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**CONTRIVED CONFLICTS:
THE SUPREME COURT VERSUS THE BASICS
OF INTELLECTUAL PROPERTY LAW**

F. Scott Kieff[†]

ABSTRACT

Asked by conference organizers to consider the impact of the Supreme Court on intellectual property this millennium, this essay offers the view that the Supreme Court's intellectual property decisions by its present members generally are premised upon what may be viewed as contrived conflicts among bodies of law. Proceeding from this faulty foundation, the Court's efforts to resolve those conflicts subsequently have generated bodies of judge-made law that frustrate in important ways the basic statutory framework of intellectual property law. Examples of cases employing this problematic approach include *Bonito Boats*, *Dastar*, *Warner-Jenkinson*, *Festo*, *TraFFix*, and *Holmes*. Avoiding the

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contrivances not only would have left intact congressional action that the Court has not held to have been improper in its own right, but it also would have better promoted the normative goals these regimes were designed to achieve. Far from suggesting any particular business outcome in any of these cases, the essay proceeds from a comparative institutional analysis to show how decisional frameworks different from the ones the Court used would better achieve the basic goals and institutions of the particular statutory regimes of intellectual property law at issue in these cases.

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I. INTRODUCTION

This conference directs attention to “The Impact of the Supreme Court on Intellectual Property Law this Millennium.”¹ This essay offers the view that the Supreme Court’s intellectual property (“IP”) decisions by its present members generally are premised upon what may be viewed as contrived conflicts (that is, they essentially create a “straw man”). The essay also shows how the Court’s efforts to resolve those conflicts then have generated bodies of judge-made law that frustrate in important ways the basic statutory framework of intellectual property law. Without suggesting that the process of statutory construction is easy or that gap-filling is not important, the essay instead shows how the Court

1. 2004 *William Mitchell Law Review* Intellectual Property Law Conference “The Impact of the Supreme Court on Intellectual Property Law this Millennium” held April 24, 2004, in St. Paul, Minnesota.

essentially began such efforts in these cases from faulty foundations; and, proceeding from these poor foundations, built pernicious bodies of case law. Avoiding the contrivances created by the Court would not only have left intact congressional action that, at least so far, the Court has not held to have been improper in its own right, but it also would have better promoted the normative goals these regimes were designed to achieve.

The particular cases discussed are *Bonito Boats*,² *Dastar*,³ *Warner-Jenkinson*,⁴ *Festo*,⁵ *TrafFix*,⁶ and *Holmes*.⁷ Although the cases are

2. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) (holding that state law against so-called “plug molding” of boat hulls was preempted by federal patent law).

3. *Dastar Corp. v. Twentieth Century Fox Film*, 539 U.S. 23 (2003) (holding Lanham Act does not prevent unaccredited copying of uncopyrighted work).

4. *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17 (1997) (holding that patent claims that are not infringed literally may still be infringed under the judge-made rule called the “doctrine of equivalents” to allow patentees flexibility).

5. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722 (2002) (holding that the doctrine of equivalents is cabined by the judge-made rule called “prosecution history estoppel” to allow third parties more certainty in knowing what will infringe a patent).

6. *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001) (holding existence of expired utility patents in which certain design elements were mentioned created sufficiently strong evidentiary inference of design’s functionality that the design was not eligible for trademark or trade dress protection).

7. *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 535 U.S. 826 (2002) (holding that Federal Circuit appellate jurisdiction must be determined using the same “well-pleaded complaint” rule that is used to determine federal question jurisdiction in the federal court system and therefore the Federal Circuit does not have jurisdiction over case in which complaint did not allege claim arising under federal patent law, but answer contained patent-law counterclaim).

