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THE PROPOSED PATENT LAW REVISION

AN ARTICLE

FROM THE HARVARD LAW REVIEW, VOL. XXVI,
NO. 2, RELATING TO THE PROPOSED PATENT
LAW REVISION—WHAT IT MEANS TO INVEN-
TORS, MANUFACTURERS, DEALERS,
AND THE PUBLIC

By

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THE PROPOSED PATENT LAW REVISION.

On the eve of the adjournment of Congress, on August 8, 1912, the Committee on Patents reported back to the House of Representatives the Oldfield revision and codification of the patent statutes¹ with an amendment in the nature of a substitute, and recommended that this substitute be passed. The committee's purpose, expressed by its chairman, who is also the author of the bill, was to "give everybody an opportunity to study the question, and give the people of the country the opportunity to see what is provided for in the bill, and ascertain what is the sentiment of the country upon the proposal;"² and then to press the bill for passage in the session beginning in December, 1912.

During the spring of 1912, hearings were held for several weeks by the Committees on the Judiciary and on Patents of the House of Representatives upon various proposals to amend the patent laws. The opportunity for persons other than the sponsors of the proposed legislation to learn of these hearings and to attend them was necessarily limited; and even among those who attended, their importance was probably not fully realized. For no one could then have anticipated that practically all of the changes advanced in these proposals would be combined in the substitute bill to be reported. Nevertheless, witnesses testified, written communications were received, and suggestions came "from practically every part of the country."³ "We had before us," said the chairman of the Committee on Patents, "manufacturers of patented articles from almost every State in the Union, and we had prominent inventors and prominent patent attorneys before us."⁴ But out of the 60 persons whose testimony and communications were reported in these hearings, less than half a dozen favored the proposals which have been embodied in the bill recommended.⁵

In all essentials, the provisions which evoked the emphatic opposition of the overwhelming majority of manufacturers, inventors, and representatives of commercial and scientific associations appearing before the Committee on Patents in opposition to the original bill reappear in the substitute. In addition, the substitute contains a number of provisions extending the application of the Sherman

¹ H. R. 23417.

² Congressional Record, Aug. 8, 1912, p. 11333.

³ Report of the Committee on Patents, 62d Cong., 2d sess., House of Representatives, No. 1161, Aug. 8, 1912 (hereinafter called "Report"), p. 1.

⁴ Congressional Record, Aug. 8, 1912, p. 11333.

⁵ Among those who expressed their opposition were inventors, such as H. Ward Leonard, Dr. L. H. Baekeland, Benjamin M. Des Jardins, F. L. O. Wadsworth, Cortlandt F. Carrier, jr., Spencer Miller, and Thomas A. Edison; eminent patent lawyers and publicists, such as Frederick P. Fish, Livingston Gifford, Louis D. Brandeis, E. J. Prindle, Samuel Owen Edmonds, Horace Pettit, Frank L. Dyer, Walter F. Rogers, and William W. Dodge; manufacturers representing concerns such as Thomas A. Edison, Inc., U. S. Mail Chute System, Bissell Carpet Sweeper Co., Gillette Safety Razor Co., Columbia Phonograph Co., Brown & Sharpe Co., C. B. Cottrell & Sons Co., R. H. Ingersoll & Bro., and the Lidgerwood Mfg. Co.; representatives of scientific societies and associations, such as the Inventors' Guild, the American Institute of Chemical Engineers, the Association of Registered Patent Attorneys, the Merchants' Association of New York City, the National Association of Stationers and Manufacturers, the Pennsylvania Retail Jewelers' Association, the Chambers of Commerce of Rochester and of Cleveland, and the Patent Law Association of Washington, D. C.

Antitrust Act, wherever patents are involved, to specific transactions which are not now covered by that act and which, if no patents were involved, would under the existing law, or even under the other provisions of the substitute bill, lie outside the prohibition of the Sherman Antitrust Act. These were not contemplated in the original Oldfield bill, were neither discussed nor suggested by anyone upon the hearings, and were not foreshadowed by any patent legislation previously introduced in either branch of Congress. In scheme, they somewhat resemble the proposed amendments to the Sherman Antitrust Act introduced earlier in the session by Senator La Follette and Representative Lenroot;¹ except that their bills avowedly applied to all articles of commerce, patented as well as unpatented, while the substitute Oldfield bill, by limiting its application exclusively to patented articles, discriminates grossly in favor of unpatented articles.

The three main proposals of the bill are briefly these:

Compulsory licenses are authorized by providing² that if any applicant shall establish in a Federal district court that a patent owner who has purchased a patented invention from the original inventor is withholding it "with the result of preventing any other person from using the patented process" more than three years after the patent is issued, the court shall order the patent owner to grant to the applicant a license to use the invention upon such terms or royalty as the court deems just.

The nonenforcement of license restrictions is secured by providing³ that the patent owner shall no longer be permitted to bring an action for infringement of the patent, when the purchaser, lessee, or licensee of the patented article has committed a breach of the contract of sale, lease, or license by the conditions of which he obtained the patented article.

The extension of the Sherman Antitrust Act is effected by providing⁴ that any patent, used as part of any combination in restraint of trade or commerce among the several States or with foreign nations, or to monopolize or in any attempt to monopolize such trade, or used in any manner prohibited by this act, may be condemned in the manner provided by law for the forfeiture, seizure, and condemnation of property illegally imported; and also by providing⁵ that a violation of the Sherman Antitrust Act shall be conclusively presumed from any one of a long list of the most common business transactions, regardless of any surrounding circumstances.⁶

¹ S. 4921, H. R. 15926.

