That information once published should be presumptively free for all to use is a commonplace of intellectual property law. As Benjamin Kaplan has observed, “if man has any ‘natural’ rights, not the least must be a right to imitate his fellows, and thus to reap where he has not sown. Education, after all, proceeds from a kind of mimicry, and ‘progress,’ if it is not entirely an illusion, depends on generous indulgence of copying.”\(^1\) It might thus seem to follow that judges should have only modest powers to find that individuals have common law intellectual property rights. Common law judges, however, often discover such rights under the branch of unfair competition law known as misappropriation.

In this paper, I reexamine the common law doctrine of misappropriation and argue that, contrary to the fears of Brandeis, Hand, Kaplan, and others, the doctrine has flourished in the state courts without impeding the free flow of information. I go on, however, to argue that the task of discovering new common law intellectual property rights is extraordinarily difficult because it requires grappling with first principles. The danger lurking in the common law development of intellectual property rights is not, as some have suggested, that judges will embrace an unsound natural-rights theory of intellectual property, for in practice relatively little turns on the choice of an underlying theory. Rather, the danger is that judges will fail to identify the interest for which protection is being urged and hence fail to discover the intellectual property cases that provide the most useful analogies.

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\(^1\) B. Kaplan, An Unhurried View of Copyright 2 (1966).
I. THE INS CASE

The misappropriation doctrine was first developed in *International News Service v. Associated Press*\(^2\) by the Supreme Court. That case arose during World War I, when British censors barred the Hearst news service, INS, from sending cables about the war to the United States.\(^3\) To provide news about the war to its member newspapers, INS bought early east coast editions of newspapers published by subscribers to the Associated Press ("AP"), paraphrased the war news, and sent the stories to its own newspapers. Because some INS newspapers on the west coast came out before rival AP newspapers in the same cities, INS newspapers sometimes reported war news before those served by AP.\(^4\) AP had not copyrighted its stories and could not rely on federal statutory protection.\(^5\)

Justice Pitney, writing for the Court, found that the Associated Press had a "quasi-property" interest in the news that it gathered that gave it the right to prevent a competitor from using it. He reasoned that

> [t]he right of the purchaser of a single newspaper to spread knowledge of its contents gratuitously, for any legitimate purpose not unreasonably interfering with [AP's] right to make merchandise of it, may be admitted; but to transmit that news for commercial use, in competition with [AP] . . . is a very different matter. In doing this [INS], by its very act, admits that it is taking material that has been acquired by [AP] as the result of organization and the expenditure of labor, skill, and money, and which is salable by [AP] for money, and that [INS] in appropriating it and selling it as its own is endeavoring to reap where it has not sown . . . . The transaction speaks for itself, and a court of equity ought not to hesitate long in characterizing it as unfair competition in business.\(^6\)

\(^2\) 248 U.S. 215 (1918) (hereinafter referred to as the INS case).


\(^4\) 248 U.S. at 238-39.

\(^5\) Copyright protection was difficult to retain, because any publication without notice by any of AP's subscribers would have resulted in a forfeiture of copyright. See *Holmes v. Hurst*, 174 U.S. 82 (1899). Moreover, because copyright protects only original expression, rather than facts or ideas themselves, see 17 U.S.C. § 102(b) (Supp. V 1981), it is not clear that AP could have prevented INS from paraphrasing its news, even if it had gone through the requisite statutory formalities.

\(^6\) 248 U.S. at 239-40.
INS did not tell the public that its news was in fact AP's, and the subscribers to INS papers may have mistakenly thought that INS had gathered the news it was reporting. Justice Pitney, however, made it clear that AP would have had a cause of action regardless of whether INS fully disclosed the source of its news.\(^7\) INS engaged in unfair competition quite apart from whether INS passed off its news as something it was not or whether it deceived the public in any way. The unfairness of INS's conduct lay in taking AP's information and not paying for it.

That an individual has the right to reap what he has sown, however, is far from self-evident even as applied to tangible property. We cannot talk intelligibly about an individual's rights until we have established a set of entitlements. We typically can reap only the wheat we sow on our own land, and how land becomes private property in the first place remains a mystery.\(^8\) In any event, wheat and information are fundamentally different from one another. It is the nature of wheat or land or any other tangible property that possession by one person precludes possession by anyone else. A court must decide that \(A\) should get the wheat or that \(B\) should get the wheat. It cannot decide that both get all of it. Many people, however, can use the same piece of information.\(^9\) Millions can watch the same television program without interfering with one another.

