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# THE RESALE ROYALTIES ACT: PAINTINGS, PREEMPTION AND PROFIT

The California legislature recently took an innovative step on behalf of artists in enacting the California Resale Royalties Act (RRA).<sup>1</sup> This law provides artists with a percentage of the financial return on resales of their works—a royalty.<sup>2</sup> The RRA, however, has provoked considerable controversy. This Comment will explore one aspect of this controversy—the preemption problem presented by the federal Copyright Revision Act of 1976,<sup>3</sup> which became effective on January 1, 1978. As will be demonstrated, this incidentally requires an examination of preemption doctrine developed under the Copyright Act of 1909.<sup>4</sup> Examination of other challenges to the validity of the RRA is beyond the scope of this Comment.<sup>5</sup>

## I. THE TREND TOWARD ROYALTIES FOR VISUAL ARTISTS

In 1965, California embarked on an effort to increase state support for the arts and artists in the state.<sup>6</sup> In the ensuing years, several laws were enacted to accomplish this purpose through such traditional modes as copyright and contractual protection and increased state expenditures for art.<sup>7</sup> However, in 1976, the

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1. CAL. CIV. CODE § 986 (West Supp. 1978).

2. Although the Resale Royalties Act went into effect on January 1, 1977, no artist is known to have received a royalty yet under the RRA. Canter, *Why Artists Still Can't Collect Royalties*, San Francisco Examiner, Feb. 6, 1978, at 1, col. 5.

3. 17 U.S.C. app. §§ 101-810 (1976).

4. 17 U.S.C. §§ 1-216 (1976) (revised 1978).

5. See text accompanying notes 121 & 122 *infra*.

6. In CAL. GOV'T CODE §§ 8750-8758 (West 1966) (repealed 1975), the legislature established the California Arts Commission to carry out the state's policy of encouraging the growth of the arts in order to "establish the paramount position of this state in the nation and in the world as a cultural center." *Id.* § 8751. In 1975, the Commission was replaced by the California Arts Council. See CAL. GOV'T CODE §§ 8750-8756 (West Supp. 1978).

The Legislature perceives that life in California is enriched by art. The source of art is in the natural flow of the human mind. Realizing craft and beauty is demanding, however, the people of the state desire to encourage and nourish these skills wherever they occur, to the benefit of all.

*Id.* § 8750.

7. Since 1965, the California legislature has enacted several pieces of arts legislation: CAL. CIV. CODE § 982 (West Supp. 1978), a common law copyright Act providing for

legislature, recognizing the need for artists' resale rights, went beyond traditional methods and enacted the RRA. Although unique in this country at the present time,<sup>8</sup> royalty rights for visual artists have existed in European countries since the early part of this century,<sup>9</sup> and such rights have been sought by American artists and their supporters for a number of years.<sup>10</sup>

The necessity and justification for a royalty rights law arise primarily from two realities peculiar to the visual art market. First, artists are inadequately compensated for their contributions to society because of the complex factors determining the value of an original work of art.<sup>11</sup> Second, existing meth-

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automatic retention by the artist of the right of reproduction whenever a work of art is sold unless expressly transferred in writing; *id.* §§ 1738-1738.9, the Artists-Gallery Relations Act; *id.* §§ 1740-1745, the Fine Print Disclosure Act which regulates the sale of multiple prints; CAL. GOV'T CODE §§ 15813-15813.7 (West Supp. 1978), the Art in Public Buildings Act which provides for an annual budget appropriation to finance works of art in state buildings.

8. "Bills drafted to accomplish similar objectives are presently under consideration in at least eight other states, including Florida, Iowa, Maine, Minnesota, New York, Ohio, Rhode Island and Texas." Goetzl, *Recent Arts Legislation—An Overview*, ARTWEEK, Jan. 14, 1978, at 15, reprinted in GLASS STUDIO, Jan./Feb., 1978, at 51. In addition, a bill to provide royalties for artists has been introduced in Congress. See note 110 *infra*.

9. In 1920, the French established a royalty right for artists called the *droit de suite*, translated in English as an art proceeds right. Subsequently Belgium, Czechoslovakia, Poland, Uruguay, Italy, Tunisia, Sweden, and Germany enacted similar legislation providing the artist with a percentage of the profits or gross sales price on resales of his work. For a discussion of these laws, see H. SANDISON, *THE VISUAL ARTIST & THE LAW*, §§ 3-201 to 3-216 (1975); Hauser, *The French Droit de Suite: The Problem of Protection for the Underprivileged Artist Under the Copyright Law*, 6 BULL. COPYRIGHT SOC'Y 94 (1959); Hepp, *Royalties from Works of The Fine Arts: Origin of the Concept of Droit de Suite in Copyright Law*, 6 BULL. COPYRIGHT SOC'Y 91 (1959); Price, *Government Policy and Economic Security for Artists: The Case of the Droit de Suite*, 77 YALE L.J. 1333 (1968); Schulder, *Art Proceeds Act: A Study of the Droit de Suite and a Proposed Enactment for the United States*, 61 NW. U.L. REV. 19 (1966).

10. There have been sporadic efforts, both organized and individual, in the 1930's and beginning again in the late 1960's, to encourage artists to insist on royalty rights or other forms of economic participation. These efforts met with limited success due to strong museum, dealer, and collector opposition, among other factors. See H. SANDISON, *supra* note 9, at 3-201, detailing some of these efforts in an excerpt from Baldwin, *Art and Money: The Artist's Royalty Problem*, ART IN AMERICA, March/April, 1974, at 20-23. In 1973, the Artists Rights Association, whose members all insist on royalty contracts, was organized. See *id.* at 3-316; Bongartz, *Writers, Composers, and Actors Collect Royalties—Why Not Artists?* N.Y. Times, Feb. 2, 1975, § 2, at 25, col. 2.

11. Price, *supra* note 9, delineates the rationale behind the *droit de suite*:

- (1) the sale of the artist's work at anything like its 'true' value only comes late in his life or after his death; (2) the postponement in value is attributable to the lag in popular understanding and appreciation; (3) therefore the artist is subsidizing the public's education with his poverty; (4) this is an unfair state of affairs; (5) the artist should profit when he is finally discovered by the newly sophisticated market.

ods—copyright protection and private contract—have proved unsuccessful in protecting the interests of artists. The exclusive rights of copyright afford little economic benefit to visual artists, whose works are commonly not reproduced.<sup>12</sup> Moreover, artists have been unable to secure royalties on sales of their original works by contract because of their poor bargaining position<sup>13</sup> and resistance to royalties based on a perceived threat to traditional property ownership values.<sup>14</sup>

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*Id.* at 1335. The rationale is usually phrased in equitable terms—“but for the artist’s efforts, the work would not exist.” Sheehan, *Why Don’t Fine Artists Use Statutory Copyright?—An Empirical and Legal Survey*, 22 BULL. COPYRIGHT SOC’Y 242, 245 (1975) and is also cognizant of practical market realities.

See C. GOODMAN, *MARKETING ART*, 236-40 (1972). Goodman terms reputation a significant factor in market price “because the growing reputation of an artist usually improves the demand for that artist’s work.” *Id.* at 236. Goetzl, *supra* note 8, suggests that the “substantial appreciation enjoyed by a few works of art can often be attributed to the continuing efforts and successful growth of the artist.” *Id.* at 15.