² Sec. 1.

³ Sec. 2.

⁴ Sec. 4.

⁵ Sec. 5.

⁶ Thus, a violation of the Sherman Antitrust Act shall be conclusively presumed: (a) when the vendor of any patented article attempts to restrict the price at which such article may be resold; (b) when the vendor of any patented article attempts to restrain a customer from buying or using an article obtained from somebody else, whether such attempt be made by agreement against such purchase, or by a condition of sale of the patented article sold, or by making in the price of the patented article any discrimination based upon whether the customer buys the article from somebody else; (c) when the vendor of any patented article, with a view to preventing competition with such article, acquires any other patent or license; (d) when the vendor of any patented article, with a view to restraining competition, makes in the price of the patented article any discrimination (other than the ordinary wholesale discount) based upon whether the customer buys from him goods of a particular quantity or aggregate price; (e) when the vendor of any patented article attempts to restrain competition, either by refusing to supply somebody, or by consenting to supply somebody only upon terms or conditions less favorable than are accorded to anybody else; (f) when the vendor of any patented article attempts to restrain competition by supplying to somebody, in any particular territory, patented articles upon terms or conditions more favorable than are accorded to other customers; (g) when the vendor of any patented article attempts to restrain competition by making any arrangement under which he shall not sell such patented article to certain classes of persons, or to those doing business in certain territory; (h) when the person dealing in any patented article does business under any name other than his own or that of his firm or corporation; (i) when the vendor of any patented

The provocation for these radical innovations and sweeping changes, according to the report accompanying the bill,¹ was:

First. The evils arising from the vendor of a patented article fixing the price at which the article must be resold to the public.

Second. The evils arising from the vendors of patented articles prohibiting their use except in connection with other unpatented articles purchased from them.

Third. The evils arising from owners of patents suppressing the same or prohibiting their use in order to prevent competition with other patented or unpatented articles sold by such owners of patents.

As a remedy for these evils, it was proposed to limit the absolute right now vested in the owners of patents, under which they determine to what extent and in what manner the use of the patent or patented article shall be permitted. With this in view, it was proposed to take away specifically the right recognized by the lower Federal courts to fix under the patent law prices at which articles shall be sold at retail, and also to take away the right recently confirmed in the Mimeograph Case to prohibit patented machines from being used otherwise than in connection with unpatented materials furnished by the vendor or licensor.¹

Whether these "evils" are actual, and whether the proposed changes in the patent law will bring any remedy or advantage, were the questions to which discussion was exclusively directed in the hearings upon the original Oldfield bill, in which the overwhelming number of witnesses opposed the conclusions of the committee.

Before turning to this testimony, the fundamental rights of a patent owner under the laws of the United States may be briefly stated.

Congress has the power under Article I, section 8 of the Constitution, 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."

Pursuant to this power Congress has provided in section 4884 of the Revised Statutes that a patent owner shall have the "exclusive right to make, use, and vend the invention or discovery." As the phraseology of the statute indicates, this exclusive right consists of three components, i. e., the exclusive right to make, the exclusive right to use, and the exclusive right to vend the patented article.

article attempts to prevent competition by supplying such article at a price at or below the cost of production and distribution.

The bill makes these further provisions: Whenever a combination in violation of the Sherman Antitrust Act is shown to control any patented article "reasonably required" in manufacture, production, general consumption, or use, and "no adequate opportunity exists to immediately substitute another article thereof of equal utility," the court shall compel the patent owner to continue to supply the patented article "until some other adequate substitute can be provided," upon payment of either "a reasonable compensation to be fixed by the court," or the amount of compensation payable according to any valid contract then existing (sec. 6). Final judgment, in a civil proceeding, that a defendant has violated the Sherman Antitrust Act by the use of any patent in any manner hereinbefore prohibited shall constitute, as against such defendant, conclusive evidence of the same facts and as to the same issues of law in favor of any other party in any other proceeding involving the Sherman Antitrust Act (sec. 7). Whenever a defendant has been adjudged in a civil proceeding to have violated the Sherman Antitrust Act by the use of any patent in any manner hereinbefore prohibited, anybody claiming to have been injured by such conduct may, within three years thereafter, intervene, and shall be admitted as a party to the suit, and shall have judgment for the damages resulting from such injury in just the same manner and extent as if he had begun an independent suit to recover such damages (sec. 9). When a combination has used any patent in any manner hereinbefore prohibited and has been adjudged to have violated the Sherman Antitrust Act, the court may partition its property in severalty among groups of stockholders or sell it in parcels as a whole and forbid former stockholders to buy at such sale (sec. 9). Whenever it appears in a civil suit by the Federal Government under the Sherman Antitrust Act that a patent has been used in any manner hereinbefore prohibited, any person or State threatened with injury may at any time intervene as a party (sec. 10). Whenever it is alleged in an action by the Federal Government under the Sherman Antitrust Act that a patent has been used in any manner hereinbefore prohibited, no department or official of the United States shall contract to buy anything from the defendant or its subsidiaries until such allegation "be found on final decree to be unfounded," unless no substitute of equal utility at a reasonable price can be found (sec. 11). In any suit arising out of the infringement of any patent or the breach of any contract whatsoever it shall be a complete defense that "the plaintiff or the real party in interest at the time of the making of such contract, or of its alleged breach, or at the time of the alleged infringement, at the time of the beginning of said suit was engaged in carrying on business in any manner or to any extent in violation of the provisions of this act" (sec. 12).

