

Toward a Theory of Regulatory Takings for Intellectual Property: The Path Left open After *College Savings v. Florida Prepaid*

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I. INTRODUCTION

The Supreme Court concluded its 1998-1999 Term by protecting states' rights over the rights of property owners. In two cases, both involving disputes between College Savings, a private bank in New Jersey, and Florida Prepaid Postsecondary, an agency of the State of Florida, the Court held that Congress could not abrogate a state's Eleventh Amendment immunity against suit in federal court by using its Article I powers.¹ The effect of these decisions is to immunize state governments from suits for intellectual property infringement. Although the Court based these decisions on federalism grounds, allowing states' rights to trump property rights is inconsistent with the Court's takings

1. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank*, 119 S. Ct. 2199 (1999) (hereinafter referred to in text as *College Savings I*); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.*, 119 S. Ct. 2219 (1999) (hereinafter referred to in text as *College Savings II*).

jurisprudence. If a state government appropriates² or regulates³ real⁴ or personal⁵ property, then in many instances it must compensate the property owner under the Takings Clause of the U.S. Constitution.⁶ The same principle should apply when the state infringes upon intellectual property rights,⁷ whether in the form of patent,⁸ copyright,⁹ trademark,¹⁰ trade secret,¹¹ or unfair competition.¹²

This Article argues that an infringement of intellectual property rights

2. See *Chicago, Burlington & Quincy R.R. Co. v. Chicago*, 166 U.S. 226, 236 (1897) (“[I]t must be that the requirement of due process of law in [the Fourteenth] [A]mendment is applicable to the direct appropriation by the State to public use and without compensation of the private property of the citizen.”).

3. See *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415 (1922) (“[W]hile property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking.”).

4. See *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 430 (1982) (“[P]ermanent occupations of land . . . are takings even if they occupy only relatively insubstantial amounts of space . . .”).

5. See *Miller v. Schoene*, 276 U.S. 272, 277 (1928) (applying a takings analysis to the state appropriation of cedar trees but finding for the state).

6. U.S. CONST. amend. V (“[N]or shall private property be taken for public use, without just compensation.”).

7. “Intellectual property rights” is used in this Article as a collective term for patent, copyright, trademark, trade secret, and unfair competition. This use of the collective term can be criticized for being both overinclusive and underinclusive. For example, this use ignores theft of idea. It also includes unfair competition which is different from the other four members that are covered by the term. The term is consistent with current usage. See ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 2* (1997) (including patent, copyright, trademark, and trade secret under the rubric “intellectual property,” where trademark includes federal unfair competition). But see EDMUND W. KITCH & HARVEY S. PERLMAN, *INTELLECTUAL PROPERTY AND UNFAIR COMPETITION* (1998) (suggesting by the title that intellectual property and unfair competition are distinct). Despite the title, Professors Kitch and Perlman treat unfair competition as a part of trademark law. See *id.* at 236-56 (discussing the applicability of federal unfair competition to trademark protection, especially for trade dress).

8. See Patent Act, 35 U.S.C. §§ 1-376 (1994 & Supp. III 1997).

9. See Copyright Act, 17 U.S.C. §§ 101-1101 (1994 & Supp. IV 1998).

10. See Lanham Act, 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

11. Largely state law governs trade secret. See, e.g., Cal. Civ. Code §§ 3426-3426.11 (West 1997). There is no federal law governing trade secret law. The closest analogue at the federal level is the Economic Espionage Act, 18 U.S.C. §§ 1831-1839 (Supp. IV 1998). The Economic Espionage Act applies to theft of trade secrets by foreign governments and has no application to state governments in the United States. See *id.*

12. See Lanham Act, 15 U.S.C. § 1125 (1994 & Supp. IV 1998) (discussing false designation of origin, false description or representation). Unfair competition is governed by the Federal Trade Commission Act, 15 U.S.C. § 45 (1994) (“Unfair methods of competition unlawful”). State law also governs unfair competition actions.

by a state government constitutes a regulatory taking, requiring compensation to the intellectual property owner. The regulatory takings doctrine is a controversial one. Almost everyone agrees that if a state government physically takes property from its citizens, the government should compensate the owners.¹³ Nevertheless, the proposition that state regulation of its citizens' property requires compensation is not as easy to endorse. All regulation affects property in some way, either by reducing its value or by limiting its use. A requirement of compensation could potentially cripple the functioning of state governments. In fact, the strongest endorsement of regulatory takings has come from political conservatives who want to limit all types of state regulation—from environmental controls to income redistribution.¹⁴ As a result, many identified progressives, including this author, have been more cautious about supporting the regulatory takings doctrine, especially in its strongest form.¹⁵

This Article illustrates how the tables are turned when intellectual property is the subject of state use. The thesis of this Article is that the regulatory takings doctrine should have more force when a state government makes use of intellectual property than when it regulates real property. There are two reasons for this distinction. The first is that intellectual property is more important for the development of cultural and civil life than real property. Second, protection of the expression of ideas, whether they are scientific inventions, literary works, or commercial trademarks, is the key goal of intellectual property. Such protection allows for individual and societal flourishing and for the development of means of dissent and expression against state governments. This proposition is especially true as the economy moves from a land-based, industrial system to an information-based, service system.¹⁶

13. See WILLIAM A. FISCHER, *REGULATORY TAKINGS: LAW, ECONOMICS AND POLITICS* 57-58 (1995) (discussing acceptance of the physical invasion test for claims under the Takings Clause). See generally *Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419 (1982) (exemplifying the physical invasion test).

14. See RICHARD A. EPSTEIN, *TAKINGS: PRIVATE PROPERTY AND THE POWER OF EMINENT DOMAIN* 314-27 (1985); MARK KELMAN, *STRATEGY OR PRINCIPLE? THE CHOICE BETWEEN REGULATION AND TAXATION* 9-11 (1999) (discussing libertarian approaches to the Takings Clause).

15. See, e.g., MARGARET JANE RADIN, *REINTERPRETING PROPERTY* 120-21 (1993) (discussing liberal approaches to the Takings Clause).

16. FRANK WEBSTER, *THEORIES OF THE INFORMATION SOCIETY* 138-40 (1995) (describing elements of industrial society).

II. STATE INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS AS A TAKING: THE PROBLEM DEFINED

This Article shows that the proposition that state infringement of intellectual property requires compensation is compelled by contemporary takings jurisprudence, recent pronouncements by the Supreme Court in the area of states' rights, and the growth of the information economy.¹⁷

The focus of this Article has both practical and theoretical dimensions. First, consider the practical dimensions as illustrated by the following hypothetical examples:

- (1) A researcher in private industry develops a cell line for which he obtains a federal patent. He licenses the patent to X who fails to pay the license fee.¹⁸
- (2) A professor for University X develops materials for his course that he publishes on his web page provided by the university. The university sells the professor's work for profit, and the professor is not compensated.¹⁹

17. Other authors have proposed treating intellectual property use by a state as a taking. This Article, however, represents an attempt to address the issue in light of recent decisions. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings Bank I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings Bank II)*, 119 S. Ct. 2219 (1999); discussion *infra* note 25. See also Christina Bohannon & Thomas F. Cotter, *When the State Steals Ideas: Is the Abrogation of State Sovereign Immunity from Federal Infringement Claims Constitutional in Light of Seminole Tribe?*, 67 *FORDHAM L. REV.* 1435, 1460 (1999) (finding limited application for recharacterizing intellectual property infringement as a taking); Thomas F. Cotter, *Do Federal Uses of Intellectual Property Implicate the Fifth Amendment?*, 50 *FLA. L. REV.* 529, 565-68 (1998) (stating that intellectual property infringement by the federal government is a taking); John T. Cross, *Intellectual Property and the Eleventh Amendment After Seminole Tribe*, 47 *DEPAUL L. REV.* 519, 554, 559 (1998) (showing skepticism about use of Takings Clause but supportive of Privilege & Immunities Clause for attacking state intellectual property infringement); Paul J. Heald & Michael L. Wells, *Remedies for the Misappropriation of Intellectual Property by State and Municipal Governments Before and After Seminole Tribe: The Eleventh Amendment and Other Immunity Doctrines*, 55 *WASH. & LEE L. REV.* 849, 864-73 (1998) (characterizing intellectual property infringement as a taking); Roberta Rosenthal Kwall, *Governmental Use of Copyrighted Property: The Sovereign's Prerogative*, 67 *TEX. L. REV.* 685, 728 (1988-1989) (arguing that copyright infringement by the state is a taking).

18. See *Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559 (Fed. Cir. 1997), *cert. denied* 523 U.S. 1089 (1998), *appeal reinstated sub nom. Genentech, Inc. v. Regents of Univ. of Cal.*, 1999 WL 798031 (Fed. Cir. Aug. 26, 1999) (rehearing the appeal in light of the Supreme Court's decisions in *College Savings I* and *College Savings II*).

19. Although no cases on these facts have arisen, the problem is quite topical, and

- (3) A marketer uses the trademark “Olympic” to brand her product. X uses the exact same trademark to brand its product, causing consumer confusion.²⁰
- (4) A computer programmer develops an algorithm valuable in the construction of a computer game. X discovers the algorithm through improper means and uses it for profit.²¹
- (5) A private financial institution markets a financial plan to middle-class families that allows them to save for the college education of their children. University X makes use of the plan and steals away several of the financial institution’s customers.²²

Each of these hypotheticals has one element in common: the party designated by X infringes upon a product created by someone else. Each implicates a separate aspect of intellectual property law, respectively patent, copyright, trademark, state trade secret, and unfair competition. If X were a private entity or the federal government, X would very likely be liable to the creator for intellectual property infringement.²³ However,

a case is very likely in the near future. See Lisa Guernsey, *Seeking Legal Protection for Their Web Site, Scholars Make a Deal with University of Maryland*, Chron. Higher Educ., Mar. 5, 1999, at A25 (discussing negotiations between university and scholars over ownership of web site content). For an important case based on analogous facts, see *Richard Anderson Photography v. Brown*, 852 F.2d 114, 115-22 (4th Cir. 1988) (holding that the State was immune from liability for infringing on photographer’s photos).

20. See *San Francisco Arts & Athletics, Inc. v. United States Olympic Comm.*, 483 U.S. 522, 537-41 (1987) (holding that use of term “Olympic” was infringement and not protected by First Amendment); *Idaho Potato Comm’n v. Washington Potato Comm’n*, 410 F. Supp. 171, 173 (D. Idaho 1975) (involving a trademark dispute over the use of the mark “Idaho”).

21. See *Unix Sys. Lab., Inc. v. Berkeley Software Design, Inc.* 832 F. Supp. 790, 793 (D.N.J. 1993) (holding that trade secret claim against state government alleging theft of computer software could not be brought in federal court); *Data Gen. Corp. v. Digital Computer Controls, Inc.*, 297 A.2d 433, 434-35 (Del. Ch. 1971), *aff’d*, 297 A.2d 437, 439 (Del. 1972) (holding that drawing of computer hardware system may be a trade secret).

22. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219 (1999); discussion *infra* note 25.

23. Private infringement of intellectual property is governed statutorily. See 35 U.S.C. § 271 (1994 & Supp. IV 1998) (discussing patent infringement); 17 U.S.C. § 501 (1994) (discussing copyright infringement); 15 U.S.C. § 1114 (1994 & Supp. IV 1998) (discussing trademark infringement); 15 U.S.C. § 1125 (1994 & Supp. IV 1998) (discussing unfair competition). Various state statutes govern private misappropriation of trade secret. See, e.g., CAL. CIV. CODE §§ 3426.2-3426.3 (West 1997).

“The Trademark Amendments Act of 1999 . . . provides a private cause of action against the federal government for the entire range of Lanham Act actions: trademark infringement, dilution, trade dress infringement and false advertising.” JEROME GILSON, 3 TRADEMARK PROTECTION AND PRACTICE § 8.16[2][f] (1999). This move follows several circuit court decisions holding the U.S. Postal Service liable under the Act. See *id.*

the Rehnquist Court has recently established that if *X* were a state government or an agency of a state government, *X* would be immune under the Eleventh Amendment²⁴ from suit in federal court (and in effect from liability).²⁵ In a pair of decisions (which shall be referred to as the *College Savings* cases), the Court held that a state defendant would be immune from suit for patent and trademark infringement and unfair competition in federal court absent the state's express consent.²⁶ The Court's decisions have direct applicability to claims for copyright infringement and more subtle implications for theft of trade secret.²⁷

There does not appear to be any distinction between unfair competition and patent and copyright suits.

The United States government has waived its immunity from suit for patent and copyright infringement. See 28 U.S.C. §§ 1498(a)-(b) (1994) (waiving federal immunity for patent and copyright infringement). Misappropriation of trade secrets by the federal government is considered a taking. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-04 (1984). This is actionable under the Tucker Act, 28 U.S.C. § 1491 (1994 & Supp. III 1997).

24. U.S. CONST. amend. XI ("The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State."). For an excellent history of the Eleventh Amendment, see generally JOHN V. ORTH, *THE JUDICIAL POWER OF THE UNITED STATES: THE ELEVENTH AMENDMENT IN AMERICAN HISTORY* (1987). Professor Orth documents the tumultuous and often contradictory interpretations of the text of the Eleventh Amendment. See *id.* Although the language clearly states that the Eleventh Amendment bars suits against a state government by citizens of another state, the Amendment has been read to apply to all suits against state governments, even ones brought by its own citizens. See *Hans v. Louisiana*, 134 U.S. 1, 18-19 (1890) (holding that the Eleventh Amendment applies to all exercises of judicial power, not just that pursuant to diversity jurisdiction).

25. See *College Savings I*, 119 S. Ct. at 2210-11 (holding that the state government is immune from patent infringement claims); *College Savings II*, 119 S. Ct. at 2233 (holding that state government is immune from federal unfair competition claim).

26. In *College Savings I*, the Court struck down the Patent and Plant Variety Protection Remedy Clarification Act, 35 U.S.C. §§ 271(h), 296(a) (1994), to allow suits against state governments and agencies for patent infringement. See *College Savings I*, 119 S. Ct. at 2210. In *College Savings II*, the Court struck down the Trademark Remedy Clarification Act, 15 U.S.C. § 1122 (1994), to allow suits against state governments and agencies for unfair competition. See *College Savings II*, 119 S. Ct. at 2224. In both opinions, the Court stated that a state could be sued if there was express waiver by the state of its Eleventh Amendment immunity. See *College Savings I*, 119 S. Ct. at 2204 ("[I]t is undisputed that Florida has not expressly consented to suit."); *College Savings II*, 119 S. Ct. at 2228 n.3 ("[A] State waives its sovereign immunity by voluntarily invoking the jurisdiction of the federal courts.").

27. The Court did not address the issues of copyright infringement and misappropriation of trade secret, but both of these causes of action are affected by the Court's reasoning. Congress abrogated state immunity for copyright infringement two years prior to the Patent Remedy Act and the Trademark Remedy Clarification Act. See 17 U.S.C. § 511 (1994). Congress's power to pass copyright legislation comes from the

Although technically state court is still available as a forum to bring a claim of intellectual property infringement by a state, for several reasons discussed below state courts are not a realistic forum.²⁸ As a result, a state (and its agencies) can, with impunity, infringe on an individual's patents, copyrights, trademarks, trade secrets, and engage in unfair competition.

This practical problem leads to a more striking theoretical problem. The Rehnquist Court, in its first Term, created landmark opinions in the area of takings and property rights.²⁹ In a series of opinions, the early Rehnquist Court proved itself to be a champion of property rights against state regulation.³⁰ In light of the private property focus of the early Rehnquist Court, the *College Savings* opinion may seem surprising. The state seemingly cannot regulate real property without providing compensation, but the state is free to infringe on intellectual property. The early Rehnquist Court's focus on protecting real property has come into conflict with the current Rehnquist Court's focus on states' rights. Is there a reconciliation of these seemingly conflicting approaches?

The answer to that question rests in the underlying premises of the early private property cases and the current states' rights cases. In the area of takings, the Court is protecting private land development against state and local regulation.³¹ In the area of states' rights, the Court is protecting the state from federal regulation and rule making.³² Each set

same source as Congress's patent legislation, its Article I powers. Since the Court clearly stated that Congress could not abrogate Eleventh Amendment immunity under Article I powers, the 1990 amendments to the Copyright Act must also be unconstitutional. See *College Savings I*, 119 S. Ct. at 2205 ("*Seminole Tribe* makes clear that Congress may not abrogate state sovereign immunity pursuant to its Article I powers . . .").

Trade secret is a matter of state law. However, the Court's decisions do affect the availability of diversity jurisdiction to litigate claims against state governments. See *infra* Part IV.E.4. Some lower courts have extended the Court's reasoning to find Eleventh Amendment immunity for copyright infringement suits against the state. See *Chavez v. Arte Publico Press*, 204 F.3d 601, 607-08 (5th Cir. 2000); *Rodriguez v. Texas Comm'n on the Arts*, 199 F.3d 279, 281 (5th Cir. 2000).

28. See *infra* Parts III.A-B.

29. See Frank Michelman, *Takings, 1987*, 88 COLUM. L. REV. 1600, 1600-01 (1988) (commenting on the heightened scrutiny for takings claims evidenced by four decisions in the 1986-1987 Term).

30. The four seminal cases during the 1986-1987 Term (Justice Rehnquist's first as Chief Justice) were: *Keystone Bituminous Coal Ass'n v. DeBenedictis*, 480 U.S. 470 (1987); *Hodel v. Irving*, 481 U.S. 704 (1987); *First English Evangelical Lutheran Church v. County of Los Angeles*, 482 U.S. 304 (1987); *Nollan v. California Coastal Comm'n*, 483 U.S. 825 (1987).

31. See Sylvia Lynn Gillis, Note, *A Blow for Land-Use Planning?—The Takings Issue Re-examined*, 49 OHIO ST. L. J. 1107, 1126 (1989) (documenting how early Rehnquist Court takings cases "protect the individual private property owner's rights through a strengthening of the fifth amendment").

32. See Ellen D. Katz, *State Judges, State Officers, and Federal Commands After*

of cases is based on the premise that local, decentralized sources of governance trump centralized sources.³³ In land use, private property owners win. In the exercise of congressional power, whether it is in the regulation of Indian Tribes,³⁴ interstate commerce,³⁵ or copyright and patent law, states win. The two approaches both illustrate a strong, anti-regulatory, anti-legislative power perspective.

This explanation is only partially satisfactory. The tension arises from the fact that in the context of intellectual property, particularly copyright and patent (and less so for trademark and unfair competition which are regulated by state as well as federal law), the source of private property owner's rights is in federal law. By deferring to states' rights, the Court undermines private property interests. More importantly, the Court privileges private property rights that are the creation of state law over those that are the creation of federal law.³⁶ When viewed this way, the early taking cases of the Rehnquist Court are best viewed as precursors of the current states' rights cases.³⁷ Furthermore, by privileging state law

Seminole Tribe *and* Printz, 1998 WIS. L. REV. 1465, 1490-02 (commenting on the history of anti-commandeering rule that prohibits states from being forced to adopt federal law as a restructuring of federalism).

33. See Erwin Chemerinsky, *The Values of Federalism*, 47 FLA. L. REV. 499, 530-33 (1995) (evoking community and empowerment of many levels of government power as important values of federalism).

34. See *Seminole Tribe v. Florida*, 517 U.S. 44, 57 (1996) (holding that Congress did not have authority to abrogate Eleventh Amendment immunity under the Indian Commerce Clause); *Idaho v. Coeur d'Alene Tribe*, 521 U.S. 261, 281-82 (1997) ("It is common ground between the parties . . . that the Tribe could not maintain a quiet title suit against Idaho in federal court, absent the State's consent.").

35. See *United States v. Lopez*, 514 U.S. 549, 552-53 (1995) (reviving limits on Congress's legislative power under the Commerce Clause).

36. As the Supreme Court has stated, "Property interests . . . are not created by the Constitution. Rather, they are created and their dimensions are defined by existing rules or understandings that stem from an independent source such as state law . . ." *Bd. of Regents v. Roth*, 408 U.S. 564, 577 (1972). The Court has consistently looked to state law as a major source by which to define property rights. See, e.g., *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003 (stating that "intangible property rights protected by state law are deserving of the protection of the Taking Clause"). See also *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1022-27 (1992) (holding that state nuisance law is relevant to determine whether compensation is required under the Constitution).

