There's No Tying in Baseball: On *Illinois Tool* and the Presumption of Market Power in Patent Tying Cases

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As is so often the case in life, proper analysis of the issues raised by *Illinois Tool Works v. Independent Ink*,[1] now pending before the Supreme Court, is aided immeasurably by thinking about baseball.

The question presented in *Illinois Tool* is whether, in a claim based on unlawful tying under Section 1 of the Sherman Act, the existence of a patent on the tying product raises a presumption that the patent holder has market power. The facts of the case, moreover, frame that question in historically classical terms: Illinois Tool licenses a patented printhead for applying barcodes to packages as they move on an assembly line. To use the invention, however, the licensee must agree to buy its ink from Illinois Tool as well. In other words, Illinois Tool "ties" the use of the patented invention to the sale of its unpatented ink.[2] I call this arrangement "historically" classical because the history of tying law has provided many examples of similar ties, in which a machine or other invention (the "tying" product) requiring a staple product as an input (such as ink, or paper, or salt) was sold on condition that the input (the "tied" product) be purchased as well. In fact, the Supreme Court first decided a case in which a patented mimeograph machine was tied to the sale of ink—and found the tie perfectly legal—in 1912.[3]

It may not surprise you to learn that Illinois Tool's patented printhead, while undoubtedly a swell invention, is not the only means of affixing a barcode to a box of cereal. Other processes compete directly, and the plaintiff made no effort to plead or prove that Illinois Tool had actual market power in any market for the tying product. Nor will purchasers of ink for designer fountain pens, ink-jet printers, or thousands of other uses be surprised to learn that Illinois Tool's license requirement has not yet allowed it to corner the market on a staple product like ink. Indeed, these obvious facts led the district court to dismiss all of the plaintiff's antitrust claims, and they led the Court of Appeals for the Federal Circuit to affirm with respect to the plaintiff's claim for monopolization under Section 2 of the Sherman Act.

But the Federal Circuit reversed the dismissal of the tying claim under Section 1 of the Sherman Act on the ground that the existence of a patent alone raises a presumption of market power that the patentee has the burden of disproving. The Federal Circuit did not claim that there was any

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[1] Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342 (Fed. Cir. 2005), *cert. granted*, No. 04-1329 (U.S.).

[2] I simplify the facts somewhat (e.g., the licensor of the invention is Illinois Tool's subsidiary, Trident, Inc.) but not in ways important to the question presented in the Supreme Court.

[3] Henry v. A.B. Dick Co., 224 U.S. 1 (1912).

basis in fact or legal policy for such a presumption—only that the presumption was mandated by prior Supreme Court cases by which it (the Federal Circuit) was bound. It relied, in particular, on the following statement in Justice Goldberg's opinion for the Court in *United States v. Loew's Inc.*: "The requisite economic power is presumed when the tying product is patented or copyrighted. *International Salt Co. v. United States*, 332 U.S. 392; *United States v. Paramount Pictures, Inc.*, 334 U.S. 131."[4] In light of this pronouncement by the Supreme Court, the Federal Circuit delivered a lecture to the defendants about the limits of appellate power:

> Even where a Supreme Court precedent contains many "infirmities" and rests upon "wobbly, moth-eaten foundations," it remains the "Court's prerogative alone to overrule one of its precedents. *State Oil Co. v. Khan*, 522 U.S. 3, 20, 118 S. Ct. 275, 284, 139 L.Ed. 2d 199 (1997) . . . . We conclude that the Supreme Court has held that there is a presumption of market power in patent tying cases, and we are obliged to follow the Supreme Court's direction in this respect. The time may have come to abandon the doctrine, but it is up to the Congress or the Supreme Court to make this judgment.[5]

The Federal Circuit did not claim that there was any basis in fact or legal policy for such a presumption—only that the presumption was mandated by prior Supreme Court cases . . .

The citation to *State Oil v. Khan* in that passage is significant because *Khan* was a case in which the Supreme Court did overrule one of its antitrust precedents, and I believe the Federal Circuit was analogizing its position here to that of the Seventh Circuit in *Khan*. In that case, Judge Posner wrote an opinion for the Seventh Circuit bluntly explaining that the Supreme Court's long-established rule outlawing maximum vertical price fixing (e.g., where a manufacturer tells its distributors they must charge less than a given price) was never justified economically because (among other reasons) low prices are good for consumers. Notwithstanding the lack of support for the rule, however, Judge Posner acknowledged that the Supreme Court's decision in *Albrecht v. Herald*[6] clearly made such maximum pricing provisions per se illegal, and (quite correctly) concluded that the circuit court was powerless to hold otherwise until *Albrecht* was overruled. (The Supreme Court promptly granted certiorari in *Khan* and overruled *Albrecht*, relying expressly on, and quoting at extended length from, Judge Posner's opinion.[7]) Because the Federal Circuit did not actually face Judge Posner's dilemma of applying a bad rule or disregarding binding precedent, I argue below that any attempted analogy to *Khan* is inapt.

Besides, I have a better one. Baseball, as all antitrust lawyers acknowledge with mild discomfort, is "exempt" from the antitrust laws. Precisely how baseball came to be exempt is a fascinating story in itself—one that I have explored at length elsewhere[8]—and it provides a nearly perfect parallel to the progression that has led at least some courts (e.g., the Federal Circuit here) to apply the presumption of market power to patents.

Both the presumption (of market power) and the exemption (for baseball) evolved to their current state in the law through three essential steps. First, each doctrine traces its roots to an old Supreme Court opinion written by a Justice who, while still revered for his towering intellect, reached a result that seems plainly anachronistic to modern eyes. Second, when each of those cases was revisited by the Court years later, it was, shall we say, "reinterpreted." That is, the original cases were declared to turn on rationales that neither one even mentioned. (It is striking that

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[4] *Loew's*, 371 U.S. 38, 45 (1962).

[5] Independent Ink, Inc. v. Illinois Tool Works, Inc., 396 F.3d 1342, 1351 (Fed. Cir. 2005).

[6] Albrecht v. Herald Co., 390 U.S. 145 (1968).

[7] *Khan*, 522 U.S. at 15–16.

[8] Kevin D. McDonald, *Antitrust and Baseball: Stealing Holmes*, 1998 J. Sup. Ct. History (V.II) 88 [hereinafter *Stealing Holmes*].

the patent case never used the word "presumption," just as the baseball case never used the word "exemption.") Finally, in each case, a third interpretation took the fabricated rationale to its (il)logical extreme and made it (or tried to make it) immutable. Thus, both the presumption and the exemption survive even though—and this may be their closest parallel—no serious person contends that they have any basis in fact.

Why, one may ask, is it useful to draw this analogy in any detail for purposes of discussing *Illinois Tool*? The question is a fair one. While the analogy is compelling in my view, it is not likely to be discussed at any length in the Supreme Court. That is because the Court considers the baseball cases to be, well, an embarrassment. The last time that an antitrust litigant argued for the preservation of an outmoded antitrust rule by invoking baseball, Justice O'Connor gave this icy response:

If anyone **really** *thinks that the existence of a patent itself confers market power, they have never produced any evidence of it.*

> [T]hose decisions are clearly inapposite, having to do with the antitrust exemption for professional baseball, which this Court has described as "an aberration . . . rest[ing] on a recognition and an acceptance of baseball's unique characteristics and needs," *id.*, at 282, 92 S. Ct. 2099, at 2112. In the context of this case, we infer little meaning from the fact that Congress has not reacted legislatively to [remedy the problem].[9]

The Respondent in *Illinois Tool* therefore should not make the tactical mistake of basing its argument on the baseball exemption, an argument that would go something like this: "Mr. Chief Justice, and may it please the Court, I believe my position is amply supported by the application of stare decisis in the baseball cases. I realize that the Court has repeatedly labeled them 'an aberration,' but I think it meant that in a subtly affectionate way." No fewer than eleven briefs were filed in support of the Petitioners in *Illinois Tool*, and only one made any reference to the baseball cases. (The Petitioners cited them in a brief footnote, quoted the "aberration" language, and moved on—lest they be accused of shooting fish in a barrel.[10]) And, while the Respondent's brief has not been filed at this writing, neither the Respondent in its opposition to certiorari nor the Federal Circuit below made any reference to the baseball cases.