To some extent the *College Savings* cases also reveal a contrivance. See *College Savings Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666 (1999) (holding congressional efforts to abrogate Eleventh Amendment immunity for states from federal trademark law not supported by a sufficient factual record of infringements by states to be a valid exercise of Fourteenth Amendment paragraph 5 due process power); *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Savings Bank*, 527 U.S. 627 (1999) (same, but for federal patent law). In these cases, it is not clear whether the contrivance lies with the Court or with Congress. The issue in these cases is whether Congress had adequate evidence of insufficient remedies for state infringements to abrogate state sovereign immunity under the Fourteenth Amendment protection of due process. Either state infringement turns out not to be an issue, in which case the attempted abrogation was based on a contrivance that remedies for such infringement were inadequate; or these remedies are indeed inadequate and the decision to overturn congressional efforts was based on the contrivance of

procedurally proper in that each is associated with a conflict in case law that arose between different lower courts, and in that sense are of the type generally considered to be well-suited for Supreme Court intervention, this essay focuses on the substantive law aspects of the conflicts on which the cases are premised and shows how the Court's approach on this level is in each case essentially premised on a contrivance. That is, for each split among bodies of lower-court case law, the Court essentially adopted the approach consistent with the body of judge-made law that was itself based on a substantive contrivance.

In most of these cases the nature of the contrivance is the putative existence of a conflict within or among federal IP regimes,⁸ between IP and antitrust regimes,⁹ between federal law and state law,¹⁰ or between federal IP law and court administration on the one hand and totally unrelated areas concerning the intersection between state and federal power on the other hand.¹¹ In each case, the analytical framework the Court uses to resolve the conflict triggers important pernicious ripple effects for the IP law regimes that effectively undermine the very legal institutions the regimes create. What is more, these regimes are normatively important for facilitating innovation, competition, and market entry, and for ensuring fidelity in the information flow necessary for a smoothly operating market. In addition, the Court continues to recognize

insufficient ultimate evidence to support such congressional action, even if insufficient at the time the statute at issue in those cases was passed.

To be sure, the Court did decide cases during this same time period that are not assailable on these same grounds, including *Markman* and *Pfaff*. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996); *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55 (1998).

8. *Bonito Boats* is premised on a conflict between federal patent law and state law against a particular type of copying. *Dastar* is premised on a conflict between copyright law and trademark law. *Warner-Jenkinson* and *Festo* are premised on a conflict between different aspects of patent law. *TrafFix* is premised on a conflict between patent law and trademark law. In *Holmes*, the core business issue turns on the same problem as *TrafFix*.

9. *Bonito Boats*, *TrafFix*, *Dastar*, and *Holmes* are each of this type in that the opinions in those cases seem to be driven by concerns about the perceived potential for the existence of too many IP rights in any particular asset to trigger competition or antitrust concerns. For more on the economics of this issue see *infra* Part III.

10. *Bonito Boats* and *College Savings* cases turn on issues of federal preemption and of state immunity. Similarly, in *Holmes*, the Court's approach is driven by concerns about the interface between federal and state power, as discussed in more detail *infra* in Part III.D.

11. *Holmes* is of this type, as discussed in more detail *infra* in Part III.D.

that they are within congressional power. That is, they are both properly justified and authorized.

The essay proceeds in Part II to elaborate on what is meant by the basics of intellectual property law. Part III reveals the nature of the contrived conflict in each case as well as alternative frameworks for deciding the same issues. Part IV offers improvements to the underlying conceptual framework to expressly address the perceived problem of too many IP rights that seems to motivate the opinions in these cases. Far from suggesting that the ultimate business outcome in these cases should have been different, Part V concludes the essay's comparative institutional analysis by calling attention to the pernicious precedential impact of the reasoning in these cases.

II. THE BASICS OF INTELLECTUAL PROPERTY

Although the normative case for legal protection of intellectual property is a topic of debate, substantial literature suggests that the dominant view favors these regimes.¹² Not only is this normative view recognized with approval by the Court, the Court does not challenge the view that Congress has the power to promulgate the statutes that create the institutional framework for the positive law IP regimes.¹³

Patent law, copyright law, and trademark law operate to facilitate the commercialization of subject matter that, respectively, is useful, creative, embodies goodwill, and is not deceptive.¹⁴ These regimes have evolved over time through extensive debate; and each embodies particular institutional choices about how to implement

12. See, e.g., DONALD S. CHISUM, CRAIG ALLEN NARD, HERBERT F. SCHWARTZ, PAULINE NEWMAN & F. SCOTT KIEFF, *PRINCIPLES OF PATENT LAW* 38-71 (3d ed., 2004) (reviewing philosophy and economics of debates over intellectual property and collecting sources).

