

2010

Calibrating Copyright Statutory Damages to Promote Speech

Alan E. Garfield
0@0.com

Follow this and additional works at: <http://ir.law.fsu.edu/lr>



Part of the [Law Commons](#)

Recommended Citation

Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Speech*, 38 Fla. St. U. L. Rev. (2010) .
<http://ir.law.fsu.edu/lr/vol38/iss1/1>

This Article is brought to you for free and open access by Scholarship Repository. It has been accepted for inclusion in Florida State University Law Review by an authorized administrator of Scholarship Repository. For more information, please contact bkaplan@law.fsu.edu.

FLORIDA STATE UNIVERSITY LAW REVIEW



CALIBRATING COPYRIGHT STATUTORY DAMAGES TO PROMOTE SPEECH

Alan E. Garfield

VOLUME 38

FALL 2010

NUMBER 1

Recommended citation: Alan E. Garfield, *Calibrating Copyright Statutory Damages to Promote Speech*, 38 FLA. ST. U. L. REV. 1 (2010).

CALIBRATING COPYRIGHT STATUTORY DAMAGES TO PROMOTE SPEECH

ALAN E. GARFIELD*

ABSTRACT

Copyright and the First Amendment exist in tension. The Supreme Court acknowledges this tension but contends that copyright law resolves it with two built-in free speech safeguards: (1) by protecting only the expression of ideas and not the ideas themselves (the idea/expression dichotomy); and (2) by allowing the use of expression under certain circumstances (the fair use doctrine). The problem is that these doctrines are notoriously vague, so users often cannot know ex ante whether their uses will be immune from liability. This unpredictably might be tolerable if users could be confident that, if they were subject to liability, any damage award would be limited to a reasonable licensing fee or a share of profits attributable to the infringement. But copyright law allows plaintiffs to opt for statutory damages instead of compensatory or restitutionary damages, and statutory damages can sometimes be punitive and even grossly excessive.

This combined uncertainty—of not knowing whether a use will be immunized from liability and what the penalty will be if it is not—means that the idea/expression and fair use doctrines are underutilized. Yet if these doctrines are what resolve copyright’s tension with the First Amendment, they need to be sufficiently viable so that users can confidently rely on them. One solution is to make the fair use and idea/expression doctrines more predictable, but this has proven largely illusory. Another is to modify the statutory damages regime to ensure that awards are better calibrated so as not to chill speech. This latter solution, which has not been methodically explored in the literature, is the focus of this Article.

| | |
|---|----|
| I. INTRODUCTION | 2 |
| II. THE FRAMEWORK: THE COPYRIGHT ACT’S STATUTORY DAMAGES REGIME | 10 |
| III. THE PROBLEM: HOW THE STATUTORY DAMAGES REGIME CHILLS THE CREATION OF NEW WORKS | 13 |
| A. <i>The Problem of Too Much Discretion: The Unpredictability of Statutory Damage Awards</i> | 13 |
| B. <i>The Problem of Too Little Discretion: The Frightening Predictability of Minimal Statutory Damage Awards When Numerous Works are Infringed</i> | 17 |
| IV. THE CHOICE: THE POTENTIAL REMEDIAL PURPOSES OF STATUTORY DAMAGES | 18 |
| V. THE THEORY: PRINCIPLES FOR DETERMINING THE APPROPRIATE AMOUNT OF STATUTORY DAMAGES | 24 |
| VI. THE APPLICATION: DESIGNING STATUTORY DAMAGES TO FURTHER COPYRIGHT LAW’S UTILITARIAN PURPOSE | 29 |
| VII. THE SOLUTION: THREE OPTIONS FOR PROPERLY CALIBRATING STATUTORY DAMAGES | 37 |
| A. <i>The Interpretative Fix: Construing the Existing Statutory Scheme to Restrict the Availability of Punitive Damages</i> | 37 |
| B. <i>The Legislative Fix: Amending the Copyright Act’s Statutory Damage Provision</i> | 39 |
| 1. <i>Modifying the Section on Injunctive Relief</i> | 40 |
| 2. <i>Modifying the Section on Statutory Damages</i> | 42 |
| C. <i>The Constitutional Fix: Due Process or Free Speech Limits on Statutory Damages</i> | 46 |

* Professor, Widener University School of Law. This Article was first presented at the Seventh Annual Intellectual Property Scholars Conference. I am thankful to conference participants for their valuable comments, as well as to Stephen Henderson, Laura Ray, and John Wladis for reviewing drafts of the article. I also greatly benefited from the excellent research assistance of Michael Clark.

| | |
|---|----|
| 1. <i>Due Process Limits on Statutory Damages</i> | 47 |
| 2. <i>Free Speech Limits on Statutory Damages</i> | 50 |
| VIII. CONCLUSION | 53 |

I. INTRODUCTION

Copyright and the First Amendment exist in tension. The First Amendment says Congress shall make “no law . . . abridging the freedom of speech.”¹ Yet congressionally-enacted copyright laws do just that. They penalize speech acts such as publishing, performing, singing, or creating derivative works.² Of course, copyrights “abridge” only the right to use *someone else’s* expression, which, as Justice Ruth Bader Ginsburg has suggested, greatly mitigates their impact on freedom of speech.³ But copyrights still abridge speech and sometimes seriously threaten First Amendment interests.

Consider Diebold’s attempt to stop the posting of employee e-mails indicating that the company’s voting machines were vulnerable to fraud.⁴ While these e-mails were not works of literature, they could still possess the “minimal degree of creativity” required for copyrightability.⁵ And, as messages composed by employees in the scope of their employment, Diebold would own the rights to them.⁶ But should this simple fact of Diebold’s copyright ownership give Diebold the right to deny the public access to these important messages? Or is there a countervailing First Amendment interest that trumps Diebold’s property rights?

Consider also the efforts of Margaret Mitchell’s estate to enjoin the publication of *The Wind Done Gone*, a novel that took the characters and setting of *Gone with the Wind* but told the story from a slave’s perspective.⁷ The executors of the Mitchell estate understandably wanted publication of this critical treatment of Mitchell’s book enjoined. But should the mere fact of their copyright ownership permit them to suppress criticism of an American icon?

The Supreme Court has acknowledged that copyright law abridges speech.⁸ But its time-honored response is to dismiss any First

1. U.S. CONST. amend. I.

2. See 17 U.S.C. § 106 (2006) (providing the copyright owner with the “exclusive rights” of reproducing the copyrighted work, preparing derivative works, and so forth).

3. *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2003).

4. *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195, 1197-98 (N.D. Cal. 2004).

5. *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991) (stating that the requisite level of creativity for copyrightability is “extremely low” and that “even a slight amount will suffice”).

6. 17 U.S.C. § 201(b) (2000).

7. See *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1259, 1270 (11th Cir. 2001).

8. *Eldred*, 537 U.S. at 221.

Amendment concerns based on what the Court calls copyright's "built-in" free speech safeguards: the idea/expression dichotomy and the fair use doctrine.⁹ The idea/expression dichotomy ensures that copyright does not trench upon the marketplace of ideas by providing that authors obtain rights only in expression, not ideas.¹⁰ The fair use doctrine supplements this free speech protection by allowing even expression to be used in certain circumstances when there is minimal harm to a copyright owner and a valuable public benefit.¹¹

The Court's faith that these doctrines resolve any conflict between the First Amendment and copyright is understandable. Quite often, they do. Thus, the trial court in *Diebold* found the e-mail postings to be a fair use.¹² And the Eleventh Circuit in *The Wind Done Gone* case held that the plaintiffs could not enjoin the publication of the defendant's book.¹³

But this reconciliation is not as tidy as it seems. *Diebold* initially succeeded in getting some service providers to remove the e-mail postings from the Internet.¹⁴ It was only with the help of the Electronic Frontier Foundation and the Stanford Cyberlaw Clinic that the right to post the messages was judicially vindicated.¹⁵ Similarly, a district court judge initially enjoined further publication of *The Wind Done Gone* novel until the Eleventh Circuit reversed.¹⁶

Part of the problem is that the lines between idea and expression and fair and unfair use are notoriously vague.¹⁷ Of course, it is sometimes easy to know when one is taking just an idea. If *Romeo and Juliet* was copyrighted, no one would contend that Shakespeare could stop other authors from using the plot of boy-meets-girl-and-falls-in-

9. *See id.* at 219; *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 549, 556 (1985).

10. *Eldred*, 537 U.S. at 219.

11. *Id.*; *see also* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 579, 590 (1994) (noting that important factors in a fair use analysis include whether a use adds something new and whether it harms the market or potential market for a copyrighted work).

12. *Online Policy Group v. Diebold, Inc.*, 337 F. Supp. 2d 1195, 1204 (N.D. Cal. 2004) (finding "the portions of the email archive discussing possible technical problems" subject to fair use).

13. *Suntrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257, 1275-77 (11th Cir. 2001).

14. *Diebold*, 337 F. Supp. 2d at 1198 (noting that Swarthmore College required the students to remove the e-mail postings from the Internet).

15. *See id.* at 1204-05; *see also* Electronic Frontier Foundation, <http://www.eff.org/cases/online-policy-group-v-diebold> (last visited Oct. 18, 2010) (describing the Electronic Frontier Foundation and Stanford Center for Internet and Society Cyberlaw Clinic's successful representation of the Swarthmore students who posted the email messages and the Internet service provider, Online Policy Group, that refused to take down the messages).

16. *Suntrust Bank*, 268 F.3d at 1259.

17. David Nimmer, "*Fairest of Them All*" and *Other Fairy Tales of Fair Use*, 66 LAW & CONTEMP. PROBS. 263, 266 (2003) (describing the idea/expression dichotomy and fair use doctrine as "transcendental distinctions").

love, even if they had access to Shakespeare's work.¹⁸ And this would be true even if the lovers were from quarreling clans. Thus, the makers of *The Cohens and the Kellys*, or the more contemporary *Meet the Fockers*, could confidently produce their works without Shakespeare's permission.¹⁹ But there are other instances in which it is less clear whether Shakespeare's permission would be required. Professor Nimmer, for instance, has suggested that the makers of *West Side Story* would have needed Shakespeare's permission to use *Romeo and Juliet*.²⁰ Yet if this were true, perhaps the creators of *The Wind Done Gone*, which more closely tracks the storyline and characters of the underlying work than *West Side Story* tracks *Romeo and Juliet*, would need the Mitchell estate's permission.²¹

Fair use can be similarly murky.²² Surely, no one questions the right of a commentator to quote a short passage from a novel in a book review. But the extent to which a new author can fairly borrow from another work is often far from clear. For example, whether the 2 Live Crew parody of the Roy Orbison song "Oh, Pretty Woman" was a fair use was litigated all the way up to the Supreme Court,²³ and even then the Court remanded for further fact-finding.²⁴ Other fair use claims can be similarly unpredictable.²⁵

In other First Amendment contexts, one would expect the inherent vagueness of the idea/expression dichotomy and the fair use doctrine to set off alarm bells. After all, First Amendment jurisprudence is rife with warnings about the chilling effects of vague laws on freedom of speech.²⁶ But courts do not find the murkiness of these copyright doc-

18. See *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 122 (1930) (stating that the basic plot structure of *Romeo and Juliet* is not copyrightable).

19. *Id.* (stating that a comedy based on parental objections to the marriage of a Jewish boy and Irish girl is "no more susceptible of copyright than the outline of *Romeo and Juliet*").

20. See 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.03[A][1][b] (Matthew Bender ed., 2009).

21. *Suntrust Bank*, 268 F.3d at 1259 (noting that the defendant's book copied core characters, traits, and relationships from *Gone with the Wind*).

22. See generally Mark A. Lemley, *Should a Licensing Market Require Licensing?*, 70 LAW & CONTEMP. PROBS. 185, 185-86 (2007) [hereinafter Lemley, *Licensing*] ("Because fair use relies upon a vague, multi-factor test, it is often impossible to know ex ante whether any particular use will qualify as fair."); Gideon Parchomovsky & Kevin A. Goldman, *Fair Use Harbors*, 93 VA. L. REV. 1483, 1485 (2007) (noting that "fair use's ability to shield unauthorized users is greatly undermined by the uncertainty that has become the hallmark of the doctrine"); R. Polk Wagner, *The Perfect Storm: Intellectual Property and Public Values*, 74 FORDHAM L. REV. 423, 426-27 (2005) (commenting on the "know it when you see it" nature of a fair use analysis).

23. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 571-72 (1994).

24. *Id.* at 593-94.

25. See Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1107 (1990) (stating that fair use decisions "are not governed by consistent principles" and "reflect widely differing notions of the meaning of fair use").

26. See *Reno v. Am. Civil Liberties Union*, 521 U.S. 844, 871-74 (1997) (invalidating Communications Decency Act of 1996 on vagueness grounds); *Smith v. Goguen*, 415 U.S.

trines problematic. Indeed, they seem to revel in it. Judge Learned Hand famously observed that the line between borrowing an idea and taking expression must “inevitably be *ad hoc*.”²⁷ Justice David Souter similarly remarked that a fair use analysis cannot “be simplified with bright-line rules” but “calls for [a] case-by-case analysis.”²⁸

One might debate whether these judges should have tolerated this vagueness, but the judges were at least being honest. They knew from experience that it is often impossible to remove the murkiness from a fair use or idea/expression analysis. They also probably realized that if they reduced the doctrines to more predictable rules (for example, designating as fair the use of seven seconds of a film clip but not eight), it would do a disservice to those with credible fair use or idea/expression claims that do not fit within the rigid guidelines.²⁹ Murkiness, in other words, has its benefits.³⁰

But murkiness still chills speech.³¹ A documentary filmmaker may decide not to use another’s film clips if she can’t be certain her taking will be a fair use.³² And insurance companies may be unwilling to insure the film, which may be necessary for its distribution, if there are unresolved fair use claims.³³

Fortunately, there may be another way to avoid this chilling effect while still preserving the needed discretion in the fair use and idea/expression doctrines. The solution is to modify the remedies available whenever a party loses an honestly asserted fair use or idea/expression defense. If the copyright owner’s remedies are limited

566, 567-68 (1974) (finding flag desecration law unconstitutionally vague); *Stromberg v. California*, 283 U.S. 359, 369-70 (1931) (setting aside conviction based on law forbidding displays in opposition to organized government and holding the law unconstitutionally vague). See generally 1 RODNEY A. SMOLLA, SMOLLA AND NIMMER ON FREEDOM OF SPEECH § 6:15, at 6-21 (2008) (noting that, “[i]n the First Amendment area, the Supreme Court has traditionally applied the vagueness doctrine with special exactitude, because of the chilling effect that vague laws may have on protected expression”).

27. *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (1960).

28. *Campbell*, 510 U.S. at 577.

29. See *id.* at 578-94 (repeatedly rejecting the propriety of any hard line rules—that parody is always a fair use, that commercial use is never a fair use, or that copying the “heart” of a work is not a fair use—and opting for a close contextual balancing of the facts).

30. See Lloyd L. Weinreb, *Fair’s Fair: A Comment on the Fair Use Doctrine*, 103 HARV. L. REV. 1137, 1138 (1990) (doubting that efforts to reduce fair use to more predictable principles will ever be successful and preferring instead a fact-specific inquiry in each case).

31. See Parchomovsky & Goldman, *supra* note 22, at 1486 (noting that the “Supreme Court’s decision to favor ex post fairness over ex ante certainty comes at a steep cost for potential users of copyrighted works” and results in “overdeterrence”).

32. See MARJORIE HEINS & TRICIA BECKLES, WILL FAIR USE SURVIVE? FREE EXPRESSION IN THE AGE OF COPYRIGHT CONTROL 5-6 (2005) (noting that most filmmakers in our “clearance culture” try to “get permission for everything,” which “means that a lot of footage is cut because permissions are unavailable or too expensive, or copyright owners can’t be found”).

33. See *id.* at 5 (noting that “errors and omissions” policies (E&O) require “permission for every snippet of film, photographs, music, or text that is used” and that no cable or broadcast station or distribution company “will release anything without E&O insurance”).

in these instances to only reasonable compensatory damages, then potential users might be willing to forge ahead even if they are unsure whether a fair use or idea/expression defense will prevail.

The Copyright Act's traditional remedies—actual damages plus a defendant's nonduplicative profits—do just this.³⁴ These remedies are largely limited to providing a plaintiff with fair compensation, such as a reasonable licensing fee, or forcing a defendant to disgorge any ill-gotten gains attributable to the infringement.³⁵ The remedies are compensatory and restitutionary, not punitive, so they are unlikely to greatly deter potential users from forging ahead with reasonable albeit debatable fair uses or from taking what are arguably just ideas.³⁶

The problem is that the Copyright Act also allows plaintiffs to opt for statutory damages in lieu of actual damages and profits.³⁷ And, unlike the remedies for actual damages and profits, statutory damages can be punitive.³⁸ The Act simply provides that statutory damage awards can be anywhere from \$750 to \$30,000 for each work infringed and provides no guidance as to how a fact finder should set the amount.³⁹ Moreover, the award may be increased to up to \$150,000 if an infringement is found to be “willful,” a term not defined in the Act and expansively interpreted by the courts.⁴⁰

Of course, the discretion built into the statutory damages regime permits fact finders to limit an award to an amount that approximates a plaintiff's actual damages and profits. But the problem is that it is difficult for users to know *ex ante* whether their liability exposure will be limited to a plaintiff's compensatory and restitutionary interest or whether it will include a punitive component.⁴¹ It is this potential liability for punitive damages that chills prospective users of copyrighted works. For it is one thing to think that you will be subject to a reasonable license fee if your fair use defense fails. It is quite another to think that you will be subject to punitive damages.

