

ESSAY

MISAPPROPRIATION: A DIRGE

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The word “misappropriation” has two possible functions in intellectual property law, and I shall explore both, though briefly. First, it is the name of a doctrine, of uncertain but diminished scope, growing out of the old *INS* case.¹ Second, it is a candidate to be the overarching principle that would rationalize intellectual property law as a whole and provide guidance for altering, perhaps expanding, the scope of that law. I shall argue that neither function is worthwhile and that the term and the doctrine can be jettisoned, so far as intellectual property is concerned at any rate, without loss, and should be.² If the doctrine is to be retained, however, more attention should be paid to the issues of institutional design that it raises, and I discuss these very briefly in the last part of the paper.

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1. *Int'l News Serv. v. Associated Press*, 248 U.S. 215 (1918).

2. It is pertinent to note that RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. b (1995), recommends that there should be no residual common law tort of misappropriation (“residual” because the tort right of publicity, the law of trade secrets, and patent and copyright law, not to mention the tort of conversion, would provide remedies against specific forms of what might loosely be called “misappropriation”). Learned Hand, the leading intellectual property judge of the twentieth century, was famously skeptical about misappropriation doctrine in general and the *INS* decision in particular. See *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279 (2d Cir. 1929).

I.

I begin my analysis with the second, the more ambitious function that might be assigned to the concept of misappropriation—the function of serving as a unifying principle for the entire law of intellectual property. When misappropriation is thought of in the large, as it were, the tendency is to analogize it to theft. Someone who steals my car deprives me of valuable property that cost me money to acquire, and he pays nothing; he free rides on my purchase, my investment. Likewise if he copies the novel, or software, or new molecular entity for the treatment of disease, that I created at what may have been considerable cost in money, time, and risk. But the analogy to theft is imperfect. The car thief deprives me of my property; the copier does not—I retain it and remain free to license or sell it. And while the copying may reduce my income from the work because I have lost the *exclusive* use of my property, though not the use, the reduction may not be great. It may even be zero, if for example the person who “pirated” my software did so only for his personal use, and not to resell it, and if in addition he could not have afforded my price, so that I do not lose even a single sale as a result of the “piracy.” The difference is between his stealing my computer, which deprives me of its entire value, and his copying my operating system, which does not. (The infringer is like a squatter who by occupying a corner of my property reduces the value of it to me by depriving me of its exclusive use.) If he could not afford to buy the operating system, so that the manufacturer would not lose a sale by virtue of the copying, no one is harmed. The use of the word “piracy,” or for that matter “misappropriation,” to describe unauthorized copying thus is objectionable because it obscures the difference between theft of tangibles, including that involved in old-fashioned maritime piracy, and the copying of intellectual property.

This is not to deny that copying can inflict sufficient harm, social as well as private, to justify the provision of a legal remedy. If the upfront cost of creating a particular type of intellectual property is very high relative to that of making a copy once the property is created, and if the creator of the work can recover the cost only in the price he charges per copy, then if others can freely copy it competition will bid the price down near the cost of a copy and the creator of the work will be unable to recover his costs of creating it. A computer operating system may cost billions of dollars to develop, but once it is developed, copies can be made and transmitted over the Internet at essentially zero cost. The difficulty in such a case of recouping one's

investment if competition is not restricted is the principal rationale of copyright law, although to minimize the costs of using the legal system the law does not confine its protection to those dramatic cases in which infringement would in fact prevent the author of the infringed work from recovering his costs. A copyright is a property right rather than merely a basis for imposing liability for excessive borrowing, although the doctrine of fair use provides a partial defense that has no close counterpart in the law of property rights for tangible goods. (Eminent domain, and the doctrine of necessity—which for example would allow a driver to swerve onto someone’s property to avoid an accident, without being deemed a trespasser—are distant counterparts.) Property rights and liability rules are alternative instruments for preventing free riding. The only point I want to emphasize is that the free riding that creates a need for intellectual property law is economically distinct from that involved in the theft of tangibles.

Another way in which the concept of misappropriation can easily get out of hand when deployed on issues of intellectual property relates to antidilution law. I have no objection to blurring or to tarnishment as grounds for antidilution suits, but I worry about the seductive appeal of a misappropriation rationale. Rolls Royce has made a substantial investment in creating a famous name. This investment has taken the form not only of advertising the name, but also, and more important, of producing a product of such high quality that the name has become a worldwide symbol of quality. A peanut vendor who calls himself “Rolls Royce” appropriates some of the benefits of Rolls Royce’s investment in quality without compensating the investor. There is no confusion; the consumer will not think the vendor’s peanuts of higher quality because he uses the name Rolls Royce for his business. The use of the name is a joke—but it is a joke intended to attract business and it works as a joke only because of the fame of the Rolls Royce name. Even if there were no blurring or tarnishment (whether there was blurring might depend on how many firms used the Rolls Royce name), if the appropriation of the mark without the permission of Rolls Royce were nevertheless forbidden, the benefits of Rolls Royce’s investment in creating a famous name would be fully internalized and so the amount of investing in creating prestigious names would rise. It would be a pure misappropriation case.