The value of the information to AP derived in part from its ability to keep its rivals from copying the information it gathered. But deciding that it could not enjoy its news exclusively is not the same as telling a farmer he must hand over wheat he has grown to someone who merely watched him grow it. Deciding against AP would not mean that it would lose all revenue from its news-gathering efforts. People would still pay for the AP's news, and its rights would be entirely unaffected in the towns that the AP served exclusively.

That the analogy between wheat and information does not apply with full force, however, does not mean that it should not apply at all. One can still argue that individuals have the right to enjoy the fruits of their labors, even when the labors are intellec-

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\(^7\) Id. at 241-42.

\(^8\) Compare Hamilton, Property—According to Locke, 41 YALE L.J. 864 (1932) with Epstein, Possession as the Root of Title, 13 GA. L. REV. 1221 (1979).

\(^9\) Information comes close to being a public good, as an economist uses the term. See Demsetz, The Private Production of Public Goods, 13 J.L. & ECON. 293 (1970). This is not to say, of course, that information can be used at no cost. See Stigler, An Introduction to Privacy in Economics and Politics, 9 J. LEGAL STUD. 623, 640-41 (1980).
tual. But granting individuals exclusive rights to the information they gather conflicts with other rights in a way that granting exclusive rights to tangible property does not. In a market economy, granting individuals exclusive rights to property is an effective way of allocating scarce resources.\textsuperscript{10} Saying that someone should be able to own a particular good or piece of land and should be able to keep others from getting it unless they pay him is unobjectionable once one accepts the desirability of a market economy. Granting exclusive rights to information does not, however, necessarily promote a market economy. Competition depends upon imitation. One person invests labor and money to create a product, such as a food processor, that people will buy. Others may imitate him and take advantage of the new market by selling their own food processors. Their machines may incorporate their own ideas about how such machines should be made. As a result, the quality of the machines may rise and their price may fall. The first person is made worse off than he would be if he had had an exclusive right to his idea, because his competitors are enjoying the fruits of his labor and are not paying for it. Nevertheless, the public as a whole may be better off, as long as this freedom to imitate does not destroy the incentive for people to come up with new devices.\textsuperscript{11}

\textsuperscript{10} See Demsetz, Toward a Theory of Property Rights, 57 AM. ECON. REV. 347 (1967).

\textsuperscript{11} The headstart the inventor has on the competition is thought sufficient reward unless the invention is new, nonobvious, and useful. See 35 U.S.C. §§ 102, 103 (1976). In Graham v. John Deere Co., 383 U.S. 1, 9 (1966), the Court observed:

\begin{quote}
The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge. The grant of an exclusive right to an invention was the creation of society—at odds with the inherent free nature of disclosed ideas—and was not to be freely given. Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly.
\end{quote}

See also Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248, 267 (1851) (“[U]nless more ingenuity and skill . . . were required . . . than were possessed by an ordinary mechanic acquainted with the business, there was an absence of that degree of skill and ingenuity which constitute essential elements of every invention.”).


\begin{quote}
[The defendant was] sharing in a market which was created by the skill and judgment [of] the plaintiff’s predecessor and has been widely extended by vast expenditures in advertising persistently made. But that is not unfair. Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested.
\end{quote}

Whether the existing patent system works effectively or whether the standard for patentability should be significantly lower (or higher) than it is now is a subject of considerable academic debate for which there is no clear answer. Compare Hirshleifer, The Private and Social Value of Information and the Reward to Inventive Activity, 61 AM. ECON. REV. 561 (1971) with Kitch, The Nature and Function of the Patent System, 20 J.L. & ECON. 265
More generally, all of us take constant advantage of the information others gather and the ideas others create. Few of us use a language of our own creation, yet none of us pays a royalty to speak it. We think ideas and information should be presumptively free for all to use. That the labor theory of intellectual property comes upon a competing principle does not, however, say that it should not be given some scope. Moreover, Justice Pitney did not rely simply on the theory that individuals have a natural right to the fruits of their labor. He also noted that the public interest in the news itself was served by recognizing AP’s rights, for granting AP a quasi-property right gave AP the incentive to invest millions of dollars in news gathering, and everyone could enjoy the benefit of those efforts merely by paying a few cents for the morning paper.

II. MISAPPROPRIATION DOCTRINE AND ITS CRITICS

It is useful to examine misappropriation doctrine in the light of other intellectual property regimes. The federal system of intellectual property derives from the clause of the Constitution that gives Congress the power to give authors and inventors exclusive rights to their writings and discoveries for a limited time for the purpose of promoting “the Progress of Science and useful Arts.” Individuals are given a limited property right, not so much because they are morally deserving, but because providing them with such a right is thought necessary to induce them to produce the work in the first instance. Both copyright and patent law balance the need to provide authors and inventors with incentives against the need for free access to what has been produced.


