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The Relation of the Patent Law to the Federal Anti-Trust Laws

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The historical precedents for the modern patent statute and the existing federal anti-trust laws may be found in the English law during the reign of the Tudors, particularly Elizabeth and James I. During this period, as well as prior thereto, it was the practice of the crown to grant various types of monopolies in the exercise of the absolute prerogative to regulate all the affairs of the subjects, including the right to engage in trade and commerce. The monopolies thus granted covered a wide variety of activities, including importing and exporting of particular commodities, and the right to engage in trade and manufacture in specific articles.[1] Many of the monopoly grants made by the crown, particularly those to "merchant guilds", had for their object the inducement of the subjects to engage in trade. Eventually, however, these grants became the subject of abuses and were made in consideration of money paid or services rendered to the crown. The monopolies thus granted were not for the purpose of inducing the recipient to engage in trade, but were obtained purely for resale to others for a price.[2]

The abuse of the monopoly grants from the crown reached its height during the reign of Queen Elizabeth, when it is said that most of the common articles of consumption were under the control of holders of monopolies.[3] In the year 1601, a bill was proposed in Parliament to abolish monopolies. The Queen then issued a procla-

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[1]HUME, HISTORY OF ENGLAND, ch. xliv, 174; 1. ROBINSON, PATENTS (1890) ch. I. In law the term "monopoly" originally meant a grant by the sovereign "of or for the sole buying, selling, making, working or using of anything, whereby any person or persons, bodies politic or corporate are sought to be restrained of any freedom or liberty that they had before or hindered in their lawful trade." COKE, 3RD INSTITUTE, c. 85, 181.

[2]WM. HYDE PRICE, THE ENGLISH PATENTS OF MONOPOLY (1906) chap. 1. Jones, *Historical Development of the Law of Business Competition* (1926) 35 YALE L. J. 905, 930.

[3]ROBINSON, *op. cit. supra*, note 1, sec. 6.

mation which declared void some monopoly grants and decreed that any subjects, finding themselves "grieved, injured or wronged" by any of the grants remaining in force, might have their remedy in the Queen's Bench. In her "Golden Speech to Her Last Parliament," in explanation of her belief that the grants had been "for the good and avail of my subjects generally, though a private gain to some of my ancient servants, who have deserved well," the good Queen is reported to have added:

> "But that my grant shall be made grievances to my people, and oppressions to be privileged under color of our patents, our princely dignity shall not suffer it."[4]

In the famous case of *Darcy v. Allin*,[5] which was an action on the case for the infringement of a patent granted by Queen Elizabeth for the exclusive making, importing and selling of playing cards for twenty-one years throughout the realm, counsel for the infringer argued that the crown had no power to grant such a monopoly at common law. It was conceded, though, that monopoly grants for new inventions were an exception to the general rule. In the course of his argument counsel stated:

> "Now, therefore, I will show you how the judges have heretofore allowed of monopoly patents, which is, that where any man by his own charge and industry or by his own wit or invention doth bring any new trade into the realm, or any engine tending to the furtherance of a trade that never was used before—and that for the good of the realm—that in such cases the King may grant to him a monopoly patent for some reasonable time, until the subjects may learn the same, in consideration of the good that he doth bring by his invention to the Commonwealth; otherwise not."[6]

The statement of this argument was probably among the earliest assertions of the right of every subject to freedom of trade, relieved of the restraint of a patent monopoly. At the same time it was also a recognition of the survival of the royal prerogative to grant monopolies for new inventions. The court adopted the argument of the defendant and held that the monopoly in playing cards was void under the common law, because their manufacture furnished employment to the subjects, and an exclusive grant to trade therein was against the liberty and benefit of the subjects. The court regarded

[4]The full text is printed as appendix K in PRICE, THE ENGLISH PATENTS OF MONOPOLY, *op. cit. supra* note 2.

[5](1602) 11 Coke 84 B. The argument of counsel in this case appears in Noy, Reports and Cases Taken in the Time of Queen Elizabeth, King James and King Charles (1650), 173; reprinted in 74 English Reports, Full Reprint, Kings Bench, Book 3, p. 1131.

[6]Darcy v. Allin, *supra* note 5.

such monopolies as not only prejudicial to the traders who were excluded from dealing in that particular article, but also harmful to the public, because their inseparable incidents are (1) raising of prices, (2) a deterioration in quality, and (3) the impoverishment of the excluded traders.

In 1624, during the regin of James I, the famous Statute of Monopolies was passed. This Statute was declaratory of the common law that grants of letters patent

> "For the sole buying, selling, making, working or using of anything within this realm or the Dominion or Wales, or of any other monopolies . . . are altogether contrary to the laws of this realm, and so are and shall be utterly void, and of non-effect, and in no wise to be put in use or execution."

The statute then contained this notable exception:

> "Provided, nevertheless, and be it declared and enacted: That any declaration before mentioned shall not extend to any letters patent and grants of privilege for the term of one and twenty years or under, heretofore made of the sole working or making or any manner of new manufacture, within this realm, to the first and true inventor or inventors . . . ."[7]

There was also a similar exception covering letters patent for a term of fourteen years "hereafter to be made" and relating to new inventions.

A condition which was added to each of the exceptions must also be noted, because it indicates something of the original nnderstanding of the relation of the law against monopolies to patents for new inventions. The condition accompanying the exceptions, reads as follows:

> "So they be not contrary to the law nor mischievous to the state, by raising of the prices of commodities at home or hurt of trade, or generally inconvenient . . . ."

From this it will be seen that the provisions of the Statute of Monopolies related to two separate classes of monopolies: first, those which restricted the right to trade in some well known branch of industry or commerce to particular individuals or corporations, and,

[7] 21 James I, ch. 3; HUME *op. cit. supra* note 1, 335, commenting on the enactment of the Statute of Monopolies says: "Advantage was also taken of the present good agreement between the King and Parliament [the King needed money from Parliament to carry on a war with Spain] in order to pass the bill against monopolies, which had formerly been encouraged by the King, but which had failed by the rupture between him and the last House of Commons. This bill was conceived in such terms as to render it merely declaratory; and all monopolies were condemned as contrary to law and to the known liberties of the people. It was there supposed, that every subject of England had entire power to dispose of his own actions, provided he did no injury to any of his fellow-subjects; and that no prohibition of the King, no power of any magistrate, nothing but the authority alone of laws could restrain that unlimited freedom."

secondly, those which conferred exclusive rights on the inventors of a "new manufacture" or the introducers of a new trade into the realm. Monopolies of the first class developed into oppressive privileges and were held void by the courts, because in violation of the common law, and, in accordance with the principles of Magna Charta, they were nothing more than a royal usurpation of power. Monopolies of the second class, that is, patents for new inventions, were sustained by the courts even prior to the Statute of Monopolies, and were regarded as a legitimate exercise of the royal prerogative.[8] Eventually, these monopolies acquired legal sanction by virtue of a fiction that the transaction was in the nature of a contract under which a grant was made in consideration of an immediate disclosure of something new and useful to the realm.[9]

