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## **The Public Contract Basis of Intellectual Property Rights**

by

**Randolph J. May \* and Seth L. Cooper \*\***

### **Introduction and Summary**

Property rights and contracts rights share an inseparable connection in American constitutionalism. One of the basic premises of America's constitutional order is that all people have a natural right to keep, use, and enjoy the fruits of their labors. We call those fruits property, whether the labors result in the creation of tangible physical objects or non-tangible ones like writings or inventions.

The Constitution's Article I, Section 8 Intellectual Property Clause grants to Congress the power "To Promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." It was a background assumption of the Founders that copyrights and patent rights secured by the Constitution were property rights ultimately rooted in the natural rights of authors and inventors to the fruits of their labors. This proposition, which remains as relevant in today's Digital Age as it was at the time of the Constitution's adoption, was at the core of our book, *The Constitutional Foundations of Intellectual Property: A Natural Rights Perspective* (2015).

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**The Free State Foundation**  
**P.O. Box 60680, Potomac, MD 20859**  
**[info@freestatefoundation.org](mailto:info@freestatefoundation.org)**  
**[www.freestatefoundation.org](http://www.freestatefoundation.org)**

A person's natural right to property also includes a natural right to assign it or exchange it by contract. Indeed, the Founders also believed that individuals have a natural right to establish governments by their consent through a special type of political contract commonly known as a social compact. Governments are thereby formed to protect individuals' natural rights, including their rights in private property. The Founders' contractarian understanding of government's origin and its duties in securing individuals' natural rights shaped early American law of property and contract. Importantly, this contractarian understanding was brought to bear on the law of patents and copyrights in a way that remains relevant today.

In this view, patent rights and copyrights are secured by a contract between the federal government, on the one hand, and inventors and creative artists, on the other. Beginning in early America and continuing through the early 20th century, this public contract or social compact basis for intellectual property protection has been observed in numerous judicial opinions and legal treatises.

The constitutional jurisprudence of Chief Justice Marshall exemplifies the social compact basis of government and the sanctity of contracts. The Supreme Court's decision in *Trustees of Dartmouth College v. Woodward* (1819) rooted copyright protection in notions of a public contract between the federal government and the author. Marshall wrote that in exchange for "the advancement to literature" that results from inducing authorship and publication, the author receives copyright protection in his or her work.

More forthrightly, Marshall's opinion in *Grant v. Raymond* (1832) articulated the public contract basis of patent grants:

It is the reward stipulated for the advantages derived by the public for the exertions of the individual, and is intended as a stimulus to those exertions. The laws which are passed to give effect to this purpose ought, we think, to be construed in the spirit in which they have been made; and to execute the contract fairly on the part of the United States, where the full benefit has been actually received.

According to Marshall, where "the communication of the discovery to the public has been made in pursuance of law, with the intent to exercise a privilege which is the consideration paid by the public for the future use of the machine," then "the public faith is pledged" to protect an inventor's exclusive enjoyment of his patent rights. From the contractarian premises articulated by Marshall, it follows that specification or description of an invention in a patent application is essential to proper tendering of consideration and to establishing the scope of the bargained-for protection.

Over the ensuing decades, the contractual nature of patent rights was reaffirmed by a number of jurists and legal treatise writers. In a handful of patent cases decided in the middle to late 19th century, the Supreme Court cited and quoted from Marshall's description of patents as contracts between the applicant inventor and the federal government. A number of subsequent Supreme Court cases also reinforced the public contract premise of *Grant v. Raymond* in somewhat different phraseology or emphasized different elements of the public contract concept.

The public contract basis of copyrights has been articulated with much less frequency and less clearly than is the case with patents rights. Yet both copyrights and patent rights receive protection pursuant to public contracts between creative artists and inventors and the federal government, acting on behalf of the people.

In the case of copyright, registration of the creative work constitutes the valuable consideration given to the public. The creative artist – whether an author, music recording artist, or motion picture studio – enjoys, for a period of time, exclusive rights concerning the use and reproduction of the creative work. The public receives the benefits resulting from creative artists’ pursuit and production of such works. In exchange, as economic inducements to undertake the intellectual labors necessary to produce such works, copyright law secures to the creative artists’ exclusive rights to financial returns and rewards from the production of creative works.

Some scholars have wrongly inferred from the public contract concepts that IP rights do not rest on natural rights premises but instead simply reflect government policy preferences about what is useful to the public. That is an impoverished view concerning the relationship between contracts and IP rights. In truth, principles of contract, reflected in both the social compact theory and in public contracts, form a continuous link between natural rights and intellectual property protections. The contract basis for IP rights, as an embodiment of natural rights principles, reinforces the just claims of inventors and creative artists to protections for their vested property interests in the fruits of their labors.

Plainly, the IP Clause’s grant of power to Congress “To Promote the Progress of Science and useful Arts” expresses a Congressional duty to the public. But in *Federalist No. 43*, James Madison regarded “[t]he copyright of authors” or “the right of useful invention” as beneficial to the public, not at odds with it. As Madison wrote concerning the rights secured by the IP Clause, “[t]he public good fully coincides in both cases with the claims of individuals.” Yet even if one believes the primary interest of the Intellectual Property Clause is directed toward the public good – which is not our view – its secondary interest in securing individuals’ patent rights and copyrights is nonetheless rooted in natural rights of property and contract. Protection for the exclusive intellectual property rights of inventors and creative artists therefore deserve what Marshall, in *Grant v. Raymond*, called “the faithful execution of the solemn promise made by the United States.” This is no less true today than when Marshall wrote those words in 1832.

### **Securing Natural Rights Through A Social Compact**

A basic premise of American constitutionalism is that all people have a natural right to keep, use, and enjoy the fruits of their labors. We call these fruits property. And a person’s natural right to property includes a natural right to assign it or exchange it by contract. By social compact, people agree to protect their natural rights, including their rights in private property. This is a core principle of classical liberal political philosophy that was widely assented to by the Founders.

