

7-2009

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Recommended Citation

Gallagher, William T., "Review of Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk, by James Bessen and Michael J. Meurer" (2009). *Publications*. Paper 96.
<http://digitalcommons.law.ggu.edu/pubs/96>

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***Review of *Patent Failure: How Judges, Bureaucrats, and
Lawyers Put Innovators at Risk*, by James Bessen and
Michael J. Meurer
(Princeton University Press, 2008)***

Published in 19 *Law and Politics Book Review*: 568 (2009)

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Fall 2009**

PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK, by James Bessen and Michael J. Meurer. Princeton, N.J.: Princeton University Press, 2008. 352pp. Hardcover \$29.95/£21.95. ISBN: 9780691134918. Paper. \$22.95/£15.95. ISBN: 9780691143217.

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The US patent system is often thought to play a vital role in promoting innovation and spurring economic growth. Indeed, that is the primary utilitarian justification that animates US patent law. In recent years, however, scholars have debated whether the contemporary patent system impedes rather than promotes innovation and is thus in need of fundamental reform (e.g., Jaffe and Lerner 2004; Burk and Lemley 2009). Responding to interest-group lobbying, Congress, too, has considered major changes to the patent system for several years, even though it has not yet enacted any in light of significant disagreement about the effect of proposed reforms. In **PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK**, authors James Bessen and Michael J. Meurer argue that too much of the contemporary patent reform debate is based on anecdote, rhetoric, and idealized assumptions about how patents actually work rather than on sound data. **PATENT FAILURE** is an ambitious and challenging book that seeks to change all that by marshalling an impressive array of empirical data on the US patent system to inform issues of patent law and policy. Bessen and Meurer agree with critics that the US patent system is broken, and the main goal of **PATENT FAILURE** is to demonstrate how and

why this is so and to propose directions for patent system reform.

The opening chapter presents an overview and summary of the book's main arguments, which is particularly helpful given both the complexities of patent law and the extensive amount of data analyzed in the book (which is intended for a general audience). The next section of **PATENT FAILURE** (chapters 2-4) lays the groundwork for Bessen and Meurer's central thesis that patents fail to "work as property." By this, the authors mean that patents, a type of "intellectual property" that protect rights in intangibles, fare badly when compared with private property systems that protect tangibles (such as land) – with deleterious economic consequences. Specifically, the contemporary patent system fails to provide adequate notice of the legal rights patents confer, so that patent owners and potential infringers alike often cannot readily ascertain who owns what rights – a degree of legal uncertainty Bessen and Meurer argue would be intolerable in a system of tangible property rights. This "notice failure" (the inability to provide predictable property rights) undermines the economic utility of patents and therefore the effectiveness of the US patent system (pp.53-54).

Bessen and Meurer critique some of the main legal doctrines and institutional practices that have weakened the notice function of patents and exacerbated patent system uncertainty since the 1980s. The targets of their criticism include the Patent and Trademark Office (the “PTO”), the administrative agency that examines applications and issues patents, and the US Court of Appeals for the Federal Circuit (“Federal Circuit”), which since 1982 is the centralized appellate court for all patent litigation (Abramson 2007). Bessen and Meurer criticize the PTO for allowing vague patent claims to issue, which are subsequently enforced by the courts (pp.57-58). They are also critical of the practice of filing so-called “continuation” patent claims, which allow inventors to “hide” modifications to pending (and even published) applications and thus to delay public awareness of exactly what inventors claim as their property right – a practice that has grown seven-fold since 1984 (pp.62-63). Bessen and Meurer fault the Federal Circuit for failing to develop workable guidelines to assist lower courts in interpreting the meaning and scope of patent claims and for employing a *de novo* standard of review for claim interpretation on appeal. These practices prevent a definitive ruling on the meaning of patent claim language until a late stage in litigation, thus prolonging uncertainty as to what the relevant legal rights at issue are. The Federal Circuit and many district courts also are to blame, the authors contend, for unduly expanding patent owners’ rights by increasingly interpreting abstract patent claims very broadly, particularly in the areas of software and “business-method” patents (pp.64-68). All of these problems, along with the

sheer “flood” of patent applications (which have more than tripled since the 1990s) weaken patent notice and thereby increase costs and uncertainty in the patent system (pp.68-71).

