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Redefining the Market Failure Approach to Fair Use in an Era of Copyright Permission Systems

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REDEFINING THE MARKET FAILURE APPROACH TO FAIR USE IN AN ERA OF COPYRIGHT PERMISSION SYSTEMS

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Article I, Section 8, Clause 8 of the United States Constitution gives Congress the 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.[1]

This clause is the constitutional authority for congressional enactment of the Copyright Act.[2] Of all the powers granted to Congress in Section 8, Clause 8 is the only clause that has an expressly stated purpose: "to promote the Progress of Science and the useful Arts.[3] The clause also expressly states the means for achieving that purpose: granting limited monopoly rights to authors.[4]

Copyright law in this country is often spoken of as a balance between the rights granted to copyright owners and the rights

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[1] U.S. CONST. art. I, § 8, cl. 8.

[2] This clause is also the basis of Congress' authority to enact the Patent Act. The clause should be read distributively with "Science," "Authors," and "Writings" representing the copyright portion of the clause, and "useful Arts," "Inventors," and "Discoveries" representing the patent portion. Thus, for copyright, Congress has the power "to promote the Progress of Science . . . by securing for limited Times to Authors . . . the exclusive Right to their . . . Writings" and for patents Congress has the power "to promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." The clause is referred to as the Copyright Clause, the Patent Clause or the Intellectual Property Clause depending on the circumstances. Edward C. Walterscheid, To Promote the Progress of Science and Useful Arts: The Background and Origin of the Intellectual Property Clause of the United States Constitution, 2 J. INTELL. PROP. L. 1, 1 n.1 (1994).

[3] It is possible to view Clause 1 of Section 8 as having an expressly stated purpose as well. Clause 1 gives Congress the power to: "lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States. . . ." U.S. CONST. art. I, § 8, cl. 1. It has been argued that Congress may only collect taxes, duties, imposts and excises in order to pay the debts and provide for the common defense and general welfare of the United States, but this view is not universally accepted. *See* La Croix v. United States, 11 F. Supp. 817, 821 (W.D. Tenn. 1935) (adopting the minority view that the framers intended taxes to provide for the welfare of the United States in times of disaster).

[4] *Cf.* Walterscheid, *supra* note 2, at 32-34 (arguing that the significance and uniqueness in the copyright clause is not that is has a stated purpose but that it has a stated *means* for achieving its express purpose).

guaranteed to the users of copyrighted materials.[5] One of the most important counterbalances to the rights granted to copyright owners is the right guaranteed to the users of copyrighted works to make a "fair use" of copyrighted material.[6] The right of fair use exists to assist copyright law in fulfilling its express constitutional purpose: the promotion of the progress of knowledge and learning.[7] The right of fair use protects the public from the copyright monopoly becoming so expansive that it stifles the very progress of knowledge and learning that copyright law is constitutionally mandated to promote.

Under current copyright law, the right of fair use guarantees an important "breathing space within the confines of copyright."[8] Yet courts often view an assertion of fair use by a copyright defendant

[5] "The limited scope of the copyright holder's statutory monopoly, like the limited copyright duration required by the Constitution, reflects a balance of competing claims upon the public interest: Creative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts." Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156, 186 U.S.P.Q. (BNA) 65, 66 (3d Cir. 1975) (footnotes omitted) (citing Lord Mansfield: "[W]e must take care to guard against two extremes equally prejudicial; the one, that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits, and the reward of their ingenuity and labour; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded."). Any fair use analysis "involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand." Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429, 220 U.S.P.Q. (BNA) 665, 673, (1984). Fair use "offers a means of balancing the exclusive rights of a copyright holder with the public's interest in dissemination of information affecting areas of universal concern, such as art, science and industry." Wainwright Sec. Inc. v. Wall St. Transcript Corp., 558 F.2d 91, 94, 194 U.S.P.Q. (BNA) 401, 403 (2d Cir. 1977).

[6] Throughout this article fair use is referred to as a "right." Fair use has been viewed by some as a privilege, or an "exception," but the importance of fair use in the scheme of copyright, discussed in Part I.D. *infra*, justifies its status as a right. *See* Leo J. Raskind, *A Functional Interpretation of Fair Use*, 31 J. COPYRIGHT SOC'Y U.S.A. 601, 602-03 (1984).

[7] While the text of the Constitution refers to the promotion of science, it is important to recognize the full meaning of that term at the time of the Constitution. At that time, "science" denoted broadly "knowledge and learning." Arthur H. Seidel, *The Constitution and a Standard of Patentability*, 48 J. PAT. OFF. SOC'Y 1, 11 n.13 (1966) (noting that the most authoritative dictionary at the time listed "knowledge" as the first definition of "science"); *see also* Walterscheid, *supra* note 2, at 51 & n.173. The modern connotation of "science," meaning technical mathematical, or non-arts studies, did not begin to emerge until the 1800s. JOHN AYTO, DICTIONARY OF WORD ORIGINS 461 (Arcade Publishing, Inc. 1990).

[8] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579, 29 U.S.P.Q.2d (BNA) 1961, 1965 (1994).

suspiciously and appear to grant such a defense only grudgingly.[9] While there are exceptions to this generalization, courts have not fully embraced the importance of fair use as a counterbalance to the limited monopoly rights granted to copyright owners.[10] After all, it is in some ways a unique idea that the public has the right to make certain kinds of uses[11] of another's property.[12] These permitted uses, however, are an important part of what allows copyright to promote knowledge and learning in the United States.

Pronounced one of the most troublesome areas of the law, the fair use "doctrine has been said to be 'so flexible as virtually to defy definition.'"[13] Several scholars have suggested that fair use should only be found where there is a market failure.[14] In the

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[9] *See infra* Part III.

[10] *See infra* Part V.

[11] That someone other than the copyright owner has the right to make certain uses of a work should not be viewed as odd. Property rules are, after all, a cultural creation. Copyright is entirely a statutory right, the bounds of which are determined by statute and by judicial interpretation of that statute. Copyright is not based on any natural law right of the author. L. RAY PATTERSON & STANLEY W. LINDBERG, THE NATURE OF COPYRIGHT: A LAW OF USERS' RIGHTS 109-122 (1991). Copyright is a bargain struck between the public and the author of a work. The public gives up some, but not all, rights to the work that would otherwise exist if the work were a true public good, *see infra* section II, in return for more works to enjoy, and an ultimate freedom to use the works created in any way after a copyright has expired. "Copyright is a bargain with the public; not a natural right." Richard Stallman, *Reevaluating Copyright: The Public Must Prevail*, 75 OR. L. REV. 291, 293 (1996).

[12] While we often refer to copyright as property, "it wears the property label uneasily." L. Ray Patterson, *Copyright and the "Exclusive Right" of Authors*, 1 J. INTELL. PROP. L. 1, 37 (1993). As the Supreme Court has recognized, "[t]he copyright owner . . . holds no ordinary chattel." United States v. Dowling, 473 U.S. 207, 216, 226 U.S.P.Q. (BNA) 529, 533 (1985). Copyright is more regulatory in nature. Patterson, *supra*, at 41. It is a limited statutory monopoly, with its scope defined by those rights that the public must forego during some limited time in order to provide the incentive necessary to encourage the production of new works.

[13] Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381, 1392, 40 U.S.P.Q.2d (BNA) 1641, 1650 (6th Cir. 1996) (en banc), *cert. denied*, 117 S. Ct. 1336 (1997) (citing Time Inc. v. Bernard Geis Assoc., 293 F. Supp. 130, 144, 159 U.S.P.Q. (BNA) 663, 674 (S.D.N.Y. 1968)). As the Senate recognized when passing the Copyright Act of 1976:

> Although the courts have considered and ruled upon the fair use doctrine over and over again, no real definition of the concept has ever emerged. Indeed, since the doctrine is an equitable rule of reason, no generally applicable definition is possible, and each case raising the question must be decided on its own facts.

S. REP. NO. 94-473, at 65 (1975), *reprinted in* 1976 U.S.C.C.A.N. (90 Stat.) 5659, 5679.

[14] *See, e.g.*, Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600 (1982); Michael G. Anderson & Paul F. Brown, *The Economics Behind Copyright Fair Use: A Principled and Predictable Body of Law*, 24 LOY. U. CHI. L. J. 143 (1993); Raskind, *supra* note 6.

context of copyright law the market can fail for several reasons: high transaction costs associated with achieving a market bargained-for, high externalities that cannot be internalized in a bargain exchange, or the existence of non-monetizable interests that are not factored into the bargain by the parties.[15]

Recently two appellate courts have twisted the market failure theory of fair use on its head, rejecting the fair use defense largely because of the apparent absence of one type of market failure. These courts neglected to fully appreciate the type of market failure that is more central to copyright and the fair use doctrine today. In *Princeton University Press v. Michigan Document Services, Inc.*,[16] and *American Geophysical Union v. Texaco, Inc.*,[17] the courts rejected claims of fair use because the copyright owners had established permission systems for licensing the types of uses at issue. The plaintiffs in these cases argued that if there is a simple, efficient system to obtain permission for the use at issue, then the claim of fair use should be denied. In both of these cases the courts were persuaded by the plaintiffs' arguments, holding that because there was a way to pay for the use, and the defendants did not pay for a license, the plaintiffs had suffered "market harm," an often determinative finding in fair use cases.

A permission system only remedies the market failure that occurs because of high transaction costs. A permission system does nothing to cure the kind of market failure that is more central to the purpose of fair use and the constitutional purpose of copyright: the market failure that occurs when there are significant external benefits associated with a particular use that cannot be internalized in any bargained-for exchange. The types of uses that fair use is designed to permit are exactly those uses that have significant external benefits that are spread across society as a whole.[18]

The adoption of the view that no fair use should be found if the copyright owner has set up a "permission system" to license such use threatens the constitutionally mandated goal of copyright law which is to promote the progress of knowledge and learning. Under

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[15] Gordon, *supra* note 14, at 1627-1630.

[16] 99 F.3d 1381 (6th Cir. 1996), *cert. denied*, 117 S. Ct. 1336 (1997).

[17] 60 F.3d 913, 35 U.S.P.Q.2d (BNA) 1513 (2d Cir. 1994), *cert. dismissed*, 116 S. Ct. 592 (1995).

[18] *See infra* Part IV.

this narrowed market failure view of fair use, if a copyright owner can establish an efficient "permission system" to collect fees for a certain kind of use, then the copyright owner will be able to defeat a claim of fair use. This limited view of fair use has the potential to allow copyright owners to control *all* uses of their works, thereby eliminating the necessary "breathing space" in copyright law.

The overemphasis on monetary issues and permission systems by lower courts deciding fair use cases without full consideration of the external benefits of the use at issue has led judges to treat fair use as the step-child of copyright law.[19] This second-class treatment of the right of fair use is particularly apparent with what are labeled non-transformative uses.[20] Under the current scheme of copyright, granting ever broader rights to copyright holders for ever longer periods of time,[21] the guarantee of the right of fair use must be protected and even expanded.[22] If courts are going to employ a market failure approach to fair use, a complete recognition of all the potential types of market failures that can occur relating to uses of copyrighted works is critical to maintaining the appropriate balance in copyright law. The goal of this Article is to further that understanding by exploring the use and misuse of the

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[19] *See infra* Part III.

[20] A transformative use is considered to be a use of elements or portions of a pre-existing work in such a way that it recasts or transforms the earlier work in some way. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 (1994). A parody of an earlier work is an example of a transformative use. A non-transformative use, on the other hand, is a use that does not involve any transformation of the authorship elements of the pre-existing work. Photocopying an article from a magazine or a chapter from a book are often thought of as examples of non-transformative uses. *See* 2 PAUL GOLDSTEIN, COPYRIGHT § 10.2.2[c] (2d ed. 1996). This Article argues that some non-transformative uses are as important as transformative uses and should be permitted as fair uses, even if there is a "permission system" in place for the particular use at issue.

[21] The first Copyright Act in this country provided for copyright protection for a maximum of 28 years (two 14 year terms). Act of May 31, 1790, ch. 15, § 1, 1 Stat. 124, (repealed 1802) *reprinted in* 5 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT app. at 7(D)(1)(a) (1997). Currently, for a work created by a single author, the monopoly of the copyright lasts for the life of the author plus 50 years, 17 U.S.C. § 302 (1994), with proposals pending in Congress to lengthen that base duration to the life of the author plus 75 years. Copyright Term Extension Act of 1997, H.R. 604 and S. 505, 105th Cong., 1st Sess. (1997).

[22] In making this call for expansion, I join others who have urged the same in the past. *See, e.g.*, Jessica Litman, *Copyright & Information Policy*, 55 LAW & CONTEMPORARY PROBLEMS 185, 207 & n.2 (1992) (urging that fair use be "reinvigorated"); PATTERSON & LINDBERG, *supra* note 11, at 196-222.

market failure approach in fair use cases especially in the context of permission systems and non-transformative fair uses.

In understanding how courts have applied and misapplied the market failure approach to fair use, it is critical to understand the historical origins not only of fair use, but of copyright law itself. Part I of this Article provides an overview of the fair use doctrine in the United States, first placing copyright law in historical perspective from its English origins as a tool of trade regulation and censorship. Part II describes the application of economic analysis to copyright generally and to fair use in particular. Part III explores how and why lower courts have overemphasized monetary considerations, the existence of permission systems, and why fair uses can and should include uses that would not be categorized as "transformative." Part III goes on to discuss the two recent courts of appeals cases finding permission systems to be persuasive evidence of market harm and the problems associated with adopting this kind of approach to fair use cases. Part IV explores the more central type of market failure that courts must fully consider in determining whether a particular use is fair: the inability to internalize the diffuse but extensive external public benefit of certain kinds of uses.

I. OVERVIEW OF COPYRIGHT AND FAIR USE

When Congress enacted the Copyright Act of 1976,[23] it made the rights of copyright owners "subject to" the rights of fair users,[24] and it codified the judicially created doctrine of fair use as a *right* that exists "notwithstanding" the rights granted to copyright owners.[25] In light of the importance of promoting access to, and fair use of, copyrighted works, Congress declared that a fair use "is

[23] 17 U.S.C. § 101 et. seq. (1994).

[24] Section 106 of the Copyright Act begins the grant of rights to the copyright owner with the phrase "[s]ubject to sections 107 through 120," thus making all the rights of copyright owners expressly subject to the rights of users specified in 14 different sections of the Copyright Act. 17 U.S.C. § 106 (1994).

[25] Section 107 of the Copyright Act guarantees the right of fair use. That section begins by clearly indicating that the fair use right exists "[n]otwithstanding the provisions of sections 106 and 106A," the two sections granting rights to copyright owners and authors, respectively. 17 U.S.C. § 107 (1994).

not an infringement of copyright."[26] While the statutory language clearly emphasizes the importance of the rights of users, including the right of fair use, to fully understand the doctrine's importance, one must first understand the origins of not only fair use, but the historical origins of the copyright law.

A. COPYRIGHT IN HISTORICAL PERSPECTIVE

The historical antecedent of American copyright is the English Statute of Anne, often spoken of as the "first" copyright act. The Statute of Anne, however, is only the first *parliamentary* copyright act and was the culmination of over 200 years of regulation of the publishing trade. The introduction of the printing press in the late fifteenth century created a new trade to be regulated and controlled. The English printers, booksellers, and bookbinders had been organized as a guild for nearly 100 years prior to the introduction of the printing press[27] and the guild likely had practices and rules that prohibited one member from copying another member's printed work without permission.[28] After the introduction of the printing press in England, such rules of the guild became increasingly important.

