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The Seesaw Effect:
How Unregulated Negotiations Undermine Regulated Prices
in the Market for Music Streaming
Doug Lichtman

Understanding the MetaBirkin:
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The Seesaw Effect: How Unregulated Negotiations Undermine Regulated Prices in the Market for Music Streaming

Doug Lichtman*

ABSTRACT

Spotify, Pandora, and other firms that stream copyrighted music must acquire a variety of copyright permissions in order to legally stream even a single song. Federal law regulates the price charged for some of those necessary licenses, but other equally necessary licenses are sold in the unregulated market. This causes a seesaw effect where government efforts to raise or lower rates are blunted, or even fully reversed, by responsive private negotiations. In essence, in the hope of achieving one or another policy aim, the government dramatically orders a reduction in the price of right shoes, only to see the unregulated price of left shoes move correspondingly higher in return. In this Article, I consider the degree to which this largely ignored seesaw undermines the public policy stories that scholars, government officials, and industry stakeholders tell about the regulation of music streaming. Those stories turn out to be significantly incomplete, because the regulatory infrastructure is likewise significantly incomplete.

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INTRODUCTION

The Copyright Royalty Board is the administrative agency responsible for setting the fees and terms associated with certain compulsory licenses relevant to music streaming.¹ One license administered by the Board allows qualifying streamers to use the sounds captured in a prerecorded audio without directly acquiring permission from the rights-holding singers, musicians, and their representatives.² Because this license does not grant streamers any rights with respect to the song's words and notes, however, a streamer who invokes this license must in addition broker a deal with the lyricists, composers, and other songwriters who hold copyright with respect to the underlying composition. Indeed, if a streamer invokes the compulsory license with respect to a song's copyrighted sounds but fails to obtain consensual rights with respect to the song's underlying composition, the streamer cannot legally stream the song.

This connection between regulated rights and necessary, intertwined, unregulated rights sets the stage for a seesaw effect. Suppose, for instance, that the Board intentionally reduces the price of the above-referenced compulsory license, hoping to benefit streamers and in that way encourage additional long-term investment in streaming infrastructure. When a streamer approaches songwriters and their representatives to acquire the additional rights the streamer needs, those rights holders can plausibly raise their demand dollar for dollar. After all, if a streamer was willing to pay songwriters up to 20 cents back when the regulated price for use of the copyrighted sounds was 80 cents, that streamer will presumably be willing to pay up to 30 cents when the regulated price for use of the sounds drops to 70 cents. As a practical matter, the lower the regulated rate, the more money left on the unregulated negotiating table.

The Board has endeavored to grapple with this dynamic in the context of one specific rate-setting determination, struggling there with the question of how an increase in one particular regulated rate would impact a problematic unregulated one.³ But regulatory seesaws raise an even more fundamental question than the narrow one the Board there pursued. After all, if parties engaged in unregulated interactions can compensate for and maybe even fully counteract regulatory decision-making, what purpose do the vulnerable regulations plausibly serve? Or, applied here, because some of the rights necessary for streaming are heavily regulated while other rights necessary for streaming are left to largely unregulated market forces, are the implicated regulatory interventions just so much black ink?

In this Article, I consider the degree to which the seesaw effect undermines the policy stories that academics, government officials, and industry stakeholders tell about

1. See 37 C.F.R. § 301.1 (establishing the entity); 17 U.S.C. § 801 (basic rules for its operation).

2. 17 U.S.C. § 114 (defining the compulsory license).

3. See Determination of Royalty Rates and Terms for Making and Distributing Phonorecords (Phonorecords III), 84 Fed. Reg. 1918, 2026–28 (Feb. 5, 2019) [hereinafter *Phonorecords III Order*] (to be codified at 37 C.F.R. pt. 385) (highlighting the interaction between regulated and unregulated rates); Determination of Royalty Rates and Terms for Making and Distributing Phonorecords (Phonorecords III), 88 Fed. Reg. 54406, 54409–54431 (Aug. 10, 2023) [hereinafter *Phonorecords III Remand*] (to be codified at 37 C.F.R. pt. 385) (revisiting the issue on remand).

the regulation of music streaming. I focus on music streaming for two reasons. First, from a copyright perspective, rights related to streaming are regulated to an unusually high degree.⁴ Copyright licenses in general are negotiated in the unfettered market. Market forces determine whether Random House publishes an author's manuscript. Market forces again determine whether Paramount Pictures produces a movie based on that published book. For licenses relevant to music streaming, by contrast, market forces are subject to a thick web of idiosyncratic regulatory interventions, including, for example, explicit rules about how much money nonfeatured vocalists should be paid for their contributions to a streamed song,⁵ and two government-negotiated consent decrees that today empower a group of federal judges to set rates for certain specific streaming rights.⁶ The government, in short, is unusually active when it comes to the regulation of music streaming, frequently replacing market forces with intentional regulatory interventions.

Second, streamers cannot rely on these regulated offerings exclusively; streamers must in addition acquire, in unregulated transactions, other equally necessary copyright rights. That is, for a combination of legal and practical reasons, triggering every available federal intervention would still not suffice to allow a streamer to offer commercially viable service. Thus, every company that offers music streaming—Pandora, Spotify, Amazon, Apple, Google, iHeart, all of them—must at some point broker a consensual deal with at least one group of unregulated copyright holders. This is simply a consequence of how federal law defines and assigns the copyright rights relevant to streaming.

This confluence of factors—that copyright law protects music by way of an entangled web of complementary legal rights, and that the government regulates some of those necessary rights but does not regulate the others—makes possible a seesaw effect through which unregulated, intertwined, responsive private negotiations can in various ways undermine the government's regulatory decision-making. As I will explain in the sections that follow, that seesaw, in turn, significantly impacts the goals that government regulation can in this context realistically achieve.

My argument proceeds in four parts. In the first, I offer some necessary background on the law, vocabulary, and institutions relevant to music streaming. I explain how copyright law defines the rights to recorded music and how it distinguishes between different types of streamers, and I introduce the full cast of relevant characters, including record labels, music publishers, performing rights organizations, the Copyright Royalty Board, and the “rate courts” created under those two Justice Department consent decrees. In the second part, I examine the three justifications that

4. As the Copyright Office put the point in a 2015 report, “it is almost hard to believe” the degree to which the government intervenes in the market for music licensing. U.S. COPYRIGHT OFF., *COPYRIGHT AND THE MUSIC MARKETPLACE: A REPORT OF THE REGISTER OF COPYRIGHTS 145–46* (2015) [hereinafter *MUSIC MARKETPLACE*].

5. 17 U.S.C. § 114.

6. These consent decrees were negotiated by the Justice Department and apply to two specific licensing intermediaries: the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Music, Inc. (BMI). See *infra* Part II.B.

scholars, government officials, and industry stakeholders typically voice in support of the government's idiosyncratic and heavy-handed approach to music streaming. Specifically, I consider the argument that compulsory licenses and antitrust oversight combine to reduce what would otherwise be cost-prohibitive transaction costs. I examine the degree to which compulsory licenses and antitrust oversight constrain market power. And I explore the possibility that government regulation in this space beneficially replaces market-mimicking outcomes with a *sui generis* balancing of the many competing interests. These traditional arguments are in my view compelling, but incomplete, in that they fail to account for the seesaw dynamic.

In the third part, I then take up that very challenge, integrating the seesaw effect into these conventional stories. With respect to the third justification—the idea that government intervention intentionally replaces market-mimicking outcomes with a *sui generis* approach—I argue that the seesaw effect significantly dampens the government's ability to reject market outcomes because unregulated, intertwined market interactions move much of the money back. As for market power, I argue that the government's ambitions with respect to market power are similarly undermined; this time because troublesome market power reasserts itself through those unregulated, intertwined deals. Lastly, for the transaction cost justification, I argue (first) that government interventions designed to reduce *existing* transaction costs motivate seesaw responses that ironically impose *new* ones, but (second) that those new transaction costs then support the government's overall ambitions, in that they slow private seesaw responses that would otherwise undo more of the government's regulatory achievements. Transaction costs, in essence, are transformed in this telling from villain to hero, because they make it harder for private parties to undo allocations that the government establishes as easy, initial, automatic defaults.

I briefly conclude in the fourth part, telling the story of that one time the Copyright Royalty Board itself did consider seesaw effects. Spoiler alert: The Board's initial analysis was reversed on appeal, and in the end the Board understandably punted, recognizing that stakeholders had not provided the Board with enough information to truly understand the phenomenon. In this fourth part I also sketch two reforms that could eliminate the regulatory seesaw and thereby preserve for the government fuller authority.

I. MUSIC RIGHTS AND MUSIC INSTITUTIONS

Music streaming implicates a jarringly complicated web of copyright rights, private licensing institutions, and governmental entities. In this section, I introduce the key vocabulary and the central players, but with a promise: As each rule or institution becomes relevant to my argument later in the Article, I will reintroduce the essential language, acronym, or entity, rather than expecting readers to memorize all the information and every acronym from the get-go. That said, the nuances of these rules and the identities of these private and governmental players do matter for understanding the seesaw effect. So, with apologies, I begin here with an abbreviated crash course on music rights and music institutions.

Recorded music is protected by two types of copyrights. One, the “sound recording” copyright, applies to the actual sounds made by the singer, musician, or other performing artist.⁷ The other, the “musical work” copyright, applies to the underlying notes, lyrics, and other non-auditory details that might be reflected in the sound recording but can be fully captured on paper.⁸ As the D.C. Circuit has explained, “[a]lthough almost always intermingled in a single song,” these two rights “are legally distinct” and often will “be owned and licensed separately.”⁹ Typically, the rights to the musical work will initially vest in the songwriters, and the rights to the sound recording will initially vest in the performers.¹⁰ Because copyrights can be divided and transferred,¹¹ however, those rights often end up being held by dozens of different entities, each of which might have authority to license some, but not all, of the necessary musical work and/or sound recording rights.¹²

A streaming service that allows listeners to choose specific songs is described in the law as an “interactive” service.¹³ Familiar examples include certain offerings from Spotify, Apple, and Amazon. Copyright law requires interactive streamers to acquire five different permissions before streaming a copyrighted song: permission to make copies of the sound recording, permission to publicly perform the sound recording, permission to make copies of the musical work, permission to distribute copies of the musical work, and permission to publicly perform the musical work.¹⁴ Radio-like

7. See 17 U.S.C. § 102(a) (defining “works of authorship” to include “sound recordings”); *Music Choice v. Copyright Royalty Bd.*, 774 F.3d 1000, 1004 (D.C. Cir. 2014) (discussing this form of copyright protection).

8. See 17 U.S.C. § 102(a) (defining “works of authorship” to also include “musical works”); *SoundExchange, Inc. v. Libr. of Cong.*, 571 F.3d 1220, 1222 (D.C. Cir. 2009) (discussing this form of copyright protection).

9. *Recording Indus. Ass’n of Am., Inc. v. Libr. of Cong.*, 608 F.3d 861, 863 (D.C. Cir. 2010).

10. See 17 U.S.C. § 201 (“Copyright . . . vests initially in the author or authors of the work.”).

11. See 17 U.S.C. § 201(d)(1) (“[C]opyright may be transferred in whole or in part by any means of conveyance or by operation of law.”).

12. See, e.g., DANA A. SCHERER, CONG. RSCH. SERV., R43984, MONEY FOR SOMETHING: MUSIC LICENSING IN THE 21ST CENTURY (2021) (explaining the typical business relationships and licensing patterns); U.S. COPYRIGHT OFF., HOW SONGWRITERS, COMPOSERS, AND PERFORMERS GET PAID (2020), <https://www.copyright.gov/music-modernization/educational-materials/musicians-income.pdf> [<https://perma.cc/K6NR-4C3C>]

[<https://web.archive.org/web/20240212133558/https://www.copyright.gov/music-modernization/educational-materials/musicians-income.pdf>] (also explaining the typical relationships and patterns).

13. My definition in the text is a simplified one. A more formal version is codified at 17 U.S.C. § 114(j)(7), but even that definition is incomplete in that it fails to address countless critical details, including the proper characterization of a service that offers both interactive and noninteractive options, and the proper characterization of a service that does not allow user choice but does (say) announce its playlists in advance. Those details do not matter for my analysis, however, and so, for my purposes, I adopt the colloquial, accessible definition offered in the text.

14. These various rights are defined in 17 U.S.C. §§ 106, 114. Interestingly, I have not been able to find any published document that correctly lists the rights that interactive streamers need. For instance, a recent appellate opinion issued by the D.C. Circuit incorrectly states that interactive streamers must license six rights, wrongly listing the right to distribute copies of the sound recording alongside the five permissions that are actually necessary. See *Johnson v. Copyright Royalty Bd.*, 969 F.3d 363, 367–68 (D.C. Cir. 2020). Similarly, an excellent law review article from 2021 lists four of the rights, inadvertently leaving out the

“noninteractive” services, by contrast, allow a listener to specify a song, an artist, a theme, or otherwise offer an indication as to their musical preferences, but then the technology picks which songs are actually played.¹⁵ Pandora and iHeart each offer popular services in this category. Copyright law requires noninteractive streamers to acquire three different permissions before including a song in the mix: permission to publicly perform the musical work, permission to publicly perform the sound recording, and permission to make temporary “ephemeral” copies of the sound recording.¹⁶ There are policy, historical, and political explanations for these distinctions, some of which are explored later in this Article. For now, however, what matters is that these are the rules under which Spotify, Pandora, Amazon, Apple, iHeart, Google, and other streamers today offer interactive and noninteractive services.

A complicated cast of characters is responsible for licensing streaming rights. Start with the private parties. A “record label” is a for-profit business that represents singers and other performers as they create, market, and license performances.¹⁷ Record labels support their associated artists in a variety of ways, from overseeing the creation of initial recordings all the way through licensing those recordings, monitoring their use, and then collecting and distributing royalties. Record labels license streaming services directly, specifically licensing the public performance of sound recordings to both interactive and noninteractive streamers.¹⁸ They also cut deals that allow their

necessary right to distribute musical work. See Daniel Abowd, *Something Old, Something New: Forecasting Willing Buyer/Willing Seller's Impact on Songwriter Royalties*, 31 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 574, 593 (2021). But see 17 U.S.C. § 115 (creating a compulsory license that covers the reproduction and distribution of a nondramatic musical work in the context of interactive streaming).

15. Again, my definition in the text here is a simplified version of the definition that actually applies when the Copyright Royalty Board is policing the relevant copyright rights. For the fuller articulation, see 17 U.S.C. § 114(d)(2)(C).

16. 17 U.S.C. § 106; see Joseph Dimont, *Royalty Inequity: Why Music Streaming Services Should Switch To a Per-Subscriber Model*, 69 *HASTINGS L.J.* 675, 682 (2018) (explaining the obligation to pay musical work copyright holders for public performance); Determination of Royalty Rates and Terms for Ephemeral Recording and Webcasting Digital Performance of Sound Recordings (Web IV), 81 *Fed. Reg.* 26316, 26316 (May 2, 2016) [hereinafter *Web IV Order*] (to be codified at 37 C.F.R. pt. 380) (noting noninteractive webcasters must pay for both the performance of the sound recordings and for the ephemeral copies needed to transmit them).

17. See U.S. COPYRIGHT OFF., *supra* note 12, at 8 (explaining the role of record labels); DONALD S. PASSMAN, *ALL YOU NEED TO KNOW ABOUT THE MUSIC BUSINESS* 69–84 (10th ed. 2019) (explaining the same).

18. Although the details are not public, the Copyright Royalty Board has disclosed the existence of several negotiated deals involving noninteractive streamers and major record labels. See *Web IV Order*, *supra* note 16, at 26324 n.44, 26325. As for interactive streamers, Spotify has publicly announced licensing agreements with several record labels. See, e.g., Dani Deahl, *Spotify and Warner Agree To an 'Expanded' Global Licensing Deal*, *THE VERGE* (Apr. 1, 2020), <https://www.theverge.com/2020/4/1/21203324/spotify-warner-agree-expanded-global-licensing-deal> [https://perma.cc/GZ7U-3BYD] [https://web.archive.org/web/20240301023444/https://www.theverge.com/2020/4/1/21203324/spotify-warner-agree-expanded-global-licensing-deal]. Amazon has announced record label deals as well. See, e.g., Tim Ingham, *After 15 Months of Deadlock . . . Universal Licenses Amazon Prime*, *MUSIC BUS. WORLDWIDE* (Sept. 29, 2015), <https://www.musicbusinessworldwide.com/after-15-months-of-deadlock-universal-licenses-amazon-prime/> [https://perma.cc/67TL-TRKN] [https://web.archive.org/web/20240216231858/https://www.musicbusinessworldwide.com/after-15-months-of-deadlock-universal-licenses-amazon-prime/].

associated sound recordings to be released as albums, sold as digital downloads, or used in television programs, movies, and video games. Many of these companies provide additional related services too, such as promoting their artists in the media and representing their artists in litigation. The details of any given artist's relationship with their record label are determined by contract and vary depending on the needs and leverage of both the label and the artist. Three firms dominate this segment of the industry, with Universal Music Group, Sony Music Entertainment, and Warner Music Group holding estimated 2022 market shares of 33%, 23%, and 17%, respectively, as measured by digital revenue.¹⁹

Much like the record labels that support singers and other performers, "music publishers" are for-profit businesses that work with composers, lyricists, and other songwriters as they endeavor to create, market, and license musical compositions.²⁰ Music publishers engage in a wide variety of activities in support of the artists with whom they are associated. Publishers arrange for a songwriter's musical work to be reproduced as sheet music, for instance, and publishers are sometimes instrumental in identifying and then authorizing particular singers to create recorded versions of their songwriters' songs. Publishers also help songwriters find opportunities to license their music for inclusion in television programs, movies, and video games. Sony Music Publishing, Universal Music Publishing Group, and Warner Chappell Music are currently the three largest music publishers in the United States, with 2022 statistics showing Sony with 25% of industry revenue, Universal with 23%, and Warner with 12%.²¹

When it comes to ensuring that songwriters are paid for the public performance of their songs on AM radio, FM radio, satellite radio, and, relevant here, streaming services, songwriters and music publishers partner with yet another type of intermediary: performing rights organizations, or "PROs."²² These firms negotiate directly with radio stations, noninteractive streamers, interactive streamers, television stations, stadiums, restaurants, and bars, offering either tailored licenses that allow for particular songs to be played or blanket licenses that allow the licensee to play all of the music associated with that PRO. PROs typically conduct statistical analyses to determine how often each song is being broadcast or streamed in general by licensees, and they distribute royalties based on these statistical estimates of each song's relative

19. *Recorded-Music Market Share Gains for SME and the Indies, Publishing Share Growth for UMPG and WCM*, MUSIC & COPYRIGHT'S BLOG (Apr. 25, 2023) [hereinafter *Market Share Data*], <https://musicandcopyright.wordpress.com/2023/04/25/recorded-music-market-share-gains-for-sme-and-the-indies-publishing-share-growth-for-umpg-and-wcm/> [https://perma.cc/G76Q-89HP] [https://web.archive.org/web/20240307225352/https://musicandcopyright.wordpress.com/2023/04/25/recorded-music-market-share-gains-for-sme-and-the-indies-publishing-share-growth-for-umpg-and-wcm/].

20. See U.S. COPYRIGHT OFF., *supra* note 12, at 4–5 (explaining the role of music publishers); STEVE WINOGRADSKY & DAVID LOWERY, *MUSIC PUBLISHING: THE COMPLETE GUIDE* 103–82 (2d ed. 2019) (explaining the same).

21. *Market Share Data*, *supra* note 19.

22. See U.S. COPYRIGHT OFF., *supra* note 12, at 6 (explaining the role of PROs); PASSMAN, *supra* note 17, at 226–31 (same); WINOGRADSKY & LOWERY, *supra* note 20, at 19–32 (explaining the same).

popularity. In the event of a conflict with a potential licensee, a PRO has standing to sue on behalf of its publisher and songwriter members.²³ Broadcast Music, Inc. (BMI) is today the largest domestic PRO, with approximately 22 million songs under management.²⁴ The American Society of Composers, Authors and Publishers (ASCAP) is next, with a catalog of over 19 million songs.²⁵ There are then two other major but much smaller PROs active in the domestic market: the Society of European Stage Authors and Composers (SESAC) and Global Music Rights, Inc. (GMR).²⁶

ASCAP and BMI both operate under detailed consent decrees that were originally put in place by the Department of Justice back in 1941 and have been updated in the years since.²⁷ Under the resulting rules, ASCAP and BMI are not allowed to be the exclusive licensor for any of their associated songs;²⁸ are required to license all comers;²⁹ and operate under the jurisdiction of federal “rate courts” that, among other powers, set rates in the event of a disagreement between licensor and licensee.³⁰ Rate court proceedings are very much like traditional litigation events, with testimony, discovery, expert witnesses, and the like. Rate courts are not standing institutions, however.

23. For a collection of the relevant cases, and an interesting discussion of associational standing in this context, see Andreas M. Petasis, *Associational Standing Under the Copyright Act*, 84 U. CHI. L. REV. 1517 (2017).

24. See *About*, BMI, www.bmi.com/about [<https://perma.cc/48WD-VYQA>] [<https://web.archive.org/web/20240303202407/https://www.bmi.com/about>] (last visited Mar. 10, 2024) (“As a global leader in music rights management, BMI serves as an advocate for the value of music, representing over 22.4 million musical works created and owned by more than 1.4 million songwriters, composers and music publishers.”).

25. See *About Us*, ASCAP, <https://www.ascap.com/about-us> [<https://perma.cc/KHJ3-YAE3>] [<https://web.archive.org/web/20240308012623/https://www.ascap.com/about-us>] (last visited Mar. 10, 2024) (“We license over 19 million ASCAP songs and scores to the businesses that play them publicly, then send the money to our members as royalties.”).

26. U.S. COPYRIGHT OFF., *supra* note 12, at 6 (identifying BMI, ASCAP, SESAC, and GMR as the four “most-often used U.S. PROs”); see also Makan Delrahim, Assistant Att’y Gen., Statement of the Department of Justice on the Closing of the Antitrust Division’s Review of the ASCAP and BMI Consent Decrees (Jan. 15, 2021) [hereinafter *Delrahim Remarks*] (“[T]he country’s two largest performing rights organizations . . . together represent approximately 90 percent of the public performance licensing market.”).

27. The currently operative versions of the consent decrees are the amended versions adopted in 2001 for ASCAP and 1994 for BMI. See *Second Amended Final Judgment, United States v. Am. Soc’y of Composers, Authors and Publishers*, 2001 WL 1589999 (S.D.N.Y. 2001) [hereinafter *ASCAP AFJ2*]; *Final Judgment, United States v. Broad. Music, Inc.*, 1966 U.S. Dist. LEXIS 10449 (S.D.N.Y. 1966), *modified*, 1994 U.S. Dist. LEXIS 21476 (S.D.N.Y. 1994) [hereinafter collectively referred to as *BMI AFJ*]; *MUSIC MARKETPLACE*, *supra* note 4, at 36.

28. *ASCAP AFJ2*, *supra* note 27, § IV(B); *BMI AFJ*, *supra* note 27, § IV(A). As I discuss later in this Article, the idea is to leave open the possibility that songwriters will directly license their works to at least some licensees, in that way competing with ASCAP and BMI. See *infra* notes 99–100 and accompanying text.

29. *ASCAP AFJ2*, *supra* note 27, § VI; *BMI AFJ*, *supra* note 27, § XIV(A). The intuition this time: stop ASCAP and BMI from threatening to withhold music during the potentially long pendency of a rate negotiation. See *infra* notes 101–02 and accompanying text.

30. *ASCAP AFJ2*, *supra* note 27, § IX; *BMI AFJ*, *supra* note 27, § XIV. The explanation here: The threat of rate court intervention pressures ASCAP and BMI to offer reasonable rates, and actual rate courts are then available to set rates in the event negotiations break down. For discussion, see *infra* notes 103–06 and accompanying text.

Instead, whenever a qualifying dispute arises, a federal judge from the Southern District of New York is chosen at random and authorized to conduct the necessary proceeding.³¹

The Copyright Royalty Board (CRB or Board), by contrast, is a standing “institutional entity in the Library of Congress” that “house[s]” three appointed “Copyright Royalty Judges”³² who serve for renewable six-year terms.³³ The CRB oversees three compulsory licenses directly relevant to music streaming: the § 112 compulsory license that allows qualifying *noninteractive* streamers to reproduce copyrighted sound recordings without direct permission from sound recording copyright holders;³⁴ the § 114 compulsory license that allows qualifying *noninteractive* streamers to perform copyrighted sound recordings without direct permission from sound recording copyright holders;³⁵ and the § 115 compulsory license that allows qualifying *interactive* streamers to reproduce and distribute copyrighted musical works without direct permission from musical work rights holders.³⁶ Rates are determined by way of “ratemaking proceedings” where interested parties present evidence and make arguments before the three Royalty Judges, after which the judges establish the relevant rate, applicable for a five-year term.³⁷ CRB decisions can then be appealed to the D.C. Circuit Court of Appeals.³⁸

II. THE CONVENTIONAL JUSTIFICATIONS

Copyright licenses are traditionally negotiated in the unfettered market. A movie studio hoping to create a film based on a published book must negotiate for that right. A toy company looking to produce action figures based on the movie must likewise engage in an unregulated market negotiation. Licenses relevant to music, however,

31. Judges in the Southern District of New York exercise continuing jurisdiction over the ASCAP and BMI consent decrees. *See, e.g.*, *United States v. Broad. Music. Inc.*, No. 64 Civ. 3787, 1994 U.S. Dist. LEXIS 214676 (S.D.N.Y. 1994) (amending the BMI decree). Under the Music Modernization Act, a rate dispute arising under either decree is assigned at random to a judge in that district. Orrin G. Hatch-Bob Goodlatte Music Modernization Act, 28 U.S.C. § 137 (2018).

32. 37 C.F.R. § 301.1 (2005) (“The Copyright Royalty Board is the institutional entity in the Library of Congress that will house the Copyright Royalty Judges, appointed pursuant to 17 U.S.C. 801(a), and their staff.”).

33. 17 U.S.C. § 802(c) (“[T]he terms of succeeding Copyright Royalty Judges shall each be 6 years.”).

34. *See* 17 U.S.C. § 112(e)(1) (defining the available statutory license); Digital Performance Right in Sound Recordings and Ephemeral Recordings, 76 Fed. Reg. 13026 (Mar. 9, 2011) (setting rates and terms for that license for the years 2011 through 2015).

35. *See* 17 U.S.C. § 114(d)(2) (defining the available statutory license); Digital Performance Right in Sound Recordings and Ephemeral Recordings, 76 Fed. Reg. 13026 (Mar. 9, 2011) (setting rates and terms for that license for the years 2011 through 2015).

36. *See* 17 U.S.C. § 115 (defining the available statutory license); Phonorecords III Remand, *supra* note 3 (setting rates and terms for that license for the years 2018 through 2022).

37. *See, e.g.*, 17 U.S.C. § 804(b)(3) (stating that petitions to adjust the § 114 and § 112 compulsory rates “shall next be commenced in January 2009” and “shall be repeated in each subsequent fifth calendar year”); 17 U.S.C. § 804(b)(4) (stating that petitions to adjust the § 115 compulsory rate “may be filed in the year 2006 and in each subsequent fifth calendar year”).

38. 17 U.S.C. § 803(d) (“Any determination of the Copyright Royalty Judges . . . may . . . be appealed, to the United States Court of Appeals for the District of Columbia Circuit . . .”).

have long been an exception to this general rule. In fact, since 1909, federal law has required rights holders in the music industry to license at least some qualifying counterparties at government-set rates.³⁹ Many of those regulations sound quaint to modern ears. One of the early rules, for example, obligated songwriters to allow their copyrighted work to be distributed with and performed by self-playing player pianos.⁴⁰ But, today, governmental interventions regulate the industry's core, in that they apply to music streaming, a market segment that in 2022 generated over \$13 billion in revenue and accounted for a whopping 84 percent of the total monies earned from the licensing of recorded music.⁴¹

What justifies this heavy-handed, market-rejecting music exceptionalism? Scholars, regulators, lawmakers, and industry stakeholders have advanced three main theories. One is that transaction costs are particularly problematic for streaming.⁴² The typical book has an author or two, and maybe an illustrator. Major motion pictures rely on tens to hundreds of individual creative contributors but, once a film is made, the rights to distribute a film are typically consolidated under the control of some manageably small number of rights holders.⁴³ But Spotify today wields an on-demand library of over 100 million songs.⁴⁴ Pandora picks its radio-like streams from among a rumored 50 million individual options.⁴⁵ And the ability to serve this "long tail" might well be critical to each service's value and success.⁴⁶ The transaction costs associated with identifying, negotiating with, and ultimately compensating tens of millions of rights holders would obviously be significant. So, on this theory, the government's various

39. Examples include the licenses codified at 17 U.S.C. §§ 112, 114, 115, 118. For a general introduction to the system of compulsory licenses, emphasizing the degree to which this approach breaks from the conventional private-market default, see *MUSIC MARKETPLACE*, *supra* note 4, at 145–46. See also Delrahim Remarks, *supra* note 26, at 5 (detailing the same).

40. I discuss this compulsory license *infra* notes 120–24 and accompanying text.

41. *U.S. Music Revenue Database*, RECORDING INDUS. ASS'N OF AM., <https://www.riaa.com/u-s-sales-database/> [<https://perma.cc/PJ6K-3H5T>] [<https://web.archive.org/web/20240222143113/https://www.riaa.com/u-s-sales-database/>] (last visited Mar. 10, 2024) (summarizing industry data from 1973 through 2022).

42. For my detailed discussion, see *infra* Part II.A.

43. Indeed, courts have gone to great lengths to ensure that movie rights are consolidated rather than shared among some large number of contributors. See *Garcia v. Google, Inc.*, 786 F.3d 733, 742 (9th Cir. 2015) (en banc) (refusing to “make Swiss cheese of copyrights” by recognizing rights in large number of contributors); *Aalmuhammed v. Lee*, 202 F.3d 1227, 1235–36 (9th Cir. 2000) (finding no rights to major motion picture even though plaintiff did in fact make copyright-eligible contributions to the film).

44. See *About Spotify*, SPOTIFY, <https://newsroom.spotify.com/company-info/> [<https://perma.cc/GB8Z-GSY5>] [<https://web.archive.org/web/20240222143526/https://newsroom.spotify.com/company-info/>] (last visited Mar. 10, 2024).

45. Pandora does not offer a public estimate as to the number of songs in its library. Discussion boards and industry blogs seem to consistently put the number at roughly the number in the text, but none of those sites publicly disclose supporting evidence.

46. Chris Anderson, *The Long Tail*, WIRED (Oct. 1, 2004), <https://www.wired.com/2004/10/tail/> [<https://perma.cc/M4TX-5SV6>] [<https://web.archive.org/web/20240222144124/https://www.wired.com/2004/10/tail/>] (arguing that entertainment services can maximize profit by focusing on large amounts of niche fare, with each offering appealing to just a small number of viewers, listeners, and subscribers).

market-displacing interventions are attractive because they obviate wasteful expenses and, in that way, make possible at least some deals that would be cost-prohibitive but for the interventions.

A second justification often advanced in support of copyright's music exceptionalism is a justification focused on market power.⁴⁷ Recall that "record labels" are the companies that identify, invest in, and market specific performers, helping those artists first to create and later to monetize their audio performances. Concentration is so significant in this part of the industry that today just three firms—the "Big Three" or "Majors"⁴⁸—together control roughly 70% of all licensed music.⁴⁹ Music publishers provide similar services for songwriters and are similarly concentrated, with the three largest publishers sweeping an estimated 60% of the available monies.⁵⁰ Performing rights organizations represent songwriters in certain licensing transactions with bars, restaurants, stadiums, radio stations, and streamers. Market share for the two largest here is estimated to be near 90 percent.⁵¹ Concentration has benefits, of course. It can reduce transaction costs and in other ways tap into economies of scale and scope. However, concentration can also lead to market power, and thus government intervention on this story is desirable because it constrains the rates that these concentrated entities charge.

The third justification typically advanced in favor of the modern music regulatory regime is one founded on copyright law's fundamental policy goals.⁵² As noted previously, copyright law in general relies on market forces to calibrate incentives. A higher market-clearing price means a greater incentive for authors to create but a correspondingly lower incentive for downstream partners to publish, sell, and distribute. A lower market-clearing price reduces author incentives but leaves more

47. This theory is my focus *infra* Part II.B.

48. Universal Music Group, Sony Music Entertainment, and Warner Music Group are often referred to colloquially as the "Big Three" labels. *See, e.g.*, Ben Sisario, *A New Spotify Initiative Makes the Big Record Labels Nervous*, N.Y. TIMES (Sept. 6, 2018), <https://www.nytimes.com/2018/09/06/business/media/spotify-music-industry-record-labels.html?smid=url-share> [<https://web.archive.org/web/20240222145353/https://www.nytimes.com/2018/09/06/business/media/spotify-music-industry-record-labels.html?smid=url-share>] (media analyst Amy Yong referring to "the Big Three"); Joe Coscarelli, *Beatles Catalog Goes on Streaming Services*, N.Y. TIMES (Dec. 23, 2015), <https://www.nytimes.com/2015/12/23/arts/music/beatles-fans-start-your-streaming-playlists.html> [<https://web.archive.org/web/20240222145557/https://www.nytimes.com/2015/12/23/arts/music/beatles-fans-start-your-streaming-playlists.html>] (referring to Warner Music Group as "one of the so-called big three"); Joe Coscarelli, *Taylor Swift Announces New Record Deal with Universal Music*, N.Y. TIMES (Nov. 19, 2018), <https://www.nytimes.com/2018/11/19/arts/music/taylor-swift-record-deal-universal-republic.html> [<https://web.archive.org/web/20240222150220/https://www.nytimes.com/2018/11/19/arts/music/taylor-swift-record-deal-universal-republic.html>] (referring to Sony Music as "one of the other big-three labels"). The CRB does not seem to use that moniker, referring to those companies as the "Majors" instead. *See, e.g.*, Web IV Order, *supra* note 16, at 26319 (distinguishing "Majors" from the other, smaller independent record labels).

