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Harvey S. Perlman

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Taking the Protection-Access Tradeoff Seriously

*Harvey S. Perlman**

Law and economics scholarship has contributed much to our understanding of both the nature of intellectual property rights generally and the features of individual intellectual property regimes. Indeed it is hard to imagine a field other than antitrust law that is so explicitly governed by economic thinking. In authorizing the copyright and patent systems, Article I, Section 8 of the United States Constitution expressly incorporates a social welfare imperative as the basis for its grant of power.¹ Certainly economists and economically oriented legal academics have given the field the attention it is due.

I am far from being a sophisticated economic thinker, although I admire those who are and the insights they have brought to my understanding of what is at stake in intellectual property. My comments are more practical in nature. They involve the tension that arises throughout the law of intellectual property and unfair competition between protection of intellectual achievement and public access to intellectual products. This tension is reflected in the central questions: When are intellectual property rights appropriate and what is their proper scope? Economics seems to provide an apt description but an inadequate basis for answering these

* Harvey and Susan Perlman Alumni Professor of Law, University of Nebraska College of Law. This is a version of a paper first presented at the Association of American Law Schools Workshop on Intellectual Property in San Francisco, CA (March 11-13, 1999).

1. U.S. CONST. art. I, § 8, cl. 8 provides: "To promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

questions. And there lies, in my view, one of the reasons for the trend throughout intellectual property to enlarge property rights at the expense of access. For those of us who deem this trend problematic, economic analysis seems increasingly unhelpful in formulating a response protective of the public domain.

The tension between protection and access pervades intellectual property and unfair competition law. The casebook Ed Kitch and I coauthored uses it as one of the themes that tie the disparate chapters of the book together.² Protection or access is at issue whether the case involves a local barber who wants an exclusive property interest in the barbering business of Howard Lake, Minnesota,³ or the promisee of a contract who claims to have a property interest in the future performance of the promisor,⁴ or the firm that claims a property interest in the firm's investment in the human capital of its workers,⁵ or the trademark owner who asserts a property right over portions of the English language,⁶ or the celebrity who seeks to capture gains from his or her celebrity status,⁷ or the more traditional cases involving constitutionally recognized authors and inventors.

There should be little doubt that the trend throughout intellectual property and unfair competition is toward greater protection and diminished access.⁸ The Digital Millennium Copyright Act⁹ is a notorious example of a protectionist advance, as is the apparent willingness of the Patent and Trademark Office and the Federal Circuit to expand the realm of patent protection.¹⁰ But the trend is noticeable elsewhere as well. The adoption of the trademark dilution cause of action¹¹ and the expanding protection against cyber-

2. See EDMUND KITCH & HARVEY PERLMAN, *INTELLECTUAL PROPERTY AND UNFAIR COMPETITION* (5th ed. 1998) (successor to *REGULATION OF THE COMPETITIVE PROCESS*).

3. See generally *Tuttle v. Buck*, 119 N.W. 946 (Minn. 1909).

4. See generally *Imperial Ice Co. v. Rossier*, 112 P.2d 631 (Cal. 1941).

5. See generally RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 (1995). See, e.g., *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195 (5th Cir. 1986).

6. See generally RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 cmt. c (1995).

7. See generally *id.* § 46 cmt. c.

8. See generally Robert C. Denicola, *Freedom to Copy*, 108 *YALE L.J.* 1661 (1999).

9. Pub. Law. No. 105-304, 112 Stat. 2860 (1998) (codified at 17 U.S.C.A. § 1201-05 (West Supp. 2000)).

10. My favorite recent patent is U.S. Pat. No. 6,025,810 (issued February 15, 2000), for a "Hyper-Light Speed Antenna." The invention is described as follows: "The present invention takes a transmission of energy, and instead of sending it through normal time and space, it pokes a small hole into another dimension, thus, sending the energy through a place which allows transmission of energy to exceed the speed of light."