So why should we refer to them? For two reasons. The first is that no significant issue besides stare decisis seems to be in dispute in *Illinois Tool*. If anyone *really* thinks that the existence of a patent itself confers market power, they have never produced any evidence of it. Rather, the empirical evidence that does exist shows that the overwhelming majority of patents do not.[11] Both federal enforcement agencies have rejected the presumption of market power in their enforcement guidelines,[12] and the academic commentary is (as far as I can tell) unanimous that the presumption is unwise.[13] In *Illinois Tool* itself, the United States has filed an amicus brief urging reversal that lists lawyers from the Department of Justice, the Federal Trade Commission, and the Patent & Trademark Office. The American Bar Association, representing over 400,000 lawyers who seldom agree on much, has also filed amicus briefs urging the Court to grant certiorari and to reverse. Even the Federal Circuit has acknowledged in non-tying cases that "a patent does not of itself

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[9] *Khan*, 522 U.S. at 19 (quoting *Flood v. Kuhn*, 407 U.S. 258, 282 (1972)).

[10] Brief For The Petitioners at 40 n.14, *Illinois Tool Works Inc. v. Independent Ink, Inc.*, No. 04-1329, 2005 WL 1864122, (U.S. Aug. 4, 2005).

[11] *Id.* at 24–26.

[12] U.S. Dep't of Justice & Federal Trade Comm'n, Antitrust Guidelines for the Licensing of Intellectual Property §§ 2.2 & 5.3 (1995), *available at* http://www.usdoj.gov/atr/public/guidelines/0558.pdf.

[13] *Id.* at 37–39.

establish a presumption of market power in the antitrust sense."[14] Thus, no basis for affirmance is obvious—or has been advanced by any party or court—*other than* the doctrine of stare decisis. As arguably the most pristine example of stare decisis in the Court's history, the baseball cases underscore the dangers of preserving a doctrine that cannot be supported as a matter of economic reality.

The second reason for thinking about baseball here relates to the nature of stare decisis itself. For the Court has never allowed the doctrine to bind it simply through blind obedience—as "an inexorable command."[15] There must be some reason for the Court to repeat a mistake beyond the fact that the mistake was made before. In the baseball cases, that reason was the principle of "subsequent Congressional inaction"—the notion that, once a court has interpreted a statute a certain way (however incorrectly), the court should wait for the legislature to correct the mistake, rather than to overrule its own precedent.

In recent years, the Court has shown increasing skepticism toward the principle of subsequent Congressional inaction, which Justice Scalia has labeled a "canard."[16] Yet it is the sole reason why we have a baseball exemption today. And if we discover at the end of the next Supreme Court term that we still have a presumption of market power, the same principle will undoubtedly be the cause. Thus, the history of the baseball exemption is instructive because it demonstrates the folly of expecting Congress to rectify the Court's own mistakes. Have you ever heard of the Curt Flood Act of 1998? Precisely the point.

The Baseball Exemption: Stealing Holmes

The Court finds the baseball exemption embarrassing, and rightfully so. With each and every game broadcast across state lines and farther, no one seriously disputes the game's impact on interstate commerce—not today anyway. The question was a closer one in 1922, when Oliver Wendell Holmes, Junior, and his brethren first considered the issue in a case styled *Federal Baseball Club of Baltimore v. National League of Professional Baseball Clubs*.[17] That was long before radio, television, minor league organizations, and many of the other common indicia of the modern game. Yet, somehow, all those things have changed while baseball remains exempt. How did Holmes's decision become immutable? As noted above, the process had three principal steps.

***Step One:* Federal Baseball.** The dispute in *Federal Baseball* arose from the creation of a third "major" league in 1913, which was called—as if to emphasize its interstate character—the Federal League. A group of wealthy businessmen re-christened their existing minor league "major," quickly erected eight new ball parks, touched off a bidding war for most star players (Tris Speaker was paid the unearthly sum of $18,000 to stay with the Red Sox), and competed with reasonable success for two seasons. In 1915, the so-called Peace Agreement with major league baseball put an end to the Federal League, by assuming its debts and acquiring its best assets (including the friendly confines of Wrigley Field). The Federal League's Baltimore franchise, however, was excluded from the deal and swiftly brought an antitrust suit. The result was *Federal Baseball*.

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[14] Abbott Labs. v. Brennan, 952 F.2d 1346, 1354 (Fed. Cir. 1991).

[15] *Khan*, 522 U.S. at 20 (quoting *Payne*, 501 U.S. 808 at 828).

[16] Johnson v. Transportation Agency, 480 U.S. 616, 672 (1987) (Scalia, J., dissenting ("vindication by congressional inaction is a canard")).

[17] 259 U.S. 200 (1922).

Over the years, Holmes's opinion has been mocked and vilified with inspired rhetoric. Justice Douglas in *Flood v. Kuhn* would label it "a derelict in the stream of the law."[18] That, moreover, was but a tepid imitation of an earlier attack by the bombastic Judge Jerome Frank, who called it "an impotent zombi."[19] Judge Frank went on to analogize baseball's reserve clause to slavery and to label those who defended it "totalitarian minded."[20]

On its face, Holmes's brief and unanimous opinion hardly seems to merit such calumny. Contrary to the myth that he found baseball to be a sport rather than a business, he referred to organized baseball as a "business" on five separate occasions in two and one-half pages.[21] He noted that the "constant" interstate travel of the clubs was "provided for, controlled and disciplined by the [leagues]."[22] He even emphasized that "to attain for these exhibitions the great popularity they have achieved, competitions must be arranged between clubs from different cities and States."[23] Yet the analysis he employed in 1922—the same one employed by both parties in their arguments—was whether the interstate aspects of the business were essential to its character or merely "incidental." For Holmes, Brandeis, Taft, and the rest, the answer was easy: "The business is giving exhibitions of baseball, which are purely state affairs."[24] In other words, the game itself was the "essential thing." When it was played in 1922, only local fans partook. No interstate transaction occurred, as it soon would by virtue of radio broadcasts. For the Court, the interstate transport of players and equipment before and after the game was "a mere incident."[25] That rationale seems simple enough, and it has this virtue: Whether or not you agree with the Court's conclusion, the result under such an "incidental effects" test will change as soon as the facts do. If the advent of radio and television convert the "essential thing" into an interstate transaction, then the Sherman Act clearly applies.

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So why doesn't it apply today? A partial explanation is that one aspect of Holmes's opinion has been widely misunderstood. After declaring the interstate aspects of the business "incidental," Holmes wrote that "the exhibition, although made for money would not be called trade or commerce in the commonly accepted use of those words . . . . That which in its consummation is not commerce does not become commerce among the States because the transportation that we have mentioned takes place."[26] Today, the notion that pure services, whether sports or law or medicine, should not be viewed as commerce has been rejected by later Supreme Court cases. But some have read Holmes's passage to mean that, because baseball is a service, it can never be commerce and, hence, never be covered by the Sherman Act.

But that was plainly not what Holmes said or meant. In observing that the game itself was not "commerce," Holmes was merely responding to an alternative argument that the *Federal Baseball* plaintiff had made. Although the plaintiff agreed that the baseball game itself was not commerce,

[18] Flood v. Kuhn, 407 U.S. 258, 286 (1972).

[19] Gardella v. Chandler, 172 F.2d 402, 409 (2d Cir. 1949).

[20] *Id.* at 409–10.

[21] 259 U.S. at 207–09.

[22] *Id.* at 208.

[23] *Id.*

[24] *Id.*

[25] *Id.* at 209.

[26] *Id.*

it argued that any travel across state lines would convert what is not commerce (even a person, to use the plaintiff's example) into interstate commerce. Holmes was simply rejecting that syllogism—declaring in his typically epigrammatic way that what is not commerce is not commerce. But that point did not change the incidental effects test. If the facts showed that the interstate aspects of the "business" were more than incidental (as the facts would over the next 25 years), the antitrust laws should apply.