49. *See Market Share Data*, *supra* note 19 (reporting market share data for the largest record labels).

50. *See id.* (also reporting market share data for the largest music publishers).

51. *See* Delrahim Remarks, *supra* note 26 (explaining that the two largest PROs "represent approximately 90 percent of the public performance licensing market").

52. This theme is my focus *infra* Part II.C.

money on the table for those downstream partners and also for readers, listeners, and other potential consumers and licensees of the protected work. Government regulation displaces these market-based allocations, replacing them with government-influenced prices. This is attractive to scholars who are skeptical about how well market forces balance public policy tradeoffs in general, and it is also attractive to scholars who believe that, while market forces in most situations work well, there is something unique about the music industry, such as perhaps the particularly salient role played by technology companies in making music readily accessible. On this story, then, government intervention in music streaming is justified as a form of industry-specific optimization. The default market-based approach would result in one economic allocation as between singers, songwriters, musicians, record labels, music publishers, PROs, technology companies, and listeners; regulation empowers the government to establish another.

These three stories resonate. The regulatory regime applicable to music streaming can be justified as a response to transaction costs, it does to some degree cabin market power, and the system overall does rebalance copyright law's fundamental tradeoffs. Nevertheless, these compelling stories are problematically incomplete because the modern regulatory regime is itself problematically incomplete. Government regulations constrain the exercise of certain rights but do not constrain the exercise of other, equally necessary rights. In the next section, I will explain how these gaps make possible a seesaw effect that complicates and to some degree undermines the traditional stories. Here, I set the stage for that analysis by offering a fuller, industry-integrated telling of the three traditional explanatory tales.

A. THE TRANSACTION COST JUSTIFICATION

Many copyright markets are plagued with transaction costs. Warner Brothers, for instance, holds valuable copyrights related to popular fictional characters like Batman and Harry Potter. The company is open to certain types of technically infringing fan fiction because, even when infringing, fan stories and fan art increase awareness of and engagement with the company's movies and television programs. The administrative costs of individually evaluating and approving fan uses, however, would be enormous; thus, because of transaction costs, some win-win fan activities are chilled. That is, even if Warner would approve a given use because it might generate interest in the relevant Warner property while not meaningfully competing with any of Warner's own offerings, transaction costs mean that the studio cannot practically implement a program where individual, mutually beneficial uses are identified and authorized in a timely manner. So, Warner historically has had little choice but to leave the threat of legal action in place, discouraging at least some uses that Warner would embrace, if only practical constraints allowed.⁵³

53. Two fun and thoughtful introductions to some of these issues are Yvette Joy Liebesman, *Redefining the Intended Copyright Infringer*, 50 AKRON L. REV. 765 (2016), and Tim Wu, *Tolerated Use*, 31 COLUM. J.L. & ARTS 617 (2008).

Private parties endeavor to mitigate transaction costs, of course. Consider the market for educational reprints. College professors often assign diverse readings to their students, pulling a chapter from one book, a few pages from another, and so on, sometimes drawing materials from dozens or even hundreds of different copyrighted sources. (Sorry.) Early on, academics, colleges, and universities took the position that federal law should excuse copying of this sort because the costs of identifying and negotiating with all the relevant copyright holders would, in at least some situations, be prohibitive.⁵⁴ Publishers, however, saw the problem, too, and they responded by pooling together to create clearinghouses (like the Copyright Clearance Center⁵⁵) through which professors today can easily acquire the necessary permissions. Courts, in turn, have lauded this private approach, recognizing that it reduces transaction costs, facilitates the desirable downstream use of copyrighted materials, and at the same time ensures that publishers and authors are paid for their original work.⁵⁶

Cleverly, Warner Brothers itself developed a private response to its transaction cost problem, specifically for its Harry Potter properties.⁵⁷ Warner's first Harry Potter film was released in 2001, but the last film in the original series was not released until ten years later, in 2011. Company executives thus had to worry that fans would lose interest in between film releases. Fan websites and fan stories obviously could help keep the momentum alive during those lulls, encouraging conversations about the Harry Potter franchise and even growing the fan base by introducing the characters and stories to new audiences. Moreover, for Warner's executives, fan content also offered some degree of genuine personal satisfaction; in addition to making money for the company, the movies in this way would inspire young people to write their own creative stories

54. For a good discussion and also helpful citations, see Kenneth D. Crews, *The Law of Fair Use and the Illusion of Fair-Use Guidelines*, 62 OHIO ST. L.J. 599, 615–21 (2001).

55. The Copyright Clearance Center (CCC) is a not-for-profit corporation established in 1977 by a consortium of publishers, authors, and copyright users to “act[] as a centralized clearinghouse for the granting of reproduction rights for books, journals, newspapers, and other works to corporate, academic, and other users.” Brief *Amici Curiae* of Copyright Clearance Center, Inc. et al. in Support of Petitioners at 1, *Author’s Guild v. Google, Inc.*, 578 U.S. 941 (2016) (No. 15-849). The CCC obtains from rights holders a nonexclusive right to license; offers royalty-bearing licenses to would-be users; and pays the monies, net of expenses, back to rights holders. *Id.* Interestingly, it entered operation on January 1, 1978, the same day that the current Copyright Act took effect. *Id.*

56. See *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 930–31 (2d Cir. 1995) (copying, although made by researchers in the course of their work, was not permissible fair use because the relevant copies could easily have been licensed). The allure of this approach turns at least in part on the assumption that consensual transactions will properly incentivize both the creation of this material and its use. That might not be a valid assumption. Research and education both generate significant positive externalities that are not fully captured in any would-be copyst’s willingness to pay. Given that, it is not clear how well consensual transactions in these examples calibrate overall incentives, even after transaction costs are addressed. See William W. Fisher III, *Reconstructing the Fair Use Doctrine*, 101 HARV. L. REV. 1659 (1988) (considering fair use through this broader, cost-benefit lens); Glynn S. Lunney, Jr., *Fair Use and Market Failure: Sony Revisited*, 82 B.U. L. REV. 975, 996 (2002) (discussing the same).

57. The information in this paragraph comes from an episode of my podcast, *The Intellectual Property Colloquium*, where I discussed these issues with then-Warner Brothers Senior Vice President Jeremy Williams. See Doug Lichtman, *Derivative Work*, INTELL. PROP. COLLOQUIUM (Sept. 8, 2009) (on file with author).

and generate their own creative art. So, Warner's legal team adopted a policy under which the company would not pursue legal action against any work that was "by fans, for fans, for fun," a simple guideline that could be easily communicated to the public, easily reinforced internally, and would not only avoid the transaction costs associated with item-specific review but also distinguish, with reasonable accuracy, harmful from helpful fan projects.

Copyright law does not rely exclusively on private efforts, however. Copyright law itself in various ways addresses these administrative challenges. Perhaps the most commonly referenced example here is one first identified by Wendy Gordon: the fair use doctrine, which, as a general matter, empowers courts to excuse what might otherwise be infringing activity in instances where public policy sufficiently favors an exception. Years ago, Gordon compellingly argued that many fair use findings are best explained as a means by which to avoid crippling transaction costs.⁵⁸ Certain types of fan fiction are fair use on this theory, given the transaction cost issues discussed above. Certain types of educational copying also qualify on this theory. For instance, if a professor has a legitimate educational reason to duplicate a news story that first became available just hours before class was set to begin, fair use would presumably excuse the copying because of the benefits to learning and the impracticality of timely seeking (let alone paying for) permission.⁵⁹

Compulsory licenses are another mechanism by which copyright law addresses transaction costs, as Rob Merges long ago explained.⁶⁰ Under a compulsory license, a

58. Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the "Betamax" Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1601 (1982). A rich literature expands on and critiques Gordon's original insight. See Ben Depoorter & Francesco Parisi, *Fair Use and Copyright Protection: A Price Theory Explanation*, 21 INT'L. REV. L. & ECON. 453 (2002); Tom W. Bell, *Fair Use vs. Fared Use: The Impact of Automated Rights Management on Copyright's Fair Use Doctrine*, 76 N.C. L. REV. 557 (1998); Wendy J. Gordon, *Excuse and Justification in the Law of Fair Use: Transaction Costs Have Always Been Only Part of the Story*, 50 J. COPYRIGHT SOC'Y U.S. 149 (2003).

59. See H.R. REP. NO. 94-1476, at 68-70 (1976) (explaining considerations relevant to classroom copying, including whether "it would be unreasonable to expect a timely reply to a request for permission").

60. Robert P. Merges, *Of Property Rules, Coase, and Intellectual Property*, 94 COLUM. L. REV. 2655, 2661-62 (1994) ("[A] common rationale for the several statutory compulsory licenses in copyright law is that they are needed in order for certain types of exchange to take place. Transaction costs preclude the formation of a market for certain types of rights; in the absence of statutorily mandated transactions, none would take place."); see also Stanley M. Besen et al., *Copyright Liability for Cable Television: Compulsory Licensing and the Coase Theorem*, 21 J.L. & ECON. 67 (1978) (explaining how compulsory licensing addresses various market failures); Ralph Oman, *The Compulsory License Redux: Will It Survive in a Changing Marketplace?*, 5 CARDOZO ARTS & ENT. L. REV. 37 (1986) (discussing the same); Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 TEX. L. REV. 783, 792 (2007) (noting that compulsory licenses provide compensation and "may be appropriate where the production of a particular type of work requires clearances of so many rights, or rights are so hard to find, that doing so would be uneconomic"); Yafit Lev-Aretz, *The Subtle Incentive Theory of Copyright Licensing*, 80 BROOK. L. REV. 1357, 1378 (2015) ("By removing the difficulties involved in identifying and locating rightsholders, bargaining over licensing fees, and transferring assets, compulsory licenses lessen transaction costs and allow many transfers that would not otherwise occur."); Pamela Samuelson, *Justifications for Copyright Limitations & Exceptions*, in COPYRIGHT LAW IN AN AGE OF LIMITATIONS AND EXCEPTIONS 12, 38 (Ruth L. Okediji ed., 2017) (writing that compulsory licenses can address "market failures" including the potentially prohibitive costs of "negotiating licenses on a work-by-work and rightsholder-by-rightsholder basis").

qualified party can pay a government-set rate and then use the licensed work without directly seeking permission from the implicated copyright holder. Licensor and licensee in this way avoid the costs they would have incurred in finding one another, and they also avoid the costs associated with negotiating, documenting, and ultimately enforcing a deal. An intuitive example is the compulsory license that allows cable television providers to retransmit copyrighted television programs as they are aired on qualifying local broadcast channels.⁶¹ A cable provider could, in theory, scour each broadcaster's schedule in advance, identify every upcoming program, contact every relevant copyright holder, and then negotiate with each for permission to simulcast. But the costs of doing so would be high, maybe even prohibitively high, given the large number of programs, rights holders, and cable providers, let alone the tight time constraints.⁶² Thus, in 1976, Congress put in place a statutory compulsory license under which a cable provider is automatically granted permission to retransmit these programs as long as the cable provider pays the applicable fee and otherwise complies with certain rules about the resulting transmissions.

Antitrust law is yet another tool in copyright law's cost-containing arsenal. Consider in this light the Department of Justice's antitrust enforcement efforts with respect to the "performing rights organizations" (PROs) that license, on behalf of songwriters and their representatives, the public performance of musical work. When live music is performed in a restaurant or bar, copyright law requires that either the performer or the venue license the underlying musical works.⁶³ A license is required even when a performance takes place in the background, and even if it is offered to patrons at no charge.⁶⁴ When an AM or FM radio station plays a recorded song, that station, too, must license their use of any copyrighted words and notes. Individual songwriters cannot plausibly enforce these legal rights, however, as there are simply too many bars, restaurants, radio stations, and, frankly, hours in the day. So, a handful of organizations—the aforementioned "performing rights organizations"—do this work on behalf of their music publisher and songwriter members.⁶⁵ These organizations send representatives to spot-check public venues. They use statistical sampling to determine how often each song is played in those venues, and also on the AM and FM dial. And they ultimately negotiate licenses with venues and stations, collecting

61. 17 U.S.C. § 111 (compulsory license for secondary transmissions of broadcast programming).

62. See H.R. REP. NO. 94-1476, at 89 (1976) (endorsing the compulsory approach because "it would be impractical and unduly burdensome to require every cable system to negotiate with every copyright owner"); Distribution of 1998 and 1999 Cable Royalty Funds, 80 Fed. Reg. 13423, 13428 (Mar. 13, 2015) (justifying the compulsory license in light of the potentially "prohibitively high 'transaction costs'" that would otherwise be incurred); Joseph P. Liu, *Regulatory Copyright*, 83 N.C. L. REV. 87, 130 (2004) ("[I]n the case of cable re-transmissions, the argument might be that transactions costs, the possibility of holdouts, and other strategic behavior by copyright owners might make it impossible for cable companies to effectively obtain licenses for all of the works that they wish to retransmit.").

63. See 17 U.S.C. § 106(5) (recognizing a public performance right in musical work).

64. *Herbert v. Shanley Co.*, 242 U.S. 591, 594-95 (1917) (concluding that even background music, included at no explicit marginal cost, is "part of a total for which the public pays" in pursuit of an overall "pleasure not to be had from eating a silent meal").

65. See generally *supra* notes 22-31 and accompanying text.

royalties that are then distributed to songwriters and their various business partners. Two organizations have long dominated this clearance market: the American Society of Composers, Authors & Publishers (ASCAP), which today represents 960,000 songwriters, composers, and music publishers;⁶⁶ and Broadcast Music, Inc. (BMI), which enforces rights and collects monies on behalf of a staggering 1.4 million members.⁶⁷

The Department of Justice filed its first antitrust action against ASCAP in 1934, and by 1941 the Department had filed a second action against ASCAP and also a first case against BMI.⁶⁸ As Lionel Sobel points out, however, the motivation here was not some fundamental hostility to the idea of collective enforcement. Quite the opposite, the Department “recognized that it would be impossible for individual composers and music publishers to police the public performance of their works”—transaction costs—and thus understood that collective action was to some extent justified.⁶⁹ The Department objected, however, to the fact that, rather than offering song-specific licenses, ASCAP and BMI sold “blanket licenses” under which a licensee had no choice but to purchase access to every song in the relevant entity’s catalog.⁷⁰

Transaction costs did offer a justification for this practice. Radio stations and restaurants do not necessarily know in advance which songs they will feature on any given day. And, while paying in arrears could work in theory, that approach would require costly record-keeping and detailed monitoring. Blanket licenses, by contrast, are agnostic as to these details. Prices can be a function of station revenues or, for restaurants and bars, based on the amount of money paid to the live performers,⁷¹ and monies can then be distributed based not on venue-specific data but on more forgiving, market-wide averages. Blanket licenses offer another advantage, too: After acquiring a

66. See ASCAP, <https://www.ascap.com/> [https://perma.cc/3NLT-RK42] [https://web.archive.org/web/20240216025239/https://www.ascap.com/] (last visited Mar. 10, 2024) (“ASCAP is a performing rights organization of 960,000 songwriters, composers and music publishers.”).

67. See BMI, <https://www.bmi.com> [https://perma.cc/C9LC-NZNY] [http://web.archive.org/web/20240210061247/https://www.bmi.com/] (last visited Mar. 10, 2024) (“BMI represents more than 1.4 million songwriters, composers, and publishers with over 22.4 million musical works.”).

68. The history of these two legal disputes is retold in countless court cases, government documents, and academic articles. See also *United States v. Am. Soc’y of Composers, Authors and Publishers*, 870 F. Supp 1211 (S.D.N.Y. 1995); *United States v. Broad. Music, Inc.*, 64 Civ. 3787 (S.D.N.Y. 2001); *Meredith Corp. v. SESAC LLC*, 1 F. Supp. 3d 180 (S.D.N.Y. 2014); Lionel S. Sobel, *The Music Business and the Sherman Act: An Analysis of the Economic Realities of Blanket Licensing*, 3 LOY. L.A. ENT. L. REV. 1 (1983); MUSIC MARKETPLACE, *supra* note 4.

69. Sobel, *supra* note 68, at 3.

70. *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 10 (1979) (clarifying that the government’s original focus was on the blanket licenses offered by ASCAP and BMI, including allegations that those blanket licenses were themselves an illegal restraint on trade and that they facilitated illegal price fixing).

71. Sobel, *supra* note 68, at 6–7 (explaining some of the fee structures used for bars, restaurants, and broadcasters).

blanket license, licensees are free to pick songs based on their and their customers' in-the-moment preferences, no further negotiations or calculations required.⁷²

The Justice Department was concerned, however, because blanket licenses reduce competition. Were songwriters forced to negotiate with bars and radio stations individually, they would compete head-to-head for business. A songwriter with rights to a popular song would endeavor to extract a higher royalty. A songwriter with less of a following might offer a discount in exchange for extra exposure. Blanket licenses eliminate this competitive interaction.⁷³ As the economist Adam Jaffe reminded the Department of Justice a few years back, copyright is by design an individual right. "For many individual composers to [then] put their works in the hands of a single agent and empower that agent to negotiate for the licensing of the overall repertoire is a form of collusion that greatly amplifies whatever market power each composer possesses acting on their own."⁷⁴

Nevertheless—and this is the critical takeaway—antitrust law made room for collective and blanket licensing anyway because these mechanisms reduce transaction costs. Specifically, in 1941, the Department of Justice signed consent decrees with ASCAP and BMI.⁷⁵ Those decrees have been revised over time but are still in force today. They forbid ASCAP and BMI from becoming the exclusive licensor for any musical work.⁷⁶ They obligate ASCAP and BMI to immediately license any would-be licensee, even before rates are finalized.⁷⁷ They create judicial "rate courts" that have the power to set reasonable fees in the event licensees reject whatever ASCAP and BMI offer.⁷⁸ But they permit ASCAP to represent its nearly-one-million members, permit BMI to represent more-than-one-million members, and permit both to offer, among

72. As Kevin Murphy puts the point, "blanket license[s] allow[] the user to make unlimited performances of the licensed works at no marginal cost," thereby allowing them "to choose which works to perform and how much to perform each work in the way that creates the greatest possible value." Kevin M. Murphy, *Economic Considerations for Modification and Termination of the ASCAP Consent Decree* 8 n.12 (Aug. 9, 2019) (unpublished manuscript) (quoting Kevin M. Murphy, *The Collective Licensing of Music Performance Rights: Market Power, Competition and Direct Licensing* 8 (2012)), <https://media.justice.gov/vod/atr/ascapbmi2019/pc-044a.pdf> [<https://perma.cc/Y2B7-L3TW>] [<https://web.archive.org/web/20240412183301/https://media.justice.gov/vod/atr/ascapbmi2019/pc-044a.pdf>].

73. *Broad. Music, Inc.*, 441 U.S. at 32–33 (1979) (Stevens, J., dissenting) (writing that blanket licenses deprive new songwriters of the "opportunity to try to break into the market by offering his product for sale at an unusually low price"); Joint Public Comments of Radio Music License Committee and Digital Media Association on ASCAP/BMI Consent Decree Review, at 34 (Aug. 9, 2019) [hereinafter RMLC/DMA Comments] (writing that blanket licenses "eliminate any incentive for individual copyright owners to bargain or compete against each other").

74. ADAM B. JAFFE, *ECONOMIC ANALYSIS OF THE ASCAP AND BMI CONSENT DECREES* 8 (Aug. 9, 2019).

75. Although the ASCAP and BMI consent decrees are not identical, "they have generally been understood to call for the same set of restrictions on ASCAP and BMI." Comments of the Television Music License Committee, LLC in Connection with the Department of Justice Review of the ASCAP and BMI Consent Decrees, at 39 (Aug. 9, 2019) [hereinafter TMLC Comments]; see also *MUSIC MARKETPLACE*, *supra* note 4, at 36 (stating the same).

76. ASCAP AFJ2, *supra* note 27, at § IV(B); BMI AFJ, *supra* note 27, at § IV(A).

77. ASCAP AFJ2, *supra* note 27, at § VI; BMI AFJ, *supra* note 27, at § XIV(A).

78. ASCAP AFJ2, *supra* note 27, at § IX; BMI AFJ, *supra* note 27, at § XIV.

other options, catalog-wide blanket licenses. That is, the settlements allow for potentially problematic concentration of power because concentration also reduces transaction costs.

Against this backdrop, it is easy to voice the transaction cost explanation for the heavy role government plays in licensing music to streaming services. Start with the underlying problem. Pandora and iHeart do not publicly reveal the size of their respective song catalogs, but Spotify, Apple, and Amazon each boast on-demand libraries exceeding 100 million songs.⁷⁹ The costs of licensing all of that music—song by song, streamer by streamer, spin by spin—would be staggering. There would be challenges in identifying the relevant rights holders, difficulties in confirming compliance with whatever deals were actually struck, and a storm of song-specific payments that would constantly need to be made and audited. Money that could go toward incentivizing the creation of new music or rewarding the development of new distribution technologies would be lost to paperwork, lawyers, and bickering. Moreover, in some instances, administrative costs would be so significant that songs would be dropped from the various repertoires entirely, the benefits derived from inclusion being insufficient to offset the costs associated with cutting the requisite deals.

Private parties have been able to lighten these burdens in part. For instance, record labels are powerful cost-reducers, in that even a single label like Sony Music can, in one transaction, license various rights associated with literally millions of sound recordings.⁸⁰ The streamer iHeartMedia, in fact, cut a deal of that sort with Warner Music in 2021,⁸¹ and Spotify has over the years cut separate deals like that with Sony, Warner Music, and Universal Music Group, indeed giving the labels partial ownership

79. *About Spotify*, *supra* note 44 (“Today, more listeners than ever can discover, manage, and enjoy over 100 million tracks, 5 million podcast titles, and 350,000 audiobooks . . . on Spotify.”); Press Release, Apple, Celebrating 100 Million Songs (Oct. 3, 2022), <https://www.apple.com/newsroom/2022/10/celebrating-100-million-songs/#:~:text=Apple%20Music's%20global%20head%20of,phenomenal%20growth%20by%20any%20metric> [https://perma.cc/D9WV-6BQS] [https://web.archive.org/web/20231126032305/https://www.apple.com/newsroom/2022/10/celebrating-100-million-songs/]; *Apple Music*, APPLE, <https://www.apple.com/apple-music/> [https://perma.cc/MGT9-KSCY] [https://web.archive.org/web/20240308060447/https://www.apple.com/apple-music/] (last visited Mar. 10, 2024) (“Over 100 million songs and 30,000 playlists, always ad-free.”); Press Release, Amazon, Amazon Music Expands Its Prime Benefit, Now with a Full Catalog of Music and the Most Top Podcasts Ad-Free (Nov. 1, 2022), <https://press.aboutamazon.com/2022/11/amazon-music-expands-its-prime-benefit-now-with-a-full-catalog-of-music-and-the-most-top-podcasts-ad-free> [https://perma.cc/H9CH-BVRF] [https://web.archive.org/save/https://press.aboutamazon.com/2022/11/amazon-music-expands-its-prime-benefit-now-with-a-full-catalog-of-music-and-the-most-top-podcasts-ad-free].

80. See *Market Share Data*, *supra* note 19 (detailing market share data for Sony, Warner, and Universal); *cf.* SONY, SUPPLEMENTAL INFORMATION FOR THE CONSOLIDATED FINANCIAL RESULTS FOR THE FOURTH QUARTER ENDED MARCH 31, 2023, at 14 (Apr. 28, 2023) (reporting that Sony’s music publishing arm owned and administered 5.46 million songs as of March 31, 2022).

81. See Testimony of Daniel R. Fischel and Douglas G. Lichtman, submitted in the matter of Determination of Royalty Rates and Terms for Ephemeral Recording and Webcasting Digital Performance of Sound Recordings (Web IV) at 8, CRB Docket No. 14-CRB-0001-WR (2016–2020) (Oct. 4, 2014) (Public Redacted Version) (evaluating a “license agreement that iHeartMedia signed with Warner Music”).

of Spotify in exchange for millions of copyright permissions.⁸² ASCAP and BMI reduce costs in this market as well; the same consent decrees that allow ASCAP and BMI to offer large-scale blanket licenses to bars and radio stations are today read to allow ASCAP and BMI to also license streamers, and again at a many-million-song scale. Smaller competitors offer blanket licenses covering their smaller catalogs, too, so far without any legal challenge from the Justice Department.

Compulsory licenses then round out the government's available cost-containing tools. Section 114 of the Copyright Act offers a compulsory license under which a noninteractive streamer can use copyrighted sound recordings in the context of their radio-like services. Specifically, the § 114 license allows eligible streamers "to perform sound recordings without an individual license from the copyright owner, provided they pay the statutory royalty rates for the performance of the sound recordings and for the ephemeral copy of the sound recording necessary to transmit it."⁸³ The § 112 license then covers the making of that ephemeral (temporary) copy.⁸⁴ Rates for both licenses are set by the Copyright Royalty Board, once every five years, under a standard where rates are to approximate the rates that "would have been negotiated in the marketplace between a willing buyer and a willing seller"⁸⁵ in a hypothetical market that is at least somewhat competitive.⁸⁶ Monies are collected by the rights management organization SoundExchange,⁸⁷ which in turn distributes the cash to copyright holders and also directly to contributing vocalists and musicians, again without the need for costly direct negotiations.

Under § 115 of the Copyright Act, meanwhile, interactive streamers are allowed to reproduce and distribute copyrighted musical works without direct permission from the implicated songwriters and their representatives.⁸⁸ Rates for this so-called "mechanical" license are also set once every five years by the Copyright Royalty Board, and under current law those rates also approximate the "rates and terms that would have been negotiated in the marketplace between a willing buyer and a willing seller,"

82. See Ben Sisario, *As Spotify Goes Public, Sony Cashes in*, N.Y. TIMES (Apr. 4, 2018), <https://www.nytimes.com/2018/04/04/business/media/as-spotify-goes-public-sony-cashes-in.html> [<https://web.archive.org/web/20240310173844/https://www.nytimes.com/2018/04/04/business/media/a-s-spotify-goes-public-sony-cashes-in.html>] (reporting that Sony licensed Spotify in exchange for approximately 5.7 percent of the company, and estimating that Universal and Warner each owned approximately 4 percent by way of similar deals).

83. Determination of Rates and Terms for Digital Performance of Sound Recordings and Making of Ephemeral Copies To Facilitate Those Performances (Web V), 86 Fed. Reg. 59452, 59452 (Oct. 27, 2021) (to be codified at 37 C.F.R. pt. 380); see also 17 U.S.C. § 114(f).

84. 17 U.S.C. § 112(e).

85. 17 U.S.C. § 112(f)(1)(B).

86. See, e.g., Determination of Rates and Terms for Digital Performance of Sound Recordings and Making of Ephemeral Copies To Facilitate Those Performances (Web V), 86 Fed. Reg. 59452, 59452 (Oct. 27, 2021) (to be codified at 37 C.F.R. pt. 380) (summarizing the standard applicable to both compulsory licenses); *Id.* at 59454–55 (discussing what it means for a hypothetical market to be "effectively competitive").

87. See U.S. COPYRIGHT OFF., *supra* note 12, at 10–11 (explaining the role played by SoundExchange); Small Webcaster Settlement Act of 2002, Pub. L. No. 107-321, § 3(b), 116 Stat. 2780, 2781 (2002) (codified as amended at 17 U.S.C. § 114) (establishing the rules under which SoundExchange receives these funds).

88. 17 U.S.C. § 115.

with special emphasis on (1) “whether use of the compulsory licensee’s service may substitute for or may promote the sales of phonorecords or otherwise may interfere with or may enhance the musical work copyright owner’s other streams of revenue from its musical works” and also (2) the “relative roles of the copyright owner and the compulsory licensee . . . with respect to relative creative contribution, technological contribution, capital investment, cost, and risk.”⁸⁹ Monies paid under this compulsory license are efficiently collected and distributed by the Mechanical License Collective, an entity designated by the Copyright Office to serve this specific, transaction-cost-reducing purpose.⁹⁰

Scholars, stakeholders, and regulators have long perceived all of this and understood the implication: In streaming markets, copyright law embraces compulsory licensing and relies on significant antitrust forbearance because, in doing so, the law at least partially addresses a plausible concern about the administrative costs of licensing. That is, Kristelia García is right when she asserts that, in this context, “individual negotiation with numerous, disparate rights holders would be both time and cost prohibitive,” whereas compulsory licensing “allows for efficient en masse licensing of content and subsequent scalability of service where individual transactions are not practicable.”⁹¹ Jacob Victor is likewise correct when he describes as “the dominant explanation” the notion that copyright law “tolerates compulsory licensing” so that “a distributor like Pandora can forgo negotiations with a large number of individual music copyright holders” and in that way “bypass costly or unfeasible” negotiations.⁹² Judge Ralph Winter compellingly captured this same intuition when he wrote, in an opinion related to the ASCAP and BMI consent decrees, that the ASCAP and BMI blanket licenses “eliminate costly, multiple negotiations,” “reduce the costs of licensing copyrighted musical compositions,” and thus are appropriately tolerated despite their potential anticompetitive impact.⁹³ Simply put, transaction costs are at least a partial explanation for the idiosyncratic rules that today govern music streaming.

B. THE MARKET POWER JUSTIFICATION

As explained in the prior subsection, the compulsory licenses and antitrust consent decrees that govern music streaming can be justified, at least in part, as a response to the high transaction costs that would otherwise hamper licensing in this market. As is also clear from that same discussion, however, interventions that reduce transaction costs often also lead to a new problem: private amalgamations of artists and/or rights

89. 17 U.S.C. § 115(c)(1)(F).

90. See *About Us*, THE MLC, <https://www.themlc.com/our-story> [<https://perma.cc/HPQ5-G5L3>] [<https://web.archive.org/web/20240222171815/https://www.themlc.com/our-story>] (last visited Apr. 3, 2024) (explaining the MLC’s status).

91. Kristelia A. García, *Penalty Default Licenses: A Case for Uncertainty*, 89 N.Y.U. L. REV. 1117, 1127 (2014).

92. Jacob Victor, *Reconceptualizing Compulsory Copyright Licenses*, 72 STAN. L. REV. 915, 919–20 (2020).

93. *Buffalo Broad. Co. v. Am. Soc’y of Composers, Authors & Publishers*, 744 F.2d 917, 934 (2d Cir. 1984) (Winter, J., concurring).

that raise serious concerns about possible anticompetitive effects.⁹⁴ Thus, a second conventional justification for the consent decrees and compulsory licenses applicable to music streaming is that these idiosyncratic interventions constrain the exercise of market power.

This is easy to see in the context of the ASCAP and BMI consent decrees. As Lionel Sobel emphasizes in his telling of the history, while the Justice Department knew that ASCAP and BMI facilitate beneficial licensing activities that would otherwise be cost-prohibitive for individual songwriters,⁹⁵ the Department also knew that these intermediaries could cause market distortions.⁹⁶ The ASCAP and BMI consent decrees were thus intended to cabin that risk. For instance, the consent decrees forbid ASCAP and BMI from taking exclusive rights to the musical works they license.⁹⁷ The idea is to leave open the possibility that, in at least some situations, individual rights holders can compete with ASCAP and BMI by offering deals directly to would-be licensees.⁹⁸ The decrees also require ASCAP and BMI to immediately grant licenses to “any music user making a written request therefor”;⁹⁹ that restriction stops ASCAP and BMI from gaining leverage in a negotiation by even temporarily threatening to withhold one or the other catalog.¹⁰⁰

94. Commentators regularly point out this link between transaction costs and market power. See, e.g., Thomas M. Lenard & Lawrence J. White, *Moving Music Licensing into the Digital Era: More Competition and Less Regulation*, 23 UCLA ENT. L. REV. 133, 142 (2016) (collective licensing reduces transaction costs but “is highly likely to create market power issues”); Xiyin Tang, *Copyright’s Techno-Pessimist Creep*, 90 FORDHAM L. REV. 1151, 1162 (2021) (“[F]or the same reasons that blanket licenses are efficient, the consolidation of so many musical works also presents serious anticompetitive concerns.”); Statement of the Department of Justice on the Closing of the Antitrust Division’s Review of the ASCAP and BMI Consent Decrees, at 2 (Aug. 4, 2016) (explaining that blanket licenses “enable music users to immediately obtain access to millions of songs without resorting to individualized licensing determinations or negotiations” but this mechanism “risks lessening competition” and thus has “long raised antitrust concerns”).

95. Sobel, *supra* note 68, at 3.

96. *Id.* at 5–6.

97. ASCAP AFJ2, *supra* note 27, at § IV(B); BMI AFJ, *supra* note 27, at § IV(A).

98. See TMLC Comments, *supra* note 75, at 13 (“[T]he Consent Decrees serve to bar ASCAP and BMI from obtaining exclusive rights to license their affiliated copyright owners’ works” and in that way preserve “the right of users such as local television stations to secure performance rights licenses directly from composers and music publishers.”); RMLC/DMA Comments, *supra* note 73, at 29 (“ASCAP and BMI must not be the exclusive channel through which a music user can seek a license to use the songs in their repertoires, so that individual copyright holders can still, potentially, compete against each other on price and other terms.”); JAFFE, *supra* note 74, at 10 (“ASCAP and BMI are prohibited from restricting their affiliated rightsholders’ ability to negotiate individually to license their works, in order to mitigate their collusive market power by allowing for the possibility of competition alongside the collective licensing.”).