12. See note 108 *infra*.

13. In Sheehan, *supra* note 11, the author refers to a study which shows that the influence of collectors, who “determine the financial success or failure of a new artist,” *id.* at 268, is one of the factors that “add up to an art market in which the fine artist is left with very little bargaining power with which to assert legal rights.” *Id.* Although some artists have been successful in their insistence on royalty rights as a condition to the exhibit or sale of their works (see Bongartz, *supra* note 10, at 25, col. 8; H. SANDISON, *supra* note 9, § 3-316), collector resistance is still strong. See Goetzl, *supra* note 8, at 15, citing the recent loss of a \$25,000 commission by a well-known California artist because of her insistence on a royalty contract. In addition, although artists have been encouraged to use a standard contract which includes a royalty provision (the Projansky contract, reproduced in F. FELDMAN & S. WEIL, *LEGAL AND BUSINESS PROBLEMS OF ARTISTS, ART GALLERIES, AND MUSEUMS* 498-500 (1973), and also in H. SANDISON, *supra* note 9, §§ 3-301 to 3-307), questions have been raised as to the enforceability of such a contract when applied to subsequent purchasers. See Hauser, *supra* note 9, at 112 n. 70; Kunstadt, *Can Copyright Law Effectively Promote Progress in the Visual Arts?*, 23 BULL. COPYRIGHT SOC’Y 233, 244 (1976).

14. Some dealers and collectors oppose royalties “because it is in the nature of works of art that they are *property* as well as things embodying aesthetic qualities.” Bongartz, *supra* note 10, at 25, col. 6. (emphasis in original). One commentator has suggested that royalties are seen as “un-American,” Schulder, *supra* note 9, at 28. Another has said: “People are accustomed to thinking that once they have bought a thing, they are free to do with it as they please.” Goetzl, *supra* note 8, at 15. However, art is different from other property because of its “contribution . . . to our cultural heritage,” Schulder, *supra* note 9, at 28, and the royalty can be justified as a property right, even after alienation, because the Constitution takes a “special view of artistic and scientific works” in authorizing monopoly use even though this is counter to the usual rule against monopolies. *Id.* “It should be no more difficult to conceive of a property right subsisting after alienation than to conceive of a corporation as a ‘person’.” *Id.* at 29. In addition, “[r]ights in private property are constantly subjected to limitations imposed by the legislature,” Hauser, *supra* note 9, at 112, and, in fact, renewal rights under the Copyright Act are “a clear derogation from the concept of absolute ownership.” *Id.* at 113. Even if a creator had never owned or had transferred the original copyright, the Copyright Act of 1909 awarded the renewal rights to the creator or his or her heirs. 17 U.S.C. § 24 (1970) (current version at 17 U.S.C. app. § 304, (1976)). In light of the frequently unpredictable increase in value of

Influenced by these facts, many European countries, and now California, ultimately recognized the validity and necessity of a law providing royalty rights for visual artists. A royalty right can best be understood as a unique approach to the unique situation of visual artists who create a unique kind of property.

[T]he French courts took cognizance of the fact that intellectual creations differ fundamentally from that of other forms of property in that, unlike a suit or a refrigerator, the artistic product manifests the personality and thoughts of the creator. It bears his spirit, embodies his reputation, reflects his views, and *permanently* remains a part of the work.<sup>15</sup>

#### A. THE RESALE ROYALTIES ACT

The RRA provides that in a resale, the seller must pay the artist a royalty of five percent of the resale price when the work is either resold in California, or resold by a California resident.<sup>16</sup> It is limited to resales<sup>17</sup> of paintings, sculpture, and drawings<sup>18</sup> occurring during the life of the artist<sup>19</sup> when the gross sales price exceeds both \$1000<sup>20</sup> and the prior purchase price paid by the seller.<sup>21</sup> An artist is defined as "the person who creates a work of fine art."<sup>22</sup> The right is not transferable or waivable.<sup>23</sup>

The seller is obligated to locate the artist and pay the royalty

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visual art works after their sale by the artists, it is significant that Congress was willing to depart from traditional property notions in the copyright context because of its recognition that the initial sale of a work often does not fairly compensate the creator for the eventual success of that work.

It not infrequently happens that the author sells his copyright outright to a publisher for a comparatively small sum. If the work proves to be a great success and lives beyond the term of 28 years, your committee felt that it should be the exclusive right of the author to take the renewal term.

H.R. REP. NO. 2222, 60th Cong., 2nd Sess. app. (1909), *quoted in* Hauser, *supra* note 9, at 113.

15. Hauser, *supra* note 9, at 104 (emphasis in original).

16. CAL. CIV. CODE § 986(a) (West Supp. 1978).

17. *Id.* § 986(b)(1).

18. *Id.* § 986(c)(2).

19. *Id.* § 986(b)(3).

20. *Id.* § 986(b)(2).

21. *Id.* § 986(b)(4).

22. *Id.* § 986(c)(1).

23. *Id.* § 986(a). The right "may be waived only by a contract in writing providing for an amount in excess of 5 percent of the amount of such sale." *Id.*

due.<sup>24</sup> If unable to locate the artist, the seller may discharge his or her obligation by paying the royalty to the California Arts Council,<sup>25</sup> where it will be held in the artist's name for seven years.<sup>26</sup> The Act also provides that an artist may bring an action for damages in the event of non-compliance by the seller.<sup>27</sup>

Despite the potential for promotion of the arts and protection of artists provided by the Act, some dealers, collectors, and even artists are unhappy with the RRA. Some artists feel that the right should extend beyond the life of the artist, as copyright does, in light of the fact that works of art often achieve their full value potential only after the artist's death.<sup>28</sup> Some dealers are dissatisfied with the Act because of the distinction between those dealers who sell on consignment and consequently do not pay the royalty, and those who purchase directly from the artist, and therefore do.<sup>29</sup> Some dealers and collectors are also unhappy because the royalty is computed on the gross sales price regardless of whether the seller has earned a profit.<sup>30</sup>

Opponents of the RRA have organized to fight the law in the courts.<sup>31</sup> One challenge to the validity of the Act is that it has been preempted by the Copyright Act of 1976. In order to evaluate the merits of this claim, the current test for preemption must be ascertained.

## II. THE TEST FOR PREEMPTION

On January 1, 1978, the Copyright Revision Act of 1976 became effective. It is now this Act, rather than the 1909 Act, which must be examined to determine if the RRA is preempted under federal law. In the 1976 Act, Congress has articulated the situa-

24. *Id.* § 986(a)(1).

25. *Id.* § 986(a)(2).

26. *Id.* § 986(a)(4),(5).

27. *Id.* § 986(a)(3).

28. See the report discussing a statewide conference on CAL. A.B. 1391, the bill to enact the RRA, in Blumberg, *Artists for Economic Action Newsletter*, Dec., 1976, at 3. The original bill would have extended the royalty right for the life of the artist plus 20 years (see CAL. A.B. 1391, introduced April 2, 1975), but its final form reduced the term to life. See CAL. CIV. CODE § 986(b)(3) (West Supp. 1978).

29. See Blumberg, *supra* note 28, at 3. According to Professor Goetzl, a bill is currently before the California legislature which would amend the RRA to exempt dealers who purchase works outright from artists for resale. See Goetzl, *supra* note 8, at 15.

30. See Blumberg, *supra* note 28, at 3; Canter, *supra* note 2, at 7, col. 1.

31. See text accompanying notes 119-34 *infra*, where the case challenging the RRA is discussed.

tions in which it intends to preempt state law. Section 301 provides that

[a]ll legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 . . . and come within the subject matter of copyright as specified by sections 102 and 103 . . . are governed exclusively by this title . . . [N]o person is entitled to any such right or equivalent right . . . under the common law or statutes of any state.<sup>32</sup>

In other words, if the subject matter is eligible for copyright protection under sections 102 and 103 of the 1976 Act,<sup>33</sup> preemption depends on the "equivalency" of the state-based right with the exclusive rights provided by section 106.<sup>34</sup> Although the language used indicates congressional intent to create a single, uniform system of copyright protection,<sup>35</sup> it does little to clarify the intended meaning or application of this language.<sup>36</sup> Legislative comment indicates that "equivalent" means "synonymous", not merely similar or related to copyright.<sup>37</sup>

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32. 17 U.S.C. app. § 301(a) (1977).

