EXHAUSTION AND THE LIMITS OF REMOTE-CONTROL PROPERTY

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ABSTRACT

In this Article I argue that intellectual property (IP) exhaustion should be understood against the backdrop of a long history of skepticism toward what I call "remote-control" property rights. IP is not the only field of law that gives remote rights-holders the ability to constrain the behavior of other people to use things in their rightful possession. Tangible property law—in particular the law of servitudes—features similar mechanisms, but hems them in with doctrinal limitations. Looking to this body of law helps us more clearly to recognize remote-control property's benefits and costs and, thus, to articulate a rationale for IP exhaustion as a limitation on remote-control IP. At the same time, remote-control IP is special. Restrictions on the use of works of creativity and invention have implications for the promotion of progress of science and the useful arts. It is especially important that such restrictions not be ratcheted up solely at the whim of IP owners attaching labels to embodiments of their works. Nor should such restrictions be left solely to generally applicable commercial law without regard to IP's special policy concerns. Instead, courts and Congress should continue to absorb the wisdom of the common law of tangible property while crafting an IP-specific exhaustion policy that is attentive to the specific costs and benefits of remote-control IP.

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Parts of this Article are adapted from and build upon my other work on related topics. *See* Molly Shaffer Van Houweling, *Exhaustion and Personal Property Servitudes*, *in* RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS (Irene Calboli & Edward Lee eds., 2016); *see also* Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885 (2008); Molly Shaffer Van Houweling, *Cultural Environmentalism and the Constructed Commons*, 70 LAW & CONTEMP. PROBS. 23 (2007); Molly Shaffer Van Houweling, *Touching and Concerning Copyright, Real Property Reasoning in* MDY Industries, Inc. v. Blizzard Entertainment, Inc., 51 SANTA CLARA L. REV. 1063 (2011); Molly Shaffer Van Houweling, *Technology and Tracing Costs: Lessons from Real Property*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 385 (Shyamkrishna Balganesh ed., 2013); Molly S. Van Houweling, *Disciplining the Dead Hand of Copyright: Durational Limits on Remote Control Property*, HARV. J.L. & TECH. (forthcoming 2016).

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INTRODUCTION

The law of intellectual property (IP) exhaustion is rightly informed by a long history of skepticism toward what I call "remote-control property rights." Property rights that give owners the ability to control how other people use assets in their rightful possession are potentially confusing, subject to obsolescence, and sometimes burdensome to third parties. In some cases, these costs can be mitigated in ways that make remote-control property rights beneficial on balance. The evolution of the law of land servitudes—which can be very useful tools for long term land-use planning—demonstrates this possibility. By contrast, longstanding judicial hostility toward personal property servitudes suggests that remote control is not always reasonable.

So what about remote-control IP? The entire logic of this field of law is based on the notion that remote-control property rights can be worthwhile. Every copyright and patent gives its owner some ability to control the use of objects possessed by other people. It prevents possessors of books from reproducing their pages, for example. The theory of IP is that the advantages of this control, in the form of incentives for authorship and invention that promote progress, outweigh the disadvantages. But IP rights are limited. And one of those limitations, the doctrine of exhaustion, operates to constrain the reach of an IP owner's remote control over other people's tangible property.

Generally speaking, exhaustion allows owners of tangible objects embodying IP to use those objects in ways that do not produce additional copies or new works; owners may also transfer the objects they own to others. These activities can benefit tangible property owners, and the property system as a whole, without cutting to the core of IP owners' need to limit ruinous competition. IP exhaustion can thus be understood to maintain IP's balance between remote-control property's benefits and costs.

This balance is often described as one between the rights of IP owners and the personal property rights of the owners of tangible things. The purpose of exhaustion, on this view, is to ensure that IP owners' rights do not unduly interfere with the freedom from remote control that owners of personal property would have in the absence of IP. A variation of this view holds that exhaustion defines the "statutory domain" of IP, ensuring that this specialized statutory body of law does not interfere unnecessarily with generally applicable commercial law.[1] Proponents of both of these views typically suggest that owners of objects embodying IP (e.g., books) should be treated, to the greatest extent possible, the same as owners of objects that do not embody IP (e.g., doorstops).

Here I begin to articulate a third view: exhaustion does not merely ensure that owners of books have most of the same rights as owners of doorstops. In some important cases, it should ensure that owners of books have *more* rights than owners of doorstops. The premise of IP is that books are more important than doorstops. It is thus more important that they be used instead of wasted, preserved instead of destroyed, read with autonomy instead of surveilled, and built upon instead of ignored. Although my focus here will be on copyright, much the same is true for objects embodying patented inventions. In both cases, IP exhaustion can be deployed to give owners of these special objects immunity from the kind of remote control that would constrain the objects' use and diminish their value.

I start with an abridged history of the law and policy of servitudes, explaining how these forms of remote-control property have been somewhat reluctantly enforced when applied to land and largely resisted when applied to chattels. This section explains how concerns about notice and information costs, "dead-hand control," and the "problem of the future," and negative externalities have shaped this evolving body of law. It then explains the historical, doctrinal, and theoretical links between resistance to chattel servitudes and intellectual property exhaustion. Next it reviews several recent strands of scholarship. One strand claims that resistance to chattel servitudes was ill-considered in its heyday and is anachronistic today, and that exhaustion should be revisited in light of this critique. The second strand of scholarship claims that resistance to chattel servitudes reflected legitimate policy concerns that should continue to shape exhaustion doctrine today, and even that exhaustion itself is an evolving common law doctrine. The third, most recent strand argues that exhaustion does not reflect a common law tradition at all but is rather an independent doctrine defined and influenced only by the IP statutes themselves. I conclude with my own arguments about the continued relevance of the policy lessons of personal property servitudes to the future of ex-

1. John F. Duffy & Richard Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 VA. L. REV. 1, 14 (2016).

haustion, and about how exhaustion might transcend its common law origins, leading courts to resist remote control over books even if they enforce remote control over doorstops.

I. A BRIEF HISTORY OF REMOTE-CONTROL PROPERTY

Start by considering a classic passage from Justice Holmes's 1908 concurrence in *White-Smith Music Publishing Co. v. Apollo Co.*,[2] in which he considers that nature of copyright as a property right:

> The notion of property starts, I suppose, from confirmed possession of a tangible object, and consists in the right to exclude others from interference with the more or less free doing with it as one wills. But in copyright property has reached a more abstract expression. The right to exclude is not directed to an object in possession or owned, but is *in vacuo*, so to speak. It restrains the spontaneity of men where, but for it, there would be nothing of any kind to hinder their doing as they saw fit. It is a prohibition of conduct remote from the persons or tangibles of the party having the right. It may be infringed a thousand miles from the owner and without his ever becoming aware of the wrong. It is a right which could not be recognized or endured for more than a limited time and therefore, I may remark, in passing, it is one which hardly can be conceived except as a product of statute, as the authorities now agree.[3]

In drawing the contrast between copyright and paradigmatic possessory property rights in tangible objects, Justice Holmes emphasizes the non-possessory, "in vacuo" nature of copyright.[4] Copyright owners can control strangers from afar, unconnected to any object possessed by the copyright owner. Copyright owners are thus unlike owners of possessory fee simple interests in land, whose rights to exclude generally impact the limited universe of people who come into contact with the physical boundaries of the owner's parcel.

Justice Holmes alludes to another apparent copyright anomaly: although copyright owners are not necessarily possessors, the people whose spontaneity is restrained by copyright *are* typically in possession of tangible objects—books, sheet music, or other manifestations of the copyrighted work.[5] As to these tangible objects, copyright operates not as an instrument of freedom from interference for the possessor, but rather the opposite: an instrument of restraint wielded by strangers—copyright owners—via remote control. Copyright thus strikes Justice Holmes as an odd sort of property right in that instead of liberating people to use their

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2. 209 U.S. 1 (1908), *superseded by statute*, Copyright Act, Pub. L. No. 94-553, § 101, 90 Stat. 2541, 2541–42 (1976) (codified as amended at 17 U.S.C. § 101 (2012)).

