrutiny is unnecessary. For a critical review of the First Amendment issues in *Eldred*, see the Web blog of Yale Law School Professor Jack M. Balkin, Mickey in Chains, Part II, or Why the Court Got It Wrong in *Eldred* v. Ashcroft (Jan. 15, 2003), at http://balkin.blogspot.com/2003_01_12_balkin_archive.html#87500874. According to Balkin, the expansion of intellectual property laws (including “horizontal” aspects such as derivative rights, contraction of fair use, etc.) has shrunk the built-in First Amendment protections, creating the need for heightened scrutiny, also on a vertical level (such as the duration of copyright protection). Balkin concludes that “[i]n the Court’s eagerness to get rid of the first amendment claims in this case, it has created truly bad law that will cause problems for freedom of expression for many years to come. This is simply a disastrous opinion for free speech, and the Court should be ashamed of the shoddy job it’s done in this case.” See also
demographic and technological reasons, as well as the importance of harmonization with European copyright laws, provide a rational basis for adding 20 years to the copyright life of authored works. **Eldred** illustrates the overarching trend that has occurred over the past few decades: an expansive assignment of rights in previously unregulated intellectual property material.

\[2\] Economic analysis, with its concern for efficiency, has long provided the overarching rationale for monopoly rights as a foundation of intellectual property systems: the investments of authors and investors require legal protection because works of intellectual property are so easily reproduced. Yet, economic analysis itself yields fundamental criticism of the expanding path of property rights protection that intellectual property law has taken as of late. In documenting the social, economic, and political processes that underlie legal change in intellectual property, this article illustrates the fundamental nexus between technological progress and intellectual property. In doing so,

---


5. See, e.g., Richard Posner’s criticism on the expansion of intellectual property law: “These rights keep expanding without any solid information about why they’re socially beneficial.” Declan McCullagh, *Left Gets Nod from Right on Copyright Law*, CNET NEWS.COM, Nov. 20, 2002, at http://news.com.com/2100-1023-966595.html. The CTEA’s extension of copyright duration to existing copyrighted work is one such focal point of the economist’s skepticism. Because one “cannot give extra incentives to a corpse,” economic reasoning falls short in providing a rationale for this aspect of the CTEA. In the words of Lessig, “Gershwin isn’t going to write more music.” Steven Levy, Lawrence Lessig’s Supreme Showdown, **WIRED MAG.**, Oct. 2002, available at http://www.wired.com/wired/archive/10.10/lessig_pr.html. Similarly, with regard to future works, the extra incentives created by the CTEA are negligible. At an interest rate of 7%, the present value of every dollar in extra royalties in those 20 years ranges from $0.0045 in year eighty to $0.0012 in year one hundred. See Brief of Amici Curiae George A. Akerlof et al. at 6, Eldred v. Ashcroft, 537 U.S. 186 (2003) (No. 01-618). The brief was composed by seventeen prominent economists, of which five received the Nobel Prize in Economic Science. The brief also refers to the concept of anticommons fragmentation. *Id.* at 13. This issue is addressed further in Part III of this article. For a list of the various amici in *Eldred*, see Berkman Center for Internet & Society, Openlaw: Eldred v. Ashcroft, at http://cyber.law.harvard.edu/eldredvreno/legal.html. Moreover, the CTEA has salient distributional and political economy effects. The life cycles of authored work are of such nature that of all works created 70 years ago, 2% of those works account for all revenue of incoming royalties. If the CTEA duration of protection had been in force at the time of the creation of the Santa Clause figure, every department store would today still pay royalties come Christmas time. A Web site has recently listed all renewals of classic 1923 books that are now kept out of the public domain by the CTEA. See *U.S. Catalog of Copyright Entries (Renewals)*, at http://www.kingkong.demon.co.uk/ccer/ccer.htm (last visited Dec. 1, 2003).
I set out three basic claims on the process of legal change in intellectual property.

1

First, rather than simply resulting from interest group pressure and rent-seeking, the emergence of intellectual property rights is best described as a response to increasing economic value and diminishing transaction costs, resulting from synergies between new technologies and intellectual content. Second, the uncertainty as to the usefulness of technology in protecting or copying content leads to increased efforts of legislative and judicial capture by both content providers and consumers. The resulting social mechanism predicts a cyclical back and forth of the legal allocation of use rights between producers and users. Third, as a matter of allocative efficiency, there exists considerable friction between the “multi-component” or complementary nature of works and the continued extension of property right protection to increasingly smaller units of intellectual and scientific creation. Economic theory reveals the problematic societal consequences that may develop in the wake of unbounded fragmentation of property rights.

This paper links the property rights evolution in the realm of intellectual or information goods to the synergy between technological advancements and intellectual property. The expansion of intellectual property law is one of higher property activity, situated mainly in terms of more “precision” in the allocation of the various novel uses of intellectual goods. Rather than simply entailing a one-way distribution of rights to producers as an interest group, the evolution of intellectual property rights can be identified as a progression toward a more explicit assignment of rights in previously unregulated material. Overall, users and consumers have been granted more limited but also more explicitly specified rights of use and defense with regard to intellectual resources. Albeit deterministic, my rationalization of the process of intellectual property law formation is not optimistic in nature. As a matter of allocative efficiency, this article provides a cautionary note with regard to the degree of fragmentation resulting from the ongoing creation of property rights specifications in intellectual property.

Part II discusses the gradual expansion of intellectual property over time. It is held that the increased role of property rights allocation in society’s conception of intellectual goods responds to changing underlying structural conditions. I illustrate how the evolution of digital technology and intellectual property rights fits the textbook example of the emergence of “property rights” in the presence of increasing economic value and diminishing transaction costs. Part II concludes with a description of the social mechanism by which change in intellectual property law takes shape. Part III explores the possible societal ramifications of the proliferation of intellectual property rights in relation to the economic concept of property fragmentation. This Part underscores the friction between the “multi-component” or complementary nature of works and the continued extension of property right-protection to increasingly smaller units of intellectual and scientific creation. I explore fragmentation and complementarity (and the presence of institutional safeguards) with regard to the three main intellectual property rights: copyrights, patents, and trademarks. The analysis is extended to a number of current issues in the field of intellectual property, where property rights protection has been established in areas that were previously considered to be beyond the confines of intellectual property law. This article demonstrates that, as a matter of allocative
efficiency, the economic model of fragmentation is crucial to many of the contemporary issues of intellectual property law. These contemporary issues include the emergence of patents on genetic information, the validity of business patents, the scope of antitrust law for the regulation of the practices of copyright associations, the justification of copyright defense doctrines, the case for unrestricted automated rights management systems, and several other current issues in the intellectual property policy debate.

II. THE PROLIFERATION OF INTELLECTUAL PROPERTY RIGHTS

A. Introduction

¶ 6 If one was pressed to describe the history of intellectual property law in one word, it would not be hard to do. The word that comes to mind is “expansion.” Statutory and adjudicatory law-making initiatives have steadily resulted in the creation of new intellectual property rights and the extension of existing doctrines of intellectual property rights to subject matter previously outside of the grab of intellectual property law.

6. In this chapter, intellectual property is defined as “nonphysical property which stems from, is identified as, and whose value is based upon some idea or ideas. Furthermore, there must be some additional element of novelty.” Justin Hughes, The Philosophy of Intellectual Property, 77 GEO. L.J. 287, 294 (1988).

7. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, revised at Stockholm on July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised at Paris on July 24, 1971, 25 U.S.T. 1341, 828 U.N.T.S. 221. The international intellectual property system was recently strengthened and broadened by the Uruguay Round of multilateral trade negotiations, whose intellectual property component, the “TRIPS” agreement, builds on the Paris and Berne Conventions. See Final Texts of the GATT Uruguay Round Agreements Including the Agreement Establishing the World Trade Organization, Annex 1C, Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 33 I.L.M. 81 (1994) [hereinafter TRIPS Agreement]. See generally SAM RICKETSON, THE BERNE CONVENTION FOR THE PROTECTION OF LITERARY AND ARTISTIC WORKS: 1886 TO 1986 (1987); MIHALY FICSOR, THE LAW OF COPYRIGHT AND THE INTERNET: THE 1996 WIPO TREATIES, THEIR INTERPRETATION AND IMPLEMENTATION (2002). On an international level, provisions of “national treatment” (providing identical rights to nationals of another Member State are as granted to one’s own nationals) and “most-favored-nation treatment” (in which privileges granted by one Member State to another state must be granted to all other WTO Member States) have added to the expansion of intellectual property rights. See TRIPS Agreement, supra, at arts. 3 and 4, respectively. In the European Union, the harmonization of national Member State laws, as a matter of procedure, has added to the strengthening of intellectual property rights in Europe. As Justice Lenaerts explained, the European Commission’s harmonizing “up” (extension of protection) rather than “down” is a natural result of the legislative process: “It is much easier to harmonize intellectual property rights up than down. No one minds being given more rights than they had before, whereas people are apt to complain very seriously – raising cries of destruction of property without compensation – if their rights are cut down.” Justice Robin Jacob, The Stephen Stewart Memorial Lecture: Industrial Property – Industry’s Enemy?, [1997] INTELL. PROP. Q. 3, 8 (cited in GUY TRITTON, INTELLECTUAL PROPERTY IN EUROPE 325 n.68 (2002)). For more on theories of legal change, see infra Part II.C. On the international political process of copyright treaty-making, see generally M.M. BOGUSLAVSKII, COPYRIGHT IN INTERNATIONAL RELATIONS: INTERNATIONAL PROTECTION OF LITERARY AND SCIENTIFIC WORKS (1979).

8. See EXPANDING THE BOUNDARIES OF INTELLECTUAL PROPERTY: INNOVATION POLICY FOR THE KNOWLEDGE SOCIETY (Rochelle Cooper Dreyfuss et al. eds., 2001). With regard to patents, the expansion has opened entirely “new landscapes … to the possibility of patents.” Robert P. Merges, As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform, 14
¶ 7 In the words of a leading commentator of intellectual property law: “There is currently a strong trend to ‘propertize’ everything in the realm of information. Intellectual property law is expanding on an almost daily basis as new rights are created or existing rights are applied to give intellectual property owners rights that they never would have had in an earlier time.”

¶ 8 This trend stretches across the entire domain of intellectual property rights, adjusting the boundaries of copyright law,10 patent law,11 trademark law,12 and the enactment of sui generis or special purpose intellectual property laws, including the protection of semiconductor chips,13 of gathered information in the form of databases,14

BERKELEY TECH. L.J. 577, 579 (1999) [hereinafter Merges, Six Impossible Patents]. The patentability of software and business methods has made the “impossible” possible, according to Merges. Id. at 581.
9. Mark Lemley, Romantic Authorship and the Rhetoric of Property, 75 TEX. L. REV. 873, 898-99 (1997) (book review) [hereinafter Lemley, Romantic Authorship]. Lemley illustrates the expansion frenzy in reference to the National Basketball Association’s copyright claims in the scores of its games, copyright claims in architecture of homes, and trademark infringement claims of property owners against postcards of city skylines. See also Robert P. Merges & Glenn H. Reynolds, The Proper Scope of the Copyright and Patent Power, 37 HARV. J. ON LEGIS. 45, 45 (2000): “As an increasing amount of society’s wealth is tied up in intangible assets, strong, clear property rights can make a good deal of sense. But it is also possible to have too much of a good thing, and our society is in danger of reaching that point.” The authors hold that there are internal, teleological limits on the power of Congress to create and extend intellectual property. With regard to copyrights, Elkin-Koren notes, “[I]f copyright law had once created islands of information, which are subject to the sovereign control of copyright owners, these islands are now turning into a continent leaving little available space in between.” Niva Elkin-Koren, It’s All About Control: Rethinking Copyright in the New Information Landscape, in THE COMMODIFICATION OF INFORMATION 79, 84 (Niva Elkin-Koren & Neil Weinstock Netanel eds., 2002).

10. See infra Part II.A.1.
12. See infra Part II.A.3.
industrial designs, and plant varieties. Such expansion implicates all but the most basic tenets of society: news, information, scientific data, entertainment, and technology.

1. Copyright Law: Creators and Artists at the Wheel

Over the past two hundred years of copyright history, numerous statutory and adjudicatory adjustments have, almost without exception, resulted in an expansion of the legal protection of authorship.

Copyright law duration has expanded from a renewable fourteen-year term to life of the author plus seventy years after death. The limit of what is defined as copyrightable content is continually being readjusted through moderations of the threshold of originality, and of other authorship requirements. Copyright now protects sound recordings as distinct from the underlying musical compositions. The control


17. For an overview, see Jessica Litman, Copyright Legislation and Technological Change, 68 OR. L. REV. 275 (1989) [hereinafter Litman, Copyright Legislation].

18. Copyright law covers a diverse subject-matter: novels, plays, symphonies, paintings, computer programs, sound recordings, film, live performances, broadcastings, cable transmissions, etc. In this article, I refer to all of these non-invention creations as “authored works” or “copyrighted material.”


20. On the development of a lower standard of originality, see Ryan Littrell, Toward a Stricter Originality Standard for Copyright Law, 43 B.C. L. REV. 193, 196-205 (2001) (discussing the relevant case law). Littrell links the lowered standards of copyright protection to the rise of a romantic conception of authorship. However, a more romantic conception of authorship could also suggest that standards of originality would be stricter. Before creativity is awarded the esteemed status of “authorship,” it must be of a nature that sets it apart from the rest of society’s productive activities. See Peter Jaszi, Toward a Theory of Copyright: The Metamorphoses of “Authorship,” 1991 DUKE L.J. 455 (1991).


rights of copyright owners over the use of their work have been bolstered, such as in the evolution of performance rights in copyrighted work, and the global convergence towards inalienable moral rights in copyrighted work. The sphere of copyright law has expanded with each wave of technological advancement. The most recent example is the applicability of copyright law to the digital renditions of intellectual content and the novel means of communicating that information, as implemented by the Digital Millennium Copyright Act and the European Union Information Society Directive. The

without consent, as well as the reproduction of such fixations. See also WIPO Performers and Phonograms Treaty, Dec. 20, 1996, art. 5, available at http://www.wipo.int/eng/diplconf/distrib/95dc.htm (extending the moral rights of attribution and integrity to performers of live "aural" performances and phonogram recordings). See also id. at art. 6 (bolstering the economic rights of performers, defining them as the “exclusive right of authorizing”).


25. For an overview, see, e.g., Maureen Ryan, Cyberspace as Public Space: A Public Trust Paradigm for Copyright in a Digital World, 79 OR. L. REV. 647, 719 (2000): “recent trends in copyright policy as applied to the digital environment have resulted in a trend toward an unwarranted privatization of cyberspace and the information that flows through it.” For a discussion of legislative concerns with intellectual property protection in the digital era, see European Commission, Green Paper on Copyright and the Challenge of Technology, COM (88) 172.

26. The NII White Paper, developed under the Clinton Administration, is a prime example of this trend. See Information Infrastructure Task Force, U.S. Dep’t of Commerce, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights 2 (1995), available at http://www.uspto.gov/web/offices/com/ipnii/front.pdf. Likewise in Europe, see Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L 167) 10 [hereinafter European Union Information Society Directive]. The Information Society Directive harmonizes European copyright laws in the world of digital network and e-commerce. The directive extends the rights of copyright holders to digital communication. See id. at art. 3(1): “Member States shall provide authors with the exclusive right to authorize or prohibit any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access them from a place and at a time individually chosen by them.” The European Union Information Society Directive introduces a new “production right.” See id. at art. 2: “the exclusive right to authorize or prohibit, direct or indirect, temporary or permanent reproduction by any means or in any form, in whole or in part.” This right of production intends to cover all types of electronic and transient copying, especially online and digital acts of reproduction and dissemination. This new production right is not limited by a “substantiality” threshold – such as in the European Database Directive, where a minimum amount of information must be copied before the right of the database owner is infringed. Database Directive, supra note 14, at art. 7(1). The Information Society Directive also bolsters
prohibition of circumvention technology and the judicial validation of shrinkwrap contracts can be viewed in light of this. The curtailment of the doctrine of fair use in the

the right of authors who have explicit right to authorize or prohibit the communication to the public of “any” communication to the public of their works, by wire or wireless means. European Union Information Society Directive, supra, at art. 3. This “making available” right is another step in the direction of enclosure of new technological uses of content.

27. The Digital Millennium Copyright Act creates a new species of copyright protection, also called “paracopyright,” that prohibits not copying itself but the creation of various devices and technologies that might be used to facilitate copying by circumventing copyright management devices. 17 U.S.C. § 1201-1205 (2000). In doing so, the Digital Millennium Copyright Act introduces a considerable extension of copyright protection by rendering illegitimate the technological tools that might act to circumvent copy protection (§ 1201), while also acknowledging the legitimacy of technical protection schemes (§ 1202). In effect, these “anticircumvention” provisions of the Digital Millennium Copyright Act change the terms of the traditional “arms” race between copy protection and circumvention. “Once adopted by a right holder, these technological self-help means are no longer vulnerable to circumventing technologies because these technologies are now prohibited by law.” Elkin-Koren, supra note 9, at 84. A similar restriction on circumvention technology is introduced in the European Union by Article 6 of the Information Society Directive. European Union Information Society Directive, supra note 26. See also WIPO Copyright Treaty, Dec. 20, 1996, arts. 11-12., 36 I.L.M. 65 (ordering contracting states to take measures against the circumvention of “effective technological measures” that restrict unauthorized acts in relation to protected works and against unauthorized removal of “electronic rights management information”). These prohibitions on circumvention are not absolute. In the American context, see Jane C. Ginsburg, How Copyright Got a Bad Name for Itself, 26 COLUM. J. L. & ARTS 61 (2002) [hereinafter Ginsburg, Bad Name] (noting the DMCA contains institutional safeguards that allow courts to interpret the legislation so as to prevent overreaching). In the European Union, Article 6(4) of the Information Society Directive mandates that the fair uses listed in the directive (under Article 5(2)(a), 5(2)(c)-(e), 5(3)(a)-(b) and 5(3)(e)) should remain intact so that the beneficiary of the defense retains access to the material protected by automated rights management devices. The problem with such a detailed rule is that it provides no protection to defenses that are not mentioned in Article 6(4). See TRITTON, supra note 7, at 371.

presence of online licensing initiatives\textsuperscript{29} and automated rights management\textsuperscript{30} further illustrates the expansion of copyright law into the digital realm.\textsuperscript{31}

2. Patent Law: Inventors as Entrepreneurs

\textsuperscript{32} The evolution of patent law is characterized by a similar shift toward increased “propertization.” The range of the patent system has expanded exponentially over the past fifty years. Patents are being issued for subject matter previously considered beyond the confines of patentability. Software patents,\textsuperscript{33} genetic information,\textsuperscript{34} and the

Preemption of Shrinkwrap and On-Line Licenses, 22 DAYTON L. REV. 511 (1997) (arguing that given their uniformity such licenses are equivalent to private legislation); Julie E. Cohen, Copyright and the Jurisprudence of Self-Help, 13 BERKELEY TECH. L.J. 1089 (1998) (validating electronic private ordering but holding that Article 2B of the Uniform Commercial Code “shift[s] the burden of initiating litigation to the licensee, who in many cases will be poorly equipped to bear it” and should be invalidated via principles of preemption and freedom of speech). For a critique on the latter, see David. E. Friedman, In Defense of Private Orderings: Comments on Julie Cohen’s “Copyright and the Jurisprudence of Self-Help,” 13 BERKELEY TECH. L.J. 1151 (1998) (arguing freedom of contract and the technologies of digital monitoring and self-enforcement allow producers to better create legally adequate contracts in a mass market context).


30. See Niva Elkin-Koren, Copyrights in Cyberspace - Rights Without Laws?, 73 CHI.-KENT. L. REV. 1155 (1998). The author argues that online technology allows copyright holders to create new exclusive rights in information goods. According to Elkin-Koren, this process of eroding the public domain should be subject to scrutiny because many of the presumptions in favor of private ordering, the assumptions of economic efficiency and political legitimacy, are misguided. For a similar skepticism toward unrestricted private control of Internet content, see LAWRENCE LESSIG, THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD (2001) (arguing increased private control endangers the innovation commons of cyberspace); SIVA VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY (2001) (arguing copyright stifles creativity and policy concerns trump any property rights-based claims). But see James B. Speta, A Vision of Internet Openness by Government Fiat, 96 NW. U. L. REV. 1553 (2001) (reviewing Lessig’s THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD and arguing that benefits of coordination by enhanced private control might lead to an overall increase of social wealth); Kenneth W. Dam, Self-Help in the Digital Jungle, 28 J. LEGAL STUD. 393 (1999) (self-help systems, even with regard to non-copyrighted material, will empower technology and contract and, with the emergence of efficient standards, promote the wide availability of content, while reducing transaction and search costs); Michael A. Einhorn, Digital Rights Management, Licensing and Privacy (2002), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=332720 (with its flexibility and sophistication, allowing the licensing market to evolve is preferable to comprehensive approaches to a dynamic framework such as the Internet).

