The (Still) Shaky Foundations of Trade Secret Law

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Introduction

Trade secret law is an odd member of the intellectual property family. It protects secrecy when its closest cousin, patent law, values public disclosure.[1] Its liability rules focus on the method of appropriation when other intellectual property (IP) theories focus on the appropriation itself.[2] These and other differences raise the question whether trade secret law actually makes sense as an independent body of law protecting information. In an article published about fifteen years ago, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, I argued that it does not.[3] In particular, I concluded that there is no convincing normative basis for an independent body of trade secret law distinct from other legal theories, such as contract.

Much has happened in the past fifteen years. Trade secrecy continues to be an important IP strategy for many firms, and concerns about trade secret theft, and especially international espionage, have increased.[4] The

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1. An inventor must publicly disclose her invention as a condition to obtaining a patent. 35 U.S.C. § 112(a) (2012).

2. *See* 1 MELVIN F. JAGER, TRADE SECRETS LAW § 3.11, at 3-49 (2010) (noting that "unlike a patent owner, a person who possesses a trade secret does not have an exclusive right to the information").

3. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241 (1998) [hereinafter Bone, *A New Look*]; *cf.* Robert G. Bone, *Exploring the Boundaries of Competitive Secrecy: An Essay on the Limits of Trade Secret Law*, *in* LAW, INFORMATION AND INFORMATION TECHNOLOGY 99 (Eli Lederman & Ron Shapira eds., 2001) (critically examining trade secrecy's limits in light of IP policies); Robert G. Bone, *Trade Secrecy, Innovation and the Requirement of Reasonable Secrecy Precautions*, *in* THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 46 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011) [hereinafter Bone, *Trade Secrecy*] (critically analyzing the case for requiring secrecy precautions).

4. *See* John E. Jankowski, *Business Use of Intellectual Property Protection Documented in NSF Survey*, NAT'L SCI. FOUND. (Feb. 2012), http://www.nsf.gov/statistics/ infbrief/nsf12307/ns f12307.pdf (reporting results from a NSF survey showing heavy reliance on trade secrecy in some industries); *Trends in Proprietary Information Loss: Survey Report*, ASIS INT'L 1–3 (June 2007), https://foundation.asisonline.org/FoundationResearch/Publications/Documents/trendsinproprietary informationloss.pdf (discussing the threat U.S. businesses face from foreign countries).

volume of trade secret litigation has also grown,[5] and public enforcement of trade secret rights is stronger today than it was fifteen years ago.[6] Thus, the question I addressed in 1998 is at least as, if not more, pressing today.

The literature on trade secret law has also grown over this same period, and numerous scholars have come to its defense.[7] This symposium provides an opportunity for me to revisit my arguments in light of this literature. I have learned much from this work. But it does not convince me that broad legal protection for trade secrets is justifiable. I remain skeptical that there is a normative basis for a freestanding trade secret law that is not parasitic on other legal norms.

The relationship of this Article to the symposium topic might not be obvious, but it is significant. My claim is not that special protection for trade secrets is clearly undesirable. Instead, I claim that the only way protection could be desirable is if its social benefits exceed its social costs and that we lack the empirical evidence necessary to make this determination with a sufficient level of confidence. This raises a deeper question, one directly related to the symposium topic: How should we respond when a body of law is justified, if at all, only on consequentialist grounds and there is insufficient empirical evidence to make reliable predictions about consequences?

The body of this Article is divided into three parts. Part I sets the stage by briefly describing trade secret law and sketching the main points in my 1998 article. Part II focuses on work published since 1998 and critically examines the arguments advanced by trade secrecy supporters. Part III then explores the question of how best to handle the problem of limited empirics in general and in the context of trade secret law.

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5. *See* David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 293 (2009–2010) [hereinafter Almeling et al., *Federal Courts*] (reporting that published trade secret cases in federal court have grown "exponentially," doubling between 1988 and 1995 and again between 1995 and 2004); David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 61 (2010–2011) [hereinafter Almeling et al., *State Courts*] (reporting that published trade secret cases in state courts have grown at a linear rate).

6. For example, the federal government has stepped up enforcement of the Economic Espionage Act, *see* Thomas P. O'Brien & John J. O'Kane IV, *Heightened Enforcement Environment Signals Increased Use of Economic Espionage Act*, 84 Pat. Trademark & Copyright J. (BNA) 208, 208 (June 1, 2012) (noting that recent cases brought under the Economic Espionage Act "signal that federal efforts to ramp up intellecutal property protection are continuing to grow"), and the International Trade Commission has claimed broad powers to block infringing imports that incorporate misappropriated trade secrets, *see* TianRui Grp. Co. v. Int'l Trade Comm'n, 661 F.3d 1322, 1326–27 (Fed. Cir. 2011) (holding that section 337 applies extraterritorially to authorize the International Trade Commission to block imports that were produced using domestic trade secrets misappropriated abroad).

7. It is worth noting that I am not the only one who recommends confining trade secret law mostly to contract. *See* Thornton Robison, *The Confidence Game: An Approach to the Law About Trade Secrets*, 25 ARIZ. L. REV. 347, 383–84 (1983) (proposing that trade secret protection be based on contract in employer–employee settings).

I. Background

As background for the rest of the Article, subpart A below summarizes the basics of trade secret doctrine, and subpart B sketches my original arguments briefly.

A. Overview of Trade Secret Law

Trade secret law developed in the middle of the nineteenth century as a branch of the common law, and it remained a common law tort until the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Trade Secrets Act (UTSA) in 1980.[8] Since then, roughly forty-seven states have adopted some version of the UTSA, leaving the rest to follow the common law.[9]

Despite some variations in doctrinal specifics, the basic features of trade secret law are fairly uniform across states. First, the information must qualify as a trade secret. To do so, it has to satisfy three requirements: (1) the information must be secret; (2) it must derive economic value as a result of being kept secret; and (3) it must be the subject of reasonable efforts to maintain its secrecy.[10]

Second, the defendant must have acquired, used, or disclosed the trade secret information by breaching a duty of confidence, violating an independent legal norm, or using some other "improper means" that falls short of "generally accepted standards of commercial morality and reasonable conduct."[11] Most trade secret cases fall into the first category; indeed, the vast majority involve preexisting employment or business relationships that support a duty of confidence.[12] Some cases fall into the

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8. UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 529 (2005). *See generally* 1 ROGER M. MILGRIM & ERIC E. BENSEN, MILGRIM ON TRADE SECRETS § 1.01[2] (2013) (discussing the UTSA).

9. MILGRIM & BENSEN, *supra* note 8, § 1.01[2][b]. The federal Economic Espionage Act, adopted in 1996, provides federal criminal protection for trade secrets. 18 U.S.C. §§ 1831–1832 (2012). Some states have also enacted statutes criminalizing trade secret theft. 3 MILGRIM & BENSEN, *supra* note 8, § 12.06(1). But civil remedies are mostly a matter of state law.

10. *See, e.g.*, UNIF. TRADE SECRETS ACT § 1(4); ROBERT P. MERGES, PETER S. MENELL & MARK A. LEMLEY, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 37 (6th ed. 2012).

11. RESTATEMENT (FIRST) OF TORTS § 757 cmt. f (1939); *see, e.g.*, E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1017 (5th Cir. 1970) (holding that aerial photography was an "improper method" of obtaining a trade secret).

12. One study of published federal court decisions between 1950 and 2008 found that "in over 85% of cases, the alleged misappropriator was either an employee or business partner," and a parallel study of state court decisions found that the comparable figure was 93%. Almeling et al., *Federal Courts*, *supra* note 5, at 302–03; Almeling et al., *State Courts*, *supra* note 5, at 59–60; *see also* JAMES POOLEY, TRADE SECRETS § 5.01(2)(a) (2013) ("Most trade secret lawsuits involve employees allegedly using their former employer's secrets to benefit themselves or a competitor."). For example, an existing or a departing employee is liable if he discloses his employer's trade secret to a competitor in breach of a confidentiality duty imposed by the

second category, such as those in which a stranger steals a trade secret by burglarizing a firm, hacking a computer, defrauding an employee, or committing some other independently wrongful act. Not many published cases fall into the third category.[13] One of the most famous is *E.I. duPont deNemours & Co. v. Christopher*,[14] involving surreptitious aerial surveillance of a factory.[15] Finally, it is important to note in particular that both reverse engineering and independent discovery are perfectly lawful ways to learn a trade secret. Neither counts as an improper means.[16]

As for remedies, all states permit injunctive relief.[17] Monetary relief is available too.[18] This includes plaintiff's loss from the misappropriation or defendant's profit, whichever is greater.[19] Trade secret owners can also obtain recovery in the amount of a reasonable royalty, especially in UTSA jurisdictions.[20] And punitive damages and attorney's fees are sometimes awarded as well.[21]

B. A Brief Sketch of My 1998 Argument

In 1998, I argued that there was no convincing justification for an independent body of trade secret law. It is important at the outset to be clear about the nature of this argument. It focuses on the source of policy justification for legally protecting trade secrets. My point is that whatever policies support trade secret law must come from other bodies of law. For example, when trade secret law imposes liability for breach of a contractual duty of confidence, the policy reasons for doing so are simply those that support contract enforcement more generally. There are no special reasons that apply just because information or a secret is involved. Defenders of trade secret law argue that protection is justified because it promotes incentives to create, prevents a wasteful precautions–stealing arms race, protects the trade secret owner's privacy right, enforces the conventional morality of the marketplace, and so on. My claim is that reasons of this

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employment contract or by the nature of the employee's activities. So too, a new employer is liable if it uses the trade secret when it knew or should have known that the employee disclosed the information improperly. Moreover, a prospective licensee who learns the information in the course of an unsuccessful negotiation is liable if it then uses the trade secret in violation of an express or implied nondisclosure agreement or in breach of a confidentiality duty imposed by law.

13. *See* WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 355 n.6 (2003) (noting that "[w]e have not discovered any cases that are like *Christopher* in the sense of finding misappropriation despite the absence of either a breach of contract or a violation of a common law tort").

14. 431 F.2d 1012 (5th Cir. 1970).

15. *Id.* at 1012.

16. 1A MILGRIM & BENSEN, *supra* note 8, § 7.02[1][a].

17. *See* 4 *id.* § 15.02 (listing examples of trade secret remedies available in each state).

18. 4 *id.* § 15.02[3].

19. *Id.*

20. *Id.*

21. *Id.* § 15.02[3][i], [3][k].

kind do not convincingly justify an independent body of trade secret law and that as a result trade secrecy is parasitic at the normative level on policies that support other legal norms.

This does not necessarily mean, however, that the actual legal rules in the cognate field should be applied strictly. For example, if a trade secret is protected on the ground of contract breach, it does not necessarily mean that existing contract rules should be applied just as they are in any other breach of contract case. The policy reasons for enforcing contracts might call for special rules, such as broader availability of specific performance, when the subject of the agreement is secret information. But in that case the reasons are contract law reasons, not special reasons distinctive to trade secret law.[22]

The following discussion briefly summarizes my criticism of the conventional arguments for trade secret law.

1. Economic Arguments.—There are two main economic arguments for protecting trade secrets. The first focuses on incentives to create. The second focuses on reducing the costly arms race that arises when increasing investments in secrecy precautions prompt ever more sophisticated acquisition methods.

a. Incentives to Create.—At best, it is uncertain whether trade secret law generates incentive benefits that exceed its costs.[23] In particular, as far as patentable inventions are concerned, adding trade secret protection is likely to upset the balance of benefits and costs created by the Patent Act by diverting inventions away from the patent system[24] and undermining the

22. At one point in my 1998 article, I suggested that the tort of intentional interference with contractual or commercial advantage might be used to extend liability to third parties. Bone, *A New Look*, *supra* note 3, at 303 & n.279. Some have objected on doctrinal grounds, arguing that the precise legal requirements of the tort would not be satisfied in most trade secret cases. *See, e.g.*, Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 50 n.235 (2007) (pointing to specific requirements of interference with contract that are not likely to be met in trade secret misappropriation cases). Whether or not this is true as a legal matter, it is tangential to my point. If the policies that support imposing liability for intentional interference also support a broader application of the tort to trade secret cases, then the tort should be expanded in that way. Again, my point is about the policies, not about the specific rules.