The early hostility to monopolies in England, evidenced by the Statute of Monopolies, was renewed in the American colonies as a result of the abuses of the patents of monopoly granted to English companies engaged in colonial trade. This hostility was one of the immediate causes of the Boston Tea Party, when a cargo of tea of an English company, to whom a monopoly in this commodity had been granted, was dumped in the Boston Harbor.[10] This resentment against monopolies in the colonies increased during the Revolution, because of the monopolistic practices of local tradesmen.[11] So strong was the belief in the prohibition of monopolies "as contrary to the spirit of a free government" that it was included in the declaration of rights in some of the first state constitutions.[12]

From time to time many of the states have enacted so-called anti-monopoly statutes to curb abuses which menaced free trade in the states.[13] Finally, in 1890, Congress passed the Sherman Anti-Trust

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[8]Hyde *op. cit. supra* note 2, ch. 1, points out that the patents of monopoly as a form of industrial encouragement, on the continent, at least, is believed to have preceded those based on the introduction of a new art. As early as 1467 a monopoly was granted for the manufacture and sale of paper in Berne and its jurisdictions. The industrial grants were developed in France before they were introduced in England. The practice of the early Tudor monarchs was to grant industrial patents to protect foreign workmen introducing new arts in England. The earliest exclusive patent of this character in England bears the date 1558. In the latter part of the sixteenth century patents were no longer wholly confined to new arts and the abuses crept in.

[9]Ewing, *Bearing of the Contract Theory of Patents on Certain Defenses* (1914), an address delivered by the Commissioner of Patents at the 37th Annual Meeting of the American Bar Association, held at Washington, D. C., October, 1914.

[10]Jones, *op. cit. supra* note 2; (1926) 36 Yale, L. J. 42, 52, 55.

[11]Jones, *op. cit. supra* note 10.

[12]Jones, *op. cit. supra* note 10.

[13]In 1889 and 1890 the states of Iowa, Kentucky, Maine, Michigan and Texas enacted statutes prohibiting combinations of corporations in restraint of trade. Almost all states now have laws against monopolies or combinations in restraint of trade. Davies, Trust Laws and Unfair Competition (1915) Ch. IV.

Act,[14] pursuant to the constitutional power to regulate interstate commerce. This Act and the Clayton Act[15] constitute the principal federal anti-trust statutes.

The exceptions, contained in the Statute of Monopolies, relating to letters patent for new inventions, to which reference has previously been made, are represented in our modern federal law by the provisions of Article 1, Sec. 8 of the Constitution, which gives Congress power to 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;" and in the patent statute,[16] which provides that "every patent shall contain a . . . grant to the patentee, his heirs or assigns, for the term of seventeen years of the exclusive right to make, use and vend the invention or discovery throughout the United States, and the territories thereof, referring to the specifications for the particulars thereof."

II

The purpose of the Sherman Act was to preserve competition.[17] At the time of the adoption of this Act, it was believed that interstate commerce was being interfered with by powerful trusts and corporate combinations, with which the anti-monopoly statutes of the several states were unable to deal, because the operations of the great trusts and combinations extended beyond state lines.[18] An additional necessity for the adoption of the Sherman Act was the absence of any common law of crimes in the federal courts.[19] The Sherman Act

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[14]26 Stat. 209 (1890) U. S. Comp. Stat. (1918) § 8820, 8821. The first and second sections of the Sherman Act, which are the sections bearing on this discussion, are as follows: "*Section* 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

"*Section* 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

[15]38 Stat. 730, (1914), as amended May 15, 1916 and May 26, 1920; U. S. Comp. Stat. (1918) § 8835.

[16]U. S. Rev. Stat. (1874) sec. 4884; U. S. Comp. Stat. (1918) § 9428.

[17]U. S. v. Standard Oil Co., 221 U. S. 1 (1910).

[18]21 Cong. Rec. Part 3, 51st Cong. 1st Session (1890) 2455, 2460, 2462.

[19]Senator Vest and Senator Hoar stated in the course of the debates in the Senate that there was no common law of the United States as there was in all of the states of the Union. 21 Cong. Rec. Part 3, *supra* note 16, 2603, and part 4, 3152. See also WALKER, HISTORY OF THE SHERMAN LAW (1910). For a general discussion see BURDICK, THE LAW OF THE AMERICAN CONSTITUTION (1922), sec. 133.

made unlawful and punishable those monopolies which were void at common law. In one of the earliest decisions under the Sherman Act, it was held that the statute was declaratory of the common law.[20]

Frequently reference is made to a so-called conflict between the Sherman Act and the patent law. Such expressions indicate a failure to appreciate that the legal rights under the patent statute constitute a valid exception to the prohibitions of the Sherman Act, to the same extent that letters-patent for new inventions were excepted in the ancient Statute of Monopolies. In the debates in the Senate on the Sherman Act, it was said by Senator Sherman:

> "It is the unlawful combination, tested by the rules of common law and human experience, that is aimed at by this bill, and not the lawful and useful combination. . . . *A limited monopoly, secured by a patent right, is an admitted exception.* For this is the only way by which the inventor can be paid for his invention."[21]

The absence of any real conflict between these two laws, when properly applied to their respective fields, may be developed by reference to some of the decisions in the federal courts in cases in which this apparent controversy has been waged.

Generally speaking, it may be said that there have been two main classes of cases, in which the Supreme Court has been called upon to decide whether the exercise of rights, claimed to exist by virtue of a patent, have been so extended as to make the parties liable for their acts under the rules of the general law, of which the Sherman Act is, of course, a part. The first class includes cases in which the patentee has attemtped to restrict the use of his patent with an unpatented accessory. The second class of cases involves the right to fix the price at which a patented article may be resold.

The first case which raised the question of the right to limit the use of a patent with an unpatented accessory, was the so called "*Button-Fastener* case."[22] In this case, Judge Lurton, (then a Judge of the Circuit Court of Appeals for the Sixth Circuit) held that the owner of a patented machine for fastening buttons to shoes with metallic fasteners might sell such machines, subject to a condition that they be used only with fasteners manufactured by the seller of the machine. The rule of this case was later followed by the Supreme Court in the *Dick Mimeograph* case,[23] in which the opinion was also written by

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[20]Opinion of Taft, Circuit Judge, in U. S. v. Addyston Pipe & Steel Company, *et al.*, 85 Fed. 271 (C.C.A. 6th 1898).

[21]21 Cong. Rec. Part 3, *supra* note 18, 2457. (Italics are the writer's.)

[22]Heaton-Peninsular Button Fastener Co. v. Eureka Specialty Co., 77 Fed. 288 (C.C.A. 6th 1896).

[23]Henry v. A. B. Dick Company 224 U. S. 1, 32 Sup. Ct. 364 (1912).

Mr. Justice Lurton. Both of these cases were decided on the broad principle that a patentee may license another to use the patent, subject to any qualifications in respect of time, place, manner or purpose of use which the licensee agrees to accept.