13. Patent and copyright laws are promulgated pursuant to express authorization in Article I of the Constitution, while the trademark laws are promulgated under the general Commerce Clause power of Article I that is now recognized to be quite expansive. Compare *In re Trade-Mark Cases*, 100 U.S. 82, 95 (1879) (holding trademark laws to be improper exercise of Commerce Clause power because they regulate activity that is not sufficiently interstate) with *Wickard v. Filburn*, 317 U.S. 111 (1942) (holding that even growing wheat for personal consumption in one's own back yard has sufficient nexus to interstate commerce that it may be regulated by Congress using Commerce Clause power).

14. See generally F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697 (2001) (elucidating commercialization theory for patents and trademarks).

what generally are seen to be consensus goals.

Recognizing that these regimes can, and in many respects should, continue to change, a central argument of the essay is that when change is made to these regimes it should be made with the benefit of the fully informed debates that are present within each regime.¹⁵ For purposes of this essay, the “basics” of each regime can be taken as the institutional framework of the statutes that were properly promulgated by the legislature and signed into law by the executive. The central problem with the approach the Court adopts in the cases discussed in this essay is that it begins by misunderstanding the institutional frameworks set up by these statutes and then proceeds to frustrate their operation. Such unpredictable changes made *ex post* by the Court frustrate the important *ex ante* incentives and coordination benefits these regimes otherwise provide, and through which they best operate.

III. THE SUPREME COURT IP CASES OF CONTRIVED CONFLICT

The cases of contrived conflict discussed below can be considered to be of two types. In the first type, the Court essentially pretends that something is present in the IP regimes when actually it is not. The Court then identifies a conflict between that contrivance and some other aspect of IP and reshapes the IP regimes to resolve the conflict. Cases of this type are *Bonito Boats*, *Dastar*, *Warner-Jenkinson*, *Festo*, and *Traffix*. For the second type, the nature of the contrivance is the mirror image of that in the first type. In the case of the second type, which includes only *Holmes*, the Court essentially ignores something about an IP regime that allows it to avoid conflict with other regimes. As with the first type, the Court then identifies a conflict between that contrivance about IP and some other regime and reshapes the IP regime to resolve the conflict.

A. *Bonito Boats and Dastar: Contriving a Right to Copy*

The contrivance in *Bonito Boats* is that federal patent law creates a right to copy. In the case, the Court decided that this right to copy would be frustrated by the state law at issue, which

15. This view of the “basics” is also explored in F. Scott Kieff & Troy A. Paredes, *The Basics Matter: At the Periphery of Intellectual Property*, Stanford Law School John M. Olin Program in Law and Economics 2004 Working Paper # 275, at 4-6, *forthcoming at* __ GEO. WASH. L. REV. __ (2004).

regulated one particular form of copying boat hulls, called “plug molding.”¹⁶ The Court then invalidated the state statute under the doctrine of conflict preemption, based on the Supremacy Clause of the Constitution.¹⁷

There are several problems with the Court’s reasoning. There is no right to copy, indeed no affirmative right at all, that is conveyed on the public by patent law, or for that matter by copyright or trademark law.¹⁸ These IP regimes only create under certain situations certain specific rights of exclusion. The mere absence or expiration of any one of those specific rights of exclusion says nothing about a third party’s affirmative right to use the subject matter such a right otherwise might have covered. Indeed, that use often is restricted, if not outright blocked, by many other IP rights, regulatory regimes, and police powers.¹⁹

The Court essentially rejected, or glossed over, these arguments by suggesting that the purpose of the state statute was somehow in conflict with a purported “strong federal policy favoring free competition in ideas which do not merit patent protection.”²⁰ But this analytical framework is unworkable because it would seem to extend to any state law that interferes with a right to use or copy. Consider, for example, a state law against cheating on exams—or to be closer to the case, a contract term against plug molding. What is more, the Court’s analytical framework may

