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Who Owns Bratz? The Integration of Copyright and Employment Law

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Cover Page Footnote

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Who Owns Bratz? The Integration of Copyright and Employment Law

Michael D. Birnhack*

INTRODUCTION	96
I. THE ALLOCATION SPECTRUM	103
A. <i>Modes of Production and Employment</i>	104
B. <i>The Allocation Spectrum</i>	106
C. <i>The Law: Two Models</i>	111
1. U.S. Initial Allocation	112
2. Agency Law in Copyright Law	114
3. Independent Contractors.....	116
4. The German Model	117
D. <i>Freelancers</i>	121
II. COPYRIGHT LAW: RISKS AND INCENTIVES	125
A. <i>Identifying the Risk-Bearer</i>	126
1. Copyright Incentives	126
2. Copyright Risks.....	127

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96			
		<i>FORDHAM INTELL. PROP. MEDIA & ENT. L.J.</i>	[Vol. 20:95]
		3. Shifting Risks in the Workplace.....	128
	B.	<i>A Coasean Analysis and Penalty Default Rules</i>	131
	C.	<i>Typical Cases</i>	138
		1. The Work.....	139
		2. The Employer.....	140
		3. The Employee.....	140
		4. The Scope of Employment.....	141
	III.	EMPLOYMENT LAW.....	145
		A. <i>Setting the Stage</i>	146
		1. Fairness and Efficiency	146
		2. Methodology	148
		B. <i>Fairness in Employment</i>	149
		1. Fairness.....	149
		2. Information Deficiencies.....	151
		3. External Factors.....	153
		4. Trading Risks	154
		C. <i>Responding to Inequality</i>	155
		1. Informed Consent.....	156
		2. Group Negotiations	159
		CONCLUSION.....	162

INTRODUCTION

Designer Carter Bryant was under a contract with Mattel, Inc., manufacturer and owner of the Barbie doll, when he produced some drawings and came up with the characteristics of what became the Bratz doll.¹ Bryant then moved to MGA Entertainment, Inc., producer of Bratz, which, since her market debut in 2001,² posed serious competition to the Barbie doll.³ Lawsuits followed. In 2008, a federal jury in California found in favor of Mattel and ordered a total of \$100 million for several

¹ Mattel, Inc. v. Bryant, 441 F. Supp. 2d 1081, 1086 (C.D. Cal. 2005); *see also Jury Rules for Mattel in Bratz Doll Case*, N.Y. TIMES, July 18, 2008, at C5; David Colker, *Mattel Gets Control of Bratz Dolls*, L.A. TIMES, Dec. 1, 2008, at C1.

² Colker, *supra* note 1.

³ *Jury Rules for Mattel*, *supra* note 1.

causes, one of which was copyright infringement.⁴ The court then issued an injunction against MGA.⁵ Bryant himself settled with Mattel.⁶

David Miller was employed as the supervisor of the quality control laboratory at CP Chemicals, Inc.⁷ His tasks included computerization of analytical data generated in the lab.⁸ At his home, Miller wrote a computer program that assisted him in his calculations, with the knowledge of his employer.⁹ In 1993, a district court in South Carolina ruled that the copyright in the program belonged to his employer.¹⁰

Who should own Bratz? Who should own the software Miller composed? Should the law treat different kinds of works in the same manner? Put more generally, who should be the copyright owner of creative works made by employees? Should we treat the Bryants and the Millers alike? This article argues that current legal doctrine requires a more solid basis for dealing with the issue of ownership of employees' creative works. This article suggests that we address the allocation of copyright in the workplace by conceptualizing the issue under a dual, integrated perspective of both copyright law and employment law.¹¹ Surprisingly, such

⁴ Phase B Verdict Form as Given at 4, *Mattel, Inc. v. MGA Entm't, Inc.*, No. 04-9049 (C.D. Cal. Aug. 28, 2008), available at http://www.lawupdates.com/pdf/resources/copyright/Jury_Verdict-08-26-2008-Bryant_v._Mattel,_Inc..pdf. Other causes of action were intentional interference with contractual relations; aiding and abetting breach of fiduciary duty; and aiding and abetting breach of the duty of loyalty. Phase B Verdict Form as Given at 2, *Mattel*, No. 04-9049. One commentator argued, "copyright infringement is an indirect and inefficient way to stop a direct competitor from using trade secrets misappropriated by a former employee of a competitor." See Jane Osborne McKnight, *Disloyal Employees and Trade Secrets: What We Can Learn from Barbies and Bratz*, 34 VT. B.J. 38, 42 (Fall 2008).

⁵ Order Granting Mattel, Inc.'s Motion for Permanent Injunction, *Bryant v. Mattel, Inc.*, No. 04-9049 (C.D. Cal. Dec. 3, 2008), available at http://www.lawupdates.com/pdf/postings/copyright/Order-Bryant_v._Mattel.pdf.

⁶ Colker, *supra* note 1.

⁷ *Miller v. CP Chems., Inc.*, 808 F. Supp. 1238, 1239 (D.S.C. 1992).

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.* at 1244.

¹¹ Dan Burk addressed the allocation rule from a corporate law point of view, arguing that different kinds of intellectual property play a role in demarcating the boundaries of property within the firm. See generally Dan L. Burk, *Intellectual Property and the Firm*, 71 U. CHI. L. REV. 3 (2004) [hereinafter Burk, *Intellectual Property*]. His application of

integration is absent from current American legal discourse. The discussion here focuses on economic/material rights and leaves moral rights for a separate discussion.

Copyright law in the Anglo-American system addresses this allocation via the work-made-for-hire doctrine.¹² The doctrine provides quite a bright line: works made by employees within the scope of their employment belong to the employer; commissioned works in specific enumerated categories are also considered works made for hire and belong to the commissioning party.¹³ All other works belong to the author.¹⁴ In either case, initial ownership can be transferred to another party.¹⁵ The current work-made-for-hire is based on a rather narrow, textual interpretation of the law. In interpreting the legal concepts of *employee* (the “employment element”) and the *scope of employment* (the “scope element”),

this theory to ownership of copyrighted works suggests that authorship and ownership be bifurcated so to protect the reputational interests of the employees. *See id.* at 11–15; *see also* Dan L. Burk & Brett H. McDonnell, *The Goldilocks Hypothesis: Balancing Intellectual Property Rights at the Boundary of the Firm*, 2007 U. ILL. L. REV. 575, 635 [hereinafter Burk & McDonnell, *The Goldilocks Hypothesis*] (pointing to the option of assigning initial ownership to employees).

¹² *See* 17 U.S.C. § 101 (2006) (defining a “work made for hire” as “(1) a work prepared by an employee within the scope of his or her employment; or (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a ‘supplementary work’ is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an ‘instructional text’ is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities”); *id.* § 201(b) (“In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.”); *see also* discussion *infra* Part I.C.

¹³ 17 U.S.C. § 101.

¹⁴ *Id.*

¹⁵ *See id.* § 201(d).

courts turned to agency law.¹⁶ Employment law is strikingly absent from this discourse as well as the economic understanding of copyright law.¹⁷

Changing modes of production and changing modes of employment¹⁸ call for a re-examination of the work-made-for-hire doctrine and a better understanding of its theoretical underpinnings. The meeting point of copyright law and employment law reflects a deeper underlying conflict, between efficiency and fairness. Each body of law struggles with reconciling the two principles, and the intersection of the two fields enhances the conflict.

Part I draws an allocation spectrum and maps current legal models on it, ranging from full allocation to the employer/commissioning party on the one hand if some criteria are met, to unwaivable rights allocated to the employee/commissioned party on the other hand. American law provides an example of the former and German law provides an example of the latter. In between there are several other options that will be addressed. Part I also draws lessons from the Supreme Court's 2001 decision in *New York Times Co. v. Tasini*¹⁹ and its

¹⁶ See *Cnty. for Creative Non-Violence v. Reid (CCNV)*, 490 U.S. 730, 741 (1989). A district court dared to comment on the matter, after *CCNV* was decided, stating that its principles "are difficult to utilize in determining the issue of copyright ownership." *Avtec Sys., Inc. v. Peiffer*, No. 92-463-A, 1994 WL 791188, at *4 n.6 (E.D. Va. Sept. 12, 1994). Agency law developed in the context of tort law, which does not necessarily fit the copyright context. See *id.* For criticism on the importation of agency law into copyright law, see generally Assaf Jacob, *Tort Made for Hire—Reconsidering the CCNV Case*, 11 *YALE J.L. & TECH.* 96 (2008). Burk and McDonnell argue that agency law generally resembles intellectual property law in the way each field divides rights to copyrighted works made within the firm. See Burk & McDonnell, *The Goldilocks Hypothesis*, *supra* note 11, at 597 (suggesting that this resemblance is either the result of both legal fields tracking the most efficient legal rule, or that intellectual property law simply drew upon agency law).

¹⁷ Also absent are antitrust considerations, which otherwise might have been relevant in some cases. For example, the result of the Barbie-Bratz legal dispute is strengthening the power of one dominant player.

¹⁸ See *infra* Part I.A.

¹⁹ 533 U.S. 483 (2001); see also discussion *infra* Part I.D. See generally Robertson v. Thomson Corp., [2006] 2 S.C.R. 363 (Can.); Douglas P. Bickham, *Extra! Can't Read All About It: Articles Disappear After High Court Rules Freelance Writers Taken Out of Context in New York Times Co. v. Tasini*, 29 *W. ST. U. L. REV.* 85 (2001) (discussing *Tasini's* aftermath); Amy Terry, *Tasini Aftermath: The Consequences of the Freelancers'*

aftermath. The Court ruled that the republication of freelance journalists' works in digital media infringed their rights,²⁰ a decision which resulted in a sweeping change in contracts between commissioning parties and independent authors. Surprisingly, the case received relatively little scholarly attention, with a few notable exceptions.²¹

This article then proceeds to examine copyright law and employment law, with the aim of deducing lessons as to the best possible initial allocation. There are several conceptions of each of these fields, and thus any attempt to integrate them necessarily has to choose which of these conceptions to juxtapose.

As for copyright law, Part II proceeds within the instrumental, incentive-based theory of copyright law, based on by-now familiar economic analysis.²² Previous economic analysis addressed the allocation of ownership within the workplace only in passing, or focused on ex post allocations, i.e., after the copyrighted work had

Victory, 14 DEPAUL-LCA J. ART & ENT. L. & POL'Y 231 (2004); Andrew Snyder, Comment, *Pulling the Plug: Ignoring the Rights of the Public in Interpreting Copyright Law*, 41 WASHBURN L.J. 365 (2002).

²⁰ *Tasini*, 533 U.S. at 520.

²¹ See, e.g., Wendy J. Gordon, *Fine-Tuning Tasini: Privileges of Electronic Distribution and Reproduction*, 66 BROOK. L. REV. 473 (2000); Robert A. Gorman & Jane C. Ginsburg, *Authors and Publishers: Adversaries or Collaborators in Copyright Law?*, in BENJAMIN KAPLAN ET AL., AN UNHURRIED VIEW OF COPYRIGHT, REPUBLISHED: (AND WITH CONTRIBUTIONS FROM FRIENDS) (Iris C. Geik et al. eds., LexisNexis MB 2005) (1967); Francesco Parisi & Catherine Ševčenko, *Lessons from the Anticommons: The Economics of New York Times Co. v. Tasini*, 90 KY. L.J. 295 (2002).

²² See generally Stanley M. Besen & Leo J. Raskind, *An Introduction to the Law and Economics of Intellectual Property*, 5 J. ECON. PERS. 3, 11–18 (1991) (emphasizing the need to provide authors with incentives to make works in the first place, given the likelihood that without legal protection and subject to the costs of copying the work, the work would be copied); Wendy J. Gordon & Robert G. Bone, *Copyright*, in II ENCYCLOPEDIA OF LAW AND ECONOMICS 189 (Boudewijn Bouckaert & Gerrit De Geest eds., 2000) [hereinafter Gordon & Bone, *Copyright*]; William M. Landes & Richard Posner, *An Economic Analysis of Copyright Law*, 18 J. LEGAL STUD. 325 (1989) [hereinafter Landes & Posner, *An Economic Analysis of Copyright Law*]. A different point of view focuses on the need to internalize the positive externalities created by a work of authorship. See Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 COLUM. L. REV. 257, 284–90 (2007).

already been made.²³ Under the incentive view, I argue that the incentives should aim at the *risk* associated with some aspects of creating the work and with the optimal use of the work, for the benefit of both the owners and the public. The public's interest—lest we forget—is the goal of copyright law, whereas the rights awarded to the author are the means to achieve the public interest in promoting the creative process.²⁴ Accordingly, one criterion for allocating ownership is identifying the party who bears the risks associated with the production of the work.²⁵ Wishing to avoid a case-by-case solution and uncertainty, the task is to identify typical situations. The economic analysis of *Tasini* warns against allocations that are to be instantly corrected. Thus, we should add the temporal axis and evaluate different “Coasean moments”²⁶ when querying the possibility of a corrective transaction.²⁷

Shaping the allocation default rule²⁸ is thus crucial. An economic intuition would be to design a penalty default rule that would allocate initial ownership to the employee, expecting the employer to contract around this default rule.²⁹ This expected response would act as a signal to the employee that ownership is at stake. I argue that where the unequal power of the parties extends beyond information deficiencies, which is the typical situation in the employment context, a penalty default rule is likely to fail.