31. This issue will be treated in further detail in infra Part II.C.2.


33. On the statutory treatment of software patents in the United States, see DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW 754-64, 864-93 (2002). For a critique of software patents and their limited effect on innovation, see LESSIG, supra note 30.
At the same time, new forms of patent rights are being developed, such as second-tier patent protection systems. Exclusionary rights have expanded beyond enablement and literal infringements to include equivalents. Statutory acts have bolstered opportunities for inventors to obtain protection of business methods are apposite examples. At the same time, new forms of patent rights are being developed, such as second-tier patent protection systems. Exclusionary rights have expanded beyond enablement and literal infringements to include equivalents. Statutory acts have bolstered opportunities for inventors to obtain

34. See also infra Part III.E.1.


36. For an overview, see Mark D. Janis, Second Tier Patent Protection, 40 Harv. Int’l L.J. 151 (1999). In general, “second tier” patents (also referred to as “the utility model” or “petty patents”) receive more limited protection (for instance, shorter period of protection) than regular patents but are not subjected to prior patentability examinations. In the context of the anticommons model, second tier patent protection is likely to produce a large number of stake holders, with high information and transaction costs involved in the verification of infringements. This is due to the high level of post-issuance uncertainty. Id. at 204. On second tier patent protection see also, e.g., Ann Bartow, Separating Marketing Innovation from Actual Invention: A Proposal for a New, Improved, Lighter, and Better-Tasting Form of Patent Protection, 4 J. Small & Emerging Bus. L. 1, 5 (2000) (proposing “a modified form of patent protection, which may better accommodate patents that are filed for reasons other than obtaining monopoly protection of an invention for commercial exploitation purposes, such as patents obtained for leveraging competitors and patents used for keeping up appearances”). Mark Lemley suggests that the high amount of patents issued, relative to the minimal inspection of substantive requirements, represents a degree of “rational ignorance” on the part of the patent system. See Mark A. Lemley, Rational Ignorance at the Patent Office, 95 NW. U. L. Rev. 1495 (2001). In light of the thesis developed below, see infra Part III, the overall social welfare effect of such patent system depends on the relative costs of pre-issuing inspection of non-active patents, relative to the deadweight losses involved in the post-issuance licensing process. For a similar proposal with regard to copyright law, see Jane C. Ginsburg, Creation and Commercial Value: Copyright Protection of Works of Information, 90 Colum. L. Rev. 1865, 1873-93 (1990) (proposing to vary protection across creative “high authorship” works and “sweat of the brow,” or “low authorship,” works).

37. Merges and Nelson note that “current practice seems to permit a range of claims that may stretch beyond the spirit of the enablement doctrine. If the patent examiner can point to something in the prior art that indicates that some embodiments of the claimed invention will be impossible to make without more information than the inventor has disclosed, then the application may be rejected. But if the examiner cannot point to such an indication in the prior art, patent office policy dictates that even very broad claims may be allowed. This means that claims to pioneer inventions often are allowed to cover ground that examiners believe, but cannot prove, is well beyond the area actually explored and disclosed by the inventor. The rule puts the burden of disproving enablement on the examiner.” This in effect, stretches the enablement doctrine to claims that may be beyond the original intention of the enablement doctrine: that of limiting protection of those inventions that are specified such that one skilled in the relevant art is in a position to use all the embodiments of the claimed invention. Robert P. Merges & Richard R. Nelson, On the Complex Economics of Patent Scope, 90 Colum. L. Rev. 839, 848-49 (1990).

38. Under the doctrine of equivalents, two inventions are considered identical if they accomplish the same result even though they may differ in other artificial ways (e.g. name, form and shape). As to its origin, “the doctrine of equivalents developed because of the frequency of cases where, even though the accused product or process does not literally infringe a claim, it may be considered essentially the same device as was patented.” Id. at 853. For an illustration of expansionary propensities of the doctrine of equivalents, see Hilton Davis Chem. Co. v. Warner-Jenkinson Co., 114 F.3d 1161 (Fed. Cir. 1997) (a product infringes on a patent if it is “unsubstantially” different from what the patent describes). The uncertainty of such a rule of “unsubstantial difference” increases the risk of infringement and will lead to more licensing. See remarks by Robert P. Merges in Teresa Riordan, Substantial Questions Linger After a Ruling that Could Give Patent Holders More Power, N.Y. Times, Aug. 21, 1995, at D2.
patent rights, even for government or state sponsored research. Innovation has been further moved into the domain of the patents system with the creation of a specialized patent court, and the consideration of commercial success as one determinant of patentability.

3. Trademark Law: Ownership in Words and Signs

Similarly, trademark law has evolved from a concept of tort law, protecting against deceit, to a more rigorous type of protection that is best explained through the analytical lens of property rights. The “propertization” of trademark law has developed from the minimal protection afforded against fraudulent intent to a broader concern for potential customers, and for the rights of control by users.

With the adaptation of the dilution doctrine, trademark owners no longer need to demonstrate consumer confusion or actual injury to obtain compensation from...
Depoorter, The Several Lives of Mickey Mouse: Expanding Intellectual Property Law

trademark infringers. The trademark dilution doctrine has been extended to non-competing, but also to non-identical, marks. Trademark law now protects famous trade dress and product configurations, and also provides a cause of action against consumers who do not use marks properly. Similarly, the adaptation of the doctrine of reverse confusion and the introduction of product design protection are important signposts of the expansion of trademark law. Much of this expansion reflects a tendency to regard trademarks as property or commodities, often leading to the recognition of a broad “merchandising right” in marks.

B. The Backlash against Intellectual Property Rights

The expansion of the intellectual property regime has not escaped scrutiny. Commentators are in agreement that the persistent expansion of intellectual property tips the balance toward an all-inclusive enclosure of information goods. Critics of this trend have raised the concern that the expansion of intellectual property rights implicates society in ways that go beyond providing incentives for creation and invention.

As one esteemed commentator notes: “balance in [intellectual property] seems over for now. A feeding frenzy has taken its place – not just in the field of patents, but in

45. These aspects of the federal dilution statute were recently narrowed by the Supreme Court. See Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003). See also Declan McCullagh, Supreme Court Curbs Trademarks’ Reach, CNET NEWS.COM, Mar. 4, 2003, at http://news.com.com/2100-1028-991052.html. According to the Court, recognition of a word or phrase as a trademark will not necessarily “reduce the capacity of the famous mark to identify the goods of its owner.” Moseley, 537 U.S. at 433. This decision is likely to have a big impact on pending and future cases. See, e.g., Linda Greenhouse, Retail Giant Asks Court to Protect Its Name, N.Y. TIMES, Nov. 13, 2002, at A24.

46. Lemley, Death of Common Sense, supra note 42, at 1699.


49. See, e.g., Kenneth L. Port, The Illegitimacy of Trademark Incontestability, 26 IND. L. REV. 519 (1993) (finding that the introduction of the doctrine of trademark incontestability amounts to an unprecedented recognition of a property right in trademarks).

50. Many prominent scholarly commentators have expressed concern with the expanding development of intellectual property law. See, e.g., Lemley, Romantic Authorship, supra note 9, at 875: “I agree both with Boyle’s general point that authors get too much protection from modern intellectual property law and with many of his specific concerns about the contours of that law” (reviewing JAMES BOYLE, SHAMANS, SOFTWARE, AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY (1996)).
IP generally ...."51 A review of the literature reveals that an overwhelming majority of commentators and scholars are disconcerted with the expansive trend of intellectual property law.52

¶ 16 Much of the criticism surrounding the expansion of intellectual property law has been triggered by the recent legislative protection of previously unregulated material on the Internet. There are three main strands of criticism on the expansion of intellectual property law. First, it is generally held that the recent expansion violates the purpose of advancing the progress of arts and sciences because the protection of producers far outweighs what is necessary to achieve the protection of incentives of authors.53 Second, there is the argument, most prominently advanced by Lawrence Lessig,54 that the free availability of resources, unrestricted by private control rights, is the main impetus behind technological innovation and intellectual and artistic creativity. This "innovation commons" was essential, for instance, to the development of cyberspace. The argument proceeds that, especially in a high tech world, public property has a greater role to play in encouraging innovation and improvement. According to this view, the open source movement provides a striking historical example of the viability of a communitarian perspective on innovation, where profit and monopoly rights are not the cause of innovation.55 Third, there is a belief that the expansion of copyright law has transgressed


52. See, e.g., Ryan, supra note 25, at 647 (arguing that "the tendency of Congress, the courts and, recently, the Clinton Administration to favor a neoclassical economic rationale for copyright results in an unauthorized transfer of information policy from the public realm to the private realm"). Twenty-one law professors gathered forces to submit a brief in support of the challenge to the constitutionality of the CTEA. Brief of Amicus Curiae Copyright Law Professors in Support of Petition for Certiorari, Eldred v. Ashcroft, 537 U.S. 186 (2003) (No. 01-618), available at http://cyber.law.harvard.edu/openlaw/eldredvashcroft/cert/copyprof-amicus.

53. See, for example, the discussion, supra notes 3-5 and accompanying text, regarding the Supreme Court decision in Eldred.

54. Suggesting a public interest explanation, Lawrence Lessig states: "Washington is obsessed with intellectual-property rights. It lives under the mistaken idea that stronger IP always means a stronger economy. No doubt it means larger campaign contributions, but whether it means a better market is a tougher question." Lessig, supra note 51.

55. The paradigm example of the open source movement is GNU/Linux, the successful operating system that is distributed free and is steadily improved and debugged by a network of programmers. Other notable free software includes the Perl language, the Apache Web servers, and Sendmail. See Sonia K. Katyal, Ending the Revolution, 80 TEX. L. REV. 1465, 1471 (2002) (reviewing Lessig’s THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD and Vaidhyanathan’s COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY). “[I]f the digital revolution has taught us anything so far, it is that profit – and copyright – is no longer essential for creativity to flourish, or even to begin.” Katyal, supra, at 1486. See also Ryan, supra note 25, at 648 (arguing that “government is required to begin from a public rights baseline because information is a public trust resource subject to public trust principles”). But open-source developments do not exist within an economic vacuum. Often pioneering codes end up as commercialized products, leaving their pioneering creators as folk-hero billionaires (see Marc Andreessen and Eric Bina for their work on Mosaic, or the sale
beyond protection against unauthorized copying to include the control of the content itself. According to Vaidhyanathan, the evolution of copyright law has blurred the distinction between the protection of ideas and expression.\textsuperscript{56} In this view, copyright no longer protects the creative process; it merely protects producers while taxing consumers.\textsuperscript{57} The expansion of copyright law protects the status quo of existing works, to the detriment of the public interest. Stronger intellectual property rights increase the power of holders of those rights versus prospective creators that rely upon existing work. These follow-up creators and innovators will need to obtain authorization from incumbent intellectual property owners.

These accounts suggest that the current trend of “propertization” of information goods\textsuperscript{58} strains the natural balance between the public and private right in creativity, which rests on “a calculus of net social benefits.”\textsuperscript{59} This balance between the public and private domain preserves incentives, while at the same time maintaining a relatively free flow of information to allow technological progress and unhindered discourse.\textsuperscript{60}

of Netscape by Treuhaft and co. to America Online). Even the most successful open source technologies have a business side to them. Companies in the open-source economy make money mainly by tailoring programs for customers, and with service and support. In this business model, software increasingly becomes a service business compared with the traditional model of shipping manufactured software goods. See Steve Lohr, Can “Open Source” Bridge the Software Gap?, N.Y. TIMES, Aug. 28, 2000 (quoting Irving Whadawsky-Berger, an IBM executive and then-member of the President’s Information Technology Advisory Committee: “I am increasingly coming to the conclusion that the Internet and open-source initiatives are the free marketplace way of dealing with the extremely complex software issues we are facing.”). For a comprehensive treatment of the socio-economic aspects of open source technology, see Yochai Benkler, Coase’s Penguin, or, Linux and “The Nature of the Firm,” 112 YALE L.J. 369 (2002).

56. See VAIDHYANATHAN, supra note 30. Also, if copyright rests in originality, this would require dissection of the creative process of every individual, prior to awarding copyright protection. See Jessica Litman, The Public Domain, 39 EMORY L.J. 965, 1023 (1990).

57. In negating the incentive effect of property rights, Vaidhyanathan draws a distinction between “property talk” and “policy talk.” The former benefits authors, while the latter is attentive to the welfare of society as a whole. VAIDHYANATHAN, supra note 30, at 12. For a concise overview of Vaidhyanathan’s principal viewpoints, see Paul Schmelzer, The Anarchist in the Library: Discussing Cultural Democracy with Siva Vaidhyanathan, EYETEETH: A JOURNAL OF INCISIVE IDEAS, Apr. 21, 2003, at http://eyeteeth.blogspot.com/2003_04_20_eyeteeth_archive.html#92977561.

58. For the purpose at hand, this text will refer to the subject matter of intellectual property law as “information goods” or “intellectual goods.” The value of these goods is primarily an intangible idea, concept or expression.

59. Reichman & Samuelson, supra note 14, at 56.

60. On the mainstream economic rationale underlying intellectual property rights, see NIKOLAUS THUMM, INTELLECTUAL PROPERTY RIGHTS: NATIONAL SYSTEMS AND HARMONIZATION IN EUROPE 31-43 (2000) (the public good character of intellectual goods necessitates monopoly rights to ensure innovation and diffusion). On the balance between incentives and monopoly deadweight losses in patent law, see Rebecca S. Eisenberg, Proprietary Rights and the Norms of Science in Biotechnology Research, 97 YALE L.J. 177 (1987) [hereinafter Eisenberg, Proprietary Rights] (discussing the conflict between patent law and pre-existing norms of diffusion in biomedical sciences). But see Scott F. Kieff, Intellectual Property Rights and the Norms of Science: A Response to Rai and Eisenberg, 95 NW. U. L. REV. 691 (2001) (availability of patent protection is crucial to biology research; the community norms have always accommodated patents as a necessity). In copyright law the balance can best be described as a system that ‘provides meaningful incentives to first authors, while allowing second authors room to build on their predecessors’ endeavors, as well as reasonable leeway for autonomous consumer enjoyment ....” Ginsburg, Bad Name, supra note 27, at 63.
This article does not take such a strong position. The role of private property rights in the realm of intellectual or information goods has certainly increased. Increasingly, legislative and judicial decisions have explicitly allocated the various use rights in intellectual goods. As the simplified description above indicates, the overall impression is that this process has resulted in stronger protection of producers of content.

C. Explaining the Emergence of Intellectual Property Rights

While the term “intellectual property law” is a relatively recent paradigm for the treatment of information goods, the dominance of a property rights conception of intellectual property rights has developed especially over the past 15 years. Where does the property law coloration of intellectual property originate? Three alternative explanations are prevalent in the academic debate. In my view, these theories omit essential aspects that underlie the increased activity in the realm of intellectual property law. This section proposes that the property rights-focus of contemporary intellectual property law results from a dialectic process between technological progress and the value of intellectual property goods. The theory developed in the remainder of this section holds that the scope of intellectual property law systems is largely determined by changes in the value of information goods, and by the transaction costs involved in the management and enforcement of the rights in these goods. This section first reviews a number of theories that attempt to explain the increased role of intellectual property law.

61. See Lemley, Romantic Authorship, supra note 9, at 895 n.123, tracing the etymological roots of intellectual property: “The modern use of the term ‘intellectual property’ as a common descriptor of the field probably traces to the foundation of the World Intellectual Property Organization (WIPO) by the United Nations.” See Convention Establishing the World Intellectual Property Organization, July 14, 1967, art. 2(viii), 21 U.S.T. 1749, 1772, 828 U.N.T.S. 3, 11. Since that time, numerous groups such as the American Patent Law Association and the ABA Section on Patent, Trademark, and Copyright Law have changed their names (to the American Intellectual Property Law Association and the ABA Section on Intellectual Property Law, respectively). There were certainly uses of the term in the literature well before this time, especially on the Continent. See, e.g., Davoll v. Brown, 7 F. Cas. 197, 199 (C.C.D. Mass. 1845) (No. 3662) (defining intellectual property as “the labors of the mind, productions and interests as much a man’s own, and as much the fruit of his honest industry, as what he cultivates, or the flocks he rears”).

1. Current Explanations

a. The Political Economy of Intellectual Property Law

The most straightforward and generally supported explanation for the expansion of intellectual property rights lies with interest group politics. Small, homogenous groups, such as copyright owners, are at a comparative advantage in organizing their interests for the capture of the political and legislative agenda, as opposed to the more heterogeneous, disorganized group of end users of intellectual goods. In this view, factors of political economy are responsible for the strong property rights protection awarded to authors, creators, inventors, and brand owners.

Yet political economy cannot in itself explain the entire development of intellectual property law to date; nor can it account for the continued expansion of...
intellectual property law. If anything, the political economy of copyright, in particular, is more leveled in today’s digital era. In the current climate, the technology industry has a lobbying agenda that is diametrically opposed to the interest of copyright owners. The business interests of the technology industry conflict with that of copyright holders. That is because the appeal of technological devices increases when these products can be used freely to store and transfer content. The popularity of file sharing, for instance, has created new markets for the computer industry, enhancing the appeal of their products. The easy sharing of audio files spurred the demand for computer systems, hard drives, faster microprocessors, and new portable digital devices. Napster created a demand for MP3 players and recordable CD drives, blank media CDRs, and so forth. Given the considerable political power of the electronics industry, one would expect the political balance to tilt toward lower levels of intellectual property law protection.

As will be discussed below, new technological advances have increased the stakes for the public at large, providing them with a stronger interest to organize effectively. Several groups with an interest in opposing broad intellectual property laws have modest political clout. However, in the aggregate, library associations, social freedom groups, and antipiracy organizations enjoy considerable political power. See Linda Greenhouse, Justices Hear Arguments on Extension of Copyrights, N.Y. TIMES, Oct. 10, 2002, at C2.

The work of Lawrence Lessig in particular rests upon the notion that cyberspace is a “fundamentally important changed circumstance” in the traditional copyright equation. Because cyberspace makes the public domain so readily accessible, the stakes are raised to keep copyright material flowing into the public domain. Lessig raised this argument most recently before the Supreme Court in Eldred v. Ashcroft. See Linda Greenhouse, Justices Hear Arguments on Extension of Copyrights, N.Y. TIMES, Oct. 10, 2002, at C2.

The American Library Association has been especially active in challenging regulation with regard to the issues of anticircumvention, automated rights management, first sale and database protection.

65. Audio equipment is more attractive to consumers if the recording of phonograms to audio tape is permissible. Similarly, video systems have a stronger appeal if they can be used not merely for playing back movies but also for recording television broadcasts. See Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417 (1984) (permitting so-called “time shifting” as fair use).

66. In Brief of Amicus Curiae Intel Corp. in Partial Support of Petitioners, Eldred v. Ashcroft, 537 U.S. 186 (2003) (No. 01-618), the Intel Corporation carefully hints at this interest: “Consumers rely on the digital technologies created by Intel and other companies to gain access to and use content in new and compelling ways. At the same time, the continued viability and expansion of these technologies depend on readily available content that is of potential use and relevance to the public.” Id. at 9. This business interest in unrestricted copyright is also reflected in the active advertisement efforts of manufacturers. See Brad King, Are Ads a Gateway to Illegal CDs?, WIRED NEWS, Apr. 11, 2002, available at http://www.wired.com/news/mp3/0,1285,51719,00.html.

67. “Although the content sector has contributed heavily to political candidates over the years and maintained a strong lobbying presence in Washington for many years, it cannot expect to ride roughshod over the political interests of the technology sector. Any significant incursions into the freedom to develop new products will encounter forceful opposition from the technology sector, which, over the past decade, has invested substantial resources in the legislative process and gained valuable experience in working the halls of Congress. The economic significance of the technology sector to the United States economy vastly exceeds the contributions of the content industries and technology companies have strong financial motivation to maintain their freedom to innovate.” Peter S. Menell, Envisioning Copyright Law’s Digital Future, 46 N.Y.L. SCH. L. REV. 63, 167-68 (2003). The consumer electronics industry alone, with annual revenues of nearly U.S. $100 billion, is several times larger than the music and film industries combined. Id. at 168 n.368 (citing Brad King, Replay TV Won’t Quit, Won’t Quit, WIRED NEWS, June 4, 2002, available at http://www.wired.com/news/digiwood/0,1412,52944,00.html).