99. ASCAP AFJ2, *supra* note 27, § IX. The BMI consent decree uses different language, to the same effect. BMI AFJ, *supra* note 27, § I (stating that applicants “shall have the right to use any, some or all of the compositions in defendant’s repertory” even before the terms of that license have been finalized).

100. See TMLC Comments, *supra* note 75, at 11 (“[T]he Consent Decrees bar ‘gun to the head’ licensing tactics by requiring ASCAP and BMI to issue licenses on request, thereby preventing ASCAP and BMI from using the threat of crippling copyright infringement litigation if the licensee does not agree to whatever license fees and terms the PRO demands.”); RMLC/DMA Comments, *supra* note 73, at 29 (“ASCAP and BMI must issue licenses on request, even if final deal terms have not been hammered out, so that they cannot use the threat of imminent copyright infringement claims . . . to extract eleventh-hour concessions from licensees.”); JAFFE, *supra* note 74, at 10 (“ASCAP and BMI must grant a license to anyone who requests one,

Most significantly along these lines, under both consent decrees, if there is a dispute about the appropriate fee to be charged for a given license, would-be licensees can petition judges in the Southern District of New York to set a “reasonable” rate.¹⁰¹ The decrees do not provide specific guidance for making that determination, but over the years courts have established that the rate must reflect “the fair market value for a particular license,” where “fair market value” in this context means “the price that a willing buyer and a willing seller would agree to in an arm’s length transaction.”¹⁰² As one rate court decision summarized the point, a “rate court must concern itself principally with ‘defin[ing] a rate . . . that approximates the rates that would be set in a competitive market.’”¹⁰³ Or, as the Second Circuit warned when reviewing a rate court decision, “rate-setting courts must take seriously the fact that they exist as a result of monopolists exercising disproportionate power over the market for music rights.”¹⁰⁴

Without these protections, licensees would be vulnerable to a wide range of potential abuse. For example, in order to negotiate effectively about rates and terms, would-be licensees need to know which rights are controlled by which entity. As radio stations, television stations, and countless other licensees have long complained, however, this information is often unavailable as a practical matter. In 2019, for instance, a trade group representing Amazon, Apple, Google, Pandora, Spotify, and YouTube joined with a coalition of radio stations to file comments in response to a Justice Department inquiry about the ASCAP and BMI consent decrees. Among other issues, the group complained that “neither ASCAP nor BMI provide potential licensees with bulk, machine-readable access to their repertory databases, and both disclaim the reliability of what limited information they do provide on their websites.”¹⁰⁵ As a result,

because restricting access to the collective product is the mechanism by which a cartel (i.e., the PRO) elevates the price.”).

101. ASCAP AFJ2, *supra* note 27, § IX; BMI AFJ, *supra* note 27, § XIV. Rate court review obviously protects against the exercise of market power. *See, e.g.*, Memorandum of the United States in Response To Motion of Broadcast Music, Inc. To Modify the 1966 Final Judgment Entered in This Matter at 9, *United States v. Broad. Music, Inc.*, 1994 WL 16189511 (S.D.N.Y. June 20, 1994) (No. 64 Civ. 3787) (“[E]mpowering the Court to resolve licensing disputes when negotiations between BMI and music users break down is sound enforcement policy” and “an effective restraint on potential abuse of market power.”); Brief for the United States at 24, *United States v. Broad. Music, Inc.*, 275 F.3d 168 (2d Cir. 2001) (No.00-6123(LEAD)) (“BMI and the government agreed at the time the rate court provision was entered that it was to be a constraint on BMI’s market power.”); Memorandum of Defendant Broadcast Music, Inc. in Support of Motion To Modify Consent Decree at 30, *United States v. Broad. Music, Inc.*, 1994 WL 16189513 (S.D.N.Y. June 27, 1994) (No. 64 Civ. 3787) (“The proposed modification [to add a Rate Court] substitutes a rate court mechanism for BMI’s right to withhold access to its repertoire, thus further limiting any possible market power BMI might derive as a result of its accumulation of performing rights to over 2 million compositions.”).

102. *United States v. Broad. Music, Inc.*, No. 64 Civ. 3787 (LLS), 2001 WL 829874, at *4 (S.D.N.Y. July 20, 2001); *see also* *Am. Soc’y of Composers, Authors & Publishers v. Showtime/The Movie Channel, Inc.*, 912 F.2d 563, 569 (2d Cir. 1990).

103. *United States v. Am. Soc’y of Composers, Authors and Publishers*, No. Civ. 13-95 (WCC), 1993 WL 60687, at *16 (S.D.N.Y. Mar. 1, 1993).

104. *United States v. Broad. Music, Inc.*, 426 F.3d 91, 96 (2d Cir. 2005). Just the threat of rate court intervention should typically suffice to pressure ASCAP and BMI to offer reasonable rates because all parties know that unreasonable offers can be brought up for review.

105. RMLC/DMA Comments, *supra* note 73, at 7.

“radio and digital music services are regularly forced to enter into license negotiations where the [licensors] claim to collectively control well over 100% of performances on the relevant service” and where licensees “are simply unable to ascertain what they are, and are not, licensing.”¹⁰⁶ These challenges seemingly persist. A telling sign: ASCAP still today publicly disclaims the accuracy of its own data, noting on its website that “ASCAP makes no guarantees, warranties or representations of any kind with regard to . . . the accuracy, completeness, timeliness, quality or reliability of any information made available on and through”—wait for it—the very search tool that ASCAP itself provides to potential licensees.¹⁰⁷

The issue here is likely in part strategic, with intermediaries hoping to gain leverage by intentionally obfuscating the details of what they can and cannot license.¹⁰⁸ But it is also likely more than that. For example, successful songs are often written by teams of writers. The ten most-streamed songs in 2018, for instance, each credited an average of 9.1 individuals.¹⁰⁹ Those writers and their copyrights from time to time move from one music publisher to another, and those publishers from time to time move from ASCAP to BMI, BMI to ASCAP, or from ASCAP and BMI to other licensing entities like SESAC and GMR. Multiply that commotion by (say) the 100 million songs currently included in Spotify’s library and adjust for practical challenges like the fact that ASCAP at one point represented “nine different composers named ‘Brian Smith’” and two additional composers listed as “Brian David Smith”¹¹⁰ . . . and the result, as lawyers for both Netflix and the National Cable & Telecommunications Association explained in a recent submission to the Justice Department, is an understandable information quagmire.¹¹¹ No wonder licensees claim to have little choice but to take blanket licenses

106. *Id.*

107. ASCAP *Repertory Search—Terms of Use Agreement*, ASCAP, <https://www.ascap.com/help/legal/ace-terms-of-use> [https://perma.cc/8CD9-UQLL] [https://web.archive.org/web/20240218200917/https://www.ascap.com/help/legal/ace-terms-of-use] (last visited Mar. 10, 2024).

108. Ample evidence suggests that at least some of the obfuscation is intentional. For example, when a coalition of radio stations sued SESAC in 2013, the magistrate judge conducted an early evidentiary hearing on the coalition’s then-pending motion for a preliminary injunction. After the hearing, the magistrate issued written findings, including a finding that SESAC “engaged in exclusionary conduct by failing to disclose its repertory and [thereby] ensuring that users have no alternatives but to purchase [SESAC’s] licenses.” *Radio Music License Comm., Inc. v. SESAC Inc.*, No. 12-CV-5807, 2013 WL 12114098, at *20 (E.D. Pa. Dec. 23, 2013). A judge in the Southern District of New York found that Sony used a similar tactic in its negotiations with Pandora. In that instance, Sony had refused to share a list of the songs in its repertory even though it “had a list readily at hand” because “Sony understood that it would lose an advantage in its negotiations with Pandora if [Sony] provided the list of works” and thus Sony “deliberately chose not to do so.” *In re Petition of Pandora Media, Inc.*, 6 F. Supp. 3d 317, 344 (S.D.N.Y. 2014). That said, ASCAP and BMI have in recent years promised to be more transparent. *See Delrahim Remarks*, *supra* note 26, at 4.

109. Tim Ingham, *How To Have a Streaming Hit in the USA: Hire 9.1 Songwriters (and a Rap Artist)*, MUSIC BUS. WORLDWIDE (Jan. 6, 2019), <https://www.musicbusinessworldwide.com/how-to-have-a-streaming-hit-in-the-us-hire-9-1-songwriters-and-a-rap-artist/> [https://perma.cc/5Q5W-HS3C] [https://web.archive.org/web/20240218203432/https://www.musicbusinessworldwide.com/how-to-have-a-streaming-hit-in-the-us-hire-9-1-songwriters-and-a-rap-artist/].

110. JAFFE, *supra* note 74, at 5.

111. KENNETH STEINTHAL ET AL., SUBMISSION OF AUDIOVISUAL MEDIA LICENSES REGARDING REVIEW OF ASCAP AND BMI CONSENT DECREES 9–10, 22 (2019) (explaining various information challenges and

from both ASCAP and BMI. To do otherwise would be to accept a very high risk that some necessary right was accidentally left uncleared.

Like the consent decrees, the compulsory licenses applicable to music streaming serve to constrain market power.¹¹² Start with the rights governed by § 112 and § 114. As explained in the previous subsection, noninteractive streamers need permission to publicly perform the copyrighted sound recordings they include in their streams, and they also need permission to make temporary copies of those sound recordings in order to facilitate the streamed performances.¹¹³ Transaction costs make it hard to license those rights directly from the relevant artists, so record labels like Sony Music, Warner Music Group, and Universal Music offer bigger, many-song licenses. Those amalgamations reduce transaction costs, true; but, if not for the § 112 and § 114 compulsory licenses, those licenses would likely be priced at levels far above the competitive level.

The issue this time is not merely that these three firms are large.¹¹⁴ They are; indeed, as noted previously, concentration in this part of the market is so significant that industry insiders call Sony, Warner, and Universal “the Big Three,” and even the Copyright Royalty Board refers to them as “the Majors” when issuing rate-setting determinations.¹¹⁵ The problem is that these three catalogs have achieved “must have” status: The only way for a noninteractive streamer to offer a commercially viable radio-like service is to take licenses from all three record labels.¹¹⁶

Pandora ran experiments to show this empirically.¹¹⁷ In 2014, for certain subsets of its customers, Pandora intentionally increased its use of music controlled by one of the Majors and correspondingly decreased its use of music from the other two. The relevant listeners were not informed of the change. For all they knew, they were receiving normal radio-like streams created by the normal preference-driven Pandora algorithm. What Pandora found was that, while the company could increase or decrease a label’s percentage of plays by 15% without causing a noticeable negative

asking that ASCAP and BMI be required to make available accessible, comprehensive, reliable information). Tellingly, even ASCAP and BMI have trouble keeping track of the necessary information. *See* U.S. DEP’T OF JUSTICE, STATEMENT OF THE DEPARTMENT OF JUSTICE ON THE CLOSING OF THE ANTITRUST DIVISION’S REVIEW OF THE ASCAP AND BMI CONSENT DECREES 13–16 (2016) (Despite “their years of experience” and “their established relationships with music creators, [ASCAP and BMI] often do not make distributions until weeks or months *after* a song is played, and even then do so imperfectly.”).

112. *See* Daniel A. Crane, *Intellectual Liability*, 88 TEX. L. REV. 253, 270 (2009) (“Copyright compulsory licenses are justified as a means of preventing the exercise of market power in copyright licensing or its creation in downstream markets.”); Michael J. Meurer, *Vertical Restraints and Intellectual Property Law: Beyond Antitrust*, 87 MINN. L. REV. 1871, 1906 (2003) (“Copyright law has enacted compulsory licenses to moderate the danger that exclusive licenses can be used to create market power in downstream markets.”).

113. *See supra* note 16 and accompanying text.

114. *See* Web IV Order, *supra* note 16, at 26374 (“[T]he Judges do not find that the mere size of the Majors or their share of the noninteractive market is in itself anticompetitive.”).

115. *Id.*

116. *See* Web IV Order, *supra* note 16, at 26373 (“There appears to be a consensus that the repertoire of each of the three Majors is a ‘must have’ in order for a noninteractive service to be viable.”).

117. The details discussed in the text were all reported in the public Web IV final determination. *See id.* at 26357–58.

response, a change of 30% caused the average listener to significantly reduce the number of hours spent listening to Pandora.¹¹⁸ Pandora has not publicly reported any experiments where it completely eliminated all music associated with one of the Majors, but the Copyright Royalty Board deemed these “steering” experiments sufficient to establish the basic point: “[S]teering away from [the Majors’] repertoires cannot be pursued beyond a certain level,” and “the Majors’ repertoires [are] ‘must have’ even though noninteractive services [can] steer away from them to an extent.”¹¹⁹

If there were no compulsory license, each of the Big Three would be able to use this “must have” status to extract a significant price premium above and beyond the market-clearing prices they would earn were each song licensed individually. Sony would literally threaten to put a specific streamer out of business by withdrawing all of its associated songs. So would Warner. So would Universal. Thanks to the compulsory license, however, none of the Big Three can fully wield this market power. In the face of any such threat, a noninteractive streamer would simply invoke the government license and pay the regulated rate. The existence of the compulsory license thus neutralizes this type of market power. Streamers can negotiate with the Big Three record labels, knowing all the while that full catalog withdrawal is not a credible threat.

A similar analysis applies to the compulsory license codified in § 115, which is the license that today allows interactive streamers to pay a government-set rate for permission to reproduce and distribute musical work. Section 115 was first introduced in 1909 and was what Howard Abrams endearingly describes as “copyright’s first compulsory license.”¹²⁰ As Abrams tells the story,¹²¹ the cutting-edge technology for music distribution back then was a device called the player piano, which was a self-playing piano that, in those days, would receive music on rolls of paper, with the relevant notes and patterns encoded as tiny perforations.¹²² The Aeolian Corporation was the dominant distributor of player pianos, but its dominance was based at least in part on copyright: A large number of music publishers had agreed to give Aeolian exclusive rights to hundreds of thousands of copyrighted compositions, thereby denying to Aeolian’s rivals what might well have been commercially necessary music.¹²³ Worried that a “cartel of music publishers” would in this way use concentrated copyright rights to distort competition, Congress created the § 115 compulsory license, requiring copyright holders to license all manufacturers at the same government-set

118. From the public record, it is unclear whether this result held for all three of the Majors, or just for Universal and Sony. *Id.* at 26358 (summarizing that “Pandora was unable to steer -30% or +30% for Universal or Sony without creating a statistically significant change in listening behavior” but not mentioning Warner).

119. *Id.* at 26373 n.155.

120. Howard B. Abrams, *Copyright’s First Compulsory License*, 26 SANTA CLARA HIGH TECH. L.J. 215 (2010). For another excellent introduction to this history, see Lydia Pallas Loren, *The Dual Narratives in the Landscape of Music Copyright*, 52 HOUSTON L. REV. 537, 545–49 (2014).

121. Abrams, *supra* note 120, at 217–21.

122. The technology is explained in *White-Smith Music Publ’g Co. v. Apollo Co.*, 209 U.S. 1, 9–10 (1908), *aff’d* 147 F. 226 (2d Cir. 1906), *aff’d* 139 F. 427 (C.C.S.D.N.Y. 1905).

123. Abrams, *supra* note 120, at 219.

rate, with no possibility of exclusive deals.¹²⁴ Musical work copyright holders would be paid, but they were not allowed to pick winners by licensing one firm while denying access to another.

Section 115 has obviously expanded significantly over the years, but the underlying economic issues are largely unchanged. Sony Music Publishing, Universal Music Publishing Group, and Warner Chappell are today the three largest music publishers.¹²⁵ Their catalogs might well be large enough to constitute “must have” assets akin to the sound recording catalogs licensed by the Big Three. Even if they are not so categorized, however, were even one of these publishers to deny access to a given streamer while licensing that streamer’s rivals, the denied streamer would certainly find itself at a significant competitive disadvantage. Section 115 therefore precludes this potential exercise of market power. If a record label takes an aggressive position, the implicated streamer can license the necessary rights directly from the government by way of the compulsory license or, more commonly, license those rights through the Harry Fox Agency, which is an intermediary that offers a license modeled after the compulsory one but with slightly less onerous reporting requirements.¹²⁶ Either way, and indeed across all of these examples, market power is checked because, at worst, the government—through consent decrees and compulsory licenses—guarantees access and caps prices.¹²⁷

C. THE PUBLIC POLICY JUSTIFICATION

The previous two subsections considered two of the three justifications typically offered to explain why the government might rightly take a heavy-handed approach when it comes to music streaming: Government intervention might be a justified response to transaction costs, and government intervention might be a justified response to market power. This subsection considers a third and slightly more nuanced explanation: Even in the absence of transaction costs and market power, the government might still rightly intervene in order to tailor the flow of monies in this

124. *Id.*; Loren, *supra* note 120, at 548. The Copyright Royalty Board tells a similar story about the origins of the § 115 compulsory license, acknowledging Congress’s concerns with respect to monopolization but also emphasizing Congress’s interest in balancing “the exclusive rights of owners of copyrighted musical works” with “the public’s interest in access” to those works. *See* Phonorecords III Order, *supra* note 3, at 1918. Jacob Victor takes the position that, while the “monopolization explanation makes sense to a point,” the compulsory license is better understood as an attempt to allow an “access-expanding” technology to “flourish, while still ensuring that copyright owners received some compensation.” *See* Victor, *supra* note 92, at 922, 940; *see also* Jane C. Ginsburg, *Copyright and Control over New Technologies of Dissemination*, 101 COLUM. L. REV. 1613, 1626–27 (2001) (considering monopolization, compensation, and access rationales); Peter DiCola & Matthew Sag, *An Information-Gathering Approach To Copyright Policy*, 34 CARDOZO L. REV. 173, 202 (2012) (describing the license as a compromise between copyright holders’ interest in compensation and piano roll manufacturers’ interest in developing that nascent industry).

125. *See supra* note 21 and accompanying text.

126. *See* Loren, *supra* note 120, at 549 n.54 (explaining the Harry Fox license).

127. *See* Phonorecords III Order, *supra* note 3, at 1933 (explaining that one reason to have a compulsory license “is to prevent the licensor from utilizing or monetizing the ability to ‘walk away’ as a cudgel to obtain a better bargain”).

market so as to address public policy challenges that are applicable to music streaming and arguably not well handled by copyright law's market-deferring defaults.

Consider first those market defaults. Copyright law is an incentive system. In the words of the Supreme Court, it is designed to “motivate the creative activity of authors”¹²⁸ while at the same time “promoting innovation in new communication technologies”¹²⁹ and supporting “broad public availability of literature, music, and the other arts.”¹³⁰ Balancing all of this is an enormous challenge, and copyright law for the most part relies on market forces to fill in the details. That is, questions about how much money should go to a given author, or how expensive a given book or video should be, are typically resolved not by government fiat but by the give-and-take interactions of buyers and sellers. The hope is that, through self-interested market transactions, authors, licensors, distributors, and audiences will together end up participating in a set of transactions, interactions, and payments that achieve all of copyright law's various policy purposes,¹³¹ or at least achieve them more effectively than could any other plausible regime.¹³²

Transaction costs and market power interfere with this process. Transaction costs make it difficult for market participants to cut deals. Market power distorts deals that are nevertheless struck. As a result, one way to conceptualize the consent decrees and compulsory licenses applicable to music streaming is to think of them as recreating through regulation the market outcomes that transaction costs and market power would otherwise spoil. Thus, for example, the ASCAP and BMI rate courts define as “reasonable” the rate that a “willing buyer” would pay a “willing seller” in a hypothetical market subject to effective competition. That standard on this view is just a formal way

128. *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984).

129. *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 1008 (2005).

130. *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (footnotes omitted).

131. As the Justice Department reiterated in its most recent review of the ASCAP and BMI consent decrees, the “very foundation” of copyright law is that “the best, most efficient way to allocate resources—and the most effective way to maximize consumer welfare—is through allowing parties to negotiate, to set prices based on supply, demand, and available information.” Delrahim Remarks, *supra* note 26, at 5; *see also* *Mazer v. Stein*, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”); Victor, *supra* note 92, at 927 (“[C]opyright entitlements are expected, according to some, to optimally embody a tradeoff between incentives and access, allowing authors to profit off their works through the market while still ensuring that the public and other creators are not unduly restricted from accessing them.”).

132. The government does motivate some creative and innovative activity by offering direct cash grants, including from the National Endowment for the Arts, the Defense Advanced Research Projects Agency, and the National Institutes of Health. An expanded system along these lines could in theory accomplish many of copyright law's goals but without the use of market mechanisms. That said, such a system would be hopelessly impractical, in that it would be vulnerable to abuse (the relevant political leaders favoring their preferred authors and projects) and also to well-meaning error (paying too much for one creative work, too little for another). For discussion, see Doug Lichtman, *The Economics of Innovation: Protecting Unpatentable Goods*, 81 MINN. L. REV. 693, 704 n.36 (1997); Doug Lichtman, *Pricing Prozac: Why the Government Should Subsidize the Purchase of Patented Pharmaceuticals*, 11 HARV. J.L. & TECH. 123 (1997); Michael Abramowicz, *Perfecting Patent Prizes*, 56 VAND. L. REV. 115 (2003); Benjamin N. Roin, *Intellectual Property Versus Prizes: Reframing the Debate*, 81 U. CHI. L. REV. 999 (2014).

of articulating the underlying goal: emulate standard market outcomes by way of various regulatory interventions. The Copyright Royalty Board uses a similar market-mimicking standard for at least some of its rate determinations.

That said, commentators and lawmakers sometimes imagine for the government a more ambitious role. This time, compulsory licenses and consent decrees are not designed to emulate the market outcomes that would be achieved were costs low and the market reasonably competitive. Compulsory licenses and consent decrees instead intentionally deviate from those idealized market results and in that way even more effectively balance copyright law's complicated and interrelated purposes.

There are hints along these lines throughout the Copyright Act. For instance, before it was amended in 2018, § 801(b) required that the CRB price the § 115 compulsory license such that the resulting rate was "reasonable" in light of four statutory objectives: "maximize the availability of creative works to the public"; "afford the copyright owner a fair return for his or her creative work and the copyright user a fair income under existing economic conditions"; "reflect the relative roles of the copyright owner and the copyright user in the product made available to the public"; and "minimize any disruptive impact on the structure of the industries involved."¹³³ Those words might simply have been Congress's way of articulating what a well-functioning market would naturally achieve. Market forces, for instance, should naturally "afford the copyright owner a fair return" and "reflect the relative roles of the copyright owner and the copyright user in the product made available to the public." But it is possible that Congress in addition meant to introduce policy considerations beyond those that would be addressed by conventional market forces, rejecting the conventional approach of using market forces to calibrate copyright incentives and replacing it with a streaming-specific variant focused on these particular factors.

Similarly, while § 114 requires that the CRB set certain compulsory rates such that the rates represent what a "willing buyer" and "willing seller" would negotiate in the marketplace,¹³⁴ that statutory provision goes on to require that the CRB consider "whether use of the [compulsory licensee's] service may substitute for or may promote the sales of phonorecords or otherwise may interfere with or may enhance the sound recording copyright owner's other streams of revenue from the copyright owner's sound recordings" and "the relative roles of the copyright owner and the [compulsory licensee] in the copyrighted work and the service made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost, and risk."¹³⁵ Again, Congress here might simply be explaining what market forces would inevitably achieve were transaction costs eliminated and market power constrained. But it is also possible that Congress meant to suggest something more: a streaming-specific tradeoff between competing copyright interests that differs from the conventional, market-mediated outcome.

133. See 17 U.S.C. § 801(b)(1) (2011) (amended 2018).

134. 17 U.S.C. § 114(f)(1)(B).

135. 17 U.S.C. § 114(f)(1)(B)(i).

Some decisions issued by the Copyright Royalty Board likewise seem to pursue outcomes that are not market-mimicking. In 2019, for instance, the CRB announced new rates and terms for the § 115 license. The decision was based in part on market evidence, and the rates were explicitly adjusted to account for the “oligopoly power” and “bargaining constraints” that otherwise taint private market negotiations.¹³⁶ But the decision went on to explicitly rely on a game-theoretic algorithm that purportedly establishes a “fair” division of surplus as between record labels, music publishers, and streamers.¹³⁷ That allocation had been described by some testifying economists as if it reflects market outcomes,¹³⁸ but a more plausible interpretation of both the algorithm and the CRB’s implementation is that “fairness” in this instance was an entirely distinct conclusion about the degree to which singers, songwriters, and technology companies should each benefit from streaming revenues.¹³⁹ The CRB, in essence, was directly implementing public policy—“fairness”—rather than mimicking some idealized market structure.

Another example along these lines is an allocation rule buried deep in the weeds of the § 114 compulsory license. Specifically, under § 114(g)(2), monies collected under that license must be distributed such that “50 percent of the receipts [are] paid to the copyright owner of the exclusive right . . . to publicly perform [the] sound recording”; “45 percent of the receipts [are] paid, on a per sound recording basis, to the recording

136. See, e.g., Phonorecords III Order, *supra* note 3, at 1933.

137. See, e.g., Phonorecords III Order, *supra* note 3, at 1947–52 (introducing Shapley analysis); *id.* at 1948 (explaining that Shapley analysis is a “game theory model that is ultimately designed to model the outcome in a hypothetical ‘fair’ market environment”); *id.* at 1958–59 (further discussing Shapley analysis).

138. Professor Joshua Gans asserted in a 2016 CRB filing that Shapley’s “fairness” analysis can be used to estimate the royalties “that would prevail in an unconstrained market.” Expert Report of Joshua Gans, submitted in the Matter of Determination of Rates and Terms for Making and Distributing Phonorecords (Phonorecords III), No. 16-CRB-003-PR (2018–2022) (on behalf of Copyright Owners) (Oct. 31, 2016) at 31. Professor Richard Watt wrote in a 2017 filing that Shapley analysis “mimics what a free and unrestricted market negotiation would yield.” Written Rebuttal Testimony of Richard Watt (PhD), submitted in the Matter of Determination of Rates and Terms for Making and Distributing Phonorecords (Phonorecords III), CRB Docket No. 16-CRB-003-PR (2018–2022) (on behalf of the National Music Publishers’ Association and the Nashville Songwriters Association International) (Feb. 13, 2017) at 15. Professor Watt followed up in 2021 with the assertion that that the Shapley methodology “reflects effective competition.” Written Direct Testimony of Richard Watt (PhD), submitted in the Matter of Determination of Rates and Terms for Making and Distributing Phonorecords (Phonorecords IV), CRB Docket No. 21-CRB-0001-PR (2023–2027) (on behalf of Copyright Owners) (Oct. 13, 2021) at 9. Professor Robert Willig testified in 2019 that “Shapley Values are an appropriate approach for assessing rates that would be negotiated in the hypothetical marketplace” Written Direct Testimony of Robert Willig, submitted in the Matter of Determination of Rates and Terms for Digital Performance of Sound Recordings and Making of Ephemeral Copies To Facilitate Those Performances (Web V), CRB Docket No. 19-CRB-005-WR (2021–2025) (on behalf of SoundExchange) (Sept. 26, 2019) at 12. These interpretations are in my view indefensible, in that Shapley analysis was neither designed to simulate market interactions nor is it so capable. See Doug Lichtman, *Shapley Analysis: A Cautionary Tale*, HARV. J. SPORTS & ENT. L. (forthcoming 2024).

139. See Phonorecords III Order, *supra* note 3, at 1948 (evaluating various rate proposals in terms of whether they reflect a “fair division” of the available surplus, embody a “fair rate” for the license, and align with “public utility-style” intuitions about cost recovery); *id.* at 1959 (interpreting the relevant legal standard as one designed “to move [the Judges’] determination of new rates for existing licenses beyond a strictly market-based analysis”); *id.* at 1959 n.156 (acknowledging that, in general, “microeconomic principles . . . do not provide insights as to what constitutes ‘fairness’”).

artist or artists featured on such sound recordings”; and five percent is split evenly between “nonfeatured musicians” and “nonfeatured vocalists” who perform on the sound recordings.¹⁴⁰ This allocation is flatly inconsistent with traditional copyright allocations. Under traditional rules, after all, royalties paid for a *copyright* license go to the *copyright* holder, full stop. And Congress knew it. The House Judiciary Committee acknowledged in a written report recommending the change that, under conventional rules, “record companies [would typically be the] authors of both the performance and the sound engineering portions of the sound recordings, and thus the sole rightsholders”; and, as a result, performers would be paid only according to the terms of their contracts.¹⁴¹ Then-Register of Copyrights Marybeth Peters likewise acknowledged in prepared written testimony that copyright law by default would distribute these monies differently.¹⁴² The Judiciary Committee, however, was acting intentionally, very explicitly trying “to ensure that a fair share of the digital sound recording performance royalties goes to performers”¹⁴³

Some commentators take the position that the government’s idiosyncratic approach to music streaming is best explained by this theory. That is, these commentators argue that the regulatory regime is best understood as the implementation of a set of intentional, market-rejecting policy choices. Jacob Victor, for instance, recently argued that the “primary function” of various interventions in music licensing “has been to recalibrate the balance between creators’ financial incentives and public access to expressive works in situations where free market licensing would yield problematic outcomes.”¹⁴⁴ Tim Wu argued back in 2004 that compulsory licenses and various “technologically specific immunities” combine to create a “de facto communications policy” that endeavors to facilitate competition between, and promote innovation by, firms that disseminate copyrighted information.¹⁴⁵ Jessica Litman frames many of these same interventions more cynically, seeing them as a mix of rent-seeking and self-interested advocacy by various stakeholders in the creative and technology fields, each trying to replace copyright law’s default rules with tailored alternatives that favor their own economic and artistic interests.¹⁴⁶ Differences aside, these commentators are correct in their high-level message: In addition to the transaction cost and market power justifications, a third plausible justification for the government’s heavy-handed interventions with respect to music streaming is a justification tied to copyright law’s fundamental policy tradeoffs. That is, through these interventions, the government

140. 17 U.S.C. § 114(g)(2).

141. Report of the Committee on the Judiciary, Digital Performance Right in Sound Recordings Act of 1995, H.R. REP. NO. 104-274, at 23–24 (1995).

142. *Statement Before the S. Comm. on Courts and Intellectual Property of the H. Comm. on the Judiciary*, 104th Cong. 183 (1995) (statement of Marybeth Peters, Register of Copyrights).

143. Report of the Committee on the Judiciary, Digital Performance Right in Sound Recordings Act of 1995, H.R. REP. NO. 104-274, at 24 (1995).

144. Victor, *supra* note 92, at 915.

145. Timothy Wu, *Copyright’s Communication Policy*, 103 MICH. L. REV. 278, 279–80 (2004).

146. See generally JESSICA LITMAN, *DIGITAL COPYRIGHT* (2d ed. 2006). See also Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 862 (1987).

might be doing more than simply enshrining previously unattainable market outcomes; the government might instead be tailoring copyright law for this specific application.

III. SEESAW IMPLICATIONS

In the prior section, I examined the three primary justifications that scholars, stakeholders, and regulators have put forward in support of copyright law's idiosyncratic approach to music streaming: that these interventions reduce transactions costs, constrain market power, and implement situation-specific public policy tradeoffs rather than merely imposing the rates and terms that would be obtained in a friction-free competitive market. In this section, I revisit these theories in light of an important wrinkle: Government regulation in this space is remarkably incomplete, such that interrelated but unregulated interactions can compensate for, and maybe even fully counteract, regulated and regulatory decision-making. As I explain here, these gaps in the regulatory regime undermine all three of the standard justifications. Market power reemerges by way of unregulated rights and unregulated interactions. Public policy allocations are vulnerable because unregulated interactions move that same money around but are subject to market forces. And, through all of that, transaction costs not only return, but ironically are transformed from villain to hero, as various new costs and frictions slow these seesaw responses and thus preserve at least some influence for the government's original, intended rules.

A. SEESAWS LIMIT MARKET-REJECTING INTERVENTIONS

Long before a song is available to be licensed, songwriters and their representatives negotiate with singers and their representatives to decide whether any given song will be recorded in the first place, by whom, and how any resulting royalties and rights will be shared.¹⁴⁷ This is perhaps the most competitive and vibrant slice of the music ecosystem. After all, if a given singer demands too much money or too much control, the songwriter will bring the song at issue to some other singer. Likewise, if the songwriter demands too much money or too much control, the singer can opt to record another song or even write a song of their own.

Musicians, producers, lyricists, composers, backup singers, and other creative contributors likewise participate in this dynamic push and pull. Whether a specific percussionist performs on a given track will depend on that musician's skills, financial requirements, and interpersonal demands. Whether a saxophone will sound in the background will similarly depend on whether an appropriately skilled player is available and under what terms. Important here, all of these negotiations are completely unregulated except for standard constraints that apply to the formation of any employee/employer/independent contractor relationship. The government does not

147. See JASON BLUME, *SIX STEPS TO SONGWRITING SUCCESS: THE COMPREHENSIVE GUIDE TO WRITING AND MARKETING HIT SONGS* (revised ed., 2008); JASON BLUME, *THIS BUSINESS OF SONGWRITING* (2d ed. 2013).

decide how royalties are divided between singers and songwriters in their direct private deals. The government has no say over whether a singer's record label or a songwriter's music publisher will, for instance, pay a significant advance, or how that advance will be recouped over time.

