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Dratler, Jay Jr. (2009) "Palsgraf, Principles of Tort Law, and the Persistent Need for Common-Law Judgment in IP Infringement Cases," *Akron Intellectual Property Journal*: Vol. 3 : Iss. 1 , Article 2.

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PALSGRAF, PRINCIPLES OF TORT LAW, AND THE PERSISTENT NEED FOR COMMON-LAW JUDGMENT IN IP INFRINGEMENT CASES

Jay Dratler, Jr.

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UNIVERSITY OF AKRON SCHOOL OF LAW
SECOND ANNUAL IP FORUM, NOVEMBER 14, 2008

“The fundamental things apply, as time goes by.” Herman Hupfeld, “As Time Goes By”, *Casablanca* (1942)¹

I. INTRODUCTION: BASIC PRINCIPLES OF TORT LAW

As lawyers, judges and law professors reach retirement age, there is little that we remember of our first-year course in torts. The cases we studied, our professors’ personalities—even the psychological trauma of the first pointed Socratic question directed at *us*—all are lost in the mists of time.

Yet some things remain. Among them are the name and facts of *Palsgraf v. Long Island Railroad Co.*,² one of the most memorable cases in all of American common law. A great judge, Benjamin Cardozo, penned the majority opinion.

The facts of *Palsgraf* stick in our minds because Judge Cardozo helpfully outlined them in his very first paragraph. Two men rushed to catch a moving train. One made it easily. The other, carrying a

1. CASABLANCA (Warner Bros. 1942).

2. *Palsgraf v. Long Island R.R.*, 248 N.Y. 339, 162 N.E. 99 (1928).

nondescript package covered in newspaper, teetered near the open door. A guard held the door open and reached out to steady him, causing the package to fall on the rails. The package turned out to contain fireworks, which exploded.³ The resulting shock wave “threw down some scales at the other end of the platform, many feet away.”⁴ The falling scales injured the plaintiff, who sued the railroad for negligence.⁵ These odd facts—a law professor’s bizarre hypothetical come to life—survive the passage of time and stick in memory.

Yet time and custom have distorted Judge Cardozo’s opinion. We remember the case as one about proximate cause. Indeed, casebooks (at least in my student days) used *Palsgraf* to introduce us to that element of torts. Judge Cardozo, however, apparently thought the case was about duty and culpability, to which he devoted nearly all of his opinion.⁶

Cardozo wrote that there could be no duty to plaintiff unless the risk of injury to her was reasonably foreseeable.⁷ In other words, the railroad owed the plaintiff no duty unless its employee could reasonably foresee the danger to her and so was *culpable* in failing to avoid it.

Only in *dictum*, in his penultimate paragraph, did Judge Cardozo address (and dismiss) the issue of proximate cause, writing “[w]e do not go into the question now.”⁸ That issue, he opined, was really a matter of *damages*: the remedy, not liability.⁹ Yet, over the years his opinion has become a symbol of the very thing he did not decide. Today we no longer consider proximate cause an element of remedy alone; it has

3. *Palsgraf*, 162 N.E. at 99.

4. *Id.*

5. *Id.*

6. *See id.* at 99-101.

7. If no hazard was apparent to the eye of ordinary vigilance, an act innocent and harmless, at least to outward seeming, with reference to [the plaintiff], did not take to itself the quality of a tort because it happened to be a wrong, though apparently not one involving the risk of bodily insecurity, with reference to some one else.
Id. at 99.

[T]he orbit of the danger as disclosed to the eye of reasonable vigilance would be the orbit of the duty. One who jostles one’s neighbor in a crowd does not invade the rights of others standing at the outer fringe when the unintended contact casts a bomb upon the ground. The wrongdoer as to them is the man who carries the bomb, not the one who explodes it without suspicion of the danger. Life will have to be made over, and human nature transformed, before prevision so extravagant can be accepted as the norm of conduct, the customary standard to which behavior must conform.

Id. at 100.

8. *Id.* at 101.

9. *See id.* Perhaps Judge Cardozo took this tack to blunt the argument of his colleague on the bench, who insisted that tort law already recognized damages as remote as a child’s loss of a parent’s income or a spouse’s loss of consortium. *See id.* at 102-03 (Andrews, J., dissenting).

become an element of the tort. Right and remedy are now inextricably intertwined, as befits a legal system that tries to provide no right without a remedy.

Although bizarre, the simple facts of *Palsgraf* are worlds away from the technological complexity of the Internet, on-line file sharing, and Web-spread pornography. But the fundamental things apply. In a world where corporations are still legal abstractions and liability necessarily falls ultimately on *people*,¹⁰ we are reluctant to impose tort liability without evidence of proximate cause and culpability.

Infringement of intellectual property (IP) is just a kind of tort. The “duty” to respect IP falls on the entire world, independent of contract and privity—a breadth of application characteristic of torts. Yet, duties must have their limits. They cannot extend so far outward that tendrils of unforeseen and unforeseeable liability infiltrate every part of our complex, interdependent economy.

Judge Cardozo wrestled with how far along a railroad platform liability for dropping a package containing dangerous but hidden items should extend. Just so, courts today must decide how far out on the web of Internet commerce infringement liability must extend. Their decisions inevitably involve proximate cause.

Insofar as culpability is concerned, IP infringement cases differ from other tort cases in one important respect. *Primary or direct* liability for infringement has always been a strict-liability offense, independent of culpability and the infringer’s intent or state of mind.¹¹

10. When a corporation pays a judgment, its loss has an immediate effect on shareholders and managers. If the loss is large enough—or if a damage or injunctive remedy forces changes in products, services, or procedures—it may eventually affect employees, suppliers and customers. If the loss is large enough to render the corporation uncompetitive and cause plant closings, it may ultimately affect even “innocent” citizens of the surrounding community. A judgment that impairs the Internet’s operation may affect not only the value of the greatest tool for human communication yet invented. It may also affect the free market in goods and services, much of which is electronic today, and even the functioning of democracy itself.