37. Frank Michelman was prescient in noticing back in 1993 the conflict between the Court's takings jurisprudence and Federalist leanings. In analyzing *Lucas*, Professor Michelman concluded that

[t]he effect [of the *Lucas* opinion] is to make the Federal Constitution, specifically the Taking Clause, dictate to the States the jurisprudential spirit in which their general laws of property and nuisance are to be read and construed . . . [Such an approach] must push the States toward preferring the form of monadic, specific rules to that of complexly interactive open

over federal law, the Court has insidiously returned to the approach adopted by Justice Taney in *Dred Scott v. Sandford*,³⁸ the infamous case which struck down the Missouri Compromise, a congressional act that made newly acquired territory free rather than slave.³⁹ In *Dred Scott*, the Court favored the state's ability to create rights in persons to subjugate another individual based on race over Congress's ability to emancipate individuals from the bondage of slavery.⁴⁰ In terms of the balance of federal and state powers, the Court in *College Savings* has revived a view of federalism long thought to be dormant.

The comparison with *Dred Scott* may seem to some to be extreme. Nonetheless, the reversal of federal and state power evinced by the

principles.

Frank I. Michelman, *Property, Federalism, and Jurisprudence: A Comment on Lucas and Judicial Conservatism*, 35 WM. & MARY L. REV. 301, 327 (1993). Such a rule-like view of federalism is consistent with Professor Chemerinsky's point that the Rehnquist Court applies federalist principles in a rule-like fashion. See Chemerinsky, *supra* note 33, at 501-03 (discussing how federalism is used in mechanical manner without consideration of its underlying values).

38. 60 U.S. (19 How.) 393 (1857).

39. See *id.* at 452. The Court stated that:

[t]he Government of the United States had no right to interfere [with the states in their control of the black people] for any other purpose but that of protecting the rights of the owner, leaving it altogether with the several States to deal with this race, whether emancipated or not, as each State may think justice, humanity, and the interests and safety of society, require.

Id. at 426.

40. See *id.* 452-54. Professor Michelman has summarized the legal and political implications of *Dred Scott* as follows:

Does the Constitution's category of protected property automatically encompass *whatever* entitlements respecting external objects state law may at a given moment officially establish and sanction, regardless of their nature? In *Dred Scott v. Sandford*, Chief Justice Taney for the Supreme Court at least suggested an affirmative answer to that question. It was an answer that many since have professed not to admire.

Frank I. Michelman, *Property as a Constitutional Right*, 38 WASH. & LEE L. REV. 1097, 1104 (1981). As stated by Alfred L. Brophy: "The Chief Justice wrote an expansive, radical opinion that sharply limited Congress's power, gave broad powers to the states to define property and then employed the federal judiciary to protect that property, even outside the state." Alfred L. Brophy, Note, *Let Us Go Back and Stand upon the Constitution: Federal-State Relations in Scott v. Sandford*, 90 COLUM. L. REV. 192, 193 (1990).

If the comparison with slavery and the Civil War seems a stretch, consider the following support from Joseph Z. Fleming, who is critical of the pro-states' rights stance of the majority in the twin *College Savings* cases:

Regardless of what one thinks of states' rights, or the concerns that are articulated quite clearly in the majority opinion of the Supreme Court, there is a certain balkanization that is possible based upon *Florida Prepaid*. Intellectual property is responsible for creating the basic concepts that enable our society to operate and compete in the global village.

Joseph Z. Fleming, *If Abraham Lincoln Died for Federalism, Did He Die in Vain?—Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank and United States*, 31 URB. LAW. 777, 790 (1999).

College Savings decisions should cause concern for anyone interested in the preservation of individual rights. As Professor Chemerinsky states, "Hindsight reveals that federalism has been primarily a conservative argument used to resist progressive federal efforts, especially in the areas of civil rights and social welfare."⁴¹ The fact that the reversal in the *College Savings* decisions occurs over intellectual property rights as opposed to the more pernicious problem of slavery does not mitigate the potential dangers of the Court's flip of the hierarchy of federal and state powers. Intellectual property rights, whether through copyright, patent, or trademark, protect the individual's ability to create ideas and propagate culture.⁴² To give the state strong powers to define these rights and to infringe upon them gives the state the ability to limit the development of ideas and culture. While at issue in *Dred Scott* was the troubling question of rights in one's self and the power to subjugate other human beings, the *College Savings* decision implicates the marketplace of ideas and the state's ability to affect its development. The decision has arrived in the midst of an ongoing debate concerning electronic commerce and access to the Internet, and ownership over the fruits of information technology.⁴³ Free expression, scientific development, and commerce are at stake.

Some historical background leading up to the *College Savings* decisions highlights the problem. In 1989, ten years before the *College Savings* decisions, Professor Roberta Kwall, in an article whose title coined the phrase "the Sovereign's Prerogative," wrote: "a government entity's unauthorized use of copyrighted property must be subject to certain limitations to effectuate the Constitution's goal of 'promot[ing] the Progress of Science and useful Arts.'"⁴⁴ Professor Kwall documents the extensive use by the federal government of intellectual property

41. Chemerinsky, *supra* note 33, at 501.

42. See, e.g., PAUL GOLDSTEIN, COPYRIGHT'S HIGHWAY: FROM GUTENBERG TO THE CELESTIAL JUKEBOX 3-11 (1994) (illustrating the many ways copyright, patent, and trademark laws promote creativity as well as profit). The tension between the material and ideal in conceptualizing intellectual property is captured by one scholar: "Hegel thought that the method or medium of expression could externalize mental products and hence render them propertizable. But this is not the same as saying they are a thing external by nature." MARGARET JANE RADIN, CONTESTED COMMODITIES 37-38 (1996). The role of intellectual property law in developing cultural expressions is captured in the myth of the romantic author. See JAMES BOYLE, SHAMANS, SOFTWARE, AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY 47-60 (1996) (describing the role of intellectual property in the liberal state).

43. See *infra* Part V.

44. Kwall, *supra* note 17, at 768 (quoting U.S. CONST. art. I, § 8, cl. 8).

created by private individuals. Such uses include the use of scientific inventions by the Department of Defense and copyrighted narratives by the National Park Service.⁴⁵ An updated version of her list would include gene sequences in scientific labs of state universities funded by the Department of Energy as part of the Human Genome Project,⁴⁶ web courses developed by instructors in state law schools,⁴⁷ and songs and visual works used by state tourist bureaus.⁴⁸

Professor Kwall argued that a takings perspective should be adopted in protecting individual creators against expropriative uses by the state.⁴⁹ The state government's prerogative in using intellectual property, based on its power of eminent domain, needs to be tempered by a private action against the state for intellectual property infringement.⁵⁰ Although she recognized that the Eleventh Amendment of the U.S. Constitution may place some limitations on the ability of individuals to sue states, Professor Kwall argued that the state immunity created by the Eleventh Amendment could be abrogated by Congress in its exercise of Article I powers.⁵¹ She specifically concluded that the Supreme Court, in the then-pending *Union Gas* decision,⁵² should hold that Congress has the power to abrogate Eleventh Amendment immunity through its Article I powers.⁵³ By allowing individuals to sue a state government for intellectual property infringement, Professor Kwall asserted the goals of promoting the arts and the sciences by protecting the right of an individual inventor to limit uncompensated use.⁵⁴ In 1990 and 1992, Congress effectuated these goals by passing the Trademark Remedy

45. *See id.* at 770-80.

46. For an example of litigation arising from genetic research, see, for example, *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993). For an informative article about conflicts between university research and industry goals, see David L. Wheeler, *The Real Impact of the Race to Sequence the Human Genome*, CHRON. HIGHER EDUC., Jul. 16, 1999, at A18 (describing the race between pharmaceutical companies and federally funded researchers at universities to complete map of human genome).

47. *See supra* note 19.

48. *See Mihalek Corp. v. Michigan*, 595 F. Supp. 903, 904 (E.D. Mich. 1984), *aff'd*, 814 F.2d 290 (6th Cir. 1987). The court held that the state has Eleventh Amendment immunity from copyright, trademark infringement, and unfair competition claims. *See Mihalek Corp.*, 595 F. Supp. at 906.

49. *See Kwall, supra* note 17, at 692-726.

50. *See id.* at 726-53.

51. *See id.* at 753-68.

52. *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989) (plurality opinion) (establishing that Congress has the authority to abrogate Eleventh Amendment immunity under its Article I powers). The Supreme Court overruled the *Union Gas* decision in *Seminole Tribe v. Florida*, 517 U.S. 44, 66 (1996).

53. *See Kwall, supra* note 17, at 767-68 ("Congress should also be able to abrogate the states' eleventh amendment immunity unilaterally pursuant to the copyright clause.").

54. *See id.* at 769.

Clarification Act,⁵⁵ the Patent Remedy Act,⁵⁶ and the Copyright Remedy Clarification Act,⁵⁷ each allowing an individual to sue a state and its agencies in federal court for intellectual property infringement.

Ten years after Professor Kwall's article and the congressional amendments, the goal of protecting individual intellectual property owners from the state has been frustrated by several seminal Supreme Court decisions. In 1996, the Court held in *Seminole Tribe v. Florida*⁵⁸ that Congress did not have the power to abrogate state immunity under the Eleventh Amendment through its Article I powers.⁵⁹ In 1997, in *Idaho v. Coeur d'Alene Tribe*,⁶⁰ the Court further held that *Seminole Tribe* applied even if the relief sought was injunctive.⁶¹ Although the Court made it clear in both cases that Congress could abrogate Eleventh Amendment immunity through its Section 5 powers of the Fourteenth Amendment,⁶² in *City of Boerne v. Flores*,⁶³ the Court narrowed the reach of Congress's Section 5 powers to clearly remedial measures.⁶⁴ Specifically, "[t]here must be a congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end."⁶⁵ The last nail in the coffin for private actions by individuals against the state government was applied in the *College Savings* decisions.⁶⁶ A decade after Professor Kwall's article, intellectual

55. Lanham Act, 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

56. Patent Act, 35 U.S.C. §§ 1-376 (1994 & Supp. III 1997).

57. Copyright Act, 17 U.S.C. §§ 101-1101 (1994 & Supp. IV 1998).

58. 517 U.S. 44 (1996).

59. *See id.* at 72-73.

60. 521 U.S. 261 (1997).

61. *See id.* at 269.

62. The relevant text states: "nor shall any State deprive any person of life, liberty, or property, without due process of law" and that "Congress shall have power to enforce, by appropriate legislation, the provisions of this article." U.S. CONST. amend. XIV, §§ 1, 5.

In *Seminole Tribe*, the Court upheld *Fitzpatrick v. Bitzer*, 427 U.S. 445 (1976), which found that Congress could abrogate Eleventh Amendment immunity pursuant to its powers under the Fourteenth Amendment, which was "adopted well after the adoption of the Eleventh Amendment and the ratification of the Constitution, [and] operated to alter the pre-existing balance between the state and federal power achieved by Article III and the Eleventh Amendment." *Seminole Tribe*, 517 U.S. at 65-66 (citing *Fitzpatrick*, 427 U.S. at 454).

63. 521 U.S. 507, 536 (1997) (striking down the provisions of the Religious Freedom Restoration Act, which imposed liability on state governments).

64. *See id.* at 521.

65. *Id.* at 520.

66. *See Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid*

property scholars and federal court scholars are back to square one.

The Court's decisions are especially ironic given the technological developments since 1989. The expansion of the Internet allows greater room for creative expression, technical innovation, and commerce.⁶⁷ Some commentators, including myself, have argued that Internet development demands a system of weak intellectual property protection,⁶⁸ meaning that owners of intellectual property, unlike owners of real property, do not have an absolute right to exclude others from use. In fact, the Court has expressly upheld weak intellectual property rights for certain types of information. In its controversial decision, *Feist Publications v. Rural Telephone Service*,⁶⁹ the Court held that there was no copyright protection for a compilation of data unless the compilation was original.⁷⁰ One conclusion is that the Court's recent decisions would be consistent with a system of weak intellectual property protection. However, weak intellectual property rights do entail some minimum level of protection accompanied with liberal standards for use by the public.⁷¹ The *College Savings* decisions⁷² entail a nonexistent property right system, at least with regard to the state. Instead of balancing public use and private rights, these decisions give full usage rights to the state. Such a result is inconsistent with the position of weak intellectual property rights advocates.

The Court recognized the need to protect the development of the Internet and the medium of the World Wide Web in *Reno v. ACLU*⁷³ in which the Court struck down congressional attempts to regulate indecency on the Web⁷⁴ through the Communications Decency Act.⁷⁵ The Court determined that this Act placed a chilling effect on the

Postsecondary Educ. Expense Bd. (*College Savings II*), 119 S. Ct. 2219 (1999).

67. See MICHAEL L. DERTOUZOS, WHAT WILL BE: HOW THE NEW WORLD OF INFORMATION WILL CHANGE OUR LIVES 20-29 (1997) (describing rapid expansion and future of information economy, particularly Cyberspace); M. ETHAN KATSH, LAW IN A DIGITAL WORLD 28-33 (1995) (detailing legal implications of growth in information economy).

68. See Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of "Rights Management,"* 97 MICH. L. REV. 462, 517-20 (1998) (arguing that property rights theorists have ignored the possibility of publicly held property). See generally Margaret Jane Radin, *Property Evolving in Cyberspace*, 15 J.L. & COM. 509 (1996) (discussing the concept of property in cyberspace); Shubha Ghosh, *Gray Markets in Cyberspace*, 7 J. INTELL. PROP. L. 1, 55 (1999).

69. *Feist Publications, Inc. v. Rural Tel. Serv., Co.*, 499 U.S. 340 (1991).

70. See *id.* at 357.

71. See Cohen, *supra* note 68, at 526-46.

72. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219 (1999).

73. 521 U.S. 844 (1997).

74. See *id.* at 885.

75. 47 U.S.C. § 223(a)(1)(B)(ii) (1994).

development of the new medium of the Internet and the new set of social and economic relations made possible by Cyberspace.⁷⁶ The Court, however, undercuts this protective view through the *College Savings* decisions.⁷⁷ Development of the Internet hinges upon intellectual property rights.⁷⁸ By immunizing state governments from liability, states can undercut intellectual property rights, creating a chilling effect for technological and expressive development in Cyberspace. In *Reno v. ACLU*, the Court slew the dragon of federal regulation as a threat to the Internet; in *College Savings*, the Court awakens a fifty-headed dragon against which developers of the Internet must battle.

The Court, however, has provided an ingredient for the response to the problem it has created. The early Rehnquist Court was known for its revolution in takings jurisprudence.⁷⁹ Many of these early cases, as well as important historical precedents established prior to the Rehnquist Court, protect private property owners against state regulation. These cases should be viewed as the check on the state in the context of intellectual property. However, the use of the Takings Clause is not straightforward. The early Rehnquist Court cases, as well as current developments, impose several obstacles to the application of the Takings Clause to state intellectual property infringement. But for reasons elaborated on in the next section, the Takings Clause is the strongest available avenue for bringing a claim of infringement against a state government.

III. NAVIGATING THE SHOALS OF THE ELEVENTH AMENDMENT, THE TAKINGS CLAUSE, AND CONGRESSIONAL POWERS

The Court has held in the *College Savings* decisions that a state government and its agencies are immune from suit for statutory intellectual property infringement in federal court.⁸⁰ Several avenues of

76. See *Reno*, 521 U.S. at 885 (dismissing the Government's contention that pornography was driving down Internet use because "[t]he record demonstrates that the growth of the Internet has been and continues to be phenomenal").

77. See *College Savings I*, 119 S. Ct. 2210-11 (holding that the state government is immune from patent infringement claims); *College Savings II*, 119 S. Ct. at 2233 (holding that state government is immune from federal unfair competition claims).

78. See KATSH, *supra* note 67, at 215.

79. See cases cited *supra* note 30.

80. See *College Savings I*, 119 S. Ct. at 2210-11 (holding that the state government

redress, however, are still potentially available for intellectual property owners seeking to sue the state. The focus of this section is on the following strategies: creating concurrent jurisdiction for claims of intellectual property infringement,⁸¹ obtaining a state waiver of Eleventh Amendment immunity,⁸² congressional abrogation of Eleventh Amendment immunity through its Section 5 powers under the Fourteenth Amendment,⁸³ and recharacterizing state intellectual property infringement as a taking under the U.S. Constitution.⁸⁴ Though a paper could be written on each of the first three approaches, the goal in this Article is to describe each approach and demonstrate its limitations. The conclusion is that the Takings Clause offers the most promising strategy for intellectual property owners in bringing infringement claims against the state.

A. Concurrent Jurisdiction: Property Rights and Politics

Congress has created exclusive jurisdiction in federal courts for patent, copyright, trademark infringement, and unfair competition claims. Since Eleventh Amendment immunity applies only to federal court jurisdiction,⁸⁵ Congress could allow private parties to sue the state by creating concurrent jurisdiction over Patent, Copyright, and Lanham Act claims in state court.⁸⁶ Trade secret law is purely a matter of state law, and most states have waived their sovereign immunity to be sued in

is immune from patent infringement claims); *College Savings II*, 119 S. Ct. at 2233 (holding that state government is immune from federal unfair competition claim).

81. Federal courts have exclusive jurisdiction over patent and copyright claims and concurrent jurisdiction over federal trademark and unfair competition claims. See 28 U.S.C. § 1338(a) (1994). State courts have jurisdiction over trade secret claims. Federal jurisdiction over state trade secret claims would be based either on diversity of citizenship, 28 U.S.C. § 1332 (1994), or supplemental jurisdiction, 28 U.S.C. § 1367 (1994) (allowing federal courts to hear state claims that are “so related” to pending federal claims over which they have original jurisdiction). For a discussion of supplemental jurisdiction, see ERWIN CHERMERINSKY, *FEDERAL JURISDICTION* 311-22 (2d ed. 1994).

82. See CHERMERINSKY, *supra* note 80, at 405-10.

83. See *id.* at 411-14.

84. See discussion *infra* Part IV.

85. See John E. Nowak, *The Scope of Congressional Power to Create Causes of Action Against State Governments and the History of the Eleventh and Fourteenth Amendments*, 75 COLUM. L. REV. 1413 (1975) (discussing the Eleventh Amendment as limit on federal judicial power); Laurence H. Tribe, *Intergovernmental Immunities in Litigation, Taxation, and Regulation: Separation of Powers Issues in Controversies About Federalism*, 89 HARV. L. REV. 682 (1975-1976) (stating the Eleventh Amendment limits federal courts, not Congress).

86. See John C. Beiter, *Copyright Infringement and the Eleventh Amendment: A Doctrine of Unfair Use?*, 40 VAND. L. REV. 225, 267 (1987) (proposing concurrent jurisdiction for copyright infringement claims).

state court for theft of trade secret and other torts.⁸⁷ By creating concurrent jurisdiction, Congress can open state courts to suits against the state for intellectual property infringement.

The chief problem with creating concurrent jurisdiction is uniformity of law.⁸⁸ Exclusive federal jurisdiction allows federal law to develop in a uniform and consistent manner. Opening up state courts to review federal intellectual property matters creates the possibility of intellectual property developing in a heterogeneous and divergent manner. Congress could, however, create concurrent jurisdiction only for suits by or against a state government. Such a solution would allow uniformity in intellectual property law in the case of private and federal government intellectual property infringement while allowing state courts to differ on the issue of infringement by state governments.⁸⁹ Bifurcated jurisdiction is complicated and would only further the heterogeneity of interpretation of the Patent, Copyright, and Lanham Acts.

A congressional solution is also subject to the problems of legislative politics.⁹⁰ Although the full scope of the politics is not presented in this paper, some thoughts on the issue are worth emphasizing. States in which many intellectual property companies are based would have a strong incentive to redress the problems posed by the *College Savings* decisions. States with few intellectual property companies would be divided in terms of incentives for remedying *College Savings I and II*. Those states seeking to expand their intellectual property base would

87. See W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS § 131, at 1044-46 (5th ed. 1984) (detailing abolition of immunities by 48 of the 50 states, except Maryland and Mississippi which retain tort immunity for the state itself).

88. See Beiter, *supra* note 86, at 267. Justice Stevens, in his dissent in *College Savings I*, reminded the Court that “[t]here is, accordingly, a strong federal interest in an interpretation of the patent statutes that is both uniform and faithful to the constitutional goals of stimulating invention . . .” *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199, 2212 (1999) (Stevens, J., dissenting).

89. Divergence between treatment of infringement by states and infringement by private individuals could be addressed by Congress. The question is whether Congress has the power to create uniformity between state and private action. As the Court stated in *College Savings I*, “[The Patent Remedy Act’s] basic aims were to provide a uniform remedy for patent infringement and to place States on the same footing as private parties under that regime. These are proper Article I concerns, but that Article does not give Congress the power to enact such legislation.” *College Savings I*, 119 S. Ct. at 2211.