To prove that this reading of *Federal Baseball* is correct, consider three points. First, if the "personal effort" involved in baseball (or any other service) can never be subject to the Sherman Act, then why did Holmes bother us with the whole incidental effects analysis? That test would be rendered irrelevant by the erroneous reading of *Federal Baseball*. Yet Holmes not only included it, but placed it *first* in the opinion. It was not in Holmes's nature to come to the point so indirectly. He was not wasting our time.

Second, Holmes proved that a business based on services could pass the incidental effects test (at least in theory) the very next term, when he decided *Hart v. B.F. Keith Vaudeville Exchange*.[27] *Hart* involved an interstate vaudeville circuit, in which local exhibitions were presented in a manner legally indistinguishable from *Federal Baseball*. Yet the lower court had dismissed the complaint outright, not giving the plaintiff a chance to prove that the interstate travel involved in that business was more than "incidental." Holmes, writing again for a unanimous Court, reversed. Notwithstanding "the *Baseball Club Case*," which had come to the Court after a full trial, "it may be that what in general is incidental in some instances may rise to a magnitude that it requires that it be considered independently."[28] Thus, the plaintiff in the vaudeville case could, if the evidence were strong enough, prevail under the Sherman Act—even though the actors on a stage are engaged in "personal effort" in precisely the same sense as baseball players.

A third compelling reason for reading *Federal Baseball* as I do is that Learned Hand did so, too. Hand sat on the Southern District of New York when *Federal Baseball* was decided, but he was elevated to the Second Circuit the next year, in time to hear the appeal from the vaudeville case after it was tried on remand from the Supreme Court.[29] Because he remained on the Second Circuit for nearly 40 years, Hand was also present when, a quarter of a century later, another antitrust case was filed by a former New York Giant outfielder named Danny Gardella. Gardella had been suspended, along with several others, for jumping briefly to the "Mexican League," which had begun offering enormous salaries to major leaguers shortly after World War II.

In 1949, Learned Hand's analysis in *Gardella* of the Sherman Act's application to baseball was straightforward, combining elements of both *Federal Baseball* and the vaudeville case: Broadcasting made modern baseball the equivalent of "a 'ball park' where a state line ran between the diamond and grandstand."[30] The interstate aspects were no longer "merely incidents" but "part of the business itself."[31] Indeed, "the players are the actors, the radio listeners and the television spectators are the audiences."[32] Hand thus recognized, as later judges would not, that whether

[27] 262 U.S. 271 (1923).

[28] *Id.* at 273–74.

[29] Hart v. B.F. Keith Vaudeville Exch., 12 F.2d 341 (2d Cir. 1926).

[30] *Gardella v. Chandler*, 172 F.2d at 407.

[31] *Id.*

[32] *Id.* at 408.

the baseball exhibition itself was considered "commerce" or not, the interstate aspects of the "business," if more than incidental, would cause it to fall under the Sherman Act. Thus, he applied precisely the same analysis as Holmes and, presented with vastly different facts, reached a predictably different result.

***Step Two:* Toolson.** Danny Gardella's victory in the Second Circuit had several immediate consequences. First, Baseball Commissioner "Happy" Chandler was inspired to "temper [j]ustice with mercy" and declared amnesty for all of the banned Mexican leaguers.[33] He also quickly settled with Gardella because, as he later acknowledged, "the lawyers thought we could not win the *Gardella* case."[34]

In addition, the legal scrutiny of baseball's reserve clause intensified as new plaintiffs rushed to court and Congress took up the subject in earnest. In Congress, several bills were introduced in the early 1950s to grant an exemption from the antitrust laws to baseball, but none was passed. In the courts, the lawsuit of George Earl Toolson, a minor leaguer in the Yankees organization who objected to a demotion, made it to the Supreme Court.

. . . what did it mean to affirm **Federal Baseball** *"so far as that decision determines that Congress had no intention of including . . . baseball within the . . . antitrust laws," when* **Federal Baseball** *said no such thing?*

The lower court in *Toolson* had framed the controlling issue as "whether the game of baseball is 'trade or commerce' within the meaning of the Anti-Trust Acts."[35] The court thus read *Federal Baseball* differently than Learned Hand, to mean that baseball could never be subject to the Sherman Act (thus making the "incidental effects" test irrelevant). The Supreme Court had the option of either accepting the Hand analysis or squarely facing the "commerce" point, which plainly could not survive the more expansive definition of "commerce" in the Court's modern decisions.

The *Toolson* Court did neither. Instead, it affirmed the dismissal in a per curiam opinion of one paragraph. The Toolson opinion declared that baseball had developed "for thirty years . . . on the understanding that it was not subject to existing antitrust legislation," and that, if there are antitrust "evils" in baseball, the remedy "should be by legislation." The Court then concluded with this final, stunning sentence:

> Without re-examination of the underlying issues, the judgments below are affirmed on the authority of *Federal Baseball Club of Baltimore v. National League of Professional Baseball Clubs*, *supra*, so far as that decision determines that Congress had no intention of including the business of baseball within the scope of the federal antitrust laws.[36]

With that baseless assertion, the baseball exemption was born. As we have seen, *Federal Baseball* said nothing about the Congress of 1890 intentionally *excluding* baseball from the Sherman Act. It is as if the majority in *Toolson* imagined Senator Sherman announcing that "today we enact the Magna Carta of the working class so that all American business will respect the right of consumers to free and open competition . . . that is, um, except for organized baseball, of course." Indeed, what did it mean to affirm *Federal Baseball* "so far as that decision determines that Congress had no intention of including . . . baseball within the . . . antitrust laws," when *Federal Baseball* said no such thing? As one commentator dryly noted at the time, "*Toolson* would then seem to reaffirm nothing."[37]

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[33] Dan A. Abramson, Baseball & the Court, 4 Constitution, Fall 1992, at 74 (Fall 1992).

[34] G. Edward White, *Creating the National Pastime: Baseball Transforms Itself*, 1903–1953, 295 (1996).

[35] Toolson v. New York Yankees, 101 F. Supp. 93, 94–95 (S.D. Cal. 1951).

[36] Toolson v. New York Yankees, 346 U.S. 356, 357 (1953).

[37] Note, Recent Cases, 105 U. Pa. L. Rev. 110, 112–13 n.24 (1956).

Because the idea of baseball having an express exemption from the Sherman Act was so silly, the last sentence of *Toolson* made no impression on the lower courts. Rather, they construed the Court's failure to overrule *Federal Baseball* as evidence that the antitrust laws would not apply to any business legally indistinguishable from baseball. The Supreme Court, therefore, was forced to take several cases in the ensuing terms to make it clear that defendants in such businesses as entertainment and professional boxing *would* be subject to the Sherman Act.[38] The process reached its low point when the Ninth Circuit considered whether professional football was exempt. Groping for a principled distinction between the Court's decisions involving baseball and boxing, and unable to fathom an express exemption for baseball, the circuit court had this epiphany: The Sherman Act exempts all *team* sports, such as baseball and football, but not *individual* sports, such as boxing.[39] (Honestly.)

At this point, the Supreme Court decided to speak bluntly. The baseball exemption, the Court acknowledged in *Radovich v. National Football League*, is "unrealistic, inconsistent, [and] illogical." Yet it survives purely as a matter of stare decisis. The distinction between baseball and other sports is the existence of *Federal Baseball* and nothing more: "No other business claiming the coverage of those cases has such an adjudication."[40]

With *Radovich*, the baseball exemption was complete. And the reasoning of Holmes in *Federal Baseball* had been abandoned completely. It no longer mattered how broadcasting affected the interstate nature of the game, or how the term "commerce" was defined. *Toolson* gave baseball an express exemption based on an invented Congressional "intention." By claiming that its new rationale was actually part of Holmes's original decision, the Court was able to preserve the exemption while still acknowledging its (i.e., Holmes's) "mistake."