11. See *infra* note 18 (copyright); JAY DRATLER, JR. & STEPHEN MCJOHN, INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE, AND INDUSTRIAL PROPERTY, § 2A.03 (ESP. INTRODUCTION) [hereinafter, *Dratler & McJohn IP*] (patents: describing how infringement depends only on “reading” the claims and assessing technological equivalents, not the alleged infringer’s intent). The statement is less fully accurate for unlimited-term intellectual property—trademarks and trade secrets—than for the limited-term property mentioned in our Constitution, namely, patents and copyrights. Culpability does enter the trademark-infringement calculus in assessing the alleged infringer’s good or bad faith, but only as one of eight of more factors in a multifactor analysis. See *Dratler & McJohn IP, supra* at § 10.01[2], [3][g]. In trade-secret law, culpability affects judicial assessment of “improper means” in acquiring, using or disclosing the trade secret, i.e., misappropriation. See *Dratler & McJohn IP, supra* at § 4.03[2] (introduction), [5][c]. It also affects ultimate outcomes through the “smell test”—a non-black-letter judicial sensitivity to

Yet, secondary liability—contributory infringement, inducement liability and vicarious liability—is not so limited. As court after court has addressed novel issues of secondary liability, it has fallen back on the tried and true notion of culpability.¹² The Supreme Court itself did so in creating a cause of action for intentional inducement of copyright infringement out of whole common-law cloth.¹³

Even the struggle to reconcile culpability with the strictness of direct liability is not new. Judge Cardozo wrestled with the very same question in *Palsgraf*. For him, the difficulty was reconciling the notion of culpability with the fact that negligence was and is a non-intentional tort.¹⁴ His decision earned a place in law school casebooks by creating a modified version of culpability for cases of negligence: failure to recognize and avoid *foreseeable* harm.¹⁵ By introducing the notion of foreseeability, Judge Cardozo recognized the non-deliberate nature of negligence but avoided the unfortunate consequence of unlimited liability for remote and unpredictable harm. His decision has come to stand for a simple but very general principle: prudential judicial reluctance to let liability extend too far.

This short paper attempts to show how courts can build—and are building—a rational jurisprudence of secondary liability for IP infringement upon the foundation of these two great common-law principles of tort law: proximate cause and culpability. Besides this introduction (Part I), the paper has four sections. Part II discusses the notion of proximate cause and its application to cases assessing liability for IP infringement. It also explores a modern, economic test for proximate cause: the concept of least-cost avoider. Part III discusses

culpability that judges seldom acknowledge explicitly but that nevertheless permeates trade-secret law. See *Dratler & McJohn IP, supra* at § 4.03[5][c]. Yet in no case does liability for *direct and primary* intellectual property infringement depend upon culpability to that extent that it does for intentional torts or negligence.

12. See generally JAY DRATLER, JR., *CYBERLAW: INTELLECTUAL PROPERTY IN THE DIGITAL MILLENNIUM* § 5A.03[1], [2] [hereinafter *Dratler Cyberlaw*]. See also *infra* Part III.

13. See Jay Dratler, Jr., *Common-Sense (Federal) Common Law Adrift in a Statutory Sea, or Why Grokster was a Unanimous Decision*, 22 SANTA CLARA COMPUTER & HIGH TECH. L. J. 413, 418-29 (2006) [hereinafter *Dratler, Statutory Sea*].

14. See *Palsgraf*, 162 N.E. at 100-01.

15. See *Palsgraf*, 162 N.E. at 101.

If the harm was not willful, [the plaintiff] must show that the act as to him had possibilities of danger so many and apparent as to entitle him to be protected against the doing of it though the harm was unintended. Affront to personality is still the keynote of the wrong.

Id. In light of his contribution to legal theory, we perhaps can excuse Judge Cardozo's use of the masculine general—the customary grammatical form at the time—in discussing a case in which the plaintiff was a woman.

the principle of culpability in cases of *secondary* liability and how to reconcile it with the traditional strictness of *primary* liability. Part IV concludes with some observations about how decisions based on the probable consequences of alternative legal rules (Dare I say, “policy”?), still lurking in this obscure, nerdy field of IP, might some day re-emerge to give the common law new life.

II. PROXIMATE CAUSE AND LEAST-COST AVOIDERS

One of the most important cases on proximate cause in cyberlaw was not about secondary liability at all. In *Religious Technology Center v. Netcom On-Line Communication Services, Inc. (Netcom)*,¹⁶ the first issue was direct and primary liability for copyright infringement. The plaintiff had sued two Internet service providers for copying and broadcasting over the Internet (publicly displaying) infringing material that a Usenet user had posted on a bulletin-board service.¹⁷

From a doctrinal perspective, the case was simple, clear and sound. Electronic equipment that the defendants had set up, owned and operated had made and transmitted innumerable, exact copies of the infringing material over the Internet. Black-letter copyright doctrine then treated (and still treats) direct copyright infringement as a strict-liability offense, independent of intent.¹⁸ So the fact that defendants did not even know of the infringement until notified or served with process did not matter. Based on black-letter copyright law, the copyright infringement claim presented an open and shut case.

Yet the district court was uncomfortable. It wriggled and squirmed, finding a “volitional” element in direct copyright infringement,¹⁹ despite strict liability, but failing to explain convincingly how “volition” differs from “intent” or “state of mind.” It analogized the defendants to persons setting up general-purpose copying machines, which others may have

16. *Religious Tech. Ctr. v. Netcom On-line Commc’n. Servs., Inc.*, 907 F. Supp. 1361 (N.D. Cal. 1995).