90. See CHEMERINSKY, *supra* note 81, at 410-11 (“[Q]uestions of federalism are best resolved through the political process; therefore, Congress should have the authority to balance federal and state interests and, where necessary, create state liability in federal court.”).

seek protection, while other states seeking to infringe upon intellectual property rights would not seek protection. A legislative solution to the problem will subject the questions of jurisdiction and property rights protection to politics. Of course, there is nothing new to this pronouncement: all legislation is the product of politics. The difficulty is that intellectual property protection, admittedly already a political hot potato, would become more politicized if we were to rely solely on a legislative solution. The political nature of the problem underscores the need for a solution based on the Takings Clause, which according to several scholars is designed to deal with political gamesmanship over property rights,⁹¹ a point returned to in more detail in Parts IV and V.

Finally, it is far from clear that Congress can open up state courts to suits against a state government for federal claims. On the same day that the Court announced its *College Savings* decisions, it also announced its decision in *Alden v. Maine*,⁹² perhaps the most confusing opinion in recent memory.⁹³ *Alden* involved a suit by state employees (probation officers) brought against that state for back pay under the federal Fair Labor Standards Act.⁹⁴ The suit was brought first in federal court where it was dismissed because of Eleventh Amendment immunity.⁹⁵ The private plaintiffs brought the suit in state court in Maine, where the suit was dismissed based on state sovereign immunity. The Maine Supreme Court affirmed, and the U.S. Supreme Court granted certiorari. The Supreme Court affirmed the grant of sovereign immunity.⁹⁶ The result of the decision is that, absent an express waiver, a state is immune from suit in its own court by a private citizen for a federal claim.⁹⁷ The result is based not on Eleventh Amendment grounds (which apply only to state immunity in federal court) but on structuralist federal grounds.⁹⁸ The Court, however, does suggest that the state would not be immune if the suit was brought in state court by a federal agency.⁹⁹ Because of this last

91. See Michelman, *supra* note 37, at 306-07; FISCHER, *supra* note 13, at 100-43.

92. 119 S. Ct. 2240 (1999).

93. See, e.g., Stuart Taylor, Jr., *Supreme Court Errs on States' Rights*, N.Y.L.J., July 26, 1999, at 2 (criticizing the Court's federalism cases, including *Alden*, for expanding states' rights beyond the text of the U.S. Constitution).

94. See *Alden*, 119 S. Ct. at 2246.

95. See *id.*

96. See *id.*

97. See *id.* at 2268-69.

98. The Court's reliance on structuralism, rather than textual language, is demonstrated by one key sentence: "The generation that designed and adopted our federal system considered immunity from private suits central to sovereign dignity." *Id.* at 2247. The Court is appealing to historical understandings of the relationship between the federal government and the states. The Court also stated: "This case at one level concerns the formal structure of federalism, but in a Constitution as resilient as ours form mirrors substance." *Id.* at 2268.

99. The *Alden* Court stated:

holding, *Alden* could be viewed as regarding implied private rights of action.¹⁰⁰ Nonetheless, the Court's language is much broader than one of limiting a private party's rights to bring a claim; the Court is vindicating the right of state governments to be free from federal intrusions.¹⁰¹

The implications of *Alden* for the creation of concurrent jurisdiction are uncertain. A strict reading of *Alden* would suggest that Congress could not create concurrent jurisdiction that would allow a state government to be sued in its own state court on a federal claim. The *Alden* opinion does leave open the possibility of federal agency enforcement. Under the current Copyright and Lanham Acts, agency enforcement exists for criminal infringement;¹⁰² the statutes would have to be amended to allow for civil enforcement by federal agencies. Despite the dilemma posed by the *College Savings* cases and *Alden*, a private individual can sue a state government for misappropriation of trade secret in the state's own courts. What the *College Savings* decisions and *Alden* suggest is that the main avenue left for suing a state government in state courts for a violation of the Patent, Copyright, or Lanham Act is to recast the claim to the extent possible as a trade secret claim.¹⁰³

The difference between a suit by the United States on behalf of the employees and a suit by the employees implicates a rule that the National Government must itself deem the case of sufficient importance to take action against the State; and history, precedent, and the structure of the Constitution make clear that, under the plan of the Convention, the States have consented to suits of the first kind but not of the second.

Id. at 2269.

100. The Court has always been reluctant to create private rights of action under federal statute unless such causes of action are consistent with congressional intent. *See* CHEMERINSKY, *supra* note 81 at 356-57.

101. *See* 119 S. Ct. at 2268 ("The Framers of the Constitution did not share our dissenting colleagues' belief that the Congress may circumvent the federal design by regulating the States directly when it pleases . . .").

102. *See* 17 U.S.C. § 506 (1994 & Supp. IV 1998) (criminalizing copyright infringement); 15 U.S.C. § 1116 (1994 & Supp. IV 1998) (creating federal law enforcement powers to prevent trademark counterfeiting). There are no criminal provisions for patent infringement. The Federal Trade Commission enforces unfair competition claims under the Federal Trade Commission Act. *See* 15 U.S.C. § 45 (1994 & Supp. IV 1998).

103. This is at best a theoretical possibility. Although federal law does not preempt trade secret claims, *see* *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492-93 (1974), a claim for misappropriation of trade secret only protects against obtaining of trade secrets through improper means. Furthermore, the scope of trade secrets is different from and much narrower than that of patent, copyright, and trademark. *See* DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW § 1B (1992).

B. State Waiver: Politics, Contracting, and Intellectual Property Rights

In the *College Savings* decisions, the Court makes it clear that a state can be sued in federal court for intellectual property infringement if it makes a clear and unequivocal waiver of sovereign immunity.¹⁰⁴ There are three types of waivers that need to be considered: statutory waiver, contractual waiver, and federally mandated waiver. Each provides only a partial solution.

A statutory waiver constitutes a legislative act by a state legislature stating that the state and its agencies waive sovereign immunity and consent to be sued.¹⁰⁵ Most states have waived their sovereign immunity to be sued in state court;¹⁰⁶ however, almost no state has waived its sovereign immunity to suit in federal court.¹⁰⁷ After the *College Savings* decisions, an obvious solution is for state legislatures to consent to be sued in federal court over intellectual property. This solution raises the same political problem as that of Congress's creation of concurrent jurisdiction. States wanting to attract intellectual property-based enterprises would waive their immunity; other states would not. The result would be a patchwork of rules regarding the protection of intellectual property against state infringement. The legal and political equilibrium could be one in which states and intellectual property enterprises would match up accordingly, with such enterprises locating in and doing business solely with pro-intellectual property states. The equilibrium could also be a less desirable one with uncertainty over how much protection intellectual property enterprises have against state infringement. As discussed above, the basis for a property rights regime (and the Takings Clause in particular) is to militate against the

104. See *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.* (*College Savings I*), 119 S. Ct. 2199, 2204; *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank* (*College Savings II*), 119 S. Ct. 2219, 2228. The Court repeats the point in *Alden*, 119 S. Ct. at 2267 ("The first of these limits is that sovereign immunity bars suits only in the absence of consent."). See also *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 238 (1985) (pointing out that "if a State waives its immunity and consents to suit in federal court, the Eleventh Amendment does not bar the action").

105. Professor Chemerinsky calls this type of waiver an explicit waiver. See CHEMERINSKY, *supra* note 81, at 406. Professor Chemerinsky also discusses constructive waiver, which occurs when a state initiates suit in federal court. See *id.* This Article does not discuss constructive waiver because it is less interesting to the discussion of how state immunity affects intellectual property rights. This Article examines the situation when an intellectual property rights owner can initiate a suit against the state government.

106. See KEETON ET AL., *supra* note 87.

107. See *id.* at 1043-44. However, a statutory waiver of immunity from suit in state court can be construed (but rarely has been) to constitute a waiver of immunity from suit in federal court. See *Port Authority Trans-Hudson Corp. v. Feeney*, 495 U.S. 299, 308-09 (1990) (finding a waiver of Eleventh Amendment immunity in state statute).

politicization of property.

A contractual waiver constitutes an agreement between a private party and a state agency that is making use of intellectual property to waive its immunity in federal court.¹⁰⁸ Unlike a statutory waiver, a contractual waiver is negotiated on a case-by-case basis. The ability of an owner of intellectual property to negotiate a waiver rests on the value of the intellectual property to the state agency. The availability of a contractual waiver would also rest on the state's need to contract for use of the intellectual property. For example, if the state makes use of software sold in the marketplace, then the state can purchase the software and make infringing use of it. The transaction is not a negotiated one, but an arm's length market transaction. On the other hand, if the state is hiring someone to make custom-made software, then there is the possibility for negotiation in theory. The employee can condition his work on the waiver of immunity in federal court. The contractual waiver solution is only partial, depending upon the manner in which the intellectual property is acquired as well as the bargaining strength of the parties.

Federally mandated waivers are waivers that are obtained as a condition to a federal grant.¹⁰⁹ For example, if the National Science Foundation or the National Endowment for the Arts provides funds to a state agency, the funds can be conditioned on a waiver of sovereign immunity in federal court.¹¹⁰ Similarly, the Patent and Trademark Office can condition the grant of a patent or trademark to a state agency upon a waiver of sovereign immunity.¹¹¹ The source of the federal power to

108. Such a waiver would be a provision in a licensing agreement between the intellectual property owner and the state entity licensing use of the property.

109. As the Court stated in *Alden*, 119 S. Ct. at 2267, "[n]or, subject to constitutional limitations, does the Federal Government lack the authority or means to seek the States' voluntary consent to private suits."

110. RICHARD A. EPSTEIN, *BARGAINING WITH THE STATE* 196-210 (1993) (describing state and federal conditions placed on the grant of licenses and permits).

111. After the *College Savings* decisions,

Congress apparently may seek the states' waiver at least under laws approving interstate compacts or offering federal spending

. . . . Justice Scalia adopted a bright line [in *College Savings I*]: Congress can never seek waiver on the basis of a threat to exclude the state from an otherwise permissible activity

[The bright line test applies to] statutes that arguably confer some kind of benefit on the states.

Leading Cases, 113 HARV. L. REV. 218-19 (1999) (analyzing the implications of the two *College Savings* decisions). For a recent case that did find waiver under this theory, see *New Star Lasers, Inc. v. Regents of Univ. of Cal.*, 63 F. Supp. 2d 1240, 1244 (E.D. Cal. 1999) (finding constructive waiver of state immunity in a suit for declaratory judgment

condition grants to the states would rest in Congress's taxing power.¹¹² Federally mandated waivers would more readily support uniform application of federal law, unlike the other two types of waivers which would tend to balkanize the application of federal intellectual property law. However, the ability to condition rests on the awarding of funds or some government privilege, such as a patent or trademark. A state government can still assert its sovereign immunity if it has not received any benefits from the federal government. Furthermore, the Supreme Court has held in *South Dakota v. Dole*¹¹³ that there must be some nexus, however weak, between the condition and the federal funds or grant.¹¹⁴ The nexus requirement raises several questions: can Congress condition the grant of funds for scientific research on waiver for suit for all intellectual property claims or just ones stemming from patent? If *Dole*, as Justice O'Connor says in her dissent,¹¹⁵ requires a very close nexus, Congress and federal agencies would have to obtain waivers piecemeal from the state for each specific funding or grant.

Although a state waiver of sovereign immunity is a viable solution to the problem posed by the *College Savings* decisions, it is only partially satisfactory. The waiver solution leaves intellectual property rights owners vulnerable to political winds, at both the state and federal levels, and to the vagaries of contract law and negotiation. As a practical matter, intellectual property attorneys will assuredly advise their clients to obtain waivers from state agencies that make use of intellectual property. As a theoretical matter, however, the solution undercuts the goals of intellectual property law to provide incentives for developing scientific, artistic, and commercial expression.

C. Section 5 Abrogation: The Uncertain Implications of Boerne

The *College Savings* decisions limit Congress's power to abrogate Eleventh Amendment immunity under its Article I powers.¹¹⁶ The Court iterates in the *College Savings* cases that Congress has the power to abrogate Eleventh Amendment immunity under its powers in Section 5

of validity of state's patent because a patent constitutes a gift or gratuity bestowed by the federal government).

112. U.S. CONST. art. I, § 8.

113. 483 U.S. 203 (1987).

114. *See id.* at 207. The Court stated that "conditions on federal grants might be illegitimate if they are unrelated 'to the federal interest in particular national projects or programs.'" *Id.* (citation omitted).

115. *See id.* at 217 (O'Connor, J., dissenting).

116. *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bd.* (*College Savings I*), 119 S. Ct. 2199, 2205 (1999) ("Congress may not abrogate state sovereign immunity pursuant to its Article I powers . . .").

of the Fourteenth Amendment.¹¹⁷ The logic for this distinction is textual; since the Eleventh Amendment was adopted after Article I, the Eleventh Amendment trumps Article I.¹¹⁸ Following this logic, the Fourteenth Amendment (in fact, any amendment after the Eleventh) would trump Eleventh Amendment immunity.

The Fourteenth Amendment limits the ability of the states to infringe individual rights and to deny any citizen the equal protection of the law. Section 5 authorizes Congress to enact statutes that effectuate the goals of the Fourteenth Amendment.¹¹⁹ Since the Fourteenth Amendment protects individual citizens from takings by the state and imposes due process requirements on state governments in depriving individuals of life, liberty, or property, Congress has the authority to enact statutes that allow individual citizens to sue the state for takings and due process violations.¹²⁰ Therefore, Congress's power to amend the Patent, Copyright, and Lanham Acts to allow suits against state governments is based on its Section 5 powers.¹²¹

This argument is very powerful and will undoubtedly be the source for Congress's attempt to statutorily reverse the Court's decision in *College Savings I.*¹²² The Court did address the issue in the *College Savings* decisions, rejecting this argument in part.¹²³ The basis for its rejection is

117. *See id.* (“[T]his Court in *Seminole Tribe* also reaffirmed its holding in *Fitzpatrick v. Bitzer* that Congress retains the authority to abrogate state sovereign immunity pursuant to the Fourteenth Amendment.”) (internal citation omitted).

118. *See* discussion *supra* note 62.

119. *See* discussion *supra* note 62.

120. *See id.*

121. With regard to patent and trademark infringement, the Court in *College Savings Bank I* addressed this argument. *See* 119 S. Ct. at 2205-11. *See also* discussion *supra* note 26 and accompanying text.

122. *College Savings I*, 119 S. Ct. 2199.

123. Although the Court mentioned the argument based on the Takings Clause, it also pointed out that the government did not brief the takings issue in its amicus brief, stating “[t]he United States declines to defend the Act as based on the Just Compensation Clause.” *College Savings I*, 119 S. Ct. at 2208. In footnote 7, the Court addresses the Takings issue as follows:

There is no suggestion in the language of the statute itself, or in the House or Senate Reports of the bill which became the statute, that Congress had in mind the Just Compensation Clause of the Fifth Amendment. Since Congress was so explicit about invoking its authority under Article I and its authority to prevent a State from depriving a person of property without due process of law under the Fourteenth Amendment, we think this omission precludes consideration of the Just Compensation Clause as a basis for the Patent Remedy Act.

Id. at 2208 n.7. Of course, Congress did not push the Takings Clause in 1992 when,

found in *City of Boerne v. Flores*, the seminal decision which struck down provisions of the Religious Freedom Restoration Act that permitted suits against state governments.¹²⁴ In *City of Boerne*, the Court held that Congress could not create new constitutional rights when the Court had expressly addressed the constitutional issue.¹²⁵ Therefore, Congress could not overrule the Supreme Court's 1990 precedent in *Employment Division v. Smith*,¹²⁶ which limited by statute the scope of religious freedoms.¹²⁷ Furthermore, the Court in *City of Boerne* held that, if Congress was attempting to redress a constitutional wrong, it must establish a record.¹²⁸ and show a close connection¹²⁹ between the statutory scheme and the wrong. Congress would have to face these two hurdles in enacting new legislation permitting suits for intellectual property infringement against the states pursuant to its Section 5 powers.

The analysis of takings in the rest of this Article can be used to support Congress's use of its Section 5 powers to remedy intellectual property infringement by state governments. The remaining sections lay out the theoretical basis for recharacterizing state intellectual property infringement as a taking under the U.S. Constitution. This characterization is by no means clear and definite, but would allow Congress the authority under Section 5 to enact legislation permitting suits against the state. The only obstacle Congress would face from the scrutiny of the Court is to develop a record that would satisfy the standard articulated in *City of Boerne*¹³⁰ and repeated in *College Savings I*.¹³¹

prior to the decision in *Seminole Tribe v. Florida*, 517 U.S. 44, 57 (1996), Congress had the authority under Article I to enact the Act. Furthermore, the due process clause of the Fourteenth Amendment incorporates the Takings Clause. U.S. CONST. amend. XIV.

124. See *City of Boerne v. Flores*, 521 U.S. 507, 536 (1997).

125. See *id.*

126. 494 U.S. 872 (1990).

127. *Boerne*, 521 U.S. at 532.

128. "The legislative record thus suggests that the Patent Remedy Act does not respond to a history of 'widespread and persisting deprivation of constitutional rights' of the sort Congress has faced in enacting proper prophylactic § 5 legislation." *College Savings I*, 119 S. Ct. at 2210 (citing *Boerne*, 521 U.S. at 526).

129. See *id.* The Court in *College Savings I* stated that the "opinion in *City of Boerne* . . . noted that where 'a congressional enactment pervasively prohibits constitutional state action in an effort to remedy or to prevent unconstitutional state action, limitations of this kind tend to ensure Congress' means are proportionate to ends legitimate under § 5.'" *Id.* (quoting *City of Boerne*, 521 U.S. at 533). The Court further stated "[t]he Patent Remedy Act's indiscriminate scope offends this principle, and is particularly incongruous in light of the scant support for the predicate unconstitutional conduct that Congress intended to remedy." *Id.*

130. 521 U.S. 507.

131. *College Savings I*, 119 S. Ct. 2199; see discussion *infra* notes 128-29 and accompanying text.

D. The Takings Clause and Section 1983: The Most Appropriate Avenue for Confronting State Intellectual Property Infringement

The Takings Clause can be appealed to in two ways. First, it can be a substantive hook on which Congress can rest its Section 5 powers under the Fourteenth Amendment in enacting legislation that would permit suits against state governments.¹³² Second, the Takings Clause can be a source for a direct claim against state governments by individual citizens.¹³³ The Supreme Court suggests in *City of Boerne* that the exercise of Congress's Section 5 power rests upon establishing a record of constitutional violations by state governments. Absent such a record, the exercise of Congressional power under Section 5 will be subject to very close scrutiny by the Court. In order to survive Court scrutiny, Congress would have to show that creating a private action against state governments for intellectual property infringement remedies a pattern of government conduct that infringes on individual constitutional and federal rights.¹³⁴ A legislative solution would not be necessary if individuals could sue under the Constitution directly. Takings claims come in two varieties: claims of physical invasion and regulatory takings claims.¹³⁵ Physical invasion claims arise when the government expropriates land; regulatory takings are claims that specific government regulation interferes with private use. Since state infringement of intellectual property rights rarely involves the actual physical expropriation of intellectual property,¹³⁶ this Article will focus on regulatory takings claims. This subsection addresses the procedural issues raised by regulatory takings claims.

132. See discussion *infra* Part III.C; U.S. CONST. amend. XIV.

133. This basic understanding of [the Takings Clause] makes clear that it is designed not to limit the governmental interference with property rights *per se*, but rather to secure *compensation* in the event of otherwise proper interference amounting to a taking We have recognized that a landowner is entitled to bring an action in inverse condemnation as a result of 'the self-executing character of the constitutional provision with respect to compensation First English Evangelical Lutheran Church v. County of Los Angeles, 482 U.S. 304, 314 (1987) (internal citations omitted).

134. See *supra* note 128.

135. See discussion *supra* Part III for a detailed discussion of the substantive elements of the constitutional claim. See also *Yee v. City of Escondido*, 503 U.S. 519, 522 (1992) (dividing takings claims into physical invasion and regulatory takings claims).

136. Intellectual property rights are intangible rights. See *West River Bridge Co. v. Dix*, 47 U.S. 507, 533-34 (1848) (holding that the Takings Clause applies to intangible property such as copyright).