Five years after the decision in the *Dick Mimeograph* case, the same question, this time involving the right to restrict the use of a patented moving picture machine to unpatented films, was again presented to the Supreme Court in the *Motion Picture Film* case.[24] In an opinion written by Mr. Justice Clarke, the Supreme Court expressly overruled the *Dick* case, and refused to adopt the doctrine of the *Button-Fastener* case. This change of attitude on the part of the Supreme Court with respect to the limitation on the use of a patent with an unpatented article, indicated in the *Motion Picture Film* case, has a particularly important bearing on the relation between the patent law and the Sherman law, and for this reason it will later be considered more fully.[25]

The second group of cases have to do with the right of a patentee or his assignee to fix the price at which the patented article may be sold. The most recent case in this group is *United States v. General Electric Company, et al,*[26] in which the Supreme Court expressly held that the old case of *Bement v. National Harrow Company*[27] had not been overruled by subsequent decisions of the Supreme Court.[28]

The *Bement* case[29] was an action for breach of a license agreement in which the licensee agreed to sell at the prices fixed by the licensor. Among other defenses, the defendant pleaded that the agreements between the parties violated the Sherman Act, and in fact this defense raised the only federal question by which the case was taken to the United States Supreme Court on a writ of error from the New York

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[24]Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U. S. 502, 37 Sup. Ct. 416 (1917).

[25]Other cases in the Supreme Court involving a restriction on the use of a patent, as well as other questions arising under the Sherman Act and the patent law, are: Standard Sanitary Mfg. Co. v. U. S. 226 U. S. 20, 33 Sup. Ct. 9 (1912); U. S. v. United Shoe Machinery Corp. *et al.* 247 U. S. 32, 38 Sup. Ct. 473 (1918); and United Shoe Machinery Corp. *et al.* v. U. S. 258 U. S. 451, 42 Sup. Ct. 363 (1922).

[26]U. S. Sup. Ct. Oct. 1, 1926, No. 113.

[27]186 U. S. 70, 22 Sup. Ct. 747 (1902).

[28]Other cases of price-fixing in relation to patents are: Dr. Miles Medical Co. v. J. D. Park & Sons Co., 220 U. S. 373, 31 Sup. Ct. 376 (1911), where the protection of a patent was held inapplicable to a secret process; Virtue v. Creamery Package Manufacturing Company *et al.*, 227 U.S. 8, 33 Sup. Ct. 202 (1913); Bauer v. O'Donnell, 229 U. S. 1, 33 Sup. Ct. 616 (1913); Straus v. American Publishers Association, 231 U. S. 222, 34 Sup. Ct. 84 (1913); Straus v. Victor Talking Machine Company, 243 U. S. 490, 37 Sup. Ct. 412 (1917); and Boston Store of Chicago v. American Graphophone Co., 246 U. S. 8, 38 Sup. Ct. 257 (1918) which involved the copyright law and the Sherman Act.

[29]*Supra* note 27.

Court of Appeals. In opposition to this defense, the plaintiff contended that only the Attorney General of the United States could bring an action under the Act, excepting that by section 7 any person injured in his business or property might himself sue in the District Court.[30] In answer to this, the Supreme Court held that anyone sued on a contract might set up as a defense that the contract violated the Sherman Act, and if this was found to be so it would be a good defense to the action.

Commenting on the patent laws, Mr. Justice Peckham, speaking for the Supreme Court, said:[31]

> "The very object of these laws (the patent laws) is monopoly, and the rule is, with few exceptions, that any conditions *which are not in their very nature illegal* with regard to this kind of property imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

By his reference to "conditions illegal in their very nature", the learned Justice indicated what may be said to be one important distinction between contracts which may be lawful under the patent laws, and those falling within the provisions of the Sherman Act.[32]

For a time the view was entertained that the decision of the Supreme Court in the *Bement* case[33] had in effect been reversed by the decision of the Supreme Court in the *Motion Picture Film* case,[34] because, in deciding the *Bement* case, the court had referred to and quoted from the opinion in the *Button-Fastener* case. As has pre-

[30]Section 7 of the Sherman Act provides: "Any person who shall be injured in his business or property by any other person or corporation, by reason of anything forbidden or declared to be unlawful by this Act, may sue therefor in any circuit court of the United States in the district in which the defendant resides or is found, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the costs of suit, including a reasonable attorney's fee.

[31]186 U. S. 70, 91, 22 Sup. Ct. 747 (1902). (Italics are the writer's.)

[32]This distinction is consistent with the rule which it is believed is applicable in all cases arising under the Sherman Act. This rule is tersely stated in Nash v. United States, 229 U.S. 373, 375, 33 Sup. Ct. 780 (1913) as follows: " . . . only such contracts and combinations are within the act as, by reason of intent or the inherent nature of the contemplated acts, prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade." In the recent decision of United States v. Trenton Potteries Co., *et al.*, U. S. Sup. Ct., Oct. 1, 1926, No. 27, (decided Feb. 21, 1927) the Supreme Court followed the Nash case and held that the so-called "rule of reason" laid down in the Standard Oil ease (*supra* note 17) and American Tobacco Co. v. United States, 221 U. S. 106 31 Sup. Ct. 632 (1910), had no application to contracts which in their very nature are illegal, by holding that agreements for price-fixing are illegal as a matter of law, irrespective of the reasonableness of the prices fixed.

[33]*Supra* note 27.

[34]*Supra* note 24.

viously been noted, the doctrine of the *Button-Fastener* case, as well as the *Dick Mimeograph* case, was expressly repudiated by the Supreme Court in deciding the *Motion Picture Film* case.

Any doubt as to whether the decision in the *Bement* case represented the existing law has now been clarified by the decision in the *General Electric* case.[35] As a result of this decision, the rule has been settled that the patentee may restrict his licensee as to the prices at which the latter shall sell the articles which he makes under the license, but the patentee may not attach to a patented article, whether made by him or by his licensee, a condition running with the article in the hands of purchasers, limiting the price at which one who becomes its owner for full consideration shall part with it.[36] Substantially the same doctrine was applied by the Supreme Court in *Bauer v. O'Donnell*,[37] where it was held that the patentee could not by a mere notice annexed to the patented article limit the price at which the article may be resold at retail by a purchaser from jobbers who should have paid to the licensee (patentee's agent) the full price asked. The *Graphophone* case,[38] as well as *Bobbs-Merrill Company v. Straus*,[39] the latter involving the right to fix the price of a copyrighted book, are to the same effect.

A discussion of price-fixing devices and their relation to the patent law would not be complete without a reference to the case of *Dr. Miles Medical Company*.[40] There, the subject matter of the agreements to maintain a retail price was not a patented article ,but was a medicine manufactured pursuant to a secret formula. The petitioner argued that until there had been a disclosure or lawful discovery of the secret process by the public, the process was entitled to be protected as a monopoly, and, on the analogy to rights secured by letters patent, the owner of the process should be permitted to control the prices of the product of that process, citing the *Bement* case.[41] Mr. Justice Hughes, however, held that the analogy was not applicable, saying:[42]

[35]*Supra* note 26.

[36]The term "license", as used here and subsequently in this discussion, is intended to mean merely the granting of the privilege to exercise some patent right, which, but for the grant, belongs exclusively to the patentee or licensor, and irrespective of whether this grant is made as a part of or in conjunction with a contract of agency, sale or lease.

In the General Electric case, *supra* note 24, the license was coupled with an agency. The Court considered the case as involving two questions, first, whether the agency contracts were genuine, and second, whether the license to make, use and vend under the patent was valid, *i. e.*, not in violation of the Sherman Act.

[37]*Supra* note 28. [38]*Supra* note 28.

[39]210 U. S. 339, 28 Sup. Ct. 722 (1908).

[40]*Supra* note 28. [41]*Supra* note 27.