***Step Three:* Flood.** The Court's final step in redefining *Federal Baseball* would be to make the mistake uncorrectable. That came in the Court's 1972 decision in *Flood v. Kuhn*.[41]

When the St. Louis Cardinals attempted to trade Curt Flood to the Philadelphia Phillies, he simply refused. His antitrust assault on the reserve clause quickly made its way to the Supreme Court, which granted certiorari "to look once again at this troublesome and unusual situation."[42] Mr. Flood may have realized that he was in trouble when Justice Blackmun's opinion began with a paean to baseball's "colorful days," including a list of *eighty-eight* of his favorite old-time ballplayers. At the end of the list, the Justice wrote, without apparent irony: "The list seems endless."[43]

Flood reaffirmed the baseball exemption on the ground that any solution to the problem created by *Federal Baseball* should come from Congress, not the Court. Justice Blackmun gave three principal reasons: First, Congress had considered the issue of baseball's antitrust exemption several times, but had passed no law. Thus, by its "positive inaction," Congress has "clearly evinced a desire not to disapprove" of *Federal Baseball*.[44] Second, "since 1922 baseball . . . has been allowed to develop and expand unhindered by federal legislative action."[45] Given this

[38] United States v. Shubert, 348 U.S. 222 (1955); United States v. Int'l Boxing Club of N.Y., Inc., 348 U.S. 236 (1955).

[39] Radovich v. National Football League, 352 U.S. 445, 447 (1957).

[40] *Id.* at 452.

[41] 407 U.S. 258 (1972).

[42] *Id.* at 269.

[43] *Id.* at 263. Only two other Justices joined in this part of the opinion.

[44] *Id.* at 283–84.

[45] *Id.* at 283.

reliance, there would be inevitable "retroactivity problems" if there were "a judicial overturning of *Federal Baseball*."[46] Third, the rule of *Federal Baseball* may be "an anomaly" and "an aberration," but it is "an established one . . . that has been with us now for half a century."[47] To overrule it now, would require "withdrawing from the conclusion as to congressional intent made in *Toolson*."[48]

We have already seen how weak these arguments are. First, we may defer for the moment the reasons why Congress's "positive inaction" is an oxymoron that deserves little respect in the best of cases—there are simply too many independent reasons why Congress may fail to act. Because in *Flood*, the principle plainly cut the other way: Congress had repeatedly failed to enact an exemption, not failed to "disapprove" it.

Second, baseball's alleged reliance on an antitrust exemption is also a myth. As noted, the Commissioner of Baseball told Congress in 1951 (after *Gardella*, but before *Toolson*) that his lawyers told him he could not prevail in *Gardella*.[49] A baseball historian writing in 1950 also concluded that "[i]n three quarters of a century, the validity of the reserve clause has sometimes been affirmed in court, but usually it has been denied. The issue is not yet settled . . . ."[50]

Perhaps recognizing the shakiness of these arguments, the Flood *Court took refuge in the same technique that guided the* Toolson *Court: Blame Holmes.*

Finally, any attempt to give the "aberrant" baseball exemption a 50-year pedigree does not persuade. Holmes's opinion neither used the word exemption nor turned on Congressional intent. Nor did he imply that his rationale would apply differently to other sports. Thus, the baseball exemption—while factually and historically groundless in 1953—did not become an "aberration" until later cases made it clear that the same faulty reasoning would not apply to boxing (1955) or football (1957). The *Flood* opinion unwittingly concedes that its time frame is actually far shorter when it refers to "withdrawing from the conclusion as to congressional intent made in *Toolson*."[51]

Perhaps recognizing the shakiness of these arguments, the *Flood* Court took refuge in the same technique that guided the *Toolson* Court: Blame Holmes. Thus, the last sentence of *Flood* offers an assertion equally as unrooted in reality as the last sentence in *Toolson*: "And what the Court said in *Federal Baseball* in 1922 and what it said in *Toolson* in 1953, we say again here in 1972: the remedy, if any is indicated, is for congressional, and not judicial, action."[52]

So, *Federal Baseball* was rewritten yet again. Just as *Toolson* blamed Holmes for a problem (an express statutory exemption) that he did not create, *Flood* blamed him for insisting on a solution (Congressional action) that he did not mention. Indeed, it is ironic that Holmes is deemed to have invoked Congressional action, because his actual rationale (the incidental effects test) would imply that Congress did not have the power to regulate a business with only an incidental impact on interstate commerce.[53]

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46 *Id.*

47 *Id.* at 282.

48 *Id.* at 284.

49 *See supra* note 34; McDonald, *Stealing Holmes*, *supra* note 8, at 121.

50 Lee Allen, 100 Years of Baseball at 72 (1950).

51 *Flood*, 407 U.S. at 284.

52 *Id.* at 285.

53 Holmes derived his incidental effects test from *Hooper v. California*, 155 U.S. 648 (1895), which noted that "[i]f the power to regulate interstate commerce applied to all the incidents to which said commerce might give rise . . . that power would embrace the entire sphere of mercantile activity." *Id.* at 655. If the power to regulate interstate commerce did not extend to baseball in 1922, Congress would have no authority to "correct" *Federal Baseball* as long as its effect on that commerce were "incidental."

Thus, we see the conclusion of the three-step process that has brought us the baseball exemption. The result is a principle of antitrust law that is (1) indefensible as a matter of fact or policy, and (2) an embarrassment to the Court. Can history repeat itself?

The Presumption of Market Power: Not "Common Knowledge"

In *Illinois Tool*, the Supreme Court will decide whether the existence of a patent alone implies that the defendant has market power in a patent tying case. No one really thinks this is true as a matter of fact. Nonetheless, the Federal Circuit concluded that the Supreme Court has already so held: "In *United States v. Loew's*, 371 U.S. 38 (1962), relying on *International Salt*, the Court made clear that, where the tying product is patented or copyrighted, market power may be presumed rather than proven."[54]

In briefs before the Supreme Court, the American Bar Association and others have pointed out that the Federal Circuit has misread these cases. *International Salt* gave no consideration whatsoever to the question of power in the tying product. And the "presumption" of power applied in *Loew's* was not a presumption of market power at all, but a "presumption of uniqueness" that the *Loew's* Court took pains to distinguish from a presumption of actual market power. The Court's subsequent decisions imposing the modern requirement of genuine market power over the tying product, moreover, have rendered the original presumption of *Loew's* obsolete. As a result, the conclusion of Justice O'Connor in her concurrence in *Jefferson Parish Hosp. Dist. No. 2 v. Hyde* remains true: "Nor does any presumption of market power find support in our prior cases."[55]

So, how did the Federal Circuit get it wrong? By following three essential steps . . .

***Step One:* International Salt.** In arguing that the presumption of market power can be found in the Supreme Court's cases, the Federal Circuit repeatedly cited *International Salt* along with *Loew's*. It asserted, for example, that the Supreme Court has "consistently reaffirmed the holdings of *International Salt* and *Loew's* that no proof of market power is necessary,"[56] even though *International Salt* contains no consideration or discussion of any "presumption" at all. *International Salt* was so important to the Federal Circuit because it involved a tying product that was patented, just as *Illinois Tool* does, whereas the tying product in *Loew's* was copyrighted. While that difference should not be important here, the Federal Circuit would not have had a direct Supreme Court holding to "dictate" its result in a patent case without *International Salt.* As we shall see, *International Salt* (like *Federal Baseball*) has been freely reinterpreted over the last 60 years. To place its original holding in context, however, requires that we go back even further.

Nearly 100 years ago, the Supreme Court rejected an attack on a tying arrangement strikingly similar to the one at issue in *Illinois Tool*—in which a patented mimeograph machine was licensed on the condition that the licensee purchase the ink from the patent holder.[57] The patentee had argued, even then, that the tying arrangement was a form of metering, by which the licensor "is merely insuring to himself a royalty based upon the output of the machine."[58] In other words, by pricing the invention (plus ink) in a way that allowed the inventor to charge more to those who used it more intensively, the inventor could both make more money and sell more machines. Today, most

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[54] 396 F.3d at 1348.

[55] 466 U.S. 2, 38 n.7 (1984).

[56] 396 F.3d at 1348.

