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THE PTO AND THE MARKET FOR INFLUENCE  
IN PATENT LAW

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INTRODUCTION

As statutory schemes go, the patent statute has been relatively stable from 1952 to the present. In contrast to copyright law, where Congress has taken a close—indeed at times intense—interest in the

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details of the statutory scheme,<sup>1</sup> legislative intervention into the patent statute, when it has occurred, has been more limited and narrower in scope.<sup>2</sup> For many reasons, however, patent law has been disequilibrating over time, and calls for patent reform have been increasing in intensity. One of the many factors contributing to this disequilibrium in recent years has been the ongoing emergence of the U.S. Patent and Trademark Office (PTO) as a more robust institutional player actively seeking to influence patent policy. The more prominent role played by the PTO is both a cause and an effect of dissatisfaction with the state of patent law.

In order to better understand some of the forces behind the moves toward patent reform, we should examine not just who is demanding legal change, but which institutions are able and willing to supply legal rules and norms. Since 1952, Congress has left much of the market for supply-side influence in patent law to the federal courts and, to a lesser degree, to the PTO. In 1982, Congress consolidated appellate jurisdiction over patent cases in one court, the U.S. Court of Appeals for the Federal Circuit. Since then, lacking institutional competition from other courts, the Federal Circuit has strengthened patent law. In the process, the court has made this a more attractive area for institutions to wield legal and policy influence.

This development has not been lost on the PTO. For a while now, the PTO has been vying to gain more influence in the market for supplying legal rules and norms. The PTO is on both the demand side and the supply side in patent law evolution, functioning as a demander of some changes to patent policy and as a supplier of others.<sup>3</sup> In the process, it has appealed to the inventive community for support.

In this Article, I examine some of the ways in which the PTO has maneuvered since the early 1990s to occupy a more central position in

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<sup>1</sup> See, e.g., Digital Millennium Copyright Act, Pub. L. No. 105-304, secs. 103, 202, 112 Stat. 2860, 2863-76, 2877-86 (1998) (codified as amended at 17 U.S.C. §§ 512, 1201-1205 (2006)) (creating safe harbors for service providers and prescribing civil and criminal remedies for the circumvention of copyright protection systems); Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998) (codified as amended in scattered sections of 17 U.S.C.) (extending the term of copyright protection).

<sup>2</sup> See, e.g., Patent and Trademark Office Efficiency Act, Pub. L. No. 106-113, 113 Stat. 1501A-572 (1999) (codified as amended in scattered sections of 35 U.S.C.) (reorganizing the U.S. Patent and Trademark Office).

<sup>3</sup> For example, the PTO is a demander of change in the form of more deference to its decisions and a (potential) supplier of change through revision and reformation of its examiner productivity metric.

making patent law and policy. I tell a slightly different story from the one often told, in which regulatory agencies are passive targets of attempts at capture by their constituencies. Whereas the literature on the origin of attempts to influence the regulatory process focuses mostly on the demand side, in this Article I focus on the supply side.<sup>4</sup> One of the weaknesses of the capture theory as it is often presented is that it assumes that only the regulated constituency takes the initiative. This implies that interest groups are the instigators of attempts at regulatory entanglement, an assumption that is questionable in the case of the PTO. I argue that while we often think of agency entanglement with the community it is supposed to regulate as an unalloyed bad, there have been some positive results from the PTO's attempts to increase its influence. Whether this state of affairs will continue, however, remains to be seen.

In Part I of this Article, I argue that the supply side of patent law has long been dominated if not monopolized by the Court of Appeals for the Federal Circuit. With patent law having increased in importance in the past few decades, the PTO, facing few competitors in the patent policymaking field, has had an incentive to emerge as a stronger player in the market for legal influence over patent law by increasing its own influence. In Part II, I describe two major types of moves in which the PTO has engaged, and continues to engage, in order to accomplish this. One set of moves has given the PTO slightly more legal power. The results are more important for their symbolic value than for influencing legal outcomes. The other maneuver by the PTO is more subtle but more substantively important: appeals for support by the PTO to the constituency—inventors—with which it is supposed to have an adversarial relationship. (I do not maintain, however, that the PTO has been captured by the inventive community.) The resulting benefits to the PTO—such as a larger budget, new facilities, and more control over its finances—have been measurable. In Part III of this Article, I argue that so far, the PTO's attempts to increase its influence have had some social benefits. PTO attempts to appeal to the inventive community have resulted in greater institutional transparency and more rigorous debate about the faults and flaws of the patent system. At the same time, expanding the PTO's

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<sup>4</sup> See Jean-Jacques Laffont & Jean Tirole, *The Politics of Government Decision-Making: A Theory of Regulatory Capture*, 106 Q.J. ECON. 1089, 1090 (1991) (criticizing earlier studies of regulatory decision making for failing to consider the relationships between members of the supply and demand sides).

power presents dangers. In the long run, it is unclear whether the benefits will outweigh the costs.

There are a few caveats: First, let me emphasize once again that I'm not saying the PTO has been captured. Certainly the PTO has in recent years displayed a sensitivity to the views of the inventive community that it previously lacked, and it has attempted to enlist the inventive community in its efforts to expand its influence and budget, but this is not the same as saying that the PTO has become controlled by the inventive community.<sup>5</sup> Second, I'm being deliberately reductionist in this Article. I'm not trying to set out all the subtleties of the complex institution that is the PTO. Rather, I'm seeking to capture some essential features of the PTO's relative positioning throughout the past two decades, and to distill some key moves that the PTO has made in order to illustrate how it has maneuvered itself. Doing that means I'm deliberately excluding other forces that have shaped the fortunes of the PTO. In addition, throughout this Article my intent is not to take a normative position on the legal or budgetary issues on which the PTO has taken an advocacy position. Rather, it is to argue that each of these events has resulted in the PTO having more influence and more wherewithal to increase its influence.

### I. PATENT LAW'S SUPPLY SIDE

Courts are the primary locus of the evolution of patent law. Since 1952, Congress has not taken much interest in amending the patent code, leaving the bulk of legal evolution to the courts. Starting in 1982, that meant delegating the evolution of patent law to the U.S. Court of Appeals for the Federal Circuit. Congress's lack of interest has been longstanding; it was relatively indifferent even before the creation of the Federal Circuit. On the few occasions that significant amendments to the patent statute have been successful, they have often pertained to procedural or administrative matters—such as better funding for the PTO—on which all participants agree.<sup>6</sup>

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<sup>5</sup> Nor is the PTO truly a regulatory agency in the sense that, for instance, the Food and Drug Administration is a regulatory agency. See, e.g., Orin S. Kerr, *Rethinking Patent Law in the Administrative State*, 42 WM. & MARY L. REV. 127, 129-30 (2000) (arguing that the PTO's relationship is more contractual than regulatory).

<sup>6</sup> See, e.g., American Inventors Protection Act of 1999 (AIPA), Pub. L. No. 106-113, sec. 4502, § 122(b)(1), 113 Stat. 1501A-552, 1501A-561 (codified at 35 U.S.C. § 122(b)(1) (2006)) (authorizing public disclosure of certain patent applications).

Why hasn't Congress taken a closer interest in patent law? The broad standards that comprise most of the patent code indicate that Congress has delegated patent policy to the courts, particularly to the Federal Circuit, but whether this is a cause or an effect of Congress's indifference—or indeed if there is any causal link—remains unclear. Given that Congress outsourced the writing of the 1952 Patent Act and passed it without floor debate,<sup>7</sup> it's not clear that any legislative intent can be attributed to members of Congress regarding the Act.<sup>8</sup> Recent criticism of the Federal Circuit (much of it vituperative) coming from the patent community may tempt us to forget that widespread dissatisfaction with the court is a new phenomenon.<sup>9</sup> From the time of its creation until relatively recently, commentators generally believed the Federal Circuit was doing a good job in its various subject areas.<sup>10</sup> Congress may have felt no great need to intervene in an area it perceived as complex and technical. Probably all of these reasons play a part to varying degrees in explaining Congress's reticence to pass new patent legislation.

If Congress hasn't been an institution active in patent law, then who has? Not the Supreme Court. It doesn't enter the lists often enough, even in recent years, to have a wide impact on the field. Since its creation in 1982,<sup>11</sup> the Federal Circuit has been the main locus of patent law evolution. When it was created, the Federal Circuit was tasked with bringing consistency to patent law. Many commenta-

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<sup>7</sup> As Judge Giles S. Rich, one of the authors of the 1952 Patent Act, explained, "The New Patent Act went through both houses on consent calendars, and those houses relied on the unanimous recommendations of their respective committees." Neil A. Smith, *Remembrances and Memorial: Judge Giles Sutherland Rich 1904–1999*, 82 J. PAT. & TRADEMARK OFF. SOC'Y 597, 601 (2000).

<sup>8</sup> Giles S. Rich and P.J. Federico were the two main drafters of the 1952 Patent Act. Judge Rich asserted that "[l]egislative intent was supplied later . . . in the form of the Reviser's Notes." *Id.*; see also P.J. Federico, *Commentary on the New Patent Act*, 35 U.S.C.A. 1, 6-9 (West 1954), reprinted in 75 J. PAT. & TRADEMARK OFF. SOC'Y 161, 166-70 (1993) (reviewing the evolution of the bill and the lack of significant congressional scrutiny).

<sup>9</sup> See, e.g., Charles W. Shifley et al., *Is Federal Circuit Obviousness Law "Gobbledygook" and "Irrational"? Why Justice Scalia Says So, and What May Come of That*, INTELL. PROP. & TECH. L.J., May 2007, at 5, 7-8 (stating that "the Federal Circuit is arguably at an all-time low in terms of reputation among all judges, professors, and commentators since its creation in 1982").

<sup>10</sup> See, e.g., Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 74 (1989) ("On the whole, the CAFC experiment has worked well for patent law . . .").

<sup>11</sup> See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, secs. 101–102, 96 Stat. 25, 25 (codified at 28 U.S.C. §§ 41, 44 (2006)) (establishing a Federal Court of Appeals and a Federal Claims Court). The jurisdiction of the court is set out in 28 U.S.C. § 1295(a).

tors would argue that it has accomplished this task well, although most would also say that it has become a pro-patent court (although that depends to some degree on one's baseline). Adam Jaffe and Josh Lerner, for instance, show that the Federal Circuit has been more likely to find patents valid and infringed than did the appellate courts before 1982.<sup>12</sup> While this does demonstrate that expectation baselines about the enforceability of patents have changed, without more, it doesn't prove that the Federal Circuit has been captured. For one thing, we need to know whether the validity determinations made by appellate courts before the Federal Circuit were accurate. Perhaps courts were previously too quick to invalidate patents.