16. See *Bonito Boats*, 489 U.S. at 144-45 (citing FLA. STAT. § 559.94 (1987)). To be sure, the reasoning explored in this paper is not new and indeed was more thoroughly set forth in the opinion by Judge Rich in the case that was in conflict with the decision by the Florida Supreme Court in *Bonito Boats*. See *Interpart Corp. v. Italia*, 777 F.2d 678 (Fed. Cir. 1985) (Rich, J.) (no preemption because patent law says nothing about a right to copy and because the state statute did not even prevent copying—it merely prevented one form of copying). Similarly, the reasoning of *Bonito Boats* is not new either and its roots can be found in the earlier *Sears* and *Compco* cases. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). As reviewed in detail throughout CHISUM ET AL. *supra* note 12, *Sears* and *Compco* did not raise as many alarms as *Bonito Boats* because these earlier cases came so soon after the 1952 Patent Act. It took the Court until 1980 to for the most part recognize the total overhaul in the framework of patent law that was implemented by the 1952 Act.

17. *Bonito Boats*, 489 U.S. at 168.

18. *Compare, e.g., Bonito Boats*, 489 U.S. at 151-52 (“[T]he federal patent laws must determine not only what is protected, but also what is free for all to use We have long held that after the expiration of a federal patent, the subject matter of the patent passes to the free use of the public as a matter of federal law.”).

19. Concerns about the potential for a good or service to be blocked by many IP rights are discussed *infra* in Part IV.

20. *Bonito Boats*, 489 U.S. at 168.

totally eviscerate the rights of exclusion that these statutes are designed to create, and are both properly justified and authorized. That is, every IP right, market regulation, and even other police power regulation, will to some extent impact competitive economic concerns of the type that also underlie each of the federal IP regimes. What is more, to anyone informed by public choice theory, every IP right, market regulation, and other police power regulation can be seen as motivated at least in part by its impact on these same competitive economic concerns.

In contrast, the Federal Circuit's alternative analytical framework for conflict preemption, called the "extra element test," does not suffer these shortcomings and indeed facilitates the smooth operation of each IP and competition law regime, federal and state alike.²¹ The state statute at issue in *Bonito Boats* would be analyzed easily under this test because liability under it turns on a host of elements that are totally unconnected to patent law, including copying via the plug mold technique. Even closer cases, such as those involving state laws regulating statements about patents themselves, can be decided using the extra element test.²²

Indeed, this same "extra element" analytical framework also works well for resolving potential conflicts among areas of federal law. As the Federal Circuit explained:

By adding a bad faith requirement to a § 43(a) [false advertising] claim in the context of this case, we give effect both to the rights of patentees as protected by the patent laws under ordinary circumstances, and to the salutary purposes of the Lanham [Trademark] Act to promote fair competition in the marketplace. As thus understood, there is no conflict between the demands of the Lanham Act and the Patent Act, and a patentee is easily able to comply with both Acts. Furthermore, patent law is not frustrated because bad faith marketplace statements concerning patents do not further the purposes of the patent law.²³

21. See, e.g., *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1473 (Fed. Cir. 1998) (exploring interaction between patent law and a state law providing a business tort for interference with contract)

22. See, e.g., *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336-37 (Fed. Cir. 1998) (no conflict-type preemption of various state law claims based on publicizing an allegedly invalid and unenforceable patent in the marketplace as long as the claimant can show that the patent holder acted in bad faith in publication of the patent, which is the "extra element" beyond patent law).

23. *Zenith Elecs. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1354 (Fed. Cir. 1999).