The individual against the state raises a constitutional claim in state court either as a defense to a substantive claim brought by the state against the individual or as a direct claim.¹³⁷ An individual can also bring the claim of constitutional violation in federal court under 42 U.S.C. § 1983.¹³⁸ Suppose a state university has allegedly infringed an individual songwriter's copyright in a musical composition. Under the *College Savings* decisions,¹³⁹ a state university can move to dismiss the claim in federal court under Eleventh Amendment immunity. The songwriter can assert his claim in state court against the state university as a direct claim, alleging the infringement to be a taking. Alternatively, the songwriter can be sued on a related claim by the state university (for example, there may be a cross license for the musical composition and some other piece of intellectual property) and raise the takings claim as a counterclaim. Finally, the songwriter could bring the claim in federal court under 42 U.S.C. § 1983,¹⁴⁰ alleging that the infringement is a taking.

The Section 1983 claim faces two major hurdles: the plaintiff must exhaust all available state actions and the remedies are limited. The first hurdle is discussed in *Williamson County Regional Planning Comm'n v. Hamilton Bank*¹⁴¹ which states that an individual can bring a takings claim under Section 1983¹⁴² only after exhausting all available state causes of action.¹⁴³ In *Williamson County*,¹⁴⁴ the takings claim was a

137. See, e.g., *Bivens v. Six Unknown Named Agents of Federal Bureau of Narcotics*, 403 U.S. 388, 394 (1971) (recognizing constitutional rights as a federal defense to a claim).

138. 42 U.S.C. § 1983 (1994 & Supp. III 1997).

Every person who, under color of any statute, ordinance, regulation, custom, or usage, of any State or Territory or the District of Columbia, subjects, or causes to be subjected, any citizen of the United States or other person within the jurisdiction thereof to the deprivation of any rights, privileges, or immunities secured by the Constitution and laws, shall be liable to the party injured in an action at law, suit in equity, or other proper proceeding for redress

Id.

139. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199, 2210-11 (1999) (holding that the state government is immune from patent infringement claims); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219, 2233 (1999) (holding that state government is immune from federal unfair competition claim).

140. 42 U.S.C. § 1983.

141. 473 U.S. 172 (1985).

142. See 42 U.S.C. § 1983.

143. See *Williamson County*, 473 U.S. at 191 (indicating that exhaustion is necessary in order to create a complete record for judicial review to determine whether regulation is a takings). See also Gregory M. Stein, *Pinpointing the Beginning and Ending of a Temporary Regulatory Taking*, 70 WASH. L. REV. 953, 964-67 (1995) (discussing *Williamson County*); Gregory M. Stein, *Regulatory Takings and Ripeness in the Federal Courts*, 48 VAND. L. REV. 1, 35-40 (1995) (arguing that *Williamson County* is about ripeness).

challenge to land use regulation; the Court held that the plaintiff had to first exhaust all administrative remedies and state inverse condemnation actions before bringing the action in federal court.¹⁴⁵ The application of the exhaustion requirement to takings claims based on intellectual property infringement raises a host of questions. The first is, what exactly are the state remedies that the plaintiff must exhaust? Most inverse condemnation statutes cover only real property interests;¹⁴⁶ however, a few cover intangible and personal property as well as real property.¹⁴⁷

There is no case law on whether intellectual property interests would be governed by inverse condemnation statutes. The position taken in this Article is that intellectual property interests would not be covered by inverse condemnation statutes in jurisdictions that restrict inverse condemnation claims to real property interests. In jurisdictions that extend inverse condemnation statutes to intangible property interests, an owner of intellectual property would, however, very likely have a claim since intellectual property is a form of intangible property. In addition, other state tort claims may have to be exhausted, such as a claim for conversion. A federal court may require exhaustion of all state tort remedies that are analogous to intellectual property infringement before the action under Section 1983¹⁴⁸ would proceed. The plaintiff, however, does have a powerful argument that he need not exhaust state tort claims before proceeding with the Section 1983 claim based on intellectual property preemption. The Copyright, Patent, and Lanham Acts have been held to preempt several state law claims, including that of conversion.¹⁴⁹ The argument against the requirement of exhaustion is

144. 473 U.S. 172.

145. *See id.* *See also* Chemerinsky, *supra* note 33, at § 8.9, at 500. Professor Chemerinsky states that the exhaustion requirement is consistent with the requirement under the Takings Clause that the state has taken property without compensation. *See id.* If the state does provide compensation through administrative proceedings, then the property owner cannot claim that there has been a taking.

146. For example, the Georgia inverse condemnation statute expressly applies only to interests in soil. *See* GA. CODE ANN. § 22-1-2 (Harrison 1999) (defining the right of eminent domain).

147. *See, e.g.,* City of Oakland v. Oakland Raiders, 646 P.2d 835, 844-45 (Cal. 1982) (city's condemnation of franchise for a football team actionable under state inverse condemnation statute).

148. 42 U.S.C. § 1983 (1994 & Supp. III 1997).

149. *See, e.g.,* Mayer v. Josiah Wedgwood & Sons, Ltd., 601 F. Supp. 1523, 1531 (S.D.N.Y. 1985) (finding preemption of conversion claim by copyright infringement claim).

that any state law claim against the state would be preempted by federal law and therefore the Section 1983 action should proceed. The full interplay between exhaustion and preemption in the context of intellectual property law has not been played out but would be a central issue should the takings claim be pursued against state intellectual property infringement.

A more difficult hurdle is the type of remedies available under Section 1983.¹⁵⁰ The Court has held in a series of cases that when an individual is bringing a cause of action against the state and its agencies, only prospective relief is available.¹⁵¹ This means that an individual suing for intellectual property infringement by the state under a takings theory could obtain only an injunction unless he is suing the state actor in its individual capacity.¹⁵² Although injunctive relief is valuable, the key value of an intellectual property claim is in the availability of money damages. Based upon the Court's interpretation of Section 1983, it seems that if an individual were to pursue an intellectual property infringement claim against the state under Section 1983, he would be limited to injunctive relief. The Court, however, has held that a takings claim may be different. In *First Evangelical Lutheran Church v. County of Los Angeles*,¹⁵³ the Court stated that the state must pay damages for a taking even if the state repeals the offending regulation.¹⁵⁴ This decision has been interpreted as excepting takings claims from the rule disallowing judgments for money damages against the states under Section 1983. However, some lower courts have limited remedies in takings claims to prospective relief despite the holding in *First Lutheran Church*.¹⁵⁵ These courts seem to read *First Lutheran Church* to apply only to inverse condemnation claims.¹⁵⁶ Whatever the relationship between *First Lutheran Church*¹⁵⁷ and Section 1983¹⁵⁸ jurisprudence, the

150. 42 U.S.C. § 1983.

151. *See, e.g.*, *Edelman v. Jordan*, 415 U.S. 651, 667 (1974).

152. *See Ex parte Young*, 209 U.S. 123, (1908); *see also Ford Motor Co. v. Dept. of Treasury*, 323 U.S. 459, 464 (1945) (“[W]hen the action is in essence one for the recovery of money from the state, the state is the real, substantial party in interest and is entitled to invoke its sovereign immunity from suit even though individual officials are nominal defendants.”).

153. 482 U.S. 304 (1987).

154. *See id.* at 319.

155. *See Washington Legal Found. v. Texas Equal Access to Justice Found.*, 873 F. Supp. 1, 10-11 (W.D.Tex. 1995), *aff'd*, 94 F. 3d 996, 1005 (5th Cir. 1996) (limiting remedy for a takings claim to injunctive relief); *Broughton Lumber Co. v. Columbia River Gorge Comm'n*, 975 F.2d 616, 618-19 (1992) (stating that Eleventh Amendment immunity barred a takings claim against state agency).

156. *See, e.g.*, *City of Monterey v. Del Monte Dunes, Ltd.*, 119 S. Ct. 1624, 1639 (1999) (distinguishing between inverse condemnation action and a cause of action under 42 U.S.C. § 1983).

157. 482 U.S. 304

possibility of limiting remedies to prospective relief certainly weakens the appeal of a takings theory, at least as brought as a claim under Section 1983.

Despite these procedural obstacles, the takings theory provides the most powerful basis for attacking state intellectual property rights infringement after the *College Savings* decisions.¹⁵⁹ A takings claim does not leave the question of intellectual property protection to politics as a congressional statute for the creation of concurrent jurisdiction or a waiver through state legislation would. The Takings Clause, properly interpreted, is meant to protect property owners from the vagaries of legislative politics.¹⁶⁰ Furthermore, a takings claim offers ex post relief for infringement, which would remedy ex ante differences in bargaining power that would make contractual waivers difficult to obtain. Finally, a takings claim properly defined and administered would not subject intellectual property protection to the uncertainties of congressional power and Supreme Court scrutiny. Congress could obtain state waiver under its tax and spend clause by making waiver a condition for the receipt of federal benefits. But it is not clear how far the Supreme Court would permit such conditioning. Similarly, even if Section 5 authority may be available to reenact the Trademark, Patent, and Copyright Remedy Clarification Acts permitting suits against the state government in federal courts, the Court has left room for limiting congressional power under Section 5. A takings claim is not a faultless solution, but it is perhaps the strongest strategy left available for intellectual property owners. Parts IV and V provide a detailed analysis of a takings claim as applied to Patent, Copyright, Trademark, Trade Secret, and Unfair Competition.

IV. TAKINGS THEORY AND INTELLECTUAL PROPERTY: DEVISING A CONSTITUTIONAL TEST FOR STATE INFRINGEMENT OF INTELLECTUAL PROPERTY

The constitutional text of the Fifth Amendment contains within it the

158. 42 U.S.C. § 1983.

159. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219 (1999).

160. See discussion *infra* Part IV for a more detailed look at this concept.

most salient legal concerns: the individual versus the state, the meaning of public use, and the scope of just compensation.¹⁶¹ All these concerns coalesce in the problem of characterizing state intellectual property infringement as a violation of the Takings Clause. This Part describes the three principal theories for interpreting the Takings Clause and demonstrates the implication of each theory for intellectual property infringement. Understanding what the Takings Clause means for intellectual property infringement is crucial for framing a Takings Clause claim. There are three questions raised by a claim that a government has taken private property:¹⁶² (1) What is private property? (2) What is a taking for a public use? and (3) What is just compensation? In answering the first question, the Court has consistently stated that the Constitution does not define private property and that constitutionally protected private property is defined by other sources such as state law.¹⁶³ The Court's answer to the third question has been to measure compensation by loss in fair market value.¹⁶⁴ It is the Court's answer to the second question that has created conceptual muddles.¹⁶⁵ Each theory attempts to address these three questions and rationalize the Court's answers. This Part reviews the three theories and shows how each is altered by the complications of intellectual property.

A. *The Takings Clause and the Theory of Property Rights Protection*

The first theory of the Takings Clause rests on the principle that property, particularly real property, is special and needs constitutional protection.¹⁶⁶ The roots of this position can be traced to James

161. U.S. CONST. amend. V (“[N]or shall private property be taken for public use without just compensation.”). See generally AKHIL REED AMAR, *THE BILL OF RIGHTS: CREATION AND RECONSTRUCTION* 77-80 (1998); EPSTEIN *supra* note 14, at 202-09; FISCHER, *supra* note 13, at 64-100; RADIN *supra* note 15 at 146-61; Michelman, *supra* note 29, at 1625-29; Jed Rubenfeld, *Usings*, 102 YALE L. J. 1077, 1122-23 (1993). It is an unwritten joke among law professors that every legal scholar takes a stab at the problem posed by the Takings Clause. This Article does not represent my first foray into the area, but my current topic does suggest why the Takings Clause has such appeal. See Shubha Ghosh, *Takings, the Exit Option and Just Compensation*, 17 INT’L REV. L. & ECON. 157 (1997).

162. See ERWIN CHEMERINSKY, *CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES* 504-05 (1997).

163. See *Board of Regents v. Roth*, 408 U.S. 564, 577 (1972).

164. See *United States v. 564.54 Acres of Land*, 441 U.S. 506, 517 (1979); *Boston Chamber of Commerce v. City of Boston*, 217 U.S. 189, 195 (1910).

165. See Cotter, *supra* note 17, at 529-30 (dissecting the muddle of takings law); Michael A. Heller & James E. Krier, *Deterrence and Distribution in the Law of Takings*, 112 HARV. L. REV. 997, 997-98 (1999) (pointing out the many “wrinkles” in the law of Takings); Carol M. Rose, *Mahon Reconstructed: Why the Takings Issue Is Still a Muddle*, 57 S. CAL. L. REV. 561, 561-62 (1984).

166. See AMAR, *supra* note 161, at 77.

Madison's views in the *The Federalist No. 10*.¹⁶⁷ If the problem with a democratic republic, according to Madison, is one of factionalism and the threat of majority oppression, then the solution is in protecting certain minority interests from governmental excess.¹⁶⁸ The Takings Clause provides this protection by forcing government to pay "just compensation" whenever someone's private property is taken for a public use. The Clause places limits on the eminent domain power of the government. Under English common law, the sovereign had the power to expropriate land for the sovereign's use.¹⁶⁹ The Takings Clause recognized this power and limited it.¹⁷⁰ Any expropriation would have to come at a price paid by the sovereign. Although the Takings Clause as originally drafted has been read to apply only to Congressional power, several state constitutions had similar provisions limiting a state government's exercise of eminent domain power.¹⁷¹ In 1897, the Takings Clause was the first provision of the Bill of Rights to be incorporated into the Fourteenth Amendment Due Process Clause and applied against state governments.¹⁷² But note that there is no express limitation in the text of the Takings Clause limiting its application to Congress. The text simply states that private property shall not be taken for public use without just compensation. There is no mention of which sovereign, federal or state, is being limited.¹⁷³ The reach of the Takings Clause is quite broad in limiting the power of both the federal and the state government.

The intriguing question raised by the Madisonian interpretation of the Takings Clause is the type of private property protected by the Clause. Historically, private property has been read to encompass both real and personal property.¹⁷⁴ Application to intellectual property or intangible property would occur only through analogy.¹⁷⁵ If the Takings Clause is based on the need to protect private property from the excess of

167. *See id.* at 78-79.

168. *See id.* at 79.

169. *See* 3 WILLIAM BLACKSTONE, COMMENTARIES *254-55, 620.

170. *See id.*

171. *See* MORTON J. HORWITZ, THE TRANSFORMATION OF AMERICAN LAW: 1780-1860, 259-61 (1977); G. ALAN TARR, UNDERSTANDING STATE CONSTITUTIONS 148 (1998).

172. *See* *Chicago, Burlington and Quincy R.R. Co. v. Chicago*, 166 U.S. 226, 236 (1897).

173. *See* AMAR, *supra* note 161, at 142-44.

174. *See* discussion *supra* notes 4-5.

175. *See* *West River Bridge Co. v. Dix*, 47 U.S. 507, 533-34 (1848).

majoritarianism, then that principle should apply whether majorities take land or someone's right to make profits from the land. By extension, the principle should also apply when the incidents of intangible property are being taken, such as tax on one's income or wealth. These extensions would be consistent with a modern, libertarian conception of the Takings Clause, a view associated with Professor Richard Epstein.¹⁷⁶ According to Epstein, all government regulation that does not proportionately expand society's resources would be a taking requiring just compensation.¹⁷⁷ Any redistribution among social groups would be a taking equivalent to the state's expropriation of land or personal property.¹⁷⁸

It is important to compare and contrast the Madisonian position from that of Epstein. For Madison, the primary concern is with majority excess. Madison recognized that there would be situations when majorities would trample on the rights of minorities. Landowners were among the minority groups that Madison was attempting to protect. The Takings Clause was designed to limit the sovereign's prerogative to exercise the eminent domain power. Professor Epstein radically expands this view; his concern is with protecting liberty, especially liberty from government regulation. Property, broadly construed by Epstein, is the means to protect individual liberty.¹⁷⁹ Property is special for Madison because of the abuse by majorities in exercising the state's power of eminent domain;¹⁸⁰ property is special for Epstein because it is the primary surrogate and measure of individual liberty.

The "property is special" notion is explored by other writers as well, with positions ranging between the doctrines of Madison and Epstein.¹⁸¹ The law and economics perspective on property rights elucidates the "property is special" view of takings. Law and economics scholars would, it is safe to say, agree that most disputes over the efficacy of legal rules arise from misallocated and poorly defined property rights.¹⁸² Law and economics scholars disagree over how to define and

176. See EPSTEIN, *supra* note 14.

177. See *id.* at 3-6.

178. See *id.* at 306-29.

179. See *id.* at 331-50.

180. See AMAR, *supra* note 161, at 77 ("James Madison . . . was ahead of his time in arguing that the dominant danger in America came from a possibly overweening majority rather than from self-interested government agents.").

181. See generally Nicholas Mercurio, *The Takings Issue: A Continuing Dilemma in Law and Economics*, in TAKING PROPERTY AND JUST COMPENSATION: LAW AND ECONOMICS PERSPECTIVES OF THE TAKINGS ISSUE 1-25 (Nicholas Mercurio ed., 1992); Thomas W. Merrill, *The Economics of Public Use*, 72 CORNELL L. REV. 61 (1986-1987);

182. See RICHARD A. POSNER, *ECONOMIC ANALYSIS OF THE LAW* § 3.4 (5th ed. 1998).

conceptualize property rights.¹⁸³ In the context of takings, the controversy arises over the government's ability to define rights among parties when parties fail to resolve private disputes over property rights. For example, if a residential community has a dispute with the owner of a smokestack, the government's role, through nuisance law or through legislation, is to define the rights that each party has in order to facilitate bargaining and private dispute resolution. In many situations, private resolution may not be possible even if the rights are properly defined because the costs of reaching private resolution are too great.¹⁸⁴ There may be too many interests involved among the residents, or the owner of the smokestack may refuse to negotiate. In situations where private resolution is too costly to achieve, the government should have the power to resolve the dispute by defining a legal rule (such as condemnation of the smokestack) in order to reach a result that the parties would reach if they could bargain.¹⁸⁵ The purpose of government regulation is either to facilitate private transactions or to mimic the outcome of hypothetical private transactions.¹⁸⁶

The law and economics view of government regulation has implications for the Takings Clause. Property is special not in some abstract sense of protecting liberty. Nor is property special because majorities can readily expropriate it. According to the law and economics view, property is special because property rights need to be defined in order to facilitate private bargaining and the resolution of disputes.¹⁸⁷ Note the quandary that this view creates. Government regulation presupposes well-defined property rights defined by the government. The government can both define and take away property rights.¹⁸⁸ The Takings Clause ensures that the government regulates property rights in a way that promotes efficient regulation by requiring

183. See Gary Minda, *The Dilemmas of Property and Sovereignty in the Postmodern Era: New Solutions for the Regulatory Takings Problem*, in *TAKING PROPERTY AND JUST COMPENSATION: LAW AND ECONOMICS PERSPECTIVES OF THE TAKINGS ISSUE* 125, 127 (Nicholas Mercuro ed., 1992).

184. See Merrill, *supra* note 181, at 64-65 (discussing property rules and liability rules in the context of takings).

185. See *id.* at 75-76 (discussing transaction costs).

186. See *id.* at 88-89 (discussing market bypass role of eminent domain).

187. See R.H. Coase, *The Problem of Social Cost*, 3 *J.L. & ECON.* 1, 19 (1960) ("[I]f market transactions were costless, all that matters (questions of equity apart) is that the rights of the various parties should be well-defined and the results of legal actions easy to forecast.")

188. See, e.g., *Webb's Fabulous Pharmacies, Inc. v. Beckwith*, 449 U.S. 155, 164 (1980) (holding that a government cannot create public property ipse dixit).

compensation in some instances. In abstract rights language, the Takings Clause, according to the law and economics view, established the correct definition and allocation of the right to regulate and the right to be free of regulation between the government and individual citizens.

The best example of the “property is special” theory of the Takings Clause is the Supreme Court’s 1992 decision in *Lucas v. South Carolina Coastal Council*.¹⁸⁹ In *Lucas*, the Coastal Council, a state agency, restricted development on beachfront property after plaintiff purchased his parcel. As a result, the value of plaintiff’s parcel diminished by almost one hundred percent.¹⁹⁰ The Supreme Court held that if the agency’s regulation was a taking, then Lucas was to be compensated for the loss in value of his land.¹⁹¹ The Court defined a rule for when a state’s regulation of real property constituted a taking: if the regulation deprives the property owner of almost all the value of his parcel and the regulation does not restrict activity that is otherwise a nuisance, then there is a taking and the land owner must be compensated.¹⁹² The decision is consistent with the “property is special” theory. The Court’s rule protects against state regulation of private property unless the private property use is a nuisance and subject to state regulation. From a Madisonian perspective, the concern is one of protecting the individual against the excess of majorities. From the libertarian perspective, the regulation deprives an owner of all value of property and essentially redistributes from those who favor beachfront development to those who do not. From a law and economics perspective, the Court’s rule balances the state’s right to regulate nuisances and the landowner’s right to be free of regulation. The holding of *Lucas* can be critiqued from each of these perspectives, but the Court’s holding in the case rests on a notion that property is special.