Two stories could be told about the Federal Circuit making patents more enforceable. One is a public interest story. On this view, patent enforcement had become too weak, and declaring more patents valid increased social welfare. It has long been known that patent cases are unpopular with many members of the judiciary. Prior to the creation of the Federal Circuit, the fastest way a district court judge could make a patent case go away for good was to declare the patent invalid. By midcentury, antipatent sentiment ran so high that Justice Jackson famously lamented that the Supreme Court had developed such a "strong passion" for striking down patents that the only valid patents left were ones the "Court ha[d] not been able to get its hands on."<sup>13</sup> And as Adam Jaffe and Josh Lerner note of *Sakraida v. AG Pro, Inc.*,<sup>14</sup> one of the few patent cases in the latter half of the twentieth century in which the Supreme Court granted certiorari,

Who would get the duty of writing the opinion for this "cow shit case" was a matter of considerable controversy—ultimately, it was assigned to Justice William Brennan because he had antagonized the Chief Justice with his acrid dissents in other cases. Perhaps not surprisingly, the decision that resulted in this case was poorly reasoned and inconsistent with the Supreme Court's own earlier rulings.<sup>15</sup>

Even today, patent cases are generally unpopular with district court judges, many of whom continue to express dislike of patents and

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<sup>12</sup> See ADAM B. JAFFE & JOSH LERNER, INNOVATION AND ITS DISCONTENTS: HOW OUR BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 98-107 (2004) (noting trends in the Federal Circuit toward strengthening patent holders' rights).

<sup>13</sup> *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949) (Jackson, J., dissenting).

<sup>14</sup> 425 U.S. 273 (1976). In this case the Court found the patent obvious and therefore invalid. *Id.* at 282-83.

<sup>15</sup> JAFFE & LERNER, *supra* note 12, at 100 (footnote omitted).

dismay about having patent cases on their dockets.<sup>16</sup> As some commentators have noted, before the Federal Circuit was created it was difficult to imagine how patents could have become much weaker.<sup>17</sup> On this view, hostility to patents among the judiciary was so great that the Federal Circuit's strengthening of patent law was a necessary and efficiency-enhancing corrective measure.<sup>18</sup>

But of course a pessimistic story could be told as well: that of judicial self-aggrandizement. Judges in specialized courts may come to identify a little too closely with the areas of law in which they specialize.<sup>19</sup> Enforcement of patents increases the importance and impact of patent law, and we can expect judges to prefer that their cases be perceived as important rather than mundane or marginal. On this view, the Federal Circuit has focused on benefiting patent interests even though the costs more broadly imposed on society may outweigh those benefits. Both the public interest story and the self-interest story have explanatory power when applied to the Federal Circuit; neither is mutually exclusive.

In either case, by making patents stronger and making patent law more economically important, the Federal Circuit has expanded the market for supply-side institutions in patent law, thus creating incentives for the PTO to try to gain some market share. Although the Federal Circuit has been the major force affecting the shape of patent law, over the past decade it has started to receive some competition. So far, this competition has come neither from Congress nor in a serious way from the Supreme Court, even though the Supreme Court recently has been granting certiorari on more patent cases than in previous years.<sup>20</sup> Rather, the competition has come from an executive

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<sup>16</sup> See, e.g., Transcript of Hearing Proceedings at 19, *O.I. Corp. v. Tekmar Co.*, No. 95-0113 (S.D. Tex. Dec. 5, 1995) (quoting Judge Kent saying of patent cases, "You know, it's hard to deal with [these] things").

<sup>17</sup> See, e.g., JAFFE & LERNER, *supra* note 12, at 97 ("[T]he 'pro-patent' policy changes of the 1980s and 1990s can be seen as the inevitable, perhaps even desirable, historical 'backswing' after a long period of weakening patents.").

<sup>18</sup> I do not take a position on what the optimal level of patent protection is, but I do agree with most scholars and industry analysts that patent protection was badly fractured prior to the creation of the Federal Circuit. See Dreyfuss, *supra* note 10, at 74 (stating that patent law is more uniform and better suited for national interests today).

<sup>19</sup> See generally Richard A. Posner, *Will the Federal Courts of Appeals Survive Until 1984? An Essay on Delegation and Specialization of the Judicial Function*, 56 S. CAL. L. REV. 761 (1983) (arguing that the caseload crisis in the federal courts of appeals has led to delegation and specialization of courts and interests).

<sup>20</sup> See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008); *KSR Int'l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007); *Microsoft Corp. v. AT&T Corp.*, 127 S. Ct. 1746

branch institution, the PTO. Since approximately 1993, the PTO has been maneuvering to become more powerful.

The PTO has maneuvered not only to bolster its reputation and material position, but also to increase its power in the world of patent law and policy. Initially the PTO focused on international patent law, where it had little competition from other state institutions, but then it began to seek power closer to home and sought to increase its power relative to the Federal Circuit. The Supreme Court's decision in *Dickinson v. Zurko*, which brought the PTO's factual findings under the ambit of the Administrative Procedure Act (APA), was a step in this direction and a significant symbolic victory in the eyes of the PTO.<sup>21</sup> Since then, the PTO has boasted of its role in advising the Solicitor General's Office as to whether the Supreme Court should grant certiorari on patent cases coming out of the Federal Circuit, announcing when the Supreme Court's decision to grant or deny certiorari matches up with the advice that the PTO has given the Solicitor General's Office.<sup>22</sup>

## II. THE PTO'S ATTEMPTS TO INCREASE ITS INFLUENCE

What elements have contributed to the PTO's relative positioning? In this Part, I discuss a few moves the PTO has made that have influenced its relative institutional positioning. These moves fall into two categories: first, attempts to gain more legal power, both over its own internal matters and in administrative appeals of patent matters before the Federal Circuit; and second, petitions to the inventive community and Congress for a larger budget and other resources, more control over its finances, and a new physical plant. When successful, these moves have increased the PTO's power and allowed it to gain a larger market share, if you will, of patent law and policy decision making. I focus only on moves that are endogenous to the PTO. Other factors, such as the importance of technological innovation and

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(2007); *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007); *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006). *But see* *Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc.*, 126 S. Ct. 2921 (2006) (dismissing certiorari as improvidently granted).

<sup>21</sup> 527 U.S. 150, 152 (1999). The petitioner was Q. Todd Dickinson, the PTO Director at the time.

<sup>22</sup> See U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT: FISCAL YEAR 2007, at 50 [hereinafter 2007 REPORT]; U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT: FISCAL YEAR 2006, at 47-48; U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2005, at 48-49 [hereinafter 2005 REPORT].



the strength of the economy, have no doubt contributed in some way to the relative position of the PTO in recent years, but these issues are beyond the scope of this Article.

Notably, the PTO's desire to increase its legal influence and to appeal to the inventive community has been confined to the patent side of the agency. As the PTO itself has said, "The Patent Business is one of the PTO's three core businesses. The primary mission of the Patent Business is to help customers get patents."<sup>23</sup> By contrast, the trademark side of the PTO is less ambitious: "The primary mission of the Trademark Business is to apply the provisions of the Trademark Act of 1946 in the examination and registration of trademarks. . . . The core process of the Trademark Business is the examination of an application for trademark registration."<sup>24</sup> Although in recent years the PTO has become more subtle in its language, the description of the business of the patent side of the PTO as "help[ing] customers get patents" is clearly an appeal to the group with which the PTO is supposed to have an adversarial relationship.

#### A. *Legal Influence*

The PTO has made several attempts to increase its influence over patent law in the past decade. The first of these occurred in 1999 with the passage of the American Inventors Protection Act (AIPA), which reorganized the PTO and established it as an executive branch agency instead of just a subunit of the Department of Commerce.<sup>25</sup> The second attempt concluded that same year in *Dickinson v. Zurko*, in which the PTO won the right to have APA standards of review applied to its factual conclusions when patent applicants appeal directly to the Federal Circuit.<sup>26</sup> The third is an ongoing battle, and the logical outgrowth of *Zurko*: determining the proper scope of the PTO's rulemaking authority.<sup>27</sup> I take no position in this Article on the merits of any of these moves on the part of the PTO. Instead, I merely point

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<sup>23</sup> U.S. PATENT & TRADEMARK OFFICE, CORPORATE PLAN—2001, at 23, <http://www.uspto.gov/web/offices/com/corpplan/index.htm>.

<sup>24</sup> *Id.* at 42.

<sup>25</sup> See AIPA, Pub. L. No. 106-113, secs. 4711–4712, 113 Stat. 1501A-552, 1501A-572 to -575 (codified at 35 U.S.C. §§ 1–2 (2006)).

<sup>26</sup> *Zurko*, 527 U.S. at 154-55.

<sup>27</sup> See *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009) (holding that the PTO does not have substantive rulemaking authority, finding that the PTO-proposed rules at issue in the case were procedural, and remanding to the district court for further proceedings).

out that all of these moves have increased, at least to some degree, the PTO's power as a supplier of legal rules and patent policies.

### 1. The AIPA and Executive Branch Agency Status

The Intellectual Property and Communications Omnibus Reform Act of 1999, of which the AIPA was a part, expanded the top ranks of the PTO and gave the entity more control over its operations.<sup>28</sup> It reorganized the way the PTO was structured and made it an executive branch agency within the Department of Commerce.<sup>29</sup> The AIPA elevated the position of head of the PTO from Commissioner to Director (also an Under Secretary of Commerce), who is required to have "a professional background and experience in patent or trademark law."<sup>30</sup> The AIPA also expanded the top ranks of the PTO to include two commissioners appointed by the Director—a Commissioner of Patents and a Commissioner of Trademarks—and, upon nomination by the Director, a Deputy Director.<sup>31</sup> The PTO reports to the Secretary of Commerce for policy direction, but the PTO's executive branch agency status gives it control over its budget allocations and other administrative management functions. The AIPA also created the Patent Public Advisory Committee and the Trademark Public Advisory Committee to advise the Director on PTO policies, goals, performance, budget matters, and user fees.<sup>32</sup>

These changes noticeably benefited the PTO. Restructuring the PTO as an executive branch agency was the first step toward giving the PTO more power and self-governance. It was also an important step toward giving the PTO control over its budget, and budget control is a source of power for bureaucrats. The existence of the Advisory Committees at least allowed the PTO to create the appearance that it was willing to accept feedback and input from the regulated community, while ensuring that the PTO wasn't legally bound by the committees' recommendations. At the time, the inventive community supported these changes before Congress. As the American Intellectual Property Law Association (AIPLA), a bar association representing intellectual

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<sup>28</sup> See AIPA secs. 4711–4713, 113 Stat. at 1501A-572 to -578.

<sup>29</sup> *Id.* sec. 4711. Prior to the passage of the AIPA, the head of the PTO was a Commissioner appointed by the President. 35 U.S.C. §§ 1, 3 (1994).

<sup>30</sup> AIPA sec. 4713, § 3(a)(1), 113 Stat. at 1501A-575 to -578 (codified as amended at 35 U.S.C. § 3(a)(1) (2006)).

<sup>31</sup> *Id.* sec. 4713, § 3(b)(1)–(2), 113 Stat. at 1501A-576 (codified as amended at 35 U.S.C. § 3(b)(1)–(2)).