According to classical liberal theory, a unique type of political contract – often called a social compact – is the means by which people consent to establish a government. It is by virtue of the

social compact that people set forth the scope, form, powers, and duties of their government. By social compact, people agree to protect their natural rights, including their rights in private property. America's Founders accepted core principles of classical liberal political philosophy. They applied these principles in the course of declaring the United States a free and independent nation in 1776. They further applied these principles in strengthening that Union under the Constitution of 1787.

One of the Founders' unique contributions to classical liberal political philosophy was their own formulation of the social compact. Their formulation was distinct in that it was entered into by and between people of different states through popularly elected special conventions. "[T]he Constitution is to be founded on the assent and ratification of the people of America, given by deputies elected for the special purpose," wrote James Madison in *Federalist No. 39*. Yet "this assent and ratification is to be given by the people, not as individuals composing one entire nation, but as composing the distinct and independent States to which they respectively belong." Of course, the Founders' unique formulation of the social compact grew out of their equally unique idea of an "extended republic" in which powers were divided between three branches and further separated between the federal and state governments. This extension, separation, and division of powers, explained Madison in *Federalist Nos. 10* and *51*, would provide better security to "[t]he diversity in the faculties of men, from which the rights of property originate."

Following ratification, early American statesmen, jurists, and other writers reaffirmed the character of the Constitution as a social compact based on the consent of the governed. In turn, this social compact or contractual understanding of government's origin and its duties in securing individuals' natural rights shaped early American contract and property law. As constitutional historian Francis N. Stites wrote: "The liberal individualism of John Locke and its concern with natural law and social contract formed a climate of opinion that society existed to preserve the rights an individual possessed before he entered society and the corollary that society benefitted or prospered in direct proportion to the protection afforded individual rights." According to Stites, "Nineteenth-century American law absorbed this belief in the tie between individual rights and public welfare."

The natural rights and social contract concepts that so influenced early American law were brought to bear on the law of patents and copyrights. Beginning in early America and continuing up through the early 20th century, the public contract basis for patent rights secured under the Intellectual Property Clause has been observed in numerous judicial opinions and legal treatises. Although the contract basis for copyrights has not been explicitly observed as frequently, the underlying logic of public contracts applies to both types of intellectual property recognized by the IP Clause.

### **The Public Contract Basis of John Marshall's Constitutional Jurisprudence**

John Marshall was a veteran of the American Revolution, law student of Virginia Chancellor George Wythe, accomplished lawyer, delegate to Virginia's State Ratifying Convention, former Congressman, confidante of George Washington, diplomat to France and Secretary of State to John Adams. He authored *Life of Washington* (1804-1807), the first multi-volume biography of the "Father of Our Country." For all this, Marshall's greatest distinction came through his 34-

year tenure as Chief Justice of the United States Supreme Court. His interpretations of key constitutional provisions earned him the title “Expounder of the Constitution.” Marshall’s contribution and lasting impact on American law was summed up by his colleague, Associate Joseph Story. As Story reminisced of Marshall:

His peculiar triumph was in the exposition of constitutional law. It was here that he stood confessedly without a rival, whether we regard his thorough knowledge of our civil and political history, his admirable powers of illustration and generalization, his scrupulous integrity and exactness in interpretation, or his consummate skill in moulding his own genius into its elements as if they had constituted the exclusive study of his life. His proudest epitaph may be written in a single line—Here lies the Expounder of the Constitution of the United States.

The constitutional jurisprudence of Chief Justice Marshall exemplifies the social compact basis of government joined with the sanctity of contracts. Indeed, Constitutional historian Samuel J. Konefsky encapsulated wide scholarly consensus in describing Marshall as “a disciple of the social compact theory of government and of natural rights.” The social compact formed a critical backdrop to Marshall’s landmark judicial opinion in *McCulloch v. Maryland* (1819). In *McCulloch*, Marshall ruled that the establishment of a corporation – the Bank of the United States – was within the scope of Congress’s powers to regulate interstate commerce and to pass all laws necessary and proper for carrying into execution that power. His discussion of the scope and supremacy of federal power in *McCulloch* traced back to the state ratification process by which the Constitution of 1787 was ultimately adopted. Marshall wrote that “The assent of the States in their sovereign capacity is implied in calling a convention, and thus submitting that instrument to the people.” In describing the result of the completed ratification process, Marshall employed terminology familiar to contracts. “The Constitution, when thus adopted, was of complete obligation, and bound the State sovereignties,” he wrote. “The Government of the Union then is, emphatically and truly, a Government of the people. . . Its powers are granted by them, and are to be exercised directly on them, and for their benefit.” Further, Marshall explained that the federal government is one of “enumerated powers.” That is, “it can exercise only the powers granted to it.”

The Marshall Court subsequently confronted questions about the relationship between the natural origins and legal enforceability of contractual obligations in *Ogden v. Saunders* (1827). In essence, Marshall concluded that by entering into a social compact, free people do not surrender their freedom to form contracts and assume rights and obligations that ought to be enforced. In *Ogden*, Marshall rejected the idea that contract is “the mere creature of society” that “derives its obligation from the law” passed by legislatures. Rather, Marshall recognized that “In the rudest state of nature a man governs himself, and labors for his own purposes. That which he acquires is his own, at least while in his possession, and he may transfer it to another.” In other words: “[I]ndividuals do not derive from government their right to contract, but bring that right with them into society.” He conceded that people do surrender to government their natural right to coerce performance when a breach of contract exists. In exchange, government may prescribe by law the remedies for the breach. But according to Marshall, contracts involve “the idea of a pre-existing obligation on every man to do what he has promised on consideration to do so.” And that contractual obligation is not something people give up through the social compact.

*Ogden v. Saunders* was the only case in which Marshall dissented on a constitutional question in his thirty-four years of service as Chief Justice. (The Court's majority in *Ogden* upheld a state bankruptcy law discharging debtors for contractual obligations incurred after the law was enacted. It conceded the state law could not operate retroactively but Marshall believed the Contracts Clause forbid even prospective application of the law.) Nonetheless, the reasoning of his dissent exemplifies the natural rights basis for contracts. His dissent in *Ogden* also provides a useful starting point for understanding his landmark opinions for the Supreme Court involving the sanctity of contracts.