But there are two powerful objections to legal protection in such a case. First, the number of prestigious names is so vast that it is unlikely that any of the owners of prestigious trademarks could obtain substantial licensing fees. Competition

would drive the fees nearly to zero because, if a prestigious trade name is to be used in an unrelated market, virtually every other prestigious trade name will be a close substitute for it. If this is so, then recognizing a right to sue to prevent such a use would create transaction costs with no offsetting social gain. Second, trademark owners already work to prevent their mark from being attached to any brand other than their own. In part this is to preserve the mark by preventing consumer confusion, but in part it is also to prevent the mark from becoming generic. If antidilution law were interpreted as arming trademark owners to enjoin uses of their mark that, while not confusing, threatened to render the mark generic, the social benefits of genericness, in reduced consumer search costs and enhanced competition, would be reduced or postponed.

A further difference between theft properly so-called and copying is that while theft is very rarely productive, unauthorized copying of inventions and expressive works often is. The fact that copying does not necessarily deprive the owner of the original work of all or even any of the value of his work creates room for trade-offs—for asking whether social welfare as a whole might be increased by allowing some copying because the gain to the copier might exceed the cost to the owner of the original (sometimes both would gain).³ One relatively uncontroversial example where the trade-off is made in favor of allowing copying is parody; a controversial example is “Appropriation Art,” a term that rings, perhaps unnecessarily, alarm bells simply because of its use of a term so close to misappropriation.⁴

Such trade-offs are common in situations in which transaction costs are high. By not forcing injurers to compensate victims whom they injured without fault, we treat those victims’ bodies as uncompensated inputs into the production of the injurers’ outputs; and likewise when we allow in the name of fair use a degree of unauthorized copying of copyrighted works, or allow a trade secret to be “blown” by reverse engineering of the product in which it is embodied. There would be no social value in having a “public domain” of cars from which anyone wanting a car would be free to borrow at no cost to him. But there is social value to having a public domain of ideas and expressive works from which inventors and authors can borrow freely; indeed, as

3. Occasionally a theft may confer a net social value; an example is a person lost in the wilderness who breaks into an empty cabin and steals food to keep from starving. But such cases are very rare.

4. See LANDES & POSNER, *supra* note *, ch. 8.

I'll note, the preservation of the public domain is one of the goals of the federal copyright statute. Even when transaction costs in the usual sense are low, moreover, some unauthorized copying is privileged in order to avoid limiting criticism, as in parody cases and quotations in critical book reviews.

Once it is acknowledged that free riding on intellectual property is not always a bad thing, it becomes difficult to give a simple meaning to "misappropriation" that will enable it to serve as the organizing principle of intellectual property law. If misappropriation means free riding, then the meaning is simple enough but too broad to serve as a guiding principle of the law. It would not only extinguish the free-use defense in copyright law. It would also allow a store that provided presale services for the brands it sold to sue a discount house that did not. For the discount house's customers (and hence the discount house) would be taking a free ride on the plaintiff's investment in presale services by shopping at his store in order to pick the brand or model he wanted and then going to the discount store to buy it cheaper—cheaper because the discount store had not incurred the expense of providing any presale services. This is a good argument for allowing a manufacturer who wants to encourage dealers to provide presale services for his goods to refuse to sell to discount houses or to distributors who sell to discount houses, or even for allowing him, as under the now-repealed fair-trade laws, to place a floor under the resale price that dealers (including discount and mail-order houses) can charge. But it is an argument for allowing manufacturers to impose restrictions on their dealers and distributors by contract. Given these contractual options, there is not a compelling argument for deeming free riding on dealers who provide presale services a form of tortious misappropriation.⁵

So unless misappropriation is defined narrowly with respect to particular forms of copying rather than equated to free riding, it is too sprawling a concept to serve as the organizing principle of intellectual property law. But it is also descriptively incomplete, because patent infringement need not involve any free riding, any "misappropriation." Suppose that without knowing that a particular product or process is patented, another inventor reinvents it. If it is a pure case of independent

5. Even in a case in which a mail-order firm advised prospective customers to visit conventional retailers' showrooms to obtain information about the product and then order it from the mail-order firm, a claim of misappropriation was rejected. *See* H. L. Hayden Co. of N.Y. v. Siemens Med. Sys., Inc., 879 F.2d 1005, 1024–25 (2d Cir. 1989); Dale P. Olson, *Common Law Misappropriation in the Digital Era*, 64 MO. L. REV. 837, 879–81 (1999).

discovery, there has no been no free riding on the patentee. The independent discoverer incurred the same or similar costs to create the reinvention; he saved nothing by being a reinventor rather than an original inventor; he took nothing from the original inventor. Yet although there is no free riding, there is held to be infringement because otherwise the risks, already considerable, of failing to recoup the costs of inventive activity would be even greater than they are, because the patentee could not be certain that his invention would not be duplicated before his patent expired. The risks to inventors who make independent discoveries only to discover too late that their invention has already been patented by someone else are not as great, because before beginning their research and development they can search the public records of the Patent and Trademark Office and discover whether the invention has already been patented. This is not a complete answer, because the original invention might not have been patented until the second inventor had incurred substantial research and development expenditures. And it can be argued that independent discovery before the patent term expires is an indication that the patented invention wasn't that difficult to make and therefore should not earn the full patent reward. What tips the balance against an independent-discovery defense, however, is the difficulty of determining independent discovery by the methods of litigation and the resulting likelihood that the courts would commit many errors in adjudicating patent infringement claims in cases in which independent discovery was the defense.

II.