11. See 15 U.S.C.A. § 1125 (c) (West 1998 and Supp. 2000).

squatters¹² have refocused trademark law away from its traditional function of prevention of consumer confusion toward one that confers substantial property rights on trademark owners.¹³ The protection of trade dress without proof of secondary meaning also favors property rights over rights of access.¹⁴ A similar rule applied to product designs and configurations would have created an even more damaging effect on competition, but the Supreme Court happily required proof of actual distinctiveness.¹⁵

The classic misappropriation doctrine announced in *International News Service v. Associated Press* represents the power of the protectionist rhetoric over substance.¹⁶ The Restatement (Third) of Unfair Competition recognizes that the case offers little in terms of a coherent principle and has been of only marginal significance.¹⁷ Proponents of access may take heart from the doctrine's limited application, and yet it is currently asserted as an appropriate model in defense of data base protection¹⁸ and it continues to attract judicial adherents.¹⁹

The extent to which a firm may protect investments in its employees demands the most careful balancing of protection and access. Innovation is enhanced if employers build the human capital of their employees and share information under conditions of confidentiality. Competition for employees and the distribution of basic knowledge throughout an industry, however, depend on employee mobility. The increasing use of the inevitable disclosure doctrine to enjoin employees from accepting other employment²⁰ and the criminalization of trade secret infringement at the federal

12. 15 U.S.C.A. § 1125 (d) (West Supp. 2000).

13. See generally Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687 (1999).

14. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774-75 (1992).

15. See *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 120 S. Ct. 1339, 1346 (2000) (holding that, "in an action for infringement of unregistered trade dress under § 43(a) of the Lanham Act, a product's design is distinctive, and therefore protectible, only upon a showing of secondary meaning"). The potential for different treatment of product designs in this context was recognized by the RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 16 cmt. b (1995).

16. *International News Serv. v. Associated Press*, 248 U.S. 215, 238-42 (1918).

17. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. c. (1995).

18. See, e.g., Joel Rothstein Wolfson, *Contract and Copyright Are Not at War: A Reply to "The Metamorphosis of Contract into Expand,"* 87 CAL. L. REV. 79, 90 n.32 (1999). The *International News Service* decision was referenced in *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 353-54 (1991).

19. See *United States Golf Ass'n v. Arroyo Software Corp.*, 81 Cal. Rptr. 2d 708, 714 (Cal. Ct. App. 1999).

20. See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1271 (7th Cir. 1995). The doctrine is applied in circumstances where courts find that an employee will inevitably disclose trade secrets of a former employer. See *id.* at 1269.

level²¹ significantly raise the stakes for skilled employees and competing employers alike. And the explosive development of the right of publicity seems an unwarranted and unnecessary expansion of a property interest in a celebrity's persona.²²

In these and many other areas, the trend seems to be to enhance protection for intellectual products at the expense of access. Does economic analysis help us determine whether any of these or other enhancements of intellectual property rights are appropriate?

The classic economic rationale for intellectual property is the need to maximize intellectual output by calibrating a proper balance between protection and access. The incentives for investment in innovation by first generation innovators created by the availability of intellectual property protection also add to the cost of those second generation innovators who must access the protected work in order to make further innovations. Thus, one might suppose that the best scheme provides protection up to the point where the gains from privileged access exceed the reduction in innovation resulting from the reduced incentives for the original innovator.

What we can be relatively confident about as a theoretical matter is that increasing the prize for first generation innovations will encourage further innovation and increasing the costs for the raw material of innovation will discourage second generation innovation. At what point does the balance between protection and access result in a net reduction of innovative activity? If we have no solid ground upon which to answer this question, should we be surprised if the claims for expanding property rights continue to erode the claims of those who ask for the right to "reap where they have not sown?"

In the contest between property rights and access rights, property rights always have the home field advantage. The incentives created by property rights are clear and the rhetoric is powerful. Few scholars advocate the abandonment entirely of all or any intellectual property regimes.²³ And there is even a countervailing case that abandonment of access rights would not adversely affect the level of innovation. This argument suggests that if there are, in

21. See Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-39 (Supp. IV 1998).

22. The weakness of the right of publicity claim is recognized in RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 46 cmt. c (1995). For an example of an expansive application of the publicity right, see *White v. Samsung Electronics America, Inc.*, 971 F.2d 1395, 1397-99 (9th Cir. 1992).

23. But see Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281, 350-51 (1970) (concluding that the arguments in favor of copyright protection are weak).

fact, additional gains from the further exploration or adaptation of a protected innovation, the "owner" has every incentive to pursue those gains, either by further investing in developing the innovation or by licensing others to do so.