²³ See generally I.T. Hardy, *An Economic Understanding of Copyright Law's Work-Made-for-Hire Doctrine*, 12 COLUM.-VLA J.L. & ARTS 181 (1988); Parisi & Ševčenko, *supra* note 21.

²⁴ See, e.g., *Mazer v. Stein*, 347 U.S. 201, 219 (1954) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”).

²⁵ Hardy, *supra* note 23, at 192, 195.

²⁶ I borrow the term from Rochelle Cooper Dreyfuss, *Commodifying Collaborative Research*, in *THE COMMODIFICATION OF INFORMATION* 397, 405 (Niva Elkin-Koren & Neil Weinstock Netanel eds., 2002) [hereinafter Dreyfuss, *Commodifying Collaborative Research*].

²⁷ See Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1, 15 (1960).

²⁸ See Ian Ayers & Robert Gertner, *Filling Gaps in Incomplete Contracts: An Economic Theory of Default Rules*, 99 YALE L.J. 87, 97–100 (1989) (introducing the idea of penalty default rules).

²⁹ *Id.* at 91.

Moreover, it would cause unnecessary transaction and demoralization costs.

As for employment law, Part III builds on previous literature to unpack the conventional description of the employment relationship as one of unequal bargaining power.³⁰ Factors internal to the employment relationship (bounded rationality, asymmetry of information) and external thereto (lock-in costs, hold-out problems, the employment market) are identified. Insights borrowed from game theory about the difference between one-shot games and repeat games add to the understanding of the relationship.

The integrated copyright-employment analysis concludes that the law should search for typical cases, in which we can identify *ex ante* the party who bears the risks associated with making the work in the first place, usually the employer/commissioning party, while assuring informed consent on behalf of the other party, usually the employee-author, and avoiding allocations which are likely to be instantly corrected by the market without compensation.³¹ This general framework is then further fine-tuned, arguing that the law should take into consideration the kind of employer (whether it is a cultural industry,³² whether its business model is centralized, e.g., a music label, or decentralized, e.g., an independent film producer) and the kind of employee (whether he is a “Bryant” or “Miller,” i.e., was he hired to make works of authorship or not).

The conclusion offers moderate support for the current work-made-for-hire doctrine, with some proposed modifications to the interpretation of the *scope* element of the doctrine. It also advocates greater use of written job descriptions in the creative

³⁰ Guy Davidov, *The Reports of My Death Are Greatly Exaggerated: ‘Employee’ as a Viable (Though Overly-Used) Legal Concept*, in BOUNDARIES AND FRONTIERS OF LABOUR LAW: GOALS AND MEANS IN THE REGULATION OF WORK 133, 138–43 (Guy Davidov & Brian Langille eds., 2006) [hereinafter Davidov, *The Reports of My Death Are Greatly Exaggerated*].

³¹ See generally Jacob, *supra* note 16.

³² The term “culture industry” originates from THEODORE W. ADORNO, *THE CULTURE INDUSTRY: SELECTED ESSAYS ON MASS CULTURE* (J. M. Bernstein ed., 2001) (1991), who used it in the critique of what cultural critics would later call the consumerist society, or the society of spectacle, applying the term offered in GUY DEBORD, *SOCIETY OF THE SPECTACLE* (Kenn Knabb trans., New ed. 2006) (1967).

employment market. Thus, this article offers a more solid explanation for current law with some interpretive proposals. Under this analysis, Mattel should indeed own Bratz, but Miller should have owned the software he wrote.

I. THE ALLOCATION SPECTRUM

Current legal doctrine contains hidden assumptions about the creative process, about cultural markets, about the workplace, and about the relationship between employers and employees. The two elements of the work-made-for-hire doctrine, employment and scope,³³ assume a dichotomous world, in which an author is either an employee or an independent contractor;³⁴ in which a work of authorship can be created either within the scope of the workplace or outside it.³⁵ The result, not surprisingly, is also dichotomous; ownership belongs to one party alone. However, each of these factors is more complex and dynamic, and the overall interaction is in a constant state of change. Advanced technology, new business models, economic developments, globalization, and changing social norms all impact the production of creative works.³⁶ This Part briefly comments on these changes (Part I.A), and instead of a binary allocation, offers a spectrum of legal choices (Part I.B).³⁷ It then adds a legal layer on top of this spectrum (Part I.C). I discuss the U.S. doctrine and the German approach, which is the most elaborated existing alternative. Another aspect of this discussion is the way the market responds to the legal layer. The 2001 *Tasini* case and its aftermath serve as an important lesson for policy makers (Part I.D).

³³ 17 U.S.C. § 101 (2006).

³⁴ See *infra* Part I.C.3.

³⁵ 17 U.S.C. § 101.

³⁶ See YOCHAI BENKLER, THE WEALTH OF NETWORKS: HOW SOCIAL PRODUCTION TRANSFORMS MARKETS AND FREEDOM 4–5 (2006).

³⁷ For criticism of the binary effect of the work-made-for-hire doctrine, see Nancy S. Kim, *Martha Graham, Professor Miller and the 'Work for Hire' Doctrine: Undoing the Judicial Bind Created by the Legislature*, 13 J. INTELL. PROP. L. 337 (2006) (proposing a particularized analysis that emphasizes the expectations of the parties).

A. *Modes of Production and Employment*

There are many modes of cultural production. Patronage represents a European medieval form of sponsored creativity.³⁸ Modern copyright law, dated to the English Statute of Anne of 1709,³⁹ replaced the patronage system with economic incentives for creativity.⁴⁰ The eighteenth and nineteenth centuries witnessed the birth of the romantic author, who is apparent in the text and sub-text of much of copyright law as we know it.⁴¹ This is the *Author's Copyright*. The twentieth century saw the rise of the *Corporate Copyright*,⁴² i.e., works of authorship created within the hierarchical setting of a firm, or more generally, the workplace, governed by the doctrine of work-made-for-hire.⁴³ Catherine Fisk aptly noted that “[t]he author isn’t dead; he just got a job.”⁴⁴ The employed author did not replace the independent author and many authors are independent contractors, rather than salaried employees.⁴⁵ The law now treats all workplaces in a unified

³⁸ See MARK ROSE, *AUTHORS AND OWNERS: THE INVENTION OF COPYRIGHT* 16–17 (1993).

³⁹ 1709, 8 Ann., c. 19 (Eng.).

⁴⁰ ROSE, *supra* note 38, at 16–17.

⁴¹ Peter Jaszi, *Toward a Theory of Copyright: The Metamorphosis of “Authorship,”* 1991 DUKE L.J. 455, 455 (discussing the romantic author and the law); see also Martha Woodmansee, *The Genius and the Copyright: Economic and Legal Conditions of the Emergence of the Author*, 17 EIGHTEENTH CENTURY STUD. 425, 426 (1984) (arguing that the romantic author is a social construction). For a different account, see Oren Bracha, *The Ideology of Authorship Revisited: Authors, Markets and Liberal Virtues in Early American Copyright*, 118 YALE L.J. 186, 202 (2008).

⁴² *Corporate Copyright* entered copyright law with the introduction of the work-made-for-hire doctrine in the Copyright Act of 1909, an amendment which is said to have been added “in a most casual manner.” See L. RAY PATTERSON & STANLEY W. LINDBERG, *THE NATURE OF COPYRIGHT: A LAW OF USERS’ RIGHTS* 85–88 (1991); SIVA VAIDHYANATHAN, *COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY* 101–03 (2001); Catherine L. Fisk, *Authors at Work: The Origins of the Work-for-Hire Doctrine*, 15 YALE J.L. & HUMAN. 1, 55–56, 62–67 (2003) [hereinafter Fisk, *Authors at Work*] (providing the history of the doctrine, describing corporate copyright as “the ultimate legal fiction underlying modern copyright law,” and discussing the enactment of the doctrine in the 1909 Copyright Act).

⁴³ See 17 U.S.C. §§ 101, 201(b) (2006).

⁴⁴ Fisk, *Authors at Work*, *supra* note 42, at 1.

⁴⁵ Ruth Towse, *Copyright Policy, Cultural Policy and Support for Artists*, in *THE ECONOMICS OF COPYRIGHT: DEVELOPMENTS IN RESEARCH AND ANALYSIS* 66, 68 (Wendy J. Gordon & Richard Watt eds., 2003) [hereinafter Towse, *Copyright Policy*]. Ruth Towse reports several surveys of artists in several developed countries, all show that

manner,⁴⁶ but one size does not fit all. A privately owned firm is different from the government as an employer, research universities are different from a commercial publisher, and a giant software firm is different from the local architecture studio. The focus here will be on private firms, leaving aside unique considerations that are relevant to particular workplaces.⁴⁷

Today, in post-modern times, copyright scholars are increasingly aware of other forms of creative production such as non-western communal authorship⁴⁸ and collaborative research.⁴⁹ As our lives go digital, more attention is devoted to various forms of peer production, such as open source projects and wikis.⁵⁰ Nonetheless, corporate copyright, despite the rise of peer production, still accounts for a vast amount of works.⁵¹

Working patterns also change. Technology enables working outside the office in many sectors; broadband internet connection

“artists are mostly self-employed, work long hours on short term contracts, and experience higher than average unemployment . . . they receive below national average earnings.” *Id.*

⁴⁶ U.S. COPYRIGHT OFFICE, CIRCULAR 9, WORKS MADE FOR HIRE UNDER THE 1976 COPYRIGHT ACT 1 (2004), available at <http://www.copyright.gov/circs/circ09.pdf>.

⁴⁷ An important unique consideration in the university context, for example, is academic freedom, which is irrelevant to other workplaces. Judge Posner noted that if the issue had to be decided, he might have concluded that the teacher’s exception survived the 1976 Act. *Hays v. Sony Corp. of Am.*, 847 F.2d 412, 416–17 (7th Cir. 1988). See generally Rochelle Cooper Dreyfuss, *The Creative Employee and the Copyright Act of 1976*, 54 U. CHI. L. REV. 590 (1987) [hereinafter Dreyfuss, *The Creative Employee*]; Georgia Holmes & Daniel A. Levin, *Who Owns Course Materials Prepared by a Teacher or Professor? The Application of Copyright Law to Teaching Materials in the Internet Age*, 2000 BYU EDU. & L.J. 165; Kim, *supra* note 37, at 357–62; Gregory Kent Laughlin, *Who Owns Copyright to Faculty-Created Web Sites?: The Work-for-Hire Doctrine’s Applicability to Internet Resources Created for Distance Learning and Traditional Classroom Courses*, 41 B.C. L. REV. 549 (2000). Works prepared by university professors might differ from a school teacher’s preparation of tests. *Shaul v. Cherry Valley-Springfield Cent. Sch. Dist.*, 363 F.3d 177, 186 (2d Cir. 2004) (finding that a teacher’s preparation of tests falls within the scope of employment, hence copyright belongs to the employer).

⁴⁸ Madhavi Sunder, *IP³*, 59 STAN. L. REV. 257, 285 (2006); see also JAMES BOYLE, SHAMANS, SOFTWARE, AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY 195 (1996).

⁴⁹ See Dreyfuss, *Commodifying Collaborative Research*, *supra* note 26, at 405.

⁵⁰ See BENKLER, *supra* note 36, at 218–19; see also Lior Jacob Strahilevitz, *Wealth Without Markets?*, 116 YALE L.J. 1472, 1493–94 (2007).

⁵¹ See BENKLER, *supra* note 36, at 462–63.

and wireless access allow employees to work from the home, internet café or nearby park.⁵² Work occurs outside the physical location of the workplace and outside the usual working hours.⁵³ The ubiquity of personal computers further blurs the traditional image of the workplace towards a more flexible environment. The result is that it is no longer easy to rely on clear evidence as to the time, place and manner of making the work of authorship (the traditional scope element of the work-made-for-hire doctrine)⁵⁴ to determine whether it was made within the scope of employment or not.

Globalization further changes the modes of production. Local firms are more active in the global market; firms become multinational, spreading production and management in various locations around the world and relocating them according to their needs.⁵⁵ Furthermore, firms experience changes in their identity, due to bankruptcy, mergers and acquisitions. The absence of a unified global rule regarding ownership of creative works made within the context of the workplace,⁵⁶ together with different legal models applied in various places, require global employees and the cosmopolitan authors to figure out the issue themselves.

B. *The Allocation Spectrum*

The law has a wide range of options to choose from regarding the initial allocation of ownership of copyrighted works in the workplace. Legislatures face the task of choosing the best point on this allocation spectrum and courts face the task of implementing the legislative choice of allocation. The variables that form the allocation spectrum are the first owner of the copyrighted work (the employer or the employee) and the transferability of the right (ranging from a fully transferable right to an inalienable right).

⁵² See U.S. Department of Labor, Work at Home in 2004 (Sept. 22, 2005), <http://www.bls.gov/news.release/homey.nr0.htm> (reporting that in May 2004, 20.7 million Americans worked at home; 13.7 million of them were wage and salary employees).

⁵³ *Id.*

⁵⁴ 17 U.S.C. § 101 (2006).

⁵⁵ See BENKLER, *supra* note 36, at 4–5.

⁵⁶ See 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 5.03[B][1][c] (2009).