33. *Id.* § 102(a) describes the subject matter of copyright as "original works of authorship fixed in any tangible medium of expression" and specifies seven categories of such works: literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; and sound recordings. *Id.* § 103 includes compilations and derivative works within the subject matter of copyright. These latter categories are defined in *id.* § 101.

34. See text accompanying note 93 *infra*, where the exclusive rights of copyright are stated.

35. Instead of a dual system of 'common law copyright' for unpublished works and statutory copyright for published works, . . . the bill adopts a single system of Federal statutory copyright from creation." S. REP. No. 94-473, 94th Cong., 1st Sess. 112 (1975).

36. "The difficulty with section 301 is the practical impossibility of distinguishing those state laws that the section preempts from those it leaves alone." P. Goldstein, *Preempted States Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 U.C.L.A. L. REV. 1107, 1110 (1977). *But see*, S. REP., *supra* note 35, which states:

The declaration of this principle in section 301 is intended to be stated in the clearest and most unequivocal language possible, so as to foreclose any possible misinterpretation of its unqualified intention that Congress shall act preemptively, and to avoid the development of any vague borderline areas between State and Federal protection.

*Id.* at 114.

37. Explaining examples of state doctrines not equivalent to copyright which were included in the original bill, S. REP., *supra* note 35, stated that misappropriation "is not necessarily synonymous with copyright infringement, and thus a cause of action labeled as 'misappropriation' is not preempted if it is in fact based neither on a [section 106] right . . . nor on a right equivalent thereto." *Id.* at 116.

Despite this attempt at definition, "equivalency" is a vague standard, and its legal meaning will have to be clarified by the courts.<sup>38</sup> The 1976 Act does not specify what considerations are relevant in this regard, but a court might look at the rationale behind section 301.<sup>39</sup> The underlying reasons which motivated Congress to adopt a single, federal copyright system were: (1) the need for national uniformity in protecting work which is broadly disseminated; (2) the need to eliminate the chaotic consequences of the significance of "publication" under the old law; (3) the concern for "limited times" protection; and (4) the desire to improve international dealings in copyrighted material.<sup>40</sup> These reasons suggest that the equivalency test was intended to eliminate state schemes which were substitutes for, or could be confused

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38. The legislative history of the 1976 Act indicates that Congress was aware of the definitional problem and attempted to alleviate it by including in the original bill some examples of state doctrines which were not equivalent to copyright. See S. 22, 94th Cong., 2d Sess. § 301(b)(3) (1976), which listed the following state doctrines that were not equivalent to copyright: misappropriation, breach of contract, breach of trust, trespass, conversion, invasion of privacy, defamation, and deceptive trade practices such as passing off, and false representation. See S. REP., *supra* note 35, at 20, 115; H.R. REP. No. 94-1476, 94th Cong., 2d Sess. 132 (1976), *reprinted in* [1976] U.S. CODE CONG. & AD. NEWS 5659.

However, a House amendment deleted these examples without accompanying explanation of the deletion in the legislative reports. See H.R. REP. No. 94-1733, 94th Cong., 2d Sess. 79 (1976). See also Note, *Copyright Law Revision and the Kewanee Preemption Issue: Is There a Doctrine in the House?*, 16 SANTA CLARA L. REV. 609, 613-17 (1976); P. Goldstein, *supra* note 36, at 1113 (questioning whether the purpose or the effect of the state doctrine is controlling in determining equivalency). The term has been judicially construed in another context to mean "a thing which performs the same function, . . . in substantially the same manner as the thing of which it is alleged to be an equivalent." *Donner v. Sheer Pharmacal Corp.*, 64 F.2d 217, 223 (1933), quoting WALKER, PATENTS § 415 (6th ed., 1929).

39. See Hirsch, *Toward a New View of Federal Preemption*, 1972 U. ILL. L.F. 515. "[W]here Congress manifests an intent to preempt state laws on a subject, the Court should consider the purpose of preemption in the federal scheme, and should apply the doctrine only to the extent that purpose is served." *Id.* at 544 n. 122.

A court might also consider existing state laws considered by Congress in the enactment of this section:

When Congress does face the preemption issue, it looks at existing state laws, because potential state actions touching the field of federal law are unforeseeable. Consequently, . . . the proper application of Congress' preemptive intention requires an inquiry into state laws considered by Congress as the basis of its intention. It could sensibly conclude that it should apply congressional policy respecting preemption only in cases involving state laws similar to those Congress considered in formulating its policy.

*Id.* at 543. Furthermore, examples discussed in legislative reports might also be considered by a court determining the meaning of equivalency for purposes of section 301. See examples listed in note 38 *supra*. See also S. REP., *supra* note 35, at 115-16.

40. S. REP., *supra* note 35, at 113.



with, federal copyright protection. The application of section 301 should relate to these specific purposes, rather than to an indefinite, broad, preemptive assumption,<sup>41</sup> if the overall objectives of the Copyright Act are to be served.

In addition to the rationale behind section 301, prior case law which established the importance of federal objectives in preemption analysis remains relevant to preemption problems under the 1976 Act. This is indicated by legislative comment that interpretation of section 301 should be "consistent with" Supreme Court decisions in the patent and copyright area.<sup>42</sup> Consequently, it seems necessary and helpful to analyze the RRA preemption problem in two steps. First, does the state law confer a right that is *equivalent* to one conferred under the Copyright Act? Second, does the state law *conflict* with the objectives of the Copyright Act? If either of these inquiries is answered in the affirmative, the state law must be held preempted and invalid. The latter, the common law objectives test, is discussed more fully below.

#### A. COMMON LAW PREEMPTION DOCTRINE

In developing the copyright preemption doctrine, courts have paralleled the treatment accorded to preemption questions arising under the commerce clause, where two rationales for federal preemption have traditionally been relied upon.<sup>43</sup> The first,

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41. See the discussion of the *Sears* and *Compco* decisions accompanying notes 62-68, *infra*.

42. The comment stated that the purpose of section 301(b) is to make clear, consistent with the 1964 Supreme Court decisions in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, that preemption does not extend to causes of action, or subject matter outside the scope of the revised Federal copyright statute.

S.REP., *supra* note 35, at 115. See Note, *supra* note 38, where the author, referring to the above comment, stated: "By inference, the *Kewanee* test may be substituted for the *Sears-Compco* decisions, because it is evident that the legislature had the judicial constraints in mind when drafting the statute, and *Kewanee* is the clearest expression of those constraints." *Id.* at 635. *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470 (1974), along with *Goldstein v. California*, 412 U.S. 546 (1973), are discussed in the text accompanying notes 72-91, *infra*. See also P. Goldstein, *supra* note 36, where he suggests that the "courts should look to the analytical techniques of *Goldstein* and *Kewanee* for practical guidelines" that are "both usable and useful in applications of section 301 . . ." *Id.* at 1122-23.

43. Preemption doctrine has arisen from the concepts of federalism embodied in the Constitution which reflect the founders' concerns for ensuring both a system of dual sovereignty and a viable national entity. See *Goldstein v. California*, 412 U.S. at 552-53. See generally Hirsch, *supra* note 39; Comment, *The Preemption Doctrine: Shifting Perspectives on Federalism and the Burger Court*, 75 COLUM. L. REV. 623 (1975).

the exclusive power theory or “constitutional” preemption,<sup>44</sup> grew from a recognition that uniform national regulation is required in some areas.<sup>45</sup> The second, the supremacy clause theory, or “statutory” preemption, arises when state legislation conflicts with or interferes with the purposes or objectives of a federal statute.<sup>46</sup>

These two rationales have led to several tests for preemption. The subject matter test consists of a determination that national uniformity is required based on an examination of the nature of the federal power exercised or the field regulated.<sup>47</sup> The congressional intent test involves ascertaining whether there is express or implied congressional intent that the states should be precluded from acting;<sup>48</sup> implied intent can be derived from the ex-

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44. See Whicher, *The Ghost of Donaldson v. Beckett*, 9 BULL. COPYRIGHT SOC'Y 102 (1961). Whicher classifies federal preemption theories as constitutional preemption, statutory preemption, and elective preemption. *Id.* at 109-11.