The rules governing the members of the guild were, however, nothing more than a gentleman's agreement that could be enforced only among the guild's own membership. Because of this private law characteristic, there existed the threat that a publisher who was not a member of the guild would copy a work previously published by a member, leaving the member with no recourse. This threat caused the publishers to seek ways of making their private law enforceable against non-members as well.[29] Printing patents offered one method of enforcement beyond the members of the guild, but such letters patent were granted by the sovereign at

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[26] 17 U.S.C. § 107 (1994).

[27] In 1403, "the Mayor and Aldermen of London granted a petition by the writers of textletter, illuminators, bookbinders, and booksellers to form a guild." LYMAN RAY PATTERSON, COPYRIGHT IN THE HISTORICAL PERSPECTIVE 29 (1968).

[28] *Id.* at 4.

[29] As early as 1542 the guild had requested a royal charter from the Crown. CYPRIAN BLAGDEN, THE STATIONERS' COMPANY: A HISTORY, 1403-1959, 28 (1960).

his royal prerogative.[30] The printing patent was limited to a favored few and its importance diminished throughout the seventeenth century.[31]

The decline in importance of the printing patent was accompanied by a rise in importance of the second method of enforcement beyond the members of guild—the creation of the royally chartered Stationers' Company. During the mid-sixteenth century, the desires of the booksellers for greater enforcement ability coincided with the desires of the crown "to gain control over 'the dangerous possibilities of the printed word' " and "to prevent the publication of 'seditious, heretical, and schismatical' materials . . . ."[32] The result was the grant of a royal charter in 1557 that reserved the printing of most works to members of the Stationers' Company and granted the Company the right to discover and destroy unlawfully printed books.[33] While the booksellers were interested in protect-

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[30] Walterscheid, *supra* note 2, at 13. While the exact terms of each printing patent could be varied, a printing patent gave the holder of the patent a monopoly over the printing of the work specified. PATTERSON, *supra* note 27, at 78-81.

[31] PATTERSON, *supra* note 27, at 80.

[32] PATTERSON & LINDBERG, *supra* note 11, at 23.

[33] The royal charter authorized:

> [T]he Master and Keepers or Wardens . . . to make search whenever it shall please them in any place, shop house, chamber, or building of any printer, binder or bookseller whatever within our kingdom of England or the dominions of the same of or for any books or things printed, or to be printed, and to seize, take, hold, burn, or turn to the proper use of the foresaid community, all and several those books and things which are or shall be printed contrary to the form of any statute, act or proclamation, made or to be made; and that if any person shall practise [sic] or exercise the foresaid art or mistery [sic] contrary to the foresaid form, or shall disturb, refuse, or hinder the foresaid Master or Keepers or Wardens for the time being or any one of them for the time being, in making the foresaid search or in seizing, taking, or burning the foresaid books or things, or any of them printed or to be printed contrary to the form of any statute, act, or proclamation, that then the foresaid Master and Keepers or Wardens for the time being shall imprison or commit to jail any such person so practising [sic] or exercising the foresaid art or mistery [sic] contrary to the foresaid form, or as is stated above, disturbing, refusing or hindering, there to remain without bail for the space of three months; and that the same person so practising [sic] or exercising the foresaid art or mistery [sic] contrary to the aforesaid form, or so as is above stated, disturbing, refusing or hindering, shall forfeit for each such practising [sic] or exercising aforesaid against the form aforesaid and for each such disturbance, refusal or hindrance a *hundred shillings* of lawful money of England, one half thereof to us, the heirs and successors of us the

ing their monopoly, the crown was interested in censorship. The stationer's copyright served both purposes well, permitting the booksellers a monopoly on registered titles and permitting the crown control over the printed word through the ability to destroy books it viewed as heretical.

The royal charter was preceded by several proclamations and followed by several Star Chamber decrees, all directed at controlling the printed word.[34] The Licensing Act of 1662 continued the regime of press control using the members of the Stationers' Company both as policemen and as enforcers. The purpose of these first copyright decrees and acts was the promotion of the crown's censorship carried out under the guise of the stationers' monopoly on book publishing. In 1694, the last of the legally sanctioned censorship acts ended and the stationers were unsuccessful in convincing Parliament to reinstate their control.[35]

Subsequent to their defeat in Parliament, the stationers then changed their tactics and sought to obtain legal protection for writings on behalf of authors, who, of course, would have to assign their rights to the publishers in order to be paid.[36] This strategy

> foresaid Queen, and the other half thereof to the foresaid Master, Keepers or Warden and community.

PATTERSON & LINDBERG, *supra* note 11, at 247-48 n.9 (quoting A TRANSCRIPT OF THE REGISTERS OF THE COMPANY OF STATIONERS OF LONDON 1554-1640 AD. 1:xxviii-xxxii (Edward Arber ed., London, Privately Printed 1875-94)).

[34] *See* PATTERSON, *supra* note 27, at 114-126 (discussing the Star Chamber decrees of 1586 and 1637).

[35] By its terms, the Licensing Act of 1662 was to remain in force for only two years but Parliament renewed the act from session to session "until the dissolution of the Cavalier Parliament." *Id.* at 138. It was revived again in 1685 and "renewed for the last time in 1692." *Id.* at 139. The members of the Stationers' Company tried repeatedly to revive the licensing act without success. *Id.* at 139-42.

[36] *Id.* at 142. The focus on authors as the statutory benefactors of copyright is a concept that continues through today. Prior to 1978, authors were not even entitled to federal copyright until publication, which typically meant involving a publisher in the process. While authors remain the initial recipient of copyright today, in order to effectively distribute and commercialize their works authors often are forced to assign their copyrights to publishers. *See, e.g.*, American Geophysical Union v. Texaco, Inc., 60 F.3d 913, 915 (2d Cir. 1994) (noting that the authors in that case were required to assign their copyrights in order to have their works published). With the increase of digital technology much of the traditional relationship between author and publisher may be dramatically altered. *See, e.g.*, Princeton Univ. Press v. Michigan Document Servs., Inc., No. 94-1778 1996 WL 54741, at *17 (6th Cir. Feb. 12, 1996) (Nelson, J., concurring in part and dissenting in part) ("electronic samizdats may turn out to be the wave of the future") *vacated and rev'd*, 99 F.3d 1381 (6th

was successful and in 1710 Parliament enacted the Statute of Anne which granted an assignable right to authors to control the publication of their writings.[37] This new copyright act, however, was fundamentally different from the previous proclamations in two important ways. Instead of a tool of censorship, the copyright monopoly under the Statute of Anne was expressly meant to be, as its preamble stated, "[a]n act for the encouragement of learning."[38] Additionally, copyright under the Statute of Anne was of limited duration (two fourteen-year terms), whereas previously it had endured in perpetuity. While the Statute of Anne continued the ability of publishers to monopolize the printing of books, it also created the concept of the public domain—after the copyright expired, anyone was free to use a work in any manner without needing permission from the copyright owner.[39] The Statute of Anne clearly rejected copyright as a tool of censorship and instead focused copyright on advancing learning.

England had taken centuries to arrive at a copyright law that embodied a public purpose and reduced the threat that copyright could be used as a tool for government censorship. This history was not lost on the framers of the Constitution who expressly incorporated into the Constitution the concept that copyright must serve a public purpose.[40] The Constitution provides that the monopoly of the copyright must "promote the Progress of Science

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Cir. 1996) (en banc).

The justification for vesting copyright protection in authors generally is based on two notions. First, that copyright provides the incentive for authors to create socially valuable works. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). Second, that authors deserve rewards for their acts of creation regardless of their particular motivation in creating a work. Mazer v. Stein, 347 U.S. 201, 219, 100 U.S.P.Q. (BNA) 325 (1954). These justifications have been attacked in recent literature. *See* Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197 (1996).

[37] While the publishers would have preferred that the copyright be granted only to publishers, an assignable right granted to authors was better than no protection at all.

[38] An Act for the Encouragement of Learning, 1710, 8 Anne, ch. 19 (Eng.).

[39] PATTERSON & LINDBERG, *supra* note 11, at 28-31.

[40] Very little is actually known about how the copyright clause came to be included in the Constitution. John Madison noted that the clause was adopted with no debate and no dissent. Walterscheid, *supra* note 2, at 26 & n.87. Given the distrust of monopolies at the time of the convention, *see infra* note 58, it is possible that the framers viewed the language setting forth the public purpose necessary to justify vesting Congress with the power to grant such monopolies. *Cf.* Walterscheid, *supra* note 2, at 56 (asserting that at the time of ratification of the Constitution, very few actually gave much thought to this clause).

and the useful Arts."[41] Importantly, "science" in the seventeenth century broadly denoted knowledge and learning.[42] Censorship was not present in any form. The first Congress also embodied the educational purpose in the first copyright act entitled "An Act for the encouragement of learning. . . ."[43]

Granting limited monopolies was seen as one of the most economically feasible ways for the fledgling nation to provide an incentive for the creation and dissemination of new works which would thereby promote education, learning, and democracy itself.[44] Today, a fundamental precept in copyright law is that the rights granted to individuals by the Copyright Act "are subservient to the Act's primary objective"[45] of promoting the progress of knowledge and learning.

B. THE HISTORICAL ORIGINS OF FAIR USE

The historical origins of the current fair use doctrine also began in England. The doctrine that we now label fair use, began in the English cases as the doctrine of fair abridgment. The early copyright laws both in England and in the United States protected only the printing and vending of the exact work. Although not expressly stated in the early statutes, courts considered translations and abridgments to be new works of authorship deserving of their own protection and typically not requiring the consent of the

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[41] U.S. CONST. art. I, § 8, cl. 8.

[42] *See* Seidel, *supra* note 7, at 11-12 & n.14.

[43] The Copyright Act of 1790, ch. 15, 1 Stat. 124 (1790).

[44] In adopting the first Copyright Act, the Senate emphasized that "[l]iterature and [s]cience are essential to the preservation of a free Constitution. . . ." BRUCE W. BUGBEE, THE GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW 137 (1967) (quoting U.S. Senate Journal, 1st Cong., 2d Sess., 8-10; 1 ANNALS OF CONG. 935-36 (972 in some copies) (Joseph Gales ed., 1789)). The alternatives might include government subsidies to creators of works of authorship or a system of patronage. Both of these methods for encouraging advancement in the arts and sciences have their own problems. *See* Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281, 302-08 (1970) (discussing the problems of government subsidies and patronage).

[45] Princeton Univ. Press v. Michigan Document Servs., 99 F.3d 1381, 1393 (6th Cir. 1996) (Martin, J., dissenting), *cert. denied*, 117 S. Ct. 1336 (1997). *See also* Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (stating that "private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts").

copyright owner of the original work.[46] For example, one of the first English cases finding a fair abridgment involved the defendant's unauthorized use of 35 out of the original 275 sheets of plaintiff's work.[47] The rationale expressed for permitting a fair abridgment of copyrighted works "was that the second author, through a good faith productive use of the first author's work, had, in effect, created a new, original work that would itself promote the progress of science and thereby benefit the public."[48]

The first seeds of fair use as opposed to fair abridgment appear in *Cary v. Kearsley*,[49] where Lord Ellenborough, sitting with a jury, was faced with the assertion that plaintiff's book detailing various places, roads, and the distance between places, had been infringed by the defendant's work. Prior to putting the case to the jury, the court remarked:

> That part of the work of one auther [sic] is found in another, is not of itself piracy, or sufficient to support an action; a man may *fairly adopt* part of the work of another: he may so make use of another's labours for the promotion of science, and the benefit of the public: but having done so, the question will be, was the matter so taken used *fairly* with that view, and without what I may term the *animus furandi* . . . ?[50]

In *Cary*, Lord Ellenborough also proclaimed the often quoted statement: "[W]hile I shall think myself bound to secure every man in the enjoyment of his copy-right, one must not put manacles upon

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[46] However, some of the first assertions of the right of fair abridgment met again with the specter of censorship, this time by the courts. For example in *Burnett v. Chetwood*, 35 Eng. Rep. 1008 (Ch. 1720), the court enjoined the publication and distribution of an unauthorized English translation of the Latin work "Archaeologia Philosophica" by Dr. Thomas Burnett. One of the excerpts included a conversation between Eve and the serpent that was of some embarrassment to the heirs of Dr. Burnett. Although the court found that the Statute of Anne had not been violated because the translation was a new work, it nevertheless granted an injunction based on the Court's "superintendency over all books . . . [to] restrain the printing or publishing any that contained reflections on religion or morality." *Id.* at 1009.

[47] WILLIAM F. PATRY, THE FAIR USE PRIVILEGE IN COPYRIGHT LAW 6-7 (2d ed. 1995) (discussing the case of Gyles v. Wilcox, 26 Eng. Rep. 489 (Ch. 1740)).

[48] PATRY, *supra* note 47, at 3.

[49] 4 Esp. 168 (1802).

[50] *Id.* at 170 (emphasis added).

science."[51] By keeping the scope of the copyright monopoly in check, fair abridgment represented one avenue of ensuring that copyright encouraged, rather than hampered, knowledge and learning.

The early English cases also evidence a concern for the competitive nature of the subsequent work. As early as 1761, a defendant asserting the defense of fair abridgment emphasized that his use did not supplant the sale of the original work, but rather assisted its sale.[52] As the doctrine evolved, and fair use entered the vocabulary of the case law, if the defendant's subsequent work harmed the market for the original work by competing against it, the court was more inclined to find infringement. Even in the context of a review of the original work, the courts held that if, in the review, "so much is extracted that it communicates the same knowledge with the original work, it is an actionable violation of literary property."[53]

C. FAIR USE ORIGINS: EXPANDING LIMITED RIGHTS OF COPYRIGHT OWNERS

The English fair abridgment doctrine was never fully accepted in American courts. Instead, the doctrine was treated as a precedent to be limited.[54] Justice Story's opinion in *Folsom v. Marsh* is recognized as the first articulation of fair use in the United States.[55] In *Folsom*, the defendant was found to have copied 353

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[51] *Id.* at 171. Ultimately, given the judge's comments in *Cary*, the plaintiff agreed to a nonsuit, before the case was given to the jury. PATRY, *supra* note 47, at 10.

[52] Dodsley v. Kinnersley, 27 Eng. Rep. 270 (Ch. 1761).

[53] Roworth v. Wilkes, 170 Eng. Rep. 889, 890 (K.B. 1807). For a more detailed review of the development of the fair abridgment and later the fair use doctrine in English case law, *see* PATRY, *supra* note 47, at 6-18.

[54] *See, e.g.*, Gray v. Russell, 10 F. Cas. 1035, 1038 (C.C.D. Mass. 1839) (No. 5,728) (stating that "[a]lthough the doctrine is often laid down in the books, that an abridgment is not a piracy . . . yet this proposition must be received with many qualifications"); *see also*, L. Ray Patterson, *Free Speech, Copyright and Fair Use*, 40 VAND. L. REV. 1, 39 (1987).