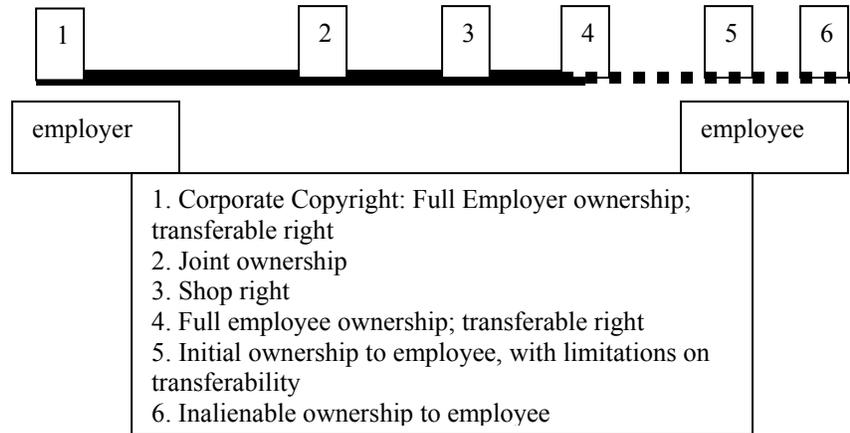
2009]

WHO OWNS BRATZ?

107

Different jurisdictions chose different points on this allocation spectrum; the American model and the recently amended German model represent and illustrate the width of the allocation spectrum.

Table 1



On one end of the allocation spectrum, [1] lays the corporate copyright. The law may award the ownership in the copyrighted work to the employer if two conditions are met, which compose the work-made-for-hire doctrine: that the work was created by an employee, and that the work was made within the scope of employment.⁵⁷ Once these conditions are fulfilled, the employer is free to transfer the rights to whomever he or she wishes, whether it is a third party or the employee, or to license the use of the work.⁵⁸ The employer is free to apply an internal compensation scheme, whether it is part of the employment contract or a unilateral measure.⁵⁹ In other words, the employer enjoys full ownership, unbounded by the fact that the author was an employee. If the conditions are not met, then the ownership vests with the author alone, no strings attached [point [4]].

⁵⁷ 17 U.S.C. § 101. The other option under U.S. law is that the parties to the transaction agree that the work will be considered as a work-made-for-hire, an option that is limited to specific categories of works. *Id.*

⁵⁸ *See id.* § 201.

⁵⁹ *See* NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[B][1][ii].

A second possible point, [2], would be to award the initial ownership of the work to both parties, i.e., joint ownership of the employee and the employer. Note that this would be a statutory allocation, which differs from the current joint ownership rule found in the Copyright Act.⁶⁰ This might seem fair and just and hence an attractive solution, but would often be an inefficient allocation. The parties might disagree about how to utilize the work, resulting in either overuse by one party, which would be a situation of a “tragedy of the commons,”⁶¹ or hold-outs by employees or inaction by the employer, which would be a situation of the tragedy of the anti-commons.⁶²

Allocation [3] would award the ownership to the employee, but would acknowledge the employer’s non-exclusive non-transferable right to use the work for free.⁶³ This situation can be viewed as either a license under a property rule or as a property rule that is shifted into a liability rule.⁶⁴ This model is borrowed from patent

⁶⁰ 17 U.S.C. § 101 (“A ‘joint work’ is a work prepared by two or more authors with the intention that their contributions be merged into inseparable or interdependent parts of a unitary whole.”). Joint owners are treated as tenants in common, i.e., each of the owners has an independent right to use or license the work, though he or she should account to the joint owners for any profits. *Davis v. Blige*, 505 F.3d 90, 98 (2d Cir. 2007). To reach a conclusion about joint ownership, a court should find that each author made an independently copyrightable contribution to the work. *See, e.g., Ashton-Tate Corp. v. Ross*, 916 F.2d 516, 521 (9th Cir. 1990). At the time of making the contribution “the authors must intend their contributions to be merged into inseparable or interdependent parts of a unitary whole.” *Aalmuhammed v. Lee*, 202 F.3d 1227, 1231 (9th Cir. 2000). Applying as-is the doctrine to a work made by an employee is unlikely to yield a conclusion about joint ownership, as the employer’s contribution might be a general instruction to the employee, i.e., an idea how to make a certain work, but not an independently copyrightable contribution. Intention is also unlikely to be shared in the way required by the joint ownership rule.

⁶¹ Garret Hardin, *The Tragedy of the Commons*, 162 *SCIENCE* 1243, 1244 (1968).

⁶² Michael A. Heller, *The Tragedy of the Anti-Commons: Property in the Transition from Marx to Markets*, 111 *HARV. L. REV.* 621, 622 (1998) (arguing that multiple ownerships might result in a deadlock).

⁶³ One scholar proposed that in such cases the hiring party might enjoy an implied license to use the work. Scott J. Burnham, *The Interstices of Copyright Law and Contract Law: Finding the Terms of an Implied Nonexclusive License in a Failed Work for Hire*, 46 *J. COPYRIGHT SOC’Y* 333, 351 (1999). This view inserts contract law principles into the copyright law context.

⁶⁴ Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules and Inalienability: One View of the Cathedral*, 85 *HARV. L. REV.* 1089, 1092–93 (1972) (discussing the distinction between property rules and liability rules).

law.⁶⁵ Patent law does not include a statutory work-made-for-hire doctrine, but does acknowledge an equitable doctrine called *shop right*.⁶⁶ In the absence of a contract between the employee who reached an invention using the employer's facilities, courts base the employer's right to use the invention on implied contract or on principles of equity and fairness.⁶⁷ The right is limited in its scope, but allows the use of the invention by the employer without transferring it to third parties.⁶⁸ Incorporating the patent shop right in copyright law would result in employee ownership that is subject to the employer's right to use the work.⁶⁹ The parallel entitlement of the employee and the employer is likely to result in a problematic commercial management of the work.

⁶⁵ For a discussion of ownership of patents within the workplace, see Robert P. Merges, *The Law and Economics of Employee Inventions*, 13 HARV. J.L. & TECH. 1 (1999). Comparison between copyright and patent in this area should be attentive to crucial differences between the law, economics and business practices of the creative process resulting in a copyrighted work of authorship and the innovation process, resulting in a patented invention. For the differences between copyrighted works and patented inventions in this context, see Burk & McDonnell, *The Goldilocks Hypothesis*, *supra* note 11, at 594. *First*, the financial and legal risks involved in creating copyrighted works or patentable inventions are sharply different. Inventions take place mostly within industries and firms. *Id.* *Second*, copyright subsists in an original work once it is created. *Id.* No registration or publication is required. *Id.* Hence, enjoying legal protection is immediate and cheap. Patents, by contrast, require a lengthy and expensive process of registration with the Patent Office, and there is no guarantee that the PTO will award the patent. *See id.* at 593. *Third*, the patent registration process requires that the owner of the invention is asserted. *See* 35 U.S.C. § 111(a)(1) (2006). Thus, the issue of ownership arises in a relatively early point in the relationship between the employer and the inventor/employee.

⁶⁶ *See* McElmurry v. Ark. Power & Light Co., 995 F.2d 1576, 1580–82 (Fed. Cir. 1993) (discussing the normative basis of the doctrine and instructing that acknowledging the right should be the result of considering the totality of the circumstances on a case by case basis). This rule developed in the common law in the nineteenth century. *Id.* at 1580–81. It was initially based on the employee's consent and later the theoretical basis shifted to the employment contract. *Id.* at 1581; *see also* RESTATEMENT (FIRST) OF AGENCY § 397 cmt. b (1933). For a discussion of the roots of the doctrine, see Catherine L. Fisk, *Removing the 'Fuel of Interest' from the 'Fire of Genius': Law and the Employee-Inventor*, 65 U. CHI. L. REV. 1127, 1151–64 (1998) [hereinafter Fisk, *Law and the Employee-Inventor*].

⁶⁷ Burk, *Intellectual Property*, *supra* note 11, at 15–16 (explaining the legal basis of the doctrine and suggesting that the absence of a work-made-for-hire doctrine might be the result of a notion of the romantic inventor).

⁶⁸ *Id.* at 16.

⁶⁹ Congress refused to incorporate patent shop right in the Copyright Act. *See* Peter S. Menell & David Nimmer, *Unwinding Sony*, 95 CAL. L. REV. 941, 991 (2007).

Allocation [4] awards the right to the author-employee with no limitations attached so that the employee can do with the work whatever he or she wishes, including transferring it to third parties or to the employer. This situation mirrors the allocation to the employer [1]. Hence, the points to its right lie beyond the original spectrum, or put differently, beyond the Anglo-American spectrum. This is where Continental law enters.

Allocation [5], which does not have a parallel on the employer's side of the spectrum, would be initial allocation to the author, but with some limitations attached to the ownership, or more precisely, on the transferability thereof. For example, the law could award the employee the initial ownership and allow her to transfer the right but only for a limited time, whereas at the end of the limited period, full ownership of the employee would resume. Alternatively, the law could allow the author to terminate the transfer under some circumstances, such as if the employer fails to utilize the work.

Allocation [6] awards inalienable ownership to the employee. Such a (hypothetical) right would not enable the author-employee-owner to transfer his or her rights to any party. However, in order to enable some efficiency it should allow the author to grant a non-exclusive license to use the work. Such a limited right would be, on this theoretical account, accompanied with limitations on waiving the rights. This is an overly paternalistic and extreme option, which runs afoul of fundamental principles of the free market and of property rights as we know them.⁷⁰ However, in some jurisdictions the case of moral rights does not fall far from this option.⁷¹ Moral rights are often inalienable and some

⁷⁰ For a similar point regarding real property, see generally RICHARD POSNER, *ECONOMIC ANALYSIS OF LAW* 81 (7th ed. 2007) [hereinafter POSNER, *ECONOMIC ANALYSIS OF LAW*].

⁷¹ See Adolf Dietz, *The Moral Right of the Author*, 19 COLUM.-VLA J.L. & ARTS 199, 208–09 (1995) (discussing the concept of inalienable moral rights in Germany, Austria, Hungary, the Czech Republic, and the Slovak Republic and the author's ability to allow so-called concessions (licenses) of rights to use work which can be granted as non-exclusive or exclusive rights for all uses, limited or unlimited as to place, time and purpose); Cyrill P. Rigamonti, *Deconstructing Moral Rights*, 47 HARV. INT'L L.J. 353, 372–79 (2006) (discussing an author's application of moral rights in France, Germany and Italy against persons authorized to use the copyright by contract).

jurisdictions prohibit waiving them.⁷² Further, unwaivable rights are not a foreign concept in employment law.⁷³

More points could be added to the allocation spectrum. Indeed, the choice of the point of allocation differs among different jurisdictions. Thus far we have seen the range of options. Before we turn to a normative analysis, I would like to super-impose the legal layer upon the spectrum.

C. *The Law: Two Models*

Several current legal models illustrate the allocation spectrum, roughly divided into two main manifestations: the first is the Anglo-American model, namely the U.S. model and the U.K. model,⁷⁴ which is found also in other jurisdictions where English law has influenced the legal system,⁷⁵ and the second is the Civil Law model.⁷⁶ The general rule under both models vests the initial

⁷² Inalienability of moral rights is mostly a European Continental phenomenon, though there is no uniformity among countries such as Germany, France, Italy, Spain, and the Netherlands. See Dietz, *supra* note 71, at 220–21.

⁷³ See, e.g., Fair Labor Standards Act, 29 U.S.C. §§ 201–219 (2006) (setting minimum wages, maximum hours and child labor provisions).

⁷⁴ Compare Copyright, Designs and Patent Act, 1988, c. 48, § 11(2) (Eng.) (“Where a literary, dramatic, musical or artistic work is made by an employee in the course of his employment, his employer is the first owner of any copyright in the work subject to any agreement to the contrary.”), with 17 U.S.C. § 201(b) (2006) (“In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.”).

⁷⁵ See, e.g., Canada Copyright Act, R.S.C., ch. C-42, § 13(3) (1985) (“Where the author of a work was in the employment of some other person under a contract of service or apprenticeship and the work was made in the course of his employment by that person, the person by whom the author was employed shall, in the absence of any agreement to the contrary, be the first owner of the copyright . . .”). This is based on the English Act of 1911, Copyright Act, 1911, 1 & 2 Geo. 5, c. 46 (Eng.). J.A.L. STERLING, *WORLD COPYRIGHT LAW* 983 (1998). See also a case recently decided by the Supreme Court of Appeal of South Africa, *King v. SA Weather Service* 2008 (143) SCA (S. Afr.).

⁷⁶ This is an admitted generalization for the clarity of the discussion. For a survey of copyright law in several Civil Law jurisdictions, see INTELLECTUAL PROPERTY LAWS OF EUROPE 62, 103, 221, 270, 335, 356, 373, 423 (George Metaxas-Maranghidis ed., 1995) (discussing the ownership of works created by employees in Belgium, Denmark, Iceland, Italy, Norway, Portugal, Spain, Switzerland); STERLING, *supra* note 75, at 169–70, 352 (1998) (discussing French, German, Greek, and Dutch law); KENNETH D. CREWS & JACQUE RAMOS, *COMPARATIVE ANALYSIS OF WORLD INTELLECTUAL PROPERTY LAW:*

ownership with the author,⁷⁷ but diverges after this first step. Common law jurisdictions accompany the initial allocation to the author with an explicit or implicit permission to transfer the (material) rights,⁷⁸ and with rules addressing works made for hire.⁷⁹ If the statutory conditions for a work-made-for-hire are met, then the initial allocation lies not with the author but with the employer.⁸⁰ In such a case, the employer is considered to be the legal author.⁸¹ In contrast, the German model allows the author to grant the right to use the work (“exploitation right”), but the ownership remains with the author, even if the work was created by an employee within the scope of the employment.⁸²

1. U.S. Initial Allocation

Under the U.S. model, there are two situations in which a work might be considered a work-made-for-hire. The first refers to works made by employees and by implication excludes independent contractors, subject to the general rule that an author is the owner of the original work he or she made.⁸³ The second

ISSUES FOR UNIVERSITY SCHOLARSHIP (2005), http://copyright.surf.nl/copyright/files/International_Comparative_Chart_Zwolle_III_rev071306.pdf; CHRISTINE KIRCHBERGER ET AL., OWNERSHIP OF THE COPYRIGHT IN WORKS AND THE PATENT RIGHT IN INVENTIONS CREATED BY EMPLOYEES IN FINLAND, SWEDEN, GERMANY, AUSTRIA, THE UNITED KINGDOM, ESTONIA AND ARGENTINA (2002), <http://www.juridicum.su.se/user/sawo/Publikationer/Wolk%20nr%20120.pdf>.