13 Many, for example, might be surprised to learn that we have to pay a royalty when we sing “Happy Birthday to You” in public because the song is still subject to copyright protection. See Salamon, On the Other Hand, You Can Blow Out the Candles for Free, Wall St. J., June 12, 1981, at 1, col. 4. Copyright protection extends under the 1976 Act for the writer’s lifetime, plus 50 years, 17 U.S.C. § 302 (1976), and the holder of a copyright in a musical composition has, among other things, the exclusive right to perform the work publicly, id. § 106(4) (Supp. V 1981).

This particular observation about the limitation of the labor theory of intellectual property—that it fails to account for the need that we have to take advantage of the intellectual activity of others—is one that I have taken from elsewhere, yet few would suggest that I should pay Brandeis, Hand, or Kaplan cash for a license to repeat it here.

14 U.S. CONST. art. I, § 8, cl. 8.

15 In Mazer v. Stein, 347 U.S. 201, 219 (1954), the Court noted:

The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal
Continental systems of intellectual property, in contrast, emphasize the importance of the individual artist's rights, quite apart from whether giving such rights enhances public enjoyment of the arts in the long run. Under French law, for example, an artist can insist that his name be associated with his work whenever it is published or displayed. The right is not justified on the grounds that artists generally will produce more if they know their names will be forever attached to their work (although it might have this effect). Rather, the right is justified out of respect for the labors of the individual artist. Although an artist's natural rights have been at best an undercurrent in federal intellectual property law, the misappropriation doctrine of INS and its progeny have recognized them explicitly. Individuals are protected both because they are deserving and because they serve the public's interest in the production of information.

Apart from the problem of preemption, critics raise two major
objections to state misappropriation doctrine. First, they argue that judges are poorly situated to identify the policies at stake in an intellectual property dispute and that judges therefore should not recognize intellectual property rights until the legislature has done so. Second, critics argue that the part of INS that is based on the natural right of an individual to the fruits of his labor cannot be confined or easily reconciled with competing principles.

The argument that judges should not be in the business of creating intellectual property rights is based both on the general presumption that ideas, once published, should be free for all to use and on the comparative advantage a legislature has in balancing competing values. Given the importance of insuring the free flow of ideas (regardless of which theory is embraced), it is crucial to ensure that the boundaries of whatever rights are established are, in Brandeis’s words, “definitely established and wisely guarded.” Moreover,

[c]ourts are ill-equipped to make the investigations which should precede a determination of the limitations which should be set upon any property right in news. . . . Courts would be powerless to prescribe the detailed regulations essential to full enjoyment of the rights conferred or to introduce the machinery required for enforcement of such regulations. Considerations such as these should lead us to decline to establish a new rule of law in the effort to redress a newly-disclosed wrong, although the propriety of some remedy appears to be clear.

A court’s inability to resolve a dispute as well as a legislature might, however, does not necessarily justify the court’s refusal to decide the issue. After all, refusing to recognize a cause of action is ultimately no different from deciding in favor of the defendant. More to the point, the type of standard that a legislature typically establishes for an intellectual property right is often no more carefully hewn than is a court’s. Indeed, many of the substantive provi-

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10 In Capitol Records, Inc. v. Mercury Records Corp., 221 F.2d 657, 667 (2d Cir. 1955) (L. Hand, J., dissenting), Learned Hand voiced the further objection, related to the preemption argument, that different laws in each state would balkanize intellectual property law.

20 E.g., INS, 248 U.S. at 262-67 (Brandeis, J., dissenting).

21 E.g., Cheney Bros. v. Doris Silk Corp., 35 F.2d 279, 280 (2d Cir. 1929), cert. denied, 281 U.S. 728 (1930).

22 INS, 248 U.S. at 263 (Brandeis, J., dissenting).

23 Id. at 267.

sions of both copyright law (such as the fair use defense\textsuperscript{26}) and patent law (such as the nonobviousness requirement\textsuperscript{26}) are simply codifications of principles that courts have developed over time. Complicated rules and elaborate regulations are generally the exceptions.\textsuperscript{27}

Judges, as well as academics, have thought that the expansive reach of federal statutes has limited courts' freedom to invoke the common law and that, even if it did not, courts should not exercise their common law powers.\textsuperscript{28} But the Supreme Court's preemption cases in intellectual property have taught us, to the extent they have taught us anything, that there is a role for state law to play.\textsuperscript{29} Whether state courts, as opposed to state legislatures, should discover intellectual property rights by using their common law powers depends ultimately on one's faith in the ability of common law courts to re-form and improve the law through incremental change, and the degree to which one thinks that courts are obliged to decide as best they can all cases over which they have jurisdiction.