## **The Contracts Clause and First Principles of Legislation**

Key to Marshall's constitutional jurisprudence concerning contracts was his understanding of Article I, Section 10 and the principles that stood behind it. That section includes the proviso that: "No state shall... pass any Bill of Attainder, ex post facto Law, or Law impairing the Obligation of Contracts."

By its terms, Section 10 only limits state power. Yet the understanding the Founders brought to Section 10 relates back to principles concerning the nature of legislative power. In *Federalist No. 44*, Madison wrote that "Bills of attainder, ex post facto laws, and laws impairing the obligation of contracts, are contrary to the first principles of the social compact, and to every principle of sound legislation." Thus, despite the lack of express provision restricting the federal government from impairing the obligation of contracts, it was widely held among the Founders that all such laws were in violation of the first principles upon which all legislation rests and altogether outside the scope of enumerated legislative powers granted to Congress in Article I, Section 8. It can hardly be maintained that the Founders understood the Constitution to give Congress a power to impair individuals' natural rights to contract. A reasonable argument can even be made that laws impairing the obligation of contracts are inherently improper, and therefore contrary to the Article I, Section 8, Clause 18 Necessary and Proper Clause, which grants Congress power "To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers" contained in Article I, Section 8.

Marshall's opinion for the Supreme Court in *Fletcher v. Peck* (1810) established a broad definition of contracts that are protected by the Article I, Section 10 Contracts Clause. As Marshall explained in *Fletcher*, the terms of the contract clause "are general, and are applicable to contracts of every description." Marshall's opinion for the court cited Sir William Blackstone for the proposition that an executed contract, "in which the object of the contract is performed... differs in nothing from a grant." He thereby characterized the Georgia legislature's issuance of land grants as a contract between the state and the recipients of the grant. Consistent with the view expressed by Madison in *Federalist No. 44* that laws impairing the obligations of contract are contrary to the social compact, Marshall further concluded in *Fletcher* that the Georgia legislature's subsequent repeal of the land grants violated "general principles, which are common to our free institutions."

According to constitutional historian Francis N. Stites, "*Fletcher v. Peck* represented the first step toward employing the contract clause to protected vested rights." Through Marshall's

opinion, the Court “enlarged the idea of contract by declaring that public contracts, those to which a state is a party, were as much within the limitations of the contract clause as private contracts.” Further, “[a]s a result of the decision in *Fletcher*,” observed constitutional historian James W. Ely, Jr., “the contract clause served in the antebellum era as the most significant constitutional limitation on state power to regulate the economy.” Indeed, “[s]ubsequent Supreme Court decisions broadly applied the contract clause to a variety of state economic arrangements.”

### **Comparing and Contrasting Patents in Land with Patents in Inventions**

Perhaps on first impression, *Fletcher v. Peck* may seem irrelevant to intellectual property rights in that the IP Clause makes protection of patent rights and copyrights a federal concern rather than state concern. Yet the legal reasoning in *Fletcher* does have some implications for intellectual property rights. Certainly, *Fletcher*’s importance in recognizing that rights vested upon the execution of valid public contracts cannot be infringed applies insofar as federal land grants or land patents are considered to be in common with federal patent grants for inventions.

Both the similarities and differences between patents for land and patents for invention have been recognized by the Supreme Court. In *U.S. v. American Bell Telephone Company* (1897), the Court was confronted with a question as to under what circumstances the federal government could cancel a legally issued patent. In his opinion for the Court, Justice David Brewer observed of both types of government-issued patents, “the same term is used, the same grantor is in each, and...each vests in the patentee certain rights.” To lawsuits involving challenges to the validity of patents for inventions, Brewer therefore applied the Court’s precedents holding that, due to the respect accorded patents issued under the official Seal of the United States, they were presumed to have issued according to all of the legally required steps. Therefore, clear demonstrations of proof must be established to annul or correct mistakes in issued patents.

In fact, Justice Brewer concluded that the differences between the two types of patents give the federal government “higher rights” to cancel land patents than to cancel patents for inventions. On the one hand, “[t]he patent for land is a conveyance to an individual of that which is the absolute property of the government, and to which, but for the conveyance, the individual would have no title.” “On the other hand, the patent for an invention is not a conveyance of something which the government owns.” An invention is not something that belongs to the government to begin with. And, “[b]ut for the patent, the thing patented is open to anyone.” Wrote Brewer:

There are weightier reasons why the government should not be permanently deprived of its property, through fraudulent representations or other wrongful means, than there are for questioning the validity of a temporary monopoly or depriving an individual of the exclusive use for a limited time of that whose actual use he claims to have made possible, and which, after such time, will be open and free to all.

The patentees underlying property right in his or her invention and the federal government’s obligation to recognize that right led Brewer to accord inventors legal protections equal to, if not

greater than, landowners. As Brewer observed, “The inventor is the one who has discovered something of value. It is his absolute property.”

### **Grants of Corporate Charters Akin to Grants of Patents and Copyrights**

According to Stites, “[i]f *Fletcher* marked only the first step toward the protection of vested rights by the Marshall Court, Marshall’s proclamation in *Dartmouth College* that the contract clause of the national Constitution protected vested rights climaxed the expansion of that clause initiated in *Fletcher v. Peck* (1810).” As will become more readily apparent, the Marshall Court’s emphasis on the sanctity of contracts in *Trustees of Dartmouth College v. Woodward* (1819) also has some implications for intellectual property rights.

*Dartmouth College* was sparked by the Connecticut legislature’s act to revoke the College’s charter as a private educational institution. The legislature sought to re-establish the College as a state institution and install a slate of new trustees. Trustees filed a lawsuit challenging Connecticut’s Act. In his opinion for the Court, Marshall characterized the original College charter as “a contract made on a valuable consideration... for the security and disposition of property... on the faith of which real and personal estate has been conveyed to the corporation.” Marshall concluded that “[i]t is, then, a contract within the letter of the Constitution, and within its spirit also.”