I conclude that misappropriation is not a helpful way of thinking about intellectual property law in the large. Free riding, an approximate synonym for how "misappropriation" is used in discussions of intellectual property, is certainly relevant to the scope of intellectual property rights, but it is neither a necessary nor a sufficient condition for the recognition of such rights.

Neither do I think that misappropriation has a constructive role to play as a discrete doctrine of that law. It may *seem* to be needed to plug a narrow but deep hole resulting from the failure of other doctrines (or social norms, or contractual or technological fixes) to provide legal protection to certain costly intellectual activities primarily having to do with the gathering of information. But the need, though often assumed, has yet to be demonstrated.

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*International News Service v. Associated Press*⁶ remains a good illustration of the apparent market failure that summoned the doctrine into existence, even though the decision no longer is legally authoritative, having been based on the federal courts' subsequently abandoned authority to formulate common law principles in suits arising under state law though litigated in federal court. The Associated Press, a cooperative of newspapers, and the International News Service, which was owned by William Randolph Hearst but sold its product to non-Hearst as well as Hearst papers, competed in gathering news to be published in newspapers. INS was barred during much of World War I by British and French censors from sending war dispatches to the United States, because Hearst had offended the British and French by siding with Germany at the outset of the war. To circumvent this boycott, INS paraphrased AP's war dispatches in the east coast newspapers in which they appeared, and published the paraphrases in west coast newspapers owned or licensed by Hearst at the same hour (which it could do because of the difference in time zones) and in the east coast newspapers owned or licensed by him only a few hours later. There was no copyright infringement, because INS was copying the facts reported in AP's dispatches rather than the dispatches themselves and anyway AP had not bothered to copyright its dispatches. There was no theft of trade secrets either, because AP's dispatches were public. Nevertheless the Supreme Court held that AP was entitled to enjoin INS's copying as a form of unfair competition, because INS was trying to reap what AP had sown.

Justice Brandeis dissented, pointing out that the injunction would deprive the readers of hundreds of newspapers of timely access to the latest war news. He did not discuss the possibility that AP would license INS to publish AP's dispatches (though it did not do so even after the injunction was upheld by the Supreme Court), or that if INS could copy AP's dispatches AP would have a diminished incentive to incur the costs of obtaining the news. Justice Holmes also dissented, but on a different ground that I shall discuss shortly.

It was undoubtedly a case of free riding, yet without knowing more than the opinions in the case reveal about the cost of AP's news gathering and the likely effect on AP's revenues of competition from the Hearst newspapers, I doubt that the case

6. 248 U.S. 215 (1918); see also Richard A. Epstein, *International News Service v. Associated Press: Custom and Law as Sources of Property Rights in News*, 78 VA. L. REV. 85 (1992).

can be said to have been decided correctly. It is true that if INS offered its AP clone to newspapers free of charge, newspapers that belonged to the AP might withdraw from the cooperative (which would increase the average cost of the newspapers that remained in it—an effect that would in turn accelerate exits), even though the eventual effect would be to kill the goose that laid the golden eggs if AP ended up with no revenue out of which to defray the costs of its news gathering and so abandoned it. But how likely was INS to do such a thing, that is, price its clone at zero? Quite apart from the possible adverse consequences to INS of driving an important supplier (AP) out of business, the effect of its copying, had the injunction been denied, would have been to create a duopoly, and duopolists are unlikely to compete price down to cost (zero in the case of INS, I am assuming). If INS charged a positive price, this would slow the exit of newspapers from AP that a zero price might incite. In any event, the principal customer for the “stolen” dispatches was the Hearst papers, and the effect was merely to make them a slightly more effective competitor of the newspapers that belonged to the AP.

The effect was only slight because INS was not paraphrasing *all* the AP’s dispatches, just those concerning the war in Europe.⁷ And it was doing so not to save money but because it was prevented by the British and French censors from reporting from the war zone. This was a special situation, limited in scope and duration and therefore unlikely to be a serious threat to the continued viability of AP.

Justice Holmes was on to something, moreover, when in his dissenting opinion, while disagreeing that AP had a property right in its news, he argued that AP should nevertheless be entitled to an injunction “unless [INS] gives express credit to the Associated Press.”⁸ He thought that without crediting the source INS was giving the impression that *it* was the source of the news and not just the echo. If AP were properly credited, newspapers would be willing to incur costs to remain members of AP even if they could get INS copies of the news in AP’s dispatches for nothing, because their readers would realize they were getting the news from the horse’s mouth, as it were, rather than at one remove. INS was guilty of reverse palming off, a form of plagiarism actionable under conventional unfair-competition principles. But that was all it was guilty of, according to Holmes. Incidentally, I do not think the recent *Dastar* decision would

7. Epstein, *supra* note 6, at 105, emphasizes this point.

8. *INS*, 248 U.S. at 248 (Holmes, J., dissenting).

have prevented AP from obtaining the relief contemplated by Justice Holmes, but this is an issue to which I return later.⁹

