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Toward Non-Neutral First Principles of Private Law: Designing Secondary Liability Rules for New Technological Uses

Thomas C. Folsom

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TOWARD NON-NEUTRAL FIRST PRINCIPLES OF PRIVATE LAW: DESIGNING SECONDARY LIABILITY RULES FOR NEW TECHNOLOGICAL USES*

*Thomas C. Folsom***

We can build, or architect, or code [new technological uses] to protect values that we believe are fundamental, or we can build, or architect, or code [them] to allow those values to disappear . . . Code is never found, it is only ever made, and only ever made by us.¹

ABSTRACT

A series of recent cases revisits secondary liability in intellectual property law, solving some particular problems but without providing completely specified rules that are predictable and principled. Prior law already includes several varieties of secondary liability with a rationale for each. Together, these old and new sources point the way towards a synthesis, which may

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** Professor, Regent University School of Law; J.D., Georgetown University Law Center; B.S., United States Air Force Academy. I thank the University of Akron for its Fall, 2008 Scholars Forum on “Secondary Liability for IP Infringement: Theory, Practice and Prediction” and each of the conveners and participants, and especially Professor Jay Dratler, Jr., the moderator, for their comments and separate insights on the topic. My Research Assistants this year have been Shannon Brown, Nathan Hall, Nicholas Lepire, Jonathan McDowell and Andrew Page, and I thank each of them as well. The errors are mine.

1. LAWRENCE LESSIG, *CODE AND OTHER LAWS OF CYBERSPACE* 6 (1999). He, of course, is talking about “cyberspace.” Because architecture can be coded, it is important to be concerned about the contribution of legal rules, which themselves might be purposely developed to encourage code designs that support rather than destroy the values a polity might reasonably believe to be fundamental to the legitimate users of the new machines that access and enable cyberspace. To do so, the decision-makers will have to make some choices. Those choices will not be neutral, but will necessarily favor one set of values over another. This Article advocates explicitly specified non-neutral principles that can be neutrally applied.

allow for a designed solution that is more fully specified, at least in respect of new technological uses. When all is said, secondary liability in intellectual property law still turns on two essential questions: (1) is there someone who is liable for direct infringement, and if so (2) is it “just” to hold someone else accountable? Both of these inquiries contain embedded variables, which are to a surprising degree free and indeterminate with respect to users of new technologies in “places” created by code. These places created by code include the metaverse, virtual worlds, cypherspace, and cyberspace proper (the “code world”). The code world and the new machines that enable it constitute new technological uses (NTUs) that have great economic and practical consequence. I propose legal rules purposely chosen to encourage a designed architecture for NTUs that will prefer hitchhikers, guides and ordinary users to predators, pirates and spoilers of the new machines and the code world. I propose both a short-term solution centered on interim safe harbors and a longer-term project to disintegrate liability-style rules from property-style rules. The solutions depend upon intentional design of liability rules (is there someone liable for direct infringement?), and of limited remedies intentionally fitted to the new technological uses for which they are designed (is it “just” to hold someone else accountable?).

TABLE OF CONTENTS

ABSTRACT	43
PROLOGUE	45
INTRODUCTION	50
I. DESCRIBING SECONDARY LIABILITY RULES.....	50
A. Secondary Liability in Copyright and Trademark (and elsewhere).....	50
B. Grokster (Sony) and Perfect 10	76
C. Hostage-Style Policy-Based Secondary Liability.....	83
II. CATEGORIES OF OLD AND NEW USES.....	85
A. Dram Shops, Newsstands, and Automobile Law	86
B. Trigger Words, Virtual Worlds, and Cypherspace	86
C. “Neutral Principles” and Their Limitations	87
D. The Specter of Spectacular Error	89
III. DESIGNING SECONDARY LIABILITY RULES FOR NTUS.....	90
A. Trigger Words, Indexes, and Search Engines.....	90
B. Virtual Worlds, Virtual Money, and Funds	

Transfers	91
C. Cypherspace, New Machines, and Anti-Circumvention	92
IV. AFTERWARD: TOWARDS NON-NEUTRAL PRINCIPLES IN PRIVATE LAW	92
A. Pirates and Guides, Preferring One over the Other	92
B. Non-Neutral Principles, Neutrally Applied	93
C. Interim Design Solutions: Safe Harbors and Limited Remedies	94
D. Long Term Design Solutions: Disintegrating IP	100
CONCLUSION	101
APPENDIX A: (PRIZES! PRIZES!)	103

PROLOGUE

While insisting upon a neutral *application* of the law, it may be time to abandon the search for neutral *principles*, at least where there is no Constitutional dimension involved.² This entails a serious search for non-neutral principles of private law which may be applied in a neutral and predictable manner. This approach is especially valuable in designing laws that will support a normative architecture for cyberspace, for the code world of which cyberspace is a part, and for the new machines that enable it—for new technological uses.³ This approach is not defined by any

2. Cf. generally, Herbert Wechsler, *Toward Neutral Principles of Constitutional Law*, 73 HARV. L. REV. 1 (1959) (considering the approach described in the title of his Article).

3. It is aptly observed that “cyberspace” is really a number of different places. See LESSIG, *supra* note 1 at 82–83 (describing a number of “cyberplaces” each providing a different experience). Granted there are different places, it helps to name them. All of these places are part of an embodied, switched, and coded network for moving information traffic. See Thomas C. Folsom, *Space Pirates, Hitchhikers, Guides, and the Public Interest: Transformational Trademark Law in Cyberspace*, 60 RUTGERS L. REV. 825, 837 (2008). In this Article, I will refer to: (1) the “metaverse” as that place within the code world characterized by the consensual association of like-minded persons; (2) “virtual worlds” as those places within the metaverse further characterized by a special purpose to participate, almost as citizens in what is almost a polity subject to what is almost a social compact or game; (3) “cypherspace” as that place characterized by a need for trusted, secure and strongly encoded or encrypted identities for funds transfers, private, secure or secret communications and like activities; (4) the “blogosphere” as that place including the new “press” (where the press is not limited to a newspaper or other traditional distribution channel or medium, but is recognized as any recorded or encrypted means of carrying political speech), and (5) “cyberspace” (or “cyberspace proper”) as that place characterized by access, navigation, information-activity, augmentation and trust. Cyberspace proper is important because it embraces the internet, the phone system, wi-fi, and (probably) much of modern radio and television. See *id.* Together, all these places (and others not yet named) constitute part of a larger whole which I will refer to as the “code world.”

technology, but by principles derived from the uses which real people make of it, and the corresponding values they ascribe to it. Because it is not tied to any particular “technology-du jour” and does not require judges or other juridical agents to become or pretend to be electrical engineers, this approach is also open to purposeful development and it can adapt to solve future conflicts and problems as they arise.⁴ Accordingly, this approach will not become obsolete as the technologies come and go, but should endure even as technologies change.

I am limiting my topic to the code world in which new technological uses (NTUs) occur, and primarily to intellectual property conflicts in the code world. I am further limiting my topic to the search for principles of private law suitable for rational imposition of secondary liability. By secondary liability, I mean instances in which one person who is not otherwise liable may be held accountable for acts of direct infringement by another. The desired non-neutral principles would be ones that can be applied fairly because they would be predictable, practical and clearly connected to an articulated public policy (which policy would be purposely designed to coincide with the common good, if any, in

The machines, virtual machines, networks and other parts of the embodied switched network that enable and access the code world may well be referred to simply as the “*new machines*.” The importance of the distinctive vocabulary will become apparent, because it is apparent that the users of the metaverse, for example, have expectations and needs that are not identical to those of the users of virtual worlds, or of cypherspace, or of cyberspace proper (and the same holds for each of those places in respect of the others). Because of those different “felt needs” it only makes sense for the law to adjust its demands, if possible, to the new reality. The manufacturers, distributors, and networkers (and users) of the new machines likewise should be able to demand of the law that the law recognize what those machines are designed to do, and where (what place within the code world) they are designed to operate before blithely extending the law’s current notions of direct and secondary liability to new technological users. This does not require that juridical agents become electrical engineers (indeed, they positively ought not to try), but only that they begin more confidently to realize that there are real relationships and recognizable patterns of conduct beneath all the technological veils, smoke and mirrors. While technology might very well have no given nature, it remains the case that its users certainly do reveal themselves, and their own natures, by the use they make of their technologies. See *infra* section IV.

4. It is perhaps not too early for the law to take notice of “psiberspace” (or psyberspace) as the human/machine frontier. Problems in psiberspace may well give new meaning to the “use/nonuse” issue in cyberspace trademark law (where, for example, in the near future someone talking on a cell phone and who speaks a triggered advertising keyword may receive a text message, or a new destination on a GPS screen, or a whispered voice through an ear-bud) or to the indexing issue in copyright (where, for example, in the future someone reading an e-book or other document on their networked reader and taking notes on the electronic copy for subsequent retrieval might find their note-taking to be monitored and the conduct to be considered as potentially infringing the reproduction or derivative works rights of a copyright proprietor).

the new technological uses). It is time to see what NTUs can teach. I propose that a law purposely designed *for* NTUs in the code world and cyberspace is a law that might serve as a model in the world of ordinary space.⁵

This focus on NTUs and the code world is for three reasons. First, NTUs and the code world are something like the law's canary and can provide an early warning to the existence of problems otherwise latent in the law.⁶ Second, NTUs and the code world constitute a modular,⁷ coded domain that (despite many formidable complexities) can actually be broken down and redesigned simply by rewriting the code, if only the law can simply provide some modest leverage to encourage, channel, or force a redesigned architecture.⁸ Third, and finally, NTUs and the code world are important because the possibility of spectacular

5. I do not claim that there needs to be a law of "cyberspace" (or a law of horses). Cf. Frank H. Easterbrook, *Cyberspace and the Law of the Horse*, U. CHI. LEGAL F. 207, 208 (1996) (asserting the law of contracts, property or tort might be all that is necessary to understand legal relations in or affecting horses, and that copyright, patent or other substantive law might be all that is needed to understand any "law of cyberspace": "[The] principal conclusion: Develop a sound law of intellectual property [outside of cyberspace], then *apply* it to computer networks." (emphasis added)). I claim only that there should be a law that is suitable *for* cyberspace (just as it would be fair to ask whether existing laws are, or are not any good *for* persons who want to buy, sell, ride, use, own or rent horses, or *for* those who might be kicked by, bitten by, or need to clean up after them). The difference in emphasis between a law "of" and a law "for" cyberspace and the code world might be a small one in the beginning, but it is significant and increasingly so as further implications are drawn from it.

6. Cf. *id.* (I am substituting "canary" for Judge Easterbrook's "horse" and for the moment thinking not so grandly of canary law, but merely using the analogy of a canary in a mineshaft as an early warning device, pointing to lurking problems in the law not yet noticed).

7. I claim that the ability to transform the law so that it can channel or encourage "recoding" or other technologically reasonable steps to change the architecture within the code world can be "modular" and limited to the code world—that is, any changes to the law can be confined to the code world (so as not to create any sort of undesirable "feedback" loop that might upset settled law in the ordinary world where the costs of compliance might be substantially higher than in the code world). See Folsom, *supra* note 3 at 868–69 (discussing the related concept of feedback loops in trademark law, and citing Professors Denicola, Maggs and Schechter).

8. The ability simply to change the code, and thereby to alter the objective reality of the code world, is a feature remarked upon by Professor Lessig. See, e.g., LESSIG, *supra* note 1, at 12–13 (solving the poisonous flower-that-kills-the-neighbor's-dog hypothetical by a reasonable technological accommodation: upon request and after a short conversation, the offending party simply rewrites the code to change the properties of the poisonous flower, and in a Pareto superior move to boot). Of course, Professor Lessig's parable occurs in a coded world which is regulated or influenced by a combination of laws, markets, norms and architecture. I claim that if the legal influencers could be made to coincide with the other factors, then it is more likely that the offending party might actually "volunteer" to rewrite the code upon request than if the law exonerated the offending conduct altogether (as it might do if it woodenly applied the law of ordinary space to all aspects of the code world).

juridical error is nontrivial and perhaps highly likely.⁹ Will the law, in some sense, “shut down” the value-adding provider of “free” search engine resources (think of a service like that presently provided by Google, Inc.) by accidentally imposing what can only be called hostage-style or phantom secondary liability?¹⁰ Will the law, instead, careen to the opposite extreme and declare, in effect, that anything goes? Or will the law help an established user (like Google)¹¹ to create legal-architectural barriers that will impose such burdens that, supposing Google can bear the weight, few or no other competitors can?¹²

The desired principles would be non-neutrally designed in the sense that they would be purposely chosen as part of an architecture intended to do some good in the code world and for the new machines that enable it, explicitly considering the public interest in robust, accessible, navigable and trustworthy information-rich places.¹³ The desired principles would be designed to prefer value-added resource providers, surfers, developers and users to pirates, predators, spoilers and wasters; to encourage the first set while discouraging the second set.¹⁴

9. See Folsom, *supra* note 3, at 873–76 (discussing the conditions for systemic juridical error in cyberspace as an application of the judicial agency problem addressed by Professor Bainbridge and others in differing contexts).

10. See *infra* section I.A.2.e.

11. “Google” is a registered trademark of Google, Inc. but is sometimes used, as here, in a nominative sense to refer to the company itself.

12. See Proposed Settlement Agreement, *The Authors Guild, Inc. v. Google, Inc.*, No. 05-CV-8136 at §§ 2.1(a), 2.1(b) (S.D.N.Y. Oct. 28, 2008) (awaiting Court approval) (proposing that Google shall pay 70% of all revenues earned from defined sources, less a 10% operating cost deduction, into a rightsholders registry and that Google shall pay a minimum of \$45 million into a settlement fund). While the proposed settlement agreement recites that Google “believes that its conduct was lawful at all times and in all respects” the settlement itself, if approved, cannot avoid becoming a factor, at least as evidence of custom in any fair use analysis and possibly as evidence of reasonable royalty calculations in disputes that might affect other parties (including potential competitors of Google) in the future.

13. I have previously proposed that cyberspace (or “cyberspace proper”) is operationally characterized by degrees of access, navigation, information-activity, augmentation and trust, which constitute a recognizable public interest. Thomas C. Folsom, *Defining Cyberspace (Finding Real Virtue in the Place of Virtual Reality)*, 9 TUL. J. TECH. & INTELL. PROP. 75, 87–92 (2007). The Court has already held that the public interest is a factor that must be weighed by a court in deciding whether to issue injunctive relief after an intellectual property right has been infringed. See *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (including the public interest as one of the equitable factors and holding, in a patent case: “The decision to grant or deny permanent injunctive relief is an act of equitable discretion by the district court, reviewable on appeal for abuse of discretion.”).

14. My claim is a modest one, and my method is first to identify an actionable offense in the code world and then to define the “pirate” as one who engages in the offensive conduct. Those

These principles are not neutral between pirates and their victims; these principles candidly take sides, and in that sense, they are non-neutral. However, these principles are capable of neutral *application* because such terms as “pirate” or predator, waster and spoiler would be defined in rule-specific form, rather than hurled about as conclusions in search of an argument.¹⁵ The principles are suitable for neutral assessment by actors and their legal advisors *ex ante*, for neutral application and adjudication in a court of law based on facts that can be determined *ex post*, and are amenable to neutral appellate review. In this most important and fundamental sense they are, indeed, neutral.

steps avoid the equivocation that otherwise inheres in the term. I am aware that “pirate” might signify at least: (1) a romantic high achiever who breaks a few “technical” rules in pursuit of noble ends, or whose “good” deeds outweigh the bad; a term of endearment or admiration (a “swashbuckler” or “Robin Hood”); or (2) an epithet in search of an argument; name-calling; a question-begging trick by which a judge magically confers liability on a party by attaching a label on conduct, the legality of which was thought to be the question to be decided; a way to impose liability upon a person who “reaps where he or she did not sow” under the now-discredited “sweat of the brow” theory of intellectual property rights; or (3) a calculating, deliberate lawbreaker or deceiver who injures others and causes harm. See Folsom, *supra* note 3, at note 225 (identifying a case of name-calling), *id.* at note 226 (identifying cases of begrudging or outright admiration).

The third sense of the word “pirate” illustrates the method I propose: after first specifying an offense in the code world, then “pirate” becomes a meaningful term. See *id.* (identifying an actionable offense involving calculated deception in an objective cyberspace which relies upon a virtual map characterized by markers, addresses and magnets, and defining a pirate as one who alters the map, tampers with addresses or magnets, plants deceptive addresses or magnets, or blocks or spoils addresses otherwise available, thereby denying access, obstructing navigation, diverting information traffic, taking advantage of augmented presences, and destroying trust in cyberspace). Similarly specific offenses and corresponding definitions of piracy might be proposed in other places and in other contexts within the code world. In each case, the “pirate” would be defined in relation to an identified offense.

I do not claim that deliberately trying to specify and target pirates in the code world will prove to be an unflinching guide to the development of a law for cyberspace and the code world, but only that it will provide a much better, and a more rational guide than accidentally flailing around in cyberspace as if the law were “evolving” and were both utterly neutral and utterly clueless, or as if some answer lurks in the technology itself. Where a limited remedy, confined to the code world, and resting on reasonable technological accommodations is not only possible but also likely to lead to a normative redesign of the architecture, or code, it seems oddly perverse not to transform the law in a way that might make it more suitable for cyberspace. The law can ill afford to be not only unhelpful but also comically inapt, and I claim only that at least identifying the right normative questions is better than not. See Part IV *infra* (applying the Jabberwock and other figures from Lewis Carroll).

15. Folsom *supra* note 3, *passim* & *id.* at 887–90, 917 (defining a “pirate” in cyberspace, after having first specified an actionable offense).