As Marshall put it, “[a] corporation is an artificial being, invisible, intangible, and existing only in contemplation of law.” It possesses legal “immortality” by which “a perpetual succession of individuals” obtains the capacity “to manage [a corporation’s] own affairs and to hold property.” At the same time, a private corporation possesses no political power. Thus, “[i]t is no more a state instrument than a natural person exercising the same powers would be.” Marshall therefore rejected the proposition that the government somehow possesses a “consequent right substantially to change that form, or to vary the purposes to which the property is to be applied.”

Having characterized a private corporation as an intangible and immortal creature of law yet no mere state instrument, Marshall further characterized such a corporation as the subject of a contractual bargain with the government. “The objects for which a corporation is created are universally such as the government wishes to promote.” Such objects “are deemed beneficial to the country, and this benefit constitutes the consideration, and in most cases, the sole consideration of the grant.” According to Marshall, it followed that “[i]f the advantages to the public constitute a full compensation” for the government’s legal recognition of a corporation, then “there can be no reason for exacting a further compensation.” That is, government should not be able to claim further benefit by assuming power to alter the corporation’s purpose and undermine its financial stability. In other words, “[t]here can be no reason for implying in a charter, given for a valuable consideration, a power which is not only not expressed, but is in direct contradiction to its express stipulations.”

Marshall also employed an inter-textual constitutional line of reasoning supporting the Contract Clause’s applicability to state grants of corporate charters. He turned to Article I, Section 8, Clause 8 – the IP Clause. Congress is uniquely charged with defining and protecting property rights under the IP Clause. It grants to Congress the power “To Promote the Progress of Science



and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” As we documented in our book, *The Constitutional Foundations of Intellectual Property: A Natural Rights Perspective* (2015), the background assumption of the Founders in adopting, ratifying, and implementing the Constitution was that copyrights and patent rights are rooted in the natural rights of authors and inventors to enjoy the fruits of their labors.

Discussing corporations “created for the promotion of religion, of charity, or of education,” Marshall remarked in *Dartmouth College* that “[t]he framers of the Constitution did not deem them unworthy of its care and protection.” Rather, the Constitution’s framers “manifested their respect for science by reserving to the government of the Union the power,” contained in the IP Clause. Marshall next observed of the Constitution’s framers:

They have so far withdrawn science and the useful arts from the action of the State governments. Why then should they be supposed so regardless of contracts made for the advancement of literature as to intend to exclude them from provisions, made for the security of ordinary contracts between man and man? No reason for making this supposition is perceived. If the insignificance of the object does not require that we should exclude contracts respecting it from the protection of the Constitution, neither, as we conceive, is the policy of leaving them subject to legislative alteration so apparent as to require a forced construction of that instrument in order to effect it.

Thus, Marshall’s chain of reasoning characterized the IP Clause’s provision regarding copyright protection as the basis of a public contract between the federal government and the author. In exchange for the advancement to literature that results from inducing authorship and publication, the author receives exclusive rights to control the use and reproduction of his or her work. Although copyrights were clearly not at issue in *Dartmouth College*, both corporations and copyrights share the qualities of being invisible and intangible. Marshall’s description of copyright as embodying a public contract fits squarely within the logic of Marshall’s constitutional jurisprudence. And it is too significant to be ignored.

### **Supreme Court’s Recognition of Public Contract Basis of Patent Rights in *Grant v. Raymond***

Significant scholarly attention has been devoted to Marshall’s role in establishing the sanctity of contracts in *Fletcher v. Peck* and *Dartmouth College v. Woodward*. Much overlooked, however, is Marshall’s opinion in *Grant v. Raymond* (1832). *Grant* has important parallels with *Dartmouth College* and employs similar logic to it. Whereas *Dartmouth College* applied the Article I, Section 10 Contract Clause to state-granted corporate charters, based in part on interpretive inferences from the IP Clause, *Grant* applies the logic of sanctity of contracts and vested rights directly to federal grants of patents under the IP Clause.

*Grant v. Raymond* was an infringement lawsuit concerning a patent issued in 1825 to Joseph Grant for an improvement in machinery for manufacturing hats. The 1825 patent specification referenced an 1821 patent that had been issued to Grant for the same invention. Grant apparently

found an inadvertent mistake in the specification he submitted for his patent application. In 1826, Grant requested and received from Secretary of State Henry Clay a cancellation of his 1821 patent and a reissuance of the patent according to a corrected specification.

The defendants argued that the Secretary of State possessed no power under the law to grant a new patent for the unexpired term of a previously cancelled patent. But Marshall rejected the defense's argument. He concluded that issuance of the new patent "is indispensably necessary to the faithful execution of the solemn promise made by the United States," regardless of whether the innocent mistake was made by the Secretary of State or by the inventor.

Marshall then elaborated on the object of the law and the promise it referred to. Citing to the IP Clause, he wrote:

To promote the progress of useful arts, is the interest and policy of every enlightened government. It entered into the views of the framers of our constitution, and the power 'to promote the progress of science and useful arts, by securing for limited times to authors and inventors, the exclusive right to their respective writings and discoveries,' is among those expressly given to congress. This subject was among the first which followed the organization of our government. It was taken up by the first congress at its second session, and an act was passed authorising a patent to be issued to the inventor of any useful art.

Referencing the Patent Acts of 1790 and 1793, Marshall added "it cannot be doubted that the settled purpose of the United States has ever been, and continues to be, to confer on the authors of useful inventions an exclusive right in their inventions for the time mentioned in their patent." He added: "the great object and intention of the act is to secure to the public the advantages to be derived from the discoveries of individuals, and the means it employs are the compensation made to those individuals for the time and labor devoted to these discoveries by the exclusive right to make, use, and sell the things discovered for a limited time."