Regrettably, the *Dastar* decision to prevent false advertising cases over material that happens to lack present copyright²⁴ totally overlooks approaches like the “extra element” test, which although crafted for patent law would work equally well for copyright law. *Dastar* instead is premised in part on the same contrived right to copy²⁵ notion from *Bonito Boats*, which makes no sense for the reasons explored above. *Dastar* is further based on the additional contrivance that federal false advertising law under the Lanham Act § 43(a) would prevent copies of uncopyrighted works from being made.²⁶ The particular analytical framework the Court employs in *Dastar* is to interpret the word “origin” in § 43(a) not to cover the concept of authorship and therefore not to allow as a matter of law a suit for false advertising where the alleged falsity relates to authorship.²⁷ This contrivance about the power of § 43(a) runs the risk of eviscerating the carefully crafted balance struck by the legal institutional framework set forth in the Lanham Act.

Rather than turning on some conceptual conflict between § 43(a) and other areas of law, the established analysis for § 43(a) at least used to be simply a matter of the actual facts of the case. If the reasonable consumer were misled as a matter of fact then there would have been liability under that statute. In the *Dastar* case, for example, to have ensured the avoidance of liability, the defendant could have published the work with a label disclaiming connection to known earlier publishers.²⁸ The point is that the alternative approach the Court adopted creates new law about the types of falsity *not* governed by § 43(a) that run counter to the purpose of

24. See 539 U.S. at 23.

25. *Id.* at 33 (discussing putative “right to copy”).

26. *Id.* at 35-38 (discussing “serious practical problems”).

27. *Id.* at 31-36 (discussing meaning of “origin”). To the extent the case actually turned on the meaning of this word in the statute, those interested in a different result might consider simply seeking to have Congress amend the statute to recite, for example, that the term “origin” shall be interpreted to include (1) authorship; or perhaps, more broadly, (2) any features of the good that are proven to be salient to the decision by the public to purchase or not.

28. Such a disclaimer of authorship would achieve the Lanham Act goal of maintaining truth in advertising without suggesting some type of authorization. See *id.* at 36 (suggesting incorrectly that somehow a § 43(a) cause of action would leave the defendant in an untenable bind: “On the one hand, they would face Lanham Act liability for *failing* to credit the creator of a work on which their lawful copies are based; and on the other hand they could face Lanham Act liability for *crediting* the creator if that should be regarded as implying the creator’s ‘sponsorship or approval’ of the copy”).

the statute and the expectations it created in the marketplace.²⁹ Not only does the Court's approach frustrate the statute's narrow goal of promoting the smooth operation of the marketplace by encouraging truth in advertising and other dealings, but it also frustrates the generally important *ex ante* incentives and coordination benefits the statute had created.

B. Warner-Jenkinson and Festo: *Contriving a Need for Flexibility and Certainty*

The Court in *Warner-Jenkinson* decided that patent law includes a so-called doctrine of equivalents ("DOE") based on the contrivance that the patentee needs added flexibility or breadth.³⁰ This case generated the inevitable response by the Court in *Festo* that cabins the DOE based on the contrivance that third parties need added notice and certainty about patent claims.³¹ The analytical framework generated by these decisions to give both flexibility and notice is unworkable and fails to give either the flexibility or notice that motivated the Court's analysis.

What is more, it overlooks that patent law's statutory disclosure rules in § 112 of the Patent Act allow patentees to obtain this flexibility and breadth while at the same time providing third parties with notice and certainty.³² These disclosure rules make sense because they impose on the patentee at the time of filing the duty to provide important information about the patent and because the patentee is the lowest-cost provider of this information and the lowest-cost avoider of ambiguity associated with that information.³³ At bottom, because the patent system promulgated

29. See CHARLES E. MCKENNEY AND GEORGE F. LONG, III, FEDERAL UNFAIR COMPETITION: LANHAM ACT § 43(A), Ch. 1 (discussing evolution of the statute to encompass the broad definition of falsity about any salient feature of goods and services).

30. 520 U.S. 17 (1997).

31. 535 U.S. 722 (2002).

32. See F. Scott Kieff, *Property and Biotechnology*, in CHISUM ET AL. *supra* note 12, at 318-23 (showing how as a matter of positive law and practice the disclosure rules of section 112 can operate better than the DOE for both patentees and third parties and citing F. Scott Kieff, *The Case for Registration and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 55, 99-105, 109-14 (2003) (discussing the normative case for the disclosure rules and showing how they are a better institutional choice—in terms of minimizing social costs—for allowing both patentees and third parties to manage the problem of claim breadth than other institutional approaches such as the DOE)).