23. Bone, *A New Look*, *supra* note 3, at 264–70.

24. It is well understood that firms, especially in certain industries, favor trade secret law over patent even for clearly patentable inventions when those inventions are difficult to reverse engineer. *See, e.g.*, Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 339–40 & n.121 (2008) (citing an empirical study to support the argument that some companies prefer trade secret protection for inventions that are "not transparent to the world"); Jankowski, *supra* note 4, at 2 (reporting results of a NSF survey showing heavier reliance on trade secrecy than on patent in some industries).

beneficial effects of patent exclusivity in limiting duplicative efforts to invent the same invention.[25]

As for nonpatentable inventions, the marginal impact of trade secret protection on incentives might not be as large as it seems at first glance because a firm's *ex ante* research and development (R&D) investment decisions will take account of the expected value of all possible outcomes, patentable and nonpatentable alike, and this aggregate calculation should dilute the significance of the nonpatentable component.[26] Moreover, trade secret protection impedes the diffusion of information and thus retards further innovation. I suggested that trade secret law might be appropriate for intermediate research results and nontechnological information, but that even this much is uncertain.[27]

b. Limiting the Arms Race and Facilitating Licensing.—Many commentators argue that without trade secret law firms would employ costly measures to protect their secrets from disclosure.[28] In fact, the trade secret owner and the appropriator are locked in a strategic precaution–stealing game: as the owner increases its investment in precautions, the appropriator increases its investment in stealing the secret, which then prompts the owner to increase precautions even further to counter the more serious threat, and so on.[29] Since investments on both sides cancel out, an escalating arms race like this is socially wasteful. Trade secret law prevents or greatly reduces the waste by giving firms a litigation alternative to self-help and by deterring appropriators.

There are two serious problems with this argument. First, a firm must detect misappropriation before it can bring a trade secret suit, and trade secret misappropriation is especially difficult to detect.[30] Moreover,

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25. If one firm keeps an invention secret, others can do so as well if they later invent the same invention. Professor Lemley responds to my point about duplicative research investments by arguing that races do not just produce duplication; they also speed up innovation and sometimes reap collateral benefits from incidental discoveries. *Lemley*, *supra* note 24, at 341 n.126. He also argues that the patent system probably incentivizes even more duplication than trade secret law because it grants stronger rights to the winner of the race. *Id.* I am skeptical that the collateral innovation benefits of duplicative research efforts justify the cost, but the question is ultimately an empirical one. More generally, Lemley misses my point. I am not concerned so much about the costs of the innovation race. I am concerned about the costs of duplicative research after the race is over. Patent law cuts off the race once there is a winner; trade secret law allows it to continue by encouraging secrecy rather than public disclosure and tolerating independent discovery.

26. Bone, *A New Look*, *supra* note 3, at 267–68.

27. *Id.* at 270–72.

28. *E.g.*, Risch, *supra* note 22, at 43–44; *see* Douglas Lichtman, *How the Law Responds to Self-Help*, 1 J.L. ECON. & POL'Y 215, 232 (2005) (discussing the arms race arguments).

29. Bone, *A New Look*, *supra* note 3, at 272–78.

30. *See, e.g.*, MICHAEL J. TREBILCOCK, THE COMMON LAW OF RESTRAINT OF TRADE: A LEGAL AND ECONOMIC ANALYSIS 11–12, 140 (1986) (noting the "quite severe" costs of monitoring compliance by employees with contractual covenants restraining disclosure); Ian C. Ballon, *Alternative Corporate Responses to Internet Data Theft*, *in* 17TH ANNUAL INSTITUTE ON COMPUTER LAW 737, 740 (1997) (stressing the detection problems with computer data theft);

recognizing a trade secret claim creates a new type of arms race: the trade secret owner invests in detection; the appropriator then invests in efforts to avoid detection; the owner responds by using more sophisticated detection methods, and so on.[31] Thus, even if trade secret law limits the precaution-stealing arms race, it adds a new detection–avoidance arms race.

Second, trade secret lawsuits are costly for trade secret owners.[32] The litigation itself is costly, especially as fuzzy and open-ended liability standards furnish lots of opportunities for strategic adversarialism.[33] Moreover, a trade secret owner always must worry about the risk that its secret will leak during litigation, even with the safeguards of a protective order. It should not be surprising then that some trade secret owners rely on self-help despite the litigation alternative and that some eschew litigation altogether.[34]

Another argument for trade secret law focuses on its beneficial effect in channeling acquisition efforts away from socially costly misappropriation and toward presumably less costly licensing. In my 1998 article, I argued that these benefits might not be as large as commonly supposed because the transaction costs of licensing trade secrets are also high.[35]

2. Moral.—Courts and commentators who defend trade secret law on moral grounds frequently invoke privacy rights, veil-of-ignorance arguments, and conventional morality. I discussed these moral justifications in my 1998 article and concluded that all of them have serious problems.

Privacy rights fail for two main reasons. First, the typical owners of trade secrets are corporations, and corporations do not possess the attributes of personal autonomy and the capacity for personal relationships necessary to trigger a deontological privacy right.[36] Second, the typical subject matter

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James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 224 (1997) (noting that "[i]nformation loss is inherently difficult to detect").

31. *See* Bone, *A New Look*, *supra* note 3, at 276–77 (describing the "detection game" in which one company attempts to detect theft and its competitor tries to avoid detection).

32. *Id.* at 278–79.

33. *See* AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2013, at 34–36 (2013), *available at* http://library.constantcontact.com/download/get/file/1109295819134-177/AIPLA+2013+Survey_Press_Summary+pages.pdf (reporting survey results showing that trade secret litigation costs on average $425,000 for suits worth less than a million dollars up to $2,950,000 for suits worth more than 25 million dollars, compared to patent litigation for which the comparable figures are $700,000 and $5,500,000, respectively).

34. *See* Bone, *A New Look*, *supra* note 3, at 278 (noting that the cost of trying trade secret cases discourages companies from bringing suits).

35. *Id.* at 280–81.

36. *Id.* at 284–88.

of trade secrets is not the sort of intimate information that justifies a moral claim to privacy.[37]

Veil-of-ignorance arguments are also highly problematic.[38] This type of argument imagines a hypothetical bargaining situation in which the bargaining agents are deprived of specific information about the firms they represent. The idea is to create bargainers who, because they lack self-interested motivation, will choose principles and rules that have moral force.[39] The main problem with using this argument has to do with justifying the information structure of the bargaining situation. Bargaining agents cannot be deprived of so much information that actual firms in the real world have no reason to accept the results as fitting the salient features of the institution being regulated. I argued in 1998 that this condition is not satisfied by the contractarian arguments of trade secret defenders and that it is unlikely to be satisfied by any contractarian argument for trade secrecy.[40]

Finally, justifying trade secrecy as enforcing the conventional morality of the marketplace fails as well.[41] Even if moral conventionalism makes sense in general, it is unclear how one is supposed to tell whether particular marketplace norms qualify as sufficiently accepted. There is no empirical evidence that competing firms would adopt the norms of trade secret law without being compelled to do so.[42] Moreover, to be generally accepted in the absence of legal sanction, a norm must be part of a social equilibrium supported by informal sanctions.[43] In that case, however, it is unclear what is accomplished by adding trade secret law. And adding trade secret law might even make matters worse by upsetting the existing equilibrium.

II. The Recent Scholarship on Trade Secret Law

The following discussion examines more recent efforts to defend trade secrecy, some of which were developed partly in response to my 1998 article. Before proceeding, however, it is important to address the significance of legal classification to the justification problem. Some scholars have tried to defend trade secret law by arguing that it fits a well-accepted legal category. For example, Professor Mark Lemley argues that

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37. *Id.* at 288–89.

38. *See id.* at 289–94 (outlining problems with the contractarian justification of trade secret law).

39. *See generally* JOHN RAWLS, A THEORY OF JUSTICE 17–22 (rev. ed. 1999) (describing the concept of the "original position").

40. Bone, *A New Look*, *supra* note 3, at 289–94. I do not mean that all firms must actually accept the bargaining result after the veil is lifted. I mean that the result must be something that they have good reason to accept (or at least not reject). For this condition to hold in the case of trade secret law, the information structure of the bargaining situation must fit the core features of market competition. But those features include informed self-interested choice. *Id.* at 294; s*ee also infra* notes 87–89 and accompanying text (further elaborating this point).

41. Bone, *A New Look*, *supra* note 3, at 289–94.

42. *See id.* at 296.

43. *Id.* at 295.

trade secrecy is properly understood as a type of intellectual property right because it serves IP policies.[44] I address these policy arguments below, but Professor Lemley's claim seems to go beyond policy. He suggests that the fact of classification itself has significance.[45] In particular, he assumes that confusion about trade secret's normative foundations stems historically from confusion about its proper common law classification—as property, contract, or tort—and therefore that slotting it into the intellectual property category should clear things up.[46]

Lemley is correct that courts and commentators have had difficulty identifying the proper legal classification for trade secrecy, and he does a nice job of recounting the struggle to fit it into tort, contract, or property.[47] But I do not agree that confusion about classification is what produced confusion about justification. In fact, the causal direction is the other way around: confusion about justification is what produced confusion about legal classification. Fitting trade secret law into the IP category can be useful in focusing attention on IP policies, but in the end what matters is not the legal category but the persuasiveness of the underlying policy arguments.[48]

The policy arguments for trade secrecy published since 1998 can be divided into three categories: (1) those that focus on reevaluating the social cost–benefit balance, (2) those that focus on bolstering moral arguments,

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44. Lemley, *supra* note 24, at 329 (arguing that trade secrecy serves the same functions as other IP rights: "promot[ing] inventive activity," and "promot[ing] disclosure of those inventions").

45. *See id.* at 341 (arguing that "thinking about trade secrets as IP rights can help us to improve the doctrine itself" and that "the articulation of a solid theoretical basis for trade secret law [namely classifying it as an IP right] helps defuse Robert Bone's criticism of the doctrine"). Lemley is not alone in believing that proper classification matters. Professor Eric Claeys, for example, has written extensively about the proper characterization of trade secrecy within the framework of private law theory. *See generally* Eric R. Claeys, *Intellectual Usufructs: Trade Secrets, Hot News, and the Usufructuary Paradigm at Common Law*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 404 (Shyamkrishna Balganesh ed., 2013) [hereinafter Claeys, *Usufructary Paradigm*] (arguing that trade secret rights are usufructuary property rights); Eric R. Claeys, *Private Law Theory and Corrective Justice in Trade Secrecy*, 4 J. TORT L., no. 2, art. 2 (2011), http://www.degruyter.com/view/j/jtl.2011.4.2/jtl.2011.4.2.1115/jtl.2011.4.2.1115.xml?-format=INT (arguing that the normative interest in a trade secret makes the most sense as a usufructuary property interest) [hereinafter Claeys, *Private Law Theory*].

46. *See* Lemley, *supra* note 24, at 341.

47. *See id.* at 319–26. During the late nineteenth century, trade secret appropriation was treated as infringement of a property right in the secret information. *Id.* at 316. In the early twentieth century, it was considered a form of unfair competition, but the property conception was still influential. *Id.* In recent years, some commentators, including myself, have treated it as primarily a branch of contract law.

48. There is an argument that classification might help to cope with the problem of empirical uncertainty. I examine this argument in Part III below and explain why it does not work for trade secrecy.

and (3) those that raise new arguments or ones that I did not explore with care.