In the 1930's, the Second Circuit concluded that courts had little license to discover intellectual property rights in the common law.\textsuperscript{30} The court relied in part on the notion that the creation of intellectual property rights was solely within the competence of the legislature and in part on the preemptive scope of federal legislation. The Second Circuit also thought that the natural rights theory of INS cut much too broadly. These cases force us to ask if recognizing the power of judges to discover intellectual property rights can be based on anything other than a balancing of incentive against free access.

In \textit{Cheney Bros. v. Doris Silk Corp.},\textsuperscript{31} Learned Hand faced a

\begin{itemize}
  \item \textsuperscript{26} 35 U.S.C. § 103 (1976).
  \item \textsuperscript{27} The least successful and most heavily criticized parts of the new copyright act are the sections such as the one governing cable television, see 17 U.S.C. § 111 (1976), in which Congress created elaborate regulations, largely as a result of lobbying by special interest groups. See Goldstein, \textit{Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright}, 24 U.C.L.A. L. Rev. 1107, 1127-39 (1977).
  \item \textsuperscript{28} See, e.g., Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (2d Cir. 1929), cert. denied, 281 U.S. 728 (1930); Goldstein, supra note 27.
  \item \textsuperscript{30} See, e.g., Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (2d Cir. 1929), cert. denied, 281 U.S. 728 (1930). These cases were decided under pre-\textit{Erie} general federal common law. \textit{See generally} \textit{Erie R.R. v. Tompkins}, 304 U.S. 64 (1938).
  \item \textsuperscript{31} 35 F.2d 279 (2d Cir. 1929). For a discussion of Learned Hand's treatment of the INS
set of defendants who had deliberately copied the dress designs of the plaintiffs. Dress designs were not covered either by copyright or design patent laws at the time. As in INS, the defendants in Cheney had taken advantage of the efforts of the plaintiffs. Hand, however, declined to extend INS to protect dress designers. He thought that Congress itself had struck a balance between incentive and access, that the natural rights theory of INS had no limiting principle, and that once applied outside the facts of that case, the INS doctrine would engulf all it touched and forbid many forms of legitimate competition. Such a conclusion may not have seemed open to a lower federal court after INS, but Learned Hand told other members of the panel in Cheney privately that although INS "is somewhat of a stumbling block," and although "on principle it is hard to distinguish, and . . . the language applies, I cannot suppose that any principle of such far-reaching consequence was intended."

In his later opinions, Hand did not elaborate; he simply cited Cheney for the proposition that INS was to be narrowly construed and repeated his basic belief that artists had no "natural right" to their efforts, but only those rights given them by the legislature. Others on the Second Circuit shared Hand's reluctance to apply INS, a reluctance they admitted freely to one another. For example, when deliberating the merits in RCA Manufacturing Co. v. Whiteman, Judge Clark observed to Hand that "[i]n principle, this case is entirely indistinguishable from International News Service v. A.P.... and we might as well admit it. But we have conquered the News case before; it can be done again."

The fears of Hand and others seem well-taken. It is more than a little distressing to find in many of the opinions that adopt natural rights theory a statement to the effect that "[t]he controlling

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45 Memorandum from Charles E. Clark to Learned Hand & Robert P. Patterson 3 (June 21, 1940) (Learned Hand Papers, Harvard Law School Library).
question . . . is whether the commercial practice at issue is fair or unfair." If the only limit on the plaintiff's right were whether or not the grant of relief would be fair, judges would have little guidance other than their own subjective perceptions of what was good. This objection to the natural rights principle of INS, however, may prove too much. Judges are routinely asked to balance competing interests against one another. Against the natural rights theory of intellectual property one has to balance the need to keep ideas flowing freely and to keep competition alive generally. Striking this balance may be no more difficult or subjective than weighing the considerations embodied in federal intellectual property law: the need to give the gatherer of information an incentive against the countervailing need to give the public free access to ideas.

To say that judges can use a natural rights theory is not to say that an intellectual property regime based upon it is preferable to one based upon a balance between incentive and free access. One must first identify the differences between the two theories and determine how important those differences may be. A natural rights theory seems broader and less focused and puts more weight on the worth of the individual creator and the behavior of the copier, but I would argue that these differences do not, in practice, affect the way judges decide cases.