These unregulated agreements counterbalance the government's attempts to determine the allocation of licensing monies. On one side of the seesaw, for example, is the Copyright Royalty Board's 2023 rate determination for the § 115 license. That is the determination where the CRB announced its intention to direct a certain percentage of the available monies to the music publishers that represent songwriters and a certain percentage to the record labels that represent singers and other performers. The Board did implement its policy preference to at least some degree: When the Board's rates formally took effect, streamers who invoked the license were obligated to pay music publishers exactly the amounts the Board calculated. But from there the money could move again, and those next transfers were determined by the various private agreements between and among the singers, musicians, songwriters, composers, record labels, and music publishers. The government's policy-focused rule directed the initial cash transfer, sure, but market-mediated contracts then determine where those dollars ultimately ended up.¹⁴⁸

This same seesaw interaction blunts Congress's allocation of revenue through § 114(g)(2). That provision is the one where Congress stipulated that royalties paid under the § 114 compulsory license must be distributed such that 50% goes to the rights holder, 45% goes to the featured artists, and 5% is split evenly between the nonfeatured musicians and nonfeatured vocalists. Again here, the government does get its way in a sense: SoundExchange, which is the nonprofit intermediary in charge of receiving and distributing these monies, dutifully writes checks and sends wires to the intended parties in the intended proportions. From there, however, privately negotiated, completely unregulated contracts take over. If the rights holder or featured artist lured some nonfeatured vocalist to sing on the track by promising more than just a 2.5 percent royalty, that contract is valid, and the cash will move accordingly. If the rights holder gave the featured artist an advance and the artist in return promised to reimburse that advance by sharing future royalties, again that contract binds regardless of how SoundExchange fashions the initial checks.

A different set of contracts creates yet another policy-resisting, market-returning seesaw: direct licensing agreements that displace potential compulsory ones. Consider again § 114. Although this provision creates the possibility of a compulsory license, the law explicitly allows and indeed even seems to encourage rights holders and streamers to instead directly negotiate. Section 114(e)(1), for instance, states that

148. Another example of a contractual allocation that seems to override a government-set rate: The CRB recently took note of "controlled compensation clauses," which are negotiated arrangements under which music publishers agree to cap their royalties on certain songs at a level below the relevant statutory rate, again functionally shifting royalties from the relevant songwriter to the relevant singer as a condition of creating the implicated music in the first place. Determination of Royalty Rates and Terms for Making and Distributing Phonorecords (Phonorecords IV), 87 Fed. Reg. 18342, at 18344 (Mar. 30, 2022) (to be codified at 37 C.F.R. 385) (summarizing record evidence as to the use of controlled composition clauses).

“notwithstanding any provision of the antitrust laws,” rights holders and streamers are permitted to “negotiate and agree upon the royalty rates and license terms and conditions for the performance of such sound recordings and the proportionate division of fees paid among copyright owners, and may designate common agents on a nonexclusive basis to negotiate, agree to, pay, or receive payments.”¹⁴⁹ Suppose a rights holder and streamer were to take the government up on this invitation. Obviously, the § 114(g)(2) allocation of funds would not apply to the resulting private deal. Nonfeatured artists would still be paid, but the amounts would be determined by contract, not Congress. Kristelia García uses the word “circumvention” to describe this strategic decision to engage in private licensing despite the availability of, and possibly in order to avoid the restrictions imposed by, compulsory licenses.¹⁵⁰ But, for my purposes, this practice represents yet another seesaw through which unregulated transactions can functionally undermine government-favored royalty allocations.

In short, while Congress can, in theory, move the § 112 and § 114 royalty numbers in whichever directions it believes best, and the CRB in theory can similarly allocate the § 115 royalties in ways that correspond to yet other policy intuitions, all of those allocations are subject to a seesaw effect powered by the countless unregulated interactions that involve the same parties, free of direct government supervision, and subject to the very market forces that government regulations are, on this theory, designed to overrule. The seesaw in this way undermines market-rejecting justifications for music streaming regulation.

B. SEESAWS ALLOW MARKET POWER TO REEMERGE

The ASCAP and BMI consent decrees obviously constrain ASCAP and BMI in their ability to exercise market power. Those decrees do not apply, however, to other firms that offer similar licenses. Two such entities are of particular consequence: the Society of European Stage Authors and Composers (SESAC), which was launched back in 1930 and today manages a catalog of approximately 1 million musical works;¹⁵¹ and Global Music Rights, Inc. (GMR), which launched in 2013 and manages, among its roughly 90,000 compositions, works authored by Bad Bunny, Billie Eilish, Billy Idol, Pharrell Williams, Drake, Bruce Springsteen, and Bruno Mars.¹⁵² Neither of these entities is restricted in their negotiations with music streamers. Both are free to refuse any specific streamer, and both are likewise free to set prices without rate court oversight.

149. 17 U.S.C. § 114(e)(1).

150. Kristelia A. García, *Private Copyright Reform*, 20 MICH. TELECOMM. & TECH. L. REV. 1 (2013) (exploring the implications and applications of this practice with a particular focus on the distributional consequences for artists and authors).

151. See *About Us*, SESAC, <https://www.sesac.com/about/> [<https://perma.cc/4PAA-TL6C>] [<https://web.archive.org/web/20240222204739/https://www.sesac.com/about/>] (last visited Mar. 10, 2023). Importantly, among the represented songwriters is my Mom’s favorite, Neil Diamond.

152. To its credit, GMR makes available, for free, upon request, an electronic copy of its full song catalog. Requests can be submitted at <https://globalmusicrights.com/about#why-gmr> [<https://perma.cc/FYN4-ZABL>] [<https://web.archive.org/web/20240323000343/https://globalmusicrights.com/about#why-gmr>].

This creates a potential seesaw effect through which SESAC and GMR can arrogate to themselves at least some of the leverage that the government intentionally constrains with respect to ASCAP and BMI. Indeed, to at least some degree, SESAC and GMR exist *because* ASCAP and BMI are constrained. That is, as the economist Kevin Murphy argued on behalf of ASCAP in a filing with the Justice Department, one reason that membership in SESAC and GMR is attractive to songwriters and their representatives is that SESAC and GMR enjoy “operating flexibility” that ASCAP and BMI are denied.¹⁵³ Even GMR publicly nods to the fact that existing outside the scope of the consent decrees is a competitive advantage. As their lawyers spun the point in a regulatory filing, the absence of rate regulation is an opportunity to “better align the royalties paid to songwriters with [the] value songwriters create for others.”¹⁵⁴

That SESAC and GMR are small as compared to ASCAP and BMI does not necessarily eliminate these risks. True, ASCAP and BMI are the “behemoths” in this market, together enjoying ballpark 90 percent market share.¹⁵⁵ And, in a conventional market, it would not be unreasonable to conceptualize a 90/10 fight as a David-versus-Goliath struggle, with the smaller firms endeavoring to offer better prices and service than their larger rivals, and the larger firms either losing business or being forced to match. But, in this context, any narrative about comparative size and lopsided competition is, at best, more complicated. After all, what matters to a would-be licensee is the degree to which any license is essential to commercial viability. For streaming, the evidence suggests that a streamer probably needs licenses from all four of these entities in order to offer a competitive music service.

One reason that streamers likely need all four licenses is that, while SESAC and GMR are small as compared to ASCAP and BMI, they are still large in the absolute sense.¹⁵⁶ As a coalition of television station owners complained in a private antitrust filing, “in practice, [all television stations] must obtain licenses” from SESAC because its repertory is “large and includes works so ubiquitous that some are inevitably embedded” in every stations’ programs.¹⁵⁷ Strategy likely plays a role here as well. In a filing with the Justice Department, for example, one music streamer complained that SESAC intentionally “recruit[s] high-profile members” away from ASCAP and BMI.¹⁵⁸ As a result, “[e]ven though its total number of represented songs is small relative to the

153. Murphy, *supra* note 72, at 2.

154. Response to the Request for Comments from the Antitrust Division of the United States Department of Justice Regarding the ASCAP and BMI Consent Decrees, Global Music Rights, LLC, at 1 (Aug. 9, 2019) (“By remaining small and nimble, we are able to better align the royalties paid to songwriters with value songwriters create for others.”).

155. *Id.*

156. As one commenter put the point in a submission to the Justice Department, “a PRO need not have a repertory the size of either ASCAP or BMI for it to have monopoly power. Any PRO that secures a repertory that is sufficiently large such that a license from it becomes ‘must have’ to a music user has monopoly power.” TMLC Comments, *supra* note 75, at 40.

157. Meredith Corp. v. SESAC LLC, 1 F. Supp. 3d 180, 186 (S.D.N.Y. 2014) (summarizing plaintiffs’ allegations).

158. Music Choice, Comments in Connection with the Department of Justice’s Review of the ASCAP and BMI Consent Decrees, at 32 (Aug. 9, 2019) [hereinafter Music Choice Comments].

total size of the respective repertoires of ASCAP and BMI . . . SESAC controls the rights to a significant number of popular songs that are necessary to have a viable music distribution service.¹⁵⁹ A coalition of radio stations made the point even more sharply as applied to GMR, accusing GMR of “poaching” from ASCAP and BMI “a strategic group of songwriters” in order to “create a repertoire that no radio station could succeed without access to.”¹⁶⁰

ASCAP, BMI, SESAC, and GMR are also significantly intertwined. As I noted earlier, songs are often written by multiple songwriters. One recent study found that the average mainstream song has at least four writers,¹⁶¹ and top songs can easily have more than eight.¹⁶² This pressures licensees to take licenses from all four entities. For instance, if BMI represents only one of a given song’s writers and hence holds only that one fractional interest in the coauthored song, BMI is allowed under the BMI consent decree to offer a license that covers just that one fractional share.¹⁶³ A licensee interested in actually playing the song would need to license the other fractional shares from, as relevant, ASCAP, SESAC, and/or GMR. In theory, a streamer can do this, of course, tracking all of this information song by song and updating that data as songs and songwriters move from one licensing intermediary to another.¹⁶⁴ But information in this market is notoriously hard to come by. Remember, ASCAP still today refuses to guarantee the accuracy of its own song database, and music licensees regularly accuse music licensors of intentional obfuscation.¹⁶⁵ Besides, even if all the necessary information were available as a practical matter, partial rights would still allow SESAC and GMR to arrogate to themselves considerable market power. After all, if SESAC or GMR own a fraction of a given song, they can hold that song hostage even if the other

159. *Id.*

160. Radio Music License Comm., Inc. v. Global Music Rights, LLC, No. 16-6076, 2019 WL 1437981, at *1 (E.D. Pa. Mar. 29, 2019).

161. Daniel Sanchez, *The Average Hit Song Has 4+ Writers and 6 Different Publishers*, DIGIT. MUSIC NEWS (Aug. 2, 2017), <https://www.digitalmusicnews.com/2017/08/02/songwriters-hit-song/> [<https://perma.cc/G59E-TRJS>]; see also *Music Reports’ Songdex Analysis Shows Trend Toward More Songwriters and Publishers for Top Hits Since 1960s*, BUS. WIRE (Aug. 4, 2017), <https://www.businesswire.com/news/home/20170804005339/en/> [<https://perma.cc/28UM-XDQF>] [<https://web.archive.org/web/20240308200632/https://www.businesswire.com/news/home/20170804005339/en/>] (reporting that the average number of songwriters for a Billboard Top 10 song jumped from 1.87 in the 1960s to 4.07 in the 2010s).

162. Mark Sutherland, *Songwriting: Why It Takes More than Two To Make a Hit Nowadays*, MUSIC WEEK (May 16, 2017), <https://www.musicweek.com/publishing/read/songwriting-why-it-takes-more-than-two-to-make-a-hit-nowadays/068478> [<https://perma.cc/E7WJ-8GMR>] [<https://web.archive.org/web/20240215203410/https://www.musicweek.com/publishing/read/songwriting-why-it-takes-more-than-two-to-make-a-hit-nowadays/068478>].

163. *United States v. Broad. Music, Inc.*, 720 F. App’x 14, 16–17 (2d Cir. 2017); BMI, Response To the Department of Justice’s June 5, 2019 Request for Public Comments Concerning the BMI and ASCAP Consent Decrees, at 42 (Aug. 9, 2019) [hereinafter BMI Response]; see also Delrahim Remarks, *supra* note 26, at 2–3 (summarizing the issues).

164. This is one reason the Justice Department has objected to fractional licensing. See U.S. Department of Justice, Statement on the Closing of the Antitrust Division’s Review of the ASCAP and BMI Consent Decrees, at 13–14 (Aug. 4, 2016) (stating that fractional licensing means that “music users seeking to avoid potential infringement liability would need to meticulously track song ownership before playing music”).

165. See *supra* notes 107–110 and accompanying text.

fractions have already been licensed from ASCAP and BMI at regulated rates.¹⁶⁶ Fractional shares functionally tie ASCAP, BMI, SESAC, and GMR together.¹⁶⁷

Private antitrust settlements do constrain some of this potential bad behavior. In 2014, for example, SESAC settled a private class action lawsuit that had been brought by a coalition of television stations. Under the terms of the deal, SESAC agreed to “abide by core conduct restrictions” that the parties describe as “similar” to those that apply to ASCAP and BMI,¹⁶⁸ and SESAC agreed to participate in “binding arbitration for the setting of license fees and terms” in the event of any disagreement.¹⁶⁹ SESAC later signed a similar settlement with a coalition of terrestrial radio stations, again committing to restrictions comparable to those that constrain ASCAP and BMI, and again specifically agreeing to restrictions on, and arbitration over, licensing rates.¹⁷⁰ In 2022, GMR settled a case brought by the same radio station coalition. That final agreement is not public,¹⁷¹ but public documents confirm that it, too, is modeled after the ASCAP and BMI consent decrees and it, too, establishes meaningful constraints on pricing.¹⁷²

166. Insiders have repeatedly raised this concern, warning that SESAC and GMR can in essence hold licensed songs hostage. *See, e.g.*, TMLC Comments, *supra* note 75, at 31 (“Requiring a licensee to secure not only a license from each of ASCAP and BMI, but also a license from each copyright owner of a split work that is unaffiliated with ASCAP and BMI, just to perform works that are in the ASCAP and BMI repertoires, diminishes this protection, as it gives each such non-ASCAP and BMI affiliate ‘hold-up’ power over the performance of the work.”); U.S. Department of Justice, Statement on the Closing of the Antitrust Division’s Review of the ASCAP and BMI Consent Decrees, at 15 (Aug. 4, 2016) (“Finally, allowing fractional licensing might also impede the licensed performance of many songs by incentivizing owners of fractional interests in songs to withhold their partial interests from the PROs. A user with a license from ASCAP or BMI would then be unable to play that song unless it acceded to the hold-out owner’s demands, providing the hold-out owner substantial bargaining leverage to extract significant returns.”).

167. TMLC Comments, *supra* note 75, at 29 (“Fractional licensing undermines the efficiencies created through collective licensing by requiring music users to secure, before the time of performance, all of the fractional interests to works in the ASCAP and BMI repertoires, including those that can be licensed through ASCAP and BMI and those that cannot.”); RMLC/DMA Comments, *supra* note 73, at 6 (complaining that the various PRO catalogs “are no longer substitutes for each other, if they ever were” in part because “the exponential growth in the number of co-writers of popular songs” means that “a radio station or digital music service now typically needs licenses . . . from every PRO”).

168. Settlement Class Notice, *Meredith v. SESAC*, No. 09 Civ. 9177 (PAE) (S.D.N.Y. 2014), <https://tvmlc.com/wp-content/uploads/2014/10/Meredith-v-SESAC-Settlement-Class-Notice-ECF-175-1-Declaration-Ex.-1.pdf> [https://perma.cc/T54A-25P3] [https://web.archive.org/web/20231128232706/https://tvmlc.com/wp-content/uploads/2014/10/Meredith-v-SESAC-Settlement-Class-Notice-ECF-175-1-Declaration-Ex.-1.pdf]; *see also* BMI Response, *supra* note 163, at 11 (noting that SESAC “agreed to an arbitration process that would . . . mirror the consent decree process” used with BMI and ASCAP (internal quotation omitted)).

169. TMLC Comments, *supra* note 75, at 25–26.

170. For a summary, *see* TMLC Comments, *supra* note 75, at 25–27.

171. *See* Gene Maddaus, *Irving Azoff’s Music Rights Firm Ends Legal Battle with Radio Stations*, VARIETY (Feb. 7, 2022), <https://variety.com/2022/music/news/irving-azoff-global-music-rights-rmlc-settlement-1235174154/> [https://perma.cc/QME2-PZWL] [https://web.archive.org/web/20240216202817/https://variety.com/2022/music/news/irving-azoff-global-music-rights-rmlc-settlement-1235174154/] (reporting settlement but noting that the terms are confidential).

172. *See* GMR Settlement: FAQ for Broadcasters, MICH. ASS’N OF BROADS. (Jan. 21, 2022), <https://www.michiganmedia.com/2022/01/21/gmr-settlement-faq-for-broadcasters/>

But these settlements do not apply to streaming.¹⁷³ Thus, while Spotify, Pandora, iHeart, and Amazon can trigger the protections of the ASCAP and BMI consent decrees in the event that their negotiations with ASCAP or BMI falter, no streamer can invoke any of the several SESAC and GMR settlements because those settlements apply only to the licensees who litigated them.¹⁷⁴ At best, streamers can threaten to file their own lawsuits, a path that is costly and slow,¹⁷⁵ and one that would leave the litigating streamer vulnerable to retaliation in the meantime.¹⁷⁶

The extent to which all of this allows market power to reemerge is contested. Copyright holders regularly point out that technology companies arguably have market power of their own, power that potentially offsets at least some of the leverage SESAC and GMR bring to the table.¹⁷⁷ Moreover, the existence of ASCAP and BMI at a minimum complicates the use of any plausible leverage. If GMR and SESAC were to withdraw their music from Spotify, for instance, songwriter members might hold the line, but some might instead jump to ASCAP and BMI, reluctant to lose the income that would otherwise come from Spotify spins.

All that said, available evidence does suggest that market power persists. For instance, one streamer reports that, when songs move from ASCAP and BMI to SESAC

[<https://perma.cc/9AFY-G22X>]

[<https://web.archive.org/web/20240308204514/https://www.michiganmedia.com/2022/01/21/gmr-settlement-faq-for-broadcasters/>].

173. TMLC Comments, *supra* note 75, at 43 (settlement between SESAC and a coalition of local television stations “only provides protection to local television stations”); JAFFE, *supra* note 74, at 19 (explaining that, while local television and radio stations have settled their antitrust cases against SESAC, “no other SESAC licensees” can formally invoke those settlements).

174. Streamers complain about this patchwork approach. *See, e.g.*, Music Choice Comments, *supra* note 158, at 34–35 (noting that coalitions of radio and television stations have “won significant early rulings of likelihood of success on antitrust claims against SESAC” but the “only benefit [streamers see] is SESAC’s curbed appetite to threaten litigation”). Other music licensees complain about this as well. *See, e.g.*, TMLC Comments, *supra* note 75, at 43 (noting that, even after a coalition of radio stations sued and negotiated a settlement with SESAC on antitrust grounds, “all other SESAC licensees, including music streaming services, restaurants, bars, concert venues, and many others” remained unprotected “from the abuse of market power by SESAC”).

175. For example, that case involving SESAC and the coalition of television stations settled before trial, but even that truncated process took more than five years, and cost the coalition more than 16 million dollars. TMLC Comments, *supra* note 75, at 3.

176. As streamer Music Choice emphasized in a recent filing with the Justice Department, the “requirement that ASCAP and BMI issue a license upon request . . . eliminates the risk that ASCAP and BMI might refuse to . . . license and use the threat of massive infringement liability as additional leverage.” Music Choice Comments, *supra* note 158, at 6. SESAC and GMR are not subject to that requirement and hence could wield that very leverage. *See id.*

177. One commenter put the point this way: “Amazon, Apple, Google and Microsoft . . . are four of the largest corporations in the United States . . . It’s absurd to suggest that ASCAP and BMI need to be constrained against these titans of industry.” The Recording Academy, Comments Regarding the Review of ASCAP and BMI Antitrust Consent Decrees, at 3–4 (Aug. 9, 2019) [hereinafter Academy Comments]; *see also* National Music Publishers’ Association, “Selective Withdrawal” of New Media Rights from ASCAP and BMI, at 4 (Aug. 9, 2019) (stating that Google, Amazon, and Apple are “exponentially larger than the music publishing industry as a whole”).

and GMR, licensing costs go up in the aggregate.¹⁷⁸ That is, as the rights to perform musical works move from a large regulated intermediary to a smaller unregulated one, increases in the prices charged by the smaller one are not offset dollar-for-dollar by reductions to the prices charged by the bigger one. Presumably, this imperfect seesaw is part of the reason why songwriters are willing to move. Even if SESAC and GMR offer no other advantages, they at least have some freedom to charge higher prices, because the consent decrees do not bind them, and private antitrust enforcement is inevitably an imperfect check.¹⁷⁹

C. TRANSACTION COSTS BENEFICIALLY LIMIT THE SEESAW EFFECT

In the conventional framing, transaction costs are a problem that government regulation helps to solve. Introduce the possibility of a seesaw, and transactions costs begin to play an ironic role. One irony is that the very government interventions meant to reduce transaction costs at the same time incentivize the creation of new ones. By regulating ASCAP and BMI, for instance, the government drives at least some rights holders to SESAC and GMR. That, in turn, increases transaction costs. Streamers as a practical matter have no choice but to interact with these additional intermediaries,¹⁸⁰ and at least some of the monitoring, enforcement, advertising, and auditing infrastructure already available from ASCAP and BMI is as a result wastefully replicated at SESAC and GMR. Similarly, § 112, § 114, and § 115 compulsory licenses reduce transaction costs by obviating the need for a large number of direct deals. But, because Congress and the Copyright Royalty Board allocate the resulting monies by way of market-rejecting rules, private parties have an incentive to respond by writing, implementing, and, as need be, enforcing more contracts, including contracts between streamers and rights holders, and contracts between and among singers, songwriters, musicians, record labels, and music publishers, all designed at least in part to reallocate available monies in light of the underlying market realities.

The second irony is yet more rich. As private parties endeavor to undo various government interventions by way of unregulated rights and unregulated interactions, their efforts are slowed by various costs, frictions, and delays. That is, transaction costs

178. Music Choice Comments, *supra* note 158, at 33 (accusing SESAC of increasing its fees by “more than any demonstrated increase in the fair market value” of its repertory, “and with no equivalent decrease” in the rates owed to ASCAP and BMI “even though SESAC’s repertory [increases] at the expense of” the ASCAP and BMI catalogs).

179. See TMLC Comments, *supra* note 75, at 40–41 (stating that unregulated PROs “can offer to pay their affiliated composers and publishers at higher levels, not because their music has somehow become more valuable as a result of switching their PRO affiliation, but because the unregulated PRO is able to secure monopoly rents from music users, and pass at least some of those rents on to their affiliates”); Murphy, *supra* note 72, at 4–5 (complaining that “the highest valued [copyrights] will flow to the unregulated PROs even if unregulated PROs are less efficient than the regulated PROs” because “an unregulated profit-maximizing firm will make optimal choices across all the dimensions on which it can compete . . . but a regulated company is constrained on one or more of the dimensions on which competition occurs”).

180. See, e.g., TMLC Comments, *supra* note 75, at 41–42 (“[H]aving multiple unregulated PROs in the market” causes “distorting inefficiencies” because “music users need to secure licenses from every PRO that has become sufficiently large such that using its music is unavoidable.”).

limit the degree to which the seesaw can readily swing, thereby maintaining at least some influence for the original governmental interventions. For instance, while private contracts can and do dampen the government's ability to allocate monies in market-defying patterns, this private response is muted by the challenge of consummating, documenting, updating, and enforcing all of the contracts necessary to fully reallocate monies among and between every featured singer, nonfeatured singer, featured musician, nonfeatured musician, record label, music publisher, and the like. Similarly, were the Copyright Royalty Board to lower the rate for the § 115 compulsory license, record labels in theory could respond by raising the sound recording public performance royalty dollar for dollar, but not immediately, as there would presumably be at least some contracts already in place between labels and streamers, and streamers would not be anxious to renegotiate those rates prematurely if they knew that any new rate would be higher, not lower.

All this leads to imperfect middle-ground interactions where the government's influence is preserved, at least in part. A striking example: In 2021, *Rolling Stone* reported on a dispute where a particular "high-powered singer" demanded to be listed as a songwriter "in exchange for recording" a specific songwriter's song "even though that artist had not contributed to the writing process in any way."¹⁸¹ Yes, the singer might have been suffering from delusions of songwriting grandeur. But more plausibly, the singer was trying to tap into the monies that existing law allocates to songwriters, rather than having to incur the costs of writing, auditing, and enforcing a contract under which the songwriter would first receive that money and then transfer the appropriate share to the singer. In response to the incident, a group of prominent songwriters published and publicized an "open letter" decrying the fact that a "growing number of artists" are similarly "demanding publishing"—that is, demanding to be listed as songwriters—"on songs they did not write."¹⁸² Again, maybe these interactions are delusional. Or maybe the motivation is purely reputational. But maybe singers are asking to be listed as songwriters because transaction costs are making it difficult for them to fully defeat the government's default allocations by contract, so they are

181. Elias Leight, *Songwriters Are Tired of Having Their Money Taken – by Artists*, ROLLING STONE (Mar. 31, 2021), <https://www.rollingstone.com/pro/news/songwriters-the-pact-1149427/> [https://perma.cc/3Z4U-69DB] [https://web.archive.org/web/20240210151857/https://www.rollingstone.com/pro/news/songwriters-the-pact-1149427/].

182. Jem Aswad, *Justin Tranter, Emily Warren, More Songwriters Sign Letter Calling for Artists To Stop Demanding Credit for Songs They Didn't Write*, VARIETY (Mar. 30, 2021), <https://variety.com/2021/music/news/pact-justin-tranter-emily-warren-songwriters-letter-1234940341/> [https://perma.cc/4RW3-3LZX] [https://web.archive.org/web/20240210152226/https://variety.com/2021/music/news/pact-justin-tranter-emily-warren-songwriters-letter-1234940341/]; Lindsey Havens, *Top Songwriters Ask Artists & Execs To Stop Taking Credit for Songs They Didn't Write in Open Letter*, BILLBOARD (Mar. 30, 2021), <https://www.billboard.com/pro/songwriters-the-pact-rights-open-letter/> [https://perma.cc/B82A-PM8F] [https://web.archive.org/web/20240210152541/https://www.billboard.com/pro/songwriters-the-pact-rights-open-letter/]. A copy of the letter was initially posted online at <https://www.the-pact.org/> but was at some point removed; the letter can still be viewed through the Wayback Machine at <https://web.archive.org/web/20210331143939/https://www.the-pact.org/>.

attempting a second-best solution: harnessing the government's own rules to functionally transfer money from songwriters to singers.¹⁸³

IV. CONCLUSION

The Copyright Royalty Board has thus far explicitly grappled with the seesaw effect only once, specifically in the context of a rate determination related to the § 115 license. There, University of Canterbury Professor Richard Watt testified as an economic expert on behalf of a coalition of songwriters, presenting an economic model through which he argued that streaming revenue should be distributed to copyright holders according to a specific, calculated ratio.¹⁸⁴ To achieve that ratio, Professor Watt needed the Board to increase the government-set rate for the § 115 license, but he also needed sound recording copyright holders to voluntarily lower the rate that they were at the time charging for rights they controlled. That is, Professor Watt not only needed the Board to rule in a way consistent with his analysis, but he also needed private parties, operating outside the scope of the compulsory license, to renegotiate completely unregulated, related rates.¹⁸⁵

Professor Watt recognized that the Board could not force record companies and other sound recording copyright holders to make the latter change, but he argued that the necessary reduction would happen as the inevitable result of a seesaw. Specifically, he argued that, if the government rate were increased, less money would be available to divide between streamers and sound recording copyright holders, and so sound recording copyright holders would have no choice but to reduce their royalty demand. As he put the point in live testimony, “the reason why the sound recording rate is so very high [today] is because the statutory rate is very low. And if you increase the statutory rate, the bargained sound recording rate will go down.”¹⁸⁶

Professor Watt's testimony received decidedly mixed reviews. Writing in dissent, one of the three CRB judges jeeringly described it as “the Heroic Assumption that the Major Record Companies will Docilely Accept Millions of Dollars in Lost Revenue, by Agreeing to Accept Lower Sound Recording Royalties.”¹⁸⁷ But the other two judges found the testimony credible. They agreed that the then-existing sound recording

183. This is apparently an issue of concern abroad as well. Indeed, a report from the U.K. House of Commons recently described this practice as an “industry norm” in which “song writing revenues have become fair game” for artists who are “demanding publishing on songs they did not write.” DIGITAL, CULTURE, MEDIA & SPORT COMMITTEE, *ECONOMICS OF MUSIC STREAMING*, SECOND REPORT OF SESSION, 2021–22, HC 50, ¶ 83 (UK) (quoting the open letter discussed *supra* note 182).

184. Written Rebuttal Testimony of Richard Watt (PhD), submitted in the Matter of Determination of Rates and Terms for Making and Distributing Phonorecords (Phonorecords III), No. 16-CRB-003-PR (2018–2022) (on behalf of the National Music Publishers' Association and the Nashville Songwriters Association International) (Feb. 13, 2017).

185. See Phonorecords III Order, *supra* note 3, at 2027 (Strickler, J., dissenting) (“Professor Watt's model indicates that this ratio reduction should occur via a significant increase in musical works royalties and an even greater precipitous decline in the sound recording royalties set in an unregulated market.”); Written Rebuttal Testimony of Richard Watt (PhD), *supra* note 184.

186. See Phonorecords III Order, *supra* note 3, at 1953 (quoting Professor Watt).

187. *Id.* at 1966 (Strickler, J., dissenting).

royalty rate was “artificially high as a result of musical works rates being held artificially low through regulation,” and they concluded that the “sound recording royalty rates in the unregulated market will decline in response to an increase in the compulsory license rate for musical works.”¹⁸⁸

Appeals followed, and years later the issue was remanded to the Board with instructions to, among other things, reconsider whether a seesaw really would “lead to a decrease in sound recording royalties.”¹⁸⁹ On remand, with a new judge replacing one of the judges in the original majority, the Board backed away from its prior view, explaining this time that seesaws are considerably more complicated than their earlier summary had let on.¹⁹⁰ The Board in the end withdrew its prior rate determination and adopted an alternative structure—one that might have raised its own seesaw complexities save for one critical fact: The appeal and remand had taken so long that the new rate was destined to be applied retroactively. That is, because of the appeal, the final rate order did not issue until 2023, even though it governed payments for the years 2018 through 2022.¹⁹¹ Absent a time machine, private parties had no ability to react to the new rates, and hence there was no seesaw for the Board to further analyze.

Of course, regulators and lawmakers will not always be so lucky. The consent decrees and compulsory licenses relevant to music streaming typically apply on a forward-looking basis, designed as they are to influence *future* prices and alter *future* behavior. Thus, the law at some point will have to grapple with the seesaw phenomenon. How?

One possibility is to simplify the relevant legal rights and, in that way, facilitate more cohesive and comprehensive interventions. Interactive streamers today are required to separately license five rights: public performance rights for sound recordings, reproduction rights for sound recordings, performance rights for the underlying musical works, and both reproduction and distribution rights for musical works. Noninteractive streamers must license three: public performance rights for musical works, public performance rights for sound recordings, and reproduction rights for sound recordings. From the perspective of a streamer, this is all unnecessary complexity. Streamers are simply looking to purchase the integrated right to stream each implicated song. Were copyright law redefined such that an entire song could be licensed through a single transaction, government intervention could more reliably influence that transaction and achieve the standard transaction cost, market power, and public policy goals.

188. *Id.* at 1953 (majority opinion).

189. *Johnson v. Copyright Royalty Bd.*, 969 F.3d 363, 383 (D.C. Cir. 2020); *Phonorecords III Remand*, *supra* note 3, at 54409 (“The D.C. Circuit concluded that, on remand . . . [the Judges] shall address all substantive challenges . . . raised by the Services, including the issue of whether ‘an increase in mechanical license royalties would lead to a decrease in sound recording royalties.’” (citation omitted)).

190. *See Phonorecords III Remand*, *supra* note 3, at 54424 n.78 (discussing economic testimony and conceding that the seesaw effect, as originally conceived, was “rife with assumptions”).

191. *Id.* at 54406 (being effective August 10, 2023, but establishing rates that “apply to the license period beginning January 1, 2018, and ending December 31, 2022”).

Another possibility is to take the opposite tack and expand the regulatory regime such that it is more commensurate with the existing complexity and diversity of copyright law's rights and players. The ASCAP and BMI rate court provisions could be expanded to govern SESAC and GMR. The compulsory licenses under § 112, § 114, and § 115 could be augmented to include not just the narrow permissions codified today, but also the various related, necessary, unregulated rights. Private contracts that work around the government's various preferred allocations could be forbidden by law. This approach, too, would position the government to more fully tame transaction costs, more completely constrain market power, and also actually enforce its idiosyncratic market-rejecting policy judgments, albeit with obvious costs, as the government would at best struggle to set all those prices, structure all of those deals, and police the many plausible private responses.