17. *See id.* at 1365-66.

18. *See generally* Dratler *Cyberlaw*, *supra* note 12 at § 5A.02 (introduction). The two leading cases are *Buck v. Jewell-La Salle Realty Co.*, 283 U.S. 191, 198-99 (1931) (hotel proprietor that “tuned in on” commercial broadcast for commercial purposes “necessarily assume[d] the risk that in so doing he may infringe the performing rights of another”), and *De Acosta v. Brown*, 146 F.2d 408, 410, 411-12, 63 U.S.P.Q. (BNA) 311 (2d Cir. 1944), *cert. denied*, 325 U.S. 862 (1945) (upholding infringement liability of allegedly “innocent” publisher who relied on infringing author’s impressive research and contractual warranties of original work).

19. *Netcom*, 907 F.Supp. at 1370 (“Although copyright is a strict liability statute, there should still be some element of volition or causation which is lacking where a defendant’s system is merely used to create a copy by a third party”).

used to copy unknown and possibly infringing items;²⁰ but it failed to consider that a special statutory amendment protected only libraries from such liability, and then only under special conditions.²¹

Having exhausted legal sophistry and semantics, the court got down to the real reason why it rejected the plaintiff's theory of direct liability. That theory, it wrote,

would create many separate acts of infringement and, carried to its natural extreme, would lead to unreasonable liability. . . . It would also result in liability for every single Usenet server in the worldwide link of computers transmitting [the infringing] message to every other computer. These parties, who are liable under plaintiffs' theory, do no more than operate or implement a system that is essential if Usenet messages are to be widely distributed.²²

In other words, the theory that every operator of every node on the Internet independently "caused" the infringement by allowing infringing copies to pass through its system would have extended liability too far and impaired the economic viability of the Internet. Somewhere, Judge Cardozo was smiling.

The *Netcom* Court also addressed *secondary* liability for copyright infringement. In its view, the lens of secondary liability was a better one with which to examine the case.²³

Yet the law of secondary liability complicated the picture, for it involved two separate tests, each with two parts. A defendant was liable for contributory infringement if he (1) knew or should have known of the infringement and (2) made a material contribution to it.²⁴ He was liable for vicarious infringement if he (1) had the right and ability to control the infringement; and (2) derived a direct financial benefit from it.²⁵ The *Netcom* Court found that the ISPs, which had charged users only general monthly fees, independent of what the users viewed or downloaded, derived no direct financial benefit from the infringement. Therefore it granted the defendants summary judgment on the vicarious liability claim.²⁶ But for purposes of contributory infringement it found

20. *See id.* at 1369.

21. *See* 17 U.S.C. § 108(f).

22. *Netcom*, 907 F.Supp. at 1369-70.

23. *See id.* at 1369 ("Although some of the people using the machine may directly infringe copyrights, courts analyze the machine owner's liability under the rubric of contributory infringement, not direct infringement").

24. *See Dratler Cyberlaw*, *supra* note 12, at §5A.03[2][b][i].

25. *See id.* at § 5A.03[2][c].

26. *See Netcom*, 907 F.Supp. at 1376-77.

that the plaintiff's notice had given the defendant knowledge of the infringement, and there were triable issues of material contribution, i.e., whether the defendant could have stopped the infringement by policing material going through its network and eliminating infringing items.²⁷ The threat of liability posed by trial on that issue caused the Internet industry to seek protection from Congress, which later adopted Section 512 of the Copyright Act.²⁸

Both the issue that the *Netcom* Court set for trial (material contribution for contributory infringement) and the undecided element of vicarious liability (right and ability to control the infringement) could just as well have been framed in terms of proximate cause. In both instances, the underlying factual issue was whether the primary defendant had the practical ability to police the millions of messages passing through its systems every day and remove infringing ones, without incurring excessive cost or shutting down access by innocent parties.²⁹ If it had that ability and had failed to stop the infringement, its failure could have been viewed as the proximate cause of the third party's infringement and therefore an independent tort. In each case, the court refused to decide the factual point by summary judgment.

The *Tiffany* case³⁰ was similar, although it involved trademark law. There the famous jewelry company sued eBay, the on-line electronic auctioneer, for (*inter alia*) allowing too many third parties to sell counterfeit Tiffany jewelry through its service.³¹ As the court described it, eBay had mounted a huge (and hugely expensive) effort to preclude sales of infringing and illegal items through its service generally.³² Tiffany had been one of the leading users and beneficiaries of that effort. Applying the Supreme Court's legal standard for contributory infringement of trademarks,³³ the court held that Tiffany "had failed to

27.. *See id.* at 1373-75.

28. 17 U.S.C. § 512 (entitled "Limitations on liability relating to material online").

29. There was evidence that the only practical means of shutting down the infringing transmissions was to deny access to the Internet to a bulletin-board system with 500 paying users, 499 of whom were presumed innocent. *See Netcom*, 907 F.Supp. at 1366, 1376-77, 1371 & n.17.

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

31. *See id.* at 469.

32. *See id.* at 476-479.