If judges focus on protecting the rights of the creator of information, more turns on the facts of an individual case, and the competing values that are being balanced are less clear. The more the putative infringer seems to be acting in bad faith (the more, for example, deception of the public accompanies the misappropriation), the more likely the individual plaintiff is to succeed. In such cases, concerns about free access are apt to be dormant. In INS itself, a decision in favor of AP might have kept some members of the public from having ready access to news about the war because some towns were served only by INS and not by the AP.

These differences, however, are easy to exaggerate and often may be rhetorical. In copyright disputes, attention to the relationship between the two parties is also important. The plaintiff must prove that his work was in fact copied by the defendant and that

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38 See, e.g., Saratoga Vichy Spring Co. v. Lehman, 625 F.2d 1037, 1044 (2d Cir. 1980) (asserting that some element of bad faith is central to a misappropriation action).
the defendant did not come upon the same artistic expression independently. Deception of the public is itself not relevant in a copyright action, but when there is deception a copyright action is combined with one under section 43 of the Lanham Act.

Similarly, even though the concern with free access lies dormant under a natural rights theory, courts seem sensitive to it and rarely restrict a copier when the public lacks alternative access to the information. In INS itself, towns may have been without AP's news only because the local newspapers were not willing to pay AP for the cost of providing it to them. Balancing between the rights of the creator and the copier or between incentive and free access is necessarily approximate, and the differences between protecting a creator's individual rights and giving him an incentive or between imposing limits on a natural rights theory and ensuring public access are elusive. Rarely will the case arise the outcome of which turns on the principle the judge embraces. A court might feel that a plaintiff such as AP should be given relief both because of its right to enjoy the fruits of its labor and because without the right it will lack the incentive to gather as much information. A principle as general and all-encompassing as the one announced in INS seems to accommodate both ideas more comfortably than would a principle based solely on a balancing of incentive and free access, but such balancing is not very confining either.

The history of INS in the courts over the last sixty-five years shows that it has not, as some feared, been a persistent heresy that has engulfed all it touched. The case has been cited for the general proposition that courts have the equitable power to do what is fair, but these cases typically invoke INS in dictum simply as a rhetorical flourish and are usually well-founded upon a simple passing off or unfair trade practice of one variety or another. Courts have usually rejected claims based on a misappropriation theory in cases in which plaintiffs have tried to claim exclusive rights in an unpatentable device.

INS has served as the basis for protection of information a

40 See, e.g., Gilliam v. ABC, 538 F.2d 14 (2d Cir. 1976); see also supra note 18.
plaintiff has gathered, but courts have not used it as a license to cut rough justice wherever they find competitive practices they do not like. Many of the cases that have cited INS, for example, have simply reaffirmed its holding as applied to similar facts. These cases sometimes arise when a radio station forgoes subscribing to a news service, buys a copy of a local newspaper, and then paraphrases it over the air. Other cases involve specialized trade papers that carry information to a specialized market, such as a newsletter about new construction targeted at those in the building industry. Another subset of cases invoking INS involved record piracy, an area in which states, before the Sound Recordings Act of 1971, could create intellectual property rights without upsetting any congressional balance. The protection against record piracy these cases established was largely identical to the protection Congress itself eventually provided. In other areas, such as the right of publicity, courts relied upon INS only until these new rights acquired their own separate identity.

Whatever freedom state judges (or federal judges looking to state law) have to create intellectual property under misappropriation doctrine is constrained by the preemptive effect of federal law and the first amendment, which limit the amount of mischief that INS can create. For example, federal preemption prevents states from protecting what is unpatentable. A state judge could not protect the makers of Coca-Cola from competitors if their formula became public knowledge. In any event, courts have largely con-

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49 See id. at 552-70.
fined INS to its original facts and to areas of law in which new intellectual property principles have developed and have subsequently been recognized as legitimate by Congress or the Supreme Court.

III. MISAPPROPRIATION AND THE PROBLEM OF STOCK MARKET INDICES

To this point, I have argued that in cases in which Congress has left states free to create intellectual property rights, state courts may legitimately discover such rights using their common law powers, either by drawing upon the federal model, which balances incentive and free access, or by drawing upon a theory of natural rights. In the rest of this paper, I want to comment on the dangers that courts face when they embark upon this course. These dangers are, I argue, quite distinct from the choice between a natural rights and an economic incentive theory. As different in their normative underpinnings as these two theories are, they need not pose great practical problems. They typically point the common law judge in the same direction. The principal difficulties lie elsewhere. I illustrate these difficulties by looking at a recent Second Circuit decision that relied on INS. In that case, the Second Circuit upheld a preliminary injunction that prevented the Commodity Exchange from creating a market for futures contracts based on the Standard & Poor's 500 Index ("S&P 500").