A. Reevaluating the Cost–Benefit Balance

The most serious problem with an economic justification of trade secret law is the indeterminacy of the social cost–benefit balance. Trade secrecy defenders tend to focus on benefits and minimize costs, while opponents focus on costs and minimize benefits. In my 1998 article, I raised questions about the magnitude of the benefits and showed why the costs are likely to be greater than normally assumed. Several scholars have tried to shore up the cost–benefit case by reinvigorating gap-filling arguments, bolstering the arms race argument, or showing that trade secrecy serves IP disclosure goals despite requiring secrecy.

1. Gap Filling.—One of the core defenses of trade secrecy emphasizes how it fills gaps in patent law. There are two versions of this argument: an ideal version and a pragmatic version. The ideal version defends trade secret law as a desirable supplement to even a well-functioning patent system. The pragmatic version defends trade secret law as a way to compensate for practical shortcomings of the existing patent system.

In the ideal version, defenders argue that trade secrecy fills structural gaps in patent law by incentivizing nonpatentable inventions and commercial information and by providing an alternative form of protection when costs or other factors make patents unavailable as a practical matter.[49] To a considerable extent, these are the same arguments that I discussed in 1998.[50] As I pointed out then, it is not clear how much additional incentive trade secrecy adds, given that patent law already provides indirect incentives for nonpatentable inventions by stimulating research and development efforts in general and also that firms already have market incentives to develop nontechnological, commercial information.[51]

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49. *See, e.g.*, LANDES & POSNER, *supra* note 13, at 359–61 (discussing some of the benefits of trade secrets and stating that "the common law has plugged several economic holes in the patent statute"); Lemley, *supra* note 24, at 331 (noting that trade secret law provides important incentives missing in the law because it "reaches into a number of corners patent law cannot"); *see also* Michael Risch, *Trade Secret Law and Information Development Incentives*, *in* THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 152, 165–81 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011) (describing IP development incentives that trade secret law might create in interaction with other IP laws).

50. *See* Bone, *A New Look*, *supra* note 3, at 264–70.

51. *Id.* at 268–69, 271–72. Expanding on an argument first presented in an earlier article written with Professor David Friedman, *see* David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 64 (1991), Landes and Posner claim that trade secret law fine-tunes patent incentives. According to this argument, patent law over-rewards some inventions and under-rewards others. For example, a patentable invention that deserves only six years of exclusivity because it was not difficult to invent receives twenty years instead. Trade secret law, on the other hand, fits the term of protection in a rough way to the social value of the invention. It does this by allowing for independent replication and by terminating trade secret protection when

Moreover, the social costs of adding trade secret law to the IP mix could be very large. Trade secrecy encourages duplicative investment in R&D by permitting independent discovery.[52] It also diverts investment away from patentable inventions by enhancing the private value of nonpatentable ones, a cost that is particularly significant if, because of the nonobviousness requirement, patentable inventions are likely to have greater social value.[53] Finally, the availability of trade secrecy frustrates the disclosure goals of the patent system when firms opt for trade secrecy to protect patentable inventions and when they employ a hybrid strategy coupling a patent on an invention with trade secrecy for the know-how needed to practice the invention effectively.[54]

Professor Lemley argues that patents are not a practical option for firms in fast-paced industries because of the time it takes the Patent and Trademark Office (PTO) to issue patents.[55] Since trade secret law is available immediately, it helps fill this gap. I treat this as an ideal argument because time lags can be significant even when the PTO is operating optimally. The question, however, is how much social benefit there is in providing quicker protection. If the marginal fixed costs of creating the next generation of inventions are relatively small when innovation is fast paced, given the fact that inventions are developed quickly, then incentives

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enough other firms have discovered the same invention (so it is no longer secret). The more difficult an invention is to invent, Landes and Posner reason, the longer it should take others to reinvent and therefore the longer trade secret protection will last. Thus, an inventor who should receive six years of protection rather than the twenty years patent law grants will receive something closer to the six-year period with trade secret law. This argument has several problems. For one, it is not at all clear that patent law over-rewards or under-rewards patentable inventions from an *ex ante* perspective. Presumably the patent term averages over all the different types of patentable inventions, and an inventor also averages in a similar way when he decides how much to invest. More precisely, the inventor takes an expectation over all the possible outcomes of his research efforts and invests in light of the expected value. Thus, as far as *ex ante* incentives are concerned, the patent term might do a fairly good job of motivating research activity in the right way. In addition, invention involves a good deal of luck, so the time it takes to reinvent might not be the same as the time it took originally to invent. Moreover, the possibility of reverse engineering means that the period of trade secret protection might be shorter than with only independent replication and this might also depress incentives to reinvent. And it might take less time for subsequent firms to reinvent when they know that the first firm was successful with its inventive efforts (which they might infer from observations even when the invention is kept secret). Knowing of a previous success reduces the risks associated with reinvention and can help to guide the intensity and direction of subsequent research efforts.

52. Bone, *A New Look*, *supra* note 3, at 265–67.

53. *See id.* It is true that firms will keep secrets anyway even without trade secret law. My point is that they will find patent more attractive when they cannot rely on trade secret law to provide extra legal protection for information they keep secret. How many more firms will choose patent law in the absence of trade secret law is an empirical question that requires much more study.

54. *Id.* at 266–70.

55. Lemley, *supra* note 24, at 331 & n.80 (suggesting that due to increasing backlogs it is likely that the PTO takes longer than the 2.77 years it took on average in the 1990s).

might be adequate without much IP protection. Moreover, in an environment of fast-paced innovation, each invention has value for only a short period of time and this value is likely to decline over the invention's useful life. Under these circumstances, a competitor has only a small window of opportunity for stealing the secret, which limits its chance of success. In fact, a rational competitor might well find it more profitable to invest in its own inventive efforts than steal inventions with very short lifespans. It is true that competitors have stronger incentives to steal techniques and methods with a general application, but this is just the sort of information that is likely to produce large social benefits from being disseminated widely.

The pragmatic version of the argument focuses on defects in the current patent system and argues that trade secret law is a useful way to compensate for them. This type of argument treats trade secrecy as a stop-gap measure, like a rag used to plug a hole in a pipe that actually requires a more extensive repair job. An obvious response is to urge that the defects in the patent system be repaired. Putting aside this response, however, there are other problems with the practical arguments trade secrecy defenders make.

Professor Lemley, for example, claims that trade secret law, by encouraging information sharing, helps to fill gaps in disclosure created by a poorly functioning patent disclosure system.[56] The problem with his argument is that trade secrecy does not publicly disclose inventions. It discloses to a contracting party but only under confidentiality constraints. That party learns the invention and might profit from the general knowledge in future work.[57] But it cannot teach the information to others.[58] Nor can it use the invention itself—as it can after a patent expires—or even improve on it to create something new.[59]

Some commentators, Lemley included, also note the importance of trade secrecy for start-up companies that cannot afford the high costs of patent litigation.[60] The obvious solution to this problem is to reduce the cost of patent litigation by streamlining patent doctrine. But even on its own terms, the argument is dubious. In fact, it is not clear that trade secret law provides a net benefit to start-ups. Some scholars suggest that start-ups might be better off in an environment where information is shared rather than kept secret.[61] Moreover, many start-ups involve employee spin-offs,[62]

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56. *Id.* at 336 n.103.

57. 1A MILGRIM & BENSEN, *supra* note 8, § 2.01.

58. *Id.*

59. A party who receives a trade secret in confidence infringes the owner's trade secret rights even when it uses only a small but still substantial portion of the trade secret. 4 *id.* § 15.01(1)(d)(vi).

60. *See, e.g.*, Lemley, *supra* note 24, at 331 (noting that "patent litigation is as much as three times as expensive as trade secret litigation").

61. *See, e.g.*, ALAN HYDE, WORKING IN SILICON VALLEY: ECONOMIC AND LEGAL ANALYSIS

and trade secret law gives the former employer a weapon to disable the start-up as a potential competitor. If the employer files a lawsuit alleging that its former employees took trade secrets, the start-up is likely to have trouble accessing capital markets, which can doom it at an early stage.

2. Limiting the Arms Race.—Defenders of trade secret law continue to insist that trade secrecy can be justified by its salutary effect on the precaution-stealing arms race.[63] However, none of the more recent arguments add all that much to the analysis. Indeed, some treatments simply reassert the benefit without addressing any of the detection or litigation-cost problems.[64] Others go a bit further but not in a convincing way.[65]

Professor Michael Risch makes some important points that deserve special attention.[66] He notes that high litigation costs work two ways: they

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OF A HIGH-VELOCITY LABOR MARKET 50–52 (2003) (discussing six reasons why technology companies in Silicon Valley are better off sharing information).

62. *See, e.g.*, James J. Anton & Dennis A. Yao, *Start-Ups*, *Spin-Offs*, *and Internal Projects*, 11 J.L. ECON. & ORG. 362, 362 (1995) (noting that many start-ups are created by former employees of established firms).

63. *See, e.g.*, LANDES & POSNER, *supra* note 13, at 364–65; Vincent Chiappetta, *Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law*, 8 GEO. MASON L. REV. 69, 111–13 (1999); Risch, *supra* note 22, at 43–44.

64. For example, Landes and Posner simply state that legal protection is an "attractive substitute" for self-help without explaining why. LANDES & POSNER, *supra* note 13, at 364–65. Professor Chiappetta also relies on the benefit of limiting investments in self-help. Chiappetta, *supra* note 63, at 111–14. He counters my detection-cost argument by pointing out that firms would also invest in detection without trade secret law. *Id.* at 111–12. But he fails to recognize that investment might increase because trade secret law, by adding a litigation option, increases the payoff from detection. Chiappetta also suggests that clearer rules will reduce litigation costs. *Id.* at 14. This is a good point, but it is not apparent how to make trade secret rules clearer without eliminating the secrecy requirement and expanding the scope of liability quite far. Indeed, Chiappetta cabins liability with proposed rules that still require proof of bad acts as well as open-ended determinations of reasonable notice and good-faith efforts to maintain secrecy. *Id.*

65. Professor Lemley mentions the arms-race benefit in the course of discussing disclosure. He argues, among other things, that "physical investments must be made for each secret, while legal investments need be made only if there is misappropriation." Lemley, *supra* note 24, at 335. But as he recognizes, there are safeguards such as fences, walls, and general firm security measures that protect lots of secrets at the same time. *Id.* at 335 & n.102. These investments need be made only once, whereas litigation investment must be made separately for each misappropriation of each protected secret. And even when secrets are shared with others, confidentiality agreements can reduce the risk of misuse (recall that contract law is available).

66. He downplays the incentive argument and focuses on the arms-race benefit as the principal justification for trade secrecy. Risch, *supra* note 22, at 26–28, 41, 58; s*ee also* Risch, *supra* note 49, at 154 (arguing that the incentive argument is weak when trade secret law is compared to a no-IP-rights regime, but that the effect on incentives is a bit stronger when trade secret law is considered together with other IP theories). He sums up his analysis as follows:

> The question remains whether the need for more empirical information is sufficient to render trade secret law void of support. I believe it is not; there are sufficient meritorious lawsuits, as well as a sufficient reduction in arms races (such as the Chinese company example above) to warrant continued protection for trade secrets

not only deter trade secret owners from filing suit, but they also deter competitors from trying to misappropriate secrets.[67] Risch is correct, but there are substantial limits to the deterrent effect of high litigation costs.[68] Because potential misappropriators discount the costs of trade secret litigation by the likelihood of suit, weak filing incentives will produce weak deterrence.[69] Moreover, the costs of trade secret litigation are likely to be higher for the trade secret owner than for the misappropriator. After all, the owner must prove that the defendant misappropriated rather than reverse engineered or independently discovered, and it also faces a risk that its secret will leak out during the litigation and that publicity about the misappropriation will adversely affect its reputation and performance in the capital markets.[70]

Risch also argues that trade secret litigation can be made more attractive, and detection avoidance less attractive, by adjusting trade secret remedies.[71] For example, he notes that disgorging profits and shifting attorney's fees for willful misappropriation make trade secret suits more attractive, reduce the expected benefits from improper acquisition, and increase the risks for potential appropriators.[72] Risch is correct that remedies can make a difference, but the question is how much of a difference. Increasing the litigation stakes is likely to increase the amount parties spend on the litigation, which adds enforcement costs and dilutes the positive effect of broader remedies on filing incentives. It can also increase frivolous filings and associated chilling effects especially for risk-averse start-ups.[73]

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while further research is underway.