¹ Report, p. 2.

The owner of these three exclusive rights may dispose of them singly, or together, or fractionally. If he wishes to manufacture the patented article himself, he may keep the exclusive right to make, and dispose simply of the exclusive rights to use and to vend. If he wishes to manufacture the patented article, and put it out only upon some basis which will continue the title in himself, he may keep the exclusive rights to make and to vend, and dispose simply of the right to use. This right of use he may dispose of entirely or partially, according as he wishes. Thus, he may keep the exclusive rights to make and to vend, and most of the exclusive right to use, and grant only a limited right of use; for instance, the right to use the patented article only with such supplies and accessory appliances, and only under such conditions in respect to sale, lease, license, and use, as the patent owner shall prescribe.¹

The patent owner, like the owner of any other property, "can not be compelled to part with his own, excepting on inducements to his liking."² Owners of unimproved land can not be compelled to improve their property, nor—except by eminent domain—to allow others to improve it. Similarly, the patent owner can not be compelled to use his invention, nor—except by eminent domain—to allow others to use it. Landowners frequently prefer to continue to be owners, and to keep the rights of ownership, and to allow to others only the partial use of their land, subject to conditions of lease. Even when disposing of most of their rights of ownership, landowners frequently convey a limited title, subject to restrictions regarding the character of the improvements that shall be erected or the use to which the property shall be put. The patent owner's rights are neither greater nor more unusual than these familiar rights of landowners. When, therefore, the patent owner requires that his property be used only under certain specified conditions and for certain specified purposes, and with certain specified accessories, he asserts no novel property rights. Indeed, the patent owner's rights are much curtailed, as contrasted with the rights of other property owners, in that the owners of every other form of property may exercise their rights for so long a period as they and their successors may desire, while the patent owner may exercise none of his rights beyond the duration of his patent, and at the expiration of the statutory period of 17 years must relinquish to the public all of his rights.³

These rights have always been fundamental in American patent law. The right "to fix under the patent law prices at which articles shall be sold at retail," which the committee describes as "recognized by the lower Federal courts,"⁴ has been settled by the decisions of the Circuit Courts of Appeals of the Third, Seventh, and Eighth Circuits;⁵ and by decisions of Circuit Courts of the First, Second,

¹ *Bloomer v. McQuenaw*, 14 How. (U. S.), 539, 549 (1852); *Mitchell v. Hawley*, 16 Wall. (U. S.), 544, 547-548 (1872); *Adams v. Burke*, 17 Wall. (U. S.), 453, 456 (1873); *Bement v. National Harrow Co.*, 186 (U. S.), 70, 88-93 (1902); *Henry v. A. B. Dick Co.*, 224 (U. S.), 1 (1912); *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 Fed., 288 (C. C. A., Sixth Circ., 1896); *John D. Park & Sons v. Hartman*, 153 Fed. 24, 27 (C. C. A., Sixth Circ., 1907). See also cases collected in *Henry v. A. B. Dick Co.*, *supra*.

² *Victor Talking Machine Co. v. The Fair*, 123 Fed., 424, 426 (C. C. A., Seventh Circ., 1903).

³ See *The Supreme Court on Patents*, by Gilbert H. Montague, 21 Yale L. J., 583 (1912).

⁴ Report, p. 2.

⁵ *New Jersey Patent Co. v. Schaefer*, 178 Fed., 276 (C. C. A., Third Circ., 1909); *Victor Talking Machine Co. v. The Fair*, 123 Fed., 424 (C. C. A., Seventh Circ., 1903); *The Fair v. Dover Mfg Co.*, 166 Fed., 117 (C. C. A., Seventh Circ., 1908); *National Phonograph Co. v. Schlegel*, 128 Fed., 733 (C. C. A., Eighth Circ., 1904).

Third, Sixth, and Eighth Circuits;¹ and has been expressly affirmed by the Supreme Court.² It rests upon principles established by an unbroken line of judicial decisions in the United States.³ The same right and the same principles, it may be added, have been established in a line of English decisions culminating in a unanimous decision of the Lords of the Judicial Committee of the Privy Council, which determines the law for the entire British Empire.⁴ The Mimeograph Case,⁵ which the House Committee on Patents states⁶ recently confirmed the right of the patent owner to prohibit patented machines from being used otherwise than in connection with unpatented materials furnished by himself, was strictly in line with all these authorities. Far from being a recent development, the rule in that case was simply an application of the principles established by the unbroken trend of judicial decisions above mentioned. How unchallenged these principles have been, until the surprising dissenting opinion in the Mimeograph case, appears from the decisions of the Supreme Court in *United States v. Bell Telephone Co.*⁷ and *Bement v. National Harrow Co.*⁸ and the Paper Bag Patent case,⁹ in which, it is interesting to note, the author of this dissenting opinion participated and concurred. Notwithstanding the forebodings expressed in this dissenting opinion, a careful reading of the decision itself shows that the Mimeograph case spells trouble only for those people who, with knowledge of the conditions on which alone the patent owner consents to part with his patented article, expressly agree to these conditions in order to obtain the article, and thereupon deliberately set about to violate their agreement respecting these conditions in order to benefit at the expense of the patent owner; or those people who, fully knowing that a user of a patented article has expressly agreed to the conditions on which alone the patent owner consented to part with it, thereupon deliberately instigate such user to break his agreement respecting these conditions in order to benefit at the expense of the patent owner. As Justice Wills remarked, speaking to this very point in one of the English cases above referred to: "It seems to be common sense, and not to depend upon any patent law, or other particular law."¹⁰