INTRODUCTION

After the Prologue, this Article is in four parts. Part I describes the current secondary liability rules, as modified by recent cases. Part II describes a number of paired relations of recurring instances of direct/secondary actors. Part III proposes a design for secondary liability for new technological uses. Part IV is the epilogue.

I. DESCRIBING SECONDARY LIABILITY RULES

A. Secondary Liability in Copyright and Trademark (and elsewhere)

This Article is published as part of a Symposium issue dedicated to papers presented at a forum convened to discuss some four or five recent cases and the general status of secondary liability in intellectual property law.¹⁶ As a result, I am assuming an audience with some familiarity with the issues and the cases. I will summarize only so much of the basic framework as is necessary to advance my argument, and I will begin with what must be a fairly basic and unremarkable summary of existing rules. The reader will appreciate that I have limited my focus to copyright (and trademark) secondary liability rules because the issues they confront are relatively congruent even if the current rules are not, and because they most nearly address the particular issues of new machines and new technological uses in the code world that I believe are especially suitable for a designed solution. I will refer to the patent law only as necessary to set up the copyright and trademark cases.

The following is a list that presents, with a few exceptions which I will note, what I believe can be fairly described as the conventional rules and categories of secondary liability in copyright and trademark.

16. Among the recent copyright-related cases discussed at the forum and also addressed in this paper are *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *Perfect 10, Inc. v. Visa Int'l Serv. Ass'n*, 494 F.3d 788 (9th Cir. 2007); and *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008). The patent-related cases that were discussed in the forum do not so prominently affect my analysis, which is limited to issues of secondary liability for copyright (and trademark) offenses in cyberspace and the code world.

1. The Most General Statement of the Rule

Secondary liability in intellectual property and elsewhere in the law might seem chaotic, or at least challenging. Even the choice of words used to describe the genus, species and strands of the various related doctrines is not entirely free from doubt. Sometimes, “secondary” liability refers to the genus, while “vicarious” and “contributory” refer to two of the species of secondary liability. This usage is by no means universal.¹⁷ Before stating the most general version of the rule, some preliminary remarks about terminology will be helpful.

For purposes of this Article “secondary liability” signifies the condition in which an actor has the power to create liability in another person, in the absence of any basis otherwise for finding direct liability on the part of the other. The result of secondary liability, and its defining characteristic, is that the other becomes liable for the actor’s misdeeds. Secondary liability for infringement of intellectual property signifies the application of the doctrine to intellectual property. In this context, it signifies the conditions in which an actor has the power to create liability for copyright, patent, or trademark (or cognate intellectual property) infringement in another, in the absence of direct liability on the part of the other.

The most general statement of the rule of secondary liability depends upon the answer to a straightforward question that identifies the broader problem. The broader problem was simply stated by the Supreme Court (apparently using the term “vicarious

17. Settling upon the proper labels is no satisfactory task. In intellectual property, it seems common to use “secondary” or “indirect” liability as the genus, with “vicarious” liability constituting one of the species. Outside of intellectual property it seems rather common to use “vicarious” liability as the genus. If I were writing on a blank slate, I might have preferred to nominate a clean term, without baggage, to serve as the generic term—perhaps a term such as “substitutionary” liability would permit me to use “substitute liability” as the genus, better to encompass all of the concepts at which the cases are instinctively striving.

Likewise, there might be good reason to stay away from the term “secondary” liability altogether because of its misleading connotations (in contractually based surety or guarantee contexts, the party with “secondary” liability actually has agreed to answer for the same debt that the other (the principal, or the party “primarily” liable) has already agreed to answer for, but between the two of them and the creditor, and between the two of them *inter se*, there are various rights and defenses. But, all things considered, no real harm is done in following what appear to be the reigning conventions. So “secondary” liability will be the generic term in this Article unless the context otherwise indicates.

liability” as a generic term for secondary liability outside of intellectual property):

The absence of such express language [in the Copyright Act] as that contained in the Patent Act [establishing liability on a person who “actively induces” infringement or who is a “contributory” infringer] does not preclude the imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity. For vicarious liability is imposed in virtually all areas of the law and the concept of contributory infringement is merely a species of the broader problem of *identifying the circumstances in which it is [1] just to hold one individual [2] accountable for the actions of another.*¹⁸

That statement of the broader problem determines the form that any corresponding answer must take. With the Court’s statement of the problem as a starting point, secondary liability in copyright law (or any other law) must, at the most basic level, stand for a general proposition that can be readily stated:

The general rule of secondary liability. One is liable for the infringement (or other impermissible act) of an actor only where (1) the offending conduct of the actor constitutes actionable infringement, and (2) there are circumstances in which it is “just” to hold the other accountable for the conduct of the actor.¹⁹

This may be called the general rule, or the “two part” rule of secondary liability. Part one—*is* someone directly liable, for

18. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 434–36 (1984) (emphasis added). The Court immediately turned to *Kalem Co. v. Harper Bros.*, 222 U.S. 55 (1911) to give an example where such circumstances were “plainly” present, quoting Mr. Justice Holmes: “The defendant not only expected but invoked by advertisement the use of its films for dramatic reproductions of the [copyrighted] story. That was the most conspicuous purpose for which they could be used, and the one for which especially they were made. If the defendant did not contribute to the infringement it is impossible to do so except by taking part in the final act. It is liable on principles recognized in every part of the law.” *Kalem Co.*, 222 U.S. at 62–63 (holding the defendant, a film producer, secondarily liable for infringement of the public performance rights attendant upon showing of the film by various exhibitors to whom the producer had sold copies of the film).

19. *Id.* This seems to follow directly from the Court’s statement of the issue.

something? Part two—if so, is there someone else of whom it can be said it is *just* to hold them accountable?²⁰

After stating the general rule of secondary liability, the Court noted various other labels had been applied in cases involving “an ongoing relationship” between the direct infringer and the contributory infringer, including cases in which the “contributory” infringer “was in a position to control the use of copyrighted works by others and had [itself] authorized the use without permission of the copyright owner.”²¹ The Court went on to unpack at least two subcategories of secondary liability. One might be secondarily liable by contributing to another’s infringement with knowledge of it (“contributory”), or by taking a direct financial benefit in another’s infringement while being able to control it (“vicarious”).²² The Court also referred to a kind of attenuated direct liability, by “authorizing” the offending conduct.²³

The more particular content of secondary liability and the various labels for particularizing the general rule of it will be discussed later in this Article.²⁴ A suitable taxonomy that contains all those particular subcategories and some additional ones to be discussed in Section I.A.2 of this Article divides them into (1)

20. *Id.* There must be some direct liability by someone, and there must be someone else to hold accountable, on some basis that is “just.”

21. *Sony*, 464 U.S. at 436. (continuing its analysis of *Kalem*, and noting the subsequent dance hall cases in which there was secondary liability, the landlord tenant cases in which there was not, and suggesting some sort of ongoing relationship combined with some sort of ability to control as a common thread in some situations labeled “vicarious” liability and in other situations labeled “contributory” liability).

The Court identified at least two subcategories of secondary liability: (1) “vicarious,” *see id.* at note 18 (citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963) as a case of vicarious liability in the context of a relationship); and (2) “contributory,” *see id.* (citing *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159 (2d Cir. 1971) as a case of contributory liability in the context of an ability to police the infringing conduct, coupled with actual knowledge that infringement was occurring and substantial benefit from the infringement). It should be noted the Court also observed that “authorization” of certain infringing acts is itself a [direct] violation of the Copyright Act. *Id.* at 435, note 17 (pointing to the first sentence of § 106).

The Court observed that *Sony* involved allegations of an “unprecedented contributory infringement claim” but that the parties had announced that neither “direct infringement” (presumably by “authorization”) nor “vicarious infringement” (presumably by ability to control, plus a direct financial benefit received) by *Sony* were nominally before the Court. *Id.*

22. *Id.*

23. *Id.*

24. The generalized rule is simply: (1) direct liability by someone, and (2) circumstances in which it is “just” to hold someone else accountable. The particular rules for contributory, vicarious, and other subcategories will be discussed *infra* in Section I.A.2.

fault-based (contributory and inducement-style), (2) relationship-based (the various vicarious or *respondeat superior*-styles), and (3) consent-based (surety-style) secondary liability. Perhaps those categories exhaust the circumstances in which it is “just” to hold one person accountable for the conduct of another, or perhaps there are two other categories to consider: perhaps there is some sort of (4) amorphous policy-based type, and perhaps there is even some sort of (5) imperfectly articulated hostage-style of secondary liability.

Prior to considering the particular subcategories, it is well to reflect that many of the more perplexing cases of secondary liability arise in situations where new technological uses implicate copyright and trademark law. At the level of the general rule, these NTU cases are especially complicated by the fact that, in many of them, *each* of the two parts of the general rule is in doubt or dispute.²⁵ These might be called compound cases, because there are two problems simultaneously in play. The compound cases tend to hide fundamental problems of indeterminacy in the substantive law within the argument about, and concerns over whether it is just to hold someone else responsible for the conduct in question. It is not always clear that the conduct of the direct offender is, either as a matter of fact or of law,²⁶ impermissible.

25. One of the (many) extraordinary circumstances of the *Sony* case is that the first element (was there any direct infringement at all?) was every bit as controversial as the second element. That is, it appears it may have been hotly disputed whether the unauthorized copying of the entirety of a single copyrighted item, for “noncommercial” and “home” use even was copyright infringement. See Jessica Litman, *The Story of Sony v. Universal Studios: Mary Poppins Meets the Boston Strangler*, in *INTELLECTUAL PROPERTY STORIES* 358, 368 (Jane C. Ginsburg & Rochelle Cooper Dreyfuss, eds. 2006) (noting that Justice Stevens, for one, read the copyright statute as “not prohibit[ing] consumers from making single copies of copyrighted works for their own private use” at least in the context of the case); see also *id.* at 382–83 (noting that the popular press widely reported *Sony* as “holding that consumers do not violate the law when they tape television programs” transmitted over the air and that “the case came immediately to stand for the proposition that private noncommercial copying was fair use”).

26. One of the elusive aspects of *Sony* is the difficulty (to put it mildly) of matching the facts to the holding (or to the popular understanding of the holding, see *supra* note 25)—if the “facts” really were that “no one” was keeping a “library” of the time-shifted content, but that “everyone” was simply recording, watching (once, as was the “deal” expected by those broadcasters who broadcasted the free content, one time), and erasing the content, then the case does *not* stand for the holding that “all [private, noncommercial home] copying is permissible and free.” If, in fact, it is clear that the “facts” were actually a legal fiction—if indeed it is (with a legal wink and a nod) known that “everyone” was in fact “librarying” the shows (what else would they be doing?), and the Court and everyone reading the opinion and living in the same world simply knew that the Court “had” to say otherwise, then the holding might very well *be* that “all copying is permissible and free [at least if the copier is not massively redistributing the material by selling or giving it away to

This leads to an as-yet imperfectly acknowledged feedback loop. One might be reluctant, on the one hand, to decide an open issue of substantive law in a way that might be expected to lead to increased direct liability for fear of imposing a vast scope of potential secondary liability;²⁷ and one might be reluctant, on the other hand, to constrain secondary liability for fear of opening the floodgates of direct infringement.²⁸

2. The Particular Subcategories of Secondary Liability

Within the genus of so-called “secondary liability” are three (or four) standard subcategories, and a fifth that I believe must be named. It would seem that each of these five constitutes a separate, more or less rule-specific, attempt to answer the question: when, exactly, is it “just” to hold one person to account for the unlawful conduct of another. The first four categories are: (1) fault-style (contributory and inducement types), (2)

others].” If verbatim copying of the entirety of a copyrighted work is permissible and free, then it follows that there is no direct liability, and so there can be no secondary liability. See generally Litman, *supra* note 25.

27. Perhaps surprisingly, it is not entirely clear that making a verbatim copy (or a perfect analog or digital copy) of a copyrighted work for a superseding or substitutionary use is always an instance of unconsented, unprivileged direct infringement. See *supra* note 25. It would seem that any determination of secondary liability would need to presuppose such a finding (or else a finding that “most” or “much” or “a lot” of such copying is illegal). Apart from the specter of secondary liability (on libraries and any other facility that makes photocopiers available, on internet service providers and others who make digital pipelines and storage facilities available, and so on) it might have been imagined that the question: “does copyright (at least) prevent verbatim copying for superseding or substitutionary uses of the copyrighted work of authorship?” might have been considered both trivial and obvious, if not somewhat ridiculous. Of course, one might very well wish, and it would not be ridiculous to argue, on policy or other grounds, for a copyright-free zone, but it seems rather hard to grant the actual existence of a real copyright law without accepting that the direct and immediate consequence of doing so is to rule out verbatim substitutionary copying of the entirety of a work, absent very compelling circumstances. Any feedback loop that puts pressure on a juridical actor to befo, or to avoid answering this fundamental question of direct liability, or to dance around it, because of its direct connection to the prospect of the linked secondary liability, and the unwanted result of “banning” the VCR or the photocopier (or of dealing with the tricky problems of designing some sort of royalty pool and then factoring that into the price of the product, or of creating some special statutory exception or “safe harbor”) should be explicitly acknowledged. Perhaps it would be better if secondary liability rules could be designed to break the feedback loop. See *infra* section IV (suggesting such an approach).

28. If, in fact, there is a scoff-law society that will obey copyright law only if it is “hard” to copy, or if it is “easy” to be caught (so that on a cost-benefit, or “choice” theory of law, one will obey any law only if it pays to do so), then the simple fact is that if the law does not hold a major player secondarily liable then no one will be deterred, and “everyone” will simply infringe to their heart’s content. In that case there will be a reluctance to hold secondary liability rules in check, and a correspondingly greater pressure to expand the reach of secondary liability.

relationship-style (the various vicarious or *respondeat superior* types), (3) consent-style (the suretyship type), and (4) a policy-style of secondary liability (a category that must be reserved for a set of cases not readily cabined in any other grouping). Then, for purposes of argument and as a limiting or boundary case, I add a fifth possibility: a “hostage-style” of secondary liability.

a. Fault-Style Subcategories (contributory and inducement types)

There are two fault-style subcategories. These two, contributory-style and inducement-style secondary liability, will be discussed in this section. I consider them to be fault-based because each depends upon actual knowledge (or at least, notice or reason to know)²⁹ of the offending conduct coupled with positive action.

Contributory-Style. One who [1] with knowledge of the infringing activity by an actor, [2] materially contributes to it will be secondarily liable for infringement by the actor.³⁰ This is a rule common to many fields of law³¹ and one that is applicable in each of the three major intellectual property disciplines. It is explicitly

29. See Laura A. Heymann, *Knowing How to Know: Secondary Liability for Speech*, (forthcoming 2009) (asking: “once allegedly unlawful material is brought to an intermediary’s attention, when does knowledge occur?”).

30. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (announcing the rule that “[o]ne infringes contributorily by [1] intentionally, [2] inducing or encouraging direct infringement.” For “*encouraging*’ direct infringement”, I have substituted the expression “*materially contributes to it*” because I believe it to be a somewhat more traditional usage in other fields of law, and there is no reason to suppose the Court meant to add anything new to the formulation). See *id.* (acknowledging the doctrines it just enunciated have “emerged from common law principles and are well established in the law.”) In my formulation of the rule for contributory-style secondary liability, I have omitted the expression “inducing” because I believe *Grokster* clearly signals that “inducement” liability is a category distinct from “contributory.” Finally, although I use the expression, “materially contributes to it,” rather than “causes” the infringement, it should be understood that my expression includes a notion of causation and invites a policy-based limitation on contributory-style secondary liability as well as a fact-based inquiry. See Jay Dratler, Jr., *Palsgraf, Principles of Tort Law, and the Persistent Need for Common-Law Judgment in IP Infringement Cases*, 3 AKRON INTEL. PROP. J. 21, 25-37 (2009) (recalling the need to find proximate cause and culpability, as limitations on the “duty” to respect intellectual property rights).

31. See *infra* section I.A.2.a. (summarizing criminal law and tort law fonts of contributory and inducement secondary liability), section I.A.2.b. (summarizing agency and tort fonts of various vicarious/*respondeat superior* versions), and see section I.A.2.c (summarizing consensual fonts of secondary liability).

embraced within the Patent Act,³² and has been applied as a common law doctrine in copyright³³ and trademark cases.³⁴

The Patent Act not only explicitly provides for contributory liability, but also establishes a protection for those who deal in staple articles of commerce having a substantial non-infringing use.³⁵ In copyright law as well, the doctrine of contributory liability is qualified by a doctrine of “substantial non-infringing use” borrowed from patent law³⁶ and which bars secondary liability in another for direct infringement by an actor who *is* making an infringing use.³⁷ One might presume the same must be true in trademark cases, if there were occasion to speak of a substantial non-infringing use (by some actors) of an expression that may be used by other actors to cause a likelihood of confusion, and if there were another person who otherwise has “contributed” to the direct infringement by the offending actor.³⁸

32. 35 U.S.C. § 271(c) (2006) (and establishing a defense to contributory liability if the offending product is a “staple item of commerce” having a “substantial non-infringing use”).

33. *See supra* note 18 (discussing *Sony* and *Kalem*, both of which embrace “contributory” liability as a subcategory of secondary liability in copyright cases).

34. *See infra* note 49 (discussing *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853–54 (1982) which invokes a contributory-style of secondary liability in trademark cases), *but cf.*, *Sony*, 464 U.S. at 439, footnote 19 (warning that *Inwood’s* standard for contributory-style secondary liability in trademark cases is more “narrow” than the rule employed for contributory-style secondary liability in copyright cases, on a reading of *Inwood* that requires the party secondarily liable to have “[actual] knowledge” of “[specifically] identified individuals known by it to be engaging in continuing infringement...”).