[57] Henry v. A.B. Dick Co., 224 U.S. 1 (1912).

[58] *Id.* at 65.

commentators would agree that such ties are "nearly always procompetitive.[59] In 1912, however, the majority approved the tie only over the blistering dissent of Chief Justice White, who complained that the use of a tie allowed the patent holder "to bring within the claims of his patent things which are not embraced therein, thus . . . to multiply monopolies at the will of an interested party."[60] This was an early and forceful articulation of what many have called the "patent leveraging fallacy"—the now discredited idea that a tying arrangement allowed a patentee to convert its patent "monopoly" into two monopolies.[61]

Five years later, in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*,[62] the views of Chief Justice White prevailed, and *Henry v. A.B. Dick* was overruled. This time, Justice Holmes dissented:

> The supposed contravention of public interest sometimes is stated as an attempt to extend the patent law to unpatented articles, which of course it is not, and more accurately as a possible domination to be established by such means. *But the domination is one only to the extent of the desire for the* [patented] *tea pot or film feeder*, and if the owner prefers to keep the pot or the feeder unless you will buy his tea or films, I cannot see in allowing him the right to do so anything more than an ordinary incidence of ownership . . .[63]

Armed with the leveraging fallacy, the Court then embarked on a period of self-described "hostility" to tying arrangements, which lasted over 30 years.

As Ward Bowman has noted, Holmes's conclusion on this point "was never rebutted by the majority."[64]

Armed with the leveraging fallacy, the Court then embarked on a period of self-described "hostility" to tying arrangements, which lasted over 30 years.[65] The rhetorical high point of that hostility came when Justice Frankfurter announced that "Tying agreements serve hardly any purpose beyond the suppression of competition"[66]—a sentence that would be repeated in every tying case to come before the Supreme Court until the 1970s. Justice Frankfurter continued that "only the prospect of reducing competition would persuade a seller to adopt such a contract and only his control of the supply of the tying device . . . could induce a buyer to enter one."[67] These conclusions are known to be indefensible as a matter of economic reality today, when a wide variety of consumer benefits flowing from tying are recognized both in theory and in practice.[68]

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[59] HERBERT HOVENKAMP, MARK A. JANIS & MARK LEMLEY, IP AND ANTITRUST § 21.2 at 21-12; Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108, 112 (1990) (describing this form of price discrimination through tying as achieving "the best of both worlds").

[60] *Henry v. A.B. Dick Co.*, 224 U.S. at 53.

[61] WARD BOWMAN, JR., PATENT AND ANTITRUST LAW: A LEGAL AND ECONOMIC APPRAISAL 154 (1973). Thanks to the tireless efforts of Professor Bowman and others, the patent leveraging fallacy has been abandoned in the Court's modern decisions, *see, e.g.*, Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 36 (1984) (O'Connor, J., concurring) ("The existence of a tied product normally does not increase the profit that the seller with market power can extract from sales of the tying product.") (emphasis omitted), and is routinely rejected by the commentators: "Tying cannot enable a patentee to attain a double monopoly profit by tying unpatented goods." HOVENKAMP ET AL., *supra* note 59, § 21.3b, at 21-20. *See also Hyde*, 466 U.S. at 36 (concurrence describing this view as "easily demonstrated and widely accepted").

[62] 243 U.S. 502 (1917).

[63] *Id.* at 520 (emphasis added).

[64] BOWMAN, *supra* note 61, at 157.

[65] *See Loew's*, 371 U.S. at 46.

[66] Standard Oil of Cal. v. United States, 337 U.S. 293, 305 (1949).

[67] *Id.* at 306.

[68] Brief for Petitioners, *supra* note 10, at 27–31 (collecting authorities).

For purposes of ties involving intellectual property, the period of "hostility" culminated in the Court's 1947 decision in *International Salt Co. v. United States*,[69] where the tying product was patented, and its 1948 decision in *United States v. Paramount Pictures, Inc.*,[70] where the tying product was copyrighted. Both opinions were straightforward in condemning the ties before them, relying expressly on the leveraging theory as their rationale.[71] Of particular note here, neither case addressed, even obliquely, whether the owner of the patents or copyrighted products had economic power of any kind, much less real market power in the sense of power over price.

The *International Salt* opinion, in particular, focused exclusively on the effects of the tie on the market for the *tied* product. Justice Robert Jackson wrote for the Court that the tie would be condemned as long as the "volume of business" affected in the tied product was not "insignificant or insubstantial."[72] The principal competitive evils identified were (1) the tendency of the tie "to foreclose competitors from" access to sales of the tied product, and (2) the restriction of consumer "choice" in purchasing the tied product.[73] For Justice Jackson, the only purpose in considering the tying product at all was to point out that the existence of International Salt's "patents afford no immunity from the anti-trust laws."[74] That is far different than saying that patent ties are somehow *more* suspect than other ties—something that Justice Jackson never did say in *International Salt*. To read *International Salt* as the Federal Circuit did in *Illinois Tool*, therefore, would require the discovery of a new rationale.

***Step Two:* Loew's.** The first case to consider any concept of power in the tying market came five years later in *Times-Picayune Publishing Co. v. United States*.[75] There, the Court refused to condemn as an illegal tie a newspaper's requirement that ads be run in both its morning and afternoon papers. The Court's 5–4 opinion described the Sherman Act's prohibition on tying as confined to cases where "the seller enjoys a monopolistic position in the market for the 'tying' product."[76] Because the defendant had no power in the relevant market for advertising, the tying claim was rejected. By introducing the concept of "power" in the tying product, the *Times-Picayune* opinion planted a seed that would eventually undermine the per se rule against tying.

But it would take a *very* long time. A principal reason for the delay was that, in a series of subsequent decisions, the Court insisted that the definition of the "power" sufficient to satisfy this test was not actual *market* power, but something far broader. The first was *Northern Pacific Railway Co. v. United States*,[77] in which the tying product was the "exclusive" landholdings of certain railroads along the right-of-way. Justice Black made clear that the suggestion in *Times-Picayune* that the defendant have a "monopolistic position" would not be taken literally:

[69] 332 U.S. 392 (1947).

[70] 334 U.S. 131 (1948).

[71] *Int'l Salt*, 332 U.S. at 395–96 ("But the patents confer no right to restrain use of, or trade in, unpatented salt."); *Paramount Pictures*, 334 U.S. at 158 ("Where a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other.").

[72] 332 U.S. at 396.

[73] *Id.*

[74] *Id.*

[75] 345 U.S. 594 (1953).

[76] *Id.* at 608.

[77] 356 U.S. 1 (1958).

> While there is some language in the *Times-Picayune* opinion which speaks of "monopoly power" or "dominance" over the tying product as a necessary precondition for application of the rule of *per se* unreasonableness to tying arrangements, we do not construe this general language as requiring anything more than sufficient economic power to impose an appreciable restraint on free competition in the tied product . . . .[78]

That power could be found in a tying case "regardless of the source from which the power is derived and whether the power takes the form of a monopoly or not."[79] Indeed, that definition of power was so broad that it could be inferred from the simple fact of the tying arrangement itself: "The very existence of this host of tying arrangements is itself compelling evidence of the defendant's great power . . . . "[80]

. . . the Loew's Court could not have been clearer that its definition of the "requisite economic power" was not "some power to control price," and thus not actual market power in its modern sense . . .