33. *Id.*

by the 1952 Patent Act itself provides both flexibility and notice, the very conflict the Court attempts to resolve between these two principles is both contrived by the Court, and, ironically, then enflamed by the case law the Court promulgated to resolve it.

C. *TraFFix: Contriving Functionality*

The *TraFFix* case is premised on the contrivance that everything in a patent application is “functional” as a matter of trademark law.³⁴ The focus of the *TraFFix* case is whether something is unavailable for trademark protection because of the trademark doctrine called “functionality.”³⁵ Under the Court’s analytical framework, there is a “heavy” presumption that anything mentioned in a patent application is treated as “functional” and therefore not protectable, as a matter of trademark law.³⁶ This presumption risks making large areas of commerce outside the reach of the trademark law because often the providers of a particular good or service will seek both patent rights and trademark rights.

The alternative analytical framework for determining “utility” or “functionality,” long established in trademark law, considers whether the overall trademark in question is, as a matter of fact, superior “in function . . . or economy of manufacture” to available alternatives.³⁷ This test is more predictable and maintains the full scope of trademark protection authorized by statute.

D. *Holmes: Contriving a Need for Consistency*

The nature of the contrivance in the *Holmes*³⁸ case is really a mirror image of the contrivances in the other cases explored above. While the Court in those cases essentially erects a “straw man” and thereby fabricates a conflict, the *Holmes* Court in effect assumes away a conflict. The nature of the *Holmes* contrivance is that two totally distinct bodies of statutory law with two totally orthogonal

34. 532 U.S. 23 (2001).

35. *Id.* at 29-30 (discussing functionality).

36. *Id.* at 30.

37. *See, e.g., In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1339 (C.C.P.A. 1982) (Rich, J.) (collecting sources). *But see* *TraFFix*, 532 U.S. at 33 (“There is no need, furthermore, to engage, as did the Court of Appeals, in speculation about other design possibilities . . . which might serve the same purpose.”)

38. 535 U.S. 826 (2002).

purposes are in conflict if they operate differently because they happen to employ the same short phrase. The operative phrase at issue in *Holmes* is “arising under,” as it appears in 28 U.S.C. § 1338, which governs the Federal Circuit’s appellate jurisdiction, and in 28 U.S.C. § 1331, which governs any federal court’s jurisdiction over general federal questions.³⁹

While the jurisprudence of § 1331 general federal question jurisdiction is driven by important constitutional considerations of federalism, the jurisprudence of § 1338 is driven by totally separate considerations. First, the jurisdictional choices made by § 1338 are mere matters of court administration internal to the federal system and so are within congressional power. Second, the particular change § 1338 implements is essential to ensure the effective operation of the legal institutional framework of the 1952 Patent Act. Just as Congress passed the 1952 Patent Act to statutorily overrule errant case law, it passed the 1982 Federal Courts Improvement Act (which promulgated § 1338) to rectify the thirty years of case law in the regional circuits that was ignoring the changes of the 1952 Act.⁴⁰

39. *Id.* at 829-30 (citing 28 U.S.C. §§ 1331, 1338).

40. See F. Scott Kieff & Gerald J. Mossinghoff, *A Reemergence of Regulation at the Interface Between Patents and Antitrust*, 4 *ENGAGE* 97 (2003) (reviewing history of the statutory changes to implement the present patent system):

The 1952 Patent Act marked a monumental change for the patent system. Both of its major innovations—the revival of contributory and induced infringement in Section 271 and the replacement of the subjective requirement for invention with the objective requirement of nonobviousness in Section 103—have major implications for the interface between patents and antitrust. More specifically, when antitrust regulators consider questions like “are patents too broad?” they run the risk of ignoring the statute’s objective standards of patentability. Similarly, when antitrust regulators consider questions like “are patent licenses or refusals to license permissible?” they run the risk of ignoring the statute’s express safe harbors, which set forth what does not constitute misuse.