68. The work of Lawrence Lessig in particular rests upon the notion that cyberspace is a “fundamentally important changed circumstance” in the traditional copyright equation. Because cyberspace makes the public domain so readily accessible, the stakes are raised to keep copyrighted material flowing into the public domain. Lessig raised this argument most recently before the Supreme Court in Eldred v. Ashcroft. See Linda Greenhouse, Justices Hear Arguments on Extension of Copyrights, N.Y. TIMES, Oct. 10, 2002, at C2.

69. The American Library Association has been especially active in challenging regulation with regard to the issues of anticircumvention, automated rights management, first sale and database protection.
open software movements, consumer protection groups, artists’ rights, civil liberties, the digital freedom movement,\textsuperscript{71} and the academic community\textsuperscript{72} may exert considerable pressure on the political system with their participation in the agenda-setting process of legislative and judicial institutions. Follow-up authors, inventors and satirists who rely on prior copyrighted or patented material turn to the judicial system to challenge.

---


\textit{70.} For an example of such concentrated efforts, see Amy Harmon, \textit{Owners of ReplayTV Recorders File Lawsuit}, N.Y. TIMES, June 7, 2002, at C5: “A civil liberties group asked a federal judge in Los Angeles yesterday to rule that owners of ReplayTV recorders are not violating copyright law when they use the device to compile a library of television shows, send a show over the Internet to other Replay owners, or automatically fast-forward through commercials. In filing the lawsuit on behalf of five Replay owners, the Electronic Frontier Foundation argues that the interests of consumers are being overlooked in [a] continuing lawsuit that pits the major TV networks and movie studios against Sonicblue, the maker of Replay. The media companies said that Sonicblue was contributing to copyright infringement by allowing consumers to engage in activities like assembling an entire season’s episodes of a given show or skipping through commercials.”

\textit{71.} For example, the Digital Future Coalition, consisting of educational, scholarly, library, and consumer groups, as well as consumer electronics, telecommunications, computer and ISP industry organizations, seeks to provide balance in litigation and policy discussions about copyright’s future. See Digital Future Coalition, \textit{A Description of the Digital Future Coalition}, at http://www.dfc.org/dfc1/Learning_Center/about.html. The Electronic Frontier Foundation, at http://www.eff.org, and the Home Recording Rights Coalition, at http://www.hrcc.org, are examples of organizations attempting to ensure broad rights of use with regard to VCRs, DATs, MP3 players and other technology involving music and video content. See also \textit{Digital Consumer Organization}, at http://www.digitalconsumer.org and \textit{Boycott-RIAA}, at http://boycott-riaa.com. This movement is aptly described in James Boyle, \textit{A Politics of Intellectual Property: Environmentalism for the Net?}, 47 DUKE L.J. 87 (1997) (arguing that protest, advocacy, litigation, grassroots organization, membership, foundation support and digital networking will bring about social change).

developments that afford broad protection to intellectual property holders.\textsuperscript{73} Despite the decision in \textit{Eldred}, constitutional rights provide a final safeguard against legislation that caters too strongly to the private interest of intellectual property rights holders.\textsuperscript{74}

\textbf{b. The Persuasion of Law and Economics of Real Property}

Several commentators have linked the broad expansion of intellectual property law to the infusion of the rhetoric of property rights and the application of the economic theory of real property to "the very different world of intellectual property."\textsuperscript{75} Allegedly, this trend commenced with a shift in terminology.\textsuperscript{76} When intellectual property rights are coated in the language of private property rights, and infringement is described as "theft," creative and innovative work is conceived of in terms of property rights.\textsuperscript{77} Once the validity of property rights is accepted, the application of common law property rules and underlying rationales follows naturally.\textsuperscript{78} If private property rights enhance investments in the context of common (real) property, the public domain of intellectual goods stands to benefit from the establishment of private property rights.\textsuperscript{79} Innovation is best promoted through strong property rights, especially when low transaction costs allow for Coasian

\footnotesize{\textsuperscript{73} This raises the alternative that the expansion is not the entire story of the evolution of copyright. The availability of institutions to challenge legislative capture ensures that counterclaims to expansion get a chance.


\textsuperscript{75} Lemley, \textit{Romantic Authorship}, \textit{supra} note 9, at 895. For an example of the tendency to revert to real property analogies when discussing intellectual property law issues, see the oral arguments in \textit{Eldred v. Reno}, 239 F.3d. 372 (D.C. Cir. 2001) (No. 99-5430), reprinted in Symposia, \textit{The Constitutionality of Copyright Term Extension: How Long is Too Long?}, \textit{supra} note 1, at 709. One of the judges for the District of Columbia Circuit drew the real property analogy because “it’s less challenging to the judicial mind.” \textit{Id.} at 713.

\textsuperscript{76} Lemley, \textit{Romantic Authorship}, \textit{supra} note 9 at 895-96. On the strategic use of rhetoric in the debate over copyright and technology, see Ginsburg, \textit{supra} note 36. In the hands of copyright owners and consumers, private copying becomes “piracy” and unauthorized copying becomes “sharing,” respectively.

\textsuperscript{77} Here, the expansion is conceived as a more general trend in the law of information that allocates a larger role to property rights both within and outside intellectual property. Pamela Samuelson, \textit{Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?}, 38 CATH. U. L. REV. 365, 397-98 (1989). \textit{See also} Hughes, \textit{supra} note 6.

\textsuperscript{78} “The right to exclude others from using your ideas is no more a monopoly than is the right to exclude others from using your barn.” Easterbrook, \textit{supra} note 62. On the personal property analogy stretched onto intellectual property, see also \textit{MARK ROSE, AUTHORS AND OWNERS: THE INVENTION OF COPYRIGHT} 90 (1993) (noting early comparisons of the author’s right in literary property to the rights of first possessors in real property chattels). \textit{But see} Lemley, \textit{Romantic Authorship}, \textit{supra} note 9, at 896 n.124: “But property in the sense in which it is used by the Chicago School has only recently been brought to bear with much force on intellectual property law.”

\textsuperscript{79} This fits within the Constitutional role allocated to Congress with regard to intellectual property rights to grant authors and inventors exclusive rights over their works in order “to promote the Progress of Science and useful Arts.” U.S. CONST. art. I, § 8, cl. 8.
bargaining. The case for private property rights and contracts, and against regulation, becomes more attractive if one assumes the smooth functioning of the market, a view which is associated with the Chicago School of law and economics. In Mark Lemley’s view, the overall effect of the neo-classical economic approach is “a challenge to the very idea of the public domain as an intrinsic part of intellectual property law.”

Is it realistic to maintain that the Chicago School of law and economics caused the direction of legislators and courts towards the expansion of our intellectual property law system? While it is arguable that the Chicago School economists have influenced the analytical terms of the debate, the influence of this school of thought should not be overstated. If legal scholarship exerts such profound influence, the current wave of critical attention to the exponential expansion of our intellectual property laws should turn the tide toward a weakening of intellectual property laws. Given the criticism of the majority of commentators, may we expect in the near future a contraction of the law of intellectual property? Most studies attest that the influence of legal scholarship is modest at best. In the social sciences, the nature of the adversarial academic debate tends to generate an overall picture that is noisy, a debate that generally involves an intrinsic amount of indeterminacy. In fact, several distinguished scholars have held that

---

80. See, e.g., Neil Weinstock Netanel, Copyright and a Democratic Civil Society, 106 YALE L.J. 283, 311-13 (1996) (linking the rise of property rights in intellectual goods to the neo-classical economic theory applied by Chicago School scholars in law and economics); Ryan, supra note 25, at 657 (“Neoclassical economic theory views a system of clearly defined property rights as a prerequisite for such market efficiency because the economic model through which which the allocative goals of copyright doctrine are theoretically realized requires broad, fully exchangeable property rights”); Lemley, Romantic Authorship, supra note 9, at 901-02. The view under criticism is perhaps most explicitly worded by Judge Easterbrook. See Easterbrook, supra note 62.

81. Lemley, Romantic Authorship, supra note 9, at 902 (arguing that, if premised on the absence of transaction costs and the prevalence of efficient licensing, this “wholesale attack” on the public domain is misled).

82. Even Richard Posner is critical of the expansion of intellectual property law: “These rights keep expanding without any solid information about why they’re socially beneficial. At the same time that regulations are diminishing, intellectual-property rights are blossoming – (two) opposite trends bucking each other.” McCullagh, supra note 5.


85. The academic debate is inherently adversarial. For every academic argument one can find a comment in contention with it. This is reflected in the exchange of amicus briefs. In Moseley v. V Secret Catalogue, respondents’ amicus brief cited the work of Richard Posner in arguing that dilution differs
this applies in particular to the economic analysis of intellectual property law.\textsuperscript{86} As will be argued below, coating intellectual property issues in terms of property rights is a superficial change.

c. The Dazzling Romance of Authorship

\textsuperscript{25} One school of thought has linked the expansion of intellectual property rights to the substitution of the “author-as-genius” for the “author-as-craftsman” conception of the 19th century.\textsuperscript{87} The general argument posits that authorship today exhibits a flair of romanticism which is related to the individual’s ability and talent to create intellectual goods from scratch. Because intellectual authorship is intrinsically exceptional – far beyond “sweat of the brow” work that characterizes most other productive activities – this romantic conception of authorship carries with it a normative command for stronger protection of intellectual work. In other words, exceptional people deserve privileged protection.\textsuperscript{88}

\textsuperscript{26} Do we really owe the expansion of our intellectual property system to a romantic conception of authorship? I believe we do not. For the argument to be upheld, an historical explanation needs to link an increased romantic conception over time to the expanding reaction of intellectual property law. It is questionable whether such a continued rise in the romantic conception of authorship over time has occurred.\textsuperscript{89} To the materially from orthodox confusion and does not require proof of actual harm. See Brief of Amicus Curiae International Trademark Association in Support of Respondents at 12-14, Moseley v. V Secret Catalogue, 537 U.S. 418 (2003) (No. 01-1015), available at http://www.inta.org/downloads/brief_vsecret.pdf.

86. On the inability of economic theory to provide decisive answers to social welfare issues with regard to intellectual property law, see George L. Priest, What Economists Can Tell Lawyers About Intellectual Property: Comment on Cheung, 8 RES. L. & ECON. 19 (1986); Louis Kaplow, The Patent-Antitrust Intersection: A Reappraisal, 97 HARV. L. REV. 1813, 1833 (1984) (“our knowledge is inadequate to inspire great confidence even in the desirability of having a patent system at all ...”; cited in Nard, supra note 83, at 689 n.72).

87. For an historical exploration, see Martha Woodmansee, The Genius and the Copyright: Economic and Legal Conditions of the Emergence of the “Author,” 17 EIGHTEENTH-CENTURY STUD. 425 (1984).


89. There is no direct evidence of a continued rise of the romantic conception of authorship over time, nor does the literature explain why the appeal of a romantic conception would rise over time. Instead, in the era of post-war industrialization and the emergence of the new information economy, little romantic
contrary, the economic reality of today’s intellectual property laws, perhaps best exemplified by the rise of corporate copyright ownership and the transfer of employee inventions to employers,\(^9\) conflicts with “author- or inventor-centrism”\(^9\) and romantic notions of authorship.\(^9\) In another view, the conception of authorship is in itself troublesome. If we concede to the deconstructionist viewpoint, authorship is suspect since texts are unstable and originality is inherently problematic.\(^9\)

\(\S\) 27 As will be argued below, the expansion of intellectual property may be explained in a more straightforward manner. Intellectual property systems simply trace underlying technological and economic conditions. The expansion of the intellectual property law system has two main causal determinants: (1) the value of information goods; and (2) transaction costs in the management and enforcement of the rights in these goods.

### 2. The Origins of Property Rights in Information Goods

\(\S\) 28 As this section demonstrates, the rise of private property rights in the development of intellectual property law is hardly surprising. Private property rights are not the result of simple legislative capture by content providers, the stickiness of a romantic conception of authorship, or persuasive scholarship by imperialist economists. Nor is the rise of intellectual property rights due to any endemic change in the law by itself. \(^9\) Private property rights in intellectual property goods are a simple result of changes in economic values that stem from the development of new technology and the opening of new markets. This is not a novel claim. It aligns with the seminal explanation of the emergence of property rights by Harold Demsetz. In Demsetz’s words, “[p]roperty rights develop to internalize externalities when the gains of internalization become larger that the cost of internalization.” \(^9\)

\(\S\) 29 The connecting factor between Demsetz’s example of establishing property rights discourse is to be observed. In the new information economy it is the CEO/entrepreneur who is heralded as truly exceptional.


93. In such a view, the substitution by corporate ownership might have rightly demystified the fallacy of authorship. Still, its relinquishment to corporate forces has the result of exposing future creative endeavors to the stifling effect of market forces and monopoly. See VAIDHYANATHAN, supra note 30, at 10.

94. Cf. Arti Kaur Rai, *Regulating Scientific Research: Intellectual Property Rights and the Norms of Science*, 94 NW. U. L. REV. 77, 94 (1999) (holding that “not market influence but legal change – specifically, changes in intellectual property law” is responsible for the introduction of exclusivity in scientific research). This view is systemic for a belief that granting a property right in an intellectual good makes the pursuit of these intellectual goods more attractive. Two points must be made here. First, the value of such artificial protection is limited by the value of what is granted exclusively via intellectual property law. Second, legal change does not fall from the sky. It is driven by underlying social forces. If we are to assume a static economic and norm-based environment, we will need an alternative explanation to explain legal change.

in land and the case of intellectual property law is externalities. Private rights in land and forest animals among the Montagnes Indians of the Labrador Peninsula developed in response to heightened opportunities in commercial fur trade, in the same way as property rights in information goods emerge in the face of new digital markets for content. Because overhunting presents a relatively serious problem when fur is valuable, there is a strong incentive to internalize costs via property rights protection, especially if the costs of defining the boundaries of those rights are lowered.96 Similarly, if downloading content material on file-sharing systems, such as Napster, dissipates incentives for content providers, this leads to sub-optimal investments97 and a reluctance of content providers to sell their products on digital markets.98

§ 30 Technological change commentators often fail to consider that, no matter how revolutionary technological advancements may be, the laws of supply and demand and the theoretical framework of external effects apply to technological change in the same manner they do to any other shift in relative costs caused by exogenous changes. That is, even in cyberspace the emergence of new property rights takes place “in response to the desires of interacting people for adjustment to new benefit-cost possibilities.”99 In the context of cyberspace, intellectual property law allows content providers to internalize the commercial synergy between authored works and new technological means of distribution and presentation of information.

§ 31 It is not my intention to provide a normative claim as to the appropriateness of the specific allocation of property rights, as it has occurred in the evolution of intellectual property laws. The basic point made here is that the basic conditions for the origination of private property rights in land among American Indians apply to the market for intellectual property rights. The development of fur trade and the development of a digital market for content hold two aspects in common: (1) a shift in the underlying economic value of the assets in the domain of intellectual property (strong property rights having an enabling effect in salvaging this opportunity), and (2) the decreased costs of defining the boundaries of those goods.

a. Increase in the Value of Intellectual Property

§ 32 Because “our society is predominantly and increasingly a service society”100 and

96. Demsetz attributes the relative absence of private property rights on the Southwestern plains to the high costs of containing wide range, migratory animals. For Indians of the Labrador Peninsula, fencing forest animals was relatively less expensive. Variance in the degree of private property rights protection can be explained in relation to the costs involved in the “fencing” of those assets. See also Robert C. Ellickson, Property in Land, 102 YALE L.J. 1315, 1315-44 (1993); Barry C. Field, The Evolution of Property Rights, 42 KYKLOS 319 (1989); Dean Lueck, The Extermination and Conservation of the American Bison, 31 J. LEGAL. STUD. 609 (2002).
97. Reichman & Samuelson, supra note 14, at 55. This might explain the emergence of various sui generis protections.
98. Einhorn, supra note 30, at 7-8.
99. Demsetz, supra note 95, at 350.
100. Dam, supra note 30, at 395.
because “the service portion ... is increasingly based on information,” the value of intellectual goods is now higher than ever. As the economic focus has shifted from tangible to intangible products and services, increasing the frequency of transactions in services and information, intellectual property is now an essential component of today’s economy. The commercial exchange of intangibles is an increasing percentage of the economy and accounts for a sizeable amount of the GDP of industrialized nations. Intellectual property goods have become a “crucial set of corporate assets in the new information economy.” This trend is present in the markets for copyright, patent and trademark.

(1) Copyright Law and the (Several) Miracle(s) of Reproduction

in the 1940s with the introduction of electronic recording techniques, the development of phonogram records and the breakthrough of the magnetic tape recorder. These technological advances forever altered the nature of the market for music. For those involved in the production of music, these advancements increased the stakes considerably. Phonogram records, improved recording techniques, magnetic tapes and tape recorders, and nationwide markets created a lucrative industry.

With the most recent advancements in digital technology, the means of producing,
reproducing, and storing text, music, and movies are significantly enhanced.\textsuperscript{108} Combined with perfect, costless reproduction capabilities, improved compression software, and increased bandwidth, copyright owners have seen the beginnings of a new electronic or “e-market” for the distribution and commercialization of content.\textsuperscript{109}

\section*{35} Digital technology has also increased the value of information. Digital technologies “break through the functional rigidities of print media by providing users with extraction tools that enable them to sort and arrange data in ways meaningful to them.”\textsuperscript{110} Modern technology can turn incoherent data into meaningful and valuable information.

\begin{center}
\end{center}

\section*{36} Structural changes in the innovation industry have increased the monetary value of patents. Large scale markets and rising living standards have increased the stakes in innovation, especially in therapeutic products. As research becomes increasingly capital intensive, this brings about the “industrialization of science,”\textsuperscript{111} reflected in the “corporatization” of industrial research and development,\textsuperscript{112} where inventions become strategic tools in a market in which several multinationals are engaged in a competitive race of innovation.

\section*{37} It has become increasingly harder to draw a strict line between fundamental and applied research, because both categories have become of commercial importance due to the increased dynamics between both types of research.\textsuperscript{113} “Take, for instance, the world

\begin{footnotesize}
\textsuperscript{108} Over the past decade, information technology has achieved exponential improvements in, e.g., convergence between various technical devices, means of searching data, flawless, inexpensive and rapid reproduction, processor speeds and memory storage on personal computers.

\textsuperscript{109} For a review of the evolution of analog to digital technology, see Menell, \textit{supra} note 67, at 103-29. Once purchased, digital data can be perfectly duplicated at minimum cost. This effect of the intangible nature of digital data is compounded by the availability of peer-to-peer sharing networks. Peer-to-peer technology allows sharing of computer resources and services by direct exchange between computer systems. Peer-to-peer technology eliminates the need for centralized servers for storage of the resources. Instead, the common pool of shared resources is accessible on each individual user’s computer. This evolution creates a strong interest for both content producers and end users. This is discussed further below.

\textsuperscript{110} Reichman & Samuelson, \textit{supra} note 14, at 65 & n.60.

\textsuperscript{111} On the origin of this trend that emerged after the Second World War, see JEROME R. RAVETZ, \textit{SCIENTIFIC KNOWLEDGE AND ITS SOCIAL PROBLEMS} (1996).

\textsuperscript{112} Prior to recognizing corporate ownership of patents, a number of judicial and legislative changes acknowledged the essential role of corporations in the development of patents by their employees. This is reflected in (1) the enforcement of contracts between employers and employees who grant ownership to the latter, and (2) changes to the rules for naming inventors and the holding of patent portfolios. See Merges, \textit{Solicitude, supra} note 40, at 2215-25 (describing this trend).

\textsuperscript{113} This is reflected in the increasingly overlapping activities by academic and industrial researchers: “Academic and industrial researchers are often working on the same or closely related problems, whether competitively or collaboratively. Noteworthy scientific discoveries are made in industrial laboratories, and patentable inventions are made in university laboratories.” Eisenberg, \textit{Proprietary Rights, supra} note 60, at 196 (footnotes omitted).
\end{footnotesize}
Previously, commercial value lay in the use of DNA molecules for the production of therapeutic proteins for sale. In today’s research climate, information itself has enormous commercial potential, because it provides a direct base for future discovery. Instead of cloning particular genes, the research and development objective has shifted to the more ambitious task of sequencing entire genomes. Due to technological advances, information itself retains important commercial value. Thus the subject matter of patent law has changed to enable speedy integration into marketable output.