⁷⁷ 17 U.S.C. § 201(a) (“Copyright in a work protected under this title vests initially in the author or authors of the work”); Copyright, Designs and Patent Act, 1988, c. 48, § 11(1) (Eng.) (“The author of a work is the first owner of any copyright in it”); Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31 (F.R.G.). For an English translation, see Law on Copyright and Neighboring Rights (Copyright Law), http://www.wipo.int/clea/docs_new/pdf/en/de/de080en.pdf.

⁷⁸ See, e.g., 17 U.S.C. § 201(d); Copyright, Designs and Patent Act, 1988, c. 48, § 90 (Eng.).

⁷⁹ See, e.g., 17 U.S.C. § 201(b); Copyright, Designs and Patent Act, 1988, c. 48, § 11(2) (Eng.).

⁸⁰ See, e.g., 17 U.S.C. § 201(b); Copyright, Designs and Patent Act, 1988, c. 48, § 11(2) (Eng.).

⁸¹ See, e.g., 17 U.S.C. § 201(b); Copyright, Designs and Patent Act, 1988, c. 48, § 11(2) (Eng.).

⁸² Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31 (F.R.G.).

⁸³ 17 U.S.C. § 101.

situation refers to commissioned works, and will be discussed shortly.

For the employer to own the work, the work-made-for-hire doctrine requires proving two elements: employment, and a causal connection between the work and the employment, i.e., that it was made within the scope of employment.⁸⁴ If these elements are met, the employer is considered the first owner of the copyright, even though the employee was the author.⁸⁵ On the allocation spectrum this would be point [1].⁸⁶ Initial allocation means that there is no transfer of the copyright from the author-employee to the employer, but rather that the employer is the first owner.⁸⁷ If the author is not an employee or the work was made outside the scope of employment, then the initial ownership vests with the author [point [4] of the allocation spectrum].⁸⁸ In either case, there is no legal barrier prohibiting the parties to contract around the initial allocation as they see fit, be it before or after the work is made.⁸⁹

⁸⁴ *Id.*

⁸⁵ *Id.* § 201 (b).

⁸⁶ *See supra* notes 57–59 and accompanying text.

⁸⁷ *See* 17 U.S.C. § 201(a), (b).

⁸⁸ *See supra* Part I.B; *see also* NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[B][1][b][i], [ii]. Such post-allocation would be a transfer of the copyright and should not be confused with the initial allocation. The distinction matters. Some rules that apply to a work-made-for-hire do not apply to other works. For example, a work of visual art that enjoys some moral rights under 17 U.S.C. § 106(A) does not apply to a work-made-for-hire. *See* 17 U.S.C. § 101. Another difference is the duration of a work-made-for-hire. *See id.* § 302(c) (“In the case of . . . a work made for hire, the copyright endures for a term of 95 years from the year of its first publication, or a term of 120 years from the year of its creation, whichever expires first.”). A third important difference is that while ordinary transfers of copyright ownership can be terminated under some conditions, a work-made-for-hire is ineligible for such termination. *See id.* § 203(a)(3). For discussion, see David Nimmer, Peter S. Menell & Diane McGimsey, *Pre-Existing Confusion in Copyright’s Work-for-Hire Doctrine*, 50 J. COPYRIGHT SOC’Y 399 (2003). For a full discussion of the implications of treating a work as made for hire, see NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[A]. Moreover, transactions done after initial allocation might have tax implications. *Id.* § 19.03[B], 19.03[B][.05].

⁸⁹ *See* 17 U.S.C. § 201(b) (stating that an employer is the author of a work-made-for-hire, unless the parties have expressly agreed otherwise in a signed writing).

2. Agency Law in Copyright Law

The statute is silent as to the details of either element of the work-made-for-hire, leaving their interpretation to the courts. Initially, courts turned to various tests found in employment law to determine who is an employee and to determine the scope of employment: (1) a “control test,” i.e., whether the hiring party retained the right to control the product; (2) an examination of whether the hiring party actually had such control; (3) a formal test, acknowledging employment only when the other party was a salaried employee; or (4) an interpretation borrowed from agency law.⁹⁰ In evaluating who is an employee, the Supreme Court opted for an agency law test.⁹¹ The Court adopted a rather formalistic and conservative interpretation, deferring to Congress, and relying on the text and structure of the Copyright Act.⁹² The legislative history, as analyzed by the Court, supported this interpretation.⁹³

The agency test provided a list of inconclusive factors to be considered on an *ad hoc* basis.⁹⁴ While it might have clarified

⁹⁰ Cmty. for Creative Non-Violence v. Reid, 490 U.S. 730, 738–40 (1989) (discussing various tests); see also NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[B][1][a]. The distinction between salaried employees (those who are under a contract *of* service) and independent contractors who provide their services to a hiring party (those under a contract *for* service) is a bedrock principle of the Common Law and is reflected in the language of the Canadian model, which is based on the old English model. See Canada Copyright Act, R.S.C., ch. C-42, § 139 13(3) (1985).

⁹¹ CCNV, 490 U.S. at 742–43.

⁹² *Id.* at 739–40. For discussion, see Jacob, *supra* note 16. Nimmer explains that the Court’s standard focuses on the right to control the manner and means of production rather than the product itself. See NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[B][1][a][iii].

⁹³ See CCNV, 490 U.S. at 743–49. One scholar argued that the Court misinterpreted the legislative history and created an uncertain test. Michael B. Landau, “Works Made for Hire” After Community for Creative Non-Violence v. Reid: *The Need for Statutory Reform and the Importance of Contract*, 9 CARDOZO ARTS & ENT. L.J. 107, 148–49 (1990) (advocating the amendment of the Copyright Act to incorporate the formal “salaried employee” test).

⁹⁴ CCNV, 490 U.S. at 751. Factors used to determine whether a hired party is an employee under common law of agency include:

[T]he hiring party’s right to control the manner and means by which the product is accomplished . . . ; the skill required; the source of the instrumentalities and tools; the location of the work; the duration of the relationship between the parties; whether the hiring party has the right to assign additional projects to the hired party; the extent of the

which legal standard should be applied, the test itself remains foggy and difficult to anticipate or to apply.⁹⁵ Uncertainty affects the parties' behavior, to the extent that they are aware of it. Those who know about the test applied by courts might opt for contracts, pre-assigning the ownership.

In interpreting the scope element, courts again turned to agency law and applied a three-prong test.⁹⁶ Accordingly, a work is considered to have been made within the scope of employment if (1) it is of the kind for which the employee was hired; and (2) the work was made substantially within the time and space limits, and (3) the work was made, at least in part, with a purpose to serve the employer's interests.⁹⁷ Later on we shall return to the agency test.

hired party's discretion over when and how long to work; the method of payment; the hired party's role in hiring and paying assistants; whether the work is part of the regular business of the hiring party; whether the hiring party is in business; the provision of employee benefits; and the tax treatment of the hired party.

Id. (citations omitted).

⁹⁵ The Court of Appeals in the Second Circuit, applying the *CCNV* tests, noted that "[t]he Reid test is a list of factors not all of which may come into play in a given case. The Reid test is therefore easily misapplied." *Carter v. Helmsley-Spear, Inc.*, 71 F.3d 77, 85 (2d Cir. 1996) (citation omitted). Ironically, the Supreme Court in *CCNV* pointed to predictability and certainty as Congress' paramount goal in enacting the 1976 Copyright Act. *CCNV*, 490 U.S. at 749; *see also* NIMMER ON COPYRIGHT, *supra* note 56, § 5.03[B][1][a][iii].

⁹⁶ *See* RESTATEMENT (SECOND) OF AGENCY § 228(2) (2000). Shortly after *CCNV* was decided, one commentator advocated applying the agency test to the scope element. *See* Robert A. Kreiss, *Scope of Employment and Being an Employee Under the Work-Made-for-Hire Provision of the Copyright Law: Applying the Common-Law Agency Tests*, 40 U. KAN. L. REV. 119 (1991). The justifications provided for this approach are canons of statutory interpretation and the convenience of providing a developed framework. *Id.* at 131–32. I find both reasons unconvincing, as the statute is silent about the meaning of the elements of the work-made-for-hire doctrine and the need for a framework does not in itself justify the particular choice. Kreiss himself struggled with applying doctrines admittedly taken from the context of tort law. *See id.* at 129–30 (speculating about the third test of the agency element of the scope element); *id.* at 139 (trying to justify the arbitrary effect of borrowing tort law concepts by inserting them in the copyright law context).

⁹⁷ *See, e.g., Avtec Sys., Inc. v. Peiffer*, No. 94-2364, 1995 WL 541610, at *4 (4th Cir. Sept. 13, 1995) (applying the Agency test and noting that all three elements must be considered); *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 571–72 (4th Cir. 1994).

Importantly, as noted by Assaf Jacob, the agency law tests are derived from tort law, rather than from an independent analysis of employment law.⁹⁸

3. Independent Contractors

An important difference between the U.S. and U.K. models is found in the situation of a commissioned work. Current U.K. law is silent about commissioned works, subjecting them to the general rule that the author is the copyright owner and leaving any subsequent transfers entirely to the market.⁹⁹ the author can transfer his or her rights to the commissioner of the work.¹⁰⁰ U.S. law treats commissioned works as works made for hire only if three conditions are met:¹⁰¹ first, that the work was specially ordered or commissioned;¹⁰² second, that the work is to be used for at least one of nine listed statutory categories, such as a contribution to a collective work, a motion picture or an instructional text;¹⁰³ and third, that the parties expressly agreed in a

⁹⁸ Jacob, *supra* note 16, at 124.

⁹⁹ The U.K. Copyright Act, 1911 addressed commissioned works of a particular kind:
Where, in the case of an engraving, photograph or portrait, the plate or other original was ordered by some other person and was made for valuable consideration, in pursuance of that order, in the absence of any agreement to the contrary, the person by whom the plate or other original was ordered shall be the first owner of the copyright.

Copyright Act, 1911, 1 & 2 Geo. 5, c. 46, § 5(1)(a) (Eng.). This special treatment was eliminated in subsequent Acts. 1 COPINGER & SKONE JAMES ON COPYRIGHT §§ 5–32 (Kevin Garnett et al. eds., 15th ed. 2005).

¹⁰⁰ In the U.K., the transfer can be explicit, i.e., in a written contract, or implicit. *See* Copyright, Designs and Patents Act, 1988 c. 48, § 90(a) (Eng.). Indeed, courts found that there was an equitable transfer of rights in some circumstances. *See* WILLIAM R. CORNISH & DAVID LLEWELYN, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS* 472 (5th ed. 2003); SIMON STOKES, *ART AND COPYRIGHT* 156–59 (2001).

¹⁰¹ *See* 17 U.S.C. § 101 (2006). For the legislative history of this prong of the doctrine, see Nimmer, Menell & McGimsey, *Pre-Existing Confusion*, *supra* note 88.

¹⁰² 17 U.S.C. § 101.

¹⁰³ *Id.* The enumerated categories require explanation for their inclusion in the statute, as well as the categories missing from the list. One possible answer is political, and suggests that the categories are the result of successful political pressure by interested groups. Burk, *Intellectual Property*, *supra* note 11, at 13; *see also* Matt Stahl, *Recording Artists, Work for Hire, Employment and Appropriation* 1–3 (Oct. 23, 2008) (unpublished manuscript, on file with author), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1288831 (discussing the rather

written and signed instrument that the work shall be considered a work-made-for-hire.¹⁰⁴ This means that works commissioned for other purposes or works commissioned with no specific written agreement remain the author's.¹⁰⁵ The author is free to license or transfer the copyright as he or she sees fit.¹⁰⁶ Accordingly, the question which may arise is whether the work falls within the category of a commissioned work to begin with and if the answer is positive, then disputes might evolve around the interpretation of the contract between the commissioning party and the author.

4. The German Model

Civil Law provides a different model for ownership of employees' works.¹⁰⁷ The general approach is that the author is the initial owner if the work is made within the scope of the employment,¹⁰⁸ as in points [4], [5] or [6].¹⁰⁹ Civil law jurisdictions differ on their choice among these points. Interestingly, even when the choice is [4], in which the employee can freely transfer his or her rights to anyone, the law sets some boundaries to this transfer or grant of exploitation rights, namely the transfer is subject to a principle of "limited purpose": This limitation means that if the contract is unclear or incomplete, the transfer of rights or the license granted are interpreted narrowly, to cover only those rights that are related to the employment and leaving any residual rights to the author.¹¹⁰

curious case of sound recordings which were added to the list of enumerated categories and then eliminated). A second explanation suggests that the enumerated categories are works that require multi-party coordination. *Id.* at 12–14.