These arguments have most recently been given voice in scholarship related to the fair use doctrine in copyright law.²⁴ And in the patent context, Ed Kitch has also advanced a defense of broad property rights as a means to enhance prospecting for second generation inventions.²⁵ Moreover, other theories of intellectual property grounded in moral claims rather than economics in large part support the protectionist viewpoint.²⁶

If I am correct that the property claim has more appeal than the access claim, both on emotional and now on economic grounds, then increasingly protectionist rules seem inevitable. For skeptics of this view, it is important to continue to emphasize the real costs that are incurred by favoring the property rights thesis.

The need for balance between protection and access is a product of the interplay of three different sets of policies: the encouragement of an optimal level of innovation, the preservation of competition, and the protection of free expression. Innovation policy recognizes that granting property rights to be exploited in the marketplace tailors the incentive to the social value of the research but it also limits access to the raw materials of further research. To the extent market transactions can occur at low costs, it is quite possible that the rights holder will encourage further research through licensing. However, licensing may not achieve the same degree of further investment as privileged access. Licensing involves agency costs associated with the sharing of gains from additional investments and the need to monitor licensees. An agent, in this case the licensee, will not employ the same effort to exploit the original investment as would be the case if no royalty was owed to the licensor. As Mark Lemley and others have made clear, transaction costs, externalities, strategic behavior, and uncertainty may all interfere with the licensing process.²⁷ Thus whatever additional incentive is

24. See Trotter Hardy, *Property (and Copyright) in Cyberspace*, 1996 U. CHI. LEGAL F. 217, 233 (1996).

25. See Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 267 (1977).

26. For a review of both economic and moral theories of intellectual property, see William Fisher, *Theories of Intellectual Property* (manuscript on file with author).

27. See Mark A. Lemley, *The Economics of Improvements in Intellectual Property Law*, 75 TEX. L. REV. 989, 1053-59 (1997).

achieved by an expanded property right may be at least partially offset by these costs.

The policies associated with competition also relate to the tension between property rights and the public domain. The grant of exclusive rights obviously forecloses competition, a price paid to encourage investment in innovation. The additional innovation generated by access stimulates competition between first and second generation innovators with resulting benefits to consumers. Competition among second generation innovators may even be more efficient in sparking additional innovation than a process controlled by the original innovator through licensing.

There are values associated with both innovation and competition that are not well served by a property rights model. The effect of an improvement can have a variety of effects on the market for the original. At one extreme, the original invention, for example a DNA sequence, may have no market beyond its use as an object for further study. An improver who by exploiting the sequence discovers a therapeutic use may open a significant new economic market for the original as improved. In such an environment, private transactions between originators and improvers to facilitate the improvement are likely because of the prospect of gains produced by their joint efforts. Subsequent experimentation on an original invention, however, may actually undermine the market for the original without creating additional markets by, for example, demonstrating a lack of utility or a previously unknown adverse side effect or by disclosing a publicly available substitute. A parody is a new work of authorship that increases the world's storehouse of intellectual products, but also has the potential for undermining the market for the targeted work. Property rights and private transactions are unlikely to stimulate innovations of this kind.

In many respects the policies associated with free expression mirror those for both innovation and competition. The right to speak would be a hollow one if the world's store of ideas were fenced off by private property rights and available only for a fee. Copyright may promote free expression by not protecting ideas and by authorizing fair uses. However, free speech is valued not only for the promotion of new ideas but also for the assault on old ones and in this respect resembles competition policy. Critical reviews and comparative advertising are unlikely to result from licensed transactions. And recently the First Amendment has been a shield against the attempt to use trade secret protection to restrain the

publication by the media of publicly significant information.²⁸ Licensing would be a poor substitute in such circumstances.