[42]220 U. S. 373, 402, 403, 31 Sup. Ct. 376 (1911). (Italics are the writer's.)

"Its [the petitioner's] case lies outside the policy of the patent law, and the extent of the right which that law secures is not here involved or determined. . . .

"If a manufacturer, *in the absence of statutory privilege*, has the control over the sales of the manufactured article, for which the complainant here contends, it is not because the process of manufacture is kept secret. In this respect, the maker of so-called proprietary medicines, *unpatented*, stands on no different footing from that of other manufactures."

The court explained that the rights a patentee may enjoy are derived from statutory grant under the authority conferred by the Constitution, which is based on public considerations to stimulate invention.

The abuses of the statutory grant, not only to control prices, but in the use of the patent as well, was demonstrated in the so-called "*Bath Tub*" case.[43] In this case, the government brought suit in equity to enjoin a combination in restraint of trade in the manufacture and sale of bath tubs. The combination was effected by a series of trade agreements and licenses which provided for (1) elimination of articles known as "second quality;" (2) limiting the time beyond which deliveries should be made; (3) the regulation of discounts; (4) requiring articles to bear a registered label, and (5) obligating shippers to resell at not less than fixed prices. The defense was made that the combination was a reasonable and necessary protection of patent rights. The Supreme Court affirmed the decree of the District Court for Maryland[44] and held that the agreements "transcended what was necessary to protect the use of the patent or the monopoly which the law conferred upon it . . . and accomplished a restraint of trade condemned by the Sherman Act."[45]

In the first *United Shoe Machinery* case,[46] the owners of a number of patents relating to the manufacture of shoes brought about a combination of manufacturers and users of shoe machinery by a system of leases (which included licenses) containing a great variety of restrictions with respect to the use of the machines. In its petition to dissolve this combination, the government charged the defendants with the creation of an unlawful monopoly under the Sherman Act. The defendants answered that the leases were made in the exercise of their lawful rights as patentees and "if there is monopoly in them, it is the monopoly of the right." The Supreme Court dismissed the petition by a divided court. In the majority opinion, written by

[43]Standard Sanitary Mfg. Co. v. U. S., *supra* note 25.
[44]191 Fed. 172 (D. C. Maryland 1911).
[45]226 U. S. 20, 48, 33 Sup. Ct. 9 (1912).
[46]*Supra* note 25.

Mr. Justice McKenna, the case was distinguished from the *Motion Picture Film* case[47] and the *Graphophone* case,[48] on the ground that in these latter cases there had been a transfer of title, whereas in the *Shoe Machinery* case there was no transfer of title by reason of the employment of leases. The majority court also held that the combination was unlike that involved in the *Bath Tub* case[49] saying:[50]

> "Of course, there is restraint in a patent. Its strength is in the restraint, the right to exclude others from the use of the invention, absolutely or on the terms the patentee chooses to impose. This strength is the compensation which the law grants for the exercise of invention. Its exercise within the field covered by the patent law is not an offense against the Anti-Trust Act. In other circumstances it may be, as in *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20, to which the case at bar has no resemblance."

The court then advanced these views with respect to patent rights:[51]

> "A patentee is given rights to his device, but he is given no power to force it on the world. If the world buy it or use it the world will do so upon a voluntary judgment of its utility, demonstrated, it may be, at great cost to the patentee. If its price be too high, whether in dollars or conditions, the world will refuse it; if it be worth the price, whether of dollars or conditions, the world will seek it. To say that the world is not recompensed for the price it pays is to attack the policy of the law, is to defy experience and to declare that the objects of inventive genius all around us have contributed nothing to the advancement of mankind."

This *laissez faire* attitude would seem to be equally appropriate in considering any commodity, irrespective of any special privilege under letters patent. It would also seem to harmonize fairly well with the views expressed in the dissenting opinion of Mr. Justice Holmes in the *Dr. Miles* case.[52] The provisions of section 3 of the

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[47] *Supra* note 24.
[48] *Supra* note 28.
[49] *Supra* note 25.
[50] 247 U. S. 32, 57, 38 Sup. Ct. 473 (1918).
[51] 247 U. S. 32, 65, 38 Sup. Ct. 473 (1918).
[52] 220 U. S. 373, 411, 412, 31 Sup. Ct. 376 (1911) where Mr. Justice Holmes said: "I think that, at least, it is safe to say that the most enlightened judicial policy is to let people manage their own business in their own way, unless the ground for interference is very clear. . . . I think that we greatly exaggerate the value and importance to the public of competition in the production or distribution of an article (here it is only distribution), as fixing a fair price. What really fixes that is the competition of conflicting desires. . . . I cannot believe that in the long run the public will profit by this court permitting knaves to cut reasonable prices for some ulterior purpose of their own and thus to impair, if not to destroy, the production and sale of articles which it is assumed to be desirable that the public should be able to get."

Clayton Act were enacted to change the rule announced in the first *Shoe Machinery* case.[53]

In a government suit in the District Court for the Eastern District of Pennsylvania, Judge Dickinson has stated the problem which arises with respect to the rights under the patent law and the wrongs condemned by the Sherman Law in the following language:[54]

> "We have, therefore, to determine the limits of a right and a wrong which seem to overlap each other. It is the right of a patentee, through having the exclusive sale of the patented article, to control, and in that sense, to monopolize, the trade in it. It is wrong by any illegal restraint of trade to monopolize it, or any part of it. . . . It cannot have been intended to make it unlawful to acquire that the right to which the law has conferred. On the other hand . . . it cannot be that the grant of a patent right confers a license to do that which the law condemns. . . .
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> "The solution of the problem is to be sought by finding the special field of operation of each of these laws. There is a field of trade, the sole occupancy of which may be in a patentee. Here he is supreme, and the keeper of the gate of entrance. There is another field which is in the common occupancy of all. Where the law has given the whole field to a patentee, with the express right of exclusion of others, and the use of the power of the law to enforce the exclusion, it is unthinkable that such exclusion is an illegal restraint of trade. Where the field, however, is open to all, competition for trade is likened to a race in which all may enter, but in which there must be no unfair jostling or hampering of others. Each one is free to exert all his powers, and distance, if he can, all competitors, and win all the prizes; but he must run fairly and accord to others a like freedom. If he possesses a patented device which will aid him in the race, he may use it, as he may use any other form of property; but he must put it only to its proper use, and if he uses it as a weapon to disable a rival contestant, or to drive him from the field, he cannot justify such use, because of his patent

[53]*Supra* note 15. Section 3 of the Clayton Act provides:

"That it shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, *whether patented or unpatented*, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies or other commodities of a competitor or competitors of the lessor or seller where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce. (Italics are the writer's.)

[54]U.S. v. Motion Picture Patents Co. *et al.*, 225 Fed. 800, 805, 806 (D. C. E. D. Pa. 1915).

right, except to the extent of protecting his exclusive right. " . . . The legality of such a contract is determined by the judgment of whether, in its whole scope and legal intendment, it is fairly limited in its operation to the proper field of trade belonging to the patentee, and whether any further advantages which flow to him are fairly incidental, and are not the evil fruit of unfair practices employed to restrain the right of others to a share of the common trade. . . . ."