Moreover, intellectual property rights have become valuable assets on capital markets, even before a finished and marketable product exists. Patent portfolios are important tools in attracting investment and venture capital – working as a signal of the

---

114. The seminal work in this area is by Rebecca Eisenberg:

There are two reasons why informational value looms large relative to tangible value in this context, in contrast to the targeted cloning projects of an earlier era that yielded sequences encoding products of known value. First, high-throughput DNA sequencing typically yields information about DNA sequences for which the corresponding biological functions are not yet understood. It is thus unclear at the time of sequencing whether a particular sequence will have tangible value. Second, high-throughput DNA sequencing typically yields considerable chaff (in the form of non-coding sequences and sequences that do not correspond to any apparent commercial products) along with the occasional bit of wheat (in the form of sequences encoding commercially valuable proteins or offering other uses in tangible form). What is most valuable about these research results, at least initially, is that they provide an information base for future discovery. DNA molecules corresponding to some portions of the sequence, such as those portions that encode valuable proteins or that are the site of diagnostic markers, may ultimately prove valuable as tangible compositions of matter. But it might not be immediately apparent just where in the sequence these nuggets of tangible value lie.

115. Eisenberg, Role of Patents, supra note 114, at 788.

116. See infra Part III.E.1.

117. A patent holder’s right to exclude others from using a specific set of intangible genetic information patents traditionally covers genetic information in a physical form, such as molecules of DNA (deoxyribonucleic acid), RNA (ribonucleic acid) or proteins. See James Bradshaw, Gene Patent Policy: Does Issuing Gene Patents Accord with the Purposes of the U.S. Patent System?, 37 WILLAMETTE L. REV. 637, 639 (2001).

118. The commercial value of abstract genetic information has changed over time. “In the early days of patenting genes, the commercial value of genetic information derived not from the control of the information itself, but from control over its embodiment in the form of a tangible composition of matter – i.e. proteins.” Id. at 641 (noting that new genetic information discovery is routine, as is the issuance of gene patents).

119. This applies especially to research in recombinant DNA and related technologies that allow the creation of new organisms with the capacity to produce new products. See Eisenberg, Proprietary Rights, supra note 60, at 195.
credibility of a business venture. As such, patents have come to serve purposes that are unrelated to anticipated commercial successes, and serve to exclude competitors from a market. Patents have become powerful marketing tools, used to enhance the value of the patenting entity, as a signal of the latter’s creativity and technological proficiency.

(3) The Three Risings of Trademark Law

The historical development of standardized manufacturing and processing technologies, centralized distribution techniques, and transportation networks have allowed companies to economize on scale effects by targeting a global consumer economy. In these structural conditions information plays an increasingly important role. Brand recognition is crucial in information-flooded markets that offer a plethora of different products and services. Recognizable names, signs, and symbols are crucial instruments in such a competitive environment.

In the service and information economy, advertising and brand loyalty have gained importance. By contrast, in the old, post-industrial economy, transactions mainly concerned discrete, readily identifiable product units. In dynamic, ephemeral service markets, where the role of experience characteristics is important, non-price determinants of commodities play a crucial role. This increases the importance of advertising and product differentiation.

The introduction of electronic commerce presents a third step in the rise of trademarks as crucial business assets. Mix today’s mass consumer culture with the worldwide, twenty-four hour accessibility of online products and services, and a new market forum with immense commercial potential is revealed. The importance of brands and recognizable signs is amplified for the purposes of e-commerce, because cyberspace confronts consumers with limitless amounts of information. This is due largely to economic factors. The low costs of producing and communicating information via the Internet create a situation where “the old points of concentration – the presses and distribution systems, the broadcast transmitters and licenses, the cable systems – no longer present the same insurmountable barriers to entry to becoming a speaker as they do in the mass mediated environment.” This results in the drastic reduction of entry

120. Id. at 196. See also John M. Golden, Biotechnology, Technology Policy, and Patentability: Natural Products and Invention in the American System, 50 EMORY L.J. 101 (2001) (suggesting patents provide “intermediate products” to small research firms which are crucial in attracting investments for the further development of commercial products).
121. Bartow, supra note 36, at 3. See also Long, supra note 114.
122. Merges, Solicitude, supra note 40, at 2206-07. The leading example is the Coca-Cola Company; the value of the Coca-Cola brand is estimated at U.S. $160 billion. Alex Brummer, Coca-Cola Learns What’s Untouchable, THE GUARDIAN, June 19, 1999. Approximately 89% of the value of the company can be traced to brand name value. See Aswath Damodaran, Value of a Brand Name, at http://pages.stern.nyu.edu/~adamodar/pdfiles/brand.pdf.
123. On the legislative history following this structural shift, see Merges, Solicitude, supra note 40, at 2208-10.
124. Lemley, Death of Common Sense, supra note 42, at 1693.
125. Benkler, supra note 64, at 568.
barriers for suppliers of products and services. Once again, changes in economic conditions have increased the stakes for the internalization of positive externalities.

b. Diminishing Transaction Costs

¶ 42 With each technological progression, the transaction costs of communicating and transferring content declines. This cost reduction has occurred with the development of mass media systems, transport systems, the service economy, satellite systems, and the growth of modern telecommunication.

¶ 43 More recently, the costs of contracting have further declined because of advances in information technology. Automated rights management systems, for instance, allow for the mechanical administration of intellectual property licenses. The online availability of intellectual property rights database systems reduces search costs.

¶ 44 By controlling and monitoring each individual use, product differentiation can be administered even for purposes that were previously left idle because transaction costs were prohibitively high. As such, technology has improved the capability of intellectual property rights holders to engage in self-help measures of enforcement of the statutory monopoly rights conferred to them by Congress. Digital encryption technology fences intellectual goods from non-authorized uses. Software of this kind establishes effective rights of exclusion in digital content – be it text, pictures, music, or movies – because access to the encrypted content requires an individualized, non-duplicable digital key. In some instances the developments in digital technology have tilted the protection of intellectual property rights toward more individualized, stronger enforcement.\(^{126}\)

Automated rights management systems allow content providers to restrict access to a fee-per-use basis\(^{127}\) and to monitor with accuracy the use of the content.\(^{128}\) This technology

126. Typically, content industries have declined to sue individual end users. Yet, there seems to be a re-adjustment of this strategy. See Anna Wile Mathews & Bruce Orwall, Music Labels Go After Song-Swappers: Recording Companies Plan Lawsuits Against Individuals, WALL ST. J., July 3, 2002. See in this regard the conviction of a college student, under the No Electronic Theft (“NET”) Act, who had posted computer software programs, musical recordings, entertainment software programs, and digitally recorded movies on his Internet Web site. See Press Release, U.S. Dep’t of Justice, First Criminal Copyright Conviction Under the “No Electronic Theft”(NET) Act for Unlawful Distribution of Software on the Internet (Aug. 20, 1999), at http://www.cybercrime.gov/netconv.htm. Similar prosecutions have occurred elsewhere. See, e.g., in Belgium the decision in Kort Geding Rechtbank van Eerste Aanleg (Trial Court), Antwerp, 21 Dec. 1999, AR K. nr. 99/594/C (student convicted for posting hyperlinks to mp3 files on a personal Web site). These types of suits and prosecutions are now possible because in the digital environment footprints are left behind, which reduces monitoring costs. Furthermore, as privacy suits are finding their way through courts, Internet service providers have been compelled to turn over the names of customers suspected of illegally sharing music online. See Jonathan Krim, File Sharing Forfeits Right to Privacy: Judge Tells Verizon to Identify Customers, WASH. POST, Apr. 25, 2003, at E1.

127. Automated rights management systems are technologies that enable copyright owners to regulate reliably and charge automatically for access to digital works. For a further description of automated rights management systems, see Bell, supra note 28.

128. “In the predigital environment copyright gave owners some rights to profit from their work, but law and reality made it impossible to track or physically prevent all uses of ‘owned’ cultural products in school papers or personal conversations. Spielberg could charge for all sorts of ways of viewing Schindler but could not prevent My Grandmother from being made. This is what made it possible for commercial
enables “information providers to enforce standard copyright claims mechanically, without resort to the threat of litigation.”

There has been much criticism of the use of technology for the enforcement of copyrights. Some have argued that this technology allows intellectual property owners to control their work in ways that are beyond the privileges afforded by intellectual property law. Regardless of this claim, the advent of such effective means of enforcement forces us to see intellectual property rights protection in more literal terms. Digital technology brings the law in practice closer to the law in the books. Perhaps some of the criticism of the use of self-help digital vendors of cultural products to coexist with a vibrant public conversation. Now, movies released in encrypted digital format can be made impervious to this kind of creative recreation, and the recording industry can peek into college dorms to see if kids are mixing their own tapes.”

129. Bell, supra note 28, at 560. Of course, no enforcement mechanism is truly perfect. The circumvention of DVD Content Scrambling Systems, Real Networks’ streaming protection measures, Adobe’s eBook reader, and the security code of the Xbox game console confirm that whenever technological protection of intellectual property is created, some specialist will always be able to compromise this technology. The most embarrassing illustration is the faltering of the Secure Digital Music Initiative (“SDMI”). The recording industry was hopeful that it would secure protection for its future releases with new watermarks technology that placed code onto a file that was supposedly impossible to remove without damaging the quality of the sound or image. When the SDMI opened a hacking contest, challenging the public to break the digital watermarks, Edward Felten, an associate professor at Princeton, and a team of computer experts cracked several of these watermarks. When Felten wanted to present his findings at a conference, the SDMI and the Recording Industry Association of America (“RIAA”) threatened to sue for copyright law violation. Felten’s free speech lawsuit was dismissed in federal court. See John Schwartz, 2 Copyright Cases Decided in Favor of Entertainment Industry, N.Y. TIMES, Nov. 29, 2001, at C4. There is a wisdom in computer science which holds that the same technology that allows the creation of digital protection can be used to break (“crack”) that technology. This has traditionally resulted in an “arms race” between content providers and the underground “hacker” movement. More complex technological protection requires more complex measures to override this protection. This applies especially when technological protection is built into the hardware frame of the technology, in addition to the software components. See, for instance, the protection built into DVD and Playstation 2 playback devices. As the user-friendliness of the circumvention tools reduces — in order to play illegal copies of games a chip needs to be installed into a Playstation 2 – copy protection becomes more effective. This issue is discussed in Ben Depoorter, The Fight over the Direction of Copyright Law in the Digital Era: Cycles and Echelons in Copy Protection, CASLE WORKING PAPER #11 (2003).

130. See, e.g., Karjala, supra note 28, at 513 (arguing that standardized, uniformly enforceable contracts will regulate and diminish copyright user rights); Netanel, supra note 80 (arguing that technology raises high fences that amount to unprecedented copyright control); David A. Rice, Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering, 53 U. PIT. L. REV. 543, 608 (1992) (software license terms amount to “extra-statutory super-copyright”); Pamela Samuelson, The Copyright Grab, WIRED MAG., Jan. 1996, available at http://www.wired.com/wired/archive/4.01/white.paper.html (technology gives rights holders much stronger protection than the rights held under the traditional copyright regime.). But see Bell, supra note 28, at 614-18 (those who rely on methods subject to preemption have the opportunity to exit from copyright into common law).

131. According to some, the literal application of copyright and trademark law will bring these areas of law in line with the broad restrictions of use under patent law. See Roger D. Blair & Thomas F. Cotter, An Economic Analysis of Seller and User Liability in Intellectual Property Law, 68 U. CIN. L. REV. 1, 37-45 (1999). The authors cite the National Information Infrastructure Task Force (“NII”) proposal as examples of such an extension: “The NII claims, for example, that when a person accesses a website she makes a copy (as defined in the Copyright Act) of the site’s content, because the text is, in fact, fixed upon the random access memory (RAM) of her computer for ‘a period of more than transitory duration.’ The viewer
technology by producers of intellectual property is due to the fact that such enforcement creates a distribution of use of intellectual property that is quite different than the more lenient systems of imperfect enforcement to which we have grown accustomed.\textsuperscript{132} Although injunction is the standard remedy, intellectual property law often relies on liability rules when the enforcement costs of property rule protection are prohibitive. For instance, it is prohibitively expensive to monitor all individual uses of photocopiers, blank tapes, CDs, scanners, and other devices that can be used to reproduce illegitimate copies of copyrighted work. Instead, the use of these devices is subject to a copyright tax.\textsuperscript{133} For the same reason, copyright collectives grant blanket licenses instead of negotiating on each individual use of copyrighted work.\textsuperscript{134} By contrast, recent advancements in automated rights management technology, encryption software, and “tethered” technology\textsuperscript{135} provide copyright owners with the tools to regulate access and to enjoin unauthorized individual use of content. Of course, such a move from liability to property rule protection is not absolute. In the absence of these measures of protection, and in the hands of “hackers,” the very technology that enables strong enforcement reduces the costs of the illegitimate transfer of content. Yet, the costs of legitimate fencing are lowered by new technology and are distinct from the costs of preventing illegal activities. I return to this issue in the following section.

c. Discussion

\textsuperscript{135} In summary, the increased protection of copyrights, patents, and trademarks can be understood as the combined result of the increased value of these products and a decrease in transaction costs surrounding their marketability and the effective protection of these rights by their producers. Property rights offer an opportunity to content providers to capture the value of their creations, securing investments in an information
or knowledge economy.

§ 46 Some clarification is in order. Property rights activity develops because of private incentives of content providers. Precisely for this reason it does not follow that the emergence of private property rights implies that the accommodation of technology and intellectual property law through property rights protection will bring about the most efficient allocation from a societal perspective. Here my analysis departs from the assumption that emergence of property rights equals wealth maximization or that the developing intellectual property rights necessarily follow societies’ “cost-benefit equation,” as the optimistic claim in the Demsetzian reading of property rights’ evolution would have it. Rather, it is suggested that private property rights allocations will emerge in light of the interaction of the changed conditions and the preference of those parties that have a strong incentive to internalize the changing costs and benefits. Private property rights are an obvious first-best for those involved in the first stage of legal change. To content providers, private property rights establish maximum control rights over intellectual resources. Consequently, private property rights are a main focal point in the struggle over the boundaries of free access to intellectual material.

§ 47 Part IV will examine the societal implications of the emerging “propertized” market of intellectual property rights. In the meantime, I take a step back and consider the larger social economic process of the emergence of property rights. The original Demsetzian theory on the emergence of property rights leaves open the precise mechanism by which a property rights system eventually takes shape. The remainder of this section is a first attempt to fill this void in the context of intellectual property rights.

136. See Thomas W. Merrill, The Demsetz Thesis and the Evolution of Property Rights, 31 J. LEGAL STUD. 331, 332 (2002). See also Stuart Banner, Transitions Between Property Regimes, 31 J. LEGAL STUD. 359 (2002) (relating property rights changes to political economy factors such as political hierarchy and power, providing a case study of the British settlers against the Maori people in New Zealand). “The Demsetz story is a happy one, because it implies that over the long run, property rights will be reallocated in the direction of efficiency.” Id. at 360. See also Saul Levmore, Two Stories About the Evolution of Property Rights, 31 J. LEGAL STUD. 421, 429 (2002) (discussing the roles of optimistic, transaction costs-based versus pessimistic interest group-based explanations of property regime changes: “The Demsetz-style story about transaction costs, as well as the related depictions of technological advances and price changes leading to closed access and private investment, is at root quite optimistic.”).

137. Property rights, with hard rights of exclusion, provide content providers with more control and discretion in the management of resources than more refined property governance structures. See Henry E. Smith, Exclusion Versus Governance: Two Strategies for Delineating Property Rights, 31 J. LEGAL STUD. 453, 457 (2002) (emergence of property rights could also mean increased use of governance rules, i.e., rules that “pick out uses and users in more detail, imposing a more informational burden on a smaller audience of duty holders”).

138. Demsetz’s article “said virtually nothing about the precise mechanism by which a society determines that the benefits of property exceed the costs, other than to disclaim any position on whether this would necessarily entail a ‘conscious endeavor.’” Merrill, supra note 136, at 333.
3. The Evolutionary Mechanism of Intellectual Property Law

a. Introduction

The previous section states that property rights are a natural response to enhanced economic prospects. However, according to Robert Merges, there is “nothing foreordained about the future of the patent system, or of any other branch of the [intellectual property] system for that matter.”139 I argue that there actually is a degree of determinacy in the evolution of the laws of intellectual property. The remainder of this section proffers an evolutionary understanding of the social mechanisms underlying the development of intellectual property law.

b. The Social Mechanics of Intellectual Property Law Expansion

In this section I argue that the evolution of the intellectual property law system can best be understood as a “B2-type process”: two causal chains are triggered, each of which affect the independent variable in opposing directions, leaving the net overall effect indeterminate.140 More specifically, of the two opposing mechanisms, the second mechanism is triggered by the initial causal chain, leaving it impossible to predict the net effect of the two opposing mechanisms. Applied to intellectual property law formation, the expansion of protection for intellectual property rights holders triggers a counterreaction that moderates the initial increase of protection.

(1) Stage One: Perceiving Unrestricted Uses of New Technology as an Opportunity Cost

Traditionally, the first step in the causal mechanism of intellectual property development is a demand by producers to strengthen intellectual property rights. The previous section explained why property rights make sense in light of technological improvements. However, there is a specific reason why a demand for the expansion of intellectual property law is the initial response to technological advancements. With the introduction of new technology, intellectual property law enters a stage of uncertainty. In this phase of uncertainty, the default position will either entail a general perception that (i) the new technology is encompassed by the present intellectual property law (the default interpretation is one of analogy or precedent); or (ii) the new technology is sufficiently different that such analogy is not obvious (the default position is differentiation). When the technology is truly innovative, the legal status of uses of it will be subject to substantial uncertainty. Even when involving resources that are governed by bright-line regulation, the practical situation will be ambiguous as to the exact entitlement of use rights.

Take the example of copyright law. Peer-to-peer networks, new sharing software,
wide bandwidth Internet access, and novel compression formats (such as MP3 and DivX) allow users to exchange and manipulate copyrighted content in ways and to degrees that depart from standard notions of copyright rules of access to copyrighted material. In the minds of (self-serving) end users, such novel uses are considered sharing and not piracy. Peer-to-peer sharing activities are very different from the traditional notions of piracy. Among other things, there is an absence of financial transactions, there are no intermediaries, and the same technology can also be used to exchange non-copyrighted material.

¶ 52 Generally, the introduction of new technology is followed by a phase of unrestricted application of this technology to existing copyrighted work. This is partly because the true nature of the problem only truly materializes in the minds of copyright owners when these novel uses become widespread and more visible.¹⁴¹ First it must become apparent that free use of novel exchange mediums entails substantial opportunity costs to producers, i.e. that there are gains to be internalized. For instance, the music industry discovered that huge profits were to be made by transferring music in MP3 format over broadband networks, at a stage where such exchanges had become relatively widespread on the Internet.¹⁴² This triggered the initial action by copyright owners to obtain formal enclosure of those novel uses within their privileges as copyright holders.¹⁴³

¶ 53 In this first stage, litigation and lobbying by copyright owners often leads to expansion of copyright law.¹⁴⁴ The Napster litigation led to the application of copyright

141. Historically, copyright owners have always tolerated minor infringements.

142. Consider the example of the introduction of compact disc technology: “Even with the introduction and rapid popularity of digitally-encoded compact disks (CDs) and the proliferation of microcomputers beginning in the early 1980s, the record industry did not appreciate the dramatic changes that would be brought about by the emerging digital technologies.” Menell, supra note 67, at 99.

143. For example, copyright owners sued the Sony Corporation because its new digital audio tape and mini-disc technology enabled the production and reproduction of identical copies of authored works with minimal loss of quality. Cahn v. Sony Corp., No 90-4537 (S.D.N.Y. filed July 9, 1990). This exercise would be repeated with the introduction of DVD players. The RIAA, representing more than 500 companies engaged in the creation, manufacturing, and distribution of sound recordings, leads the way in most of these efforts. This effort is compounded by inherent product uncertainty in content industries: “one of the reasons that business people in Hollywood are so nervous is that they never really know what’s going to win or what’s going to lose. They don’t know what their markets and audiences really want; they don’t know how to adjust things in mid-stream. So there’s constant pressure to make their systems more efficient.” Schmelzer, supra note 57 (quoting Siva Vaidhyanathan).