3. *Id.* at 19 (Holmes, J., concurring).

4. *See id.*

5. *See id.*

possessions "[i]t restrains [their] spontaneity . . . where, but for it, there would be nothing of any kind to hinder their doing as they saw fit."[6]

Copyright owners' power to control how remote strangers use objects in their possession is not as extraordinary as this passage suggests, however. Of course copyright shares this characteristic with patent and trademark. Beyond IP, copyrights are similar in this regard to a whole set of remote-control property interests that give their owners the right to control use of assets possessed by other people.[7] Servitudes are the most prominent example.

A servitude, which can take the form of an easement, real covenant, or equitable servitude,[8] is a non-possessory property interest that gives its holder the right to use an asset—typically land—in specified ways, or to object to specified uses of it, or to insist on specified behavior connected to it. The asset is encumbered by the servitude, such that the servitude's burdens "run[] with" the asset, "pass[ing] automatically to successive owners or occupiers."[9] Unlike a mere contractual agreement to refrain from operating a gas station in a residential neighborhood, for example, a servitude is enforceable against successors in interest.[10] Therefore, if you grant your neighbor an effective servitude, she will be able to enforce the restriction against you and subsequent owners of your land. The benefit of a servitude connected to land typically runs to successors as well—from your neighbor to the next owner of her house.[11] As Carol Rose puts it, "[t]he greatest overall advantage of servitudes is that they give stability to property arrangements over both time and space."[12]

The stability that servitudes produce can be especially valuable for land-use planning. Land is, of course, immobile and enduring. It is often important for people who invest in land to be able to predict how surrounding land will be used far into the future in order to make investments that will coordinate rather than conflict, with adjacent activities.[13]

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6. *Id.*

7. *See generally* Gerald Korngold, *For Unifying Servitudes and Defeasible Fees: Property Law's Functional Equivalents*, 66 TEX. L. REV. 533 *passim* (1988).

8. The *Restatement* simplifies this traditional three-part classification into two: affirmative easements and covenants running with the land (the latter category including servitudes that had traditionally been classified as negative easements, real covenants, and equitable servitudes). RESTATEMENT (THIRD) OF PROP.: SERVITUDES §§ 1.1–1.4 (AM. LAW INST. 2000).

9. *Id.* § 1.1(1)(a).

10. *Id.* § 5.1.

11. *Id.*

12. Carol M. Rose, *Servitudes*, *in* RESEARCH HANDBOOK ON THE ECONOMICS OF PROPERTY LAW 296–97 (Kenneth Ayotte & Henry E. Smith eds., 2011).

13. *See, e.g.*, Henry Hansmann & Reinier Kraakman, *Property, Contract, and Verification: The Numerus Clausus Problem and the Divisibility of Rights*, 31 J. LEGAL STUD. 373, 407 (2002) ("[T]he spatial fixity of individual parcels of real property causes the value of those parcels to be necessarily dependent on the uses made of neighboring parcels."); Henry Hansmann & Marina Santilli, *Authors' and Artists' Moral Rights: A Comparative Legal and Economic Analysis*, 26 J. LEGAL STUD. 95, 101 (1997) (noting "the potentially large advantages in coordinating the uses of

In recognition of these benefits, courts have long enforced land servitudes and some other varieties of remote-control property rights. Nonetheless, Justice Holmes's contention that property rights with such features could only be the product of statute rings somewhat true. Judges have greeted most non-possessory property rights with suspicion and hemmed them in with doctrinal limitations.[14] Reviewing some of this history and doctrine can help us to understand the challenges posed by intellectual property law's remote-control property rights, as well as the origins of the exhaustion doctrine as a limitation on that remote-control.

A. The Evolution of Land Servitudes

The land-use planning needs of the Industrial Revolution triggered the development of modern Anglo-American servitude law.[15] Increased urban density and the potential for conflicts between neighboring property owners prompted a variety of attempts to coordinate land uses through durable private arrangements.[16] Nineteenth century English courts reacted with ambivalence, however, establishing a complicated scheme of servitude classifications and accompanying doctrinal limitations.[17]

Servitudes came to be classified into the three major categories of easements, real covenants, and equitable servitudes, with each category subject to convoluted rules limiting formation, subject matter, and enforceability.[18] As I describe in prior work,[19] tracing the evolution of modern servitude law reveals several rationales for this type of hostility and the limiting doctrines that it produced. I have organized these rationales into three broad categories: those related to notice and information costs; those related to dead-hand control and other aspects of the "problem of the future";[20] and those related to harmful externalities.[21]

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parcels of property that are, by their nature, bound in a spatial relationship to each other regardless of their separate ownership").

14. *See generally* Molly Shaffer Van Houweling, *The New Servitudes*, 96 GEO. L.J. 885, 891–924 (2008) (documenting pervasive skepticism).

15. Easements existed in Roman law and running covenants were recognized as early as *Spencer's Case*, (1583 KB) 5 Coke 16a, 77 Eng. Rep. 72, in 1583, but "[u]ntil the Industrial Revolution greatly increased the use of servitudes, the common law did not develop a general theory of easements or servitudes." Susan F. French, *Design Proposal for the New Restatement of the Law of Property Servitudes*, 21 U.C. DAVIS L. REV. 1213, 1214 (1988); *see also* Uriel Reichman, *Toward a Unified Concept of Servitudes*, 55 S. CAL. L. REV. 1177, 1183 (1982).

16. *See, e.g.*, A.W.B. SIMPSON, A HISTORY OF THE LAND LAW 262 (2d ed. 1986); French, *supra* note 15, at 1214; James L. Winokur, *The Mixed Blessings of Promissory Servitudes: Toward Optimizing Economic Utility, Individual Liberty, and Personal Identity*, 1989 WIS. L. REV. 1, 13.

17. Van Houweling, *supra* note 14, at 891–905.

18. *See generally* Susan F. French, *Toward a Modern Law of Servitudes: Reweaving the Ancient Strands*, 55 S. CAL. L. REV. 1261 (1982) (reviewing the rules governing the three types of servitudes).

19. See the introductory note for a list of my previous scholarship.

20. I borrow this useful terminology from Julia Mahoney. Julia D. Mahoney, *Perpetual Restrictions on Land and the Problem of the Future*, 88 VA. L. REV. 739 (2002).

21. Carol Rose offers a similar but not identical categorization identifying the concerns as involving information or notice, renegotiability, and value (including third party effects). Rose, *supra* note 12, at 298–305.

B. Notice and Information Costs

Servitudes, like other remote-control property rights, raise special concerns about notice and information costs. Consider the counterfactual: if the person in possession of land necessarily had all rights to control its use, then it would be easy for someone else acquiring possession from that person to understand exactly what they were getting.[22] Where, by contrast, the law recognizes servitudes that allow one person to own and possess the land while someone else has the right to control its use, the newcomer who acquires possession does not automatically know what use rights he has acquired. If servitudes could be imposed to benefit strangers without any doctrines promoting or requiring notice to people acquiring the burdened land, then transfers of possession would be plagued by confusion and/or costly investigation to discover hidden encumbrances. In *Keppell v. Bailey*,[23] one of the seminal nineteenth century English servitude cases,[24] Lord Brougham famously expressed his concern about this possibility.

> [G]reat detriment would arise and much confusion of rights if parties were allowed to invent new modes of holding and enjoying real property, and to impress upon their lands and tenements a peculiar character, which should follow them into all hands, however remote. Every close, every messuage, might thus be held in a several fashion; and it would hardly be possible to know what rights the acquisition of any parcel conferred, or what obligations it imposed.[25]

This kind of hostility toward the rude surprise of remote-control property runs throughout the law and scholarship on servitudes. Courts and commentators agree that servitudes should not generally bind purchasers who acquire land with no notice of the encumbrance and no reasonable opportunity to acquire notice.