<sup>32</sup> *Id.* sec. 4714, 113 Stat. at 1501A-578 to -580 (codified as amended at 35 U.S.C. § 5).

property lawyers, asserted, “[T]he PTO could function more efficiently and effectively, and provide users with higher-quality and more responsive products and services if it were properly transformed into a government corporation.”<sup>33</sup> Since then, however, some commentators in the inventive community have become more critical of the results. For example, some commentators have argued that the Patent Public Advisory Committee is toothless and “has never effectively asserted any real oversight of PTO operations,” or is even being undermined by the PTO itself because it has been “provided with no real support to investigate and challenge.”<sup>34</sup>

## 2. Judicial Deference

In addition to getting more autonomy from executive branch oversight, the PTO has also been trying to get more deferential review of its decisions from the Federal Circuit. The more deferential the review, the broader the range of PTO action that would survive a legal challenge. Historically, the PTO’s decisions did not receive much deference before a reviewing court.<sup>35</sup> For decades, reviewing courts applied neither the deferential standards of review of the APA<sup>36</sup> nor those of *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*<sup>37</sup> to the PTO, choosing instead to apply older and more rigorous standards of review.<sup>38</sup>

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<sup>33</sup> *Patent Law Changes: Hearing on H.R. 400 and H.R. 811 Before the H. Subcomm. on Gov’t Programs and Oversight of the Comm. of Small Bus.*, 105th Cong. 167 (1997) (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

<sup>34</sup> Posting of Greg Aharonian to Patent Law Blog (Patently-O), Patent Public Advisory Committee (PPAC), <http://www.patentlyo.com/patent/2007/08/patent-public-a.html> (Aug. 17, 2007).

<sup>35</sup> The PTO has long had regulatory authority to enact rules that govern its internal proceedings. See 35 U.S.C. § 2(b)(2)(A).

<sup>36</sup> See 5 U.S.C. § 706 (2006) (mandating that courts reviewing agency action set aside such actions if they are found to be “arbitrary, capricious, an abuse of discretion, or . . . unsupported by substantial evidence”).

<sup>37</sup> See 467 U.S. 837, 842-44 (1984) (stating that courts must defer to an administrative agency’s interpretation of a statute so long as the agency’s interpretation is “reasonable”).

<sup>38</sup> The Federal Circuit has often rejected the application of APA standards to review of PTO findings of fact. See *In re Zurko*, 142 F.3d 1447, 1449 (Fed. Cir. 1998) (en banc) (applying the “clearly erroneous” standard of review), *rev’d sub nom.* *Dickinson v. Zurko*, 527 U.S. 150 (1999); *In re Lueders*, 111 F.3d 1569, 1574-75 (Fed. Cir. 1997) (refusing to modify the “clearly erroneous” standard of review); *In re Napier*, 55 F.3d 610, 614 (Fed. Cir. 1995) (using a more stringent standard of review than that of the APA); *In re Brana*, 51 F.3d 1560, 1568-69 (Fed. Cir. 1995) (refusing to address the issue of standard of review because it was not perceived as central to the case). The Federal Circuit has also declined to apply *Chevron* to the PTO’s interpretations of law. See *Merck &*

This was no great surprise, even if some commentators considered it a bit of a puzzle that reviewing courts declined to apply APA standards of review to the PTO.<sup>39</sup> Early drafts of the APA explicitly exempted the PTO from the APA's purview.<sup>40</sup> From the passage of the APA until the end of the twentieth century, as the Supreme Court noted, "both the patent bench and the patent bar had concluded that the stricter 'clearly erroneous' standard was . . . a requirement placed upon the PTO," and "even the PTO acquiesced in this interpretation for almost 50 years after the enactment of the APA."<sup>41</sup>

By getting a more deferential standard of review applied to its factual and legal findings, however, the PTO would have a better chance of making its decisions stick. In *Dickinson v. Zurko*, the PTO saw a chance to raise the level of deference that it received from the Federal Circuit from the traditional "clearly erroneous" standard of review<sup>42</sup> to the APA's marginally more deferential "substantial evidence" or "arbitrary and capricious" standard.<sup>43</sup>

*Co. v. Kessler*, 80 F.3d 1543, 1549 (Fed. Cir. 1996) (reviewing de novo the determination of law); *Glaxo Operations UK Ltd. v. Quigg*, 894 F.2d 392, 398 (Fed. Cir. 1990) (holding that "we need not defer to any reasonable interpretation of the Commissioner").

<sup>39</sup> See, e.g., Wm. Redin Woodward, *A Reconsideration of the Patent System as a Problem of Administrative Law*, 55 HARV. L. REV. 950, 950 (1942) (noting that the courts have failed to treat patents as matters of administrative law).

<sup>40</sup> See *In re Zurko*, 142 F.3d at 1451 (discussing the original exclusion of patent matters from the scope of the APA); see also George B. Shepherd, *Fierce Compromise: The Administrative Procedure Act Emerges from New Deal Politics*, 90 NW. U. L. REV. 1557, 1618-19 tbl.1 (1996) (discussing the history of the passage of the APA and listing the PTO as an agency exempted under the Walter-Logan Bill).

<sup>41</sup> *Zurko*, 527 U.S. at 171 & n.\* (Rehnquist, C.J., dissenting).

<sup>42</sup> See, e.g., FED. R. CIV. P. 52(a); see also *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 395 (1948) ("A finding is 'clearly erroneous' when although there is evidence to support it, the reviewing court on the entire evidence is left with the definite and firm conviction that a mistake has been committed.").

<sup>43</sup> These standards are drawn from 5 U.S.C. § 706(2) (2006), which codifies section 10(e) of the APA. It states in relevant part the following:

The reviewing court shall—

. . . .

(2) hold unlawful and set aside agency action, findings, and conclusions found to be—

(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law;

(B) contrary to constitutional right, power, privilege, or immunity;

(C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right;

(D) without observance of procedure required by law;

In *Zurko*, a disappointed patent applicant appealed the PTO's denial of her patent application to the Federal Circuit, challenging the PTO's understanding of the prior art as clearly erroneous.<sup>44</sup> The Federal Circuit agreed, reversing the PTO's decision and applying the traditional "clearly erroneous" standard of review to the PTO's factual findings.<sup>45</sup> The PTO petitioned for a rehearing en banc on the ground that the Federal Circuit should have applied an APA-level standard of deference, which the PTO maintained would have caused the Federal Circuit to affirm the PTO's decision. Noting that "[t]he [PTO] Commissioner has campaigned aggressively" for the PTO to be granted greater deference, upon rehearing the Federal Circuit unanimously held that the APA's standards of review did not apply when the Federal Circuit reviews the PTO's findings of fact in direct appeals from the PTO.<sup>46</sup>

In a somewhat fractured reversal of the Federal Circuit, the Supreme Court held that the APA applied to the court's review of PTO findings of fact.<sup>47</sup> The Court came out against anti-PTO exceptionalism, requiring that PTO decisions be treated the same as other agency rulings and stressing "the importance of maintaining a uniform approach to judicial review of administrative action."<sup>48</sup> The Court left open the question of precisely *which* APA standard to apply, however, confining itself to the question of whether the APA applied at all.<sup>49</sup> Subsequent to *Zurko*, the Federal Circuit has chosen the "substantial evidence" standard.<sup>50</sup> If one is of a cynical cast of mind, this result

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(E) unsupported by substantial evidence in a case subject to [either the rulemaking or adjudication provisions of the APA] or otherwise reviewed on the record of an agency hearing provided by statute; or

(F) unwarranted by the facts to the extent that the facts are subject to trial de novo by the reviewing court.

*Id.*

<sup>44</sup> *In re Zurko*, 111 F.3d 887, 888 (Fed. Cir. 1997), *rev'd en banc*, 142 F.3d 1447 (Fed. Cir. 1998), *rev'd sub nom.* Dickinson v. Zurko, 527 U.S. 150 (1999).

<sup>45</sup> *Id.* at 889.

<sup>46</sup> *In re Zurko*, 142 F.3d at 1449.

<sup>47</sup> *Zurko*, 527 U.S. at 152.

<sup>48</sup> *Id.* at 154; *see also id.* at 165 (stating that the Federal Circuit and supporting amici failed to explain "convincingly why direct review of the PTO's patent denials demands a stricter fact-related review standard than is applicable to other agencies").

<sup>49</sup> *Id.* at 158.

<sup>50</sup> *See, e.g., In re Gartside*, 203 F.3d 1305, 1315 (Fed. Cir. 2000) (concluding that "substantial evidence" review applies when the reviewing court must confine its review of agency factfinding to the record produced by the agency proceeding").

should not be surprising. The “substantial evidence” standard is generally considered slightly less deferential than arbitrary and capricious review, primarily because substantial evidence review applies to formal agency proceedings and requires the agency to put its reasoning in the record.<sup>51</sup> The Federal Circuit perhaps saw the case as a zero-sum game between itself and the PTO. This would not be unusual; appellate courts are sensitive to the boundaries of power between courts and agencies and, given the choice, are loath to concede ground to the latter.<sup>52</sup>

Orin Kerr has called *Zurko*'s pondering of the level of deference to give to the PTO's factual findings “a question with more symbolic than practical importance,” the results of which are not “likely to have a significant impact on the functioning of the patent system.”<sup>53</sup> While it is true that the number of cases affected by the difference is small—as the Supreme Court in *Zurko* itself noted, the functional difference between an “unsupported by substantial evidence” standard and a “clearly erroneous” standard is vanishingly small<sup>54</sup>—the symbolic importance of *Zurko* looms large. *Zurko* taught the PTO and the Federal Circuit alike that the PTO could take on the Federal Circuit and win. The PTO's en banc request to the Federal Circuit, its petition for certiorari to the Supreme Court, and its resulting victory heralded the first of several changes of fortune for the PTO. *Zurko* morphed from a run-of-the-mill appeal of a patent denial by the PTO into the first major PTO win in the legal battle to increase its influence vis-à-vis the Federal Circuit. Indeed, in its opinion, the Supreme Court perhaps unwittingly picked up on this dynamic, addressing (and chiding) the

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<sup>51</sup> See *Am. Paper Inst., Inc. v. Am. Elec. Power Serv. Corp.*, 461 U.S. 402, 412 n.7 (1983) (indicating that the “substantial evidence” standard is more rigorous than the “arbitrary and capricious” standard). In writing the majority opinion in *Zurko*, however, Justice Breyer indicated that the two standards were similar. See 527 U.S. at 158 (citing *Association of Data Processing Service Organizations, Inc. v. Board of Governors of the Federal Reserve System*, 745 F.2d 677, 683-84 (D.C. Cir. 1984), for the proposition that there is “no difference between the APA's ‘arbitrary, capricious’ standard and its ‘substantial evidence’ standard as applied to court review of agency factfinding”).