Id. at 64.

67. *Id.* at 64–66.

68. Professor Risch uses a game-theoretic model to support his deterrence point. *See id.* at 68–76. I do not wish to get into the details of his model here, but it is enough to note that there are problems with it. Of course, there are problems with all models, including my own in *A New Look*. This is the reason I prefer not to debate the issues with formal models. Models are useful to show what is possible and why. To that extent, Risch has shown that trade secret law *might* efficiently limit the arms race, but he has not shown that it *will*.

69. Trade secret owners might file just to establish a reputation as fighters, but this is an expensive strategy to pursue.

70. *See, e.g.*, Chris Carr & Larry Gorman, *The Revictimization of Companies by the Stock Market Who Report Trade Secret Theft Under the Economic Espionage Act*, 57 BUS. LAW. 25, 48 (2001) (reporting the results of an empirical study using event study methodology that shows a statistically and economically significant decline in stock market price after reporting trade secret theft under the Economic Espionage Act).

71. Risch, *supra* note 22, at 64–67.

72. *Id.*; *see also* UNIF. TRADE SECRETS ACT §§ 3–4 (amended 1985), 14 U.L.A. 633–34, 642 (2005) (providing for disgorgement and other damages for trade secret violations, including attorney's fees when misapropriation claims are made in bad faith).

73. Risch suggests that frivolous litigation can be handled through fee shifting and other procedural measures. Risch, *supra* note 22, at 59–63. But routine fee shifting against losing plaintiffs will reduce filing incentives for meritorious trade secret suits. Moreover, fee shifting has complicated effects on frivolous suits, depending, among other things, on the lawsuit's

3. Enhancing Disclosure.—Professor Mark Lemley argues that trade secret law in fact encourages disclosure despite its focus on secrecy. One way it does so is by reducing the incentives of firms to use self-help measures that block disclosure.[74] Another way is by facilitating information exchange during negotiations and thus improving the prospects for successful licensing.[75] The latter benefit follows from the nature of bargaining over information. The problem is that the buyer is usually reluctant to agree to terms without first learning what the information is, but the seller is reluctant to reveal the information for fear that the buyer will simply take it.[76] Trade secret law solves this problem by assuring the trade secret owner that it has legal recourse if the buyer absconds with the secret. As a result, owners of secret information are more likely to disclose through licensing.

There are problems with Lemley's argument. For one thing, the extent to which trade secret law increases disclosure depends on the confidence firms have in the efficacy of trade secret litigation. There is evidence that firms are wary of relying heavily on litigation to protect their trade secrets because of the negative signal that filing a lawsuit sends, the difficulties proving misappropriation, and the risk of further leaks during the litigation process.[77] To be sure, the increase in reported trade secret cases mentioned earlier suggests some level of confidence in litigation, but is not clear how much.[78]

More importantly, the disclosure that Lemley describes is not the type of disclosure that IP law contemplates. Public disclosure is an important IP policy not because it is inherently valuable, but because it enables members

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information structure. *See, e.g.*, Robert G. Bone, *Modeling Frivolous Suits*, 145 U. PA. L. REV. 519, 587 n.211 (1997) (analyzing incentives to file frivolous suits with special attention to informal asymmetry); Avery Katz, *The Effect of Frivolous Lawsuits on the Settlement of Litigation*, 10 INT'L REV. L. & ECON. 3, 17–19 (1990) (presenting an asymmetric information model of frivolous litigation).

74. Lemley, *supra* note 24, at 333–36.

75. *Id.* at 336–37.

76. This is known as Arrow's Information Paradox. *See* Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, *in* THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS 609, 614–16 (1962) (describing the features of information as a commodity and the resulting difficulties in creating a market for information).

77. Bone, *A New Look*, *supra* note 3, at 278 & n.167; 279; *see also* Carr & Gorman, *supra* note 70, at 48 (reporting adverse stock-price effects from reporting trade secret theft under the Economic Espionage Act); Mark E.A. Danielson, *Economic Espionage: A Framework for a Workable Solution*, 10 MINN. J.L. SCI. & TECH. 503, 505–06 (2009) (noting the reluctance of firms to admit that trade secrets have been stolen and offering various reasons for this, including concerns about signaling vulnerability to information breach and admitting inability to secure sensitive information).

78. *See supra* note 5 and accompanying text. If more firms are using trade secrecy, for example, it would not be surprising for the absolute number of suits to increase even with a relatively low filing rate.

of the public to use information and build on it to make new creations after IP protection expires.[79] Trade secret licensing does little to further these goals. When Firm A licenses its trade secret to Firm B for the purpose of manufacturing products for A, Firm B is limited to using the information in the way A dictates.[80] B cannot copy it for B's own purposes or modify it to make something new.[81]

My point is not that disclosure through licensing has no value. After all, it enables more efficient marketing of information. Rather, my point is that it does little to promote IP's core public-disclosure goals. Lemley seems to assume that any disclosure furthers these goals. But IP law does not value disclosure for its own sake; it values disclosure for the social benefits it generates and those benefits assume that others can use the information to compete or create something new.

In addition, ordinary contract law can handle much, if not all, of the licensing problem. The trade secret owner need only have the buyer sign a nondisclosure and nonuse agreement (NDA) before revealing the trade secret. If the buyer then discloses or uses the secret, the trade secret owner can sue for breach of contract. Lemley recognizes this, but he argues that the buyer might be reluctant to enter into a NDA without first knowing the secret.[82] This is correct as far as it goes, but trade secret law does not solve this problem. A buyer worried about the contract restraint will also worry about the constraints imposed by trade secret law and should be just as reluctant to receive the secret information.[83]

It is true that contract remedies are more limited than trade secret remedies, but there is nothing to prevent a court from granting an injunction through specific performance when damages are inadequate—assuming contract policies support specific performance.[84] Admittedly, contract law does not furnish recourse against third parties when the buyer discloses to

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79. *See, e.g.*, LANDES & POSNER, *supra* note 13, at 294–95 (noting that disclosure allows competitors to "invent around" a patent). Disclosure also avoids wasteful duplication of research. *Id.* at 302.

80. *See, e.g.*, Data Gen. Corp. v. Grumman Sys. Support Corp., 36 F.3d 1147, 1165–67 (1st Cir. 1994) (describing a licensing agreement in which the licensee was limited to using the licensor's proprietary information for explicitly stated purposes).

81. *See supra* note 59 and accompanying text. As a result, a trade secret disclosure does nothing to promote downstream innovation or help to generate substitute products that compete with the trade secret owner's to reduce deadweight loss.

82. Lemley, *supra* note 24, at 337.

83. Lemley argues that trade secrecy is better because it imposes confidentiality duties without the need for any express agreement. *Id.* at 336–37. But he does not explain why this is important. In many situations, the buyer has reason to know about the restrictions anyway, since trade secret law requires notice of expected confidentiality prior to disclosure as a condition to a legally-enforceable confidentiality duty. *Id.* at 318. To be sure, some buyers might not construe the notice properly and therefore be unaware of their confidentiality obligations. But tricking unsophisticated buyers can hardly count as a social benefit.

84. And if those policies do not, then there is no other reason to enjoin—or so I argue.

someone else.[85] However, this risk might not be all that serious in many negotiating situations, especially as the trade secret owner is likely to screen contracting partners and negotiate only with those firms that have a solid reputation.

Of course, the fact that trade secret law does not advance IP public-disclosure policies does not mean that limiting trade secret law to contract would do a better job. I believe that an approach based mainly on contract will enhance information diffusion, because firms will use the patent system more often and there will be more access opportunities. But, of course, my beliefs in this regard depend on certain predictions about firm behavior, which, while quite plausible, can ultimately be confirmed only with empirical information that we do not yet possess.[86]

B. Bolstering Existing Moral Arguments

Professor Risch makes an effort to salvage the contractarian argument. He argues that firms bargaining behind a veil-of-ignorance would choose a limited form of trade secret law as long as they valued their own creations more than those made by others (so would benefit from secrecy) and also valued building on the work of others (so would benefit from limits).[87] This argument suffers from the same problems as the contractarian arguments for trade secrecy that I discussed in my 1998 article.[88] In particular, Risch does not explain why actual firms should accept the results of hypothetical bargaining after the veil is lifted.[89] It does not work simply to argue that stripping firms of information about themselves avoids self-interest and assures impartiality. Moral principles governing trade secret

85. Under trade secret law, a third party can be held liable if it acquires a trade secret from someone who obtained it wrongfully, knowing or having reason to know that the information was wrongfully obtained. UNIF. TRADE SECRETS ACT § 1(2)(ii)(B) (amended 1985), 14 U.L.A. 537 (2005). Also, a third party who obtains the information innocently must still stop using it when the trade secret owner provides notice of its claim, unless the third party has substantially changed its position in the interim. *Id.* § 1(2)(ii)(C).

86. Lemley worries that other torts, such as unjust enrichment, breach of confidence, and misappropriation, will come into play if trade secret law is eliminated and that those torts would protect trade secrets even more expansively. Lemley, *supra* note 24, at 344–46. He recognizes that courts today sometimes apply these torts when trade secret requirements are not satisfied, and he argues that trade secret law should preempt these alternatives. *Id.* at 344–48. I agree that broad tort substitutes for trade secret law should be eliminated—for the same reasons that trade secret law should be circumscribed. But that is no reason to keep trade secret law. Perhaps Lemley is concerned that the *only* legal way to cut off the alternative theories is to use trade secret preemption. But that is not true. All of the alternatives are common law torts, and judges have the power to alter the common law when it makes sense to do so.

87. Risch, *supra* note 22, at 35.

88. *See* Bone, *A New Look*, *supra* note 3, at 291–94 (critiquing the contractarian justification for trade secret law and concluding that the justification fails).

89. *See supra* note 40 and accompanying text. For example, those firms that know they are not particularly innovative and depend mostly on copying from others might do much better without trade secret law.

law are supposed to regulate market competition, and market competition is all about self-interested choice. More generally, one must justify the information structure of the bargaining situation as a reasonable fit to the institution being regulated; otherwise firms in the real world can legitimately dismiss the resulting principles as irrelevant. Because trade secret law regulates the institution of the market and because the market depends at its core on self-interested competition, it is not obvious why market competitors should think about secrecy rules from the impartial point of view that veil of ignorance arguments require.

Risch also advances what he calls a "populist" justification of trade secrecy.[90] The idea seems to be that trade secret law can be justified by its longstanding acceptance as an IP theory, as well as by the popular support for it evidenced most recently by the general adoption of the UTSA.[91] However, Risch must explain how the fact of acceptance and popular support gives a normative justification. If he means to make an argument from moral conventionalism, it fails for the same reasons that I discussed in my 1998 article.[92] The fact that trade secret law has been around for a long time does not necessarily mean that the general public considers it well-justified. Moreover, legislative adoption of the UTSA is hardly proof that people accept trade secrecy for moral reasons or even that it is generally accepted "by the masses" regardless of reason.[93]

Perhaps Risch's argument is not about conventionally accepted moral beliefs but rather about the legitimacy of laws adopted through a democratic majoritarian process. If so, it cannot justify trade secrecy as socially desirable. The fact that a law has been adopted by a legislature makes it a binding law, but it does not necessarily make it a good law, unless there is some reason to believe that the legislature tends to make good laws despite public choice defects.[94]

C. New Arguments

Several scholars have offered new arguments that I did not address or addressed only briefly in my 1998 article. The following discussion focuses on four of these arguments: an argument from unjust enrichment and personhood; an argument based on Lockean labor-desert theory; an argument based on a conceptual, corrective-justice-based account of private law; and an argument based on the practical advantages of treating trade secrets as property.[95]

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90. Risch, *supra* note 22, at 35–37.