Expounding on the object of federal patent law, Marshall articulated the public contract basis of patent grants:

It is the reward stipulated for the advantages derived by the public for the exertions of the individual, and is intended as a stimulus to those exertions. The laws which are passed to give effect to this purpose ought, we think, to be construed in the spirit in which they have been made; and to execute the contract fairly on the part of the United States, where the full benefit has been actually received: if this can be done without transcending the intention of the statute, or countenancing acts which are fraudulent or may prove mischievous. The public yields nothing which it has not agreed to yield; it receives all which it has contracted to receive. The full benefit of the discovery, after its enjoyment by the discoverer for fourteen years, is preserved; and for his exclusive enjoyment of it during that time the public faith is pledged. That sense of justice and of right which all feel, pleads strongly against depriving the inventor of the compensation

thus solemnly promised, because he has committed an inadvertent or innocent mistake.

Clear specification or description of an invention in a patent application is therefore essential to proper tendering of consideration and to establishing the scope of the bargained-for protection. Marshall acknowledged that a defense to infringement might be available to inventors whose own invention varied from the relied-upon specification of a subsequently corrected and re-issued patent. Yet while such a defense to infringement may be available in individual cases, the Court concluded that line of argument would not suffice to invalidate the patent. Rather, Marshall recognized that “the communication of the discovery to the public has been made in pursuance of law, with the intent to exercise a privilege which is the consideration paid by the public for the future use of the machine.” He therefore concluded that, “[i]f by an innocent mistake the instrument introduced to secure this privilege fails in its object, the public ought not to avail itself of this mistake and to appropriate the discovery without paying the stipulated consideration.”

A key takeaway from *Grant* is the Supreme Court’s unequivocal treatment of a patent grant as a vested property right. As indicated above, the Article I Section 10 Contracts Clause was not a factor in *Grant* such as it was in *Fletcher* and especially in *Dartmouth College*. Even so, the Court viewed the IP Clause through the lens of contractual sanctity. It regarded limits on revoking rights established by contract between the government and inventors as implicit in the legislative power granted to Congress to secure exclusive rights in inventions and discoveries. As quoted above, Marshall declared that to the inventor’s exclusive enjoyment of his grant of patent protection “the public faith is pledged.” The patent grant constituted the public’s promise of potential financial returns to the inventor, which justice and right forbid he be deprived of for mere inadvertence in a patent application that was subsequently detected and corrected by the inventor.

### **Supreme Court’s Recognition of the Public Contract Basis of Patent Rights After *Grant v. Raymond***

Over the ensuing decades, the contractual nature of patent rights was reaffirmed by a number of jurists and legal treatise writers. In a handful of patent cases decided in the middle to late 19th century, the Supreme Court cited and quoted from Marshall’s description of patents as contracts between the applicant inventor and the federal government. A number of Supreme Court cases also reinforced the public contract premise of *Grant v. Raymond* in somewhat different phraseology or emphasized different elements of the public contract concept.

Just a year after *Grant*, for instance, Justice John McLean articulated the contract basis for patent rights in *Shaw v. Cooper* (1833):

The patent law was designed for the public benefit, as well as for the benefit of inventors. For a valuable invention, the public, on the inventor's complying with certain conditions, give him, for a limited period, the profits arising from the sale of the thing invented. This holds out an inducement for the exercise of genius and

skill, in making discoveries which may be useful to society, and profitable to the discoverer.

Also, in *Seymour v. Osborne* (1870), Justice Nathan Clifford defined letters patent as:

Public franchises granted to the inventors of new and useful improvements for the purpose of securing to them, as such inventors, for the limited term therein mentioned, the exclusive right and liberty to make and use and vend to others to be used their own inventions, as tending to promote the progress of science and the useful arts, and as matter of compensation to the inventors for their labor, toil, and expense in making the inventions and reducing the same to practice for the public benefit, as contemplated [\*534] by the Constitution and sanctioned by the laws of Congress.

The Supreme Court similarly characterized the Patent Act of 1836's patent term extension provision in essentially contractual terminology. Under the 1836 Act, patentees could apply to the Commissioner for a blank-year extension to the original 14-year term for their patent. As Justice Samuel Nelson explained in *Wilson v. Rousseau* (1846):

The provision is founded upon the policy of the government to encourage genius, and promote the progress of the useful arts, by holding out an additional inducement to the enjoyment of the right secured under the first term, and as an act of justice to the inventors for the time, ingenuity, and expense bestowed in bringing out the discovery, frequently of incalculable value to the business interests of the country.

The statute is not founded upon the idea of conferring a mere personal reward and gratuity upon the individual, as a mark of distinction for a great public service, which would terminate with his death, but of awarding to him an enlarged interest and right of property in the invention itself, with a view to secure to him with greater certainty a fair and reasonable remuneration. And to the extent of this further right of property, thus secured, whatever that may be, it is of the same description and character as that held and enjoyed under the patent for the first term.

Justice McLean construed the Patent Act's extension provision less liberally than Justice Nelson and therefore dissented in *Rousseau*. Nonetheless, he recognized the public benefit produced by inventive discoveries and the importance of securing protections for inventors in exchange for that benefit:

All enlightened governments reward the inventor. He is justly considered a public benefactor. Many of the most splendid productions of genius, in literature and in the arts, have been conceived and elaborated in a garret or hovel. Such results not only enrich a nation, but render it illustrious. And should not their authors be cherished and rewarded?

A century after *Grant*, the Supreme Court reiterated the understanding of patent rights as rooted in a public contract between the federal government and the inventor in *U.S. v. Dubilier Condenser Corp.* (1933). As Justice Owen Roberts wrote for the Court:

[The inventor] may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but upon expiration of that period, the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use.

The Supreme Court approvingly cited this passage from *Dubilier* in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* (1989).

### **Public Contract Basis of Patent Rights Applied by Lower Courts**

Lower courts have similarly characterized patent rights as rooted in a public contract between the federal government and the inventor. An early example even predates *Raymond v. Grant*. Ruling for the U.S. Court of Appeals for the Third Circuit in *Whitney v. Emmett* (1831), Justice Henry Baldwin cited English legal precedents that deemed royal grants of patents to be public contracts. Although noting differences with American law, Baldwin affirmed that: “a patent is a bargain with the public, in which the same rules of good faith prevail as in other contracts.”