The substitute Oldfield bill proposes to deprive the patent owner of the right to sue such pirating dealers and manufacturers as contributory infringers and to relegate the patent owner to separate actions for breach of contract against the army of small users whom these pirates instigate to break their agreements. This proposal leaves the patent owner virtually without remedy. Even if a thou-

¹ *Edison Phonograph Co. v. Kaufmann*, 105, Fed., 660 (C. C., W. D. Pa., 1901); *Edison Phonograph Co. v. Pike*, 116 Fed., 863 (C. C., D. Mass., 1902); *New Jersey Patent Co. v. Schaefer*, 144 Fed., 437 (C. C., E. D. Pa., 1906); *Ingersoll v. Snellenberg*, 147 Fed., 522 (C. C., E. D. Pa., 1906); *New Jersey Patent Co. v. Schaefer*, 159 Fed., 171 (C. C., E. D. Pa., 1908); *New Jersey Patent Co. v. Martin*, 172 Fed., 760 (C. C., N. D. Iowa, 1909); *Thomas A. Edison (Inc.) v. Ira M. Smith Mercantile Co.*, 188 Fed., 925 (C. C., W. D. Mich., 1911); *Automatic Pencil Sharpener Co. v. Goldsmith Bros.*, 190 Fed., 205 (C. C., S. D. N. Y., 1911); *Indiana Mfg. Co. v. Nichols & Shepard Co.*, 190 Fed., 579 (C. C., E. D. Mich., 1911); *Waltham Watch Co. v. Keene*, 191 Fed., 855 (C. C., S. D. N. Y., 1911).

² *Bement v. National Harrow Co.*, 186 U. S., 70, 93 (1902); *Henry v. A. B. Dick Co.*, 224 U. S., 1, 30-31 (1912).

³ See authorities collected in *The Sherman Anti-trust Act and the Patent Law*, by Gilbert H. Montague, 21 *Yale L. J.*, 433 (1912), and *The Supreme Court on Patents*, by Gilbert H. Montague, supra.

⁴ *National Phonograph Co. of Australia (Ltd.) v. Menck* [1911], A. C. 336, cited in *Henry v. A. B. Dick Co.*, 224 U. S., 1, 42 (1912); other English cases are collected in *Henry v. A. B. Dick Co.*, 224 U. S., 1, 39-43 (1912), and in *The Sherman Antitrust Act and the Patent Law*, by Gilbert H. Montague, supra.

⁵ *Henry v. A. B. Dick Co.*, 224 U. S., 1 (1912).

⁶ Report, p. 2.

⁷ 167 U. S., 224 (1897).

⁸ 186 U. S., 70 (1902).

⁹ *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U. S., 405 (1908).

¹⁰ *Incandescent Gas Light Co., Ltd., v. Cantello*, 12 Pat. Cas., 262 (1895), approved and followed in *National Phonograph Co. of Australia (Ltd.) v. Menck* [1911], A. C. 336.

sand such suits were successfully prosecuted, the damages would be small in each and uncollectible in most and less than the expense of litigation in all. Meanwhile, the patent owner would practically be helpless before the instigator of this piracy.

The evils which the House Committee on Patents declare to be their provocation for sweeping away all these patent rights were not established by the testimony taken before the committee.

By numerous witnesses, who cited scores of examples, it was shown that the difficulties of merchandising are enormously increased in the instance of novelties. All patented articles are novelties at first, and most of them continue to be novelties to most of the public until the 17-year patent period expires. Considering the natural handicap thus imposed on the selling of patented articles, and the further fact that the patent owner must reap his reward before the expiration of the 17-year patent period, no aid which the existing law lends to the merchandising of patented articles can well be called unfair. In his evidence, Mr. Louis D. Brandeis says:

The fixing of a price has possibly prevented one retail dealer from selling the article a little lower than the other, but the fixing of that price has tended not to suppress but to develop competition, because it has made it possible in the distribution of those goods to go to an expense and to open up another sphere of merchandising which would have been absolutely impossible without a fixed price. The whole world can be drawn into the field. Every dealer, every small stationer, every small druggist, every small hardware man, can be made a purveyor of that article by comprehensive advertising. You have stimulated, through the fixed price, the little man as against the department store and as against the large unit which may otherwise monopolize that trade. * * * As you develop the article you are inciting invention, and what is more important than the invention, you are inciting the commercial development of the competing article.¹

By the same token, license restrictions agreed to by owners when they obtain patented articles solely upon condition that they use them only with supplies that are specially prepared for them, or in continuity with machines that are especially adapted to them, or in some particular manner requisite in order to accomplish the purposes for which they are intended, were declared by numerous witnesses to be both necessary and proper. Mr. H. Ward Leonard, a well-known inventor and an officer of the Inventors' Guild, made this explanation:

It may be that the article is of such nature that in order that it shall work properly, it shall require very great care in selecting certain conditions of use, certain materials to be used in connection with it. It certainly is a fact that in some instances a man's market for a good article would be completely destroyed if he could not insure himself in seeing that it was properly used after it left his hands.²

The notion that such license restrictions might give patent owners the "practical monopoly of the market" for unpatentable products