[55] 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4,901). Justice Story had earlier expressed in dicta many of the points articulated in Folsom. *See Gray*, 10 F. Cas. at 1038-39. While *Folsom* is typically considered to be the first fair use case, nowhere in the opinion does the phrase "fair use" appear. During the nineteenth century there were only nine reported cases that used the phrase "fair use." Laura G. Lape, *Transforming Fair Use: The Productive Use Factor in Fair Use Doctrine*, 58 ALB. L. REV. 677, 680 & n.14 (1995).

pages of the plaintiff's work, a 12-volume, 7,000-page biography of George Washington. In deliberating on whether the claimed use was an infringement, Justice Story phrased the appropriate inquiry as follows:

> In short, we must often, in deciding questions of this sort, look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work.[56]

Because the first Copyright Act in the United States gave a copyright owner *only* the right of "printing, reprinting, publishing and vending" the copyrighted work,[57] the judicially created fair use doctrine actually created an expansion of the rights given to the copyright owner. If the new work was found not to be a fair use, the copyright owner could prohibit its publication, despite the fact that it was not a verbatim printing of the copyrighted work. In other words, by showing that a particular publication was not a "fair use," the copyright owner could prohibit uses that were not otherwise within the grant of exclusive rights. Arguably, the conclusion that a particular work was not a fair use but rather was an infringement, equaled, in this context, a conclusion that the defendant had used too much of the original work such that the defendant was, in fact, reprinting the copyrighted work.

D. FAIR USE TODAY: LIMITING BROADER RIGHTS OF COPYRIGHT OWNERS

The founding fathers, while inherently suspicious of all monopolies,[58] believed that granting copyright protection for creative

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[56] 9 F. Cas. at 348.

[57] 1 Stat. at 124-26. Translations of a work into a different language were not considered copyright infringement. *See, e.g.*, Stowe v. Thomas, 23 F. Cas. 201 (C.C.E.D. Pa. 1853) (No. 13,514) (holding that the German translation of *Uncle Tom's Cabin* was not an infringement of the copyright in the original work). *See also*, Sayre v. Moore, 1 East. 361, 102 Eng. Rep. 138, 139 (K.B. 1801) (1785) (suggesting improved map could be noninfringing because of the alteration).

[58] An early objection to the Constitution was that it did not contain an express prohibition on the granting of monopolies. *See* Walterscheid, *supra* note 2, at 37-38 n.124 & 55-56.

works would be the most effective vehicle for providing the economic incentive, "the engine of free expression,"[59] and a tool of democracy.[60] The balance struck between copyright owners' rights and copyright users' rights in the first copyright acts protected the expression but left the ideas expressed free for anyone to copy. This was the only balance needed because the first copyright acts protected only against the unauthorized printing and vending of an entire work. Early copyright acts did not protect against the unauthorized preparation of abridgments, the copying of portions of a work for personal use, or the preparation of derivative works as that term is now defined under the Copyright Act.[61] Additionally, the idea/expression balance was appropriate given the limited duration of a maximum of 28 years.[62] Today, however, copyright provides greater protection than simply preventing the printing and vending of exact replicas of an entire work, and the duration of copyright has increased dramatically.[63]

Subsequent to the first Copyright Act passed in 1790,[64] there were three revision acts in 1802,[65] 1831[66] and 1870.[67] In 1909 Congress passed the "watershed statute of American copyright."[68] The 1909 Act awarded copyright owners of literary works a new exclusive right: The right to *copy* the copyrighted work. Section

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[59] Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 558, 225 U.S.P.Q. (BNA) 1073, 1080 (1985).

[60] Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 288-89 (1996).

[61] *See* 17 U.S.C. § 101 (1994) (defining a derivative work as "a work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted").

[62] Originally copyright had the potential to endure only for a maximum of 28 years (two 14-year terms). The Copyright Act of 1790, ch. 15, § 1, 1 Stat. 124 (1790).

[63] Presently copyright typically lasts for the life of the author plus fifty years, or between seventy-five and one hundred years for works made for hire and for works published anonymously or under a pseudonym. 17 U.S.C. § 302 (1994).

[64] Act of May 31, 1790, ch. 15, 1 Stat. 124 (repealed 1802).

[65] Act of April 29, 1802, ch. 36, 2 Stat. 171 (repealed 1831).

[66] Act of Feb. 3, 1831, ch. 16, 4 Stat. 436 (repealed 1870).

[67] Act of July 8, 1870, ch. 230, 16 Stat. 198 (repealed 1909).

[68] PATTERSON & LINDBERG, *supra* note 11, at 77. In passing the 1909 Copyright Act, Congress again noted that copyright was "[n]ot primarily for the benefit of the author, but primarily for the benefit of the public. . . ." H.R. REP. NO. 60-2222, 60th Cong., 2d Sess. 7 (1909).

1(a) of the act provided that "any person entitled thereto, upon complying with the provisions of this Act, shall have the exclusive right . . . to print, reprint, publish, *copy*, and vend the copyrighted work."[69] While the right to copy did exist in the prior act, it applied only to works of art and not to works of literature.[70]

Fair use was not codified as part of the 1909 Act, but remained in judicial hands. Following Justice Story's lead in *Folsom v. Marsh*,[71] the lower courts continued to apply Story's formulation of the fair use doctrine. As more rights were added to the rights granted to copyright owners, fair use was asserted more frequently, the amorphous doctrine being termed an "equitable rule of reason,"[72] with courts describing the fair use issue as "the most troublesome in the whole law of copyright,"[73] while copyright itself was referred to as "the metaphysics of the law."[74]

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[69] Act of March 4, 1909, ch. 320, § 1(a) 35 Stat. 1075 (emphasis added). The House report concerning section 1(a) indicates that Congress did not think it was changing, let alone expanding, the rights given to copyright holders:

> Subsection (a) of section 1 adopts without change the phraseology of section 4952 of the Revised Statutes, and this, with the insertion of the word "copy," practically adopts the phraseology of the first copyright act Congress ever passed—that of 1790. Many amendments of this were suggested, but the committee felt that it was safer to retain without change the old phraseology which has been so often construed by the courts.

H.R. REP. NO. 60-2222, at 4.

[70] While the creator of a work was given the "sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending the same," the rights given to the copyright owner were defined by what constituted an infringement of such work. For books it was an infringement to "print, publish, or import" the work without permission. Title 60 Revised Statutes § 4964 (1873). For maps, charts, musical compositions, prints, cuts, engravings, photographs, or cromos, however, it was an infringement to "engrave, etch, work, copy, print, publish, or import" the work without permission. Title 60 Revised Statutes § 4965 (1873).

[71] 9 F. Cas. 342 (C.C.D. Mass. 1841) (No. 4901).

[72] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 448 (1984) (citations omitted).

[73] Dellar v. Samuel Goldwyn, Inc., 104 F.2d 661, 662, 42 U.S.P.Q. (BNA) 164, 164 (2d Cir. 1939).

[74] It was Justice Story himself that gave copyright such an abstract reputation: "Patents and copyrights approach nearer than any other class of cases belonging to forensic discussions, to what may be called the metaphysics of the law, where the distinctions are, or at least may be, very subtile [sic] and refined, and, sometimes, almost evanescent." Folsom v. Marsh, 9 F. Cas. 342, 344 (C.C.D. Mass. 1841) (No. 4,901). Today, scholars still refer to fair use with similar epitaphs. *See, e.g.*, MARSHALL LEAFFER, UNDERSTANDING COPYRIGHT LAW 319 (2d ed. 1995) (calling fair use an "elusive legal doctrine").

The world changed rapidly in the twentieth century. Motion pictures, radio, television, and computers stretched the existing 1909 Act to its limits. Congress began the revision process in 1955 by authorizing several studies on copyright. Whether the fair use doctrine needed to be codified when it had existed for over a century as a judicially created and enforced doctrine spurred debate. Nine experts submitted their opinions concerning whether fair use should be codified. Eight of the nine believed that fair use did not need to be statutorily recognized.[75] Despite this early recommendation against codification, after many debates, committee reports, and language revisions,[76] Congress included section 107 in the Copyright Act of 1976,[77] which largely tracks Justice

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[75] The opinions of these individuals were submitted in response to an early study report on fair use issued by the copyright office. ALAN LATMAN, SUBCOMMITTEE ON PATENTS, TRADEMARKS, AND COPYRIGHTS, 86TH CONG., 2D SESS., STUDY NO. 14 ON FAIR USE OF COPYRIGHTED WORKS 39-44 (Comm. Print 1960). Melville B. Nimmer was the sole expert in the advisory committee who believed that fair use deserved "express legislative recognition." *Id.* at 42. Two more experts later changed their views in favor of legislative recognition. PATRY, *supra* note 47, at 262 n.4.

Two copyright scholars have proposed a likely reason for Congress's codification of fair use: "apparently [Congress] realized that, without a statement regarding fair use, the combined weight of the other changes constituted a very real threat to the constitutional purpose of copyright—the promotion of learning." PATTERSON & LINDBERG, *supra* note 11, at 102.

[76] For a comprehensive discussion of the legislative history surrounding section 107, see PATRY, *supra* note 47, at 261-412.

[77] The statute currently provides:

> § 107. Limitations on exclusive rights: Fair use
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> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
> (2) the nature of the copyrighted work;
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

17 U.S.C. § 107 (1994). The final sentence of section 107 was not in the original version of that section but was added in 1992. Act of Oct. 24, 1992, Pub. L. No. 102-492, 106 Stat. 3145.

Story's formulation of the inquiry into fair use articulated in *Folsom*.[78]

The arguments for greater monopoly rights for copyright owners have proven quite successful.[79] Section 106 of the 1976 Copyright Act lists the exclusive rights granted to copyright owners.[80] No longer does copyright protect only against the printing and vending of an exact replica of an entire work, but copyright now also

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[78] *Folsom*, 9 F. Cas. at 342.

[79] The Supreme Court has repeatedly recognized the tendency toward expansion of the limited statutory monopoly of the copyright:

> While the law has never recognized an author's right to absolute control of his work, the natural tendency of legal rights to express themselves in absolute terms to the exclusion of all else is particularly pronounced in the history of the constitutionally sanctioned monopolies of the copyright and the patent.

Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 432 n.13 (1984). The expansion of the rights of copyright owners has occurred not only through judicial decisions, but through legislation as well. *See, e.g.*, Act of Nov. 1, 1995, Pub. L. No. 104-39 § 2, 109 Stat. 336 (adding subsection (6) to section 106 which provides a digital public performance right for sound recordings), Act of Dec. 1, 1990, Pub. L. No. 101-650 § 603(a), 104 Stat. 5128 (adding section 106A granting rights of paternity and integrity to creators of works of visual art), Act of Oct. 4, 1984, Pub. L. No. 98-450, § 2, 98 Stat. 1727 (adding subsection (b) to section 109 prohibiting the lending, rental or leasing of computer programs except by nonprofit libraries and nonprofit educational institutions). *See* Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 886-87 (1997) (book review). *See also* Pamela Samuelson, *The Copyright Grab*, WIRED, Jan. 1996, at 134.

[80] The statute currently provides:

> § 106. Exclusive rights in copyrighted works
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> Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
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> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
>
> (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C.A. § 106 (West 1996 & Supp. 1997). Subsection (6) was added in 1995. Act of Nov. 1, 1995, Pub. L. 104-39, 109 Stat. 336. Section 106A grants certain additional rights to authors of works of visual art as that term is defined in the Act. 17 U.S.C. § 106A (1994).

protects against: The mere reproduction of a work, independent of whether that reproduction is sold;[81] the reproduction of portions of a work, again independent of whether that partial reproduction is sold; the public performance of certain types of works;[82] the public display of certain types of work;[83] and the preparation of derivative works based on a prior work.[84]

Because of the broader grant of exclusive rights to copyright owners, the role that fair use plays under the current copyright act differs considerably from the role that fair use played under *Folsom*. Today, fair use keeps copyright constitutional.[85] Fair use provides assurance that copyright will not stifle the very progress in knowledge and learning that it is constitutionally mandated to promote. Fair use also assures that copyright does not conflict with the First Amendment.[86] While the fair use doctrine originally expanded the rights of copyright owners,[87] fair use now is a critical component of copyright law that keeps the monopoly of copyright from becoming too broad. As the Supreme Court has recognized, "[t]he monopoly privileges [of copyright] that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit."[88] The individual rights granted as an incentive are constitutionally authorized only so long as they

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[81] *See, e.g.*, Walt Disney Prods. v. Filmation Assocs., 628 F. Supp. 871, 230 U.S.P.Q. (BNA) 524 (C.D. Cal. 1986). *But see* PATTERSON & LINDBERG, *supra* note 11, at 149-159 (arguing that the right to copy is not, and should not be, an independent right).

[82] 17 U.S.C. § 106(4) (1994).

[83] 17 U.S.C. § 106(5) (1994).

[84] 17 U.S.C. § 106(2) (1994). Derivative works are broadly defined and include abridgments, serializations, and translations. The Copyright Act of 1976 defines a derivative work as:

> [A] work based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization, motion picture version, sound recording, art reproduction, abridgment, condensation, or any other form in which a work may be recast, transformed, or adapted. A work consisting of editorial revisions, annotations, elaborations, or other modifications which, as a whole, represent an original work of authorship, is a "derivative work."

17 U.S.C. § 101 (1994).

[85] *See* PATTERSON & LINDBERG, *supra* note 11, at 191.

[86] Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 555-56 (1985).

[87] *See supra* Part I.C.

[88] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

serve the purpose of promoting knowledge and learning.[89]

The importance of fair use cannot be overstated. It is a "necessary part of copyright law, the observance of which is essential to achieve the goals of that law."[90] The importance of fair use continues to grow as the rights of copyright owners expand.[91]

II. ECONOMIC ANALYSIS, COPYRIGHT AND FAIR USE

It has been said that fair use should allow a use that "serves the copyright objective of stimulating productive thought and public instruction without excessively diminishing the incentives for creativity."[92] How much productive thought and public instruction is needed? How much diminution in incentive is excessive? These questions should underlie any fair use analysis. Many scholars have turned to economic principles for guidance in fair use cases, "because copyright law is based on economics."[93]

Clearly, our copyright law embodies an incentive-based rationale. The protection afforded by copyright law provides the necessary incentive to create and to disseminate copyrighted works. The protection of copyright is necessary because the works with which copyright is concerned are works that are public goods—they can be used and enjoyed by an unlimited number of people without

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[89] U.S. CONST. art. I, § 8, cl. 8.

[90] Michael G. Anderson & Paul F. Brown, *The Economics Behind Copyright Fair Use: A Principled and Predictable Body of Law*, 24 LOY. U. CHI. L.J. 143, 153 (1993).

[91] The expansion of the rights of copyright owners can be seen in the diminishing application of the idea-expression dichotomy, the partial repeal of the first sale doctrine, in cases permitting copyright in what are, essentially, works of the federal government, Litman, *supra* note 22, at 206 (1992), in the expansion of copyright infringement to include personal uses of cultural works and the mere viewing of digitally stored works, and the possible contractual enhancement of rights through licensing. Netanel, *supra* note 60, at 299-306.

[92] Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1110 (1990).