For now, my goal is not to champion either these or other reforms, but instead to highlight what has to date been an unappreciated factor in the analysis. The seesaw effect undermines the stories by which academics, government officials, and industry stakeholders justify the government's surprisingly heavy-handed regulation of music streaming. Taking it into account is not easy, but doing so is the only way to capture a realistic assessment of what current regulations accomplish, and also what changes would be required were the government truly committed to the transaction cost, market power, and market-rejecting interventions that commentators have long identified as the regulatory regime's underlying purposes.

Understanding the MetaBirkin: Trademark Law and an Appropriate Legal Standard for NFTs

*Michelle Gery**

INTRODUCTION

The increased popularity of digital assets and artwork implicates numerous areas of intellectual property law. One digital asset that has been the subject of much controversy is the non-fungible token (“NFT”). Since rising to prominence in the last few years, NFTs have sparked much debate over their value as investments. This debate has received particular attention in the digital art world because of the potential application of NFTs to authenticate digital art. Since they cannot be “copied” or “faked,” NFTs bring unprecedented value to digital art, which previously suffered from a lack of means to verify ownership and originality.¹

The emerging challenges of the nascent metaverse and accompanying NFTs, digital assets, and blockchain technology are not entirely without precedent. Indeed, much of the conversation around the emergence of the internet was somewhat parallel to what we are now witnessing in metaverse discourse. However, NFTs and the metaverse pose some novel challenges which warrant a renewed analysis and possibly distinct treatment.

The complexities of applying traditional intellectual property law to NFTs were recently on full display before Judge Rakoff in the Southern District of New York in *Hermès International v. Rothschild*.² The case involved an unexpected player—Hermès’s

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1. Steve Kaczynski & Scott Duke Kominers, *How NFTs Create Value*, HARV. BUS. REV. (Nov. 10, 2021), <https://hbr.org/2021/11/how-nfts-create-value> [https://perma.cc/8ZS5-AE3C] [<https://web.archive.org/save/https://hbr.org/2021/11/how-nfts-create-value>].

2. *Hermès Int’l v. Rothschild*, 590 F. Supp. 3d 647 (S.D.N.Y. 2022). This Note was originally written in the fall of 2022 with the understanding that *Hermès v. Rothschild* was scheduled for trial in January 2023. After the conclusion of the trial and the jury verdict in February 2023, certain portions of the Note had to be revised to reflect the new posture of the case. Ultimately, the verdict in favor of Hermès did not change the

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iconic Birkin handbag (the “Birkin”). The Birkin was the subject of artist Mason Rothschild’s NFT collection, where Rothschild created a series of 100 digital images of faux fur covered “Birkins” (the “Metabirkins”). Rothschild used NFTs to sell each MetaBirkin image, and the individual MetaBirkins garnered prices ranging from \$25,000 to \$42,000.³ After Rothschild ignored a cease-and-desist demand, Hermès brought suit on trademark infringement and dilution claims under the Lanham Act, as well as state law claims.⁴ Ultimately, Hermès prevailed at trial on claims of trademark infringement, dilution, and cybersquatting. However, this Note focuses primarily on the trademark infringement claim, and argues that the jury decided the infringement claim under a framework which ultimately was ill-suited to the case at hand.

Hermès v. Rothschild involved a complex application of traditional legal principles to a novel digital asset. General confusion over what an NFT itself is, moreover, gave rise to numerous plausible frameworks through which the case could be viewed. On the one hand, we might have asked ourselves whether or not selling a “picture” of a trademarked product (here, the Birkin) was a trademark violation. It can also be argued, however, that the MetaBirkin NFT is more than just an image of a Birkin—it might be viewed by some as the digital equivalent or version (or even a “digital knockoff[.],” as Hermès claims) of a Birkin.⁵ The MetaBirkin can be seen as art, or as a commodity, or as something entirely distinct which we lack a legal classification for. These classifications were significant in determining whether the MetaBirkin deserved First Amendment protection.

This Note argues that *Hermès v. Rothschild* highlighted the flaws of the *Polaroid* factors and their singular focus on determining consumer confusion, and makes a case for an expanded understanding of a *copyright* fair use defense in trademark law.⁶ Two forms of fair use are already acknowledged in the trademark context, but neither is comparable to the much stronger fair use exception in copyright law. The factors in the copyright fair use defense seem to strike directly at the heart of the most salient concerns in *Hermès v. Rothschild*, while the *Polaroid* factors seem to allow only tangential considerations of certain key factors which will be further explored in Parts II and III,

fundamental thrust of the Note, which argues not that the jury should have decided one way or another, but that we may have asked the jury the wrong questions to begin with.

3. Maghan McDowell, *The ‘Baby Birkin’ NFT and the Legal Scrutiny on Digital Fashion*, VOGUE BUS. (June 15, 2021), <https://www.voguebusiness.com/technology/the-baby-birkin-nft-and-the-legal-scrutiny-on-digital-fashion> [https://perma.cc/7BYZ-SCND] [https://web.archive.org/save/https://www.voguebusiness.com/technology/the-baby-birkin-nft-and-the-legal-scrutiny-on-digital-fashion].

4. *Hermès v. Rothschild: A Timeline of Developments in a Case Over Trademarks, NFTs*, TFL (Dec. 29, 2023), <https://www.thefashionlaw.com/Hermès-v-rothschild-a-timeline-of-developments-in-a-case-over-trademarks-nfts/> [https://perma.cc/ZS6K-JHGJ] [https://web.archive.org/web/20240308220158/https://www.thefashionlaw.com/hermes-v-rothschild-a-timeline-of-developments-in-a-case-over-trademarks-nfts/].

5. See Memorandum of Law in Support of Defendant Mason Rothschild’s Motion for Summary Judgment at 8, *Hermès Int’l*, 590 F. Supp. 3d 647 (No. 22-cv-00384-JSR) [hereinafter Rothschild’s Motion for Summary Judgment] (referring to Hermès’s characterization of MetaBirkin as “digital knockoffs”).

6. See *infra* p. 624 for further explication of the *Polaroid* factors.

such as whether the law should consider an “NFT’d” version of a trademarked good with artistic relevance to be a form of legal artistic expression.

I. PART I: A NOVEL PROBLEM

A. BACKGROUND

Much of the confusion surrounding the proper legal treatment of NFTs comes down to the difficulty in understanding what, exactly, an NFT is. Technically, NFTs are “units of data stored on a blockchain that are created to transfer and authenticate ownership of either physical things or digital media.”⁷ Functionally, this means that an NFT can serve as a “digital certificate[] that authenticate[s] the ownership of assets.”⁸ Those assets can be digital (e.g., a video, image, music file) or physical (e.g., real estate).

Perhaps the widespread and false impression that NFTs are art themselves exists because NFTs have largely been discussed in the digital art context. The reason for this, however, is not that NFTs themselves are art, but because NFTs gave digital artwork a new significance due to their ability to authenticate it.⁹ Previously, digital art was of limited value because the impossibility of demonstrating exclusive ownership made buying and selling it a risky endeavor. However, since the advent of NFTs, ownership can be authenticated through code.

The backdrop against which NFTs are emerging is one of an increasingly relevant metaverse.¹⁰ Though lacking a single definition, the metaverse has been defined as anything from an “all-encompassing space in which all digital experience sits; the observable digital universe made up of millions of digital galaxies” to “a nebulous, digitally mixed reality with both non-fungible and infinite items and personas not bound by conventional physics and limitations” to “a mass delusion that assumes that the future should look like Ready Player One for some reason.”¹¹ Though the future trajectory of the metaverse is uncertain, brands such as Gucci, Louis Vuitton, and Balenciaga have already launched projects to establish their place in this virtual realm.¹²

7. *Id.* at 3.

8. 2 GILSON ON TRADEMARKS § 7A.18 (2023).

9. Smita Tripathi, *How NFTs Are Disrupting the Art World*, BUS. TODAY (Feb. 20, 2022), <https://www.businesstoday.in/magazine/luxury-lifestyle/story/how-nfts-are-disrupting-the-art-world-321706-2022-02-15> [<https://perma.cc/J3YG-MWRU>] [<https://web.archive.org/web/20240308221444/https://www.businesstoday.in/magazine/luxury-lifestyle/story/how-nfts-are-disrupting-the-art-world-321706-2022-02-15>].

10. Cathy Hackl, *Defining the Metaverse Today*, FORBES (May 2, 2021), <https://www.forbes.com/sites/cathyhackl/2021/05/02/defining-the-metaverse-today/?sh=45869ec76448> [<https://perma.cc/NP8R-UGZ3>] [<https://web.archive.org/web/20240309034608/https://www.forbes.com/sites/cathyhackl/2021/05/02/defining-the-metaverse-today/?sh=137eb4866448>].

11. *Id.*

12. Memorandum of Law in Support of Plaintiffs’ Motion for Summary Judgment at 5, *Hermès Int’l v. Rothschild*, 590 F. Supp. 3d 647 (S.D.N.Y. 2022) (No. 22-cv-00384-JSR) [hereinafter Plaintiffs’ Motion for Summary Judgment].

In this case, Rothschild created (or “minted”) NFTs which are attached to digital images.¹³ While each image is not itself the NFT, in colloquial parlance the tokens themselves and the assets they authenticate are often both referred to as an NFT.¹⁴ As explained by Jeff Trexler for *Vogue Business*, “the NFT is not the image, it’s metadata pointing to the image.”¹⁵ However, for the purposes of the inquiry at hand, this Note uses the term MetaBirkin to refer to the combined entity of the underlying NFT and the digital image it points to.

In May 2021, Rothschild created a predecessor to the MetaBirkin, an NFT entitled “Baby Birkin.”¹⁶ The Baby Birkin consisted of an animation of a Birkin bag featuring a depiction of a gestating fetus.¹⁷ The Baby Birkin was met with commercial success, selling for the equivalent of \$23,500 and later re-selling for \$47,000.¹⁸ Soon thereafter, Rothschild created and sold NFTs from a 100-piece collection entitled “MetaBirkins,” which he considered to be a follow-up art project to the Baby Birkin.¹⁹

B. DETERMINING A LEGAL STANDARD

At the outset of the case, Hermès and Rothschild put forth opposing contentions as to what legal standard should apply to Hermès’s trademark infringement claims. Hermès argued that the MetaBirkins have no discernible artistic intent, and thus should

13. Anthony J. Dreyer & David M. Lamb, *Can I Mint an NFT with That?: Avoiding Right of Publicity and Trademark Litigation Risks in the Brave New World of NFTs*, THOMSON REUTERS (May 10, 2021), <https://www.skadden.com/-/media/files/publications/2021/05/canimintannftwiththatavoidingrightofpublicityandtr.pdf?rev=2430b95861e2489a9175ebb54a7e8028> [https://perma.cc/7KM8-S3QX] [https://web.archive.org/web/20240309035456/https://www.skadden.com/-/media/files/publications/2021/05/canimintannftwiththatavoidingrightofpublicityandtr.pdf?rev=2430b95861e2489a9175ebb54a7e8028].

14. Shanti Escalante-De Mattei, *2021 Has Been the Year of the NFT. But What Exactly Is an NFT?*, ARTNEWS (Dec. 28, 2021), <https://www.artnews.com/art-news/news/nft-guide-1234614447/> [https://perma.cc/7TY6-CL6E] [https://web.archive.org/web/20240215165742/https://www.artnews.com/art-news/news/nft-guide-1234614447/].

15. McDowell, *supra* note 3.

16. Mario Abad, *Hermès Wins MetaBirkins Lawsuit*, PAPER (Feb. 8, 2023), <https://www.papermag.com/hermes-metabirkins-lawsuit#rebellitem10> [https://perma.cc/V4MN-NSZ8] [https://web.archive.org/web/20240309040135/https://www.papermag.com/hermes-metabirkins-lawsuit].

17. Mason Rothschild, *Baby Birkin*, BASIC SPACE, <https://basic.space/products/baby-birkin> [https://perma.cc/Y2E8-FL6D] [https://web.archive.org/web/20240215171201/https://basic.space/products/baby-birkin] (last visited Feb. 20, 2024).

18. *Id.*; Cassell Ferere, *Digital Artist Mason Rothschild Drops 100 ‘MetaBirkins’ NFTs Through Basic.Space*, FORBES (Dec. 13, 2021), <https://www.forbes.com/sites/cassellferere/2021/12/13/digital-artist-mason-rothschild-drops-100-metabirkins-nfts-through-basicspace/?sh=7c6d97f42000> [https://perma.cc/F5UB-ND5R] [https://web.archive.org/web/20240410172858/https://www.forbes.com/sites/cassellferere/2021/12/13/digital-artist-mason-rothschild-drops-100-metabirkins-nfts-through-basicspace/?sh=7c6d97f42000].

19. Rothschild’s Motion for Summary Judgment, *supra* note 5, at 3.

be treated as commercial speech under *Gruner + Jahr USA Publishing v. Meredith Corp.*²⁰ Rothschild argued that the MetaBirkin is artwork and thus entitled to the legal protections given to expressive works of art under the *Rogers* framework.²¹ Hermès, in turn, made a counterargument that the use of the Birkin trademark is a mere indicator of source.²² The threshold question for whether *Rogers* applied was whether an NFT is an “expressive work,” which Judge Rakoff answered in the affirmative, allowing the case to proceed under *Rogers*.²³

The *Rogers* test originates from a 1989 Second Circuit case, *Rogers v. Grimaldi*, involving the use of actress Ginger Rogers’s name in the film *Ginger and Fred*.²⁴ At issue was whether the movie title was commercial speech or artistic expression, which would determine whether the Lanham Act would prohibit the use of her name in the title.²⁵ The Second Circuit ultimately ruled that the Lanham Act should only apply to artistic works “where the public interest in avoiding consumer confusion outweighs the public interest in free expression.”²⁶ *Hermès v. Rothschild* is ostensibly one such case, as consumer confusion seems to have outweighed Rothschild’s First Amendment interest in promulgating his art.

Of course, an NFT is not a “traditional” expressive or artistic work. It may be impossible to broadly hold all NFTs to be expressive works. Although some, like a MetaBirkin, may be linked to a digital image which is clearly art, other NFTs are not affiliated with art or used for artistic purposes. In this case, however, the MetaBirkin certainly seemed to be expressive in at least some respects, and the fact that it can be traded or sold likely did not diminish its expressiveness any more than selling a painting would diminish the painting’s value as art. Indeed, Rothschild made extensive arguments at trial about the relationship between MetaBirkins and a long tradition of “Business Art” which intentionally seeks to blur the lines between commerce and art.²⁷ He called upon experts who claimed that Rothschild’s MetaBirkins render him an “artistic heir” to artists including Andy Warhol and Marcel Duchamp.²⁸

Today, the *Rogers* test is not applied just to the titles of various works, but serves as a framework for assessing works themselves.²⁹ Fundamentally, *Rogers* requires a

20. Plaintiffs’ Motion for Summary Judgment, *supra* note 12, at 15.

21. *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989); *see infra*.

22. *Grimaldi*, 875 F.2d 994.

23. *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98, 103 (S.D.N.Y. 2022).

24. *Grimaldi*, 875 F.2d 994.

25. *Id.*; *see also* John Villasenor & Sam Albright, *NFTs and Birkin Bags: A Hermès Lawsuit Tests the Limits of Trademark Rights*, BROOKINGS (Apr. 21, 2022), <https://www.brookings.edu/blog/techtank/2022/04/21/nfts-and-birkin-bags-a-Hermès-lawsuit-tests-the-limits-of-trademark-rights/> [https://perma.cc/H5QN-M7RC] [https://web.archive.org/web/20240308223831/https://www.brookings.edu/articles/nfts-and-birkin-bags-a-hermes-lawsuit-tests-the-limits-of-trademark-rights/].

26. *Rogers*, 875 F.2d at 999.

27. Rothschild’s Motion for Summary Judgment, *supra* note 5, at 6.

28. *Id.*

29. *Cliff Notes, Inc. v. Bantam Doubleday Dell Publ’g Grp., Inc.*, 886 F.2d 490, 495 (2d Cir. 1989) (holding that the *Rogers* balancing approach is generally applicable to Lanham Act claims against works of artistic expression).

showing that the disputed use holds (1) no artistic relevance and (2) if there is artistic relevance, the use is “explicitly misleading.”³⁰ In May 2021, Judge Rakoff ruled that the “explicitly misleading” analysis should be resolved by an application of the *Polaroid* factors, as laid out by Judge Friendly in *Polaroid Corp. v. Polarad Electronics Corp.*³¹ These factors include: the strength and similarity of the marks, the competitive proximity of the products in the market, bad faith of the junior user, evidence of actual confusion, quality of the products, and the sophistication of the relevant consumers.³²

Hermès contended that while there may be artistic elements involved in creating an NFT, the use of the Birkin trademark is to indicate source and brand the products, and is not primarily expressive.³³ The Second Circuit, however, held in *Rogers* that even where titles might serve as a source indicator, “this function is ‘inextricably intertwined’ with their communicative, artistic functions” and thus warrants First Amendment protections.³⁴

The court’s decision to proceed with the claim under the speech-protective framework of the *Rogers* test was a win for Rothschild, because the test leans in favor of shielding creators from infringement claims so long as the use of the trademark is an artistic expression that does not explicitly mislead consumers.³⁵ However, Judge Rakoff’s decision to consider MetaBirkins as expressive works has drawn criticism, as several amici note that *Rogers* has been limited to “traditionally expressive or artistic works like movies, art, books, and the like” in every circuit but the Ninth.³⁶ Such critics fear that considering the MetaBirkin NFT to be an “expressive work” in this sense marks an “unwarranted expansion beyond the roots of *Rogers*” and “threatens a trademark infringement framework that has been intact and applied for nearly a century.”³⁷

1. Artistic Relevance

Although Judge Rakoff held that the MetaBirkin is, indeed, an expressive work, it does not necessarily follow that the use of the Birkin mark in the MetaBirkin had artistic relevance.

30. *Rogers*, 875 F.2d at 999.

31. *Hermès Int’l v. Rothschild*, 590 F. Supp. 3d 647, 653 (S.D.N.Y. 2022).

32. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961).

33. See Redacted Reply Memorandum of Law in Further Support of Plaintiffs’ Motion for Summary Judgment at 2–3, *Hermès Int’l*, 590 F. Supp. 3d 647 (No. 22-cv-00384-JSR).

34. *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98, 104 (S.D.N.Y. 2022) (quoting *Rogers*, 875 F.2d at 998).

35. See *id.* (standing for the proposition that where artistic expression does not explicitly mislead consumers, trademark use will not be considered infringement).

36. See, e.g., *Amicus Curiae* Brief of the International Trademark Association in Support of Petitioner at 4, *Jack Daniel’s Properties, Inc. v. VIP Prods. LLC*, 599 U.S. 140 (2023) (No. 22-148), 2022 WL 4370152, at *4.

37. *Id.*

Rogers holds that “a misleading title with no artistic relevance cannot be sufficiently justified by a free expression interest.”³⁸ The bar for “artistic relevance” is meant to be low.³⁹ Despite this low threshold, Judge Rakoff noted that based on Rothschild’s commentary about the MetaBirkin (as quoted above, stating that he sought to “capitalize” on the social capital of the Birkin), it is possible that Rothschild intended to associate his product with Hermès, rather than being driven by artistic purposes.⁴⁰ Rothschild originally stated that his collection was a “tribute” to the Birkin, but later asserted that the MetaBirkins are also commentary on animal cruelty in the fashion industry.⁴¹ He also argued that the underlying NFT itself actually has its own artistic significance, independently of the digital image, because the fact that NFTs “get traded, and what that trading means” are part of the commentary posed through the MetaBirkin project.⁴²

What the analysis seems to be getting at, here, is whether or not Rothschild *primarily* acted to create art, or simply to create a valuable commodity by capitalizing off of Hermès’s mark. This inquiry, however, becomes both speculative and subjective. It is entirely possible that Rothschild used Hermès’s mark both for its artistic relevance and to capitalize on it.

2. Explicitly Misleading

Under *Rogers*, once Rothschild’s use of the Birkin trademark had been found to have sufficient artistic relevance, the use still needed to avoid being “explicitly misleading” to survive.⁴³ As mentioned above, Judge Rakoff required that the “explicitly misleading” analysis be guided by the *Polaroid* factors.⁴⁴ The *Polaroid* test aims to determine whether the likelihood of confusion is sufficiently compelling to outweigh the public interest in free expression.⁴⁵ The following application of the *Polaroid* factors to the case at hand will demonstrate that NFTs are not well suited to the *Polaroid* framework.

a. Applying the Polaroid Factors

The *Polaroid* factors include the strength of the plaintiff’s mark, the similarity of the marks, the competitive proximity of the products in the marketplace, the likelihood that the senior user will “bridge the gap” by moving into the junior user’s product market, evidence of actual confusion, the junior user’s bad faith in using the

38. See *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989).

39. *Id.*

40. *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98, 105 (S.D.N.Y. 2022).

41. In Defendant’s Rule 56 Statement, Defendant claims the MetaBirkin is “both a fanciful tribute to the Birkin bag, which has become a cultural object signifying extreme wealth, and a reference to the fashion industry’s fur-free initiative.” Rothschild’s Motion for Summary Judgment, *supra* note 5, at 6.

42. *Id.* at 7.

43. See *Rogers*, 875 F.2d at 999.

44. *Hermès Int’l*, 603 F. Supp. 3d at 105.

45. See *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492 (2d Cir. 1961).

mark, the respective quality of the products, and the sophistication of consumers in the relevant market.⁴⁶

i. Strength of the Plaintiff's Mark

This factor most likely cuts in favor of Hermès because a showing of a stronger mark will lend credibility to a Plaintiff's claim of infringement. There are two different conceptions of the strength of a mark.⁴⁷ First, "inherent" distinctiveness, which looks to how "fanciful, arbitrary, and suggestive" the trademark is.⁴⁸ The word "Birkin" itself might be fanciful because it is made up. In addition, courts also consider "secondary meaning," which refers to the additional meaning a mark has acquired over time.⁴⁹ An example might be "Bed & Bath."

The Birkin name and trade dress have come to possess secondary meaning over time, owing to the significant cultural attention the Birkin has acquired.⁵⁰ Hermès contended that the Birkin is a world-renowned status symbol, and Rothschild acknowledged as much in promoting his MetaBirkins, in statements such as "I mean, for me, there's nothing more iconic than the Hermès Birkin bag."⁵¹

46. *Id.*

47. Lawrence G. Townsend, *Trademarks Need Inherent Distinctiveness or Secondary Meaning*, LAWRENCE G. TOWNSEND (Dec. 10, 2018), <https://www.lgt-law.com/blog/2018/12/trademarks-need-inherent-distinctiveness-or-secondary-meaning/> [https://perma.cc/BX9Y-HTE5] [https://web.archive.org/web/20240217034036/https://www.lgt-law.com/blog/2018/12/trademarks-need-inherent-distinctiveness-or-secondary-meaning/].

48. *Id.*

49. *Id.*

50. Jasmine Yu, *It's Not a Bag, It's a MetaBirkin!*, YORK U. (Mar. 2, 2022), <https://www.iposgoode.ca/2022/03/its-not-a-bag-its-a-metabirkin/> [https://perma.cc/6S5F-BLU9] [https://web.archive.org/web/20240308233237/https://www.yorku.ca/osgoode/iposgoode/2022/03/02/its-not-a-bag-its-a-metabirkin/].

51. *NFT Artist: 'MetaBirkins' Project Aims To Create 'Same Kind of Illusion that It Has in Real Life'*, YAHOO! FIN. (Dec. 6, 2021), <https://news.yahoo.com/nft-artist-metabirkins-project-aims-200930209.html> [https://perma.cc/K5U6-6SVH] [https://web.archive.org/web/20211206205429/https://finance.yahoo.com/video/nft-artist-metabirkins-project-aims-200930209.html?gucounter=1].

ii. *Similarity of the Marks*



Figure 1: BIRKIN trademark image



Figure 2: A MetaBirkin

Figure 1 is the image associated with Hermès' "BIRKIN" trademark.⁵² Figure 2 is a MetaBirkin, and a side-by-side comparison makes it clear that the two designs are extremely similar.⁵³ This is no surprise, given that Rothschild has been explicit about the MetaBirkin being based off of the Birkin.

iii. *The Competitive Proximity of the Products in the Marketplace*

Right now, MetaBirkins and Birkins do not seem to exist in the same marketplace. This does not, however, mean that MetaBirkins are not causing confusion, or impacting the Birkin marketplace. As noted by Judge Rakoff when denying Rothschild's motion to dismiss, "fashion brands are beginning to create . . . digital replicas of their real-life products to put in digital fashion shows or otherwise use in the metaverse."⁵⁴ Though Hermès may not have taken such action yet, it seems possible that they might. Until that point, however, we can also ask to what degree the MetaBirkin is the digital equivalent of a real Birkin, and to that end, the degree to which the two products might be in competition. Indeed, Rothschild himself stated that one of his goals was to "transfer the Birkin bag, with all its real-world cultural baggage, into a digital world where virtuality reigns—that is, into what is often called the 'metaverse.'"⁵⁵

If we view the Birkin as an indicator of status, a MetaBirkin can also serve as an indicator of status. On the other hand, if the Birkin is a primarily practical accessory, the NFT hardly serves a comparable function. The fact that the MetaBirkins garner comparable prices to Birkins cuts in favor of a showing of competitive proximity, but price alone is insufficient. Moreover, when promoting the MetaBirkin, Rothschild

52. Complaint at 9, *Hermès Int'l v. Rothschild*, 603 F. Supp. 3d 98 (S.D.N.Y. 2022) (No. 22-cv-00384-JSR).

53. *Id.* at 17.

54. *Hermès Int'l*, 603 F. Supp. 3d at 101.

55. Expert Report of Dr. Blake Gopnik at 16, *Hermès Int'l*, 603 F. Supp. 3d 98 (No. 22-cv-00384-JSR).

himself stated that “there’s not much difference” between owning a MetaBirkin and “having . . . the crazy handbag in real life because it’s . . . that showing of like wealth . . .”⁵⁶ Rothschild’s statement arguably indicates an intention for the two to compete.

Rothschild’s own expert, Dr. Gopnik, described the MetaBirkins as an “elite metaversal commodity . . . the kind of deluxe Hermès bag a MetaKardashian might carry, in the virtual reality we will all inhabit.”⁵⁷ The existing MetaBirkins were not wearable, but the Court seemed to indicate that if they were, the case at hand would be markedly different.⁵⁸

It remains unclear whether “wearability” should be outcome-determinative, or even relevant, if Rothschild intends for MetaBirkins to serve as an “NFT’d Birkin.”⁵⁹ Rothschild’s statement that “there’s not much difference” between the MetaBirkin and the Birkin⁶⁰ implies his own belief that a Birkin may serve as a status indicator rather than a functional item.⁶¹ Of course, the bag can be both, just as an expensive car can be both functional and a status indicator. Whether the MetaBirkin can be “worn” in a metaverse seems unlikely to change its value to consumers or its functionality. A digitally “wearable” Birkin and a MetaBirkin NFT might serve the same purpose—to allow the user to flaunt ownership of a valuable asset in a digital space. Unlike the physical Birkin, neither the “wearable” nor the MetaBirkin NFT can serve a utilitarian function such as carrying objects. Whether or not they can be “worn” by an avatar, they arguably serve identical functions.

The possibility that Rothschild creates “wearable” MetaBirkins may only be speculative, but ultimately, the distinction is of little importance. A digitally wearable Birkin arguably occupies the same market as a MetaBirkin NFT, but the more difficult determination is whether or not the MetaBirkin NFT and the real Birkin occupy the same market. It remains unclear whether the digital fashion market would be the same as the marketplace for physical fashion items.

iv. The Likelihood that the Senior User Will “Bridge the Gap” by Moving into the Junior User’s Product Market

This factor asks us whether it is likely that Hermès will move into the digital space, either to mint and sell their own NFTs or to sell digitally “wearable” products. While Hermès may seem unlikely to do so, it also seems problematic to posit that Rothschild can essentially take Hermès’s place in the metaverse simply because Hermès has yet to do so itself. If we someday arrive at a world where most, or many, brands develop a digital presence, it seems intuitive that each brand should have the right to control their digital footprint (or maintain a lack of one).

56. See *Hermès Int’l*, 603 F. Supp. 3d at 101.

57. Plaintiffs’ Motion for Summary Judgment, *supra* note 12, at 14.

58. *Hermès Int’l*, 603 F. Supp. 3d at 104 n.3.

59. Plaintiffs’ Motion for Summary Judgment, *supra* note 12, at 12.

60. See *Hermès Int’l*, 603 F. Supp. 3d at 101.

61. See *id.*

Judge Rakoff expressed a belief which would seem to be in accordance with this idea in his opinion in *UMG Recordings v. MP3.com, Inc.*⁶² There, he wrote that “[a]ny allegedly positive impact of defendant’s activities on plaintiffs’ prior market in no way frees defendant to usurp a further market that directly derives from reproduction of the plaintiffs’ copyrighted works.”⁶³ Although, of course, the Birkin is not a copyrighted work, this Note argues that this principle would be valuable here. The MetaBirkin cannot credibly be claimed to substantially benefit the market for the real Birkin, and it very plausibly might harm Hermès. Either way, irrespective of confusion, Rothschild should not be free to “usurp” the further market that directly derives from the reproduction of the Birkin.

v. Evidence of Actual Confusion

Hermès presented evidence of actual confusion, demonstrating that many consumers believed that MetaBirkins were produced in collaboration with Hermès.⁶⁴ Several reputable magazines made the same error, actually reporting that Hermès was involved in the creation of MetaBirkins.⁶⁵ Given the affiliation of NFTs with the metaverse, Rothschild may have improperly led consumers to believe that just as other brands such as Gucci, Balenciaga, and Louis Vuitton have, Hermès too had taken a step into the metaverse by creating the MetaBirkin. Rothschild’s own advertising also likely contributed to confusion; he promoted MetaBirkin through the use of slogans such as “Not Your Mother’s Birkin,” which arguably implied that the MetaBirkin is *some* kind of Birkin.⁶⁶

The parties disagreed about whether the studies Hermès commissioned showed scientifically reliable evidence of actual confusion. At trial, Hermès relied on a survey by Dr. Bruce Isaacson which attempted to measure consumer confusion.⁶⁷ Using the “Eveready” method, the study showed respondents various versions of the MetaBirkins website and asked them questions including what brand they believed created the product. Dr. Isaacson concluded that based on the studies, there was a substantial likelihood of confusion.⁶⁸ Rothschild provided expert testimony which found those studies to be unreliable on the basis of alleged design flaws.⁶⁹

62. 92 F. Supp. 2d 349 (S.D.N.Y. 2000).

63. *Id.* at 352.

64. *Hermès Int’l*, 603 F. Supp. 3d at 102.

65. *Id.*

66. *Id.*

67. Expert Report Submitted by Dr. Bruce Isaacson Measuring the Likelihood of Confusion Between MetaBirkins and Birkin Handbags at 38, *Hermès Int’l*, 603 F. Supp. 3d 98 (No. 22-cv-00384-JSR).

68. *Id.*

69. Expert Rebuttal Report of David Neal, Ph.D., in Response to Expert Report of Dr. Bruce Isaacson at 5–6, *Hermès Int’l*, 603 F. Supp. 3d 98 (No. 22-cv-00384-JSR).

vi. The Junior User's Bad Faith in Adopting the Mark

If the relevant question here is whether Rothschild intended to create consumer confusion by capitalizing on the fame of the Birkin, his own comments are highly relevant to his state of mind. In December 2021, Rothschild stated that “I wanted to see as an experiment if I could create that same kind of illusion that [the Birkin] has in real life as a digital commodity.”⁷⁰ Whether or not this is in bad faith depends on whether creating an “NFT’d” Birkin is an impermissible aim. If a consideration of intent and bad faith, however, is cabined by a singular focus on determining confusion, this inquiry becomes limited. It could have been the case that consumers were not be confused, and Rothschild still may have acted in bad faith. In short, the incorporation of the bad faith inquiry under the *Polaroid* test is limited to a means to the end of determining confusion.

vii. The Respective Quality of the Products

This factor asks us to make a somewhat impossible determination by comparing apples and oranges. A digital work of art and a physical bag cannot be compared along the same metrics. It hardly seems appropriate to compare the quality of leather goods and skills of leather artisans, to the skills of the digital illustrator and the know-how to mint an NFT.

viii. The Sophistication of the Consumers in the Relevant Market

The users in either market are arguably quite sophisticated in their respective markets. The consumer of the Birkin, for example, must necessarily be familiar with Hermès’s selling practices and the processes necessary to acquire one. At the same time, we might presume the buyer of an NFT to be relatively sophisticated in the digital realm, given that many members of the public are still confused as to what an NFT is.

However, the possibility remains that a sophisticated cryptocurrency investor might buy a MetaBirkin under the false assumption that they are buying a product endorsed or created by Hermès in part because they are unfamiliar with the Hermès brand. The reverse is just as plausible—the sophisticated Hermès customer might be familiar with the Birkin bags themselves, but notice the media attention surrounding MetaBirkins and believe that the two are affiliated. It is not clear to what degree the two groups of consumers overlap, and how many consumers would be sophisticated in both the physical luxury goods market and the NFT market.

70. *NFT Artist: 'MetaBirkins' Project Aims To Create 'Same Kind of Illusion that It Has in Real Life*, *supra* note 51.

b. Outcome

Although the means by which the jurors came to their decision remain relatively unknown, it can be assumed that they found a significant chance of consumer confusion needed to satisfy the trademark infringement claim.