The importance of notice is, accordingly, often identified as a rationale for the common law's limitations on servitudes.[26] For example, the "touch and concern" doctrine requires that servitudes have some connection to the land that they burden, and, typically, to a neighboring benefited parcel. The doctrine thus helps to ensure that servitudes will be relatively easy to discover upon physical inspection, and that the owner

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22. *See generally* Hansmann & Kraakman, *supra* note 13, at 384–85 (describing "the rule of possession" and observing that "[t]he advantages of this system are obvious. It is easy to understand, cheap to administer, and generally unambiguous").

23. Keppell v. Bailey (1834) 39 Eng. Rep. 1042.

24. *See* Rose, *supra* note 12, at 298 & n.7 (citing *Keppell* as an example of "nineteenth century judges sharply criticiz[ing servitudes] for stirring confusion about and tying up real estate").

25. *Keppell*, 39 Eng. Rep. at 1049. *Keppell* was superseded to some extent by the landmark case of *Tulk v. Moxhay* discussed below. (1848) 41 Eng. Rep. 1143.

26. *See, e.g.*, French, *supra* note 15, at 1283–86; *see also* Rose, *supra* note 12, at 299.

of the beneficial interest will be relatively easy to identify and locate.[27] By limiting the subject matter of servitudes, the doctrine also shapes and reinforces expectations in a way that limits surprise.[28] In their influential work explaining the role of property standardization in limiting information costs, Thomas Merrill and Henry Smith point to the touch and concern requirement as an example of a doctrinal technique that standardizes servitudes and limits the information costs they impose.[29]

Other doctrines that emerged from the seminal nineteenth century English servitudes case law, including the requirements of appurtenance and horizontal privity, similarly limited servitudes to those that were relatively easy to discover.[30] When the landmark decision of *Tulk v. Moxhay*[31] eliminated the horizontal privity requirement for equitable servitudes, it did so only in cases in which there was actual notice.[32]

Recording acts, which provide for public recording of interests in land and protect bona fide purchasers from some unrecorded encumbrances, represent another notice-facilitating mechanism.[33] There was no comprehensive recording system in England when the seminal nineteenth century servitude cases were decided.[34] There were, however, recording systems in every U.S. state.[35] One might, therefore, have expected courts in the United States to take a more accommodating and less convoluted approach to servitudes. To the contrary, they initially adopted the English categories and many of the corresponding doctrinal limitations. Most of the limitations made their way into the first *Restatement of Property*[36] in 1944 and subsequent case law, despite fierce opposition by those who saw them as anachronistic solutions to a notice problem that no longer existed in the United States, if it ever did.[37]

Criticism of the law's complexity and needless hostility toward certain types of servitudes persisted. Over the course of the twentieth centu-

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27. *See generally* Hansmann & Kraakman, *supra* note 13, at 402 ("Servitudes that meet this [touch and concern] requirement are much easier to verify by physical inspection of the property and its surroundings . . . .").

28. *See generally* French, *supra* note 18, at 1290.

29. Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 YALE L.J. 1, 17 (2000).

30. *See generally* Rose, *supra* note 12, at 299–301; Van Houweling, *supra* note 14, at 893–95.

31. (1848) 41 Eng. Rep. 775.

32. *Id.* at 1144 ("[T]he question is . . . whether a party shall be permitted to use the land in a manner inconsistent with the contract entered into by his vendor, and with notice of which he purchased.").

33. *See* Molly Shaffer Van Houweling, *Land Recording and Copyright Reform*, 28 BERKELEY TECH. L.J. 1497, 1502–03 (2013).

34. JESSE DUKEMINIER ET AL., PROPERTY 888 (8th ed. 2014).

35. *Id.*

36. RESTATEMENT OF PROP. (AM. LAW INST. 1944).

37. Regarding horizontal privity, see CHARLES EDWARD CLARK, REAL COVENANTS AND OTHER INTERESTS WHICH "RUN WITH LAND" 117 (2d ed. 1947). *See also* Lawrence Berger, *A Policy Analysis of Promises Respecting the Use of Land*, 55 MINN. L. REV. 167, 193–95 (1970). On the persistence of limitations in U.S. servitude law "notwithstanding persistent criticism from the academic community," see Merrill & Smith, *supra* note 29, at 16–17.

ry, courts in the United States gradually relaxed some of the most controversial limitations.[38] This evolution was reflected, and perhaps outpaced, by the 2000 *Restatement (Third) of Property*: *Servitudes*, which abandoned the horizontal privity requirement, "touch and concern," and all limitations on benefits held in gross.[39] *Restatement* Reporter Susan French explained in advance of the project that alternative mechanisms for providing notice justified eliminating unnecessary rules: "Servitudes law may be simplified substantially because particular rules designed to give notice are no longer needed. The modern technology of record systems and title search procedures, together with the protection recording acts afford, have made these rules superfluous."[40]

This evolution of servitude doctrine demonstrates, first, that remote-control property comes with special notice and information costs; and, second, that those costs can be addressed with a number of different mechanisms. Subject matter limitations like touch and concern are one mechanism, actual notice requirements as in *Tulk* are another, and recording systems are a third. As we will see when we turn to personal property, the comparative availability of these mechanisms differs across the types of resources that might be burdened by remote-control property rights, and so does the intensity of concerns about notice and information cost problems.

C. The Problem of the Future

Assuring adequate and meaningful notice and minimizing information costs are not the only justifications for standardizing property rights and restricting servitudes. There is another constellation of concerns for which I have borrowed Julia Mahoney's useful term: "the problem of the future."[41] Within this constellation, I include a number of related issues regarding the extent to which enforcement of servitudes undesirably limits the freedom of future generations to manage resources

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38. *See* Rose, *supra* note 12, at 301; Van Houweling, *supra* note 14, at 906, 908.

39. RESTATEMENT (THIRD) OF PROP.: SERVITUDES §§ 2.4, 2.6, 3.2, ch. 2, intro. note, ch. 3, intro. note (AM. LAW INST. 2000).

40. French, *supra* note 15, at 1225; *see also* Richard A. Epstein, *Notice and Freedom of Contract in the Law of Servitudes*, 55 S. CAL. L. REV. 1353, 1358 (1982) ("[W]ith notice secured by recordation, freedom of contract should control."); Hansmann & Kraakman, *supra* note 13, at 407 ("[T]he registries developed for verifying ownership of land . . . [avoid] many of the additional system and nonuser costs that effective verification of these rights would otherwise require."); Merrill & Smith, *supra* note 29, at 40 ("[R]ecording acts . . . lower[] the costs of notice [and are] an alternative method of lowering information costs."). On recording acts generally, see RICHARD R. POWELL, POWELL ON REAL PROPERTY § 82.01 (2005) (Michael Allan Wolf ed., Matthew Bender & Co., Inc. 2015). On marketable title acts, see *id.* § 82.04.