[93] Anastasia P. Winslow, *Rapping on a Revolving Door: An Economic Analysis of Parody and Campbell v. Acuff-Rose Music, Inc.*, 69 S. CAL. L. REV. 767, 771 (1996). *See also* Gordon, *supra* note 14 (advocating a market approach to guide fair use analysis); Robert P. Merges, *Are you Making Fun of Me?: Notes on Market Failure and The Parody Defense in Copyright Law*, 21 AIPLA Q.J. 305, 306 (1993) (analyzing the relationship of parody and market failure). The Supreme Court also has recognized that the copyright clause in the Constitution rests on an economic foundation. *Sony*, 464 U.S. at 429 (recognizing the "special reward" of the copyright acts as an incentive "to motivate the creative activity of authors"); Mazer v. Stein, 347 U.S. 201, 219 (1954) (referring to the "economic philosophy" behind the constitutional clause empowering Congress to grant copyrights).

being "used up." One person's reading of a poem in no way diminishes the ability of another, or ten others, to read and enjoy the very same poem. Private goods, on the other hand, once consumed cannot be consumed by another. Additionally, public goods are characterized by the condition that once they are created, others cannot easily be prevented from benefitting from them.[94]

The incentive based rationale in copyright law is founded on the premise that because one cannot effectively benefit from ownership of a public good, one has little or no incentive to create or maintain a public good.[95] If anyone were free to copy works which took months or even years to create, then the incentive to create those works would be significantly reduced. If creators of works are limited in their ability to capture the value that users place on their works, the creators may not have enough incentive to invest a socially optimal amount in their innovative and creative activity.[96] Copyright is meant to provide the protection that allows the creators to capture at least some of the public value of their work, thereby generating the perceived necessary incentive to encourage creation and dissemination.

If the underlying premise of the incentive-based rationale is that creators of works need to be able to capture at least some of the value the public places on the work, then the next logical question is: How much of that value should we permit a creator to capture? Of course, in an absolute sense, all that is needed in order to encourage production is the ability to recoup the cost of creation, reproduction, and dissemination.[97] The ability to capture value

[94] Public goods have two important characteristics: (1) they are virtually inexhaustible once produced; and (2) persons who have not paid for access to the public goods, still have access to them, nonetheless. Gordon, *supra* note 14, at 1610-11. A classic example of a "public good" is a national defense. Once the national defense has been paid for it is difficult, if not impossible, to exclude the non-paying neighbor of a paying member of society from the benefit of that defense. As a result, a sub-optimum amount of national defense will be purchased if left to a consensual market. *Id.* at 1611.

[95] Scholars have questioned this premise. *See, e.g.*, Breyer, *supra* note 44, at 302-308; Sterk, *supra* note 36.

[96] Stanley M. Besen & Leo J. Raskind, *An Introduction to the Law and Economics of Intellectual Property*, 5 J. ECON. PERSP. 3, 5 (1991).

[97] Landes and Posner have argued that it is not certain that any copyright is needed for authors to recover their fixed costs. William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325, 354 (1989); *see also* Breyer, *supra* note 44.

greater than that amount may increase the incentive to produce and hence increase the amount of works created, but the production of the greatest number of works is not the primary goal of copyright.[98]

One unfamiliar with copyright might suggest that the way to obtain the greatest number of new works would be to provide the greatest incentive possible, i.e., a copyright monopoly that is broad in scope and lengthy in duration. However, because any work inevitably builds on previous works, some to a greater extent than others, providing too large a monopoly will actually hinder the development of new works by limiting future creators use of earlier works.[99] Herein lies the fundamental tension in copyright law. Copyright law does not seek to maximize the financial returns to creators of works or to maximize the absolute number of works created; rather, copyright law in the United States seeks to promote the progress of knowledge and learning.[100] While knowledge and learning are promoted by the creation of more works, knowledge and learning are also promoted by a greater ability to access and to use the works of others.

In their work on the subject of economic analysis and copyright law, Professors Posner and Landes suggest that in attempting to determine the appropriate scope and duration of copyright, economic models could provide the necessary guidance. They posit that "[f]or copyright law to promote economic efficiency, its principal legal doctrines must, at least approximately, maximize the benefits from creating additional works minus both the losses from limiting access and the costs of administering copyright

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[98] To the extent that the public places additional value on a particular use, the increase in revenue reflects the value of that work to society and thus, more accurately reflects the level of incentive to be given to a certain kind of work.

[99] Even scholars who recognize that reward to authors is not the primary goal of copyright still assert that production of the most copyrightable works at the lowest cost is copyright's goal. Winslow, *supra* note 93, at 771 n.16 & 773 n.28; Gordon, *supra* note 14, at 1602 n.21; William F. Patry & Shira Perlmutter, *Fair Use Misconstrued: Profit, Presumptions and Parody*, 11 CARDOZO ARTS & ENT. L.J. 667, 690 n.104 (1993) (noting that the "central flaw in these economic models is that the ultimate goal of copyright is to reward creativity, not efficiency"). Presumably these authors factor in the "cost" of the stifling effect that too broad a monopoly can have on subsequent creation and the value of the access that is lost by the public under broader copyright monopolies.

[100] *See supra* Part II.A. "[C]opyright's primary goal is not allocative efficiency, but the support of a democratic culture." Netanel, *supra* note 60, at 288.

protection."[101] Providing too much protection would make the creation of new works costly and "thus, paradoxically, perhaps lower the number of works created."[102] There is no paradox in this however, as the fundamental purpose of copyright is not merely creation of new works and dissemination of those works, but the overall enhancement of knowledge and learning, including the freedom for new ideas and new works to build on the prior works of others.

The rights of copyright owners under the copyright statute have continued to expand during the history of the copyright monopoly. Supporters of each new expansion inevitably remind those opposing the expansion of the existing fair use doctrine, as if the mere existence of fair use renders any expansion of the copyright monopoly acceptable.[103] The comfort given by the existence of fair use is illusory, however, because of the limited manner in which the doctrine has been applied.

While fair use is one of the doctrines in copyright law that limits the scope of the copyright owner's monopoly,[104] how broad one views the right of fair use to be is typically related to how broad one believes the copyright monopoly has become. For those who believe the copyright monopoly is too broad, it is important to have an even broader right of fair use. For those who believe the copyright monopoly is not broad enough, the fair use doctrine should be a narrow "exception" to the rights of copyright owners.[105]

For those who view fair use through the lens of economic analysis, fair use can be explained as uses that should be permitted

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[101] Landes & Posner, *supra* note 97, at 326.

[102] *Id.* at 332.

[103] *See, e.g.*, U.S. DEP'T OF COMMERCE, INFORMATION INFRASTRUCTURE TASK FORCE, INTELLECTUAL PROPERTY AND THE NATIONAL INFORMATION INFRASTRUCTURE 83-84 (1995).

[104] Two other important limitations come from the limited duration of copyright and the fundamental principle that copyright protects only the expression and not the idea being expressed. 17 U.S.C. § 102(b) (1994).

[105] Paul Goldstein describes the two ends of the spectrum of those who view copyright's scope as copyright optimists and copyright pessimists. Copyright optimists, who "view copyright's cup of entitlements as always half full, only waiting to be filled still further," assert authors are entitled to "every last penny that other people will pay to obtain copies of their works." PAUL GOLDSTEIN, COPYRIGHT'S HIGHWAY, FROM GUTENBERG TO THE CELESTIAL JUKEBOX 15 (1994). Copyright pessimists, who view copyright's cup as half empty, urge that copyright need only provide the incentive to create new works; anything beyond that is too great. *Id.*

only if there is "reason to mistrust the market."[106] Only if the market fails should a court continue to analyze whether the use at issue is fair. If there was no market failure, then the use could not be a fair use. Professor Gordon suggested several kinds of market failures which could arise in the context of a fair use argument.[107] The first type of market failure is "the impossibility or difficulty of achieving a market bargain."[108] The most common example of such impossibility is the existence of high transaction costs in reaching and enforcing the bargain relative to the anticipated benefits of the bargain.

The second major type of market failure occurs as a result of externalities and nonmonetizable interests.[109] When a use of a work yields external benefits, "the market cannot be relied upon as a mechanism for facilitating socially desirable transactions."[110] Additionally, a use may involve certain social values that are not monetizable. For example, a use may involve a strong First Amendment value. Such social values, while critically important to a democratic society, do not pay well in the marketplace.[111] While most articles discussing fair use in the context of market failure identify externalities and nonmonetizable interests as

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[106] Gordon, *supra* note 14, at 1627. Copyright itself was created in part to cure a market failure, the market failure that exists with a public good. *See* Winslow, *supra* note 93, at 773. John Cirace, *When Does Complete Copying of Copyrighted Works for Purposes Other Than for Profit or Sale Constitute Fair Use? An Economic Analysis of the Sony Betamax and Williams & Wilkins Cases*, 28 ST. LOUIS U. L.J. 647, 657 (1984). ("[E]xcluding those who are unwilling to pay a positive price for public goods is difficult or impossible.")

[107] Market failure was only one part of Professor Gordon's test for whether a use was a fair use. Professor Gordon suggested a three-part test:

> [F]irst, does a reason to mistrust the market appear?; second, is the transfer to defendant value-maximizing, as determined by weighing plaintiff's injury against defendant's social contribution?; third, if both the first and second conditions are satisfied, would a grant of fair use cause substantial injury? If it would not, and if the prior conditions are satisfied, then fair use should be awarded.

Gordon, *supra* note 14, at 1626. Thus, in addition to the presence of a market failure, other factors would need to be shown for the use to be fair.

[108] *Id.* at 1627.

[109] *Id.* at 1630.

[110] *Id.*

[111] *Id.* at 1631. Professor Gordon also lists anti-dissemination motives as a third type of market failure. While the motives of a copyright owner may alter his or her willingness to enter into a licensing agreement, a refusal by the copyright owner to permit a use is a type of impossibility of achieving a market bargain. *Id.* at 1632-35.

factors that cause market failure, courts have a difficult time recognizing these types of market failures. As developed in Parts III and IV of this Article, with the exception of cases involving parodies, courts have focused their fair use inquiry in such a way that if the first type of market failure is not present, i.e., transaction costs for a particular bargain are minimal, it is highly unlikely the court will find the use to be fair. This limited focus ignores the second category of market failure, a category that is much more important to the primary purpose of copyright.[112]

III. FAIR USE IN THE COURTS

Courts have focused their analysis of fair use cases mainly on two issues: money and the transformative nature of the use at issue. This analysis typically results in a finding of fair use only if there is a new work created and if there is no perceived impact on the market for the copyrighted work. Unfortunately, these emphases have diminished the importance of certain kinds of non-transformative uses in the scheme of copyright. These emphases have permitted money to be the driving force behind copyright. Yet the main emphasis should be on the constitutionally mandated goal of the progress of knowledge and learning.[113] As discussed in Section IV, the problem becomes particularly acute with the recent willingness of courts to consider the "lost" permission fees that copyright owners want to charge for certain uses as evidence of harm to the markets for the copyrighted work.

A. THE EMPHASIS ON MONEY

The emphasis on money in fair use analysis is not entirely an aberration of the lower courts. The fair use analysis codified in

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[112] The possible exception is parody which has elements of both types of market failure present: impossibility of bargain due to anti-dissemination motives of copyright owners and high external benefits and nonmonetizable social values. *See* Alfred C. Yen, *When Authors Won't Sell: Parody, Fair Use, and Efficiency in Copyright Law*, 62 U. COLO. L. REV. 79 (1991).

[113] U.S. CONST. art. I, § 8, cl. 8. The Supreme Court has repeatedly emphasized that the four factor fair use analysis must be undertaken "in light of the purposes of copyright." Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 578 (1994).

section 107 involves an examination of the four factors listed in that section.[114] While the four factors are not meant to be exclusive, and courts are permitted to consider other factors as well,[115] cases rarely go beyond the four factors. Of the four factors enumerated in section 107, two focus on monetary issues. The first factor looks at "the purpose and character of the use, *including whether such use is of a commercial nature or is for nonprofit educational purposes*," while the fourth fair use factor examines "the effect of the use upon the *potential market for or value of* the copyrighted work."[116]

The use of presumptions is one way in which courts overly stress money. Courts apply a presumption of unfairness for commercial uses under the first factor: if a use is found to be commercial, the use is said to be presumptively unfair.[117] Courts also apply a presumption of market harm under the fourth factor for uses that are found to be commercial.[118] Although both of these presumptions have been rejected by the Supreme Court as inappropriate,[119] lower courts continue to employ them.[120]

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[114] 17 U.S.C. § 107 (1994).

[115] Section 107 uses the word "include" which is expressly defined in the Copyright Act to be "illustrative and not limitative." *Id.* at § 101. The four fair use factors have been described as "redundant, interdependent, and to some extent, irrelevant." Comment, *The Two Strands of the Fair Use Web: A Theory for Resolving the Dilemma of Music Parody*, 54 OHIO ST. L. J. 227, 246 (1993) (arguing that the four factors really boil down to two inquiries: the social value of the use and the economic harm from consumer substitution).

[116] 17 U.S.C. § 107 (emphasis added). The two monetary based factors harken back to the judicial fair use doctrine of *Folsom*, seeking to determine "the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work." *Campbell*, 510 U.S. at 576 (quoting Folsom v. Marsh, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (No. 4,901)).

[117] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 448 (1984) (noting that if the use was "for a commercial or profit making purpose, such use would presumptively be unfair."); Princeton Univ. Press. v. Michigan Document Servs., Inc., 99 F.3d 1381, 1386 (6th Cir. 1996) (en banc) (finding a presumption of unfairness because the use was held to be commercial); Los Angeles News Serv. v. Tullo, 973 F.2d 791, 798, 24 U.S.P.Q.2d (BNA) 1026, 1033 (9th Cir. 1992) (citing *Sony*). *But see Campbell*, 510 U.S. at 572 (reversing lower court for applying presumptions in fair use analysis).

[118] *See, e.g.*, National Rifle Assoc. of Am. v. Handgun Control Fed'n of Ohio, 15 F.3d 559, 561, 29 U.S.P.Q.2d (BNA) 1634, 1636 (6th Cir. 1994) (noting that the commercial nature of a use creates a presumption on the fourth factor); *Princeton Univ. Press*, 99 F.3d at 1386.

[119] *Campbell*, 510 U.S. at 581, 583-85, 590-91. The Court explained the *Sony* analysis and stated that the only presumption that is appropriate is a presumption of market harm when the defendant has copied an entire work verbatim for a commercial purpose because such

In addition to the statutory language, the Supreme Court, in one of its first fair use cases after passage of the 1976 Copyright Act, stated that the fourth factor was "perhaps the most important [factor]."[121] While in its most recent fair use case, *Campbell v. Acuff-Rose*, that language is notably absent,[122] the lower courts continue to adhere to the dicta of earlier Supreme Court decisions and over-emphasize the fourth factor, thus making the monetary inquiry a virtual litmus test that must be passed before a use is even eligible to be found a fair use. Even after the Supreme Court's tempered language in *Campbell*, the lower courts continue to view the fourth factor as the most important, or in the words of one court, at least "*primus inter pares*."[123]

The emphasis on money in two of the four factors should not be that surprising given their origin. The four fair use factors owe their origin to *Folsom* and thus reflect an analysis that tends to expand copyright owners' rights, not contract them.[124] Now, however, fair use plays a different role in copyright law. Fair use no longer is meant to expand the rights of copyright owners, but is meant to function as a limitation on those rights. Therefore, courts

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copying serves as a replacement in the market for the original copyrighted work. *Id.* at 591.