45. It was initially assumed that the powers delegated by the Constitution to Congress were exclusive and delineated areas in which the states could not act at all, whether or not Congress had exercised its powers. See *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1 (1824). Justice Johnson, in a concurring opinion discussing the commerce power, said that “since the power to prescribe the limits to its freedom, necessarily implies the power to determine what shall remain unrestrained, it follows, that the power must be exclusive; it can reside but in one potentate . . . .” *Id.* at 227. This assumption has given way to a requirement that where a need for national uniformity is perceived to be inherent in the subject matter, Congress’ power will be deemed to be exclusive. “Whatever subjects of this power are in their nature national, or admit only of one uniform system, or plan of regulation, may justly be said to be of such a nature as to require exclusive legislation by Congress.” *Cooley v. Board of Wardens*, 53 U.S. (12 How.) 298, 319 (1851).

46. Conceptually, this rationale is distinct from the original meaning of preemption since it relates not to a constitutional withdrawal of state power, but to a statutory exercise of congressional power in an area where the state has concurrent power to act. See Benke, *The Doctrine of Preemption and the Illegal Alien: A Case for State Regulation and a Uniform Preemption Theory*, 13 SAN DIEGO L. REV. 166, 170 (1975). See also *Los Alamos School Bd. v. Wugalter*, 557 F.2d 709 (10th Cir. 1977). Theoretically, preemption occurs when the state “has attempted to exercise power which it does not possess . . . .” *Id.* at 712. But the gradual rejection of the exclusive power rationale has resulted in the application of “preemption” terminology to situations where the state has power to act as long as it does not violate the supremacy clause.

47. See, e.g., *Hines v. Davidowitz*, 312 U.S. 52 (1941). In invalidating a state Alien Registration Act that operated similarly to the federal Alien Registration Act, the Court stressed the exclusive nature of congressional power in the field of international relations, “the one aspect of our government that from the first has been most generally conceded . . . to demand broad national authority.” *Id.* at 68.

48. In *Head v. New Mexico Board of Examiners*, 374 U.S. 424 (1963), the Court said that “[s]tatements concerning exclusive jurisdiction of Congress beg the only controversial question: whether Congress intended to make its jurisdiction exclusive.” *Id.* at 430. See also *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132 (1963), where the Court’s test was the “clear and manifest purpose of Congress” to preempt state regulation. *Id.*

istence of a pervasive scheme evidencing congressional occupation of a field<sup>49</sup> or from an analysis of the purpose of the federal act and the character of its provisions.<sup>50</sup> The objectives, or conflict test requires a determination of whether the state regulation produces a result inconsistent with the objectives of the federal statute.<sup>51</sup> While these three tests can be neatly separated in theory,<sup>52</sup>

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49. See *Hines v. Davidowitz*, 312 U.S. at 66, where the Court considered the implications of a broad federal scheme: "Where the federal government . . . has enacted a complete scheme of regulation . . . states cannot, inconsistently with the purpose of Congress, conflict or interfere with, curtail or complement, the federal law . . ." *Id.* at 66-67. A comprehensive federal scheme thus indicated that Congress had occupied the field, intending to preclude state action and implying that the subject matter required national uniformity. The broad scope of the *Hines* test, preempting even complementary state legislation, has been limited by later cases. In *Los Alamos School Bd. v. Wugalter*, 557 F.2d 709, the court construed the qualifying phrase in *Hines*, "inconsistently with the purpose of Congress," as an indication that preemption should be required only when the state law significantly frustrates federal objectives. *Id.*

See also *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947). In *Rice*, the Court said that a "scheme of federal regulation may be so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it . . ." *Id.* at 230. See also *Burbank v. Lockheed*, 411 U.S. 624 (1973), where the Court preempted a local aircraft noise ordinance on the grounds that the subject matter required exclusive federal control and that Congress had occupied the field. *But* in *Head v. New Mexico Bd. of Examiners*, 374 U.S. 424, the Court said that "the comprehensive nature of the federal regulation does not answer the question." *Id.* at 430. Also, comprehensive labor legislation, although carrying "implications of exclusive federal authority," *International Ass'n of Machinists v. Gonzales*, 356 U.S. 617 (1958), was deemed to leave much authority to the states in *Garner v. Teamsters Union*, 346 U.S. 485, 488 (1953).

In *De Canas v. Bica*, 424 U.S. 351 (1976), the Court held that a state law dealing with employment of aliens was not a regulation of immigration and consequently was not preempted by federal immigration law. *Id.* at 354.

50. See *Burbank v. Lockheed*, 411 U.S. 624 (1973), where the purpose of the federal law was to provide uniform federal control over air traffic flow. *But cf.* *Huron Cement Co. v. Detroit*, 362 U.S. 440 (1960), ("extensive and comprehensive" federal ship inspection provisions were held not to preempt a local regulation of ship boilers because the federal purpose was safety while the state purpose was clean air); *Kargman v. Sullivan*, 552 F.2d 2 (1st Cir. 1977) (general similarity of purpose in both federal and local regulation—to increase the supply of low cost housing—did not suffice to invalidate a local rent control ordinance on grounds of preemption by HUD programs under the National Housing Act, because their specific purposes and methods were different and there was no "significant . . . impairment of the federal interests"). See also *Helmsley v. Borough of Fort Lee*, 362 F. Supp. 581 (D.N.J., 1973).

51. See *Hines v. Davidowitz*, 312 U.S. 52. "The Court's primary function is to determine whether under the circumstances of a particular case, the state law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." *Id.* at 67. In *Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. 132, the Court said, "The test of whether both federal and state regulations may operate, or the state regulation must give way, is whether both regulations can be enforced without impairing the federal superintendence of the field . . ." *Id.* at 142. See also *De Canas v. Bica*, 424 U.S. at 357 n.5 ("burdens or conflicts in any manner with any federal laws"); *San Diego Bldg. Trades Council v. Garmon*, 359 U.S. 236, 243 (1959) ("threatened interference" with federal policy).

52. The Court in *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947), delineated

courts in the past have not always done so, and they have conceded that there is "no one crystal clear distinctly marked formula."<sup>53</sup>

The Supreme Court has recently noted changes in the doctrine from a time when "federal preemption could . . . be derived from the existence vel non of a far reaching federal structure"<sup>54</sup> to a "somewhat greater reluctance to find preemption."<sup>55</sup> Recent cases indicate that "persuasive reasons" are required for preemption.<sup>56</sup> They require subject matter which "permits no other conclusion,"<sup>57</sup> unmistakable congressional intent, or inevitable, irreconcilable conflict.<sup>58</sup> In addition to applying stricter tests, the Court has stated that "the proper approach is to reconcile 'the operation of both statutory schemes with one another rather than holding one completely ousted.'"<sup>59</sup> Thus, the Court has shifted from a presumption of preemption to a judicial preference for reconciliation. This doctrinal refinement has been similarly reflected in the preemption cases relating to the federal copyright and patent laws.

### *The Sears-Compco Doctrine*

In 1964, the Supreme Court established the preemption doctrine applicable to the patent and copyright areas. In the companion cases of *Sears, Roebuck & Co. v. Stiffel Co.*<sup>60</sup> and *Compco Corp. v. Day-Brite Lighting*,<sup>61</sup> the Court held that the subject

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the various situations in which preemption could be inferred.

The scheme of federal regulation may be so pervasive as to make reasonable the inference that Congress left no room for the States to supplement it. Or the act of Congress may touch a field in which the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject. Likewise, the object sought to be obtained by the federal law and the character of obligations imposed by it may reveal the same purpose. Or the state policy may produce a result inconsistent with the objectives of the federal statute.

*Id.* at 230 (citations omitted).

53. *Hines v. Davidowitz*, 312 U.S. at 67.

54. *Kargman v. Sullivan*, 552 F.2d at 10.