144. Consider, as examples, the successful litigation leading to a ban of unauthorized operation of MP3.com’s “private” storage lockers for purchased songs, see Brad King, RIAA Wins Suit Against MP3.com, WIRED NEWS, Apr. 28, 2000, available at http://www.wired.com/news/business/0,1367,35935,00.html; the enjoining of the distribution of Streambox’s Ripper software, which enabled the recording and storage of streamlined material played on Real’s audio and video players, see Clare Haney, RealNetworks Wins Injunction Against Streambox, IDG NEWS, Dec. 28, 1999, available at http://www.computerworld.com/news/1999/story/0,11280,37969,00.html; RIAA’s legal action against MP3board.com’s search engine for MP3 files, where the RIAA claimed that it is a violation of copyright laws for a company to provide hyperlinks to publicly accessible Web sites where users can download files, see Brad King, RIAA: No Hyperlinking Allowed, WIRED NEWS, June 26, 2000, available at http://www.wired.com/news/politics/0,1283,37227,00.html; and the judgment entered in Universal City
law to a new medium. Since Napster, sharing legitimately purchased content via peer-to-peer exchange networks is deemed illegitimate.\textsuperscript{145} Previously the “first sale” doctrine protected the right to sell or otherwise dispose of a personal copy that had been lawfully acquired.\textsuperscript{146} As a result, the same borrowing of a compact disc from a friend becomes infringement when conducted through a peer-to-peer network.

\textsuperscript{145}A preliminary injunction enjoined Napster from “engaging in, or facilitating others in copying, downloading, uploading, transmitting, or distributing plaintiffs’ copyrighted musical compositions and sound recordings, protected by either federal or state law, without express permission of the rights owner.”\textsuperscript{A & M Records, Inc. v. Napster, Inc., 114 F. Supp. 2d 896 (N.D. Cal. 2000), aff’d in part and rev’d in part, 239 F.3d 1004, 1027-28 (9th Cir. 2001) (finding contributory infringement for facilitating direct infringement by its users, with actual knowledge of infringing materials on its system, and finding against fair use because of the commercial damage to the present and future nature of digital download markets).}

\textsuperscript{146}This is the creative pooling that figures prominently in the views of Lawrence Lessig.

\textsuperscript{147}See Common Position No. 48/2000, recital 38, 2000 O.J. (C 344) 1. The number of Napster users has been estimated at 64 million. Daily users of the other main peer-to-peer networks, such as Kazaa and Morpheus, also are currently estimated at over 1 million.

The above leads to the following conclusions. First, it is not necessarily the case that an unregulated environment creates the conditions for innovation; rather, it is the nature of cutting-edge innovation itself that initially keeps new uses beyond the grasp of intellectual property law. In its early stages ground-breaking technology necessarily finds itself outside the confines of existing legal doctrine. Second, given that under conditions of ambiguity users of new technology act according to a default position of free use and access to copyrighted content, it is to be expected that copyright owners seek expansion. In doing so, producers set the initial agenda of litigation and legislation to establish the application of intellectual property laws to emerging technological applications.

(2) Second Stage: Loss Aversion

The expansion of intellectual property law triggers a counter movement. In assuring the urgency of their plight, producers of intellectual property often overstate their claims. When these demands result in the extension of intellectual property law, had banned Napster from being used on school computers showed an 8 percent drop in sales from 1999 to 2000. Sale revenues from on-line purchases have increased. Yet, as Emusic.com chairman Robert Kohn acknowledges, “[I]t’s clear that CD sales would have been higher had file trading applications not been around.” Id. See also Graeme Wearden, Napster Blamed for Plunge in Singles Sales, ZDNET NEWS UK, Feb. 26, 2001, available at http://news.zdnet.co.uk/story/o,,s2084666,00.html (noting RIAA statistics that indicate the number of CD singles shipped in the United States in the year 2000 fell 39 percent).

150. The first phase of non-applicability of standing intellectual property law increases proportionately with (i) the significance of the novelty in technological breakthroughs, and (ii) the level of specificity and rules-based nature of the closest related law. In this regard the more detailed 1976 U.S. Copyright Act is less conducive to a status quo in favor of copyright owners than the more open-ended 1909 Copyright Act.

151. Consider, for example, the legal battle waged by the RIAA against the MP3 player/recorder “Rio.” The RIAA accused Rio of violating the requirements for digital audio recording devices under the Audio Home Recording Act of 1992, failing to employ a serial copyright management system, and failing to pay royalties on sales of the digital audio recording device. Recording Indus. Ass’n v. Diamond Multimedia Sys., Inc., 180 F.3d 1072, 1075 (9th Cir. 1999). The court dismissed the claim, holding that general computer technology is not included in the AHRA. Id. at 1081. In these cases, judges are asked to stretch the “limits of statutory language” through judicial interpretation and interpolation. Litman, Copyright, Compromise, and Legislative History, supra note 64, at 857-58 & n.9 (citing U.S. COPYRIGHT OFFICE, BRIEFING PAPERS ON CURRENT ISSUES, reprinted in Copyright Law Revision: Hearings on H.R. 2223 Before the Subcomm. on Courts, Civil Liberties, and the Administration of Justice of the House Comm. on the Judiciary, 94th Cong., 1st Sess. 2053 (1975)). According to Litman, courts continued to rely on older precedent because of the confusion surrounding the 1976 Copyright Act. Litman, Copyright, Compromise, and Legislative History, supra note 64, at 859. Much of the confusion arises from the fact that the parties to the negotiation of 1976 agreed upon language “while disagreeing about what the language meant.” Id. at 861.

152. Producers regularly address legislators to obtain wholesale legislative amendments to existing laws, or the creation of new legal rules. See, e.g., the Digital Millennium Copyright Act, 17 U.S.C. § 1201 (2000).

153. Ginsburg colorfully describes this as a “Pavlovian” response to technology that involves new means of making copies or communicating works. See Ginsburg, Bad Name, supra note 27, at 66.

154. Some argue that the content industries have a long-established tradition of exaggerating their claims. Traditional print publishers argued that public libraries and photocopiers would undermine the market for books and journals, and radios would kill the music industry. Later on, video cassette recorders were claimed to be the death of the film and television industries. See, e.g., Raymond Shih Ray Ku, The Creative Destruction of Copyright: Napster and the New Economics of Digital Technology, 69 U. CHI. L.
this creates outlier cases that bring about strong images in the mind of the public.\textsuperscript{155} Consider in this regard, the demand for royalties of ASCAP from the American Girl Scouts movement for campfire performances of copyrighted songs.\textsuperscript{156} This case fueled the fight of copyright users against strengthened protections and reinforced antitrust awareness with respect to copyright collectives.\textsuperscript{157} To the extent that free use develops into a custom (Girl Scouts performing campfire songs, network users swapping files on Napster, and so forth), the vigorous legal condemnation of these sharing norms among users of copyright content will meet strong resistance. Ironically, by expanding intellectual property law the norms that the legal rules are intended to modify might be strengthened.\textsuperscript{158} As another example, imagine the passing of the \textit{Peer-to-Peer Piracy

\textsuperscript{155} But cf. Merges, Solicitude, supra note 40, at 2239 (arguing that due to their intangible nature, intellectual property rights expand conceptually and, consequently, face no “natural facts to act as a brake on expansive notions of how broad a right might be, how many people and activities it might reach, or how long it might last”). \textit{In concreto}, this might make it difficult to “turn back a judicially initiated extension of rights.” \textit{Id.} at 2240. Yet, conceptual expansion translates into real world consequences.


\textsuperscript{157} Other recurring examples are the attempts to outlaw technology that accommodates infringement, even though the technology accommodates legitimate uses. Examples of such dual use technologies include time shifting in the case of home taping, and the exchange of non-copyrighted work or among copyright owners such as young artists in the case of file sharing technology. Note also the proposal to enforce copyright through the control of the architecture of digital technology, as found in Senator Ernest Hollings’ proposed Consumer Broadband and Digital Television Promotion Act, S. 2048, 107th Cong. (2d Sess. 2002), available at http://www.politechbot.com/docs/cbdtpa/hollings.s2048.032102.html. In this proposal, the FCC and the Copyright Office would establish security system standards and encoding rules for all digital media devices sold or offered for sale in the United States. Dual use technology was explicitly protected in \textit{Sony Corp. of Am. v. Universal City Studios, Inc.}, 464 U.S. 417 (1984) ("\textit{Sony Betamax}"), where the Court recognized the doctrine of "substantial noninfringing use" to protect providers of products that can be used for both legal and illegal purposes.

\textsuperscript{158} There is a growing acceptance of unauthorized distribution of music and films by millions of high school and college students; this trend produces a generation of citizens who question the legitimacy of copyright protection on the Internet. See John Schwartz, \textit{Trying to Keep Young Internet Users from a Life of Piracy}, \textit{N.Y. TIMES,} Dec. 25, 2001, at C1. Law makers should apply "gentle nudges" rather than "hard shoves" to enforce a law that attacks a widespread social norm. See Dan Kahan, \textit{Gentle Nudges vs. Hard
Prevention Act that proposes to provide immunity to activities that disable, block or impair peer-to-peer networks and private individuals’ home computers. In the face of such demands by copyright holders, users respond by applying pressure on the intellectual property system for the reversal or moderation of those claims.160

§ 57 The overall evolution of intellectual property law thus represents a cyclical back and forth between initiatives on both sides of the private property and free use coin of intellectual property.162 The evolution of technology is inherently uncertain. Content producers fear that technology will allow systemic infringements that cumulatively undermine their future.163 Consumers believe that this very technology will allow the content industry to go beyond intellectual property laws and tighten stronger monopolistic control.164

Shoves: Solving the Sticky Norms Problem, 67 U. CHI. L. REV. 607 (2000) (examining the robustness of social norms). This might apply in particular to the norms and customs of the sharing of copyrighted material, as developed on cyberspace over peer-to-peer networks.


160. A broad range of interest groups provides opposing pressure. This includes, for example, the open software movement, consumer protection groups, artists’ rights, civil liberties, and the digital freedom movement. See Boycott-RIAA.com, supra note 71. According to the Boycott-RIAA.com mission statement, “Boycott-RIAA was founded because we love music. More and more the RIAA and the major labels have attempted to lock up our culture and heritage through extensive lobbying, outrageous campaign donations, misleading our political leaders, and lying to the public, while misrepresenting the facts. Changing copyright law is not a solution for poor management. Copy protected CDs lock up the music forever, even when the work in question returns to the public domain. This was not part of the copyright bargain our forefathers struck, nor was it ever intended to provide income for the heirs of the copyright holder. It is our intention to make the public, and our leaders[,] aware of the implications and long term consequences to our culture of bowing to every demand the recording industry presents to our congress. It is our intent to continue to unspin the spin and to represent the consumer and independent artists positions on the battlefield that copyright has become.” Id. at http://www.boycott-riaa.com/mission.


162. To the extent that this countermovement is successful, we may retain some optimism towards the capacity of the intellectual property system in accommodating conflicting interests of users and producers of intellectual property. Cf. Menell, supra note 67, at 195 n.465, citing William Eskridge, Politics without Romance: Implications of Public Choice Theory for Statutory Interpretation, 74 VA. L. REV. 275 (1988) (predicting that such conflicting demand patterns lead to regulatory resolutions).

163. “The problem is that the companies that invest so many millions of dollars in these high-end commercial products – the sort of products the U.S. Government decided represented culture stopped believing in copyright. They stopped believing you could regulate culture softly and reasonably, because they were afraid that digital technology would encourage us to undermine the market for those legitimate goods.” Schmelzer, supra note 57 (quoting Siva Vaidhyanathan).

164. Legislators who have proposed bills requiring the installation of restrictive security chips in all hardware “are basically legalizing tactics that are, for all intents and purposes, illegal for all other groups
58 The question remains whether this process will necessarily generate a satisfactory equilibrium. With regard to resource allocation efficiency, the outcome will depend on institutional factors. Will participation of both opposing groups be equal before both courts and legislators? Are both institutions equally geared to consider the claims of the parties in the intellectual property law debate? Or, alternatively, will market interaction abridge some of the interests through the development of norms, or other institutions? With smooth, independent working legal institutions, intellectual property law entitlements could arrive at the efficient equilibrium. Given uncertainty and transaction costs, some have argued that courts are best equipped to solve the problems of the adaptation of intellectual property law to technological evolution. This approach would suggest the usage of open-ended laws, rather than detailed legislative initiatives such as the Digital Millennium Copyright Act or the European Union Information Society Directive.

59 The issue of the evolutionary adaptability of the intellectual property system does not allow easy evaluation. Intellectual property systems have certainly expanded over time. In light of the demands of an increasingly technologically complex society, a certain degree of propertization is to be expected. But propertization triggers counterclaims, resulting in indeterminate results as to whether a balance will be obtained.

to do. The media companies are launching a full-tilt assault on taking away fair-use rights from consumers. The reason they are doing that (is because) they are after far greater amounts of control over how consumers use media.” Brad King, Bracing for the Digital Crackdown, WIRED NEWS, Aug. 22, 2002, available at http://www.wired.com/news/politics/0,1283,54681,00.html (quoting Joe Kraus, co-founder of the fair-use rights group DigitalConsumer.org).

165. For a relatively optimistic account, see Menell, supra note 67. The twenty-year extension of copyright protection puts “pressure on the system to offset the gains in years with a diminution in the scope of protection, for example, through a more vigorously implemented fair use exception, not only during the last 20 years, but perhaps during the copyright term.” Ginsburg, Bad Name, supra note 27, at 65. See also the work of Robert Merges, e.g., Merges, New Institutional Economics, supra note 14 (predicting efficient institutions will emerge); Merges, Contracting Into Liability Rules, supra note 28 (same); and Merges, Solicitude, supra note 40 (noting the propensity of the common law to adapt to societal change). In some way the type B2 process explanation peeks into the black box description of intellectual property law formation, as “cyclical fluctuations between states of under- and overprotection are a characteristic response to borderline subject matters that fit imperfectly within the classical patent and copyright paradigms.” Reichman & Samuelson, supra note 14, at 64.

166. Merges adopts a three-tiered theory of the adaptive propensity of intellectual property law: “(1) an early period of disequilibrium, when new technology may produce widely divergent results; (2) an extended period of adaptation, when general doctrines developed in earlier eras are applied and modified on a case-by-case basis; and (3) legislative consolidation, in which a major statutory overhaul codifies some of these doctrinal modifications. The overall effect of this three-stage process is the slow, steady extension of property rights over the products of new technologies.” Merges, Solicitude, supra note 40, at 2190. This is an argument for case-by-case evaluations (not unlike a percolation) prior to consolidation in statutory acts. This implies that systems of judge-made law would be better suited to find a balance in intellectual property law. See also Lawrence Lessig, The Path of Cyberlaw, 104 YALE L.J. 1743 (1995) (arguing for a case-by-case formation of the legal foundation of cyberspace). But see Maureen O’Rourke, Rethinking Remedies at the Intersection of Intellectual Property and Contract: Toward a Unified Body of Law, 82 IOWA L. REV. 1137, 1140 (1997) [hereinafter O’Rourke, Rethinking Remedies] (urging that the interaction between intellectual property law and contract law should be considered “comprehensively and systematically now – before ad hoc judicial decisions impair the market for licensing intellectual property rights”).
From a resource allocation efficiency perspective, the exact composition of the property rights assignments, resulting from this process of propertization, will have differing impacts on social welfare. This article will next explore the role of property rights, in particular the right of exclusion, in the context of patents, copyrights, and trademarks.

III. **PROPERTY FRAGMENTATION: A NEW PARADIGM IN INTELLECTUAL PROPERTY POLICY**

¶ 60 This Part explores the possible societal ramifications of the proliferation of intellectual property rights in relation to the economic concept of property fragmentation. Part III.A demonstrates that extension of property right-protection onto increasingly smaller units of intellectual goods is problematic, given the “multi-component” or complementary nature of intellectual property goods. In Parts III.B to III.D, fragmentation and complementarity (and the presence of institutional safeguards) are explored with regard to the three main intellectual property rights.

¶ 61 This next section first examines in more detail the institutional framework of patent law, copyright law and trademark law, and relates these institutional parameters to the concept of fragmentation. In each case I examine the presence of factors that might mitigate wasteful fragmentation.

A. **The Societal Effect of Propertization and Fragmentation of Intellectual Property Rights**

1. **Fragmentation of the Public Domain**

¶ 62 The expansion of intellectual property law fragments the domain of intellectual property goods. The profusion of intellectual property rights divides the ownership of expressions, innovations and words in two principal ways.

¶ 63 First, by creating new intellectual property rights on material previously outside the scope of intellectual property law, new rights of exclusion are established on subject matter that was previously governed by unrestricted rights of use. For example, new database protection legislation provides effective exclusion rights to the creators, for “sweat of the brow” compilations that were previously available for free use.

¶ 64 Second, by enhancing and adding to existing protection, exclusionary rights are added to the existing bundle of rights associated with those products. For instance, after

167. This thesis does not examine the effect and role of trade secrets. Trade secret law does not take ideas or innovation out of the public domain because trade secret law does not provide owners with protection against independent discovery. Liability for trade secret infringement occurs only in the context of improper reverse engineering. Yet, in other ways trade secret is anathema to the norms of science because it is premised on secrecy rather than disclosure, which altogether forecloses further research by the wider scientific community. See Eisenberg, Proprietary Rights, supra note 60, at 206-07.

168. See Database Directive, supra note 14. The format, ordering and presentation of a database are covered by copyright law.
Depoorter, The Several Lives of Mickey Mouse: Expanding Intellectual Property Law

copyright added the moral right of alteration to the copyright bundle, a buyer of a copyrighted work became confronted with an additional restriction on the use of the property rights that remain exclusive to the copyright holder.

To understand the full complexity introduced with the expansion of intellectual property law, one must appreciate that a discrete product consists of various inputs, each of which is subject to individual property rights that are not necessarily held by one individual or institution. The next section explores this issue in more detail.

2. The Divided Nature of Intellectual Property Goods

The economic analysis of intellectual property rights has largely ignored the divided nature and complementary propensity of intellectual property. However, it is important to note that there is "no simple 'one-to-one' mapping of products and property rights." As Merges notes:

A commercially viable product will often be assembled from a number of components. One or more of these components may be covered by IPRs [intellectual property rights], but it is not always true that a complete product will be covered by one, and only one, comprehensive IPR. Complex, multi-component products are the norm in many industries (e.g., autos and consumer electronics), and individual patents often cover only a single component or subcomponent. ... Multi-component works are far from uncommon. Indeed, motion pictures, sound recordings, and magazines all have multiple "components" or inputs.

Today’s market for intellectual property is characterized by an increasing degree of composite creation and innovation. Digital technology and ever-growing back catalogues have allotted a greater creative role to the combination of intellectual property works in the creative process. Digital production tools enable artists to produce derivative works of art that combine cut and paste processing of samples, images, and sound effects from other creative works. For example, in the case of DJ-mix compilations, artists innovate by combining other artists’ tracks in an original version. In a more profound way, the very act of authorship is based on the works that preceded it. Every author

---

169. See Merges, New Institutional Economics, supra note 14, at 1862 ("small specialty firms appear to be increasing their share of overall R&D").
170. Id. at 1859 (critiquing the assumption implicit in the neo-classical economic model that “one, and only one, property right covers the entirety of a marketable product,” id., while pointing out, more generally, the important role of institutions in the coordination of intellectual property rights).
171. Id.
172. One of the most highly acclaimed DJ-mix albums, “2 Many DJ’s: As Heard on Radio Soulwax,” combines 114 songs of various artists into 46 tracks. Reportedly, the clearance of the rights on the songs, featured on the album, lasted three years, involving 865 e-mails, 160 faxes and hundreds of telephone calls. In the end 62 tracks were omitted from the album because the rights could not be obtained in time for those tracks. See 2ManyDJs, at http://www.2manydjs.com/v2/frameset.htm.
stands on the shoulders of his or her predecessors when adding an increment to the creative domain. Litman notes:

Composers recombine sounds they have heard before; playwrights base their characters on bits and pieces drawn from real human beings and other playwrights’ characters; novelists draw their plots from lives and other plots within their experience; software writers use the logic they find in other software; lawyers transform old arguments to fit new facts; cinematographers, actors, choreographers, architects and sculptors all engage in the process of adapting, transforming, and recombining what is already “out there” in some other form.173

§68 In this regard the public domain deserves appreciation as “a device that permits the rest of the system to work by leaving the raw material of authorship available for authors to use.”174

§69 Economic theory describes the potential societal costs of excessive property fragmentation.175 In the presence of complementarities, the use of resources independently controlled by different individuals leads to underuse and overpricing.176
The problem of fragmentation derives from a positive externality due to complementary features of exclusive use rights. The right to exclude is embedded in the control that each property owner exercises over the use of the common resource by other agents. Property excluders do not capture the external effects of their individual decisions. This leads to an excessive level of exclusion, with underutilization of the joint property as a result. When ex post opportunities arise which require exclusive use of various individual property rights on a land parcel, these various fragments become complementary inputs into a more productive unit. Deadweight losses of underutilization or underinvestment occur when transaction costs create an impediment for an effective rebundling of complementary inputs.