[120] *See, e.g.*, Los Angeles News Serv. v. KCAL-TV Channel 9, 108 F.3d 1119, 1123, 42 U.S.P.Q.2d (BNA) 1080, 1083 (9th Cir. 1997) (recognizing that a finding of commercial use "may give rise to a presumption or inference of harm."); *Princeton Univ. Press*, 99 F.3d at 1386; Lamb v. Starks, 949 F. Supp. 753, 757 (N.D. Cal. 1996); Oasis Publ'g Co., Inc. v. West Publ'g Co., 924 F. Supp. 918, 39 U.S.P.Q.2d (BNA) 1271 (D. Minn. 1996); ITAR-TASS Russian News Agency v. Russian Kurier, Inc., 886 F. Supp. 1120 (S.D.N.Y. 1995). Other courts have expressly recognized the Supreme Court's rejection of the use of presumptions. *See, e.g.*, Leibovitz v. Paramount Pictures Corp., 948 F. Supp. 1214, 1219, 41 U.S.P.Q.2d (BNA) 1598 (S.D.N.Y. 1996) (noting that while the Supreme Court "roundly rejected" the use of presumptions, the presumptions "substantially simplified the fair use analysis"), *aff'd* 1998 WL 73116 (2d Cir. 1998); Belmore v. City Pages, Inc., 880 F. Supp. 673, 34 U.S.P.Q.2d (BNA) 1295 (D. Minn. 1995).

[121] *Sony*, 464 U.S. at 476 (Blackmun, J., dissenting). The court repeated this language with increased vigor in a later opinion stating that the fourth factor was "undoubtedly the single most important element of fair use" analysis. Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566 (1985).

[122] 510 U.S. 569, 590-94 (1994); *see also* American Geophysical Union v. Texaco, Inc., 60 F.3d 913, 926 (2d Cir. 1994) (commenting on the notable absence of reference to the fourth factor as "the most important" in the *Campbell* decision).

[123] *Princeton Univ. Press*, 99 F.3d at 1385. *See also* Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1077 (1997) (noting the tendency of the courts to focus primarily on market harm "to the exclusion of all else").

[124] *See supra* Part II.C.

must be vigilant not to allow the rights of copyright owners to swallow the rights of users. As the Copyright Act provides, the rights of copyright owners are *subject to* the rights of users,[125] and the rights of fair use exists *notwithstanding* the rights of copyright owners.[126] An over-emphasis on monetary issues can inappropriately skew the fair use analysis to favor the rights of copyright owners. This is especially likely if the mere existence of a permission system creates a legally relevant market which can be harmed by the failure to pay the fees demanded.[127]

B. EMPHASIS ON TRANSFORMATIVE USES

In addition to focusing on money, courts usually categorize alleged fair uses into one of two types: transformative uses and non-transformative uses. A transformative use involves the use of elements or portions of a pre-existing work in a new work that recasts or transforms the earlier work in some way.[128] A non-transformative use, on the other hand, does not involve any transformation of the authorship elements of the pre-existing work. Courts view transformative uses more favorably and allow a greater latitude under fair use for such uses. Non-transformative uses, on the other hand, are disfavored, and courts permit a much narrower scope of use as fair uses, if any non-transformative use is permitted at all. The common explanation for this treatment of different kinds of uses is that transformative uses are creating new works that are adding value to society.[129]

The current focus on transformative uses, as that phrase is used by courts and commentators, can be misleading. As the Supreme Court recognized in *Sony*, there are uses that, while not transform-

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[125] 17 U.S.C. § 106 (1994).

[126] 17 U.S.C. § 107-120 (1994).

[127] *See infra* Part IV.C.

[128] *Campbell*, 510 U.S. at 579.

[129] This focus on determining if the use is transformative is typically thought to examine "whether the new work merely 'supersede[s] the objects' of the original creation . . . or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message; it asks, in other words, whether and to what extent the new work is 'transformative.' " *Campbell*, 510 U.S. at 579 (citations omitted).

ative, are nonetheless productive uses.[130] The examples given by the Court in *Sony* include a teacher who copies to prepare lecture notes or a teacher who copies for the sake of broadening his personal understanding of his specialty.[131] Additionally, in *Campbell*, the Supreme Court specifically noted "[t]he obvious statutory exception to this focus on transformative uses is the straight reproduction of multiple copies for classroom distribution."[132] Making multiple copies for classroom use is an example of a productive, but non-transformative use.

Focusing on whether the use at issue is a transformative use of a prior work can be a misleading focus in a fair use analysis. Promoting the progress of knowledge and learning must be the point of reference. What the Supreme Court in *Sony* referred to as "productive use" should be the focus.[133] Obviously many transformative uses will be productive uses. The emphasis placed on the transformative nature of the defendant's work in *Campbell*, however, may induce lower courts to believe that if a use is not transformative there should be no finding of fair use.[134] Such a rule would harm the purpose of copyright and blatantly contradicts the language of the section 107 which expressly contemplates that "reproduction in copies," i.e., a non-transformative use, can be a fair

[130] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 455 n.40 (1984). Although courts and commentators sometimes use the terms "transformative use" and "productive use" interchangeably, *see, e.g.*, Lape, *supra* note 55, at 677 n.1; LEAFFER, *supra* note 74, at 320-21 & n.17; American Geophysical Union v. Texaco, Inc., 802 F. Supp. 1, 11, 23 U.S.P.Q.2d (BNA) 1561 (S.D.N.Y. 1992), *aff'd*, 60 F.3d 913 (2d Cir. 1994), "productive use" should have a broader meaning that connotes a use that furthers the purpose of copyright law. A transformative use is typically a productive use, but not all productive uses are transformative. The examples of productive uses given in *Sony* are illustrative: copying works for personal edification by a teacher or a legislator. *Sony*, 464 U.S. at 455 n.40. No transformation of the work occurs with these uses, but the use is productive nonetheless.

[131] *Sony*, 464 U.S. at 455 n.40.

[132] *Campbell*, 510 U.S. 579 n.11.

[133] *Sony*, 464 U.S. at 455 n.40.

[134] *See* Pierre N. Leval, *Fair Use Rescued*, 44 U.C.L.A. L. REV. 1449, 1464-65 (1995) (asserting that, after *Campbell*, if a use is both non-transformative and commercial then it is unlikely to be a fair use). The focus on transformative use in a case involving parody is quite understandable. It should not, however, translate into primary focus in all fair use cases.

use.[135] Reproduction of a work in copies, in most cases, does not involve any transformation of the work.

Rather than categorizing an alleged fair use as transformative or non-transformative, courts should focus on understanding the ability of the use to promote the progress of knowledge and learning. This promotion can certainly occur as a result of the production of a new work—a transformative use. It can also occur through other non-transformative productive types of uses, such as photocopying a portion of a work in connection with research or teaching, as recognized by the Supreme Court in *Sony*.[136]

IV. FAIR USE AND "LOST" PERMISSION FEES

While courts have been putting a significant emphasis on monetary concerns and on whether a use is transformative in nature, more disturbing is the recent willingness of courts to consider as evidence of economic injury the money that the defendant did not pay to the copyright owner, so long as a permission system to administer the collection of those fees exists.[137] Two recent circuit court cases in which the existence of a permission system was an important, if not determinative, factor in finding the use at issue to be an infringement and not a fair use are *Princeton University Press v. Michigan Document Services, Inc.*,[138] and *American Geophysical Union v. Texaco, Inc.*[139] In

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[135] 17 U.S.C. § 107 (1994). The House Report indicates that "the reference to fair use 'by reproduction in copies or phonorecords or by any other means' is mainly intended to make clear that the doctrine has as much application to photocopying and taping as to older forms of use." H.R. REP. NO. 94-1476, at 66 (1976).

[136] *Sony*, 464 U.S. at 455 n.40.

[137] The phrasing of the fourth fair use factor is largely to blame. The fourth factor directs the court to consider "the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107 (1994). The fourth statutory factor should be read conjunctively, examining the effect of the use upon 1) the potential market for the copyrighted work, and 2) the value of the copyrighted work. Similarly, Folsom's formulation should be read to mean the degree to which the use may 1) prejudice the sale of the original work, 2) diminish the profits of the original work, or 3) supersede the objects of the original work. As discussed above, Folsom was a case establishing fair use as a limitation on the rights of users to make a "fair abridgment" of work, not a case establishing fair use as a limitation on the rights of copyright owners. *See, supra* Part I.C.

[138] 99 F.3d 1381 (6th Cir. 1996), *cert. denied*, 117 S. Ct. 1336 (1997).

[139] 60 F.3d 913 (2d Cir. 1995).

both cases the fact that the copyright owner had set up a system to charge for the type of use at issue heavily influenced the outcome of the case. Both cases show the application of the market failure theory of fair use. Except, in both of these cases, the courts narrowed the market failure theory to include only one type of market failure and applied the theory in reverse, finding no fair use because one type of market failure was not present.

The courts in these two cases were focusing on only one type of market failure, high transaction costs, without fully recognizing the importance of other types of market failures. While one type of market failure may be cured by the existence of a permission system, other kinds of market failures may remain. A permission system can cure the market failure that results from high transaction costs associated with the completion of the negotiation of the transaction relative to the expected benefit from the transaction.[140] A permission system, however, does not cure the market failure that exists when there are diffuse external benefits that cannot be efficiently internalized in any bargained-for exchange. This kind of market failure deserves particular notice when examining non-transformative uses of a copyrighted work being made in the context of research, scholarship, or education. The benefits of certain kinds of uses in these contexts can be immense. But the benefits also can be external to the researcher, scholar, teacher or student. These kinds of non-transformative uses that have significant external benefits represent the enhancement of the core goal of copyright by furthering the progress of knowledge and learning. In the context of non-transformative uses, curing the

[140] In the context of copyright and fair use the transaction costs include such items as tracking down the current copyright owner, or more specifically, because the rights under copyright law are divisible, the individual or entity that owns the specific copyright right at issue. While the copyright notice may indicate who, at one time, held the copyright in a particular work, it is common that such copyrights are bought and sold and divided, with only some of these transactions being recorded in the copyright office. Additionally, after 1989, copyright notice is not required for a work to be protected by copyright. Additional transaction costs also exist in negotiating the actual price to be paid for the use and the scope of the permission granted.

If the use for which permission is sought is the making of a movie based on a book, the benefits, or at least the perceived benefits, may outweigh the transaction costs associated with obtaining permission. If, however, the use at issue is making a photocopy of an article for a research file, in most instances the benefits of that particular use for the user will not outweigh the transaction costs of obtaining permission.

high transaction costs that might be associated with a particular use does not end the threat of a market failure due to the inability to internalize diffuse yet significant external benefits.

Before briefly reviewing each of these two cases, it is important to recognize that the application of a principle of market failure to fair use involves an inherent circularity. In order to determine whether a market failure exists, one must first assume an ability to have a "market," that someone has a right that can be sold. In the context of copyright and fair use, applying market failure analysis must therefore begin with the assumption that the copyright owner has a right to control a particular use which forms the market that has failed.[141] If fair use is a right guaranteed to users of copyrighted works, then there is no right of a copyright owner around which a "market" can form. While there is always the potential for a market because the law can define a right thus creating a market, the initial circularity in discussing any fair use stems from the fact that there are competing but ill-defined rights that overlap in such a way as to make the parties to any potential exchange unsure of who holds which rights.

A. *PRINCETON UNIVERSITY PRESS V. MICHIGAN DOCUMENT SERVICES, INC.*

At issue in *Princeton University Press* was the reproduction of multiple copies of excerpts of copyrighted works for classroom use. The plaintiffs, publishers and copyright owners by assignment from the authors of the copyrighted works, strategically chose to sue only the commercial copyshop which made the photocopies requested by the professors. The publishers did not name the professors who selected the material to be copied, or the students who were enrolled in the professors' classes and purchased their copies of the reading assignments from the copyshop.[142] This strategic naming of the parties permitted the publishers to claim that the use was commercial, despite the fact that the copyshop did not make any

[141] *See* Raskind, *supra* note 6, at 624.

[142] The defendant made no sales to the public, only students enrolled in the course were permitted to purchase the "coursepacks," and any copies not purchased at the end of a semester were discarded. *Princeton Univ. Press*, 99 F.3d at 1398 (Ryan, J., dissenting).

"use" of the *authorship*, in the sense of selecting what part of the work to photocopy or offering the copies for sale to the public.[143] Raising the specter of commerciality permitted the publishers to prevail on the first factor of section 107.[144]

To satisfy the requisite of market harm the publishers relied *solely* on the "lost" permission fees that they would have charged for the use had the defendant sought permission. The publishers did not produce any evidence of harm to the market for the work itself, i.e., lost sales of the book from which the excerpts were taken, or of harm to the market for any derivative work as that term is defined by the copyright act, for example harm to the market for published anthologies which used excerpts from the copyrighted works. The affidavits filed in the case showed that the professors who selected the material were never going to assign the excerpted readings if it meant requiring the students to purchase the books.[145]

The district court's decision finding the defendants liable for copyright infringement was reversed by a split panel of the Sixth Circuit that found defendants' activities constituted fair use. The

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[143] This point was not lost on one of the dissenting judges. In his dissent, Judge Ryan carefully analyzed who the "user" of the work really was and recognized the difference between a company that selects the material to be copied or that sells copies to the public and the service company that merely copies specific items only upon individual requests of the user of the material. *Princeton Univ. Press*, 99 F.3d at 1401-03 (Ryan, J., dissenting) (noting that "[n]either the language of section 107 nor simple common sense warrant examining the production of multiple copies in a vacuum and ignoring their educational use on the facts of this case").

[144] The strategic naming of the commercial enterprise providing the photocopying service assisted the publishers in obtaining a ruling of infringement. Thus, it is possible to argue that the result in the case is only applicable to commercial copyshops preparing coursepacks and would not be applicable to nonprofit education institutions making their own copies "in-house." Educational institutions, however, are risk adverse entities and as a whole err on the side of caution, adopting policies consistent with the case law involving commercial enterprises. This unwillingness to exercise their fair use rights leads to the de facto application of the case law to noncommercial enterprises which will result in their de jure application as well. *See infra* Part IV.C.2. As evidence of the publishing communities' assertion of entitlement to royalties even when the copies are made by the nonprofit educational institution the Copyright Clearance Center ("CCC") has established its Academic Permissions Services which permits professors to request permission to make copies of material for classroom handouts and permits the CCC to collect the royalties for such use. *See* Academic Permissions Service (visited Aug. 24, 1997) <http://www.copyright.com>.

[145] Petition for Writ of Certiorari at 1272, Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381 (6th Cir. 1996) (No. 94-1778) (affidavit of Michael C. Dawson).

panel's decision was vacated and the case reheard *en banc*. The *en banc* majority of the court of appeals rejected the defendants' claim of fair use. Because each of the publishers had set up a "department that processes requests for permission to reproduce portions of copyrighted works,"[146] the court found that the publishers had shown harm to a "market" when those fees were not paid by the defendant.

This is circular reasoning at its best. The plaintiff claims to be economically injured because the plaintiff wanted to be paid for a certain use and was not paid.[147] The ability to prove economic injury merely by showing that one has established a system to charge for a certain kind of use portends that a smart copyright owner will always prevail on the fourth fair use factor.[148] With courts treating market harm as the most important fair use factor, the analysis used by the *en banc* majority tips the scales unduly against the would-be fair user.