The doctrine of the majority opinion in the *INS* case is recognized in some states and so it has outlived the abolition of the general federal common law that gave rise to the decision.¹⁰ I will discuss just three of the more important cases. In *Board of Trade v. Dow Jones & Co.*,¹¹ the Chicago Board of Trade created a futures contract based on the Dow Jones index of thirty industrial stocks. The contract enabled both speculation on moves in this widely followed index and hedging. The Supreme Court of Illinois held that the Board of Trade had misappropriated Dow Jones's investment in its index. The decision is unsound. Dow Jones is a publisher rather than a stock exchange, and it had no plans to create a futures contract or likely prospects for doing so. The Board of Trade's copying of Dow Jones's index inflicted no present or prospective injury on Dow Jones other than a loss of licensing revenues that had never been anticipated in the first place—and the futures contract would have been an advertisement for the index and hence for Dow Jones, so that the net loss even of anticipated licensing revenues would probably have been small, and maybe negative. Nor could it be argued with a straight face that without the licensing revenues that it might be able to extract from the Board of Trade, had it a right to prevent the Board from creating the futures contract, Dow Jones would be unable to recoup its fixed costs in creating and maintaining the index. The index had been created without anticipation of licensing revenues and its maintenance required little more than occasionally replacing one of the thirty stocks in order to maintain adequate diversification. There was free riding, but of a kind unlikely to kill the goose that lays the golden eggs because it was free riding on a merely potential derivative work unlikely to generate essential income for the owner of the primary work.

A year later another court in a similar case reached the opposite result.¹² The USGA, the governing body of amateur golf, had developed a formula for computing the handicaps of golfers;

9. See *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003).

10. See Douglas G. Baird, *Common Law Intellectual Property and the Legacy of International News Service v. Associated Press*, 50 U. CHI. L. REV. 411 (1983). An argument for broader use of misappropriation doctrine to plug holes in the patent statute is made in Douglas Gary Lichtman, *The Economics of Innovation: Protecting Unpatentable Goods*, 81 MINN. L. REV. 693 (1997).

11. 456 N.E.2d 84 (Ill. 1983).

12. *United States Golf Ass'n v. St. Andrews Sys., Data-Max, Inc.*, 749 F.2d 1028 (3d Cir. 1984).

the handicaps enable players of different ability to compete with each other on a nominally equal basis.¹³ The defendant, Data-Max, obtained the formula (presumably by lawful means) and offered a service by which a golfer could use a hand-held calculator to get an immediate, updated handicap calculated according to the USGA's formula. The service thus provided access to the formula at a lower quality-adjusted cost than if the golfer had had to obtain the information either from the USGA itself or from a golf club authorized by the USGA to administer the formula. That was a benefit. And although Data-Max was unquestionably free riding on the USGA's creation and promotion of the formula, there was, as in the *Dow Jones* case, no danger that free riding would cause USGA to abandon the formula. The court refused to enjoin Data-Max. It ruled that misappropriation, to be actionable, requires an injury to the plaintiff in his primary market, rather than just in the market for an ancillary or derivative work.¹⁴ Another way to put this is that misappropriation must threaten the revenue base that supports the product on which the defendant has taken a free ride.¹⁵

A more recent case is the celebrated *SportsTrax* case in the Second Circuit.¹⁶ The plaintiff, the National Basketball Association, owned the copyright on the broadcast of NBA games. The defendant provided a service for fans too busy to see or hear the game but eager to keep abreast of the action. Employees of the defendant would watch the game on television and at frequent intervals phone in the score, the time remaining, and other crucial information to a computer that would compile,

13. Thus, if a golfer having a handicap of ten strokes is playing against a golfer with a handicap of three strokes, the latter must complete the game with at least eight fewer strokes than his opponent to win. The handicap is determined by the golfer's previous scores adjusted for the difficulty of the courses in which he obtained those scores and other factors bearing on the accuracy of those scores as a measure of quality.

14. But see *United States Golf Ass'n v. Arroyo Software Corp.*, 81 Cal. Rptr. 708, 714 (Ct. App. 1999), holding, in a very similar case, that California's law of misappropriation imposes no such requirement.

15. There is an instructive contrast to *Morris Communications Corp. v. PGA Tour, Inc.*, 117 F. Supp. 2d 1322 (M.D. Fla. 2000). The PGA Tour developed a system for simultaneously collecting, and transmitting to its Web site, the scores of the different players in a PGA tournament. Because the players are not in a place observable from a single position, the system involved stationing spotters at the different holes who reported the scores of the individual players. The PGA Tour granted access to its Web site to media companies such as the plaintiff, but with a slight delay to which the plaintiff objected unsuccessfully in the suit. The PGA Tour did not need a property right to protect its investment in the development and operation of the system; all it needed, and had, was a contractual right to grant access to the system on whatever terms were advantageous to it.

16. *NBA v. Motorola, Inc.*, 105 F.3d 841 (2d Cir. 1997).

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process, and format the information and transmit it to pagers sold by the defendant to the fans. The defendant's service did not infringe copyright, because all it took from the copyrighted broadcasts were facts (the games themselves, the court said, unlike theatrical plays, are not copyrightable because the moves made by the players are not prescribed).¹⁷ It might seem that this would leave a void for the doctrine of misappropriation to fill. But the federal copyright statute preempts not only state laws that seek to curtail the protection that the federal statute grants owners of intellectual property, but also state laws that provide protection that the copyright statute has deliberately withheld. By preempting the subject matter of copyright (namely works of authorship fixed in a tangible medium),¹⁸ the copyright statute has been interpreted to deny protection to ideas, facts, and other nonexpressive material embedded in expressive works, not as an oversight but as a deliberate federal policy to preserve a public domain consisting of the noncopyrightable contents (such as facts and ideas) of copyrightable works.¹⁹

But the court went on to say that if there is more than copying involved in the defendant's conduct, a state's providing a remedy to a person injured by that conduct is not preempted. It is unclear how this formula fits a case in which all that the defendant is doing is, as in the *INS* case itself, copying facts found in an expressive work. What the court instead might have said was that Congress probably didn't mean by the limitations that it imposed on copyright to forbid states to punish the copying of facts in situations in which unlimited free copying would eliminate the incentive to create the facts in the first place. For in such a case the policy of assuring that facts remain in the public domain available for use by all without fee would be defeated; there would be no facts of the type involved in the case in the public domain.