35. 35 U.S.C. § 271(c) (2006).

36. *Sony*, 464 U.S. at 440–42.

37. *Id.*

38. It does, in fact, make sense to conceptualize the trademark problem in such a light. One might suppose that a fair, descriptive or nominative use of a trademarked expression might be treated as an example of a “substantial non-infringing use” of expressions made available by an internet resource provider to others as domain names, search terms, or triggered advertising keywords. One might also suppose that staple or legitimate articles of commerce might as easily be resold fairly at retail by wholesale purchasers at least as readily as those same articles might be misbranded, mis-marked, repackaged and stamped with counterfeit trademarks by the wholesale purchaser in preparation for infringing resale. *See generally*, *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 and note 13 (1982) (discussing inducement-style or contributory-style liability and rejecting the notion that the manufacturer of generic drugs ought to be secondarily liable merely because they “could reasonably anticipate” illegal resale of the generic drug in capsules misbranded by some pharmacists with the mark of the mark proprietor, and holding the manufacturers without knowledge of trademark infringement and thus not secondarily liable). The generic drug is itself obviously non-infringing, and the noted language in *Inwood* certainly seems instinct with a “substantial non-infringing use” rationale, though it has not yet been interpreted as such. *Cf.* RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 27, cmt. (c) and illustration 2 (1995) (basing secondary liability upon “reason to know” of the primary infringement), and *id.*, cmt. (d) and illustration 3 (basing secondary liability upon sales to known infringers).

One might suppose the normative rationale for the bar against secondary liability in cases that would otherwise amount to contributory infringement would be the same among each of copyright, patent and trademark, and is either (1) that in the absence of actual direct knowledge of particular infringement by an identified actor, the existence of substantial non-infringing use must conclusively refute any attribution to the provider of any sort of imputed or constructive knowledge (or notice) of infringement on the part of a user or consumer of the goods or services provided; or else (2) that it is intended to be an absolute privilege even in the face of actual knowledge that infringement is occurring.³⁹ Perhaps the normative reason for the bar is, instead of or in addition to the two reasons just given, simply an expression of a policy in favor of the public interest in having easy access to goods or services even if such goods or services might make for easier, cheaper and better (more efficient) infringing downstream uses by some actors and even if such infringement is well-known, open, obvious and notorious.

Indeed, because contributory liability might be applied in so expansive a manner as to be intolerable,⁴⁰ the bar of substantial non-infringing use must be just one of many limitations upon the otherwise unchecked potential for expansion of contributory liability. Such limitations are not unheard of in other areas of the law. Because the Court has explicitly acknowledged that contributory liability is well grounded, and well known in generally applicable principles of law, it would seem evident that the hunch there may be any number of limitations on the doctrine as applied to copyright and trademark cases should be tested by reference to limitations upon that doctrine outside of intellectual

39. This could, perhaps, have been signaled by one of the concurring opinions in the Court's *Grokster* case. See *infra*, section I.B.1.

40. The general law of secondary liability outside of intellectual property seems characterized by care to avoid unchecked secondary liability, probably because it would be intolerable generally to hold one person liable for the offending conduct of another. See *infra*, notes 41–46 (discussing some limitations on secondary liability in the general law analogous to contributory liability and inducement style liability in intellectual property); *infra* section I.A.2(b) (discussing analogous limitations on agency-style liability); *infra* section I.A.2(c) (discussing analogous limitations on surety-style liability). The manner in which the doctrine of contributory liability has been formulated in intellectual property perhaps contributes to the confusion over it; when importing rules for secondary liability in intellectual property, the Court has frequently alluded to the existence of some “general law” of secondary liability, but has much less frequently articulated any definite content. See *supra* note 18 (quoting Justice Holmes’ simple appeal to “principles recognized in every part of the law.”)

property. The truth of this hunch is amply demonstrated, and a brief survey reveals it to be so.

In criminal law, for example, other limitations upon more or less analogous fault-based contributory-style secondary liability include nice distinctions among principals in the first degree and second degree, accessories before the fact and after the fact, and corresponding technical rules of procedure that tend to shield against secondary liability.⁴¹ The closely related criminal law doctrine of fault-based contributory-style liability under the rubric of accomplice liability is accompanied by limitations on its reach.⁴² Instances of post-crime aid, misprision and compounding are similarly circumscribed.⁴³

In tort law, other limitations upon analogous fault-based secondary liability include the notion that secondary liability for one “who knowingly provides aid or encouragement to another’s commission of a tort” is limited to aid or encouragement that must be “substantial.”⁴⁴ Moreover, it seems safe to say that liability for “concerted action” in tort requires a common design or purpose to offend, with mutual aid to carry it out, accompanied by yet further limitations on the doctrine.⁴⁵ Likewise, tort law limits secondary liability for non-actors in “conspiracies” to situations in which the non-acting conspirators “have promoted the act.”⁴⁶

41. See generally, WAYNE R. LAFAVE, *CRIMINAL LAW* (4th ed. 2003), § 13.1 (discussing principals in first and second degree, accessories before the fact, and procedural problems).

42. *Id.* (discussing elements and limitations relating to principals in the first and second degree, accessories before the fact, and procedural problems); *id.* at §§ 13.2, 13.3 (discussing elements of accomplice liability and its limitations).

43. *Id.* at § 13.6 (discussing post-crime aid, accessory after the fact, misprision and compounding).

44. DAN B. DOBBS, *THE LAW OF TORTS* §340 at 937 and n. 36 (2000); accord, *RESTATEMENT (SECOND) TORTS* § 876(b) (1979). It would seem that to provide “aid” would be a form of contributory-style secondary liability (and to provide “encouragement” would seem to be a form of inducement-style secondary liability).

45. W. PAGE KEETON, DAN B. DOBBS, ROBERT E. KEETON, DAVID G. OWEN, PROSSER AND KEETON ON *TORTS* § 46 at 322–24 (5th ed. 1984). Some limitations on “acting in concert” include the recognition that “mere knowledge by each party of what the other is doing” is a “clearly wrong” statement of the rule and is not enough to serve as a basis for holding each party to be liable since “there is ordinarily no duty to take affirmative steps to interfere”; “mere presence at the commission of the wrong, or failure to object to it, is not enough to charge one with responsibility”; and one “who innocently and carefully, does an act which happens to further the tortious purpose of another” is not acting in concert. *Id.* It would seem that to act in concert would be a form of contributory-style secondary liability.

46. *Id.* Perhaps conspiracy is a form of direct liability, but it shades into contributory fault. There is some analog between the liability of a non-acting conspirator and the contributory liability of anyone who with knowledge, materially contributes to an offense. The significance is the

It would seem clear that, to the extent the doctrine of fault-based contributory liability has been imported into copyright and trademark from the Patent Act, all of the “substantial non-infringing use” doctrine of the Patent Act should, to the extent relevant, come along as well. At least as important, it should also be the case that, to the extent the doctrine of fault-based contributory liability has been imported into copyright and trademark (and even into the patent statute) from general common law antecedents, all of the relevant general common law limitations may, and probably should also be, imported. A bar against contributory liability because the items or services contributed are capable of substantial non-infringing use is a sensible limitation on the doctrine of contributory liability for intellectual property cases, but it is by no means the only limitation on the doctrine.

Inducement-Style. One who [1] with knowledge of the infringing activity, [2] intentionally induces, or actively encourages, the infringing conduct of an actor will be secondarily liable for infringement by the actor.⁴⁷

This is a rule that is applicable to each of the three major intellectual property disciplines. It is part of the Patent Act.⁴⁸ It has

limitation upon the tort liability of the non-acting conspirator, and the degree of knowledge necessary to make the liability stick.

47. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (announcing the rule that “[o]ne infringes contributorily by [1] intentionally, [2] inducing or encouraging direct infringement.”). In my formulation of the rule for inducement-style secondary liability, I have omitted the expression “contributorily” because I believe *Grokster* clearly signals that “inducement” liability is a category distinct from “contributory”-style secondary liability, and I have added the qualifier “actively encourages” to distinguish the objectionable conduct present in cases of active encouragement that resulted in inducement-style secondary liability (such as *Grokster* and *Kalem*) from the cases in which there is, or appears to be, less active encouragement and that resulted in the absence of inducement-style secondary liability (in cases such as *Sony*). The qualifier “actively induces” is also part of the analogous statutory provision relating to inducement-style liability under section 271(b) of the Patent Act, and is part of the analogous common law formulation relating to inducement-style liability in trademark law as summarized in section 27(a) of the Restatement (Third) of Unfair Competition. Though it is perhaps redundant, because to intentionally induce must presuppose knowledge of the infringing activity, I have retained the element of “knowledge” to make it clear that both contributory-style and inducement-style secondary liability require knowledge, and that each is therefore fault-based. This contrasts both of them with the various styles of “vicarious” liability in intellectual property law.

48. 35 U.S.C. § 271(b) (2006) (“Whoever actively induces infringement of a patent shall be liable as an infringer”).

been announced as a rule in trademark law,⁴⁹ and it has been applied in copyright cases.⁵⁰

One might guess there is no room for raising a “substantial non-infringing use” defense in any case of proven inducement-style secondary liability. That defense does not logically extend beyond the contributory-style cases. It has appeared in other types of cases, but perhaps only because the plaintiff has pled multiple grounds for secondary liability, the defendant is answering the specific allegations of contributory-style secondary liability, and the court is attempting to be comprehensive in its analysis. Surely, where the defendant is alleged to have actually induced the specific offending conduct of an actor with knowledge that it is doing so, any defense that the items or services provided *might* have been innocently directed to, or innocently used by the actor or someone else must be irrelevant. In cases of fault-based inducement-style liability, it should be supposed that inducement will be established only by substantial proof and only in light of a burden of proof and persuasion borne by the plaintiff.⁵¹ If, as

49. RESTATEMENT, *supra* note 38, §27(a) (a secondary actor is liable for trademark infringement if the actor “actively induces” another person to engage in the infringing conduct); *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853–54 (1982) (noting, in a case involving a manufacturer of a generic drug that had been purchased by some pharmacists who resold it encapsulated in the colors of, and bearing the brand of a senior trademark user, that “liability for trademark infringement can extend beyond those who actually mislabel goods with the mark of another” and that a manufacturer of a product incorporated into a mislabeled item sold by another might be held responsible “[e]ven if it does not directly control others in the chain of distribution.”) The rule announced was this: “if a manufacturer or distributor [1] intentionally induces another to infringe a trademark, or [2] if it continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement, the manufacturer is contributorily responsible for any harm done as a result of the deceit.” *Id.* Finding that the manufacturers had not, in fact, induced the pharmacists to mislabel the drugs, and that they had not, in fact, continued to supply pharmacists whom they knew to be mislabeling the drugs, the Court held the manufacturers not secondarily liable. *Id.* at 855–58.

It may be seen that *Inwood* announced two rules for secondary liability in trademark cases. One is “inducement”-style for intentional inducement, and the other is (perhaps) a kind of “contributory”-style for materially contributing to the infringement, by continuing to supply the product with knowledge (if it knows or should have known) of trademark infringement. *Id.* See also RESTATEMENT, *supra* note 38, §27(b) (announcing a rule of secondary liability if the actor “fails to take reasonable precautions against” another person’s infringing conduct in circumstances in which the infringing conduct “can be reasonably anticipated.”) But see *supra* note 34 for a more narrow reading of *Inwood* (the Court, in *Sony*, seemingly read *Inwood* as requiring actual knowledge of infringement by specifically identified actors).

50. *E.g.*, *Metro-Goldwyn-Mayer Studios Inc. v. Gorkster, Ltd.*, 545 U.S. 913 (2005).

51. Many of the limitations set in tort law, see *supra* section I.A.1.a (discussing “contributory” liability) and some of the limitations set in criminal law, *id.*, should become part of

seems to be the case, the “substantial non-infringing use” defense provides either (1) some strong presumption against attribution of knowledge to the secondarily liable party, or even (2) some absolute privilege against secondary liability when someone knows that some infringing uses are occurring,⁵² then it must be that the defense (on either basis) cannot apply when the person secondarily liable goes so far as to “act in concert with”⁵³ an actor or otherwise actually induces the direct infringement.

Likewise, one might well assume there is little room, relevance or applicability for many of the other general law limitations on fault-based secondary liability when it comes to the inducement-style subcategory.⁵⁴ Assuming, as seems safe to do, that inducement-style is a “narrow” version of fault-based secondary liability, applying only in the most egregious cases, and assuming also that any prevailing plaintiff will have necessarily made a formidable evidentiary showing,⁵⁵ this would seem the paradigmatic type of fault on the part of the secondarily liable party that is most clearly a situation in which it is “just” to hold another person liable for the infringement of an actor.

b. Relationship-Style Subcategories (vicarious and expanded-for-copyright vicarious types) of Secondary Liability

There are two relationship-style subcategories. These two, the vicarious-style (*respondeat superior*) and the expanded-for-copyright vicarious-style (the special doctrine purposely designed

the analysis. That is to say, “inducement” of the offending conduct should always require at least the degree of involvement necessary to establish “contribution” to it, and then some.

52. I suggested these two rationales, *supra* text accompanying note 39.

53. The “act in concert with” gloss is derived from some versions of the cognate tort law doctrines applicable to fault-based secondary liability. See *supra* note 45.

54. To be sure, it is necessary to *prove* “inducement” but it would seem that all the limitations on contributory-style would necessarily either be met or would be inapplicable (that is, any proven inducement would necessarily be a “substantial” act, would not be an “innocent” act, would constitute more than “mere knowledge” followed by failure to prevent, and so on). See *generally*, *supra* note 45 for discussion of those limitations.

55. I am assuming, that is, that “inducement” is not a synonym for “contributory.” Because the concepts are related (each is a form of fault-based secondary liability) but quite different, this would seem a very safe assumption to make. The fact that the two different words are often used together in the same phrase to describe secondary liability, as by, “contributing to or inducing” the infringing act of another, and the fact that the standards of each have tended to be conflated is best explained by the accident that reported cases of inducement-style may be somewhat rare, and the language that reflexively combines contributory with inducement has probably become habitual.

for copyright cases), will be discussed in this section. It is interesting to contrast these relationship-based styles of secondary liability rules with the fault-based rules just discussed. The fault-based rules (contributory and inducement) each require that the non-acting party at least have knowledge of the infringing activity. With such knowledge, the secondarily liable non-actor either materially contributes to, or actively induces the actor's infringement (and does so outside of the defenses and limitations that might shield the non-actor). It is this knowledge coupled with wrongful action of some sort that justifies my use of the label "fault-based" to describe them.

In contrast, the various *respondeat superior* or vicarious-styles of secondary liability are based on the agency relationship, or in the expanded-for-copyright version, on something like the rationale for imposing it in a true agency relationship. This aspect justifies my use of the label "relationship-style" (or status-style) to describe them. Although every person who is secondarily liable necessarily has *some* relationship, in some sense of the word, with the direct infringer, it is the heightened, agency-derived relationship, which must describe the rational provenance of this latter type of secondary liability. The notion is that the one who employs a servant-type agent must, somehow and at least in some circumstances, be justly held accountable for the actions of the servant, simply because of the relationship and regardless of the employer's fault.⁵⁶

Vicarious-Style. In an agency relationship further characterized as a master-servant relationship, [1] a master [2] will be liable for torts causing personal injury committed by her servant [3] acting within the scope of his employment, as a matter of vicarious liability or *respondeat superior*.⁵⁷

This is a familiar rule of agency law and, though subject to some dispute over its precise wording,⁵⁸ it seems more or less

56. See, DOBBS, *supra* note 44 at 907–10 (summarizing various explanations, including the idea that such liability is "fair and just" because, although the enterprise relationship followed by expected harm in the course of repeated activity and typical or characteristic of the enterprise is "*not* moral fault" (emphasis added), it is nonetheless the case that the employer should accept the burdens that go with the benefits of its operations, "as a matter of justice or fairness").

57. See *Jones v. Hart*, 90 Eng. Rep. 1255 (K.B. 1698)). ("The act of the servant is the act of his master, where he acts by authority of the master").

58. Compare RESTATEMENT (SECOND) OF AGENCY §§ 1-2, 219-20, 228-29, 230-31 (1958) (restating the familiar master/servant formulation) with RESTATEMENT (THIRD) OF AGENCY §§ 7.03, 7.07, 7.08 (2006) (advancing an employer/employee formulation). See also, Oliver Wendell

commonly understood in both concept and content, and it seems to have passed over any concern that it be limited to torts causing physical injury so that it might well apply to acts of infringement of intellectual property.⁵⁹ It is fairly routinely applied in cases of true agency relationships (further characterized as being of the master/servant type), and also in cognate cases of true partnerships and joint ventures where the parties are co-owners of the items causing the offense and are co-sharers of control over the agents or instruments within the firm that are the cause of the offense. Much, but not all, of what passes as “secondary liability” outside of intellectual property law, and especially in tort law, appears to be some sort of application of the agency-based vicarious liability rules of *respondeat superior*.⁶⁰ This occurs to such an extent that “vicarious liability” seems almost to be the default term for secondary liability in the general law.

Holmes, Jr., *Agency*, 4 HARV. L. REV. 345, 347–51 (1891) (giving a version of the doctrine); John Wigmore, *Responsibility for Tortious Acts: Its History*, 7 HARV. L. REV. 315, 330–36, 391–99 (1894) (giving a somewhat different version); J. DENNIS HYNES & MARK J. LOEWENSTEIN, *AGENCY, PARTNERSHIP, AND THE LLC: THE LAW OF UNINCORPORATED BUSINESS ENTERPRISES* 137–270 (7th ed. 2006) (including the prior references and commenting on the state of the law).