As the defendants in *Northern Pacific* argued unsuccessfully that real market power was now the test, they tried to distinguish *International Salt*, which had not required proof of power, by asserting that the existence of the patent made the difference. Justice Black disagreed: "In arriving at its decision in *International Salt* the Court placed no reliance on the fact that a patent was involved nor did it give the slightest intimation that the outcome would have been any different if that had not been the case. If anything, the Court held the challenged tying arrangements unlawful *despite* the fact that the tying item was patented, not because of it."[81]

For the Court in *Northern Pacific*, the result in *International Salt* was compelling evidence that the requisite power was *not* true market power—if that were the test, a patent alone clearly would not meet it: "Of course *it is common knowledge* that a patent does not always confer a monopoly over a particular commodity. Often the patent is limited to a unique form or improvement of the product and the economic power resulting from the patent privileges is slight."[82]

Four years later, the Court's decision in *Loew's* continued the process of defining down the concept of "power" in the tying market. Indeed, the *Loew's* Court could not have been clearer that its definition of the "requisite economic power" was *not* "some power to control price," and thus not actual market power in its modern sense:

> Market dominance—some power to control price and to exclude competition—is by no means the only test of whether the seller has the requisite economic power. Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes.[83]

The Court continued in a footnote that a finding of "economic power . . . on the basis of either uniqueness or consumer appeal . . . does not necessitate a demonstration of market power."[84]

No matter how this concept of power was defined, however, the question for the Court in *Loew's* was how to apply its prior decisions involving intellectual property, because those decisions clearly did not address the question of tying product power at all. Justice Goldberg solved the problem with his often-repeated declaration that "[t]he requisite economic power is presumed

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[78] *Id.* at 11.

[79] *Id.*

[80] *Id.* at 7–8.

[81] *Id.* at 9.

[82] *Id.* at 10 n.8 (emphasis added).

[83] 371 U.S. at 45 (footnote omitted).

[84] *Id.* at 45 n.4.

when the tying product is patented or copyrighted," citing both *International Salt* and *Paramount Pictures*.[85]

While neither case he cited spoke of any "presumption," one can argue that a "presumption of uniqueness" for intellectual property—while of little or no relevance to competition policy—has some basis in logic. A patent is awarded only to inventions that are both novel and not obvious,[86] and thus distinctive by their very nature. A presumption of uniqueness thus follows by definition, because "one of the objectives of the patent laws is to reward uniqueness."[87] A copyrighted work, moreover, is literally unique, as the law protects only the original item itself.[88] Thus, the *Loew's* Court also found that the holding of *Paramount Pictures* fit comfortably into the presumption, for "[a] copyrighted feature film does not lose its legal or economic uniqueness because it is shown on a television rather than a movie screen."[89]

After *Loew's*, therefore, the per se condemnation of patent tying in *International Salt* had a new rationale: Instead of reading the opinion as the unqualified per se condemnation of all tying agreements that it was, the Court would read into *International Salt* the new concept of power in the tying market, but define the concept so broadly that the power could be "presumed" in every patent case. That change alone, however, was not sufficient to create the presumption of market power that was applied by the Federal Circuit in *Illinois Tool*. To reach that result, an additional step remained.

***Step Three:* Illinois Tool.** As a result of *Northern Pacific* and *Loew's*, the per se rule against patent tying of *International Salt* was changed in form, but not yet in substance. Lip service would be paid to the concept of "economic power," but the power required was some measure of distinctiveness so broad and vague that no product could flunk the test. That attitude reached its high-water mark in 1969 in the first *Fortner* decision, where Justice Black wrote that seller financing of new homes by U.S. Steel could be attacked as a tie-in, provided the plaintiff could prove that the financing had distinctive or uniquely attractive aspects.[90] (He set forth numerous suggestions as to how such uniqueness might be shown at trial.) As one treatise has remarked of *Fortner I*, "[a]ll of this seems quite incomprehensible to anyone with even minimal knowledge of the credit market and with manufacturer self-provision of financing."[91]

Eight years later, however, the same case came back to the Court, and its decision in *Fortner II* fundamentally altered the law of tying. The plaintiff had prevailed at trial based on a finding that U.S. Steel's financing was "unique," employing several of the indicia suggested by Justice Black.[92] This time, however, the Court rejected these findings as insufficient to establish the power requirement for tying.

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[85] *Id.* at 45.

[86] *E.g.*, Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., 535 U.S. 722, 736 (2002) (citing 35 U.S.C. §§ 101–103 (1994 ed. and Supp. V)).

[87] *Loew's*, 371 U.S. at 46.

[88] Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 250 (1903) (Holmes, J.) ("Personality always contains something unique. . . . [Even] a very modest grade of art has in it something irreducible, which is one man's alone. That something he may copyright . . . .").

[89] *Loew's*, 371 U.S. at 48.

[90] Fortner Enters., Inc. v. United States Steel Corp., 394 U.S. 495 (1969).

[91] HOVENKAMP ET AL., *supra* note 59, § 21.4 at 21–61 (Supp. 2005).

[92] *See* United States Steel Corp. v. Fortner Enters., Inc., 429 U.S. 610, 614–16 (1977).

The *Fortner II* Court explained that "uniqueness" was relevant to the question of tying product power only to the extent that it reflected "whether the seller has the power, within the market for the tying product, to raise prices or to require purchasers to accept burdensome terms that could not be exacted in a completely competitive market."[93] The Court acknowledged that a commentator on *Fortner I* had "correctly analyzed the burden of proof" when he stated that "[it is] clear that market power in the sense of power over price must still exist."[94] In this way, the definition of the "requisite" power in the tying product was changed fundamentally from the approach of *Northern Pacific* and *Loew's*. Whereas in *Loew's* true market power was simply one means of showing the requisite "uniqueness," now "uniqueness" was relevant only as a means of showing real power over price. Because what the plaintiff in *Fortner II* labeled "uniqueness" did not relate to actual market power, the plaintiff lost.

The holdings in Fortner II and Hyde thus could not be squared with the statement in Loew's that "the mere presence of competing substitutes for the tying product" is insufficient to defeat a tying claim.

The requirement of true market power was cemented by the Court's 1984 decision in *Hyde*, which rejected a tying claim because a 30-percent market share was too small to show market power, despite evidence that the surgical services involved were "unique" in other senses. *Hyde* put the final nail in the uniqueness coffin with these words: "While these factors may generate 'market power' in some abstract sense, they do not generate the kind of market power that justifies condemnation of tying."[95] The holdings in *Fortner II* and *Hyde* thus could not be squared with the statement in *Loew's* that "the mere presence of competing substitutes for the tying product" is insufficient to defeat a tying claim.[96]

The necessary question after *Hyde* was what was to become of the "presumption" for intellectual property articulated in *Loew's*. By redefining the "requisite power" in a tying case to mean true market power, *Fortner II* and *Hyde* had stripped the *Loew's* presumption of its utility: a presumption of uniqueness does not mean much when uniqueness is no longer enough to show even a potentially harmful tie.

The lower courts have answered the question in two principal ways, both of which are referenced in Judge Easterbrook's pithy description of the law in this area: "The tying doctrine was linked to market power in *Hyde*, and although some lower courts missed the message and continued to hold that copyrights and patents are monopolies, most got on board."[97] In fact, only three months after *Hyde*, the Ninth Circuit "missed the message" of market power altogether and applied the *Loew's* presumption to copyrighted software.[98] Within two years, however, both the Sixth and Seventh Circuits had rejected that view, refusing to apply a presumption of real market power.[99] The majority of other courts have continued to reject the presumption, although the Federal Circuit's decision has done much to even the score, in light of its exclusive jurisdiction over patent cases.[100]

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[93] *Id.* at 620 (footnote omitted).

[94] *Id.* at 620 n.13.

[95] 466 U.S. at 27 (footnote omitted).

[96] *Loew's*, 371 U.S. at 49.

[97] Easterbrook, *supra* note 59, at 113.

[98] Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336 (9th Cir. 1984).

[99] Will v. Comprehensive Accounting Corp., 776 F.2d 665 (7th Cir. 1985); A.I. Root Co. v. Computer Dynamics, Inc., 806 F.2d 673 (6th Cir. 1986).

[100] *See* 28 U.S.C. § 1295(a). The Federal Circuit has also stated that "Federal Circuit law governs all antitrust claims premised on the abuse of a patent right." Unitherm Food Sys., Inc. v. Swift-Eckrich, Inc., *cert. granted on other grounds*, 125 S. Ct. 1396 (Feb. 28, 2005) (No. 04-597).