¹⁰⁴ 17 U.S.C. § 101.

¹⁰⁵ *Id.*

¹⁰⁶ *Id.* § 201(d).

¹⁰⁷ An important exception to the Civil law model, found in the European Union, instructs that material rights in software prepared by employees belong to the employer. *See* Council Directive 91/250, art. 2(3), 1991 O.J. (L 122) 42, 42–46 (EC); KIRCHBERGER, *supra* note 76, at 7–8 (explaining that the Directive was implemented throughout the E.U.).

¹⁰⁸ *See supra* note 77 and accompanying text.

¹⁰⁹ *See* discussion in text *supra* Part I.B.

¹¹⁰ *See* KIRCHBERGER, *supra* note 76, at 10, 13–14.

The German Copyright Act¹¹¹ provides an elaborate scheme of ownership or more precisely, a detailed regulation of copyright contracts. The Act was amended in 2002¹¹² and again in 2007.¹¹³ Under current German law, the ownership is allocated to the author,¹¹⁴ who cannot transfer the rights. However, the author can allow other parties, including the employer,¹¹⁵ to use the work. This is the *exploitation right* (Nutzungsrecht),¹¹⁶ which was

¹¹¹ Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I at 1273 (F.R.G.), available at Gesetz im Internet, <http://bundesrecht.juris.de>. For an English translation, see Law on Copyright and Neighboring Rights (Copyright Law), http://www.wipo.int/clea/docs_new/pdf/en/de/de080en.pdf.

¹¹² See Gesetz zur Stärkung der vertraglichen Stellung von Urhebern und ausübenden Künstlern [Act on Strengthening the Contractual Position of Authors and Performers], Mar. 28, 2002, BGBl. I at 1155 (F.R.G.). For a summary of the 2002 amendment and its legislative history, see generally Bettina C. Goldmann, *New Law on Copyright Contracts in Germany*, 9 COMPUTER & INTERNET LAW 17 (2002). For analysis, see Reto M. Hilty & Alexander Peukert, “Equitable Remuneration” in *Copyright Law: The Amended German Copyright Act as a Trap for the Entertainment Industry in the U.S.?*, 22 CARDOZO ARTS & ENT. L.J. 401, 416–21 (2004). See generally Gerhard Schrickler, *Efforts for a Better Law on Copyright Contracts in Germany—A Never-Ending Story?*, 35 INT’L REV. INTELL. PROP. & COMPETITION L. 850 (2004) (discussing the German Copyright Act and the 2002 amendment and its implications).

¹¹³ See Second Act Governing Copyright in the Information Society [Second Basket], Jan. 1, 2008, BGBl. I at 2513 (F.R.G.), available at <http://www.bgbportal.de/BGBL/bgb11f/bgb1107s2513.pdf>. The 2007 amendment, popularly referred to as the “second basket” of amendments of the copyright act for the information society, deals with various other aspects, which are not discussed in this article, such as compensation for owners for private copying and uses of public libraries. See *id.* The amendment entered into force on January 1, 2008. For commentary, see generally Stefan Krempf, *German Parliament Passes New Copyright Act*, HEISE ONLINE, July 6, 2007, <http://www.heise.de/english/newsticker/news/92318>. I am indebted to Zohar Efroni and Clemens Kochinke for their assistance with German copyright law.

¹¹⁴ See Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 11 (F.R.G.) (“Copyright shall protect the author . . . with respect to utilization of his work.”).

¹¹⁵ *Id.* § 43 (applying articles dealing with the exploitation rights to an author who has “created the work in execution of his duties under a contract of employment or service provided nothing to the contrary transpires from the terms or nature of the contract of employment or service.”); see also Schrickler, *supra* note 112, at 852. For discussion of the German legal framework, see KIRCHBERGER, *supra* note 76, at 13–15.

¹¹⁶ See Schrickler, *supra* note 112, at 852.

described by a leading German copyright scholar as a “sort of surrogate for the assignment of copyright.”¹¹⁷

The law imposes further limitations on the author’s power to make transactions and provides her with a set of (protective) rights, as well as supportive background rules.¹¹⁸ Located on the allocation spectrum, the German model is best understood to be in between points [5] and [6]. Several rules in the German Copyright Act empower the employee-author vis-à-vis the employer. *First*, any grant of exploitation rights is interpreted according to the purpose of the grant.¹¹⁹ However, it is reported that this limitation on the transferability is bypassed by contracts which attempt to detail every possible use.¹²⁰ One can assume that the more sophisticated parties bypass this limitation more often than the less sophisticated ones.¹²¹ *Second*, uses of the work which were not bargained for by the parties ex ante, are not granted automatically to the employer, but are to be determined.¹²² Until the 2007 amendment came into force in 2008, the law voided the grant of unknown uses.¹²³ For example, a contract regarding an analog work created at a time that no digitization technology was available could not address (then) future digital uses, but if it nevertheless did attempt to allow such future uses, the contractual clause granting the exploitation rights was considered void.¹²⁴ The

¹¹⁷ *Id.* at 852. Karl-Nikolaus Peifer pointed to me that the literal translation of Nutzungsrecht is “usage right”.

¹¹⁸ *See id.* at 852–56.

¹¹⁹ *See* Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31(5) (F.R.G.).

¹²⁰ *See* Schrickler, *supra* note 112, at 853.

¹²¹ *See id.*

¹²² *See* Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31(5) (F.R.G.); Schrickler, *supra* note 112, at 853.

¹²³ *See* Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31(4) (F.R.G.); Schrickler, *supra* note 112, at 853–854 (noting in 2004 before the 2007 amendment that “Amazingly, the courts show a tendency to restrict the range of application of Sec. 31(4).”).

¹²⁴ *See* Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 31(4) (F.R.G.); Schrickler, *supra* note 112, at 853; *see also* Press Release, Bundesministerium der Justiz (German Federal Ministry of Justice), German Budenstag Adopts Copyright Law Reform (July 5, 2007) [hereinafter Ministry of Justice Press Release].

2007 amendment allows copyright owners to grant licenses to use their works in yet unknown ways.¹²⁵ However, the permission is accompanied by a detailed mechanism, under which the user should notify the author (who is the copyright owner) of the new intended use.¹²⁶ The author then has a window of three months to revoke the right and is entitled to a reasonable remuneration, if the exploiter uses the work in the formerly unknown manner.¹²⁷ The author's right to withdraw the grant of exploitation rights of the new uses is also limited and expires upon the death of the author.¹²⁸ *Third*, the employee has some control over subsequent transfers of the exploitation rights.¹²⁹ *Fourth*, the 2002 amendment allowed the author to renegotiate the terms of the contract if the compensation is inequitable.¹³⁰ The amendment lists some conditions and specifies various standards for such equity.¹³¹ The right is operative if the difference between the reward to the author and the proceeds is "conspicuous."¹³² The right to modify the contract is limited when a collective labor agreement applies.¹³³ *Fifth*, the law instructs that the grants of exploitation rights are to be interpreted narrowly, so whenever in doubt, the disputed uses of

¹²⁵ See Ministry of Justice Press Release, *supra* note 124 (explaining that the German Copyright Act, § 31(4) was stricken out and replaced with new § 31a–31c).

¹²⁶ *Id.*

¹²⁷ *Id.*

¹²⁸ *See id.*

¹²⁹ *Id.*; see also Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 34(1) (F.R.G.) ("An exploitation right may be transferred only with the author's consent."). The Act also limits the power of the author, "The author may not unreasonably refuse his consent." *Id.* § 35 (explaining the grant of non-exclusive exploitation rights by the holder of an exclusive right).

¹³⁰ See Schricker, *supra* note 112, at 854 (explaining how the German Copyright Act, § 32a, enacted in 2002, replaced § 36).

¹³¹ *See id.* at 855.

¹³² See Karsten M. Gutsche, *Equitable Remuneration for Authors in Germany—How the German Copyright Act Secures Their Rewards*, 50 J. COPYRIGHT SOC'Y U.S. 257, 264–65 (2003) (proposing an escalating royalties' rates scheme instead of lump-sum remunerations).

¹³³ *Id.* at 268. *See generally* Goldmann, *supra* note 112. Collective labor agreements might play an important role in evening the unequal bargaining power of the parties.

the work remain the author's.¹³⁴ *Sixth*, the law allows agreements regarding future works, but the author has an unwaivable right to terminate the grant after five years.¹³⁵ *Seventh*, the employee-author has an unwaivable right of revoking the exploitation right, in some circumstances.¹³⁶

The complex German model illustrates that there are alternatives to the binary allocation rule that attempt to balance the commercial needs with the authors' interests. The different choices reflect the underlying rationales of copyright law and employment law.

D. Freelancers

Freelancers are independent contractors that remain the owners of the rights in the works they made, unless they transfer the rights.¹³⁷ The common copyright disputes involving freelancers turn on interpreting the scope of the license granted by the freelancer, usually a journalist, to the corporate user, usually a newspaper.¹³⁸ More concretely, disputes emerge when the contract mentions a specific use but the commissioning party uses the work for other uses.¹³⁹ The question is then whether the new use (e.g., online publication) is similar to the agreed upon use (e.g., print publication).

In *Tasini*, the defendant newspapers used articles written by freelance journalists not only according to the original agreed-upon use, namely in the print newspaper, but also in digital databases (CDs and online services) of third parties.¹⁴⁰ The suit was based

¹³⁴ Gesetz über Urheberrecht und verwandte Schutzrechte [Urheberrechtsgesetz] [UrhG] [Copyright Act], Sept. 9, 1965, BGBl. I § 37 (F.R.G.). This rule has an exception in cases of collective works. *Id.* § 38.

¹³⁵ *Id.* § 40.

¹³⁶ *Id.* §§ 41, 42 (revocation for non-use and revocation for changed conviction).

¹³⁷ See discussion *supra* Part I.C.3.

¹³⁸ See, e.g., *Bourne v. Walt Disney Co.*, 68 F.3d 621, 631 (2d Cir. 1995) (holding that in cases where only the scope of the license is at issue, the copyright owner bears the burden of proving that the defendant's copying was unauthorized).

¹³⁹ See, e.g., *Brown v. Twentieth Century Fox Film Corp.*, 799 F. Supp. 166, 171 (D.D.C. 1992) (noting that prohibition of a specific use does not indicate an intent to prohibit other uses).

¹⁴⁰ *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 498 (2001).

on § 201(c) of the Copyright Act, which allows the owner of the copyright in a collective work to reproduce the separate contributions to the collection, only as part of the collection or as a revision of the collection.¹⁴¹ The Supreme Court ruled in a 7–2 decision in favor of the journalists, finding that the digital republication was *not* a revision of the original collective work and accordingly, that the publishers were not authorized to use the articles in the way they did.¹⁴² Leaving aside the comparison of different media and whether this technological/legal interpretation is correct or not,¹⁴³ *Tasini*'s main lesson for our inquiry lies not in the judicial decision itself, but in the aftermath of the case.

Following the decision, the newspapers changed their contractual relationship with the freelancer journalists, so that the latter were required to transfer *all* possible rights to the newspapers and in some cases, they were required to do so retroactively.¹⁴⁴ Furthermore, the newspapers deleted thousands of articles from

¹⁴¹ 17 U.S.C. § 201(c) (2006) reads:

Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

¹⁴² *Tasini*, 533 U.S. at 488. Following the decision, a district court allowed a class action suit by the freelancers and later approved a settlement of a total of 18 million dollars. *In re Literary Works in Elec. Databases Copyright Litig.*, 509 F.3d 116, 120 (2d Cir. 2007), *cert. granted*, *Reed Elsevier, Inc. v. Muchnick*, 129 S. Ct. 1523 (2009). However, the court of appeals voided the settlement, finding that the district court lacked jurisdiction to certify a class, which included works that were not registered. *See id.* at 120–21.

¹⁴³ *See generally* Lateef Mtima, *Tasini and its Progeny: The New Exclusive Right or Fair Use on the Electronic Publishing Frontier?*, 14 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 369 (2004) (discussing the fate of revisions of collective works, i.e., republications of works in a different format, usually a digital format).

¹⁴⁴ This new contractual relationship was upheld in *Marx v. Globe Newspaper Co., Inc.*, 15 Mass. L. Rptr. 400 (Mass. Super. Ct. 2002), where the court found in favor of the newspaper. The new freelancer agreement read in relevant part that the freelancer grants the *Globe* for no additional fee, “a non-exclusive, fully-paid up, worldwide license to use all of the works that the *Globe* has previously accepted from [the freelancer], if any.” *Id.*

various databases.¹⁴⁵ Thus, one of the challenges freelancers face in the post-*Tasini* era is how to compensate for their low bargaining power.¹⁴⁶

The case of freelancers highlights the core of the problem, which is shared by the work-made-for-hire doctrine:¹⁴⁷ occasionally a work turns out to have new, previously unforeseen uses. When neither party expected this happy outcome, the unforeseen use was not bargained for. The binary legal doctrine results in a *winner take all* situation—either the employee owns the work or the employer does—much to the dismay of the losing party, who feels that he or she was tricked or that the initial deal was unfair.¹⁴⁸ We shall return to fairness later on.