41. Mahoney, *supra* note 20; *see also* Susan F. French, *Perpetual Trusts, Conservation Servitudes, and the Problem of the Future*, 27 CARDOZO L. REV. 2523, 2523 (2006); *cf.* Merrill & Smith, *supra* note 29, at 4–7 (surveying the literature and observing that "[t]he primary candidate for an economic explanation [of the numerus clausus principle] has been the suggestion that the numerus clausus is a device for minimizing the effects of durable property interests on those dealing with assets in the future").

wisely and autonomously.[42] The theme is excessive control by one generation over the freedom and flexibility of the next. The specific concerns are that excessive control will limit autonomy and recreate feudal incidents, impose inefficient land-use choices, and threaten freedom of alienation. These problems arise not only from manipulation of property rights by an earlier generation but also from the transaction costs that make that manipulation difficult to undo. In her classification of concerns about servitudes, Carol Rose groups many of the same problems under the heading "renegotiability."[43]

One feature of servitudes that contributes to these concerns about the future is the aforementioned remoteness between burdened and benefited parties who may be complete strangers, a remoteness that can contribute to the difficulty of renegotiating an obsolete servitude. Another important servitude feature that underlies the problem of the future is durability. Unlike a living party to a contract, a parcel of land that carries its terms with it can interact with generations of people over time, increasing the likelihood that unforeseen circumstances will render those terms obsolete.[44] The problem of the future is further compounded when a servitude arises in a context of rapid and unpredictable change, making unforeseen obsolescence especially likely.[45]

Concerns about the problem of the future resonate with the larger jurisprudence and literature on dead-hand control- in the law of property. A classic statement on dead-hand control comes from Lewis Simes, who argued in his lectures on *Public Policy and the Dead Hand* that "[i]t is socially desirable that the wealth of the world be controlled by its living members and not by the dead."[46] Simes went on to quote Thomas Jefferson, who insisted in a letter to James Madison that "[t]he earth belongs always to the living generation. They may manage it then, and what proceeds from it, as they please during their usufruct."[47]

This preference for the living over the dead is often justified in terms of autonomy and contrasted with feudal serfdom.[48] According to

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42. *See* MARGARET JANE RADIN, REINTERPRETING PROPERTY 112–19 (1993) (discussing ways in which restraints on alienation and servitudes may "enhance[] or inhibit[] freedom or personhood systematically and over time").

43. Rose, *supra* note 12, at 301–03.

44. *See* Stewart E. Sterk, *Foresight and the Law of Servitudes*, 73 CORNELL L. REV. 956, 958–59 (1988); *see also* Glen O. Robinson, *Personal Property Servitudes*, 71 U. CHI. L. REV. 1449, 1489 (2004) ("A restriction on the use (or sale) of Blackacre can limit the use of a valuable resource for a very long time.").

45. *Cf.* Julia D. Mahoney, *The Illusion of Perpetuity and the Preservation of Privately Owned Lands*, 44 NAT. RESOURCES J. 573, 583–84 (2004).

46. LEWIS M. SIMES, PUBLIC POLICY AND THE DEAD HAND 59 (1955).

47. *Id.* (quoting Letter from Thomas Jefferson to James Madison (Sept. 6, 1789), *in* WRITINGS OF THOMAS JEFFERSON 121 (Paul Leicester Ford ed., 1895)).

48. As Uriel Reichman puts it in his discussion of servitudes, "Private property is sanctioned by society not only to promote efficiency, but also to safeguard individual freedom. Servitudes are a kind of private legislation affecting a line of future owners. Limiting such 'legislative powers' . . . eliminates the possibility of creating modern variations of feudal serfdom." Reichman, *supra*

this view, controlling people who are distant in time and space—not family members or contractual privies—is a power associated with government or with undesirable feudal hierarchy. Such control should not be unilaterally imposed by private parties merely on the basis of their property ownership and informed only by their "whim and caprice."[49]

The concern with dead-hand control is also often discussed in utilitarian terms: the land-use choices of previous generations may turn out to be inefficient ones in light of changed circumstances.[50] The mechanism by which dead-hand control limits autonomy or efficiency requires further explanation where voluntary termination of servitudes is allowed by law—as it typically, but not always, is.[51] The potential problem is that transaction costs may block a negotiated solution, even when all affected parties would, in theory, agree to extinguish the unwanted servitude. The current holders of the servitude's beneficial interest may be difficult to identify and locate, and they may be so numerous as to make contact and negotiation infeasible. Defenders of limitations on servitudes often point to this specter of transaction-cost-insulated servitudes as a justification for policies that either constrain the subject matter of servitudes or enable judges to terminate the detrimental ones.[52]

Inefficient but transaction-cost-insulated servitudes represent a species of the anti-commons problem described by Michael Heller with regard to fragmentation of property interests more generally.[53] Servitudes divide rights in a single parcel of land among multiple owners. If it is later desirable to consolidate those rights in order to put the resource to its best use, fragmentation of the property bundle, and the transaction costs involved in re-bundling, can make consolidation difficult. Heller cites restrictions on servitudes among "numerous restraints [that] limit an individual's capacity to break up property bundles too much."[54]

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note 15, at 1233. For a skeptical view, see Gregory S. Alexander, *The Dead Hand and the Law of Trusts in the Nineteenth Century*, 37 STAN. L. REV. 1189, 1258 (1985). *See also* Gregory S. Alexander, *Freedom, Coercion, and the Law of Servitudes*, 73 CORNELL L. REV. 883, 890–92 (1988).

49. Copelan v. Acree Oil Co., 290 S.E.2d 94, 96 (Ga. 1982).

50. Mahoney, *supra* note 20, at 744; *see also* Gerald Korngold, *Privately Held Conservation Servitudes: A Policy Analysis in the Context of in Gross Real Covenants and Easements*, 63 TEX. L. REV. 433, 457 (1984) ("The market response of a future property owner to the future needs of society is likely to be more effective than a past owner's fixed blueprint.").

51. In some states, statutes make it difficult to terminate a conservation easement even if the easement holder agrees. But usually conservation easements, like other types of servitudes, can be voluntarily extinguished by negotiation with the holder of the non-possessory interest. *See generally* ELIZABETH BYERS & KARIN MARCHETTI PONTE, THE CONSERVATION EASEMENT HANDBOOK 195–96 (2005).

52. *See, e.g.*, Reichman, *supra* note 15, at 1233.

53. Michael A. Heller, *The Tragedy of the Anticommons: Property in the Transition from Marx to Markets*, 111 HARV. L. REV. 621, 660–67 (1998).

54. *Id.* at 664. *See generally* Ben W.F. Depoorter & Francesco Parisi, *Fragmentation of Property Rights: A Functional Interpretation of the Law of Servitudes*, 3 GLOBAL JURIST FRONTIERS 1, 18–23 (2003); Francesco Parisi, *Entropy in Property*, 50 AM. J. COMP. L. 595, 626–29 (2002).

Heller's concern with fragmentation offers an interesting way to think about the classic but under-theorized concern with restraints on alienation, which is also often cited as a rationale for limiting servitudes.[55] Many legal mechanisms that are criticized for restraining alienation do not, in fact, directly restrain transfer. They merely limit the rights that can be acquired from any single owner. So a subsequent user who wants to reassemble property rights into a useful bundle must tackle the transaction costs involved in multiple negotiations. Often the problem is not so much restraint on alienation as restraint on acquisition: every individual stick in the property can be sold; the difficulty is in buying a bundle that is useful to own.

These various concerns associated with the problem of the future have long motivated common-law restrictions on servitudes.[56] And contemporary property theorists point to them to justify a variety of doctrines that serve to standardize and consolidate property rights.[57]

As with the problem of notice, however, multiple mechanisms could be employed to address the problem of the future. The view adopted by the current *Restatement* is that concerns with the future are best addressed in the future by marketable title acts and by doctrines that allow judicial modification or termination of obsolete servitudes instead of through doctrines that limit servitude subject matter ex ante.[58] The *Restatement* uses the availability of these alternative approaches to justify discarding the common law rules, like touch and concern, that addressed the problem of the future indirectly.[59]

Although the mechanisms used to address the issue have shifted over time, it is clear that the problem of the future is a recurring justification for servitude skepticism. As with the problems of notice and information costs, it is a problem that is endemic to durable remote-control property rights but one that can be alleviated using a variety of doctrinal techniques.

D. Externalities

A final set of problems often associated with servitudes involves their impact on third parties. Restrictions that run with land can impose

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55. On the role of restraints on alienation as a rationale for the law's general tendency to standardize property rights, see Merrill & Smith, *supra* note 29, at 24. Merrill and Smith also note the connection to fragmentation, arguing that the theory that the numerus clausus is "a doctrine designed to prevent undue restraints on alienation . . . implicitly rests on concern about fragmentation." *Id.* at 52.