Surely, this language cannot be read without arriving at the conclusion that, after all, when properly understood, there is no real conflict between the patent law and the Sherman Act. The so-called conflict is not so much a conflict of the laws themselves as it is a difficulty in determining the rights which are granted by a patent and those outside of these rights, which are, of course, subject to the general law. *A conflict arises only when the patent law and rights granted under it are used as a guise or device to conceal a combination which in its very nature violates the Sherman Act.* But this cannot be said to be a conflict of laws in any true sense. It is nothing more than a stratagem to circumvent the law.

As an aid to eliminate possible confusion in construing the two statutes under consideration, it may be appropriate at this point to make the following observations:

(a) With reference to the patent law:[55]

(1) The scope of every patent is limited to the invention described in the claims contained in it, read in the light of the specifications. A patent must be considered in much the same manner as a description in a deed, which sets the bounds to the grant which it contains. Thus, reference must be made to the claims of every patent to determine what the invention is, since nothing can be claimed beyond them.

(2) The patentee receives nothing from the law which he did not have before the patent grant, and the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented. The patent law simply protects the patentee in the monopoly of that which he has invented and described in the claims of his patent.

(3) The primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is "to promote the progress of science and the useful arts."

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[55]These rules are indicated bv Mr. Justice Clarke in the Motion Picture Film case, *supra* note 23 at 510.

(b) With reference to the Sherman Act:

(1) The underlying philosophy on which it was enacted is that the preservation of the competitive system in industry and trade is best for the welfare of the American people.

(2) The Act is purely a criminal law. The first and second sections of the Act condemn as misdemeanors, punishable by fine or imprisonment, or both, all contracts, combinations and conspiracies in restraint of interstate and foreign trade and commerce, and all monopolies of, or attempts to monopolize such trade and commerce.

(3) The provisions of section 4, conferring on the federal courts equity jurisdiction "to prevent and restrain" violations of the Act, constitute a statutory exception to the general rule that equity will not interfere to enjoin the commission of a crime.

III

Obviously, there remain unsettled many questions in the relation of the patent law to the Sherman Act.

The recent decision of the Supreme Court in the *General Electric* case,[56] as previously stated, has to a certain extent clarified the law as to the right of a patentee to restrict the prices at which his licensee shall sell the articles made under the license. In this case the court also found that the *Electric Company*, owner of the patent, had genuine agency agreements with two classes of distributors of electric lamps. Under such circumstances, in the absence of any effort by the patentee to fasten upon the subsequent ownership of the lamps a control of the prices at which his purchaser shall resell, the court said it made no difference how widespread *his* monopoly, because its extent in the article sold and in the territory of the United States where sold is not limited in the grant of the patent.

The attempt to apply the decision in the *General Electric* case, *supra*, to other situations may present perplexing questions with reference to the extent to which the right to control prices may be justified under the patent monopoly. In this connection, of course, it must be noted that there is a substantial difference between (a) an agreement which grants the exclusive right, given by the patent law, *to sell* a patented article, and (b) a sale of the patented article itself.[57] With reference to agreements granting exclusive rights given by the patent law, it has also long been settled that the three exclusive rights granted by this law, to wit, (1) to make, (2) to use, and (3) to

[56]*Supra* note 26.
[57]Ford Motor Co. v. Union Motor Sales Co., 225 Fed. 373, 378 (D. C. S. D. Ohio, 1914); aff'd 244 Fed. 156 (C.C.A. 6th 1917).

vend, may be conveyed separately.[58] Arrangements designed to control prices relate to only the third of these three rights.

Further attempts may be made to establish arrangements, presumably in conjunction with agency agreements, whereby the patentee may undertake to delegate the right to fix prices. In such a situation the element of control over the patent becomes important. If the patentee assigns absolutely the right to vend, retaining only the right to make and use, either in whole or in part, it seems clear that thereafter the patentee may not legally become a party to a price-fixing agreement. But if the patentee assigns the right to vend, so that this right shall be shared by the assignee and the patentee, then an agreement between them for the maintenance of prices may be said to have been made pursuant to the patent right which covers them both, and the agreement is valid.[58a] It must be borne in mind, of course, that all such arrangements between a patentee and an assignee covering the right to vend (i. e., a license to sell) will always be subject to the limitation that they shall not exceed what is "reasonably necessary for the protection of the patent."[59] The attainment of this limitation, necessarily, will have to depend on the particular facts of each case. In many cases, it is safe to assume, there will be presented the fundamental question, previously discussed, whether the patentee, having an exclusive right to sell, has, by contract, conferred that right either wholly or in part, or has he done something of such a character that it involves other rights vested in the public, either by the common law or by statute.[60]

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[58]Adams v. Burks, 17 Wall. 453 (U. S. 1873).

[58a]In the General Electric case (*supra*, note 26) the court said: "The owner of a patent may assign it to another and convey (1) the exclusive right to make, use and vend the invention throughout the United States or (2) an undivided part or share of that exclusive right or (3) the exclusive right under the patent within and through a specific part of the United States. But any assignment or transfer short of one of these is a license giving the licensee no title in the patent and no right to sue at law in his own name for an infringement. Waterman v. Mackenzie, 138 U. S. 252, 255 11 Sup. Ct. 334 (1890); Gayler v. Wilder, 10 How. 477, 494, 495 (1850); Moore v. Marsh, 7 Wall. 515, (1868); and Crown Company v. Nye Tool Works, 261 U. S. 24, 30 43 Sup. Ct. 25th (1923). Conveying less than title to the patent or part of it, the patentee may grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure. It is well settled, as already said, that where a patentee makes the patented article and sells it, he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights."

[59]Sanitary Manufacturing Co. v. United States, *supra* note 25.

[60]Ford Motor Company v. Union Motor Sales Co., *supra* note 57, at 376, where Hollister, J. said: ". . . If what the complainant has done, or attempted to do, by these contracts with its dealers, amounts to something more than the exercise of the exclusive right to sell, it has by such act, added to and extended its exclusive right to sell, and has thereby brought itself within the condemnation rules and laws established and enacted for the protection of the public against monopolies and contracts in restraint of trade."

Another question which may not be finally settled involves the extent to which a patent covering a small but essential part of a larger machine, for example, a carburetor for a gasoline engine, may be used to justify the control of the right to use or sell the machine, as a whole. Possibly, in such a situation, adaptation might be made of the rule stated in the *Motion Picture Film* case,[61] which condemns a restriction of the use of a patented article with an unpatented accessory. Thus far, it is not believed this particular situation has been squarely presented in any of the decided cases.

Combinations between licensors or licensees of patents where the effect is a restraint of interstate trade have been dealt with to some extent in the *Bath Tub* case [62]in the Supreme Court and in the *Motion Picture Patents* case[63] in the District Court for the Eastern District of Pennsylvania, to both of which cases reference has been made. This question has also been considered in two cases in the Circuit Court of Appeals for the Seventh Circuit. In *Rubber Tire Wheel Co. v. Milwaukee Rubber Works Co.*,[64] the court held that a combination between the owner of a *single patent* and eighteen licensees did not violate the Sherman Act, because it was found that none of the provisions of the license agreements "touched any matter outside the monopoly under the patent." The theory applied was that since the owner of the patent could control prices and output by virtue of his patent monopoly, there was no injury to the public and no restraint of commerce if that same result, i. e., the control of prices and output, was accomplished by the patentee and his licensees acting under agreement. Concurrently with this decision, the same court held, in *Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co.*,[65] that a system of license agreements covering a *number* of patents, all owned by one corporation, which required the licensees to sell at stated prices and to pay royalties, did not violate the Sherman Act. Here one of the attacks made on the system was because of the large number of licensees. The court found, however, that the number resulted "without any concert of action on the part of the licensees."