II. PART II: THE CURRENT LEGAL STANDARD

A. VIABILITY OF THE *POLAROID* TEST

After emphasizing the low threshold of artistic relevance needed to survive the first prong of the *Rogers* test, Judge Rakoff seemed to shift the focus of the remaining litigation to a fact-intensive application of the *Polaroid* factors.⁷¹ This Note argues, however, that the *Polaroid* factors are not well suited to assessing emerging digital commodities such as NFTs. A focus on the *Polaroid* factors misses other critical inquiries and results in a circular analysis.

The *Polaroid* factors are poorly adapted to assessing not only NFTs but also a broad range of cases. Critiques of the *Polaroid* factors have been expressed many times before, for varying reasons.⁷² This Note argues that there are two fundamental and related reasons why the *Polaroid* factors are ill-suited to address the case at hand. First, the factors solely aim to determine the likelihood of consumer confusion, and this singular focus on consumer confusion is inadequate to address the harms at hand. And secondly, the *Polaroid* factors do not efficiently deal with confusion in cases evolving emerging markets.

1. Focusing Solely on Confusion

As Robert Bone expressed in the *Northwestern Law Review*,

that premise assumes that the ultimate goal of trademark law is to prevent consumer confusion. But this makes no sense. People are often confused in their ordinary lives and the law does not intervene to help. Before a likelihood of confusion can trigger trademark liability, there must be a good reason why the law should prevent confusion when it involves consumers responding to marks.⁷³

Why do we care to prevent confusion in trademark law? There are several valid perspectives which emerge in answering this question. First, because we recognize a strong interest in preventing consumer confusion in commercial settings, where consumers may hold less power than sellers if sellers are free to mislead as to the nature of their products. Second, because we recognize an interest held by sellers in protecting their brand images and reputations. The second interest can also be understood as

71. *Hermès Int'l*, 603 F. Supp. 3d at 105.

72. See Robert G. Bone, *Taking the Confusion Out of "Likelihood of Confusion": Toward a More Sensible Approach To Trademark Infringement*, 106 NW. U.L. REV. 1307, 1348 (2012).

73. *Id.* at 1309.

recognizing that the owners and creators of trademarks have made a valuable contribution in some way, and that contribution should not be freely taken advantage of by others—what we might characterize as an “anti-free riding” value. This is a value strongly protected by copyright law—that a creator of a work shall not have their creative output infringed upon by others, save in exceptional circumstances. Bone phrased it thusly: “Put simply, liability should depend on the moral character of the defendant’s conduct or the expected trademark-related harm from confusion.”⁷⁴

Looking to the “moral character” of conduct ultimately would lead back to the same considerations found in the copyright fair use doctrine. In assessing “moral character,” we would look to more than just the intentions possessed by Rothschild, but whether or not we find those intentions permissible in a trademark context. For example, if Rothschild believed in good faith that his actions were within the realm of legality, we could say he possessed “moral character.” We could also say that if his intention was to profit from Hermès’s goodwill, he lacked such moral character. In order to make this normative determination, we must have a foundation for what constitutes “moral” behavior.

Yet, most trademark doctrine seems devoid of this consideration. Perhaps this is because trademarks are often words or titles, and the United States has a strong presumption against regulating “pure” speech unless absolutely necessary.⁷⁵ It is a simple observation that regulating an individual’s ability to say “Coca-Cola” feels distinct from regulating that individual’s ability to copy an artist’s painting and sell it for profit.

The discomfort and tension here are at their height in cases involving goods which are not subject to copyright protection but involve a strong artistic element. The leather craftsmen who create the Birkin put in labor and skills which are comparable to those of an artist who creates a sculpture, say, out of leather. Yet the Supreme Court has continued to affirm this differentiation, most recently in *Star Athletica, L.L.C. v. Varsity Brands, Inc.*⁷⁶ In *Star Athletica*, the Court addressed the copyrightability of “features” of clothing, such as two-dimensional designs. The Court held that “[i]f the feature could not exist as a pictorial, graphic, or sculptural work on its own, it is simply one of the article’s utilitarian aspects.”⁷⁷ This “separability” requirement renders it nearly impossible that Hermès could get copyright protection for the Birkin, as the Court held that “[t]he decisionmaker must determine that the separately identified feature has the capacity to exist apart from the utilitarian aspects of the article.”⁷⁸ One might, then, wonder if the Birkin’s trade dress can “exist apart” from the utilitarian aspects of the bag—in the form of an NFT or “meta” version of the bag. Rothschild

74. *Id.* at 1348.

75. *See, e.g.,* *Clarkson v. Town of Florence*, 198 F. Supp. 2d 997, 1000 (E.D. Wis. 2002) (explaining that regulations of pure speech are subject to strict scrutiny, the highest level of judicial scrutiny).

76. 580 U.S. 405 (2017).

77. *Id.* at 406.

78. *Id.* at 414.

himself claimed that he wished to “transfer” the Birkin bag, “with all its real-world cultural baggage, into a digital world . . . into what is often called the ‘metaverse.’”⁷⁹

However, the Court seems to have dismissed this possibility by finding that neither “could someone claim a copyright in a useful article merely by creating a replica of that article in some other medium—for example, a cardboard model of a car.”⁸⁰ In that example, the Court determined that the creator of the replica could copyright the replica, but not the underlying work. A Birkin requires meticulous labor from trained artisans who work by hand.⁸¹ While one might imagine that this degree of artisan handiwork implicates artistic significance, the *Star Athletica* decision means that Birkins are nonetheless ineligible for copyright protection.

If the jury had found for Rothschild, the decision could have had absurd consequences. It would have been the case that while Hermès cannot copyright the Birkin (as the Birkin’s design can hardly be separated from the “utilitarian” aspect of the bag itself), Rothschild would theoretically be able to copyright the MetaBirkin (though he, of course, would not be able to hold a copyright of the Birkin bag itself by virtue of having created MetaBirkin). And indeed, Rothschild already complained of “fake” MetaBirkins, a fact Hermès believed cut in favor of their contention that Rothschild is simply using the Birkin trademark as a source indicator. Because the Court in *Star Athletica* seems to have eliminated the possibility of copyright protection for a commodity like the Birkin, Hermès was forced to rely solely on trademark law.

However, the background of *Polaroid* itself is telling as to why the test is poorly suited to address emerging questions pertaining to digital commodities. The *Polaroid* test originates from litigation regarding whether *Polarad* Corp was infringing on *Polaroid* Corp by titling their corporation as such. The case was relatively straightforward—a trademarked title compared to a very similar trademarked title—apples and apples, one might say.

The MetaBirkin versus Birkin dilemma at hand is hardly analogous—rather than two titles of two corporations, we are faced with a digital non-fungible token linked to an image of an iconic handbag, versus the handbag itself. The two comparisons are worlds apart. *Polaroid* and *Polarad* were comparable; the MetaBirkin and the Birkin are, in many ways, apples and oranges. This does not, however, indicate that the MetaBirkin does not create consumer confusion—it may, but in a manner entirely different from the confusion between *Polarad* and *Polaroid*. Unsurprisingly, then, the *Polaroid* test seems to ask us the wrong questions.

For example, take the second *Polaroid* factor—the degree of similarity between the marks. The degree of similarity is high in one respect, in that the MetaBirkin is (arguably) a digital version of the original. The question at hand should not be whether the marks are similar, but whether or not similarity matters here: Essentially, whether

79. Rothschild’s Motion for Summary Judgment, *supra* note 5, at 11.

80. *Star Athletica, L.L.C.*, 580 U.S. at 415.

81. See Plaintiffs’ Rule 56.1 Statement of Material Facts in Support of Plaintiffs’ Motion for Summary Judgment at 39, *Hermès Int’l v. Rothschild*, 590 F. Supp. 3d 647 (S.D.N.Y. 2022) (No. 22-cv-00384-JSR). (demonstrating artistic significance by explaining the labor that goes into crafting a single Birkin—more than seventeen hours of an artisan’s time).

it is permissible to have an NFT which bears a resemblance to a trademarked entity. This becomes a mere restatement of the problem which the *Polaroid* factors are being applied to address. If the Court had answered yes, it would have allowed nearly anyone to take physical goods and “NFT” them into digital versions without intellectual property protections for the creators of the original, surely an undesirable outcome.

The third *Polaroid* factor (competitive proximity in the marketplace) also misses the heart of the problem here. It remains unclear whether the MetaBirkin and the Birkin are competitors. Moreover, the MetaBirkin and the Birkin may not exist in the same marketplace. One could argue that both commodities are signifiers of wealth, but it remains unclear whether or not consumers who would otherwise purchase a Birkin would purchase a MetaBirkin instead, and there seems to be insufficient evidence to conclude that the virtual markets in which the MetaBirkin is traded are really the same marketplace that the physical Birkin is bought and sold in.

With respect to the fourth *Polaroid* factor, bridging the gap to “move into” the marketplace may not be relevant because we have yet to understand how exactly the Birkin marketplace overlaps with the MetaBirkin marketplace. The *Polaroid* test seems ill-equipped for the recognition that even though the MetaBirkin and the Birkin may currently exist in distinct “marketplaces,” a trademark violation may still exist. The MetaBirkin may still create consumer confusion by creating the impression that Hermès has moved into a new market when (as of yet) it has not.

The *Polaroid* factors are focused on confusion, and in doing so, they allow us to only ask tangentially several key questions about the MetaBirkin, such as whether it is permissible to “translate” goods into their digital, metaverse counterparts, what kind of “intent” is acceptable in such cases, and what degree of transformation renders the “NFT’d” products not merely derivative versions of their originals. The next question, then, is what a more suitable legal standard would be to assess trademark violation cases involving expressive NFTs.

III. PART III: A POTENTIAL SOLUTION

A. A NEW ADDITION: THE COPYRIGHT FAIR USE EXCEPTION

Incorporating principles of copyright law into the realm of trademarks is admittedly a controversial and bold proposition. Many have objected to this kind of “blurring” of the line between the two intentionally distinct areas of law.⁸² However, *Hermès v. Rothschild* demonstrates trademark law’s failure to present the proper considerations.

Considering the four prongs in the copyright law exception of fair use would be informative in future cases similar to *Hermès v. Rothschild*. The fair use test as found in copyright law consists of four prongs: (1) purpose and character of the use; (2) nature of the copyrighted work; (3) amount and substantiality of the portion used in relation

82. Jessica Bohrer, *Strengthening the Distinction Between Copyright and Trademark: The Supreme Court Takes a Stand*, 2 DUKE L. & TECH. REV. 1, 7 (2003).

to the copyrighted work as a whole; and (4) effect of the use upon the potential market for or value of the copyrighted work.⁸³

If the courts were to adopt such an exception, there are numerous ways they could incorporate the test. One potential route would be to fit the fair use exception within the *Rogers* framework by considering whether a fair use exception should apply under the “artistic relevance” analysis.⁸⁴ Upon a finding of fair use, the courts might then apply a categorical test as to explicit misleadingness, eliminating the need to rely heavily on the *Polaroid* factors.

The more likely possibility would be that if an “art NFT” were found to violate the *Polaroid* factors, the courts could then turn to the possibility of a copyright fair use exception to justify such violation. Though this would still require some incorporation of the *Polaroid* factors, they would no longer be the sole determiner of the outcome.

Trademark law only contains a very constrained conception of fair use, which is ultimately inapplicable to the case at hand. The two established types of trademark fair use are “classic” fair use, where a party uses a third party’s trademark to describe their own goods and services, and “nominative” fair use, where a party uses a third party’s trademark referentially or in comparison to its own product.⁸⁵ The Second Circuit has left open the question of whether or not a fair use exception (as understood in copyright) might be appropriate in the trademark realm in at least two cases.⁸⁶ In the 1996 case *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, the Second Circuit addressed the question of whether fair use as found in copyright doctrine should apply to trademark law, but ultimately ruled that “it is unlikely that the fair use doctrine is applicable to trademark infringements; however, we need not reach that question.”⁸⁷ While “unlikely,” the court notably did not rule out the possibility.⁸⁸

This Note argues that the critical element of *Hermès v. Rothschild* which warranted an expanded fair use exception is the potential emergence of a new marketplace, namely, digital “metaverses” or other spaces. If online spaces become digital “versions” of real-world spaces and objects, there are novel considerations at play, and the focus of trademark law on avoiding consumer confusion may be *insufficient* to protect intellectual property rights. Imagine, for example, that an individual creates NFTs which link to digital “versions” of various Porsche cars. They might advertise the NFTs as assets which are digital Porsches, while also clearly stating that Porsche has not created them. Someone might sell an NFT of a digitized Rothko painting, while being clear that Rothko did not create the NFT. Because the Rothko would (presumably) be given copyright protection, the NFT would likely be a copyright violation. Meanwhile,

83. U.S. Copyright Office Fair Use Index, U.S. COPYRIGHT OFF. (Nov. 2023), <https://www.copyright.gov/fair-use/> [https://perma.cc/U7R6-LAZ] [<https://web.archive.org/web/20240211074027/https://www.copyright.gov/fair-use/>].

84. See *supra* part I.B.1 for a discussion of “artistic relevance” analysis.

85. *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1150 (9th Cir. 2002).

86. See *Girl Scouts of the U.S. v. Personality Posters Mfg. Co.*, 304 F. Supp. 1228, 1235 (S.D.N.Y. 1969); *Dall. Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 467 F. Supp. 366, 375–76 (S.D.N.Y. 1979).

87. *Dall. Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979).

88. *Id.*

the digital Porsche NFT might survive because it would ostensibly avoid consumer confusion. The right of brands to control their digital presence and to protect their ability to move into the metaverse in a profitable manner would be completely lost.

Nor does the possibility of bringing a trademark dilution claim adequately address the harm here. Indeed, it is quite feasible that the MetaBirkin may not “blur” or “dilute” the Hermès brand, but might still capitalize off of its fame and recognizability in an impermissible way. Though diluting the Hermès brand is a legitimate concern, the concern that is unique to NFTs and the metaverse is the possibility that Rothschild will impermissibly “take” Hermès’s place in the metaverse.

Allowing for a fair use exception would have shifted the focus of the inquiry from whether or not the MetaBirkin confused consumers, to whether the MetaBirkin is merely derivative or adds some aesthetic or other value to the Birkin such that it is more than the digital “version” of a Birkin. Moreover, the fourth factor of the fair use test would likely preclude a work which was “explicitly misleading” from counting as fair use. This is because examining the effects of an explicitly misleading use upon the value of the copyrighted work would allow for a consideration of the negative impacts that would likely result.

Judge Rakoff’s own application of the copyright fair use exception in *UMG Recordings v. MP3.com* is informative here. Although in a copyright case, Judge Rakoff explored the possibility that a fair use exception might save MP3.com’s otherwise infringing technology, which allowed a user to scan a CD and then listen to that music via MP3.com.⁸⁹ Judge Rakoff ultimately found, after applying the four factors of the fair use test, that the exception did not apply.⁹⁰ While, again, it may be fraught to draw comparisons between trademark and copyright cases, if that fundamental distinction is put aside for a moment, there are many parallels between the two cases. *UMG Recordings* involved the digitization of CDs into MP3 files, just as *Hermès v. Rothschild* involved the digitization of the Birkin bag.⁹¹ Judge Rakoff noted that MP3.com added “no new . . . ‘aesthetics’ to the originals . . . but simply repackages those recordings to facilitate their transmission through another medium.”⁹²

This analysis strikes at the heart of what should have been the question asked in *Hermès v. Rothschild*. Just as Judge Rakoff asked in *UMG Recordings* whether or not the MP3 files had “transformed” the underlying works, Judge Rakoff should have been able to ask whether or not the MetaBirkin “transformed” the Birkin, or whether it is merely a derivative work. For example, Rothschild’s expert, Dr. Gopnik, referred to the MetaBirkins as “Rothschild’s NFT’d ‘MetaBirkins.’”⁹³ But instead of focusing on this question of “digital translation,” the ultimate question posed to the jury hinged not on transformation but on consumer confusion.

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

90. *Id.* at 352.

91. *Id.*

92. *Id.* at 351 (citation omitted).

93. Expert Report of Dr. Blake Gopnik at 5, *Hermès Int’l v. Rothschild*, 603 F. Supp. 3d 98 (S.D.N.Y. 2022) (No. 22-cv-00384-JSR).

Trademark law functions primarily to prevent consumer confusion. Preventing consumer confusion serves not only the interests of consumers, but also the interests of producers who wish to maintain their brand reputation and image. The consumer confusion test does little to protect those interests in a trademark infringement claim where consumers may not be confused, but a brand's right to expand into a new marketplace may be infringed upon nonetheless. In these cases, with a product that involves such a heavily artistic element, a copyright fair use analysis would provide far more utility than the consumer confusion test.

a. Application of the Copyright Fair Use Test

i. The Purpose and Character of the Work

If a court were to apply the copyright fair use test in future cases, the court would first look to factors such as Rothschild's own comments about his goals in creating the MetaBirkin, the "character" of an NFT, what function it serves, and to what degree the images function as a hybrid of art and commodity. This strikes directly at the heart of a critical question in NFT cases—is it a permissible aim to "translate" a physical good into an "NFT'd" version of itself?

More specifically, the court would look to the character of the MetaBirkin, and whether it imbues the original work with "a further purpose or different character, altering the copyrighted work with new expression, meaning or message."⁹⁴

Under a consumer confusion analysis, Rothschild's arguments about Business Art seem to have held little sway. One can see why—whether Rothschild was following an art tradition in the footsteps of Warhol and Duchamp has relatively little bearing on whether he confused consumers. Under the copyright test, however, Rothschild's arguments about his artistic commentary on consumption and commerce would have borne a higher degree of relevance. Instead of merely answering whether consumers were confused, the court or the jury would have had to take a stance on the permissibility of what seems to have been Rothschild's ultimate aim in creating an "NFT'd Birkin." Without this consideration, we seem to be left with the impression that, had Rothschild not confused consumers but managed to create a digital "equivalent" of the Birkin nonetheless, the court would have accepted such an outcome under the *Polaroid* factors.

ii. Nature of the Work

Again, this prong of the test would have allowed a jury to assess the nature of the Birkin to determine whether or not it functions merely as a commercial good, or whether it has an artistic expressiveness such that it is more akin to an expressive work of art. Adopting this test would acknowledge the nuanced reality that many fashion products are more akin to art than to mere functional objects, though they can certainly

94. Google LLC v. Oracle Am., Inc., 593 U.S. 1, 29 (2021) (internal quotations omitted).

fulfill both purposes. Acknowledging an expressive element to the real-world Birkin would further strengthen the need for an application of copyright principles when considering the digital-world version of the Birkin.

iii. Amount and Substantiality of the Work Used

This factor also gets at the difficult questions posed by a digital “version” of a physical item. In one sense, everything about the MetaBirkin is sourced from the Birkin, save the added faux fur. The cultural capital of the bag, the design, and the inspiration all originate with Hermès. But in another sense, the MetaBirkin is composed of pixels, and not a single pixel comes from the original Birkin. This factor might allow the court to consider the degree of artistic input and technical skill involved in creating an NFT, and what degree of transformation should be required to make the work sufficiently original rather than a mere copy of a Birkin.

The court needs to address these core issues and set precedent for what rights brands have to “translate” their products into digital assets. Acknowledging the artistic elements present in trademarked goods which are being “translated” or “NFT’d” into the digital realm is of key importance if the metaverse continues to expand.

iv. Effect on the Potential Market.

This fourth factor would allow the court to incorporate the same consumer confusion analysis as under a trademark case, but incorporate other relevant factors as well, including how many consumers move between the two marketplaces and how distinct they are. This allows for some consideration of consumer confusion, but avoids it as a singular, central consideration.

b. Justifying a Copyright Fair Use Exception

After Hermès filed their complaint, Rothschild claimed that the relationship between the MetaBirkin and the Birkin is akin to that of Andy Warhol’s Campbell soup paintings and Campbell soup cans themselves.⁹⁵ Though interesting, this argument does not acknowledge the growing digital “realm” being created through metaverses and other online spaces. So long as brands continue to transition to digital assets and offerings, the *Polaroid* factors fail to answer critical questions about *what* marketplace we consider in assessing confusion, what it means for a digital and physical product to “compete,” and who should be able to create digital “versions” of real-life goods.

More fundamentally, the fact that the *Polaroid* factors only address confusion means that we are prevented from asking an arguably more critical question, which is not

95. Mara Siegler, *Hermes Suing Artist over Birkin Bag NFTs*, PAGE SIX (Jan. 20, 2022), <https://pagesix.com/2022/01/20/hermes-suing-artist-over-birkin-bag-nfts/> [https://perma.cc/K6RL-D9C7] (quoting an Instagram post from Rothschild stating “The First Amendment gives me the right to make and sell art depicting Birkin bags, just as it gave Andy Warhol the right to make and sell art depicting the Campbell’s soup cans.”).

merely whether consumers are confused, but whether Rothschild is using something *which is not his to use*. This emphasis on exclusive ownership rights has traditionally been limited to copyright law but has been alluded to in trademark law as well. For example, in *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, the Second Circuit acknowledged that the Lanham Act was “designed to prevent a competitor from such a bootstrapping of a trademark owner’s goodwill by the use of a substantially similar mark.”⁹⁶

The problem, then, seems to be that confusion alone does not actually prevent a competitor from “bootstrapping.” Imagine, for example, a fake (physical) Birkin bag which is marketed and sold by a retailer claiming that the bags are real Birkin bags. Consumers may not believe the storeowners and may not be confused at all, but may feel they are presented with a good opportunity to get an authentic-looking Birkin at a much lower cost. If the retailer were reported to authorities, nobody would doubt that illegal trademark infringement was occurring (despite the lack of consumer confusion). Similarly, here, even if consumers were not confused as to whether or not the MetaBirkin is produced by Hermès, there may still be “bootstrapping” of Hermès’s goodwill. But despite the Second Circuit’s acknowledgement that we seek to avoid this outcome, the *Polaroid* test seems to leave little room for the situation in which consumers are not confused yet bootstrapping has occurred.

Trademark tests of confusion seem ill-equipped to address this concern, but copyright doctrine focuses on avoiding infringement on owners’ rights. For an illustrative comparison, if there were a painting of a Birkin bag which was then digitized and sold with an NFT, the NFT would likely infringe on the copyright of the original painter. However, the bag itself is not given the same protection, because it is not considered a copyrightable work. The leather craftsmen and artists who work for Hermès and create the Birkin are not afforded the same protections that a painter who might paint the same bag would be. This is hardly a new complaint; the fact that fashion designs are not given copyright protection has long been a source of controversy.⁹⁷

The example of the Birkin illustrates the dilemma—it is at once utilitarian, because it serves a functional purpose as a bag, but for many consumers it functions as a piece of art or an investment. Many Birkin owners display their bags without ever using them or justify purchasing them by their investment value.⁹⁸

Where other fashion brands have sold digital “versions” of their goods, there is a much greater potential of consumer confusion and misbelief that Hermès created the

96. *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 872 (2d Cir. 1986).

97. Tori Telfer, *Why Fashion Designs Aren’t Protected by Copyright*, BUSTLE (Sept. 3, 2013), <https://www.bustle.com/articles/4527-fashion-designs-arent-protected-by-copyright-law-so-knockoffs-thrive-as-designers-suffer#:~:text=So%20why%20isn't%20fashion,aren't%20protected%20by%20copyright> [<https://perma.cc/5QSA-DBSB>] [<https://web.archive.org/web/20240309014053/https://www.bustle.com/articles/4527-fashion-designs-arent-protected-by-copyright-law-so-knockoffs-thrive-as-designers-suffer>].

98. Leonie Goerke, *An Expert Guide To Investing in the Hermès Birkin Bag*, SACLÀB (Apr. 18, 2023), https://sacclab.com/hermes-birkin-bag-investment/#:~:text=And%20compared%20to%20art%20or,Chanel%20handbags%20of%20%2B11.8%25* [<https://perma.cc/4ZHN-ZPKD>] [<https://web.archive.org/web/20240309014408/https://sacclab.com/hermes-birkin-bag-investment/>].

MetaBirkin as the digital “version” of the Birkin, whereas no such possible confusion existed between the Campbell soup cans and Warhol’s painting. However, even if there is no confusion here, the creation of digital “versions” of physical goods involves more risks than just consumer confusion about source. As stated above, there is the significant risk of bootstrapping. Along those lines, there should also be concerns about the rights of brands to control their creative presence in the digital realm, and those concerns are addressed better through a fair use analysis than the *Polaroid* factors.

The four factors of the copyright fair use exception strike directly at the heart of the questions which arise in the “translation” of physical goods to digital spaces, whereas the *Polaroid* factors can only yield these determinations tangentially. The fair use factors could allow the court to get at the fundamental question—if Rothschild was merely seeking to create a digital asset which is an “equivalent” of the real-life Birkin, should he have been permitted to do so? Just as a painter who seeks to sell a copy of another painter’s copyrighted painting cannot do so, neither should Rothschild be permitted to. On the other hand, if Rothschild’s art constitutes a fair use of the Birkin trademark because it adds artistic value and commentary in a permissible manner, some confusion might be worth tolerating.

There is an obvious concern here that the expansion of a fair use exception in trademark law impermissibly blurs the line between copyright and trademark law. Although the Second Circuit has not foreclosed the possibility of a fair use exception in trademark, the Supreme Court has made it clear that the law must distinguish the different sources and aims of trademark and copyright.⁹⁹ Nonetheless, the concern here may be mitigated by a constrained application of the copyright fair use exception in cases involving digital “versions” of trademarked goods with strong artistic relevance.

Ultimately, if Rothschild’s MetaBirkin constituted fair use, the court should have been willing to tolerate a degree of consumer confusion, and simple measures such as disclaimers would likely have sufficed. On the other hand, if Rothschild’s MetaBirkins had been found to be merely derivative digital “versions” of the Birkin, a lower tolerance for confusion would have been justified.

B. REMEDIES

Finally, a question arises as to what the proper remedy ought to be in NFT cases. In this particular case, the jury awarded Hermès \$133,000 in damages.¹⁰⁰ Hermès has already moved for a permanent injunction to stop Rothschild from continuing to promote and sell MetaBirkins, which they allege he has continued to do even following

99. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003) (emphasizing that copyright law seeks to promote progress and innovation, while trademark law seeks to protect commerce).

100. Shalini Nagarajan, *Hermès Says Trademark Lawsuit Win Over MetaBirkins NFTs Isn’t Enough*, BLOCKWORKS (Mar. 7, 2023), <https://blockworks.co/news/hermes-trademark-lawsuit-metabirkins-nfts> [https://perma.cc/H6HN-3L3K] [https://web.archive.org/web/20240309015227/https://blockworks.co/news/hermes-trademark-lawsuit-metabirkins-nfts].

the recent jury finding of liability.¹⁰¹ The unique structure of NFTs and the Blockchain raises questions as to what equitable relief the court is even able to order. NFTs cannot be “destroyed” or “deleted” from the Blockchain, but there are a few potential options.¹⁰² One such option would be putting the MetaBirkin NFTs in a wallet belonging to, perhaps, the court or a third-party holder. This would prevent the NFT from being traded, although the art itself would still be viewable.

It is also worth noting that NFTs raise difficult questions as to secondary liability, which lie beyond the scope of this Note. MetaBirkins were first sold on OpenSea, an NFT trading platform.¹⁰³ OpenSea then removed the MetaBirkins from their platform, but Rothschild has continued to sell them on the MetaBirkin website, as well as other NFT marketplaces, including Rarible.¹⁰⁴ After their recent victory, Hermès might have an interest in considering whether or not to bring secondary liability claims against these platforms.

IV. CONCLUSION

There are many who believe that NFTs and the metaverse are a passing trend, destined to fizzle out as quickly as they rose to prominence.¹⁰⁵ Even if that turns out to be the case, the accelerating digitization of our world will bear legal significance in the coming decades, whether in the context of digital art, digital fashion, or digital commodities in a virtual reality.

With this in mind, the court should refine the legal standards used to assess digital reproductions of physical objects and consider that these cases may be better solved through the adoption of the copyright fair use test than the *Polaroid* test, especially where the original object has a strong artistic or creative element. Where there are dual concerns of preventing consumer confusion and protecting intellectual property rights in the digital realm, the *Polaroid* test places too much emphasis on avoiding confusion and leaves unanswered several critical questions about the rights of brands to control their digital presence and avoid bootstrapping. Though confusion is a relevant consideration, trademark law alone seems ill-suited to assess artistic works being translated into a digital realm. Adopting a fair use exception would have shifted the focus in *Hermès v. Rothschild* beyond confusion alone to whether or not Rothschild’s so-called “Business Art” really added transformative value to the original such that his art constituted fair use.

101. *Id.*

102. Katie Rees, *No, You Cannot Remove Data From the Blockchain. Here’s Why*, MAKE USE OF (Aug. 4, 2022), <https://www.makeuseof.com/no-you-cannot-remove-data-from-the-blockchain-heres-why/#:~:text=The%20shortest%20answer%20to%20this,cannot%20be%20altered%20or%20deleted> [<https://perma.cc/6SXR-JHM3>] [<https://web.archive.org/web/20240309015629/https://www.makeuseof.com/no-you-cannot-remove-data-from-the-blockchain-heres-why/>].

103. Abad, *supra* note 16.

104. *Id.*

105. Sean Sullivan, *NFTs: Future or Fad? Excerpts from a Practical Discussion of NFT Use Cases and Copyright Concerns Raised by NFT Offerings*, 45 COLUM. J.L. & ARTS 365 (2022).

In an ideal world, the emergence of metaverses should be accompanied by a consistent legal framework that allows for considerations not just of consumer confusion, but of brands' rights to control their emergence into the metaverse. Admittedly, the incorporation of copyright principles into trademark law is a bold proposition, and the negative impacts might outweigh the positive. A more suitable solution might have been to reconsider the eligibility of artistic commodities such as a Birkin for copyright protection. However, given the Supreme Court's apparent reluctance to do so,¹⁰⁶ adopting a copyright fair use exception in certain trademark cases might be a suitable middle ground, and prove useful for future NFT and metaverse cases which are almost certain to follow. Indeed, it might be a first step in creating a framework that acknowledges the novel considerations arising in a digital realm where all parties have an interest in maintaining a balance between free speech and digital intellectual property rights.

106. See *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

Copyright Is a Joke: Perspectives on Joke Theft in Stand-Up Comedy, and How To Save the Punchline

Jared B. Hopper*

INTRODUCTION

Stand-up comedy is personal. Comics spend months to years traveling from venue to venue experimenting with audiences to create a full, polished comedy show that they can market and use to advance their careers. Maybe they get a TV special, maybe they go on tour, or maybe the set takes them nowhere. Regardless of what opportunities come of it, however, the old set must eventually be retired to make way for new material.¹ The commercial value of jokes is driven by their novelty, and comedians have to keep their audiences' attention in order to remain relevant. To try to boil down what makes something funny would be a futile task, but one theory is that "laughter results when a person discovers an unexpected solution to an apparent incongruity."² Once the logic of a joke is known, it loses both its potential to defy expectations and, as a result, its intrinsic value as something funny. And what is a comedian without funny jokes?

Generating new content is a necessary part of the job, and safeguarding that intellectual property becomes critically important. To comics, this material is an extension of themselves, bite-sized pieces of their identity and experiences fed to audiences to foster a connection with them. Kevin Hart, describing his relationship to his own material, illustrates the centrality of ownership to the profession: "Stand-up

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1. A "set" refers to a "stand-up comedy show of any length." *Comedy Terms and Phrases*, BRETT VINCENT, <https://web.archive.org/web/20230925210440/http://www.brettvincent.com:80/comedy-terms-and-phrases.html> (last visited Mar. 9, 2024).

2. Giovanni Sabato, *What's So Funny? The Science of Why We Laugh*, SCI. AM. (June 26, 2019), <https://www.scientificamerican.com/article/whats-so-funny-the-science-of-why-we-laugh/> [<https://perma.cc/3F65-G9XF>] [<https://web.archive.org/web/20221219111321/https://www.scientificamerican.com/article/whats-so-funny-the-science-of-why-we-laugh/>].

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comedy is mine: it's my entity; it's my brand; I own it."³ Stealing jokes, then, is not just a threat to a comic's livelihood in that it dilutes the comedic value of their material, but it is an appropriation of their personal experiences. Perhaps because of this, joke theft is treated as the greatest taboo in the industry, but deterring this appropriation is a challenging endeavor.

Copyright protections for comedians are a joke. While copyright is technically available in this context, its safeguards are very "thin" and not a practical option for the majority of comedians.⁴ Comics can procure a copyright for their jokes "if they contain at least a certain minimum amount of original expression in tangible form."⁵ In order to meet this threshold, however, a comic would need to prove that they independently created the joke by showing that it "possesses at least some minimal degree of creativity to evidence a modicum of intellectual labor with respect to the expression of that joke."⁶ The "tangibility" requirement is often incompatible with the nature of stand-up comedy, particularly in its purest form of live performance, which presents another hurdle for comedians. How can copyright be a viable tool for a profession centered around performance, something that changes night to night depending on the specific interaction between comedian and audience and therefore predominately *not* tangible? On top of this difficulty, even for jokes that qualify for copyright protection, comedians seldom ever utilize courts to settle disputes related to joke theft in court.⁷

A recent case, *Kaseberg v. Conaco, LLC*,⁸ a rare example of litigation between two comedians based on allegations of joke theft, curiously demonstrates both the limitations of copyright and its viability for individuals able to copyright their material. In the case, a freelance comic alleged that Conan O'Brien stole five of his jokes from X (formerly Twitter) to use on O'Brien's late night talk show.⁹ Kaseberg had only formally registered three of the jokes with the Copyright Office, so the allegations related to the

3. Matt Goldberg, *Kevin Hart Talks RIDE ALONG, Moving To the New Phase in His Career, Comparisons To Other Buddy Cop Action Comedies, and More*, COLLIDER (Nov. 5, 2013), <https://collider.com/kevin-hart-ride-along-interview/> [<https://perma.cc/BN2Q-WLBT>] [<https://web.archive.org/save/https://collider.com/kevin-hart-ride-along-interview/>].