The threshold question in the case of stock market indices, as in other common law intellectual property disputes, is the preemptive effect of federal copyright and patent law. The Copyright Act of 1976 addresses the preemption problem in section 301, but the state court, for example, found that a distributor had a right to prevent someone else from reproducing his uncopyrighted film, on the grounds that what was at issue was "misappropriation," not mere "copying." Flamingo Telefilm Sales, Inc. v. United Artists Corp., 141 U.S.P.Q. (BNA) 461 (N.Y. Sup. Ct.), rev'd on other grounds, 22 A.D.2d 778, 254 N.Y.S.2d 36 (1964). The evolution of the elusive distinction between misappropriation and copying is traced in Note, The "Copying-Misappropriation" Distinction: A False Step in the Development of the Sears-Compco Pre-emption Doctrine, 71 Colum. L. Rev. 1444 (1971).

52 Standard & Poor's Corp. v. Commodity Exch., Inc., 683 F.2d 704 (2d Cir. 1982). For a general introduction to stock market indices, see J. Loam & M. HAMLTON, THE STOCK MARKET 51-69 (1973). A futures contract based on such a market index typically takes the form of an agreement between a "buyer" and a "seller." The buyer promises to pay the seller a certain fixed sum some months hence in return for the seller's promise to pay the buyer an amount based on the prevailing value of the index at that time. The buyer is essentially betting that the market will rise and the seller is betting that it will fall. The loser of the wager pays the other the difference between the predicted value of the index and the actual value.

freedom of state courts (or federal courts looking to state law) to follow INS remains unclear. An earlier version of section 301 at one time specifically listed an INS-style misappropriation action as one that states were free to recognize or not as they pleased. The Justice Department objected that state protection would be inconsistent with the federal balance of incentive and free access. The reference to misappropriation accordingly was stricken from section 301 during floor debates in the House, but only after a confusing exchange in which at least some members of Congress indicated that they thought they were not changing existing law or, by virtue of the amendment, limiting the powers of the states.

The uncertain preemptive effect of section 301 has spawned substantial academic commentary. On its face, section 301 appears to limit the ability of states to develop misappropriation doctrine in some directions, though perhaps not in others. Nevertheless, both the Seventh and Second Circuits have seemed willing to decide in footnotes that section 301 does not limit the INS misappropriation doctrine at all.

Federal preemption problems exist even apart from section 301. If protection is being asserted simply for the formulas used for calculating the stock market indices, state courts may be preempted by federal patent law. A formula (or mathematical algorithm, as the Court typically calls it) is unpatentable if it is unconnected with any industrial process, and is unpatentable in any event if it, like the S&P 500, is insufficiently novel or nonobvious. If an algorithm is unprotected under federal patent law, it is unlikely states can recognize property rights in such a mathematical formula. Federal patent law does leave some role for state law, especially in the area of protecting trade secrets, but states probably cannot grant property rights in an idea that patent law could

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64 See 1 M. Nimmer, NIMMER ON COPYRIGHT § 1.01[B][2][b] (1982); Denicola, supra note 43, at 517 n.7.
65 For discussions of § 301 and its legislative history, see Fetter, Copyright Revision and the Preemption of State “Misappropriation” Law: A Study in Judicial and Congressional Interaction, 27 COPYRIGHT L. SYMPT. (ASCAP) 1, 33-52 (1982); Goldstein, supra note 27, at 1110-23.
66 See 122 CONG. REC. 32,015 (1976).
67 See, e.g., sources cited supra note 55.
68 See Roy Export Co. v. CBS, 672 F.2d 1095, 1106 n.19 (2d Cir.), cert. denied, 103 S. Ct. 60 (1982); United States Trotting Ass’n v. Chicago Downs Ass’n, 655 F.2d 781, 785 n.6 (7th Cir. 1981) (en banc).
cover, but emphatically does not. The logic behind the Court's interpretation of federal patent law—that it embodies the policy that abstract formulas are too fundamental to be possessed by any one exclusively—points squarely towards preemption.