91. *Id.* at 35.

92. *See* Bone, *A New Look*, *supra* note 3, at 294–96 (critiquing the argument that trade secret law is a method to "enforce the informal norms of an industry").

93. Risch, *supra* note 22, at 35.

94. I discuss this point a bit more in Part III(B)(1).

95. In addition, Professor Jeanne Schroeder has offered a Hegelian account of trade secret

1. Unjust Enrichment and Personhood.—The problem with many appeals to unjust enrichment is that they assume enrichment is unjust without explaining why. The mere fact that B benefits from the creative efforts of A without A's consent is not enough for B's enrichment to be "unjust." Free riding is perfectly acceptable; indeed, our society would not be possible without it.[96] To be sure, free riding can sometimes be unjust, but something more than the act of free riding itself is necessary to constitute injustice.

In a 1999 article, James Hill explores the implications for trade secrecy of a particular version of unjust enrichment theory propounded by Professor Hanoch Dagan.[97] Hill focuses his analysis at three levels: trade secret remedies, "policy rationales" behind those remedies, and "human values" that those policies "represent."[98] He argues inductively, starting with remedies,[99] inferring policies behind the remedies, and finally teasing out values that the policies embody. Having identified the values and policies, he then uses them to justify the doctrinal features of trade secret law.

To illustrate Hill's approach, consider his treatment of the different trade secret remedies. Hill argues that allowing a trade secret owner to obtain relief for the fair market value of his secret promotes the owner's well-being because fair market value fully compensates for the value of the secret, and he concludes from this that furthering well-being must be the rationale behind this remedy.[100] He then moves from the level of rationale to the level of value by arguing that the well-being rationale represents "the

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law. Jeanne L. Schroeder, *Unnatural Rights: Hegel and Intellectual Property*, 60 U. MIAMI L. REV. 453, 466 (2006). As she readily admits, however, this account is only relevant to whether trade secrets should be treated as property and says nothing about what kind of legal protection trade secrets should receive. *Id.* at 501–02.

96. *See, e.g.*, Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutionary Impulse*, 78 VA. L. REV. 149, 167 (1992) (noting that "[a] culture could not exist if all free riding were prohibited within it"); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEMPHIS ST. U. L. REV. 199, 223 (1991) (arguing that free riders can create value and foster competition).

97. James W. Hill, *Trade Secrets*, *Unjust Enrichment*, *and the Classification of Obligations*, 4 VA. J.L. & TECH., art. 2, paras. 44–47 (1999), http://www.vjolt.net/vol4/issue/home_art2.html. *See generally* HANOCH DAGAN, UNJUST ENRICHMENT (1997) (presenting a positive theory of unjust enrichment that connects it to the "core social values" of the community in which it is applied). I hasten to add that my discussion in this Part focuses on Hill's particular application of Dagan's theory and not on Dagan's theory itself.

98. Hill, *supra* note 97 at para. 46. More generally, he views the "doctrine of unjust enrichment" as embodying "a wide range of remedies" that reflect social choices about the distribution of resources, which in turn rest on "policy rationales" that "represent" "important human values." *Id.* paras. 46–48.

99. Hill chooses remedies as his starting point, rather than rights, because "the choice of the measure of recovery in a given case can in fact be normative" and "courts sometimes appear first to determine what level of intervention and protection is appropriate and then derive from their conclusion the nature of the plaintiff's 'right.'" *Id.* para. 45.

100. *Id.* para. 67.

societal value of protecting a person's security in her wealth."[101] By contrast, the remedy that provides compensation for loss vindicates a "sharing" rationale because it compensates only for present loss and forces the owner to share future profits with the wrongdoer. A sharing rationale, Hill argues, reflects the value of responsibility for others.[102] Furthermore, a remedy that allows recovery of the defendant's profits vindicates "control" because, by stripping a wrongdoer of all its benefits, it deters takings. And the control rationale, in turn, represents the value of individual liberty.[103]

Hill also argues, again following Hanoch Dagan, that society emphasizes the rationales of control, well-being, and sharing according to how closely the resource is identified with personhood: control is reserved for resources that are most closely tied to personal identity.[104] Thus, in order to justify remedies, such as recovery of profits that vindicate control, Hill must align trade secrets tightly with personhood. And he does exactly that: "to the trade-secret owner, the trade secret could be something that, in Dagan's words, is an 'external [thing] that . . . [is] constitutive of her identity,' and perhaps even near the 'center of selfhood.'"[105]

This argument is complicated.[106] Fortunately, we do not need to parse it in depth in order to identify its problems. The first problem is that it is circular. Hill purports to derive the values that trade secret law serves from the existing structure of trade secret law and then enlists those values to justify existing law. To be sure, a constructivist approach using a coherence methodology has some of these same characteristics, but properly done, it is much more demanding.[107] The goal of a coherence account is to fit as many of the relevant legal rules, principles, and judicial decisions as possible into a coherent whole, not just rules about remedies.[108] Moreover, a normative account developed in this way has critical force

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101. *Id.* para. 85 (emphasis removed). He follows Dagan in assuming that "[*c*]*ontrol* reflects the goal of individual liberty, *well being* reflects a person's security in her wealth, and *sharing* reflects the responsibility of other members of society for a person's fate." *Id.* para. 75.

102. *Id.* para. 68.

103. *Id.*

104. *Id.* paras. 77–78 (noting that "Dagan argues that our attachment to resources derives from our perception of resources as being 'reflections of ourselves, symbols of our identity'" and "[t]his *personhood* perspective can explain why certain interests individuals have in their resources give rise to stronger claims than others do"). For example, the rationale of control and its underlying value of liberty are associated with resources most closely tied to personal identity, whereas the rationale of sharing and its underlying value of responsibility are associated with resources remote from personhood. *Id.* para. 75.

105. *Id.* para. 88.

106. And, I must say, a bit confusing in parts.

107. *See generally* RONALD DWORKIN, LAW'S EMPIRE 49–113 (1986) (describing an interpretivist approach); RAWLS, *supra* note 39, at 20–22, 48–53 (describing the method of reflective equilibrium).

108. *See* DWORKIN, *supra* note 107, at 405–06 (arguing that judges must consider coherent principles of "political fairness, substantive justice, and procedural due process" and precedents to construct an overall theory of law).

when applied to existing law. Hill's approach is not nearly as sophisticated and lacks critical bite.

Second, the "values" and "rationales" that Hill chooses seem rather arbitrary. For example, he equates compensation for harm with a sharing rationale,[109] but never explains why it is not equally sensible to equate it with an efficiency rationale—as promoting socially optimal incentives to create or perhaps helping to support an efficient insurance market. It is also not clear why deterrence through control needs to be linked to the value of liberty instead of the value of utility maximization (through the quasi-public goods rationale for IP rights).

Third, the values of liberty, security, and responsibility are too abstract to have much purchase on the question whether a broad trade secret law is justified. For example, Hill insists that trade secret law must extend beyond contract because contract cannot "vindicate fully those values" embedded in trade secrecy.[110] But I do not understand why this is so. The enforcement of confidentiality agreements, for instance, furthers liberty values and also security values by giving a trade secret owner a measure of control over the secret. To be sure, control is stronger when trade secret owners can enjoin strangers—and maybe this means that liberty is furthered to a greater extent (depending on one's view of liberty)—but the question is whether that degree of control is desirable when liberty is just one of the policies at stake.

Fourth, Hill's argument that trade secrets are closely bound to personhood makes no sense.[111] In the typical case, the trade secret is owned by a firm, and firms, as such, do not possess the moral autonomy necessary to trigger personhood values.[112] Moreover, it is not at all obvious that technological innovations, firm know-how, and commercial information are the kind of subject matter capable of supporting moral personhood claims. And even if they are, the resulting claims would attach to the individual inventor or creator and not to the firm itself.

2. Lockean Labor-Desert.—I briefly considered the Lockean natural-rights justification for trade secret law in my 1998 article and dismissed it mainly because it cannot justify core trade secrecy rules, including the requirement of secrecy and the requirement of improper means.[113] Since

109. Hill, *supra* note 97, para. 68 (arguing that "limiting recovery to *harm* really vindicates . . . *sharing*").

110. *Id.* paras. 45, 96.

111. In this respect, Hill disagrees with Professor Dagan. *See id.* paras. 83–85 (noting Dagan's view that a trade secret "'is the least connected to its holder's identity'").

112. Hill uses the example of a restaurant made famous because of a secret recipe, and he assumes that the originator of the recipe would feel that the recipe and maybe even the restaurant were closely tied to her personal identity. *Id.* para. 88. Assuming this example makes sense on its own terms—which is not at all clear—it is not a typical trade secret case.

then, several commentators have tried to justify trade secret law within a Lockean theory. I focus here on Professor Eric Claeys's account because it is the most developed.[114] I shall argue that his account does not explain core features of trade secrecy, but in fairness to him, I should note at the outset that he offers his account only as a "first approximation" and "a prologue" to future work.[115] Moreover, his main project, which I address in the next section, is a more general one of analyzing trade secrecy within what he calls a "conceptual" approach to private law theory, and the discussion of Locke is a part of that larger effort.[116]

Roughly speaking, the core of a Lockean natural-rights theory focuses on an assumed natural right to one's own labor and then argues for an extension of that natural right to include anything of value created by mixing one's labor with the things of the world.[117] Professor Claeys relies on a similar but not identical theory.[118] The difference might be salient, but I cannot tell without a more detailed account. In any event, the definition I provide here is a standard one. Understood in this way, a Lockean theory might justify a misappropriation right. But it is difficult to see why that right would be limited to secrecy and why the method of appropriation rather than just the fact of appropriation should matter.

Claeys argues that "when a claimant-competitor develops a minimally novel intellectual work, his discovery or information gathering constitutes intellectual labor" and as such "[t]he claimant . . . deserves a reward for having contributed the discovery or assembly to society's store of knowledge," and this reward "consists of the exclusive use of the intellectual work for the increment of time the work's intellectual content

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113. *See* Bone, *A New Look*, *supra* note 3, at 283–84 (rejecting the Lockean labor-desert theory as "not nuanced enough to explain the limits or reach of trade secret law").

114. *See* Claeys, *Private Law Theory*, *supra* note 45, at 32–34 (discussing a labor-based justification for trade secret law and arguing that it is a "plausible enough" theory). Professor Risch also mentions Lockean theory. Risch, *supra* note 22, at 28–33 (reviewing the Lockean labor-value theory and asserting that the theory justifies the general concept of trade secret law). Although Risch's main defense of trade secrecy is economic, it is worth noting two rather puzzling features of his Lockean account. First, he claims that there is a utilitarian version of the Lockean argument. *See id.* at 32–33. Perhaps there is, but then my response to the economic arguments for trade secret law applies. Second, Risch relies on moral conventionalism in an unhelpful way. He argues that wide acceptance of Lockean theory as a morally valid justification is sufficient to make it a valid justification. *Id.* at 31. I am not a conventionalist about morality, but even if I were, I would not be convinced by this argument without evidence that most people accept the principles of Lockean theory after sufficient deliberation and reflection.

115. Claeys, *Private Law Theory*, *supra* note 45, at 30 n.151, 34.

116. *See infra* section II(C)(3).

117. *See* JOHN LOCKE, *The Second Treatise of Civil Government*, *in* TWO TREATISES OF GOVERNMENT 133, 134 (Thomas I. Cook ed., Hafner Publishing Co. 1947) (1690) ("Whatsoever then he removes out of the state that nature hath provided and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property.").

