12/1/83

The Problem of Flexible Standards

My basic contention is that courts have been giving plaintiffs tort and property rights in intangibles without any greater justification than that those persons had "created" the intangible. Thus Dow Jones, Inc., is enabled to prevent a board of trade from making the Dow Jones average the reference base of a commodities futures contract, and Johnny Carson is enabled to prevent a businessman from using the phrase "Here's Johnny" to sell portable toilets. From the serious to the silly, restrictions on the free use of intangibles are growing ever more frequent. Since we all build on the shoulders of our predecessors and each other, I view this trend as quite dangerous. A principle of "he who creates shall own" is not self-limiting and, taken to its logical extreme, would create in place of our current society an accountant's nightmare of payments and debits. So some lines have to be drawn, some limitations placed on the principle, if it is to be retained at all.1In examining how to draw those

---

1 Of course, this principle need not be retained. A system of
(Footnote continued)

lines, I suggested (among other potential tests) that one use microeconomics to clarify the social choice. That is, society has to choose between optimal incentives to the

---

1(continued)

justice whose guiding tenets were "from each according to his ability and to each according to his need" would not, for example, feel any a priori need to retain in their legal system a deference to creators. But there are many facets of our society which, by contrast, favor the retention of such a principle: desires for autonomy and privacy; a feeling by many that the society should give them a net benefit if society is to continue to merit their support; a need for money or property in a system which has incomplete social welfare services and a pervasive discrimination based on wealth (i.e., money as property as safety); in a system of free market economics, optimal incentives might demand that a person be assigned all value, etc. (Query the last: need the person be the creator? Need it be exclusive? Is the fear that effort will be duplicated?) Of course, many of these are self-reinforcing (in a society where needs are not met by the community, individuals will fear giving up their property to the community to help needy persons lest, when the charitable ones' time came to be needy, they have neither their own savings nor their community to depend on.

The basic notion seems to be this, at least in my mind: You can take a lot from me, but not what I've made with my two hands. I feel entitled to that, and will fight to keep it. (As Calabresi or someone once wrote, the respect for property may begin because, given human nature, it's so costly to disrespect it. Might indeed does make right, at least in some sense.) It may be this notion which gives to "desert" theories their utilitarian force: if people feel entitled to something, it will be costly to take it from them. It may be cheaper to recognize their claim to entitlement and entice social payments from them in other manners.

In any event, the notion of "I made it, it's mine" can be undermined by pointing out that the person made the thing with materials at hand, which he had not himself created. (Perhaps the cultural insistence on a Creator, and I do not mean to be blasphemous, has to do with instilling in us a sense of humility and thanks, and a willingness to contribute to the community which, after all, has as great a non-claim to our building materials as we do.) This is essentially the process of asking, did you make it, and requires some inquiry into the meaning of creation. Such an inquiry might be necessary even if one did accept the basic notion of entitlement.

producers of intangibles (that is, encouraging them and persons like them to produce more new intangibles) and optimal use by other members of society (that is, encouraging users to produce innovative or useful things by means of the intangibles.) In making that inquiry, microeconomics can perhaps suggest areas in which giving property rights would generate excessive incentives. Entertainers, for example, would probably do what they do even if they had no rights of publicity enabling them to get a royalty payment whenever a poster bearing their faces was sold.

While I was in the course of making the above argument, Bob Pitofsky raised an interesting question. Assume an industry like the record industry is seeking to expand its property rights, as by restraining the rental of records for home tapers. Would it make a difference to you, he asked, if the returns on investment in that industry were remarkably high? My reply at the time was that yes, I would be more inclined to refuse to extend property rights where the receipts were already unusually high, presuming barriers to entry kept good quality outsiders from capitalizing on this excess. While he seemed to accept this answer at the time, it raised another set of problems in my mind: Are there not significant issues of judicial process, and, potentially, of equity, in making the standards so flexible? If the award of property rights varies from industry to industry

not in a way generalizable from the dispute between the parties, aren't we asking for trouble?

1. Proof
2. Remedies
3. Equity.

Bob's question raises a more general question: when is it proper, and when improper, to let a court use its sense of reasonableness to decide what should be permitted and what prohibited. First, of course, we are more comfortable with such a delegation if the court's authority is at least clearly demarked by substantive boundaries. For example, the "rule of reason" in antitrust law is bounded by the antitrust laws. (Sherman One, if I remember correctly.) The "fair use" reasonableness standards are triggered only by fairly recognizable criteria- most prominently, the noncommercial character of the contested use. It will therefore be necessary to decide whether the "protection of intangibles" is a narrow enough area to permit the courts such discretion.

Second, not only must the area of discretion be narrow and clearly circumscribed, but also the nature of the criteria guiding the courts in their search for reasonableness must be clear. While not perhaps capable of being reduced to a formula, the various policy concerns must be articuable, so that the courts' exercise of power can be monitored and corrections (in the substantive case-

law rules or in personnel) can be accomplished if necessary. If the concerns are not articulable, then the propriety of judicial involvement will need to be questioned, both by means of analyzing those areas of law in which courts are (or are not) given this discretion, and by theoretical analysis of the role of courts.