Intangible property, as well as real property, is special for the purposes of the Takings Clause. The uniqueness of intangible property can be illustrated by how the Court has treated regulation of interest on bank account and trust funds. In *Webb’s Fabulous Pharmacies, Inc. v. Beckwith*,¹⁹³ the Court held that the state’s appropriation of interest on an interpleader account was a taking of property from the creditors for whom the funds were being held.¹⁹⁴ Even though it was state regulation

189. 505 U.S. 1003 (1992).

190. *See id.* at 1014.

191. *See id.* at 1030-32.

192. *See id.* The Supreme Court remanded the case back to the trial court to determine what under state law was an “essential use” of land. *See id.* at 1031. The Court left open the possibility that the state could defeat the taking claim. *See id.*

193. 449 U.S. 155 (1980).

194. *See id.* at 160-61.

that permitted the generation of interest on the account, the Court rejected the argument that the interest on the account was “public money” and hence the property of the state.¹⁹⁵ According to the Court, “interest follows principal” and therefore he who owns the principal, owns the interest.¹⁹⁶ The Court recently relied on this precedent to strike down the use of interest on client accounts to fund public interest litigation in *Phillips v. Washington Legal Foundation*,¹⁹⁷ a case that will be discussed in more detail below. In *Phillips*, the Court once again used the idea that “interest follows principal” to strike down the state regulation.¹⁹⁸

The right to earn interest on principal is an intangible property interest. The Court has found it to be a special interest worthy of protection under the Takings Clause. The state use of interest on account represents a transfer from one group of litigants to another, redistribution hostile to the libertarian view of the Takings Clause. The state use of interest, arguably, is a use of private property by majority interests, a position hostile to the Madisonian perspective. Finally, the fact that the state creates property that it then appropriates would be counter, according to some, to the law and economics perspective of defining rights in a way that would promote private bargaining. Whether or not the Court performs this analysis correctly is examined below in determining which takings theories should apply to intellectual property infringement. But as can be seen from these examples, the “property is special” view would support recharacterizing intellectual property infringement as a taking. Since almost all government appropriation of a property interest would be a taking, then certainly state use of intellectual property without compensation would be as well. Furthermore, the Court’s rulings on state regulation of interest-bearing accounts would support a very broad reading of what private property is protected by the Takings Clause. The answer, according to *Webb’s Fabulous Pharmacies*¹⁹⁹ and *Phillips*,²⁰⁰ is that all value-generating activity would be protected. Patent, copyright, trademark, trade secret, and unfair competition would fit under this definition.

195. *Id.* at 163-64.

196. *Id.* at 164.

197. 118 S. Ct. 1925 (1998).

198. *See id.* at 1932.

199. 449 U.S. 155 (1980).

200. 118 S. Ct. 1925.

B. *The Takings Clause and the Theory of Political and Market Process*

While the “property is special” view would lead to an expansive reading of the Takings Clause in favor of intellectual property owners, the “political and market process” view would lead to a more narrow interpretation. This view does not start from a rights perspective regarding property. Instead, this view recognizes that property usage occurs in a political and economic context, which may be self-regulating.²⁰¹ Under this view, regulation leading to a diminution in value of the property is not automatically a taking.²⁰² If the regulation occurred through a representative process and the property owner has access to the political process to correct the regulation, then no judicial interference through application of the Takings Clause is necessary.²⁰³ Furthermore, according to this view, judicial interference by awarding just compensation to regulated landowners may lead to harm because of the problem of moral hazard.²⁰⁴ The process view recognizes that property does not exist apart from a political and economic system that responds to legal rules and judicial action.

The previous subsection described how the law and economics method would support the “property is special” view of the Takings Clause; the law and economics method would also support the process view. Although some may view this as a contradiction or indication of the ultimate elasticity of law and economics, the application of the law and economics method allows for different conclusions largely because of the different normative and descriptive viewpoints of the scholars using the method. Those who use law and economics to support the “property is special” view start from the assumption that private bargaining can in most instances resolve disputes. For those who use law and economics to support the process view, the starting assumption is that private bargaining occurs against a backdrop of market transactions and politics. The principal concern, according to this view, is balancing opportunism by governments against moral hazard by property owners.²⁰⁵ Consider the two extremes of no compensation for takings and full compensation for takings. If the government never had to pay, it would take too much, exercising its eminent domain power even if it were not efficient or socially just to do so. If the government

201. See Lawrence Blume & Daniel L. Rubinfeld, *Compensation for Takings: An Economic Analysis*, 72 CAL. L. REV. 569 (1984); Merrill, *supra* note 181, at 70 (discussing self-regulating dimension of public use requirement).

202. See Blume & Rubinfeld, *supra* note 201, at 569-70.

203. See *id.*

204. See *id.* at 593 (defining moral hazard as the incentive for an individual to undertake greater risks because of the availability of insurance).

205. See *id.* at 590. See also Ghosh, *supra* note 161, at 160.

always had to pay for all its regulatory and redistributive acts, then a private property owner would invest too much in his property. He would develop his property beyond what would be appropriate, especially in the light of pending government regulation. The proper application of the Takings Clause is to require compensation only when the government has abused its eminent domain powers and to have no compensation when the landowner has overdeveloped its property in anticipation of regulation.²⁰⁶

Professor William Fischel offers a version of the process view that is very strongly criticized by Richard Epstein.²⁰⁷ Fischel writes specifically in the context of land use regulation and starts from the assumption that politics can be an appropriate check on land use regulation.²⁰⁸ The democratic process can be counted on, according to him, in many instances to ensure that land use regulation is fair and efficient to all parties and is not exploitative to landowners.²⁰⁹ However, the court through the Takings Clause should strike down land use regulation and require compensation when the political process fails.²¹⁰ Fischel's point is that majoritarian excess and exploitation of landowners is most likely to occur at the local level, especially through zoning boards.²¹¹ Therefore, courts should apply the greatest scrutiny to the land use decisions of local political units and be the most deferential to regulation by Congress and state legislatures.²¹²

Fischel's conclusions are questionable on many levels. After all, it appears that property owners may have a more effective voice at the local level and, if they lack voice, the threat of exit may be very effective against expropriation by local governments.²¹³ However, his position provides a nice example of the process view. Two Supreme Court opinions provide further examples of this view on the Takings Clause:

206. See Blume & Rubinfeld, *supra* note 201, at 592.

207. See FISCHEL, *supra* note 13, at 1-12. For a critique of Professor Fischel's position, see Richard A. Epstein, *Why Is This Man a Moderate?*, 94 MICH. L. REV. 1758 (1996) (reviewing WILLIAM A. FISCHEL, *REGULATORY TAKINGS: LAW, ECONOMICS, AND POLITICS* (1995)).

208. See FISCHEL, *supra* note 13, at 118-24.

209. See *id.*

210. See *id.* at 180-82.

211. See *id.* at 253-89.

212. See *id.* at 285.

213. See Vicki Been, "Exit" as a Constraint on Land Use Exactions: Rethinking the Unconstitutional Conditions Doctrine, 91 COLUM. L. REV. 473, 506-08 (1991).

the 1978 *Penn Central Transportation Co.* decision²¹⁴ and the 1987 *Nollan* decision.²¹⁵ In *Penn Central*, the Court upheld the denial of a permit seeking a variance to allow development in the airspace above Penn Central Station in New York City.²¹⁶ The Court rejected the argument that the denial of the permit was a taking of the rights the owner had to develop into the airspace.²¹⁷ Instead, the Court found a reasonable basis for the denial and held that the owner had already been compensated through transferable development rights, which had been given to the owner at the time of denial.²¹⁸ These rights allowed the owner to develop the airspace on other properties.²¹⁹ In *Nollan*, a more conservative Court found that an exaction by the California Coastal Commission, which conditioned the approval of a building permit on the grant of a lateral beachfront easement to the public, was a taking.²²⁰ The Court held in *Nollan* that there had to be a close nexus between the condition and the exercise of governmental power for an exaction to not be a taking.²²¹

Despite the contrary results, both cases illustrate the process theory of the Takings Clause. In both cases, something was taken from the property owner. Under the “property is special” theory, the Court would have ruled that each case constituted a taking. Instead, the Court looked in both cases to the process by which government acted to regulate property. If the government had provided compensation and acted rationally, then the government regulation was not found to be a taking.²²² The *Nollan* case represents a stricter application of this standard when an exaction or government condition is involved.²²³ The “property is special” view would have predicted that each of these cases would constitute a taking. In *Penn Central*, the loss of air rights would have been seen as a clear appropriation of air rights by the state according to the “property is special” theory.²²⁴ Further, according to the “property is special” view, the public dedication of the land in *Nollan*, absent any nexus with the government action, would by itself be a taking.²²⁵ The “property is special” view adopts a theory of takings that

214. *Penn Cent. Transp. Co. v. New York City*, 438 U.S. 104 (1978).

215. *Nollan v. California Coastal Comm’n*, 483 U.S. 825 (1987).

216. *See* 438 U.S. at 136.

217. *See id.* at 135.

218. *See id.* at 137.

219. *See id.*

220. *See* 483 U.S. at 828, 841-42.

221. *See id.* at 834.

222. *See Penn Cent. Transp. Co.*, 438 U.S. 104, 120-21.

223. *See* 483 U.S. at 841-42.

224. *See* 438 U.S. 136-37.

225. *See* 483 U.S. at 828.

is akin to trespass law;²²⁶ the process view considers government regulation as a form of bargaining between the property owner and the state and seeks to preserve the owner's expectations in the bargaining process.²²⁷

The process view provides the theoretical basis for the Court's statement that the Takings Clause protects the reasonable, investment-backed expectations of property owners.²²⁸ While the "property is special" view would provide great protection for intellectual property owners, the process view would strike a balance between private property rights and public use. Intellectual property owners would be protected against infringement by the state that would defeat their reasonable, investment-backed expectations, meaning that not all state infringement would be actionable. Furthermore, protected expectations would depend upon the state of intellectual property law at the time of infringement. The implications of this standard can be better appreciated when contrasted with the third theory of the Takings Clause: the efficiency/fairness balance associated with Frank Michelman.

C. The Takings Clause and the Efficiency/Fairness Balance

Each of the two theories of the Takings Clause discussed above has, at its core, concerns with the efficiency and fairness of state regulation.²²⁹ The "property is special" view would hold that both efficiency and fairness could be pursued with strong protection for property rights.²³⁰ The process view strikes a balance between the state's right to regulate and the property owner's right to be free of regulation and would look to the process by which the property owner is regulated in order to determine whether there has been a taking.²³¹ The efficiency/fairness balance would require the judge to address the state regulation and loss of value to the property owner directly on a case-by-case basis to determine whether there has been a taking.²³² In contrast to the property

226. See POSNER, *supra* note 182, at 61.

227. See FISCHER, *supra* note 13, at 58.

228. See *Penn Cent. Transp. Co.*, 438 U.S. at 121.

229. See *Heller & Krier*, *supra* note 165, at 998 (describing the Takings Clause as balancing efficiency and justice); Frank I. Michelman, *Property, Utility, and Fairness: Comments on the Ethical Foundation of "Just Compensation" Law*, 80 HARV. L. REV. 1165, 1218-24 (1967) (describing the Takings Clause as balancing utility and fairness).

230. See POSNER, *supra* note 182, at 58.

231. See FISCHER, *supra* note 13, at 142-44.

232. See Susan Rose-Ackerman, *Regulatory Takings: Policy Analysis and*

is special view, the efficiency/fairness balance does not start from the presumption that private property itself is in special need of protection. In contrast to the process view, the efficiency/fairness balance does not focus solely on the process by which the property owner is regulated. Instead, as articulated by Frank Michelman, the efficiency/fairness balance is an elaborate cost-benefit calculus that the judge must undertake to balance the efficiency of the regulation with its distribution effects.²³³ Recently, Professors Heller and Krier have modified the Michelman approach to deal with the situation where the cost-benefit balance may be difficult to undertake.²³⁴ Michelman's analysis, as elaborated by Heller and Krier, has important implications for state infringement of intellectual property.

Michelman's approach requires a court to consider three factors: the efficiency of a regulation as measured by the difference between the total benefits and the total costs ("E"); the demoralization costs, or the costs imposed on individual citizens as a result of the regulation ("D"); and the settlement costs, or the costs to the state of compensating each individual citizen that is hurt by the regulation ("S").²³⁵ The demoralization costs are not counted as the total costs of the regulation in calculating E. Demoralization costs include long-term, psychic costs while the costs of the regulation include immediate, monetary costs. According to Michelman's formulation, a regulation is a taking in two instances. First, if the efficiency gains are less than the demoralization costs and settlement costs separately, then the regulation is a taking and can be enjoined. Second, if the efficiency gains are greater than either the demoralization costs or the settlement costs and the demoralization costs are greater than the settlement costs, then regulation is a taking and compensation must be paid to the aggrieved property owner. A regulation is not a taking if its efficiency gains are greater than either the demoralization or settlement costs and the demoralization costs are smaller than the settlement costs. In symbolic terms, the results are as follows:²³⁶

Taking and injunction:	$E < D$ and $E < S$
Taking and compensation:	$E > D$ or S and $D > S$
No taking:	$E > D$ or S and $D < S$

Democratic Principles, in TAKING PROPERTY AND JUST COMPENSATION: LAW AND ECONOMICS PERSPECTIVES OF THE TAKINGS ISSUE 25, 27-29 (Nicholas Mercuro ed., 1992).

233. See Michelman, *supra* note 229, at 1234-35.

234. See Heller & Krier, *supra* note 165, at 1003-05.

235. See Michelman, *supra* note 229, at 1214.

236. See *id.* at 1215.

To summarize, a regulation must be enjoined whenever its efficiency gains are outweighed by demoralization costs and settlement costs.²³⁷ If the efficiency gains outweigh either demoralization or settlement costs, then compensation must be made only when settlement costs are below demoralization costs.²³⁸

Michelman's approach strives to balance efficiency and fairness considerations.²³⁹ A regulation may have efficiency gains but still require compensation out of fairness considerations. In addition, a regulation may be efficient but still be struck down if the demoralization or settlement costs are high enough. Finally, a regulation may be inefficient but still not constitute a taking if the settlement costs are too high. There are no cases that have expressly adopted Michelman's approach, even though his article is often cited by the Court for the proposition that the Takings Clause requires a balancing between efficiency and fairness. Michelman's point, however, is not to propose a rule or standard for courts to follow. Instead, his goal is to rationalize the various criteria appealed to by the Court in its takings jurisprudence. For example, in *Lucas*,²⁴⁰ the efficiency gains of preventing beachfront development may be quite high because of the benefits of preventing erosion and property damage during hurricanes. However, the costs of demoralization and settlement are borne by Lucas, the property owner. Thus, the correct result is to not enjoin the regulation but to compensate Lucas for his loss. In *Penn Central*,²⁴¹ the efficiency gains of preventing airspace development were arguably minimal but exceeded any demoralization cost. However, the cost of settling with all hurt landowners is potentially great, resulting in a finding of no takings. The power of Michelman's approach is in providing a vocabulary and framework to sort through the readings of the Court's takings cases and detect patterns and inconsistencies.

Professors Heller and Krier have recently offered an important extension of Michelman's approach. They point out that all takings theories, including Michelman's, assume that the options are either no compensation by the government or compensation to the afflicted property owner.²⁴² Takings theories, according to Heller and Krier,

237. *See id.*

238. *See id.*

239. *See id.* at 1234-35.

240. *See Lucas v. South Carolina Coastal Council*, 505 U.S. 1003 (1992).

241. *See Penn Cent. Transp. Co. v. New York City*, 438 U.S. 104 (1978).

242. *See Heller & Krier, supra* note 165, at 1004-05.

overlook the possibility of a general compensation by the government as opposed to specific compensation to the property owners. While traditional takings theory would lead only to two outcomes (takings/compensation or no takings/no compensation), Heller and Krier would allow for two additional outcomes: no takings/ compensation and takings/no compensation.²⁴³ The first would arise when there had been no taking under traditional views (for example, because the government was regulating a nuisance) but there should be deterrence of the government through a general compensation (perhaps awarded by the legislature).²⁴⁴ The second situation would arise when there has been a taking, but the amount taken is so small that, effectively, compensation is zero.²⁴⁵ The key insight is that there may be situations when the government has taken property but the appropriate remedy is no compensation.

Using the terminology of Michelman, Heller and Krier argue that the two additional categories are needed to deal with the situation where the efficiency gains (E) are uncertain and the settlement costs (S) are large.²⁴⁶ Since the settlement costs are large, whether a taking exists or not depends upon the size of E , which is uncertain by assumption. In the situations where E is uncertain and S is large, Heller and Krier would prescribe the remedy of either general compensation when E is arguably high or a finding of takings with no compensation when E is arguably low.²⁴⁷ Heller and Krier's prescription is to decouple the compensation decision from the takings decision.²⁴⁸ As a result, they conclude, more flexibility is brought to the takings analysis.

An analysis of the *Phillips*²⁴⁹ case is instructive.²⁵⁰ In *Phillips*, the Court held that interest generated on an Interest on Lawyers Trust Account (IOLTA) is private property; the Court remanded for the determination of whether the expropriation of the interest constituted a taking.²⁵¹ Heller and Krier contend that *Phillips* is a strong example of the takings/no compensation remedy. The state, by expropriating a little bit of interest from several property owners, was able to assemble a large pool of money that was applied to general public use. Even if this were a taking, according to Heller and Krier, the efficiency gains are uncertain

243. *See id.* at 1002.

244. *See id.*

245. *See id.*

246. *See id.* at 1004.

247. *See id.*

248. *See id.* at 1001.

249. *Phillips v. Washington Legal Found.*, 118 S. Ct. 1925 (1998).

250. This case was previously discussed as representing the "property is special" approach to the Takings Clause. *See supra* notes 197-200 and accompanying text.

251. *Phillips*, 118 S. Ct. at 1934.

and the settlement costs are high.²⁵² Therefore, the finding of a taking does not automatically lead to an award of compensation. Instead, if the efficiency gains are arguably high (which Heller and Krier contend they are in the *Phillips* case), then an award of no compensation would be appropriate.²⁵³

The efficiency/fairness balance is strikingly different from the other two theories. The “property is special” theory would lead to great suspicion of government regulation that redistributed property. The efficiency/fairness balance would uphold most government regulation that redistributes property. The process theory would uphold most regulation if the process satisfied the expectations of the property owner. The efficiency/fairness approach would require the court to scrutinize the substance of the regulation, not simply the process by which the regulation was created, to test for costs and benefits. With these three theories as background, the discussion turns to the heart of the analysis: when should infringement by the state of intellectual property be a taking? The full differences and implications of the three theoretical approaches can best be appreciated by application to this central question.

D. Which Takings Theory Is Appropriate for Intellectual Property Infringement by the State?

The Supreme Court’s takings cases are a muddle. Charitably, they can be described as ad hoc jurisprudence. More realistically, they can be described as awkward attempts to reconcile issues of state regulation, private property rights, and the scope of judicial review. The previous subsection described three theories of takings jurisprudence. The choice of takings theory will dictate which approach is used to interpret the Takings Clause. If intellectual property infringement is to be characterized as a taking, the threshold question is which theory of the Takings Clause is appropriate for understanding infringement of intellectual property by the state. The short answer is that none of these views (the “property is special” view, the process view, or the efficiency/fairness view) is completely appropriate. Each has its deficiencies. But elements of each are important in developing the appropriate rationale for treating intellectual property infringement as a

252. See Heller & Krier, *supra* note 165, at 1021-22.

253. See *id.* at 1022.

taking.

“Intellectual property” has been used throughout this Article to describe patent, copyright, trademark, trade secret, and unfair competition, collectively. This description ignores the important differences among these five. This section considers the salient features that are common to each type and demonstrates the deficiencies of the three theories of the Takings Clause discussed above. At the end of this section, each type of intellectual property will be considered separately.

The “property is special” theory would be the most protective of intellectual property owners, but also the least appropriate approach for conceptualizing intellectual property infringement as a taking. At the heart of this view is the need to protect property owners against majoritarian politics. The concern is that landowners are visible minorities that majorities can infringe upon by engaging in redistributive programs. Intellectual property owners are different from owners of real property. Since intellectual property entails products of the mind, everyone is potentially an owner of intellectual property. The threat of majoritarian excess in regulating and infringing intellectual property is less than the threat to real property.