Writing for the Eighth Circuit Court of Appeals in *National Hollow Brake-Beam Co. v. Interchangeable Brake-Beam Co.* (1901), Judge Walter H. Sanborn wrote:

A patent is a contract by which the government secures to the patentee the exclusive right to vend and use his invention for a few years, in consideration of the fact that he has perfected and described it and has granted its use to the public forever after. The general rules for the interpretation of grants and contracts govern its construction, and the equitable principle that one who has derived great benefit from the performance of a contract ought not to be allowed to escape its burdens without cogent reasons is not inapplicable in its exposition.

In *Ransom v. New York* (1856), a patent lawsuit, Judge Nathan K. Hall of the Northern District of New York issued a charge to the jury that invoked the contract basis for patent rights and the corresponding legal protections afforded those rights in courts of law:

When a patent is granted, it becomes, to a certain extent, a contract upon the part of the Government with the party named in the patent, that they will, through their Courts, and in the ordinary course of the administration of justice, protect him in the exercise of the exclusive privilege which his patent gives to him; and there could be no justice in granting to a party an exclusive privilege to use what he did not invent, or to sue, exclusively, for fourteen years, what had already been invented by another; because he has paid no consideration for the grant, no consideration for the promise of the Government to secure him in the exercise of these privileges, if he has not, by his invention, and by placing a description of it

upon the records of the Patent Office, added to the stock of useful knowledge which may be applied for the benefit of the citizen.

Describing the nature of a patent grant in *Detmold v. Reeves* (1851), a case from the Eastern District of Pennsylvania, Judge John K. Kane wrote that “the contract of the public is not with him who has discovered, but with him who also makes his discovery usefully known.” Applying that insight, Judge Kane added “If he has discovered much and discloses little... he patents no more than he has proclaimed.” Judge Kane concluded that a patentee would not be allowed to subsequently widen the scope of his patent rights through litigation “either by expanding into a general expression what was limited before in a particular form, or, by tracing out for us the little that leads back from consequences to remote causes.”

Judge Edward T. Green of the District Court of New Jersey similarly emphasized the public contract basis of patent rights and the importance of clear descriptions of inventions in patent applications. As he wrote in *Celluloid Manufacturing. Co. v. Arlington Manufacturing. Co.* (1890):

Letters patent may well be regarded in the light of a quasi contract, without disturbance of their character and object,— a contract between the government and the patentee. The object of the patentee is to secure to himself complete control, the monopoly of his invention, and the use of it as a certain source of income. The object sought by the government is to obtain from the inventor a clear, definite, precise description of the invention for the public good. These constitute mutual considerations for the proposed contract evidenced in the letters patent. Therefore, the letters patent should embrace both of these objects. If either be omitted, or be so disguised in language as to be wanting in preciseness, a practical fraud is committed by the one or the other party to the contract, inasmuch as the end sought is not attained. Thus it is just and proper for the protection of the patentee, and as well for the protection of the public, that in construing the terms of the specification and claims of letters patent there would be no departure from well-established rules.

### **Legal Treatise Writers Recognize the Public Contract Basis for Patent Rights**

Respected legal treatise writers from the 19th and early 20th centuries also articulated the public contract basis for patent rights. George Ticknor Curtis, a 19th century attorney, historian, and author, defined a patent as a government grant of an exclusive right in a new and useful invention in his work, *A Treatise on The Law of Patents for Useful Inventions* (1854). “The consideration, for which this grant is made by the public,” wrote Curtis, is “the benefit to society resulting from the invention; which benefit flows from the inventor to the public.” The public benefited by “the immediate practice of the invention, under the patent” and by “the practice of the invention, or the opportunity to practice it, which becomes the property of the public, on the expiration of the patent.”

William E. Simonds, a patent attorney, wrote in *Manual of Patent Law* (1874) that “A Patent is a Contract between the inventor and the Government representing the public at large.” Simonds, a

Civil War veteran who would later serve as a member of the 51st Congress and also serve as U.S. Patent Office Commissioner from 1891 to 1892, repeated that same point in his work, *A Summary of the Law of Patents* (1883).

Further examples include William C. Robinson's *The Law of Patents for Useful Inventions* (1890). In his treatise, Robinson characterized a patent as "a contract between the inventor and the public." Robinson further defined a patent as "a purchase by the government, acting on behalf of the whole people, of some new art or instrument, capable of beneficial use, for which it recompenses the inventor by securing to him for a time its sole enjoyment." And Samuel Love Hopkins, in *The Law of Patents and Patent Practice in the Patent Office and the Federal Courts* (1911), described a patent as "the analogue of a contract." Hopkins wrote: "The right created by their issuance is a public franchise, of which the letters patent are the grant."

### **The Public Contract Basis of Copyrights**

The public contract basis of copyrights has been articulated with much less frequency and less clearly than is the case with patents rights. Certainly, there are differences in the underlying types of intellectual property and in the kinds of exclusive rights protections corresponding to each under the law. Yet both copyrights and patent rights are rooted in the fruits of the creative artists' and inventors' labors. The Constitution charges Congress to secure to both creative artists and inventors exclusive rights in their intellectual property. And both copyrights and patent rights receive protection pursuant to public contracts between creative artists and inventors and the federal government, acting on behalf of the people.

In the case of copyright, registration of the creative work provides the means by which the intellectual property to be protected is disclosed to the public. The creative artist enjoys exclusive rights concerning the use and reproduction of the creative work. Under copyright law, exclusive rights to financial returns and rewards from the production of creative works are offered as economic inducements to undertake the intellectual labors necessary to produce such works. The public receives the benefits resulting from creative artists' pursuit and production of such works.