33. *See id.* at 502 (applying the non-inducement prong of the *Inwood* test for contributory infringement: "continu[ing] to supply [a] product to one whom [the defendant] knows or has reason to know is engaging in trademark infringement" (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 854 (1982))). The *Tiffany* Court rejected a laxer ("reasonably anticipate") standard of the Restatement, reasoning that the Supreme Court had rejected it in *Inwood*. *See Tiffany Inc.*, 576 F. Supp. 2d at 502-03 (rejecting the standard of Restatement (Third) of Unfair Competition § 27 (1995)).

prove that eBay continued to supply its service to sellers whom eBay knew to be selling actual counterfeits.”³⁴

But here again the court could have reached the same result more easily by applying the universal tort doctrine of proximate cause. As the court described in elaborate detail,³⁵ both parties had made considerable effort to curtail traffic in counterfeit Tiffany products by third-party sellers on eBay. But Tiffany had had little more than the equivalent of one full-time employee³⁶ doing policing and had generated 284,139 notices of infringement.³⁷ For its part, eBay had responded to virtually every notice by removing the auction listing for the infringing item, refunding sellers’ fees, and, in many cases, reimbursing buyers of counterfeit products.³⁸ For over a year, the parties had cooperated amicably to curtail infringement of Tiffany’s trademarks through eBay’s auction services.³⁹

As the court itself noted,⁴⁰ the crux of the dispute was eBay’s refusal to comply with Tiffany’s demand that eBay automatically remove any seller’s listing of five or more Tiffany items, or *any* amount of silver Tiffany items, even before receiving evidence that the items were counterfeit. The court found insufficient evidence that eBay’s failure to follow these proposed rules permitted any more infringement than the considerable effort that eBay already took.⁴¹ It also found evidence that Tiffany’s proposed rules would be overinclusive, i.e., would prevent some eBay sellers from selling legitimate merchandise.⁴² Based on these factual findings, the court could have held that eBay’s failure to follow these rules was no proximate cause of the third parties’ infringement.

The Ninth Circuit’s decision in *Perfect 10 v. VISA*⁴³ was another missed opportunity to clarify the law of proximate clause in the digital age. There an on-line purveyor of copyrighted images of feminine

34. *Tiffany Inc.*, 576 F. Supp. 2d at 491.

35. *Id.* at 486-93.

36. *See infra* note 70 and accompanying text.

37. *See Tiffany Inc.*, 576 F. Supp. 2d at 489-90.

38. *See id.* at 478-79.

39. *See id.* at 481-83.

40. *See id.* at 482-83.

41. *See id.* at 481-83, 488-90.

42. *See id.* at 487-88.

43. *Perfect 10, Inc. v. Visa Int’l Serv. Ass’n*, 494 F.3d 788, 793 (9th Cir. 2007).

pulchritude⁴⁴ sued a credit card association for facilitating, through its credit-card transactions, on-line sales by foreign pirates of infringing copies of its images.⁴⁵ Over a dissent by Judge Kozinski, the two-judge majority found no secondary liability, reasoning (in essence) that liability for bankers whose payment systems played no part in selecting or distributing the infringing images would extend too far.⁴⁶

The majority focused on the technological mechanics of the infringing enterprises. Nowhere did the infringing images flow through, or even touch, the defendants' computer systems, which were used only to verify cardholder status and facilitate payment.⁴⁷ Unlike Google, which the same court had found potentially liable in a separate case brought by the same plaintiff,⁴⁸ the defendants did not even help users select the infringing images.⁴⁹ So by analogy and distinction (which are the proper approach in this federal-common-law field), the majority saw insufficient causal nexus to justify liability.

But in this respect the majority failed to consider the bigger picture. As Judge Kozinski repeatedly emphasized in dissent,⁵⁰ the decision was a judgment on the pleadings, so the plaintiff's allegations had to be taken as fact. The plaintiff had alleged that the infringers could not continue their piracy without the aid of online payment by credit card.⁵¹ It had claimed that stopping credit-card payment for infringing images would shut traffic in them down.⁵² Furthermore, many of the infringers were

44. There was apparently no assertion that the plaintiff's images constituted "soft," let alone "hard," pornography. It described its digital wares, without apparent objection, as "tasteful copyrighted images of the world's most beautiful natural models." *Id.*

45. *See id.* at 792-93.

46. *See id.* at 796-800 (contributory infringement: no material contribution); *id.* at 802-06 (vicarious liability: no right or ability to control the infringing activities).

47. *See id.* at 796-97 (material contribution); *id.* at 803-04 (right and ability to control infringement).

48. *See Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 729 (9th Cir. 2007) ("Google could be held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps").

49. *See Visa*, 494 F.3d at 797 (distinguishing *Perfect 10 v. Amazon* for purposes of material contribution); *id.* at 805 (same for right and ability to control infringement).

50. *See id.* at 810-11, 812 n.7, 816 n.12, 810-21 (Kozinski, J., dissenting). *See also id.* at 813 ("At the pleadings stage, we must accept plaintiff's allegations that credit cards are indispensable to the operation of the Stolen Content Websites, and that these websites would be forced out of business without them").

51. *See id.* at 815 (discussing contributory infringement); *id.* at 819-20 (discussing vicarious liability). *See also id.* at 813 n.8 ("The majority's prognostication as to what 'might' happen in the future leaves open the likelihood that it will not happen, and positively admits that there are no viable alternative payment mechanisms today").

52. *See id.* at 819-20.

foreign and beyond the jurisdiction of U.S. courts, and it seemed that stopping on-line payment was the only practical way to shut the foreign infringers down.⁵³ Finally, the plaintiff alleged that the defendant, which had a general rule against serving “illegal” enterprises,⁵⁴ and which in fact had used that rule against illegal offshore online gambling, profited mightily by declining to assert the same rule against the massive and deliberate copyright infringement for profit at issue here.⁵⁵ The allegations suggested that the defendants’ failure to invoke that rule was not just a “but for” cause—but a key contributing cause—of the continuing infringement.⁵⁶

As Judge Kozinski pointed out,⁵⁷ one or more of these allegations might have failed at trial, but the very purpose of a trial was to test them. In affirming dismissal of the claims on the pleadings, the majority took a narrow approach reminiscent of its similar technology-based analysis in *Grokster*.⁵⁸ There the Ninth Circuit had focused primarily on the lack of a centralized index for infringing material that defendants could control; it had given short shrift to defendants’ methodical, deliberate and successful plan to take over Napster’s 50-million-plus deliberately infringing users after copyright litigation had put Napster out of business.⁵⁹ The Supreme Court repudiated that failure to see the big picture, inventing a new, “inducement” theory of secondary liability in the process.⁶⁰

53. See *id.* at 817-20 (“After all, how many consumers would be willing to send a check or money order to a far-off jurisdiction in the hope that days or weeks later they will be allowed to download some saucy pictures?”).