<sup>52</sup> See Peter H. Schuck & E. Donald Elliott, *To the Chevron Station: An Empirical Study of Federal Administrative Law*, 1990 DUKE L.J. 984, 1027 & n.114 (discussing appellate courts' resistance to applying deferential review standards to agency decisions).

<sup>53</sup> Kerr, *supra* note 5, at 168.

<sup>54</sup> See 527 U.S. at 162-63 (noting that the difference between the “clearly erroneous” standard and the “unsupported by substantial evidence” standard is “so fine that (apart from the present case) we have failed to uncover a single instance in which a reviewing court conceded that use of one standard rather than the other would in fact have produced a different outcome”).

Federal Circuit as if the court and its supporters, rather than Mary Zurko, were parties to the case.<sup>55</sup>

### 3. The Scope of Rulemaking Authority

After the PTO received heightened deference in *Zurko* for its factual findings, the next logical step for it was to seek to solidify and expand the scope of its rulemaking authority. First the PTO presented its case before Congress. In 2007, the PTO thanked Congress for proposing legislation, the Patent Reform Act of 2007,<sup>56</sup> that would grant it the power “to promulgate such rules, regulations and orders that the Director determines appropriate to carry out the provisions of Title 35 or any other applicable law,” arguing that it “has long believed that rulemaking authority is beneficial to the patent system.”<sup>57</sup> Despite passing the House of Representatives, the proposed legislation ultimately failed to be enacted, but the PTO has not given up.

The latest incarnation of the debate over the proper scope of PTO rulemaking power involves the question of when patent rules are substantive and when they are procedural. The PTO has regulatory authority to enact rules governing “the conduct of [its internal] proceedings,”<sup>58</sup> but the line between establishing procedural rules and engaging in substantive legal determinations is not always clear. In August 2007, after a notice and comment period, the PTO announced a set of final rules<sup>59</sup> that it claimed would help streamline the patent approval process and improve its ability to examine patent applications.<sup>60</sup> Among other things, the rules limited the ability of a patent

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<sup>55</sup> See, e.g., *id.* at 154 (“The Federal Circuit rests its claim for an exception upon § 559.”); *id.* at 164 (“Second, the [Federal] Circuit and its supporting *amici* believe that a change to APA review standards will create an anomaly.”); *id.* at 165 (“Finally, the [Federal] Circuit reasons that its stricter court/court review will produce better agency factfinding.”).

<sup>56</sup> See H.R. 1908, 110th Cong. (2007).

<sup>57</sup> See Letter from John J. Sullivan, Gen. Counsel, U.S. Dep’t of Commerce, to the Honorable Howard L. Berman, Chairman, Subcomm. on Courts, the Internet, and Intellectual Prop., Comm. on the Judiciary, U.S. House of Representatives 9 (May 16, 2007) (on file with author) [hereinafter Sullivan Letter] (presenting the views of the Department of Commerce and the PTO on H.R. 1908, the proposed Patent Reform Act of 2007).

<sup>58</sup> 35 U.S.C. § 2(b)(2)(A) (2006).

<sup>59</sup> Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 46,716 (Aug. 21, 2007) (codified at 37 C.F.R. pt. 1 (2008)).

<sup>60</sup> See *id.* at 46,716 (explaining that the “changes will mean more effective and efficient examination for the typical applicant”).

applicant to file continuation or continuation-in-part applications,<sup>61</sup> limited the number of claims that could be included in a patent application,<sup>62</sup> and increased the burdens on applicants to disclose information about the invention.<sup>63</sup> Both sets of rules were to be retroactive.<sup>64</sup> The proposed rules were challenged by parties claiming that the rules were “unlawful agency action under subsection 706(2) of the APA”<sup>65</sup> in the United States District Court for the Eastern District of Virginia, which found that the new rules exceeded the PTO’s rulemaking authority.<sup>66</sup>

Upon appeal, the Federal Circuit ruled in *Tafas v. Doll* that the PTO had the authority to establish regulations that “govern the conduct of proceedings in the office,” that “facilitate and expedite the processing of patent applications,” and that “govern the recognition and conduct of agents, attorneys, or other persons representing applicants or other parties” before it.<sup>67</sup> Within these boundaries, the court stated that it would grant *Chevron* deference to the PTO’s “interpretation of statutory provisions that relate to the exercise of delegated authority.”<sup>68</sup> The Federal Circuit, however, agreed with the district court that the patent statute “does not vest the USPTO with any general

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<sup>61</sup> See 37 C.F.R. § 1.78(d)(1)(i)–(iii) (permitting an applicant, as a matter of right, to file two continuation or continuation-in-part applications, plus a single request for continued examination (RCE), after an initial application); *id.* § 1.114(f) (stating the conditions under which a petition is not necessary to request continued examination). If the applicant wanted to continue engaging in prosecution of the application, the applicant would have to petition to do so. See *id.* § 1.78(d)(1)(vi) (“A petition must be filed in such nonprovisional application that is accompanied by the fee set forth in § 1.17(f) and a showing that the amendment, argument, or evidence sought to be entered could not have been submitted during the prosecution of the prior-filed application.”); *id.* § 1.114(g) (requiring that the petition show why the “amendment, argument, or evidence . . . could not have been submitted prior to the close of prosecution in the application”).

<sup>62</sup> See *id.* § 1.75(b)(1) (permitting an applicant to present a maximum of five independent claims or twenty-five total claims for examination unless additional information is filed).

<sup>63</sup> See *id.* (requiring an applicant who wants to exceed the limitations to submit an “examination support document”).

<sup>64</sup> See Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. at 46,716-17 (breaking down the applicability dates by section).

<sup>65</sup> *Tafas v. Dudas*, 541 F. Supp. 2d 805, 808 (E.D. Va. 2008), *vacated in part sub nom. Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009).

<sup>66</sup> *Id.* at 817.

<sup>67</sup> 559 F.3d at 1351-52 (quoting 35 U.S.C. § 2(b)(2) (2006)).

<sup>68</sup> *Id.* at 1354.



substantive rulemaking power,”<sup>69</sup> stating that such a principle was “amply supported by our precedent.”<sup>70</sup>

To determine whether the Final Rules were substantive or procedural, the Federal Circuit chose to follow *JEM Broadcasting Co. v. FCC*.<sup>71</sup> In *JEM*, the D.C. Circuit found new rules to be procedural because they did not “foreclose effective opportunity to make one’s case on the merits.”<sup>72</sup> Under the *JEM* framework, the Federal Circuit concluded, the PTO’s Final Rules did not “‘foreclose effective opportunity’ to present patent applications for examination”—they only required applicants to exert more efforts to comply.<sup>73</sup> Although it found the Final Rules in *Tafas* to be procedural, the Federal Circuit left the door open for future challenges to PTO-proposed rules, stating that “an agency’s determination of the scope of its own authority is not entitled to *Chevron* deference.”<sup>74</sup>

The PTO spun the outcome in *Tafas* as a victory, stating that it was “pleased that the United States Court of Appeals for the Federal Circuit confirmed that the Final Rules are within the agency’s rulemaking authority and that the rules regarding requests for continued examination, claims, and examination support documents are consistent with the law.”<sup>75</sup>

*Tafas* represents an expansion in power for the PTO in some ways, but the result is not as favorable as the PTO wanted. Most obviously, one of the four rules proposed by the PTO was struck down by the Federal Circuit, even though it was procedural, because it “attempt[ed] to add an additional requirement [for filing third and subsequent continuation applications]—that the application not contain amendments, arguments, or evidence that could have been submitted earlier—that is foreclosed by the statute.”<sup>76</sup> Despite being urged by the PTO and several amici to give the PTO deference on its interpretation of the statute, the Federal Circuit declined to do so. More sub-

<sup>69</sup> *Id.* at 1352 (quoting *Tafas*, 541 F. Supp. 2d at 811).

<sup>70</sup> *Id.*

<sup>71</sup> 22 F.3d 320 (D.C. Cir. 1994).

<sup>72</sup> *Id.* at 327-28 (quoting *Lamoille Valley R.R. Co. v. Interstate Commerce Comm’n*, 711 F.2d 295, 328 (D.C. Cir. 1983)).

<sup>73</sup> *Tafas*, 559 F.3d at 1356 (quoting *JEM*, 22 F.3d at 328).

<sup>74</sup> *Id.* at 1353.

<sup>75</sup> See Paul Devinsky & Nathaniel McQueen, *Tafas v. Doll: Patent Rules Given New Life by Federal Circuit*, MONDAQ, Mar. 30, 2009, <http://www.mondaq.com/article.asp?articleid=76908> (quoting a PTO press release).

<sup>76</sup> *Tafas*, 559 F.3d at 1360.

tly, the framework used by the Federal Circuit to determine whether future PTO-proposed rules are procedural or substantive continues to allow the court to oversee the PTO. By announcing that the PTO did not have the ability to determine the scope of its own authority—a view about which the Federal Circuit admitted that “the majority of the Supreme Court has not yet spoken”—the court left the door open for future refusals to grant deference to PTO rulemaking.<sup>77</sup> In the long run, the significance of the PTO’s gains under *Tafas*, like those under *Zurko*, may be more symbolic than substantive.

Some commentators have advocated in favor of expanding the scope of PTO rulemaking authority, proposing that the Federal Circuit ought to review the PTO’s interpretations of the Patent Act using the framework set forth in *Chevron* for questions of law and mixed questions of law and fact.<sup>78</sup> Under a broad reading of *Chevron*, the PTO would assume the primary responsibility for interpreting the Patent Act when the statutory term at issue is ambiguous or the Act is silent regarding its meaning—an interpretive role traditionally reserved for the Federal Circuit as an Article III court.<sup>79</sup> This would, at least in theory, constitute a shift in power from the Federal Circuit to the PTO. Whether this would actually constitute a shift in power is a different matter.<sup>80</sup>

Many of the most important provisions of the Patent Act are fraught with textual ambiguity. Words such as “nonobvious,” “used,” “process”—and for the epistemologically minded, “known”—appear

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<sup>77</sup> *Id.* at 1353.

<sup>78</sup> See, e.g., Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 OHIO ST. L.J. 1415, 1423 (1995) (arguing for heightened deference on the part of the Federal Circuit to the PTO to produce an “optimal balance of interpretive power”); Arti Rai, *Addressing the Patent Gold Rush: The Role of Deference to PTO Patent Denials*, 2 WASH. U. J.L. & POL’Y 199, 221-26 (2000) (promoting application of the *Chevron* standard to the “central patentability question of nonobviousness”).

<sup>79</sup> See *Chevron U.S.A. Inc. v. Natural Res. Def. Council*, 467 U.S. 837, 843 n.9 (1984) (“The judiciary is the final authority on issues of statutory construction and must reject administrative constructions which are contrary to clear congressional intent.”).