This problem of statutory damages' unpredictability is magnified when it is combined with the murkiness of the fair use and idea/expression doctrines. For if courts are to hold that these doctrines resolve the tension between copyright and the First Amendment, they must surely believe that these defenses are sufficiently viable for users to rely on them. But prospective users will most like-

34. 17 U.S.C. § 504 (2006).

35. *See infra* notes 117-23 and accompanying text.

36. *See infra* notes 197-204 and accompanying text.

37. § 504(c).

38. *See infra* notes 127-34 and accompanying text.

39. *Id.*

40. § 504(c)(2); *see also infra* notes 71-73.

41. *See* Parchomovsky & Goldman, *supra* note 22, at 1486-87 (noting that a user can face “quite substantial” damages if a fair use defense fails).

ly steer clear of all but the most conservative uses if they do not know in advance whether their uses are lawful (because of the murkiness of the fair use and idea/expression doctrines) or what the penalty will be for guessing wrong (because of the unpredictability of statutory damages).⁴² This would be fine if the sole concern of copyright law is to bolster copyright owners' property rights. But it is problematic if it results in copyright owners getting a greater monopoly over speech than is appropriate under the First Amendment.⁴³

If the balance between copyright law and the First Amendment depends upon the ability of users to confidently rely on the fair use and idea/expression defenses, an adjustment must be made to ensure that users are not afraid to invoke these defenses. One option is to reduce the murkiness of the fair use and idea/expression doctrines. In fact, many scholars have tried to do just that.⁴⁴ They recommend, for instance, that industries develop fair use guidelines with the hope that courts will adopt them.⁴⁵ Other scholars propose creating new administrative bodies that would render prompt and binding fair use opinions in advance of someone's use of a copyrighted work.⁴⁶

These suggestions are certainly commendable and in some instances could help encourage prospective users to take advantage of the fair use and idea/expression doctrines. But, as noted above, reducing these doctrines to rigid guidelines ultimately may be either impossible or undesirable.⁴⁷ And having an administrative body resolve fair use issues in advance may be more cumbersome and expensive than one would hope. An administrative process would likely

42. See *id.* at 1486 (stating that the overdeterrence problem caused by the fair use doctrine's murkiness is "compounded" by the "wide arsenal of remedies the law provides to copyright owners" including statutory damages); see also Stephanie Berg, *Remedying the Statutory Damages Remedy for Secondary Copyright Infringement Liability: Balancing Copyright and Innovation in the Digital Age*, 56 J. COPYRIGHT SOC'Y U.S.A. 265, 314-15 (2009) (pointing out that the combination of uncertainty in an inventor's secondary liability for copyright infringement and the threat of statutory damages can impede technological innovation).

43. See Parchomovsky & Goldman, *supra* note 22, at 1491-92 (noting that American copyright law "views protecting authors' rights not as an end unto itself" but as "the means to produce a more robust intellectual and artistic culture").

44. See, e.g., Parchomovsky & Goldman, *supra* note 22, at 1503-18 (reviewing previous attempts to create clear fair use guidelines and proposing their own bright-line safe harbor rules); see also, e.g., Michael J. Madison, *A Pattern-Oriented Approach to Fair Use*, 45 WM. & MARY L. REV. 1525, 1530 (2004) (proposing a fair use analysis that focuses on whether a use is "consistent with a provable social or cultural pattern of conduct").

45. See, e.g., AMERICAN UNIV. WASHINGTON COLLEGE OF LAW CTR. FOR SOCIAL MEDIA, DOCUMENTARY FILMMAKERS' STATEMENT OF BEST PRACTICES IN FAIR USE (2005), http://centerforsocialmedia.org/sites/default/files/fair_use_final.pdf.

46. See generally Michael W. Carroll, *Fixing Fair Use*, 85 N.C. L. REV. 1087, 1090 (2007) (advocating the creation of a "Fair Use Board" in the U.S. Copyright Office that could issue ex ante decisions on whether a use of a copyrighted work would be a fair use).

47. See HEINS & BECKLES, *supra* note 32, at 7 (criticizing existing fair use guidelines because they "relinquish the breadth and flexibility of fair use" for the "interests of security and uniformity").

place a heavy financial burden on low budget artists and filmmakers who make many small but debatably “fair” uses.

Another way to address these problems is to tinker with copyright’s remedial regime, specifically statutory damages. After all, the murkiness of the fair use and idea/expression doctrines would not be as troublesome if prospective users knew that their potential liability for losing on these grounds was limited to a copyright owner’s reasonable compensation.

The solution is to design a statutory damages regime that is better calibrated to protect speech interests. That is what I hope to achieve in this Article. To help determine what this calibration should be, I turn to the theoretical distinction between property rules and liability rules developed by Guido Calabresi and A. Douglas Melamed in their landmark article, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*.⁴⁸ Other scholars have applied Calabresi and Melamed’s insights to intellectual property, particularly to the propriety of injunctive relief for violations of intellectual property rights.⁴⁹ But, to date, most scholars have not applied Calabresi and Melamed’s insights to evaluate methodically copyright’s damages regime, specifically statutory damages.⁵⁰

My analysis demonstrates that the remedies available to copyright owners need to vary depending upon the way in which a work is infringed. In some instances, it is appropriate to give copyright owners strong “property rule” protection that reinforces their right to exclude others from using their works without permission.⁵¹ This is particularly true when infringers engage in acts of pure piracy or create derivative works that exploit markets traditionally reserved to the owners of the underlying works. Copyright owners should be entitled to the most robust types of remedies in these instances of egregious piracy. They should be able to enjoin the infringement and should have an opportunity to receive statutory damages that are not only compensatory but also punitive in order to deter the defendant and others from engaging in this type of infringing behavior.

48. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

49. See generally Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783 (2007) (discussing the need for a liability rule in intellectual property law so as to protect underlying noninfringing conduct).

50. The one exception is Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585 (1998). These authors acknowledge that copyright statutory damages may greatly exceed a copyright owner’s actual damages but suggest that this “threat” of large statutory damages may be needed to “prevent the value of the owner’s copyright from being destroyed by a multitude of small-scale infringing acts.” *Id.* at 1657. The authors do not focus on the *in terrorem* effect that punitive statutory damages can have on actors with plausible fair use claims or claims that they have merely taken ideas.

51. See *infra* note 224 and accompanying text.

In other instances, copyright owners should be entitled only to weaker “liability rule” protection that effectively permits others to use a work without permission as long as they are willing to pay a reasonable fee for doing so.⁵² Unlike a property rule’s powerful message not to trespass on a copyrighted work, a liability rule invites prospective users to use a work for what is essentially a judicially-created compulsory license. Infringers should be able to continue exploiting their derivative works (that is, copyright owners should not be able to enjoin these uses) and, while the infringers may have to pay compensatory or restitutionary damages to the copyright owners, they should not be liable for punitive damages.

Of course, it may seem odd to encourage people to use another’s copyrighted work without permission as long as they pay a reasonable fee. After all, the law does not allow a stranger to use another’s beach house as long as he pays a reasonable rent. But copyrights are created pursuant to a constitutional grant authorizing Congress to create rights only for the purpose of benefiting the public.⁵³ And copyrights, unlike real property rights, create rights in speech, thereby placing them in tension with the First Amendment. Allowing third parties to occasionally use copyrighted works without permission is necessary to fulfill Congress’ mandate to benefit the public and ensure that copyrights do not unduly trench upon free speech interests.

After identifying the overarching principles for awarding monetary damages, I shall propose guidelines for determining when statutory damages should serve a punitive or deterrent purpose and when they should be limited to merely a compensatory or restitutionary purpose. In the Article’s final section, I explore three routes for implementing the proposed guidelines. The first asks whether courts could implement the guidelines through interpretation of the current statutory damages provision, thus avoiding any need for legislative intervention. The second explores how Congress could amend the Copyright Act to create more precise rules for awarding statutory damages. Finally, the last section explores whether the First Amendment’s Free Speech Clause or the Fifth Amendment’s Due Process Clause should place constitutional limits on statutory damages. These constitutional options are particularly attractive if political opposition from the copyright industries makes legislative modification of the statutory damages regime improbable.⁵⁴

52. See *infra* notes 212-13 and accompanying text.

53. U.S. CONST. art. I, § 8, cl. 8 (giving Congress the power to enact copyright laws “[t]o promote the [p]rogress of [s]cience and useful [a]rts”). Further, in *Mazer v. Stein*, the Supreme Court explained that the “economic philosophy” underlying this Clause is that “encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors.” 347 U.S. 201, 219 (1954).

54. See *infra* notes 251-57 and accompanying text.

II. THE FRAMEWORK: THE COPYRIGHT ACT'S STATUTORY DAMAGES REGIME

The standard measure of recovery for copyright infringement consists of “actual damages and any additional profits of the infringer.”⁵⁵ Actual damages comprise any damages suffered by the plaintiff as a result of the infringement.⁵⁶ The defendant-infringer’s profits are recoverable if they are attributable to the infringement and are not merely duplicative of the plaintiff’s actual damages.⁵⁷

Imagine, for instance, a defendant who unlawfully reproduced a plaintiff’s photograph on 1000 t-shirts and then sold the shirts. The plaintiff might claim actual damages because the defendant usurped the plaintiff’s market for selling t-shirts (that is, the plaintiff could have sold 1000 shirts with the photo instead of the defendant). Alternatively, the plaintiff might seek to recover the profits received by the defendant from selling the 1000 shirts. The plaintiff cannot recover both of these amounts, however, because the two are largely duplicative.⁵⁸ By contrast, if the defendant’s crass commercial exploitation diminished the market value of the plaintiff’s photograph, then the plaintiff may have incurred actual damages that are not reflected in the defendant’s profits.⁵⁹

Actual damages and profits are the default measure of monetary recovery under the Copyright Act but not the only measure. The Act also allows plaintiffs to opt for “statutory damages” in lieu of actual damages and profits at any time before the final judgment.⁶⁰ Statutory damages are monetary awards that fall within a range set forth in the Copyright Act. These damages are available as long as a copyright owner has registered his or her copyright prior to the infringement or, when a published work is infringed, within three months of the work’s publication.⁶¹

55. 17 U.S.C. § 504(a)(1) (2006).

56. *See* § 504(b) (stating that the “copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement”).

57. *Id.* (stating that a copyright owner may recover “any profits . . . that are attributable to the infringement and are not taken into account in computing the actual damages”).

58. *See, e.g.,* Taylor v. Meirick, 712 F.2d 1112, 1120-22 (7th Cir. 1983) (overturning award of both actual damages and defendant’s profits and awarding only actual damages because plaintiff had failed to show that the two were not duplicative). *See generally* NIMMER & NIMMER, *supra* note 20, § 14.02[A][1], at 14-16 (explaining that a plaintiff “may not recover its full lost profits plus all of the defendant’s profits, for this would constitute a forbidden double recovery”).

59. *See, e.g.,* Rainey v. Wayne State Univ., 26 F. Supp. 2d 963, 970 (E.D. Mich. 1998) (claim for reputational harm caused by the upside down reproduction of a painting).

60. 17 U.S.C. § 504(c) (2006).

61. 17 U.S.C. § 412 (2006).

The Copyright Act allows plaintiffs to receive one statutory damage award for each work infringed.⁶² The amount awarded can be anywhere from \$750 to \$30,000.⁶³ In addition, courts may increase the maximum statutory damage award up to \$150,000 if they conclude an infringement was “committed willfully.”⁶⁴ Conversely, they may reduce the minimum damage amount to \$200 if they conclude an infringement was innocent.⁶⁵

For example, a defendant who unlawfully downloaded ten songs could potentially be liable for statutory damages of \$750 to \$30,000 for each work infringed.⁶⁶ If the infringement is found to be willful, the damages could be as high as \$150,000 for each work.⁶⁷ By contrast, if a defendant made 1000 copies of a single song, the plaintiff may recover only one statutory damage award because only one work was infringed.⁶⁸ Of course, a court may compensate for the magnitude of the infringement by choosing an award on the high end of the statutorily-set spectrum. But the plaintiff may still receive only one award.

The Copyright Act provides no guidance on how fact finders should set the amount of a statutory damage award, and courts have emphasized that they have “wide discretion” in doing so.⁶⁹ While courts have identified factors to consider in making awards, scholars who have studied the actual awards have found them to be arbitrary and unpredictable.⁷⁰

62. § 504(c).

63. *Id.*

64. *Id.* § 504(c)(2).

65. *Id.*

66. *See, e.g.,* Capitol Records, Inc. v. Thomas-Rasset, 680 F. Supp. 2d 1045, 1048 (D. Minn. 2010) (statutory damages of \$2,250 for each of twenty-four songs downloaded and distributed on a peer-to-peer network for a total of \$54,000). This award was granted by a judge on remittitur after a jury first awarded \$80,000 for each song for a total statutory damages award of \$1,920,000. *Id.* at 1050.

67. *See, e.g.,* Columbia Pictures Television, Inc. v. Krypton Broad. of Birmingham, Inc. 259 F.3d 1186, 1191 (9th Cir. 2001) (jury award of \$31.68 million for 440 infringed works or the equivalent of \$72,000 for each work).

68. § 504(c) (stating that a plaintiff may receive an award of statutory damages “for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally”).

69. *See* Berg, *supra* note 42, at 305 (noting that the act provides no guidance as to how courts should exercise their discretion); *see also* Nintendo of Am., Inc. v. Dragon Pac. Int’l, 40 F.3d 1007, 1010 (9th Cir. 1994) (stating that a district court “has wide discretion in setting the amount of statutory damages”); Harris v. Emus Records Corp., 734 F.2d 1329, 1335 (9th Cir. 1984) (same).

70. *See* Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 441 (2009). For examples of factors that courts use to set statutory damage awards, *see* Tiffany (NJ), Inc. v. Luban, 282 F. Supp. 2d 123, 125 (S.D.N.Y. 2003) (listing seven factors for courts to consider).

The Copyright Act also does not define what constitutes “willful” infringement,⁷¹ and judges tend to interpret the term broadly. Judges have held that “willfulness” includes not only situations in which a defendant knew its act was infringing but also situations in which it “had reason to know” or “recklessly disregarded the fact that its conduct constituted copyright infringement.”⁷² For instance, the influential Second Circuit has said that willfulness can mean that the defendant “ ‘recklessly disregarded’ the possibility that ‘its conduct represented infringement’ ” and that “[a] plaintiff is not required to show that the defendant ‘had knowledge that its actions constitute[d] an infringement.’ ”⁷³

The Act is more explicit about the burden of proof for an innocent infringer: the defendant must show that it “was not aware and had no reason to believe” that its act constituted infringement.⁷⁴ Commentators and courts agree that this standard has both a subjective component (the infringer believed it was not infringing) and an objective component (it was reasonable for the infringer to believe it was not infringing).⁷⁵ Even if the defendant-infringer can meet this burden, a court still cannot give weight to an innocent infringer defense if the defendant had access to copies of the infringed work that bore proper copyright notice.⁷⁶ This is true regardless of the strength of the evidence showing that the defendant reasonably and in good faith believed its actions were not infringing.⁷⁷

Finally, although the Act implies that judges should make all of the relevant rulings regarding statutory damage awards (for example, whether a defendant acted willfully, the amount of the award, etc.),⁷⁸ the Supreme Court in *Feltner v. Columbia Pictures Television*,

71. PAUL GOLDSTEIN, 2 GOLDSTEIN ON COPYRIGHT § 14.2.1(a) (2008) (noting that the Copyright Act “does not define willfulness for purposes of determining the availability of increased statutory damages”).

72. *Id.*; see, e.g., *Island Software & Computer Serv., Inc. v. Microsoft Corp.*, 413 F.3d 257, 264 (2d Cir. 2005); *Fitzgerald v. CBS Broad., Inc.*, 491 F. Supp. 2d 177, 190 (D. Mass. 2007).

73. *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 112 (2d Cir. 2001) (citations omitted).

74. 17 U.S.C. § 504(c)(2) (2006).

75. See *Childress v. Taylor*, 798 F. Supp. 981, 994 (S.D.N.Y. 1992); *Allen-Myland, Inc. v. Int'l Bus. Machs. Corp.*, 770 F. Supp. 1014, 1027 (E.D. Pa. 1991). See generally NIMMER & NIMMER, *supra* note 20, § 14.04[B][2][a], at 14-74 (stating that a defendant satisfies the innocent infringer defense only if he can prove that “his infringing conduct was made in a good faith belief of [his] innocence” and that “he was reasonable in holding that good faith belief”).

76. 17 U.S.C. §§ 401(d), 402(d) (2006).