George Ticknor Curtis also recognized the public contract basis for copyright. As he wrote in *A Treatise on The Law of Patents for Useful Inventions*:

Inventors, in this respect, stand upon the same broad ground with authors. Both of these classes of persons have created something, intellectual in its nature, the knowledge of which it is desirable to others to possess. Both of them have, at first, the complete right of disposition over that which they have created; and when they part with the exclusive possession of this knowledge, and confer upon others the opportunity of reaping the benefit which it confers, they manifestly consent to something for which they are entitled to receive an equivalent.

The rights that public contracts concerning inventions or creative works secure are ultimately based on natural rights of property and contract. In Curtis's words:

I do not hesitate to affirm, that in natural justice — the ethics of jurisprudence, by which civil rights are to be examined, apart from all positive law, but on which positive law is usually founded — the intellectual conception of an inventor, or a writer, constitutes a valuable possession, capable of being appreciated as a consideration, when it passes, by his voluntary grant, into the possession of another. If, by the same voluntary grant, this possession is bestowed upon the public, the logical justice of compensation, in some form, will appear, at once, by supposing the benefit to have been conferred exclusively upon any one of the mass of individuals who form in the aggregate the moral entity termed the public.

Curtis also sets out some basic terms of the compromise made on the public's behalf to authors and creative artists in his work, *A Treatise on the Law of Copyright in Books, Dramatic and Musical Compositions, Letters and Other Manuscripts* (1847). There Curtis explained:

The claim of authors, resulting from the principles of natural right, involves the perpetual duration of the property. But in order that such property should be of any value, it is necessary that society should interfere actively for its protection. It can interfere by the enactment of penalties, which, in order to be effectual, must be severe; or it can interfere by prohibition, which is a stern and summary exercise of power. Society will not ordinarily be willing to apply such remedies in favor of an exclusive right, any farther than it finds such a course beneficial to its own interests, in the broadest sense of the term. A perpetuity in literary property involves some inconveniences, which may come to be serious ; one of which is, that the text of an author, after two or three generations, if the property be retained so long by his descendants, belongs to so many claimants, that disputes must arise as to the right to publish, which are very likely to prevent publication altogether. This would be a great misfortune to society ; and it is to guard against this and other inconveniences, that society may fairly require, as the price of its active protection by stringent enactments, that the author and his representatives should surrender a part of their full right regarded as a right according to the general principles of natural justice.

Although the public contract basis for copyrights is not so clearly reflected in Supreme Court jurisprudence, some cases do touch on aspects of that understanding.

As previously observed, Chief Justice John Marshall described the important status the Constitution's framers accorded to "contracts made for the advancement of literature" as *Trustees of Dartmouth College v. Woodward*. Also, in *Wheaton v. Peters* (1834), the first copyright case to come squarely before the Supreme Court, Justice McLean acknowledged that, upon compliance with registration requirements, copyrights became vested property interests:

No one can deny that when the legislature are about to vest an exclusive right in an author or an inventor, they have the [664] power to prescribe the conditions on which such right shall be enjoyed, and that no one can avail himself of such right who does not substantially comply with the requisitions of the law.



McLean also noted that the principle of rights vesting upon compliance with administrative procedures “is familiar as it regards patent rights, and it is the same in relation to the copyright of a book.” That is, the law requires them to be performed, and consequently their performance is essential to a perfect legal title.

Of course, the procedural requirements for obtaining a patent are quite different than those for obtaining a copyright. Justice Samuel Miller touched on those differences in *Burrow-Giles Lithographic Co. v. Sarony* (1884). On the one hand, grants of patents cannot, by law, be issued to the inventor until the novelty, the utility, and the actual discovery or invention by the claimant have been established by proof before the commissioner of patents.” And on the other hand, “Our copyright system has no such provision for previous examination by a proper tribunal as to the originality of the book, map, or other matter offered for copyright.” But what is essential, with regard to either type of intellectual property, is that in both cases the public faith is pledged to the exclusive rights protections set out in the law upon the creative artists’ or inventors’ compliance with the corresponding procedures provided in the law.

A succinct description of the public contract basis of copyrights was provided by Judge Stanley F. Birch of the Eleventh Circuit Court of Appeals in *Cable News Network, Inc. v. Video Monitoring Services of America, Inc.* (1984):

The Copyright Clause itself describes the concept of copyright intended by its framers; that is, the grant of an exclusive right to authors to reproduce their writings for sale during a limited period of time in exchange for the author's making the work available to the public in order to promote learning. This quid pro quo reflects a fundamental fairness to both the public, the "owner" of the public domain, and the author who takes from the public domain the ideas which are the substance of such author's protected original expression.

### **Contract Principles Link Natural Rights to Intellectual Property Protections**

Recognizing the public contract paradigm for securing intellectual property rights under the constitution, some scholars and observers have wrongly inferred that IP rights do not rest on natural rights premises. In this view, contracts are merely the convenient tool used by the federal government when it chooses create intellectual property rights. Intellectual property simply reflects government policy preferences about what is useful to the public.

Such is an impoverished view about contracts and intellectual property rights. A deeper respect for the contract principles underlying IP rights actually reinforces their connection with natural rights. Properly understood, the contract basis for intellectual property rights is a natural rights basis, bolstered by the Constitution. In truth, principles of contract, reflected in both the social compact and in public contracts, form a continuous link between natural rights and intellectual property protections.

As described earlier, the American Founders all but universally affirmed that individuals have a natural right to the fruits of their labor – to their property. This includes individuals’ right to

exchange their property by entering into contracts. Indeed, it is a voluntary agreement by which individuals form governments, whose primary purposes include protection of property rights. Those purposes are reflected in the Constitution's grant of power to Congress to secure the exclusive rights of inventors and creative artists to the fruits of their labors. Contracts between the government and inventors and creative artists are established under federal law and according to the specifications of novel and useful patent applications or the contents of registered original works. Public contracts secure to inventors and creative artists exclusive rights, for set terms of years, to the use of inventions and the reproduction of creative works. Those exclusive rights allow inventors and creative artists or their assigns to retain the financial rewards for their intellectual labors. The public trust is therefore pledged to ensure that the protections offered by those public contracts are enforceable in courts of law. In exchange, the public receives the benefits resulting from the public disclosure, through patent applications and copyright registrations, of those inventions and creative works.