118. *See* Claeys, *Private Law Theory*, *supra* note 45, at 32 (focusing on the activity of laboring rather than the right of labor: "Oversimplified a little, labor consists of intelligent and purposeful activity producing goods rationally" beneficial to individuals).

remains secret."[119] Claeys responds to my criticisms directly. He argues that secrecy (and reasonable secrecy precautions) is the way that an owner appropriates information as a condition to obtaining Lockean rights, for secrecy marks off the trade secret as proprietary information distinguishable from the intellectual commons.[120] As for limiting liability to improper methods of appropriation, Claeys argues that it "instantiates labor theory's 'enough and as good' proviso" by protecting "*only* the claimant's labor, not the general idea he labored to discover, reduce to practice, and use."[121]

I am not convinced by these arguments. For one thing, I do not understand why the "reward" of exclusive use is limited to the period of secrecy. Claeys seems to think that this can be justified by the fact that labor theory protects only the labor and not the idea.[122] But this is a *non sequitur*. Even if labor theory protects only labor and not the idea, presumably this applies no matter whether the idea is kept secret or not.

Nor do I understand why secrecy is required for rights. Claeys argues that labor theory requires appropriation and appropriation requires that the owner signal to others that he claims the information as his own, which a trade secret owner does by keeping its information secret.[123] But I fail to see why it is necessary to use secrecy to signal one's claim.[124] Why is it not enough that a firm uses the information in a way that others would construe as exclusive, or even that it just provides public notice of its exclusivity claim?[125]

Also, I do not understand how Locke's "'enough and as good'" proviso justifies trade secret's limited scope.[126] That proviso might justify fair use privileges aimed at facilitating downstream innovation or an idea–expression dichotomy that assures a robust public domain. But trade

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119. *Id.* at 33. This formulation of the Lockean justification raises a number of questions. Why does the contribution to society rather than the creation itself trigger the reward? If it is the contribution, then how is it that a contribution is made when a firm keeps its creation secret? Does the natural right extend to negative know-how not actually used in any active way? Also, why is the reward of exclusive use limited to the period of secrecy?

120. *Id.* at 33–34.

121. *Id.* at 34.

122. *See id.* (stating that under the labor theory the moral right to exclusive use extends only to the claimant's labor, not his or her basic idea, thus allowing for independent discovery).

123. *Id.* at 33–34.

124. For example, despite being anchored in natural property rights closely associated with Lockean theory, late nineteenth century trademark law only required use of the mark in trade to satisfy the appropriation requirement. *See* Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 562–67 (2006) (outlining the development of trademark law in the nineteenth century).

125. *See* Bone, *Trade Secrecy*, *supra* note 3, at 59–60 (arguing that "[n]otice can be given without many (if any) precautions").

126. *See* Claeys, *Private Law Theory*, *supra* note 45, at 34 (arguing that trade secret's focus on misappropriation by improper means exemplifies labor theory's "'enough and as good'" proviso).

secret's limits are different.[127] They are cast in terms of the method of appropriation, which must involve a breach of confidence, violation of an independent legal norm, or some other improper means.[128] To be sure, these limits allow others to use information when they obtain it lawfully, but any kind of limit does that. For labor theory to make sense of trade secret law, it must be able to justify trade secrecy's particular limits, and it is not clear how a theory based on creative labor can do that.[129]

For these and other reasons, I remain unconvinced that a persuasive Lockean justification for trade secret law is possible. Labor theory fits copyright and general misappropriation torts well enough, even if the consequences are not ones we wish to accept. But it does not fit trade secrecy's core features at all well.

3. Private Law Theory.—As I mentioned above, Professor Claeys's broader purpose is to justify an independent role for trade secret law by relying on what he calls "private law theory," which rests on a corrective-justice foundation. According to Claeys, private law theory is a "branch of conceptual philosophy identifying the basic social and normative concepts on which the private law relies."[130] Roughly, the idea is to construct a unified theory of property, tort, contract, and other private law fields that fits "social facts" about trade secret law and organizes extant principles and rules in a coherent way.[131]

Claeys concedes that his purpose is primarily positive rather than normative.[132] He describes his project as "a positive study of trade secrecy" based on "private law theory" that aims to answer two questions: first, whether "trade secrecy [has] a normatively autonomous guiding principle," and second, "[i]f so, in what field of private law . . . that principle sound[s]."[133]

However, Claeys does not limit himself to a strictly positive account. He also briefly sketches some normative arguments to support various trade secret doctrines and, as we saw in the previous section, he presents a normative defense for classifying trade secrecy in the property category, using Lockean labor-desert theory to do so. He makes clear that his normative arguments are meant to be only "preliminary" and that the main

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127. Trade secret law does not have a general fair use privilege and it applies to abstract as well as concrete forms of information. *See* MILGRIM & BENSEN, *supra* note 8, § 1.01.

128. *See supra* note 11 and accompanying text.

129. Claeys admits that it is not obvious how labor theory can justify reverse engineering, given uncertainty about "whether reverse engineering counts as labor by competitors on information publicly available from a secret or as misappropriation of the claimant's secret." Claeys, *Private Law Theory*, *supra* note 45, at 34.

130. *Id.* at 1.

131. *Id.* at 49.

132. *Id.* at 2.

133. *Id.*

focus of his Article is on "positive conceptual and structural issues."[134] These caveats limit the import of his analysis for my project.[135] But it is still important to address the arguments he makes.

This is not the place to probe Claeys's account with care. I am not familiar enough with conceptual private law scholarship to do so confidently in any event. But there are several aspects of his discussion that leave me skeptical of the payoff from a private law approach.

Much of Claeys's analysis involves discovering the proper legal classification for trade secrecy.[136] He rejects the fields of tort, relational obligations, and "fairness and equity" because he believes that they beg the question or fail to account for some important feature of trade secrecy.[137] According to Claeys, for example, a tort classification does not work because tort does not have internal principles capable of determining whether particular methods of appropriation are "improper," and a relational-obligations classification does not work because it cannot account for cases like *E.I. duPont deNemours & Co. v. Christopher* that do not involve preexisting relationships.[138] He then concludes that trade secret law

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134. *Id.* at 16.

135. Claeys himself recognizes that "my positive explanation cannot hang together unless the normative justifications I assume for trade secrecy are minimally persuasive." *Id.* at 16; *see also id.* at 25 (expressing a belief that social values are necessary to explain and justify the private law).

136. *Id.* at 6–13 (viewing "[t]rade secrecy law and scholarship" as struggling to "ground the field in some other seemingly-fundamental field of law," such as tort, property, relational obligations, or "fairness and equity"); *see id.* at 27–30 (analyzing possible classifications with care and settling on property); Claeys, *Usufructary Paradigm*, *supra* note 45, at 420–21 (arguing that trade secret rights are properly classified as usufructary property rights); *see also supra* notes 44–48 and accompanying text (critiquing Professor Lemley's reliance on classification). It is worth noting in this regard that Claeys argues for a property characterization in part on the ground that it is needed to prevent some trade secret contracts from being unlawful restraints of trade in violation of the antitrust laws. Claeys, *Usufructary Paradigm*, *supra* note 45, at 429. I am not an antitrust expert, but I fail to see why this doctrinal problem cannot be handled by recognizing an exception to antitrust liability if the policies support it.

137. Claeys, *Private Law Theory*, *supra* note 45, at 6–13; *see also id.* at 43–44 (noting that the inability of confidentiality norms and unfair competition principles to explain key features of trade secret doctrine "call[s] these accounts into question and confirm[s] the proprietary account").

138. *Id.* at 6–7, 10–12, 28. Claeys also focuses on *Chicago Lock Co. v. Fanberg*, 676 F.2d 400 (9th Cir. 1982), as an example. *See* Claeys, *Private Law Theory*, *supra* note 45, at 12, 15, 44–45 (discussing *Fanberg*). I fail to see how the case supports his point. In *Fanberg*, the Ninth Circuit held that the plaintiff Chicago Lock could not recover from the defendant Fanbergs for compiling lock codes that Chicago Lock kept as trade secrets when the Fanbergs obtained those codes from locksmiths who, in turn, learned them by working on the locks of their customers. *Fanberg*, 676 F.2d at 401–03. The Ninth Circuit reasoned that while the locksmiths owed a duty of confidence to their customers because of the nature of that relationship, they owed no duty of confidence to Chicago Lock. As a result, the Fanbergs could not be held liable to Chicago Lock for getting the locksmiths to reveal what they learned from reverse engineering the codes. *Id.* at 405. Claeys claims that the case could have been decided either way on confidentiality grounds because the Fanbergs' conduct "still jeopardized the confidential interests held by [Chicago Lock]

best fits the property category and that trade secret rights should be understood as usufructary property rights.[139] Moreover, he extracts a "normatively autonomous principle" that he claims guides and unifies trade secret law: "The law of trade secrecy presumes as true, declares, and implements a normative interest in determining exclusively the research, development, and commercial use of a secret and competition-enhancing intellectual work."[140]

In view of Professor Claeys's insistence that his analysis is mainly positive, I am inclined to believe that this discussion is intended as a positive analysis, dependent on separate policy arguments for any normative bite. However, if the property classification and autonomous normative principle are also meant to ground normative arguments for trade secrecy, then I should address them directly.

In that case, I do not understand why the only principles available are those that are internal to the legal category to which trade secrecy belongs, or even what it means for a principle to be "internal" to a category like tort.[141] If justification is the aim, the key should be whether the principle justifies the doctrine, not whether it is internal or external to some field. In

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and its customers." Claeys, *Private Law Theory*, *supra* note 45, at 45. But that is true only if the law imposes a duty of confidentiality absent agreement or a preexisting relationship, and Claeys cites no confidentiality principles or rules that would support such a broad duty. Claeys makes much of a brief portion of the opinion in which the Court states that if Chicago Lock could prevent its customers from reverse engineering its lock codes, the result would be a state-created monopoly similar to patent and thus preempted by the Patent Act. *See id.* at 12, 45 (discussing this argument). In Claeys's view, the "anti-monopoly norm" implicit in the Court's argument is "external to the field of confidentiality;" therefore, the fact that the Court treats it as "internal to trade secrecy" means that trade secrecy needs more normative content than the field of confidentiality law can supply. *Id.* at 12. Claeys might be correct that the rule allowing reverse engineering cannot be justified solely by policies supporting confidentiality duties when that rule is deployed affirmatively to limit trade secret protection. However, Claeys's overall argument makes sense only if one already accepts the premise that the law can be divided neatly into separate fields that are all normatively self-contained. Moreover, even if one accepts the premise of normatively self-contained legal fields, the field of contract law, which covers confidentiality agreements, surely contains "anti-monopoly norms" as part of the public policy exception to contract enforcement. *See id.* at 55–56 (recognizing that a principle against restraints of trade fits contract law).

139. Claeys, *Usufructary Paradigm*, *supra* note 45, at 420–21.

140. Claeys, *Private Law Theory*, *supra* note 45, at 2; *see also id.* at 30 ("[T]rade secrecy declares a normative right tailored to protect a normative interest in determining exclusively the research to develop and the efforts to deploy commercially a secret and competitively-valuable intellectual work.").

141. If a judge exercising common law powers relies on some principle to justify a tort doctrine, why does this not make the principle internal to the field of tort? Moreover, I have some problems with Claeys's classification arguments. His argument about relational obligations assumes that *Christopher* was properly decided, but that simply begs the question. Even his property account has trouble explaining all the cases. For example, it cannot explain trade secret cases like *Franke v. Wiltschek* that focus on the wrongfulness of the appropriation without regard to the secrecy of the information. *See* Franke v. Wiltschek, 209 F.2d 493 (2d Cir. 1953); *see also* Rohm & Haas Co. v. Adco Chem. Co., 689 F.2d 424 (3d Cir. 1982) (focusing on the wrongfulness of the appropriation in determining whether trade secret law had been violated).

other words, policy ought to come first and classification second. This is how I approached the analysis in my 1998 article and I continue to believe it is the correct way to do so.[142] My central normative point is that the policy justifications offered to support extending trade secret law beyond breach of contract are weak, and that as a result trade secrets should be given whatever protection the economic and moral policies favoring enforcement of voluntary agreements justify, taking into account the specific characteristics of trade secrets and the contexts in which they are used and exchanged.