54. See *id.* at 717-18 & n.13. See also *id.* at 824 (“Credit cards already have the tools to police the activities of their merchants, which is why we don’t see credit card sales of illegal drugs or child pornography”).

55. See *id.* at 820.

Read fully and fairly, the complaint alleges that defendants are not merely passive providers of services available on equal terms to legal and illegal businesses alike; they are actually in cahoots with the pirates to prop up their illegal businesses and share their ill-gotten gains. If this is not vicarious infringement, nothing is.

Id.

56. See *id.* at 816 (“Defendants know about the infringements; they profit from them; they are intimately and causally involved in a vast number of infringing transactions that could not be consummated if they refused to process the payments; they have ready means to stop the infringements”).

57. See *id.* at 818 n.15, 824.

58. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154, 1158-60 (9th Cir. 2004), *vacated and remanded*, 545 U.S. 913 (2005).

59. See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 924, 939-40 (2005); see also *Dratler, Statutory Sea, supra* note 13, at 430 (discussing *Grokster*).

60. See *Grokster*, 545 U.S. at 936-37, 941.

Perfect 10 v. VISA suggests how fundamental things like proximate cause might simplify and rationalize the federal common law of secondary liability for IP infringement. In coming to their divergent conclusions, the majority and dissent had to wrestle with two distinct elements of two separate theories of liability (contributory infringement and vicarious liability)—four elements in all. The result was prolix opinions with highly repetitive analysis of the same alleged facts under different legal theories.⁶¹

Yet, two of those headings were little more than proximate cause dressed up in fancy jargon. After all, what is “causing, inducing or materially contributing” to infringement (the second element of contributory infringement) but causing it? And when a defendant had “the right and ability to control infringing activity” but failed to do so, what has it done but cause the infringement?⁶² Aren’t these elements really little more than proximate cause in disguise?

Psychology teaches us that tedious repetition produces boredom, failing attention and incomprehension, rather than clarity. Wouldn’t it be clearer and better to treat the central issue—proximate cause—explicitly and under its own heading, rather than discuss it several times using slightly different jargon each time?

If the common law of secondary liability returned to the “fundamental things” of tort law like proximate cause, three good things might follow. First, the courts might cut the burden of analysis (and the length of their opinions) by a least a factor or two. Second, they might clarify the law by focusing more intensely on the central matter of inescapable judgment: whether a causal nexus is strong enough on the facts of the case to justify liability.

No formula or form of words can ever capture or constrain that judgment call. As Judge Hand once said of the line between idea and expression in copyright law, “Nobody has ever been able to fix that boundary, and nobody ever can.”⁶³ That’s why human judges, not computers, decide legal cases.

Third and finally, a broader approach to the common-law issue of proximate cause would permit courts to take into account the sort of economic analysis that grew up naturally in the law of negligence. Among them is the powerful principle of the least-cost avoider. Especially in our age of increasingly limited resources, it makes sense to

61. See *supra* notes 46, 47, 51 (discussing *Visa*).

62. See *supra* note 55 (discussing *Visa*).

63. *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930).

place the burden of avoiding harm—whether to persons or protected IP interests—on the person who can bear that burden at the least cost. That goal implies viewing the party who could have avoided the direct infringement at the least cost as the proximate cause of it. The doctrine is peculiarly appropriate for intellectual property cases, which involve no death, personal injury, or pain and suffering.

Already this principle has a pedigree in IP law. In one of the two cases most often cited for the rule that *direct* copyright infringement is a strict-liability offense, the Second Circuit addressed the defense that the publisher of an infringing biography had relied on the author's assertions of non-infringement.⁶⁴ The court rejected that defense, holding in effect that the publisher, whose business was to deal with authors and potential infringement, was the least-cost avoider.⁶⁵

The courts could have decided both of *Tiffany* and *VISA* on the same basis. In *Tiffany*, defendant eBay maintained two expensive on-line programs to curtail infringement, a notification program and a follow-up program.⁶⁶ It had made an enormous investment in these programs, devoting an annual budget of up to \$20 million to “trust and safety” generally, and maintaining 200 employees to police infringement alone.⁶⁷ It had developed a “fraud engine” to detect improper activity—an on-line software-hardware technology costing \$5 million per year in research and development and employing over 13,000 search rules, including searches for 90 different Tiffany-related keywords.⁶⁸ Tiffany was a principal beneficiary of those programs, which helped eBay remove 70-80% of infringing listings that Tiffany reported within twelve hours and 75% within four hours.⁶⁹ In comparison, Tiffany itself had made only “modest” investment in policing the marketplace, maintaining only 1.15 to 1.6 full-time equivalent employees, who Tiffany admitted could not police the necessary volume of eBay sales on weekdays, let alone on the weekend.⁷⁰ Tiffany had failed to sue any infringer directly, even known “Power Sellers,” because it preferred to sue eBay and make eBay do the heavy lifting instead.⁷¹

64. *De Acosta v. Brown*, 146 F.2d 408 (2d Cir. 1944), *cert. denied*, 325 U.S. 862 (1945).

65. *De Acosta*, 146 F.2d at 410-12 (“[T]he protection accorded literary property would be of little value if it did not go against third persons, or if, it might be added, insulation from payment of damages could be secured by a publisher by merely refraining from making inquiry”).