The preemption problem is ultimately inseparable from the question of exactly what it is that the Commodity Exchange is appropriating from Standard & Poor's. The formula for calculating the S&P index is more complicated than the one for calculating the Dow Jones Industrial Average, but it is far from being so sophisticated or so novel that creating it required the expenditure of significant amounts of time, labor, or money. Standard & Poor's does not as much gather information as it rearranges and repackages the information that is generated by the stock market as a whole. Standard & Poor's has to invest some effort in calculating and updating its average, but it would be wrong to think this expenditure is very large or that the Commodity Exchange simply wanted to avoid this expense. The Chicago Board of Trade was equally interested in using the Dow Jones Industrial Average, and updating it requires little more than a ticker-tape and a sixth-grade education.

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63 The Chicago Board of Trade was enjoined from using the Dow Jones Average by an Illinois appellate court, again on the authority of INS. See Board of Trade v. Dow Jones & Co., 108 Ill. App. 3d 681, 439 N.E.2d 526 (1982).

Of all major stock market indices, the Dow Jones Average of 30 Industrials is the most primitive. For an analysis of the Dow Jones Industrial Average, see Rudd, The Revised Dow Jones Industrial Average: New Wine in Old Bottles?, FIN. ANALYSTS J., Nov.-Dec. 1979, at 57. The Dow began in 1897 as the arithmetic average of 12 stocks. The sum of the price of each of the stocks would be divided by 12. By 1928, the number of different companies increased to 30, and since then the method of computing the average has not changed. See J. LORIE & M. HAMILTON, supra note 52, at 60. To adjust the average to account for stock splits, the divisor is recalibrated. The sum of the price of each of the 30 stocks is not divided by 30, but rather by a number (which is now about 1.3) that reflects previous adjustments in the average. A new divisor is chosen after each stock split by finding a new number that, when divided into the sum of the price of all the stocks (including the new price for the stock that split), produces the same number that the index had before the split. If, for example, there were only two stocks in the index and each traded for 10, the divisor would be 2 (because there are two stocks) and the index would be 10. If one stock split two for one, the divisor would change. Since the sum of the stocks after the split (100 + 50 = 150) divided by the new divisor must equal the old value of the index (100), the new divisor must equal 1.5. A similar adjustment in the divisor is made when one of the firms in the average is replaced by another. Substitutions are made, for example, when a represented company files a petition in bankruptcy (as Manville did last summer) or when a company merges with another. See Rudd, supra.

In contrast to the Dow, the S&P 500 seems quite elaborate. For a description of the S&P 500, see J. LORIE & M. HAMILTON, supra note 52, at 62. Standard & Poor's index
Standard & Poor's might argue that the Commodity Exchange is taking advantage of the effort it made to identify the 500 stocks in its index. But Standard & Poor's has selected its stocks with the aim of tracking the performance of stocks in various industries and the performance of the stocks on the New York stock exchange as a whole. Finding stocks whose fluctuations track those of a market, or groups within a market, is not difficult when past performance of all stocks is public knowledge. Creating an index of 500 stocks that would match the movement of the market as well as or even better than the S&P 500 would not be especially difficult. In fact, one would not do much worse if one simply picked the 500 most actively traded stocks, the stocks of the 500 companies with the greatest shareholder equity, or, indeed, 500 stocks at random.

In short, neither the sophistication of the formula, nor the cost of updating the index, nor the difficulty of picking representative stocks explains why the Commodity Exchange wanted to use Standard & Poor's index instead of its own.

The Commodity Exchange was willing to use disclaimers to ensure that consumers were not misled into thinking that Standard & Poor's had lent its name to the futures market in its index. Nevertheless, the Commodity Exchange may have wanted to take advantage of the good will that Standard & Poor's had built up over the years. If the Commodity Exchange were to create its index contains 500 stocks, rather than 30. To reflect stock splits and the like, the value of each stock, rather than a common denominator, is changed. In addition, the importance of each stock in the index turns on the total value of all the outstanding shares of the firm. Thus, a change in the price of AT&T looms larger than a change in the price of Owens-Illinois, because the total value of AT&T's shares is higher. (By contrast, a one-point rise in either AT&T or Owens-Illinois has the same effect on the Dow.) Moreover, stock splits would have no effect on the relative importance of stocks in the S&P 500.

The S&P 500 requires the gathering of more information than the Dow does. Standard & Poor's must keep track of the stock splits, the stock dividends, and the mergers and consolidations of 500 firms. It must multiply, add, and divide more numbers than Dow Jones must to calculate its index, and the calculations (such as changes in the base values for all the stocks in the index) are not as simple as determining the divisor for the Dow Jones average. Nevertheless, once one has all of the necessary information, all of which is publicly available, maintaining the S&P 500 is not difficult, and the techniques employed are not particularly novel.