Second, Claeys's more straightforward policy arguments are just versions of familiar economic and moral arguments. This is not a criticism of Claeys's analysis; he makes clear that his policy arguments are only "preliminary" and offered mainly in the service of his broader positive project.[143] Still, it is worth mentioning that his arguments do not affect my critique in any way. For example, Claeys argues that in restraining B from misappropriating A's secrets while still permitting some methods of appropriation, trade secret doctrine assures that "B's interests are not set back in any meaningful way" because A's secret will eventually be disclosed lawfully and "percolate to B."[144] Thus, trade secrecy "reconciles B's narrow pursuit of his immediate advantage to his more enlightened interest in being the member of a well-ordered society."[145] If this argument is meant to be normative, it begs the question of what trade secret rules make for a "well-ordered society" and what metric should be used to determine whether society is "well-ordered."[146]

Claeys takes me to task for downplaying features of current trade secret law that do not fit a focus on contract. However, it is an open question, as far as I am concerned, whether these features should remain part of the law, and the answer requires a policy analysis. One of the most important features of this kind is the rule that trade secret rights can be enforced against third parties not in privity with the trade secret owner. In my 1998 article, I took a stab at evaluating the costs and benefits of this rule and concluded that its support is not nearly as strong as trade secret

142. Claeys labels me as an "instrumentalist utilitarian." Claeys, *Private Law Theory*, *supra* note 45, at 17. If he means by this label that I reject moral arguments out of hand, he is wrong. I am open to moral justifications, even deontological ones. What I am not open to are poorly developed moral arguments that cannot do the justificatory work assigned to them.

143. *Id.* at 16.

144. *Id.* at 40–41.

145. *Id.* at 41.

146. There are other examples, too. Claeys criticizes a utilitarian approach for not explaining why the social-welfare benefits of information production and exchange could not be subsidized by the government rather than enforced through private rights. *Id.* at 36. But a utilitarian approach does have something to say about the relative merits of private rights versus public subsidies, including the risk that government subsidies might lead to government censorship and the likelihood of more robust innovation through decentralization.

proponents assume, except perhaps in some specific contexts.[147] If it is not functionally justified, this rule does not count against treating trade secret law as mainly a matter of contract.

4. Practical Arguments.—Some commentators claim that there are important practical benefits to treating trade secrecy as an independent-liability theory grounded in property or intellectual property. They argue that doing so will constrain excessively broad judicial findings of liability by focusing the judge on secrecy, value, and other elements that bear on whether a property right exists.[148] The first problem with this argument is that constraining judges is a benefit only if the supposedly problematic liability determinations are, in fact, excessive, and that depends on one's normative theory of trade secret law. Therefore, the argument cannot, on its own, justify trade secrecy.

Second, I am skeptical that the choice of label really matters as much as the argument assumes. For example, if a contract were to clearly limit confidentiality obligations to secret information that is protected by secrecy precautions, I expect a judge would focus on secrecy and secrecy precautions at least as much as if trade secrets were classified as property.

Third, it is not clear to me that the proposal will have the desired result even if judges do respond to rhetorical choices. It seems at least as likely that classifying trade secrets as property could produce even more expansive liability by leading judges to adopt a property-type misappropriation analysis that focuses attention on the defendant's nonconsensual taking of the plaintiff's valuable information.[149]

Fourth, even if the claimed benefit were to materialize, it still must be combined with other benefits and balanced against costs. The problem then remains. What should the law do when there is insufficient empirical evidence to support confident predictions about the magnitude of benefits and costs? The final Part of this Article takes a first cut at answering this question.

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147. *See* Bone, *A New Look*, *supra* note 3, at 282–83, 303–04. Professor Samuelson has discussed another possible cost to giving protection against third parties, namely, the cost to First Amendment rights of enjoining use of informational secrets imbued with a public interest when the third party acquires them innocently and seeks to publish them. *See* Pamela Samuelson, *Principles for Resolving Conflicts Between Trade Secrets and the First Amendment*, 58 HASTINGS L.J. 777, 811–14 (2007). Samuelson does not recommend abolishing trade secret rights against third parties, but she does recommend applying First Amendment prior restraint law to limit injunctive remedies. *Id.* at 816.

148. *See* Charles Tait Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39, 46 n.8 (2007) (grounding trade secrecy in property rights); Lemley, *supra* note 24, at 342–44 (grounding trade secrecy in intellectual property rights).

149. Indeed, the use of property language evokes the *International News Service v. Associated Press* misappropriation tort, which does not depend on secrecy. *See* Int'l News Serv. v. Associated Press, 248 U.S. 215, 240 (1918).

III. Responding to the Empirical Deficiency

To recap, we have seen that the moral arguments for a normatively independent body of trade secret law remain unconvincing. We have also seen that there are social costs as well as benefits to trade secrecy. Ordinarily one would balance expected costs and benefits, but in this case, we simply do not have enough empirical information to predict consequences with sufficient confidence to be able to compare expected costs and benefits.

Subpart A elaborates a bit more on the problem of empirical uncertainty in the trade secret setting. Subpart B discusses the possibility of dealing with the problem by deferring to the legislative process or the common law or by using analogy. Subpart C concludes by explaining why the optimal response to empirical uncertainty in the trade secret field is to abolish special legal protection for trade secrets rather than maintain the status quo.

A. A Closer Look at the Problem of Empirical Uncertainty

Predictions are usually made in settings plagued by uncertainty. In most cases, we can identify a range of possible outcomes; assign rough probabilities and values to each; and assess social benefits and costs in an approximate way by relying on available empirics, anecdotal evidence, rough intuition, and formal models. As we acquire more information, we refine our predictions and improve our social-welfare assessments.

Trade secret law is different. Predicting the effects of any system of trade secret law is an extremely complex and highly uncertain undertaking. It is relatively easy to identify the types of consequences that count (for example, incentives to create, incentives to use self-help, incentives to access the patent system, incentives to invest in litigation, and so on). But it is extremely difficult to determine the magnitude of any effects and in some cases the direction as well. These factors depend not only on how firms react to trade secrecy, but also how trade secrecy interacts with patent, copyright, and other IP laws. They also depend on complex strategic responses to the creation of a litigation option and the equally complicated dynamics of the litigation process itself.

I am not aware of any empirical studies that are sufficiently reliable and relevant to support even rough predictions. Moreover, anecdote, formal analysis, and intuition cut both ways. They can be used to support a conclusion that costs exceed benefits or that benefits exceed costs—and neither position is clearly more compelling than the other.[150] Trade secret

150. It is conceivable that expected benefits might just equal expected costs, but that is highly unlikely and not what I am claiming here. The point is rather that empirics are too thin to support a conclusion that benefits equal, exceed, or fall below costs. There might well be situations

scholarship reflects this indeterminacy. Defenders focus on potential benefits, make weakly supported claims about their magnitude, and largely ignore or downplay costs. Similarly, critics focus on costs and downplay benefits. What is missing is an effort to evaluate and compare benefits and costs in a careful, systematic, and serious way.

A strict Bayesian might object at this point that as long as it is possible to make initial estimates of probabilities and magnitudes for possible outcomes, one can update those estimates as more information is obtained.[151] Therefore, it is always possible to balance costs and benefits. There might be disagreement about what the data shows, but that sort of disagreement is quite common and hardly limited to trade secret law. There might also be disagreement about the normative stakes, but that kind of disagreement is independent of empirics.

Even if this Bayesian account is correct, it does not eliminate the problem. Disagreement about data implications varies in scope and importance depending on the quality and quantity of empirical evidence. Given this, it is reasonable to require a threshold level of confidence before using a prediction to support a proposed law. Viewed this way, my claim is that the empirical basis for protecting commercially valuable trade secrets is insufficient to support predictions at a reasonable confidence level.[152]

It is true that empirical uncertainty plagues much of IP, including the core fields of copyright and patent.[153] For two reasons, however, I believe the situation is more serious for trade secrecy than for copyright and patent. First, there is a well-developed quasi-public goods theory that explains why some special form of regulation is necessary to incentivize IP production.[154] This theory does not necessarily support exclusive property rights. But it gives at least a prima facie reason to believe that some set of property rights along the general lines of copyright and patent *might* be optimal. By contrast, there is no reason, even a prima facie one, to be confident that adding an independent body of trade secret law to the rest of the IP mix will

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involving non-actuarial risks, where we simply cannot predict what will happen. In such cases, we might assign equal probabilities to all contingencies, but doing so simply expresses our lack of information.

151. Bayesian decision making is not the only way to make decisions. Still, the alternatives are only as good as their empirical inputs. *See generally* JOSÉ M. BERNARDO & ADRIAN F.M. SMITH, BAYESIAN THEORY 443–88 (2000) (describing some non-Bayesian decision-making theories).

152. Obviously, the confidence level itself must be justified.

153. *See* George L. Priest, *What Economists Can Tell Lawyers About Intellectual Property: Comment on Cheung*, *in* 8 RESEARCH IN LAW & ECONOMICS 19, 22–23 (John Palmer & Richard O. Zerbe, Jr. eds., 1986) (arguing that the ability of economists to draw conclusions about welfare effects is also plagued by lack of normative consensus on the optimal scope of IP protection).

154. *See, e.g.*, LANDES & POSNER, *supra* note 13, at 13–16. This is, of course, the familiar argument that the market cannot produce an optimal amount of intellectual creation without the creator having legally enforced exclusivity or receiving some form of subsidy to cover fixed creation costs.

improve social welfare beyond what copyright and patent already provide.[155]

Second, there is at least a colorable reason to believe that some form of copyright and patent law can be justified on nonconsequentialist moral grounds as well.[156] This is important because, at least in theory, a nonconsequentialist justification does not depend on predicting effects and is therefore immune from the problem of limited empirics.[157] However, I am not convinced that there is any sensible, nonconsequentialist moral justification for an independent body of trade secret law. Thus, trade secrecy must stand or fall exclusively on consequentialist grounds and that requires confidence in predictions.

B. Possible Strategies for Dealing with the Problem

1. Defer to the Legislature.—One might respond to this problem by deferring to the legislature to resolve the uncertainty. This approach applies, of course, only when an IP law is enacted in statutory form. This is true for copyright and patent. It is also true for trade secret law in the roughly forty-eight states that have adopted some form of the UTSA. But there is a difference between trade secret statutes and the federal Copyright and Patent Acts that affects the viability of this strategy.

Congress crafted the Copyright and Patent Acts with explicit attention to competing policies and interests.[158] State trade secret statutes, in contrast, are based on a model act drafted by an unofficial body, the National Conference of Commissioners on Uniform State Laws (NCCUSL).[159] The NCCUSL set out to codify the best version of then-extant common law.[160] Rather than systematically overhauling trade secret

155. And I take it as obvious that if a property rights regime is optimal, the IP regime would certainly include the core rights of copyright and patent, and trade secret law would at best complement those core rights.

156. *See, e.g.*, ROBERT P. MERGES, JUSTIFYING INTELLECTUAL PROPERTY 13–20 (2012) (drawing on Kant, Locke, and Rawls to construct the normative foundations of IP law).

157. I say "in theory" because, in practice, we cannot entirely ignore social costs even when legal rights are justified on nonconsequentialist grounds. However, the existence of a nonconsequentialist justification supports putting the burden on those who would impose limits to demonstrate that the social costs are severe enough to justify limits. In any event, empirical uncertainty should be much less troubling for a nonconsequentialist approach.

158. *See generally* 1 DONALD S. CHISUM, CHISUM ON PATENTS OV (2013) (outlining the considerations Congress took into account when enacting the Patent Act); 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT OV (2013) (outlining the considerations Congress took into account when enacting the Copyright Act).