¹ Hearing before the Committee on Patents, House of Representatives, on H. R. 23417 (hereinafter called "Hearing"), No. XVIII, p. 4. To the same effect see also the testimony of Fletcher B. Gibbs, representing the national catalogue committee of the National Association of Stationers and Manufacturers, and of Frank L. Dyer, president of Thomas A. Edison (Inc.), and of Horace Pettit, Hearing, No. II; of R. E. Shanahan, general manager of Bissell Carpet Sweeper Co., Hearing, No. V; of Thomas W. Pelham, sales manager of Gillette Safety Razor Co., Hearing, No. VII; of M. Dorian, treasurer of Columbia Phonograph Co., and of G. A. Le Roy, representing the Western Clock Co., Hearing, No. VIII; of J. George Frederick, vice president of the Business Bourse, Hearing, No. IX; of J. A. Jochum, sales manager of Gem Cutlery Co., Hearing, No. XI; of Daniel Kops, Hearing, No. XIII; of Charles T. Johnson, president of Dover Mfg. Co., Hearing, No. XVII; of Pierrepont B. Noyes, president of Oneida Community, Hearing, No. XIX; of J. P. Archibald and John M. Roberts, representing the Pennsylvania Retail Jewelers' Association, Hearing, No. XX; of William H. Ingersoll (manufacturer of "Ingersoll watches"), Hearing, No. XXII; of Thomas A. Edison, Hearing, No. XXIII; and of George Eastman (Eastman Kodak Co.), Hearing, No. XXIV.

² Hearing, No. III, p. 24. To the same effect see also the testimony of Frank L. Dyer, Hearing, No. II; Dr. L. H. Baekeland, Hearing, No. IV; Edwin J. Prindle, Hearing, No. X; Samuel Owen Edmonds, Hearing, No. XII, and Frederick P. Fish, Hearing, No. XXVI.

used with a patented device is disposed of by the fact that such a practical monopoly, far from offending the public policy, actually promotes the general welfare; because the patent owners can attain it only by cheapening the cost of manufacture of the patented article, and can continue it only so long as their invention is not superseded by subsequent inventions still further cheapening the cost of manufacture.¹ As the Supreme Court explained in the Mimeograph case:²

The market for the sale of such articles (i. e., unpatented supplies) to the users of his machine (i. e., the patent owner's patented machine), which, by such a condition, he takes to himself, was a market which he alone created by the making and selling of a new invention. Had he kept his invention to himself, no ink could have been sold by others for use upon machines embodying that invention. By selling it subject to the restriction he took nothing from others and in no wise restricted their legitimate market. * * * The public is always free to take or refuse the patented article on the terms imposed. If they be too onerous or not in keeping with the benefits, the patented invention will not find a market. The public, by permitting the invention to go unused, loses nothing which it had before, and when the patent expires will be free to use the invention without compensation or restriction.³

Thus are the first and second classes of evils relied upon by the committee proved unreal upon analysis. The third class of evils, by which the committee seeks to justify the substitute Oldfield bill, are "evils arising from owners of patents suppressing the same or prohibiting their use in order to prevent competition with other patented or unpatented articles sold by such owners of patents."⁴

"That patents in the United States are bought up in large numbers for the purpose of suppressing competition," continues the committee, "can not be doubted."⁵ Significantly enough, the committee cites no testimony that supports this statement. Indeed, as an eminent patent lawyer told the committee upon the close of the hearings: "There is not a particle of evidence before the committee, there is not anything in print anywhere that I have seen, which indicates that that is a matter of the slightest consequence."⁶ Instead, the committee goes outside of the testimony for proof of suppression and declares: "It has been the subject of comment and complaint in the public press for years. Moreover, many instances can be found in the reports of the decisions of the Federal courts."⁵ Quoting from *Columbia Wire Co. v. Freeman Wire Co.*,⁷ the committee says regarding one of the parties litigant: "It has become possessed of many, if not all, of the valuable patents for the manufacture of barbed wire and machines for so doing." But the remainder of the sentence and the context flatly disprove every suggestion of suppression, either of patents or of competition. What the court says is—

It has become possessed of many, if not all, of the valuable patents for the manufacture of barbed wire, and the machines for so doing, and has granted a large number of licenses to persons and corporations under its said patents. The evidence further shows that it has not bound its licensees to any prices, or in any manner limited or restricted their sales or output. * * * In other words, there appears to be, so far as the complainant's licensees are concerned, unrestricted competition in the sale of their products.

¹ *Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co.*, 77 Fed. 288, 295 (C. C. A., Sixth Circ., 1896; Judges Taft, Lurton, and Hammond; Judge Lurton writing the opinion).

² *Henry v. A. B. Dick Co.*, 224 U. S. 1, 32, 34, 35 (1912).

³ To the same effect see the cases collected in *Henry v. A. B. Dick Co.*, 224 U. S. 1 (1912); and also by the present writer in the Sherman Antitrust Act and the Patent Law, and the Supreme Court on Patents, *supra*.

⁴ Report, p. 2.

⁵ Report, p. 4.

⁶ Frederick P. Fish, Hearing, No. XXVI, p. 12.

⁷ 71 Fed., 302, 306 (1895).

Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co.,¹ and National Harrow Co. v. Bement,² which the committee cite, it may be noted were both reversed upon the law on appeal.³ The so-called Lock case,⁴ contrary to the impression conveyed by the committee, did not involve the purchase of patents for purposes of extinction, but raised the question whether an agreement to restrain trade in respect of both patented and unpatented locks was contrary to the Sherman Antitrust Act, and the court, of course, held that it was. Far from indorsing the objects of the substitute Oldfield bill, the court in this case emphatically dissents from the committee's position, saying:⁵

The right of a patentee to suppress his own rests upon ordinary considerations of property right. The public has no right to compel the use of patented devices or of unpatented devices, when that is inconsistent with fundamental rules of property.