59. See generally RESTATEMENT (SECOND) OF AGENCY, *supra* note 58 § 219 (referring, in the “black letter” simply to “torts” of a servant committed while acting within the scope of employment); Dratler, *supra* note 30 (observing that infringement of intellectual property rights is very much like a tort).

60. See generally DOBBS, *supra* note 44 at §§ 333–340 (addressing the topic “Vicarious liability of the innocent principal” under what largely comprises principles derived from agency law rules of vicarious-style, or *respondeat superior*, secondary liability, as applied in the tort context). Certain applications of secondary liability in tort, however, do not easily fit within the agency rules. See *id.* at § 340 (including within a topic entitled “other bases for vicarious liability” such odds and ends as bailments, owner-in-the-car and owner consent statutes, family relationships, concerted action, conspiracy, and aiding, abetting and encouraging). I have included the concerted action, conspiracy and aiding and abetting cases as part of the fault-based secondary liability subcategory (contributory or inducement-style) in Section I. 2.a. *supra*; and I will include the others in the “policy-based” style of secondary liability in Section I.2.d *infra*. There are yet other situations in which a non-actor might be liable in tort for the actions of another, but clearly outside of any notion of vicarious or contributory liability. See *id.* at §§ 314–32 (addressing the topic entitled “Nonaction and Contract: Rescue and Protection” and giving examples of non-actors liable for actions of another, but outside of any agency-derived vicarious-style secondary liability). I include these among the “policy-based” or “hostage-style” secondary liability subcategories in Sections I.A.2.d and I.A.2.e. below. Of course, Professor Dobbs is well aware of the distinctions being made herein, and he uses “vicarious liability” as a generic term, and “*respondeat superior*” as a species. See *id.* at 906. The equivocal usage, which is endemic in the law of secondary liability makes it all the more important to strive to clearly delineate separate categories, assuming there was some reason for the law’s creation of separate categories in the first place.

The normal agency-derived rules for vicarious liability clearly apply to cases of copyright infringement.⁶¹ The normal agency rules almost certainly must apply to trademark⁶² and patent infringement as well.⁶³ However, to be faithful to its transplanted roots, this doctrine must be limited to real agency relationships,⁶⁴ further characterized as a master/servant type.⁶⁵ Moreover, the servant must be acting within the scope of employment,⁶⁶ and (of course) the servant must be liable to the master in any case in which the misconduct was not actually authorized by the master.⁶⁷ In addition, all the ordinary limitations must, presumably, be imported from agency law (and as transposed from agency to the general law of torts) into the intellectual property domain as

61. *Shapiro, Bernstein & Co. v. H.L. Greene Co.*, 316 F.2d 304 (2d Cir. 1963) (“It is quite clear, for example, that the normal agency rule of respondeat superior applies to copyright infringement by a servant within the scope of his employment.”).

62. See generally *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992); and cf. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853–54 (1982) (implying as much: noting that when the manufacturer “does not control” the distributor, there is still room to consider contributory liability). One might suppose that a manufacturer in a controlling relationship to a distributor might be vicariously liable under normal agency, partnership, or joint enterprise theories. *Hard Rock*, 955 F.2d at 1150.

63. As to what might actually constitute the “normal agency rule,” It should be noted that the majority of the historical case law dealt with the question of secondary liability of the master for torts committed by the agent causing physical harm. One might assume that the normal agency rules are appropriate for copyright (and patent or trademark) offenses, and so one can simply substitute the expression “infringement” in place of the generalized formulation “torts.” Or one might determine deliberately to design a modified rule that might be more nearly fitting for intellectual property, see *infra* section IV.

64. That is, the actor must be an agent of the non-acting party. RESTATEMENT (SECOND) OF AGENCY, *supra* note 58, § 1.

65. Although the fact of agency is a necessary condition, it is not sufficient. The actor must also be a servant-type of agent. *Id.* at §§ 2, 219–20. Or there must be, if courts embrace it, a relationship answering to the revised nomenclature (or revised substance) endorsed by the new restatement. See *supra* note 58 (referring to the employer-employee labels now used in the RESTATEMENT (THIRD) OF AGENCY).

66. This requires consideration of the old familiar “frolic and detour” cases and other situations in which the servant deviates from the scope of employment. RESTATEMENT (SECOND) AGENCY, *supra* note 58, at §§ 228–29. It also implicates the problem of servants who act, not only without authority, but contrary to express instructions. It is not always the case that a master has a duty to investigate and to monitor her employees against the possibility they might be engaging in criminal acts or intentional torts. Cf. *id.*, § 231 (stating the limited circumstances in which a criminal or intentionally tortuous act might be within the scope of employment); *Caremark Int’l Inc. Derivative Litig.*, 698 A.2d 959 (Del.Ch. 1996) (suggesting, in the course of approving a settlement agreement, that though it might be rational to settle even a baseless claim, there might be no cause of action stated and there might be no generalized duty to take affirmative steps to prevent hidden illegal acts by employees).

67. E.g., RESTATEMENT (SECOND) AGENCY, *supra* note 58, § 399 (a principal whose agent has violated duties has an appropriate remedy against the agent).

well—that is, there must be a tort, and the vicarious liability imposed must be consistent with ordinary limits of tort law. Chief among these must be the still “classic general rule” of tort law by which defendants are not directly liable for a failure to *prevent* a harm to a particular individual, notwithstanding foreseeability⁶⁸ (or actual knowledge) that the harm is about to occur.⁶⁹ Of course, the master is liable for the torts of the servant, and it could be said this is a case of the master’s not preventing (or controlling) the servant;⁷⁰ but the *servant* is not liable for failure to prevent some sort of harm—there still must be direct liability before there can be any vicarious liability. I acknowledge that some of these cases cross the line between what I have called contributory-style and vicarious-style secondary liability, but it remains important to point out the provenance of the various rules and to attempt a rational taxonomy notwithstanding some crossover cases. I will treat some of the crossover cases as constituting a “policy-style” subcategory of secondary liability, and as an important factor in designing rational rules for secondary liability for new technological uses.

Expanded Vicarious-style (softened and expanded for copyright). One who [1] with the right and ability to supervise an actor, has [2] an obvious and direct financial interest in the exploitation of copyrighted materials by the actor, and [3] is a beneficiary of the impermissible exploitation will be secondarily liable for copyright infringement by the actor.⁷¹

68. There is room, as well, to draw increased attention to the equally fundamental tort law doctrines of proximate cause and culpability. See Jay Dratler, *supra* note 30.

69. DOBBS, *supra* note 44 at 853 (stating the rule and amplifying it: “the defendant sees an unsighted person about to step in front of an approaching car. The defendant could prevent his injury by a word or touch, without danger to the defendant and without delaying the defendant’s own progress. But he does nothing to prevent injury, which in fact follows. The general rule applies to relieve the defendant of any liability.” (citing RESTATEMENT (SECOND) OF TORTS § 314, illus. 1 (1979))).

70. Even here, the “scope of employment” limitation must serve as a proxy for foreseeability, because patterns of conduct and the scope of risk within the scope of employment can be within the general ken of the principal/master. Likewise the general bar against imposing liability for “failure to prevent” can still be upheld insofar as the principal/master can fairly be said to be within the ordinary tort law exception that applies when a person has undertaken to act or has put events in motion, thereby assuming a duty to intervene, supervise or otherwise prevent subsequent offending consequences.

71. *Shapiro*, 316 F.2d at 304. (“Many of the elements which have given rise to the doctrine of [genuine agency-style] respondeat superior . . . may also be evident in factual settings other than that of a technical employer–employee relationship. When [1] the right and ability to supervise coalesce with [2] an obvious and direct financial interest in the exploitation of copyrighted

This “expanded-for-copyright” style of vicarious liability is clearly *not* the familiar rule of agency law, and everyone knows it is not (or at least the court first enunciating this version of secondary liability knew it).⁷² One might suppose that the softer notion of a mere [1] “right and ability to supervise” might loosely answer to the more rigorous agency law requirement of the master’s right to control “the physical conduct in the performance of the services.”⁷³ Likewise, the notions of [2] “obvious and direct financial interest” in the infringing activity and of [3] being the “beneficiary” of the exploitation might roughly answer to the agency requirement of “acting on behalf” of a true master/principal in a truly consensual master-servant type of agency relationship.⁷⁴ Together these factors of control and benefit must have contributed to the legal conclusion that it is “just and fair” to hold the employer (or master) accountable for acts taken on her behalf by an employee (or servant).⁷⁵ By extension, the softer notions of supervision and direct financial interest must be what the court originating the concept meant by observing that “many of the elements” giving rise to vicarious liability in the true (or, “technical”) master-servant relationship are also present in the peculiar circumstances where “the purposes” of copyright law are “best effectuated” by imposing an expanded form of secondary liability.⁷⁶

Perhaps all of this expanded-for-copyright style of secondary liability serves, at least in the context of copyright law, to afford a relationship-based style of secondary liability which, like true agency-derived vicarious liability, might complement the fault-based contributory-style and inducement-style of secondary liability. If so designed, then the rules for secondary liability in

materials—even in the absence of actual knowledge that the copyright monopoly is being impaired . . . —the purposes of copyright law may be best effectuated by the imposition of liability [3] on the beneficiary of that exploitation.”).

72. See *id.* (including the court’s clear statement that it was confronted with a case “other than” a “technical” employer-employee relationship). It should go without saying, but it is clear that this “softened-for-copyright” style of vicarious liability is also clearly not the familiar contributory or inducement style either, because there is no requirement that there be knowledge (as would be required for either contributory or inducement style).

73. RESTATEMENT (SECOND) AGENCY, *supra* note 58, § 220(1).

74. *Id.* at § 1(1).

75. My thesis continues to be that the general rule requires there be circumstances in which it is “just” to hold another liable for the torts of an actor.

76. See *supra* note 71 (quoting the language used by the Second Circuit).

intellectual property might be supposed to be rationally derived, with the end of determining two general sets of circumstances in which it is “just” to hold one person accountable for the infringements of an actor: (1) when the one is in a relationship with the other, either in a true master/servant situation, or else in an expanded-for-copyright style of secondary liability, or (2) when the one is at fault for materially contributing or inducing the infringement of the actor, with knowledge of it. Each of these two fonts has a driving rationale and also has some self-limiting factors to prevent secondary liability from becoming too great for incidental third parties to bear.

It is interesting to observe that there has been substantial resistance to any extension of this expanded-for-copyright version of relationship-based secondary liability to trademark law. In fact, the leading cases seem explicitly to forbid it.⁷⁷ It is doubtful there is any need for such a softened doctrine in patent law.

c. Consensual-Style Secondary Liability (the suretyship type).

Having already discussed fault-based and relationship-based secondary liability, it might be time to conclude this section, but there is at least one other type of secondary liability that is well known in the general law. Some people actually choose to accept secondary liability. Those who deliberately agree to guarantee or act as surety for the debt of another⁷⁸ typically have either

77. *Inwood* might be read to limit secondary liability in trademark cases to active inducement-style and also to only that contributory-style as is accompanied by explicit, actual knowledge of specific acts of on-going trademark infringement. See *supra* note 49. See also *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143, 1149 (7th Cir. 1992) (requiring that the person secondarily liable must either know or have reason to know of the infringement and also holding that “willful blindness” (“to be willfully blind, a person must suspect wrongdoing and deliberately fail to investigate”) would constitute “reason to know”; but that mere failure to take reasonable precautions would not (there is no duty “to seek out and prevent violations.”). *Hard Rock Café* clearly holds there is no such thing as an expanded-for-copyright version of vicarious liability in trademark law). *Id.* at 1149–50 (labeling the theory “the more expansive doctrine of vicarious liability applicable to copyright violations.”); see also *D.S.P.T. Int’l, Inc. v. Nahum*, 2008 WL 754803 (C.D. Cal. 2008) (assessing attorneys’ fees against a non-prevailing party who asserted secondary liability in a trademark case based upon expansive notions of vicarious liability and in the absence of any true agency, partnership, or apparent partnership basis for asserting any true agency-based relationship-style of vicarious liability) (my thanks to Professor Mark Bartholomew for bringing the *D.S.P.T.* case to my attention).

78. A “surety” is a person who is liable for the duty of another person, and it was once said that a person whose liability for the duty of another person is conditioned on the failure of the other

demanded certain rather obvious protections, or else have benefited from the law's occasional imposition of protections and limitations. When the law determines to impose secondary liability in intellectual property without regard to the parties' wishes, it might do well to notice the sensible protections that might go along with the imposition when parties are thinking about their relative risks and benefits.

In addition to the limitations in the general law already mentioned in this Article,⁷⁹ those protections that have been recognized in suretyship law are another likely source of limitations. Among those protections are the right to exoneration,⁸⁰ reimbursement,⁸¹ restitution,⁸² recourse,⁸³ and subrogation.⁸⁴ Other limitations on consensual secondary liability are those that once were recognized as the strict suretyship defenses (*strictissimi juris*),⁸⁵ including full or partial releases from liability in the event of any non-consented action between the primary debtor and the obligee that might impair the surety's rights of recourse or

person to perform is a "guarantor." E. ALLAN FARNSWORTH, *CONTRACTS* 373 (3rd. ed. 1999). But that terminology is not always maintained, and I will use the word "surety" in its broad sense to include a guarantor. *See id.* (adopting the same broad usage); *see also* RESTATEMENT (THIRD) OF SURETYSHIP AND GUARANTY § 1 cmt. c (1996) (using "secondary obligor" as the generic term because the former distinctions between guarantor and surety have been much debated, and blurred); *see generally* U.C.C., § 3-419(c) (2008) (preserving the substantive distinction in the case of a signature accompanied by words indicating unambiguously that a party is "guaranteeing collection" rather than payment, in which case the secondary obligor is entitled to exoneration, being obligated only if execution of judgment against the principal debtor is returned unsatisfied, or upon like conditions).

79. *See supra* section I.A.2.a. (referring to limitations on the fault-based secondary liability doctrines); *supra* I.A.2.b. (alluding to limitations on the relationship-based secondary liability doctrines, built into the fundamental requirement that there must be a master/servant relationship, or that there must be an occasion to use the expanded-for-copyright version).

80. The creditor must first seek payment from the primary debtor before making demand upon the secondary debtor. This might go so far as requiring not only demand upon the primary, but also the institution of a lawsuit pursued to judgment, followed by attempts to collect upon the judgment, resulting in an unsatisfied judgment. U.C.C., *supra* note 78, § 3-419(c); *see* FRED H. MILLER & ALVIN C. HARRELL, *THE LAW OF MODERN PAYMENT SYSTEMS* 199 (2003).

81. The person secondarily liable would have a right to reimbursement of expenses in resisting the creditor. MILLER & HARRELL, *supra* note 80; JAMES J. WHITE & ROBERT S. SUMMERS, *UNIFORM COMMERCIAL CODE* 487 (5th ed. 2000).

82. The person secondarily liable would have a right to restitution (in respect of expenses not reimbursed but which provided a benefit). *Id.*

83. The person secondarily liable would have a right of recourse against the primary debtor, including against any collateral security. *Id.*

84. The person secondarily liable would have a right to stand in the position of the creditor against the primary debtor, including under any negotiable instrument. *Id.*

85. DOUGLAS J. WHALEY, *PROBLEMS AND MATERIALS ON PAYMENT LAW* 125 (8th ed. 2008).

subrogation. These defenses have, at various times, released the surety if the primary debtor were released,⁸⁶ if the time of payment were changed,⁸⁷ if any collateral were released or damaged, or the right of recourse were impaired,⁸⁸ and if certain other changes were made to the underlying obligation.⁸⁹

Suretyship is consensual in nature. Its application to secondary liability in intellectual property cases might take a moment to appreciate, because the cases of infringement do not obviously seem to raise issues of consensual obligation. But just as the person secondarily liable as a voluntary surety is a person who is not otherwise a debtor, and just as the surety will answer for the default of another, so also the limitations on such liability are perhaps relevant, at least when it comes to potential extensions of secondary liability for new technological uses in copyright or trademark law. It would not be unreasonable to consider the suretyship cases as limiting or boundary cases, suggesting the sort of protections or limitations that might be designed into any rational extension of secondary liability were such liability conceived as a guaranty made and designed by the immediate parties to the transaction.⁹⁰

There is something to the notion that a proprietor of intellectual property ought first to seek redress against the direct infringer (something akin to the surety's right of exoneration). Likewise, perhaps something akin to reimbursement or restitution might be fashioned. This would not be identical to the suretyship case, but might be a form of reimbursement or restitution payable by the proprietor to the person secondarily liable to compensate for the real or imputed costs of that person's forced cooperation in the cause of enforcing intellectual property rights against third party infringers.

At the very least, any account of secondary liability in intellectual property cases depending upon a derivation from general principles of common law should not omit the consent-based secondary liability rules of the suretyship cases. It is certainly "just" to hold one party accountable for the debts of

86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.*

90. The person secondarily liable is, in effect, guaranteeing the good conduct of the direct infringer.

another where there has been an agreement to do so, accompanied by sensible safeguards.

d. Policy-Style.