The court formulated the elements of the right to sue for misappropriation this way:

- (i) the plaintiff generates or collects information at some cost or expense; (ii) the value of the information is highly time-sensitive; (iii) the defendant's use of the information constitutes free-riding on the plaintiff's costly efforts to generate or collect it; (iv) the defendant's use of the information is in direct competition with a product or

17. Not all courts agree. See *Baltimore Orioles, Inc. v. Major League Baseball Players Ass'n*, 805 F.2d 663, 669 n.7 (7th Cir. 1986). I return to this point later.

18. See 17 U.S.C. § 301(a) (2000).

19. *NBA*, 105 F.3d at 849-50; *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996).

service offered by the plaintiff; (v) the ability of other parties to free-ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.²⁰

The meat is in (v), with (i) through (iv) identifying the conditions in which the criterion stated in (v) is likely to be satisfied. The criterion appears to mean that states can protect fact gathering without running afoul of the preemption provision in the federal copyright statute only when unauthorized copying of the facts gathered is likely to deter the plaintiff or others similarly situated from gathering and disseminating the facts that the defendant has copied.

Applying the test to the case before it, the court found no actionable misappropriation. The NBA was not going to give up sponsoring or broadcasting basketball games merely because a few people would be deflected from watching the broadcasts by the availability of the defendant's service. In fact the service was designed for people who wouldn't watch the game anyway. There may have been some substitution of the service for the broadcasts, and hence some diminution in the advertising revenues of the NBA's member teams, but if so it must have been very slight. The NBA did not have its own pager service that the defendant was copying.

Had the court held that the basketball games themselves were copyrightable, the NBA would have had a stronger case—but it would have been a case of copyright infringement rather than a misappropriation case. The so-called "facts," such as the positions of the players and even the score, that the court deemed not to be copyrightable, could equally well have been viewed as expressive features of the game viewed as itself an expressive work, like a ballet, albeit more loosely choreographed. The question that the case *really* presented was not whether fact gathering should ever be protected by the misappropriation doctrine, but whether a sports game should be classified as an expressive work eligible for copyright protection. We can think of this as a question within copyright law and forget about misappropriation. And the answer? Because a heavy upfront investment goes into producing a professional sports game, and because, in the absence of copyright protection, the league will seek to secure exclusive rights to the broadcasting of its games by contract (forbidding unauthorized televising of the games), which might set off an arms race (television cameras in blimps or

20. *NBA*, 105 F.3d at 852 (citations omitted).

satellites),²¹ it is arguable that games should be copyrightable. But if the argument is rejected, the reasons for rejecting it should weigh equally heavily against finding misappropriation.

To summarize, in all four cases that I have discussed, the rationale for creating rights in intellectual property under the aegis of the doctrine of misappropriation failed as a matter of fact, leaving the benefits of the additional services to be obtained by the consumer without a significant offsetting social cost. No doubt in all four cases the defendant could at some price have obtained a license from the plaintiff if the latter had a property right. But that would have imposed transaction costs, and the license fee, depending on how computed, would have operated to limit access to the new services.

Four is not a large sample; but I am hard pressed to find a case in which a claim of misappropriation should have succeeded. Consider the following variant of the facts in the *SportsTrax* case.²² As before, the defendant extracts detailed play-by-play information as it is broadcast, but now he uses it to create a computer-simulated version of the broadcast. He is not copying the broadcast but rather creating from the information in it a simulation that may, depending on the power of the computer software to translate information extracted from the broadcast into a visual form and the quality of the computer graphics, provide a substitute for the broadcast itself, perhaps one the subscriber can receive on a cell phone or a small information appliance, such as a Palm Pilot. The defendant would be creating a copy in the nonliteral sense of something that resembles something else very closely, yet—one might argue—without copying.

If such a case escaped the clutches of the copyright statute, there would be an argument for bringing the case within the scope of the misappropriation doctrine as defined by Judge Winter (the author of the opinion in the *SportsTrax* case). We could think of liability in such a case as based on a “reverse fair use” doctrine. Fair use shrinks liability in some cases of copying; the reverse doctrine would expand liability when the rationale for copyright protection was present but a possible loophole in the copyright statute threatened to allow the defendant to avoid liability. The case is manageable, however, only because the

21. Admittedly not a problem with basketball, which is played indoors; but it would be odd to have a different rule for baseball and football, which are usually, though not always, played outdoors.

22. See Fred Anthony Rowley, Jr., *Dynamic Copyright Law: Its Problems and a Possible Solution*, 11 HARV. J.L. & TECH. 481, 503 (1998).

information generated in a basketball game is not the essential feature of the broadcast of the game; the visual display is. So if the defendant merely takes the information, there is no compelling argument for liability, but if he takes (or, I am suggesting, recreates) the visual display, there is.