56. *See generally* Van Houweling, *supra* note 14, at 904.

57. *See, e.g.*, Reichman, *supra* note 15, at 1232–33.

58. *See* RESTATEMENT (THIRD) OF PROP.: SERVITUDES ch. 3, intro. note (AM. LAW INST. 2000).

59. *See id.*

significant and harmful externalities.[60] Both the problem of the future and the problem of notice can be understood, at least in part, as externality problems. Inadequate or costly information about the nature of property rights in a specific parcel of land can produce confusion about property rights more generally. When one landowner's parcel is burdened by a strange and confusing covenant, the rest of the neighborhood's residents may become concerned and confused about the nature of their own rights. They bear an information-cost externality, to use Merrill and Smith's terminology.[61] Similarly, the costs imposed by servitudes that will burden future generations in unpredictable ways may not be accounted for in today's land transactions.

There are additional categories of externalities that have generated servitude skepticism. A servitude that prohibits land from being used in a way that subjects a neighboring business to competition, for example, may harm third-party competitors and consumers.[62] A racially-restrictive covenant may harm third parties who suffer its discriminatory impact.[63] The third-party effects of servitudes are likely to be especially pronounced—compared, for example, to the third-party effects of bilateral contracts imposing similar restrictions—because of the features of remoteness and durability. Servitudes can reach out over time and space in a way that tends, in general, to expand their impact and to intensify the externality problem.[64]

In addition to its other functions, the touch and concern requirement has sometimes seemed like a catch-all, doctrinal hook used by courts to weed out servitudes that impose harmful externalities.[65] The *Restatement* opts to address such harms more directly, by invalidating those servitudes that "violate public policy" because, for example, they are "arbitrary, spiteful, or capricious," or "unreasonably burden[] a fundamental

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60. *See, e.g.*, Stewart E. Sterk, *Freedom from Freedom of Contract: The Enduring Value of Servitude Restrictions*, 70 IOWA L. REV. 615, 617 (1985).

61. Merrill & Smith, *supra* note 29, at 8–9 ("The existence of unusual property rights increases the cost of processing information about all property rights. Those creating or transferring idiosyncratic property rights cannot always be expected to take these increases in measurement costs fully into account, making them a true externality.").

62. *See, e.g.*, Sterk, *supra* note 60, at 622; *cf.* Norcross v. James, 2 N.E. 946, 949 (Mass. 1885) (using the touch and concern doctrine to invalidate running covenant against competition), *overruled by* Whitinsville Plaza, Inc. v. Kotseas, 390 N.E.2d 243, 246–49 (Mass. 1979). *See generally* Susan F. French, *Can Covenants Not to Sue, Covenants Against Competition and Spite Covenants Run with Land? Comparing Results Under the Touch or Concern Doctrine and the Restatement Third, Property (Servitudes)*, 38 REAL PROP. PROB. & TR. J. 267, 280–90 (2003) (reviewing two cases concerning whether covenants against competition run with the land).

63. *E.g.*, Shelley v. Kraemer, 334 U.S. 1, 20 (1948).

64. Contracts that happen to affect many third parties might trigger the same level of concern. *Cf.* Richard A. Epstein, *Covenants and Constitutions*, 73 CORNELL L. REV. 906, 917 (1988); Merrill & Smith, *supra* note 29, at 57.

65. RESTATEMENT (THIRD) OF PROP.: SERVITUDES § 3.1 (AM. LAW INST. 2000).

constitutional right," or "impose[] an unreasonable restraint on trade or competition."[66]

As we will see, the externality problem is one that features prominently in the analysis of whether, and how the law of servitudes, and its limiting doctrines, should be applied outside of the land context.

E. Personal Property Servitudes

The gradual erosion of traditional limitations on land servitudes can be explained in part by the development of alternative methods for ensuring notice, by the adoption of ex-post solutions to the problem of the future, and by the replacement of vague requirements like touch and concern with more focused doctrines addressing specific types of harmful externalities caused by certain types of servitudes. During the course of this evolution, property owners, commentators, and occasionally courts have raised the question whether property doctrines that increasingly accommodated land servitudes could also be applied to enforce running restrictions attached to items of personal property.

English equity courts initially extended the equitable servitude reasoning of *Tulk* to personal property, holding in *De Mattos v. Gibson*,[67] in 1859, that the principle applied "alike . . . to movable and immovable property."[68] But in the early twentieth century, English courts stepped back from this position, holding instead, in *Taddy & Co. v. Sterious & Co.*, that a manufacturer's resale conditions attached to product packages "do not run with goods, and cannot be imposed upon them. Subsequent purchasers, therefore, do not take subject to any conditions which the Court can enforce."[69]

In several early twentieth century cases, U.S. courts similarly refused to enforce running restrictions that imposed resale conditions on chattels. *John D. Park & Sons Co. v. Hartman*[70] involved a manufacturer of unpatented medicine who attempted to fix retail prices by only selling to wholesalers who agreed to sell only to approved retailers who had agreed to the manufacturer's minimum prices. The defendant, a retailer

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66. *Id.*

67. (1859) 45 Eng. Rep. 108.

68. *Id.* at 110; *see also* SIMPSON, *supra* note 16, at 259; Zechariah Chafee, Jr., *Equitable Servitudes on Chattels*, 41 HARV. L. REV. 945, 953–54 (1928); Andrew Tettenborn, *Covenants, Privity of Contract, and the Purchaser of Personal Property*, 41 CAMBRIDGE L.J. 58, 58–59 (1982).

69. [1904] 1 Ch 354 at 358 (Eng). In a subsequent case, Lord Justice Vaughan Williams declared Taddy "perfectly right." McGruther v. Pitcher [1904] 2 Ch 306, 309 (Eng.). Lord Justice Romer elaborated that

> A vendor cannot . . . by printing the so-called condition upon some part of the goods or on the case containing them, say that every subsequent purchaser of the goods is bound to comply with the condition, so that if he does not comply with the condition he can be sued by the original vendor. That is clearly wrong. You cannot in that way make conditions run with goods.

Id. at 311.

70. 153 F. 24 (6th Cir. 1907).

who was not on the manufacturer's approved list, nonetheless managed to acquire a supply of the medicine, which it sold for less than the minimum price despite having knowledge of the minimum price regime.[71] The manufacturer apparently cited *De Mattos* "to support the notion that a covenant may attach to chattels which pass by delivery from hand to hand and bring any one who buys with notice under the restrictions against a resale at less than a dictated price."[72] Judge—later Justice—Lurton rejected that proposition instead citing contrary cases, including *Taddy*, and declared sweepingly that:

> It is . . . a general rule of the common law that a contract restricting the use or controlling subsales cannot be annexed to a chattel so as to follow the article and obligate the subpurchaser by operation of notice. A covenant which may be valid and run with land will not run with or attach to a mere chattel.[73]

In *Dr. Miles Medical Co. v. John D. Park & Sons Co.*,[74] the U.S. Supreme Court considered the enforceability of a similar price-fixing scheme, explaining that "[t]he basis of the argument appears to be that, as the manufacturer may make and sell, or not, as he chooses, he may affix conditions as to the use of the article or as to the prices at which purchasers may dispose of it."[75] Like its predecessors, the Court rejected this chattel servitude logic: "Whatever right the manufacturer may have to project his control beyond his own sales must depend not upon an inherent power incident to production and original ownership, but upon agreement."[76]

These and similar cases are the bases for the conventional wisdom among academic commentators that chattel servitudes, while not unheard of, are much less likely to be enforced than land servitudes.[77] Commentators are less uniform in their assessment of whether, and if so why, this should be the case.