Assuming the case can be made that a pure property rights model will not generate the proper level of activity to satisfy any implicated policy, we are thrown back to the acknowledgment that some balance of protection and access is required. But where is the balance to be struck? My experience with two recent legislative initiatives implicating intellectual property rights convinces me that the absence of either a theoretical framework for assessing the optimal balance between protection and access or an empirical record for doing so leads to adoption of more protectionist regimes than intuitively seem appropriate.²⁹

Consider the Uniform Computer Information Transactions Act ("UCITA") promulgated by the Commissioners on Uniform State Laws primarily to regulate the licensing of software. That Act was initially proposed and is currently defended on the basis that it is merely a commercial statute like Article 2 of the Uniform Commercial Code, designed to lower the costs of transacting without regulating the substance of transactions. It purports to be entirely neutral on the tradeoff between access and protection, an issue, its proponents argue, which is more properly resolved by Congress in fashioning intellectual property law. There have been three basic attacks on UCITA: First, it is anti-consumer because it allows licensors of software to circumvent ordinary principles of mutual assent by enforcing contractual terms presented after sale. Second, it is anti-access because by formulating the transfer as a license rather than a sale, the licensor escapes the burden of the first sale doctrine and is allowed to adopt terms more restrictive of access than existing intellectual property regimes. Third, the language of the statute is so complex and convoluted that it is difficult to know what it means. It is my impression that in the state legislatures the consumer and complexity issues appear to have had considerably

28. See *Bartnicki v. Vopper*, 200 F.3d 109, 129 (3d Cir. 1999), *cert. granted*, 68 U.S.L.W. 3685 (U.S. Jun. 26, 2000) (Nos. 99-1687, 99-1728).

29. In the interests of full disclosure: I am a Commissioner of Uniform State Laws from Nebraska and opposed UCITA during its consideration by NCCUSL. I was also a member of the Committee For a Study on Promoting Access to Scientific and Technical Data For the Public Interest of the National Research Council's Commission on Physical Sciences, Mathematics, and Applications. The Committee considered the effects of database protection on scientific research and ultimately expressed concern about any expansive enlargement of rights in data bases. See NATIONAL RESEARCH COUNCIL, A QUESTION OF BALANCE: PRIVATE RIGHTS AND THE PUBLIC INTEREST IN SCIENTIFIC AND TECHNICAL DATABASES (1999) [hereinafter A QUESTION OF BALANCE].

more success in slowing UCITA's adoption than the arguments for access.

The potential consequences of UCITA for rights of public access are considerable. The combination of shrink-wrap or click-wrap licensing with the continuing obligation of licensees to conform to the license restrictions effectively permits licensors to impose obligations on the world with respect to their intellectual property. For example, a software program that required acceptance of a click-wrap license agreement each time the software was used would effectively bind anyone who used the program, whether the original purchaser, a subsequent transferee, or a person who found the program lying abandoned on a street corner. In addition, new technology significantly reduces the monitoring costs associated with imposing use restrictions on third parties.³⁰ Some protection against onerous terms in a contract ordinarily is provided by the fact that competing producers also compete on terms. However, in many of the new technology industries, the presence of network effects and the lack of transparency in these agreements may limit or foreclose competition in contractual terms.³¹ Even though I am ordinarily sympathetic to private ordering as a preferred method of allocating risks and benefits, there are sufficient concerns regarding the unrestrained authority granted by UCITA to give me pause. However, there is neither empirical data nor an economic theory that can persuasively assist in demonstrating that this enhanced power on the part of intellectual property owners to manage and extend their rights by contract grants "too much" protection or provides for "too little" access. What is clear under UCITA is that the balance will shift toward increased protection and that there appears to be little political concern. Even the concerns expressed by such presumptively credible communities as science and medicine have had little persuasive effect.³²

A similar result appears with regard to the likely adoption of sui generis database protection by Congress in response to the *Feist*

30. *See id.* at 61-62.

31. Network effects suggest that at least for some software programs, for example, users will have strong reasons to use a particular program because other users use the program. Microsoft's Windows operating system may be an example. Many computer users may have no realistic alternative but to accept the terms under which Windows is provided.

32. UCITA has been adopted at this writing in Virginia and Maryland and has met resistance in many other states primarily because of the opposition of consumer groups. *See* Carol A. Kunze, *What's Happening to UCITA in the States*, UCITA Online (last modified Jun. 18, 2000) <http://www.ucitaonline.com/whathap.html>. The controversy over the adoption of UCITA is well documented at <http://www.ucitaonline.com>.