The fungibility of intellectual property also undercuts the “property is special” view of the Takings Clause. Regulation of real property diminishes the value and destroys rights attendant to land. The use of intellectual property does not necessarily diminish its value. An important characteristic of intellectual property is what economists call non-rivalry, meaning that consumption of intellectual property by one person does not diminish the amount available to someone else.²⁵⁴ Ideas and expressions of ideas can be replicated freely and at low cost. Therefore, if the state makes use of a patented or copyrighted work or a trademark or a trade secret, the state does not diminish its value or prevent the owner from making use of the property to the same extent that preventing development or construction on real property would. Infringement of an intellectual property right does not cause the same types of harms as infringement of rights in real property. A libertarian justification or Madisonian justification for extending the Takings Clause to infringement of intellectual property would be quite weak.

Arguing that intellectual property is special in the way that real property is special and therefore dictating close scrutiny of state use of intellectual property would ignore the public nature of intellectual property.²⁵⁵ Intellectual property rights, whether under patent, copyright,

254. See RICHARD CORNES, *THE THEORY OF EXTERNALITIES, PUBLIC GOODS, AND CLUB GOODS* 6 (1986).

255. See POSNER, *supra* note 182, at 51-53.

trademark, trade secret, or unfair competition law, balance private ownership with public use.²⁵⁶ Although the right to exclude is an important twig in the bundle of intellectual property rights, equally important is the public's right to use the property.²⁵⁷ The Intellectual Property Clause of the Constitution gives to Congress the power to create "limited monopolies" in the creation of patents and copyrights.²⁵⁸ The monopolies created are limited by the public's right to have access.²⁵⁹ Similarly with trademarks, the owner's rights to use a mark to designate his product is lost through overuse and genericide. The public's reliance in using a term generically trumps the owner's creation of the mark.²⁶⁰ Trade secret law does not protect the user against legitimate discoveries of the secret, such as through reverse engineering.²⁶¹ Finally, unfair competition creates very narrow rights to be free from unfair or illegitimate techniques in the marketplace.²⁶² The scope of unfair competition is limited by the possibility of confusion among consumers.²⁶³ Intellectual property is special because of its mixed public-private nature. Unlike real property, creating too strong a property right in intellectual property, forcing the state to pay whenever it makes any use of intellectual property, would undermine the purpose of an intellectual property system: to both create and allow for distribution of creative, expressive works and inventions.

The "property is special" view as applied to intellectual property would create too rigid a protection of intellectual property rights. This view would make intellectual property too much like private property. The process view and the efficiency/fairness view are equally problematic when applied to intellectual property. Just as the "property is special" view ignores the public dimension of intellectual property, the process and efficiency/fairness views ignore important private dimensions of intellectual property.

256. *See id.* at 52-53.

257. *See id.*

258. *See* U.S. CONST. art. I, § 8, cl. 8. ("Congress shall have Power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

259. *See* CHISUM & JACOBS, *supra* note 103, at § 1C (describing policy of intellectual property protection).

260. *See id.* at § 1B[4].

261. *See id.* at § 1B[2].

262. *See id.* at § 6E[1].

263. *See id.* at § 5F[1].

The process view would require the state to pay a private property owner compensation for regulation if the private property owner could not obtain some other relief from either the market or political process. A court should step in and either strike down regulation or require compensation under the Takings Clause when there is some breakdown in process. According to Fischel, this means that courts should apply close scrutiny to local regulation and be more deferential to federal and state regulation of real property.²⁶⁴ An economics approach would require compensation to balance the problem of moral hazard by property owners and opportunism by the government. As applied to intellectual property, the process view would offer too little protection to intellectual property owners. The reason for this prediction of lax protection is that the source of intellectual property protection is most likely to be federal law. Patents, copyrights, trademarks, and unfair competition law have their source in federal law. An intellectual property owner can always appeal to Congress for greater protection than currently granted under state or federal law. Examples of such extended protection abound, including term extensions for copyright owners,²⁶⁵ expansions of patentable subject matter,²⁶⁶ special trademark rights allowed for certain names and marks,²⁶⁷ and special legislation to protect famous marks.²⁶⁸ Given the availability of Congressional protection, intellectual property owners, according to the process view, would not need protection under the Takings Clause from state regulation by either state or local governments. Protection would be found in the political process, particularly the strong protection given by Congress.

The logic of the process view is borne out in part by the case law. The Court has been receptive to a claim that a federal use of a trade secret is a taking. In *Ruckelshaus v. Monsanto Co.*,²⁶⁹ the Court held that EPA regulations requiring disclosure of information that would be protected under state law as a trade secret constituted a taking if the federal government did not adequately protect the confidentiality of the

264. See FISCHEL, *supra* note 13, at 285.

265. See Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (codified in 17 U.S.C. § 101 (1994 & Supp. IV 1998)).

266. See Plant Patent Act, 35 U.S.C. § 161-164 (1994). See also *State St. Bank & Trust v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir. 1998) (overruling the business method exception which prevented methods of doing businesses from being patented).

267. See 36 U.S.C. § 380 (1994) (providing protection for the word "Olympic" and related symbols); 18 U.S.C. § 711(a) (1994) (providing fines for commercial copies of Woodsy Owl character and phrase "Give a Hoot, Don't Pollute").

268. See 15 U.S.C. § 1125(c) (Supp. IV 1999).

269. 467 U.S. 986 (1984).

information.²⁷⁰ This result is consistent with the process view. The trade secret owner cannot lobby Congress for changes in the environmental law; the trade secret owner would be subject to the vagaries of state politics in attempting to lobby the state for greater protection under state trade secret law. Therefore, protection for the trade secret owner is required under the Takings Clause because of the process breakdown: the trade secret owner cannot protect his rights through other processes. The Court also illustrates the process view in the nineteenth century case *James v. Campbell*,²⁷¹ in which the Court held that infringement by Congress of a patent is a taking.²⁷² To find otherwise would give to the federal government the power to grant property rights and take them away.²⁷³ Protection under the Takings Clause would be required in order to protect the patent owner from the exercise of congressional power.

An interesting quandary for the process view is raised by state infringement of a federally created right, such as a right under the patent, copyright, trademark, or unfair competition laws. According to the process view, the Takings Clause should be applied against the lowest level of government because the property owner can be exploited more at the local level of government than at the national level. Therefore, the Takings Clause should be applied against the state government when it infringes on intellectual property. However, because intellectual property rights are defined at the federal level, the protection of national politics would exist to remedy the intellectual property owner against state exploitation through infringement. In fact the quandary was resolved by congressional amendments in the early 1990s permitting suits for intellectual property infringement against state governments. The treatment of intellectual property illustrates a basic problem with the process view; courts play a central role in the process of defining and regulating property rights. After the *College Savings* decisions,²⁷⁴ Congress's power to protect intellectual property owners against state governments is constrained by the Court, and the need for protection of intellectual property owners under the Takings Clause is increased.

The difficult question is which test to apply in determining whether a

270. *See id.* at 1003.

271. 104 U.S. 356 (1881).

272. *See id.* at 357-58.

273. *See id.*

274. *See Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219 (1999).

particular state use of intellectual property constitutes a taking. The process view, to the extent that the view supplies a coherent test, would urge a court to protect the reasonable investment-backed expectations of the intellectual property owner. What this test might mean will depend upon the nature of the intellectual property right being protected, a point returned to at the end of this section.

The efficiency/fairness view, like the process view, is less friendly to intellectual property owners than the “property is special” view. Under the efficiency/fairness view, the court is to consider each state regulation on a case-by-case basis to review whether the regulation is a taking. Consider two examples of state infringement of intellectual property rights. In the first scenario, a state university press publishes, without permission, large portions of an author’s manuscript.²⁷⁵ In the second scenario, a research lab in a state university makes use of a patented process to distill a certain DNA sequence.²⁷⁶ How would the efficiency/fairness view assess these two state actions? In each, the efficiency gains are arguably quite small. The settlement costs would entail compensating the intellectual property owner, the author in the first scenario and the owner of the patented process in the second. These costs, arguably, would not be that large. The potential demoralization costs are ambiguous. In the case of the publication, future authors may be demoralized from producing more work and publishing with the state. In the case of the patented process, the owner may actually prefer the use of the process, even if uncompensated. The takings analysis would be ambiguous. The problem is that the efficiency/fairness approach applies well when the underlying property interest is one that is excludable. Intellectual property is a mixed public-private property interest. Therefore, it is more difficult to separate out questions of efficiency from those of fairness. Almost any public use of intellectual property would arguably have ambiguous efficiency gains, demoralization costs, and settlement costs. As a result, the efficiency/fairness view would be less friendly to intellectual property owners.

Under the Heller-Krier interpretation of the efficiency/fairness view, most state uses of intellectual property would be uncompensated takings.²⁷⁷ As in the *Phillips*²⁷⁸ case, state infringement of intellectual property would entail the taking of very small quantities from an

275. See *Chavez v. Arte Publico Press*, 204 F.3d 601 (5th Cir. 2000).

276. See *Regents of Univ. of Cal. v. Eli Lilly & Co.*, 119 F.3d 1559 (Fed. Cir. 1997), cert. denied 523 U.S. 1089 (1998), appeal reinstated sub nom. *Genentech, Inc. v. Regents of Univ. of Cal.*, 1999 WL 798031 (Fed. Cir. Aug. 26, 1999).

277. See *Heller & Krier*, supra note 165.

278. *Phillips v. Washington Legal Found.*, 118 S. Ct. 1925 (1998).

individual property owner.²⁷⁹ Even if the state use is technically a taking, the amount taken may be relatively small. Injunctive relief would be appropriate if the efficiency gains could be shown to be small. But showing the size of efficiency gains may be difficult. State infringement will often entail distribution of the intellectual property to a wider audience at the expense of a small part of the intellectual property owner's interest in the property. In addition, compensation may be difficult to obtain under the efficiency/fairness view. To obtain compensation, the intellectual property owner would have to show that demoralization costs exceed settlement costs. Settlement costs typically will be very small because settlement would involve negotiating with a known or readily identifiable property owner. However, demoralization costs also will be small since in most instances the intellectual property owner's right to exclude would be balanced by the additional access by the public. The efficiency/fairness view, if it ever supports a finding of a taking, would almost certainly be an uncompensated taking.

All three views of the Takings Clause have limitations when applied to state infringement of intellectual property. But each has strengths as well. The approach proposed in this Article draws upon the strengths of each view while also correcting their individual weaknesses. This approach is that if the government uses protected intellectual property in a way that diminishes the licensing value of the property, then the government must compensate the intellectual property owner. All other uses are not compensable takings.

Note how this approach integrates elements of the "property is special," process, and efficiency/fairness views. The phrase "protected intellectual property" draws on the "property is special" view by requiring compensation for uses of intellectual property as defined by the applicable state or federal law. The requirement that the use must diminish the value of the property also draws on the "property is special" view, particularly as represented by the *Lucas* opinion.²⁸⁰ The term "licensing value" is a term of art, which as described below draws on the efficiency/fairness perspective. Finally, the approach would apply to both state and federal governments, a requirement that draws on the process view of protecting property owners from process failures. As discussed above, intellectual property owners will face challenges in

279. See *supra* notes 245-50 and accompanying text.

280. *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003 (1992); see *supra* notes 189-92 and accompanying text.

protecting their rights from both federal and state governments.

How is this approach to be applied? The key is in the phrase “licensing value.” The value of intellectual property comes not from the ability to sell the property but from the ability to license the property to potential users. The licensing value captures this aspect of intellectual property value. If the state makes use of intellectual property that diminishes the ability of the intellectual property owner to license the property to several users, then the intellectual property owner must be compensated. However, there may be instances where the state use serves as a group license, and the state is able to disseminate use of the product in a more efficient way than the intellectual property owner. In this instance, the state actually creates efficiencies by creating larger dissemination of the intellectual property. When the state creates efficiencies in distribution, the state need not compensate the intellectual property owner.²⁸¹

Several examples illustrate the approach. If a state university press publishes large portions of an author’s work, the relevant inquiry is, first, did the state make use of “protected intellectual property”? If the state’s use would constitute fair use under copyright law, then the state has not made use of protected property. If the state’s use is not a fair use, then the relevant question is whether the state has diminished the “licensing value.” If the author can still profit from licensing his work, then there has been no diminution. Most likely, if the state has published the majority of the author’s work, then there has been diminution. If the amount taken is small, then there has been no diminution and no requirement of compensation. The same analysis would apply in the case where the state made use of a patented process to identify a gene sequence. The state has made use of something that would require a license by a private party. Therefore, the state must compensate the patent owner for the use. Finally, this Article’s approach would alter the result in *Ruckelshaus v. Monsanto*.²⁸² The government’s use of the information was purely internal and would not destroy the value of the company’s trade secret as long as the government did not disclose the secret to the general public. Therefore, the state use in *Ruckelshaus*²⁸³ would not be a taking under my approach.

281. The Court has held that government uses which generate public benefits are valid exercises of the takings power. Whether compensation is required is a question of balancing the public use with the harm to the property owner. See *Hawaii Hous. Auth. v. Midkiff*, 467 U.S. 229, 241 (1984). The approach is also implicit in *Lucas*, 505 U.S. at 1022-27. For an excellent theoretical discussion of the point that the Takings Clause requires compensation for governmental use of private property (as opposed to redistribution of property), see Rubinfeld, *supra* note 161, at 1131-48.

282. 467 U.S. 986 (1984).

283. See *id.* at 1003.

The next subsection develops this Article's proposal with application to specific types of intellectual property. Part V discusses takings in the broader context of federalism raised by the *College Savings* decisions²⁸⁴ and shows how these decisions are inconsistent with the Court's jurisprudence and approach to information and intellectual property. In the context of the Court's decisions in *Feist Publications Inc. v. Rural Telephone Service Company*²⁸⁵ and *Reno v. ACLU*,²⁸⁶ the Court's decision in the *College Savings* cases savings reflects a return to the types of errors made in the infamous *Dred Scott*²⁸⁷ decision about the relationship between federalism and property. However, the errors are now made in the context of information policy rather than slavery.

E. Where the Takings Clause Will Take Intellectual Property

Throughout this Article "intellectual property" has been referred to as if the concept were a cohesive one. This was done for the sake of developing my argument. In fact, intellectual property is a patchwork of five bodies of law: patent, copyright, trademark, trade secret, and unfair competition. This section applies my theory of takings to each type of intellectual property. Specifically, it will be shown that the theory will in effect replicate protection currently provided by statute for patents, copyrights, and trade secrets. The takings approach, however, offers protection for trademark and unfair competition that is different from the current protection provided under the Lanham Act.²⁸⁸

This Article has suggested that analyzing intellectual property infringement under the Takings Clause requires a three-part inquiry. First, there must be a governmental use. This part is fairly easy to satisfy by some use of the intellectual property by the state or an agent of the state. A governmental use is deemed to occur if the party using the intellectual property can claim immunity under the Eleventh Amendment. If Eleventh Amendment immunity is not available, then the party can be sued under the appropriate statute. There also must be a use of a protected intellectual property right. It is necessary to look to

284. See *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199 (1999); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219 (1999).

285. 499 U.S. 340 (1991).

286. 521 U.S. 844 (1997).

287. *Dred Scott v. Sandford*, 60 U.S. (19 How.) 393 (1857).

288. 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

the relevant positive law to determine whether the owner has a protected interest that was used by the government. This inquiry hinges upon which rights are granted by the relevant intellectual property statute. Therefore, a case-by-case analysis of the intellectual property is appropriate here.

Finally, there must be a reduction in the licensing value of the intellectual property. This part mirrors the *Lucas* test²⁸⁹ and is also designed to meet the goals of deterrence and compensation required by the Takings Clause. What constitutes licensing value will depend upon the intellectual property right at issue. For example, if the state uses intellectual property but does not impinge upon a protected right, then there is no diminution in licensing value. However, if the state makes use of the intellectual property in a way that reduces how much the owner can charge other potential users to license the property, then there is a reduction in licensing value that should be compensated. The three-part inquiry can best be understood by consideration of each type of intellectual property.

1. Patents

State use of a patented item provides the easiest case for a taking. There are several cases in which patent infringement by the federal government was held to violate the Takings Clause.²⁹⁰ There are fewer cases in which the state was held liable under a takings theory.²⁹¹ As a conceptual matter, however, the takings analysis should be the same when the claim is against the state government as it is against the federal government. In *James v. Campbell*, the Supreme Court held that

the government of the United States when it grants letters-patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser, we have no doubt.²⁹²

At issue in the case was a patented postmarking or stamping machine

289. See *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1030-32 (1992).

290. See generally *Belknap v. Schild*, 161 U.S. 10 (1896); *James v. Campbell*, 104 U.S. 356 (1881); *Chemical Separation Tech., Inc. v. United States*, 45 Fed. Cl. 513 (Ct. Claims 1999); *Standard Space Platforms Corp. v. United States*, 38 Fed. Cl. 461 (Ct. Claims 1997); *Bowles v. United States*, 31 Fed. Cl. 37 (Ct. Claims 1994); *Leesona Corp. v. United States*, 599 F.2d 958 (Ct. Claims 1979); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

291. See *Jacobs Wind Elec. Co. v. Department of Transp.*, 626 So. 2d 1333, 1337 (Fla. 1993) (finding state had jurisdiction in determining whether the state's infringement of a patent was a taking).

292. 104 U.S. 357-58 (1881).

invented by the plaintiff,²⁹³ who alleged infringement by the United States Post Office. The Court held that the plaintiff's invention was not infringed because the patent was invalid.²⁹⁴ If, however, the patent were found valid, the case would also pose substantial facts for a takings argument. The inventor's postmarking machine was designed specifically to be used by the U.S. Post Office, a fact underscored by the dissent.²⁹⁵ Therefore, under the test put forth in this Article, not only would the federal agency have made use of the owner's protected work, but the use would deprive the owner of all licensing value. The dissent makes an interesting point that even if the patent were found valid, there is an open question whether the United States can promise "that it will not use that which is essential to some of its most important operations without paying to the patentee whatever he may demand for the use of his invention."²⁹⁶ Professor Thomas Cotter, in private correspondence with this author, has pointed out that the United States could grant a patent with the express reservation of the right to use without payment.²⁹⁷ The extent of this power is an open question and deserving of further research. But it is clear that the state governments certainly do not have this power, and hence a takings argument similar to the one developed here would apply to state infringement of a patented invention.

Difficult questions arise when the government makes partial use of the product or the use does not completely destroy the owner's ability to license the patented work. In *James v. Campbell*, the government made use of the entire invention. In most cases, however, the alleged infringer makes use of a subset of the patent owner's claims. If the alleged infringer is the government, then the takings analysis would be the same as the patent infringement analysis: has the infringer made use of a claim that was granted to the inventor?²⁹⁸ The difference would be in the third element of this Article's takings test: has there been a diminution in the licensing value of the patented product? If the infringer is a private party, the infringer would have to pay damages to the owner for use. If

293. *See id.* at 359.

294. *See id.* at 382-83. The Court found that while the original patent was valid, the plaintiff was attempting to enforce a reissued patent which was invalid.

295. *See id.* at 384 (Miller, J., dissenting).

296. *Id.*

297. Correspondence from Professor Thomas Cotter, May 23, 2000 (on file with author).

298. *See* 35 U.S.C. § 271 (1994); *see also* CHISUM & JACOBS, *supra* note 103, at § 2F[2].

the infringer is the state, the owner's claim is not being brought under the Patent Act but under the Takings Clause. The interpretation of the Takings Clause should require consideration of not only the patent owner's property interests, but also the public benefits flowing from the governmental use and the political and market processes that can protect property owners.²⁹⁹ Therefore, the state need not pay unless the use deprives the owner of substantial licensing value. When the state makes use of part of an owner's patented work, the state may not have deprived the owner of substantial licensing value. The question of what constitutes substantial is a question that will be fact-dependent, requiring consideration of the alternative uses of the patent and the nature and extent of the governmental use.

The facts of the *College Savings* decisions provide another example of my approach. In *College Savings I*, a private bank had obtained a patent in a financial instrument that served as an investment vehicle to save for college education.³⁰⁰ The State of Florida made use of this patented method in marketing its own investment vehicle to Florida residents.³⁰¹ These facts should have allowed *College Savings* to proceed against the State on a takings claim. The bank had a protected property interest, and the state had made use of it. Whether the takings claim would be successful would depend upon whether there had been a substantial decline in the patent's licensing value; it seems likely that the use would have limited the value of licensing the product in the State of Florida to private banks. Private banks in Florida can purchase the state instrument and make use of it in designing new and improved financial instruments to market. The State, however, would have the argument that there has not been a substantial loss in licensing value; the private bank could still license to other states. This argument most likely would fail if not many other states had adopted the type of program that the State of Florida was pursuing.