The Sixth Circuit found that not only did such "market harm" weigh against fair use, but that because of the "potential for destruction" of the "market" for permission fees, it was enough to "negate fair use."[149] Additionally, because it held the use to be non-transformative, the majority found the three other statutory factors "considerably less important."[150]

B. *AMERICAN GEOPHYSICAL UNION V. TEXACO* ("TEXACO")

Texaco began as a class action lawsuit by 83 publishers of scientific and technical journals against Texaco, which employs 400 to 500 research scientists. The publishers alleged that the photocopying of journal articles by the researchers constituted copyright infringement. Texaco claimed, among other defenses, that the scientists' actions constituted fair use. The parties

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[146] *Princeton Univ. Press*, 99 F.3d at 1384.

[147] *See* discussion *infra* Part IV.C.*1*.

[148] *See* discussion *infra* Part IV.C.*4*.

[149] *Princeton Univ. Press*, 99 F.3d at 1388.

[150] *Id.* at 1388. This, despite the fact that two years earlier the Supreme Court had stated that "the obvious statutory exception to this focus on transformative uses was the straight reproduction of multiple copies for classroom distribution." Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 579 n.11 (1994).

stipulated that the photocopy practices of one scientist would be chosen at random as representative of the practices of all the scientists at Texaco. For consideration by the judge, the publishers selected from the chosen scientist's files photocopies of eight particular articles from the *Journal of Catalysis*.

The Second Circuit stated that determining whether Texaco's practices constituted fair use included "the question of whether such institutional, systematic copying increases the number of copies available to scientists while avoiding the necessity of paying for license fees or for additional subscriptions."[151] In other words, the court considered relevant not only the harm to the market for the only mode in which the work was available to the public, journal subscriptions, but also the harm to fees generated by granting permissions for users to photocopy portions of the journal. The District Court had determined that in the absence of being allowed to copy the individual articles, Texaco would not have purchased back issues and would not have significantly increased the number of subscriptions, but that Texaco "would increase the number of subscriptions somewhat."[152] The Second Circuit held that this finding did "not strongly support either side with regard to the fourth factor."[153]

Instead of leaving the analysis of the fourth factor at a draw, which sometimes will be the result in fair use cases, the Second Circuit proceeded to examine the claim of lost permission revenues.[154] The court did recognize that not all licensing revenues should be considered, but formulated the criterion as being "[o]nly an impact on potential licensing revenues for traditional, reasonable, or likely to be developed markets should be legally cognizable when evaluating a secondary use's 'effect upon the potential market for or value of the copyrighted work.' "[155] In *Texaco*, the Second Circuit maintained that "it is sensible that a particular unautho-

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[151] American Geophysical Union v. Texaco, Inc., 60 F.3d 913, 916 (2d Cir. 1994).

[152] American Geophysical Union v. Texaco, Inc., 802 F. Supp. 1, 19 (S.D.N.Y. 1992), *aff'd*, 60 F.3d 913 (2d Cir. 1994).

[153] *Texaco*, 60 F.3d at 929.

[154] The District Court held that whatever combination of procedures Texaco used to obtain authorized copies, "the publishers' revenues would grow significantly." *Texaco*, 802 F. Supp. at 19.

[155] *Texaco*, 60 F.3d at 930.

rized use should be considered 'more fair' when there is no ready market or means to pay for the use, while such an unauthorized use should be considered 'less fair' when there is a ready market or means to pay for the use."[156] The court concluded that because a market for licensing photocopying existed it was appropriate to consider the potential licensing revenues for the use at issue.[157] Primarily as a result of the "lost" licensing revenues, the court held that the plaintiffs had demonstrated substantial harm on the fourth factor.[158] This, coupled with a finding of no transformative use, led the Second Circuit to reject Texaco's fair use claim.[159]

C. PROBLEMS RESULTING FROM ALLOWING "LOST" PERMISSION FEES TO CONSTITUTE MARKET HARM

Restricting fair use to only those situations where an efficient mechanism for obtaining permission does not yet exist trivializes the importance of fair use in a democratic society and the importance of fair use in furthering the goal of copyright law.[160] In light of the growing number of lower court precedents, copyright owners may now more easily convince courts that, because they were not paid the fees they demanded, they were legally injured. This view of fair use creates several distinct problems.

Problem 1: Inherent Circularity. The argument that "lost" permission fees are proof of fourth factor harm has as its premise the legal conclusion at issue: that the use at issue is not a fair use and, therefore, the owner is allowed to charge permission fees for such use. If a copyright owner labeled his permission system "the

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[156] *Id.* at 931.

[157] *Id.* at 930.

[158] *Id.* at 931.

[159] *Id.*

[160] While it is tempting to say that the transaction costs in both *Princeton University Press* and *Texaco* were reduced to an acceptable level, the courts in both cases overlooked elements of transactions costs that were not eliminated through the permission systems. In *Texaco*, the dissent fully explained the failings of the Copyright Clearance Center's ("CCC") permission systems in the context of corporate copying, concluding that the CCC's systems would require a copyright lawyer posted at each copy machine. *Id.* at 936-39 (Jacobs, J., dissenting). In the coursepack context, there are additional transaction costs involved in obtaining permission for various excerpts that are not eliminated by a permission system. *See* Winslow, *supra* note 93, at 793-94 (giving an example of how transaction costs could prevent an outcome beneficial to all parties concerned).

department for charging fees for criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship and research"[161] then the attempt to control fair use would be more obvious. Consideration of the permission fees allegedly "lost" in determining whether a use is a fair use is inappropriate because no fees are required unless the use is not a fair use.[162]

Other courts have, appropriately, rejected claims of "lost" permission fees as relevant harm to the market for the copyrighted work in a fair use analysis. Over twenty years ago, the U.S. Court of Claims recognized that there can be no claim for permission fees unless the use at issue would otherwise be an infringement:

> It is wrong to measure the detriment to plaintiff by loss of presumed royalty income—a standard which necessarily assumes that plaintiff had a right to issue licenses. That would be true, of course, only if it were first decided that the defendant's practices did not constitute "fair use." In determining whether the company has been sufficiently hurt to cause these practices to become "unfair," one cannot assume at the start the merit of the plaintiff's position, *i.e.*, that plaintiff had the right to license. That conclusion results only if it is first determined that the photocopying is "unfair."[163]

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[161] 17 U.S.C. § 107 (1994).

[162] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 585 n.18 (1994) (stating that "[i]f the use is otherwise fair, then no permission need be sought or granted"). In the *Princeton University Press* case, one of the dissenting judges recognized that "[s]imply because the publishers have managed to make licensing fees a significant source of income from copyshops and other users of their works does not make the income from the licensing a factor on which we must rely in our analysis. If the publishers have no right to the fee in many of the instances in which they are collecting it, we should not validate that practice by now using the income derived from it to justify further imposition of fees." Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381, 1397 (6th Cir. 1996) (Merritt, J., dissenting). *See also* Stallman, *supra* note 11, at 295 ("The claim is begging the question because the idea of 'loss' is based on the assumption that the publisher 'should have got paid.' ").

[163] Williams & Wilkins Co. v. United States, 487 F.2d 1345, 1357 n.19, 180 U.S.P.Q. (BNA) 49, 58 n.19 (Ct. Cl. 1973), *aff'd by an equally divided Court*, 420 U.S. 376 (1975). The Supreme Court's split in this case, and its finding of fair use in the *Sony* case have been attributed to the Court not being "able to assess with any degree of assurance the harm from complete copying for purposes other than profit or sale." Cirace, *supra* note 106, at 650.

A panel of the Sixth Circuit also recognized the inherent circularity of considering permission fees that copyright owners desire to charge when trying to determine if the use at issue is a fair use.

> Evidence of lost permission fees does not bear on market effect. The right to permission fees is precisely what is at issue here. It is circular to argue that a use is unfair, and a fee therefore required, on the basis that the publisher is otherwise deprived of a fee. The publishers must demonstrate a likelihood that MDS's use of the excerpts replaces or affects *the value* of the copyrighted works, not just that MDS's failure to pay fees causes a loss of fees, to which the plaintiffs may or may not have been entitled in the first instance.[164]

This panel opinion was reversed by an eight to five majority of the en banc court of the Sixth Circuit.[165]

The en banc majority felt that the "circularity argument proves too much" in that one could carry it to the extreme: copying an entire book and offering it for sale to the public would harm the permission market for such copying.[166] However, such copying would not only harm the permission market, it would have a substantial impact on the primary market for the book itself.[167] If an alleged infringer copied an entire book, the copyright owner could show harm to the market for the copyrighted work without any resort to a "lost" permission fees argument.

Permission systems, however, give a false sense of being able to assess such damage because a dollar figure can be attached to the fee that the copyright owner would charge for such copying.

[164] Princeton Univ. Press v. Michigan Document Servs., Inc., No. 94-1778, 1996 WL 54741, at *11 (6th Cir. Feb. 12, 1996) *vacated and reh'g granted*, 77 F.3d 1528 (6th Cir. 1996) (en banc) (emphasis added), *aff'd in part and vacated in part*, 99 F.3d 1381 (6th Cir. 1996) (en banc).

[165] 99 F.3d at 1381.

[166] *Id.* at 1387.

[167] The market for the work itself is a much more important market to consider in a fair use analysis. Treating the market for permission for particular kinds of uses as equally significant to the market for the work itself leads to other problems such as permitting the copyright owners to always prove market harm. See *infra* notes 178-181 and accompanying text.

In *Texaco*, the Second Circuit held that "[t]he vice of circular reasoning arises only if the availability of payment is conclusive against fair use."[168] Aside from the fact that circular reasoning should be rejected because it proves nothing, the circular reasoning of "lost" permission fees will become conclusive on the fourth factor. In analyzing fair use cases, courts have focused on monetary issues and have repeatedly held the fourth factor to be the most important fair use factor. Therefore, allowing circular reasoning to determine the fourth fair use factor will often result in circularity dictating the outcome of a fair use case.

Problem 2: Bullies Dictate the Law. The Supreme Court has said that in examining the fourth factor, the issue "is not whether the sole motive of the use is monetary gain but whether the user stands to profit from exploitation of the copyrighted material without paying the *customary price*."[169] A price becomes customary only when a critical mass of users begins paying for a particular kind of use. If a copyright owner, or an industry of copyright owners, convince enough users to pay for a certain type of use, then the "price" becomes customary. Often the first users to pay the requested fees are those copyright owners in the industry who, through a gentlemen's agreement, have undertaken to pay fees. For example, in the publishing industry, it became common for one publisher to get permission and to pay for the right to incorporate into a new work an excerpt from a previously published work. This practice of seeking and obtaining permission became "customary" and resulted in "permissions" departments at publishing companies. As a result, the publishing industry established the "customary" practice of paying a price for the use of excerpts of works in subsequently published works.

Once established, permissions departments and their revenues have constituted key factors in fair use cases resulting in the loss of fair use rights and a corresponding increase in copyright owners' rights.[170] An individual who has failed to pay the price desired by the copyright owner who has an established permissions

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[168] American Geophysical Union v. Texaco, Inc., 60 F.3d 913, 931 (2d Cir. 1994).

[169] Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 562 (1985) (emphasis added).

[170] *Texaco*, 60 F.3d at 930-31; Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381, 1387 (6th Cir. 1996) (en banc), *cert. denied*, 117 S. Ct. 1336 (1997).

department is seen as having failed to pay the customary price. A finding that a defendant has failed to pay a customary price makes it extremely difficult for a defendant to prevail in a claim of fair use.

In addition to the "customary price" inquiry that exists in the case law, another phrasing for the potential licensing markets that are legally relevant is "traditional, reasonable or likely to be developed markets."[171] The development of a market in the context of copyright requires a right that can be enforced, and therefore sold. In the context of a use that is asserted to be fair, if all a copyright owner must do is show that it is actively "requiring" permission and some individuals are paying for the kind of use at issue, those with economic resources, i.e., the financial ability to litigate, will be able to bully their way into legally controlling that use.

In the context of coursepacks, the publishing industry first sued a group of professors, their university and the copyshop providing photocopy services to the professors and their students.[172] This litigation resulted in a quick settlement,[173] whereby the defendants agreed to abide by guidelines strikingly similar to the Classroom Guidelines.[174] This first litigation was an important one. The settlement in that case became a stick that the publishers could wield to insist on payment for the reproduction of excerpts in

[171] *Texaco*, 60 F.3d at 930.

[172] Addison-Wesley Publ'g Co. v. New York Univ., No. 82CIV8333, 1983 WL 1134 (S.D.N.Y. May 31, 1983).

[173] The settlement was reached on April 7, 1983, less than four months after the suit was filed. PATRY, *supra* note 47, at 211.

[174] AGREEMENT ON GUIDELINES FOR CLASSROOM COPYING IN NOT-FOR-PROFIT EDUCATIONAL INSTITUTIONS WITH RESPECT TO BOOKS AND PERIODICALS, H.R. REP. NO. 94-1476, 94th Cong. 2d Sess., at 68-71 (1976) (the "Classroom Guidelines"). The Classroom Guidelines, which became part of a committee report, was developed by an ad hoc committee representing various interest groups. Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 875-77 & n.133 (1987). While the ad hoc committee did include some representatives of the education community, the guidelines themselves were opposed by major groups representing higher education. H.R. REP. NO. 94-1476 at 72 (noting strong opposition from the American Association of University Professors and the Association of American Law Schools). Although the guidelines purport to "state the minimum and not the maximum standards of educational fair use," courts have effectively turned them into the extent of permissible copying in an educational setting. *Princeton Univ. Press*, 99 F.3d at 1390-91.

coursepacks.[175] In this way, the publishers were able to establish a "market" for licensing excerpts for coursepacks.

The evolution of the coursepack permission systems highlights the importance of the first test cases. Whoever wins those first cases effectively draws the line for fair use. The fear of litigation by most copyright defendants, and their willingness to settle when sued by economically powerful copyright owners, affects not only their rights but the rights of others seeking to make similar kinds of uses of copyrighted works.[176]

Problem 3: Fair Use Becomes An Inquiry Into the Point of Non-Use. In addition to adopting the circular reasoning inherent in accepting "lost" permission fees as evidence of market harm, the *en banc* majority in *Princeton University Press* turned that circularity argument on its head. The majority faulted the defendants for failing to provide proof that the professors would not have assigned

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[175] An egregious example of the wielding of the copyright stick by the publishing industry can be found in a 1993 letter from the Association of American Publishers' "Director of Copyright Compliance" to Bel-Jean Copy/Print Center, reprinted in L. Ray Patterson, *Copyright and "the Exclusive Right" of Authors*, 1 J. INTELL. PROP. L. 1, at 44-48 (1993). The letter asserts copyright in plays written by British playwrights and first published in the 1700s. Copyright in such works, if it ever existed, had long expired. Nonetheless, the letter threatens suit, citing Basic Books, Inc. v. Kinko's Graphic Corp., 758 F. Supp. 1522, 18 U.S.P.Q.2d (BNA) 1437 (S.D.N.Y. 1991) and the district court opinion in *Princeton University Press*, and demands $2,500 and an agreement to not engage in copying beyond that described in the Classroom Guidelines in order to avoid a lawsuit. *See also* Paul J. Heald, *Payment Demands for Spurious Copyrights: Four Causes of Action*, 1 J. INTELL. PROP. L. 259 (1994) (discussing several examples of assertions of copyright ownership in works that are no longer subject to copyright protection).