It must be acknowledged that there is a fertile ground of “vicarious” or “secondary” liability throughout the law, both in the general law⁹¹ and in copyright, patent and trademark. Many of the common law antecedents fit neatly within the categories already given—fault-based, relationship-based, or consent-based. Nevertheless, on a candid reading, a significant number of cases cannot be cabined so neatly.⁹² Some cases cannot be explained on any sort of contributory or inducement fault-basis, and cannot be explained on any relationship-basis relying upon either recognizable agency or *respondeat superior* style of vicarious liability, or upon any extended-for-copyright style. There is a tendency to fudge on *respondeat superior* cases, and an almost whimsically cavalier approach to formulating the rules for vicarious-style secondary liability in intellectual property cases.⁹³

91. Consider, for example, not only sections I.A.2.a & b. but also further analogies from criminal law (accomplice liability, vicarious liability, enterprise liability, pre-crime accessories before the fact, post-crime accessories after the fact, misprision, compounding, felony murder, conspiracies, solicitations, and attempts); tort law (its own version of “respondeat superior” and “vicarious liability” either identical to, or different from the agency-style versions, concerted action and conspiracies, aiding, abetting and encouraging, and applications of perhaps special rules attributing liability in cases of sexual harassment or assault, abusive caretakers, ship captains and automobile drivers), contract law (consensual undertakings of secondary liability in surety, guarantee and indemnity), the law of corporations, partnerships and other firms (versions of *respondeat superior* that might be identical to, or which might differ more or less from some of the other versions), and yet other examples that could be multiplied.

92. See generally DOBBS, *supra* note 44 at § 340 (including within a topic entitled “other bases for vicarious liability” such odds and ends as bailments, owner-in-the-car and owner consent statutes, family relationships, concerted action, conspiracy, and aiding, abetting and encouraging). Although courts seem to be applying nominal agency rules, these cases are better explained on policy bases masquerading as *respondeat superior*. These are unnamed, but real examples of designed law, of a free choice of rules that are built or “coded” deliberately by judges. It would be better for any such choices if they were first specified before being built.

93. The Court’s casual usage in *Grokster* might well be overlooked, since the case was decided on the basis of inducement-style secondary liability, but it still seems bad form to have said that “[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement... and infringes vicariously by [1] profiting from direct infringement while [2] declining to exercise a right to stop or limit it.” 545 U.S. at 930 (emphasis added). The Court’s formulation of vicarious liability in copyright cases shifts the language of the prior relationship-style (expanded for copyright) liability cases, see *supra* notes 71 and 72, and also seems to incline against the analogous general rule of tort law that inaction is no offense, see *supra* notes 45 and 69. By so shifting the language, the Court blurs some substantive distinctions—in the prior cases, it is the “profit” which

We will conclude this section, at I.A.2.d. very nearly where we began in section I.A.1. The general rule already given at the outset, but with a slight twist, may be as good a description as any of the results of the “at large” cases. It may very well be part of existing law that there is, in fact, some room for candidly announcing a rule for policy-style secondary liability that can be stated as follows:

Policy-style secondary liability: One is secondarily liable for the infringement of another if (1) there *is* an infringement by another, and (2) if it is “*just*” to hold that one accountable for the other’s infringement, with “justice” being something inexplicable, unmoored and non-specific.

Perhaps the only difference between this version of the rule and the general version of the rule first set forth at the beginning of this Article⁹⁴ is its differing assumptions. If it can be said that the general rule is derived from the specific cases, categories and subcategories, then the content of “justice” is circumscribed: it is “just” to hold another liable if (but only if) there is a fault-based rationale, as in contributory or inducement-style; or if there is a relationship-based rationale, as in genuine agency based *respondeat superior* or even in extended-for-copyright vicarious-style; or if there is some trace of a consensual basis, as suggested by the suretyship-style of secondary liability. But if the presumption of “justice” defined by its common law derivation in general law is removed, and if it is imagined that the normative inquiry is reduced to some sort of unqualified, unchecked, indeterminate license to imagine some sort of chimerical “justice” then the identically-stated rule becomes wide open to what might candidly be called a “policy” interpretation. It is in this last sense that I present nearly the same formal statement of the general rule with which we began, and yet I propose that it constitutes yet another style of secondary liability.

must be direct, as in a “direct financial interest”, and the prior cases emphasize the positive right to supervise conduct rather than the negative right to stop it. See *supra* note 71. One might suppose the Court’s unintentionally loose language does no harm, until one notices that the loose inclination evidenced by this language is taken up by a vigorous dissenting opinion in the *Perfect 10* case. See *infra* Section I.B.2. (discussing *Perfect 10* in the aftermath of *Grokster*).

94. The general rule is set forth in section I.A.1. *supra*. The various specific subcategories set forth in section I.A.2. *supra* were offered under the assumption that it is only with reference to them that the circumstances in which it is “just” to hold another person liable can actually be understood in a more or less rule-specific manner.

This might explain some of the cases in tort law holding persons secondarily liable in the context of bailments (or loaned car cases) treated as if they were agency relationships,⁹⁵ owner-in-the-car and owner consent statutes treated as if they were actually grounded upon some agency basis for the result, and family relationships treated as if they were really illustrative of agency law.⁹⁶ In addition, it might explain at least the motive behind some of the cases in tort law seeming to hold persons liable for inaction and unaccompanied by any ordinary factor that creates a special duty to intervene.⁹⁷

In cases such as these it is hard to say that there really are any fault-based, relationship-based, or consent-based factors supporting secondary liability, at least if those factors were to be determined according to any technologically-neutral basis. It might be well simply to say there is some non-neutral “policy” and be done with it. At the same time, and having announced why there is a non-neutrally derived policy for a new law to cover the new technological uses of, for example, the automobile, it would not be hard to save agency law (and secondary liability law) simply by announcing that there is a special “law of the automobile” just because automobiles seem to create problems that their owners ought to deal with, notwithstanding the absence of any existing law to force that result.⁹⁸ The non-neutral result might simply be a consequence of a non-neutral choice to prefer the side of the injured to the side of the otherwise non-liable owner, and to do so by holding the owner secondarily liable for the driving of the person at the wheel of the car, regardless of prior rules of secondary liability.

95. See, e.g., *Gorton v. Doty*, 69 P.2d 136 (Idaho 1937) (transforming a loaned car into an agency relationship in order to hold the owner of the car liable) (the court observed, citing prior authority, that “the fact of ownership alone . . . establishes a prima facie case against the owner for the reason that the presumption arises that the driver is the agent of the owner . . .”). See also *supra* note 60 (collecting other examples).

96. See *supra* note 60 (reciting examples).

97. *Id.*; see also *supra* notes 45 and 69 (noting an expression of the ordinary “failure to intervene” standard).

98. This might be an illegitimate, but at least an honest approach to law reform. But it might even be, were it done openly and with a specifically enunciated set of rules limited to “the law of the automobile,” a legitimate development of private law confronted with a new technology. Had the development been a forthright, non-deceptive accommodation of the law to a new technology, it might constitute an adaptation of the sort long thought to be within the disciplined range of common law judges. At the least, it would have identified the problem, the short-comings of existing law, and the reason for the departure from expected results under existing law.

Alternatively, it might serve better to identify some specific aspect of “justice” which is supported by the application of secondary liability. Perhaps secondary liability is “just” because it is lawful, right, fair, or good for something.⁹⁹ Perhaps secondary liability is “just” in a frankly instrumental sense of the word, because it supports some conventional interest of the stronger party involved in the case.¹⁰⁰ Perhaps secondary liability is “just” only in the unmoored modern usage of the word “justice” which assigns it to explain any anomaly that is otherwise inexplicable in the law, or to explain some sort of “efficiency” or analytical relationship imagined to be discernable in the decided cases.¹⁰¹ In any event, it would not hurt to explicitly identify what the court has in mind.

Until there is a more general consensus on what any modern juridical agent means by the word “justice,” it would almost certainly be better, at least in the context of current legal conventions, simply to recognize that some existing cases already constitute a non-neutral “policy” basis for imposing secondary liability, and then to explain what, if any, sensible or rational policy might be in play.

e. An Imaginary Horrible (or is it?): Hostage-Style

There are some authorities, most of them under what might fairly be described as ancient or discarded law,¹⁰² for a hostage-style of secondary liability. It takes little imagination to understand that if one is held hostage for the actions of another, with death or forfeiture of liberty to follow,¹⁰³ there will be an impact on conduct and perhaps there might be a decided influence on the other (or at least that the hostage would have a strong incentive to

99. See Thomas C. Folsom, *Evaluating Supernatural Law: An Inquiry into the Health of Nations (the Restatement of the Obvious, Part II)*, 21 REGENT U. L. REV. 105, 138–42 and App. A at § 401–404 (2008) (filling in some terms omitted from the existing restatements of law, and defining a version of “justice”).

100. *Id.* at 142–43 and App. A at § 406–09 (defining another version of “justice”).

101. *Id.* at 143 and App. A at § 410–13 (defining yet another version of “justice”).

102. Indeed, some have traced the earliest contracts in Anglo-American and European law to an ancient origin in hostage-taking. See, OLIVER W. HOLMES, *THE COMMON LAW*, Lecture VII, 247–50 (1881) (starting with the contract of suretyship, and observing that “the surety of ancient law was the hostage” and proceeding through Charlemagne, Henry I, King Canute and “the story of Huon of Bordeaux”—“Charlemagne cries out ‘I summon hither the pledges for Huon. I will hang them, and they shall have no ransom’”).

103. See *infra* Appendix A (“Prizes! Prizes!”).

exercise whatever control he or she might have upon the other). It is curious, and productive, to consider hostage-style secondary liability as suggesting at least one more boundary condition to the concept of secondary liability.

If the modern suretyship, consensual-type of secondary liability affords a boundary at one pole or extreme, based on what someone would rationally demand if asked to accept such exposure, then the ancient hostage-style affords another boundary at the other extreme, where liability is imposed based on a pure act of force or will on the part of the person taking the hostages, and who thereby forces secondary liability upon the hostages. As in the case of consensual secondary liability and policy-style secondary liability, the hostage is held to guarantee that there be an absence of offense by another person. Hostage-style might differ chiefly in its candid admission that the rule is based upon force and upon the interest of the hostage-taker rather than upon any more abstract concept of “justice.” However, even here, commentators have claimed there are certain rules or limitations upon what happens to the hostage.¹⁰⁴

Indeed, it might be asked whether there is a tendency by which the results, if not the analysis, of *Grokster*, *Napster* (or even *Google* and others) can be understood on the hostage-style basis at least as well as on any other. If so, that tendency is probably a bad thing, at least for new technological uses that require some capital-intensive investment on the part of its providers and developers and that provide tangible benefits to the general public. It might be doubted that hostage-style secondary liability will contribute to the long term flourishing of new technological uses. Any designed

104. Observing that, according to the law of nations, there is “in the way of security, another precaution, of very ancient institution, and much used among nations—which is to require hostages,” M. Vattel lays down certain rules or norms: hostages are to be persons “of consequence” to be detained until the promised third party performance has been rendered; there is no other right over them than that of securing their persons, “in order to detain them until the entire accomplishment” of the other’s duty; they ought not to be ill-used; they must be restored upon performance by the other. EMMERICH DE VATTEL, *THE LAW OF NATIONS*, Book II, §§ 245–48 (Chitty, trans. 1863) (1758). As an interesting admission that ultimately force, rather than consent, is the basis of the hostage-rules, it is said that a subject “who is nominated [by the sovereign] for that purpose [of standing as hostage] is bound to obey” and that a subject “can be given as a hostage against his will” (while a “vassal cannot be constrained to go as a hostage, unless he be at the same time a subject.”). *Id.* at § 252. And yet, even so, and even when bound to go by force “the hostage is entitled to be defrayed and indemnified at the public charge.” *Id.* Older laws or norms were more severe. See generally CICERO, *DE OFFICIIS*, Bk. III, xxxii. (recounting the various obligations of sworn envoys and hostages on parole).

solution ought at least to consider the unintended consequences of decisions that might accidentally point in the direction of hostage-style secondary liability.

B. *Grokster (Sony) and Perfect 10*

Section I.A. might be taken as a sort of “prequel” to the recent cases. However, because the recent cases paint on a canvass already prepared by preexisting law, the recent cases can now be better understood and more concisely presented. Although the Court first addressed contributory liability (and secondary liability more generally) in modern copyright law in its *Sony* decision in 1984,¹⁰⁵ it presumed the existence of a well-developed law of secondary liability, as I believe is fairly outlined in Section I.A. Of the four cases that are being discussed in this Symposium issue, I will concentrate on *Grokster*¹⁰⁶ (as it elaborates on *Sony*) and *Perfect 10*¹⁰⁷ (as it elaborates on the prior cases and perhaps foreshadows the trademark proprietor’s claim in *Tiffany*¹⁰⁸).

1. *Grokster (and Sony)*

In *Grokster* the Court explains, glosses and elaborates on certain aspects of the *Sony*¹⁰⁹ standard for fault-based infringement in copyright.¹¹⁰ Before picking up *Grokster*, it may be helpful to review *Sony*. That case, decided in 1984, involved the Betamax video tape recorder introduced by Sony and used by some of its purchasers to copy some of the copyrighted shows of Universal City Studios and the Walt Disney Company that were broadcast free of charge on over-the-air television. The Court noted that the plaintiffs-respondents, Universal and Disney “do not seek relief against the Betamax users who have allegedly infringed their copyrights.”¹¹¹ Instead, the Court observed, the plaintiffs charged

105. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

106. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005).

107. *Perfect 10, Inc. v. Visa Int’l Serv. Assoc.*, 494 F.3d 788 (9th Cir. 2007).

108. *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

109. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984).

110. *Sony* was the first modern case to reach the Supreme Court, and so in that sense may be said to have set a standard. Other cases are discussed at section I.B.2. *infra*. See *supra* section I.A.1. for my statement of the general rule, and section I.A.2.a. for my statement of the rules of “fault-based” secondary liability (including contributory and inducement-style).

111. *Id.* at 434. *But see* Jessica Litman, *supra* note 25 (recounting the involvement of one William Griffiths, a client who owned a Betamax and who agreed to be sued as a nominal defendant

Sony with “contributory infringement,”¹¹² and sought to prove that “users of the Betamax have infringed their copyrights and that Sony should be held responsible for that infringement.”¹¹³

Reversing the Ninth Circuit’s holding of liability against Sony, the Court addressed several issues, including the standard for “imposition of liability for copyright infringements on certain parties who have not themselves engaged in the infringing activity.”¹¹⁴ The Court observed that “*vicarious liability* is imposed in virtually all areas of the law. . . .”¹¹⁵ The Court concluded its sentence by adding that “the concept of *contributory infringement* is merely a species of the broader problem of identifying the circumstances in which it is just to hold one individual accountable for the actions of another.”¹¹⁶

In what seemed like a resounding holding in favor of what was characterized as noncommercial home copying, the Court labeled the lawsuit as an “unprecedented attempt to impose copyright liability upon the distributors of copying equipment,” and rejected the attempt.¹¹⁷ The Court rested upon the analogy to contributory liability in patent law, which imposed contributory liability but exempted the sale of staple articles of commerce from such liability.¹¹⁸

Sony included a rather clear statement of a standard for (or at least an apparent bar against) contributory liability: “Accordingly, the sale of copying equipment, like the sale of other articles of commerce, does *not* constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes.

on a promise that the plaintiffs “would seek no damages from him” in the event they prevailed in the lawsuit.)

112. *Id.*

113. *Id.*

114. *Id.* at 435 .

115. *Id.* (emphasis added, apparently using “vicarious liability” as the genus to describe secondary liability outside of IP). See *supra* note 31 (providing a representative sampling).

116. *Id.* (emphasis added). This enunciates what I have called the “general rule” or “two-part” version of secondary liability. See *supra* section I.A.1.

117. *Id.* at 421, Litman, *supra* note 25 at 379–80.

118. *Id.* at 428; see 35 U.S.C. § 271(c) (2006) (providing that whoever offers to sell, or sells, or imports a component “constituting a material part of the invention, *knowing* the same to be especially made or especially adapted for use in an infringement of such patent, *and not* a staple article or commodity of commerce suitable for *substantial non-infringing use*, shall be liable as a *contributory infringer*.”) (emphasis added); and *cf. id.* § 271(b) (providing that anyone who “*actively induces* infringement of a patent shall be liable as an infringer.”) (emphasis added). This tracks what I have referred to as the “contributory” subcategory of fault-based secondary liability. See *supra* section I.A.2.a.

Indeed, it need merely be *capable* of substantial non-infringing uses.”¹¹⁹ Because some copyright proprietors consented to viewer taping in order to watch shows the viewer might otherwise miss, for subsequent, noncommercial family viewing at a more convenient time (a phenomenon labeled “authorized time-shifting”), and because other conduct (some “non-authorized time-shifting”) was either non-infringing or else privileged as a fair use, the Court held there were “substantial non-infringing” uses of the Betamax video recorder.¹²⁰

The contribution of *Grokster*’s unanimous majority decision in 2005 was to follow *Sony* and yet at the same time to find a basis for potential secondary liability against Grokster and StreamCast, the distributors of peer-to-peer (P2P) software typically (so it was said) used by consumers impermissibly to copy MP3 music files and to traffic in such files over the Internet.¹²¹ Reversing the Ninth Circuit (which had affirmed the trial court’s disposition of the case in *Grokster*’s and StreamCast’s favor on cross motions for summary judgment on the authority of *Sony*, and upon the belief there was a “substantial non-infringing use” for the P2P software, among other reasons),¹²² *Grokster* also must stand for the proposition that *Sony*, as it stands, is no absolute bar to the imposition of secondary liability on the provider of software which enabled peer-to-peer copying of copyrighted musical works and which might have *some* non-infringing use.¹²³ The Court

119. *Id.* at 442 (this tracks the “contributory” rule). See *supra* section I.A.2.a.

120. *Id.* at 443.

121. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005). After remand, the case resulted in the shut-down of the offending distributors.