Infringement of patent offers the strongest case for a takings claim. Case law establishes that patents are protected property and state use is easy to establish. The difficult issue is one of establishing loss in licensing value. However, most uses will result in some loss in licensing value. Whether the loss is substantial will depend upon the market for the patented product.

299. See discussion *supra* Parts IV.A-C.

300. See 119 S. Ct. at 2201-03.

301. See 119 S. Ct. at 2203.

2. Copyrights

Copyright is also considered protected property under case law³⁰² and under the Copyright Act.³⁰³ The difficulty raised by state use of copyrighted work is posed by the fair use doctrine.³⁰⁴ Copyright law allows the public to make use of a copyrighted work that would infringe on the copyright owner's rights if the use is considered fair. The fair use inquiry involves a judicial balancing of four factors: the nature of the copyrighted work, the amount used, the nature of the use, and the effect on the market of the copyrighted work.³⁰⁵ Several standard interpretations of the fair use factors arise. First, if the use is of facts as opposed to fiction, the use is more likely to be found fair.³⁰⁶ Second, if the use is for non-commercial uses, the use is more likely to be fair.³⁰⁷ Third, if only a small amount is taken, the use is also more likely to be found fair.³⁰⁸ The most confounding factor is that of determining the effect on the market for the work.³⁰⁹ This factor has been the most flexible part of the fair use analysis.³¹⁰ The Supreme Court has called this fourth factor "the single most important element of fair use."³¹¹

The fair use doctrine poses several potential problems for characterizing copyright infringement as a taking. As an illustration of these problems, consider the example of a state university that makes multiple copies of a copyrighted article for classroom distribution. If such use is fair, then there clearly has not been a taking of a private property interest from the copyright owner. While the copying did infringe the owner's copyright, the copying was, by assumption, fair. Therefore, no protected property interest has been taken from the owner. To be fair use, the state's copying must satisfy the balancing test. The factors for the determination of fair use, however, are the same factors used to determine takings. The amount taken, the nature of the use, the nature of the work, and especially the effect on the market will all enter

302. See *West River Bridge Co. v. Dix*, 47 U.S. 507 (1848).

303. 17 U.S.C. § 202 (1994).

304. See 17 U.S.C. § 107 (1994).

305. See *id.*

306. See *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 563 (1985).

307. See *id.* at 562.

308. See *id.* at 565.

309. See *id.* at 566.

310. See *id.*

311. See *id.*

into the determination of whether there has been a substantial loss in licensing value. Arguably, this overlap creates a circularity problem. To determine whether there has been a taking, the court must first resolve the fair use analysis, but the fair use determination will depend upon whether there has been a loss in licensing value, the third part of the takings analysis.

This circularity is resolved by treating the takings claim in the context of copyright infringement, as a statutory claim under the Copyright Act.³¹² Even though the plaintiff cannot sue the state under the statute, a court can still make use of the statute in interpreting the Takings Clause. This approach makes sense. The Takings Clause requires a balance between private property and public use. The balancing can occur in many ways. The Copyright Act has already struck this balance in its treatment of copyrighted property. The Copyright Act and the Takings Clause, as applied to copyrights, seek the same balance. Therefore, in addressing a claim against the state for a taking of copyright, it would be appropriate for the court to treat the claim as if it were a statutory claim brought under the Copyright Act. It is also important to point out that this strategy would apply only to copyright infringement. The Patent Act,³¹³ the Lanham Act,³¹⁴ and state trade secret law all lack an equivalent of copyright fair use. The balance between private rights and public use are struck very differently for patents, trademarks, and trade secrets.³¹⁵

The treatment of a takings claim for copyright infringement as a statutory claim would be consistent with how the Court has viewed the First Amendment in the context of copyright.³¹⁶ Very often, alleged copyright infringers have argued that enjoining their use of a copyrighted work or subjecting them to damages would violate the Free Speech Clause of the First Amendment. Such a defense was raised, for example, in *Harper & Row Publishers, Inc. v. Nation Enterprises*.³¹⁷ In this case Harper & Row (as a publisher) owned a copyright in President Ford's unpublished biography; *The Nation Magazine* published the story without permission.³¹⁸ The Court rejected *The Nation Magazine's* First

312. 17 U.S.C. §§ 101-1101 (1994 & Supp. IV 1998).

313. 35 U.S.C. §§ 1-376 (1994 & Supp. III 1997).

314. 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

315. The Patent Act, 35 U.S.C. §§ 1-376, does not recognize a fair use doctrine. Trademark does but only for limited uses, called nominative use. Trade secret law protects against improper means of acquiring the secret. If the secret is acquired in a proper way, then the use is protected. See CHISUM & JACOBS, *supra* note 103, at §§ 1B[1], 1B[2], 1B[4].

316. See Eugene Volokh & Brett McDonnell, *Freedom of Speech and Independent Judgment Review in Copyright Cases*, 107 YALE L.J. 2431, 2431 (1998).

317. 471 U.S. 539 (1985).

318. See *id.* at 542-43.

Amendment defense and found that the magazine's publication was not fair use.³¹⁹ The Court reasoned that a fair use analysis was sufficient to determine compliance with the Free Speech Clause.³²⁰ Congress, the Court stated, had already balanced First Amendment protection in enacting the Copyright Act and specifically its fair use provision.³²¹

The same reasoning should apply to takings considerations. If the state's use constitutes fair use, then there is no taking, just as there is no First Amendment violation. Congress, in enacting the fair use provision, sought to balance private property interests and public use. Those uses that constitute fair use do not infringe on a private property right. As a result, a state use that is fair use cannot take a protected property interest. A copyright owner's takings claim against the state for the purposes of determining whether there has been a compensable taking should not be treated differently from a statutory copyright infringement. Other than the procedural difference in how the claim is brought, a takings claim against the state for copyright infringement should not be treated differently from a statutory copyright claim brought against a private party.

3. Trademarks

Trademarks are different from patents and copyrights; the key difference is in the nature of the property interest. Patents and copyrights allow an inventor or author to exclude others from making use of the patented or copyrighted work. Trademarks, on the other hand, allow the owner exclusively to use the mark to distinguish a particular good or service marketed in a particular geographic region.³²² The trademark owner can exclude other users of the same or similar mark from using the mark in a way that is likely to cause confusion.³²³ Trademark owner's rights are much narrower than those of patent and copyright owners. On the other hand, patents and copyrights are limited in duration; trademarks can last forever unless the mark is abandoned or becomes generic.³²⁴ Because of these differences, the key problem raised for characterizing trademark infringement as a taking is one of defining

319. *See id.* at 560.

320. *See id.* at 558.

321. *See id.*

322. *See* CHISUM & JACOBS, *supra* note 103, at §1B[4].

323. *See id.* at § 5F[1][a][i].

324. *See id.* at § 5C[3][b][vi].

the protected property interest that is infringed upon by state use.

The Supreme Court has held that trademarks are different from patents and copyrights. In the *Trademark Cases*,³²⁵ the Court held that Congress did not have the power to enact trademark legislation under its copyright and patent power.³²⁶ The source of Congress's power to enact trademark legislation is the Commerce Clause.³²⁷ Therefore, trademark legislation is a form of commerce regulation as opposed to a creation of property rights that give the owner the right to exclude. The closest the Court has come to asserting that trademark is property is in its decision in *K Mart Corp. v. Cartier, Inc.*,³²⁸ where it stated: "Trademark law, like contract law, confers private rights, which are themselves rights of exclusion."³²⁹ A more compelling basis for treating trademarks as property is provided by the "Gay Olympics" case, involving the use of the word "Olympic" by the San Francisco Athletic Association.³³⁰ Congress legislatively had given the United States Olympic Committee ("USOC") exclusive rights to use the word "Olympic." The Court held that the word "Olympic" was the USOC's property and that USOC could exclude others from using the word, even if there was no likelihood of confusion.³³¹ The "Gay Olympics" case is the strongest support for the treatment of trademarks as a protected property interest.

The "Gay Olympics" case can be distinguished to the detriment of trademark owners who seek to recast trademark infringement claims as takings claims. Property rights in the word "Olympic" were created by congressional legislation. Most trademark rights are created through a review process and grant of trademark protection by the Patent and Trademark Office (PTO).³³² The rights created are narrow, allowing the owner to exclude potentially confusing marks branding the same product or service. However, these distinctions are insubstantial. Trademark rights are grants from the government that give the owner the right to exclude others from use. Therefore, trademarks should be considered property protected under the Takings Clause. This result would be consistent with established cases that the use of intangible property, such as franchises, by the government requires compensation.³³³

Even if the question of treating trademarks as property is resolved, the

325. *In re Trade-Mark Cases*, 100 U.S. 82 (1879).

326. *See id.* at 90.

327. *See* CHISUM & JACOBS, *supra* note 103, at § 5B.

328. 485 U.S. 176 (1988).

329. *Id.* at 185.

330. *See* San Francisco Arts & Athletics, Inc. v. United States Olympic Comm., 483 U.S. 522 (1987).

331. *See id.* at 535-37.

332. *See* CHISUM & JACOBS, *supra* note 103, at § 2D.

333. *See generally* West River Bridge Co. v. Dix, 47 U.S. 507 (1848).

issue remains of what governmental use should constitute a taking. This Article proposes a requirement of compensation if there has been a governmental use of a protected property right that substantially diminishes the licensing value of the trademark. If the governmental use was actionable under the Lanham Act,³³⁴ then the relevant inquiry is whether the governmental use is likely to cause confusion and was willful. The Takings Clause, however, seeks a balance of private rights and public use. Should courts in analyzing a trademark infringement as a taking simply defer to the statute, as this Article has proposed they do for copyright infringement? The answer to this question has to be no. As argued above, the Copyright Act strikes the same balance between private rights and public use as required under the Takings Clause. Therefore, treating a takings claim for copyright infringement as a statutory claim would be appropriate. The Lanham Act does not strike a similar balance. Courts have consistently read the Lanham Act not as a means of protecting the public but as a means of protecting the trademark owner against unfair competition.³³⁵ The requirement that the infringer's use creates the likelihood of confusion protects the trademark owner's interests and the consumers' interest to be free from confusion.

There are two possible resolutions. The first solution is to make all governmental use of a trademark a potential taking (contingent upon the effect on licensing value). This approach would give trademark owners greater rights against the government than they would have against private infringers. Such an expansion of trademark owner's rights would not be legitimate. Moreover, the Takings Clause itself does not define "private property."³³⁶ The meaning of "private property" has to be found in other independent sources such as state law. Some state statutes do provide greater protection for trademarks under state law than under the Lanham Act.³³⁷ If the trademark owner has trademark rights under state law, then the applicable state law could be appealed to in determining whether the governmental use constitutes a potential taking, thus defining trademark rights wholly under state trademark law. Such an approach leads to the following problem: state trademark law creates

334. 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

335. See *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1164-66 (3d Cir. 1993) (stating that plaintiff must "show a commercial interest which is subject to an injury because of the Lanham Act violation."); *Colligan v. Activities Club, Ltd.*, 442 F.2d 686, 687 (2d Cir. 1971) (stating that consumers do not have standing to sue under Lanham Act).

336. See *Board of Regents v. Roth*, 408 U.S. 564 (1972).

337. See *KITCH & PERLMAN*, *supra* note 7, at 100-01.

rights only within the borders of the state.³³⁸ What happens if a foreign state makes use of the mark? Is the owner required to register in every state to get protection? Relying on state law to define trademark rights would undermine the goals of uniformity of the Lanham Act.³³⁹ Relying on the Act to define trademark rights as property would not strike the appropriate balance between private rights and public use.³⁴⁰

The second, and more supportable, resolution rests on recognizing that the quandary over whether trademark rights are private property arises from a conceptual severance in reading the Takings Clause.³⁴¹ Although this Article has described a three-step takings analysis, it would be dangerous to ignore that the three steps are interdependent. This approach may result in too much focus on one of the steps at the expense of the others. Focusing on the elusive question of whether an alleged governmental infringement of a trademark is a governmental use of a protected property interest ignores that such use would not be a taking if it did not also decrease substantially the licensing value of the mark. Therefore, the appropriate inquiry is to see if the use of the mark by the

338. See *id.* at 101 (discussing *Erie* issues surrounding trademark law).

339. 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

340. Professor Mark Lemley has made a compelling case against the increasing treatment of trademarks as property. See Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1690 (1999). Professor Lemley's primary concern is with the development of federal antidilution statutes that go beyond the traditional goals of the Lanham Act in protecting consumers and competitors from confusion over source. I certainly agree with much of Professor Lemley's concerns with regard to the expansion of antidilution causes of action, which often result in the limitation of free speech and the flow of ideas. However, it is possible that trademarks can constitute a property interest under the Takings Clause without trademarks becoming absolute property rights. In fact, the whole point of the regulatory takings analysis is not to treat property as an absolute, but to determine which rights associated with property are protected from public use. See, e.g., Rubinfeld, *supra* note 161, at 1123 (suggesting that the takings analysis should focus on permitted public uses as opposed to identifying when private property has been taken). Subjecting trademark infringement by the state to a takings analysis does not necessarily further transform trademarks into absolute property rights. In contrast, the federal antidilution statute, by giving strong rights to owners of a famous mark to enjoin many uses of the mark, leaves very little room for striking the proper balance between private rights and uses. See 15 U.S.C. § 1125(c) (1994 & Supp. IV 1998) (providing a remedy for dilution of famous marks). For an application of this provision, which arguably was too broad and infringed on speech rights, see *Jews for Jesus v. Brodsky*, 993 F. Supp. 282, 287-90 (D.N.J. 1998) (enjoining use of famous mark "Jews for Jesus" by an individual in a domain name for a web site critical of the owner of the mark). For an interpretation of intellectual property rights as property that parallels the argument made in this Article, see Carlos Manuel Vazquez, *Sovereign Immunity, Due Process, and the Alden Trilogy*, 109 YALE L.J. 1927, 1962-74 (2000) (arguing that the Court leaves open the possibility for due process claims after the twin *College Savings* decisions).

341. "To apply conceptual severance one delineates a property interest consisting of just what the government action has removed from the owner, and then asserts that that particular whole thing has been permanently taken." RADIN, *supra* note 15, at 127-28.

government diminishes substantially the owner's licensing value. The question of likelihood of confusion should be irrelevant for the takings analysis in determining whether there has been a governmental use of a protected property interest. If the governmental use does diminish the licensing value, then the use is a taking even if there is no likelihood of confusion.

Such an approach does not necessarily give the trademark owner greater rights under the Takings Clause than under the Lanham Act. There may be instances when a governmental use does lead to likelihood of confusion but there has been no substantial decrease in licensing value. In that case, the owner will not be compensated under the Takings Clause even though he may have a claim under the Lanham Act if a private actor did the infringement.

Consider the following example, which should appeal to readers from Ohio and Oklahoma. Suppose a state university uses the mark "OSU" to designate various products and services that it sells. Specifically, it uses the name on a credit union. Suppose further that the mark "OSU" was owned by a private bank located in a different state. The mark was protected under state law and federal law. The bank brings suit against the state university for trademark infringement in using "OSU" to designate the credit union. The claim cannot be brought statutorily because of *College Savings*.³⁴² How would the claim be analyzed under the Takings Clause?

This Article's approach would require the state to compensate the trademark owner if there has been a governmental use of a protected property interest that substantially diminishes the licensing value of the mark. In this example, there probably has been a governmental use of protected property interest. The trademark owner has a mark that is federally registered. If the federal registration allows him to use the mark in the region in which the state university is currently using the mark, then the state use would be of protected property interest. The key question is whether there has been a substantial diminution of licensing value. The answer will rest upon what uses the mark would have in the region of the state university. If there would be a market for using the

342. *Florida Prepaid Postsecondary Educ. Expense Bd. v. College Sav. Bank (College Savings I)*, 119 S. Ct. 2199, 2210-11 (1999) (holding that the state government is immune from patent infringement claims); *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd. (College Savings II)*, 119 S. Ct. 2219, 2233 (1999) (holding that the state government is immune from federal unfair competition claim).

mark "OSU" to designate banks and other financial institutions, then there would not be a substantial diminution. However, if the market for financial institutions is small and the state university would be the sole credit union in the region, then the case for substantial diminution would be stronger. Note that likelihood of confusion is irrelevant for the takings analysis. The purpose of offering protection under the Takings Clause is to balance private property interests and public uses. The takings analysis put forth in this Article provides a more effective means of reaching this balance than the Lanham Act.

4. Trade Secrets

The case for treating theft of trade secrets as a taking is the easiest to make because of the Court's decision in *Ruckelshaus v. Monsanto Co.*³⁴³ There is no federal trade secret law. Trade secrets are wholly a matter of state law. Since the *College Savings* decisions³⁴⁴ limit Congress's ability to abrogate Eleventh Amendment immunity statutorily, a state's liability for theft of trade secret is not implicated. A trade secret owner can sue the state in state court if the state has waived its immunity (as most states have). The main obstacle placed by *College Savings I* and *II*³⁴⁵ is suing a state in federal court for theft of trade secret under federal diversity jurisdiction. Although the Court did not address this issue, it is very clear that the Eleventh Amendment³⁴⁶ would bar such a suit. The original (and literal) understanding of the Eleventh Amendment is that it bars suits against a state by a citizen of another state.³⁴⁷ In other words, the Eleventh Amendment was once understood to be a limit on diversity jurisdiction and inapplicable to federal question jurisdiction. With the expansive reading of the Eleventh Amendment, a federal forum is not available to a citizen of one state who seeks to sue another state for theft of trade secret unless the plaintiff can recast the claim as a takings claim.

The Court's analysis in *Ruckelshaus*, however, differs in substantial ways from this Article's proposal. First, the Court's analysis of the private property issue seems incorrect. The Court allowed protection of information that was in fact a trade secret and was submitted under a promise of confidentiality by the agency.³⁴⁸ The Court reasoned that there could be no protected property interest if the agency made no

343. 467 U.S. 986 (1984).

344. *College Savings I*, 119 S. Ct. at 2210-11; *College Savings II*, 119 S. Ct. at 2233.

345. *See id.*

346. U.S. CONST. amend. XI.

347. *See ORTH, supra note 24*, at 115-16.

348. *See Ruckelshaus*, 467 U.S. at 993-97.

promise to maintain confidentiality even if the information were a trade secret.³⁴⁹ This approach seems erroneous. Rather, the Court should look to trade secret law to determine whether there was a governmental use of a protected property interest. State trade secret law does provide a balance between private rights and public uses. Under state trade secret law, protection for a trade secret is not absolute. Protection is only accorded against certain improper means of acquiring the information. By not according protection when a governmental agency uses a trade secret without promising confidentiality, the Court limited the trade secret owner's rights under state law.

The Court also erred in its compensation analysis by allowing the plaintiff to pursue an award of compensation through a Tucker Act claim.³⁵⁰ The Court effectively was adopting the "property is special" theory of the Takings Clause. Since there had been a use of private property, the Court concluded, there must have been a taking requiring compensation.³⁵¹ The Court should have considered whether there was a substantial diminution in licensing value of the trade secret. The loss in value is questionable. There was disclosure of the information, but the disclosure was largely internal.³⁵² Any disclosure would not affect existing licenses or potential licenses for Monsanto's trade secret. Therefore, even though there was a governmental use of a protected property interest, there would not be a taking if there was not a substantial diminution in licensing value. Once again, this Article's approach would better balance private rights and public uses than the Court's current approach to takings of trade secret.

5. *Unfair Competition*

The discussion in this subsection should be read with the following caveat: the case for basing claims of unfair competition against the state on the Takings Clause is weak because of the difficulty of identifying a protected constitutional property interest. In *College Savings I*, the Court held that the state did not deprive the private plaintiff of any property interest because the state had misstated characteristics of its own product, as opposed to disparaging or stating anything misleading

349. *See id.* at 1010.

350. *See id.* at 1019.

351. *See id.* at 1020.

352. *See id.* at 991-92 (stating that the use of trade secret information was by EPA and for comparison of information across companies).

about the plaintiff's product.³⁵³ The Court's conclusion seems correct. Nonetheless, the strongest possible case for bringing an unfair competition claim based on the Takings Clause is when the state disparages a private competitor's product. This discussion begins with an overview of protections accorded by the Lanham Act³⁵⁴ and ends with an analysis of how these protections can be construed as property interests. Although there is one possible argument, that argument is weak and there are other ways to adjudicate unfair competition claims against the state.