77. See *BMG Music v. Gonzalez*, 430 F.3d 888, 892 (7th Cir. 2005); *UMG Recordings, Inc. v. Cuccia*, No. 06-C-638-C, 2007 WL 5490756, at *2 (W.D. Wis. Aug. 6, 2007); *Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 464-65 (E.D. Pa. 1987).

78. 17 U.S.C. § 504(c)(1)-(2) (2006) (stating that a statutory damages award should be in an amount “as the court considers just” and that “[a] court in its discretion” may increase the award if “the court finds” the defendant acted willfully).

*Inc.*⁷⁹ concluded that the Seventh Amendment “provides a right to a jury trial on all issues pertinent to an award of statutory damages.”⁸⁰

III. THE PROBLEM: HOW THE STATUTORY DAMAGES REGIME CHILLS THE CREATION OF NEW WORKS

There are two fundamental flaws in copyright’s statutory damages regime: one that gives decisionmakers too much discretion and one that gives them too little. It is best to consider each separately.

A. *The Problem of Too Much Discretion: The Unpredictability of Statutory Damage Awards*

The problem of too much discretion arises from the fact that judges or juries may select from a broad range of statutory damages awards: from \$750 to \$30,000 for ordinary infringements and upward to \$150,000 for “willful” infringements.⁸¹ Depending upon the facts of any particular case, an award selected within this range could merely approximate a plaintiff’s actual damages. But it could just as easily be partially or even severely punitive (for example, a \$150,000 award for downloading a single song).

The specter of punitive statutory damages would be less problematic if the sole concern of the law was to discourage all unauthorized uses of copyrighted works. But some uses are socially desirable and cause little harm to copyright owners. Of course, some of these uses might be a fair use or the use of only a copyright owner’s “ideas,” but it can be difficult to know this *ex ante*.⁸² Thus, prospective users must consider the possibility of potential liability when they use a work without permission. It is here that the broad discretion built into the statutory damages regime becomes problematic.

Imagine, for instance, you are a documentary filmmaker with a small budget but a big idea. You want to do a movie about how the oil and gas industries have manipulated the media to create uncertainty about the scientific case for global warming. Much of the movie will consist of footage you yourself shoot. But you also plan to use numerous clips from television to make your point, such as clips of oil company executives testifying before Congress, energy company advertisements, and footage of industry-supported scientists debunking global warming.

Of course, it is possible that use of these clips will be considered a fair use. A court might find that your work is a form of commentary, criticism, or scholarship. But it is often difficult to know in advance

79. 523 U.S. 340 (1998).

80. *Id.* at 355.

81. 17 U.S.C. § 504(c) (2006).

82. *See supra* notes 17-25 and accompanying text.

how a fair use issue will be decided.⁸³ There are so many variables (such as the amount of the underlying work used, whether your point could have been made without the underlying work, the nature of the underlying work, the effect of your use upon the copyright owner's potential markets) that making such a prediction is inherently risky.⁸⁴

You could approach the copyright owner of each clip and request permission to use it (either for free or for a limited fee), but the more works you use, the more time-consuming and costly this process becomes. Moreover, the copyright owners might insist on an exorbitantly high fee or refuse your request altogether.⁸⁵

Another possibility is that you could forge ahead and use the clips without permission. Before you do this, however, you would want to have some sense of your potential liability if your actions are not a fair use. Moreover, you might find it impossible to have your work distributed unless you can obtain insurance coverage in the event an infringement has occurred.⁸⁶ But for an insurance company to cover this risk, it too must be able to assess your potential liability.

This is where the unpredictable nature of statutory damage awards creates a problem. Of course, it is possible that if you were found liable a statutory damages award would be limited to the share of your profits attributable to the infringement. In that instance, you might choose to forge ahead, knowing that even if your use were found unfair, your liability would not be unreasonably high.

But because the Copyright Act provides for statutory damage awards within a fairly large range—from \$750 to \$30,000⁸⁷—you could potentially face liability of up to \$30,000 for each work infringed. And if your infringement is found to be “willful”—which a fact finder could find merely by determining that you should have known your action was infringing or that you recklessly disregarded

83. Lemley, *Licensing*, *supra* note 22, at 185-86 (noting that it is difficult to know *ex ante* whether a use will be a fair use and that “[i]ndividuals, non-profits, and small companies may not be able to afford [a] lawyer” to litigate a fair use defense).

84. *See* Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 577-78 (1994) (noting that there are no “bright-line rules” for a fair use analysis, that the doctrine calls for a “case-by-case analysis,” and that all of the statutory factors must be “explored, and the results weighed together, in light of the purposes of copyright”).

85. Parchomovsky & Goldman, *supra* note 22, at 1501 (relaying the story of how the Rolling Stones’ agent wanted \$10,000 for the right to use the line “What’s confusing you is the nature of my game” to begin a chapter in a book on game theory).

86. HEINS & BECKLES, *supra* note 32, at 5 (quoting a leading “errors and omissions” insurance broker on how “you cannot put anything on the air without E&O insurance” and describing how E&O policies require “permission for every snippet of film” used in a work and make no exceptions for fair use).

87. 17 U.S.C. § 504(c)(1) (2006).

the copyright owners' rights⁸⁸—the damages could be as high as \$150,000 for each infringed work.⁸⁹

Now do the math. Let us assume that in making your film you will use thirty clips from other sources. You know these clips are protected by copyright and that your use would be infringing if it is not found to be a fair use (which you know is uncertain). Moreover, while a court could find that your use was not willful because you had a reasonable fair use argument, it need not necessarily reach that conclusion. Thus, all you know *ex ante* is that you could conceivably be hit with statutory damages of as much as \$150,000 for each of the thirty works (\$4.5 million) if your use was found to be willful, or \$30,000 for each work (\$900,000) if your use was not found to be willful. Surely this would be enough to make any low budget filmmaker think twice before using another's work, especially when using multiple works.⁹⁰

Consider, for instance, the difficulties that the producers of the prize-winning documentary *Eyes on the Prize* faced when they wanted to distribute the film after the original licenses for the underlying works had lapsed. The filmmakers were faced with what the Center for Social Media at American University calls “a creative stranglehold”:

There is no central place to find out who owns what. There is no rule of thumb for pricing. No one has to agree to license. And it doesn't matter if you didn't intend to quote it. Did somebody sing “Happy Birthday” in your documentary? Too bad—you owe Time Warner a small fortune.⁹¹

The producers of *Eyes on the Prize* did succeed in obtaining the permissions needed to redistribute the film, but this was only after the producers received a \$600,000 grant from the Ford Foundation and a \$250,000 grant from a New York philanthropist.⁹² These grants would undoubtedly not have materialized had *Eyes on the Prize* not had such a high profile as the seminal documentary on the civil

88. See *supra* notes 71-73 and accompanying text.

89. § 504(c)(2).

90. See also Parchomovsky & Goldman, *supra* note 22, at 1498 (noting that even when authors want to assert a fair use claim, publishers and distributors might be unwilling to accept the risk).

91. DeNeen L. Brown & Hamil R. Harris, *A Struggle for Rights*, WASH. POST, Jan. 17, 2005, at C01; see also Nancy Ramsey, *The Hidden Costs of Documentaries*, N.Y. TIMES, Oct. 16, 2005, at 2.13 (stating that the producers of the 1994 documentary *Hoop Dreams* had to pay \$5,000 to use the song *Happy Birthday*).

92. Ramsey, *supra* note 91.

rights era. In the interim, the documentary was not broadcast on television and was not available on video or DVD for over ten years.⁹³

Of course, if prospective users could have confidence that those awarding statutory damages would use their discretion wisely and limit awards to reasonable amounts whenever a defendant had at least a colorable fair use argument, then users might have the confidence to forge ahead with their projects without permission. But the Copyright Act provides no guidance as to how this discretion should be exercised, and case precedent provides little help. Not surprisingly, Pamela Samuelson and Tara Wheatland concluded in a recent survey of statutory damages awards that the awards are “frequently arbitrary, inconsistent, . . . and sometimes grossly excessive.”⁹⁴

Consider the award granted in *Los Angeles Times, Inc. v. Free Republic*.⁹⁵ Free Republic operated a website on which users were allowed to post comments on both current events and the media coverage of those events.⁹⁶ Users of the website routinely posted articles, including articles from the plaintiffs’ papers, the *Los Angeles Times* and *Washington Post*.⁹⁷ The plaintiffs contended that the defendants were facilitating copyright infringement of their works and that this “free” posting deprived them of archive fees that users would pay if they had to access the articles at the plaintiffs’ websites.⁹⁸

Commentators have suggested that Free Republic had at least a “plausible” argument that the posting of articles on its website was a fair use.⁹⁹ However, the court not only rejected the fair use argument but also slammed Free Republic with an exorbitant \$1 million statutory damage award.¹⁰⁰ As Samuelson and Wheatland point out, the fact that this “lawsuit was later settled for \$10,000 shows how out of proportion the statutory damage award was.”¹⁰¹

93. *Id.*; see also Parchomovsky & Goldman, *supra* note 22, at 1500 (noting how Alex Gibney’s documentary, *Enron: The Smartest Guys in the Room*, was released without valuable film clips because the filmmakers were unable to secure permission to use the works).

94. Samuelson & Wheatland, *supra* note 70, at 441.

95. No. 98-7840 MMM AJWX, 2000 WL 1863566 (C.D. Cal. Nov. 16, 2000).

96. *L.A. Times, Inc. v. Free Republic*, No. CV 98-7840 MMM (AJWX), 2000 WL 565200, at *1 (C.D. Cal. Apr. 4, 2000).

97. *Id.*

98. *Id.*

99. See Samuelson & Wheatland, *supra* note 70, at 462-63 (contending that Free Republic raised a “plausible fair use defense”); see also Alan E. Garfield, *The First Amendment as a Check on Copyright Rights*, 23 HASTINGS COMM. & ENT. L.J. 587, 600-03 (2001) (suggesting that Free Republic’s action might be an instance in which “First Amendment concerns should trump the assertion of copyright rights”).

100. *L.A. Times, Inc.*, 2000 WL 1863566, at *1, 3.

101. Samuelson & Wheatland, *supra* note 70, at 462. Samuelson and Wheatland also point to *Lowry’s Reports, Inc. v. Legg Mason, Inc.*, 302 F. Supp. 2d 455 (D. Md. 2004), as an example of a case where a defendant had a “not implausible” fair use defense but was nevertheless hit with a \$19.7 million jury award even though the actual damages were approximately \$60,000. *Id.* at 463.

*B. The Problem of Too Little Discretion: The Frightening
Predictability of Minimal Statutory Damage Awards When Numerous
Works are Infringed*

The second flaw of the statutory damages regime—that it gives decisionmakers too little discretion—derives from the regime’s mechanical rule for awarding minimal statutory damages. As previously discussed, judges and juries are required to grant at least a minimal statutory damage award of \$750 for every work infringed.¹⁰² While this sounds like petty change compared to a lawyer’s hourly fee, it can produce extravagantly large damage awards when multiple works are infringed.

This prospect of harshly punitive damages could scare off any artist who wants to use multiple works without permission unless the artist has an ironclad fair use or idea/expression defense. But, again, the murkiness of these doctrines means that these defenses are rarely ironclad. Consequently, a prospective user would often be best advised to avoid the use altogether.

Consider, for instance, a little known artist who plans to make a collage using a thousand tiny thumbnail reproductions of famous photographs. The artist’s use of these photos may very well be considered a fair use. But if it is not, the artist could be hit with a minimum statutory damage award for each work used.

The mandatory minimal damage award regime can also produce perverse incentives for creators of new technologies who may fear being subject to secondary liability for infringements by third parties who use their technologies.¹⁰³ For example, if Google, the owner of YouTube, could be subject to a minimum statutory damage award for every copyrighted work infringed by one of YouTube’s users, its potential liability would be astronomical.¹⁰⁴ As Stephanie Berg has pointed out, the prospect of such vast awards threatens to discourage the creation of new and socially valuable technologies¹⁰⁵ even though these technologies are the mainstay of our national economy and of-

102. 17 U.S.C. § 504(c)(1) (2006).

103. See Berg, *supra* note 42, at 267 (arguing that creators of new technologies are deterred from innovating because of the threat of statutory damages for secondary liability).

104. *Id.* at 320. Viacom has sued Google and YouTube for direct and secondary liability for the downloading of Viacom works on YouTube by users. *Id.* Viacom is seeking maximum statutory damages for each infringement. *Id.* See Complaint for Declaratory and Injunctive Relief and Damages at 18-26, *Viacom Int’l, Inc. v. YouTube, Inc.* (S.D.N.Y. Mar. 13, 2007), available at <http://www.lessig.org/blog/archives/vvg.pdf>. The district court judge recently granted YouTube’s motion for summary judgment based upon the safe harbor provision of the Digital Millennium Copyright Act. *Viacom Int’l, Inc. v. YouTube, Inc.*, Nos. 07 Civ. 2103(LLS), 07 Civ. 3582(LLS), 2010 WL 2532404 (S.D.N.Y. June 23, 2010). Viacom has said it would appeal the decision. *Judge Sides with YouTube in Viacom Infringement Case*, 17 No. 6 WESTLAW J. INTELL. PROP. 3 (Jul. 13, 2010).

105. See Berg, *supra* note 42, at 271-72.

ten benefit copyright owners in the long run by creating new vehicles for exploiting their works.

*UMG Recordings, Inc. v. MP3.com, Inc.*¹⁰⁶ illustrates how punitive statutory damage awards can chill innovation. MP3.com had the idea to create a service that would allow the owners of music to access their music from any computer.¹⁰⁷ Before users could access a CD, they would first have to prove to MP3.com that they had purchased it.¹⁰⁸ Once they had met this burden, MP3.com would be willing to stream the music to them at any computer they were using.¹⁰⁹ To facilitate this streaming of music, MP3.com purchased thousands of CDs and copied the music onto its servers.¹¹⁰

Once again, commentators argued that MP3.com had at least a plausible fair use argument.¹¹¹ After all, MP3.com streamed only music that users had originally purchased, so the copyright owners would already have received some compensation.¹¹² MP3.com simply made it easy for users to enjoy their music in different locations.

Nevertheless, the court not only rejected any fair use defense but also found that MP3.com had “willfully” infringed the plaintiffs’ copyrights.¹¹³ The court awarded statutory damages in the amount of \$25,000 for each CD that was infringed, for a staggering total of \$118 million,¹¹⁴ even though there was no evidence that the plaintiffs had been harmed by the defendant’s actions¹¹⁵—indeed, MP3.com’s service had not even been fully put into operation.¹¹⁶

IV. THE CHOICE: THE POTENTIAL REMEDIAL PURPOSES OF STATUTORY DAMAGES

Copyright’s statutory damage remedy could potentially serve a variety of purposes. Statutory damage awards could, for instance, be primarily compensatory. The goal would be to compensate plaintiffs for the approximate harm that resulted from a defendant’s use of

106. No.00 CIV. 472(JSR), 2000 WL 1262568 (S.D.N.Y. Sept. 6, 2000).

107. *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F. Supp. 2d 349, 350 (S.D.N.Y. 2000).

108. *Id.*

109. *Id.*

110. *Id.* David Nimmer has speculated that it could require anywhere from 60,000 to 600,000 permissions for a company such as MP3.com to lawfully use 10,000 recorded songs for its service. Nimmer, *supra* note 17, at 265-66.

111. *See, e.g.*, Samuelson & Wheatland, *supra* note 70, at 462 n.97 (noting MP3.com’s claim that it was merely “facilitating lawful personal uses of music akin to the facilitation of personal uses held lawful in the *Sony Betamax* case”).

112. *UMG Recordings*, 92 F. Supp. 2d at 352.

113. *UMG Recordings, Inc. v. MP3.com, Inc.*, No.00 CIV. 472 (JSR), 2000 WL 1262568, at *4 (S.D.N.Y. Sept. 6, 2000).

114. *Id.* at *6.

115. *Id.* at *5 (noting that the plaintiffs made no attempt to prove any actual damages suffered as a result of the defendant’s alleged infringement).

116. Prior to the lawsuit, MP3.com had not charged a fee to its subscribers. *UMG Recordings*, 92 F. Supp. 2d at 351.

their work.¹¹⁷ Under this scenario, courts awarding statutory damages would try to mimic what a plaintiff would receive had she directly sought actual damages under the Copyright Act.¹¹⁸ The primary benefit of allowing for statutory damages is that it would allow a plaintiff to be compensated even when actual damages may be difficult to prove.¹¹⁹ Admittedly, courts would have to engage in some guesswork in these instances. But the point is that this guesswork would be aimed, however imprecisely, at compensating a plaintiff for the harm caused by a defendant's actions.

