

SELF-REALIZING INVENTIONS, *BILSKI* AND THE UTILITARIAN FOUNDATION OF PATENT LAW
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Abstract

Unlike other forms of intellectual property, patents are universally justified on utilitarian grounds alone. Valuable inventions and discoveries, bearing the characteristics of public goods, are easily appropriated by third parties. Since much technological innovation occurs pursuant to significant expenditure — both in terms of upfront research and subsequent commercialization costs — inventors must be permitted to extract at least part of the social gain associated with their technological contributions. Absent some form of proprietary control or alternative reward system, economics predicts that suboptimal capital will be devoted to the innovative process.

This widely accepted principle comes with an important corollary: namely, that canons of patent law should accurately reflect the subject's utilitarian foundation. The most important principle under this rubric is denying proprietary rights in "self-realizing" inventions — those for which sufficient incentives to invent and commercialize exist independent of the patent system. The law's principal means of excluding such inevitable discoveries is through the non-obviousness doctrine. Yet that doctrine fails to achieve this task. Two classes of invention may be deemed "self-realizing" — inventions that are axiomatic (and useful) to those skilled in the art and innovations that provide utility to the relevant inventors because they consume the inventions themselves. While the non-obviousness doctrine excludes the former class of innovative activity, it utterly fails to eliminate the latter. This regrettable phenomenon results in social welfare losses and belies the policy foundation of the patent system.

This particularly startling disconnect between theory and practice begs the question of whether we can do better. We conclude that the courts should turn to an often neglected but fundamental tenet of patent law: the patentable subject matter inquiry. In doing so, we identify a variety of "self-realizing" innovative activity but find that a well-crafted patent system must tolerate the inclusion of certain "inevitable" inventions. We conclude, however, that one sphere of innovation that can reliably be regarded as inevitable by a priori assumption involves non-public, or "internal," business methods. Given free market competition, companies have ample incentives to develop internal business processes that reduce costs and/or increase consumer demand, even if these processes cannot be patented. And because these inventions are suitable for trade secret protection, inventors who seek patents on internal business methods presumably do so to raise rivals' costs.

*Unfortunately, the patentable subject matter inquiry has thus far been wholly unsatisfactory in denying patent protection to undeserving processes. In late 2008, the Federal Circuit's deficient "useful, concrete, and tangible result" test in *State Street Bank* was jettisoned in favor of a "machine-or-transformation" test in *In re Bilski*. While this new standard may limit the patentability of certain undeserving processes, it rests on a strained interpretation of Supreme Court precedent. More fundamentally, the logic employed bears scant relation to the utilitarian underpinning of the patent system, as enshrined in the Patent Act and the U.S. Constitution.*

*The Supreme Court has now granted certiorari in *Bilski*. This Article calls for the Court to use this opportunity to reconcile the patentable subject matter inquiry with its utilitarian roots, particularly in the context of business method patents.*

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