Publications, Inc. v. Rural Telephone Service Co. decision.³³ At one level of analysis, it is extraordinary that the proponents of additional protection for databases have been as successful as they have. *Feist* leaves without protection only a very small set of databases. Moreover, at a conference sponsored by the National Research Council which included database protection advocates, no one could point to a single instance when a database was not produced because of the absence of additional protection.³⁴ The argument in favor of protection was largely based on fear of what might happen in the future.³⁵ Although the science community took a strong stand against broad additional protection of scientific databases, the evidence that reduction of access to databases will interfere with scientific research is no more subject to quantification than the claims for more protection. It is all a matter of experience and intuition.

My point then is a simple one. Economics has provided a clearer understanding of the interests involved in the formulation of intellectual property regimes. The values of privileged access are well-formulated and intuitively persuasive, although politically weaker than the property right claim. And there is neither an economic theory nor sufficient empirical data to help in achieving a proper balance between the two. In such circumstances, academic research that suggests a tweaking of either property or access rights in either direction is unsatisfying because there is no way to tell whether a particular move is likely to result in a net increase or decrease in innovation. Similarly it is difficult to have a meaningful debate on the access-protection dimensions of proposed reforms absent empirical evidence that increasing investment in innovation is necessary and dependent on increased protection.

If an overarching economic theory for striking the proper balance is beyond our reach, then either political power or empirical proof is required. There may be some circumstances in which empirical data is available and can help in determining whether en-

33. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991) (denying copyright protection to databases that did not display some originality in their presentation or organization of the data).

34. See A QUESTION OF BALANCE, *supra* note 29, at 47; see also PROCEEDINGS OF THE WORKSHOP ON PROMOTING ACCESS TO SCIENTIFIC AND TECHNICAL DATA FOR THE PUBLIC INTEREST: AN ASSESSMENT OF POLICY OPTIONS, app. C (National Academy Press 1999), available at <http://books.nap.edu/books/NI000903/html/337/html>.

35. Advocates of database protection also assert the need to respond to the European Database Directive which provides *sui generis* protection to databases in Europe and applies to foreign producers only if their home country provides comparable protection. See EUR. PARL. DEB. (39) (Mar. 11, 1996).

hanced protection of intellectual property rights is appropriate. More than likely, such data will be directed, if at all, at specific industries. This is consistent with my intuition that the efficient set of incentives as between first and second generation innovators varies from one industry to another. If this is true, however, the result may require that we disaggregate the application of general intellectual property laws. Indeed, there is substantial proof that the process of disaggregation has been taking place for some time. For example, although the Copyright Act continues to have a general "fair use" section applicable to all protected works,³⁶ increasingly Congress has adopted additional sections tailoring the protection-access balance to particular types of works in particular industries.³⁷

Perhaps the only principled position left is to accept the criteria proposed by Congressman Robert Kastenmeier and Michael Remington for assessing reform proposals.³⁸ In addition to the sensible suggestions that change should be harmonious with existing law, reasonably well-defined, and supported by an honest appraisal of its costs and benefits, they would require that the "advocate of a new protectable interest show on the record how giving protection to that interest will enrich or enhance the aggregate public domain."³⁹ One might propose the same standard for proposals that expand or narrow either protection or access rights. What the current state of law and economics literature suggests to me is that the Kastenmeier criterion is either a ringing endorsement of the status quo or, at least, an admonition that, given the uncertainty of the consequences associated with enhanced protection, changes in protection should be narrowly crafted to respond to clear and unmistakable problems as they arise rather than in anticipation of future concerns. Although it must be accepted that new technology may pose distinct issues when seeking to achieve a balance between protection and access, it is also true that the risk of undermining the pace and scope of innovation inheres both in granting too much protection as well as in granting too little. In such circumstances, the burden of demonstrating a net social gain should reside with proponents of change.

36. 17 U.S.C. § 107 (1992).

37. See, e.g., 17 U.S.C. § 111 (1994 & Supp. IV 1998) (addressing the protection-access balance for cable television).

38. See Robert W. Kastenmeier & Michael J. Remington, *The Semiconductor Chip Protection Act of 1984: A Swamp or Firm Ground?*, 70 MINN. L. REV. 417, 438-42 (1985).

39. *Id.* at 441.