

Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk

By James Bessen & Michael J. Meurer

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“The general picture remains one where the performance of the patent system has declined as patents themselves have become less and less like property.”¹

In today’s world of diverse and complex technologies including computer software and pharmaceuticals, does the patent system work to afford inventors the rights to patents as property, and does the system offer sufficient incentives for continued innovation? These are the primary questions James Bessen and Michael J. Meurer address in the recently published, Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk. In the book, Bressen and Meurer undertake a comprehensive and in depth analysis of the current U.S. patent system, hypothesize about current inadequacies in the system, and offer conceptual ideas for improvement.

Bressen and Meurer begin their examination by presenting a variety of studies and data that suggest the profitability of patents have decreased as new technologies have grown exponentially since the mid-1990’s (except in the case of pharmaceuticals).² In the software and technology industries, the authors show that there are now so many patents that it has become increasingly costly for technology and software developers to search for and discover whether products they aim to create are already patented.

¹ James Bressen & Michael J. Meurer, Patent Failure: How Judges, Bureaucrats, and Lawyers put Innovators at Risk (Princeton University Press 2008) at 164.

² Id. at 121.

Similarly, data collected by Bressen and Muerer suggests that the expansion of patentable products to include abstract products such as business plans adds to the overall trend towards less profitable patents. In the case of abstract patents, would-be developers may find it difficult to determine the boundaries of other pre-existing patents. Developers must spend significant resources to figure out if patents exist for abstract products, not only because there are many patents out there, but because the patents that do exist have unclear boundaries. The existence of unclear boundaries creates difficulties for developers in determining whether or not they are infringing on an existing patent even if they have had the opportunity to review and analyze prior patents.

The crux of the authors' argument rests on their assertion that property rights over land (real property) are more certain than patent rights because the boundaries of real property are clear. A surveyor can look at real property, and the title to that property, and determine finite boundaries. The authors explain that in the case of intellectual property, even an attorney's best guess at the boundaries of a patent is not certain. As the authors point out, even after Kodak hired an advising attorney and made a good faith effort to create new instant film technology without infringing a Polaroid patent, a court found Kodak liable for infringement.³ Ultimately, it is the courts that decide whether or not one patent or product infringes on the pre-existing patent. Where a land-surveyor might be able to ensure that a person building on real property stays within the boundaries of his property and does not infringe upon the property of his neighbor, the authors point out that there is no party that pre-determines the boundaries of patent property. Rather, attorneys keep patent language vague and often over-inclusive to protect their client's

³ Bressen & Meurer, *supra* n. 1 at 48. See also Polaroid Corp. v. Eastman Kodak Co., 229 U.S.P.Q. 561 (1981).

patent rights. The actual boundary of a patent is determined only when the court is forced to consider it in a lawsuit.

Not only do the authors argue that the current patent system fails to offer incentive for innovation, they argue that the increasing costs of patenting new technology, including research, development, and litigation costs, discourages innovators from investing in creating new products and technology. The authors note that the patent system still works and will likely continue to work for larger technology corporations that are readily equipped to commercialize and turn a profit on their newly patented products. Larger corporations are further equipped for litigation fees. Smaller companies and individual inventors on the other hand, are less prepared to commercialize products on a large and profitable scale and may not be able to afford obtaining new patents considering the risk of potential litigation costs.

Further, the authors argue that the penalties involved in inadvertent infringement may discourage developers from making a good faith attempt to research existing patents and to avoid infringement. Bressen and Meurer show that those who independently create new technologies, even after spending sufficient time and money to investigate prior patents, are held accountable for damages when another patent holder can show that the new technology infringes their prior patent. Unlike copyright law, which does not penalize independent creation, even if a strikingly similar product already exists, patent law fines independent creation by awarding large damages in lawsuits over inadvertent infringement.

Although critical of the current U.S. patent system, the authors are not without answers. Towards the end of the book, the authors address concepts that they believe will help improve the current U.S. patent system. First, they believe that “the main goal of reform should be to

improve patent notice.”⁴ The authors identify insufficient notice as a major problem in inadvertent patent infringement that ultimately leads to excessive litigation costs. Developers could be put on notice in a more effective way if patents had clear set boundaries, similar to the boundaries of land. The authors suggest that, like property boundaries, the patent office should recognize and describe clear limits to new patents; perhaps even requiring the office to write an opinion about the scope and limits of the patent at the time it is approved, as is done in the U.K. patent office.⁵

The authors also suggest that the patent office develop stricter “non-obvious” standards for new patents. Indeed, as the authors note, the stricter the patent office becomes (the more uniqueness they require) in approving patents, the fewer patents they will approve and ultimately, fewer patents will exist. If fewer patents existed, potential innovators would be able to invest less in research prior to creating new technology, and there would be less of a danger of infringing existing patents. Because Bressen and Muerer believe that having a smaller number of concisely defined, quality patents will improve the U.S. patent system, they go a step further to suggest “dramatically increasing fees”⁶ for renewal patents in order to keep innovation fresh and to weed out any “dead wood” in the current system.⁷

The improvements suggested by Bressen and Muerer are consistent with portions of U.S. patent system improvement models suggested by organizations such as the Coalition for Patent

⁴ *Id.* at 239.