Parisi and Ševčenko portray the freelancer-publishers relationship as an anti-commons situation.¹⁴⁹ They note that the easiest solution in the case would have been to compensate the freelance authors and transfer the digital publication rights to the publishers.¹⁵⁰ However, they point to the asymmetric transaction costs involved in such a corrective transaction.¹⁵¹ While it is easy and cheap to split the bundle of rights which constitutes the copyright, it is expensive to reverse the division and reunify the fragmented copyrights.¹⁵² The high costs are a combination of tracing all freelance authors affected by the decision, negotiating with them and overcoming attempts by some freelancers to hold-

¹⁴⁵ See Bickham, *supra* note 19, at 85–86, 103–04; Gorman & Ginsburg, *supra* note 21, at 9 (“In this tug-of-war between author and publisher, the former won the litigation battle but not necessarily the economic war.”); Terry, *supra* note 19, at 238; Snyder, *supra* note 19, at 365. Landes and Posner describe the decision as unfortunate from an economic standpoint, since it increases transaction costs without enhancing the incentives to create. See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 273–74 (2003) [hereinafter LANDES & POSNER, *THE ECONOMIC STRUCTURE*].

¹⁴⁶ Interesting options are to unionize or create a collective rights organization. See Maureen A. O’Rourke, *Bargaining in the Shadow of Copyright Law After Tasini*, 53 *CASE W. RES. L. REV.* 605, 626–34 (2003).

¹⁴⁷ See 17 U.S.C. § 101 (2006).

¹⁴⁸ See Jacob, *supra* note 16, at 134.

¹⁴⁹ See Parisi & Ševčenko, *supra* note 21, at 309–10.

¹⁵⁰ See *id.* at 297.

¹⁵¹ *Id.* at 302–03; see also LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 273–74.

¹⁵² See Parisi & Ševčenko, *supra* note 21, at 303.

out for higher compensation.¹⁵³ This analysis refers to the allocation of copyright that takes place *after* the initial relationship between the parties has been established, when no pre-assignment was agreed upon.¹⁵⁴

The case of freelance authors highlights some lessons which can be carried to the employment context. First, we should not limit our discussion to works that have already been created, but extend our inquiry to previous points on the timeline. Particularly, we should notice the pre-employment phase. Second, both employers and employees adjust their behavior to the law and continue to do so when the law changes. A legal rule that seems to empower the weaker party might turn out to be more damaging. In Coasean terms, this is a corrective transaction.¹⁵⁵ The Coase theorem states that when transaction costs are negligible, the initial allocation does not matter since the parties will reallocate the resources at stake.¹⁵⁶ Of course, the distribution of wealth among the parties matters to the parties and in the case of copyright it might matter to the public at large. In shaping the legal rule of first allocation, we should hypothesize whether the rule is likely to be corrected by the market, and if so, would that be a positive correction. In terms of overall welfare, a corrective transaction is efficient, but we should explore its distributive effect. In the aftermath of *Tasini*, the publishers improved their situation at the expense of the journalists and the public at large.¹⁵⁷

* * *

Thus far we have considered the multiplicity of modes of creative production and the changing conditions of the workplace; replaced the binary option that current law offers with a spectrum of allocation possibilities and mapped current legal models on this

¹⁵³ See *id.* at 311. A possible solution offered by Parisi and Ševčenko turns to the fair use defense. *Id.* at 323. More broadly, they suggest that the choice of remedy can solve *Tasini's* anti-commons problem by shifting from a property rule to a liability rule. *Id.* at 325.

¹⁵⁴ See *id.* at 311.

¹⁵⁵ See *Avitia v. Metro. Club of Chi., Inc.*, 49 F.3d 1219, 1232 (7th Cir. 1995) (citing Ronald H. Coase, *The Problem of Social Cost*, 3 J.L. & ECON. 1 (1960)).

¹⁵⁶ Coase, *supra* note 27, at 15 (reasoning that in a market with costless transactions, parties will rearrange their rights to increase the value of production).

¹⁵⁷ See *supra* notes 145–46 and accompanying text.

spectrum; and reflected upon some lessons from the freelancers' cases. We can now turn to the theoretical underpinnings of copyright law to search for guidance.

II. COPYRIGHT LAW: RISKS AND INCENTIVES

Under the economic analysis of copyright law, the rights accorded to authors serve as incentives to make works of authorship, which otherwise might not have been made. The discussion in this part follows this economic logic. Applying this understanding to the employment context instructs us to search for the party who bears the risk associated with making the work.¹⁵⁸ In most cases, this would be the employer.

Whatever the law's initial allocation might be, under an economic analysis the law should enable the parties to contract around the initial allocation, either *ex ante*, i.e., before the employment relationship is established and before the work is made, or *ex post*, after the work is made.¹⁵⁹ Setting the allocation as a default rule rather than an inalienable allocation reflects the importance of facilitating a free market and our commitment to freedom of contract.¹⁶⁰ It also enables the market to correct inefficient allocations. Accordingly, after searching for the best risk-bearer (Part II.A), this part inserts Coasean analysis into the copyright-employment context, arguing that we should contemplate not only the initial legal allocation, but consider, to the extent possible, the option that the parties will change the initial allocation. This discussion leads us to search for the best default rule (Part II.B). The economic analysis and the interest to avoid a case-by-case finding, instruct us to identify typical situations (Part II.C). Accordingly, I suggest that we search for

¹⁵⁸ See Jacob, *supra* note 16, at 124–26. The work-made-for-hire doctrine is interpreted so to achieve the constitutional goals of copyright law, of providing incentives to create works and public access to such works. Note that the argument made here need not contradict Jacob's argument.

¹⁵⁹ See Joshua Fairfield, *The Cost of Consent: Optimal Standardization in the Law of Contract*, 58 EMORY L.J. 1401, 1410 (2009) (“Coasean experiments in contract bargains seek to show that initial allocations of rights do not matter if the parties are able to contract around those allocations in a cost-free manner.”).

¹⁶⁰ Cass R. Sunstein, *Switching the Default Rule*, 77 N.Y.U. L. REV. 106, 108 (2002).

relevant criteria to shape these categories; three such main criteria are the work, the kind of employer, and the kind of employee.

A. *Identifying the Risk-Bearer*

1. Copyright Incentives

Under an instrumental conception, copyright law is a means to an end rather than an end in itself. The goal of copyright law is described in general terms, such as “the encouragement of learning” (in the words of the 1709 English Statute of Anne),¹⁶¹ or “to promote the progress of science” (in the words of the U.S. Constitution).¹⁶² The goal benefits the public, and the right accorded to the author helps achieve that goal.¹⁶³ Copyright is understood as an incentive to the would-be author in that it prohibits most unlicensed uses of his or her copyrighted work by others.¹⁶⁴

The protection against unlicensed uses is needed due to the economic features of intangible works as public goods.¹⁶⁵ Absent a law prohibiting the copying of the work, it is likely to be copied and a market failure is likely to occur.¹⁶⁶ The law intervenes so to restore the functionality of the market, by prohibiting the use of the work (unless the owner consents to the use), imposing sanctions on the infringer and providing the owner with a set of remedies. The law thus creates a legal fence around the intangible work and raises the costs of copying, which include not only the actual costs of copying (such as obtaining access and paying for the use of a photocopy machine) but also the legal risks. The higher cost of copying affects its feasibility and profitability.

¹⁶¹ Statute of Anne, 1709, 8 Ann., c. 19 (Eng.).

¹⁶² U.S. CONST. art. I, § 8, cl. 8.

¹⁶³ See *Mazer v. Stein*, 347 U.S. 201, 219 (1954).

¹⁶⁴ See Gordon & Bone, *Copyright*, *supra* note 22, at 189; Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 326.

¹⁶⁵ See Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 326.

¹⁶⁶ See Alan Devlin et al., *Success, Dominance, and Interoperability*, 84 IND. L.J. 1157, 1173 (2009).

2. Copyright Risks

Thus understood, copyright clears some obstacles and risks from the author's path. But copyright does not clear all potential hurdles and does not guarantee success in the market. It does not carry any promise to the owners that they will recoup their initial investment. An author might invest time and effort worth ten thousand dollars to write a book; a music company might invest a hundred thousand dollars in producing a CD; a studio might invest a hundred million dollars in producing a movie. But nevertheless, all these works might fail in the market. Investment and copyright protection do not guarantee success.

Copyright law will provide the owner with tools to prevent others from copying the works without permission.¹⁶⁷ The absence of free copies—assuming enforcement is effective—might influence the price and the sales. The copyright owner might charge a higher price and so recover some of the expenses. Copyright further enables the owner to rely on some distribution avenues. For example, music producers can rely on online distribution of the music. This is because the law treats the work as copyrighted and the copyright provides the rights of distribution and public performance.¹⁶⁸ Thus, self-help mechanisms such as Digital Rights Management (DRM)¹⁶⁹ and para-copyright legal protections such as the anti-circumvention rules of the Digital Millennium Copyright Act (DMCA)¹⁷⁰ ensure that online distribution is a (legally speaking) safe avenue. Of course, enforcement has its own costs.

But copyright has nothing to do with the total revenue. The book might be a best seller, earning millions for the author. The CD or movie might turn out to be a complete failure in the market. What does it take to turn a book into a best seller and a movie into a blockbuster? This is a multi-million dollar question, but the answer is not found in the realm of copyright. Moreover, copyright

¹⁶⁷ 17 U.S.C. § 106 (2006) (enumerating a copyright holder's exclusive rights).

¹⁶⁸ *Id.*

¹⁶⁹ See generally Stefan Bechtold, *Digital Rights Management in the United States and Europe*, 52 AM. J. COMP. L. 323 (2004).

¹⁷⁰ 17 U.S.C. § 1201.

is a necessary tool for some authors and owners, but not for all. Some dedicate their work to the public domain or allow various uses of the code they composed or the books they wrote and nevertheless make money.¹⁷¹ Copyright law is not in itself akin to winning a lottery ticket; it just assures that no one takes your ticket.

Thus, marketing cultural products requires two kinds of costs. First, is the cost of expression, i.e., the costs related to the actual production, such as time, effort, labor, and payments to other copyright owners for using their content as raw material. Second is the cost of producing copies, and marketing and handling the sales and managing the business, or more generally, the cost of commercializing the work. This can be rephrased as the costs of achieving optimal exploitation of the work.¹⁷²

The risks, accordingly, correspond to two stages in the life-cycle of the work: the creation, and the commercializing.¹⁷³ Copyright law lowers the risk associated with the first stage by offering the owner some guarantee that the initial costs will not be rendered irrelevant by unwanted third parties, but it does not obliterate the second risk. The author might invest a substantial amount in making the work and nevertheless might lose the entire investment without any right being infringed.

3. Shifting Risks in the Workplace

How should the law consider the various costs and risks described above in devising the rule of initial allocation of ownership between the employer and the employee? Rephrased in the incentive theory's terms, the question is who needs the incentive? Is it the employee or the employer? The risks

¹⁷¹ See STERLING, *supra* note 75, at 253. The Open Source GNU/Linux license or Creative Commons license offers ready mechanisms to allow certain uses in a cheaper way than individually-tailored licenses.

¹⁷² Writing about real property, Posner notes that the law should allocate the resource to the party who can best use it productively and can incur the costs. POSNER, *ECONOMIC ANALYSIS OF LAW*, *supra* note 70, at 81; see also Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 326 (defining exploitation of a creative work).

¹⁷³ See Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 326–27.

associated with making the work in the first place are a strong proxy for locating the incentives.¹⁷⁴ There should be a correlation between the party who bears the costs and the risks and the copyright, i.e., the tool that allows the owner to exclude potential infringers.¹⁷⁵ In other words, the *risk bearer* should enjoy the copyright, unless we have a strong reason not to allocate the right to her. Thus, the right should be accorded to the party who undertakes the costs and the financial risks.¹⁷⁶ Had the law awarded its prize to a party who did not bear the costs and the risks associated with making the work and commercializing it, it would not only have failed in its mission to provide incentives for making the work, but it would have provided disincentives for so doing.¹⁷⁷

An initial common sense observation is that the typical risk-bearer in the workplace is the employer.¹⁷⁸ This is a broad statement, which will be refined later on. But, beforehand, we need to point to the advantages of the employer as a risk bearer, as compared to the employee, and realize that the basic bargain of the employment relationship between some employers and some employees is a shift of risks.

Most employers have more resources and familiarity with the market than their employees.¹⁷⁹ The typical employee is risk averse and relies on his or her salary for a living.¹⁸⁰ The employers (and later I will refine this statement and narrow it to employers in the content industries) are in the business of marketing their products. The employer has established marketing avenues. The employer invested in the commercialization of the work and bears the commercialization risks.¹⁸¹ The employer has better data than

¹⁷⁴ See *id.* at 327.

¹⁷⁵ See *id.* at 327–28.

¹⁷⁶ Other risks are more difficult to quantify, e.g., a risk to the author's reputation. These are addressed by moral rights, to the extent they are recognized by the law. STERLING, *supra* note 75, at 279–81. See generally Dietz, *supra* note 71; Rigamonti, *supra* note 71.

¹⁷⁷ See Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 327–28.

¹⁷⁸ See Merges, *supra* note 65, at 16.

¹⁷⁹ See Towse, *Copyright Policy*, *supra* note 45, at 69.