<sup>80</sup> Some commentators think that *Chevron*’s impact is not all it has been cracked up to be. See, e.g., William N. Eskridge, Jr. & Lauren E. Baer, *The Continuum of Deference: Supreme Court Treatment of Agency Statutory Interpretations from Chevron to Hamdan*, 96 GEO. L.J. 1083, 1090 (2008) (“[W]e conclude there has not been a *Chevron* ‘revolution’ at the Supreme Court level.”); Thomas W. Merrill, *Judicial Deference to Executive Precedent*, 101 YALE L.J. 969, 990 (1992) (arguing that the impact of *Chevron* has been overstated and that “post-*Chevron* decisions explicating the meaning of *Chevron* reveal much that calls into question the Court’s fidelity to the doctrine”).

throughout the Patent Act.<sup>81</sup> Congress quite notably spoke directly to few questions of patent law when it wrote the Patent Act in 1952.<sup>82</sup> In the absence of such direction, *Chevron* would give the PTO potentially broad power to interpret the Patent Act.<sup>83</sup> For example, the PTO could raise or lower the threshold at which an invention is declared obvious by altering its definition of the word “obvious” or by redefining the word “process” to declare subject matter off limits.

Not surprisingly, the Federal Circuit has resisted this notion, not just in *Tafas* but elsewhere, commenting that the PTO “does not earn *Chevron* deference on questions of substantive patent law.”<sup>84</sup> As the court has explained, “the broadest of the PTO’s rulemaking powers . . . authorizes the Commissioner to promulgate regulations directed only to ‘the conduct of proceedings in the [PTO]’; it does NOT grant the Commissioner the authority to issue substantive rules,” and since “Congress has not vested the Commissioner with any general substantive rulemaking power . . . the rule of controlling deference set forth in *Chevron* does not apply.”<sup>85</sup> Such resistance on the part of the Federal Circuit to applying *Chevron* to PTO patent decisions does not apply to other administrative bodies—including the trademark side of the PTO—that come before the court.<sup>86</sup> As Craig Nard notes, Federal Circuit panel majorities have not just cited *Chevron* but have applied it to many other adjudicative bodies, including the International Trade Commission, the Merit Systems Protection Board, the Court of Federal Claims, the Board of Contract Appeals, the Court of Veterans Appeals, and the International Trade Administration.<sup>87</sup>

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<sup>81</sup> See, e.g., 35 U.S.C. § 102 (2006) (“A person shall be entitled to a patent unless— (a) the invention was known or used by others in this country . . . .”); *id.* § 103(b)(1) (providing the circumstances under which “a biotechnological process . . . shall be considered nonobvious”).

<sup>82</sup> Giles S. Rich and Pat Federico were the actual drafters of the Patent Act. See Giles S. Rich, *Why and How Section 103 Came To Be*, 14 FED. CIR. B.J. 181, 181-82 (2004).

<sup>83</sup> See 467 U.S. at 843 (asserting that “if the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency’s answer is based on a permissible construction of the statute”).

<sup>84</sup> *Brand v. Miller*, 487 F.3d 862, 869 n.3 (Fed. Cir. 2007).

<sup>85</sup> *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549-50 (Fed. Cir. 1996) (quoting *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991)).

<sup>86</sup> See, e.g., *Eastman Kodak Co. v. Bell & Howell Document Mgmt. Prods. Co.*, 994 F.2d 1569, 1571-72 (Fed. Cir. 1993) (applying the *Chevron* test to the PTO’s construction of the Lanham Act).

<sup>87</sup> Nard, *supra* note 78, at 1432-33.

### B. Funding

The PTO has not just been active in the legal arena in its attempts to expand its influence. It has also been working hard on the financial and public relations fronts to gain more control over, and expand, its budget. We should not be surprised that the PTO would be trying to expand its budget: funding is important to the life and influence of any agency.<sup>88</sup> We don't often think of regulatory institutions as appealing to their constituencies—indeed, agency entanglement with the community it is supposed to regulate is usually portrayed in the literature as being more of a demand-side initiative—but inviting capture is precisely what the PTO did in the 1990s, taking its appeals directly to the regulated community.<sup>89</sup>

After a series of legislative provisions throughout the 1990s allowed Congress to use the PTO as a revenue generator, one of the top-priority items for the PTO became gaining more control over its budget. In 1990, Congress passed the Omnibus Budget Reconciliation Act (OBRA),<sup>90</sup> which, among other things, required the PTO to fund its operations through fees that it collected from its users.<sup>91</sup> In addition, from fiscal year (FY) 1991 to FY 1999,<sup>92</sup> OBRA imposed a sixty-nine percent surcharge on top of both patent application and issuance fees.<sup>93</sup> Fees collected from users were “available [to the PTO] until expended,” whereas surcharge revenue was not.<sup>94</sup> As a result, the

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<sup>88</sup> See, e.g., WILLIAM A. NISKANEN, JR., BUREAUCRACY AND REPRESENTATIVE GOVERNMENT 81 (1971) (hypothesizing that agencies attempt to maximize the size of their budgets).

<sup>89</sup> Let me reiterate that the PTO is not truly a regulatory institution in the sense that the EPA, for example, is a regulatory institution. See Kerr, *supra* note 5 and accompanying text.

<sup>90</sup> Pub. L. No. 101-508, 104 Stat. 1388 (1990).

<sup>91</sup> See, e.g., H.R. REP. NO. 102-382, at 7-8 (1991), *reprinted in* 1991 U.S.C.C.A.N. 1320, 1322-23 (noting the drastic fee increase imposed by OBRA); H.R. REP. NO. 101-881, at 159 (1990), *reprinted in* 1990 U.S.C.C.A.N. 2017, 2167 (“The purpose of this title is to make the Patent and Trademark Office self-sufficient by imposing a surcharge on user fees . . .”). An exception is PTO employee benefits, which are administered by the Office of Personnel Management. See H.R. REP. NO. 101-881, at 162 (1990), *reprinted in* 1990 U.S.C.C.A.N. 2017, 2170 (noting that fees will be credited to PTO salaries and expense accounts).

<sup>92</sup> The federal government's fiscal year runs from October 1 to September 30. Fiscal year 2001, for example, covers the period from October 1, 2000 to September 30, 2001.

<sup>93</sup> § 10101(a), 104 Stat. at 1388-391 (codified at 35 U.S.C. 41 note (2006)).

<sup>94</sup> Consolidated Appropriations Act, 2004, Pub. L. No. 108-199, 118 Stat. 3, 69. Starting in FY 1992, Congress withheld surcharge revenue from PTO appropriations and used that revenue for other programs.

PTO became entirely self-funded, with Congress taking its cut of the money that the PTO raised.

In 1993, the year Bruce Lehman became Commissioner of the PTO, the Office began sending glossy informational brochures about itself to patent prosecutors, law firms, and firms in the technological community.<sup>95</sup> The first such publication was given the rather dull title of “Annual Report,” but the brochures quickly became more overtly promotional. Starting the following year, the brochures began referring to inventors as “customers.”<sup>96</sup> They stated that the PTO’s mission was to “help our customers get patents”<sup>97</sup> and to “ensure strong intellectual property protection for all Americans.”<sup>98</sup> The PTO announced that it could serve its “customers” better if only it had a bigger budget, more office space, more control over its internal operations, executive branch agency status, and other items it identified on its wish list.<sup>99</sup> At the same time, the PTO declared that one of its goals was to come to “play a leadership role in intellectual property rights policy”<sup>100</sup> and to achieve “greater partnering with industry.”<sup>101</sup>

The Washington, D.C. policy community took notice quickly. Previously, the PTO had been an unfashionable backwater, a bureau of the Department of Commerce that was perpetually underfunded,

<sup>95</sup> See U.S. PATENT & TRADEMARK OFFICE, ASSISTANT SECRETARY OF COMMERCE AND COMMISSIONER OF PATENTS AND TRADEMARKS: ANNUAL REPORT, FISCAL YEAR 1993 [hereinafter 1993 REPORT].

<sup>96</sup> See U.S. PATENT & TRADEMARK OFFICE, WORKING FOR OUR CUSTOMERS: A PATENT AND TRADEMARK OFFICE REVIEW, FISCAL YEAR 1994 *passim* [hereinafter 1994 REPORT].

<sup>97</sup> U.S. PATENT & TRADEMARK OFFICE, A PATENT AND TRADEMARK OFFICE REVIEW: CREATING A PATENT AND TRADEMARK SYSTEM FOR THE 21ST CENTURY, FISCAL YEAR 1997, at 8 [hereinafter 1997 REPORT].

<sup>98</sup> 1994 REPORT, *supra* note 96, at 1. One wonders about non-U.S. residents, who at that time filed almost half of all patent applications. See *id.* at 63 tbl.2, 67 tbl.11 (showing that non-U.S. residents filed 83,920 out of 201,554 patent applications, or 41.6%, in 1994); see also 1997 REPORT, *supra* note 97, at 85, 89 (showing that non-U.S. residents filed 102,249 out of 237,045 patent applications, or 43.1%, in 1997).

<sup>99</sup> See, e.g., U.S. PATENT & TRADEMARK OFFICE, SETTING THE COURSE FOR OUR FUTURE: A PATENT AND TRADEMARK OFFICE REVIEW, FISCAL YEAR 1995, at 36 [hereinafter 1995 REPORT] (listing “long-term space needs, restrictions in the number of PTO employees, and continued diversion of funds by Congress” as “critical areas for financial and management improvement”).

<sup>100</sup> 1997 REPORT, *supra* note 97, at 6; 1995 REPORT, *supra* note 99, at 5, 11-12; see also 1994 REPORT, *supra* note 96, at 1 (“[T]he PTO seeks to play a leadership role in . . . develop[ing] . . . strong intellectual property protection.”).

<sup>101</sup> See, e.g., U.S. PATENT & TRADEMARK OFFICE, IDEAS THAT BECOME VALUABLE INNOVATIONS: A PATENT AND TRADEMARK OFFICE REVIEW, FISCAL YEAR 1998, <http://www.uspto.gov/go/com/annual/1998/a98r-toc.htm/> (last visited Apr. 15, 2009) (follow “Patents” or follow “Innovators and Innovations”).

understaffed, and overlooked. That began to change. As early as 1994, *The National Law Journal* named Lehman “Lawyer of the Year,” stating that he “has brought his job—and U.S. intellectual property policy—to an unprecedented level of importance.”<sup>102</sup>

The PTO’s financial position steadily improved as various interest groups began to take up the cause of the PTO. Figure 1 shows the amounts of PTO funding, along with PTO’s workload, from 1976 onward. As can be seen from the figure, the increase in the PTO’s annual budget allocation has steadily outstripped the increase in the number of patents filed and has greatly outstripped the increase in the number of patents issued.<sup>103</sup> Part of this is due to the PTO’s internal operations becoming more computerized and technologically driven. Even taking this into account, the increase in the budget has been notable.