It is possible that the various substantive microeconomic criteria I have outlined are sufficiently articulable and thus fulfill this function, with two caveats: First, the microeconomic creiteria may not describe the full set of applicable policies. Second, no matter how clear it may be that maximization of value is the governing value, and no matter how clear the roles played by various intermediate market or legal strategies in achieving that goal, a difficult trade-off will still have to be made: incentive to the initial creator as against incentives to users. I still have not decided whether I think this question can be answered by empirical investigation. Even if theoretically there might be an answer to "which point on the balance gives an optimum mixture of the two types of incentives," I suspect that in the majority of cases the empirical data and research will be lacking. Therefore, it will be necessary to be quite careful in assessing whether, should a nonarticulable tradeoff be necessary, the courts are the organ of government best suited to make it.

Third, even if the boundaries are clearly drawn and

narrow, and even if the policies are articulable, there is another challenge to be met. Persons making creative and/or business decisions must be able to understand, anticipate, and integrate into their behavior and decisions the choices that the courts will make. 2 In order for this integration into decision-making to be meaningful, the criteria which the courts use must be either in the control of the affected parties, or known by them so that they will know how to adapt the circumstances which are within their control accordingly.

-- -- -- -- -- -- --

There may be a last constraint on reasonableness inquiries, having to do with fairness or equity, which I find hard to articulate. The following will try to examine the sense I have that something seems to be wrong with a system which would condition the protectability of intangibles on the general market structure prevailing in an industry (the Pitofsky suggestion).

1. Obviously, my "fair use" article suggests I have

---

2 Why? Because as re the creator, the key is to generate incentives not for the party that day before the court (for, after all, he has already created the desired thing), but rather to generate incentives for potential creators in the future. Such persons will react correctly to those incentives only if they understand, ab ante, what rewards they can anticipate from the activity. Similarly, as re the user(s), they will not take advantage of socially desirable "free use" if they think they will have to respond in court, but instead will bargain and pay for (and thus use less of) the intangible. For an area of law which is explicitly concerned with incentives, maintaining some degree of predictability is crucial.

no trouble with the general proposition, as a general proposition, that protectability may sometimes be hinged on market structure. That was precisely my thesis regarding fair use. So what's the trouble?

2. I think the trouble has to do with cross-breeding of categories. The Pitofsky example called up the image of an industry which has high barriers to entry (which are not so high as to be independently actionable under the antitrust laws, or which at least have not been acted on in an antitrust suit) and an unusually high return on investment, being denied payment (if it is a first creator) or being denied free use (if it is a user), just because of these other factors which are not themselves evils. So:

(a) What's wrong with using an inquiry about market rates of return and the likelihood of those rates functioning in an optimally efficient fashion when addressing protectability of things for which incentive needs are being claimed? Is it that I, along with the "desert" property theorists, feel that the ownability of property should be decided a priori, or, at least, without reference to surrounding structures over which the potential owner had no control or, if he had control, for which he should be punished only in kind? (Is the reason for my reluctance a fear of overkill? Many unpredictable things can flow from a market barrier, particularly one which is not actionable in itself.)

(b) Is there a difference in the tests we would use in treating first creators as opposed to users? Is there anything to the "personality" and "privacy" theories which recur in this area/ Consider, for example, moral rights: although federal law has no explicit concern for moral rights, many moral rights interests find expression in the copyright law... is that merely coincidence?

(c) Is there a sense of fairness at issue, after all? In the copyright example, do we not sometimes "punish" an unwilling licensor for his bad motives by allowing fair use? We do. (But remember of course that most of the "fair uses" are not triggered by bad acts of the plaintiff owner/creators.) Nevertheless, I have some sense that it doesn't seem fair to deny someone protection or grant free use just because of factors which are unrelated to the specific acts in question- or, what is more striking, unrelated to any acts of the specific defendant.

This may have something in common with the complaint of those persons opposed to the "comparable worth" battles now being waged: the real world is somewhat arbitrary, and it may be impossible to even it all out, and destructive even to try. The rules (such a view might argue) should be set in advance, and then let everyone play from them. Those who get an advance should keep it; it's the chance of piling up the points that spurs the competitors on; and so on. That suggests, in

turn, that if protection is to be denied because of market structure, and if injury is caused thereby (this latter, important caveat maybe saving my copyright system from being covered by this new rule)3 then the market structure should itself be prohibited by the antitrust laws if it is to be relevant.4 Are we back to saying it all must be a tort test ("wrongfulness")? And if so, aren't we back to the old questions about whether courts should be free to review every transaction for "whether it serves the social good?"

There's something else that is teasing in here: but it can't be teased out this evening. 11/20/83.

---

3 Of course, we may just get into the whole "circular injury" argument again here, leading us to ask: when should property rights be given so that refusals to honor them are injury?

4 Is this any different from saying that "no protection" or "no free use" may sometimes be a punishment for antitrust abuse? Cf., the copyright misuse question.