Alternatively, statutory damages could have a restitutionary purpose. Here, courts would try to award statutory damages that approximate the amount of ill-gotten profit a defendant received from infringing the plaintiff's property.¹²⁰ The goal of the statutory damage award would be to shift this "unjust enrichment" from the defendant to the plaintiff.¹²¹ Once again, courts in this instance would be using statutory damages to mimic an award that copyright plaintiffs could seek directly under the Act.¹²²

Just as plaintiffs can pursue both actual damages and a defendant's nonduplicative profits, a judge might similarly award statutory damages that approximate these combined amounts. Here again, the judge would be granting an award that is commensurate with what plaintiffs could obtain directly under the Act.¹²³

The notion that statutory damages should be an approximate substitute for actual damages and profits has considerable support in the case law. Under the previous Copyright Act of 1909, some courts even barred plaintiffs from seeking statutory damages if adequate proof of actual damages and the defendant's profits existed.¹²⁴ Even

117. See JAMES M. FISCHER, UNDERSTANDING REMEDIES 25 (2d ed. 2006) (describing compensatory damages as "compensation in money for loss or detriment caused by the wrongful act of another" and that the basic rule "is to place the plaintiff in the position she would have occupied had the wrong not occurred").

118. See H.R. REP. NO. 94-1476, at 161 (1976) (noting that "[d]amages are awarded to compensate the copyright owner for losses from the infringement").

119. See GOLDSTEIN, *supra* note 71, § 14.2, at 14:41 (stating that a "rationale commonly given for statutory damages is that" actual damages are often difficult to prove so statutory damages are necessary to give plaintiffs an incentive to enforce their rights and to deter potential infringers).

120. See FISCHER, *supra* note 117, at 330 (noting that "[r]estitution is based on the goal of avoiding unjust enrichment").

121. See *id.*

122. See 17 U.S.C. § 504(a) (2006); see also H.R. REP. NO. 94-1476, at 161 (noting that a plaintiff's right to recover an infringer's profits is intended "to prevent the infringer from unfairly benefitting from a wrongful act").

123. See 17 U.S.C. § 504(b) (2006) (allowing plaintiffs to recover both actual damages and non-duplicative profits).

124. See, e.g., *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354, 378 (9th Cir. 1947). See generally GOLDSTEIN, *supra* note 71, §14.2, at 14:41 to :42 (noting that courts construing the Copyright Act of 1909 drew varied implications from the existence of evidence of actual damages and profits but that some held that statutory damages "were not

under the current Copyright Act of 1976, which permits plaintiffs to opt for statutory damages regardless of whether evidence of actual damages and profits exists,¹²⁵ courts still “often try to approximate actual damages and profits” when determining what amount to award.¹²⁶

The third potential purpose of statutory damages is punitive. Here, the goal would be to punish a defendant for wrongful behavior and deter other potential infringers.¹²⁷ In this instance, statutory damages would provide a remedy that is not available to plaintiffs who seek actual damages and profits. Punitive damages are not mentioned in the Copyright Act, and courts have inferred from this silence that plaintiffs who seek actual damages and profits are barred from receiving punitive damages.¹²⁸

By contrast, courts readily assume that statutory damages may be punitive.¹²⁹ Judges see evidence of a congressional intent to authorize punitive awards in the provision allowing for enhanced statutory damages for “willful” infringements.¹³⁰ The legislative history of the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999 (“The Digital Theft Act”),¹³¹ which increased statutory damage awards to their current limits, also contains explicit Congressional support for punitive statutory damages:

Courts and juries must be able to render awards that deter others from infringing intellectual property rights. It is important that the cost of infringement *substantially exceed the costs of compli-*

available if damages and profits had been proved”); NIMMER & NIMMER, *supra* note 20, § 14.04[F][1][d], at 14-120 (stating that neither party could request statutory damages if there was adequate proof of actual damages and a defendant’s profits).

125. NIMMER & NIMMER, *supra* note 20, § 14.04[A], at 14-66 (noting that the 1976 Act allows copyright owners to opt for statutory damages without regard to whether evidence of actual damages or profits was submitted and even if a copyright owner “intentionally declined to offer such evidence”).

126. GOLDSTEIN, *supra* note 71, § 14.2.1, at 14:43. Even in the *Capitol Records Inc. v. Thomas-Rasset* file-sharing case the district court acknowledged that while statutory damages were appropriate, statutory damages “must still bear some relation to actual damages.” 680 F. Supp. 2d 1045, 1053-54 (D. Minn. 2010).

127. FISCHER, *supra* note 117, at 919-20 (noting that the purpose of punitive damages is to “punish” and to “deter wrongful conduct by the defendant or others”).

128. *See, e.g.,* Oboler v. Goldin, 714 F. 2d 211, 213 (2d Cir. 1983). *See generally* Marc J. Rachman, Sara L. Edelman, & David S. Greenberg, *Are Punitive Damages Available Under the Copyright Act*, FINDLAW, 2005, <http://library.findlaw.com/2005/Feb/10/172826.html> (restating the general rule that punitive damages are not available for copyright plaintiffs who seek actual damages and profits and criticizing a few lower courts decisions that have suggested otherwise).

129. *See, e.g.,* On Davis v. Gap, Inc., 246 F.3d 152, 172 (2d Cir. 2001).

130. *Id.* (stating that “[t]he purpose of punitive damages—to punish and prevent malicious conduct—is generally achieved under the Copyright Act through the provisions . . . which allow increases to an award of statutory damages in cases of willful infringement”).

131. Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, 113 Stat. 1774.

ance, so that persons who use or distribute intellectual property have a strong incentive to abide by the copyright laws.¹³²

It is hardly surprising, then, that the Supreme Court in *Feltner v. Columbia Pictures Television, Inc.*¹³³ said that statutory damages “may serve purposes traditionally associated with legal relief, such as compensation and punishment.”¹³⁴ Nor is it surprising that lower courts have echoed this sentiment.¹³⁵

Scholars, too, readily acknowledge that statutory damages may be used for punitive purposes. But many fear that courts grant punitive awards far more often than Congress intended.¹³⁶ They point out that statutory damages under the 1909 Act were viewed as a substitute remedy for plaintiffs who had difficulty proving actual damages.¹³⁷ The awards were supposed to approximate a plaintiff’s actual damages, not to punish a defendant.¹³⁸ Indeed, the Act expressly provided that statutory damages “shall not be regarded as a penalty.”¹³⁹

The current 1976 Act does not include this limiting language, but many scholars view this change as insignificant. They believe Con-

132. H.R. REP. NO. 106-216, at 6 (1999) (emphasis added).

133. 523 U.S. 340 (1998).

134. *Id.* at 352 (emphasis added).

135. *See, e.g.*, *On Davis v. Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001) (noting that the enhanced damages for willful infringements are intended to have a punitive purpose); *Cass County Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 643 (8th Cir. 1996) (stating that statutory damages are “not only ‘restitution of profit and reparation for injury,’ but also are in the nature of a penalty, ‘designed to discourage wrongful conduct’” (quoting *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952))); *Nat’l Football League v. Prime-Time 24 Joint Ventures*, 131 F. Supp. 2d 458, 478 n.17 (S.D.N.Y. 2001) (noting that statutory damages can have a punitive purpose).

136. *See, e.g.*, Samuelson & Wheatland, *supra* note 70, at 451-56; *see also generally* J. Cam Barker, Note, *Grossly Excessive Penalties in the Battle Against Illegal File-Sharing: The Troubling Effects of Aggregating Minimum Statutory Damages for Copyright Infringement*, 83 TEX. L. REV. 525 (2004); Berg, *supra* note 42.

137. *See* Samuelson & Wheatland, *supra* note 70, at 448.

138. *See* Berg, *supra* note 42, at 279 (reviewing the legislative history of the 1909 Act and concluding that “statutory damages were meant to be compensatory to ensure that copyright owners would receive some award in the absence of proof of actual damages but not punitive in nature”).

139. 17 U.S.C. § 101(b) (1976) (superseded). Despite this language in the Act, the Supreme Court in *F.W. Woolworth Co. v. Contemporary Arts, Inc.* indicated that statutory damage awards under the 1909 Act could serve a punitive purpose:

The statutory rule, formulated after long experience, not merely compels restitution of profit and reparation for injury *but also is designed to discourage wrongful conduct*. The discretion of the court is wide enough to permit a resort to statutory damages for such purposes. Even for uninjurious and unprofitable invasions of copyright the court, may, if it deems it just, impose a liability within statutory limits to sanction and vindicate the statutory policy.

344 U.S. 228, 233 (1952) (emphasis added). Lower courts have used the Supreme Court’s language in *F.W. Woolworth* to justify their conclusion that statutory damages awarded under the 1976 Copyright Act may have a punitive purpose. *See, e.g.*, *Cass County Music Co. v. C.H.L.R., Inc.*, 88 F.3d 635, 643 (8th Cir. 1996).

gress fully intended for the statutory damage remedy to serve the same compensatory purpose that it did under the 1909 Act.¹⁴⁰ The only exception is for willful infringements, which scholars acknowledge warrant punitive damages. But scholars contend that Congress intended for the “willful infringement” exception to be used sparingly, in what the legislative history referred to as “exceptional cases.”¹⁴¹

If scholars are correct—that Congress intended punitive statutory damages to be awarded rarely—they are right to complain about their overuse.¹⁴² Part of the problem is that courts have expansively interpreted the term “willful.”¹⁴³ Thus, an infringement is “willful” not just when a defendant knows he is infringing, but also when a defendant “had reason to know” his actions were infringing or “recklessly disregarded” the fact that his conduct constituted infringement.¹⁴⁴ These broad interpretations have made enhanced statutory damages available much more often than the few “exceptional cases” Congress envisioned.

Even when an infringement is not “willful,” a statutory damage award can still be punitive. This is because the statute provides no guidance on how courts are supposed to exercise their discretion within the ordinary range of \$750 to \$30,000, and courts have yet to develop workable standards to control this discretion.¹⁴⁵ Thus, as Pamela Samuelson and Tara Wheatland have convincingly shown,

140. Berg, *supra* note 42, at 295 (reviewing the legislative history of the 1976 Act and finding that the “most often proffered justification” for keeping statutory damages was that they “were necessary to protect the copyright owner who may have suffered damages but was unable to prove them”).

141. Samuelson & Wheatland, *supra* note 70, at 458 (citing S. REP. NO. 94-473, at 144-45 (1975)).

142. See, e.g., *Zomba Enters., Inc. v. Panorama Records, Inc.*, 491 F.3d 574, 585, 586 n.10 (6th Cir. 2007) (statutory damages of \$806,000 even though actual damages were approximately \$18,458); *Superior Form Builders, Inc. v. Dan Chase Taxidermy Supply Co.*, 74 F.3d 488, 496 (4th Cir. 1996) (statutory damages of \$400,000 even though defendant only profited from the copyright infringement by roughly \$10,200); *Macklin v. Mueck*, 373 F. Supp. 2d 1334, 1335-36 (S.D. Fla. 2005) (statutory damages of \$300,000 for copyright infringement litigation involving two poems); *L.A. Times, Inc. v. Free Republic*, No. 98-7840 MMM AJWX, 2000 WL 1863566, at *1-3 (C.D. Cal. Nov. 16, 2000) (\$1 million statutory damages award for posting newspaper articles on website for users to comment on).

143. See Samuelson & Wheatland, *supra* note 70, at 459. See generally Jeffrey M. Thomas, Note, *Willful Copyright Infringement: In Search of a Standard*, 65 WASH. L. REV. 903 (1990) (discussing lack of a clear “willfulness” standard in the jurisprudence and proposing a resolution).

144. GOLDSTEIN, *supra* note 71, § 14.2.1, at 14:48; see also *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 112 (2d Cir. 2001) (stating that “willfulness” includes conduct where a defendant “recklessly disregarded” the possibility that “its conduct represented infringement” (quoting *Hamil Am., Inc. v. GFI*, 193 F.3d 92, 97 (2d Cir. 1999))).

145. See Samuelson & Wheatland, *supra* note 70, at 459.

“[e]xactly where in this very broad range any particular statutory award will be rendered is anybody’s guess.”¹⁴⁶

Finally, as noted in Part III, there are situations in which courts are forced to give punitive statutory damage awards.¹⁴⁷ This is most likely to occur when a defendant has infringed on multiple works but has caused little actual harm to the copyright owner. Notwithstanding the copyright owner’s slight damages, the Copyright Act instructs courts to award at least a minimum statutory damage award for each work infringed.¹⁴⁸

The “one award per work” rule can have enormously punitive consequences when a defendant has engaged in minor infringements of a large number of works. A contemporary example is a defendant who illegally downloaded 1000 songs. While the actual injury to the plaintiffs might be \$1 per song, or \$1000, the defendant could be hit with a minimum statutory damage award of \$750 per work, for a grand total of \$750,000! Courts have famously granted such exorbitant awards in some recent cases,¹⁴⁹ even though some judges have openly complained about the size of the awards.¹⁵⁰ These awards have prompted some commentators to suggest that these outsized damages may be unconstitutional under recent Supreme Court jurisprudence finding unduly harsh punitive damage awards to be a violation of a defendant’s due process rights.¹⁵¹

Certainly, having a minimum statutory damage award can be an important incentive for plaintiffs to enforce their rights when damages from an infringement are hard to prove or only negligible.¹⁵² But requiring a minimum statutory damage award for each infringed work can occasionally transform this reasonable incentive into an extravagant windfall, such as when numerous works have been infringed and the actual damages are minimal.¹⁵³

146. *Id.*

147. *See supra* Part III.B.

148. H.R. REP. NO. 94-1476, at 162 (1976) (stating that when a “suit involves infringement of more than one separate and independent work, minimum statutory damages for each work must be awarded”).

149. *See, e.g.,* *Lowry’s Reports, Inc. v. Legg Mason, Inc.*, 302 F. Supp. 2d 455, 458 (D. Md. 2004) (statutory damage award of \$19 million).

150. *See, e.g.,* *Parker v. Time Warner Entm’t Co.*, 331 F.3d 13, 22 (2d Cir. 2003) (noting that the aggregation of statutory damage awards in a class action suit “potentially distorts the purpose of both statutory damages and class actions” and that in a sufficiently serious case might violate a defendant’s due process rights).

151. *Barker, supra* note 136, at 536-59 (suggesting that constitutional limits on punitive damages should apply to copyright statutory damage awards).

152. GOLDSTEIN, *supra* note 71, § 14.2, at 14:41 (noting that one rationale for statutory damages was to provide an incentive for copyright owners to enforce their rights when actual damages are difficult to prove).

153. *Barker, supra* note 136, at 525-26.

V. THE THEORY: PRINCIPLES FOR DETERMINING THE APPROPRIATE
AMOUNT OF STATUTORY DAMAGES

The discretion built into the statutory damages scheme might seem to be one of its strengths. It gives judges and juries flexibility to respond to the facts of each case and to award the type of damages—compensatory, restitutionary, or punitive—they think appropriate.

But this same flexibility also makes it difficult for users to predict the scope of their potential liability. As noted in Part III, this uncertainty can significantly affect prospective users' willingness to create new works embodying parts of other copyrighted works.¹⁵⁴ Prospective users might be willing to forge ahead if they know their liability will be limited to a share of their profits or the copyright owner's actual damages, but they will likely forgo many projects if they fear the possibility of being forced to pay punitive damages.

Conversely, prospective users of multiple works can find themselves deterred by the lack of discretion built into the minimum statutory damages requirement. These minimal damages, while paltry in isolation, can become hugely punitive when a user incorporates numerous works into his or her project.¹⁵⁵

Whether the Damocles sword of potential punitive damages is problematic in both these instances depends upon the type of entitlement society wants to create with copyright law. If the goal of copyright law is ensure that people do not use a copyright owner's property without permission, then the threat of punitive damages is desirable. Punitive damages send an unmistakable message: "Do not trespass on this property without permission." The larger societal question is whether we want copyright to create such a formidable property entitlement. Do we want copyright law to have such onerous penalties that it will discourage any uses of copyrighted works other than those voluntarily granted by the owner?

Insight into that question can be gained from Guido Calabresi and A. Douglas Melamed's seminal article, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*.¹⁵⁶ In this article, Calabresi and Melamed articulate principles for determining what type of protection to give to different types of entitlements. They suggest that some types of entitlements should be protected by powerful "property rules" that protect an owner's right to exclude people from using the entitlement without the owner's permission.¹⁵⁷ As Calabresi and Melamed explain, "an entitlement is protected by a

154. See *supra* Part III.A.

155. See *supra* Part III.B.

156. Calabresi & Melamed, *supra* note 48.

157. *Id.* at 1092.

property rule to the extent that someone who wishes to remove the entitlement from its holder must buy it from him in a voluntary transaction in which the value of the entitlement is agreed upon by the seller.”¹⁵⁸

By contrast, some entitlements are protected by a weaker “liability rule.” Under a liability rule, others may take or use another’s entitlement as long as they are willing to pay an “objectively determined” fair price.¹⁵⁹ In Calabresi and Melamed’s words, “[w]henver someone may destroy the initial entitlement if he is willing to pay an objectively determined value for it, an entitlement is protected by a liability rule.”¹⁶⁰

Calabresi and Melamed suggest that liability rules are particularly appropriate when the transaction costs of negotiating voluntary licenses are prohibitive.¹⁶¹ For instance, it is impracticable to negotiate for the right to negligently injure someone in the future.¹⁶² Indeed, if people’s rights to be free from accidental injury were protected by a property rule, it would “require all who engage in activities that may injure individuals to negotiate with them *before* an accident,” a practice that Calabresi and Melamed concede “would be extremely expensive.”¹⁶³ Thus, rather than protect people’s right to be free from accidental injury by a property rule, the law instead protects the victims by a liability rule—a rule that allows for nonconsensual injuries but requires negligent tortfeasors to pay compensation determined by a neutral fact finder.¹⁶⁴

While high transaction costs are a common reason for choosing between property and liability rules, Calabresi and Melamad identify other factors that can affect this decision, including preferences regarding wealth distribution and more general concerns about promoting justice.¹⁶⁵ Calabresi and Melamed also acknowledge that most entitlements are protected by a mixed set of rules depending upon the specific circumstances. For instance, the owner of a house may be protected by a property rule when the issue is whether to sell the house.¹⁶⁶ Thus, the right to sell and at what price is wholly within the

158. *Id.*

159. *Id.*

160. *Id.*

161. *See id.* at 1108-09; *see also* Lemley & Weiser, *supra* note 49, at 786 (noting that the conventional wisdom which emerged from Calabresi and Melamed’s article is that “courts should rely on liability rules when transaction costs are sufficiently high that the relevant parties will not be able to reach a consensual arrangement for access to the resource in question”).