⁵ *Id.* at 27; Jim Bessen, Professor, Boston University Law, Guest Speaker at Berkman Center for Internet and Society Luncheon Series at Harvard University (Mar. 4, 2008) *available at* <http://blogs.law.harvard.edu/mediaberkmann/2008/03/04/jim-bessen-on-patent-failure/>

⁶ Jim Bessen, Professor, Boston University Law, Guest Speaker at Berkman Center for Internet and Society Luncheon Series at Harvard University (Mar. 4, 2008) *available at* <http://blogs.law.harvard.edu/mediaberkmann/2008/03/04/jim-bessen-on-patent-failure/>.

⁷ Bessen & Meurer, *supra* n. 1 at 247.

Fairness (CPF) and by legislators in recent patent reform bills.⁸ The Coalition for Patent Fairness includes large companies involved with technical innovation such as Apple and Microsoft.⁹ Like the book authors, who recommend that the U.S. patent office be more stringent in approving patents by heightening standards for patent uniqueness, CPF recommends strengthening the U.S. patent office to “improve[] the procedures for submitting, and considering, prior art during the patent examination process.”¹⁰

In their “Case for Reform,” the CPF further suggest that litigation costs be contained by changing the standard for calculating damages for patent infringement to the “value attributable to the patent owner’s contribution to a product” rather than basing damages on the value of an entire product.¹¹ They advocate for limiting litigation costs by allowing the patent office recourse to address wrongfully issued patents. Further, they suggest limiting punitive damages for “willful” infringement that the courts may find when developers research existing patents and infringe those patents inadvertently or otherwise.¹²

The Patent Reform Act of 2007, passed by the House of Representatives, also goes further than Bressen and Muerer by taking action not only on patents, but by suggesting limitations on excessive patent litigation (a problem which the authors also identify).¹³ Like the CPF, who suggest damages be valued on patented component contributions to a product rather than the full product, the 2007 legislation suggests that “damages should be calculated based on

⁸ The Case for Reform: CPF White Paper, Coalition for Patent Failure, *available at* http://www.patentfairness.org/about_the_coalition/our_principles.cfm, (last visited Oct. 8, 2008); Timothy B. Lee, Analysis: Patent Reform Bill Unable to Clean Up Patent Mess, *ars technia*, Mar. 25, 2008, *available at* <http://arstechnica.com/articles/culture/clean-up-patent-mess.ars!>; Eileen McDermott, New US Patent Reform Bill Revives Debate, *Managing Intellectual Property*, Sep. 29, 2008, *available at* <http://www.managingip.com/Article/2019720/New-US-patent-reform-bill-revives-debate.html>.

⁹ McDermott, *supra* n. 8.

¹⁰ The Case for Reform: CPF White Paper, Coalition for Patent Failure 5, PDF *available at* http://www.patentfairness.org/about_the_coalition/our_principles.cfm, (last visited Oct. 8, 2008).

¹¹ *Id.*

¹² *Id.*

¹³ Timothy B. Lee, Analysis: Patent Reform Bill Unable to Clean Up Patent Mess, *ars technia*, Mar. 25, 2008, *available at* <http://arstechnica.com/articles/culture/clean-up-patent-mess.ars>.

‘the economic value of the infringement attributable to the claimed invention's specific contribution over the prior art.’”¹⁴ The authors of the book and CPF worry that “willful” infringement damages encourage developers to refrain from searching for prior art. Based on this concern, the 2007 legislation limits damages for willful infringement except in cases of “findings of willful infringement to cases where the infringer had received specific written notice from the patentee, the infringer intentionally copied from the patent, or the infringer continued to infringe after losing in court.”¹⁵

Although other models exist to suggest similar and more extensive ways the U.S. patent system can be modified to better support innovation, Bressen and Meurer give detailed explanations of economic studies (showing the effect of litigation and patent expansion on patent costs) that offer patent reformers clear support for their cause. Further, the authors’ suggestion that the patent office increase renewal fees is an innovative idea that may help clean-up the current overly-crowded library of U.S. patents.

Although the book is a bit long-winded, the information contained therein is thorough and valuable. Potential readers should be aware that the authors make little effort to write for the layman or any person not already familiar with the current patent system, even repeatedly failing to write out abbreviations that may only be familiar to those with a technology background. Patent reform enthusiasts should consider purchasing the book for its detailed analysis of existing patent performance data. Reformers may be interested in using studies described in the book to support arguments for changing the patent system.

¹⁴ Id.

¹⁵ Id.