Funding issues have continued to be a hot-button topic. The PTO has tried to use soft rhetoric in its communications with the inventive community. Rather than call the money it charged patent applicants “fees,” the PTO came to refer to them as “Revenues from Sales of Goods and Services to the Public,”<sup>104</sup> and, later, “Earned Revenue.”<sup>105</sup> When the OBRA provisions sunsetted in FY 1999, Congress began limiting the amount of patent fees that the PTO was authorized to spend each year,<sup>106</sup> a practice referred to by the patent community as “fee diversion.” In addition, that same year Congress approved “rescissions” of the PTO’s authority to spend some of the patent fees it charged, instead skimming off the revenues and using them to fund other items in the federal budget.<sup>107</sup> Over the next several years, the inventive

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<sup>102</sup> *Lawyer of the Year: Bruce Lehman: Reinventing the Patent Office*, NAT’L L.J., Dec. 26, 1994, at C10.

<sup>103</sup> Note that this funding is for the PTO as a whole, including the Trademark Office.

<sup>104</sup> *See, e.g.*, 1995 REPORT, *supra* note 99, at 50.

<sup>105</sup> *See, e.g.*, U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2002, at 50.

<sup>106</sup> *See, e.g.*, United States Patent and Trademark Office Reauthorization Act, Fiscal Year 1999, Pub. L. No. 105-358, sec. 3(b), 112 Stat. 3272, 3273-74 (1998) (codified as amended at 35 U.S.C. § 41(b) (2006)).

<sup>107</sup> The rescinded money was used for such purposes as deficit reduction, *see* Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Pub. L. No. 105-277, 112 Stat. 2681 (1998), subsidies to the steel, coal, and oil industries, *see* Emergency Oil and Gas Guaranteed Loan Program Act, Pub. L. No. 106-51, § 202(a), 113 Stat. 252, 258, appropriations for homeland security programs, *see* 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States, Pub. L. No. 107-206, § 1403(a), 116 Stat. 820, 898, and a

community came to support the PTO as it advocated hard to end fee diversion.<sup>108</sup> The combination of the PTO and the inventive community lobbying has succeeded in convincing Congress each year since 2005 to refrain from diverting fees for that year.

Notable gains to the PTO came not just in the form of an increasing budget, but also in its internal organization and ability to control its finances. In 2000, the PTO became an executive branch agency and the position of head of the PTO was elevated from mere commissioner to “Under Secretary of the Department of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.”<sup>109</sup> In 2004, the PTO moved into the new campus built for it in Alexandria, Virginia, almost doubling the amount of space allocated to it relative to its previous location.<sup>110</sup> In the 2009 fiscal year, the Senate funded the PTO at \$2.075 billion.<sup>111</sup> For the fourth year in a row, the PTO was allowed to keep the money it charged users.<sup>112</sup> In short, there is nothing on the PTO’s wish list from the mid-1990s that it has not received a decade later.

Much of the credit for these benefits can be laid directly at the feet of various interest groups that have lobbied on behalf of increasing the PTO’s budget and ending fee diversion: the American Bar Association, the American Intellectual Property Law Association, Amgen, the Biotechnology Industry Organization (BIO), the Intellectual Property Owners Association (IPO), Microsoft Corporation, the National Association of Manufacturers (NAM), the National Research Council, and the U.S. Chamber of Commerce, to name a few.

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variety of federal programs, *e.g.*, District of Columbia Appropriations Act, 2000, Pub. L. No. 106-113, app. E § 301(a), 113 Stat. 1501, 1501A-303 (1999).

<sup>108</sup> *See, e.g.*, Press Release, Am. Bar Ass’n, PTO Fee Diversion Costs Jobs: Bar, Industry United Against Diversion (Apr. 2003), *available at* <http://www.abanet.org/intelprop/feediversion.pdf> (“All of the major bar association groups in the IP arena, and the clients they represent, stand united: *PTO fee diversion must come to an end.*”).

<sup>109</sup> *See* AIPA, Pub. L. No. 106-113, sec. 4713, 113 Stat. 1501A-552, 1501A-575 (1999) (codified as amended at 35 U.S.C. § 3).

<sup>110</sup> U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2004, at 12 [hereinafter 2004 REPORT].

<sup>111</sup> *See* WILLIAM J. KROUSE & EDWARD VINCENT MURPHY, CONG. RES. SERV., CRS REPORT FOR CONGRESS, COMMERCE, JUSTICE, SCIENCE AND RELATED AGENCIES: FY 2009 APPROPRIATIONS 21 (2008), *available at* <http://ncseonline.org/NLE/CRSreports/08Aug/RL34540.pdf>.

<sup>112</sup> *See Hatch Draws Attention to PTO Diversion with Amendment*, CONGRESSDAILY, Mar. 17, 2008, [http://www.nationaljournal.com/congressdaily/dj\\_20080317\\_9.php](http://www.nationaljournal.com/congressdaily/dj_20080317_9.php).

Having proven itself eager “to address issues raised by intellectual property stakeholders,”<sup>113</sup> the PTO has basked in the appreciation of the inventive community. The PTO has noted that “[o]ur patent customers told us: ‘I am pleased with the customer approach to processing patent applications as opposed to the previous, sometimes adversarial approach.’ [And] ‘[e]xaminers seem flexible and interested in working with applicants to allow patentable subject matter to grant.’”<sup>114</sup> The PTO has declared new subject matter benefiting sectors that supported it to be patent-eligible (thereby also increasing the fees it can gather) and established and further solidified internal procedures that make granting patents, rather than denying them, the default rule.<sup>115</sup>

The PTO has become bolder and bolder over the past decade, to the point where it is getting more aggressive and litigious in attempting to get what it wants. I predict that the PTO will continue to attempt to increase its market share as a supplier of legal rules. This does not necessarily mean that the PTO will always attempt to strengthen patent protection or broaden the scope of patent-eligible subject matter, however. As the PTO itself has recognized, it can get support from the inventive community, or at least deflect some criticism, by making the process of getting patents more rigorous. Some commentators have said of the changes to the PTO’s budgetary rules and of the PTO’s attempts to become financially self-sufficient: “It is now apparent that these seemingly mundane procedural changes, taken together, have resulted in the most profound changes in U.S. patent policy and practice since 1836.”<sup>116</sup>

### III. THE UPSHOT

While we often think of agency entanglement with the constituency it is supposed to regulate as an unalloyed bad, there are some

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<sup>113</sup> U.S. PATENT & TRADEMARK OFFICE, FISCAL YEAR 2006 PRESIDENT’S BUDGET REQUEST 21 (describing the *21st Century Strategic Plan* as “a multi-year plan that identifies critical tasks designed to provide the USPTO and external stakeholders with a long-term vision of agency goals, potential funding levels, and planned outcomes”).

<sup>114</sup> Q. Todd Dickinson, *Commissioner’s Page*, PTO TODAY (USPTO), Jan. 2000, at 2, <http://www.uspto.gov/web/offices/ac/ahrpa/opa/ptoday/ptoday01.pdf>.

<sup>115</sup> See John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 324-25 (noting that the method of calculating disposal of applications and the requirement to indicate reasons for rejections encourage examiners to allow patents to issue).

<sup>116</sup> JAFFE & LERNER, *supra* note 12, at 2.



benefits that have come out of the PTO's attempts to increase its influence. The PTO's attempts to appeal to the inventive community have resulted in more resources being funneled to the PTO, more air-time being given to some of the problems that plague the PTO, and more rigorous debate about the faults and flaws of the patent system. At the same time, there are dangers to the PTO's expanded power. In this Part, I discuss a few of the benefits and concerns surrounding an expanded sphere of influence for the PTO.

#### A. *Transparency*

Accusations that the PTO is behaving self-interestedly are nothing new. Within a few years of the PTO's creation by the Jackson administration in 1836,<sup>117</sup> U.S. Congressman Thomas W. Gilmer accused the then-Patent Office, among other entities, of obstructing Congress's attempts to determine how the Patent Office might reduce its own expenditures.<sup>118</sup> What is new is the PTO's appeal to the inventive community in its quest to expand its role in the market for influence.<sup>119</sup>

We can think of the PTO's annual reports as an attempt to improve rapport with the inventive community. One of the explicit functions of the reports is to demonstrate that the PTO sees itself as sympathetic to the concerns of the inventive community. As the PTO itself has said of one of the communications it sent to the patent community: "The *21st Century Strategic Plan* is a five-year plan that identifies critical tasks designed to provide the USPTO and external stakeholders with a long-term vision of agency goals, potential funding levels, and planned outcomes."<sup>120</sup> It also described the same document as having been created "in order to address issues raised by intellectual property stakeholders."<sup>121</sup> One of the advantages of the publication of such information is that it functions as a form of informative, and not entirely cheap, speech. The reports transmit in-

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<sup>117</sup> See Patent Act of 1836, ch. 357, 5 Stat. 117 (establishing the Patent Office, the predecessor of the PTO).

<sup>118</sup> See Jerry L. Mashaw, *Administration and "The Democracy": Administrative Law from Jackson to Lincoln, 1829-1861*, 117 YALE L.J. 1568, 1669 (2008) (stating that "Congress was, as always, suspicious that administrators were wasting government money").

<sup>119</sup> One of the first discussions of agency capture can be found in MARVER H. BERNSTEIN, *REGULATING BUSINESS BY INDEPENDENT COMMISSION* 3-4, 90, 284 (1955). Bernstein argued that in the later part of an agency's life cycle, the agency often becomes closely entangled with the industry it is supposed to regulate.

<sup>120</sup> 2004 REPORT, *supra* note 110, at 51.

<sup>121</sup> *Id.*

formation about the PTO's positions on a variety of important patent policy, legal, and financial matters. Much of the information conveyed in the reports is subject to external verification. The PTO has become much more forthcoming about information pertaining to its internal operations. As a result, although the PTO started out as an experience good, over time it has become more like a search good, at least with respect to its policies.<sup>122</sup> If the information that the PTO reveals is costly speech that is accurate, verifiable, and provides greater institutional transparency, this creates a social benefit. This is the optimistic view.

The less optimistic view is that the PTO could behave strategically in the way it presents information to the inventive community, thus reducing institutional transparency. While it is unlikely that the PTO would use its communications with the inventive community to make outright misstatements of fact, the PTO could use its annual reports to draw attention away from policy problems by focusing the discussion on issues that redound to its benefit or appear benign. The PTO has already proven itself quite adept at using euphemistic language, such as calling user fees "Revenues from Sales of Goods and Services to the Public."<sup>123</sup> And although the PTO has modified its rhetoric somewhat in recent years, even in 2008 it was still referring to inventors as "customers,"<sup>124</sup> talking about the "tremendous ingenuity of American inventors,"<sup>125</sup> and stating that it desired to "promote still greater collaboration between the USPTO and its customers."<sup>126</sup> Clearly, the PTO is concerned about being in the good graces of the inventive community, and such a desire creates incentives for the PTO to behave strategically.

While much of the information that the PTO reveals in its annual reports is verifiable, what is less verifiable is the nature of the information that the PTO leaves out of the reports. For instance, the "count system"—the metric used to measure patent examiners' productivity—has long been the bane of the PTO's internal operating procedure and a source of bias in the way that the PTO reviews patent applications. The PTO's annual reports give the count system short shrift.