66. *See Tiffany Inc.*, 576 F. Supp. 2d at 476-79.

67. *See id.* at 476.

68. *See id.* at 476-78, 491.

69. *See id.* at 478-79.

70. *See id.* at 484-85.

71. *See id.* at 488-89 (requests to suspend allegedly infringing sellers).

Although neither the *Tiffany* majority nor the dissent ever quite said so explicitly, the implication was clear: *Tiffany* was the least-cost avoider. It might have substantially reduced infringing activity with comparatively little extra expense. Under those circumstances, to require eBay to do even more, while *Tiffany* was doing relatively little, would have violated basic principles of proximate cause and produced economic waste.

In *VISA*, the principle of least-cost avoider could have been even stronger. The plaintiff's allegations suggested that interrupting online credit-card payments was not just the best way, but the *only* practical way, of stopping infringement. Many of the direct infringers operated abroad, beyond the reach of U.S. law. While corresponding foreign law might have made foreign legal action possible in theory, the mobility and guile of infringing businesses abroad made it impracticable. A pirate needed no more than a laptop, a high capacity disk drive, and access to the Internet to run a highly profitable business of selling infringing images. He did not even need a server system; he could continue his piracy (and move its locus around at will) by uploading his infringing images and payment software to any one of thousands of Internet-connected server systems available on line, worldwide. Under these circumstances, there appeared to be no practical way of stopping the piracy other than stopping on-line payment.

Without that remedy, plaintiff's right to quiet enjoyment of its copyright became illusory, in violation of the sacred principle of Anglo-American law: no right without a remedy. As for the least-cost avoider, the credit card systems in *VISA* may have been not just the least expensive avoiders, but the *only* practical ones.

Before we close this discussion of proximate cause, an additional observation is in order. Two of the cases mentioned in the invitation to this Forum—*Glenayre*⁷² and *Quanta Computer*⁷³—involved the venerable doctrine of patent exhaustion, i.e., the so-called “first sale” doctrine in patent law.⁷⁴ The doctrine, which is over 150 years old, is

72. *Glenayre Elecs., Inc. v. Jackson*, 443 F.3d 851 (Fed. Cir.), *cert. denied*, 549 U.S. 1030 (2006).

73. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008).

74. *See Glenayre Elecs., Inc.*, 443 F.3d at 863-64 (applying doctrine indirectly to corroborate holding that patentee that had sued and recovered damages for manufacturer's unauthorized making and sale of patented products could not also recover separately for their use by manufacturer's customer); *Quanta Computer, Inc.*, 128 S. Ct. at 2117-18, 2121-22 (holding that the “authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article[.]” even if the patent covers only a method).

entirely judge-made, i.e., entirely federal common law.⁷⁵ It rests primarily on the common law's ancient antipathy to restraints on the alienation of chattels, for it prevents users of and traders in patent-protected goods from having to look up the chattels' patent pedigree before every sale or use.⁷⁶

But the first-sale doctrine can also be viewed as a corollary of the doctrine of proximate cause. Downstream users of patent-protected products—especially those several sales removed from the patentee—are simply too remote from direct harm to the patentee's interests to enmesh them in litigation, especially when the patentee could avoid the harm at much lower cost just by extracting a suitable royalty from the manufacturer and first seller. It would make no sense, for example, for the holder of a patent on a special kind of screw to allow it to be made and sold freely, but to seek royalties or damages from every product made using the patented screw, even by people who might be unaware that subassemblies they buy on the open market contain it.

III. CULPABILITY

The second fundamental thing that has stood the test of time in tort law is culpability. The Supreme Court reminded us of this point in *Grokster*.⁷⁷ There it developed, out of whole common-law cloth,⁷⁸ a new "inducement" theory of secondary liability for copyright infringement.⁷⁹ The Ninth Circuit had excused the technological successors to Napster's well-known peer-to-peer file-sharing service from secondary liability.⁸⁰ In so doing, that court had focused on the defendants' lack of a centralized index to infringing material and their consequent absence of

See also Glenayre Elecs., Inc., 128 S.Ct. at 2115 ("The longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item"). *See generally*, 2 JAY DRATLER, JR., LICENSING OF INTELLECTUAL PROPERTY, § 7.05 [hereinafter, *Dratler Licensing*].

75. *See supra* note 74.

76. *See Dratler Licensing, supra* note 74, at § 7.05, page 5-6.

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

78. For a complete discussion why both *Sony* and *Grokster* were federal-common-law decisions, and not examples of applying or interpreting statutes, *see Dratler, Statutory Sea, supra* note 13, at 418-35, n.37.

79. *See Grokster*, 545 U.S. at 936 ("For the same reasons that *Sony* took the staple-article doctrine of patent law as a model for its copyright safe-harbor rule, the inducement rule, too, is a sensible one for copyright. We adopt it here . . .").

80. *See Grokster*, 380 F.3d at 1154, 1157-60, *vacated and remanded*, 545 U.S. 913 (2005). *See also supra* text accompanying notes 57-60.

knowledge of or control over infringing material.⁸¹ But the Supreme Court saw the bigger picture: evidence of the defendants' deliberate and premeditated encouragement and exploitation of deliberate infringement by 50 million Napster users after Napster's demise.⁸²

The Supreme Court's decision in *Grokster* reminded us of three important things. First, except in the field of patents, where general statutory provisions exist,⁸³ the field of secondary liability for intellectual property infringement is largely a matter of federal common law. Within the interstices of the governing federal statutes, courts are free to find their way on a case-by-case basis, just as the *Grokster* Court itself did in announcing a new theory of inducing infringement of copyright.