But in fact, despite its seeming novelty, the case fits easily within existing copyright doctrine, even if the game itself is not copyrightable but only the broadcast. Virtually all copying is recreation because there is almost always an intermediary between the original and the copy. Consider digital photography. The digital camera extracts all the information contained in the scene before it, digitizes it, and recreates it. A painter who copies a copyrighted painting rather than taking an impression with carbon paper is an infringer, even though he recreates the painting from its constituents—the lines, colors, etc., none of them separately copyrightable. The only issue in the hypothetical basketball case, as in the case of a copy of one painting by another, is whether the copy is sufficiently similar to the original to infringe it.

It might be argued that the doctrine of misappropriation is supported by the “right of publicity” cases, which forbid “appropriating” a person’s name or picture for commercial purposes without the person’s consent. That may seem a pure and unexceptionable example of misappropriation.²³ Yet if we set to one side cases in which the plaintiff is not and does not want to become a celebrity, and so is complaining about an invasion of his privacy, and focus instead on the cases (by far the more common) in which a celebrity is seeking relief, we shall quickly see that the case for relief on a misappropriation rationale is actually very weak. A person is unlikely to invest less than he would otherwise do in becoming a movie star or other type of celebrity merely because he’ll be unable to appropriate the entire income from the franchising of his name and likeness; there is free riding but not the type that threatens to kill the goose that lays the golden eggs, for once again it is free riding merely on ancillary products. The rationale of the right of publicity cases lies elsewhere, in the danger of a congestion externality if there is no control over the use of the celebrity’s name or likeness in advertising and other commercial uses.²⁴

23. The affinity of the misappropriation doctrine to the right of publicity is discussed in HUW BEVERLEY-SMITH, *THE COMMERCIAL APPROPRIATION OF PERSONALITY* 176–79 (2002).

24. See *Cardtoons v. Major League Baseball Players Ass’n*, 95 F.3d 959, 974 (10th Cir. 1996); LANDES & POSNER, *supra* note *, ch. 8; RICHARD A. POSNER, *THE ECONOMICS OF JUSTICE* 248 (1981); Mark F. Grady, *A Positive Economic Theory of the Right of*

Consider now cases in which, as in the *INS* case itself, what is taken is just information that may have been costly to obtain, and not the expressive form of the information. The standard example is an electronic database in which the data, being digital, are not arranged in any particular order (an arrangement of data is optional rather than dictated by the nature of the data is protectable under copyright law), but are searchable, so that the lack of arrangement doesn't matter, just as, using a global search program, a reader could extract all uses of the word "the" in this Essay even though they are not in any order. The database may have been very costly to compile, but if all it contains is noncopyrightable information, someone who downloaded the entire database into his computer would not have infringed copyright.

This possibility has given rise to proposals for federal legislation to protect databases from unauthorized copying. Although the Supreme Court said in the *Feist* case that the Constitution's copyright clause does not permit Congress to grant copyright in facts because facts are not a product of authorship,²⁵ this does not prevent Congress, operating under one of its other grants of legislative authority, such as the authority to regulate interstate and foreign commerce, from giving legal protection to fact gathering; it just would not be copyright protection. But it is unclear whether such legislation is necessary—and not because the owners may have the misappropriation doctrine to fall back on! Owners of databases can condition access to the database on contractual promises not to copy,²⁶ or can install encryption software, or both—though, granted, neither solution is ideal from a social standpoint. Replacing property rights (a database copyright) with contract rights could encourage inefficient vertical integration, motivated by the database owner's desire to have a contractual relation with all of his customers and thus be able to use contract law to prevent the copying of his database.²⁷ And there is an arms-race objection to forcing database owners to

Publicity, 1 UCLA ENT. L. REV. 97, 103, 126 (1994). There is some tension between this rationale for publicity rights and my rejection earlier of a similar rationale for broadening the concept of trademark dilution. The difference is that at any given time for any given group of consumers there are usually only a handful of prime celebrities, and their names and likenesses have therefore a considerable scarcity value that can be destroyed by unrestricted commercialization.

25. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 347–48 (1991).

26. *See, e.g., ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453–54 (7th Cir. 1996).

27. This would not be a good reason for extending the doctrine of misappropriation to free riding by discount houses, because manufacturers have or can easily create contracts with all of their distributors and dealers—but not with all of their ultimate consumers.

rely on technological fixes to prevent copying, similar to the objection to forcing sports leagues to rely on roofing to prevent their games from being “copied.”

There are still other ways, however, in which a database owner may be able to prevent copying even if he cannot invoke copyright law. Sometimes he will be able to tie access to his database to the licensing of proprietary software, because the owner of a database will usually be in the best position to adapt existing search technology to the distinctive contents of the database. Search methods (certain “robotic” or automated searches) that interfere with searches by authorized users can be enjoined as trespasses.²⁸ And because there do not appear to be any “pure” digital databases in which the data are entered into the database with no selection, editing, arranging, or other interventions that would entitle the database to copyright protection, database owners can copyright at least some of the features of their databases. Not the data themselves, of course; yet free riding will still be reduced, because the copier will have to incur costs to do his own selecting, editing, and arranging in order to make his database attractive to the consumer.