### **Contract Principles Heighten Congress's Duty to Secure Intellectual Property Rights**

The contractual link between natural rights and intellectual property rights does mean that day-to-day public administration or legal enforcement of patent rights or copyrights should or must draw upon principles of natural law or justice. As a practical matter, federal statutes, case law, and regulations supply the proper authority for addressing issues involving IP protection. Even so, natural rights principles, including those reflected through contract principles, reveal an overarching purpose in promoting the public good while ensuring that justice is done to inventors and creative artists alike. Natural rights premises, embodied in public contractual obligations, offers direction concerning the larger ends of patent and copyright policy. Such direction should certainly be heeded by Congress in exercising its powers under the IP Clause – and perhaps also by the Copyright Office and the Patent and Trademark Office – in making certain high-level administrative decisions.

Deductions from natural rights premises regarding property and contracts may also serve as a resource to federal courts tasked with interpreting or construing federal patent and copyright law. In this vein, it is helpful to recur to Chief Justice Marshall's understanding of the letter and the spirit of the Constitution and laws. In *Grant v. Raymond*, Marshall recognized the words of the statute did not expressly authorize re-issuance of a patent that had been cancelled by an inventor due to an inadvertent mistake in the specification. Yet Marshall upheld the re-issue based on "the general spirit and object of the law, not on its letter." His conclusion was based on a recognition of the IP Clause's underlying policy to reward "the exertions of the individual" inventor and provide "a stimulus to those exertions" as well as the "sense of justice and of right" that the inventor be compensated. Wrote Marshall:

The laws which are passed to give effect to this purpose ought, we think, to be construed in the spirit in which they have been made and to execute the contract fairly on the part of the United States where the full benefit has been actually received if this can be done without transcending the intention of the statute or countenancing acts which are fraudulent or may prove mischievous.

For Marshall, the spirit of the law was inclusive of the natural rights or fundamental principles behind all laws. To be sure, Marshall did not regard the “spirit” of the law as a free wheeling source of judicial authority, unhinged from the letter. Rather, he concluded that re-issuance of the patent was consonant with the policy of the IP Clause to secure the exclusive rights of inventors to the fruits of their labors. Re-issuance likewise accorded with the object of the statute to protect those exclusive rights in exchange for the inventor’s disclosure and dissemination their inventions to the benefitting public.

Justice Brewer’s opinion in *U.S. v. American Bell Telephone Company* reflected a similar respect for the law’s spirit. “It is not, of course, doubted that the courts, in construing the patent as all other statutes, must regard to the spirit as well as the letter,” conceded Brewer. “That simply requires the Courts shall ascertain their true meaning, but when that is ascertained, the applicant for a patent is entitled to all the benefits which those statutes thus construed give.” In that case, Brewer’s recognition of the underlying property rights of inventors and the contract obligations of the federal government informed the meaning of the law, entitling the issued patent to required heightened respect.

At the very least, the contract basis for intellectual property rights heightens the federal government’s obligations to protect those rights. The contract basis for IP rights, as an embodiment of natural rights principles, reinforces the just claims of inventors and creative artists to the fruits of their labors. “When, then, a law is in its nature a contract, when absolute rights have vested under that contract, a repeal of the law cannot divest those rights,” declared Marshall in *Fletcher v. Peck*. Indeed, this pledge of the public trust is not only an implication of the sanctity of contracts; it is an implication of lawfulness itself. Wrote Marshall in *Marbury v. Madison* (1802), “[t]he Government of the United States has been emphatically termed a government of laws, and not of men. It will certainly cease to deserve this high appellation if the laws furnish no remedy for the violation of a vested legal right.”

Plainly, the IP Clause’s grant of power to Congress “To Promote the Progress of Science and useful Arts” undoubtedly points to a duty Congress owes the public in securing the exclusive rights of authors and creative artists pursuant to public contracts under law. But nothing contained in the text of the IP Clause or inherent in contract principles dislodges or diminishes the Founders’ expectation that the Constitution and laws passed pursuant to it should protect individuals’ natural rights to property and contract.

James Madison’s brief discussion of the IP Clause in *Federalist No. 43*, perceived the mutual benefit of intellectual property protections. Referring to “[t]he copyright of authors” and “the right of useful invention,” Madison wrote that “[t]he public good fully coincides in both cases with the claims of individuals.” Yet even if one believes Madison overstated the harmony of interests and chooses to read the IP Clause as primarily directed toward serving the public good, that hardly means wrong may be done to authors and inventors. By entering into public contracts with authors and inventors, Congress makes a pledge of public faith to recognize and protect the exclusive rights offered under federal law. Thus, even if one concedes that securing to inventors and creative artists exclusive rights to their inventions or creative works is a secondary priority of Congress under the IP Clause, that secondary interest is nonetheless steeped in what both Madison and Marshall deemed a sacred obligation.

## Conclusion

Patent rights and copyrights are secured by a contract between the federal government and inventors and creative artists. Contracts between the government and inventors and creative artists are established under federal law and according to the specifications of novel and useful patent applications or the contents of registered original works. Public contracts secure to inventors and creative artists exclusive rights, for set terms of years, to the use of inventions and the reproduction of creative works. Those exclusive rights allow inventors and creative artists or their assigns to retain the financial rewards for their intellectual labors.

A deeper respect for the contract principles underlying IP rights actually reinforces their connection with natural rights. Properly understood, principles of contract, reflected in both the social compact and in public contracts, form a continuous link between natural rights and intellectual property protections. The contract basis for intellectual property rights heightens the federal government's obligations to protect those rights. By entering into public contracts with authors and inventors, the federal government must ensure what Marshall described in *Grant v. Raymond* as a "faithful execution of the solemn promise made by the United States."

\* Randolph J. May is President of the Free State Foundation, an independent, nonpartisan free market-oriented think tank located in Rockville, Maryland.

\*\* Seth L. Cooper is a Senior Fellow of the Free State Foundation.

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