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<sup>122</sup> See Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311, 312 (1970) (defining experience goods, search goods, and inspection goods).

<sup>123</sup> See *supra* notes 104-106 and accompanying text.

<sup>124</sup> U.S. PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FOR FISCAL YEAR 2008 *passim* [hereinafter 2008 REPORT].

<sup>125</sup> *Id.* at 34.

<sup>126</sup> *Id.* at 7.

Indeed, the PTO has been quite secretive about this weakness for many years, an omission that was only partially redressed in a report by the U.S. Department of Commerce's Office of Inspector General.<sup>127</sup> Internal PTO practices create a bias in favor of granting patents. Patent examiners have quarterly performance quotas that they need to meet, each of which gives each examiner a short period of time to review each patent application.<sup>128</sup> How much time examiners have to review the technology varies according to the "technology center," or technological subdivision, within the PTO, but estimates vary from eight to twenty-five hours.<sup>129</sup> At different points in the prosecution process, examiners have incentives to reject or grant patents in order to meet their performance quotas. Because one of the metrics by which examiners are evaluated is the final disposition of patent applications, examiners have the incentive to grant a patent after two office actions (rounds of communication with the patent applicant).<sup>130</sup> As a result, the count system is an important part of PTO operating procedures. Because it affects the speed and order in which examiners prosecute applications, the intricacies of the count system are a matter of interest to the inventive community.

The PTO might also attempt to manipulate the inventive community with the information that it releases, or frame its communications in a way that makes the PTO's positions seem more aligned with the interests of the inventive community than they really are. For instance, while recent reports have been admirably candid about some of the quality-control problems facing the PTO, they have shaded the nature of the position that the PTO took before Congress regarding the scope of its rulemaking authority. Whereas the PTO told Congress that "rulemaking authority is beneficial to the patent system," that it "welcomes authority that is necessary to promulgate regulations to ensure an efficient and quality-based patent examination process,"

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<sup>127</sup> See, e.g., OFFICE OF INSPECTOR GEN., U.S. DEP'T OF COMMERCE, USPTO SHOULD REASSESS HOW EXAMINER GOALS, PERFORMANCE APPRAISAL PLANS, AND THE AWARD SYSTEM STIMULATE AND REWARD EXAMINER PRODUCTION 7-8 (2004) (noting that individual examiner productivity is measured by the number of first office actions and disposals).

<sup>128</sup> See, e.g., *id.* at 8 (detailing examiners' two-week production goals).

<sup>129</sup> See FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY ch. 5, at 5 (2003) (providing estimates from panelists of the range of time for patent examinations).

<sup>130</sup> See Thomas, *supra* note 115, at 324-25 (explaining how the docket management system has led many to believe that examiners are encouraged to allow patent applications to issue).

and that it “thank[s] Congress for suggesting appropriate authority for the USPTO,”<sup>131</sup> the following year the PTO downplayed its position when communicating with the inventive community, saying that it merely sought “specific authority to eliminate, set, or otherwise adjust patent and trademark filing and processing fees subject to appropriate oversight and comment by the Patent Public Advisory Committee, the Trademark Public Advisory Committee, stakeholders, and Congress.”<sup>132</sup> There is a reason that the PTO has remained quiet about this goal before the audience of the inventive community: expanding the PTO’s rulemaking capacity is a divisive issue within the inventive community, with vocal opinion running against it.<sup>133</sup> Unlike requests that the PTO has made in the past for the inventive community to support it in matters like executive branch agency status or an end to fee diversion, the PTO is unlikely to bring the inventive community around to its point of view on the matter of legal deference any time soon.

### B. *Capture and Institutional Bias*

The PTO’s attempts to woo the inventive community present the obvious danger of the PTO being captured by the very group that it is supposed to regulate. The PTO’s legal and budgetary gains, coupled with its desire to stay in the inventive community’s good graces, make it an attractive target for capture. From the perspective of patent applicants, even a small amount of influence over the process by which patents are granted could be quite valuable.

While in theory the likelihood of PTO capture may be high, as one would expect from an agency funded entirely by the constituency that it regulates, in reality the probability of capture is lower than it would at first appear. Several factors reduce the possibility of capture. First, the major interest groups with something at stake in patent law—the pharmaceutical industry and the software industry—have

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<sup>131</sup> Sullivan Letter, *supra* note 57, at 9.

<sup>132</sup> 2008 REPORT, *supra* note 124, at 34.

<sup>133</sup> Amicus briefs in *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009), ran thirteen-to-two against the PTO. The amicus briefs in support of *Tafas* were filed by the American Intellectual Property Law Association; the Biotechnology Industry Organization (BIO); Cantor Fitzgerald Patent Holdings (CFPH); Elan Pharmaceuticals, Inc.; Intellectual Ventures, et al.; the Intellectual Property Owners Association (IPO); Robert Lelkes; Licensing Professionals; Monsanto; the New York Intellectual Property Law Association (NYIPLA); the Pharmaceutical Research and Manufacturers of America (PhRMA); SonicWALL et al.; and the William Mitchell College of Law Intellectual Property Institute. The two briefs in support of the PTO were filed by Intellectual Property and Administrative Law Professors and by the Public Patent Foundation et al.

generally proven to be well-organized and balanced on opposite sides of many key issues in patent law and policy.<sup>134</sup> This makes capture of the PTO by one industry or interest group less likely. Second, the inventive community has not been particularly interested in capturing the agency.

Interest groups have generally been more supportive of the PTO before Congress on financial matters than on legal matters. Perhaps this is because the PTO has appealed to the inventive community much more often, and more passionately, for support on issues regarding financial resources and physical plant needs. Only rarely, such as when it wanted to be elevated to executive agency status, has the PTO taken its case to the inventive community on legal matters. But the types of issues on which the inventive community chooses to support the PTO are likely determined more by the inventive community itself than by the PTO. Perhaps the inventive community prefers to support the PTO on financial matters because it distrusts the PTO's judgment on legal issues and sees its support on financial matters as a way of keeping the PTO on a short leash. The types of issues on which the inventive community has consistently supported the PTO tend to be ephemeral, requiring the PTO to go back to Congress periodically, rather than ones that would give the PTO permanent benefits. If the inventive community refrains from supporting expansions of PTO power because it distrusts the PTO's judgment, and if the support of the inventive community is necessary for the PTO to get what it wants from Congress, then the inventive community is acting as a check on PTO power. But if the inventive community refrains from supporting the PTO on issues that would expand the PTO's power permanently in order to keep the PTO beholden to it, that increases the danger of capture.

The social costs of PTO capture, if it occurred, would likely be smaller than they appear at first blush. The PTO's reach is limited, as it doesn't have regulatory authority over the inventive community in the same way that the Food and Drug Administration can regulate pharmaceutical products or the Environmental Protection Agency can regulate pollution-emission activities.<sup>135</sup> The PTO does not regulate the ongoing use of inventions after a patent is granted. This lessens concerns about the degree to which industry influence over the PTO

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<sup>134</sup> See Clarisa Long, *The Political Economy of Intellectual Property Law* (Nov. 2007) (unpublished manuscript, on file with author).

<sup>135</sup> See Kerr, *supra* note 5 (arguing that the PTO is not a regulatory agency).

would create social harms.<sup>136</sup> Nevertheless, the power to grant patents is an important one, and distortions caused by interest-group influence over the process of examining patents can still cause social harm. Allowing a patent to issue when it should not (a Type I error), as well as denying a patent on an invention that meets all the legal requirements for a patent (a Type II error), can have long-term effects on innovation and the development of technology, especially in infant industries.

Issues of capture aside, there are other concerns about the PTO gaining a larger share of the market for legal influence in patent law. One concern is the potential for PTO bias against certain parties or inventions. The PTO has not attempted to appeal to all applicants equally in its annual reports. Instead, it has focused on inventors who are U.S. citizens, promising to “ensure strong intellectual property protection for all Americans”<sup>137</sup> and reporting that it has “worked to foster innovation among America’s next generation.”<sup>138</sup> Describing itself as “The World’s Best Patent Office,” the PTO has announced that it “educates others about intellectual property protection,” including foreign governments.<sup>139</sup> Residents of foreign countries filed 47.1% of all patent applications in 2007, but perhaps unsurprisingly, this is a constituency that the PTO has not attempted to woo.<sup>140</sup>

In addition to bias in favor of some applicants, the PTO has an incentive to favor patentees over nonpatentees, although both groups have an interest in making sure that the patent system functions well. This is not surprising; nonpatentees are not a constituency of the PTO. At the level of substantive patent policy, the PTO’s budgetary structure creates a bias in favor of granting patents and encouraging inventors to apply for patents. It also creates the incentive for the PTO to favor patentees (who pay fees to the PTO) over nonpatentees (who do not). The size of the PTO’s budget is a function of the filing and maintenance fees that the PTO receives. By reminding its “customers” that it wants to help them get patents, the PTO encourages

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<sup>136</sup> See G. Dosi et al., *How Much Should Society Fuel the Greed of Innovators? On the Relations Between Appropriability, Opportunities and Rates of Innovation*, 35 RES. POL’Y 1110, 1115 (2006) (discussing regulatory capture in heavily regulated industries where innovation is strongly tied to intellectual property rights); see also Michele Boldrin & David K. Levine, *The Economics of Ideas and Intellectual Property*, 102 PROC. NAT’L ACAD. SCI. 1252, 1255 (2005) (discussing the effect of “monopoly creep” on regulatory agencies).

<sup>137</sup> 1994 REPORT, *supra* note 96, at 1.

<sup>138</sup> 2007 REPORT, *supra* note 22, at 3.

<sup>139</sup> 2005 REPORT, *supra* note 22, at 3-4.

<sup>140</sup> See 2008 REPORT, *supra* note 124, at 116 tbl.2, 122 tbl.9 (showing that, in 2007, residents of foreign countries filed 220,432 out of 468,330 applications).

inventors to submit more applications, which results in more revenue from filing fees. Granting more patents yields more maintenance fees. This is yet one more factor undercutting the traditional adversarial relationship that the PTO is supposed to have with patent applicants.

For its part, the PTO stands to benefit from continuing to seek control over more resources. A strategy of appealing to the inventive community for support does not require the PTO to share the resulting legal or financial gains with other institutions. The probability of free-riding by other institutions will be low, since the PTO's gains—whether budgetary or legal—are specific to the PTO. Nor does the PTO face the problem of geographical dispersion, which would raise the costs of coordination and organization.<sup>141</sup> With Congress out of the picture, the PTO faces no oppositional institution in the area of patent prosecution other than the Federal Circuit. A fairly robust (and completely intuitive) finding in the empirical literature is that interest groups fare better if they face no countervailing forces in the political arena.<sup>142</sup> With these incentives, we can expect the PTO to continue to attempt to gain more influence and resources in the market for patent policy and to appeal to the inventive community for support.