159. *See generally* Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493, 502–21 (2010) (describing the history of the UTSA).

160. *Id.* at 520, 541.

law, the NCCUSL drafters were primarily interested in achieving uniformity, preserving trade secrecy in the face of potential federal preemption, and codifying the best of the then-existing state common law rules with some improvements.[161] Indeed, it appears that the common law continues to exert an influence over trade secret law even in those jurisdictions that have adopted the UTSA.[162]

The significance of this distinction depends, of course, on the reason for deferring to the legislative process. One reason has to do with democratic process values. On this view, statutory trade secret law is justified simply because it was adopted by a representative and democratically accountable legislature. To be sure, this process-based argument must somehow deal with the public-choice dynamics of the legislative process, but it has a more serious shortcoming. While it supports an obligation to obey the law, it says nothing about the substantive merits of the law that is adopted.

There is, however, another reason to defer that is more promising. One might accept statutory trade secret law because one believes that the legislative process has built-in features that make it well suited to resolving empirical uncertainty in a sensible way. Of course, one needs a theory to explain why the legislature is good at doing this despite those pesky public choice problems. Such a theory might focus, for example, on features of the process that encourage the production and presentation of data and perhaps decision-making advantages, if any, that inhere in having many legislators engage and discuss the same empirical problems. One point stands out. Whatever the theory is, it surely must matter whether the legislature actually focused on data and deliberated on its implications. This might be the case for congressional adoption of the Copyright and Patent Acts, but it seems much less likely for state adoption of trade secret statutes given their genesis in the UTSA and ultimately in the common law.

2. Defer to the Common Law.—Rather than turning to the legislative process to solve the problem of empirical uncertainty, one might instead rely on the common law. I have in mind here the common law efficiency hypothesis, which supposes that the incremental process of common law evolution tends to produce efficient rules over the long run.[163] If this is

161. *See id.* at 502–20 (describing the motivations of the UTSA drafting committee in promulgating a uniform trade secret law). Indeed, the NCCUSL must have had a strong incentive not to change trade secret law too much since the success of its project depended on state legislative adoption.

162. *See* Michael Risch, *An Empirical Look at Trade Secret Law's Shift from Common to Statutory Law*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 151, 173–74 (Shyamkrishna Balganesh ed., 2013) (finding significant reliance on the common law in UTSA jurisdictions, but not necessarily in a way that displaces the UTSA).

163. *See, e.g.*, RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW § 22.7 (9th ed. 2014) (discussing how inefficient rules will be litigated more frequently than efficient ones, increasing

correct, then it provides a reason to believe that trade secret law, as a common law tort, is efficient.

I discussed this argument in my 1998 article. There I gave several reasons why the common law efficiency hypothesis cannot save trade secret law.[164] First, the theory itself has analytic problems; it is not at all clear that it works in the way its proponents claim.[165] Second, even if it works in general, it does not fit the history of trade secret law. Modern trade secret law is more likely a result of path dependence and lock-in than emerging common law efficiency.[166] Third, the common law efficiency hypothesis imagines a slow and incremental process of case-by-case development. Yet the roughly 130 year history of modern trade secret law is about half the time of the common law fields usually cited by the theory's proponents.

3. Rely on Analogies to More Settled Legal Fields.—A third possible strategy for coping with empirical uncertainty in one field of law is to draw a connection to another, more settled field of law. This is one way to understand what Professor Lemley is doing when he argues that trade secrecy is best understood as a type of intellectual property law rather than a branch of torts, contracts, or ordinary property.[167] He might be trying to borrow the confidence many people have in more conventional forms of IP

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the likelihood they will be replaced with more efficient rules).

164. Bone, *A New Look*, *supra* note 3, at 261 & nn.91–92.

165. *See, e.g.*, Robert Cooter & Lewis Kornhauser, *Can Litigation Improve the Law Without the Help of Judges?*, 9 J. LEGAL STUD. 139, 140 (1980) (concluding that the common law efficiency hypothesis does not support the idea that the legal system will blindly evolve to the best state or continuously improve itself).

166. The rules of trade secret law took shape during the late nineteenth century, when they were justified by a natural law theory and a formalistic approach to property rights. *See* Bone, *A New Look*, *supra* note 3, at 251–59 (discussing the influence of natural law on the development of trade secret law in the nineteenth century); Bone, *Trade Secrecy*, *supra* note 3, at 49–51 (describing how early requirements regarding reasonable secrecy precautions stemmed from natural law principles). The core rules created at that time were then fixed in—it might be more accurate to say fossilized by—the First Restatement of Torts published in 1939. The Restatement tracked late nineteenth- and early twentieth-century precedents rather closely without carefully considering whether the rules made sense on functional grounds. *See, e.g.*, Bone, *Trade Secrecy*, *supra* note 3, at 54 (noting how the Restatement drafters simply tracked the precedent on reasonable secrecy precautions without considering it critically). Judges, many of whom were confused about trade secret law at the time, quickly seized on the Restatement's formulation. As a result, the core rules of trade secret law remain intact even though the natural rights theory that originally supported them has long been abandoned. It is still possible, of course, that the late nineteenth century rules survived because they are efficient, but this is very unlikely in view of this history.

167. *See supra* note 45 and accompanying text. One might also see Professor Claeys's effort to anchor trade secrecy in property as a similar strategy. *See* Claeys, *Private Law Theory*, *supra* note 45, at 32–34 (arguing that trade secrecy is based in natural property rights); Claeys, *Usufructuary Paradigm*, *supra* note 45, at 420–21 (contending that trade secrets are usufructuary property rights). But Claeys relies mainly on a deontological theory—though he does offer some utilitarian arguments—so uncertainty about consequences is not as serious a concern for him.

law to shore up confidence in trade secret law. In other words, if trade secrecy is just another type of IP law and if the more familiar forms of IP are well accepted despite empirical uncertainty, then perhaps trade secret law should be accepted too. More generally, if an empirically shaky area of law is similar enough to another that is more secure, perhaps it is reasonable to suppose that the shaky area might have support as well.

Whatever the merits of this strategy in general, it works for trade secrecy only if the reasons why more familiar forms of IP law are accepted despite limited empirics are also good reasons to accept trade secrecy. The reasons why copyright, patent, and the like are generally accepted, I believe, have to do with a strong sense that some kind of incentive to innovation is required and the intuitive appeal of moral justifications for author and inventor control. However, these reasons do not readily carry over to trade secrecy. The creation of copyright and patent responds to the general incentive problem, and even if trade secrecy adds marginally to incentives, the case for it is much weaker once copyright and patent are already in place. Furthermore, the moral justifications that arguably support copyright and maybe patent do not apply, or at least not as strongly, in the trade secrecy context.

C. Implications for Trade Secret Law

This analysis has several important implications for trade secret doctrine, and I discussed some of these in my 1998 article.[168] One implication is that we should not expand liability by recognizing new types of improper means beyond breach of a preexisting duty and violation of independent legal norms.[169] In addition, we should treat the violation of an independent norm, such as trespass, fraud, and the like, as a liability trigger only when protecting the trade secret actually advances the policies served by the independent norm.[170] And courts should be careful about imposing liability on quasi-contractual grounds in the absence of an actual contract, express or implied.[171] More generally, those who make and apply trade secret law should view trade secret cases as only breach of contract cases, fraud cases, trespass cases, and so on and not as opportunities to promote incentives to create, prevent wasteful arms races, protect privacy rights, and the like.

Some of these concrete implications are simply a matter of not extending trade secret law beyond its current limits. Others, however, involve reshaping the law and to some extent cutting back its scope. Someone might object that it does not make sense to reshape the law when

168. *See* Bone, *A New Look*, *supra* note 3, at 296–304 (proposing reforms to limit the scope of trade secret law).

169. *Id.* at 297–98.

170. *Id.* at 298–99.

171. *Id.* at 300.

we lack confidence about whether the changes are socially desirable, especially when the law has been around for nearly a century and a half. Or at least those who propose altering the trade secrecy status quo should have the burden to show that the alterations are justified.

There is some merit to this position. Changing existing trade secret law introduces new risks and there are practical reasons to be risk averse about major law reform. However, the changes I propose are not drastic ones. Trade secrets would still be protected by other laws, such as contract and tort in appropriate cases. Also, ordinary forms of criminal law, such as laws against burglary, would continue to provide some deterrence.

Furthermore, eliminating special protection for trade secrets beyond that already afforded by other laws will have the benefit of forcing careful consideration of the policy case for extending protection. Maintaining the status quo, on the other hand, tends to breed complacency.

In addition, eliminating special protection might be justified under the precautionary principle for coping with uncertainty, at least as framed in maximin terms.[172] According to the maximin strategy, one should choose the option that has the least bad worst-case scenario.[173] For trade secret law, the most serious negative consequences have to do, I believe, with potential effects on innovation incentives, and therefore the worst-case scenarios are "worst" insofar as they involve the most serious impairment of these incentives. The question then is which of the two alternatives—maintaining the status quo, or reshaping and limiting trade secret law—is associated with the worst worst-case scenario, defined in this way.

To answer this question, first note that there is a serious possibility that the status quo substantially impedes downstream innovation by encouraging secrecy and thus blocking the diffusion of information. Indeed, as we have seen, trade secrecy's commitment to secrecy flies in the face of the general policy in favor of public disclosure. Compare this to the worst-case scenario under the alternative of a limited trade secrecy regime. With less trade secret protection, upstream incentives could be impaired if firms invest less in innovation as a result. However, these firms will still have copyright and patent, and they can still protect information not within the scope of copyright or patent by relying on contract and other legal theories.

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172. *See* Daniel A. Farber, *Uncertainty*, 99 GEO. L.J. 901, 914–19 (2011) (describing the precautionary principle and applying it to catastrophic losses where the risk of occurrence is highly uncertain); Stephen M. Gardiner, *A Core Precautionary Principle*, 14 J. POL. PHIL. 33, 45–54 (2006) (constructing and defending a "Rawlsian core precautionary principle" for use in environmental policymaking). There are variations on this principle, such as α-maximin, which calls for taking an α-weighted combination of the best and worst case scenarios under each option. *See* Farber, *supra*, at 929–33 (describing an α-precautionary principle based on α-maximin).

173. *See* Farber, *supra* note 172, at 919 (defining maximin as the selection of a "strategy that has the *least bad* worst case outcome").

Thus, it seems to me that the worst-case scenario with the status quo might well be worse than the worst-case scenario with changes.

I do not mean this to be a rigorous analysis. There is certainly room to dispute my description of the worst cases. Moreover, the maximin precautionary principle is controversial and problematic in some ways. In fact, some commentators reject it outright, at least as applied to choices that do not involve catastrophic downside risks.[174] But this brief discussion at least suggests how to make a case for limiting trade secret law: the worst-case scenario if trade secret law is limited might be less bad than the worst-case scenario if the status quo is maintained.

Finally, I strongly suspect that special protection for trade secrets generates more costs than benefits. I base my suspicion on the fact that trade secrecy is secondary to copyright and patent, which already give quite a lot of protection. I also base my suspicion on the fact that trade secret law emerged in a formalistic world of natural property rights and has never managed entirely to escape its roots.

Conclusion

None of this analysis means that we should abolish special protection for trade secrets right away. There are transition costs to consider. Also, there are practical reasons why changing trade secret law will be difficult to do. Powerful lobbying groups are likely to oppose change along the lines I recommend. Moreover, in those few states that still rely on the common law, one might expect firms adversely affected by change to lobby the legislature to adopt a statute offering broader protection.

Still, it is important to be clear about the normative foundations of trade secrecy. Only with a clear grasp of the relevant policies can we know which factors need more empirical study and which of those factors should be given research priority. It might be difficult to implement an optimal trade secret law, but with a firmer grasp of the normative stakes, we will at least know how existing law falls short and how it can be improved.

174. *See id.* at 916–19 (describing the three main critiques of the precautionary principle).