¹⁸⁰ See *id.*

¹⁸¹ See Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 327.

the employee about market behavior and has better experience with the market.¹⁸² Employees, especially those whose livelihood depends upon making works of authorship, are less familiar with the market; they work in the creative department rather than in the marketing division. Furthermore, employers (and once again, especially those in the content industry) produce and/or market many works and thus can cross-subsidize between them by pooling the risks together and thereby diluting each separate risk.¹⁸³ It might be that nine out of ten books will fail in the market, but the tenth book will be a best seller, the sales of which will easily cover the costs of the nine books. A publisher who owns all ten books can dilute the risk in each book, whereas an employee, had she owned only the copyright to her book, would be unable to do so. Hence, the author (whether employee or not) is likely to transfer the rights to the publisher (whether employer or not).

The problem, once again, is that when that single book turns to be a best seller, then in hindsight, the pre-assignment of the rights seems unfair. Perhaps, one might argue, in such happy occasions, the author should be compensated. A response is found in an argument advanced by Landes and Posner, in their influential article, *An Economic Analysis of Copyright Law*, where they treated the author and publisher (though not in the employment context) as one unit without observing their sometimes conflicting interests, other than a short indirect comment.¹⁸⁴ Addressing the author-publisher relationship, they noted: "A publisher (say) who must share any future speculative gains with the author will pay the author less for the work, so the risky component of the author's expected remuneration will increase relative to the certain component."¹⁸⁵ In a later work, Landes and Posner addressed the work-made-for-hire doctrine directly, arguing, *inter alia*, that paying wages shifts the risk from the employee to the employer.¹⁸⁶

¹⁸² See Towse, *Copyright Policy*, *supra* note 45, at 69.

¹⁸³ *See id.*

¹⁸⁴ Landes & Posner, *An Economic Analysis of Copyright Law*, *supra* note 22, at 327.

¹⁸⁵ *Id.*

¹⁸⁶ LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 272.

A similar point was made by Robert Merges in the context of ownership of employee inventions.¹⁸⁷ He noted that the law enables pre-assignment contracts between the employers and the employees, transferring the rights *ex ante*.¹⁸⁸ Merges explained the pre-assignment contract as a trade of risks: “[I]t is arguable that current salaries for R&D employees are a precise measure of the expected, risk-adjusted present value of all future employee inventions.”¹⁸⁹ He further points to various internal incentives, such as employee reward plans and to a “simple risk analysis.”¹⁹⁰ Merges referred to the employee’s consent to a low-risk award in the form of a salary, where the employer undertakes the risk and investment associated with the patenting and further development of the invention.¹⁹¹

To summarize, the employer is better situated than the employee to market the work more efficiently and bears most of the costs associated with marketing it. The employment relationships can be viewed as a shift of risks from the employee to the employer. The question, then, is should the law imitate this typical behavior and allocate the initial ownership to the employer?

B. A Coasean Analysis and Penalty Default Rules

In a legal environment that celebrates the freedom to contract and aims to facilitate a functioning free market, one might ask

¹⁸⁷ See generally Merges, *supra* note 65. Merges integrates patent law and employment law, via a careful understanding of the complex context of the workplace. See *id.* He supports the current default rules set by patent law, according to which the employer is the owner of the patent. In comparing copyright law to patent law, one should be aware of the differences between the two fields, however. For these differences, see *id.*

¹⁸⁸ Merges, *supra* note 65, at 8–9. Merges also explains how the pre-assignment contracts preempt the anti-commons problem and the need to gather dispersed property rights *ex post*. *Id.* at 4, 54. Thus, the invention exploiters can avoid the asymmetric transactions costs.

¹⁸⁹ *Id.* at 16. Merges also discusses team production theory, which points to the difficulty in determining the individual contribution of each employee to the final product. *Id.* at 20–23. This point is acute in the patent field and is equally applicable to some modes of creative production in the copyright field, such as in large content industries like software companies, Hollywood studios, research institutes issuing public reports or law firms composing a legal document.

¹⁹⁰ *Id.* at 30–31.

¹⁹¹ *Id.* at 31.

whether the initial allocation matters at all, given the parties' ability to contract around it. An initial allocation which can be changed by the parties means that the allocation is only a default rule.¹⁹² However, changing a default requires information, awareness and understanding of the situation and the ability to evaluate it.¹⁹³ Phrased in the economic terms offered by Ronald Coase, the question is about the likelihood of a corrective transaction.¹⁹⁴ Coase famously pointed to transaction costs as a factor that might fail corrective transactions.¹⁹⁵ Accordingly, where transaction costs are not negligible or when there are other reasons for which a corrective transaction is unlikely to occur, the initial allocation does matter.

Hence, the question is what should be the default rule of initial allocation? Transaction costs might mean that the initial allocation is likely to stay. From an efficiency point of view, we should search for a rule that maximizes efficiency.¹⁹⁶ According to one view, the default rule should imitate the parties' anticipated behavior and thus save negotiation costs.¹⁹⁷ The rule should be designed according to what the parties would have agreed upon.¹⁹⁸ A second view would opt for the opposite, counter-intuitive default rule. This is the penalty default rule.¹⁹⁹

Discussing contract law, Ayers and Gertner suggested that in some situations the default rule should not imitate the parties' anticipated negotiations and be exactly opposite thereto.²⁰⁰ Such rules are appropriate when there are information asymmetries between the parties.²⁰¹ The default rule should favor the less-

¹⁹² Ayers & Gertner, *supra* note 28, at 91.

¹⁹³ *Id.* at 97.

¹⁹⁴ See Coase, *supra* note 27, at 15.

¹⁹⁵ *Id.*

¹⁹⁶ Ayers & Gertner, *supra* note 28, at 97; see also Sunstein, *supra* note 160, at 123–25.

¹⁹⁷ FRANK H. EASTERBROOK & DANIEL R. FISCHER, *THE ECONOMIC STRUCTURE OF CORPORATE LAW* 15 (1991).

¹⁹⁸ *Id.* (writing, in the context of corporate law, that “corporate law should contain terms people would have negotiated, were the costs of negotiating at arm’s length for every contingency sufficiently low”).

¹⁹⁹ Ayers & Gertner, *supra* note 28, at 97.

²⁰⁰ See *id.* at 91.

²⁰¹ See *id.* at 97–99.

informed party.²⁰² Thus, if the better informed party wishes to flip the default rule, it would have to raise the issue during negotiations.²⁰³ The result is that the information would be revealed and known to both parties.²⁰⁴ The penalty default rule thus serves as an informing mechanism.²⁰⁵ Ayers and Gertner explained: “Penalty defaults, by definition, give at least one party to the contract an incentive to contract around the default. From an efficiency perspective, penalty default rules can be justified as a way to encourage the production of information.”²⁰⁶

Applying the analysis of the Coase theorem and of default rules to the employment context indicates that the chances of a corrective transaction are asymmetric: employers are more likely to change the initial allocation in their favor and employees are less likely to be able to do so.²⁰⁷ Thus, although the penalty default rule might serve its informative function, this would be of no avail to employees. If the default rule awards the employee the initial ownership, the employer would insist that the allocation be changed. Given the superior power of the employer over the employee in a market where there is competition among the employees over jobs, the default rule would be flipped. Changing the default rule would raise awareness, but the employee would be unable to sustain the allocation in her favor or extract any other benefits. If the default rule were the opposite, awarding initial ownership to the employer, it would be more likely to stay that way.²⁰⁸ Further, in a market where there is competition among employers over employees, the latter’s bargaining power might suffice to protect their rights and interests.²⁰⁹

²⁰² *Id.* at 98.

²⁰³ *See id.* at 97–100.

²⁰⁴ *See id.*

²⁰⁵ *See id.*

²⁰⁶ *Id.* at 97.

²⁰⁷ For a similar argument, see LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 272 (arguing that an allocation to the employee would result in a transfer of the rights to the employer). *See also* LIONEL BENTLY & BRAD SHERMAN, *INTELLECTUAL PROPERTY LAW* 123 (2d ed. 2004).

²⁰⁸ *See* BENTLY & SHERMAN, *supra* note 207, at 123.

²⁰⁹ *See* Sunstein, *supra* note 160, at 125–27.

A 1988 law review article by Professor Hardy provides an elaborate economic analysis of copyright in the workplace and serves as a convenient baseline for the discussion here.²¹⁰ Interestingly, Hardy assumed that the work-made-for-hire doctrine does not raise particular difficulties with salaried employees and thus focused on freelancers and independent contractors and more specifically on the ownership of unforeseen and unbargained for uses of the copyrighted work.²¹¹ Applying the Coase theorem, Hardy noted that in the regular course of events, authors and publishers negotiate all the time and hence the transaction costs are low.²¹² He concluded that the initial allocation in these cases does not matter from the public's point of view.²¹³ Focusing on the unforeseen uses, he concluded that bargaining over the rights for such uses have infinite transaction costs.²¹⁴ Hardy then explored two possible criteria for allocating the rights of these uses. One is the "best exploiter" test: it examines which party is in a better position to exploit the work, in terms of resources, experience, and market position.²¹⁵ He evaluated "better exploitation" according to what can be understood as a constitutional standard that the works should benefit the public, rather than the copyright owner (or author).²¹⁶

A second possible criterion Hardy discussed is the "cheaper estimator": "who is better placed to estimate the value of unforeseen uses?"²¹⁷ If we accord the rights to this party, it alone would profit from the unforeseen uses.²¹⁸ If we accord the rights in the unforeseen uses to the party who could not estimate them cheaply, the rule would result in the cheaper estimator raising the

²¹⁰ See generally Hardy, *supra* note 23.

²¹¹ See *id.* at 190–92.

²¹² *Id.* at 191.

²¹³ *Id.*

²¹⁴ *Id.*

²¹⁵ *Id.* at 192.

²¹⁶ See *id.* Hardy emphasized the public, but did not directly attribute this emphasis to the Constitution. His careful study of numerous cases found that courts followed this "better exploiter" rule in most cases. See *id.* at 199–202.

²¹⁷ *Id.* at 192–93. Note that Hardy assumes that known uses are disclosed. *Id.* at 191 n.23.

²¹⁸ *Id.* at 192.

issue during negotiations and contracting for any such uses.²¹⁹ Accordingly, Hardy concluded that the rights for any unforeseen uses should vest with the party who cannot estimate the unforeseen uses cheaply.²²⁰ Rephrased in terms offered later by Ayres and Gertner, Hardy took into account the asymmetric power and searched for a mechanism that would solve the information gap.²²¹ The “cheaper estimator” test can be rephrased as a penalty default rule, which forces the more sophisticated party to reveal its estimations.²²² But Hardy then backed off, noting that this is a difficult assessment to make and should be done on a case-by-case analysis.²²³ He thus abandoned this criterion and remained with the best exploiter criterion alone.²²⁴

This is a very helpful analysis, but we need to draw its contours. It limits itself to situations where there is no contract, or that the contract is silent about some uses of the work, as in the case of unforeseen uses. Foreseeing the unforeseen is indeed an impossible task, but as Ruth Towse notes, publishers frequently require the author to assign all future rights, including unknown uses.²²⁵ The publishers simply have more experience and have realized more than once that unforeseen uses do occur.²²⁶ The digitization of every kind of work, which characterized the 1990s, provides one example,²²⁷ and broadcasting video over mobile phones in the 2000s is another.²²⁸ In other words, the fact that there are unforeseen uses is itself foreseen and can be addressed by the parties *ex ante*.²²⁹ Thus, the experienced publisher (or

²¹⁹ *See id.*

²²⁰ *Id.* at 195.

²²¹ *See id.* at 192–95.

²²² *See* Ayres & Gertner, *supra* note 28, at 91.

²²³ Hardy, *supra* note 23, at 194.

²²⁴ *Id.* at 195.

²²⁵ RUTH TOWSE, CREATIVITY, INCENTIVE AND REWARDS: AN ECONOMIC ANALYSIS OF COPYRIGHT AND CULTURE IN THE INFORMATION AGE 17 (2001) [hereinafter TOWSE, CREATIVITY, INCENTIVE AND REWARDS].

²²⁶ *See id.*

²²⁷ BENKLER, *supra* note 36, at 214–15.

²²⁸ *Id.* at 404–05.

²²⁹ Unless the law interferes and prohibits transactions as to future works or future uses, as did the German Copyright Act until the 2007 amendment. *See supra* text accompanying note 123.

employer), who is usually the cheaper estimator, is likely to raise the issue of unforeseen uses during negotiations with the author (employee).²³⁰ Given the unknown probability of such unforeseen uses and their inherent speculative nature, the price the author might ask for is likely to be low, if anything.

Cognitive psychology teaches us that many prefer the concrete, solid and positive present value, rather than the probable future gain with similar expectancy.²³¹ In the context of creative employees, the future gains and their probability are unknown in advance.²³² Faced with the option of receiving a reasonable payment now or a large share of the gains in the future, but under an assumption of low probability, most people would prefer the former option.²³³ Adding that we can safely assume that most employees are risk-averse and that most employers can more easily bear the risk by spreading it over their entire activity, and taking into consideration that sharing the gains with the authors is likely to reduce the authors' salary and shift back part of the risk to them,²³⁴ the practice of requiring that all rights are transferred is more efficient and Hardy's "cheapest estimator" rule collapses. Given the unequal bargaining power of the employee and the employer, we should not be surprised to see that where a written

²³⁰ See Hardy, *supra* note 23, at 193–95.