The minority of courts that have applied the presumption have, knowingly or otherwise, engaged in the third step of the process required to preserve the factually baseless presumption of market power: They have redefined the "presumption" of *Loew's* to be a presumption of *market power* rather than the "presumption of uniqueness" that it claimed to be. This is hardly a small step. We have seen that *International Salt* said nothing abut presumptions or market power, and *Loew's* hotly denied that the presumption of uniqueness could ever be confused with a presumption of actual market power.[101] Indeed, when the defendants in *Northern Securities* argued that the patent in *International Salt* was the equivalent of real market power, Justice Black responded that it was "common knowledge" that patents do not by themselves convey such power.[102] How have these courts failed to notice?

The explanation is dicta. Even as the Supreme Court introduced the concept of genuine market power in *Fortner II* and *Hyde*, the majority opinions (both written, coincidentally, by Justice Stevens) strained to give the appearance of citing every tying case in the Court's history with approval. Thus, the principal ground for the Federal Circuit's conclusion that the "holdings" of *International Salt* and *Loew's* had been "reaffirmed" was this statement in *Hyde*: "For example, if the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. *United States v. Loew's*, 371 U.S. at 45–47."[103] After quoting that passage from *Hyde*, the Federal Circuit declared that "we are obliged to follow such clearly articulated Supreme Court dicta."[104]

The minority of courts that have applied the presumption have . . . redefined the "presumption" of* Loew's *to be a presumption of market power rather than the "presumption of uniqueness" that it claimed to be.

Really? I thought it was a matter of definition that "[*s*]*tare* decisis does not attach to such parts of the opinion of a court as are mere dicta."[105] The law's caution in applying dicta is abundantly justified here, where the only authority cited by the *Hyde* majority was *Loew's* itself,[106] including the very page in *Loew's* stating that a tying claim "does not necessitate a demonstration of market power . . . ."[107] The *Hyde* opinion's remark about patents was immediately challenged, moreover, by the four concurring members of the Court, who characterized the presumption of market power in patent cases as a "common misconception."[108] And when the Ninth Circuit relied on *Loew's* to apply a presumption of market power in *Digidyne*, Justices White and Blackmun, both members of the *Hyde* majority, dissented from the Court's refusal to grant certiorari, describing the Ninth Circuit decision as "suspect on several grounds."[109]

Moreover, because dicta does not result from "full application of the judicial mind to the precise question,"[110] embracing it leads to unintended consequences. One of the ironies of the cases following *Hyde* is that the Supreme Court's effort to expand the range of legality under the antitrust laws for beneficial ties in all areas (by redefining the required "power" as market power)

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[101] *Loew's*, 371 U.S. at 45 & n.4.

[102] *Northern Securities*, 356 U.S. at 10 n.8.

[103] *Hyde*, 466 U.S. at 16.

[104] *Independent Ink*, 396 F.3d at 1351.

[105] BALLENTINE'S LAW DICTIONARY 346 (3d. ed. 1969).

[106] *See Hyde*, 466 U.S. at 16 (citing 371 U.S. at 45–47).

[107] *Loew's*, 371 U.S. at 45 n.4.

[108] 466 U.S. at 37 n.7 (O'Connor, J., concurring).

[109] Data Gen. Corp. v. Digidyne Corp., 473 U.S. 908, 909 (1985) (White, J., dissenting from denial of cert.) (urging review to determine "what effect should be given to the existence of a copyright . . . in determining market power").

[110] Carroll v. Carroll, 57 U.S. 275. 14 L. Ed. 936 (1853).

has inadvertently narrowed the scope of legality for ties involving intellectual property. By also redefining the *Loew's* "presumption" to be one of market power, courts like the Federal Circuit have taken what was designed to be an additional burden for the claimant (who must prove real market power) and turned it into a burden for the intellectual property defendant (for whom real market power is presumed). It should take more than dicta to achieve such a contradictory result.

I noted at the outset that the attempt to analogize the Federal Circuit's opinion to that of Judge Posner in *State Oil v. Khan* was unpersuasive. In *Khan*, Judge Posner faced a clearly stated and undisputed rule of the Supreme Court that maximum price fixing was always illegal. There was no split among the lower courts as to whether the rule even existed, as there is in *Illinois Tool*. On the issue of market power, therefore, the Supreme Court's opinion in *Loew's* can only become the binding authority that Judge Posner faced in *Khan* if it is misread—and misread to mean the opposite of what it says. Judge Posner, moreover, explained in detail why the rule itself was contrary to the goals of antitrust because (like the presumption of market power) it hurt consumers. He thus provided a roadmap for reversal of his own opinion, which the Supreme Court followed closely. The Federal Circuit, by contrast, did not explain the baselessness of the presumption as a matter of economic reality, nor even comment on the absurdity of its conclusion that the plaintiff's Section 2 claim should be dismissed (for the failure to allege market power) while its Section 1 claim survived (due to a presumption of market power).[111] Rather, the Federal Circuit seemed content to create a new body of "patent tying law"—which is to be governed in its entirety by Federal Circuit precedent.[112]

In sum, the Federal Circuit's decision in* Illinois Tool *was not an otherwise laudable bow to the limits of its own power. It was error.

In sum, the Federal Circuit's decision in *Illinois Tool* was not an otherwise laudable bow to the limits of its own power. It was error. And by saddling *International Salt* with yet a second rationale (1) never contemplated by that Court and (2) inconsistent with *Loew's*, it took as its model *Flood v. Kuhn*, not *State Oil v. Khan*.

Congressional Inaction: If It Looks Like A Duck . . .

Having followed the three-step development of both the exemption for baseball and the presumption of market power, we may now complete the analogy.

(1) In both cases, those who claim to be bound by the doctrine trace that obligation to a venerable Supreme Court decision, even though one (*Federal Baseball*) said nothing about exemptions and the other (*International Salt*) said nothing about presumptions.

(2) In both cases, that original holding was based on a rationale—"incidental effects" in *Federal Baseball* and the pristine per se rule against tying in *International Salt*—that are now inconsistent with later antitrust jurisprudence.

(3) Yet in both cases, when the Court revisited the issue, it chose not to overrule the first decision or to distinguish it as based on an early and incomplete legal doctrine, but instead invented a new rationale of dubious factual and legal merit.

(4) In baseball, the notion in *Toolson* that the Congress of 1890 actually intended a specific exemption for baseball was so absurd that the lower courts ignored it for years; in patent tying, the "presumption of uniqueness" in *Loew's* was economically pointless and circular to boot.

[111] The Federal Circuit did not even acknowledge its numerous statements in non-tying cases that "[a] patent alone does not demonstrate market power." *In re* Independent Serv. Orgs. Antitrust Litig., 203 F.2d 1322, 1325 (Fed. Cir. 2000).

[112] *See* Independent Ink v. Illinois Tool, 396 F.3d at 1346 ("We conclude that the antitrust consequences of patent tying likewise is a question governed by our law.").

(5) Finally, both doctrines required a third step to make them complete, and one tinged with irony. The insistence in *Flood* that Holmes had demanded a Congressional solution to the baseball exemption was probably the opposite of the truth; his "incidental effects" rationale was derived from the perceived *limits* on Congress's power to regulate interstate commerce. And the transformation by the Federal Circuit of the presumption of *Loew's* into a presumption of *market power* is remarkable given the express rejection of that proposition in *Loew's* itself.

The Supreme Court has been invited to take the same third step in *Illinois Tool*. If it affirms, it will sustain an antitrust doctrine equally unrooted in economic reality, and equally disrespected, as the baseball exemption.