55. *Id.*

56. *See, e.g., Florida Lime & Avocado Growers, Inc. v. Paul*, 373 U.S. at 142.

57. *Id.*

58. *Id.*

59. *Merrill Lynch, Pierce, Fenner & Smith v. Ware*, 414 U.S. 117, 127 (1973)(quoting *Silver v. New York Stock Exchange*, 373 U.S. 341, 357 (1963)).

60. 376 U.S. 225 (1964).

61. 376 U.S. 234 (1964).

matter, intent, and conflict tests indicated that a state unfair competition law offering protection similar to that of federal patent law was preempted.<sup>62</sup> First, the Court found that promotion of the competing policies underlying patent law—eventual public access to the idea and encouragement of invention by rewarding the inventor with exclusive use—required uniform national regulation in the patent area.<sup>63</sup> Second, the Court determined that the particular requirements for federal patent eligibility showed congressional concern that a carefully drawn balance of those competing policies be achieved.<sup>64</sup> Since Congress had established standards for patent protection, there was an implied intent that articles not meeting those standards be left unprotected and available for public use.<sup>65</sup> The Court concluded that state unfair competition law conflicted with federal patent law by offering protection against copying to items which had failed to meet the substantive requirements for patent protection.<sup>66</sup>

Although *Sears* and *Compco* dealt with patent law, the Court extended the principle to copyright law as well. It said: "Today we have held . . . that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article."<sup>67</sup> Thus, *Sears* and *Compco* established a "broad preemptive mandate"<sup>68</sup> that congressional power over the patent and copyright areas is exclusive, so that state protection of that which is not protectible under federal law is prohibited.

### *The Goldstein and Kewanee Decisions*

In 1973, the Court reconsidered the *Sears-Compco* doctrine in the context of California's record piracy law which prohibited

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62. *Sears*, 376 U.S. at 232-33; *Compco*, 376 U.S. at 237. *Sears* and *Compco* involved lighting fixtures, on which design patents were held, that had been almost identically imitated by competitors. The district court had dismissed the patent infringement cause of action, finding that the patents were invalid for lack of novelty. Novelty is a substantive requirement for federal patent protection. See 35 U.S.C. § 102 (1970). Thus, the issue was whether the plaintiff could recover on the basis of the state's unfair competition law.

63. *Sears*, 376 U.S. at 231 n.7. Patent law achieved these two goals by giving exclusive use of an idea to the inventor but limiting the duration of this protection and providing that, upon expiration of the patent, the process or idea would be placed in the public domain available for the free use of the public. See 35 U.S.C. § 271 (1970).

64. *Sears*, 376 U.S. at 230-33.

65. *Id.* at 231-32.

66. *Id.*

67. *Compco*, 376 U.S. at 237.

68. See Note, *supra* note 38, at 619.

the unauthorized duplication of sound recordings.<sup>69</sup> In *Goldstein v. California*,<sup>70</sup> the Court applied the subject matter test articulated in *Cooley v. Board of Wardens*,<sup>71</sup> and rejected the *Sears-Compco* holding that congressional power was exclusive in the copyright area.<sup>72</sup> Goldstein concluded that copyright protection was not an area where "similar authority in the States would be absolutely and totally contradictory and repugnant" to the power delegated to Congress.<sup>73</sup> "Although the Copyright Clause . . . recognizes the potential benefits of a national system,"<sup>74</sup> the Court viewed the "enormous diversity" of interest existing across the nation as justification for concurrent federal and state power to provide protection against copying items.<sup>75</sup> While some items may be worthy of national protection, others may be "of purely local importance."<sup>76</sup>

Addressing the question of congressional intent, the Court held that since congressional power under the copyright clause is discretionary, congressional silence or the lack of federal copyright protection for certain items did not imply an intent to preempt state protection of those uncopyrightable items.<sup>77</sup> The Court examined the legislative history of the Copyright Act<sup>78</sup> and concluded that where federal copyright protection was withheld, it was withheld because the particular subject matter was deemed to be of insufficient national importance to warrant federal protection, rather than because of a congressional determination that it was inherently unworthy of any protection at all.<sup>79</sup> Copyright eligibility requirements were thus distinguished from those of patent law where Congress had excluded certain items from protection because of a desired balance between the "need

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69. See CAL. PENAL CODE § 653(h) (West Supp. 1978). Sound recordings were not eligible for federal copyright protection until 1972, when Congress amended the Copyright Act to include them as subject matter eligible for copyright protection. See 17 U.S.C. § 1(f) (1976) (amended 1978); *id.* app. § 102(a) (7).

70. 412 U.S. 546 (1973). *Goldstein* was a 5-4 decision.

71. 53 U.S. (12 How.) 298 (1852). See note 49 *supra* for a discussion of the *Cooley* test.

72. *Id.* at 552-61.

73. 412 U.S. at 553, quoting THE FEDERALIST NO. 32, at 241 (B. Wright ed. 1961).

74. 412 U.S. at 556.

75. *Id.* at 557-58.

76. *Id.* at 558. The Court took notice of California's valid interest in protecting its recording industry, "a large industry in California." *Id.* at 571.

77. *Id.* at 562. *But see id.* 576-79 (Marshall, J., dissenting), discussed in note 84, *infra*.

78. See *id.* at 562-66.

79. *Id.* at 570.

to encourage innovation” and the “need to insure competition.”<sup>80</sup> As to items not offered protection under the copyright law, Congress had “drawn no balance,” and the Court, therefore, found no implied congressional intent to preempt state protection of sound recordings.<sup>81</sup> Congress “has left the area unattended, and no reason exists why the State should not be free to act.”<sup>82</sup> The Court also intimated that since copyright protects only expression and places no restraint on the use of an idea to the extent that patent law does, there is not the same degree of concern for public access in copyright as there is in patent law.<sup>83</sup> *Goldstein*, therefore, limited the *Sears-Compco* doctrine to the patent area.<sup>84</sup>

One year after the *Goldstein* decision, in *Kewanee Oil Co. v. Bicron Corp.*,<sup>85</sup> the Court further limited the application of *Sears-Compco* by holding that even in the patent area state protection does not necessarily conflict with federal policy.<sup>86</sup> In scrutinizing

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80. *Id.*

81. *Id.*

82. *Id.*

83. *Id.* at 571. See *Nichols v. Universal Pictures Corp.*, 45 F.2d 119 (2d Cir. 1930). The Copyright Revision Act of 1976 explicitly states that copyright does not extend to any idea, process, etc. 17 U.S.C. app. § 102(b) (1977). S. REP., *supra* note 35, explained this new section: “Section 102(b) in no way enlarges or contracts the scope of copyright protection under the present law. Its purpose is to restate . . . that the basic dichotomy between expression and idea remains unchanged.” *Id.* at 54.

84. The dissents disagreed with the majority’s conclusions as to national uniformity and congressional intent. Justice Douglas concluded that national uniformity “was one of the principal purposes of the Patent and Copyright Clause and that uniformity could be obtained only by pre-emption.” 412 U.S. at 575. But he did not make clear why the advantages of national protection necessitated only a national system. See *id.* at 555-56, 557 n. 13. See also Comment, *Goldstein v. California: Breaking Up Federal Copyright Preemption*, 74 COLUM. L. REV. 960 (1974). The author pointed out that under *Sears/Compco* the purpose of the Copyright Act is “presumed to be intended to eliminate the evil of non-uniformity. But the primary purpose of federal copyright law is to promote the arts and sciences, and to that end, state and federal protection should be compatible.” *Id.* at 972.

Justice Marshall disagreed with the majority’s reading of congressional silence. Marshall felt that the importance of free competition justified adopting “a rule of construction that, unless the failure to provide patent or copyright protection for some class of works could clearly be shown to reflect a judgment that state regulation was permitted, the silence of Congress would be taken to reflect a judgment that free competition should prevail.” 412 U.S. at 577-78.

85. 416 U.S. 470 (1974).