Contemporary scholarship about personal property servitudes owes a debt to two foundational articles by Zechariah Chafee.[78] In 1928, Chafee provided a comprehensive analysis of the topic in *Equitable Ser-*

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71. *Id.* at 25.
72. *Id.* at 40.
73. *Id.* at 39.
74. 220 U.S. 373 (1911), *overruled by* Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 551 U.S. 877 (2007).
75. *Id.* at 404.
76. *Id.* at 405.
77. Hansmann & Kraakman, *supra* note 13, at 407 (noting that the law "makes it much simpler to establish partial rights in real property than in personal property"); Merrill & Smith, *supra* note 29, at 18 ("[A]lthough the case law is rather thin, it . . . appears that one cannot create servitudes in personal property.").
78. *See* Chaffee, *supra* note 68; Zechariah Chafee, Jr., *The Music Goes Round and Round: Equitable Servitudes and Chattels*, 69 HARV. L. REV. 1250 (1956).

vitudes on Chattels.[79] The article surveys the case law, based on which Chafee observed that "[i]n view of these decisions it might well be maintained that the doctrine of equitable servitudes on chattels has been effectively killed by the courts . . . ."[80] But Chafee found the courts' reasoning conclusory and unpersuasive.[81] Further, he observed that most of the cases involved restrictions that restrained trade in one way or another by, for example, fixing prices, tying goods, or dividing territories—leaving open the question of the validity of restrictions not subject to that objection.[82] In the meantime, manufactures continued to attempt to impose restrictions, suggesting a live question.[83] So Chafee went on to consider and evaluate normative arguments in favor and against enforcing chattel servitudes.[84]

I will describe some of Chafee's specific arguments below. For now, suffice it to say that he found servitudes attached to personal property more likely to be costly and less likely to be necessary than land servitudes.[85] Although he was unwilling to condemn chattel servitudes across the board, he put the burden on anyone seeking to enforce a running restriction on a chattel to show that theirs was a special case in which the benefits outweighed the costs, or that something in the business or legal environment had changed so dramatically as to make chattel servitudes desirable in general.[86] Chafee did not think that the time for enforceable chattel servitudes had come, as a general matter, in 1928, nor when he revisited the question in 1956.[87]

Some contemporary commentators argue that the time for chattel servitudes has now come. Referring to Chafee's 1928 article and his 1956 second thoughts, Glen Robinson argues in his 2004 article *Personal Property Servitudes* that: "Nearly a half century later, there is reason to entertain third thoughts on the matter despite the general disposition of

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79. Chafee, *supra* note 68.

80. *Id.* at 955.

81. For example, as to the oft-recited policy in favor of free alienation, Chafee observed that restraints on the alienation of land "were also regarded as objectionable at common law" and yet cases like *Tulk v. Moxhay* enforced use restrictions that made land less alienable as a practical matter. *Id.* at 982–83. So "[j]ust as modern needs have brought equitable restrictions on land, of which the old common law knew nothing, into existence, they may also call for a limited departure from the free transfer of chattels for the sake of promoting desirable business practices wholly strange to Coke's day." *Id.*

82. *Id.* at 1007 ("In many situations where manufacturers have endeavored to employ this device, the courts have refused to allow them to do so because it would unreasonably restrain trade. However, it seems possible that restrictions on the area and the form of resale may not always be open to such an objection.").

83. *Id.* at 956 ("[T]he wide prevalence of these restrictions in business practice indicates that they embody a strong and definite commercial policy which, despite its previous checkered career, may eventually succeed in obtaining judicial recognition, perhaps with legislative aid.").

84. *Id.* at 960–1013.

85. *Id.* at 1011–13.

86. *Id.* at 1013.

87. Chafee, *supra* note 78, at 1263–64.

courts and commentators to be content with Chafee's judgment."[88] Robinson suggests that personal property servitudes should be enforceable as a general matter, with any concerns about restrictions featuring anti-competitive terms left to be addressed by antitrust law, now more mature than it was when the early twentieth century chattel servitude cases were decided.[89]

In 2007, I took up the question myself, arguing—contra Robinson—that judicial skepticism is justified by a somewhat different mix of the concerns with notice and information costs, dead-hand control over the future, and externalities that motivated skepticism of land servitudes.[90]

This renewed interest in chattel servitudes is due in part to the historical, doctrinal, and theoretical connections with current controversies about the scope of IP exhaustion, as the next section explains.

II. SERVITUDES AND THE COMMON LAW ORIGINS OF INTELLECTUAL PROPERTY EXHAUSTION

In the midst of early twentieth century cases questioning the enforceability of chattel servitudes as a general matter, several cases arose that posed an added complication: the chattels in question embodied copyrighted works or patented inventions. Against the backdrop of courts refusing to enforce servitudes on ordinary chattels, IP owners argued that their exclusive rights should give them extra power to control downstream resale and use of the embodiments of their intangible property.

The seminal case taking up this question in the copyright context was *Bobbs-Merrill Co. v. Straus*,[91] in which a book publisher attempted to enforce this restriction printed inside books: "The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright."[92]

The Second Circuit understood this as an "attempt of an owner of an ordinary chattel to impose by contract restrictions upon its use or sale binding upon third parties, and which, it is claimed, may operate as a sort of ambulatory covenant annexed to the chattel."[93] The court rejected that attempt, albeit rather timidly in light of the conflicting case law it cited on the topic, including both *De Mattos* and *Taddy & Co*.[94]

But the plaintiff in *Bobbs-Merrill* did not rely exclusively on the equitable servitude notion from *De Mattos*. It also argued that, as the

88. Robinson, *supra* note 44, at 1451.
89. *Id.* at 1494–1515.
90. Van Houweling, *supra* note 14, at 949.
91. Bobbs-Merrill Co. v. Straus (*Bobbs-Merrill I*), 147 F. 15 (2d Cir. 1906), *aff'd*, 210 U.S. 339 (1908).
92. *Id.* at 17.
93. *Id.* at 24.
94. *Id.* at 25–28.

copyright holder, it had an exclusive right to "vend" the copyrighted work embodied in its books.[95] By distributing books subject to restrictive terms, it was granting purchasers only a conditional license to exercise that vending right; vending outside the terms of that license—that is, selling books for less than one dollar—therefore amounted to copyright infringement.[96] The Copyright Act, according to this logic, provides a mechanism for imposing running restrictions on chattels that the common law lacks. The Second Circuit rejected that argument, and the Supreme Court affirmed.[97]

On this point, both *Bobbs-Merrill* opinions purport merely to interpret the language of the Copyright Act, concluding that the right to vend granted in the Act is exhausted as to a given copy of a copyrighted work once that copy is sold.[98] But the reasonableness of that interpretation gains strength from the notion that to interpret the right to vend beyond the first sale would do violence to the common law.[99] For example, the Supreme Court's opinion notes with apparent alarm:

> What the complainant contends for embraces not only the right to sell the copies, but to qualify the title of a future purchaser by the reservation of the right to have the remedies of the statute against an infringer because of the printed notice of its purpose so to do unless the purchaser sells at a price fixed in the notice.[100]

The Court refused to interpret the Copyright Act to include such a right.[101] Although—unlike the Second Circuit—it did not cite *Taddy & Co.* or any other cases addressing chattel servitudes, the Court's narrow interpretation of the vending right suggests an undercurrent of hostility toward running restrictions on chattels that made it difficult to persuade the Court that Congress intended to part ways with the common law.[102]

Of course, the statutory rights granted to copyright holders supersede the hostility to running restrictions to some extent: there are some

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95. *Id.* at 17.

96. *Id.*

97. Bobbs-Merrill Co. v. Straus (*Bobbs-Merrill II*), 210 U.S. 339, 351 (1908).

98. *See id.* at 350 ("It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it."); *Bobbs-Merrill I*, 147 F. at 22 ("If the statutory owner desires after publication to control the lawfully published copies, such control can only be secured by means of positive contract or conditions . . . .").