But consider now the case of classified advertising, said to be the source of almost forty percent of the advertising revenues of the average newspaper.²⁹ The danger of free riding may seem acute. Suppose that a newspaper invests significant resources in filtering out obviously fraudulent or unlawful ads, formatting the ads it does accept, and printing them. What is to prevent an Internet service from scanning all the classified ads in all the newspapers serving a particular locale, extracting all the information from the ads, and displaying the information in readily searchable form but not in the same form as in the ad itself?³⁰ By consolidating the information from all the newspapers in the locale, the Internet service would be providing a superior service, adding to the competitive advantage that it would enjoy by virtue of free riding on the newspaper’s cost of processing the ads.

28. See *Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238, 248–51 (S.D.N.Y. 2000), appeal pending; *eBay, Inc. v. Bidder’s Edge, Inc.*, 100 F. Supp. 2d 1058, 1070–72 (N.D. Cal. 2000).

29. See René P. Milam, *Who Owns the Real Estate Classified Advertising?*, Newspaper Association of America, at <http://www.naa.org/preview.cfm?/AID=3179> (Apr. 3, 1998).

30. I am not aware of any such service. AdQuest3D is an online service that enables its subscribers to access the classified ads in 1400 different newspapers, but it is licensed by the newspapers, because it is providing copies of the ads themselves, not just the information in them. See *AdQuest3D, For Publishers*, at <http://sitemanager.zwire.com/forpublishers> (last visited Sept. 3, 2003).

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The danger of killing the goose that lays the golden eggs might seem acute in such a case and, if so, Judge Winter's reformulation of the doctrine of misappropriation could provide the newspapers with a cause of action. But the danger may well be exaggerated, not only or mainly because such a service as I have described would have no obvious competitive advantage over a service such as AdQuest³¹ that enables the classified themselves to be searched. More important, by increasing the audience for the classified ads, the service would enable the newspaper that first published a classified ad to charge a higher price to the advertiser. As for the danger that, to minimize the cost of the ad, the advertiser would place it in an obscure newspaper that did not filter out fraudulent ads or incur other significant costs, the advertiser and the online service would not be free riding on the investments in such efforts by major newspapers, for no major newspapers would be in the picture. If the online company wanted to offer "filtered" ads in order to compete with the classified sections of the major newspapers, it would have to incur the costs of filtering, just like the major newspapers themselves.

Consider now reverse engineering. Suppose a firm had a trade secret that it could not feasibly protect by patent law but only by keeping it a secret, yet the secret could be detected by reverse engineering at virtually no cost. Then a competitor might obtain a competitive advantage that was so great that firms exposed to such reverse engineering would not invest in processes that could not be patented. But before deeming this a proper case for invoking the doctrine of misappropriation, one would want to inquire why patent law was inadequate to protect a valuable invention, and whether the best solution would be to amend the patent law. I should add, anent patent law, that under current doctrine concerning "business method" patents, the services in all four of the misappropriation cases that I discussed earlier might be candidates for such patents.

To all that I have said against the doctrine of misappropriation, it might be replied that I have treated as dichotomous what is actually a continuous phenomenon, namely the output effects of free riding. The question is not whether Dow Jones abandons its index, AP its war reporting, the USGA its handicapping, or the NBA its sponsorship of professional basketball; the question is how far these activities may be curtailed if free riding, even on ancillary or derivative products, is allowed. But really this objection underscores the most

31. *See id.*

questionable feature of the doctrine of misappropriation, which is its lack of clear boundaries. Copyright law draws generally sharp boundaries; patent law less so but there is the Patent and Trademark Office to filter applications. Misappropriation doctrine, in contrast, is alarmingly fuzzy once the extreme position of creating a legal right against *all* free riding is rejected, as it must be. I am aware of no case in which the effect of free riding on the plaintiff's activity was quantified. One inference is that misappropriation that is not actionable under copyright, patent, trademark, trade-secret, or right-of-publicity law is generally rather trivial, which indeed seems a reasonable inference from the cases I have discussed. But another inference, scarcely less comforting to the advocates of the doctrine of misappropriation, is that quantification is infeasible and we are stuck with a doctrine of irreducible vagueness—if we retain it. The apparent precision of Judge Winter's five-factor test may be illusory. The precision is purely verbal, and cannot tell a would-be "misappropriator" whether his conduct is likely to cross the legal line. The real significance of the test may be the evident hostility of Ralph Winter and his colleagues to the doctrine.

The most fundamental difficulty with the doctrine of misappropriation arises from the fact that, as I said at the outset, the unauthorized use of another's intellectual property, unlike the unauthorized use of another's physical property, lacks clear normative significance. This point is usually made by acknowledging a trade-off between incentive and access. The greater the scope or duration of the intellectual property right, the greater the incentive to create intellectual property, but also (unless perfect price discrimination is feasible, or transaction costs are zero, and it and they never are) the greater the substitution away from the property in question to inferior or most costly alternatives. Unfortunately it is very difficult to make this trade-off—certainly by the methods of litigation—in other than extreme cases. It is probably the case that having no intellectual property rights at all would be inefficient, and it is probably also the case that abolishing the fair-use defense (and its counterparts in patent law, such as the doctrine of improvement patents and the defense for experimental uses), and otherwise expanding intellectual property protection much beyond its present scope, would also be inefficient; but between these extremes lies a very large area of indeterminacy. Society has dealt with this problem primarily though not exclusively by specifying intellectual property rights statutorily rather than by leaving it to the courts to decide on a case-by-case basis whether the incentive-access trade-off favors protection or nonprotection.