86. *Id.* at 492-93. Former employees of the Harshaw Chemical Company had violated an agreement not to disclose trade secrets obtained while in Harshaw’s employ by forming a new company to compete with Harshaw in the production of industrial crystals using Harshaw’s secret processes. The processes had qualified for patent protection by meeting the requirements of novelty, utility and non-obviousness set out in 35 U.S.C. §§ 101-103 (1970), but they “had been in commercial use for over one year and so were no longer eligible for patent protection under 35 U.S.C. § 102(b).” 416 U.S. at 474. The district

the subject matter and implied intent basis of the *Sears-Compco* doctrine, the Court reasoned that the “diversity of interests in our Nation” negated the exclusivity of congressional power in respect to discoveries as well as writings.<sup>87</sup> “The only limitation on the States is that in regulating the area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress. . . .”<sup>88</sup>

Congress and *Kewanee* thus in part dispelled some of the specific presumptions responsible for the broad application of the *Sears-Compco* preemption doctrine. First, they refute the argument that Congress’ power is exclusive and that the subject matter requires a uniform national scheme of regulation. Second, they disagreed with the presumptions that Congress had intended to occupy the patent and copyright field and that congressional silence as to a particular class of items implied that state law was preempted. Third, they negated the contention that state protection similar to patent or copyright inherently conflicts with the policies and objectives of federal law. The net result of the decisions is that the supremacy clause mandate is the sole remaining rationale for preemption in the patent and copyright area. This requires a specific analysis of the actual effect of state law upon the traditional policies of federal patent and copyright law rather than the *Sears-Compco* presumption of conflict.<sup>89</sup>

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court, applying Ohio trade secret law, granted a permanent injunction against the disclosure or use of the trade secrets. The court of appeals reversed on the ground that Ohio’s law was in conflict with federal patent law.

87. 416 U.S. at 479.

88. *Id.* The Court stated the patent law policies were incentive to inventors, eventual public disclosure, and the public domain policy of public access to unprotected ideas in general circulation. *Id.* at 480-81. On the other hand, “the maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law.” *Id.* at 481. The Court found no conflict with the public domain policy since “[b]y definition a trade secret has not been placed in the public domain.” *Id.* at 484. Neither was there conflict with the patent policy of disclosure because trade secret law allowed the holder to license public exploitation of the idea or process without fearing theft of the secret by competitors, *id.* at 485, and trade secret protection, being weaker than patent protection, did not deter holders of patentable processes from seeking patents subject to eventual disclosure. *Id.* at 489-90. The Court thus concluded that the state trade secret law was not preempted since it enhanced, rather than frustrated, the policies of patent law. *Id.* at 493.

89. In the intervening years since 1973, the application of the *Goldstein/Kewanee* preemption doctrine has been relatively uneventful. While many cases have cited *Goldstein* and *Kewanee*, none have criticized or had difficulty with the decisions. In *Jacobs v. Robitaille*, 406 F. Supp. 1145 (D.N.H. 1976), the court construed *Goldstein* and *Kewanee* as preserving the applicability of *Sears/Compco* to state schemes offering protection against copying works which have fallen into the public domain. Two courts cited *Goldstein* and *Kewanee* in holding that local rent control ordinances were not preempted



### III. PREEMPTION ANALYSIS OF THE RESALE ROYALTIES ACT

#### A. THE EQUIVALENCY STANDARD

The subject matter of the RRA, an "original painting, sculpture or drawing,"<sup>90</sup> clearly falls within the subject matter of copyright specified in the 1976 Act as "pictorial, graphic and sculptural works."<sup>91</sup> Therefore, only the equivalency requirement of the statutory test need be considered. If the rights conferred by the RRA are equivalent to those conferred by the Copyright Act of 1976, then the RRA may be preempted.

With certain exceptions,<sup>92</sup> a copyright owner has the exclusive right, or the right to authorize someone else: "1) to reproduce the copyrighted work . . . ; 2) to prepare derivative works . . . ; 3) to distribute copies . . . to the public by sale or other transfer of ownership . . . ; 4) . . . to perform the copyrighted work publicly; and 5) . . . to display the copyrighted work publicly."<sup>93</sup> The royalty right has nothing to do with the rights to copy, record, adapt, perform, or display, and consequently, it is clearly not equivalent to any of those rights. Only the right to distribute the work bears any similarity to the royalty right. Although both deal with sales of the work, there are significant differences between the two rights.

First, the Copyright Act regulates the use of a work, while the RRA provides an economic right related to the transfer of ownership of the material object itself. The right to distribute gives the copyright owner control over the decision to sell or transfer ownership of the work and the nature of the use to which it is put.<sup>94</sup> The royalty right provides no such control but merely requires payment to the artist upon resale of the work,<sup>95</sup> regardless of whether the artist holds the copyright. This fundamental distinction is

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by the National Housing Act. Although with the same general subject matter and conflicting to some extent, the local ordinances did not present the "quantum of conflict" necessary for preemption under current preemption doctrine. See *Kargman v. Sullivan*, 552 F.2d 2 (1st Cir. 1977); *Helmsley v. Borough of Fort Lee*, 362 F. Supp. 581 (D.N.J. 1973).

90. CAL. CIV. CODE § 986(c)(2) (West Supp. 1978).

91. 17 U.S.C. app. § 102(a)(5) (1977). See P. Goldstein, *supra* note 36. Professor Goldstein indicated that there are interpretational problems with the subject matter test of section 301, but the RRA subject matter does not pose one of them. *Id.* at 118-19.

92. See 17 U.S.C. app. §§ 107-118 (1977).

93. *Id.* § 106.

94. See H.R. REP., *supra* note 40, at 62.

95. See text accompanying note 16, *supra*.

supported by section 202 of the Copyright Act, which emphasizes the difference between ownership of the copyright and ownership of the material object.<sup>96</sup>

Second, the right to *distribute* and the right to a *royalty* apply to entirely different events in the ongoing life of a work of art. The RRA applies only to resales, not to the initial sale of a work. The right to distribute, however, applies only to the “first public distribution” of a copyrighted work.<sup>97</sup>

The two rights, then, regulate in a different manner, and with different results. Even though they both may be derived from the same notion of providing an incentive to the artist, they are clearly not equivalent rights. An RRA cause of action for a royalty due is “different in kind from copyright infringement”<sup>98</sup> and thus is not equivalent.

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96. *Id.* § 202 provides that:

Ownership of a copyright or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object . . . does not of itself convey any rights in the copyrighted work embodied in the object; nor . . . does transfer of ownership of a copyright . . . convey property rights in any material object.

See P. Goldstein, *supra* note 36, where he suggests that section 202 supports an argument that the RRA “regulates not ‘rights’ but ‘material objects.’” *Id.* at 1115 n.36.

97. 17 U.S.C. app. § 106(3) (1977). S. REP., *supra* note 35, explains that “the copyright owner would have the right to control the first public distribution . . . of his work . . . .” *Id.* at 58. 17 U.S.C. app. § 109(a) (1977) provides in pertinent part:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord . . . or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

S.REP., *supra* note 35, explains that under section 109, “the copyright owner’s rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.” *Id.* at 59. Although the sale of a copy “frees it from any copyright control over its resale price or other conditions of its future disposition,” *id.* at 71, the Report makes clear that section 109 is not meant to preclude other types of restrictions upon future disposition of the work, such as contractual provisions. *Id.* at 71-72.

“[T]he exclusive right to vend is limited to the first sale of any one copy and exerts no restriction on the future sale of that particular copy.” *American International Pictures, Inc. v. Foreman*, 400 F. Supp. 928, 933 (S.D. Ala. 1975). The “right to vend” was the terminology used in the 1909 Act. *See* 17 U.S.C. § 1 (1970) (repealed 1978). *See also United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977); *Platt & Munk Co. v. Republic Graphics*, 315 F.2d 847, 854 (2d Cir. 1963); *Independent News Co. v. Williams*, 293 F.2d 510, 517 (3d Cir. 1961).