The Paper Bag Patent case,⁶ from which the committee quotes the opinion of a dissenting circuit judge,⁷ who differed from the majority of his colleagues and from the decision of the Supreme Court of the United States, is described by the committee as the best known instance in the reports of suppression of a patent to prevent competition.⁸ This admission is important, because this case, as the Supreme Court pointed out in its decision,⁹ is a clear instance, not of the willful suppression of a patent, but simply of the rejection of one invention and the use of a better invention accomplishing the same purpose more satisfactorily.¹⁰

The conclusion of the committee, therefore, that these citations are sufficient to show that the practice of buying up and suppressing patents is widely indulged in¹¹ does not seem warranted.¹² Equally untenable appears the contention that the aggregation of patents under single ownership is an oppressive monopoly, which should be forbidden. This contention was disposed of by the Court of Appeals

¹ 148 Fed., 21 (1906).

² 21 N. Y. App. Div., 290 (1897).

³ Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co., 154 Fed., 365 (C. C. A., Seventh Circ. 1907); Bement v. National Harrow Co., 186 U. S., 70 (1902).

⁴ Blount Manufacturing Co. v. Yale & Towne Manufacturing Co., 166 Fed., 555 (1909).

⁵ P. 559.

⁶ Continental Paper Bag Co. v. Eastern Paper Bag Co., 150 Fed., 741 (1906); 210 U. S., 405 (1908).

⁷ Report, pp. 5-6.

⁸ Report, p. 5.

⁹ Pp. 427-429.

¹⁰ One of the witnesses before the committee, referring particularly to this case, explained this point: "Let us take the extreme case," said he, "of which I do not think there are many instances. A man has two patents, each of which is complete in itself and each of which is operative. He knows, because he studies the art, that one is better than the other. That is substantially the Paper Bag case, where the plaintiff was making first-class machines under one patent, and held another patent which he was not using, and which, we will assume, was radically independent of the one under which he worked. His machines were making exactly the same paper bags which could have been made by machines built under the other patent. He spent, very likely, hundreds of thousands of dollars in the development of the machine he was using. He gives the public the article that they want made on machines built under the patent which he uses. I say that under those circumstances there is absolutely no reason, based upon public policy, why that man should not hold his second patent, which he is not using, for the sake of protecting him in the use of his first idea. That would give him the monopoly of the manufacture of one particular kind of paper bags only, and perhaps not of that. There are many kinds of paper bags in competition with each other; the patentees and manufacturers of to-day are trying to find the best machines for making them. It may be that he invented the second patent in his own factory. If he purchased it, his object very likely was that he might have this other way of making these same bags, so that if this other way turned out to be a better way he might use it. If, in the course of time, this second invention appears to be the better way, he will use it." (Frederick P. Fish, Hearing, No. XXVI, pp. 9, 10.)

¹¹ Report, p. 5.

¹² Before taking leave of this point, it may not be amiss to quote the testimony of two witnesses, the first a leader of the patent bar who has appeared in most of the patent cases before the Supreme Court in recent years, and the second the greatest inventor of the age: "I personally can not think of an instance in my career of a meritorious patent being suppressed," says Frederick P. Fish, "I have known of the charge, but have in every case known that it was unfounded." (Hearing, No. XXVI, p. 13.) "I have heard and read numerous statements that many corporations buy valuable inventions," says Thomas A. Edison, "but no one cites specific cases. I myself do not know of a single case. There may be cases where a firm or corporation has bought up an invention, introduced it, and afterwards bought up an improvement and ceased using the first patent—suppressed it, in fact. Why should that not be done? It is for the benefit of

of the Seventh Circuit, in reversing one of the identical cases cited by the committee.¹

Their contention comes to this: If he owned either alone, over that he would have complete dominion; owning both, he controls nothing. The public has no right in either invention. Therefore the public has the right to have them both in the market competing for buyers. Naught plus naught; the sum of the two naughts is a substantive quantity.

The value of the comment and complaint in the public press which the committee mentions as proving the suppression of invention does not merit serious discussion. Not a single instance of such comment and complaint is specified in the committee's report. "I wanted," declared the chairman when he presented the report to the House,² "to get up as good a report as we could, to make it as plain as possible." Since this is the best showing the committee can make in respect to suppression of inventions, it is not presumptuous to affirm that present conditions require no change in the patent law upon this point.

Much solicitude is evinced by the committee lest the existing patent laws enable owners of patents to withdraw a large amount of personal property from the control of the State courts and State legislatures.³ "Nothing is more fundamental in our Government," declares the committee, "than the clearly marked line between the jurisdiction of the State and of the Federal courts."⁴ Nevertheless, the committee recommends a scheme of compulsory license which gives every Federal district court throughout the United States power to hale before it every patent owner (excepting original inventors) whose invention for any reason whatsoever has not come into use within three years after the issuance of the patent, and thereupon judicially to determine its value and compel the patent owner to grant to any competitor who asks it a license to use the patent upon such terms as the court may fix. This would transform the 72 Federal district courts into "courts of patent commerce," to quote one of the witnesses before the committee.