In *Patterson v. United States*,[66] it was said:

"... If two or more persons in no way interested in a patent were to conspire in restraint of the interstate trade or commerce of an infringer, no one would contend that the conspiracy was

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[61]*Supra* note 24. [62]*Supra* note 25. [63]*Supra* note 53.

[64]154 Fed. 358 (C. C. A. 7th, 1907). See also Goshen Rubber Works v. Single Tube Automobile and Bicycle Tire Company, 166 Fed. 431 (C. C. A. 7th 1908).

[65]154 Fed. 365 (C. C. A. 7th 1907).

[66]222 Fed. 599 (C. C. A. 6th 1915).

> not covered by the statute [the Sherman Act]. No more is it open to contend that a conspiracy by a patentee and another, or by the officers and agents of a patentee in his interest, to restrain the interstate trade or commerce of an infringer, is not within the statute. The intent of the statute was to sweep away all conspiracies in restraint of such trade or commerce, whatever their character may be. The statute respects the monopoly of the patentee. It to no extent invades the rights conferred upon him by his patent. . . . But the right to conspire with another or others in his interest in restraint of the interstate trade or commerce covered by his patent is not one of the rights conferred thereby, and such a conspiracy is within the statute."

The legality of pooling of patents, where the result is a monopoly in a particular line of trade in which the pooled patents are essential, has not yet been decided by the Supreme Court. It may be recalled that in the opinion of Mr. Justice Peckham in the *Bement* case,[67] the court took particular pains to point out that the referee had found that the contracts relating to the patents involved in that case had been entered into by *only the parties to the suit*, and had not been entered into by other parties, nor that they constituted a combination of more, if not all, of the persons or corporations engaged in the business concerning which the agreements between the parties to the suit were made. The court said: "If such similar agreements had been made, and if, when executed, they would have formed an illegal combination within the Act of Congress, we cannot presume in the absence of any findings to that effect, that they were made and became effective as an illegal combination. . . . We are not called upon to express an opinion upon a state of facts not found." Similarly, in the *Motion Picture Film* case,[68] Mr. Justice Holmes, in his dissenting opinion, made it clear that he was not considering the case as "if the question were upon the effect of a combination of patents such as would be contrary to the policy that I am bound to accept from the Congress of the United States."

In *Blount Manufacturing Company v. Yale & Towne Manufcturing Company*,[69] two competing manufacturing companies entered into separate contracts providing for the establishment of a plan for the use of two competing patents, involving maintenance of prices, pooling of profits and elimination of competition. The court criticized and distinguished the two decisons of the Circuit Court of Appeals for the Seventh Circuit in the *Rubber Tire* and *Threshing Machine*

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[67] *Supra* note 27, at 94, 95.
[68] *Supra* note 23, at 521.
[69] 166 Fed. 555 (D. C. Mass. 1909).

cases, referred to above, and held that the contracts violated the Sherman Act, saying:

> "A contract whereby the manufacturers of two independent patented inventions agree not to compete in the same commercial field, deprives the public of the benefits of competition, and creates a restraint of trade which results, not from the granting of letters patent, but from agreement....
>
> "The Sherman Act is not inconsistent with any rights acquired by the patentee when it prevents agreements in restraint of trade which are not designed to make valuable the right to use. There is no inconsistency between the grant of an exclusive and assignable right to make, use and vend, and the prohibition of an agreement restraining or suppressing the sale of the article in interstate commerce, because any profit from such an agreement does not arise from the value of making, using and vending."[70]

This same question was considered in *National Harrow Co. v. Hench*,[71] in which it was said:

> "The fact that the property involved is covered by letters patent is urged as a justification; but we do not see how any importance can be attributed to this fact. Patents confer a monopoly as respects the property covered by them, but they confer no right upon the owners of several distinct patents to combine for the purpose of restraining competition and trade. *Patented property does not differ in this respect from any other.* The fact that one patentee may possess himself of several patents, and thus increase his monopoly, affords no support for an argument in favor of a combination by several distinct owners of such property to restrain manufacture, control sales, and enhance prices."

In view of the common practice of competing manufacturers to exchange cross licenses covering their respective patents, frequently for the purpose of settling possible infringement, the argument may be made that trade is promoted, and not restrained, when the owner of one patent monopoly permits his monopoly to be shared by another

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[70]In the concurring opinion of Grosscup, C. J., in Indiana Manufacturing Company v. J. I. Case Threshing Machine Co., (*supra* note 65), 372, it was said: "The patents as an entirety, therefore, constitute a single mechanical evolution —are blossoms from the same trunk—and *in no sense are competitive patents;* from which it follows that their concentration in one control is in no sense a combination to prevent competition." (Italics are the writer's.) The decisions of the C. C. A., 7th Cir. in the Rubber Tire and Threshing Machine cases are severely criticized by Gladney, Restraints of Trade in Patented Articles (1910), 315 to 365.

[71]83 Fed. 36, 38 (C. C. A. 3rd, 1897). (Italics are the writer's.)

owner of a similar monopoly.[72] Probably no one would contend that such an arrangement, without more, would be unlawful. But if this mutual exchange of patent rights is coupled with an arrangement which carries with it an agreement fixing the amount of royalty to be charged licencees of the combined patents, provides for division of territory, limitation on production, as well as other restrictions, all of which have the effect of restraining interstate trade in a product used so extensively that it directly affects the public interest, then, it may be urged that pooling of patents is calculated to concentrate in the hands of the parties to the patent pool such a power to interfere with interstate trade and commerce that it should be enjoined, in accordance with the precedents to be found in the *Reading* case[73] and the *Standard Oil* case.[74]

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[72]In the Blount case, *supra* note 69, 557, 562, the court also said this: "Whether a patentee may not lawfully make such a license agreement in consideration of the making of a like license agreement by another patentee is a somewhat interesting question. If, as a result of mutual licenses, there is put upon the market an article embodying the invention of both patentees, so that as the effect of exchange of licenses a new article of commerce is developed, it is doubtful if the public is thereby unlawfully deprived of any of its rights or expectations of free competition. Where, however, each patentee continues to make his own goods under his own patents, and seeks to enhance his profits by an agreement with competitors, who make either patented or unpatented articles, then it seems to follow that the agreement of each to restrain his own trade cannot be regarded merely as an incident to the assignment of patent rights. The patentee then restrains his own trade, not for the purpose of enhancing the value of the license which he grants, but for the purpose of enhancing the value of his trade by removing competition. A sale or license, with a covenant not to compete, made as an ordinary incident to enhance the value of the thing conveyed, is not within the Sherman Act. . . . Combinations between owners of independent patents, whereby, as part of a plan to monopolize the commercial field, competition is eliminated, are within the Sherman Act, for the reason that the restraint of trade or monopoly arises from combination, and not from the exercise of rights granted by letters patent." See also Strait v. National Harrow Co., 18 N. Y. Supp. 224 (Supreme Ct. N.Y., Special Term 1891); National Harrow Co. v. Quick, 67 Fed. 667 (C. C. E. D. Pa. 1896), affirmed 83 Fed. 37 (C. C. A. 3rd 1897).