Chapter 4 of PATENT FAILURE explores further the authors’ argument that patents fail to work as property by comparing the relative effects of tangible property rights and patent rights on economic growth. This chapter is based on an extensive review of a by-now very substantial literature – including economic history, comparative econometric studies, and natural economic experiments. Surveying and synthesizing this literature, Bessen and Meurer highlight various ways that, when compared with systems of tangible property, patents do not necessarily provide the level of economic benefit they are often assumed to generate.

Having thus made the argument that patents do not always promote economic development, as is often assumed, in Chapters 5 and 6 Bessen and Meurer creatively estimate the benefits and costs (primarily the tremendous costs of patent litigation, which have exploded since the mid-1990s) respectively of patent ownership from the 1970s to the present. These chapters are based on an impressive synthesis of empirical data, including the authors’ own previous studies, on US public companies. The findings are striking. Perhaps the most important conclusion presented is that the benefits of patent ownership vary dramatically between industries. Indeed, the authors conclude that since the 1990s it is only in the chemical and pharmaceutical industries that the benefits of patent ownership clearly outweigh the costs (p.140). For most

other industries, particularly high-tech and computer and software companies, patents act as a disincentive to innovation (p.141-46).

The next several chapters further explore how and why the US patent system's failures are best understood as resulting from the historically recent, but increasing, deterioration of patent notice. Chapter 7 evaluates potential alternative explanations for the decline of the patent system, such as increasing business-to-business litigiousness, the rise of patent "trolls" – who enforce patents but do not manufacture or commercialize any products – or the supposed decline in patent examination quality in the PTO. Bessen and Meurer conclude that patent notice decline is the strongest explanation that comports with the empirical evidence. Chapter 8 details particular notice problems that affect small companies. And Chapter 9 focuses on the specific – and acute – notice problems associated with abstract software and business methods patents.

The substantial contribution of *PATENT FAILURE* lies in its careful, comprehensive, and ultimately quite convincing marshalling of empirical data to demonstrate the book's main thesis: how and why over the past two decades the US patent system has become dysfunctional for all but a few actors and industries. The final two chapters of the book advocate for numerous reforms to both patent law and institutions aimed at alleviating some of the uncertainty that Bessen and Meurer show increasingly hobbles the patent system. These reforms include: strengthening the "non-obviousness" requirement for patentability (p.236); instituting a deferential standard of review in the

Federal Circuit to patent claim interpretations made by the PTO (during the application process) and the federal district courts (during patent litigation) (p.237); creating specialized trial-level patent courts (p.238); requiring patent applicants to draft clearer patent claims and permitting the PTO to issue opinion letters on patent claim interpretation (pp.230-240); mandating early publication of patent applications and eliminating expansive post-application amendments (pp.242-243); creating special burdens for the patentability of most software and business-methods patents (pp.243-247); increasing the fees for required renewals of issued patents (p.247); and strengthening certain defenses to patent infringement lawsuits (pp.248-251).

This lengthy list of proposed reforms is somewhat daunting, which is perhaps not surprising given the nature and extent of the problems that *PATENT FAILURE* carefully explicates. Bessen and Meurer are forthright about their uncertainty that any of the reforms they advocate will actually work: "We are sure reform is needed but it is hard to say how effective any of these reforms will be or how successful they would be together at fixing the patent system" (p.235). Moreover, the authors recognize the likely formidable political resistance to reform that might be expected from powerful actors who benefit from the current patent system (e.g., the pharmaceutical industry or the patent bar) (pp.256-260). Yet they suggest that political resistance to reform may recede precisely because the patent system is increasingly dysfunctional for even those it currently benefits (p.259) (not a fully convincing argument) and that a flexible and data-driven approach

to reform is necessary (which seems pragmatic and correct).

There is much room to debate whether the authors make a convincing case for any particular reform proposal. Moreover, readers of PATENT FAILURE may not be sanguine about the likelihood that Congress or other policy-makers even care about, much less rely on, empirical data to inform their decision-making. But this book successfully demonstrates that they should. Ultimately, PATENT FAILURE is a significant contribution to the growing literature on the problems and promise of the US patent system. The book is at times a challenge to read because it is so dense with information and with multiple arguments intended to bolster and test the authors' main theses. But PATENT FAILURE rewards careful reading and is a book that cannot credibly be ignored by anyone seriously concerned about the fate of the US patent system.

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