And the baseball exemption has one final, painful lesson to teach us—that expecting Congress to correct the Supreme Court's mistakes is simply chimerical. I am not referring merely to the theoretical weaknesses of reliance on Congressional inaction, which are profound. There are myriad potential reasons why Congress fails to enact legislation, and there is no sound argument that a later Congress's "intention" in failing to act has any relation to the intention of the prior Congress that passed the statute. Since Justice Scalia labeled the argument a "canard" in the 1980s, the Court has observed with increasing frequency that "Congressional inaction lacks persuasive significance because several equally tenable inferences may be drawn from such inaction, including the inference that the existing legislation already incorporated the offered change."[113]

As *Illinois Tool* demonstrates, moreover, there is the vexing problem of just what Congressional inaction *is*. In 1988, Congress acted to amend the patent statute by removing any presumption of market power when an alleged infringer asserts patent "misuse" based on tying as a defense.[114] (Misuse is an equitable defense to infringement that some courts historically viewed as easier to prove than an antitrust violation.[115]) Because, as Professor Hovenkamp has noted, "it would be irrational for Congress to immunize patent ties from Patent Act liability only to have them condemned under the [antitrust laws],"[116] some have argued that Congress's amendment of the patent statute impliedly repealed the antitrust laws from supporting the contrary results.[117]

Notwithstanding this argument, however, the rejoinder of the Respondent in *Illinois Tool* has been that Congress's failure to amend the antitrust laws at the same time shows that this "irrational" result was precisely what Congress intended.[118] Even the Federal Circuit found it "noteworthy that Congress has declined to require a showing of market power for affirmative patent tying claims."[119] Yet Congress' failure to amend the highly general proscriptions of the antitrust

[113] United States v. Craft, 535 U.S. 274, 287 (2002) (quotation omitted). *See* Alexander v. Sandoval, 532 U.S. 275, 292 (2001) ("it is impossible to assert with any degree of assurance that Congressional failure to act represent affirmative Congressional approval of the Court's statutory interpretation").

[114] Patent Misuse Reform Act of 1988, Pub. L. 100-703, 102 Stat. 4676 (codified at 35 U.S.C. § 271(d)(5)).

[115] *See* HOVENKAMP ET AL., *supra* note 59, § 4.2e6, at 4-36 (2005 Supp.). Most courts have abandoned the notion that there is or should be any difference between the standards for misuse and affirmative antitrust claims. *See, e.g.*, USM Corp. v. SPS Technologies, Inc., 694 F.2d 505, 511–14 (7th Cir. 1982).

[116] *Id.*

[117] *See* Brief of New York Intellectual Property Law Association as Amicus Curiae in Support of Petitioners at 12–24, Illinois Tool Works Inc. v. Independent Ink, Inc., No. 04-1329 (U.S.) (Aug. 4, 2005).

[118] Respondent's Brief In Opposition to Petition for Certiorari at 1–5, Illinois Tool Works Inc. v. Independent Ink, Inc., No. 04-1329 (U.S.) (May 5, 2005).

laws is far more likely to have resulted from the view, as expressed by an Assistant Attorney General for Antitrust to a later Congress, that the presumption had been *rejected* by most courts and that the Ninth Circuit's contrary decision in Digidyne was a "relic."[120] I do not expect the Court to reach the argument of implied repeal in *Illinois Tool*, because it does not need to. But the simple fact that the same Congressional events have been argued both ways demonstrates how unrigorous the doctrine is in application.

Beyond these theoretical flaws, however, the baseball exemption shows us what to expect in practical terms when we leave it to Congress to address and remedy the problem. The first thing is that it may take a while. When it decided *Toolson* in 1953, the Court knew that Congress had the baseball exemption under active consideration, yet no "remedy" ensued. When the Court decided *Flood* in 1972, therefore, Chief Justice Burger's concurring opinion gave Congress this stern command: "[I]t is time the Congress acted to solve the problem."[121] And so Congress did act, a mere 26 years later, when it passed "The Curt Flood Act of 1998."

If you have not heard of this statute, do not despair. As far as I can tell, it has never been invoked, for reasons which will be obvious presently. Nonetheless it was announced with great fanfare when passed, with all the usual shibboleths: "The legislation reverses . . . an 'aberrant' 1922 Supreme Court decision that exempted baseball labor relations from antitrust laws on the grounds that it is a game and not a business."[122] In point of fact, the statute by its terms does not "reverse" *Federal Baseball*, nor does it have any other practical effect in exposing baseball to antitrust liability.

Rather than simply declaring that all commercial activity is subject to the antitrust laws unless expressly exempted, the statute adds a new Section 27 to the Clayton Act comprising over 1200 words and 18 separate subsections. The limitations in the bill are reflected in its own description of its purpose:

> It is the purpose of this legislation to state that major league baseball players are covered under the antitrust laws (i.e., that major league baseball players will have the same rights under the antitrust laws as do other professional athletes, e.g., football and basketball players), along with a provision that makes it clear that the passage of this Act does not change the application of the antitrust laws in any other context or with respect to any other person or entity.[123]

In other words, a major league ballplayer can now sue under the antitrust laws, but the "exemption" is undisturbed with respect to issues such as team relocation, league expansion, and broadcasting. And we do mean that only *major* leaguers can sue. The Act goes to nearly comical lengths of definition and loophole plugging to ensure that hapless minor leaguers will not be included. Thus, the Act purports to lift the exemption for Curt Flood himself, but all others—whether a dissenting owner, a competitive league, or even our bush-league pal, George Earl Toolson—are out of luck.

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[119] 396 F.3d at 1349 n.7.

[120] *Intellectual Property Antitrust Protection Act of 1995: Hearings on H.R. 2674 Before the Comm. on the Judiciary*, House of Reps., 104th Cong., 2d Sess. at 16–18 (1996) (testimony of Assistant Attorney General Joel Klein).

[121] *Flood v. Kuhn*, 407 U.S. at 286.

[122] *Congress Votes Baseball Bill*, N.Y. Times, Oct. 8, 1998, at D4.

[123] P.L. 105-297, § 2.

And even Curt Flood could not sue successfully under the Act, as long as he was a member of the players' union. The restraints on current players are part of the collective bargaining agreement (CBA), and there is a separate antitrust exemption under the labor laws that protects the owners from claims based on the CBA.[124] For any player to make use of the Curt Flood Act, therefore, the union would have to be decertified before he could sue. Decertification is no small thing, and it is a decision controlled entirely by the union. It has not happened yet.[125]

As a result, the Curt Flood Act of 1998 could be a poster child for the proposition that a subsequent Congress should *not* be entrusted to repair judicial mistakes in statutory construction. Far from removing the antitrust exemption, it works a small repeal of only arguable utility for those who need protection the least (the major leaguers already protected by the CBA). It does not even "reverse" the decision in *Federal Baseball*, because the plaintiff there was a club in a rival league, not a major league player. All that this statute really does (besides throwing the players' union a bone that they would use only as an act of desperation) is to render the nonsensical holding of *Toolson* stranger yet, as Congress announces that a judicially created exemption will apply to some ballplayers, but not to others.

. . . the Curt Flood Act of 1998 could be a poster child for the proposition that a subsequent Congress should not *be entrusted to repair judicial mistakes in statutory construction.*

The Curt Flood Act of 1998 notwithstanding, the antitrust exemption remains, in all important respects, intact. There's still no tying in baseball.

Conclusion

I find the baseball cases compelling here because, in order to "reaffirm" and follow its prior precedent, the Court had to recast and bend those holdings until they were unrecognizable. So it is that, in *Illinois Tool*, the Court could only "reaffirm" a presumption of actual market power by discovering it in a case (*Loew's*) that expressly denied its existence. Simply describing the baseball cases, one hopes, makes it seem inconceivable that the Supreme Court could again misapply stare decisis so grotesquely. Yet it happened once. And there would appear to be no theory other than stare decisis, and no excuse other than Congressional inaction, if it happens in *Illinois Tool*.

But take heart. The Court has made clear that stare decisis applies to holdings, not "clearly articulated . . . dicta," and the holdings of *International Salt* and *Loew's* do not begin to bear the weight that the Federal Circuit has placed upon them. So I am predicting reversal. If I am wrong, I will always suspect it was because the Court failed to keep its mind on the game. ●

[124] *See, e.g.*, Brown v. Pro Football, Inc., 518 U.S. 231, 250 (1996).

[125] I have found no case in which a major leaguer has brought suit under the Act, even to have it dismissed under the labor exemption. In the words of one court considering the impact of the Curt Flood Act of 1998, "[n]othing of substance has changed since Flood." Major League Baseball v. Butterworth, 181 F. Supp. 2d 1316, 1331 (N.D. Fla. 2000); *id.* n.16.