Second, the Court reminded us that human culpability—the wellspring of legal liability since time immemorial—still applies in the age of bits, bytes and blogs. Complex technologies may have controlled or *influenced* consequences, but in the end it was we human beings who created them, owned them, operated them and (on occasion) abused them. Only by holding *people* responsible (sometimes through the legal abstractions from which they profit) could we hope to reduce the incidence of abuse.

As yet—and for the foreseeable future—no technology is self-generating and self-operating. Even if it were, we could still hold its designer or initiator responsible. The human hand behind the machine is what we must govern to achieve a just society.

Finally, the Court reminded us that, although patent and copyright infringement may be strict-liability defenses, *secondary* liability for *another's* infringement depends upon a defendant's culpability or state of mind.⁸⁴ As the *Grokster* Court itself held, inducement liability depends on a purposeful or deliberate state of mind.⁸⁵ That is the highest

81. See *Grokster*, 380 F.3d at 1163-64 (no material contribution, hence no contributory infringement); *id.* at 1165-66 (no right and ability to control, hence no vicarious liability).

82. See *Grokster*, 545 U.S. at 937-40.

83. See, e.g., 35 U.S.C. § 271(b) (inducing infringement); 35 U.S.C. § 271(c) (contributory infringement). Cf. 35 U.S.C. § 271(f) (special vicarious liability for supplying essential components of patented invention for use abroad); 35 U.S.C. § 271(g) (special liability for importing products of patented process).

84. For a more complete discussion of this point, see *Dratler Cyberlaw*, *supra* note 12, at § 5A.03[2], [3].

85. See *Grokster*, 545 U.S. at 936-37 (“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”) (emphasis added). See also *id.* at 924 (each defendant “clearly voiced *the objective* that recipients use [its products] to download copyrighted works, and each took active steps to encourage

level of culpability in the Model Penal Code's hierarchy of purposeful, knowing, reckless and negligent states of mind.⁸⁶

Contributory infringement depends upon the next level, knowing of the infringing activity.⁸⁷ Although the black letter law of vicarious liability does not mention any state of mind,⁸⁸ some level of culpability necessarily inheres in its two explicit elements taken together. If you derive a direct financial benefit from someone else's infringement and have the right and ability to control it but don't, aren't you at least reckless or negligent in failing to stop it? Doesn't the motive of financial benefit suggest a venal motive perhaps even higher than mere recklessness?

Applied explicitly, the fundamental thing of culpability could have helped resolve the difficult cases we have discussed. The facts of *Tiffany* make it hard to discern an iota of culpability on defendant eBay's part. Not only had eBay not been reckless or negligent; it had spent millions and devoted a substantial part of its work force and corporate structure to stamping out infringement. Its compliance group and programs worked efficiently and effectively, although perhaps not precisely as Tiffany might have liked. In comparison, Tiffany itself did relatively little. It didn't even bring individual suits against the worst "Power Sellers" of infringing items, preferring to place the burden and cost of policing the marketplace on eBay. These facts refuted, not proved, eBay's culpability.

Assessing human culpability also helps us analyze the difficult issue of first impression in *VISA*. There VISA and its member banks made a business of providing quick, easy and cheap payment services through credit cards, including online services. The infringers used those payment services to create highly successful piratical businesses outside the legal and practical reach of U.S. copyright law. According to the complaint, the only viable way to stop them was to deprive them of those payment services, and doing so would shut them down. VISA and its banks had been notified of the infringement, which involved only a few of their millions of payment-service customers, and they could have stopped it. Yet they refused to take action to stop the illegal activity, as their own rules required, although they had done so successfully with illegal offshore online gambling. Finally, VISA and its members got a

infringement") (emphasis added); *id.* at 940 (after summarizing evidence: "The unlawful objective is unmistakable").

86. See MODEL PENAL CODE § 2.02(2).

87. See *supra* note 24 and the accompanying text (citing *Dratler Cyberlaw*).

88. See *supra* note 25 and the accompanying text (citing *Dratler Cyberlaw*).

cut—a stated percentage—of the price of every illegal sale of a copyrighted image, in the form of credit-card processing fees. In a seminal case on secondary liability, a similar percentage interest was among the Second Circuit’s reasons for imposing it.⁸⁹

Under these circumstances, does not VISA have some culpability for the piracy? Is it not at least reckless or negligent in failing to stop it? The issue here was not the technology or the flow of bits and bytes, as the Ninth Circuit’s majority surmised, but the perennial ebb and flow of humans beings’ responsibility for the natural consequences of their acts.

IV. CONCLUSION

Over the past two decades, American judicial analysis has turned increasingly rigid, formalistic and mechanical. In constitutional law, we look compulsively to our Framers’ “original intent,” as if we could see in the vanishing (and disputed) mists of the eighteenth century a clear blueprint for applying venerable principles to conditions that our Framers never could have imagined. In the field of intellectual property, we try to freeze common-law decisions like *Sony* into an abstract quasi-statutory rule that any technology used to infringe copyrights is acceptable as long as it has substantial non-infringing uses.⁹⁰ In assessing secondary liability, we petrify common-law precedents like *Shapiro, Bernstein & Co.*⁹¹ into two-part tests that take on a life of their own, as if they were statutes passed by Congress, which they most decidedly are not.

We seek a mechanical formula for every case, as if we hope some day to program computers to replace judges. Yet the more formulaic we try to make our jurisprudence, the more our decisions paradoxically become prolix, tedious and inaccessible to nonspecialists in IP, let alone the general public. We are receding from the goals of clarity, consistency and comprehensibility at an increasingly rapid rate.