It embraces collar buttons and steamships, toothbrushes and transportation systems, toilet articles and safety-appliance systems, telegraph systems and tools, articles that go on the tables of the people, garments and foodstuffs, patent roads and buildings, inventions which have a restricted use in special fields, and those which affect the great mass. In short, so sweeping are the powers created by the proposed law as to give the district Federal courts jurisdiction over all fields of commerce.⁵

How the committee reconciles such a proposal with its professed abhorrence of anything that may ignore and override the jurisdiction of the State courts⁴ it is difficult to conceive.

Economists have long recognized that all the appalling consequences of overpopulation and starvation conditions have been staved off in the United States during the past 20 years only by the

the public that it should get the latest improvement. I can not see why the public should be asked to change the patent law to enable a competitor to get hold of the disused patent so he could have a basis on which to enter into competition with the pioneer of the invention who has introduced an improved machine. Before any changes in the law are made, let the objectors cite instances where injustice has been worked to the public by the alleged suppression of patents for other reasons than those which were due to improvements." (Hearing, XXIII, p. 34.) The distinction thus drawn by Mr. Edison between the willful suppression of inventions, and the rejection of inventions after careful experimentation and trial, in favor of the use of better and more useful inventions which accomplish the same purpose more satisfactorily, must be firmly kept in mind in order to judge the situation fairly.

¹ *Indiana Manufacturing Co. v. J. I. Case Threshing Machine Co.*, 154 Fed., 365, 371 (1906).

² Congressional Record, Aug. 8, 1912, p. 11333.

³ Report, p. 10.

⁴ Report, p. 9.

⁵ Joseph J. O'Brien, hearing, No. XXVII, p. 94.

progress of invention.¹ The result of such a scheme of compulsory license, it was graphically shown before the committee, would be to diminish the inventor's market for his invention, to enable any strong competitor to crush its weak rivals, to impede every patent owner in developing and introducing his invention, to retard the patenting of inventions, and to discourage the large-scale invention and industrial experimentation on which civilization depends for solving the increasing problems of existence.²

In its zeal to insure the nonenforcement of license restrictions, the committee proposes by the substitute Oldfield bill to enforce solely against patent owners a Draconian code of business practice which is not and never has been imposed upon any other class of property owners. Litigation under the Sherman Antitrust Act turns frequently, if not generally, upon close questions of law. By a salutary result of the existing law property which is not in transit does not become forfeited in the event that a combination in restraint of trade is found to exist. The substitute Oldfield bill, however, provides that under such circumstances all property in the form of patents involved in such litigation shall be forfeited, while all other forms of property shall remain unaffected. Under the provisions of the bill the vendor of any patented article becomes a criminal, if he attempts to secure a year's business as a condition of selling to a retailer; if he attempts to hold the retailer to his agreement to buy his patented goods exclusively or to a certain extent; if he attempts to hold the retailer to his agreement to maintain a standard price on the patented goods; if he licenses the use of a delicate patented machine on condition that it be used only with specially prepared supplies or in continuity with specially adapted machinery necessary to insure perfect operation; if he avails himself of the quality of his patented inventions to induce licensees to use his machines, either exclusively or in part, for all their needs; if he agrees with a retailer in a town to sell his patented goods to no one else in the same town or to sell to other retailers only on less favorable terms, in consideration of which the retailer shall push the sale of the goods; or if he sells his patented goods in any particular territory at a less price than he sells elsewhere. Each of these transactions, which good morals and honorable business practice, to-day and from time immemorial, have always sanctioned, is made by the bill conclusive proof of the violation of the Sherman Antitrust Act. The fact that the transactions might reasonably be shown to have no tendency to restrain trade can not

¹ "The period since 1891 has been anything but one of impoverishment, and it is no uncertain guess which assigns a reason for this general prosperity. It has been due to two causes, acting together, and both of them must continue to act if we are destined to escape disaster. The first is production on a vast scale, carrying with it a corresponding increase of efficiency, and the second is improvement in productive method, the brilliant succession of mechanical invention and other devices which, in every field of industry, have accomplished again and again what is called 'making two blades of grass grow where one grew before.' * * * Technical improvement is highly indispensable. Without it, and with our increasing population, life on our planet would be unendurable. Stop the succession of inventions that add to our power over nature and you will bring labor soon to a starvation limit. Merely check the rapidity of this technical progress and you will cause grievous hardship."—John Bates Clark, professor of economics in Columbia University; in the control of trusts, pp. 9-12 (1912).

² See the testimony of Frank L. Dyer, president of Thomas A. Edison (Inc.), Hearing, No. II; of H. Ward Leonard, chairman of the legislative committee of the Inventors' Guild, Hearing, Nos. III and IV; of Dr. L. H. Baekeland, president of the American Institute of Chemical Engineers and a member of the Inventors' Guild, Hearing, No. IV; of Edwin J. Prindle, Hearing, No. IX; of Samuel Owen Edmonds, Hearing, No. XII; of Livingston Gifford, Hearing, No. XIV; of Spencer Miller, chief engineer of the Lidgerwood Manufacturing Co., Hearing, No. XXIV; of Frederick P. Fish, Hearing, No. XXVI; of Walter F. Rogers, president of the Patent Law Association of Washington; and of William W. Dodge, E. W. Bradford, and others, Hearing, No. XXVII.

save the unlucky patent owner, for the bill expressly provides that "restraint shall be conclusively deemed to have been or to be unreasonable and to be in violation of the provisions of said act"¹ (i. e., the Sherman Antitrust Act) as to any party who performs any of these transactions. The penalty which the patent owner may suffer for doing any of these things is the forfeiture of his patents, a fine of \$5,000, and a year's imprisonment; and the payment of threefold damages and the costs of suit and attorneys' fees to anyone who comes in within three years thereafter and proves any damage.