122. The Ninth Circuit applied a *contributory liability* analysis under which “a defendant was liable as a contributory infringer when it [1] had knowledge of direct infringement and [2] materially contributed to the infringement.” *Id.* at 927. But the court apparently erred by reading *Sony* “as holding that distribution of a commercial product capable of substantial non-infringing uses could not give rise to contributory liability *unless the distributor had actual knowledge of specific instances of infringement* and failed to act on that knowledge.” *Id.* (emphasis added). The Ninth Circuit held that the defendants Grokster and StreamCast were not liable because they had no such specific knowledge (because the architecture of their system, unlike Napster’s notorious system, was decentralized). See *id.* at 928. The Ninth Circuit also held that the defendants had not materially contributed (because “it was the users themselves who searched for, retrieved, and stored the infringing files, with no involvement by the defendants beyond providing the software in the first place.”). *Id.* In addition, the Ninth Circuit applied a *vicarious infringement* analysis, but “held against liability because the defendants did not monitor or control the use of software, had no agreed-right or current ability to supervise its use, and had no independent duty to police infringement.” *Id.*

123. *Id.* at 922.

announced: “We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”¹²⁴

In reaching its holding, and remanding for further proceedings, *Grokster* confirmed a standard taxonomy of “indirect liability” or “secondary liability.” According to the Court, such liability may be triggered “[1] *contributorily* by intentionally inducing or encouraging direct infringement”¹²⁵ or “[2] *vicariously* by profiting from direct infringement while declining to exercise a right to stop or limit it.”¹²⁶

In so labeling the various grounds while apparently relying upon only one of them, *Grokster* followed the lead of *Sony* insofar as *Sony* itself had explicitly provided that “the lines between direct infringement, contributory infringement and vicarious liability are not clearly drawn.” Indeed, *Sony* itself had noted that any “[...]reasoned analysis of [the Sony plaintiffs’ contributory infringement claim] necessarily entails consideration of arguments and case law which may be forwarded under the other labels.”¹²⁷ Those labels currently include not only the “vicarious” and “contributory” tags, but also the “inducement” tag, and perhaps others.¹²⁸ Because *Grokster* was resolved and remanded by the Court under the “inducement” label, there was no apparent need for the Court separately to analyze the contributory and vicarious liability theories that had been asserted against *Grokster* and *StreamCast*.¹²⁹

124. *Id.* at 919. This tracks what I have referred to as the “inducement” subcategory of secondary liability. See *supra* section I.A.2.a.

125. *Id.* at 930 (emphasis added) citing *Gershwin Publ’g. Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971).

126. *Id.* (emphasis added) citing *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 307 (2d Cir. 1963). This statement might be a bit loose in respect to vicarious liability. See *supra* notes 45 and 93. See *supra* section I.A.1. for my statement of the general rule, see section I.A.2.a. for my statement of the rules of “fault-based” secondary liability (including contributory and inducement-style), and see section I.A.2.b for my statement of the rules for “relationship-based” secondary liability (including vicarious and expanded vicarious-style for copyright cases). It may be significant that the Court mentioned fault by way of “declining to... stop... it” which might blur the longstanding principle that liability does not ordinarily attach to persons who fail to prevent the occurrence of a tort. See *supra* section I.A.

127. *Id.* at 931, note 9.

128. See *infra* section I.A. (summarizing variants).

129. *Id.*

The two concurring opinions¹³⁰ suggested opposite pulls on *Sony*. One, which may be called a “broadening concurrence” suggested *Sony* could certainly cover more than, and could reach more attenuated and less egregious conduct than the inducement-style secondary liability that was presented on the Court’s understanding of the facts of *Grokster*.¹³¹ The other, which may be called a “narrowing concurrence” suggested *Sony* should not be stretched much further than supported by the rather egregious facts of *Grokster* (indeed, on this narrowing reading, even the result in *Grokster* itself might be considered somewhat of a stretch).¹³² *Grokster* also looked, temporally, both before and after *Sony* for case support. It broadly endorsed the major pre-*Sony* cases of secondary liability for copyright infringement,¹³³ and generally acknowledged some of the more significant post-*Sony* cases.¹³⁴

The unanimous *Grokster* decision might be no more than what it seems to be: an inoffensive, well-constructed, ordinary case, filling out the interstices of secondary liability law in the circumstances of rather egregious inducement-style fault-based secondary liability not explicitly addressed by *Sony*. Of course, its result was pretty nearly the opposite of *Sony*’s. On a purely result-driven calculus, *Sony* seemed to have broadly protected the distributor of a copying machine against contributory liability,¹³⁵

130. *Id.* at 942 (Ginsburg, J., concurring, joined by Rehnquist, J., and Kennedy, J.). *Id.* at 949 (Breyer, J., concurring, joined by Stevens, J., and O’Connor, J.).

131. *Id.* at 945 (Ginsburg, J., concurring) (finding “[t]his case differs markedly from *Sony*” because *Grokster* and *StreamCast* produced insufficient evidence of substantial non-infringing uses). The concurring opinion might be read as expansive of *Sony* because it suggests *Grokster* would have been liable even absent evidence of inducement, simply because of no non-infringing use. *Id.* at 946. That is, there might be grounds for contributory-style secondary liability, without having to rest upon the more egregious inducement-style alleged.

132. *Id.* at 952. (Breyer, J., concurring). This concurrence might be read as narrowing because, although these concurring Justices believed the “quantities of current lawful [substantial non-infringing] use [of the *Grokster* defendants’ software] roughly approximate to those at issue in *Sony*” they concurred in the judgment on the more narrow ground of *Grokster*’s and *StreamCast*’s inducement of their customers to copy illegally. *Sony* had not been found to have induced direct infringement, but *Grokster* and *StreamCast* had been alleged to have induced, so therefore no amount of substantial non-infringing use could preserve the *Grokster* defendants from liability as inducers. The narrowing concurrence very strongly suggested that, were it not for the inducement, *Grokster* might well have been entitled to judgment of non-liability on the strength of a product that was at least as “capable” of non-infringing uses as was *Sony*’s.

133. *Id.* at 943; see also *supra* notes 18 and 21 (discussing earlier cases of secondary liability for copyright infringement).

134. *Id.* at 956 (mentioning the *Napster* case).

135. See *supra* note 25 (describing popular readings of the case).

while *Grokster* seems to have held liable¹³⁶ the distributors of a [virtual] copying machine, not terribly different from *Sony's*.¹³⁷

However, perhaps another line between the two really was the effect of inducement, present in *Grokster* but not in *Sony*.¹³⁸ This might explain the “substantial non-infringing use” differential between the two situations (maybe the Court meant to say only that there is no absolute bar to liability based merely on a defendant’s claim of “some” non-infringing use, or it may have meant that non-infringing use is irrelevant where there is compelling evidence of inducement and no evidence of any other use for the product).¹³⁹ On the other hand, perhaps it was the “knowing” element attributed with greater force to *Grokster* as an inducer than to *Sony* merely as a contributor.¹⁴⁰ Maybe it was the

136. That is, assuming the probable results upon remand, and as has been manifested by the ultimate result in the case. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 454 F. Supp. 2d 966, 971 (C.D. Cal. 2006) (observing that the defendants, *Grokster* and *Sharman Networks*, had settled with the plaintiffs, and granting summary judgment against the sole remaining defendant, *StreamCast*, on the basis of inducement-style secondary liability).

137. *Grokster*, 545 U.S. at 952 (concurring opinion).

138. *Id.* at 919 (“We hold that one who distributes a device with the object of promoting its use to infringe copyright, as shown by clear expression or other affirmative steps taken to foster infringement, is liable for the resulting acts of infringement by third parties.”).

139. Compare *Sony*, 464 U.S. at 789 (framing the question as whether the *Betamax* is capable of “commercially significant” non-infringing uses, and noting that “we need not give precise content to the question of *how much* use is commercially significant”) (emphasis added) with *Grokster*, 545 U.S. at 932 (concluding that “where an article is ‘good for nothing else’ but infringement . . . there is no legitimate public interest in its unlicensed availability, and there is no injustice in presuming or imputing an intent to infringe . . .”); see *supra* text accompanying note 52 (suggesting there is no room for a “substantial non-infringing use” defense in these circumstances).

140. Compare *Sony*, 464 U.S. at 790–91 (suggesting, perhaps, that *Sony* might have known that, in one sample, some 58% of the copyright proprietors authorized “some” home taping and “almost 20% authorize unrestricted home taping”; and observing that “if the proprietors . . . welcome the practice, the business of supplying the equipment that makes such copying feasible should not be stifled simply because the equipment is used by some individuals to make unauthorized reproductions . . .”) with *Grokster*, 545 U.S. at 933–35 (explaining that “*Sony* barred secondary liability based on presuming or imputing intent to cause infringement solely from the design or distribution of a product capable of substantial lawful use, which the distributor knows is in fact used for infringement” but that “nothing in *Sony* requires courts to ignore evidence of intent if there is such evidence, and the case was never meant to foreclose rules of fault-based liability derived from the common law”); see *supra* text accompanying note 52 (exploring the differences between contributory-style secondary liability, where non-infringing use is an important factor, and inducement-style secondary liability where substantial non-infringing use would seem to be irrelevant).

If the standard for inducement-style secondary liability is the clear and manifest active encouragement or active inducement as presented long ago in *Kalem*, see *supra* note 18, and if my formulation of “actively encourages” or “actively induces” is a fair statement of the rule for inducement-style secondary liability, see *supra* note 47, it follows that the Court must have concluded that *Sony's* incidental advertising and promotion of a home library of tapes did not, in the

“justice” element which rendered it more “just” to hold Grokster responsible for the misconduct of others than to hold Sony liable, where Grokster was more nearly part of the infringing activity than was Sony by virtue of Grokster’s distribution of a device “with the object of promoting its use to infringe copyright as shown by clear expression or other affirmative steps taken to foster infringement.”¹⁴¹

2. Perfect 10 (consequences of Grokster).

*Perfect 10*¹⁴² is an example of the perhaps unexpected consequences of *Grokster*. It was a 2-1 decision in the Ninth Circuit that affirmed a finding of non-liability against Visa, a credit card issuer,¹⁴³ based upon allegations of contributory, vicarious and inducement-style secondary copyright liability,¹⁴⁴ contributory, vicarious and other styles of secondary trademark liability,¹⁴⁵ and various other complaints.¹⁴⁶ The defendant, Visa, had made consumer electronic funds transfers at the direction of, and pursuant to its issuer-contracts with its merchant customers. These were transfers into the merchant accounts of the persons who, it was alleged, had infringed Perfect 10’s copyrights and trademarks. The case turned on the merchant-card issuer side of the consumer credit card payment system. The allegations addressed the claims that Perfect 10 had notified the card issuer that certain identified offending merchants were in the business of

totality of the circumstances, and as a matter of law, rise to the level of active encouragement of infringement by home “librarying” and retention of time-shifted content. Otherwise the Court might have remanded. On the other hand, and using the same standard, the Court concluded the state of the record compelled the finding that the totality of the circumstances surrounding the conduct of Grokster and the other defendants very likely did rise to the level of active encouragement of infringement, and so it remanded, and so it was eventually found, *see supra* note 136 (observing the result on remand: liability for inducing infringement).

141. *Grokster*, 545 U.S. at 936–37. *Compare Sony*, 464 U.S. at 790–91 (“supplying the equipment that makes [some authorized] copying feasible should not be stifled . . .”) with *Grokster*, 545 U.S. at 932 (concluding that “where an article is ‘good for nothing else’ but infringement . . . there is no injustice in presuming or imputing an intent to infringe . . .”). *See also id.* at 935 (noting that the “classic case of direct evidence of unlawful purpose occurs when one induces commission of infringement by another, or ‘entic[es] or persuad[es] another to infringe . . . , as by advertising.”) It may be that active “inducement” itself tips the scales of justice decisively.

142. *Perfect 10, Inc. v. Visa Int’l Service Assoc.*, 494 F.3d 788 (9th Cir. 2007).

143. Other defendants included several affiliated banks and data processing services and another credit card company (*MasterCard International, Inc.*). *Id.* at 792.

144. *Id.* at 793.

145. *Id.*

146. *Id.*

operating web sites that infringed upon Perfect 10's intellectual property and other rights, and that the credit card issuer and affiliates in the payment system nevertheless continued to honor customer-side funds transfer charges from the customers' accounts ultimately to the merchants' accounts as processed for payment through the intermediation of the credit card payment system.¹⁴⁷

The most interesting thing about the case, other than its having been brought at all, or its having taken two Rule 12(b)(6) motions to dismiss for failure to state a claim before being disposed of in the defendants' favor, or its requiring a fairly comprehensive majority opinion to affirm the result (dismissing the case), was the fact that it attracted a carefully written, weighty (or at least lengthy) and passionate dissenting opinion from an accomplished judge who seriously urged that the credit card company could have been liable (and so the complaint ought not to have been dismissed) because of its part in the payment system that ended up putting cash into the accounts of the wrongdoers. *Perfect 10* is an appellate decision and, as such, it not only followed *Sony* and *Grokster*, but also heeded the binding precedent from within the Ninth Circuit itself, including *Napster*.¹⁴⁸ The very fact that plaintiffs presented a plausible case, at least as understood by one capable appellate judge, sends a message of some sorts about the possibly lengthening shadow, or penumbra of secondary liability post-*Grokster*.

C. Hostage-Style Policy-Based Secondary Liability

It seems that the dissenting opinion in *Perfect 10* might be hard to distinguish from the sort of policy-based secondary liability that characterizes some of the automobile cases (outside of intellectual property).¹⁴⁹ Indeed, to the extent that it might lead yet further, it seems not unfair to say it might be pointing the way to a sort of hostage-style liability that, at least in the context of new technological uses, might not be so apparent. That is, if someone were to suggest that payment systems be used to regulate

147. *Id.* Conceivably, it might have been possible to allege secondary liability for alleged customer-side offenders as well, on the assumption that not only the offending merchants but also their customers might have been directly infringing. No doubt it was much easier to identify, and to allege and prove direct liability of, the offending merchants than their customers.

148. *A&M Records v. Napster*, 239 F.3d 1004 (9th Cir. 2001).

149. *See supra* notes 60 and 95.

wrong-doing in ordinary space (instead of in the code world), someone might more readily object.¹⁵⁰

It is only a slight extension of the dissenting opinion in *Perfect 10* to make an electronic marketplace the guarantor of the integrity of the marks used in connection with the goods sold by others, and a compelled enforcer of the proprietor's trademarks. The jewelry company, Tiffany, alleged that eBay was secondarily liable for just such trademark infringement by multiple counterfeiters,¹⁵¹ notwithstanding eBay had made a substantial investment in anti-counterfeiting initiatives, investing "as much as \$20 million each year on tools to promote trust and safety on its website" and that more than 200 eBay employees "focus exclusively on combating infringement, at a significant cost to eBay."¹⁵² In a meticulous opinion, the court reasoned that eBay was not secondarily liable, engaging in a multi-step analysis: (1) eBay did exercise sufficient control over its website that the *Inwood* test for secondary liability in trademark law applied, (2) under the *Inwood* test, the appropriate measure is whether eBay knew or had reason to know of the infringement, (3) generalized knowledge is insufficient to impute knowledge of "any and all instances" of infringing activity, (4) letters to eBay from Tiffany provided only generalized knowledge, (5) eBay was not willfully blind to infringement, (6) when eBay had knowledge of specific infringing listings, eBay promptly terminated them, (7) when eBay had knowledge that a seller was repeatedly engaging in counterfeit activity, eBay's "pattern" was to suspend the seller, and (8) ultimately, the burden of policing Tiffany's mark "appropriately rests with Tiffany."¹⁵³

In reaching its conclusion, the *Tiffany* case was following the *Inwood* rule, and was not the first to address flea markets,¹⁵⁴ nor was it the first to conclude that the determination "whether the venue is online or is brick and mortar" is immaterial.¹⁵⁵ What is

150. Something like this may already be happening. See Section I.A.2(d) and (e).

151. *Tiffany, Inc. v. eBay, Inc.*, 576 F. Supp. 2d 463 (S.D.N.Y. 2008).

152. *Id.* at 476.

153. *Id.* at 518. See also *supra* note 49 (discussing *Inwood* in the context of inducement-style secondary liability and for a kind of contributory-style secondary liability in trademark cases).

154. The Seventh Circuit had ruled on such a case. *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.2d 1143 (7th Cir. 1992), see *supra* note 77.

155. The Ninth Circuit had ruled on such a case. *Lockheed Martin Corp. v. Network Solutions, Inc.* 194 F.3d 980 (9th Cir. 1999).

noteworthy about *Tiffany* was the remarkable scope of the effort that the mark proprietor, Tiffany, expected of eBay.

II. CATEGORIES OF OLD AND NEW USES

New technological uses do not arrive without the context of existing law. The existing law was not developed in anticipation of new technological uses. Before simply translating or transposing existing rules to NTUs, it would be well simply to notice and recognize some of the odds and ends that have played at least some part in determining current standards. In light of those standards, it may be well to consider exactly what, if anything, they can teach about secondary liability for NTUs in cases involving: (1) trademarks where a resource provider/seller of keyword triggered advertising used by another faces possible secondary liability for triggers that incorporate trademarked expressions, (2) copyrights where a library lender faces secondary liability for making books available to a person who intends to copy all of the books to prepare an index, and to provide retrievable extracts of the text in cyberspace, (3) copyright or trademark-related payments, product distribution or market transactions where intermediaries dealing in encrypted or time sensitive transactions, or in the distribution of goods face secondary liability for offending conduct by users of the services.