[73]U. S. v. Reading Co., *et al.* 253 U. S. 26, 40 Sup. Ct. 425 (1920).

[74]U. S. v. Standard Oil Co. 221 U. S. 1, 31 Sup. Ct. 502 (1911). See also Mines v. Scrivner, 147 Fed. 927 (D. C. S. D. N. Y. 1906), in which combinations of owners of copyrights are considered; United States v. New Departure Manufacturing Company, 204 Fed. 107 (D. C. W. D. N. Y. 1913); Vulcan Powder Co. v. Hercules Powder Co., 96 Cal. 510 (1892), cited in United States v. Trenton Potteries Company (*supra* note 32); State v. Creamery Package Co., 110 Minn. 415, 126 N. W. 126 (1910); United Shoe Machinery Co. v. LaChapelle, 212 Mass. 467, 99 N. E. 289 (1912), in which it was said: "It is fairly inferable from the averments of the answer and the offer of proof that the constituent competing companies out of which the plaintiff was formed each own valuable patents for machines used in the making of footwear. *Therefore the further question arises whether a combination among several patentees of competing devices is within the inhibition of the statute.* There is no decision by the United States Supreme Court covering this point, although there is an intimation in Bement v. National Harrow Company, 186 U. S. 70, 94, 22 Sup. Ct. 747 (1902), to the effect that such a combination may be illegal under certain circumstances." (Italics are the writer's.) Pooling of patents has been discussed to some extent by the following: BEACH, MONOPOLIES AND INDUSTRIAL TRUSTS (1898), sec. 175; I, TIEDEMAN, STATE AND FEDERAL CONTROL OF PERSONS AND PROPERTY (1900), 412; II, PAGE ON CONTRACTS (1920), sec. 826; see also VAUGHAN, ECONOMICS OF OUR PATENT SYSTEM (1925) ch. II.

IV

In at least two recent prosecutions by the government under the Sherman Act, in cases where patents are involved, there have arisen questions affecting the scope and validity of patents.[75] The right of the government to allege and prove facts relating to these issues has been resisted on the ground that when this is permitted in an anti-trust suit, it constitutes a collateral attack on the patents. In both of the cases, decisions on this issue have been rendered in favor of the government. In one case, the decision was without an opinion, but in the other the court said:[76]

> "Obviously, this is not a suit by the United States to cancel patents. It is probably beyond the scope of all possible issues to decree certain patents or certain claims thereto to be void. The issue here is whether or not defendants have organized and are members of an illegal conspiracy and a final decree can probably not have any broader scope. These expressions are not to be taken as a final determination of any such question. However, assuming they correctly state the law, it would still appear that the allegations of the bill are proper and that testimony in support thereof might be received. . . . I can perceive many combinations in violation of the Sherman Anti-Trust Law in which patents or claims thereto, invalid in view of the prior art, or limited in nature, may be wrongfully used in building up or maintaining such an illegal conspiracy. . . ."

The purpose of an attack on the scope and validity of patents by the government in an anti-trust suit is not to affect the patents, as such, and, ordinarily, the decision rendered in any such case would contain no provision directly affecting the patents. But, since the patent law, as we have seen, is an exception to the general rule of law which prohibits monopolies, it would seem that in a case to enjoin an unlawful monopoly, it is entirely proper to allege and prove the limited scope of the monopoly, which is excepted from the operation of the anti-trust laws, or to show that, as a matter of fact and law, there is no valid exception, as claimed, because of disclosures in the prior art, anticipation by earlier patents or because of fraudulent acts in procuring the patent.

V

While it has been said that, when properly construed, there is no real conflict of law, in a true sense, between the patent statute and the

[75]U. S. v. Standard Oil Company (Indiana), *et al.*, now pending in U. S. D. C. E. D. Ill. E. Div., and U. S. v. Porcelain Appliance Corporation *et al.*, now pending in U. S. D. C. N.D. Ohio, E. Div.

[76]U. S. v. Porcelain Appliance Corporation, *et al.*, *supra* note 75, decision by Judge Westenhaver, Sept. 9, 1926.

Sherman Act, because the patent monopoly, which provides protection for a new invention in order that the inventor may have his just reward, is an exception to the rule against monopolies, nevertheless the question still remains, what is a proper construction of these laws. This question, of course, is always present in connection with any statute which contains broad provisions, such as the right to "make, use and vend" found in the patent statute, and the terms "any contract" and "monopoly" which occur in the Sherman Act. Troublesome questions, therefore, will continue to be raised as to what constitutes a "use" and when does a contract "restrain", or a combination "monopolize." The only real guides in solving these questions are the precedents laid down by the courts and the conclusions which may logically be drawn from them.

There have been cases in which the courts have declined to follow the precedent established many years before, prompted often by a realization of changed economic conditions and circumstances since the precedent was made. This is believed to have occurred in construing the patent law, and in an aspect which bears directly on the relation of that law to the Sherman Act.

As was pointed out earlier in this discussion, in the *Motion Picture Film* case[77] the Supreme Court refused to follow the precedent which that court had established in the *Dick* case[78] and repudiated the *Button-Fastener* case,[79] which for more than twenty years, it was believed, represented a correct statement of the law with reference to the right to restrict the use of a patent. It may be helpful, therefore, to consider what induced the court to reverse itself and adopt a different attitude when construing the provision of the patent statute, affecting the use of a patent.

The theory in the *Button-Fastener* case was that the buyer of the patented machine obtained title to the materials embodying the invention, subject to a reverter in case of violation of the conditions of the sale, that is, that the machine should be used only with fasteners made by the seller of the machine. Furthermore, the court argued, the exclusive right of use granted by letters patent was granted in derogation of the common right, being a property right conferred by statute. It was said that this right was one "which the public is under obligation to respect and protect."[80] It was recognized, to be sure, that there were limitations upon the patentee's power to contract with reference to the use of his invention by others, because the property right of a patentee is, after all, but a property

[77]*Supra* note 24.

[78]*Supra* note 23.

[79]*Supra* note 22.

[80]*Supra* note 22, at 291.

right, and, as all other property, is subject to the general law of the land.[81] The court also recognized that the use would be subject to the restraints imposed by the police power of the states. But apparently the limitations thus recognized to exist at some undefined point were not considered reached in that case.

With respect to the economic aspects of the new invention involved in the *Button-Fastener* case, the Circuit Court of Appeals for the Sixth Circuit considered that the ability to engross the market would be a legitimate consequence of the meritorious character of the invention, and that such monopolies would result whenever a new and surprising advance was made in some art of wide and general use. It was urged that the great consuming public would be benefited rather than injured, for the monopoly would continue so long only as the commodity was supplied at a less price than had prevailed before the invention. The comment was made that, as a result of the particular invention in the *Button-Fastener* case, there would be created a large market for wire staples, and the supply of staples, adapted to the new demand, would become a matter of moment to those engaged in the business of making wire button fasteners. It followed, therefore, that the restriction on the use of the patented machine merely brought to the patentee the profit to which he might claim to be entitled, resulting from the sale of staples for use with his machine. This, the court held, was justified on the principle that the monopoly in the unpatented staples would depend upon the merit of the patented device and resulted as an incident from the monopoly in the use of the invention, and was, therefore, legitimate. The court said:[82] "Depending, as such a monopoly would, upon the merits of the invention to which it is a mere incident, it is neither obnoxious to public policy, nor an illegal restraint of trade."