¶ 70 Of course, according to Coase’s theorem, such initial partitioning of property rights does not matter for the allocation of resources when all rights are freely transferable and transaction costs are zero.\textsuperscript{177} Reaggregation into clusters through voluntary transactions between the individual owners will maximize total value of the resources. Once the ideal conditions of the positive Coase theorem are relaxed, over-fragmentation poses an engaging incident of “asymmetric transaction costs.”\textsuperscript{178} The presence of such asymmetry is due to the fact that the reunification of fragmented rights usually involves transaction and strategic costs of a greater magnitude than those incurred for the original fragmentation of the right. The intuition for such asymmetry is quite straightforward. A single owner faces no strategic costs when deciding how to partition his property. Conversely, multiple non-conforming co-owners are faced with a strategic problem, given the interdependence of their decisions. These strategic costs increase the transaction costs of any attempted reunification of the fragments into a unified bundle.

¶ 71 For composite creation and innovation, fragmented exclusion rights are problematic when we contemplate market failure in the licensing and negotiation of future allocations of use rights. The problem results from the complementary nature of many individual works of intellectual property. In the context of copyrightable content, this often means that “every author is also a user of prior works.”\textsuperscript{179} In effect, the extreme propertization of each of those individual contributions creates a setting where any subsequent author is at risk of being excluded from all possible sources of inspiration.

¶ 72 In this context, the real property analogy, previously associated with the case for the expansion of intellectual property law, works in the opposite direction: “If every valuable interest constituted property, then practically any act would result in either a trespass on, or taking of, someone’s property ...”\textsuperscript{180}

\textsuperscript{179} Lemley, Romantic Authorship, supra note 9, at 885.
In the application of strict intellectual property rights to the Internet, a multitude of conflicts between overlapping rights might arise. That is because cyberspace consists of overlapping rights whereby a “single act of transmission or browsing on the Net can potentially violate all of the exclusive rights listed in the Copyright Act ...”

More generally, while the allocation of property-right entitlements may provide an incentive for truly original work, it threatens to lower creativity involving original combinations of works in the arts and sciences. On a societal level this threatens to undermine the capacity of each potential user to “partake” in the common cultural and scientific conversation.

In order to evaluate the problem, the next sections will consider in more detail the level of exclusionary rights currently present in the property rights bundles of patents, copyrighted content and trademarks.

B. Patent Law

1. Patent Law and Exclusion Rights

A patent provides an inventor with the exclusive right against all unauthorized uses of the patented product. Exclusion rights are considerable under patent protection. Other potential users of the resource are constrained not only from manufacturing, but also from using, selling, or importing the resource without prior consent from the patent holder. A patentee’s exclusive right extends to identical inventions, regardless whether these inventions were copied from the patent and irrespective of any good faith intentions on the part of the patent infringer. In addition, the doctrine of “equivalent patents” extends the control rights of the patentee beyond the terms of the patent description. Under this doctrine the holder may exclude the development of all subsequent, similar, non-identical, useful inventions.

The scope of a patent is the crucial determinant of the scope of an individual

181. Mark Lemley, Dealing with Overlapping Copyrights on the Internet, 22 U. DAYTON L. REV. 547, 549 (1997). See also Niva Elkin-Koren, supra note 9, at 82, 99 (“recent litigation and court decisions could chill investors away from what would be perceived as legally risky technologies, thus shrinking the invested resources in the development of new technologies and business practices, which might threaten the right holders’ position”). This illustrates the collective action nature of the problem of exclusive rights in intellectual property rights.
182. Katyal, supra note 55, at 1482, with reference to Vaidhyanathan, supra note 30, at 143-44 (outlining case law that resulted in lower levels of sampling in recorded works of music). See also Rosemary Coombe, Left Out on the Information Highway, 75 OR. L. REV. 237 (1996).
183. Benkler, supra note 64, at 576 (advocating sustaining a commons in resources for the production and exchange of information and free access models).
184. See generally CHISUM, supra note 33; CASES AND MATERIALS ON PATENT LAW (Martin Adelman et al. eds., 2002).
185. See 35 U.S.C. §§ 154(a), 271(a) (1994 & Supp. III 1997). This stands in contrast to most other areas of intellectual property law, where only some unauthorized uses are prohibited. Consider for instance the exceptions in copyright law, such as the fair use and first-sale doctrines, 17 U.S.C. §§ 107-12. Also, wrongful intent is not a condition for infringement.
Depoorter, The Several Lives of Mickey Mouse: Expanding Intellectual Property Law

When a patentee argues that his patent has been infringed, he or she needs to demonstrate that the infringer’s patent or use falls within the boundaries of the claimant’s prior, protected patent. The initial decision on patent scope is made by the patent claimant. This decision is subject to the scrutiny of the Patent Office, which verifies whether the claimed invention meets the statutory requirements of novelty, non-obviousness, utility, and enablement. If a patent infringement is litigated, these aspects are re-evaluated by the court. Because of the strict liability nature of patent infringements, the patentee will in effect enjoin the unauthorized manufacturing, use, sale, or importation by the infringer. As such, the legal protection of the patent system creates the conditions for the exercise of significant rights of exclusion in inventions.

2. Formal Example

The exclusivity awarded by a patent becomes a crucial factor when a prospective follow-up inventor needs to rely on prior, patented inventions for his own research. Consider the following formal illustration by Schulz et al. When two firms each hold a patent in a technology that requires the use of both (complementary) patents, any third party desiring use of the technology will need to obtain access to both patents. Suppose that there is a continuum of such third-party firms where each firm is characterized by its willingness \( w \) to pay for the use of the two patents. Let \( w \) be uniformly distributed across \([0, 1]\). Suppose the patent-holding firm \( i \) asks a price \( p_i \) for a license to use its patent. Hence the price to be paid to both patent-holding firms is \( p_1 + p_2 \). All third party firms with a willingness to pay at least such amount will ask for a license from both firms. Given the assumption that on the distribution of the potential licensees the demand for patents is \( 1 - (p_1 + p_2) \), patent-holding firm 1 has a profit of

\[
p_1 (1 - (p_1 + p_2))
\]

There is an analogous expression for firm 2. The decision to set a price for a

186. Almost universally a patent claim consists of (i) a specification of the invention that describes the problem and solution-process which allows others to reproduce the invention; and (ii) the claim, which specifies the application’s proposed scope of the invention and allows delineation of the invention from the existing state of the art.

187. See, respectively, 35 U.S.C §§ 102(a), (e), (g); 103; 101; and 112. Similarly, European patent applications must meet the substantive requirements of novelty (not part of the state of the art), involve an inventive step (not obvious to a person skilled in the art), and must be susceptible to industrial application. See Convention on the Grant of European Patents, Oct. 5, 1973, art. 52. 13 I.L.M. 271 [hereinafter European Patent Convention]. For a summary, see TRITTON, supra note 7, at 88-123.

188. Robert P. Merges, Intellectual Property Rights and Bargaining Breakdown: The Case of Blocking Patents, 62 TENN. L. REV. 75, 77 (1994) [hereinafter Merges, Blocking Patents]; “The basic rule [in patent law] is that the rightholder has an almost absolute right to obtain an injunctive remedy against the infringer.” See also Robert P. Merges, Of Property Rules, Coase, and Intellectual Property, 94 COLUM. L. REV. 2655, 2667 & n.44 (1994) [hereinafter Merges, Coase], citing Smith Int’l, Inc. v. Hughes Tool Co., 718 F.2d 1573, 1578 (Fed. Cir.), cert. denied, 464 U.S. 996 (1983) (“[W]ithout the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research”).

189. Schulz, Parisi & Depoorter, supra note 176, at 600-01.
license can be modeled again as a Nash equilibrium of a simultaneous move game. The equilibrium value of both prices is 1/3 such that both licenses cost 2/3.

¶ 80 Suppose now that both patents are in the hands of just one firm that demands a price of $P$ for a license on both patents. Then the profit of this firm will be

$$ P ( 1 - P ) $$

¶ 81 This profit will be maximized at $P = \frac{1}{2}$. Hence, fragmentation raises the price for both licenses. This induces some firms not to employ the technology. Therefore fragmentation decreases the value created by the technology.

3. The Imperfect Patent Licensing Market

¶ 82 As discussed in Part II, parties that hold complementary inputs may fail to maximize the total value of resources because of transaction costs or strategic behavior. In the particular case of patent licenses, there are several factors that further complicate the licensing process between a patent holder and an improver or follow-up inventor.

a. The Unpredictable Path of Innovation

¶ 83 Research on patentable inventions entails a significant degree of *ex ante* uncertainty.¹⁹⁰ It is unduly hard to predict inventions in advance or to estimate the value of inventions with some degree of success.¹⁹¹ Historic examples of the difficulty of getting to an accurate estimation of the expected value of present inventions include IBM's underestimation of the future market for home computers.¹⁹²

¶ 84 Uncertainty as to the value of an invention also extends to a follow-up invention. The usefulness of a patented good in the licensee’s context is subject to another layer of uncertainty when applied to the context of the licensor’s invention.

¶ 85 These high levels of uncertainty regarding the value of a patent will make a prospective licensee cautious and reluctant in the negotiation of a licensing price. When

---

¹⁹⁰. Merges, Employee Inventions, supra note 90, at 23.

¹⁹¹. Mark A. Lemley, The Economics of Improvement in Intellectual Property Law, 75 TEX. L. REV. 989, 1049 & n.280 (1997) [hereinafter Lemley, Economics of Improvement] (referring to the literature that illustrates the computational problems firms have in the management of intra-firm inventions: Steven A. Lippman et al., Heterogeneity Under Competition, 29 ECON. INQUIRY 774 (1991); Michael E. Porter, The Structure Within Industries and Companies’ Performance, 61 REV. ECON. & STAT. 214 (1979); David J. Teece, Profiting from Technological Innovation: Implications for Integration, Collaboration, Licensing and Public Policy, 15 RES. POL. 285 (1986)).

both parties’ expectations diverge too widely, no licensing agreement may be reached.\textsuperscript{193} Moreover, as experimental research has demonstrated, uncertainty has a magnifying effect on reservation prices.\textsuperscript{194} Highly detailed contracts might ameliorate the problem, but integrating all possible contingencies into contracts is costly and not all eventualities are foreseeable.\textsuperscript{195}

\subsection*{b. Product Complexity}

\textsuperscript{196} Due to the technical and complex nature of patented products, intellectual property licenses are highly complex and more costly than regular licenses.\textsuperscript{196} In the case of technology licenses, transaction costs amount to 20\% of the total value of the underlying license.\textsuperscript{197} These licensing contracts regularly include complex assignments of partial legal rights, and long-term agreements that regulate the future and ongoing relationship between the licensee and licensor.

\subsection*{c. Valuation and the Information Paradox}

\textsuperscript{198} Licensing agreements encounter specific problems in the valuation of patents. The uniqueness of every individual invention prevents parties from accurately estimating the “cost of a license on the value of the right licensed.”\textsuperscript{198} Moreover, it is hard to place separate values on relative contributions of the pioneer and improver, in combination with the uncertainty of the technology prospects of development and profitability.\textsuperscript{199}

\textsuperscript{199} The information problem is even more complex in the course of license negotiations involving potential rather than actual improvers.\textsuperscript{200} In such a context parties

\begin{flushleft}

\textsuperscript{194} In cases of uncertainty, the anticommons pricing effect is amplified. The results in Depoorter & Vanneste suggest that licensors ignore the expected value of the licensee’s project, and instead focus on the upper range of profitability of surplus. Willingness to accept seems to be anchored to a proportion of the maximum profitability, rather than a proportion of the expected benefits of the project. In one particular experiment the total uncoordinated reservation price of all licensors was seven times above the expected value of the project. In the experiment this created a serious gap between the amount licensor’s holders were asking, on the one hand, and what a third-party entrepreneur could reasonably offer, on the other hand. See Ben W.F. Depoorter & Sven Vanneste, \textit{Putting Humpty Dumpty Back Together: An Experimental Test of the Anticommons}, CASLE WORKING PAPER #14 (2003) (on file with author).

\textsuperscript{195} “[I]n order for the parties to divide the gains from trade, they must know what those gains are,” Lemley, \textit{Economics of Improvement}, supra note 191, at 1055.

\textsuperscript{196} Id. at 1053.

\textsuperscript{197} Id. at 1053-54.

\textsuperscript{198} Id. at 1053.

\textsuperscript{199} Merges, \textit{Blocking Patents}, supra note 188, at 75.

\end{flushleft}
face what is known as Arrow's information paradox.201 The actual improver possesses valuable information that he would like to disclose to the patent owner in exchange for money.202 However, the exchange cannot occur before the original owner is in a position to evaluate the information, while at the same time, under prospect theory,203 this would entail that the patent owner is free to use the patented information once she finds out what the improvement consists of.204

d. The Conundrum of Potential Prospect Inventors

¶ 89 For potential improvers, licensing is especially difficult when transaction costs (1) are higher than perceived (but overly pessimistic) evaluations of the value of improvements; or (2) lead improvers ex ante to forego improvements in the advent of these transaction costs.205 Both these options create deadweight losses due to the misperception of either the value of the improvements or the magnitude of the transaction costs. Both are a subset of the more general condition of uncertainty.

¶ 90 As such, these observations give pause to pessimism as to the likelihood that follow-up innovators and improvers, actual and potential, will be successful in obtaining
the patent rights to combine into their own research.206

4. Safeguards and Legal Caps on Dysfunctional Fragmentation of Innovation

§ 91 The problematic nature of exclusivity of innovation of the patent system depends largely on the institutional framework of patent law. As Merges notes, “sensitivity to the life of a property right after it is initially granted – the pattern of transactions in which it is exchanged, and the institutions that may grow up to facilitate this exchange – reveal much about the optimal nature of the right.”207

§ 92 There are a number of factors that may mitigate the problem of fragmentation. Whether these rules and institutions are sufficient to overcome most instances of underuse and underinvestment is an empirical matter. For the moment, it will be useful to identify rules in patent law that might ameliorate the anticommons problems.

§ 93 Most importantly, patent rights are subject to a limited duration.208 After expiration of the statutory period209 patent technology reverts to the public domain, where it may be freely used to infuse the future innovation.

§ 94 Under the doctrines of “first-sale” and “exhaustion” a lawful purchaser is permitted to use and resell patent technology without the patentee’s permission.210 These doctrines apply only to situations where the patent has been sold.

§ 95 The doctrine of patent misuse prevents cases where patents are used as leverage for the purchase of a monopoly in different product markets.211

§ 96 Under the doctrine of “blocking patents” the holder of the narrower (“subservient”) patent cannot practice the invention without a license from the holder of the dominant patent, while at the same time, the holder of the dominant patent cannot integrate the improved feature without a license. Thus, in cases where the alleged infringer holds a narrow patent on an improved feature of the broader, allegedly

207. Id. at 1862.
208. “[A]ll idea property return[s] to the common automatically at some point.” Hughes, supra note 6, at 323 (emphasis in original).
209. Article 33 of the TRIPS Agreement, supra note 7, prescribes a minimum period of 20 years from the date of filing. There is no maximum period. See also European Patent Convention, supra note 187, at art. 63 (stipulating 20 years). Under national law and EC legislation, protection is extended for pharmaceutical products, because marketing is often delayed by regulatory procedures. In the United States, the 20-year duration of protection for patents is provided by 35 U.S.C. § 154.
210. See CHISUM, supra note 33, at 976-77.
211. 35 U.S.C. § 271(d); For a criticism, see Mark Lemley, The Economic Irrationality of the Patent Misuse Doctrine, 78 CAL. L. REV. 1599 (1990). For the European context of antitrust enforcement, see TRITTON, supra note 7, at 563-730.
infringed-upon patent, patent law places the parties in a bilateral monopoly.\textsuperscript{212} The doctrine of “blocking patents” presents each party with both a carrot and a stick in the negotiations. Yet a blocking patent situation may develop into an anticommons when a third party wants to obtain two complementary patents that are blocked.\textsuperscript{213}

\textsection{97} Under the “reverse doctrine of equivalents” no infringement will be found if the innovation carries a significant contribution that takes the invention outside of the original, allegedly infringed-upon patent.\textsuperscript{214} When there are substantial technological advancements at stake, patent law thus eliminates the veto rights of complementary right holders (monopoly or bilateral monopoly). In cases of significant technical achievements, the reverse doctrine of equivalents acts as a merit-based type of fair use and trumps the right to exclude. This will likely encourage more voluntary licensing in cases where a pioneer and an improver hold exclusive rights in a complementary unit.\textsuperscript{215} The doctrine may act as a potential threat to moderate the expected value of the pioneer and might thus create a “bargaining overlap” between the pioneer and improver.\textsuperscript{216}

\textsection{98} Similar to a fair-use defense, patent law encapsulates an “experimental use” exception for patented technology.\textsuperscript{217} This doctrine is, however, restricted to instances where the experimentation does not further the legitimate business interest of the potential infringer.\textsuperscript{218}

\textsection{99} Unlike copyrighted works, patents do not lend themselves well to pooling by intermediaries. Licensing patents in bulk is extremely difficult because of the more complicated nature of patents and inventions. In particular, improvements are hard to categorize. Assessing fees for individual uses might be very tricky.\textsuperscript{219} There is historical evidence of a collective exchange pooling in the automobile and aircraft industries, albeit only after many years of “significant litigation and refusal to license” between the main competitors.\textsuperscript{220} Also, the rapid turnover rate associated with the software and biotechnology industries prevents the existence of “close-knit” communities that are

\textsuperscript{212} See Merges, Blocking Patents, supra note 188, at 82-83; Merges & Nelson, supra note 37, at 860-61.

\textsuperscript{213} Note that the process that unites “blocked” patents does not necessarily extend to third-party prospective licensees.

\textsuperscript{214} Merges & Nelson, supra note 37, at 862-68.

\textsuperscript{215} Merges, Blocking Patents, supra note 188, at 76-102 (offering examples of bargaining breakdown as a case for reverse equivalents).

\textsuperscript{216} Id. at 95-99.

\textsuperscript{217} See generally CHISUM, supra note 33, at 355-68.


\textsuperscript{219} Lemley, Economics of Improvement, supra note 191, at 1054.

\textsuperscript{220} Rai, supra note 94, at 130. However, the conditions for the emergence of pooling equilibria are not present in all industries. Especially with regard to inventions with high valuation uncertainty, such as those found in the biotechnology industry, pooling equilibria are precarious. For a discussion of the emergence of a pooling situation in the automobile and aircraft industry, see id. at 129-32.
conducive to the emergence of such pools.

As a last resort, the anticommons bottleneck might be overcome by more direct regulatory interventions such as compulsory licensing. However, some have argued that compulsory licensing has never been successful in the patent context. The licensing of patents generally involves transfers of unique, highly specialized technologies, the valuation of which relies on prior experience. Non-voluntary licensing may thus give rise to cases of over- or under-compensation and tilt the balance toward “party-to-party valuation,” a perspective similar to the general specific performance bias in economic scholarship of contract law. Furthermore, some have argued that transaction costs and bargaining problems do not bar exchanges but instead lead parties to invest in institutions that lower the costs of exchanges. Compulsory licensing solutions might thus prevent the emergence of these efficiency-enhancing institutions.

221. Maureen O’Rourke, Toward a Doctrine of Fair Use in Patent Law, 100 COLUM. L. REV. 1177, 1245 (2000). But see Rai, supra note 94 (on sharing research norms in the field of biotechnology); Merges, Property Rights Theory and the Commons, supra note 16 (describing a dual-commons regime scientists share among each other while enforcing property rights against commercial actors).

222. See Jerome H. Reichman & Catherine Hasenzahl, Non-voluntary Licensing of Patented Inventions, in UNCTAD/ICTSD CAPACITY BUILDING PROJECT ON INTELLECTUAL PROPERTY RIGHTS AND SUSTAINABLE DEVELOPMENT (2003), available at http://www.ictsd.org/pubs/ictsd_series/iprs/CS_reichman_hasenzahl.pdf (providing an historical perspective, reflections on the TRIPS framework, and a discussion of licensing practices in Canada and the United States); Jerome H. Reichman & Catherine Hasenzahl, Non-voluntary Licensing of Patented Inventions: The Canadian Experience, in UNCTAD/ICTSD CAPACITY BUILDING PROJECT ON INTELLECTUAL PROPERTY RIGHTS AND SUSTAINABLE DEVELOPMENT (2002), available at http://www.iprsonline.org/unctadictsd/docs/reichman_hasenzahl_Canada.pdf (describing bargaining outcomes and compulsory licensing applications in Canada). Also, the laws of a number of European countries provide for a system of compulsory licensing of a patent where there is no manufacture of the patented product in the country and demand is being fulfilled by importation. Such systems are limited by the EU rules on non-discrimination, competition law (see Terence Prime, European Intellectual Property Law 29-74 (2000)), and the TRIPS Agreement, supra note 7, at art. 31 (discussing minimum rights regarding remuneration and duration for the grantee of the compulsory licenses). See also the European rules on “compulsory cross licensing” in the context of complementary rights of plant variety and patent protection. In the situation where the owner of one right requires the consent of the other right’s owner to commercialize a product “on reasonable terms,” a license is compulsory when the license is “necessary” for the exploitation of the plant or plant variety. Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the Legal Protection of Biotechnological Inventions, art. 12, 1998 O.J. (L 213) 13 [hereinafter Biotech Directive].