99. *Cf. Bobbs-Merrill I*, 147 F. at 20 ("The law of copyright also gives privileges to authors and publishers that do not pertain to property which anybody may make and sell if he can; but even under the law of copyright, when the owner of a copyright and of a particular copy of a book to which it pertains, has parted with all his title to the book, and has conferred an absolute title to it upon a purchaser, he cannot restrict the right of alienation, which is one of the incidents of ownership in personal property." (quoting Garst v. Hall & Lyon Co., 61 N.E. 219, 220 (Mass. 1901))); Joseph P. Liu, *Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 WM. & MARY L. REV. 1245, 1248–49 (2001).

100. *Bobbs-Merrill II*, 210 U.S. at 351.

101. *See id.*

102. *See id. See generally* Robinson, *supra* note 44, at 1464–81 (describing links between the first sale doctrine and common law principles).

things that the owner of a copyright-embodying chattel is not permitted to do with it—for example, reproduce each of its pages—on account of the non-possessory intellectual property rights created by copyright. But *Bobbs-Merrill* and, later, the statutory codification of the "first sale" doctrine,[103] articulates one limit on even a copyright holder's power to impose running restrictions on personal property.

In the patent context, the Supreme Court initially accepted the idea that a patent owner's right to control "use" of a chattel embodying his invention could be leveraged into the type of running restriction that would not be enforced on a non-patented article. In *Henry v. A.B. Dick Co.*,[104] the Court held that a patent owner could use an express, conditional license to impose a running restriction on a chattel embodying a patented invention against a purchaser with notice;[105] specifically, the Court enforced a restriction stamped on a mimeograph machine that said: "This machine is sold by the A.B. Dick Company, with the license restriction that it may be used only with the stencil, paper, ink, and other supplies made by A.B. Dick Company."[106]

Justice Lurton, who had rejected the notion of a use restriction "annexed to a chattel" in *John D. Park & Sons v. Hartman*,[107] explained that the patent law, unlike the common law of personal property[108] and unlike copyright, separates ownership of a chattel from the right to use that chattel, and that the right to use can be granted conditionally so as to allow use subject to running restrictions.[109] The opinion suggested that other restrictions, even resale price-fixing restrictions of the type rejected in *Dr. Miles* and *Bobbs-Merrill*, could be enforced via an express restriction imposed by a patent holder against a chattel owner with notice.[110] Indeed, Justice Lurton cited an English case,[111] *Incandescent Gas Light Co. v. Cantelo*,[112] which held that a patentee's restrictive terms were enforceable with notice and that "[i]t does not matter how unreasonable or how absurd the conditions are."[113]

But the distinction that Justice Lurton drew between common law chattel servitudes and running restrictions imposed via patent law on the use of chattels embodying patented inventions was short-lived. One year later, the Court refused to enforce express retail price limitations printed

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103. 17 U.S.C. § 109 (2012).
104. 224 U.S. 1 (1912), *overruled in part by* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).
105. *Id.* at 24–25.
106. *Id.* at 25–26.
107. 153 F. 24 (1907).
108. *A.B. Dick*, 224 U.S. at 18–19.
109. *Id.* at 44–45.
110. *See id.* at 26.
111. *Id.* at 40.
112. (1895) 12 Rep. Pat. Cas. 262 (QB) (UK).
113. *Id.* at 264.

on packaging for patented medicine in *Bauer & Cie. v. O'Donnell*.[114] The Court confirmed the *Bauer* result in *Straus v. Victor Talking Machine Co.*[115] refusing to enforce price restrictions attached to patented record players.[116] In *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*,[117] the Court expressly overruled *A.B. Dick*, refusing to enforce a trying restriction imposed via a label on a movie projector.[118]

My claim here is not that these seminal cases establishing the doctrines of copyright and patent exhaustion were mere application of a common law prohibition on chattel servitudes. They were primarily exercises in statutory interpretation, determining the meaning of the exclusive rights to vend copies of copyrighted works and to use and sell articles embodying patented inventions. But these exercises in statutory interpretation were conducted in the shadow of the common law hostility to chattel servitudes, which made the question of statutory interpretation partly whether Congress had spoken clearly enough to invade what would otherwise be the province of the common law and to validate a legal mechanism that the common law had rejected.[119]

III. CONTEMPORARY CRITIQUES

The contemporary commentary on personal property servitudes has been motivated in part by controversies about the scope of IP exhaustion, with its historical and doctrinal connection to the servitude case law. Among the most pressing questions is whether exhaustion is a default rule that IP owners can avoid merely by attaching restrictive labels to objects embodying their IP, or by characterizing distribution of those objects as "licenses" rather than sales.[120] The commentators who address this and related questions come to dramatically different conclusions about the implications of the chattel-servitude connection.[121]

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114. 229 U.S. 1, 17 (1913).

115. 243 U.S. 490 (1917).

116. *Id.* at 501 (concluding that the case fell "within the principles of" *Bauer*, 229 U.S. at 16, and Adams v. Burke, 84 U.S. 453, 456 (1873)).

117. 243 U.S. 502 (1917).

118. *Id.* at 518–19; *see also* Mallinckrodt, Inc. v. Medipart, Inc., No. 89 C 4524, 1990 WL 19535, at *5 (N.D. Ill. Feb. 16, 1990), *rev'd*, 976 F.2d 700 (Fed. Cir. 1992).

119. *See* Isbrandtsen Co. v. Johnson, 343 U.S. 779, 783 (1952) ("Statutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident."); *cf.* Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1353 (2013) ("'[W]hen a statute covers an issue previously governed by the common law,' it is presumed that 'Congress intended to retain the substance of the common law.'" (quoting Samantar v. Yousuf, 560 U.S. 305, 329 n.13 (2010))).

120. *See, e.g.*, Lexmark Int'l, Inc. v. Impression Prods., Inc., 816 F.3d 721, 726 (Fed. Cir. 2016) (holding that patent exhaustion is defeated by a clearly communicated single use/no-resale restriction); *id*. at 778 (Dyk, J., dissenting) ("The patent exhaustion doctrine . . . admits of no exception.").

121. *See infra* notes 125–39 and accompanying text.

As noted above, Glen Robinson finds arguments against enforcement of chattel servitudes unpersuasive.[122] He contends that the doctrinal prohibition should be abandoned and that chattel servitudes should be enforced much as land servitudes are.[123] Because Robinson sees IP exhaustion as sharing the same origins and logic as the ban on chattel servitudes, he suggests that exhaustion should not operate to invalidate IP-owner-imposed restrictions on use and resale, which should generally be enforceable with both IP and state law remedies.[124]

In their work on copyright exhaustion, Aaron Perzanowski and Jason Schultz also emphasize the common law origins of the IP exhaustion concept, but their origin story is somewhat different.[125] They point not only to the common law's general hostility to chattel servitudes[126] but also to common law reasoning within copyright itself: cases preceding the seminal chattel-servitude decisions in which judges permitted downstream owners of copyrighted works to do a variety of things without the authority of copyright owners.[127] They argue that the justifications motivating this common law reasoning should continue to shape the law of copyright exhaustion in the courts, even beyond the codification of copyright first sale as a specific limitation on the rights of distribution and display.[128] In addition, Perzanowski and Schultz harness the common law rationales for exhaustion to resist attempts by copyright owners to avoid exhaustion by re-characterizing sales as licenses.[129] Beyond that, they argue that the user privileges associated with exhaustion should sometimes extend beyond owners of tangible copies in a digital age in which such copies are increasingly irrelevant.[130]

In a recent contribution to this debate, John Duffy and Richard Hynes make a break with those who trace the origins of exhaustion to the common law of either chattel servitudes or IP.[131] They argue instead that the doctrine is exclusively a matter of statutory interpretation.[132] Its only connection to the law of chattel servitudes is as a "boundary doctrine"

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122. *See supra* note 88 and accompanying text.

123. *See generally* Robinson, *supra* note 44.

124. *See id.* at 1505 (approving of the result in Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1089 (N.D. Cal. 2000), which held that the doctrine of first sale did not apply to a software licensing agreement that granted end users with a right to use the software but did not transfer title).