Yet it is case-by-case determination that the misappropriation doctrine, even as cabined by Judge Winter's test, decrees; for we recall that his test requires the court to determine, in any case that passes through his first four filters, whether "the ability of other parties to free ride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened." (We might call this the "goose that lays the golden eggs" test.) Would *INS* or any other "hot news" case pass this test? Who knows? Notice in this regard the ambiguity injected into the test by the phrase "or quality."

I want to return to Justice Holmes's dissent in the *INS* case. One reason that a doctrine of misappropriation may not be necessary is that being the first to offer a new product or service generally confers a substantial competitive advantage even if one has no legal right to prevent imitators from competing. But this is provided that one can insist on getting credit for being first, and the *Dastar* decision³² may seem to cast doubt on that proposition. The Supreme Court held in that case that it is not trademark infringement to copy an expressive work on which there is no subsisting copyright without giving credit to the original author of the work. The Court based this holding on its belief that the copyright statute itself creates a right to do such copying. (This is another example of how the statute limits as well as creates legal remedies for copying.) But the complaint in the *INS* case was not that *INS* was copying the expressive features of AP's war dispatches, but that it was copying the facts in those dispatches, and by doing so (on Holmes's account) creating a misleading impression that it, rather than AP, had gathered those facts. I do not see why that should not be thought a viable theory of false advertising and one consistent with *Dastar*. It would be an example of what is called "reverse palming off," a theory of unfair competition that *Dastar* did not purport to reject, though it limited its application in cases in which what is palmed off is expressive material.

III.

I now set my doubts about the wisdom of retaining the doctrine of misappropriation to one side for the moment and, assuming provisionally that it is here to stay, examine briefly several issues of institutional design. The first is whether the doctrine should be federal or state (or both); right now it is just

32. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 123 S. Ct. 2041 (2003).

state. The second is whether it should be a common law doctrine or statutory. Judge Winter's formulation is of a state common law doctrine. There could be state statutes, federal statutes, or even federal common law. For in areas in which Congress is authorized to legislate, it can legislate by granting common law rulemaking powers to the courts, as it has done numerous times (for example in ERISA and in § 301 of the Taft-Hartley Act) rather than by formulating specific rules or delegating their formulation to an administrative agency.

Because intellectual property is uniquely insensitive to state boundaries and because the field of intellectual property law is predominantly federal (the right of publicity is a major exception, however—but the doctrine of misappropriation only a minor one) and immensely complex already, I am inclined to think that the misappropriation doctrine, if it is to be retained at all, should be federalized. It is not as if the states have been creative in their elaboration of the doctrine. They have pretty much stayed within the lines laid down by the Supreme Court in the *INS* case, and when they have strayed outside the results have not always been happy, as witness the decision in the *Dow Jones* case.³³ The best post-*INS* decision is Judge Winter's, the opinion of a federal judge nominally interpreting New York law yet drawing his standard from his own head and from criticisms of the misappropriation doctrine rather than from any decision by a New York court.

But there is still the question whether Congress itself or the courts would be a better institution for the elaboration of the doctrine. We know that owners of intellectual property have good access to Congress for legislation protecting their interests—perhaps too good, judging from the rather mindless expansion in intellectual property rights in recent years. If the matter is left to be dealt with by Congress in detail, the likeliest result will be a proliferation of special statutes, on the model of the Semiconductor Chip Protection Act of 1984,³⁴ which forbids reverse engineering of computer chips that does not involve substantial investment and innovation, and therefore minimal free riding.³⁵ Intellectual property law may become impossibly

33. 456 N.E.2d 84 (Ill. 1983); see also *United States Golf Ass'n v. Arroyo Software Corp.*, 81 Cal. Rptr. 708, 714 (Ct. App. 1999).

34. 17 U.S.C. §§ 901–914 (2000). See specifically § 906.

35. Compare Leo J. Raskind, *Reverse Engineering, Unfair Competition, and Fair Use*, 70 MINN. L. REV. 385 (1985), with Digital Millennium Copyright Act, Pub. L. No. 105-304, § 103, 112 Stat. 2860, 2866 (1998) (codified at 17 U.S.C. § 1201(f) (2000)) (forbidding the use of reverse engineering of encryption devices to facilitate unauthorized electronic copying of copyrighted recordings).

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complex if misappropriation statutes proliferate. And we know as well that the courts have a pretty good record in formulating intellectual property rules within the bounds of the discretion allowed them by Congress.³⁶ This is an argument for a simple amendment to the copyright law that would codify Judge Winter's test. But the test does not entirely avoid the indeterminacy problem that I discussed at the end of the preceding section of this Essay. Nor would it deal with the problem of what might be called costless reverse engineering. Because there is no federal trade secret law, I am not sure how to go about solving that problem; but perhaps the Semiconductor Chip Protection Act could be generalized across the whole range of trade secrets.

But all this is on the assumption that we need a doctrine of misappropriation. I do not think we do. Clarity of analysis would be enhanced if the doctrine and the very word were banished from discussions of intellectual property law. This conclusion is fortified by the institutional difficulties in implementing misappropriation doctrine that I have just been discussing.

36. On both points, see LANDES & POSNER, *supra* note *, particularly Chapter 15 and Conclusion.