These and other circumstances suggest that any too-easy expansion of secondary liability rules might lead to a hostage-style regime in which various entities are deputized (or dragooned) to serve as law enforcement officers acting involuntarily on behalf of proprietors of intellectual property without traditional notice or opportunity for hearing to those who are said to be directly infringing actors; without clear rights of recourse, reimbursement, exoneration and subrogation on the part of those against whom secondary liability is sought; and with an overly mechanical application of the ordinary rules (one might think that the cable company “contributes” to its customers’ use of the cable, but one might think that more would be required before thinking about serious risks of secondary liability). It would seem an unprofitable undertaking to wonder whether a cable company is more like a landlord than like a dancehall proprietor. A brief listing of uses will follow. The lists are not intended to do anything more than to name some of the existing categories. The only inference to be

drawn is that this is an eclectic list of existing categories, but without obvious and evident direct and neutral application to the NTUs in the code world. My point is that neutral principles will not carry the day, but rather some principle of deliberate choice, outside of the wooden recitation of “rules” or of existing patterns will be needed.

A. Dram Shops, Newsstands, and Automobile Law

The set of old uses have provided the law with an opportunity to reasonably distinguish between and among the secondary liability (or not) of the diverse crowd of dance hall proprietors (often liable for their hired bands), landlords (generally not liable for their tenants), department stores (sometimes liable for their record departments), grocery stores (for their butcher’s sections), automobile owners (for their drivers), dram shops (for some drunkards), hosts (for their company or their employers), firms (for tipsy, groping or hostile workers and workplaces) gun shops (for outlaws), newsstands, publishers and bookstores (for the contents of their books or magazines), credit card issuers (for either their consumer clients or their merchant clients), and libraries (for the users of their unattended or non-conforming, coin or card-operated photocopy machines).

When it comes to secondary liability, the two-part problem under the general statement of the rule is to predict the extent of direct liability—is someone liable?—and also to predict the extent of secondary liability—if there is someone directly liable, is it “just” to hold another person accountable? It sometimes seems that only in hindsight do the various subcategories help to resolve secondary liability problems of NTUs in the code world. It would be better to have a set of purposely designed rules that can lead to predictable results, prospectively.

B. Trigger Words, Virtual Worlds, and Cypherspace

There is already a recognizable set of new uses in the code world that provide the law with a reasonable opportunity to design architecture of secondary liability rules. It is an open question whether these will (or should) be merely applications of the same “ordinary” rules to the NTUs as were tumbled onto, or carefully designed for older uses, or whether the ordinary principles might be intentionally adapted, transformed or otherwise redesigned. Just

some of the representative new technological uses would include (1) the new crowd of cyberspace resource providers (for their advertisers or for other invited or uninvited, value-adding or free riding, expected or unexpected, predators or guides engaged in searching and retrieving, displaying and listing resources by way of terms that incorporate trademarked expressions), (2) the inventors, developers, distributors and financiers of the new machines that deliver users to the new technological places within the code world—the metaverse, the virtual worlds, cypherspace and cyberspace proper—for the conduct of their pirates, spoilers, hackers, encrypted code makers and encryption code breakers, and curious users, and (3) such “ordinary” intermediaries as payment system participants, credit card, debit card, commercial electronic funds transfer agents and other “enablers” (for their merchant-customers, and perhaps for their consumer-customers). Many others could be listed. In addition, those members of the general public who use these resources constitute an interest that must be considered.

C. “Neutral Principles” and Their Limitations

We might assume that neutral principles can (just barely) tell the difference between and among the secondary liability potential of the ordinary, existing dram shops and others, and that they can handle yesterday’s intellectual property cases. As a result of *Shapiro’s* landscape of expanded-for-copyright *respondeat superior* type of secondary liability in copyright cases,¹⁵⁶ a right and ability of one “to supervise” another replaces the genuine agency-based requirements of a master/servant (or employer/employee) relationship in which the other (the master) has a right to direct the actor (the servant), with the full master/servant level of control over the manner in which the actor does its work. Moreover, “an obvious and direct financial interest” by the other in the exploitation of the copyrighted materials by the actor supplements the more basic agency law requirement that the actor (the agent) must act “on behalf of” the other (the principal). This, in turn, led to a rational basis for conceptualizing some situations as “landlord-tenant cases” in which there is, generally, *no* vicarious liability, and for distinguishing them from

156. See *supra* at 71.

conceptualized “dance hall cases” in which there *is* vicarious liability imposed upon another person for copyright infringement by an actor.

The ‘landlord-tenant cases’ or ‘straight lease’ cases generally result in no vicarious copyright infringement liability.¹⁵⁷ The general result follows when an actual or conceptual landlord leases to a tenant at a fixed rental and the tenant engages in copyright infringing activities. If the landlord is without knowledge (thereby avoiding contributory infringement and inducement-style infringement), exercises no supervision, charges a fixed rental and receives no other benefit from the actor’s infringement nor contributes to it, then the landlord is not liable. An opposite result follows when the rental is pegged to the infringing activity, such that the landlord now has an “obvious and direct” financial interest in the infringing conduct of the actor and which, when coupled with a right to control (as is contained in many if not all leases), would lead to secondary liability under the expanded-for-copyright style of vicarious liability.

The ‘dance hall’ cases generally result in vicarious liability for copyright infringement.¹⁵⁸ The actual or conceptual dance hall proprietor is liable for the infringement of copyright resulting from the unauthorized performance of a musical composition by a band or orchestra whose activities provide the proprietor with a source of customers and enhanced income. Going further than genuine *respondeat superior* permits, the dance hall proprietor is liable regardless whether the bandleader is considered, as a technical matter, an employee or an independent contractor, and regardless whether or not the proprietor has any knowledge of the compositions to be played or has any control over their selection.

When transposed or translated into the code world and into new technological uses, those same neutral principles seem increasingly inapt (if not clueless) in distinguishing among any of those same categories, much less able to distinguish pirates (predators) from hitchhikers (surfers), hitchhikers’ guides (value added-resource providers) and ordinary users who are just passing through or trying to do something useful or pleasant while there.¹⁵⁹

157. See *Sony*, 464 U.S. at 438.

158. See *id.*

159. See Folsom, *supra* note 3 at 861.

It may be time to abandon the search for neutral principles (at least in private law having common law roots and where there is no Constitutional law dimension) and to begin a serious search for *non-neutral (but fairly applied) principles of private law* suitable to rational imposition of secondary liability for new technological uses. The desired non-neutral principles would be ones that can be applied fairly because they would be predictable, practical and clearly adapted to an articulated public policy (which policy might, optimally, be designed to coincide with the common public interest in NTUs in the code world). It is time to see what NTUs can teach, and this Article uses the example of the code world to show that a law purposely designed *for* NTUs is a law that might serve as a model in ordinary space.

D. *The Specter of Spectacular Error*

The specter of spectacular error comes from the twin problem, which is exemplified in the most perplexing cases involving secondary liability for new technological uses—these are the cases in which it is not entirely clear what the direct liability case consists in, compounded by the fact it is not entirely clear whether (and if so why, exactly) it might be “just” to hold someone else liable.

If that someone else happens to be the provider of the search engine which enables, at least according to present business models, the broad, open, accessible, navigable and generally trustworthy use of the Internet (services provided by a person such as, say, Google, Inc.), and if the secondary liability is unconstrained, if it amounts to some sort of phantom or hostage-style secondary liability imposed accidentally or at random rather than pursuant to any conscious, deliberate and thoughtful policy-style of secondary liability, the results might be worse than the ordinary run of the mill faults in the law.¹⁶⁰ Ordinary and occasional faults, like certain other risks, can be designed around. However, other juridical faults begin to approach systemic risk, which cannot be accounted for or avoided. It is here that the potential for catastrophic or spectacular error is manifest.

160. It might be just as spectacular an error to create legal-architectural barriers that will impose burdens so high that only Google can bear the weight, and so to entrench Google as the sole provider. *See supra* note 12.

III. DESIGNING SECONDARY LIABILITY RULES FOR NTUS

A. Trigger Words, Indexes, and Search Engines

A first problem is invisible and attenuated conduct that employs trademarked expressions as markers, triggers, magnets, roadblocks or detours to function in ways not entirely like “trademarks” in ordinary space. These new technological uses raise problems in the first degree: do they create direct liability in anyone? They also raise problems in the second degree: is there someone else of whom it can be said it would be “just” to hold them responsible for the conduct of another?

One solution to this problem is to design and employ an explicit “nature and place of use” factor both generally applied, and as specially developed for particular applications.¹⁶¹ Another solution is more carefully to apply existing principles in an analytically tight manner: this would involve making an explicit acknowledgement of the taxonomy of secondary liability categories and subcategories, and then explicitly incorporating the limits already existing in the general common law from which the categories have been taken.¹⁶² Another solution would be to focus

161. Folsom, *supra* note 3 at 825; Thomas C. Folsom, *Missing the Mark in Cyberspace: Misapplying Trademark Law to Invisible and Attenuated Uses*, 33 RUTGERS COMP. & TECH. L.J. 137 (2007), and Thomas C. Folsom, *Defining Cyberspace (Finding Real Virtue in the Place of Virtual Reality)*, 9 TUL. J. TECH. & INTELL. PROP. 75 (2007).

162. It is certainly a truism to note, as did Mr. Justice Holmes in *Kalem*, *see supra* note 18, that secondary liability for copyright infringement is predicated “on principles recognized in every part of the law” but this becomes a troublesome half-truth if not immediately qualified by the balancing truism that such liability is limited, hedged and carefully circumscribed in every other part of the law, *see supra* note 40. There can be no “careful” application of any principle of secondary liability absent a healthy recognition of its limitations.

Moreover, merely pointing out that there are some principles of law “everywhere” does not dispose of much other than the most obvious case, perhaps like *Kalem* itself. It is also necessary to specify those principles and to keep them separate insofar as they are different, without which, as in the case of the legendary (or apocryphal) trial judge who announced that he was prepared to award the plaintiff a patent on its trademark, someone might set out to find a defendant vicariously secondarily liable for contributorily inducing *respondeat superior* dance hall liability for policy purposes. Starting with one legal category and ending up with several others while incidentally mixing genus and species, all in the same sentence is—if not making a list or making a joke—a recipe for bad law because it obscures the reason for the result and blurs both the factual and policy implications. Having a carefully defined taxonomy of secondary liability rules, as outlined in Section I.A. of this Article is a good starting point for more careful application of the existing principles of secondary liability.

During the symposium discussions at which an earlier version of this Article was on the table, I took the position that each of the various categories (at least each of the existing fault-based, relationship-based, and consent-based categories) has a part to play, because each exists for an

on non-neutral principles of secondary liability, as will be outlined in section IV.

B. Virtual Worlds, Virtual Money, and Funds Transfers

A characteristic of many places within the code world is free association in consensual or contractarian-based places, which are more or less open to abuse, control, or misuse. Contract law has some limits in figuring direct liability and in secondary liability, (there are problems in figuring who might be an intended beneficiary, and in figuring rights of exoneration, subrogation and restitution). Once money, virtual money and payment systems enter the equation, and once other more or less remote providers and enablers enter the scene, the problems become more urgent. Far from being a harmless diversion of a mind given to puzzle-solving, high level encryption and decryption methods transmitted in violation of copyright or other laws might result in compromises to wire transfers, banking and other (sad to say) almost routine identity theft. If there is direct liability, it is hard to resist noticing that there is a plausible case for secondary liability involving very substantial potential damages.

Exactly as said in section III.A., one solution is more carefully to apply existing principles in an analytically tight manner: this would involve making an explicit acknowledgement of the taxonomy of secondary liability categories and subcategories, and then explicitly incorporating the limits already existing in the general common law from which the categories have been taken.¹⁶³ Another solution is to provide anti-code breaking, and positive encouragement to designed architectures in the code world that can provide something like a rule of law to the metaverse, to virtual worlds, cypherspace and cyberspace proper

intelligible reason, and together they give reasonable content to the inquiry into the conditions under which it is “just” to hold one person accountable for the offending conduct of another actor. On further thought, it seems it would be worthwhile to reconsider the analytical and normative sense of the various categories—perhaps some of them are unstable or unreliable. But that would have to await another Article. In the meantime, it still seems fair to say not only that a more careful application of the existing categories should be the goal of judges and fair-minded litigants and counselors, but also that there is an ultimate limitation in trying to resolve all of the problems in the code world, cyberspace and new technological uses solely on the basis of “neutral” analysis of the existing categories unguided by deliberate and explicit choices to favor some uses over others. See *infra* note 172 (identifying problems with expansive secondary liability in cyberspace).

163. See *supra* note 162.

while at the same time purposely designing secondary liability to fit the new machines, requiring reasonable technological accommodations to prevent misuse but not so burdening the new machines as to make their developers hostages.

C. *Cypherspace, New Machines, and Anti-Circumvention*

Within certain other places in the code world a characteristic problem is one of “measures and counter-measures” of encrypted code-making, code-breaking, digital rights management, and anti-circumvention. A creator of a new machine might want to design it according to a particular architecture, but any limitations, ciphers or machine-protection can usually be broken, hacked or circumvented.¹⁶⁴ As already said, it might be fruitful to carefully apply existing principles. Nevertheless, it might be necessary or more suitable to find some way for the law to address direct infringement, and secondary liability according to some designed criteria to incentivize “qualified” new machines and to make it more difficult to suppose that there is some right to defeat designed safeguards.

IV. AFTERWARD: TOWARDS NON-NEUTRAL PRINCIPLES IN PRIVATE LAW

A. *Pirates and Guides, Preferring One to the Other*

The approach of this Article forthrightly advocates explicit consideration of the “nature and place” of any new technological use within the code world or cyberspace. Consequently, this approach favors value-added mappers, guides, hitchhikers, and ordinary users over pirates. Of course, “pirates” is a term that can be defined in a rule-specific form and applied to predators, spoilers and wasters. The expression is, in this specified sense, more than just a conclusion in search of an argument, but is a rule-based term, appropriate for use by juridical agents.¹⁶⁵

164. Cf. generally STEVEN LEVY, *CRYPTO HOW THE CODE REBELS BEAT THE GOVERNMENT—SAVING PRIVACY IN THE DIGITAL AGE* (2001); HERBERT S. ZIM, *CODES & SECRET WRITING* (authorized abridgment, 1948) (discussing techniques and problems, including serious public policy issues, inherent in private code making and code breaking).

165. See *supra* note 14. The “pirate” in cyberspace is one who tampers with addresses or magnets; plants deceptive address or magnets; or blocks or spoils addresses otherwise available in cyberspace, thereby effectively denying access, making navigation difficult if not impossible,

B. *Non-Neutral Principles, Neutrally Applied*

New technological uses put pressure on the law in many particular contexts. Within the several places of the code world, this Article proposes a division of new technological uses, including: (1) an objective cyberspace proper (implicating trigger words, full-text copying to create an index to a library in space, and search engines), (2) the metaverse (implicating virtual worlds, virtual money, and funds transfers), and (3) an underlying technosphere of new machines or virtual machines (implicating code-making, code-breaking, and anti-circumvention devices). There are yet further places within the code world that can also be divided for separate treatment.

This division of the code world will simplify, highlight and clarify the real interests at stake and, therefore, will better illustrate the problems. Solutions to secondary liability issues involving NTUs in the code world may then be adapted to the different problems implicated in each of the domains. These solutions are not “neutral” principles but they are purposefully non-neutral principles capable of neutral application in matters of private law, according generally to common law doctrines already existing in ordinary space but deliberately transformed for the “nature and place of use” in the code world and cyberspace.

The principles are non-neutral because they are designed purposely to choose among the different ways in which cyberspace might be coded, and to select those that best support the functional characteristics which make any particular domain within cyberspace desirable to its users, and to sensible public policy. Moreover, the principles are non-neutral because they seek to distinguish pirates (predators) from valued adding resource

diverting information activity, taking advantage of the vulnerability of augmented presences, and destroying trust. This sort of pirate bears little resemblance to the romantic, good at heart figures of Captain Blood or Captain Reynolds. See RAFAEL SABATINI, *CAPTAIN BLOOD: HIS ODYSSEY 1* (Norman S. Berg 1977) (1922) (introducing the adventures of a medical doctor who finds himself transformed into a gentleman pirate: “Peter Blood, bachelor of medicine and several other things besides, smoked a pipe and tended the geraniums boxed on the sill of his window above Water Lane in the town of Bridgewater”); SERENITY (Universal Pictures & Barry Mendel Productions 2005) (recounting Captain Reynolds’s good deed). And yet, even a “pirate” is not always engaged in his or her occupation, and the flexible remedy of the new factor provides a way to make the policeman’s lot (and the judge’s lot) a much more happy one, by fitting the remedy to the offense. Cf. W.S. GILBERT & ARTHUR SULLIVAN, *PIRATES OF PENZANCE* (1879) (“When a felon’s not engaged in his employment . . . or maturing his felonious little plans . . . his capacity for innocent enjoyment . . . is just as great as any honest man’s.”). Folsom, *supra* note 3 at 889–90.

providers (guides) and to discourage the one while encouraging and supporting the other. Likewise, the principles are non-neutral because they seek to distinguish cyberspace actors who engage in spoilage and waste (spoilers) and to prevent the law from confusing them with value-adding resource providers and ordinary users.

Precisely because the principles themselves are non-neutral, but have an architectural design to them, it will become possible to be neutral in their application because it will become possible to figure out what reasonable good the principles are striving to accomplish and to fashion and to identify relevant and concrete facts that can be isolated *ex ante* in planning, *ex post* in litigating, and at any time that judicial review is provided. At the very least, the odds of predictable and practical neutral *applications* of the admittedly non-neutral rules should be increased. The point of such a system is to fairly and neutrally determine who is (or is not) a pirate, spoiler, or predator, and who is a value adding guide. These determinations can be made by a neutral application of rules that are not indifferent between pirates and spoilors on the one hand, and guides, users, and the public interest on the other hand.