[176] This problem with the development of markets for new uses of copyrighted works has led one lawyer to comment that educators, by not standing up to publishers' insistence on payment for multiple copies for classroom use were "squandering their legal birthright[s]." David W. Stowe, *JUST DO IT: How to Beat the Copyright Racket*, LINGUA FRANCA, Dec. 1995, at 32, 37. One of the dissenting judges in the *Princeton University Press* case asserted that:

> Simply because the publishers have managed to make licensing fees a significant source of income from copyshops and other users of their works does not make the income from the licensing a factor on which we must rely in our analysis. If the publishers have no right to the fee in many of the instances in which they are collecting it, we should not validate that practice by now using the income derived from it to justify further imposition of fees.

Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381, 1397 (6th Cir. 1996) (Merritt, J., dissenting), *cert. denied*, 117 S. Ct. 1336 (1997).

the excerpts if it meant their students[177] would have to pay permission fees in order to make those copies. Thus, the majority wanted to see an "unwillingness to pay" as evidence of lack of market harm. Implicitly the majority assumed it was *possible* that the professors *might* have assigned the excerpts even if their students had to pay permission fees.[178] Presumably the majority thought that the copyright owners might have been injured by not having received those fees the students *might* have been willing to pay.

The desire of the Court to have the defendants prove an unwillingness to pay the fees demanded makes the fair use inquiry turn on whether the user is resigned to do without access to, or use of, the work. Requiring defendants to prove an unwillingness to pay destroys the very purpose of fair use, access and use, and further shows the circularity of the "lost" permission fees argument. Such a requirement makes "fair use" turn on the point of non-use. Under such analysis, fair uses would be only those uses for which a user would not be willing to pay. The effect of this would be that the most important types of uses would be denied fair use protection.

Problem 4: The Fourth Factor Always Favors the Copyright Owner, Making Permission Systems a Tool To Eliminate Fair Use. Permitting a copyright owner's permission system to constitute evidence of harm to the market for the copyrighted work, means that the fourth factor will inevitably favor a plaintiff who possesses the simple foresight to set up a mechanism to process requests for permission to use a work.[179] Courts view fair use as an affirmative defense, placing the burden of proving such defense on the defendant.[180] The burden on the fourth factor, to show "favorable evidence about relevant markets,"[181] can be shifted to the plaintiff

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[177] The majority was concerned with the copyshop paying the fee, but any fees paid by the copyshop would be passed on directly to the students enrolled in the course.

[178] *Princeton Univ. Press*, 99 F.3d at 1388.

[179] For example, a book could contain self addressed envelopes with simple instructions: "Anytime you desire to copy any portion of this book, you must first send $X for each copy of each page to the address listed below." A simple, efficient mechanism for obtaining permission thus could be shown.

[180] Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 590 (1994).

[181] *Id.*

if the court finds the use at issue is a non-commercial use.[182] Which party bears the burden of proof on the fourth factor often is determinative of the fair use defense.

If the burden on the fourth factor is on the defendant, i.e., the court finds defendant's use to be commercial, and a permission system is a relevant market, it will be impossible for a defendant to offer "favorable evidence" on that market. If the burden is on the plaintiff, i.e., the court finds the use at issue to be non-commercial, and the court permits the copyright owners to "prove" fourth factor harm by simply informing the court that they have set up a system to charge for certain uses and defendant refused to pay for his or her use, all copyright holders could easily meet their burden to show market harm.

The ability of the copyright owner to always prevail on the issue of market harm is compounded by language in several Supreme Court opinions. The Supreme Court has posited that "to negate fair use one need only show that if the challenged use 'should become widespread, it would adversely affect the *potential* market for the copyrighted work.' "[183] This language has led lower courts to consider the damage to the market for *all potential uses* of the copyrighted work and not to focus on the more appropriate consideration: the damage to the market for the copyrighted work. If the use at issue is even just a single copy and the copyright owner has a permission system in place which a court is willing to consider as evidence of harm to the "potential market," not only will the copyright owner be able to prove market harm, i.e., lost permission fees, but pursuant to this test the copyright owner will be able to "negate fair use" entirely.[184]

If a court accepts the view of fair use as permitted solely when there is a market failure caused by high transaction costs, then

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[182] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 451 (1984).

[183] Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 568 (1985) (quoting *Sony*, 464 U.S. at 451). The majority in *Princeton University Press* described this test as evocative of Kant's categorical imperative. *Princeton Univ. Press*, 99 F.3d at 1386.

[184] While the Sixth Circuit majority stated that "the availability of an existing system for collecting licensing fees will not be conclusive," two paragraphs later it held that the potential destruction of the permissions market was "enough, under the Harper & Row test, 'to negate fair use.' " *Princeton Univ. Press*, 99 F.3d at 1387-88. One of the dissenting judges noted, this analysis "ceded benefits entirely to copyright holders when [courts] are actually required to engage in 'a sensitive balancing of interests.' " *Id.* at 1404 (Ryan, J., dissenting).

permission systems, because they can eliminate or drastically reduce the transaction costs involved in obtaining permission, will destroy fair use. Fair use, however, holds more meaning than simply uses permitted when the transaction costs involved in obtaining a bargained exchange are high.

Problem 5: Fair Use Becomes "Fared Use". Acceptance of the "lost" permission fees argument permits copyright owners to eliminate all fair uses, because fair use will be relegated to only those uses for which the copyright owner declines to charge. In the history of copyright development, copyright owners have desired to expand their rights whenever possible. Today, many works already display the erroneous assertion that "no portion of this work may be used for any purpose without the permission of the copyright owner."[185] Couple such notice with pre-addressed envelopes attached to the work[186] and an adoption of the view that fair use exists only when there is a market failure due to high transaction costs, and soon fair use will no longer exist.

Indeed, the Sixth Circuit said as much when it stated that a claim of lost permission fees would be discounted only if the defendant has "filled a market niche that the [copyright owner] simply had no interest in occupying."[187] If, on the other hand, the defendant is filling a market niche that the copyright owner is "interested in occupying," then presumably the claim of fair use will be rejected. Courts, however, seem to view the willingness to establish a permission system as evidencing an interest in occupying the market niche for the use at issue. This creates an unacceptable situation in which permission fees will never be discount-

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[185] Examples of overly broad assertions of copyrights are numerous. One particularly egregious example can be found in JOHN SHELTON LAWRENCE & BERNARD TIMBERG, FAIR USE AND FREE INQUIRY: COPYRIGHT LAW AND THE NEW MEDIA (2d ed. 1989):

> All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, microfilming, recording, or otherwise, without permission of the publisher.

Surely one could copy a phrase or a sentence without needing the permission of the publisher, and, depending on the reason for such copying, even a paragraph could be unquestionably permissible (if, for example, the paragraph was copied for criticism purposes). *See also* Heald, *supra* note 175, at 259, 283-92 (citing examples of copyright assertions in public domain works).

[186] *See supra* note 179 (explaining hypothetical system for processing requests to copy).

[187] *Princeton Univ. Press*, 99 F.3d at 1387.

ed. If courts permit the mere existence of a permission system to evidence a legally cognizable market in a fair use analysis, they are unjustifiably allowing copyright owners to dictate whether a use is fair. This will permit copyright owners to "permission" fair use out of existence, creating "fared use" in its place.[188]

Problem 6: Ignoring the Public Interest Nature of Copyright. Viewing fair use as only those uses for which there is not an efficient market for remuneration to the copyright owner ignores that copyright law is vested with a public interest. This public interest, embodied in fair use, is the source of Congress' power to enact copyright. Depriving the public of its right to make fair uses by allowing permission systems to negate fair use strips the public interest from copyright.

This is a unique attribute of copyright: someone other than the copyright owner has the *right* to use the authorship and the labor embodied in the copyrighted work. This, however, is no accident. The use of the fruit of another's labor is not "some unforeseen byproduct of a statutory scheme." It is, rather, "the essence of copyright," and a constitutional requirement. The primary objective of copyright is not to reward the labor of authors, but "[t]o promote the Progress of Science and useful Arts."[189] If the copyright owner possesses the exclusive right to grant permission, that owner possesses the power to *deny* permission.[190]

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[188] A system of "fared use" in place of fair use in the digital environment is explored in Tom Bell, *Fair Use v. Fared Use: The Impact of Automated Rights Management on Copyright's Fair Use Doctrine*, 76 N.C. L. REV. 101 (1998); *but see* Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at "Copyright Management" in Cyberspace*, 28 CONN. L. REV. 981 (1996) (arguing that the systems geared toward "fared use" in the digital environment may cause an unconstitutional invasion of privacy).

[189] Feist Publications, Inc. v. Rural Tel. Serv. Co., Inc., 499 U.S. 340, 349, 18 U.S.P.Q.2d (BNA) 1275, 1279 (1991) (citations omitted).

[190] This is already happening in scholarship. For example, in a desire to not expose the dark side of a company, recent requests to use portions of works in an examination of historical topics have been refused by corporations. Stowe, *supra* note 176, at 35. Also, examinations of popular culture are hampered by refusals to grant permission for the reprinting of portions of contemporary song lyrics and copyrighted images. *Id.*

Today courts are faced with copyright owners seeking to control the use of smaller and smaller portions of works. In the age of computers and the Internet, copyright owners will have the ability, if they do not already, to monitor the use of even the smallest portion of a work accessed electronically. Computers give copyright owners the tools to know when someone has accessed a chapter, a page, a paragraph, a sentence, or even a phrase. Computers also allow copyright owners to create systems to monitor those uses and charge

The fact that copyright law guarantees certain rights to the users of copyrighted works does not mean that rewards to authors do not serve a purpose. It means that those rewards should not be the pivotal point in a fair use analysis. Instead, the rewards to copyright owners should be carefully balanced against the public benefits of fair use: access to works, dissemination of information, and the promotion of learning through a variety of uses.[191]

V. A DIFFERENT KIND OF MARKET FAILURE: THE INABILITY TO INTERNALIZE DIFFUSE EXTERNAL BENEFITS

The cases that have found that "lost" permission fees constitute market harm do not bode well for the right of fair use.[192] The ability to use "permission systems" as proxies for economic injury neglects a fundamental aspect of the purpose behind the fair use doctrine in today's copyright law: to permit uses whose external benefits outweigh any perceived damage to the creators' incentive to create, regardless of whether the copyright owner would like to be paid for a particular use and regardless of whether the copyright owner has established a system to collect such payments.[193]

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the user for increasingly smaller percentages of works.

[191] As one of the dissenting judges in the *Princeton University Press* case described the majority opinion: "This case presents for me one of the more obvious examples of how laudable societal objectives, recognized by both the Constitution and statute, have been thwarted by a decided lack of judicial prudence." *Princeton Univ. Press*, 99 F.3d at 1393 (Martin, J., dissenting).

[192] Cases like *Williams & Wilkins* diminished the ability of copyright proprietors to seek greater returns with advancing technology, in favor of the "progress of science and arts." Raskind, *supra* note 6, at 619. Now, however, it appears that the courts have favored the illusory threat to the desired interests of the individual proprietor at the expense of the progress of science and arts.

[193] This type of approach to fair use cases can be categorized as the "public benefit approach" to fair use. The public benefit approach "will excuse a use, even in the absence of transaction costs, if the social benefit of the use outweighs the loss to the copyright owner." 2 PAUL GOLDSTEIN, COPYRIGHT § 10.4 (1996). The public benefit approach is contrasted with the private benefit approach which "excuses uses that the copyright owner would have licensed but for insurmountable transactions costs." *Id. See also* Winslow, *supra* note 93, at 809 ("If there is a likelihood that the copyright owner would have entered a license, then the fair use of the work can be sanctioned based only on prohibitively high transaction costs."). If, however, the ultimate purpose of copyright is to benefit society, and fair use is to be analyzed "in light of the purposes of copyright," Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 578 (1994), it only seems appropriate to use a public benefit approach to fair use. These two approaches have also been referred to as the constitutional

A. WHY EXTERNAL BENEFITS OF ALLEGED FAIR USES SHOULD BE CONSIDERED IN A FAIR USE ANALYSIS

The fair use section of the Copyright Act has enumerated certain uses that, according to the legislative history, were "the sorts of copying that courts and Congress most commonly had found to be fair uses."[194] The first sentence of § 107 provides that certain uses of a work, including reproducing a work in copies, shall not be an infringement and that a use "for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright."[195] An examination of these enumerated uses reveals a common thread: each one of these uses provides external societal benefits far beyond the benefits to the individual who is making the criticism, the comment, the news report or the individual who is doing the teaching, the scholarship or the research.[196] But these societal benefits are impossible to internalize in any bargained-for exchange between the copyright owner and the user.[197] However,

theory of fair use and the market failure theory of fair use. Georgia Harper, *Coursepacks and Fair Use: Issues Raised by the Michigan Document Services Case* (last modified March 4, 1997) <http://www.utsystem.edu/OGC/IntellectualProperty/michigan.htm>. This Article emphasizes that recognizing all types of market failures includes the constitutional or public benefit approach to fair use.

[194] *Campbell*, 510 U.S. at 577-78.

[195] 17 U.S.C. § 107 (1994).

[196] These external benefits are a type of externality. Externalities create a divergence between private and social costs that occurs "when some activity of party A imposes a cost or confers a benefit on party B for which Party A is not charged or compensated by (or through) the price system." A. PIGOU, THE ECONOMICS OF WELFARE 105 (4th ed. 1932). Because society as a whole will profit when external benefits are created, transactions producing these benefits should be encouraged. Gordon, *supra* note 14, at 1630.

[197] One way that externalities can be internalized is through transactions. The inability to internalize external benefits is, itself, a result of prohibitively high transaction costs. In the context of the types of uses enumerated in the first sentence of § 107, the transaction costs involved in having each member of society pay for the incremental benefit they receive as a result of another's use would be enormous.

Professor Gordon suggested that in addition to market failure, there would need to be a social benefit to the use at issue in order for a use to be fair. Gordon, *supra* note 14, at 1626. As demonstrated above, if the social benefits external to the bargain and the inability to internalize those benefits are considered in the analysis of whether there is a market failure present, then there is no need to have this additional requirement. Indeed, if the inability to internalize external benefits were not considered, many uses would not meet the requirement of Professor Gordon's test that a market failure be present.

these external societal benefits are exactly the kind of benefit that the Constitution requires copyright to encourage. The inability to internalize significant external benefits is a type of market failure that fair use must protect.

While the lower courts often are focused on the monetary arguments made in copyright cases and the relative certainty that an economic analysis provides, the Supreme Court has consistently, and appropriately focused its fair use inquiry on the constitutional goal of copyright. The Supreme Court has not only backed away from earlier statements concerning the importance of the fourth factor,[198] but the Court has also refused to recognize fourth factor market harm based solely on the argument that a copyright owner desires to charge for the use at issue.[199] The fact that a copyright owner has been able to convince others to pay the fee demanded and therefore now can claim to have a "workable" permission system should not change the analysis. The Court's refusal to recognize a mere desire to be paid as evidence of market harm when a defendant does not meet that desire with cash emphasizes the fundamental role that fair use plays in the scheme of copyright law—permitting certain kinds of uses that can have significant, diffuse, external benefits in society regardless of whether the copyright owner would permit such a use or would like to be paid for such a use.