4. Elizabeth Moranian Bolles, *Stand-Up Comedy, Joke Theft, and Copyright Law*, 14 TUL. J. TECH. & INTELL. PROP. 237, 237 (2011).

5. U.S. COPYRIGHT OFFICE, COMPENDIUM II: COMPENDIUM OF COPYRIGHT OFFICE PRACTICES § 420.02 (1984).

6. Hannah Pham, Note, *Intellectual Property in Stand-Up Comedy: When #fuckfuckjerry Is Not Enough*, HARV. J.L. & TECH. DIG., Spring 2020, <https://jolt.law.harvard.edu/digest/when-fuckfuckjerry-is-not-enough> [<https://perma.cc/R9NU-QL6F>] [<https://web.archive.org/save/https://jolt.law.harvard.edu/digest/when-fuckfuckjerry-is-not-enough>].

7. Dotan Oliar & Christopher Sprigman, *There's No Free Laugh (Anymore): The Emergence of Intellectual Property Norms and the Transformation of Stand-Up Comedy*, 94 VA. L. REV. 1787, 1798 (2008) ("Despite what appears to be a persistent practice of joke stealing among stand-up comedians, there have been few lawsuits asserting copyright infringement in jokes . . . and there is also little evidence of threatened litigation or settlements.")

8. 260 F. Supp. 3d 1229 (S.D. Cal. 2017).

9. *Kaseberg*, 260 F. Supp. 3d at 1233–35 (providing a summary of the relevant timeline).

other two were summarily dismissed.¹⁰ The district judge explained that “ideas are not copyrightable,” so the fact that both parties made jokes at similar times about the shrinking of the Washington Monument was not, in itself, sufficient to show copyright infringement.¹¹ However, the plaintiff prevailed in quashing the motion for summary judgment on the copyrighted jokes by showing that (1) the defendant had access to the copyrighted material¹² and (2) the jokes themselves, and not just the ideas fueling them, were substantially similar.¹³ *Kaseberg* settled just before trial, but this case made it further than one would expect. While unique, this outcome suggests that formal legal pathways could be worth pursuing more regularly, at least for material captured by a tangible medium such as X. As comedians increasingly rely on social media to share their work and expand their audience, copyright will likely be more available for their work in general, but unless every comedian films every night’s performance, it will not be a practical solution for the bulk of stand-up comedy, which is comprised of ever-changing and inherently intangible live performance.¹⁴

Despite its potential as a viable method of protection, however, most comedians do not have the time or the resources to pursue legal action.¹⁵ In *Kaseberg*, for instance, the expensive litigation dragged on for four years.¹⁶ Davids must have patience and a lot of cash to have a shot at beating Goliaths, and even then, it is nearly impossible to show that a similar joke is the product of theft and not just parallel thinking. As O’Brien

10. *Id.* at 1236–37.

11. *Id.* at 1239.

12. *Id.* at 1240.

13. *Id.* at 1239–47. The similarity inquiry as it relates to one joke in particular is worth noting to show what is meant by “substantially similar” in this context. *Kaseberg* posted the following on X (formerly Twitter): “Tom Brady said he wants to give his MVP truck to the man who won the game for the Patriots. So enjoy that truck, Pete Carroll.” One day later, O’Brien delivered the following joke: “Tom Brady said he wants to give the truck that he was given as Super Bowl MVP . . . to the guy who won the Super Bowl for the Patriots. Which is very nice. I think that’s nice. I do. Yes. So Brady’s giving his truck to Seahawks coach Pete Carroll.” *Id.* at 1234. *Kaseberg* also submitted an expert report establishing that there was less than a 0.01 percent chance that the show’s writers would have been able to independently write the jokes in question, which undoubtedly helped his case. Patrick H.J. Hughes, *Conan O’Brien’s Jokes May Have Violated Copyright Law, Judge Says*, WESTLAW J. INTELL. PROP., May 24, 2017, at *2.

14. *But see* Hershhal Pandya, *Comedy’s Crowd-Work Clip Civil War*, VULTURE (Oct. 31, 2022), <https://www.vulture.com/article/comedy-crowd-work-clip-debate-tiktok.html> [https://perma.cc/FB8A-NATT] [https://web.archive.org/save/https://www.vulture.com/article/comedy-crowd-work-clip-debate-tiktok.html] (explaining that while many comedians use TikTok and YouTube to record portions of their sets, the material most predominately featured is crowd-work during performance). Crowd work is technically not part of the planned set material as it is an improvised interaction between the comedian and that night’s specific audience. The sets themselves do not seem to be the focus of the increased use of social media and are therefore left most vulnerable to theft.

15. O’liar & Sprigman, *supra* note 7, at 1799–1801.

16. Conan O’Brien, *Why I Decided To Settle a Lawsuit Over Alleged Joke Stealing*, VARIETY (May 9, 2019), <https://variety.com/2019/biz/news/conan-obrien-jokes-lawsuit-alex-kaseberg-settlement-1203210214/> [https://perma.cc/SA2W-S5WN] [https://web.archive.org/save/https://variety.com/2019/biz/news/conan-obrien-jokes-lawsuit-alex-kaseberg-settlement-1203210214/] (explaining that “four years and countless legal bills have been plenty” as he announces a settlement with *Kaseberg*).

himself explains in a *Variety* article about the lawsuit, when jokes are topical, similarity between them is inevitable:

The fact of the matter is that with over 321 million monthly users on Twitter, and seemingly 60% of them budding comedy writers, the creation of the same jokes based on the day's news is reaching staggering numbers. . . . This "parallel creation" of jokes is now so commonplace that Caroline Moss of CNBC and Melissa Radzimiski of the Huffington Post have given it a name: "tweet-saming."¹⁷

In addition to the impracticality of relying on lawsuits to fight joke theft, most comedians are not even aware of the copyright protections available to them, so it is no wonder that *Kaseberg* is a legal unicorn. Without an effective legal deterrent, what is stopping joke theft from being more rampant? In the same *Variety* piece, O'Brien's emphatic insistence that his writers did not steal from Kaseberg provides a clear answer: "Short of murder, stealing material is the worst thing any comic can be accused of."¹⁸ Unlike the methods of protecting ownership utilized by most industries centered around intellectual property, the world of stand-up comedy regulation is a predominately extra-legal creature. As Dotan Oliar and Christopher Sprigman explain in their seminal article on the policing of joke theft, the social norms and sanctions for violations of these norms function as equally effective substitutes for copyright protections.¹⁹ It makes sense, then, that most legal scholarship relating to the intellectual property of comedians focuses on these social norms. These academics articulate their hope that studying this informal system will unearth "a number of lessons for IP theory and policy."²⁰ One suggestion is that it would make sense for social norms to be folded into formal copyright doctrine in general as it continues to develop, for instance.²¹ If joke stealing remains a problem that we are interested in solving, however, this one-sided and theoretical interaction between the legal and comedy communities falls short.

This Note seeks to address the gap between copyright protections and the protection offered from the norms-based system currently in place, focusing not on what stand-up can do for the law but on what the law can do for stand-up. To that end, I surveyed professional stand-up comedians with the goal of discovering (1) whether comedians want more protection from joke theft and, if so, (2) what kinds of additional regulatory safeguards (either legal or non-legal) they believe would be both desirable and effective. I gathered data from twenty-one New York City-based professional stand-up comedians, each at different points in their careers. Using an online survey, I asked them standardized questions about their experiences with and perspectives on joke theft with follow-up interviews when possible. The comedians were chosen from the recent rosters of several New York City comedy clubs that exclusively feature paid

17. *Id.*

18. *Id.*

19. Oliar & Sprigman, *supra* note 7, at 1790.

20. *Id.* at 1791.

21. *Id.* at 1794.

professionals. The response format for most questions was multiple choice to frame the information in a way most compatible with this discussion, and nearly all questions offered comedians a free response section, which many employed to qualify and/or expand upon their answers. The respondents were promised anonymity regarding their identities and were asked not to provide information sufficient to identify any comedians about whom the responses were related. The responses confirmed many of the major takeaways gathered by Oliar and Sprigman from their nineteen interviews conducted in 2008 on the current state of policing joke theft with a few notable additions regarding social media's interaction with the profession and the role of the third party in the initial confrontation between accuser and accused, which will be further explored in the discussion, *infra* Part IV, about weaknesses in the comics' current system.²²

Part I will discuss the comedians' perspectives on joke stealing in their community and their interest in additional legal protections. Part II will consider existing legal avenues that do not require instigating a formal lawsuit, namely the Digital Millennium Copyright Act ("DMCA") and the Copyright Claims Board ("CCB"). Part III will summarize the system of norms currently in place and discuss its most effective components for the purpose of developing additional protections that more effectively address the current state of joke theft enforcement. Part IV will identify the three principal weaknesses of the current enforcement system—the pitfalls of uncertainty, unequal borrowing power, and overprotection—to determine the proper areas of focus in crafting fitting solutions. Part V will suggest two potential additions to the norms-based system—(1) enforcement by venues and (2) creating a comedy union—both of which received sizable support from the sampled comedians. While copyright remains an ill-suited formal supplement to the norms-based system currently in place, we can take guidance from its facilitation of thorough fact-finding and a more equitable forum for resolution in crafting additional extra-legal support for the enforcement against joke theft.

I. PERSPECTIVES AND PREFERENCES OF COMEDIANS

While about only a quarter of the surveyed New York City comics indicated that they had personally fallen victim to joke theft,²³ the majority reported having known at least one colleague whose work had been stolen.²⁴ Despite varied personal experiences

22. Unlike the Oliar and Sprigman piece, *supra* note 7, which based its analysis on nineteen interviews with comedians based all around the United States, I wanted to limit the focus of this Note to one local community to account for the variances between stand-up culture nationwide and more effectively propose solutions for the New York group in particular.

23. To be exact, 23.81% of the respondents indicated that someone had stolen a joke from them. Anonymous Survey of New York City Comedians by Jared Hopper (Dec. 2022–Feb. 2023) (on file with author) [hereinafter Hopper NYC Comedian Survey].

24. 60% of respondents indicated that they were aware of at least one joke theft in their professional circle. *Id.*

with the offense, when asked what should happen to joke thieves, a clear consensus emerged: Punishment is necessary and deserved.²⁵ One respondent went so far as to equate capacity for originality with whether one could rightfully identify as a comedian:

I don't think [people] that steal material are comics. If you can't think of jokes, then what are you doing onstage. Similarly, if your material is stolen and you can't replace it with better material then you also shouldn't be doing standup. One funny set does not a comic make!!!²⁶

While perhaps joke theft occurs less frequently than one would expect, responses from the survey confirm that it really is considered the worst thing a comic can do “short of murder.”²⁷ The possibility of either falling prey to or being accused of the sin is a near inevitability. Furthermore, because even an intentional joke thief can escape the most severe social sanctions by changing a few words, or by presenting the material in a slightly different context, or by making sure to only steal material derived from common experience, comics cannot treat their sets as precious. Rather, under the current system, they must be ready to discard the product of their labor to remain a contender in the industry and to potentially avoid being labelled a hack themselves.²⁸

A. INTEREST IN ADDITIONAL LEGAL PROTECTIONS

Do comedians even *want* more robust protection against joke theft than what currently exists? Resoundingly, yes. The most frequent course of action reportedly taken by aggrieved comedians against alleged thieves, if action was taken at all,²⁹ was to privately condemn the accused among colleagues. Of the twenty-one surveyed, however, none felt that this informal of a method was adequate to consistently enforce the taboo against joke appropriation, and over half of the respondents expressed interest in supplementary legal protection to bolster the current system.

In her article about the intersection between joke theft and copyright law, Elizabeth Bolles contends that “[r]ather than incite Armageddon, increased copyright protection for jokes will bring positive social change by creating parity among comics, [and] allowing comics to settle disputes without needlessly ruining careers for lack of due process.”³⁰ Bolles’s argument is driven, at least in part, by her concern about the

25. On the whole, the responses demonstrated just how negatively comedians perceive joke thieves. One was particularly illustrative: “Call their ass out and black ball them mofos.” *Id.*

26. *Id.*

27. O’Brien, *supra* note 16.

28. *Hack* (comedy), WIKIPEDIA, [https://en.wikipedia.org/wiki/Hack_\(comedy\)](https://en.wikipedia.org/wiki/Hack_(comedy)) [https://perma.cc/995A-545D]

[https://web.archive.org/save/https://en.wikipedia.org/wiki/Hack_(comedy)] (last visited Mar. 9, 2024) (defining a “hack” as a comedian who uses jokes or premises “considered obvious, has been frequently used by comedians in the past and/or is blatantly copied from its original author”).

29. A quarter of respondents indicated that nothing happened in response to joke theft accusations. Hopper NYC Comedian Survey, *supra* note 23.

30. Bolles, *supra* note 4, at 257.

disparity in resources between the “upper echelon[.]” and other comics, a concern shared by the comics themselves.³¹ Even if we assume that comedians at all levels could access lawyers consistently (Bolles suggests that access is not as burdensome as we might think³²), it is not clear whether comedians would actually engage with the additional protections unless we address the problems with the current copyright system that has proven unpopular in this context.

B. INTEREST IN LITIGATION

While the surveyed comedians expressed interest in bolstering the current norms-based system, where comedians police one another through community detection and reputational punishment, with additional legal protections, the vast majority expressed hesitation when asked whether they would take legal action against a joke thief. In figuring out what effective additional legal protection would look like, then, it may be helpful to identify why comedians rarely rely on copyright.

Comedians are hesitant to resort to courts, in part, because they are unaware of the formal legal protections available to them and feel ill-equipped to utilize this method. Only one comic reported knowing “a great deal” about the state of copyright as applied to the industry, and while five of the respondents indicated knowing something about it, the remainder indicated having absolutely no knowledge on the subject.³³ This is unsurprising: It is uncommon for individuals to intimately understand the contours of the legal framework in their chosen industry. That is what lawyers are for, after all. The bulk of comics do not have the resources to hire an attorney to sue alleged thieves,³⁴ but their hesitance to engage with the current legal system also stems from the relative ease of understanding and implementing the norms-based enforcement regime. Unlike copyright, informal norms are part of the known culture of the industry and are therefore manageable. All stand-up initiates will inevitably learn that joke stealing is a serious crime in comedy. In fact, “Thou Shalt Not Steal” is the first of the “New Ten Commandments in Comedy” set forth in Judy Carter’s *The New Comedy Bible*.³⁵ Knowledge of the ins-and-outs of the norms-based system naturally follows by continuing engagement with the community, seeing what happens when theft occurs, and observing what fellow comedians do about it.

31. *Id.* at 240. The power balance between most comedians and the “upper echelon” of the field is discussed in detail in *infra* Part IV.B.

32. Bolles, *supra* note 4, at 257 (“While the ability of comics to fund lawsuits may be questionable, the interviews conducted for this project suggest this may be less of a barrier than commonly thought.”).

33. One respondent marked knowing “a moderate amount” about copyright protections, and four indicated knowing “a little.” Hopper NYC Comedian Survey, *supra* note 23.

34. See Shyamkrishna Balganes, *Copyright Infringement Markets*, 113 COLUM. L. REV. 2277, 2280 (2013) (“To individual, small-business, or noncommercial actors, all of whom are intended beneficiaries of copyright, copyright litigation remains an unaffordable proposition.”).

35. JUDY CARTER, *THE NEW COMEDY BIBLE: THE ULTIMATE GUIDE TO WRITING & PERFORMING STAND-UP COMEDY* 3 (2020).

In addition, to comedians, there is a concern that outsourcing enforcement will lead to undesirable consequences. Beyond the reality that litigation is often too expensive for the comics themselves to bring infringement claims,³⁶ there seems to be a reluctance to subject even a thief to legal fees. As one comic opined, “they [should] get the bad rep of being a joke stealer until they make a full and appropriate apology.”³⁷ Another expressed hesitation in public shaming, explaining that “they just need to know that it’s wrong.”³⁸ If joke thieves merely need to repent and cease the violative behavior to be forgiven, a formal lawsuit does seem like overkill. Even with greater knowledge of the current state of copyright protections, comedians would likely remain uncomfortable resorting to the courts.

Despite this hesitance to resort to the courts, it is not surprising that more comedians expressed interest in hypothetical “increased legal protections” for their material than they did for formal lawsuits. As will be discussed *infra* in Part IV, there are major flaws with the norms-based approach, and a more flexible legal or quasi-legal approach would operate as a welcome and helpful backstop for theft that proves more difficult to resolve. It is not that comics are not interested in legal avenues to protect the ownership of their material; they just do not want to pursue litigation.

II. CURRENTLY AVAILABLE LEGAL AVENUES OTHER THAN LITIGATION

What could these additional legal protections look like? Perhaps these adequate backstops already exist. Hannah Pham points to two somewhat recently created options, currently underutilized in the creative space, that could expand both access to copyright-adjacent protections and willingness to engage in the legal system: the Digital Millennium Copyright Act (“DMCA”) and the Copyright Claims Board (“CCB”).³⁹ Both options would in theory allow aggrieved comedians to use the law to resolve and remedy intellectual property disputes. However, neither quite fits the bill.

A. THE DIGITAL MILLENNIUM COPYRIGHT ACT

The DMCA contains a “notice-and-takedown” provision that “enable[s] copyright owners to have infringing online content removed without the need for litigation.”⁴⁰

36. See Balganes, *supra* note 34, at 2280 (“Litigating a copyright claim is no longer an affordable prospect for a vast majority of authors and creators.”).

37. Hopper NYC Comedian Survey, *supra* note 23.

38. *Id.*

39. Hannah Pham, Note, *Standing Up for Stand-Up Comedy: Joke Theft and the Relevance of Copyright Law and Social Norms in the Social Media Age*, 30 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 55, 78–83 (2019). At the time of Pham’s writing, the Copyright Claims Board—established very recently by the Copyright Alternative in Small-Claims Enforcement Act of 2020—was codified as 17 U.S.C. § 1502.

40. *The Digital Millennium Copyright Act*, U.S. COPYRIGHT OFF., <https://www.copyright.gov/dmca/> [<https://perma.cc/LTE4-EJW7>] [<https://web.archive.org/save/https://www.copyright.gov/dmca/>] (last visited Mar. 9, 2024).

The DMCA places liability on internet service providers rather than the individuals who post the copyrighted work of another without permission, which encourages “copyright owners and online service providers to ‘cooperate to detect and deal with copyright infringements that take place in the digital networked environment.’”⁴¹ Many of the comedians that Pham interviewed “ha[ve] not utilized [the DMCA] . . . because they [are] unaware of its simplicity, effect, and applicability to them.”⁴² It does seem that the DMCA, at least in theory, would provide comedians with a straightforward method for taking down covered material. The content owner need only submit a notice-and-takedown request to a registered DMCA agent of the related service provider with the URL of the website that allegedly stole the material, the URL of the source material, and a description of the infringement.⁴³ After the process is initiated and the other party is given the opportunity to provide a counter-notice, the service provider then engages in a series of steps, and, depending on whether a counter notice is submitted, the provider will either keep the content down if a suit is timely filed or re-activate the content.⁴⁴ However, while content posted by the comics themselves on X (formerly Twitter) and TikTok (as is increasingly the case) would likely be covered by the DMCA, anything not posted online or posted online by another would not be protected.

While the right to publicity may protect comedians whose live performances have been filmed and posted online by audience members, the DMCA would not recognize a comic in that situation as the copyright holder. A “DMCA takedown does not always require the content to be copyrighted in order to process a takedown notice,” but the threshold to prove ownership to successfully file a complaint is quite high.⁴⁵ The U.S. Copyright Office provides a helpful example:

If you took the photo—for example, if it is a selfie—then you are likely the copyright owner and can submit a takedown notice under section 512. If you are in the photo but did not take the photo, you are most likely not the copyright owner and in that case could not send a takedown notice under section 512 to have the photo removed. You may have

41. Pham, *supra* note 39, at 79 (citing H.R. REP. NO. 105-551, pt. 2, at 21 (1998)).

42. *Id.* at 80.

43. *What Is a DMCA Takedown?*, DMCA.COM, <https://www.dmca.com/FAQ/What-is-a-DMCA-Takedown> [https://perma.cc/KS2Z-LMQJ] [https://web.archive.org/web/20240219234544/https://www.dmca.com/FAQ/What-is-a-DMCA-Takedown] (last visited Mar. 9, 2024).

44. *The DMCA Notice and Takedown Process*, COPYRIGHT ALL., <https://copyrightalliance.org/education/copyright-law-explained/the-digital-millennium-copyright-act-dmca/dmca-notice-takedown-process/> [https://perma.cc/B82E-ZDBF] [https://web.archive.org/web/20240309043340/https://copyrightalliance.org/education/copyright-law-explained/the-digital-millennium-copyright-act-dmca/dmca-notice-takedown-process/] (last visited Mar. 9, 2024). If a counter notice is not submitted, the content will also remain down. *Id.*

45. *What Is a DMCA Takedown?*, *supra* note 43.

other courses of action to seek removal of the photo under state privacy, right of publicity, or revenge porn laws.⁴⁶

Even if the DMCA did protect this kind of material, comics are generally not interested in removing fan-posted content. In fact, the filming of live sets is now more commonly welcomed by comics than condemned. As for the New York City stand-up community, audience members filming and posting sets gives the comedians an “opportunity to connect with fans more directly, get or give a boost to a wider audience, log which parts of their sets are clicking with audiences or need more work, and simply make people laugh.”⁴⁷ If it is true that uploading content to social media is “necessary unless you’re super famous,”⁴⁸ fan posts are more likely to be a boon than a threat.

Generally, only a few of the most well-known comedians are sufficiently concerned with audience members filming their sets to have actually done something about it. Perhaps most notably, in 2015 Dave Chappelle began to require those in attendance to place their phones in “smartphone-locking pouches” that would lock upon entering the theater.⁴⁹ When asked why he made this decision on *Jimmy Kimmel Live*, however, Chappelle did not indicate that he was concerned that his jokes would be stolen:

It became a thing where I was seeing a sea of cell phones, so I knew that anything I said in the room, I was saying to everybody, whether they were in the room or not. Which is not an empowering feeling as a comedian. You know, it’s like fight club rules apply: what I’m saying to you, I’d rather just keep in the room . . . I say a lot of crazy shit, man, when I’m on stage. It’s not malicious, but I have a good time.⁵⁰

46. Section 512 of Title 17: Resources on Online Service Provider Safe Harbors and Notice-and-Takedown System, U.S. COPYRIGHT OFF., <https://www.copyright.gov/512/> [<https://perma.cc/9YQC-HHKD>] [<https://web.archive.org/web/20240219235712/https://www.copyright.gov/512/>] (last visited Mar. 9, 2024).

47. Dan Reilly, *Go Ahead, Post These Comedians’ Sets on Instagram*, VULTURE (June 25, 2019), <https://www.vulture.com/2019/06/why-some-comedians-let-people-record-their-sets.html> [<https://perma.cc/B2YG-VDVS>] [<https://web.archive.org/save/https://www.vulture.com/2019/06/why-some-comedians-let-people-record-their-sets.html>].

48. Whitney Friedlander, *Is Social Media the New Comedy Club? Stand-Up Comics on How Digital Media Differs from Live*, VARIETY (July 22, 2023), <https://variety.com/2023/digital/actors/is-social-media-new-comedy-club-1235671674/> [<https://perma.cc/9P68-55QG>] [<https://web.archive.org/save/https://variety.com/2023/digital/actors/is-social-media-new-comedy-club-1235671674/>] (quoting comedian Taylor Tomlinson).

49. Seth Abramovitch, *How Dave Chappelle Is Creating a “No-Phone Zone” for His Chicago Shows (Exclusive)*, HOLLYWOOD REP. (Dec. 1, 2015), <https://www.hollywoodreporter.com/business/digital/how-dave-chappelle-is-creating-844886/> [<https://perma.cc/R5QP-SUGV>] [<https://web.archive.org/web/20240309044446/https://www.hollywoodreporter.com/business/digital/how-dave-chappelle-is-creating-844886/>].

50. Jimmy Kimmel Live, *Dave Chappelle Reveals Why He Has a No Phone Policy*, YOUTUBE (Mar. 22, 2017), <https://www.youtube.com/watch?v=M7Ev4N-2Zjw> [<https://perma.cc/JB9C-GVG8>] [<https://web.archive.org/web/20240323184516/https://www.youtube.com/watch?v=M7Ev4N-2Zjw>].

Chappelle, whose “good time” routinely sparks public outrage, seems only worried that his jokes will be taken out of context; he is not concerned that his jokes will be stolen but that they will get him “cancelled.”⁵¹

As for comics performing stolen material, the primary focus of this Note, the DMCA would not provide aggrieved comedians with a solution unless their goal were to take down a recording of the stolen set *that they themselves had filmed*.⁵² This, of course, is an unlikely, even ridiculous, situation. While the notice-and-takedown provision of the DMCA might grow in importance as it relates to appropriation of content initially posted by the source comedian, the increased risk of joke theft that might ensue by making one’s content more widely available seems outweighed by the notoriety that it can bring and therefore not a pressing problem for comedians. The DMCA, then, is not an ideal solution for the plight of comedians in the industry’s current state.

B. THE COPYRIGHT CLAIMS BOARD

Pham also hopes that small copyright infringement claims brought before the CCB could provide an effective avenue for redress, but comics are not likely to bite. The adjudicatory body, which only began accepting claims in June 2022, is composed of three officers who adjudicate copyright claims seeking up to \$30,000 in damages for those who do not wish to engage with the federal courts.⁵³ Two of the officers “have substantial experience in evaluation, litigation, or adjudication of copyright infringement claims” and the third, also well versed in copyright law, has a background in alternative dispute resolution.⁵⁴ Its extra-judicial nature carries both pros and cons

51. See, e.g., Aja Romano, *What Dave Chappelle Gets Wrong About Trans People and Comedy*, VOX (Oct. 23, 2021), <https://www.vox.com/culture/22738500/dave-chappelle-the-closer-daphne-dorman-trans-controversy-comedy> [<https://perma.cc/QPW2-YCNN>] [<https://web.archive.org/save/https://www.vox.com/culture/22738500/dave-chappelle-the-closer-daphne-dorman-trans-controversy-comedy>] (explaining the ongoing battle between trans activists and Chappelle over his habit of making trans identity the punchline of jokes); Megh Wright, *Louis C.K. Jokes About Masturbation and ‘Retarded’ Kids at San Jose Show*, VULTURE (Jan. 17, 2019), <https://www.vulture.com/2019/01/louis-ck-leaked-stand-up-set-masturbation-jokes.html> [<https://perma.cc/TTM5-JJQX>] [<https://web.archive.org/save/https://www.vulture.com/2019/01/louis-ck-leaked-stand-up-set-masturbation-jokes.html>] (discussing an example of leaked footage of an A-listers’ set prompting online outrage and “cancellation”). *Cancel*, MERRIAM-WEBSTER, <https://www.merriam-webster.com/dictionary/cancel> [<https://perma.cc/E6SP-23K5>] [<https://web.archive.org/save/https://www.merriam-webster.com/dictionary/cancel>] (last visited Mar. 9, 2024) (defining “cancel” as “to withdraw one’s support for (someone, such as a celebrity, or something, such as a company) publicly and especially on social media”).

52. Since the DMCA, as discussed, only covers online media, the actual content of the set would not be subject to its protections; only the recording of the set by the person who filmed the set would be.

53. *About the Copyright Claims Board*, U.S. COPYRIGHT OFF., <https://www.ccb.gov/about/> [<https://perma.cc/Q4WP-JLZC>] [<https://web.archive.org/save/https://www.ccb.gov/about/>] (last visited Apr. 4, 2024).

54. *Frequently Asked Questions*, COPYRIGHT CLAIMS BD., <https://ccb.gov/faq/> [<https://perma.cc/28TE-4ZG4>] [<https://web.archive.org/save/https://ccb.gov/faq/>] (last visited Mar. 9, 2024); Pham, *supra* note 39, at 84.

for potential claimants. On the one hand, the CCB offers a streamlined, and therefore cost-effective, procedure designed to adjudicate disputes without the need for lawyers. With its ease, however, comes a few drawbacks. Its summary decisions can only be appealed in limited circumstances, and using the body forecloses bringing the same claim or related counterclaims later in federal court.⁵⁵

In proposing the CCB as a potentially promising legal solution for joke theft, Pham correctly identifies another disadvantage of the body: It requires the consent of both parties.⁵⁶ While federal courts are still available if the alleged joke thief does not consent to CCB adjudication, this, as discussed *supra* Part I.B, is not a viable option for most comics. After all, “one of the main goals” of the CCB is “to provide a simpler venue to those *who need it the most*.”⁵⁷ Those who need it most cannot afford to use the courts. Without real threat of litigation, furthermore, it is hard to imagine that respondents would willingly make it easier for the claimant to take legal action against them. Refusing to appear before the CCB is a surefire way to foreclose any currently available legal avenue for most aggrieved comedians.

As it relates to stand-up comedians, moreover, the CCB does not help them clear one of the main hurdles of copyright protection for their work: the “tangibility” requirement.⁵⁸ It is true that claims can be brought despite not having first registered material with the Copyright Office if claimants “have submitted an application to register the work(s) either before or simultaneously with filing the claim.”⁵⁹ The stolen material, however, must still qualify for copyright protection for the comedian to submit an application in the first place. The reality is that the “nature of the art sometimes makes this requirement difficult to meet . . . Unless the comedian is meticulous in fixing jokes as they change, the fixation requirement may not be met, and the joke would remain unprotected against copying until fixed.”⁶⁰ The CCB fails as a tenable addition to the enforcement against the appropriation taboo, in part, because of the ever-changing nature of a comic’s act. Comics try out variances in jokes night after night to discover what works best prior to finalizing a set, and even when finalized, perhaps even if written down, a set is not actually “set” because the comic is not the sole creator of their material; comedians inevitably stray from the script to

55. *Id.*

56. *Id.*

57. William Honaker, *The New Copyright Small Claims Board Presents Problems for Copyright Owners and Small Businesses*, IPWATCHDOG (Mar. 2, 2021) (emphasis added), <https://ipwatchdog.com/2021/03/02/new-copyright-small-claims-board-presents-problems-copyright-owners-small-businesses/id=130343/> [<https://perma.cc/MD7J-3Z4B>] [<https://web.archive.org/web/20240309230755/https://ipwatchdog.com/2021/03/02/new-copyright-small-claims-board-presents-problems-copyright-owners-small-businesses/id=130343/>].

58. 17 U.S.C. § 102(a) (“[A work must be] fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”).

59. *Frequently Asked Questions*, *supra* note 54.

60. Oliar & Sprigman, *supra* note 7, at 1801–02.

match the response of that night's audience, making each show different. Matt Ruby, a New York-based comic, illustrates this interdependent relationship:

They tell you every night if you're being authentic or if you're just reciting some lines. They shrug at things that excite you. They lose it at the things you think are nothing. They make you question yourself all the time. They're right. Even when they're wrong, they're right. They are your partner in creation.⁶¹

Although both the DMCA and CCB may be viable alternatives for those comedians with content published online who seek redress beyond that provided by the norms-based system, neither option seems particularly suited to the stand-up industry as a whole. Unless copyright availability changes drastically, the current legal solutions will continue to serve as an enforcement mechanism for only a small subset of joke theft allegations.

It seems that while comics are interested in using the law to enforce against joke theft, no legal mechanism currently exists that would apply in a meaningful way to the intangible and ever-changing nature of performed comedic material. Perhaps the realities of the stand-up comedy industry are incompatible with a purely legal solution, and it would be better to get creative, break down the norms-based system, and determine how best to import components of legal redress in a way that not only preserves the efficacy of the current approach but also addresses some of the pitfalls leading to inconsistent enforcement. In attempting to bolster the protections against joke theft while respecting the preferences of comedians, *learning from* the law might be better than *leaning on* the law.

III. THE MECHANISM BEHIND NORMS-BASED ENFORCEMENT

For the most part, the current system of norms-based enforcement is effective. Its informal, in-house character allows for case-by-case flexibility regarding both the approach to dispute resolution and the punishment for joke thieves, ensuring redress without necessarily ruining careers. It is also free. In determining additional mechanisms to effectively bolster protections against appropriation, we should deconstruct how the norms-based regime functions, identifying the ways it works well in order to discern more acutely the weaknesses that a law-oriented approach might address.