#### CONCLUSION

The PTO's attempts to increase its influence have been waged on two fronts: First, the gains that it has made in the legal arena may not have had a large substantive effect, but they have had significant symbolic value. Second, the gains that the PTO has made by appealing directly to the inventive community have been more powerful. When the inventive community has taken the PTO's side before Congress, the results have been impressive. While appeals by an agency to its constituency for support are unusual and present obvious dangers of

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<sup>141</sup> See J. Snyder, *Political Geography and Interest-Group Power*, 6 SOC. CHOICE & WELFARE 103, 105 (1989) (suggesting that geography can raise the costs of organizing but can also bring more resources under an entity's control).

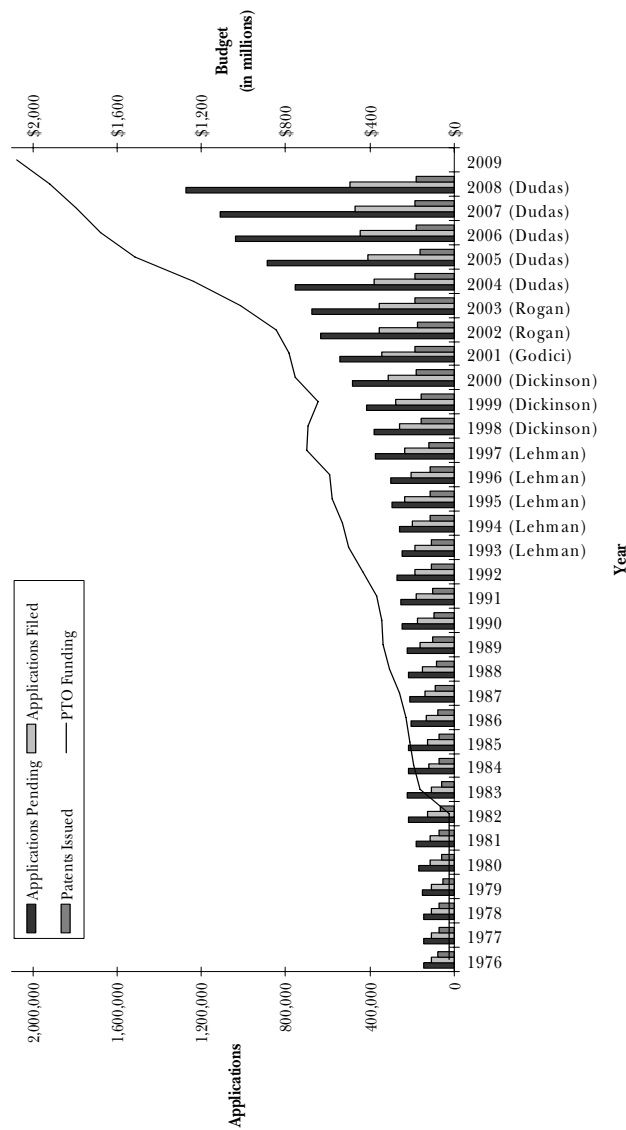
<sup>142</sup> See, e.g., Michel Boucher, *Rent-Seeking and the Behavior of Regulators: An Empirical Analysis*, 69 PUB. CHOICE 51, 65 (1991) (explaining that large trucking firms were more successful in Quebec because of their political effectiveness and better relationship with political regulators); Paul Teske, *Interests and Institutions in State Regulation*, 35 AMER. J. POL. SCI. 139, 151 (1991) (finding that the existence of a state-funded consumer advocacy group reduces the political effectiveness of telecommunication companies' lobbying efforts).

capture and opportunities for bargaining on the part of the regulated community, in the case of the PTO there have been positive benefits. The PTO has become more transparent as part of the tacit bargain that it is attempting to strike with the inventive community. At the same time, however, the PTO has the incentive to be strategic with the information that it reveals so as to present its case in the best light. For its part, the inventive community may function as a check on the PTO, or it may end up enabling the PTO to gain a larger share of the market for influence in patent law. How this ongoing relationship will continue to develop remains to be seen.



APPENDIX

**Figure 1: PTO Funding vs. Backlog, New Filings, and Patents Issued (1976–Present)**<sup>143</sup>



<sup>143</sup> A detailed breakdown of these data appears in Table 1.

**Table 1: United States Patent and Trademark Office  
Funding Levels, 1976–2009**

Year (Director)	PTO Budget (millions) <sup>144</sup>	Surcharge (millions) <sup>145</sup>	Patent Applications Filed <sup>146</sup>	Patents Granted	Backlog <sup>147</sup>
1976	\$25	0	109,227	80,735	142,379
1977	\$25	0	109,773	72,832	144,542
1978	\$25	0	108,744	70,320	144,056
1979	\$25	0	107,409	55,418	151,702
1980	\$25	0	112,215	61,227	167,533
1981	\$25	0	114,710	71,010	181,727
1982	\$25	0	124,800	65,152	216,509
1983	\$162.42 <sup>148</sup>	0	105,704	59,715	223,101
1984	\$193.47	0	117,985	72,149	219,567
1985	\$209.69	0	125,931	75,302	215,512
1986	\$227.89	0	131,403	76,993	207,774
1987	\$260.95	0	137,173	88,793	209,911
1988	\$305.02	0	148,183	83,584	215,280
1989	\$335.77	0	163,306	102,712	222,755
1990	\$344.70	0	174,711	96,727	244,964
1991	\$370.63	\$99.3	178,083	101,860	254,507
1992	\$435.91	\$95	185,446	109,728	269,596
1993 (Lehman)	\$502.37	\$99	188,099	107,332	244,646
1994 (Lehman)	\$529.02 <sup>149</sup>	\$103	201,554	113,268	261,249
1995 (Lehman)	\$581.17	\$107	236,679	114,241	298,522
1996 (Lehman)	\$592.50 <sup>150</sup>	\$111	206,276	116,875	303,720

<sup>144</sup> The PTO approximated its budget for 1976 to 1982 inclusive using its 1993 Annual Report. See 1993 REPORT, *supra* note 95, at 37 fig.12.

<sup>145</sup> See Public Budget Database Fiscal Year 2009, Budget Authority Table, Row 594, <http://www.gpoaccess.gov/usbudget/fy09/sheets/budauth.xls> (last visited Apr. 15, 2009).

<sup>146</sup> For data on patent applications filed, patents granted, and backlog, see the Annual Reports of the PTO for each year from 1993 to 2008. USPTO Annual Reports, <http://www.uspto.gov/web/offices/com/annual/index.html> (last visited Apr. 15, 2009).

<sup>147</sup> The PTO calls its backlog “Patent Applications Pending Prior to Allowance.” They include utility, design, plant, and reissue applications.

<sup>148</sup> For PTO budget data for years 1983 to 1993 inclusive, see 1993 REPORT, *supra* note 95, at 49 tbl.2. For budget years 1983 to 1990 inclusive, the PTO’s total funding for a given year came from five sources: Appropriations from the General Fund, Offsetting Fee Collections, Unobligated Balances from the Prior Year, Federal Reimbursements, and Recovery of Prior Year Obligations.

<sup>149</sup> For PTO budget data for years 1994 to 1995 inclusive, see 1995 REPORT, *supra* note 99, at 50.

<sup>150</sup> For PTO budget data for years 1996 to 1997 inclusive, see 1997 REPORT, *supra* note 97, at 50.

Year (Director)	PTO Budget (millions)	Surcharge (millions)	Patent Applications Filed	Patents Granted	Backlog
1997 (Lehman)	\$702.43	\$115	237,045	122,977	373,904
1998 (Dickinson)	\$691.00 <sup>151</sup>	\$119	256,666	154,579	379,484
1999 (Dickinson)	\$643.03 <sup>152</sup>	0	278,268	159,166	414,837
2000 (Dickinson)	\$755.00 <sup>153</sup>	0	311,807	182,223	485,129
2001 (Godici)	\$783.84 <sup>154</sup>	0	344,717	187,822	542,007
2002 (Rogan)	\$843.70 <sup>155</sup>	0	353,394	177,317	636,530
2003 (Rogan)	\$1,015.23 <sup>156</sup>	0	355,418	189,590	674,691
2004 (Dudas)	\$1,235.70 <sup>157</sup>	0	378,984	187,170	756,604
2005 (Dudas)	\$1,514.10	0	409,532	165,483	885,002
2006 (Dudas)	\$1,680.10	0	445,613	183,187	1,036,588
2007 (Dudas)	\$1,794.50	0	468,330	184,377	1,112,517
2008 (Dudas)	\$1,916.00 <sup>158</sup>	0	495,095	182,556	1,276,028
2009	\$2,075.00 <sup>159</sup>	–	–	–	–

<sup>151</sup> See Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1998, Pub. L. No. 105-119, 111 Stat. 2440, 2475 (1997). The Omnibus Budget Reconciliation Act of 1990 caused the PTO to become essentially fully user-fee funded by 1991. See Pub. L. No. 101-508, § 10101, 104 Stat. 1388, 1388-391 (codified at 35 U.S.C. § 41 note(2006)). By 1993, the PTO did not receive any appropriations from the general revenue. During this period, Congress instituted a fee surcharge, of which it only appropriated a portion to the PTO.

<sup>152</sup> See Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Pub. L. No. 105-277, 112 Stat. 2681, 2681-82 (1998). In 1999, Congress passed the American Inventors Protection Act and began a policy of diverting patent fees. See discussion *supra* note 6. Congress accepted all of the PTO's collected fees into the general fund, but only returned part of that amount to the PTO in its appropriations bills.

<sup>153</sup> See Department of Commerce and Related Agencies Appropriations Act, 2000, Pub. L. No. 106-113, 113 Stat. 1501A-23, 1501A-28 (1999).

<sup>154</sup> See Department of Commerce and Related Agencies Appropriations Act, 2001, Pub. L. No. 106-553, 114 Stat. 2762A-69, 2762-A73 to -A74 (2000).

<sup>155</sup> See Department of Commerce and Related Agencies Appropriations Act, 2002, Pub. L. No. 107-77, 115 Stat. 769, 773 (2001). In 2002, Congress passed the Intellectual Property and High Technology Technical Amendments Act of 2002, which among other things "authorized to be appropriated to the [PTO between 2003 and 2008] an amount equal to the fees estimated . . . to be collected in each such fiscal year, respectively." See Pub. L. No. 107-273, § 13102, 116 Stat. 1899, 1899 (codified at 35 U.S.C. § 42 note).

<sup>156</sup> See Department of Commerce and Related Agencies Appropriations Act, 2003, Pub. L. No. 108-7, 117 Stat. 11, 72 (2003).

<sup>157</sup> For PTO budget data for years 2004 to 2007 inclusive, see 2007 REPORT, *supra* note 22, at 51 fig.

<sup>158</sup> 2008 REPORT, *supra* note 124, at 54 fig.

<sup>159</sup> See KROUSE & MURPHY, *supra* note 111, at 21.