However, lower courts often do not look beyond the parties involved in a particular litigation in determining the benefits of a particular use. With almost every kind of use there is *some* perceived benefit to the user of the work. For example, the professor who makes a copy of an article in order to prepare a lecture for a class presumably benefits professionally by being a

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[198] *See supra* note 122 and accompanying text.

[199] In *Campbell*, the copyright owner of the song "Pretty Woman" argued that it had shown fourth factor market harm because its market for permission fees for parody versions of "Pretty Woman" was harmed as a result of the rap group 2 Live Crew "unauthorized" recording of a parody version of the song. The Court refused to consider the parody market as a market cognizable under copyright law. The court recognized that it was unlikely that creators of imaginative works would participate in a market for uses that are critical of their works. Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 592 (1994). In addition to recognizing the external benefits gained by society when criticism and commentary is permitted, the Court's decision also reflects the non-monetizable nature of the social value of commentary and criticism.

more prepared and therefore more effective teacher. Because the user has derived some benefit from the use, it is tempting to say that the user should, therefore, pay for that use—any use. Yet our Copyright Act is not premised on a copyright owner receiving compensation for any kind of a use that can be made of a work, even if the use provides a benefit to the user. A copyright owner should receive a fair remuneration. In addition to the benefit gained by the individual user, with certain kinds of uses, there are benefits to others as well. In the example given, a more significant benefit of the professor's copying is better educated students who then are better educated citizens. The inability of the professor to capture that value represents the inability to internalize the external benefits of that use.

Consider a scientist who finds an article of interest at a library, and, instead of taking handwritten notes concerning the article on a separate piece of paper, makes a copy of the article and then highlights portions of it and makes notes in the margin. That copy creates a benefit for the scientist: she may take it to her office or laboratory and use that copy to further her research. But there are other potential benefits of that use. If the scientist makes a further advance in her studies because of her personal, accessible copy of the article, there is also a gain to society as a whole. Depending on the nature of her research, some of that social benefit might be internalized, but some of that benefit may remain external.

For example, if the research culminated in a new cure for heart disease, the sufferers of heart disease would pay for that new drug. But society benefits by having more productive citizens who no longer are hampered in their day-to-day activities. Society is also benefited by permitting the resources that would otherwise still be devoted to curing heart disease to be now invested in other projects. Only part of the benefit to society, the amount paid by the sufferers of the disease, is internalized directly by the scientist. Therefore, the scientist making the copy would value the ability to make the copy and to have it in her office or laboratory at one amount, X, and would be willing to pay that amount. The scientist would also be willing to pay an amount equal to the anticipated social value that could be internalized (after discounting that value based on the probability that the cure will come to fruition), Y1. The full external social value of that use, Y2, will never be captured and therefore the scientist would not be willing to include that amount as part of the payment for the use. The scientist would be willing to pay for the use at a price equal or less than X+Y1,[200] which is not the full value of the use. Yet, unless the copyright holder is willing to accept X+Y1 or less, the use will not legally occur and society will lose the benefit of that use.

While the above analysis may lead to a conclusion that if X+Y1 is large enough, then the user should pay for such use,[201] there are other kinds of uses where X+Y1 will be tremendously limited yet Y2, the external benefit that cannot be internalized, will be significant. Consider the classroom handouts that were at issue in *Princeton University Press*. The value of those copies to the individual students might be equal to or only slightly more than the cost of the photocopying.[202] One external benefit of that use, however, is that we as a society gain significantly by a better educated citizenry. Yet there is no way to internalize that external benefit other than through increased government subsidy to education.[203] If permission fees are required for such copying, the inability to internalize such benefit will result in classroom handouts not being used as frequently or as effectively,[204] and "promises to hinder scholastic progress nationwide."[205] Not only do the students not receive that added educational experience, but society as a whole suffers by a diminished educational experience for all students.

[200] These are necessarily oversimplified examples. The amount the scientist would be willing to pay also would need to subtract the cost the scientist incurred in making her copy.

[201] While this may seem to be a reasonable conclusion, notes 204-208 and accompanying text, *infra*, explain why that might not be the case.

[202] Coursepacks are often used in addition to the assigned text books for a course. The material in the coursepacks is also usually available on reserve at the library for the student to read.

[203] A system of taxing all members of a society and then using the revenue to target certain activities is one way to internalize diffuse external benefits, albeit a gross estimate of benefits received and contributed.

[204] A recent example at a law school involved a constitutional law professor who found his students did not have sufficient understanding of the period in United States history referred to as Reconstruction. He decided to handout to his students an exerpt from a book on Reconstruction. The publisher, however, wanted over $200 for such one-time use of what amounted to less than 10% of the book. These kinds of demands for classroom use of excerpts of material have become commonplace.

[205] Princeton Univ. Press v. Michigan Document Servs., Inc., 99 F.3d 1381, 1393 (6th Cir. 1996) (Martin, J., dissenting).

When there is a permission system in place and the defendant has not availed himself or herself of that system the defendant appears to be deliberately by-passing the market.[206] However, the market is not fully functioning because of the inability to internalize the external benefit of certain types of uses.[207]

More important than both the value to the user of a particular use and the value of the external benefits that can be internalized is the economic fact that if left in the hands of private decision makers, i.e., the market, too little of the goods that generate external benefits will be consumed.[208] In the context of copyright and fair use, if left in the hands of the market, too few uses that generate external benefits are likely to occur. When the market reality concerning uses that create an external benefit is coupled with a rule that requires payment for such uses, even less of those types of uses will occur. These factors have not been reconciled by those who assert that when a copyright owner would be willing to license a particular use, fair use should only be found when there are prohibitively high transaction costs.[209]

B. WHY COURTS UNDER-EMPHASIZE AND UNDERVALUE THE EXTERNAL BENEFITS OF ALLEGED FAIR USES

When courts focus on economic analysis and market failure, they often overlook or under-value the external benefits of a particular use. Several factors contribute to this treatment of the external benefits of a particular use. First, as discussed above, courts generally fail to look beyond the parties to the particular lawsuit when analyzing the harms and benefits in a case. Second, defining public benefit is difficult. Third, placing a monetary value on diffuse external benefits is often difficult. Sometimes this difficulty

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[206] Gordon, *supra* note 14, at 1609 (noting that "[a] defendant who deliberately by-passes the market is not likely to find the court willing to act as a resource-allocating mechanism").

[207] In order for market transactions to result in the maximization of value, one condition that must be met is for all costs and benefits to be internal to the transaction. *Id.* at 1607.

[208] Winslow, *supra* note 93, at 793 n.143; *see also* Gordon, *supra* note 14, at 1630 (noting that the existence of external benefits fails to produce the optimal amount of benefit-generating activity). The external benefit represents a social value. If that benefit is not internalized, the amount of the benefit-producing activity will be less than the amount if its full value could be captured.

[209] Winslow, *supra* note 93.

arises because the benefit is extremely small to each individual in society. However, the aggregate benefit should be the focus. Other times the difficulty will result from the external benefit being non-monetizable.[210]

The structure and phrasing of the four factors in section 107 also contribute to external benefits being overlooked. While the four factors are not the only factors that a court may consider,[211] a court rarely strays beyond them. The only factor in which it appears appropriate to consider the public benefit of a particular use is the first factor. The first factor requires a court to consider "the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes . . . ."[212] The first factor directs a court to consider "the purpose and character" of the use, an inquiry which would naturally allow the court to consider the nature and amount of external benefit of a particular use. Indeed, the inquiry into the transformative nature of the use does, in some way, measure the external benefit of a use: the greater the transformation, the greater the benefit to the storehouse of knowledge or the arts.[213] But if the use is found to be non-transformative, courts often do not recognize that such use may still have significant external benefits. Instead, when the use is deemed nontransformative, courts focus on a different aspect of the "character of the use" inquiry: the commercial or non-commercial nature of the use. Again, the natural tendency of courts to focus on monetary issues is apparent but unfortunate. This focus ignores the fundamental purpose of copyright and a significant purpose of the fair use doctrine—permitting uses that have significant external benefits.

Another fundamental reason why courts may hesitate to fully value, or to even recognize, the external benefits of a particular use is fear of a slippery slope. Courts may feel that if one considers the external benefits of a use as relevant to a fair use inquiry, because all uses have an external benefit, then *all* uses of a work would be

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[210] The tendency of the law and economics approach to marginalize the non-monetizable or less monetizable public interest has been extensively criticized elsewhere and is beyond the scope of this paper. *See* Netanel, *supra* note 60, at 291 (citing additional sources).

[211] *See* Harper & Row Publishers, Inc. v. Nation Enters., 471 U.S. 539, 560 (1985).

[212] *Id.* at 547 n.2; 17 U.S.C. § 107 (1994).

[213] *See* Lemley *supra* note 123.

fair uses, a position which is untenable and would, in fact, defeat the purpose of copyright. Nonetheless, this fear is unjustified given the full scope of the fair use inquiry. For example, copying an entire text of an article from a journal by a research scientist should be viewed very differently than a copyshop's selecting articles it believes will be the most interesting to scientists, making copies of those articles, and offering the articles for sale to the public. Both instances of copying result in better-educated citizens and have external benefits. Nevertheless, the copyshop's activities are invading a public sale and distribution market by selecting and copying works and then publicly distributing the works for direct commercial gain. This type of use engaged in by the copyshop, if permitted without compensation to copyright owners, could create a significant impact on the incentives to create and disseminate new works.[214]

At the same time that courts may feel uneasy in fully valuing or even recognizing the external benefits of a particular use, the cost of such use to individual copyright owners is quite concrete, especially if a permission system is considered in determining harm to the market for the copyrighted work. Add to this seemingly

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[214] In a fair use analysis, such copying also is likely to reduce the number of journals that are purchased—why buy the journal when you can just purchase only the articles you really want to read?

The type of distinction between uses that is made in the text leads some to ask, why should copyright owners be forced to subsidize education? *See* Richard Adelstein & Steven Perez, *The Competition of Technologies in Markets for Ideas: Copyright & Fair Use in Evolutionary Perspective*, 5 INT'L REV. L & ECON. 209 (1985); Linda J. Lacey, *Of Bread and Roses and Copyrights*, 1989 DUKE L.J. 1532. The question can be presented differently by asking, why should researchers or educators have to provide additional subsidies for the creation and dissemination of new works? The notion that a copyright owner is somehow subsidizing education if a particular educational use of a copyrighted work is a fair use starts with the premise that the copyright owner is entitled to control all uses of a work. Prohibiting such control, i.e., finding a use to be a fair use, then looks like a forced subsidy. But the premise underlying copyright law in the United States is that copyright owners are entitled to a fair remuneration. They are not entitled to profit from every kind of use of their work.

While we often refer to copyright as property, "[i]t wears the property label uneasily." Patterson, *supra* note 12, at 37. Copyright is more regulatory in nature. *Id.* at 41. It is a limited statutory monopoly, with its scope defined by those rights that the public is willing to cede in order to provide the incentive necessary to encourage the production of new works. When copyright is viewed as property, court decisions become matters of the self-interest of the owner of that property, with the results of those decisions favoring owners of copyrighted works rather than the public good. *Id.* at 5.

concrete injury the fact that there appears to be some benefit to the user, and the idea that the user does not have to pay for that benefit does not sit well with most courts. After all, courts are familiar with resolving commercial disputes. If the defendant is using the plaintiff's property without permission, the defendant will have to pay for that use.[215]

Focusing on the money potentially lost by permitting a certain use to be within the scope of fair use rights skews the fair use analysis in favor of the copyright owner at the expense of the fundamental goal of copyright law. Courts should instead focus on what rule would best serve the public interest. Courts should ask if the overall public is better served by permitting the kind of use at issue without the obligation to pay the copyright owner, taking into account the full social benefit of the use, or is the public interest best served by the marginal increase in incentive to create and disseminate new works that would result if the type of use at issue required permission from the copyright owner?[216] In examining fair use cases, courts should more seriously consider the list of "favored" uses provided by Congress in section 107, especially when the use at issue is a non-transformative use. This list should be seen as a proxy for uses with large external benefits that cannot be internalized. In the context of such uses, a court should not permit the existence of a permission system to quell the inquiry into other types of market failures that may exist.

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[215] The invidious nature of viewing copyright as property can be seen in the District Court's decision in the *Princeton University Press* case finding the defendants guilty of willful infringement.

> [Defendants] proceeded recklessly at their own peril and should not be surprised that they are now called upon to answer for this unjust enrichment. . . . They clearly were doing it to realize profit for themselves. Their position was unreasonable and it was a reckless disregard of the copyright holders' property rights.

Princeton University Press v. Michigan Document Servs., Inc., 855 F. Supp. 905, 912, 32 U.S.P.Q.2d (BNA) 1045, 1051 (E.D. Mich. 1994) *aff'd in part, rev'd in part*, 99 F.3d 1381 (6th Cir. 1996) (en banc). This strenuous ruling stemmed from the District Court Judge's view of copyright as a property right, not a limited statutory monopoly. The language quoted above is particularly harsh for a case that was reversed on appeal and then reheard en banc resulting in a split among the judges with five judges dissenting, and even the en banc majority finding that the defendants' actions did not constitute willful infringement.

[216] In making this determination, the court should bear in mind that the revenue potentially generated from an alleged fair use is in addition to the revenue generated by sales of the copyrighted work itself.

CONCLUSION

An evaluation of any fair use case "involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand."[217] By permitting permission systems to constitute evidence of market harm in a fair use analysis, courts disproportionately skew the balance in favor of copyright owners, at the expense of the interests of society.

The Constitution specifies the goal of copyright law in this country: to promote the progress of knowledge and learning. The first copyright law enacted in this country granted authors specific and limited rights: to print, publish and vend their work. At that time the law did not contemplate, and therefore did not give the copyright owner the exclusive right to control other uses that could be made of works, e.g., movie versions or other adaptations of written works. Over the last 200 years copyright law has evolved to protect a wide variety of uses of a work in a wide variety of media. The statutory expansion of the rights of copyright owners continues today, resulting in an increased importance of guaranteeing the rights of the users of copyrighted works through doctrines such as fair use.

Because of the courts' focus on monetary concerns, fair use continues to be a second-class citizen in the world of copyright law. Courts often view invocation of the doctrine as a move by the desperate copyright defendant, caught in the act of infringement, looking for an excuse, instead of embracing fair use as the counterweight to the continued expansion of the copyright monopoly. In most instances, fair use has become an illusory doctrine, touted by the advocates of copyright expansion as a panacea of the fears of the masses.

The market failure theory of fair use asserts that the right of fair use should exist only when a failure in the market exists. The fact that one type of market failure may have been cured through the implementation of a permission system by the copyright holder does not preclude, however, the presence of a different kind of

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[217] Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

market failure. If copyright is to remain true to its constitutionally mandated goal, courts must be willing to recognize the most important kind of market failure relevant to fair use: the inability to internalize the external benefits of certain kinds of use. This holds especially true for non-transformative uses in the context of research, scholarship and teaching. If courts fully recognized the type of market failure that fair use was best designed to remedy, fair use would apply to more than just those uses from which copyright owners are not interested in profiting. Instead, fair use would achieve its important counter-balancing role in copyright: guaranteeing rights of users in the face of the broader scope of monopoly rights granted to copyright owners in order that copyright law fulfills its constitutionally mandated goal of promoting knowledge and learning.