98. S. REP., *supra* note 35, at 115. The legislative comments seem to indicate that it is the overall character of the state right that determines equivalency, rather than merely its purpose or effect. *See* P. Goldstein, *supra* note 36, at 1113. Rights that are “different

B. THE VALIDITY OF THE RRA IN LIGHT OF *Goldstein* AND *Kewanee*

The mandate of *Goldstein* and *Kewanee* is that state law must not conflict with the objectives of federal law.<sup>99</sup> Ascertaining whether such a conflict exists requires articulation of the purposes of copyright and the probable effects of the RRA. These purposes and effects are discussed below.

The primary purpose of the Copyright Act is to promote the arts by offering incentives to the creator.<sup>100</sup> Congress has structured the Act to accomplish this purpose by providing exclusive rights which give the artist the opportunity to share in the economic exploitation of his or her work. This purpose is based on a notion of furthering the "public good"<sup>101</sup> as well as on the view that "man is entitled, by the 'law of nature', to reap the fruits of his own labors."<sup>102</sup> However, since the exclusive rights of copyright result in a monopoly control over the copyrighted work,<sup>103</sup> Congress, by limiting these rights, has indicated a subsidiary purpose to protect the values of free expression and free competition.<sup>104</sup>

In evaluating whether the RRA conflicts with the Copyright Act objective of promoting progress in the arts, it is helpful to ask whether the Copyright Act itself accomplishes its purpose with regard to visual artists.<sup>105</sup> Studies have shown that, for a variety

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in nature" and "different in kind" from copyright "may continue to be protected under State common law or statute." S. REP., *supra* note 35, at 115.

99. See text accompanying note 88, *supra*.

100. See H.R. REP. No. 94-1476, *supra* note 38, at 47. In *Goldstein v. California*, 412 U.S. 546 (1973), the Court stated the purpose of copyright: "[t]o encourage people to devote themselves to intellectual and artistic creation, Congress may guarantee to authors and inventors a reward in the form of control over the sale or commercial use of copies of their works." *Id.* at 555.

101. *Id.* at 556, quoting James Madison's comments about the purpose of copyright: "The public good fully coincides . . . with the claims of individuals." THE FEDERALIST, No. 43, at 309 (B. Wright ed. 1961).

102. Whicher, *supra* note 44, at 116. Whicher explains that the copyright clause in the Constitution originated from the "natural right" view of literary property that "an author should have the profits to be made from the commercial exploitation of his own literary creations." *Id.*

103. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964). "The grant of a patent is the grant of a statutory monopoly . . ." *Id.* at 229.

104. "Property implies monopoly. Because it is expression that is being controlled, Congress and the courts have been careful to limit the copyright monopoly." P. Goldstein, *supra* note 36, at 1107. Sections 107-112 of 17 U.S.C. app. are entitled "Limitations on exclusive rights." These limitations include the "fair use" exception to copyright, *id.* § 107, the "first sale" doctrine, *id.* § 109, and the library copyright exception, *id.* § 108.

105. See *Kunstadt*, *supra* note 13. The author suggested that it is questionable

of reasons, most visual artists do not claim copyright protection for their works.<sup>106</sup> Even if artists do copyright their works,<sup>107</sup> the rights are often meaningless in terms of any actual economic benefits. The primary economic return on visual art comes from resale of the original, since normally only famous art works are reproduced for sale to the public.<sup>108</sup> Due to this market reality, the Copyright Act does not accomplish its objective of offering incentives to artists because it fails to provide a realistic means for visual artists to share in the economic exploitation of their works.<sup>109</sup> The RRA, however, does address this reality, and it accomplishes the unfulfilled objective of the Copyright Act by offering an economic incentive based on the resale of the original work. Thus, there is a much greater likelihood of benefit to the artist under the RRA.<sup>110</sup>

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whether progress in the arts can be measured at all and that the premise of copyright which promotes the commercialization of art "may retard progress in the arts." *Id.* at 234-35.

106. See Sheehan, *supra* note 11. This survey showed that 71.8% of artists never placed copyright notice on their works. *Id.* at 245. Suggested reasons for this were insufficient knowledge, *id.* at 245-55, reluctance to deface one's art, *id.* at 255-61, opposition of collectors and dealers, *id.* at 268-71, and the assumption that at the time of creation artists do not intend the work to be a subject of commercial reproduction, *id.* at 235.

107. Note that under the 1976 Act, transfer of a work without the copyright notice does not necessarily result in the loss of copyright protection. 17 U.S.C. app. §§ 202, 405 (1977). Copyright is reserved in the artist unless expressly transferred in writing. *Id.* § 204(a).

108. See Sheehan, *supra* note 11. The author distinguished a work's "use value" as a "decorative item and aesthetic experience" from its reproduction value and pointed out that

[g]enerally, the initial sale of an original work of art occurs at a time when the primary value of the work is its use value, since most sales of artworks are by relatively unknown artists whose work is not in great demand in the market for art books and reproductions of works of art.

*Id.* at 249. This situation contrasts with that of literary works, which "have little value as objects of exclusive ownership" but derive their market value from mass distribution potential. *Id.*

109. See Hepp, *supra* note 9, where the author states: "[W]hen an artist sells the original work itself, he usually exhausts all his rights" *Id.* at 92. See also Hauser, *supra* note 9. Hauser suggests that visual artists do not benefit from the copyright ability to authorize copies of the work because "the very value of the object depends on its uniqueness, its 'original' quality." *Id.* at 106.

110. Hauser, *supra* note 9, at 112. Hauser urges the federal enactment of a royalty right for artists, not "out of a sense that it is 'unfair' for others to speculate so well and so often in the artist's work, but rather on a strict analysis of the essence and rationale of copyright protection." *Id.* A bill has been introduced in the House of Representatives by Representative Henry Waxman, (Dem., Cal.) (the Visual Arts Act of 1978) to provide royalties on a national basis for visual artists. See H.R. 11403, 95th Cong., 2d Sess. (1978). The major provisions of an earlier draft of this bill are explained in Goetzl, *supra* note 8.

Other copyright owners, such as authors, composers, and performers, do benefit from the exclusive rights of copyright because there is market demand for the reproduction of their works, and the economic reward to the creator lies in his or her right to authorize someone to copy the original work and sell those copies to the public.<sup>111</sup> The RRA merely extends to visual artists an incentive similar to that now offered by the Copyright Act to authors, composers, and performers. It offers a right, different from the exclusive rights of copyright, which is made necessary by the unique circumstances of visual artists for realization of the objectives of the Copyright Act. It clearly does not conflict with, but in fact furthers, the Copyright Act objective of promoting the arts.

Regarding the subsidiary concerns for freedom of expression and market competition, the RRA incentive is limited as is copyright protection.<sup>112</sup> The RRA does not restrict the copying or use of the work of art. It does not allow the artist any control over the resale price but merely gives him or her a continuing right to share in the financial returns from resales of the work. The artist thus benefits to a degree directly proportional to the commercial marketability of the work—the greater the increase in value and the more frequently a work is sold, the greater the benefit to the artist.<sup>113</sup> While some artists may be inclined to hold onto their works until their reputations and consequently the values of their works increase, the RRA may motivate some artists to sell their works earlier because of the Act's assurance that artists will participate in future economic appreciation of their works.<sup>114</sup>

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111. See Hauser, *supra* note 9. "Royalties . . . is [sic] standard practice as far as the writer and composer are concerned simply because their works are inherently reproducible." *Id.* at 95.

112. The RRA applies only to resales for \$1000 or more, and it exists only for the life of the artist. CAL. CIV. CODE § 986(b) (West Supp. 1978).