162. *See* Calabresi & Melamed, *supra* note 48, at 1108-09.

163. *Id.* (emphasis added).

164. *See id.*

165. *See id.* at 1098-1105.

166. *Id.* at 1093.

discretion of the owner.¹⁶⁷ But that same property might be subject to a liability rule for purposes of eminent domain when the government can take the property as long as it pays just compensation for it.¹⁶⁸

Building upon Calabresi and Melamed's initial insights, Richard Epstein argues that property rules should be the preferred form of protection, with liability rules reserved for situations in which voluntarily negotiated transfers are unworkable.¹⁶⁹ Epstein prefers property rules because he believes privately negotiated transfers are more likely to produce fair prices and reflect efficient allocations.¹⁷⁰ By contrast, Epstein believes that liability rules—which allow people to take others' entitlements as long as they pay a reasonable value—are likely to undercompensate the entitlement owners.¹⁷¹ Epstein argues that this risk of undercompensation is “pervasive given the inability to determine with accuracy the losses, both economic and subjective,” when one person takes another's property without consent.¹⁷²

Given this background, it is worth considering what rules should protect copyright entitlements. If society believes copyrights should be protected by a property rule, a remedial regime that threatens nonconsensual users with punitive damages is desirable. The threat of punitive damages would reinforce the property rule by sending a strong signal to potential users not to trespass without permission.

Many commentators do in fact contend that copyrights should be protected by property rules.¹⁷³ They reason that copyrights are a form of property—specifically, “intellectual property”—and should therefore enjoy the same strong protection typically given to other property entitlements.¹⁷⁴ Since the essence of a property right is the “right to exclude,” these scholars believe copyright owners should similarly have a right to prevent others from using their property without con-

167. *See id.* at 1092.

168. *See id.* at 1093.

169. *See generally* Richard A. Epstein, *A Clear View of The Cathedral: The Dominance of Property Rules*, 106 YALE L.J. 2091 (1997).

170. *See id.* at 2092-93.

171. *Id.*

172. *Id.* at 2093.

173. *See, e.g.,* Kenneth W. Dam, *Some Economic Considerations in the Intellectual Property Protection of Software*, 24 J. LEGAL STUD. 321 (1995); Frank Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108 (1990); Trotter Hardy, *Property (and Copyright) in Cyberspace*, 1996 U. CHI. LEGAL F. 217 (1996). *See generally* Lemley & Weiser, *supra* note 49, at 783-84 (noting how “courts and commentators” during the last few decades “have sought to align the rights of IP holders with those of real property owners arguing for pervasive use of property rules and limited uses of ‘liability rules’”).

174. Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1033 (2005) [hereinafter Lemley, *Property*] (noting how the term “intellectual property” is of recent vintage but that it has influenced courts and commentators to equate copyrights and patents with other types of property, particularly real property).

sent.¹⁷⁵ The classic remedy for enforcing the right to exclude is an injunction preventing another from trespassing on one's property.¹⁷⁶ But punitive damages can bolster this right by signaling to potential users that the penalty for using another's copyrighted work without permission will be severe.

The problem with this argument is that it glosses over the sharp distinctions that have always existed between intellectual property and other forms of property. Unlike most property rights, copyrights and patents have historically been viewed with suspicion—as being necessary to encourage authors and inventors to create works, but also as an obstacle to the public's enjoyment of these works.¹⁷⁷ Indeed, the Framers viewed copyrights and patents as privileges begrudgingly given to authors and inventors only because they were necessary to provide an incentive to create works.¹⁷⁸ Accordingly, the Framers created a regime for protecting copyrights and patents that is decidedly utilitarian.¹⁷⁹ They empowered Congress to protect the “exclusive [r]ight[s]” of authors and inventors only for the public purpose of promoting “the [p]rogress of [s]cience and useful [a]rts.”¹⁸⁰ And these exclusive rights had to be temporary because the Framers empowered Congress to grant them for only “limited [t]imes.”¹⁸¹

Of course, the scope of protection given to copyright owners has been vastly expanded from the narrow set of rights originally pro-

175. Lemley & Weiser, *supra* note 49, at 783-84 (noting scholars who believe intellectual property should be protected by property rules enforced through injunctive relief).

176. *Id.* at 783 (noting that the classic remedy for trespass is an injunction and that the correlation between injunctive relief and “property rules” is so strong that law and economic scholars refer to injunctive relief as a “property rule” (quoting Calabresi & Melamed, *supra* note 48, at 1106-07)).

177. *See, e.g.,* *Graham v. John Deere, Co. of Kan. City*, 383 U.S. 1, 10-11 (1966) (noting that the “underlying policy” of patent law is to ensure “that ‘the things which are worth to the public the embarrassment of an exclusive patent,’ as Jefferson put it, must outweigh the restrictive effect of the limited patent monopoly”).

178. *See id.* at 5 (noting that the constitutional limitations placed on Congress' power to enact patent and copyright laws were intended to avoid the types of abuses that occurred in England through monopolies granted by the Crown to favored parties); *see also* Lemley, *Property*, *supra* note 174, at 1031 (describing the “long-standing view” that “free competition is the norm” and that “[i]ntellectual property rights are an exception to that norm” which are “granted only when—and only to the extent that—they are necessary to encourage invention”). *But see generally* Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” in Historical Context*, 92 CORNELL L. REV. 953 (2007) (acknowledging the conventional wisdom that the Framers viewed copyrights and patents as privileges given only for the utilitarian purpose of encouraging the creation of new works but claiming that this historical understanding is more myth than reality).

179. *See Mazer v. Stein*, 347 U.S. 201, 219 (1954) (stating that the “economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors”).

180. U.S. CONST. Art. I, § 8, cl. 8.

181. *Id.*

tected by the first copyright act of 1790.¹⁸² The range of subject matter protected by copyright has been immensely broadened to include everything from sound recordings to choreography, pantomimes, video games, and architectural design.¹⁸³ The rights given to copyright owners have also been vastly expanded to include rights of performance and display and the right to control adaptations of their works.¹⁸⁴ And the duration of protection, originally set at fourteen years with a renewal period of another fourteen years,¹⁸⁵ is now set at the life of the author plus seventy years,¹⁸⁶ a term so expansive as to almost mock the Constitution's "limited [t]imes" restraint.

But this expansion of copyright protection has not negated the fact that copyright continues to be viewed through the utilitarian lens of public benefit.¹⁸⁷ Indeed, the rights granted to copyright owners continue to be riddled with exceptions for the public's benefit. Thus, current copyright law gives the owner of a musical composition the right to control public performances of her work,¹⁸⁸ but makes exceptions for performances in educational settings, horticultural fares, veterans programs, programs for the disabled, and certain nonprofit performances.¹⁸⁹ And while copyright owners usually have the right to control the reproduction and distribution of their works,¹⁹⁰ the Act allows users to make sound recordings of musical works as long as they pay a fee at a rate set through a neutral administrative process.¹⁹¹

Indeed, even a cursory examination of the Copyright Act reveals that copyright entitlements are subject to a varied mixture of protections. One might argue that property rules set the baseline for copyright entitlements: owners are usually free to prevent others from using their works without permission. But these property rules are by no means universal. Copyright entitlements are also subject to compulsory licensing schemes, which, like liability rules, allow users to use works without permission as long as they pay an objectively

182. See CRAIG JOYCE ET. AL, COPYRIGHT LAW 19-24 (6th ed. 2003) (summarizing historical development of American copyright law).

183. See 17 U.S.C. § 102(a) (2006).

184. 17 U.S.C. § 106 (2006).

185. *Eldred v. Ashcroft*, 537 U.S. 186, 194 (2003) (describing original and renewal terms in 1790 Act).

186. See 17 U.S.C. § 302(a) (2006).

187. See *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

188. 17 U.S.C. § 106(4) (2006) (right of public performance in musical work).

189. 17 U.S.C. § 110 (2006) (potpourri of exceptions to the public performance right in musical works).

190. § 106(1)-(3) (right of copyright owner to control reproduction, adaptation and public distribution of work).

191. 17 U.S.C. § 115 (2006) (compulsory license to make and distribute sound recordings of musical works).

set fee.¹⁹² And copyright entitlements are also subject to what Mark Lemley and Philip Weiser call “‘zero-price’ liability rule[s],” or rules that permit others to use copyrighted works without any obligation to compensate the owners.¹⁹³ The “fair use” of a copyrighted work is the most important example of a zero-price liability rule.¹⁹⁴ But the Copyright Act is filled with other specific statutory exemptions for a variety of narrowly tailored uses.¹⁹⁵

Thus, copyright entitlements have never given copyright owners a pure right to exclude. To the contrary, the scope of their entitlements has always been determined through a utilitarian balancing that weighs the legitimate right of creators to be rewarded for their efforts against the valid desire of the public to have access to creative works.¹⁹⁶

Given copyright’s utilitarian purpose and the fact that the law has always subjected copyright entitlements to a wide range of property, liability, and zero liability rules, how should copyright’s statutory damages regime be designed to further this diverse set of goals?

VI. THE APPLICATION: DESIGNING STATUTORY DAMAGES TO FURTHER COPYRIGHT LAW’S UTILITARIAN PURPOSE

Statutory damages’ precise role in copyright’s curious mixture of property, liability, and zero liability rules is not immediately apparent. On the one hand, it could be argued that statutory damages are best considered as part of copyright’s property rule regime. After all, a copyright owner can seek statutory damages only if a defendant infringes the owner’s work. And if an infringement has occurred, it implies that the defendant’s use did not fall into one of the Copyright Act’s liability rules (that is, the use was not pursuant to one of the act’s compulsory licensing schemes) or zero liability rules (that is, the use was not a fair use or the taking of only unprotected ideas, and did not fall into one of the statutory exemptions). Thus, one might logically conclude that the Copyright Act’s property rule regime applies. Accordingly, the copyright owner should be entitled to any remedies that would support the owner’s right to prevent a defendant from using the owner’s work without permission.

Viewed in this light, the fact that statutory damages can sometimes be punitive seems uncontroversial. For while injunctive relief

192. 17 U.S.C. §§ 111, 115, 119 (2006) (compulsory licenses for making sound recordings and for the secondary transmissions of works by cable and satellite).

193. Lemley & Weiser, *supra* note 49, at 786.

194. *Id.* at 790-92.

195. *See, e.g.*, 17 U.S.C. § 110 (2006) (listing a mixture of exceptions to a copyright owner’s rights).

196. *See* Parchomovsky & Goldman, *supra* note 22, at 1491 (describing the “delicate balance copyright law aims to achieve between promoting the creation of new works and securing adequate access to existing ones”).

would protect an owner's right to stop future unauthorized uses of his work, punitive damages—by severely punishing unauthorized uses that have already occurred—would powerfully reinforce the copyright owner's right to exclude. Indeed, if Congress limited statutory damages to cover only a copyright owner's compensatory or restitutionary interests, the damages available would be little different from the type of damages awarded under a liability rule. But if the purpose of statutory damages is to protect the owner's right to exclude, they may need to include what Calabresi and Melamed refer to as “an undefinable kicker” to ensure that users do not unilaterally convert the law's intended property rule into a liability rule.¹⁹⁷ By allowing statutory damages to include the prospect of punitive damages, Congress could have provided just such a “kicker.”

While the above argument is superficially appealing, it is based on the false assumption that the boundaries between copyright's property, liability, and zero liability regimes are easily distinguishable. The truth, however, is just the opposite. Indeed, it is the vagueness of these boundaries that so clearly distinguishes copyright entitlements from other types of property entitlements.¹⁹⁸

For instance, whether a user infringes on a copyright owner's work often depends upon whether the user took only the copyright owner's ideas and not expression. But the line between copyrightable expression and uncopyrightable ideas is notoriously vague. Judge Learned Hand, the author of seminal decisions on the idea/expression dichotomy, readily admitted that “no principle can be stated as to when an imitator has gone beyond copying the ‘idea,’ ” so that any decisions in this area are “inevitably . . . *ad hoc*.”¹⁹⁹ As courts and commentators rightly note, the line between unprotected ideas and protected expression merely reflects a policy judgment as to what elements of a work should fall within a copyright owner's monopoly.²⁰⁰ A decision that something falls on the idea side reflects a judge's conclusion that granting a copyright owner exclusive rights in those elements would unduly hamper the creation of other works for the public's benefit.²⁰¹

Given how vague the line between idea and expression can be, does it make sense to have a remedial regime that abruptly jumps

197. Calabresi & Melamed, *supra* note 48, at 1126.

198. Lemley & Weiser, *supra* note 49, at 793-94 (contending that Calabresi and Melamed assumed property rights were well-defined because they focused on real property rights, but noting that intellectual property rights are much more ill-defined).

199. *Peter Pan Fabrics, Inc. v. Martin Weiner Corp.*, 274 F.2d 487, 489 (2d Cir. 1960).

200. *See, e.g., Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 742 (9th Cir. 1971) (acknowledging that an idea/expression analysis turns on the policy question of “how large an area . . . did Congress intend to allow the copyright owner to exclude others?”).

201. *Id.* (stating that the “guiding principle” in drawing the line between idea and expression is “preservation of the balance between competition and protection”).

from a zero liability rule (for users who take only ideas) to a property rule with punitive damages (for those who take expression)? After all, if users know they could be subject to punitive damages if they miscalculate where the idea/expression line will be drawn, they will most likely opt not to create new works. But this chilling affect frustrates the purpose of the idea/expression dichotomy, which is to encourage users to build upon others' ideas.²⁰²

Of course, when a court finds that a defendant has taken a plaintiff's expression, it has by definition concluded that the plaintiff is entitled to be compensated. But the question is not whether the plaintiff should be compensated. Rather, it is whether the plaintiff should receive punitive damages on top of compensatory damages. If the law limited plaintiffs to recovering only actual damages and a defendant's profits, this would not be an issue. But once the law allows plaintiffs the right to opt for statutory damages, the potential for punitive damages always exists. This is true even if a court does not find a defendant's infringement to be willful, because statutory damages can still range as high as \$30,000 even though the damage caused by a defendant's use may have been minimal.

The same problem arises with the boundary line between the fair use of a work, which immunizes the user from liability, and the failure of a fair use defense, which subjects the user to the full range of copyright remedies including statutory damages. Once again, the line between this zero liability rule regime and the property rule regime is anything but clear. There are so many discretionary variables in a fair use analysis (for example, how much of an underlying work may be used and the likely effect of the use on the copyright owner's markets) that potential users often cannot assume with any certainty that their use will be protected.²⁰³

Given how uncertain the line is between fair and not fair use, it seems doubtful that copyright's remedial regime should jump from one that forbids liability to one that has the potential for punitive damages.²⁰⁴ After all, copyright law includes the fair use defense because its drafters wanted to encourage certain uses that benefit the public without greatly harming copyright owners.²⁰⁵ But if prospec-

202. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 350 (1991) (stating that copyright law "encourages others to build freely upon the ideas and information conveyed by a work").

203. Lemley, *Licensing*, *supra* note 22, at 185-86 (noting that it is "often impossible to know ex ante whether any particular use will qualify as fair" because fair use has so many indeterminate factors).

204. *Id.* at 191-92 (criticizing the "all-or-nothing" nature of the fair use doctrine: that owners are either entitled to no remedies, or the full complement of remedies, depending upon whether the fair use doctrine applies).

205. *Eldred v. Ashcroft*, 537 U.S. 186, 219-20 (2003) (noting that the fair use defense allows the public to use another's "expression . . . in certain circumstances" and noting that

tive users know that the line between a fair use and an unfair use is elusive, and that their failure to properly identify this line could subject them to punitive damages, they are likely to avoid the risk by forgoing the use.

The prospect of punitive damages in these “close call” situations chills the creation of new works even when users have potentially strong claims that they are taking only ideas or that their uses are fair. Users might be willing to forge ahead if they knew in advance that they would only be liable for a copyright owner’s compensatory or restitutionary interests if their defenses failed. But as long as the wild card of punitive damages remains in a copyright owner’s deck of remedies, the risk of moving forward will often seem too great.