The Supreme Court itself took quite some time to recognize the importance of these innovations of the 1952 Act. Over ten years passed after implementation of the 1952 Act before the Supreme Court in the famous *Graham* case instructed lower courts to apply the framework of the new Section 103 requirement of nonobviousness. Almost thirty years passed after implementation of the 1952 Act before the Supreme Court in the famous *Dawson* case instructed lower courts to apply the framework of the new Section 271 provisions about what does not constitute misuse. Today’s regulatory review of the patent system should not lightly set aside these hard fought innovations in the patent system, especially without offering some reason other than those

Even if the *Holmes* decision is correct in the narrow sense, given the particular wording of § 1338 at present,⁴¹ the case offers no positive or normative reason why the statute could and should not be re-written using different language so as effectively to reverse the case. Indeed, unless remedied by statute, after *Holmes* we are likely to see a repeat of the behavior the regional circuit courts have demonstrated in the past, which effectively eviscerated the legal institution of patent law by simply avoiding the changes implemented in the 1952 Patent Act about obviousness, antitrust, misuse, statutory subject matter, utility, and indirect infringement.⁴² For example, as then Second Circuit Judge Thurgood Marshall said about patents during the Senate's confirmation process for his seat on the Supreme Court in 1967: "I haven't given patents much thought, Senator, because I'm from the Second Circuit and as you know we don't uphold patents in the Second Circuit."⁴³

IV. IMPROVING THE CONCEPTUAL FRAMEWORK

At bottom, the Court's decisions to intervene in each of these cases appear to be motivated by a view that too many IP rights can be bad in unduly taxing or retarding downstream development of the subject matter protected by IP. This view is at least reminiscent in general of the well-rehearsed debates in the literature about relative strengths of property rules or liability rules and relative impact of transaction costs and coordination benefits.⁴⁴

But this view also seems to be tied to two areas of contemporary law and economics literature in particular. The first, called "anticommons," explains how ill-formed property rights accompanied by excessive opportunities for regulatory and

already considered and rejected by Congress and the Court.
(footnotes omitted).

41. On this issue an interesting empirical question would be to determine how often and in what contexts the Court and its members have employed different meanings for two-word phrases in different statutes, or whether the "policy" of giving the exact same meaning in such situations is really such an imperative. Indeed, the Court offers no express normative justification for this putative imperative.

42. See Kieff & Mossinghoff *supra* note 40 (reviewing court resistance to the statutory changes).

43. See Gerald J. Mossinghoff, *Side Bar: The Creation of the Federal Circuit*, in CHISUM ET AL., *supra* note 12, at 31-32.

44. See Kieff, *supra* note 14 (collecting sources and discussing debate about the use of property rules or liability rules to protect IP and the relative roles of transaction costs and coordination benefits).

administrative refusal in the post-socialist economies of Eastern Europe can lead to insufficient use and development of real property.⁴⁵ The second, called “behavioralism,” explains how individuals may fail to act in their own rational self-interest because instead of being perfectly rational they are merely boundedly rational in that they all suffer from cognitive biases, employ heuristics, and so forth.⁴⁶

While interactions among the different forms of IP may generate problems, the reality of so many goods and services successfully coming to market throughout the history of IP despite being correlated with more than one form of IP right—such as cars or computers—suggests that concerns about these problems may be overblown, at least in theory. What is more, the essential focus of a comparative institutional analysis is on the relative costs and benefits of different analytical frameworks.⁴⁷

Importantly, relying on both anticommons and behavioralism concerns raises a number of significant costs for IP in addition to the cost outlined above of curtailing, if not potentially eviscerating, the IP regimes that are both properly justified and authorized. Furthermore, the benefits of responding to anticommons and behavioralism concerns are not as great for IP as they may be for other regimes.

One important additional cost that arises when applying an anticommons analysis to IP is administrability. There rarely is a one-to-one correlation between an IP right and a particular good or service over which a transaction may occur in the marketplace. As a result, transactions over most goods and services trigger more than one IP right and potential anticommons problems. No decisional framework is offered in the literature or the cases for determining when anticommons concerns should trump and when they should not.