113. If a work never sells for more than \$1000, the artist gets nothing. There has been criticism of the Act on this basis, to the effect that only rich, famous artists will benefit from it. However, Rubin Gorewitz, a New Yorker who manages the business affairs of many prominent artists, insists that this is not true. "Today's well-known artists were yesterday's unknown artists . . . . So just because an artist's work doesn't command prices in the thousands now, doesn't mean that it won't in the future." Bongartz, *supra* note 10, at 25, col. 6.

114. Robert Rauschenberg was an early proponent of a royalty right for visual artists in the United States after one of his paintings, which he originally sold for \$900, was resold by the collector-buyer for \$85,000. *Id.* at 1, col. 1. The article also suggests that a royalty right will induce artists who cannot bear to completely sever the personal tie to their works to sell them. *Id.* at 25, col. 7.

The degree to which subsequent owners of works of art will be deterred from selling them is difficult to determine since this will depend on the circumstances of a particular sale. The art market, like the stock market, is highly speculative, unpredictable, and often dramatic.<sup>115</sup> Sellers anticipating large profit margins would hardly be deterred by a five percent royalty obligation.<sup>116</sup> Market forces, such as reputation of the artist, availability of works, and current aesthetic trends<sup>117</sup> certainly play too large a role for the RRA to have any significant negative effect on the buying and selling of art. It is more likely that it will stimulate the art market by promoting increased sales by artists.

The RRA thus appears to satisfy the common law of objectives test of *Goldstein* and *Kewanee*. Not only does it not conflict with the purposes of the Copyright Act, but it also furthers the objective of promoting the arts by providing incentives to visual artists.

### *The Morseburg Decision*

In *Morseburg v. Balyon*,<sup>118</sup> a federal suit was filed by a Los Angeles art dealer who alleged that he sold two paintings in 1977 on which he was required to pay royalties under the RRA.<sup>119</sup> In seeking a declaratory judgment that the law was unconstitutional, the plaintiff<sup>120</sup> claimed that it was preempted by the Copyright Act of 1909, that it unduly burdened interstate commerce,<sup>121</sup>

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115. See Hepp, *supra* note 9. "Works of the fine arts have an economic value which varies considerably, according to the tastes of the public, fashion, and the evolution of artistic views." *Id.* at 92. These vagaries of the art market result in an investment situation which, though highly speculative, can be very lucrative. See L. DuBOFF, *THE DESKBOOK OF ART LAW* (1977). DuBoff says that "at best it is a gamble." *Id.* at 365. But the gamble pays off. "The overall increase of art prices for the past 20 years was 18 times its original value—as compared to the price of the average stock, which 'merely' rose four times." *Id.* at 361-62 (emphasis in original).

116. See Hauser, *supra* note 9, citing the successful operation of the *droit de suite* in France. "Amounts collected under it are seemingly so small in relation to the sales price that they do not, in practice, serve to limit art sales." *Id.* at 94. In the decision upholding the Resale Royalties Act, the court said the RRA "will indirectly affect, to a certain extent, the distribution of originals. However, this is not significant . . ." *Morseburg v. Balyon*, No. CV 77-2410 RMT, slip op. at 4 (C.D. Cal., filed March 23, 1978).

117. See C. GOODMAN, *MARKETING ART* 236-40 (1972).

118. *Morseburg v. Balyon*, No. CV 77-2410 RMT (C.D. Cal., filed March 23, 1978), appeal docketed, No. 78-2129 (9th Cir. Apr. 18, 1978).

119. *Id.*

120. "The suit was brought by a group called CADRE, which stands for Collectors, Artists and Dealers for Responsible Equity." Canter, *supra* note 2, at 7, col. 1.

121. This claim was based on the provision of the RRA which requires the royalty to

that it deprived the plaintiff of his property without due process of law, and that it retroactively altered the terms of the contract by which the plaintiff acquired the work of art.<sup>122</sup> The district court rejected all of the challenges to the Act except for the interstate commerce issue, which it did not decide because the transactions involved occurred totally within California.<sup>123</sup>

The court held that the RRA was not preempted by federal law.<sup>124</sup> It found no congressional intent to occupy the field of regulating the sale of art works,<sup>125</sup> and it found no conflict with the Copyright Act of 1909.<sup>126</sup> Since the RRA applied only to resales and did not affect the consideration received by the copyright owner for the first transfer of ownership, the court concluded that there was no conflict with the right to vend.<sup>127</sup> The court also said that the RRA did not conflict "with the Copyright Act's regulation of works in the public domain."<sup>128</sup> Finally, the court found no frustration of federal objectives since the RRA "can only encourage the production and distribution of creative works of fine art. The California law will also increase public access to art and aid in the compensation of artists."<sup>129</sup> It thus satisfied the constitutional purpose of promoting the arts.<sup>130</sup> The court ruled that while the Copyright Revision Act of 1976 was not applicable to the instant case,<sup>131</sup> "it appears that the Resale Royalties Act is not preempted by the Revision Act of 1976."<sup>132</sup> In upholding the Act, the court praised the RRA: "Not only does the California law not significantly impair any federal interest, but it is the very type of innovative lawmaking that our federalist system is de-

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be paid on a sale that takes place outside California as long as the seller is a California resident. See CAL. CIV. CODE § 986(a) (West Supp. 1978).

122. *Morseburg*, No. CV 77-2410 RMT, slip. op. at 6-7. These claims arose from the operation of the RRA upon resales of works of art that were initially purchased prior to the effective date of the Act. The plaintiff contended that the Act impaired the consideration passing between the parties to the initial sale of the work in that the Act reduced the value of the bargained-for work.

123. *Id.* at 7.

124. *Id.* at 5-6.

125. *Id.* at 5.

126. *Id.* at 4.

127. *Id.*

128. *Id.* at 5.

129. *Id.*

130. *Id.*

131. The 1909 Act applied since the cause of action arose before January 1, 1978, the effective date of the 1976 Act. 17 U.S.C. app. § 301(b)(2) (1977) provides that preemption under the terms of the 1976 Act shall not apply to "any cause of action arising from undertakings commenced before January 1, 1978. . . ." *Id.*

132. No. CV 77-2410 RMT, slip. op. at 5.

signed to encourage.”<sup>133</sup> The district court ruling has been appealed to the Ninth Circuit Court of Appeals.<sup>134</sup>

#### IV. CONCLUSION

Preemption doctrine has evolved to a point where the courts are attempting to protect the values of federalism through reconciliation of state and federal schemes rather than by “knee-jerk” ouster of state schemes. In the patent and copyright area, *Goldstein* and *Kewanee* have established the test of clear congressional intent and significant conflict with federal objectives as the sole bases for preemption.

In the Copyright Revision Act of 1976, Congress clearly intended to preempt equivalent state laws. An innovative law, such as the RRA, which is not equivalent to copyright and which significantly furthers the objectives of copyright, should not be held preempted by the Copyright Act.<sup>135</sup> “An important index of the moral and cultural strength of a people is their official attitude towards, and nurturing of, a free and vital community of artists. The California Resale Royalties Act may be a small positive step in such a direction.”<sup>136</sup>

*Sharon J. Emley*

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133. *Id.* at 5-6.

134. *Morseburg v. Balyon*, No. CV 77-2410 RMT (C.D. Cal., filed March 23, 1978), appeal docketed, No. 78-2129 (9th Cir. Apr. 18, 1978).

135. Not only is there no basis for preemption under 17 U.S.C. app. § 301(a) (1977), but there is specific authorization for such legislation under section 301(b) which explicitly disclaims any intent to preclude rights under state statutes that pertain to non-copyrightable subject matter or are not equivalent to the exclusive rights of copyright.

In Note, *supra* note 38, the author questioned the apparent inconsistency of Congress' attempt to both preserve and preempt state law simultaneously. *Id.* at 614. But, if the rationale of section 301 is used to resolve preemption questions (see note 39 and text accompanying note 40, *supra*) it is clear that the difficulties of reconciliation lay not in inconsistency, but in vagueness.

136. No. CV 77-2410 RMT, slip. op. at 6.