226. Such is the operating hypothesis of much of the work of Robert Merges. See Merges, Coase, supra note 188, at 2668.
C. Copyright Law

1. Copyright Law and Exclusion Rights

Copyright law protects the expression of ideas. An expression must contain a certain degree of originality and it must result from the author’s efforts. Once these conditions are fulfilled, the author benefits from copyright protection without any further formal requirements.

Copyright law grants authors five exclusive rights, each subject to certain exceptions: 1) the right to reproduce in copies or phonorecords (right of reproduction; 2) the right to prepare derivative works based on the copyrighted work (the adaptation right); 3) the right to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfers of ownership, or by rental, lease, or lending (the right of distribution); 4) the right to perform the work in public (right of public performance); and 5) the right to display the work in public (the right of public display). Copyright’s exclusionary rights are enforced by temporary and final injunction. This is also due to the fact that damages are hard to prove, and under-compensation is likely.

2. A Formal Model

Consider the copyright law problem faced by an author in his dealings with a book publisher. Suppose that the author wants to sell his copyright to the book for price \( p_2 \) per copy sold. The publisher expects the demand for the book to be \( 1 - p_1 \), where \( p_1 \) is the price the publisher charges. Aside from costs, the profit of the publisher is thus

\[
(p_1 - p_2)(1 - p_1)
\]

and the profit of the author is

\[
p_2(1 - p_1).
\]

---

227. On the similarities and overlap between subject matter and social utility of patents and copyrights, see Lemley, Economics of Improvement, supra note 191, at 1034-38.
233. “‘Courts exercise their statutory authority to grant temporary injunctive relief more readily in the context of copyright actions than in any other intellectual property cases.’” Merges, Coase, supra note 188, at 2667 (quoting 2 PAUL GOLDSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 11.0, at 247-48 (1989)). See also PETER STONE, COPYRIGHT LAW IN THE UNITED KINGDOM AND THE EUROPEAN COMMUNITY 91 (1990) (stating that the “grant of a final injunction to a successful copyright plaintiff is almost automatic, since its refusal would amount to judicial connivance at the compulsory purchase by the defendant, without statutory authority, of the plaintiff’s proprietary rights”); European Union Information Society Directive, supra note 26, at art. 8(1) (reinforcing the strength of remedies in the digital context by providing that remedies must be “effective, proportionate and dissuasive”).
¶ 104 If the author commits first to a price, a natural assumption in this context, the pricing decision can be described by the Nash equilibrium of a two-stage game. Equilibrium values are $\frac{1}{2}$ for $p_2$ and $\frac{3}{4}$ for $p_1$. If the author had the opportunity to market the book himself the price would be $\frac{1}{2}$. Once again the fragmentation of rights results in a higher price and sub-optimal use of the intellectual property – in this example a decrease of potential readership.\[234\]

3. Safeguards

¶ 105 The exclusionary effect of copyright law is moderated in that it does not protect against independent development. A copyright holder needs to assert actual reliance on the part of the alleged copyright infringer.\[235\]

¶ 106 A number of aspects of current copyright law have received criticism. According to Elkin-Koren, much of the expansion of copyright is due to the erosion of the idea-expression dichotomy.\[236\] Allegedly, today’s standard of originality is one of origin, not novelty. A work receives copyright protection when it has not been copied from another source and involves a minimum of creativity.\[237\] But it must be an expression and not an idea; the expression itself is what is protected then. By blurring this distinction, the scope of property rights is considerably extended.\[238\] By reinforcing a stricter requirement of novelty, the reach of copyright law could be contained.

¶ 107 Some have argued in favor of limiting copyright remedies to liability rule protection. Lawrence Lessig advances such “compensation without control,”\[239\] for instance via a process of compulsory licensing, where the government could set “reasonable” royalty rates to compensate artists while assuring access for the community.

---

234. See Schulz, Parisi & Depoorter, supra note 176.

235. 2 GOLDSTEIN, supra note 233, § 7.2.2, at 19. This stands in contrast to patent law, which does not discriminate among independent development, and instead treats all use as infringing. Also, patent law does not contain any use defenses. For an innovative proposal that allies patent law with copyright law in this regard, see O’Rourke, supra note 221, at 1245. But for a rationalization of the many differences in the laws of patents and copyright law, see John Shepard Wiley Jr., Copyright at the School of Patent, 58 U. Chi. L. Rev. 119, 182-83 (1991), who characterizes the observed differences as a “simple matter of volume”: “The nation in its entire history has granted only 5,271 million patents. It would not be surprising if a country of a quarter of a billion people created that number of different written documents, photographs, and works of art and music in a single day” (emphasis in original).


237. “Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such.” TRIPS Agreement, supra note 7, at art. 9(2).

238. See Elkin-Koren, supra note 236.

239. Katyal, supra note 55, at 1474.
of users and prospective inventors.  

4. The Emergence of Efficient Institutions: Copyright Pooling

As illustrated above, part of the problem with the anticommons in copyright law results from the fact that the fragmented group of copyright holders fails to coordinate the pricing of their licenses.

Collective rights organizations act as intermediaries between the right holders (supply) and individual users (demand). The potential availability of a single avenue to purchase the complementary rights might, varying with the inclusiveness of the intermediaries’ rights collection, solve the problems documented in the economic model of fragmentation.

First, when authors join copyright collectives, they “contract into liability rules,” as they no longer retain a full veto right on the use of their works, which overcomes the difficulties associated with the commitment and coordination of property rights rules.

Second, intermediaries hold a certain authority and practical ability to set prices. Copyright collectives and other intermediaries often retain the independent power to specify prices for individual transactions. Copyright intermediaries regularly engage in third degree price discrimination, charging different prices to various broad categories of licensees (e.g., profit/non-profit, number of seats in a venue, number of listeners of the radio station, voltage, etc.). When selling copyrighted products that are complementary inputs, the intermediary chooses prices that are lower than the prices copyright holders would have chosen if pricing independently from one another. The salient point is that the lower price charged by the intermediary is beneficial to all individual copyright sellers, because it allows them to maximize the total profit from the sale of their licenses, improving upon the alternative anticommons result reached in the

---

240. Lessig, supra note 30, at 241-58. See also Gordon, supra note 88; O’Rourke, Rethinking Remedies, supra note 166 (because intellectual property increasingly involves contracts and commercial transactions, U.C.C. damage remedies should, in most cases, take priority over injunction as the default remedy).

241. See Merges, Contracting into Liability Rules, supra note 28.


243. For further reference, see American Society of Composers, Authors and Publishers, at http://www.ascap.com. To be more precise, as a matter of law, copyright collectives such as ASCAP and BMI do not have exclusivity in the sale of copyright licenses. Recent antitrust rulings require copyright owners to retain the ability to issue licenses (“direct licenses”) for their work. When involving “complements,” owners have no incentive to deviate unilaterally from the coordinated pricing equilibrium induced by the intermediary. Owners will not be able to sell for more than the collectives’ equilibrium price and, given the complementarity of the licenses, they have no incentive to sell for less. The competition between source and intermediary licenses would thus have no effect on the equilibrium price. The antitrust provisions on this point are therefore ineffective. See Parisi & Depoorter, supra note 242.
The paradox— that the intermediaries' price is lower than one that would have been chosen by the owners and yet it increases their total profits from the sale— can be understood by recalling that the anticommons equilibrium pricing is the direct outcome of a "prisoner's dilemma" that individual copyright holders face when pricing copyrights independently. While individual sellers could not coordinate prices, intermediaries overcome the anticommons deadweight losses, providing a benefit for society as well as for the owners.245

D. Trademark Law

1. Legal Exclusivity of Trademarks

Trademark protection prevents consumer confusion on the market by encouraging competitors to use distinctive marks to identify their goods and services.246 The

244. The question arises whether the analysis applies also to tying practices. ASCAP and other comparable performance rights institutions only offer blanket licenses (covering the right to perform the collective's entire repertory) and to a small extent per-program licenses (a blanket license covering use of the repertory in a specific radio or television program, while requiring the user to keep track of the use). As a practical matter, per-program licenses are rendered unattractive by ASCAP and BMI, because of a cumbersome procedure and the threatened enforcement of non-intentional infringement. Also, it is questionable whether source and direct licenses provide alternatives to the preeminent system of blanket licenses in performing rights. The viability of source licenses is hampered, for syndicates generally tend to split off performance rights to the collective performing rights associations, while original copyright holders are reluctant to license their works individually. In fact, the collectives have objected to anything but blanket licenses and have been ostensibly unwilling—despite efforts by the antitrust authorities— to move toward item-specific licenses (e.g., the right to use a particular song once). The most obvious explanation for this reluctance lies in arguments for saving transaction costs. See Stanley M. Besen et al., An Economic Analysis of Copyright Collectives, 78 VA. L. REV. 383 (1992). The analysis above provides an additional rationale for the strategy of collectives with regard to blanket licenses. By tying all licenses together, copyright collectives are able to shield their market power from the potential competition of individual source licenses. Tying, in other words, is instrumental to the sustainability of the concentrated monopolistic pricing of the copyright collectives. Bearing in mind the previous discussion, this has dual effects from an efficiency point of view. In the "complements" case, this prevents the tragic outcome of the anticommons pricing. However, in the "substitutes" case, this has the effect of preventing desirable competition. The traditional concern of tying should thus be reappraised in light of the beneficial effects of "packaging" complementary goods, to avoid the undesirable pricing problems discussed above. At first impression, bundling may be the result of the successful coordination of suppliers of complementary goods, who have overcome the hold-out strategies that generate the complementary oligopoly problem.

245. Opposite conclusions are reached in the case of substitutes. Here, an intermediary with independent price-fixing authority renders monopolistic pricing sustainable in a Nash equilibrium. The resulting equilibrium favors copyright owners, who are able to maximize total profit from the sale of their licenses, as would happen in a cartel. But such coordination is socially inefficient compared to the alternative competitive (or oligopolistic) equilibrium, because it prevents beneficial competition with the creation of a social deadweight loss.

246. See, e.g., the United States federal trademark statute, Lanham Act of July 5, 1946, ch. 540, 60 Stat. 427 (1946) (current version at 15 U.S.C. §§ 1051-1127). With regard to European Community Trademarks, proprietors are entitled to "prevent all third parties ... from using in the course of trade ... any sign which is identical with the Community trade mark in relation to goods or services which are identical with those for which the Community trade mark is registered." Council Regulation 40/94 on the Community Trademark, art. 9, 1994 O.J. (L 011) 1 (hereinafter Community Trademark Regulation). See
The Social Lives of Mickey Mouse: Expanding Intellectual Property Law

The economizing function of a trademark or brand name is the exclusivity of the right itself. For a trademark to have value it cannot be duplicated. Allowing another company to use the same brand would remove the original brand’s identifying function, thereby eliminating its value. Much of substantive trademark law can be explained in this light. For example, in U.S. trademark law, sales and licenses of trademarks are restricted, and any sale must be followed by monitoring for quality compliance.

2. The Social Costs of Trademarks

Do trademarks raise concerns from the viewpoint of economic fragmentation?

To a certain extent, trademark owners can prevent the use of a mark in criticism or comedy pieces by artists, authors and political groups, news agencies, and so forth. Some have held that the threat of litigation by trademark owners may “have a chilling

\[\text{113} \text{ Injunction is the default remedy for trademark infringements.} \text{ Courts will weigh the individual facts of the case and consider whether equity demands an injunction, taking into consideration factors such as intent, public interest considerations, legislative intent, harm suffered by the plaintiff, balance of hardships, etc. “Irreparable injury is presumed” when a plaintiff “demonstrate[s] a likelihood of success on [its] trademark infringement claim,” so courts regularly issue preliminary injunctions prohibiting the further display and other uses of the infringing trademark.}\]

\[\text{114} \text{ Do trademarks raise concerns from the viewpoint of economic fragmentation?} \]

\[\text{115} \text{ To a certain extent, trademark owners can prevent the use of a mark in criticism or comedy pieces by artists, authors and political groups, news agencies, and so forth. Some have held that the threat of litigation by trademark owners may “have a chilling}\]


\[\text{247. Possible costs of trademarks are that they induce owners to spend on advertising and the promotion of a spurious image of high quality that enables monopoly rents by deflecting consumers from lower priced but equal quality substitutes. However, the conception of trademarks as artificial monopoly has largely been discredited in the economic literature. It is often assumed that consumers are willing to pay a premium for the assurance that a product with a certain chemical formula will be actually manufactured along the formula. William M. Landes & Richard A. Posner, } \text{Trademark Law: An Economic Perspective,} 30 \text{ J.L. & ECON. 265, 269, 274-275 (1987).}\]

\[\text{248. Sale in gross is prohibited; see Lanham Act, 15 U.S.C. } \text{§ 1060. By contrast, most European countries allow the assignment of trademarks, even without transfer of the underlying business. The Registry Office can refuse the transfer if it would lead to consumer confusion regarding the trade origin of the good or services. See TRITTON, supra note 7, at 294. This also applies to community trademarks (“CTM”). A CTM can be assigned “separately from any transfers of the undertaking.” Community Trademark Regulation, supra note 246, at art. 17.}\]


\[\text{250. For dilution, see 15 U.S.C. } \text{§ 1125(c)(2): “[T]he owner of a famous mark shall be entitled only to injunctive relief ....” See also O’Rourke, Rethinking Remedies, supra note 166, at 1146-47: “injunction is the weapon primarily designed to enforce the property right to exclude established under the Patent and Copyright Acts and to protect the public from confusion under the Lanham Act. The injunction, common in intellectual property cases, may be used at virtually any stage of the proceedings to stop infringement” (footnote omitted). On the conflict between property rule protection of copyright law and the First Amendment, see Gordon, supra note 88.}\]

\[\text{251. See Hyatt Corp. v. Hyatt Legal Servs., 736 F.2d 1153 (7th Cir. 1984).}\]

effect on speech that happens to involve trademarks" and thus places control of the shape of discourse in the hands of a few. Familiar words cannot be used widely for political and social commentary and are no longer freely subject to humor or criticism.

§ 116 Others believe that the costs of exclusivity over words and symbols hardly outweigh the benefits for consumers. As one commentator notes, “the English language has more than one million words, most of which are under-utilized and wide-open, and each year probably more new words are being created freely than subtracted commercially.”

§ 117 The anticommons problem is largely reduced when one considers trademark law’s provisions on “generic trademarks.” The trademark law doctrine of generic marks restricts exclusive control on both an ex ante and ex post level. Trademark protection is terminated when the value of a trademark become so commonplace that it attains the status of a “generic” trademark. Under this restriction a word cannot and will no longer be adopted as a trademark when the term refers or has primarily become understood by the consuming public as referring to a product category. This preempts many of the public discourse concerns regarding the excessive control rights of trademark owners.

E. Current Issues in Intellectual Property Law

§ 118 The previous section underlines the wide-ranging effects of the expansion of intellectual property rights in patent, copyright and trademark law. This section further documents the close connection between the issue of fragmentation and the various questions that are at stake in the policy debates that currently surface in the field of intellectual property rights.

§ 119 The two current issues in the societal debate of intellectual property in this section are the appropriate role of patent protection in genetic and biomedical material, and the protection of Internet business methods. Both these issues are prime examples where underlying economic conditions have pushed the expansive boundaries of patent law.

253. Lemley, Death of Common Sense, supra note 42, at 1712. Trademark law may also shape the portrayal of our landscapes. Landowners have claimed trademark rights in their buildings to protect the design of these buildings, and to prevent uncompensated depiction of these buildings in whatever form. Some examples include the trademark granted to the façade of the New York Stock Exchange or the litigation on the shape of a golf course. Id. at 1712, nn.136-40 (reference to the relevant trademarks and case law).
254. Id. at 1712.
255. Id. at 1696.
258. 15 U.S.C. §§ 1051-1127. See also Trademark Directive, supra note 246, at art. 3(1)(a) and (d).
1. Patents on Genetic and Biotechnological Material: From Public to Private Ownership of Organisms and Information

Prior to the 1980s, living organisms, even when modified, were equated with “products of nature.” This definition of biotechnological or genetic material as non-patentable subject matter held most genetic material firmly outside of the sphere of patent law.

More recently, changes in economic undercurrents and the role of such research has placed pressure on the legal system, the courts in particular, to acknowledge patent claims primarily based on discoveries of DNA sequences.

Gradually, and decisively after Diamond v. Chakrabarty, patents have been issued on isolated and purified DNA sequences (separate from the chromosome in which they occur in nature) and on DNA sequences spliced into recombinant vectors or introduced into recombinant cells of a sort that did not exist in nature. Subsequently,

---

259. See, e.g., In re Mancy, 499 F.2d 1289, 1294 (C.C.P.A. 1974) (regarding a strain of microorganisms found in a soil sample).

260. A genome is the comprehensive genetic make-up of an organism, consisting of DNA. Discoveries of DNA sequences contain cloned genes that enable the production of proteins through recombinant DNA technology.

261. Research in genetic material has surged over the past decade. In 1990 the United States launched the Human Genome Project (funded by the Department of Energy and the National Institutes of Health) which intended to identify all genes that constitute our genome, to determine the sequence of the genome’s chemical bases, and to license the pursuant related technologies in the private sector. As of June 2000, the working draft of the genome has been available (and was completed in 2002). The availability of a genome sequence has provided a challenging and unique opportunity of further research toward the linking of new data to medical explanations for diagnostic and therapeutic purposes. The potential development of new therapeutics and diagnostic and commercially successful products and applications opened the horizon of research in this area. With the availability of the sequence, research now begins to analyze the raw sequence to determine the parts of the genome that encode genes, the areas of transcription, and the functional products that the genes encode. Such research hopes to bring to the fore the downstream commercial applications that might revolutionize medical treatments. For further information, see Five-Year Plan Goes to Capitol Hill, HUMAN GENOME NEWS, May 1990, available at http://www.ornl.gov/sci/techresources/Human_Genome/publicat/hgn/v2n1/04five.shtml. Research into life forms such as that covered by agricultural patents has diverse applications in such areas as food consumption, genetically engineered plants and organisms, new medications, and environmental disease.

262. In 2001, 20,000 to 50,000 gene patents were pending for review at the patent office. Bradshaw, supra note 117, at 640. The U.S. Patent Office attempted to slow down the tide of patent applications for routinely generated DNA fragments, called expressed sequence tags (ESTs), which are not genes, but merely parts of a gene, by issuing a set of Utility Examination Guidelines on January 5, 2001.

263. In Diamond v. Chakrabarty, 447 U.S. 303 (1980), the Supreme Court validated a patent claim on human-made, genetically-engineered bacterium capable of breaking down multiple components of crude oil. This case compounded the judicial treatment of artificial variants of naturally occurring substances. It cleared the way for the patent protection of biotechnological innovations such as genetically modified organisms and proteins. Patent applications for biotechnological and genetic material need to comply with patent law’s minimum standards of novelty, non-obviousness, utility and enablement. Also, in Europe, the protection for biotechnological inventions has been strengthened. After much back and forth between the European Commission and the European Parliament, a directive was adopted on the protection of biotechnological inventions. See Biotech Directive, supra note 222.

264. Eisenberg, Role of Patents, supra note 114, at 786.
patents have been granted on a variety of biotechnological products and processes. In effect, patents on the gene of a protein provide exclusivity in the market for the protein.

Most recent technological advancements have structurally altered the design of research in the field of genetics and genomics. Instead of cloning particular genes, the research and development objective has shifted to the more ambitious task of sequencing entire genomes. This represents a shift in the innovation (and patent) specter from new chemical entities to new scientific information. This paradigmatic shift in genetic research will be discussed more extensively below.