The same principle was applied by the Supreme Court in the *Dick* case, the opinion being written by Mr. Justice Lurton, who as a Circuit Judge had written the opinion in the *Button-Fastener* case. Mr. Chief Justice White, Mr. Justice Hughes and Mr. Justice Lamar dissented. In the course of his dissenting opinion, Mr. Chief Justice White explained the reasons constraining him to dissent to be:[83] first, to suggest that the application of the rule might be confined within narrow limits in future cases, and, second, to make it clear that if evils resulted from the continuation of the rule, it would result from inaction of the legislative department in failing to amend the

[81] *Supra* note 22, at 293.
[82] *Supra* note 22, at 296.
[83] *Supra* note 23, at 50.

statute so as to avoid such evils. The real point of dissent, of course, was that the rule of the *Dick* case permitted a patent to be extended to things which it did not include.

In 1917, when the *Motion Picture Film* case[84] came before the Supreme Court, the personnel of the court had changed to some extent, and it was realized that, with the development of the corporate form of conducting large business enterprises, in which there could be included in one ownership the manufacture and sale of several lines of goods, the evils resulting from the doctrine of the *Button-Fastener* case and the *Dick* case were manifest; Mr. Justice Clarke pointed out the legitimate distinction between the rights granted under a patent and those created by a patentee by private contract, which led to the court's refusal to follow the rule of the former cases. By way of preliminary explanation of this change of attitude on the part of the court he said:[85]

> "It was not until the time came in which the full possibilities seem first to have been appreciated of uniting, in one, many branches of business through corporate organization and of gathering great profits in small payments, which are not realized or resented, from many, rather than smaller or even equal profits in larger payments, which are felt and may be refused, from a few, that it came to be thought that the 'right to use * * * the invention' of a patent gave to the patentee or his assigns the right to restrict the use of it to materials or supplies not described in the patent and not by its terms made a part of the thing patented."

In other words, the court recognized that large corporate enterprises, owners of patents, would be organized to carry on business in several associated and related articles, in which not only a patented machine, but also the articles used with that machine, could be manufactured and sold by the same owners. And if such owner could fix the prices of the materials, accessories to the patented machine, merely because he owned a patent covering the machine with which they were to be used, it was obvious that the monopoly, thus permitted, might be extended to alarming proportions.

A further ground for the change of attitude indicated in the *Motion Picture Film* case with reference to the right to restrict the use, claimed under the patent law, was the fact that in the situation there presented the patented device was the *only one* with which motion picture films could be used successfully. Accordingly, it was recognized that, unless a limit was placed on the right to restrict the use

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[84] *Supra* note 24.
[85] *Supra* note 24 at 513.

of the patented article, the ability of the owner of the patent to exert a great control in one of the large industries would be a serious matter.[86] If, in a given case, it should appear that there remain in the industry other patented instruments, all of which are successful and available to competitors, the court may reach an entirely different decision.[87]

No change has been made in the provisions of the section of the patent statute relating to the monopoly grant since 1870. On the other hand, the Sherman Act, passed in 1890, was supplemented in 1914 by the Clayton Act, which, as has previously been indicated, contained a section extending the prohibition of contracts and leases "substantially lessening competition" or "tending to create a monopoly" specifically to "goods, wares, merchandise, machinery, supplies or other commodities, *whether patented or unpatented*."[88]

It was pointed out by Mr. Justice Day in the second *Shoe Machinery* ease[89] that this provision in the Clayton Act was inserted "with the express purpose of preventing rights granted by letters patent from securing immunity from the inhibitions of the act." It will also be recalled that in the first *Shoe Machinery* case substantially the same leases were attacked under the Sherman Act as were attacked in the second *Shoe Machinery* case, but the leases were sustained as valid in the first case because "within the rights of holders of patents." When the combination under the leases came before the court a second time, in view of the change in the anti-trust statutes, the constitutionality of which was questioned, the court said:[90] "The patent grant does not limit the right of Congress to enact legislation not interfering with the legitimate rights secured by the patent but prohibiting in the public interest the making of agreements which may lessen competition and build up monopoly."

It, therefore, remains to be seen whether in the further exploitation of patents in the hands of owners, organized as large corporate enterprises, or a combination of corporate enterprises, serving nation-

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[86]Motion Picture Patents Company v. Universal Film Manufacturing Co., *Supra*, note 24, 515, where Mr. Justice Clarke said:
"* * * If these restrictions were sustained plainly the plaintiff might, for its own profit or that of its favorites, by the obviously simple expedient of varying its royalty charge, ruin anyone unfortunate enough to be dependent upon its confessedly important improvements for the doing of business."

[87]Ford Motor Co. v. Benjamin E. Boone, Inc., 244 Fed. 335, 341 (C. C. A. 9th, 1917); *Cf.* United States v. United States Steel Corporation, 251 U. S. 417, 40 Sup. Ct. 293 (1919).

[88]Clayton Act, *supra*, note 15, § 3.

[89]*Supra* note 25 at 460.

[90]*Supra* note 25 at 464.

wide, as well as international markets, and dealing in a commodity which in this scientific age[91] affects the daily life of a substantial proportion of the people, either the courts or Congress, in the interest of preserving free trade and commerce, may find it necessary to impose additional specific limitations on the exceptional monopoly which is granted to the inventor, that he may enjoy the fruit of his labors. Congress found it necessary to restrict the use of patents in the enactment of the Clayton Act. And practically contemporaneously with this legislation, but independently of it, the Supreme Court imposed a similar restriction,[92] pointing out that "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents." If additional modifications are made in the patent grant for new inventions, either by the courts or by Congress, it is reasonable to expect that such modifications will be designed to restrict the commercial exploitation of patents, especially by assignees thereof, while, at the same time, affording reasonable reward to the inventor, in order that genius may continue "to promote the progress of science and the useful arts.[93]"

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[91]According to The Official Gazette of the United States Patent Office for March, 15, 1927, there have been issued 1,621,485 patents. During the year 1926 alone there were issued 44,750 patents.

[92]Motion Picture Patents Co. v. Universal Film Mfg. Co., *supra* note 24.

[93]In the General Electric case, (*supra* note 26), the court held, as previously indicated, that a patentee may limit the method of sale and the price in connection with licenses to sell under the patent, but added a proviso as follows: ". . . provided the conditions of sale *are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.*" (Italics are the writer's.)

And in Blount Manufacturing Company v. Yale & Towne Manufacturing Company, (*supra* note 69) 561, the court said: "The suppression of intellectual products for the preservation of the old market does not promote the progress of science and the arts. A patentee who agrees to suppress his invention is not promoting it. He is not deriving his profit from its promotion, but from manipulation of the market. It is no part of the constitutional scheme, or of the scheme of the patent laws, to secure to inventors a profit from the suppression of their ereations." See also WALKER ON PATENTS (5th edition 1917) § 153.