In addition, the explanatory benefit of the anticommons

45. See generally Michael A. Heller, *The Dynamic Analytics of Property Law*, 2 THEORETICAL INQUIRIES L. 79, 87-89 (2001) (drawing the definition of anticommons from Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 HARV. L. REV. 621 (1998), and building on the discussion of IP rights from Michael A. Heller & Rebecca S. Eisenberg, *Can Patents Deter Innovation? The Anticommons in Biomedical Research*, 280 SCIENCE 698 (1998)).

46. See, e.g., Troy A. Paredes, *Blinded by the Light: Information Overload and Its Consequences for Securities Regulation*, 81 WASH. U. L.Q. 417 (2003) (reviewing behavioralism and collecting sources).

47. See Kieff, *supra* note 14.

approach is inapposite to IP. The anticommons is merely *correlated* with an increasing number of potential “no” votes available to block use of a given asset. But the sheer number of potential votes is not the causative key. Instead, it is the nature of the potential “no” that matters, or more specifically the nature of the “yes” that can be exchanged in lieu of “no.” The anticommons approach is well-adapted for the problems of the post-socialist economy where property rights are ill-defined and many administrative and regulatory agents can say “no” to a given use but cannot openly negotiate over permission, or “yes,” which would implicate concerns over selling votes, graft, bribing an official, or some other criminal act. In contrast, absent undue court action, IP rights are better defined and they can be openly traded and licensed. Indeed, the potential for sale or license of an IP right is often the most important element of the private value of that right to its owner.⁴⁸ Simply put, while an apparatchik in the post socialist economy might like to sell permission, there are extensive and important limitations on a person’s ability and incentive to determine and obtain the highest value that could be extracted in exchange for the permission. Owners of IP rights and those interested in the subject matter they cover know what those rights are and can openly negotiate with each other in competitive markets for transactions over their sale or license.⁴⁹

One important additional cost to responding too quickly to behavioralism concerns in the context of IP is that judges are individual human beings, too, and so are also merely boundedly rational. In addition, judges, like legislators, regulators, and executives, are also subject to the added cost of public choice problems.⁵⁰

Indeed, each of the cases discussed above may to some extent

48. See F. Scott Kieff, *Facilitating Scientific Research: Intellectual Property Rights and the Norms of Science—A Response to Rai & Eisenberg*, 95 NW. U. L. REV. 691 (2001); F. Scott Kieff, *Perusing Property Rights in DNA*, in F. SCOTT KIEFF, PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT 125, 146-50 (2003) (discussing why even patents on multiple gene fragments do not present anticommons problems).

49. See F. Scott Kieff, *Perusing Property Rights in DNA*, in F. SCOTT KIEFF, PERSPECTIVES ON PROPERTIES OF THE HUMAN GENOME PROJECT 125, 146-50 (2003) (citing F. Scott Kieff, *Facilitating Scientific Research: Intellectual Property Rights and the Norms of Science—A Response to Rai & Eisenberg*, 95 NW. U. L. REV. 691 (2001)).

50. See Paredes, *supra* note 46 (pointing out countervailing behavioralism problems for government actors, as well as public choice problems, and collecting sources).

be seen as examples of judges, as ordinary human beings, simply being bounded in their efforts to be totally rational in paying attention to the details of any particular legal regime—IP in these cases. It also may be possible that they are examples of ordinary human beings who have been subjected as ordinary government actors to the public choice pressures of the particular parties arguing before them in each case.

V. CONCLUSION

Far from suggesting that the ultimate business outcome in these cases should have been different, this essay makes a comparative institutional point about the precedential impact of their reasoning. While these cases may suggest that the body of IP law and the legislatures that promulgated it are out of touch in some way with present theories of the Court's jurisprudential approaches, the central goal of the essay is to show how the Court's approaches have wrought serious impact on the basic fabric of IP regimes in a way that frustrates the important *ex ante* incentives and coordination benefits the regimes are designed to provide.