The price of shares of smaller companies is more volatile than that of the market as a whole or of the S&P 500. Hence, a randomly chosen portfolio would probably be a worse indicator of overall market performance than the S&P 500. Nevertheless, an index that took account of the size of each company (as does the S&P 500) would minimize this effect, and the index, although worse, might not be dramatically worse.

Standard & Poor's Corp. v. Commodity Exch., Inc., 683 F.2d 704, 709 (2d Cir. 1982).
own index, it would have to educate investors as to what its index measured and how it fluctuated. Moreover, it would have to convince consumers that the index would be reliably calculated and that technical adjustments made in it from time to time would not work to their disadvantage. By using the S&P 500, the Commodity Exchange could free ride on the good will and reputation for independence that the index has in the minds of the investing public.

The world would not necessarily be a worse place if Standard & Poor’s rights in the S&P 500 were recognized. Standard & Poor’s, in fact, had already licensed someone else to create a futures market in its index, and recognizing the rights would not deprive the public of the opportunity to enter into such contracts. Recognizing rights to the index, like recognizing any other rights, has both benefits and costs. A futures contract is relatively more expensive (and hence less attractive) if tribute is owed to Standard & Poor’s. In addition, the maker of an index may refuse to allow a futures market in its index at all, as Dow Jones did. On the other hand, the amount of the tribute may be small relative to the size of the transactions, and the barriers to creating one’s own index are not insuperable. Moreover, we may want to compensate the creators of an index for the costs of convincing the public of its reliability.

This case, however, is different from INS in an important respect. INS wanted to use AP’s news, not AP’s name. It was the gathering of the news that cost AP millions of dollars. The value of the news was independent of AP’s reputation for reliable newsgathering. Indeed, INS never told its readers that it was using AP’s news. By contrast, the Commodity Exchange wants to use the S&P 500 because of Standard & Poor’s reputation. It would probably not use this index if consumers did not make the link to Standard & Poor’s.

Standard & Poor’s has invested a lot of resources in disseminating its index and convincing the public that it is a reliable measure of market performance. The question we have to face is whether the Commodity Exchange should be able to free ride on this investment of time, labor, and money. To this question, the law of trademark and unfair competition may provide the common law judge with a starting point, for that intellectual property re-

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** Id.
** INS, 248 U.S. at 242.
gime addresses the question of the extent to which a competitor has a property interest in the reputation he has established in the marketplace. Under traditional trademark and unfair competition doctrine, competitors can always describe the goods they sell, even if such descriptions involve the use of someone else's trademark.70 A cause of action does not lie unless consumers are deceived.

Nothing prevents any company from duplicating Coca-Cola and then telling the public that it produces a soft drink that is identical to "the real thing," even though consumers may in fact buy Coca-Cola or its exact equivalent only because years of advertising by Coca-Cola have convinced them that it tastes better than other cola drinks.71 Telling consumers that one is creating a market in an index calculated like the S&P 500 is much like telling consumers one is selling a beverage made like Coke. The principal question a judge examining Standard & Poor's claim must ask is whether there is in fact a flaw in traditional trademark doctrine or in drawing an analogy to it.

CONCLUSION

Protecting Standard & Poor's does not follow lock-step from recognizing the power of common law judges to discover intellectual property rights in the style of Justice Pitney. The major virtue of allowing common law judges to discover intellectual property rights in the tradition of INS may also be its major vice. Discovering new intellectual property rights forces a judge to confront and reassess first principles. As in INS, a judge may not be forced to choose decisively between a natural rights theory or an economic incentive theory, but this is not to say that the balance is standardless or without subtlety. The common law judge reasons by analogy, and when a new kind of intellectual property dispute confronts him, he must search for analogies in a legal universe that, like all universes in which first principles dot the landscape, is so primitive and so unformed that it is hard to identify clear landmarks.

This problem is not one that has surfaced merely in the new case of stock market indices. One of the most established of the property rights derived from INS—the right of publicity—suffers from a similar confusion. At times, a right of publicity is asserted when what is at issue is a performance, such as a human can-

71 See Smith v. Chanel, Inc., 402 F.2d 562 (9th Cir. 1968).
nonball act, and the appropriate analogy is copyright. At other times, a right of publicity is asserted for the use of someone’s name or likeness in association with the sale of particular goods, such as using a Guy Lombardo look-alike to sell Volkswagens, in which case the appropriate analogy is the law of unfair competition. These analogies do not necessarily resolve these cases nor are they inevitably of equal value in common law intellectual property disputes. Nevertheless, identifying them may be more important than deciding between natural rights and economic incentive theories of intellectual property.