This chilling effect of statutory damages makes a mockery of the Supreme Court’s lofty paeans about the important role of the idea/expression dichotomy and the fair use defense in ensuring a proper balance between the rights of copyright owners and the rights of the public.²⁰⁶ It also undermines the Court’s logic for immunizing copyright law from First Amendment scrutiny because the idea/expression dichotomy and fair use doctrine are copyright law’s “built-in” free speech safeguards.²⁰⁷ If the reality is that users vastly underutilize these doctrines because they fear that any misstep could subject them to punitive damages, then copyright’s remedial regime needs to be reformed to restore these doctrines to their intended vibrancy.²⁰⁸

The solution to this problem is to better calibrate copyright’s damages regime so that it does not unduly chill the creation of derivative works. While users should certainly realize that they could potentially be responsible for a copyright owner’s actual damages, they should not be discouraged by the threat of punitive damages when they vigorously assert their rights to use ideas or to use expression in ways that they reasonably believe qualify for fair use protection. Indeed, as the Supreme Court recognized in its decision on attorney fee awards under the Copyright Act, the carefully constructed utilitarian balance in copyright law is vindicated just as much when defendants

the defense “affords considerable ‘latitude for scholarship and comment,’ and even for parody”) (citation omitted).

206. *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 575 (1994) (“From the infancy of copyright protection, some opportunity for fair use of copyrighted materials has been thought necessary to fulfill copyright’s very purpose, ‘[t]o promote the Progress of Science and useful Arts’” (alterations in original)).

207. *Eldred*, 537 U.S. at 219.

208. See HEINS & BECKLES, *supra* note 32, at 1-53 (documenting the underutilization of fair use by artists, filmmakers, and other authors).

successfully assert defenses as when copyright owners successfully enforce their rights.²⁰⁹

Sheltering users from the prospect of punitive damages, moreover, should not be limited to situations where defendants have an arguable defense under the idea/expression dichotomy or fair use doctrine. For even in situations where a defendant's use is clearly an infringement, there still can be important reasons for limiting a copyright owner's monetary relief to compensatory and restitutionary damages.

One example is when the transaction costs of negotiating for the use of copyrighted works are prohibitively expensive. Indeed, a central insight of Calabresi and Melamed was that liability rules are often appropriate when transaction costs make privately negotiated transfers unreasonably expensive.²¹⁰ In the copyright context, this is most likely to occur when an author wants to create a new work using parts of multiple underlying works. Recall, for instance, the artist who wanted to create a collage made up of a thousand tiny reproductions of other artists' photographs. Of course, the artist's use of these photographs might be a fair use. But the artist might reasonably expect that some courts would reject this defense because he is using the works in their entirety.²¹¹

What should the artist do in this context? The artist could negotiate for the use of each and every photograph, but the expense of doing so might greatly exceed any likely commercial value of his finished product.²¹² The artist might be willing to forge ahead without permission if he knows that his potential liability is limited to the actual damages of each copyright owner because these damages are likely to be minimal. But knowing that the copyright owners could opt for statutory damages, with their potentially punitive effect, the artist is likely to abandon his endeavor. For even if each copyright owner received only the statutory minimum of \$750, that amount could still far exceed the value added to the artist's final work by any given photograph. And, of course, because the artist wants to use many different works, he could face the prospect of numerous statutory damage awards.

In these types of situations, the goals of copyright law might be better served by imposing liability rules on the artist rather than

209. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) (stating that "a successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright").

210. *See supra* notes 161-64 and accompanying text.

211. *Am. Geophysical Union v. Texaco Inc.*, 60 F.3d 913, 926 (2d Cir. 1994) (noting that copying an entire work, while not precluding a finding of fair use, "militates against such a finding").

212. Lemley, *Licensing*, *supra* note 22, at 193 (discussing instances in which the creation of a derivative work would "require[] clearances of so many rights" that it would be "uneconomic").

property rules. The artist should be allowed to use the underlying works, but, if challenged by a copyright owner, should be compelled to pay a reasonable fee commensurate with the actual harm to the copyright owner.²¹³ This would allow for the creation of new works in situations where the harm to the copyright owner is likely to be minimal but the transaction costs of negotiating for individual licenses are prohibitive.

Transaction costs can also be prohibitively expensive when authors want to use works whose ownership is difficult to determine.²¹⁴ This problem with so-called “orphan works” is endemic to copyright law because the law protects works upon creation even if a copyright owner never registers with the Copyright Office.²¹⁵ The standard of originality required for copyrightable works is also low, so that even the most minimally creative works can be copyrightable, from e-mail correspondence to cell phone photographs.²¹⁶ And for works published after March 1, 1989, copyright owners need not even include notice on their published works, although the lack of notice can bolster a user’s innocent infringement defense.²¹⁷

The Copyright Office acknowledged in its report on orphan works that prospective users often face insurmountable difficulties in trying to locate copyright owners.²¹⁸ To ensure that the creation of new works was not unduly hampered by these difficulties, the Copyright Office proposed that users who cannot identify copyright owners after a “reasonably diligent search” be able to use the works without permission.²¹⁹ In the event that copyright owners later surfaced and tried to stop the use of derivative works, the proposal calls for a liability rule regime that denies such owners the right to enjoin the use of the derivative works in certain circumstances.²²⁰ And more importantly for present purposes, the proposal limits the copyright owner’s monetary relief to a “reasonable” licensing fee and bars the owner from recovering statutory damages.²²¹

213. *See id.* at 186-87 (similarly arguing that it is sometimes appropriate for courts to permit a defendant to continue using a plaintiff’s work without permission as long as the user pays a reasonable licensing fee).

214. *See generally* U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS (2006) [hereinafter REPORT ON ORPHAN WORKS] (discussing problems associated with identifying and locating copyright owners).

215. 17 U.S.C. § 408(a) (2006) (providing that copyright registration is permissive).

216. *See* Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 345 (1991) (stating that the standard of creativity required for copyrightability is “extremely low”).

217. 17 U.S.C. §§ 401(a)-(d), 402(a)-(d) (2006).

218. *See generally* REPORT ON ORPHAN WORKS, *supra* note 214, at 15-40.

219. *Id.* at 96. *See generally id.* at 96-110.

220. *Id.* at 115.

221. *See id.* at 116.

The Copyright Office's proposal for orphan works has been introduced in several congressional bills but has yet to be enacted.²²² Nevertheless, the logic behind the proposal reflects another example of when liability rules are more appropriate than property rules because of high transaction costs.²²³

Thus far we have focused on situations where the specter of punitive statutory damages is undesirable. But it is important to note that there are many infringement actions where a property rule regime backed up by punitive damages may be perfectly appropriate. Indeed, such a regime is almost always appropriate when defendants usurp the very markets that are ordinarily reserved for copyright owners. For instance, when a user simply makes and sells pirated copies of a copyright owner's works, it makes perfect sense for the law to support the copyright owner's right to exclude with a property rule regime. The owner should be able to enjoin the defendant's unlawful activities, and punitive damages should be available to deter such infringement.

In these situations, the public interest in deterring the defendant's use is at its peak. The defendant is not creating any new derivative work that might benefit the public and is instead usurping the very market that society intended the copyright owner to enjoy. Even when a defendant creates a derivative work, his use of a copyright owner's underlying work should still be subject to the copyright owner's right to exclude if the derivative work occupies a market that is typically reserved for the copyright owner. For instance, if a defendant made a movie based on a Harry Potter book without permission, the derivative work would obviously be transformational in that it would contain vast original contributions by the derivative authors. But it would exploit the market for licensing movie rights to the book that is traditionally within the copyright owner's monopoly. Here, too, it would make sense to support the copyright owner's rights with property rules that allow for injunctive relief and punitive damages.²²⁴

Put simply, and as Calabresi and Melamed might have predicted, copyright entitlements need to be subject to an array of remedial re-

222. See BRIAN T. YEH, CONG. RESEARCH SERV., "ORPHAN WORKS" IN COPYRIGHT LAW 9-18 (2008), http://www.ipmall.info/hosted_resources/crs/RL33392_080516.pdf (surveying legislation introduced to address orphan works issue).

223. The Copyright Act similarly creates a "liability rule" for derivative works that incorporate foreign works that previously had been in the public domain but have since had their copyrights rights restored. The Act provides that a party who relied on the underlying work's public domain status may continue to exploit a derivative work if the party pays "reasonable compensation" to the owner of the restored work. 17 U.S.C. § 104A(d)(3)(A)(ii) (2006).

224. Lemley, *Licensing*, *supra* note 22, at 195 (contending that there "will be many circumstances in which even a derivative market should be supported by a property rule" because "compelling licensing would undermine the incentives associated with exclusivity").

gimes depending upon the nature of a defendant's use.²²⁵ These regimes can be summarized as follows:

A. Zero Liability Rules

At one end of the spectrum are zero liability rules by which a user is exempted from any liability. These rules are appropriate for uses that have an important societal benefit and cause little harm to the copyright owner's property rights. Uses that are considered a fair use are a classic example of this, as would be uses that borrow only a copyright owner's ideas. Statutory exemptions in the Act can also be reflective of this balance between public benefit and private harm, although some are merely the product of legislative bargains or favors.

B. Liability Rules

Liability rules fall in the middle of the spectrum. Here, the public interest in allowing the use of a copyright owner's work trumps the copyright owner's right to exclude the use without his permission. The law, therefore, should not protect the owner's copyright with strong property rules that would support an owner's veto power. At the same time, the harm to the copyright owner's property interest is sufficiently great that the law should compensate the owner with both compensatory and restitutionary damages. The liability rules regime is particularly appropriate for uses on the borderline of zero liability uses (such as fair use or the taking of ideas) and uses which do not impact a copyright owner's core property rights and which would otherwise be unlikely to occur because of high transaction costs.

C. Property Rules

Property rules are at the opposite end of the spectrum from zero liability rules. They are appropriate when the public benefit of a defendant's use is at a minimum and the harm to a copyright owner's traditional markets is at its peak. This is especially true for classic forms of piracy where a defendant merely reproduces a copyrighted work and sells it in the very market that a copyright owner would be likely to exploit. It is also true in situations where a defendant creates a derivative work in a market that is traditionally reserved for the copyright owner. In these instances, copyright owners should be entitled to the full range of property rule remedies, including injunctive relief and potentially punitive damages.

For copyright's statutory damages to serve these varied remedial goals, they need to be calibrated to parallel these different remedial regimes. Of course, statutory damages do not come into play in zero liability regimes because defendants are exempt from any liability. But plaintiffs can seek statutory damages under both of the latter two scenarios.

225. See *supra* notes 165-68 and accompanying text.

The problem is that the Copyright Act creates the potential for plaintiffs to recover punitive damages under both of these scenarios, when plaintiffs should instead be able to recover punitive damages only when the facts match those of the third scenario. A properly calibrated statutory damage regime, therefore, would have to distinguish between fact patterns that fall under the second scenario, for which plaintiffs should be able to recover only compensatory and restitutionary damages, and fact patterns falling under the third scenario, for which punitive damages should be available.

Having identified how the copyright statutory damages regime needs to be reformed to better serve copyright law's utilitarian purpose, we now turn to three different routes for accomplishing this reform.

VII. THE SOLUTION: THREE OPTIONS FOR PROPERLY CALIBRATING STATUTORY DAMAGES

There are several ways to reform copyright's statutory damages regime to ensure that plaintiffs recover punitive-like damages only in appropriate circumstances. The simplest and least disruptive approach would be for courts to interpret the existing statutory damage provision in a way that distinguished between second and third scenario fact patterns and allowed for punitive-like damages only under the latter. An alternative and more direct approach would be for Congress to modify the Copyright Act's statutory damage provision to include instructions for courts to distinguish between the two scenarios. Finally, a third and more controversial approach would be for courts to conclude that the Constitution—either the Fifth Amendment Due Process Clause or the First Amendment Free Speech Clause—requires reforms to the statutory damages regime.

A. *The Interpretative Fix: Construing the Existing Statutory Scheme to Restrict the Availability of Punitive Damages*

There is no denying that the current statutory damages scheme gives courts broad discretion in granting awards. Section 504(c) of the Copyright Act provides that the decision as to the amount of statutory damages is to be made “as the court considers just.”²²⁶ Likewise, if a “copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may” choose to increase the award.²²⁷ It is true that the Supreme Court's *Feltner* decision shifted much of this discretion from judges to juries.²²⁸ But judges will still have influence in the instruc-

226. 17 U.S.C. § 504(c)(1) (2006).

227. *Id.* § 504(c)(2).

228. *See Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 355 (1998).

tions they give to jurors and in their power of remittitur to override excessive jury awards. And even in *Feltner's* aftermath, judges still frequently make statutory damage awards because parties often prefer bench trials.²²⁹

Not only do judges have broad discretion, but precedent also suggests that judges often use this discretion wisely to award statutory damages in a manner that is largely consistent with the principles announced in this Article. Judges often do limit statutory damages to amounts that approximate a plaintiff's actual damages and a defendant's profits.²³⁰ Further, judges frequently limit punitive-like damages to situations where a defendant's actions amounted to egregious piracy.²³¹ And judges do sometimes grant only small statutory damage awards in situations where defendants had a reasonable belief that their actions were a fair use.²³²

But there are also many instances where judges do not use their discretion wisely. In a recent survey of statutory damage awards, Pamela Samuelson and Tara Wheatland found that the awards "are frequently arbitrary, inconsistent, unprincipled, and sometimes grossly excessive."²³³ The authors chronicle instances in which harshly punitive damages were awarded even though the defendants had plausible fair use claims.²³⁴ They also found numerous instances in which the statutory damage awards for comparable behavior vary widely.²³⁵ Finally, the authors observed that the vague definitions of "willfulness" existing in the jurisprudence resulted in some courts ratcheting up awards based on nothing more than the belief that the defendant should have known her actions were infringing.²³⁶

In an effort to correct the problem of arbitrary statutory damage awards, Samuelson and Wheatland propose a comprehensive set of principles to guide judges in awarding statutory damages.²³⁷ The principles set forth in that list are largely consistent with the proposals in this Article. The authors recommend that statutory damage awards should usually "approximate the damages/profits" a plaintiff would have received had she not opted for statutory damages (a li-

229. See Samuelson & Wheatland, *supra* note 70, at 456 (noting it is "still quite common" after *Feltner* for judges to set statutory damage awards).

230. See GOLDSTEIN, *supra* note 71, § 14.2.1, at 14:43 (stating that "[c]ourts will often try to approximate actual damages and profits when making a statutory damages award").

231. See, e.g., *Lauratex Textile Corp. v. Allton Knitting Mills*, 519 F. Supp. 730, 733 (S.D.N.Y. 1981) (enhanced damages in a case of more egregious infringement).

232. See, e.g., *Infinity Broad. Corp. v. Kirkwood*, 63 F. Supp. 2d 420, 427 (S.D.N.Y. 1999) (awarding minimum statutory damages when a defendant had a reasonable belief that its use was fair and the harm to the plaintiff was negligible).

233. Samuelson & Wheatland, *supra* note 70, at 441.

234. See *id.* at 480-83.

235. See *id.* at 485-87.

236. *Id.* at 459.

237. See *id.* at 501-09.

ability rule) and that enhanced damages for “willful” infringement (a property rule) should be reserved for egregious cases such as “a repeat infringer or counterfeit operations.”²³⁸

If judges were to follow Samuelson and Wheatland’s recommendations, it would certainly go a long way toward correcting many of the current problems with statutory damage awards. Nevertheless, there are two reasons why an interpretive fix by itself is unlikely to mitigate statutory damages’ chilling effect. The primary problem is that, absent a clear ruling from the Supreme Court, a large mass of lower court precedent is unlikely to influence user behavior. Such precedent rarely translates into clear signals that potential users and their advisors can identify and confidently trust. To the contrary, users and their advisors are much more likely to take their cues from the black-letter rules found in the copyright statute. And those rules send the unambiguous message that infringers could potentially be liable for up to \$30,000 for each infringed work, and up to \$150,000 if an infringement is found to be “willful.” The Act’s clear signals are more likely to influence user behavior than the more subtle signals buried in the reasoning of lower court decisions.

Second, an interpretive fix cannot solve the problem in those instances in which decisionmakers have no choice but to award punitive statutory damages. As noted in Part III, this usually occurs when users have infringed multiple works and the decisionmaker is required to grant an award for each work infringed.²³⁹

The limitations of an interpretive fix suggest it is unlikely to cure the chilling effect caused by statutory damages’ potentially punitive nature. A better solution would be for Congress to amend the Copyright Act to bring it into compliance with the recommendations set forth in this Article.

B. The Legislative Fix: Amending the Copyright Act’s Statutory Damage Provision

Crafting a legislative solution is easier said than done. The goal would be to fix the current statutory damages regime to correct for both those aspects that give decisionmakers too much discretion and those that give them too little. To correct the problem of too much discretion, the regime would have to instruct decisionmakers to distinguish between those scenarios in which injunctive relief and punitive damages are appropriate (a property rule) and those in which

238. *Id.* at 502-04 (recommending statutory damages that approximate a plaintiff’s damages/profits award for “ordinary direct infringement” when a defendant “did not know his conduct was infringing” or “in close fair use cases,” but recommending higher statutory damage awards—two or three times actual damages—when defendants “knew they were infringing or were reckless about infringement”).