125. *See generally* Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011).

126. *Id.* at 910–11.

127. *See id.* at 910–12.

128. *Id.* at 912–18.

129. Aaron Perzanowski & Jason Schultz, *Reconciling Intellectual and Personal Property*, 90 NOTRE DAME L. REV. 1211, 1221–22 (2015).

130. *Id.* at 1256 ("Copy ownership, as currently construed by courts in software cases, is no longer a useful benchmark for identifying the relationship between the consumer and the work that triggers exhaustion.").

131. Duffy & Hynes, *supra* note 1, at 36.

132. *Id.*

that prevents IP law from interfering more than Congress intended with generally applicable commercial law.[133] As to the substance of that commercial law, Duffy and Hynes point out that distributors of chattels, including chattels embodying IP, can in fact impose running restrictions by complying with the Uniform Commercial Code's rules governing secured transactions.[134] They argue that IP owners should also be able to seek contractual, but not IP, remedies against users who violate terms attached to IP embodiments.[135] This is not to say, however, that exhaustion lacks teeth. Duffy and Hynes point out that the notice and other formal requirements of these bodies of state law are more onerous, and the remedies less generous, than those of IP.[136]

My own view is that the information costs, problems of the future, and externalities that long motivated doctrinal restrictions on land servitudes are all the more relevant to both chattel servitudes and IP. Consider notice and information costs, including the costs involved in identifying and locating servitude beneficiaries for the purposes of renegotiating.[137] Notice and information costs are minimized for land servitudes by recording systems, but no comprehensive recording system exists for chattels outside of the secured transactions context. And recording of IP is notoriously imperfect. When IP owners are permitted to impose running restrictions notwithstanding exhaustion, the ultimate recipient of the burdened object may be remote in time and place, with little hope of identifying and communicating with the current owner of the IP right for purposes of renegotiating the restriction once it becomes obsolete. This is, of course, a problem that plagues remote-control IP rights generally, including the core rights of reproducing copies of copyrighted works and making patented inventions. But at least with regard to the generally inexhaustible rights of reproduction and making, there is a strong case that the benefits gained by the remote-control property rights outweigh the costs imposed, as where land servitudes are enforced to serve important land-use planning goals. That is the basic logic of IP protection: the incentive effect relies on IP owners controlling the proliferation of embodiments that might compete in the marketplace with their authorized embodiments.[138] That type of control limits the ruinous competition that could make it impossible for at least some creators and inventors to garner returns on their investments. It is much less clear that adequate incen-

133. *Id.* at 36.
134. *Id.* at 60–64.
135. *Id.* at 8–9, 58–60.
136. *Id.* at 58–64 (discussing contract remedies and security interest notice requirements).
137. Molly Shaffer Van Houweling, *Technology and Tracing Costs: Lessons from Real Property*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 385 (Shyamkrishna Balganesh ed., 2013). Guy Rub also emphasizes these costs in his recent work on copyright exhaustion. Guy A. Rub, *Rebalancing Copyright Exhaustion*, 64 EMORY L.J. 741, 788–89 (2015).
138. *Cf.* Perzanowski & Schultz, *supra* note 125, at 915 ("Of course, title to a copy cannot confer on its owner an unbounded privilege to reproduce the work. Complete exhaustion of the reproduction right would undermine the incentive structure at the heart of copyright law.").

tives depend on IP owners' ability to control downstream use and transfer of authorized embodiments.[139]

Furthermore, remote-control IP prompts concerns apart from those related to notice and information costs. There is a special version of the problem of the future that looms large here. The health of the intellectual property system relies on a rich public domain, which depends in part on the expiration of IP rights after "limited times." But the public domain will not fuel future creativity and innovation if the works destined for the public domain do not survive the period of exclusive rights. If IP owners could exercise continued remote control over all manifestations of their works and inventions, that control could curtail the ability of others to preserve those works for future generations.

Perhaps most importantly, access to, preservation of, and autonomous enjoyment of works of IP generate spillover benefits for third parties. If exhaustion could easily be evaded by private ordering, it would effectively impose negative externalities on those beneficiaries of the IP system.

So, to me, the argument for exhaustion stems in part from the costs that are imposed by chattel servitudes generally, in part from costs specific to the IP context, and in part from the lack of justification for enduring those costs, except in the limited circumstances in which creators' and inventors' incentives would be undermined in a way that inhibits progress in science and the useful arts.[140] The proper reach of the exhaustion doctrine is thus a question for IP policy—in Congress and the courts—not for IP owners unilaterally deciding that exhaustion should not apply to them, either by unilaterally placing post-sale conditions, recharacterizing sales as licenses, or imposing nominally contractual restrictions that are so adhesive and ubiquitous that they function like property rights.[141] Exhaustion should be subject to relaxation only if information costs problems are addressed.[142] Even then, there should be a screen, akin to the touch and concern requirement,[143] that would help

139. *See* Kirtsaeng v. John Wiley & Sons, Inc., 133 S. Ct. 1351, 1371 (2013) ("[T]he Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain."). *See generally* Ariel Katz, *The First Sale Doctrine and the Economics of Post-Sale Restraints*, 2014 BYU L. REV. 55, 57–60.

140. *Cf.* Katz, *supra* note 139, at 99–100 ("[T]he marginal benefit from having enforceable restraints diminishes as we move along the vectors of distance and time. At the same time, the marginal social costs associated with goods encumbered by restraints could easily increase over distance and time because any use inconsistent with the restraint would require the IP owners' permission, yet the cost of obtaining such permission could easily increase over time and distance.").

141. *See generally* Van Houweling, *supra* note 14, at 934–35. *But see* Lexmark Int'l, Inc. v. Impression Prods., Inc., 816 F.3d 721, 726 (Fed. Cir. 2016) (holding that clearly communicated post-sale restrictions may be enforced under patent law).

142. *See generally* Van Houweling, *supra* note 137.

143. *See* Molly Shaffer Van Houweling, *Touching and Concerning Copyright: Real Property Reasoning in* MDY Industries, Inc. v. Blizzard Entertainment, Inc., 51 SANTA CLARA L. REV. 1063, 1079–80 (2011).

ensure that running restrictions on objects embodying IP promote progress rather than imposing negative externalities. These negative externalities could include waste of physical resources, destruction of cultural heritage, and diminution of opportunities for innovation and expression.[144] If running restrictions promote progress, but only in the short term, or only when enforced against intermediaries but not end-users, then they should be subject to durational limits or a changed circumstances doctrine designed to address the problem of the future.[145]

CONCLUSION

IP exhaustion should be understood against the backdrop of a long history of skepticism toward what I call remote-control property rights. Where IP owners try to exercise remote control over uses and transfers that do not cut to the core of their need to limit ruinous competition, exhaustion can step in to maintain IP's balance between remote-control property's benefits and costs. These costs and benefits are not just a matter of concern to IP owners and users: like the costs associated with personal property servitudes, they have implications for a property system that is beset by high information costs, for future generations burdened by obsolete restrictions, and for third parties harmed by other externalities.

Although looking to the law of tangible property helps us to recognize these costs, we should also keep in mind their unique character in the IP context. Restrictions on the use of works of creativity and invention have implications for the promotion of progress of science and the useful arts. Therefore, they should not be ratcheted up solely at the whim of IP owners attaching labels to embodiments of their works. Nor should they be left solely to generally applicable commercial law without regard to IP's special policy concerns. Instead, courts and Congress should continue to absorb the wisdom of the common law of tangible property while crafting an IP-specific exhaustion policy that is attentive to the specific costs and benefits of remote-control IP.

144. Katz, *supra* note 139, at 109–17.

145. I touch on the possibility of a changed circumstances doctrine for copyright, imported from tangible property law, in Molly S. Van Houweling, *Disciplining the Dead Hand of Copyright: Durational Limits on Remote Control Property*, HARV. J.L. & TECH. (forthcoming 2016).