The substitute Oldfield bill forbids only patent owners to do these things, and expressly leaves the owners of every other form of property absolutely free to do any of them. Unlucky patent owners caught in the net may reflect that if they had only dealt in unpatented goods, instead of spending time and money developing new inventions, which their patents publish to the world to the end that in 17 years the world may use them without cost, they could have avoided all their misfortunes. Is this the way by which Congress seeks to "promote the progress of science and useful arts"?

Some amendments in the patent law are certainly needed. Few will disagree with the House Committee on Patents that some legislation other than that proposed in the substitute Oldfield bill, is required, "amendments, specifically in the patent law, and particularly some radical changes in the administration of the patent law, both in the courts and in the Patent Office."² The committee continues: "As respects the courts, two vital changes are essential—the present method of trying patent cases must be abandoned for a new one and a court of patent appeals must be established. * * * Changes should be made in the equipment and organization of the Patent Office to increase its efficiency and to secure for the public and inventors whom it serves the best possible service."³ By changes of this sort rather than by the radical innovations proposed in the substitute Oldfield bill will the patent system of the United States be improved.

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¹ Sec. 5.

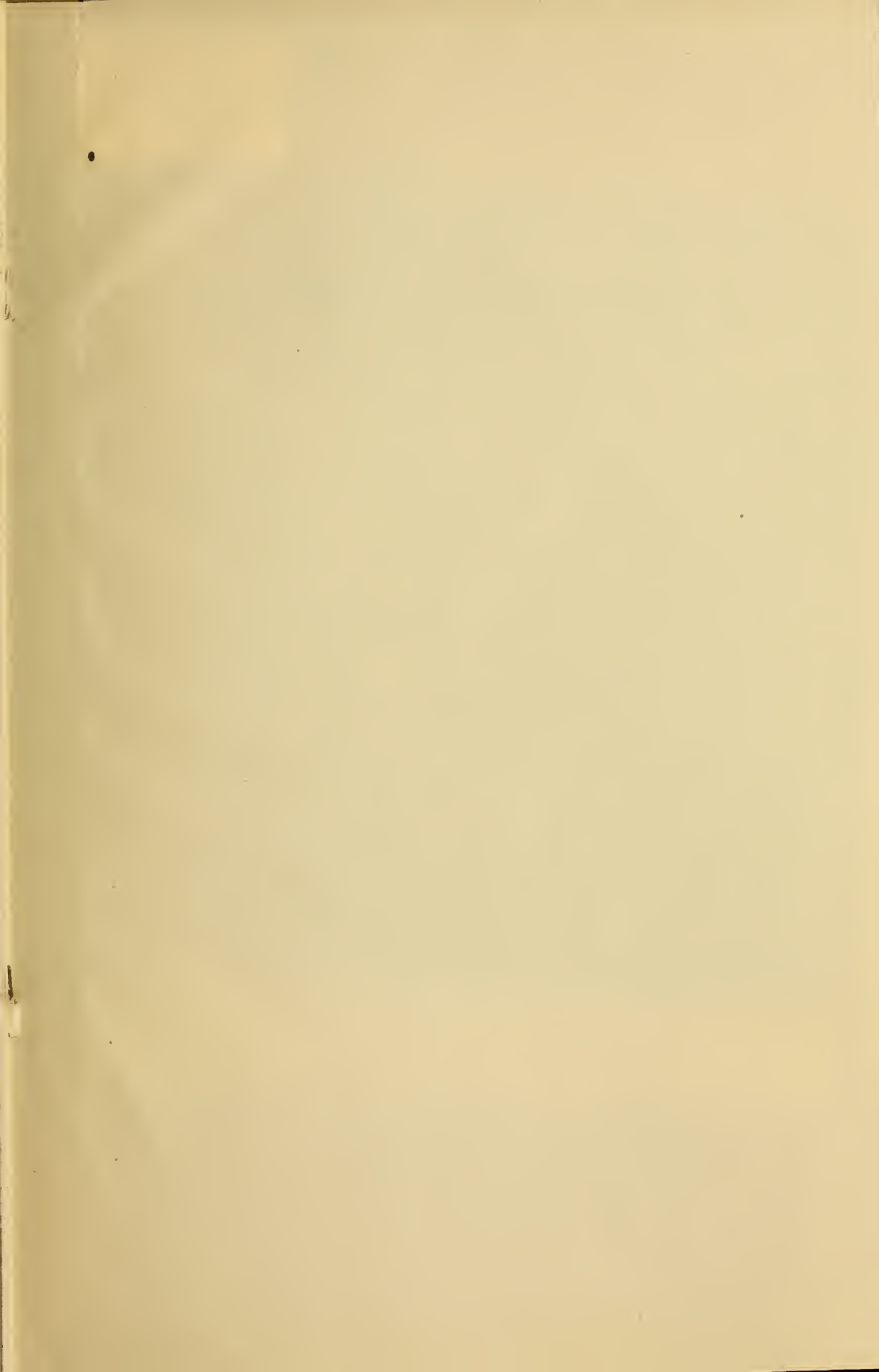
² Report, p. 21.

³ Report, pp. 21, 23, 24.



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