239. *See supra* Part III.B.

injunctive relief is inappropriate and only compensatory and restitutionary damages should be awarded (a liability rule). To correct for the problem of too little discretion, the minimal statutory damages would have to be modified to allow for exceptions in those situations where even minimal awards would be unduly punitive.

The easiest and least disruptive way to implement the proposed solutions would be to modify the Copyright Act's current remedy provisions. Suggestions for modifying section 502, the current provision on injunctive remedies, and section 504, the provision on damages, are discussed below.

1. *Modifying the Section on Injunctive Relief*

The Copyright Act's current section on injunctive relief, section 502, gives judges broad discretion in deciding whether to grant temporary or permanent injunctive relief. It provides that a court may grant such relief "as it may deem reasonable to prevent or restrain infringement of a copyright."²⁴⁰

The problem with this section is that it gives judges virtually no guidance as to how to use their discretion. As noted in Part VI, such guidance is critical if judges are to distinguish between scenarios in which property rules are appropriate (and injunctive relief should be granted) and scenarios in which liability rules are appropriate (and injunctive relief should be denied).²⁴¹ If prospective users with plausible but not certain fair use or idea/expression defenses are going to invest in creating new derivative works, they need to have confidence that, if their defenses fail, they will still be able to exploit their derivative works as long as they pay reasonable compensation to the copyright owners of any underlying works.

Unfortunately, there is nothing in the current injunction provision that instructs courts to deny injunctive relief whenever the societal interests in the continued exploitation of a derivative work outweigh the interests of the copyright owner of an underlying work. Of course, granting an injunction is a discretionary decision, so judges are certainly within their rights to deny relief. But longstanding copyright jurisprudence instructs courts to grant injunctive relief whenever a copyright owner has made a prima facie case of copyright infringement.²⁴²

240. 17 U.S.C. § 502(a) (2006).

241. See *supra* notes 196-223 and accompanying text.

242. See, e.g., MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW 453, 456 (5th ed. 2010) (observing that preliminary injunctive relief has been "granted generously in copyright cases," and that "courts have freely granted final injunctions on a finding of copyright infringement"). See generally Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 158-65 (1998) (describing how "[c]opyright plaintiffs can dispense with most of the normal requirements for obtaining a preliminary injunction, and disputed issues are regularly resolved in their favor").

To help ensure that judges exercise their discretion to grant injunctive relief in a way that more carefully distinguishes between property and liability rule scenarios, section 502 should be modified as follows. The underlined portions indicate the proposed changes.

§ 502 Remedies for infringement: Injunctions.

(a) Any court having jurisdiction of a civil action arising under this title may, subject to the provisions of section 1498 of title 28, grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.

(b) In determining whether to grant injunctive relief, a court shall weigh the likely harm to the copyright owner from the infringer's continued exploitation of the owner's work against any legitimate interests of the infringer or of the public in allowing the exploitation to continue. In weighing these interests, the court should focus in particular on the following considerations:

(1) The societal interest in giving the copyright owner exclusive control over the use of his or her work: Injunctive relief is most appropriate when the infringer is exploiting a market or derivative market for the copyright owner's work that is financially significant and customarily exploited by copyright owners and which, in the court's judgment, should not be exploited except with the express consent of and on terms voluntarily agreed to by the copyright owner.

(2) The societal interest in allowing the use to occur without the copyright owner's permission as long as the copyright owner is reasonably compensated: Injunctive relief is least appropriate when the infringer is exploiting a market that is not financially significant and is not customarily exploited by copyright owners and the court can fairly compensate the copyright owner through an award of a reasonable license fee and/or a share of the infringer's profits. Factors weighing against injunctive relief include but are not limited to the following:

(A) The use is socially beneficial in that it is transformative;

This liberal awarding of injunctive relief was called into question by the Supreme Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006), which held that final injunctions in patent infringement cases should not issue automatically but only after careful consideration of the traditional equitable principles for issuing an injunction. *Id.* at 391-94. These principles require a plaintiff to demonstrate: (1) that it has suffered irreparable injury; (2) that remedies at law are inadequate to compensate for that injury; (3) that the balance of hardships between the plaintiff and the defendant weigh in favor of granting a remedy in equity; and (4) that the public interest would not be disserved by a permanent injunction. *Id.* at 391.

In the aftermath of *eBay*, lower courts have similarly concluded that injunctive relief should not presumptively issue in copyright actions. *See, e.g.*, *Salinger v. Colting*, 607 F.3d 68, 74-83 (2d Cir. 2010); *Coxcom, Inc. v. Chaffee*, 536 F.3d 101, 112 (1st Cir. 2008); *Petter Letterese and Assocs. v. World Institute of Scientology Enters., Int'l*, 533 F.3d 1287, 1323 (11th Cir. 2008); *Christopher Phelps & Assocs. v. Galloway*, 492 F.3d 532, 543 (4th Cir. 2007). While this change in the standards for issuing injunctive relief is commendable, it is unlikely to produce the type of radical shift being advocated in this Article.

(B) The infringer reasonably and in good faith believed that the use was a fair use or only involved the taking of unprotected elements of the copyright owner's work;

(C) The cost of negotiating a license for the use of the plaintiff's work was prohibitively expensive under the circumstances.

The revised version continues to make the granting of injunctive relief a discretionary decision on the part of a judge. It simply corrects for the current bias in the jurisprudence in favor of awarding injunctive relief to successful copyright plaintiffs. Instead, courts are instructed to consciously weigh the societal interests in favor of an injunction against the interests in permitting the defendant to continue using the plaintiff's copyrighted work. In exercising this discretion, courts are asked to focus on considerations that go to the heart of whether a property or liability rule should apply: whether from a societal standpoint the infringing use is the type that should be allowed only with the copyright owner's consent (a property rule) or is the type that should be permitted without consent as long as the user pays reasonable compensation ordered by the court (a liability rule).

2. Modifying the Section on Statutory Damages

Any modifications to section 504(c), the current statutory damages provision, would need to correct for both those aspects of the provision that give decisionmakers too much discretion and those that give them too little.

As noted in Part II, the current provision gives decisionmakers broad authority to award statutory damages from anywhere between \$750 and \$30,000 for each work infringed.²⁴³ Moreover, if a work is found to have been infringed "willfully," a term that is undefined in the Act, the statutory damage award can be increased to \$150,000.²⁴⁴ If an infringer is found to have acted "innocently," the minimal award can be dropped to \$200, but the Copyright Act's notice provisions forbid courts to give any weight to an innocent infringement defense if the defendant had access to copies of the plaintiff's work that had proper copyright notice.²⁴⁵

The most glaring problem with these provisions is that they give courts virtually no guidance as to when they should award statutory damages that are merely compensatory and restitutionary (that is, actual damages and a defendant's nonduplicative profits) and when they should award punitive statutory damages. As noted, this lack of guidance means that prospective users of copyrighted works have

243. See *supra* notes 62-63 and accompanying text.

244. See *supra* notes 64-73 and accompanying text.

245. See *supra* notes 74-77 and accompanying text.

little basis for predicting whether, in the event they are found liable, they will be forced to pay merely compensatory damages or punitive damages. This unpredictability, in turn, tends to chill potential users, even if they have a reasonable belief that they are taking only ideas or that their use is a fair use. The problem, as detailed in Part VI, is that the current statutory damages provision does not instruct decisionmakers to distinguish between those scenarios in which only compensatory damages are appropriate and those in which punitive damages are appropriate.

Section 504's problems are compounded by the provision mandating increased statutory damages when an infringement is found to be "willful." As noted in Part II, the Act does not define "willful," and at least some definitions used by courts suggest that a defendant's action could be willful if the defendant recklessly disregarded a copyright owner's rights or knew or should have known his act was infringing.²⁴⁶ Yet, as contended in Part VI, the crucial factor affecting whether punitive damages are appropriate is not merely whether a defendant knew or should have known that he was infringing, but rather whether the infringement was of an egregious nature, such as pure piracy.²⁴⁷

To correct for these problems, section 504 should be modified so that the default rule for statutory damages is merely compensatory and restitutionary damages. Further, decisionmakers should be instructed to award punitive damages only in those situations in which the deterrent value of punitive damages is clearly appropriate.

Section 504 also needs to be modified to correct for those situations in which the minimum statutory damage awards are unduly punitive. While it seems reasonable to preserve the current \$750 statutory minimum since that amount will only rarely be punitive and it is important to preserve an incentive for copyright owners to assert their rights, section 504 still needs a provision that allows judges to award damages below this minimum in situations where the award of the minimum would be unduly punitive. As noted, this is most likely to occur when a user has used many works in a manner that is likely to have caused little harm to the copyright owner.²⁴⁸

Finally, courts also need discretion to reduce the minimum in situations where a user has a strong innocent infringement claim, even if the user had access to works with copyright notice. When copyright notice was made optional with the Berne Convention Implementation Act of 1989, Congress added a section to the notice provisions that forbids courts from giving any evidentiary weight to a defendant's

246. See *supra* notes 71-73 and accompanying text.

247. See *supra* note 223 and accompanying text.

248. See *supra* notes 101-13 and accompanying text.

innocent infringement defense if the defendant had access to copies of the plaintiff's work that bore proper copyright notice.²⁴⁹ While this addition may have been beneficial in the sense that it gives copyright owners an incentive to continue using copyright notice, it is regrettable in the sense that a defendant's innocent infringement defense can often be credible even if the defendant had access to works with copyright notice. Most importantly, if a defendant reasonably and legitimately believed that his use was a fair use or that he was merely taking a work's ideas, then these defenses are no less plausible merely because the work contained proper notice. The current rule, however, forbids courts to entertain a defendant's innocent infringement defense in such scenarios for purposes of reducing the statutory damage award. The Act does allow for the complete remission of statutory damage awards when certain nonprofit entities have a good faith belief that their actions constituted fair use, but this provision is limited to those entities.²⁵⁰ The solution is for section 504 to allow defendants to assert an innocent infringement defense notwithstanding the existence of proper notice.

In an attempt to incorporate all of these proposed changes, I have drafted proposed revisions to section 504(c). Once again, the underlined portions reflect the additions. To put the section in context, I have also reproduced section 504's provisions for actual damages and a defendant's profits.

§ 504 Remedies for Infringement: Damages and Profits

(a) In general. Except as otherwise provided by this title, an infringer of copyright is liable for either

- (1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or
- (2) statutory damages, as provided by subsection (c).

(b) Actual damages and profits. The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) Statutory damages.

- (1) Except as provided by clauses (2) and (3) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer

249. S. REP. NO. 100-352, at 44 (1988).

250. 17 U.S.C. § 504(c)(2) (2006).

is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than \$750 or more than \$30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work. An award of statutory damages under this subsection should reasonably approximate the amount a plaintiff would have received had the plaintiff sought actual damages and any additional profits of the infringer under subsection (b). In a case where the infringer sustains the burden of proving, and the court finds, that the awarding of minimal statutory damages for multiple infringements will result in an award that is unreasonably punitive, a court may in its discretion award statutory damages of a sum of less than \$750 as the court deems appropriate to the circumstances.

(2) Increase of maximum damage award when punitive damages are appropriate: If the copyright owner sustains the burden of proving, and the court finds, that the nature of the infringer's action justifies an award to punish the infringer and to deter others from engaging in similar conduct, a court in its discretion may increase the award of statutory damages to a sum of not more than \$150,000. The awarding of punitive damages should be reserved for situations where the infringement is deliberate and egregious, most typically when a defendant knowingly usurps a financially significant market that is customarily exploited by copyright owners and had no plausible belief that the use was a fair use or consisted of taking only unprotected elements of the copyright owner's work.

(3) Reduction of minimum damage award for innocent infringement: In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than \$200. The provisions in Section 401(d) and 402(d) shall not preclude a court from giving evidentiary weight to a defendant's innocent infringement defense if the defendant sustains the burden of proving, and the court finds, that the defendant believed and had reasonable grounds for believing that his or her use of the copyrighted work was either a fair use under section 107 [17 U.S.C. § 107] or merely consisted of taking unprotected elements under section 102(b) [17 U.S.C. § 102(b)] from the plaintiff's work. The court shall remit statutory damages in any case where an infringer believed or had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107 [17 U.S.C. § 107], if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the non-

profit activities of a public broadcasting entity (as defined in subsection (g) of section 118 [17 U.S.C. § 118]) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

C. The Constitutional Fix: Due Process or Free Speech Limits on Statutory Damages

The Constitution is a rather drastic tool with which to solve this relatively small problem. It would undoubtedly be preferable to fix the problem legislatively. But that option may not be politically feasible. Indeed, to the extent that Congress has been captured by the copyright industries, it is unlikely to take any actions that will reduce damage awards to copyright owners.²⁵¹ In fact, all amendments to the current Act's statutory damages regime have gone in the opposite direction: to increase the amounts that copyright owners can recover. When the 1976 Act was first enacted, statutory damage awards ranged from a minimum of \$250 to a maximum of \$10,000, with courts permitted to increase the award up to \$50,000 for willful infringements.²⁵² In the Berne Convention Implementation Act of 1988, Congress doubled the award amounts to \$500 to \$20,000 for ordinary infringements and \$100,000 for willful infringements.²⁵³ A decade later, in the Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Congress increased statutory damages an additional 50% creating the current range for ordinary infringements of \$750 to \$30,000 and the maximum amount for willful infringements of \$150,000.²⁵⁴ The Digital Theft Deterrence Act was enacted

251. See Marci A. Hamilton, *Copyright Duration Extension and the Dark Heart of Copyright*, 14 CARDOZO ARTS & ENT. L.J. 655, 655 (1996) (noting that “[a]gain and again, Congress has been willingly captured by the publishing and motion picture industries”); Niva Elkin-Koren, *What Contracts Cannot Do: The Limits of Private Ordering in Facilitating a Creative Commons*, 74 FORDHAM L. REV. 375, 375 (2005) (stating that the “legislative process is captured by the content industries”). See generally WILLIAM M. LANDES & RICHARD A. POSNER, *THE POLITICAL ECONOMY OF INTELLECTUAL PROPERTY LAW* 25 (2004) (stating that the increase in the legal protection of intellectual property since 1976 may be explained by political forces and ideological currents “abetted by interest-group pressures that favor originators of intellectual property over copiers”); JESSICA LITMAN, *DIGITAL COPYRIGHT* 14 (2001) (noting that “[c]opyright is now seen as a tool for copyright owners to use to extract all the potential commercial value from works of authorship”).

252. 17 U.S.C. § 504 (1976) (superseded).

253. See Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, §10, 102 Stat. 2853, 2860 (1988). Stephanie Berg contends that this increase was intended to reward copyright owners who registered their works and were therefore eligible to seek statutory damages. Berg, *supra* note 42, at 301. This reward may have helped mollify American copyright owners who may have felt disadvantaged by another aspect of the Berne Convention Implementation Act which allowed owners of certain foreign works to bring infringement actions without registering their copyrights, a privilege that is not available to American copyright owners. *Id.* at 301. Commentators also say the change was intended to track inflation. *Id.*; Samuelson & Wheatland, *supra* note 70, at 458 n.76.

254. Digital Theft Deterrence and Copyright Damages Improvement Act of 1999, Pub. L. No. 106-160, § 2, 113 Stat. 1774, 1774 (1999).

against a backdrop of rampant internet piracy, and the legislative history reveals a clear congressional intent in support of punitive statutory damages.²⁵⁵ In subsequent years Congress has proposed making statutory damages even more onerous, although nothing has yet been enacted.²⁵⁶

If Congress is in fact captured by the copyright industries, then any reining-in of statutory damages is likely to occur only through judicially imposed limits implied from the Constitution. Of course, courts should always be reluctant to use their power of judicial review to trump policies enacted by the politically accountable branches. But since copyright impinges on speech, and a healthy political process can exist only when speech is robust and uninhibited, this is arguably one area where judicial intervention is justified.²⁵⁷ Thus, it is worth considering whether any provision in the Constitution might require modifying statutory damages to protect speech interests. The two most likely bases for constitutional checks on statutory damages are the Fifth Amendment Due Process Clause and the First Amendment Free Speech Clause. Each of these is explored below.

1. Due Process Limits on Statutory Damages

Since the primary problem with statutory damages is their potentially punitive nature, courts and commentators have understandably looked to the Fifth Amendment's Due Process Clause as the best source of a constitutional restraint.²⁵⁸ Starting in 1996 with *BMW of North America, Inc. v. Gore*,²⁵⁹ the Supreme Court has made it clear that "grossly excessive" punitive damage awards can violate the Due Process Clause of the Fourteenth Amendment.²⁶⁰ Although the cases decided by the Supreme Court so far have concerned state imposed

255. H.R. REP. NO. 106-216, at 6 (1999) (stating that "[c]ourts and juries must be able to render awards that deter others from infringing intellectual property rights" and that it was therefore "important that the cost of infringement substantially exceed the costs of compliance").