Solomon did not decline to split the baby based on a four-part test. He did not require twenty pages of reasoning to reach his decision. He

89. See *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304, 308 (2d Cir. 1963) (imposing vicarious liability upon department store for concessionaire’s sales of bootleg records where store reserved right to supervise and dismiss concessionaire’s employees and took 10-12 % of its sales revenue as concession fee).

90. Both practical and jurisprudential problems arise when courts receive abstract statements of the holdings of precedents as if they were statutory prescriptions adopted by Congress after hearings, investigation and due democratic deliberation. See *Dratler, Statutory Sea*, *supra* note 13, at 422-29.

91. *Shapiro*, 316 F.2d at 308 (2d Cir. 1963).

used wisdom, insight into human motivation, an ability to foresee consequences and common sense—things that today fall under the collective heading of “good judgment.” No doubt Solomon, were he to have encountered claims of secondary IP infringement, would have based his decisions on fundamental things like culpability and proximate cause.

I am not for a moment suggesting that we dispense with reasoned decisions or precedent. Nor am I suggesting that the courts ignore the language of statutes when statutes apply. What I am suggesting is that we let the common law be the common law again. That includes making federal-common-law decisions when statutory language provides no answers. It does *not* include pretending that abstract statements of the holdings of federal common-law precedents is statutory language, entitled to the same deference (and subject to the same rigidity of application) as language adopted by the people’s representatives.

So I wish that Congress would adopt a simple one-sentence statute to govern all of secondary liability for infringement of intellectual property (other than patents, which have their own special statutory rules⁹²). That sentence would read as follows: “A person is liable for another’s infringement if that person’s acts are a proximate cause of the infringement and that person is culpable for it.”

If Congress did that, we might see judicial opinions focus on what really matters, rather than abstractions ripped out of context from precedent, whose authors never intended them to apply so broadly.

But of course Congress will do no such thing. If it tried, the lobbyists and ideologues would commandeer the simple, one-sentence bill. Before they let go, it would have become many pages of gobbledygook, just like Section 512 or 1201 of the Copyright Act.⁹³

So we had better not even whisper that Congress should try. Our only hope is for courts, over time, to reacquire the habit of building federal common law case by case, with an eye toward the general principles of tort law that have served the common law well for centuries.

92. See *supra* note 83. Other forms of IP also have some special rules, but they are mostly limited to particular factual situations. See, e.g., Lanham Act § 32(2), 15 U.S.C. § 1114(2) (special limitations on secondary liability for trademark infringement of printers, publishers, domain-name registrars, and makers of technologies for blanking undesired portions of audiovisual works).

93. For a rant on how lobbyists turned simple, basic principles into the statutory monstrosities of Sections 512 and 1201 of the Copyright Act, see generally *Dratler, Cyberlaw, supra* note 12, at §§ 3.02, 6.01[5], 6.07[2].

There may be some hope in that regard. Whatever else it may be doing in constitutional law and fields remote from IP, the Supreme Court has done much in recent years to abjure rigid formalism and restore federal common law in the field of IP. In *Sony* and *Grokster*, the Court showed us how common-law reasoning could create a legal standard (“substantial noninfringing use”)⁹⁴ or a whole new legal theory (inducing infringement) out of whole cloth, while operating in the interstices of federal statutes that provided no other basis for decision. In *eBay, Inc. v. MercExchange, L.L.C.*, the Court directed us back to the old common-law calculus for injunctive relief, repudiating a mechanical rule that injunctions nearly always issue to stop infringement.⁹⁵ And in cases like *Festo*⁹⁶ and *MedImmune v. Genentech*⁹⁷ the Court repudiated the Federal Circuit’s rigid formalism, respectively, in assessing technological equivalents in patent law and in accepting claims for declaratory judgments under Article III.

Not only are the Supreme Court’s recent opinions in IP clear repudiations of formalism and literalism and ringing endorsements of flexibility and the common law; they are also, by and large, the shortest, clearest and easiest to appreciate of the Supreme Court’s work product over the last several years.⁹⁸ And they are so despite IP law’s notorious abstractness and difficulty.

Perhaps IP law’s general nerdiness, obscurity and lack of direct political consequence leaves judges free to act like judges. No matter

94. See *Dratler, Statutory Sea*, *supra* note 13, at 421-22 n.37.

95. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 395 (2006) (“[T]he decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and . . . such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards”). See generally, Jay Dratler, Jr., *eBay’s Practical Effect: Two Differing Versions*, 2 AKRON INTELL. PROP. L.J. 37-40 (2008).

96. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 737-38 (2002) (rejecting Federal Circuit’s formalistic rule that *any* amendment to *any* patent claim creates a complete bar to applying the doctrine of equivalents to amended claim elements, and opting for a more flexible rule).

97. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 S. Ct. 764, 774 & n.11, 777 (2007) (rejecting Federal Circuit’s formalistic conclusion that courts lack Article III jurisdiction over a patent licensee’s declaratory-judgment challenge to a licensed patent when the license is unbreached, and repudiating the “reasonable apprehension of suit” rule on which that conclusion was based).

98. For discussion of a counterexample from the difficult field of detainee treatment, see Jay Dratler, Jr., *A Brief Lament on Hamdan*, 5 & n.11 (Univ. of Akron Legal Studies Research, Working Paper No. 06-14, 2006), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=913822 (noting that the Supreme Court’s various opinions collectively subsumed over eight times the length of our entire Constitution, including amendments and obsolete provisions).

how decisive or path-breaking, an IP ruling rarely brings public or political outcry. So judges can apply the fundamental things without fear of political lynching.

If I am right in this conclusion, then maybe IP law can serve as a temporary reservoir for the true spirit of our judicial system and our common law. Maybe some years hence, when the political storms have subsided, that spirit will emerge from its hidden reservoir in IP and create a beneficent general infection, restoring our “least dangerous branch” to its former power and glory.