A. DETECTION

Career opportunities for stand-up comedians are largely driven by their reputation. Steal a joke, and other comics will privately shame the thief within the community, and

61. Matt Ruby, *What I've Learned from 10 Years of Doing Standup Comedy*, MEDIUM (Nov. 30, 2016), <https://medium.com/sandpapersuit/10-years-1-hour-594afc510141> [https://perma.cc/8C9T-X87W] [https://web.archive.org/save/https://medium.com/sandpapersuit/10-years-1-hour-594afc510141].

the thief will lose work as a result. As one of Oliar and Sprigman's interviewees explains, "If you steal jokes, [other comedians] will treat you like a leper, and they will also make phone calls to people who might give you work."⁶² Joke thieves are most often caught by fellow comedians at comedy clubs who are either also performing or simply observing.⁶³ This "community project" of watching colleagues that enables the appropriation taboo to be enforced, as Oliar and Sprigman note, is "motivated in part by curiosity and the desire to see new talent, but also for the purpose of detecting joke stealing from themselves, from their friends, or from the classics."⁶⁴ That local communities are small and tight-knit also aids in the effective functioning of this mechanism. For instance, because of the frequency of gigs and the time it takes to build a complete set, comedians often know the material of their colleagues well enough to notice a knockoff.⁶⁵

B. POTENTIAL RESOLUTION

It is atypical for a comedian accused of joke theft to be immediately sanctioned. Oliar and Sprigman report that the initial step for a comedian who believes that their work has been stolen is usually to directly confront the alleged joke thief:

The aggrieved comedian will state his claim and provide evidence by detailing the similarities between the jokes and how long he has performed the joke. He might also state where the joke was performed and name potential witnesses. The accused party would then respond. Although these are charged situations, the parties generally sort out their differences amicably.⁶⁶

Because of the high probability that similarities between jokes are the result of independent creation and not theft, occasional dispute over ownership is inevitable in these initial negotiations.⁶⁷ Even then, however, comedians often reach a compromise that will avoid future conflict.⁶⁸

Since this norms-based regulation is community driven, often a joke thief will be confronted not by the aggrieved party but instead by a colleague who knows the material well enough to notice a potential theft. It seems that whether an unaffected,

62. Oliar & Sprigman, *supra* note 7, at 1815 (alteration in original).

63. *Id.* at 1813.

64. *Id.*

65. *Id.*

66. *Id.* at 1814.

67. Bolles, *supra* note 4, at 252 (noting that "[t]he comedy industry professionals surveyed for this project were each asked: 'In general, how often do you think comics create jokes that could not be independently created by another comic?' All offered the same response: 'sometimes[,]'" which suggests independent creation should be the default assumption); Oliar & Sprigman, *supra* note 7, at 1814 ("[Independent creation] often happens—and the possibility of independent creation is more believable—when jokes plow common themes . . . or relate to events of the day.").

68. Oliar & Sprigman, *supra* note 7, at 1814 (writing that in the case of independent creation, "comedians often work cooperatively towards a solution").

third-party comedian chooses to intervene, however, depends not as much on the degree of observed similarity between two jokes but more on the extent to which there is evidence that the theft was intentional. The majority of surveyed comedians who knew that one set was identical to that of another comedian indicated difficulty in determining whether the theft was accidental, a subconscious copying of the language, or purposeful. In some cases, when the set was copied “verbatim” or there existed a “blatant similarity” between the material, the comedians had no qualms definitively saying that one had stolen from another and that the thief should face the full force of social sanction.⁶⁹ In less extreme cases, however, a third-party comedian will not typically act unless there is clear evidence of intentionality and certainty in who came up with the material first. One comic explained how in such cases, inaction is the default even if theft clearly occurred:

I saw one comic do my friend's set so blatantly I was amazed but I honestly didn't know whose bit it was first so didn't say anything. Someone stole somebody's set though. Have seen absolutely no repercussions and the girl [and] my friend continue to constantly get booked (PS—the bit's not even worth stealing).⁷⁰

Because of the severity of the appropriation taboo, even a private confrontation of joke theft is a big deal. When uncertainty is in the mix, negotiation is still a more likely first step than reputational attack, but acting to enforce against joke theft, in general, seems to operate on a sliding scale that, as one surveyed comic put it, “depend[s] on the intention and impact behind the stolen material.”⁷¹ The informality of this approach to resolution provides aggrieved comedians and involved third parties tremendous flexibility in how to tailor a confrontation to appropriately address intentional and unintentional theft.

C. CONSEQUENCES

If private negotiation fails, the comedian will likely be accused of stealing material within the community, and their reputation will, in turn, suffer severe damage. Social sanction is the main vehicle for punishment, and loss of work seems to be the most common consequence of that reputational stain. However, other consequences occur with enough frequency to warrant mention here. Even if the offense does not result in the direct loss of work, many of the comedians surveyed emphasized alternative enforcement mechanisms against those who steal within the community. For instance, comedians, upon learning of the theft, might refuse to work with that thief again. Because any given night at a comedy club will feature several comedians, a venue that hires a known joke thief would face the difficult decision of choosing between the thief

69. Hopper NYC Comedian Survey, *supra* note 23.

70. *Id.*

71. *Id.*

and the holdouts to remain on the night's lineup.⁷² As Oliar explained in an interview on the subject, "People are not going to be willing to work with you on a comedy bill . . . and if you can't find other people who are willing to share the stage with you, you're pretty much gonna be out of work."⁷³

IV. WEAKNESSES OF THE EXTRA-LEGAL, NORMS-BASED APPROACH

Despite its efficacy, the norms-based regime has three primary faults: (1) the high probability that similarity between sets is the product of independent creation and not theft; (2) the unequal power to borrow material from others between budding and "upper echelon" comedians; and (3) the overprotection resulting from public involvement.

A. THE PITFALL OF UNCERTAINTY

A central problem with policing joke theft is figuring out whether a theft actually occurred. Parallel thinking very frequently leads to the independent creation of similar jokes. This is the case particularly when jokes stem from universal experience or recent news, but independent creation is a widespread problem regardless of the jokes' content.⁷⁴ One surveyed comedian explained just how difficult it is to discern theft from mere similarity: "I'm not sure how to determine [that] a joke was stolen versus a result of parallel thought unless the wording was just about verbatim."⁷⁵ Even then, as was the case with a few jokes in dispute in *Kaseberg*,⁷⁶ an exact match between language does not constitute proof of ownership.

Of course, catching joke theft depends on how we define ownership, and independent creation becomes irrelevant when we focus on the central importance of origination to the appropriation taboo. As Jennifer E. Rothman suggests, "the comedy norms do not appear to be driven by interest in a fair allocation of rights. Instead, they seem one-sided, focused solely on a joke's originator, without consideration of the potential needs of users or independent creators of similar or related jokes."⁷⁷ If Rothman is right that ownership in the norms-based system depends on whoever

72. See Oliar & Sprigman, *supra* note 7, at 1817.

73. Bolles, *supra* note 4, at 254–55 (quoting *Take My Joke, Please: Transcript*, WNYC STUDIOS (Apr. 9, 2010), <https://www.wnycstudios.org/podcasts/otm/segments/132742-take-my-joke-please?tab=transcript> [<https://perma.cc/R55S-BCFH>] [<https://web.archive.org/web/20240217192411/https://www.wnycstudios.org/podcasts/otm/segments/132742-take-my-joke-please?tab=transcript>]).

74. Dotan Oliar & Christopher Sprigman, *Intellectual Property Norms in Stand-Up Comedy*, in *MAKING AND UNMAKING OF INTELLECTUAL PROPERTY: CREATIVE PRODUCTION IN LEGAL AND CULTURAL PERSPECTIVE* 385, 385 (Mario Biagioli et al. eds, 2011).

75. Hopper NYC Comedian Survey, *supra* note 23.

76. See *Kaseberg v. Conaco, LLC*, 260 F. Supp. 3d 1229, 1243–47 (S.D. Cal. 2017).

77. Jennifer E. Rothman, *Custom, Comedy, and the Value of Dissent*, 95 VA. L. REV. IN BRIEF 19, 22 (Apr. 20, 2009).

developed the joke “first-in-time,” a common conception of ownership in property law,⁷⁸ then knowing *when* a joke was first created could provide a heuristic to, or at least supplement, the detection of joke theft. As it stands, however, the informality of the detection mechanism in the norms-based system makes it nearly impossible to know who came up with the material first. Comic A might see Comic B doing a set the week after Comic A saw Comic C perform the same set, but without having data about every single one of both comics’ recent performances, there is no way to know for sure who originated the joke.

Comics are very hesitant to step in to enforce social norms without certainty that a fellow comedian’s joke has been stolen, and the likelihood of independent creation (which seems more important to some than others) exacerbates uncertainty. Furthermore, regardless of whether we choose to discount independent creation’s relevance to the question of theft and proceed with the “first-in-time” heuristic to ownership, there is no reliable fact-finding mechanism currently available to determine who originated a joke.

B. THE PITFALL OF UNEQUAL BORROWING POWER

The punitive force of individual comedians refusing to share the stage with joke thieves, one of the primary methods of social sanction, discussed *supra* in Part III.C, loses its strength “if the monetary rewards of booking a particular comedian are great enough.”⁷⁹ The disparity in treatment between amateurs and the “upper echelons,” as Bolles describes the most marketable comedians of the industry, reveals another central problem to a norms-based approach.⁸⁰ If hiring decisions in the world of stand-up are driven by the extent to which comedy can be commercialized, as it seems to be, then the punishment of more famous joke thieves may be more effective if it is done out in the open. In the era of “canceling” public figures through social media, it should be no surprise that comedians increasingly turn to X (formerly Twitter) to punish the “upper echelon” of comedians often immune to the typical consequences of joke theft.⁸¹

One of the most recent examples of this phenomenon is the slew of accusations against comedian Amy Schumer.⁸² After Schumer reached ultimate mainstream status

78. See Lawrence Berger, *An Analysis of the Doctrine that “First in Time is First in Right,”* 64 NEB. L. REV. 349 (1985).

79. Olliar & Sprigman, *supra* note 7, at 1818.

80. Bolles, *supra* note 4, at 240.

81. See Aja Romano, *Why We Can’t Stop Fighting About Cancel Culture*, VOX (Aug. 25, 2020), <https://www.vox.com/culture/2019/12/30/20879720/what-is-cancel-culture-explained-history-debate> [https://perma.cc/SH2H-V9AY] [https://web.archive.org/save/https://www.vox.com/culture/2019/12/30/20879720/what-is-cancel-culture-explained-history-debate].

82. Alex Abad-Santos, *Amy Schumer’s Alleged Joke Stealing, Explained*, VOX (Jan. 27, 2016), <https://www.vox.com/2016/1/27/10839856/amy-schumer-joke-stealing> [https://perma.cc/UH8B-XTK3] [https://web.archive.org/save/https://www.vox.com/2016/1/27/10839856/amy-schumer-joke-stealing].

with the theatrical release of her movie *Trainwreck*,⁸³ at least three comedians tweeted that Schumer had stolen their work.⁸⁴ In response, non-comedians began to speculate online, creating compilation videos on YouTube comparing Schumer's material side-by-side with that of other comedians, and it was not long before Schumer was widely associated with stealing jokes.⁸⁵ Sarah Gamblin seems to be correct when she argues that "when looking at the material in question, it is very hard to determine if [her innocence] is true or not But as of right now there is no other process for Schumer to try to clear her name. The community has to either take her at her word or believe her accusers."⁸⁶ This example demonstrates that while public condemnation of the upper echelon is possible, it may not have the desired effect of stopping these comedians from stealing the work of others or concretely punishing them in any way. For instance, there is no evidence that Schumer lost any work or a significant portion of her fanbase despite the reputational stain caused by these accusations.⁸⁷

C. THE PITFALL OF OVERPROTECTION

If comedians like Schumer are wrongly accused, the reputational injury that follows from their public condemnation certainly would be a step too far. Elizabeth Bolles sees the potential for disproportionate or unjust punishment as "overprotect[ion]," a "lack of due process" that "grant[s] comics a monopoly in not only the expression of a joke, but also in relatively novel ideas."⁸⁸ In Schumer's case, although the original accusers have all since removed their tweets accusing Schumer,⁸⁹ one even walking back her

83. TRAINWRECK (Universal Pictures 2015).

84. Abad-Santos, *supra* note 82.

85. See, e.g., The Tangerine Show, *Amy Schumer Joke Stealing Compilation – All Examples*, YOUTUBE (Apr. 15, 2017), <https://www.youtube.com/watch?v=4eDxjxVl8S0> [<https://perma.cc/XU9H-LA4Q>] [<https://web.archive.org/web/20240404150627/https://www.youtube.com/watch?v=4eDxjxVl8S0>] (presenting a twenty-six-minute-long compilation video, which compares some of Schumer's jokes with that of the original accusers as well as many other well-known stand-up comedians, showing striking similarities).

86. Sarah Gamblin, *This Is No Laughing Matter: How Should Comedians Be Able To Protect Their Jokes?*, 42 HASTINGS COMM. & ENT L.J. 141, 149 (2020).

87. In fact, Schumer's career has continued to progress despite the controversy. Since the initial allegations of joke stealing, she has had three stand-up specials, her own Hulu show, and an HBO Max documentary, and was a co-host for the 2022 Academy Awards, for example. *Amy Schumer*, WIKIPEDIA, https://en.wikipedia.org/wiki/Amy_Schumer#cite_note-129 [<https://perma.cc/4Q69-7PEL>] [https://web.archive.org/save/https://en.wikipedia.org/wiki/Amy_Schumer#cite_note-129] (last visited Apr. 4, 2024). She also has hosted *Saturday Night Live* twice since the controversy and, in 2022, was the sixth-watched host of season forty-eight out of eighteen other hosts. *Saturday Night Live Season 43*, WIKIPEDIA, https://en.wikipedia.org/wiki/Saturday_Night_Live_season_43 [<https://perma.cc/D88S-4MAZ>] [https://web.archive.org/web/20240421160932/https://en.wikipedia.org/wiki/Saturday_Night_Live_season_43] (last visited Apr. 21, 2024); see *Saturday Night Live Season 48*, WIKIPEDIA, https://en.wikipedia.org/wiki/Saturday_Night_Live_season_48#cite_note-23 [<https://perma.cc/4NMK-L53T>] [https://web.archive.org/web/20240413031821/https://en.wikipedia.org/wiki/Saturday_Night_Live_season_48#cite_note-23] (last visited Apr. 4, 2024). Suffice it to say, her career has not slowed down.

88. Bolles, *supra* note 4, at 255–56 (citing Oliar & Sprigman, *supra* note 7, at 1822–23).

89. See Abad-Santos, *supra* note 82.

allegation on a radio talk show,⁹⁰ and Schumer took a polygraph test to prove her innocence,⁹¹ the reputational stain remains.⁹² When non-comedians take investigations into their own hands, there is a “danger of airing such things too publicly, of broadcasting such grievances too widely and inviting certain parties (like the media!) in on the conversation.”⁹³ Thus, “the aggrieved parties are better off going one-on-one with the alleged offenders” in cases where the potential for widespread publicity is high.⁹⁴

The overprotection of the norms-based system impacts the community beyond unjust reputational damage. For instance, there are fewer incentives to create new material or even showcase pre-existing material: Tweet-happy comedians ready to accuse a colleague, even though they seem to be in the minority, intimidate others from regularly appearing at comedy clubs, the breeding ground for most allegations. This fear impacts amateurs and “upper echelon” comedians alike, particularly if a comedian has been previously accused of joke theft, illustrated by Oliar and Sprigman’s discussion of Robin Williams:

Reputational harm may also last forever and be out of proportion to the violation. Comedian Robin Williams has admitted that he avoids entering comedy clubs because he does not want to ever again be subject to a charge of joke stealing. If Williams, winner of three Grammy awards for best comedy album, is unable to enter comedy clubs ten years after he has been accused of joke stealing, then we might worry that, on occasion, the norms system overdeters.⁹⁵

Despite its wide sweep, overdeterrence is not a purely equitable force. One surveyed comic expressed concern that the norms-based system, again, favors the “upper echelon”: “I don’t know how you would know who originated a joke. I could see [people] who are more influential in the comedy scene abusing their power to make

90. Emma Nolan, *Amy Schumer Takes Lie Detector Test Years After Joke-Stealing Claims*, NEWSWEEK (Apr. 6, 2022), <https://www.newsweek.com/amy-schumer-takes-lie-detector-test-joke-stealing-1695600> [<https://perma.cc/B9RC-5QF9>] [<https://web.archive.org/save/https://www.newsweek.com/amy-schumer-takes-lie-detector-test-joke-stealing-1695600>] (writing that the polygraph confirmed Schumer’s “no” answer to the question of whether she “had ever stolen jokes” was the truth).

91. Ree Hines, *Amy Schumer Vows To Take a Polygraph Test To Prove She Doesn’t Steal Jokes*, TODAY (Jan. 21, 2016), <https://www.today.com/popculture/amy-schumer-vows-take-polygraph-test-prove-she-doesn-t-t68206> [<https://perma.cc/G87E-UY74>] [<https://web.archive.org/save/https://www.today.com/popculture/amy-schumer-vows-take-polygraph-test-prove-she-doesn-t-t68206>].

92. The Tangerine Show, *supra* note 85. Comments appear daily on the most popular YouTube compilation video, which has 8.8 million views, and nearly all express the belief that Schumer is in fact a joke thief, despite the height of the controversy being well in the past.

93. Oliar & Sprigman, *supra* note 7, at 1822 (quoting Brian McKim & Traci Skene, *Who Steals from Whom? Who Cares?*, SHECKYMAG. (Nov. 2, 2007), <https://sheckymagazine.com/2007/11/who-steals-from-whom-who-cares/>) [<https://perma.cc/5PTX-FTX2>] [<https://web.archive.org/save/https://sheckymagazine.com/2007/11/who-steals-from-whom-who-cares/>]).

94. *Id.*

95. *Id.* at 1838 (citation omitted).

any kind of ‘comedy justice’ biased and could really damage the reputation of less influential comics.”⁹⁶ In a dispute between comedians at different levels of success, more people might believe an “upper echelon” comedian claiming ownership of a joke than they would a less successful one. For instance, for a period of four years, fans of Louis C.K. accused Dane Cook, far less established at the time, of stealing C.K.’s jokes. Although the accusations did not come directly from C.K., Cook explained that C.K. “let other people say it,” which he believed had the same effect.⁹⁷ In order for the reputational attacks of Cook to finally cease, C.K. had to bring Cook onto his show, *Louie*, and explicitly dismiss the allegations. This suggests that the default in such cases is that the public sides with the more popular figure, regardless of proof of joke theft.⁹⁸

V. PROPOSED SOLUTIONS

In determining solutions to confront these problems with the norms-based enforcement system, borrowing key features from legal avenues may be a good start. In particular, the facilitation of effective fact-finding may help address the pitfall of uncertainty, and the presence of a neutral fact-finder may, to a certain degree, address the pitfall of unequal borrowing power.⁹⁹ As for the pitfall of overprotection, the concern for disproportionate punishment that arises from delegating enforcement to a group outside of the stand-up community cautions us from vesting decision-making power in a non-comedian. All things considered, an ideal solution that most completely bolsters the current regime would likely be extra-legal in nature but would borrow from the law in the ways discussed.

While only half of those surveyed were interested in additional legal protection, all who found the current system inadequate were in favor of additional non-legal protection. The proposed solutions that garnered the most interest were venue-by-venue joke theft reporting with corresponding bans on joke thieves and unionizing to ease resolution of disputes. A stand-up comedy union, if practicable, might also be a neat solution to the problem of incentives presented by the first proposed venue-led mechanism. I will address the potential of each in turn.

96. Hopper NYC Comedian Survey, *supra* note 23.

97. Sean L. McCarthy, *Dane Cook Confronts Louis CK in an Honest Way About Joke Theft*, THE COMIC’S COMIC (Aug. 5, 2011), <https://thecomicscomic.com/2011/08/05/dane-cook-confronts-louis-ck-in-an-honest-way-about-joke-theft-read-the-transcript-watch-the-video/> [https://perma.cc/B66W-G8LT] [https://web.archive.org/save/https://thecomicscomic.com/2011/08/05/dane-cook-confronts-louis-ck-in-an-honest-way-about-joke-theft-read-the-transcript-watch-the-video/].

98. *Id.*

99. A copyright infringement lawsuit, in particular, facilitates for the most part, liberal sharing of discovery between parties. In addition, a lawsuit is decided in a neutral forum, preventing the problem of public cancellation growing out of proportion.

A. VENUES AS REPOSITORIES FOR FACT-FINDING

Comedy clubs already have a hand in policing joke theft. As discussed *supra* Part IV.C, the venues have most of the power when it comes to deciding whether or not to ban a comedian. Since the current system relies on loss of work and not just reputational damage to deter joke appropriation, venues are critical in giving social sanction force. Comedians can spread the word or refuse to work with the accused all they want, but unless venues have opted-in to hiring only those with clean records, the system would fail. The problem is that venues are most often motivated by ticket sales and not reputation in isolation, so it is not necessarily the case that they share the values central to making the norms-based enforcement system work.¹⁰⁰ This disconnect is apparent when we look at the exploitative fee-sharing agreements between comics and clubs:

There's little incentive for the club owners and PR managers to pay more when there is a "glut of comics willing to work [for] nothing, sleep on couches, and keep day jobs. . . . Running the clubs has become more expensive and with willing comics, [club owners] justify [paying very little] by saying that their profit margin is down, denying that, yes, it's more expensive for everyone."¹⁰¹

For venue regulation to protect comedians more adequately, we must align the incentives of comics and clubs.

If clubs would be willing, implementing joke-detection methods venue-to-venue might aid with the fact-finding process missing in joke theft disputes and, in turn, might further deter instances of the taboo. Much of the difficulty in detecting joke theft arises from the absence of any objective and reliable information from which to support an allegation. One proposition is that venues record all shows and keep the dated and labeled footage solely for the purposes of answering such questions between the accused and the accuser. Before resorting to perhaps unwarranted reputational damage, individuals could request the footage from the venues where the comedians performed the similar sets in question to determine who came up with the material first.

At least some venues seem willing to play a larger role in the enforcement against joke theft. As a representative of West Side Comedy Club explained, "[u]nfortunately we have nothing in place and in fact [joke theft] is almost impossible to prevent. . . . I suspect it would be impossible to prove. I do stand up and have seen multiple comedians do identical jokes to mine . . . [b]ut curious if you come up with anyone trying."¹⁰² A "perfect comedy club" is one with an owner who "know[s] what good comedy is and

100. See *supra* Part V.B for a discussion of how "upper echelon" comedians are more likely to evade the consequences of joke theft in a norms-based system.

101. Rebecca Rush, *The Comedy Industry Is Flirting with an Uprising*, MIC (May 31, 2022) (quoting comedian Jackie Kashian), <https://www.mic.com/impact/comedians-low-wages-comedy-strike> [<https://perma.cc/7LWN-SBKP>] [<https://web.archive.org/save/https://www.mic.com/impact/comedians-low-wages-comedy-strike>].

102. Email from West Side Comedy Club to Author (Jan. 13, 2023) (on file with author).

what is required to help it thrive,” and the comedy industry cannot thrive with hacks running amok, zapping it of the originality that provides its value.¹⁰³ Without most venues opting in to such a system, however, it would be too easy for joke thieves to avoid the clubs interested in helping out. It is important, then, to think about how we might convince the holdouts.

At least some venues may not want to invest time and money into creating and maintaining such a system, but it could be in the holdouts’ best interest to do so. The clubs decide which comics to hire, but comics give the venues their value. For example, the Comedy Cellar in New York City achieved national fame only after Louis C.K. mentioned the venue in a set.¹⁰⁴ This popularity and respect that easily follow from the clubs’ association to respected comics, however, can be taken away by changing the perceptions of these same comics. After Louis C.K. admitted to allegations of inappropriate sexual behavior, he performed a surprise comeback set at the very same Comedy Cellar, “thrusting [the] club into the limelight” and “substantially affecting” the life of the club’s owner, whose reputation took a severe hit.¹⁰⁵ In addition to the negative press, a few other famous comedians refused to work at the club, deepening its reputational wound and resulting in commercial losses.¹⁰⁶ For a period, going to or performing a show at the Comedy Cellar, to some, was the equivalent of actively supporting C.K., regardless of whether he was expected to perform on any given night. This anecdote makes clear that comedians, at least those who do not need the exposure, want to work at venues that share their values. For clubs that seem primarily concerned with revenue, however, the values held by the *patrons* matter more.

Even if we assume that patrons care about the personal offenses of comedians, how can we make audiences care more about joke theft to the point where the venues would need to respond? Fans follow their favorite comics, so a boycott by the “upper echelon,”

103. Olivia Cathcart, *The Do's and Don'ts of Running a Comedy Club*, PASTE (Oct. 22, 2019), <https://www.pastemagazine.com/comedy/comedy-clubs/what-does-the-perfect-comedy/> [<https://perma.cc/W9VG-ERYM>] [<https://web.archive.org/save/https://www.pastemagazine.com/comedy/comedy-clubs/what-does-the-perfect-comedy/>].

104. John Wenzel, *The 15 Best Comedy Clubs in North America*, VULTURE (Apr. 20, 2016), <https://www.vulture.com/2016/04/the-15-best-comedy-clubs-in-north-america.html> [<https://perma.cc/24JB-YT6F>] [<https://web.archive.org/web/20240309070042/https://www.vulture.com/2016/04/the-15-best-comedy-clubs-in-north-america.html>].

105. Anne Victoria Clark, *The Owner of the Comedy Cellar Is Upset with Louis C.K.: My Life Has Been Substantially Affected*, VULTURE (Sept. 7, 2018), <https://www.vulture.com/2018/09/club-owner-upset-louis-c-k-substantially-affected-his-life.html> [<https://perma.cc/65HA-BVCX>] [<https://web.archive.org/save/https://www.vulture.com/2018/09/club-owner-upset-louis-c-k-substantially-affected-his-life.html>].

106. Megh Wright, *Leslie Jones Stopped Performing at the Comedy Cellar in Protest of Louis C.K.*, VULTURE (Jan. 16, 2020), <https://www.vulture.com/2020/01/leslie-jones-comedy-cellar-louis-ck.html> [<https://perma.cc/5LWC-ALGM>] [<https://web.archive.org/save/https://www.vulture.com/2020/01/leslie-jones-comedy-cellar-louis-ck.html#>] (explaining that Leslie Jones, former *Saturday Night Live* cast member and famous stand-up comedian, chose instead to become a regular at another club that “took [Louis C.K.’s] picture down”).

like in the Comedy Cellar example, would generally be effective to some degree, but it is hard to say whether a venue would consistently take a commercial hit absent such a boycott. True fans are extraordinarily forgiving, after all. As Elahe Izadi writes, although “C.K. may no longer be celebrated as an auteur, he still has an audience,” responding to the fact that two years after his “cancellation,” the comic was back to performing to sold-out theaters.¹⁰⁷ If, at the end of the day, fans do not care enough about a comedian’s confessed sexual predation to stop buying tickets, the chances that they would do so upon hearing allegations of joke theft seem low. Furthermore, it is unlikely that the reputational ebb and flow of lesser-known comedians would move the needle at all on the holdouts’ choice to opt in to a venue-led system of enforcement because the clubs simply would not hire those who present even a remote risk of decreased ticket sales; for the non-C.K.s of the industry, comedians rely more on venues for exposure rather than the reverse.

Ultimately, solving the incentive problem for venues would likely require a major shift in the power dynamic between comics and comedy clubs. The discussion of the interplay between the venues and the artists they showcase is worth thinking about in its potential to incite change, but until comedians at all levels can effectively impose their values on these institutions, we cannot necessarily expect venues to increase their cooperation in policing the appropriation taboo.

B. A COMEDIANS’ UNION

If punishing joke thieves is already a community-based project, why not take it a step further and form a union? Assuming that enough comedians would be willing, collectively refusing to perform at venues that do not implement additional mechanisms would carry more force than individual demands. Almost every artistic profession has unionized at this point, but the comedy industry has only ever created short-lived *coalitions*, not unions. Even these “fledgling” groups, however, have indicated the potential for effecting meaningful change; in response to threats of “picket lines and protests, complete with a giant inflatable rats,” four hundred stand-up comedians succeeded in securing raises from several New York comedy clubs (including the powerful Comedy Cellar).¹⁰⁸ The group behind this, the Comedians Coalition, is no longer in operation, but its success here is notable. It suggests a general

107. Elahe Izadi, *Louis C.K.’s Sexual Misconduct Tanked His Career. Now He’s Selling Out Theaters*, WASH. POST (Mar. 11, 2020), <https://www.washingtonpost.com/arts-entertainment/2020/03/11/louis-ck-new-standup/> [https://perma.cc/B7WS-AJBM] [https://web.archive.org/web/20240309071135/https://www.washingtonpost.com/arts-entertainment/2020/03/11/louis-ck-new-standup/].

108. David Segal, *Comedians Coalition Finally Gets a Little Respect*, WASH. POST (Feb. 11, 2005), <https://www.washingtonpost.com/archive/lifestyle/2005/02/12/comedians-coalition-finally-gets-a-little-respect/cb22bedc-36a2-4c7e-9f50-503b9ce47fae/> [https://perma.cc/NEC6-JRQ7] [https://web.archive.org/save/https://www.washingtonpost.com/archive/lifestyle/2005/02/12/comedian-s-coalition-finally-gets-a-little-respect/cb22bedc-36a2-4c7e-9f50-503b9ce47fae/].

willingness on the part of the New York comedy clubs to negotiate. If clubs are willing to negotiate fees and arrangements, it stands to reason that even holdouts might be willing to invest in a system like that previously proposed *supra* in Part V.A, among others, if threatened with a strike.

A union could also enforce the appropriation taboo among its membership by facilitating resolution of disputes. Although many performers' unions collect dues from their members to negotiate contracts with venues to ensure fair wages, safe working conditions, and other relevant protections, none have a mechanism that would police the intellectual property theft *among* their memberships as would be needed here.¹⁰⁹ These unions have not, however, turned a blind eye to safeguarding intellectual property. The Writers' Guild of America West, for instance, supplements the copyright protections available to writers by allowing them to register early scripts, concepts, and even slightly fleshed-out ideas in a database for only ten dollars for members in good standing and twenty dollars for everyone else, creating immediate evidence of ownership.¹¹⁰ Such a system is centralized, unlike a venue-to-venue repository of performances, and, unlike copyright, would offer a low-cost paper trail of a comic's ideas to use as an evidentiary sword and shield for possible disputes down the line. Of course, a union registry would not ease the difficulty in proving that similarities between sets or jokes are the result of joke theft and not independent creation, but it would at least catch instances of blatant copying. A registry would certainly provide a way to decide who came up with the disputed material first. Additionally, some sort of neutral arbitration provided by the union could be implemented. However, comedians might prefer to proceed with the current, informal system of resolution and hash it out themselves to keep the extreme flexibility that norms-based enforcement provides. Instant registration of jokes or ideas would not be a panacea, but the system would, at the very least, give comedians more objective data with which to fairly proceed.

There is no way to know for sure whether the creation of a comedy union would be feasible. Although many surveyed comedians expressed general interest in joining one if created, the feeling was far from unanimous, and something close to unanimity would be needed for a union to realistically strengthen protections against joke theft. That establishing a comedians' union is *possible*, however, is unquestionable. In the summer of 2022, for instance, a UK-based performing arts union created a charter for comedians and has begun using the resources of the preexisting union to encourage

109. See Alex Ates, *Everything You Need To Know About Actors' Unions*, BACKSTAGE (Sept. 18, 2023), <https://www.backstage.com/magazine/article/unions-101-everything-you-need-to-know-70119/> [<https://perma.cc/G7KW-PGWT>] [<https://web.archive.org/web/20240310004359/https://www.backstage.com/web/20240310004359/https://www.backstage.com/magazine/article/actors-unions-101-70119/>].

110. *Registration Details*, WGA WEST REGISTRY, <https://www.wgawregistry.org/regdetails.aspx> [<https://perma.cc/64P2-9MJW>] [<https://web.archive.org/web/20240309072301/https://www.wgawregistry.org/regdetails.aspx>] (last visited Mar. 9, 2024).

venues across the country to adopt the charter.¹¹¹ While the United States does not have a union for performers in general, perhaps the UK union's efforts could inspire the Actors' Equity Association, which represents professional stage actors and stage managers, to expand their membership.¹¹² Comedy is a personal art, but enforcement against the appropriation taboo only works when comedians work together. However they go about it, it might be time for comedians to collectivize and strengthen this community project into something that more effectively protects their work.

VI. CONCLUSION

There is no perfect, ready-made legal solution to the problem of joke theft. The DMCA and CCB are promising steps in copyright's evolution toward a practical solution for content creators, but they apply only to a small subset of comedians' material. Comics are clear in their consensus that litigation is not a feasible avenue for them, and the remedies available through litigation can be disproportionately punitive. Despite—or perhaps because of—this, comedians want more from the law. The difficulty is determining whether the law has something more to give.

At bottom, the nature of stand-up comedy refuses to be pinned down in a way that can be captured, and therefore protected, by formal copyright law. In looking for gap-fillers to the norms-based enforcement regime, we should be guided primarily by the perspectives and preferences of comedians. The task is a complex one. There is no way of knowing how comics will respond to increased protections, even if those implemented really do make enforcement more manageable. One thing is clear, however: The current social norms have staying power as a deterrent force. Bolstering the system properly, then, would be to amplify what makes it work so well, like flexibility in resolution, while adding legal-*esque* mechanisms where norms come up short, like reliable methods of fact-finding and fora for equitable dispute resolution. The value of additional legal protection outside the court system, such as the intervention of performance venues or the creation of a comedians' union, remains to be seen, but thinking creatively is key in protecting these creatives.

111. *Equity Union Launches Working Practices Charter for Comedians*, THE GUARDIAN (Aug. 7, 2022), <https://www.theguardian.com/politics/2022/aug/07/equity-union-launches-comedians-charter-safety-working-practices> [<https://perma.cc/WUS7-KMFN>] [<https://web.archive.org/save/https://www.theguardian.com/politics/2022/aug/07/equity-union-launches-comedians-charter-safety-working-practices>].

112. ACTORS' EQUITY ASS'N, <https://www.actorsequity.org/> [<https://perma.cc/D73P-XGRM>] [<https://web.archive.org/save/actorsequity.org>] (last visited Mar. 9, 2024).

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