The Lanham Act regulates not only the infringement of trademark but also acts that are more commonly known as false advertising.³⁵⁵ If a business makes a claim that his product performs better than a competitor's or makes some affirmatively false statement about a competitor's product, then the competitor has a cause of action under Section 43(a) of the Lanham Act.³⁵⁶ Recall that in *College Savings I*, a private bank in New Jersey was alleging that the State of Florida was infringing on its patents in marketing a financial instrument as an investment vehicle.³⁵⁷ The private bank was also alleging that the State of Florida was making misstatements about its financial instrument in its advertising brochures.³⁵⁸ The Court, of course, held that the claim was barred by the Eleventh Amendment.³⁵⁹ The Court also held that the bank had not alleged any interference with a protected property right.³⁶⁰ To quote the Court, there is "no decision of this Court (or of any other court, for that matter) recognizing a property right in freedom from a competitor's false advertising about its own products."³⁶¹

The Court's strong language in *College Savings II* is discouraging to this Article's theory of treating intellectual property infringement as a taking. Assuredly, the quoted language does not do damage to this Article's arguments concerning patents, copyrights, trademarks, and trade secrets. However, as most practitioners know, a claim under Section 43(a) quite commonly accompanies a claim for some other form

353. *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.* (*College Savings I*), 119 S. Ct. 2199, 2208-09 (1999).

354. 15 U.S.C. §§ 1051-1127 (1994 & Supp. IV 1998).

355. See CHISUM & JACOBS, *supra* note 103, at § 6E[1].

356. The provisions of the Lanham Act permit an owner of a trademark to sue a competitor or some other business who makes a false designation of origin or false representation in advertising. 15 U.S.C. § 1125(a) (1994).

357. See *College Savings I*, 119 S. Ct. at 2202-03.

358. See *College Sav. Bank v. Florida Prepaid Postsecondary Educ. Expense Bd.* (*College Savings II*), 119 S. Ct. 2219, 2223 (1999).

359. See *id.*

360. See *id.* at 2225.

361. *Id.*

of infringement.³⁶² While not allowing unfair competition claims against the government is not fatal, as long as takings claims exist for patent, copyright, trademark, and trade secret infringement, not allowing unfair competition claims against the government weakens standard intellectual property enforcement. Furthermore, the Court has been criticized for limiting the availability of claims against governments based on the antitrust laws.³⁶³ To the extent that those criticisms are valid, the Court exacerbates the problem by not allowing unfair competition claims against the government.³⁶⁴

Some solace may be found in reading the Court's language quite narrowly. The Court specifically held that there was no property interest in a competitor's product that could be asserted by College Savings.³⁶⁵ The open question is whether College Savings could have sued the State of Florida if the State had disparaged or made false claims about the bank's product. In this latter case, there has been clear damage to the plaintiff's property.³⁶⁶ The difficult question arises in shaping such damage into a takings claim. A takings claim is appropriate when the state makes false statements about a private competitor's product. The product is a property interest protected by the Takings Clause; the government has made use of the product and possibly the product name in its advertising.³⁶⁷ The remaining difficult question is the diminution in licensing value. As in the other contexts discussed above, the question

362. See CHISUM & JACOBS, *supra* note 103, at § 6E[2].

363. The source of the immunity is *Parker v. Brown*, 317 U.S. 341 (1943), which upheld a state regulation that fixed prices, conduct that would be actionable if done by private parties. See *id.* at 368. For criticisms of the state immunity from antitrust law, see generally John Shepard Wiley, Jr., *A Capture Theory of Antitrust Federalism*, 99 HARV. L. REV. 713 (1986) (arguing for less deference to state regulation under the antitrust laws).

364. The Court's decision in *Parker* has important parallels with its *College Savings* decisions. The *Parker* decision came down a year after the Court expanded Congress's power under the Commerce Clause to legislate activities that are wholly intrastate. See *Wickard v. Filburn*, 317 U.S. 111, 128-29 (1942). *Parker* immunity served as a limit on the vast reach of Congress' power. See E. THOMAS SULLIVAN & HERBERT HOVENKAMP, ANITRUST LAW, POLICY AND PROCEDURE 1037 (1999).

365. See *College Savings II*, 119 S. Ct. at 2225.

366. See, e.g., *McNeilab, Inc. v. American Home Prods. Corp.*, 848 F.2d 34, 38 (2d Cir. 1988) (holding that when a defendant makes a false statement about his own product, "the injury . . . accrues equally to all competitors"). One commentator has read *College Savings II* to say that "B deprives A of property when B makes false statements about A's products, but not when B makes false statements about B's." Vazquez, *supra* note 340, at 1970.

367. See *Idaho Potato Comm'n v. Washington Potato Comm'n*, 410 F. Supp. 171, 174-75 (D. Idaho 1975).

of whether there has been a diminution in licensing value will depend upon the market for the plaintiff's product and the nature of the use by the government. The Court has not addressed the issue of false advertising claims by the state involving the plaintiff's product. When the Court is confronted with that issue, a takings argument can readily be made.

Furthermore, the Court's holding regarding property rights and unfair competition claims is consistent with the case law involving claims against private defendants. Most successful claims under 15 U.S.C. § 43(a) involve product disparagement or false comparisons, in which the defendant is accused of making false statements about the plaintiff's product. Claims against firms that make false statements about their own products are actionable by the Federal Trade Commission under the Federal Trade Commission Act.³⁶⁸ The broad holding in the *College Savings* decisions that limits Congress's powers to abrogate Eleventh Amendment immunity is devastating. However, the narrow application to a state's false advertising about its own product is neither surprising nor problematic. The Court still leaves room for claims under the Takings Clause for state disparagement of someone else's product. And, of course, an administrative action by the FTC is still available as well.³⁶⁹

6. Summary

This section discussed my proposal for how the Takings Clause should be applied to intellectual property infringement claims against the state. My approach draws on traditional takings theory and the developed law of patent, copyright, trademark, trade secret, and unfair competition. The next section places my analysis and the Court's *College Savings* decisions in the broader context of federalism, property rights, and policy toward the information economy.

V. TAKINGS THEORY, FEDERALISM, AND INFORMATION POLICY: THE UNEXPECTED RESURRECTION OF *DRED SCOTT*

Intellectual property infringement by the state can, with modifications,

368. 15 U.S.C. § 45 (1994) (authorizing the Federal Trade Commission to bring cease and desist orders for unfair methods of competition). Congress has not abrogated state immunity under the Federal Trade Commission Act, and after *Seminole Tribe v. Florida*, 517 U.S. 44 (1996), it very likely will not be able to under its Commerce Clause powers, the basis for enacting the FTCA.

369. See *Alden v. Maine*, 119 S. Ct. 2240, 2267, 2269 (1999) (allowing federal officers to sue states in state court under federal law).

fit into the takings paradigms. As a result, intellectual property infringement by the state should be actionable either as a direct takings claim or as a basis for an exercise of Congress's Section 5 power under the Fourteenth Amendment. However, given the Court's deference to and protection of states' rights, simply recasting an intellectual property infringement claim as a takings claim does not resolve the problems at the heart of *College Savings I* and *II*. The Court's treatment of intellectual property infringement needs to be understood in the broader context of its treatment of information. Once this broader context is understood, the case for recasting intellectual property infringement as a taking becomes stronger. The two central cases to consider in understanding the broader context are *Feist Publications, Inc. v. Rural Telephone Service Co.*³⁷⁰ and *Reno v. ACLU*.³⁷¹

In *Feist Publications*, the Court held that in order for a creative work to be protected under the Copyright Act, the work must be original; as the Court put it: "originality is a constitutionally mandated prerequisite for copyright protection."³⁷² Factually, the Court denied copyright protection to the compilation of names in a phone book because the mere listing of names did not constitute originality.³⁷³ What is interesting about the Court's decision, in light of the *College Savings* cases, is that the Court limited copyright protection by limiting the scope of what Congress can constitutionally protect through its authority under the Copyright Clause.³⁷⁴ In *College Savings I* and *II*, the Court also limits the scope of intellectual property protection by placing constitutional limits on the Patent and Lanham Acts.³⁷⁵ From the perspective of intellectual property protection, the *College Savings* decisions and *Feist Publications* limit the rights of intellectual property owners.

The decision in *Feist Publications*, however, is potentially a pro-states' rights opinion as well. After *Feist Publications*, many compilers of databases sought to obtain protection under state contract law through licensing, specifically through the use of "shrinkwrap licenses."³⁷⁶ The

370. 499 U.S. 340 (1991).

371. 521 U.S. 844 (1997).

372. 499 U.S. at 351.

373. *See id.* at 341.

374. *See id.* at 346 (stating limitation on Congress's power in Court's interpretation of the Copyright Clause).

375. *See* 119 S. Ct. 2199, 2210–11 (1999) (holding that the state government is immune from patent infringement claims); *College Savings II*, 119 S. Ct. 2219, 2233 (1999) (holding that state government is immune from federal unfair competition claim).

376. *See ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454–55 (7th Cir. 1996) (stating

majority of circuits have not allowed use of such contract and have held that protection of databases through contract is preempted by the Copyright Act.³⁷⁷ A minority of circuits have held that use of a contract is not preempted.³⁷⁸ The point is that *Feist Publications* makes the issue of intellectual property protection, specifically the protection of databases, a question of federalist politics. Congress's attempts to pass legislation protecting databases has failed, largely for its failure to adequately protect users and consumers.³⁷⁹ Meanwhile, players in the information industry, from software companies to database manufacturers, have attempted to lobby changes in state law that provide protections that are denied by the *Feist Publications* decision. The battle over UCC Article 2B is the most well-known example of these attempts.³⁸⁰ After years of deep battles over the scope of protection to be provided under UCC Article 2B and under deep criticism of its anti-consumer bias, Article 2B is a failed venture.³⁸¹

The *Feist Publications* decision turned the question of protection for databases into a political question and, specifically, a battle between state legislatures and Congress. The *College Savings* decisions will have the same effect. There will be movements in state legislatures to waive immunity. Congress will attempt to reenact and tailor the offending legislation pursuant to its Section 5 powers. Federal agencies that provide funds in support of the Arts and Sciences will attach waiver of sovereign immunity as a condition to the funds. In *Feist Publications*, the Court limited the monopoly created by copyright to allow competition.³⁸² In the *College Savings* decisions, the Court limited intellectual property protection to allow states greater use of intellectual property than private actors. Both cases increased not only market competition but also the role of politics in defining rights. The difference, however, is that as a matter of information policy, *Feist*

that enforcement of shrinkwrap licenses is not preempted by Copyright Act); *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 270 (5th Cir. 1988) (finding preemption under Supremacy Clause).

377. See *MERGES ET AL.*, *supra* note 7, at 811-13.

378. See *id.*

379. See Jonathan Band, *The Digital Millennium Copyright Act*, 3 ELECTRONIC BANKING L. & COM. REP. 1 (Jan. 1999) (mentioning that the House-Senate Conference omitted provisions establishing database protection).

380. See generally Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111 (1999).

381. Article 2B was withdrawn after opposition from within both the American Law Institute and the National Conference of Commissioners on Uniform State Laws (NCCUSL). Currently, NCCUSL is promulgating the main provisions of Article 2B as the Uniform Computer Information Transactions Act (UCITA). See *Article 2B Is Withdrawn from UCC and Will Be Promulgated by NCCUSL as Separate Act*, ALI REP., Spring 1999, at 1.

382. See *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 363 (1991).

Publications is a good decision. Property rights that are too strong hinder the free flow of ideas and the incentives for creating innovative works. The decision in *Feist Publications* limited copyright protection to truly innovative works. The *College Savings* decisions do not have these beneficial effects. The weakening of property rights in the *College Savings* cases does not necessarily result in the free flow of ideas and creation of innovative works. Instead, the *College Savings* decisions opens the door to opportunistic uses of intellectual property by the state. The Court has merely politicized intellectual property rights without liberalizing its uses.

The politicization of intellectual property rights is underscored by comparison with *Reno v. ACLU*,³⁸³ perhaps the Court's most liberal pronouncement about information and technology. Once again, the Court struck down portions of a congressional statute, the Communications Decency Act, as offensive to the First Amendment.³⁸⁴ The Court found that the provisions attempting to criminalize adult content on the Internet, which would be deemed "obscene" or "indecent," were overbroad, potentially limiting unoffensive speech as well as offensive speech.³⁸⁵ Although the issue was not property rights, but speech rights, the Court demonstrates a very liberal approach to new technology and the flow of information. Acknowledging the difference from other communication media, the Court recognizes that the regulatory rationale of spectrum rationing and invasiveness did not apply to justify regulation that limits First Amendment rights.³⁸⁶ More importantly for the purposes of this Article, the Court acknowledged the potential of the Internet and the need to allow development of the technology. Limits on speech such as the Communications Decency Act, the Court concluded, would hinder the effective development of the technology of the Internet. As in *Feist Publications*, the Court liberated the information industry from the limits of regulation.

The *College Savings* decisions replace the shackles of federal law with that of state law. The most important area for development of the Internet will occur through property rights in information.³⁸⁷ After *Feist Publications*, federal law through application of copyright law is limited

383. 521 U.S. 844 (1997).

384. *See id.* at 885.

385. *See id.* at 849.

386. *See id.* at 870.

387. *See KATSH, supra* note 67, at 215.

in how these rights are defined. The battle of property rights definition is between the state and federal governments. After the *College Savings* decisions, the state is free to define property rights in information and take them away. The availability of waiver, a matter of politics, and the scope of Takings Clause jurisprudence limit the state's exercise of its power.

It is instructive to compare the current federalist jurisprudence over intellectual property and states' rights with the most infamous example in the Court's history: that of *Dred Scott*.³⁸⁸ The issue in *Dred Scott* was that of Congress's ability to determine whether newly acquired territory would be slave or free. Dred Scott and his wife were suing for emancipation from their master after moving to the state of Illinois, a free state, from Missouri, a slave state. The case, through many procedural peregrinations involving citizenship and the appropriateness of diversity jurisdiction, came in front of the Supreme Court, which decided two questions: the citizenship of slaves under the U.S. Constitution and the constitutionality of the Missouri Compromise.³⁸⁹ The Court held that, as a matter of the Constitution, based on text and history, African-American slaves were not citizens and therefore could not sue.³⁹⁰ This portion of the decision has been described as narrow and closely tied to the language of the Constitution.³⁹¹ The Court also held that by enacting the Missouri Compromise, Congress had violated states' rights by privileging free states over slave states. States, the Court stated, were equal under the Constitution and Congress could not make distinctions among them. This portion of the decision has been described as an expansionist holding, in which the Court appeals to the broad structure of the Constitution in reaching its conclusion.³⁹² The two parts of the *Dred Scott* decision represent a holding on property rights and a holding on states' rights.

Information policy does not arouse the same sentiments as slavery. Nor should it. But, in *Dred Scott*, the Court was confronting a central issue regarding conflicts over morality and visions of economic and social life. It resolved the conflicts through broad structuralist appeals to federalism. In *College Savings I* and *II* (as seen in the context of *Feist Publications* and *Reno v. ACLU*), the Court dealt with compelling issues regarding information policy, free speech, and commerce. Again, its response was to appeal to federalism. In neither case did the Court

388. *Dred Scott v. Sandford*, 60 U.S. (19 How.) 393 (1857).

389. See HAROLD M. HYMAN & WILLIAM M. WIECEK, *EQUAL JUSTICE UNDER LAW: CONSTITUTIONAL DEVELOPMENT 1935-1875*, at 191 (1982).

390. See *id.* at 412-13.

391. See Brophy, *supra* note 40, at 207.

392. See *id.*

consider the economic, social, or political realities. In both, there may have been a hidden political agenda. Many have argued that Justice Taney in his *Dred Scott* opinion was acting out his pro-slavery political opinions.³⁹³ The current federalism of the Rehnquist Court reflects at the least a distrust of Congress and federal power. The difference between the two opinions, however, has to do with property rights. In *Dred Scott*, the Court held that slaves were property under the Constitution and as a result had no rights as citizens. In the *College Savings* decisions, the Court leaves open the question of when intellectual property constitutes property. But, with appeal to the Constitution, the argument can be made that intellectual property is protected as property under the Takings Clause. The *Dred Scott* decision reconciled property rights and state's rights by looking to the Constitution to find protection for both. The *College Savings* decision invites the following alternative: look to the Constitution to determine property rights in intellectual property that will limit the Constitutional protection for states' rights.³⁹⁴ An effective reading of the Takings Clause as applied to intellectual property provides the remedy.

VI. THE IRRESISTIBLE FORCE OF PROPERTY RIGHTS AND
THE IMMOVABLE OBJECT OF STATES' RIGHTS:
THE CONVERGENCE OF INFORMATION POLICY
AND THE REHNQUIST COURT'S TAKINGS
JURISPRUDENCE

The Rehnquist Court has made a substantial shift in the area of states' rights and property rights through its *College Savings* decisions. The turn puts the Court in conflict with its takings jurisprudence spearheaded in the late 1980s. The Court's approach to intellectual property infringement by the state adds another dimension to its jurisprudence: the ability of state governments to infringe and hence limit federally created property. The reshaping of federalism harkens back to the logic of the *Dred Scott* decision, although admittedly in a less obnoxious context of property and states' rights. Infringement of a patent does not have the saliency and raise the moral outrage that slavery does. But if *Dred Scott* focused attention on the ability of the state to take away

393. See HYMAN & WIECEK, *supra* note 389, at 183.

394. See Michelman, *supra* note 40, at 1106-07 (recognizing some property rights created by the Constitution).

rights in the self and person from the African-American population, then the *College Savings* cases should focus our attention on the state's ability to usurp the products of the mind, the building blocks of cultural and creative expression which intellectual property law is meant to foster.

Even if the subject of intellectual property infringement is not as compelling as that of slavery, the jurisprudential focus of the *College Savings* decisions is at least perturbing. Defederalizing intellectual property in the manner chosen by the Court opens the door to state usurpation of intellectual property rights. In an era of technological innovation and development, as evidenced primarily by the expansion of the Internet, state usurpation has the capacity to limit the pursuit of innovation and cultural expression. The Court recognized this capacity when it struck down the Communications Decency Act in *Reno v. ACLU*. The Court should also have recognized the problem in the *College Savings* decisions.

This Article has proposed that the Takings Clause, particularly the perspective on takings of the early Rehnquist Court, can establish the proper balance between individual rights, states' rights, and the federal government. Unlike other Article I powers, Congress's power to create copyrights and patents is unique precisely because it comes into conflict with the Takings Clause. The Copyright and Patent Clauses permit Congress to create property rights expressly; the Takings Clause expressly prevents the usurpation of these rights without the payment of just compensation. It is black letter law that Congress cannot take away intellectual property rights; it should be the law that states cannot either.

The Court in its *College Savings* decisions ignores important technological and social realities. It seems to misunderstand the policy underlying some of its precedent, particularly regarding Internet regulation and takings. As the Court harkens back to ancient models of federalism, it is appropriate to think whether any of the Court's peregrinations matter. New technologies, particularly the Internet, allow individuals to escape boundaries, and the regulation of state and federal entities.³⁹⁵ The concept of states and states' rights becomes a relic.³⁹⁶

395. See David R. Johnson & David Post, *Law and Borders: The Rise of Law in Cyberspace*, 48 STAN. L. REV. 1367 (1996) (arguing that the law governing cyberspace is unique from laws governing real space). But see Dan L. Burk, *Federalism in Cyberspace*, 28 CONN. L. REV. 1095, 1095-96 (1996) (placing the medium of cyberspace in the hierarchy of state and federal relations); Jack L. Goldsmith, *Against Cyberanarchy*, 65 U. CHI. L. REV. 1199, 1200 (1998) (arguing that states do have the power to regulate cyberspace); Lawrence Lessig, *The Zones of Cyberspace*, 48 STAN L. REV. 1403 (1996) (arguing that cyberspace is not a place distinct from real space).

396. "The architecture of cyberspace—as it is just now—is open. One enters cyberspace as one wants." Lawrence Lessig, *Reading the Constitution in Cyberspace*,

The ultimate irony is that technological developments will make the Court's model of federalism even more obsolete. A civil war undid *Dred Scott*. The growth of Internet technologies will be the bloodless way in which the Rehnquist Court's revival of the outmoded federalist model (with its frustrations for ownership of cultural and intellectual expressions) will be undone.

45 EMORY L.J. 869, 876 (1996) (internal citation omitted).