C. Interim Design Solutions: Safe Harbors and Limited Remedies

In the short term, we can propose that courts would be well within their permissible roles of developing copyright, fair use, trademark and related law, including unfair competition, if they explicitly designed secondary liability rules with the deliberate purpose of discerning and then advancing the public interest in the code world, cyberspace and NTUs. More specifically, the courts would be well within their permissible roles of (1) applying remedies, especially the injunctive remedy, in a flexible and limited manner, and consistently (in the case of injunctive remedies) with the ordinary principles of equity including the public interest, and (2) figuring out and mapping what, exactly, are the contours of the (extra-statutory) secondary liability rules that should apply in copyright and trademark cases.

We might expect the affected industries, if not congress or some state legislature, to start with practical safe harbor rules. These could be announced, established and followed as practical standards. In addition, courts might purposely design certain

firewalls into their developing rules, extending or contracting direct liability in cyberspace so as to shield value-adding resource providers from the outset, rather than exposing them to litigation risk of phantom or hostage-style secondary liability during the sometimes surprisingly lengthy period of time between the crystallization of somewhat new forms of direct liability in cyberspace or the code world and the working out, by statute or otherwise, of the consequences on all of those who might be secondarily liable.

A concrete suggestion for safe harbor rules can be derived from the consent-based secondary liability model developed in suretyship law,¹⁶⁶ and in contrast to the specter of hostage-style liability.¹⁶⁷ Using the example of the *Tiffany* case,¹⁶⁸ in which a trademark proprietor (Tiffany) sought the enforced help of an auction market owner (eBay), a court might consider something like the two competing models:

Model A. eBay might announce that it will consent to monitor and provide some negotiated level of support to trademark proprietors against counterfeiters if: (1) the proprietors will reasonably consult with eBay and identify the problem, (2) will discuss the range of technologically reasonable accommodations that eBay might be able to undertake (and the price and other costs associated with each), (3) would agree to pay eBay for its enforcement services, (4) would agree, as part of the reasonable technological accommodation, to provide notice and an opportunity to be heard, not only to the alleged counterfeiters, but to certain identified public interest law firms or other entities who might determine to assist the alleged counterfeiters in demonstrating some fair use, nominative use, descriptive use (or some “non-use”) defense, and (5) would otherwise agree to exonerate, reimburse, and to provide subrogation rights to eBay insofar as eBay is acting on behalf of Tiffany.

Model B. Tiffany might announce that (1) it hasn’t the ability to enforce its own mark in the code world, and that it doesn’t have any likelihood of initiating a criminal trademark proceeding (or that there is insufficient evidence for criminal investigators to obtain an effective search warrant), but that (2) there exists an

166. See *supra* section I.A.2.c (discussing consent-based secondary liability in suretyship law).

167. See *supra* section I.A.2.e (discussing hostage-style secondary liability).

168. See *supra* section II.C. & notes 151–155 (discussing *Tiffany*).

almost inherent power within the code world itself to create a highly regulated environment such that (3) eBay could or should create an architecture by which eBay can more perfectly control and more efficiently monitor and unilaterally prevent offending conduct, and (4) upon penalty of hostage-style liability, eBay must create and enforce the regulated environment entirely at its own cost.

The two models are, perhaps, exaggerated. Even so, they help to illustrate the point so compellingly made by Professor Lessig.¹⁶⁹ Model “A” tends towards a workable consent-based system of secondary liability for new technological uses in cyberspace and the code world. It could apply just as easily, with certain adaptations, to trigger words, addresses, and targeted advertising offenses involving trademarked expressions or involving other spoiling and wasteful uses of markers in cyberspace, and it could equally well apply to many other problems in the various other places within the code world. In a similar manner, the distributor of a new machine could offer to consult with intellectual property rights proprietors or their trade associations, and could offer to install reasonable technological accommodations, including reasonable anti-circumvention measures that do not defeat reasonable user access to the technology, and with the cost to be shared by the proprietors of the intellectual property rights. Under Model “A” the result of such an offer might be the tender of a “qualified” new machine, or a “qualified” place within the code world. A court faced with a complaint could, and should consider developing a law of secondary liability for NTUs that is highly sympathetic to qualified new machines and qualified places within the code world.

A complementary version of Model A, initiated by an intellectual property rights proprietor, can be easily outlined. It is, essentially, the reciprocal of Model A. Under the complementary version, a proprietor might approach a distributor, resource provider or other target of potential secondary liability and offer essentially the same set of terms (consultation, discussions designed to find reasonable technological accommodations, shared payment for the costs of enforcement services, provision of notice and opportunity to be heard, and exoneration, reimbursement and

169. See LESSIG, *supra* note 1 (observing that cyberspace can be highly regulated).

subrogation). Model A and its complement permit either the target or the proprietor to initiate the offer of a safe harbor to the other.

Model “B” on the other hand illustrates the effect of an emerging *de facto* hostage-style system of secondary liability for new technological uses in cyberspace and the code world. It also isolates a class of “opportunistic plaintiffs” and distinguishes them from those plaintiffs who might more plausibly or “justly” petition for judicial assistance in enforcing their rights by way of secondary liability. This is because the opportunistic plaintiffs asserting the Model B position would embrace the class consisting of those who have, in effect, declined the offer of Model A. According to the hypothesis of Model B, the opportunistic plaintiff would be the one who refuses to pay its share of the costs of enforcement, but who (like Tiffany) would rather impose all the “externalities” of enforcement upon a resource provider and, indirectly, upon the ordinary users of the code world.

A complementary version of Model B can also be derived. Just as Model B supposes a proprietor who seeks to impose the entire costs of enforcement on the distributor, resource provider or other target of potential secondary liability, so it is possible to suppose the case of a target who refuses any accommodation at all. This complementary version is not quite a reciprocal of Model B, but it evidences the same refusal to “recode” the architecture. Under the complementary version, the target would be the one who refuses to consider how it might recode the architecture of its place within the code world to assist the proprietor in enforcing the proprietor’s rights, refusing any technological accommodation, insisting that the proprietor take care of itself, and refusing to accept any share of responsibility to engage in reasonable recoding.

The examples of Model A and Model B illustrate two important effects of the “nature and place of use” in resolving secondary liability in the code world. First, the tender of a Model A sort of accommodation by either a proprietor or a target provides a ready tool to assess the nature of the counter-party’s activity and motivation. The counter-party who refuses a Model A tender is one who raises at least an inference (and perhaps a presumption) that it is, (a) if a target, then also very likely a pirate or spoiler (else why would it refuse a reasonable technological accommodation that the proprietor is prepared to fund?) or (b) if a proprietor, then very likely an opportunistic free-rider in the

secondary liability arena (else why would it refuse to discuss or to share the costs of reasonable technological accommodations that a target might propose to help the proprietor help itself?). In the non-neutral design of legal rules of secondary liability, the tender-followed-by-refusal cases of Model A provide an efficient rule of thumb for adjudication. Juridical agents are competent to determine such facts as these, and to draw sensible inferences from them. Second, the examples of opportunistic parties under Model B provide a ready tool by which to de-couple and remix the two parts of the general rule for secondary liability. Even if there is someone liable for direct infringement, it does not follow, in the case of an opportunistic proprietor/plaintiff of the Model B type that it is “just” to hold someone else accountable. Conversely, in the case of the complementary Model B, it may very well be “just” to hold a target accountable for refusing to discuss or provide any reasonable technological accommodations to the proprietor.

The importance of the Model A and Model B tenders of reasonable technological accommodations (or the refusal of any accommodation) is that they not only provide a ready rule of thumb for evaluating the nature and place of the offending use in the code world by creating a test that helps to self-identify the parties as predatory, offensive, opportunistic or value-adding, but that these tenders also avoid the trap of legal rules that would force an architecture of yet higher control upon the code world than these more modest tenders would do. The mere fact that the code world “can” accommodate architecture of rather extraordinary control is a fact that might create an almost irresistible pressure woodenly to expand in the code world the rules of secondary liability as those rules have developed in ordinary space.

This pressure could lead towards the trap of accidentally imposed hostage-style secondary liability in the code world. This is because the possible architectures of regulation in the code world certainly “can” result in a mechanical expansion of secondary liability. As to fault-based rules,¹⁷⁰ there almost certainly is technology within the code world by which a resource provider “can” have knowledge of infringing activity, and it would follow that the provider, merely by providing the new machine or place, is “materially contributing” to the offending activity. Secondary liability would seem to follow, as an analytical matter,

170. See *supra* Section I.A.2.a. (describing the fault-based rules of secondary liability).

but the result seems ill advised. As to relationship-based rules (at least in the expanded-for-copyright style version),¹⁷¹ there almost certainly is technology within the code world by which a resource provider “can” exercise control or supervision, and there almost certainly are metering devices which “can” allocate some direct financial benefit to the provider that is attributable to the offending conduct. Secondary liability would seem to follow, as an analytical matter, but the result seems ill advised. Though secondary liability might seem to follow in such cases, these would seem to be mindless applications of existing rules precisely to the extent that such applications might be unmindful of the consequences.¹⁷² It is because of the consequences that interim safe harbors can and should be part of the juridical toolbox in constructing the architecture of secondary liability for NTUs.

A common denominator in fashioning safe harbors for new machines and new technological uses in the code world is to consider always the “nature and place” of the alleged offense in both steps of the secondary liability inquiry: both in determining whether there is someone who *is* directly liable,¹⁷³ and in deciding whether it is “just” to hold some other person accountable. The models proposed herein are illustrative of how to think about doing so in a practical manner. No doubt, there is room for refinement and for the development of yet other models, but the

171. See *supra* Section I.A.2.b. (describing the relationship-based rules of secondary liability).

172. The consequences might be spelled out in greater detail but would include: (1) the invasiveness of private enforcement of intellectual property rights by third party gatekeepers and intermediaries who would necessarily be collecting vast quantities of data about a huge number of customers and users, (2) the pervasiveness of something akin to private “take down” notices that (if secondary liability should ever attach to credit card intermediaries, or debit card, or bank check clearing systems) could deprive any number of persons of rather important things without much in the way of notice and an opportunity to be heard (substituting private parties for “the state” or for the “police” is not likely to make warrantless searches and process-less deprivations any less bothersome), and (3) the forced labor by which some resource providers and intermediaries would be put in the service of intellectual property proprietors (this would seem an oddly reversed sort of “internalization of externalities” of intellectual property). There are other consequences that could be spelled out, and these are without including the obvious direct consequence, which is the real likelihood of distortion and degradation of the code world, contrary to the public interest in the productivity, knowledge and enjoyment that it provides. At the very least, these consequences should be thoughtfully explored and the law should be purposefully developed, and not simply evolved through some sort of “neutral” applications to the code world of secondary liability principles developed in ordinary space.

173. See *supra* note 161 (providing examples of the “nature and place of use” as applied to some problems in cyberspace and the code world).

models given herein can be a good starting point. This method can preserve both the commons and common sense.

D. Long Term Design Solutions: Disintegrating IP

The short-term solution can involve safe harbors and purposeful development of non-neutral rules based upon the nature and place of use in cyberspace and the code world. The long-range solution is to recognize that intellectual property is ripe for disintegration. There is, and has been for a substantial period of time, an intertwining of “liability” rules with the “property” rules that characterize the mixed domain of copyright, trademark, patents and cognate “intellectual property” disciplines. This encroachment is one of the perplexing reasons why there is so much fundamental incoherence (or at least the appearance of some small sort of discomfort as widely reported and as anecdotally observed in the disciplines).¹⁷⁴

If the law could disintegrate the two interests (property-style rights to exclude, and liability-style incentives for intangible products of the mind), we could then concentrate the fire-power, injunctions and incentives of property-style rules on protecting real patents on really non-obvious inventions of truly patentable subject matter that are really claimed clearly and distinctly and really infringed literally; for protecting real works of authorship having real originality and a modicum of creativity, really infringed in the copyrightable elements thereof by a reproduction of an identical duplicate copy (or substantially so), or by distribution of identical copies, or by an adaptation, or other clear and “literal” act of infringement; and for trademarks or whatever anyone wants to call the “non-property proprietary interest in preventing a likelihood of confusion” in a designation, preserving from a likelihood of confusion those marks that really are distinctive, really are strong, and really are infringed.

For all the other non-property cognates, pretenders, nonsense or ghost patents, phantom copyrights and invisible or attenuated

174. See Thomas C. Folsom, *Truth in Intellectual Property Revisited: Embracing eBay at the Edge*, 2 AKRON INTELL. PROP. J. 69 (2008) (distinguishing, for example, plagiarism-type offenses that ought to be treated to liability-style rules—requiring some measure of notice and attribution without the right to exclude—masquerading as property-style rules which demand some sort of injunctive relief, and sometimes substantial damages). The same applies in patent and in trademark.

trademarks,¹⁷⁵ a set of flexible liability-style rules could provide modest, efficient and sensible remedies that incentivize various categories of useful (or high-sweat) activity without emptying the public domain. As the disintegration project proceeds, the problems of secondary liability for new technological uses are likely to resolve themselves. To the extent the battleground over the question whether anyone is liable for direct infringement in the code world becomes calmer, and the remedies for non-property offenses less onerous, and as the question whether it is “just” to hold another accountable for such activity becomes less loaded with the possibility of spectacular error, secondary liability problems should fade in significance. The tools to disintegrate are already in existence, at least for intellectual property as it relates to new technological uses. All that needs to be done is to commence on a course of rewriting the code, on purpose, to achieve the desired results. It is, after all, only a matter of choice.

CONCLUSION

Secondary liability has developed by categories: (1) fault-based, (2) relationship-based, (3) consent-based, (4) policy-style, and, perhaps, (5) hostage-style. Because the code world of cyberspace, new machines and new technological uses permits a very high degree of regulation and control, it creates a set of relationships, consents, policy choices, and hostage-taking opportunities much greater in degree than does “ordinary space.” As a result, the ordinary rules of secondary liability cannot sensibly apply to the new technological uses absent a deliberate choice of the architecture of control that “we” want. It may be the case that there is no such thing as a law *of* cyberspace or *of* any new technological use. Nevertheless, there certainly may be, and should be a law developed purposefully *for* new technological uses in cyberspace and the code world. While technologies (and “places”) have no intrinsic nature, the purpose for which they are specified, designed and used permits us to derive a characteristic good, or purpose, and to articulate a public interest in the code world. Law, to the extent it is free to grow (and especially if it is wide open to contrary and equally plausible interpretations),

175. *Id.* at 78–79.

should be purposely cultivated so that it grows in a way designed to foster the goods of the code world, cyberspace and NTUs.

Cyberspace and NTUs comprise a sort of early warning device that is sensitive to otherwise latent problems elsewhere in the substantive law, they constitute a modular and coded domain that can be broken down and redesigned simply by rewriting the code, and they are important both economically and practically. For all these reasons, the law ought to be purposely designed simultaneously to resolve both parts of the most generally stated secondary liability equation: (1) is there someone who is directly liable (and for what, exactly), and (2) if so, is there someone else whom it is “just” to hold accountable? It certainly seems there can be neither sense nor justice in holding value-added cyberspace resource providers, intermediaries, or distributors of qualified new machines to some sort of phantom or hostage-style secondary liability, just because it accidentally happens that they find themselves in the juridical cross-hairs developed in ordinary space and without much careful thought to new technological uses.¹⁷⁶

Instead, a new rule of thumb, the “nature and place of use” coupled with flexible and limited remedies may resolve the problem and create a principled, practical and predictable set of rules. The desired principles themselves are non-neutral—they are designed to discourage pirates, predators and spoilers, and to encourage hitchhikers, guides, and the public interest in the code world and cyberspace. Such non-neutral principles of private law (and perhaps only such principles) actually will permit the fair and neutral *application* of the law in a way that can confidently be predicted to do some definable good.

176. It is no solution simply to declare “prizes, prizes!” and to task a resource provider, intermediary, or distributor with emptying its pockets to provide the prizes. See *infra* Appendix A.

Appendix A: (Prizes! Prizes!)



Sir John Tenniel, "Alice and the Dodo" 1865 (public domain) †

... The Dodo suddenly called out "The race is over!" and they all crowded round it, panting and asking "But who has won?"

This question the Dodo could not answer without a great deal of thought, and it stood for a long time with one finger pressed upon its forehead (the position in which you usually see Shakespeare, in the pictures of him), while the rest waited in silence. At last, the Dodo said, "Everybody has won, and all must have prizes."

"But who is to give the prizes?" quite a chorus of voices asked.

“Why, she, of course,” said the Dodo, pointing to Alice with one finger; and the whole party at once crowded round her; calling out, in a confused way, “Prizes! Prizes!” Alice had no idea what to do, and in despair, she put her hand in her pocket, and pulled out a box of comfits... and handed them around as prizes. There was exactly one a-piece, all round.

“But she must have a prize herself, you know,” said the Mouse.

“Of course,” the Dodo replied very gravely. “What else have you got in your pocket?” it went on, turning to Alice. “Only a thimble,” said Alice sadly. “Hand it over here,” said the Dodo. Then they all crowded round her once more, while the Dodo solemnly presented the thimble . . . and, when it had finished... they all cheered.¹⁷⁷

For the substitution of Google, Inc. and the libraries that lend books to it, or eBay, Visa or MasterCard (or anyone else vulnerable to hostage-style liability) for Alice, and the undesirable consequences of doing so see *supra* sections II and III, and note 172 *supra*. For an alternative solution to the problem of hostage-style secondary liability in cyberspace that preserves the commons (and common sense), see *supra* section IV.

† Picture Credit: The Victorian Web (<http://www.victorianweb.org/art/illustration/tennie/alice>) (last visited 10/27/08)

177. MARTIN GARDNER, THE ANNOTATED ALICE THE DEFINITIVE EDITION ALICE'S ADVENTURES IN WONDERLAND & THROUGH THE LOOKING GLASS BY LEWIS CARROLL 31–33 (2000).