Due to technological advances, information itself has retained important commercial value, increasing the stakes in the assignment of rights to the information. From an evolutionary perspective, the drive for “propertization” can thus be readily explained in reference to the evolutionary theory developed in Part II.C.2. New scientific-technological advances have provided economic opportunities in the development of pure genetic information. Because genetic information has become a valuable commodity, demands for property rights protection arise in earlier stages of the innovation process.

a. Information Patents and Anticommons Dangers

Awarding patent claims on information itself, as opposed to the product assembled on the basis of this information, is a significant departure from the traditional understanding of the patent system. Under the conventional bargain of patents, patent law provides exclusivity in the products that are based on the information itself. A monopoly right is awarded in return for the disclosure of that information and the free use of the information about the invention for the purpose of innovation, rather than use

265. Biological material which is isolated from its natural environment or produced by means of a technical process is patentable, even if it previously existed in nature. See Implementing Regulations to the Convention on the Grant of European Patents, European Patent Convention, R. 23c(a), available at http://www.european-patent-office.org/legal/epc/e/ma2.html.

266. This is similar to a chemical compound that is vital to a drug.

267. Eisenberg, Role of Patents, supra note 114, at 784.

268. A patent holder’s right to exclude others from using a specific set of intangible genetic information traditionally covers genetic information in a physical form, such as molecules of DNA, RNA, or proteins. See Bradshaw, supra note 112, at 639-40.

269. Eisenberg, Role of Patents, supra note 114, at 785. For an in depth treatment, see Golden, supra note 120. Golden calls for continued government involvement and investment in innovation, coupled with a stricter enforcement of the utility requirements as a condition for patentability.

270. The commercial value of abstract genetic information has changed over time. “In the early days of patenting genes, the commercial value of genetic information derived not from the control of the information itself, but from control over its embodiment in the form of a tangible composition of matter – i.e. proteins.” Bradshaw, supra note 117, at 641.

of the tangible invention itself.\textsuperscript{272} When patent rights are granted in the information itself, the disclosure requirement of patent law is defeated. This establishes private rights of exclusion in information, while previously only the concrete output of the information was included in the patent bundle of rights.\textsuperscript{273} Awarding exclusivity in the information itself, even when contained in computer-readable media, is especially problematic because of the absence in patent law of safeguards such as fair use and reverse engineering, and because of the more limited experimental usage exception of patent law.

\textsuperscript{272} The fragmentation effect of this shift is highlighted in the case of genome companies. The genomic industry seeks commercial applications for genome data. It invests in discovering and patenting genes that are useful for the development of commercially viable products. Its business consists of selling the access rights to sequence information, drugs, diagnostic tools, and development. In these cases property rights are established at a very early stage.\textsuperscript{274}

\textsuperscript{273} Yet, genetic research is a “cumulative endeavor [where] [t]he work of downstream researchers depends on access to upstream discoveries.”\textsuperscript{275} This especially rings true in the field of genomics. Given the fragmented nature of the research industry, downstream products are likely to rest upon various materials subject to private property rights in the portfolio of various individual rights holders.

\begin{itemize}
\item \textsuperscript{272} The large costs of research and development are held as the primary justification for the patent system. Production costs of a new drug using chemicals to pharmaceuticals average U.S. $500 million. \textit{See Pharmaceutical Research and Manufacturers of America, Pharmaceutical Industry Profile 2001: R&D – The Key to Innovation} (2001), available at http://www.phrma.org/publications/publications/admin/2001-08-05.507.pdf. \textit{See also} Eisenberg, \textit{Role of Patents}, \textit{supra} note 114, at 797. Patent rights address the considerable gap between (1) up-front costs of developing and establishing a valuable and proven drug for the market, and (2) the lower costs of copying a drug, by allowing the innovator to enjoin competitors from all use of the claimed invention, and enabling above-market prices during the statutorily-provided period of monopoly. For innovative development, see D.C. Mowery & Nathan Rosenberg, \textit{Technology and the Pursuit of Economic Growth} 293-94 (1989). \textit{But see} E. Richard Gold, \textit{Biomedical Patents and Ethics: A Canadian Solution}, 45 McGill L.J. 413, 423 (2000) (arguing that the incentive-based justifications of patents are “mere acts of faith based on uncertain or self-serving empirical evidence”).

\item \textsuperscript{273} The patenting of genetic material has received criticism. There is a recognition that market failures in the transfers will be costly. \textit{See} Adam Bryant & Gregory Beals, \textit{Who Will Own the Code of Life?}, \textit{Newsweek}, Apr. 10, 2000, at 67.

\item \textsuperscript{274} Alexander K. Haas, \textit{The Wellcome Trust’s Disclosures of Gene Sequence Data into the Public Domain and the Potential for Proprietary Rights in the Human Genome}, 16 \textit{Berkeley Tech. L.J.} 145, 150 (2001). \textit{Cf.} Arti Kaur Rai, \textit{Evolving Scientific Norms and Intellectual Property Rights: A Reply to Kieff}, 95 \textit{Nw. U. L. Rev. 707} (2001) (discussing the extensive patenting that occurs at major research universities, pointing to a norm that disfavors private property rights in high upstream research, such as gene fragments (ESTs) of unknown function). \textit{See also} Robert P. Merges, \textit{Property Rights Theory and the Commons, supra} note 16 (discussing science as a limited access commons that combines sharing norms among pure scientists with property rights enforcement against commercial entities).

\item \textsuperscript{275} Bradshaw, \textit{supra} note 117, at 642. The most recent innovation is the arrival of “automated high-throughput” sequencing techniques which enable scientists to process large quantities of raw genomic data for which no use is known. Expressed sequence tags (ESTs) are sets of chemical base pairs that identify codes for protein regions with unrevealed biological functions. The pairs are valuable as they may lead to the code of protein products. \textit{Id.}
The anticommons problem is especially daunting in the field of expressed sequence tags ("ESTs"), where gene fragments have been patented without any knowledge as to their biological function. "[P]atent holders of these fragments own overlapping sections of the same gene. Creation of commercially viable products is likely to require the use of multiple gene fragments."276

Property rights in genes of unknown functions are problematic. A researcher who investigates a disease or clinical disorder in relation to a particular gene will need to seek licenses from each of the patent rights holders of the various possible explanatory ESTs or single nucleotide polymorphisms ("SNPs"). In cases of increased uncertainty as to the synergetic effect of one's own research and the to-be-licensed material, the prospective licensee might forego the intended research. The high degree of uncertainty in the research on gene patents of uncertain use is thus an argument against the propertization of such subject matter, in light of the economic model of fragmentation.277

The American Society of Human Genetics describes the problem as follows:

Normally, a patent ensures that a gene will be available for all researchers and for any company willing to license it. We fear that in the case of ESTs it may have quite the opposite effect. An EST patent, to be useful to the commercial sector, must make broad claims in regard to future use, including protection for the rest of the gene and its protein product, and their use for diagnostic and therapeutic applications. The academic community is unlikely to put major research effort into an EST-identified gene or its protein product if someone else already has the right to license its use based on the trivial effort required to sequence the original EST. In the commercial sector there may be reluctance to invest heavily in further research on EST-identified genes when a small but unknown fraction of them will turn out to have commercial utility, and when the useful ones may be contested by patents involving other ESTs from the same gene. Genome research could end at the level of ESTs.278


277. But see Kieff, supra note 60, arguing that current patent law would not block full use of the gene in such circumstances. In a response, Rai cites John Doll, director of biotechnology examination at the Patent and Trademark Office (PTO): “The USPTO views this situation as analogous to having a patent on a picture tube. The picture tube patent does not preclude someone else from obtaining a patent on a television set. However, the holder of the picture tube patent could sue the television set makers for patent infringement if they use the patented picture tube without obtaining a license.” See Rai, supra note 274, at 711.

b. Safeguards against Patents in Information

¶ 131 In responding to the dangers of fragmentation we may envisage devices that prevent fragmentation (the ex ante level) or solutions that correct some of the problems (the ex post level).

(1) Ex Ante Prevention

¶ 132 Several aspects of patent law might provide a counterbalance against the wasteful effects of over-fragmentation in the context of genetic research.

¶ 133 A gene patent provides the right to exclude others from making, using or selling the physical molecule, but it does not preempt others from “perceiving, using, and analyzing information about what the DNA sequence is.”279

¶ 134 A certain consensus has emerged in the patent community that genes should remain unpatentable unless the concrete use of the genes can be described.280 As a normative corollary, in the stage of sequencing genes, the genes will be unpatentable matter.281 The Human Genome Project, the international project that maps all human genes, is an interesting example of non-patent incentive conducted research.282

¶ 135 An intermediate step is to award patents that provide less extensive control rights to the proprietor. For instance, exclusivity could be granted for more narrow aspects of the right of use in an invention or non-exclusive license rights over a larger field of uses. Such more limited monopoly rights would reduce the amount of exclusivity in the bundle of rights of the patent holder, but might still suffice as incentives for biomedical investments.

---

279. Bradshaw, supra note 117, at 642 (with reference to Eisenberg, Role of Patents, supra note 114, at 788).

280. Consider in this regard the activities of The Wellcome Trust (“WT”). The WT is the world’s largest medical charity organization, consisting of a dozen of public and private institutions involved in human genome research, with the “aim of improving human and animal health.” At the “Strategy Meetings on Human Genome Sequencing” in Bermuda on issues of sequencing strategy, policy, and data dissemination, the Bermuda Agreement was concluded. The most essential findings are that (i) raw sequence should be freely available in the public domain, with a priority accorded to disclosure of raw genome as soon as possible; and (ii) proprietary rights should be limited to the “useful benefits derived from genetic information.” See The Wellcome Trust, Summary of Principles Agreed at the International Strategy Meeting on Human Genome Sequencing, Feb. 25-28, 1996, available at http://www.gene.ucl.ac.uk/hugo/bermuda.htm. See also Haas, supra note 274, at 163.

281. Gold, supra note 272.

282. For a critical examination of the proof of the stimulating effect of patents on investment levels, citing the Human Genome Project as a counterexample, see Gold, supra note 272, at 428. In a recent project, pharmaceutical companies have contributed half of the budget for a public-private venture that is putting single nucleotide polymorphism ("SNP") research into the public domain. See Nicholas Wade, 10 Drug Makers Join in Drive to Find Diseases’ Genetic Roots, N.Y. TIMES, Apr. 15, 1999 (cited in Rai, supra note 274, at 712 n.35).
(2) Ex Post Correction

¶ 136 The recent developments in genetic research have led some scholars to propose institutional responses that counter some of the problems resulting from fragmented ownership of patent. These institutions include open genetic database archives and cooperative cross licensing initiatives, such as those employed in the computer industry.\(^{283}\)

¶ 137 Some have found in favor of more stringent regulation of the exercise of control by patent holders.\(^{284}\) Others propose a registration system of ESTs, which would provide a short exclusive period, followed by a period of compulsory licensing of the right to conduct research on the EST, ending with entry into the public domain.\(^{285}\)

c. Conclusion

¶ 138 For the purpose of resource allocation efficiency, the appropriate balance cannot be determined by comparing a system of patent law protection (innovation is encouraged but with anticommons costs) to a system where there is no patent protection (lowered incentives for investment but no anticommons losses). Rather, the correct comparison is between a system of patent protection and an alternative system of trade secrecy where there is no (protected) disclosure and where independent invention is predominant. More generally, in the absence of patent law, the protection of investment will be obtained via alternative means. This is exemplified by the research and development in the area of DNA sequencing in both the public and private sector in the historical absence of any certainty with regard to capture of the informational value of these investments.\(^{286}\)

¶ 139 When conducting comparative institutional analysis,\(^{287}\) the relevant answers do not reveal themselves though a singular comparison of “innovation with patent protection” versus “innovation without patent protection,” but instead follow from a measurement of “innovation with patent protection” as compared with innovation under alternative means of protection.

¶ 140 The economic model of fragmentation details some of the problems that might occur when attempting to reunify information fragments that are held by separate individuals. As such the economic theory of fragmentation deserves recognition as one important part of the patent puzzle. The issue demands further empirical investigation of

---

\(^{283}\) Bradshaw, supra note 117, at 659 (finding in favor of regulation of gene patent law at the post-issuance stage).

\(^{284}\) Id.

\(^{285}\) See Haas, supra note 274, at 163. The analysis of copyright collectives, in supra Part III.C.4, applies to this proposal. But see discussion in supra Part III.B.4: “Unlike copyrighted works, patents do not lend themselves well to pooling by intermediaries. Licensing patents in bulk is extremely difficult because of the more complicated nature of patents and inventions. In particular, improvements are hard to categorize.”

\(^{286}\) Eisenberg, Role of Patents, supra note 114, at 795.

\(^{287}\) See generally NEIL K. KOMESAR, IMPERFECT ALTERNATIVES: CHOOSING INSTITUTIONS IN LAW, ECONOMICS AND PUBLIC POLICY (1994).
the market of licensing and the incentive effects of patents.

2. Business Methods

a. The Extension of Patents to Methods

Most recently, United States patent doctrine has begun to treat business methods as patentable subject matter.288 Originally, business methods were regarded as outside of the scope of intellectual property law. Business methods were considered as non-statutory subject matter or rejected because of lack of novelty, non-obviousness or the business method exception.289

Because of the low entry barriers for conducting business online, business methods have become crucial assets for attracting customers online. Patents on these business methods provide far-stretching rights of exclusivity and exclusion in business models. The “reverse auction” patent of Priceline.com provides its owner with exclusivity over all business methods that use pricing systems in which buyers propose a price and suppliers bid by auction for the supply of the good or service at that price. A patent such as that held by Netcentives provides exclusivity to frequent-buyer programs on the Internet, and the Cybergold patent monopolizes pay-per-view advertising.290

To many, this turnaround in the treatment of business methods291 is yet another significant step toward the enclosure of the public domain in the wake of the information


289. See, e.g., Hotel Security Checking Co. v. Lorraine Co., 160 F. 467 (2d Cir. 1908) (methods of doing business are ineligible for patent protection); Loew’s Drive-In Theaters, Inc. v. Park-In Theaters, Inc., 174 F.2d 547 (1st Cir. 1949) (scheme for parking automobiles in an open lot held not patentable); Ex parte Murray, 9 U.S.P.Q.2d (BNA) 1819 (Bd. Pat. App. 1988) (accounting analysis of expenses held not patentable); In re Schrader, 22 F.3d 290, 296 (Fed. Cir. 1994) (Newman, J., dissenting) (method of competitive bidding on multiple items held not patentable).


291. Some attribute this expansion to the protection of software, which empowered creative lawyers to push the limit by describing business methods as new combinations of hardware and software. See Merges, Six Impossible Patents, supra note 8, at 586.
economy.\textsuperscript{292} It has been argued that granting patents to business methods fits within a broader extension whereby consideration is given to secondary factors such as the financial success of a commercialized invention, the number of licenses that have been issued on the method, and so forth.\textsuperscript{293}

b. Anticommons Concern

\textsuperscript{294} Because business method patents place severe restraints on the business conduct of competitors, actual and potential,\textsuperscript{294} they carry the potential of turning the “superhighway of electronic commerce ... into a toll road.”\textsuperscript{295} The anticommons danger in this respect is considerable.\textsuperscript{296} The Sightsound.com patent, for instance, has the potential of preventing the sale of any digital audio or video recording over the Internet, if upheld in court.\textsuperscript{297} The problem is compounded by the dynamic nature of the Internet.\textsuperscript{298}

c. Making Sense of the Property Rights in Business Methods

\textsuperscript{299} Because entry barriers are so low in cyberspace, it becomes hard to distinguish

\begin{flushright}
\textsuperscript{292} Grusd, \textit{supra} note 290 (arguing courts should align prior doctrine with policy concerns when evaluating patent claims in Internet business methods).

\textsuperscript{293} For a discussion, see Merges, \textit{Commercial Success, supra} note 41 (the focus on secondary factors tends to reward non-technical achievements and undermines the patent system).

\textsuperscript{294} Raskind, \textit{supra} note 288, at 101-02.

\textsuperscript{295} Id. at 67.

\textsuperscript{296} Grusd, \textit{supra} note 290, at \textsuperscript{296} (acknowledging the link between proliferated and diversely held business patents and the dynamic effect of freezing the development of novel business methods).

\textsuperscript{297} Id. at \textsuperscript{297}.

\textsuperscript{298} On the problematic nature of strong intellectual property protection on the Internet, see Lessig:

There is growing skepticism among academics about whether such state-imposed monopolies help a rapidly evolving market such as the Internet. What is “novel,” “nonobvious” or “useful” is hard enough to know in a relatively stable field. In a transforming market, it’s nearly impossible for anyone – let alone an underpaid worker in the U.S. Department of Commerce who spends on average of eight hours evaluating the prior art in a patent and gets paid based on how many he processes – to identify what’s “novel.” Costly mistakes get made. On average it takes $1.2 million to challenge the validity of a patent, which means it is often cheaper simply to pay the royalties than to establish that the patent isn’t deserved.

“Bad patents” thus become the space debris of cyberspace. Nowhere is this clearer than in the context of business-method patents. At a recent conference in Israel, I watched as a lawyer terrified the assembled crowd of Internet startups with stories of the increasing number of business-method patents that now haunt Internet space. Patent No. 5,715,314, for example, gives the holder a monopoly over “network-based sales systems” – we call that e-commerce. Patent No. 5,797,127 forms the basis for Priceline.com and effectively blocks any competitor. Patent No. 4,949,257 covers the purchase of software over a network.

Lessig, \textit{supra} note 51.
\end{flushright}
oneself from the abundance of competitors, which leaves the pioneer with a strong first-mover advantage.\textsuperscript{299} The information paradox\textsuperscript{300} increases the importance of being the first in the market for Internet products or services. This reduces the need for patent protections; inventors have due incentives to be the pioneering innovator.

\textsuperscript{299} On the other hand, licensing is more problematic in the context of business methods. Because the lines between different markets are blurred in the realm of e-commerce, licensing will be conducted in a less friendly environment. Consider in this regard the recent lawsuit between a retail giant and an online bookstore.\textsuperscript{301} Such lawsuits are indicative of the exercise of strategic veto rights in valuable resources, which has led commentators to propose limits on injunctive remedies for business methods.\textsuperscript{302}

IV. CONCLUSION

\textsuperscript{299} However, insofar as the first-mover advantage is premised on network or lock-in effects, the remarkable economic downturn of the information technology industry over the course of 2000 to 2002 seems to have falsified such a theory. For a theoretical discussion of the exaggeration of the differences between classical retailing and e-retailing, including network effects, see STAN LIEBOWITZ, RE-THINKING THE NETWORK ECONOMY (2002). Despite these reservations, the argument remains that, given low entry barriers and an abundance of unranked information, being first and getting name recognition can provide a huge short-term advantage. By no means does this imply long-run survival if the quality of the product or service offered is inferior to that of competitors.

\textsuperscript{300} The information paradox, as different from Arrow's information paradox, refers to the condition where an individual is overwhelmed with information, while unable to locate information that is of import or interest. The paradox lies with the reduced level of information relative to the higher availability of that information. In the realm of corporate consulting a popular application of the information paradox is the positive correlation between increased levels of investment by companies in cutting-edge information technology, and the reduced grasp on the efficiency of these investments. See JOHN THORP, THE INFORMATION PARADOX (1999).

\textsuperscript{301} Grusd, supra note 290, at \textsuperscript{61}: “traditional lines demarcating different industries erode on the Internet.” See also Bloomberg News Service, Wal-Mart Agrees to Settle Law Suit against Amazon, N.Y. TIMES, Apr. 6, 1999, at C6.

\textsuperscript{302} Raskind, supra note 288, at 103.
a matter of allocative efficiency, there exists considerable friction between the “multi-component” or complementary nature of works and the continued extension of property rights protection to increasingly smaller units of intellectual and scientific creation. Economic theory reveals the problematic societal consequences that may develop in the wake of unbounded fragmentation of property rights.

Rewarding creation and innovation with the allocation of temporary property rights is the time-honored approach to these developments. The legislative or judicial conception and assignment of these new property rights are a crucial matter of social ordering. The outcome of this process determines the control rights in the interaction between new technology and intellectual property content. This article suggests that society benefits from qualified conceptions of property rights in intellectual property law. As the model of fragmentation demonstrates, the uncoordinated exercise by right holders of their exclusion rights might lead to sub-optimal levels of production. Doctrines of fair use, blocking patents, equivalent patents, and generic trademarks serve as important points of moderation of the deadweight losses that might ensue when dealing with the uncoordinated exercise of control rights over complementary property rights. Practices of price coordination and mergers resolve strategic pricing problems involving complements. In light of the anticommons problem, these doctrines and institutions retain importance as tools that work to the advantage of both producers and consumers of intellectual property material.

© 2004 Virginia Journal of Law and Technology

To receive publication announcements, e-mail subscribe@vjolt.net.