256. See, e.g., LIBRARY COPYRIGHT ALLIANCE ET AL., THE THREAT POSED BY INFLATED STATUTORY DAMAGES (2008), <http://www.arl.org/bm~doc/jointparties-sec104cmts.pdf> (criticizing H.R. 4279, 2009 legislation which would have weakened the rule established in the Copyright Act of 1976 that plaintiffs may only receive one statutory damage for each work infringed).

257. See *United States v. Carolene Prods. Co.*, 304 U.S. 144, 152 n.4 (1938) ("There may be narrower scope for operation of the presumption of constitutionality when legislation appears on its face to be within a specific prohibition of the Constitution . . .").

258. See, e.g., Samuelson & Wheatland, *supra* note 70, at 464-97; Barker, *supra* note 136, at 537-49.

259. 517 U.S. 559 (1996). The *Gore* decision came on the heels of earlier Supreme Court decisions which suggested that there might be due process limits on excessive punitive damages. See, e.g., *TXO Prod. Corp. v. Alliance Res. Corp.*, 509 U.S. 443, 453-54 (1993); *Pac. Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 18 (1991).

260. *Gore*, 517 U.S. at 568.

punitive damages and thus have implicated only the Fourteenth Amendment's Due Process Clause, there is little reason to think that the Court would impose different rules under the Fifth Amendment's Due Process Clause for excessive penalties imposed by the federal government.²⁶¹

The justices have not been entirely clear as to why excessive damage awards violate due process. Some justices, such as Justice Stevens, have suggested that the problem is primarily procedural: individuals must have "fair notice" of not only what conduct is sanctionable but also of "the severity of the penalty that a State may impose."²⁶² But in *State Farm Mutual Automobile Insurance Co. v. Campbell*²⁶³ Justice Kennedy indicated that excessive damages can also violate substantive due process. "To the extent an award is grossly excessive," he explained, "it furthers no legitimate purpose and constitutes an arbitrary deprivation of property."²⁶⁴

In the *Gore* decision, the first case to find excessive punitive damages unconstitutional, the Court announced three guideposts for determining whether a punitive damage award is unconstitutional: (1) the "degree of reprehensibility" of the defendant's misconduct; (2) the disparity between the actual and potential harm suffered by the plaintiff and the punitive damages award; and (3) the difference between the punitive damages awarded by the jury and "civil penalties authorized or imposed in comparable cases."²⁶⁵

In *State Farm*, the Court provided further clarification of how these guideposts should be applied. The Court specified that the degree of reprehensibility was the "most important indicium of the reasonableness of a punitive damages award" and listed factors for courts to consider in weighing a defendant's reprehensibility.²⁶⁶ Factors that could be relevant in the copyright context included whether a defendant's conduct "involved repeated actions or was an isolated incident" and whether "the harm was the result of intentional malice, trickery, or deceit."²⁶⁷ And although the Court said it declined "to impose a bright-line ratio which a punitive damages award cannot exceed," it couldn't help but add that "few awards exceeding a single-digit ratio between punitive and compensatory damages . . . will satisfy due process."²⁶⁸

261. See, e.g., *Cooper Indus., Inc. v. Leatherman Tool Group, Inc.* 532 U.S. 424, 430 n.3 (2001) (suggesting that the standards for the constitutionality of punitive damage awards would be the same for both federal and state laws).

262. *Gore*, 517 U.S. at 574.

263. 538 U.S. 408 (2003).

264. *Id.* at 417 (citing *Haslip*, 499 U.S. at 42 (O'Connor, J., dissenting)).

265. *Gore*, 517 U.S. at 575.

266. *State Farm*, 538 U.S. at 419 (quoting *Gore*, 517 U.S. at 575).

267. *Id.* (citing *Gore*, 517 U.S. at 576-77).

268. *Id.* at 425.

Given that copyright statutory damages sometimes far exceed a single-digit ratio between punitive and actual damages—particularly when multiple works have been infringed—defendants in lower courts began challenging awards as violative of due process.²⁶⁹ Commentators have also seized onto Supreme Court jurisprudence as the logical vehicle for reining in excessive statutory damage awards.²⁷⁰

Thus far, litigants challenging such awards on due process grounds have not been notably successful.²⁷¹ Two obstacles have usually stood in their way. Most importantly, courts have pointed out that copyright statutory damages are qualitatively different from punitive damages awarded in state tort actions. Unlike punitive damages, which seemingly have no upward limit, copyright statutory damages have clearly articulated upward caps bearing Congress' endorsement.²⁷² Thus, by definition, the damages lack a level of arbitrariness that is often present in punitive damage awards in tort cases.²⁷³ Courts have also focused on the fact that the Supreme Court in both *Gore* and *State Farm* was particularly troubled by the fact that the states were using punitive damages to punish defendants for nationwide conduct and not just for tortious conduct within the state.²⁷⁴ But, as lower courts have rightfully observed, sanctions im-

269. See, e.g., *Zomba Enters., Inc. v. Panorama Records, Inc.*, 491 F.3d 574, 586-88 (6th Cir. 2007) (rejecting due process challenge to copyright statutory damage award); *Video Views, Inc. v. Studio 21, Ltd.*, 925 F.2d 1010, 1017 (7th Cir. 1991) (stating that due process concerns require that a trial court “provide some explanation of the factual findings that underlie” a decision to award greater than minimum statutory damages); *Westbound Records, Inc. v. Justin Combs Publ'g, Inc.*, No. 3:05-0155, 2009 WL 943516, at *2-3 (M.D. Tenn. Apr. 3, 2009) (upholding punitive copyright statutory damage award against constitutional challenge); *UMG Recordings, Inc. v. Lindor*, No. CV-05-1095(DGT), 2006 WL 3335048, at *5 (E.D.N.Y. Nov. 9, 2006) (granting leave to amend answer to plead a due process defense to a statutory damage award); *Lowry's Reports, Inc. v. Legg Mason, Inc.*, 302 F. Supp. 2d 455, 459-60 (D. Md. 2004) (rejecting due process challenge).

270. See, e.g., *Barker*, *supra* note 136, at 537-59; Blaine Evanson, *Due Process in Statutory Damages*, 3 GEO. J. L. & PUB. POLY 601, 632-37 (2005); Samuelson & Wheatland, *supra* note 70, at 464-97.

271. See, e.g., *Zomba Enters.*, 491 F.3d at 586-88 (rejecting due process challenge to copyright statutory damage award); *Westbound Records*, No. 3:05-0155, 2009 WL 943516, at *2-3 (same); *Lowry's Reports*, 302 F. Supp. 2d at 459-60 (same). *But see* *Bridgeport Music, Inc. v. Justin Combs Publ'g*, 507 F. 3d 470, 486-90 (6th Cir. 2007) (invalidating high punitive damage award in common law copyright case); *Sony BMG Music Entm't v. Tenenbaum*, No. 07cv1146-NG, 2010 WL 2705499, at *30 (D. Mass. July 9, 2010) (reducing a statutory damage award that the court found to be grossly excessive in violation of the Due Process Clause); *In re Napster, Inc.*, No. C MDL-00-1369 MHP, C 04-1671 MHP, 2005 WL 1287611, at *10 (N.D. Cal. June 1, 2005) (acknowledging that excessive statutory damage awards might violate due process).

272. See *Lowry's Reports*, 302 F. Supp. 2d at 460.

273. *Id.* at 460 (stating that “[t]he unregulated and arbitrary use of judicial power that the *Gore* guideposts remedy is not implicated in Congress' carefully crafted and reasonably constrained [copyright] statute”).

274. *Id.* at 459-60; see also *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 421 (2003) (stating that a state generally does not “have a legitimate concern in imposing punitive damages to punish a defendant for unlawful acts committed outside of the State's

posed under copyright law do not raise any of these state comity concerns because copyright law applies nationwide.²⁷⁵

Still, commentators have argued that these are distinctions without a difference and that the Supreme Court's due process jurisprudence does and should limit copyright statutory damage awards.²⁷⁶ Given the broad range of statutory damages and the lack of guidance given to fact finders in applying these guidelines, it is hard to contend that the scheme Congress created is so carefully designed that it should be immune from due process review.²⁷⁷ Due process limits on statutory damages also seem especially appropriate in cases of multiple infringements, where even minimum statutory damages awards can result in massively excessive damages.²⁷⁸

Yet, even if the Supreme Court's due process jurisprudence should apply to statutory damages, it is hardly clear that it would cure all that ails the current statutory damages regime. The Supreme Court's due process jurisprudence has been aimed primarily at punitive damage awards that are wildly excessive. But, as I argued above, the core problem with the copyright statutory damages regime is not that it can produce massively excessive punitive damage awards, but that it can produce punitive damage awards *at all* in cases where liability rules are appropriate. Thus, any constitutional solution must not only limit grossly excessive awards but must also bar any punitive damage awards in scenarios where only compensatory and restitutionary damages are appropriate. Because any constitutional check must regulate punitive damage awards in general, and not just grossly excessive awards, courts are better off looking to the First Amendment as a constitutional limitation on statutory damages.

2. *Free Speech Limits on Statutory Damages*

To begin with, it is important to concede that any First Amendment claim would likely be an uphill battle. While the Supreme Court has acknowledged that copyright law implicates the First Amendment, it has largely dismissed any First Amendment attacks on the ground that copyright law already has the built-in free speech safeguards of the idea/expression dichotomy and the fair use doc-

jurisdiction"); *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 572 (1996) (stating that the economic penalties imposed by a state "must be supported by the State's interest in protecting its own consumers and its own economy").

275. *Lowry's Reports*, 302 F. Supp. 2d at 459-60.

276. Samuelson & Wheatland, *supra* note 70, at 491-97.

277. *Id.* at 495.

278. *Id.* at 494-95; *see also* *Parker v. Times Warner Entm't*, 331 F.3d 13, 21-22 (2d Cir. 2003) (assuming that due process limitations would apply to excessive statutory damages resulting from aggregated awards).

trine.²⁷⁹ The first hurdle in any First Amendment argument would be to convince a judge that these free speech accommodations should not render all First Amendment attacks on copyright futile. This may not be an easy argument but it is a sound one.

Indeed, as already discussed in Part VI, the Supreme Court's logic for immunizing copyright law from First Amendment scrutiny makes sense only if the so-called free speech safeguards the Court refers to are actually effective.²⁸⁰ But if, as previously argued, the specter of punitive damages under the statutory damages regime discourages users from effectively utilizing these safeguards, the logic of withholding First Amendment scrutiny dissipates.²⁸¹

If a court were willing to entertain a First Amendment challenge to the statutory damages regime, the issue would be whether the impact these damages have on free speech interests is more than the First Amendment can tolerate.²⁸² This, in effect, is what the courts do when analyzing content-neutral laws.²⁸³ The problem in these instances is not that the government is censoring speech because it does not like the message.²⁸⁴ Instead, the problem is that even a content-neutral government action can sometimes harm speech interests in an intolerable manner. For instance, if the government banned all leafleting in order to prevent the accumulation of litter, the law might be content-neutral and have a legitimate purpose, but it would still have an intolerable impact on a vital means of grassroots communication.²⁸⁵

279. *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2003) (stating that, to the extent that copyright laws might “raise First Amendment concerns, copyright’s built-in free speech safeguards are generally adequate to address them”); *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 560 (1985) (concluding that, “[i]n view of the First Amendment protections already embodied in the Copyright Act’s distinction between copyrightable expression and uncopyrightable facts and ideas, and the latitude for scholarship and comment traditionally afforded by fair use, we see no warrant for expanding the doctrine of fair use to create what amounts to a public figure exception to copyright”).

280. *See supra* note 207 and accompanying text.

281. *See supra* notes 81-116 and accompanying text.

282. *See generally* Alan E. Garfield, *The Case for First Amendment Limits on Copyright Law*, 35 HOFSTRA L. REV. 1169, 1201-06 (2007) (describing when a private party’s assertion of copyright rights has an intolerable impact on speech).

283. *See* Geoffrey R. Stone, *Content-Neutral Restrictions*, 54 U. CHI. L. REV. 46, 58 (1987) (stating that, with regard to content-neutral restrictions on speech, “[t]here is a strong correlation in practice . . . between the extent to which a challenged law actually interferes with the opportunities for free expression and the Court’s use of . . . strict, intermediate, and deferential standards of review,” with strict review being used for regulation with a “severe effect” on expression).

284. Garfield, *supra* note 282, at 1189-96 (discussing instances where copyrights are being used to censor speech).

285. *See Schneider v. New Jersey*, 308 U.S. 147, 160-62 (1939); *see also City of Ladue v. Gilleo*, 512 U.S. 43, 48-51 (1994) (finding ban on residential lawn signs unconstitutional notwithstanding a city’s legitimate content-neutral interest in promoting aesthetics); *Martin v. City of Struthers*, 319 U.S. 141, 143-44, 149 (1943) (finding ban on all door-to-door solicitations unconstitutional notwithstanding a city’s legitimate content-neutral interests in protecting privacy and safety).

In the statutory damage context, we must start with the recognition that the First Amendment accepts the general legitimacy of copyright law notwithstanding the restraint it places on speech. Indeed, the Supreme Court has recognized that copyright law, by giving authors an incentive to produce new works, is often an “engine of free expression.”²⁸⁶ Thus, the issue is not whether all of copyright law is unconstitutional, but rather whether the existing statutory damages regime raises free speech concerns.

For the most part, First Amendment jurisprudence does not focus on the speech impact of excessive damage awards. The one notable exception is in the area of defamation law, where the Court specifically established rules for when punitive and presumed damages may be awarded.²⁸⁷ There, as here, the Court was concerned that the prospect of punitive damages would unduly chill speech.²⁸⁸

The relevant question is whether the impact of statutory damages on speech interests is unacceptable. Imagine, for example, a city that charged a \$100,000 fee to use a public park for a rally. While the government may be permitted to charge a reasonable fee for the use of its facilities, such an exorbitant sum to use a traditional public forum (even though unrelated to the content of the speaker’s message) would be more than the First Amendment could bear.²⁸⁹ Similarly, if the specter of punitive-like statutory damages chills more speech than the First Amendment could tolerate, then a court could require the statutory damages regime to be modified in the ways suggested in this Article. Lower courts would therefore have to invalidate excessive statutory damages that unduly chill speech, especially in circumstances where the threat of punitive damages discourages users from asserting plausible fair uses or the takings of arguably unprotected ideas. Congress could help alleviate the burden on courts in

286. *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 558 (1985).

287. *See Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 348-50 (1974) (forbidding recovery of presumed or punitive damages by a defamation plaintiff when the defamatory remark concerns a matter of public concern unless the plaintiff proves that the defendant acted with actual malice). *But see Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc.*, 472 U.S. 749, 758-59 (1985) (permitting the recovery of presumed and punitive damages without proof of actual malice when a defamation action is brought by a private figure and concerns a matter of private concern).

288. *Dun & Bradstreet*, 472 U.S. at 757-59 (explaining why limits on the recovery of punitive damages are necessary to prevent the chilling of speech on matters of public concern).

289. In invalidating a license fee applied to public distribution of religious literature, the Supreme Court said that “[f]reedom of speech, freedom of the press, [and] freedom of religion are available to all, not merely to those who can pay their own way.” *Murdock v. Pennsylvania*, 319 U.S. 105, 111 (1943). Professor Van Houweling has said that the reach of this language is unclear, but notes that some lower courts have read the case as insisting that speech permit fees be no more than nominal to preserve speech opportunities of poorly financed speakers. Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEX. L. REV. 1535, 1552-53 (2005).

policing First Amendment violations by modifying the Copyright Act in the manner suggested in Part VII.B on a “legislative fix.”

VIII. CONCLUSION

Most intentional torts, such as fraud or battery, have no societal benefit and are in fact harmful. Society has every reason to structure tort law to discourage such actions, not only by compensating the victims but also by subjecting the tortfeasors to punitive damages.

But the societal consequences of the tortious act of copyright infringement are more ambiguous. While there are some instances, such as pure unadulterated piracy, that may have no socially redeeming aspects, there are other types of infringement that involve the creation of new socially valuable works.

The key to properly calibrating copyright damages is to have a spectrum of options that strike a balance in each instance between the relative harm to a copyright owner and the relative benefit to society created by the activity being sanctioned. At one end of the spectrum, for egregious acts of piracy, punitive damages awards should not only be allowed but also encouraged to deter the illegal actions. At the opposite end of the spectrum are acts that have strong social benefits and cause little or no harm to copyright owners. In these instances, it may be appropriate to immunize users completely from any liability, as is currently the case for fair uses or uses that take only unprotected ideas. Finally, in the middle of the spectrum are uses which are socially beneficial but which sufficiently exploit a copyright owner’s legitimate markets to render it inappropriate to deny the copyright owner any compensation.

A remedial regime that is properly calibrated to account for all three of these scenarios is most likely to ensure that copyright law continues to strike the proper balance between a copyright owner’s legitimate expectations of compensation and the public’s interest in accessing and using copyrighted works. Such a regime will also see to it that copyright law does not unduly trench upon free speech interests by ensuring that copyright’s built-in free speech safeguards of fair use and the idea/expression dichotomy exist in practice and not just theory. Only then will copyright law be the true “engine of free expression” the Supreme Court imagines it to be.²⁹⁰

290. *Harper & Row*, 471 U.S. at 558.