²³¹ See, e.g., Amos Tversky & Craig R. Fox, *Weighing Risk and Uncertainty*, in PREFERENCES, BELIEF AND SIMILARITY: SELECTED WRITINGS 747 (Amos Tversky & Eldar Shafir eds., 2003). There are two preferences: one for the certain rather than the probable and one for the present rather than the future. *Id.* For example, most of us would rather receive \$100 than a 20% chance that we would receive \$500. Further, most of us would rather receive it now than later. *Id.* When the present offer is concrete and certain and the future offer is uncertain, it is an easy choice, unless the expected benefit (the probability of profits) in the latter case is much higher than the current offer. *Id.*

²³² See TOWSE, CREATIVITY, INCENTIVE AND REWARDS, *supra* note 225, at 69–71.

²³³ See discussion of the "certainty effect" and related effects in Paul Slovic, Baruch Fischhoff & Sara Lichtenstein, *Facts Versus Fears: Understanding Perceived Risk*, in JUDGMENT UNDER UNCERTAINTY: HEURISTICS AND BIASES 463, 480–81 (Daniel Kahneman, Paul Slovic & Amos Tversky eds., 1982); Amos Tversky & Daniel Kahneman, *Rational Choice and the Framing of Decisions*, in PREFERENCES, BELIEF AND SIMILARITY: SELECTED WRITINGS, *supra* note 231, at 551, 606–11.

²³⁴ See LANDES & POSNER, THE ECONOMIC STRUCTURE, *supra* note 145, at 272.

contract exists, the employee will transfer all uses, known and present as well as unknown and future, to the employer.²³⁵

This analysis instructs us that in some cases, even where there are information asymmetries, a penalty default rule would not be effective. Indeed, it might draw the attention of the uninformed employee, who will now be informed. However, information in itself is insufficient to be able to change the default rule.²³⁶ In an employee's market, i.e., where there is competition among employees over jobs, the average employee is unable to shift the default rule in his or her favor.²³⁷ The result of a penalty default rule would be that it would easily be contracted around without a penalty to the employer.²³⁸ Moreover, the employee would suffer demoralization costs. Learning about a right one has, only to realize that it is easily taken away without any ability to affect the transfer or without any compensation, might cause loss of trust. Such an employee might feel he or she was tricked. The demoralization costs of an easily-contracted-around penalty default rule (or better: a non-penalty default rule) can be rephrased as an endowment effect, i.e., the bias of property holders as to its value.²³⁹ Owners tend to value their property at a higher price than they themselves would have been willing to pay to buy the same property.²⁴⁰ If the default rule accords the employee with the copyright subject to the option to change the default rule, and given the typical lack of power by the individual employee, the

²³⁵ Once again, the aftermath of *Tasini*, where newspapers insisted that freelancers agree to an "all rights transferred" contract with no further compensation, illustrates this point. See *supra* notes 144–45 and accompanying text. Hardy's analysis is also limited in that he focused on works that have already been made. See generally Hardy, *supra* note 23. He assumed that the works came into being and discussed the post-creation phase. *Id.* Hence, it is not surprising that his main criterion is the better exploiter of the work. *Id.* at 195. However, the economic view of copyright law taught us that the law needs to provide incentives to make works in the first place. We should query how considering the ex ante incentives affect his analysis.

²³⁶ See Sunstein, *supra* note 160, at 120–22.

²³⁷ *Id.* at 107.

²³⁸ *Id.* at 119–20.

²³⁹ *Id.* at 112 (discussing the endowment effect in the context of employment).

²⁴⁰ *Id.*

allocation would be changed and the employee would feel the greater loss caused by the endowment effect.²⁴¹

This kind of cost does not in itself dictate that the law avoids such allocations. Such a conclusion would amount to endorsing some form of imposed ignorance, which I do not support. The argument is that there is no point in devising rules that will fail to achieve their stated purpose, and in addition, cause unnecessary demoralization. Thus, a penalty default rule awarding initial ownership to the employee would have the unnecessary costs of the corrective transactions and additional demoralization costs.²⁴² The information deficiencies should be taken care of, but not by a penalty default rule.²⁴³

The interim conclusion is that allocating the initial rights to the employee is likely to be corrected immediately by the employer at almost no cost, but a contrary allocation is likely to stay. The author/employee is compensated by receiving a steady salary and ridding herself from the risks associated with making and commercializing the work, as well as enforcing the rights.²⁴⁴ This conclusion will be subject to an inspection under employment law, but beforehand, we need to fine-tune the general statement made earlier, that the employer is the best risk-bearer.²⁴⁵

C. *Typical Cases*

A general rule based on typical cases is more efficient than a case-by-case rule as it enhances foreseeability, but given that there are various kinds of transaction costs that might fail efficient corrective transactions, I believe it is better to calibrate the scales and zoom-in into the workplace, in order to differentiate between various kinds of situations. This will enable us to fine-tune the general allocation rule.²⁴⁶ Accordingly, we should ask the following question: in the workplace, who is the party that

²⁴¹ *See id.* at 126.

²⁴² *Id.* at 126–27.

²⁴³ *See infra* Part III.C.

²⁴⁴ *Merges, supra* note 65, at 16.

²⁴⁵ *Id.*

²⁴⁶ Of course, defining sub-categories has some costs of its own, as parties are likely to disagree as to the applicable category, a dispute resulting in uncertainty and further costs.

typically undertakes the risks associated with creating the copyrighted work? Three criteria lend themselves to this discussion: the kind of work, the kind of employer, and the kind of employee. I discuss them briefly and then turn to the scope element of the work-made-for-hire doctrine to evaluate it on the background of this discussion.

1. The Work

Some products require pooling together several works of different authors. A movie combines a literary work (the script), musical works, photography, acting, directing, and many other works. Landes and Posner noted that it is efficient to vest copyright of an integrated expressive work in the hands of one person so to avoid multiple ownerships.²⁴⁷ Parisi and Ševčenko elaborated on this point and argued that creative works are often the result of many people each contributing a piece of the work, which needs to be assembled together.²⁴⁸ Complex software is an example. In order to be able to commercialize the aggregated work, the bits and bytes need to be accumulated. The various authors can attempt to negotiate a joint venture, but given the well-known problems of common action such as negotiation costs and hold-outs, the split of rights is likely to result in an anti-commons problem and nothing at all but frustration.²⁴⁹ Allocating the rights to one entity in the first place is far more efficient than pooling them together later.²⁵⁰ Thus, in the case of integrated expressive

²⁴⁷ LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 272. For the perils of multiple ownerships, see generally Heller, *supra* note 62.

²⁴⁸ Parisi & Ševčenko, *supra* note 21, at 303; *see also* Merges, *supra* note 65, at 20–23 (discussing “team production theory” in the context of patent law).

²⁴⁹ *See* Heller, *supra* note 62, at 677–78. A shared ideology can provide a powerful motivation to overcome the common-action problem. For example, the Open Source movement provides numerous illustrations of joint ventures, where those who participate forego any veto rights they might have had, thus mitigating the anti-commons problem. For a discussion of the process in which open source software is achieved, see R. VAN WENDEL DE JOODE ET AL., *PROTECTING THE VIRTUAL COMMONS—SELF ORGANIZING OPEN SOURCE AND FREE SOFTWARE COMMUNITIES AND INNOVATIVE INTELLECTUAL PROPERTY REGIMES* 13–23 (2003) (describing models of open source and the way to coordinate distributed ownership).

²⁵⁰ Parisi & Ševčenko, *supra* note 21, at 303.

140 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* [Vol. 20:95

works, to use Landes and Posner's term,²⁵¹ there is yet another reason to allocate the rights to the employer.

2. The Employer

The employer's business model matters. We should differentiate a content business from a non-content business. In workplaces such as a music label, a Hollywood studio, a software company or a publishing house, the employer is in a better position to undertake the risks associated with producing and commercializing the work, since the typical production firm does not invest in one work only, but simultaneously, in several works.²⁵² This enables an employer to spread the risk over the several works and cross-subsidize them. The employer whose incentive is to market such works has better familiarity with the market and its workings. Thus, the employer is in a better position to market the work efficiently and successfully.

In a non-content industry, where the employee is hired to do a non-creative (in the copyright sense) job, but nevertheless makes a work of authorship, the employer is not usually involved in the risk taken in making the work, nor does the employer have unique knowledge about the market of the unexpected work.²⁵³ In such cases, there is no *ex ante* reason to allocate the copyright to the employer.

3. The Employee

As the previous criterion illustrates, some employees are hired to make a creative work, such as an architect hired to work in an architecture firm, a doll designer, or a musician hired to compose music for an advertising firm. Some employees are not hired to make creative works, whether they work for a content industry or not: a secretary, a laboratory supervisor, or a recruitment officer. These employees might nevertheless make works of authorship,

²⁵¹ LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 272.

²⁵² Dreyfuss, *Commodifying Collaborative Research*, *supra* note 26, at 404–05 (noting that the film industry played a significant role in the creation of the work-for-hire doctrine).

²⁵³ *See, e.g.*, *Miller v. CP Chems. Inc.*, 808 F. Supp. 1238 (D.S.C. 1992).

perhaps to the pleasant surprise of all. In some cases, these works might turn out to be profitable. A lecture prepared by an employee can be published and sold to a publisher, a guide written for internal purposes can turn out to be useful to other firms, software written to improve office work might be commercialized. In such cases, we are unlikely to find pre-assignment contracts, and neither side is especially suited to market the work, so it is unclear *ex ante* who is the best risk-bearer. Given that the work was created after the commencement of the employment relationship, the likelihood of a corrective transaction is minimized.²⁵⁴ The parties might decide to engage in a joint venture and will then formalize their relationship regarding the work.²⁵⁵

4. The Scope of Employment

Under the second element of the work-made-for-hire doctrine, a court (or the parties themselves) should decide whether the work was made within the scope of employment.²⁵⁶ Recall that courts apply a three part test borrowed from agency law, examining whether the work is “of the kind [the employee] was employed to perform,” whether the work was made “within the authorized time and space limits,” and whether it was made with the purpose that it serves the employer’s interests.²⁵⁷

The first test (kind of work) requires that we ask the question just proposed: what was the employee hired to do? Assessing whether the employee was hired to make creative works requires that we interpret the employment contract, whether written or oral, and take into account the dynamic nature of such contracts.²⁵⁸

The second test (time and space) is rather objective, but is irrelevant to many new forms of employment,²⁵⁹ and in any case,

²⁵⁴ See *supra* Part II.B.

²⁵⁵ See Dreyfuss, *Commodifying Collaborative Research*, *supra* note 26, at 407–10.

²⁵⁶ 17 U.S.C. § 101 (2006); see, e.g., *Comty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739–40 (1989).

²⁵⁷ *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 571 (4th Cir. 1994); see also *Avtec Sys., Inc. v. Peiffer*, No. 94-2364, 1995 WL 541610, at *4 (4th Cir. Sept. 13, 1995).

²⁵⁸ Guy Mundlak, *Generic or Sui-Generis Law of Employment Contracts?*, 16 INT’L J. COMP. LAB. L. & INDUS. REL. 309, 319 (2000).

²⁵⁹ Kreiss, *supra* note 96, at 129. Thus, for example, a court found that a research fellow works either in the employer’s institution or elsewhere, e.g., in the library. See

can be easily bypassed by an employee who wishes to distance the employer from the (later to be disputed) work.²⁶⁰ In a world of changing working conditions, with ubiquitous computing and universal communication access, the physical place and the time of the making of the work are obsolete factors.²⁶¹ Whether the work was created during the duration of employment remains relevant, but is more of an indicator as to the first element of the work-made-for-hire doctrine, i.e., whether the author was an employee at all.

The third test (purpose) is difficult to evaluate and would often require evidence and testimonies, thus rendering it unpredictable in many cases and expensive (and risky) to find out.²⁶² Some courts seem to transform the rather subjective inquiry of the employee's purpose to a more objective inquiry about the connection between the work and the employment.²⁶³ To the extent that this test is so interpreted, it is no more than another facet of the first test: while the first test compares the general tasks of the employee and his or her actual activity in making the disputed work, the third test asks about the fit between the employer's activity and the specific work.²⁶⁴

Following the analysis offered here, the better question should be the following: which party undertook, or is better situated to undertake, the risks associated with making the work and commercializing it? The first test, asking whether the employee was hired to make creative works like the work at stake, is thus the most important of the three agency tests, while the second should

Genzmer v. Pub. Health Trust of Miami-Dade County, 219 F. Supp. 2d 1275, 1282 (S.D. Fla. 2002). A more decisive factor was that the work at stake in that dispute—a computer program—was made while the research fellow was an employee. *Id.* at 1282.

²⁶⁰ Kreiss, *supra* note 96, at 129.

²⁶¹ See *Genzmer*, F. Supp. 2d at 1281–82.

²⁶² Indeed, courts seem to struggle with this test. See *Avtec*, 1995 WL 541610, at *5. Kreiss pointed to the subjective nature of the third test. Kreiss, *supra* note 96, at 129.

²⁶³ See, e.g., *Miller v. CP Chems. Inc.*, 808 F. Supp. 1238, 1244 (D.S.C. 1992) (“[The] ultimate purpose of the development of the [work] was to benefit [employer] by maximizing the efficiency of the operation of the quality control lab.”).

²⁶⁴ Kreiss, *supra* note 96, at 129 (proposing that when the first two tests are met, there is a presumption that the employee acted by a desire to serve the employer).

no longer be an indication for this purpose, and the third is at most, an indication of the first test.

*Miller v. CP Chemicals, Inc.*²⁶⁵ provides a helpful illustration.²⁶⁶ As mentioned above, Miller, a former employee, argued that he owned the copyright in a computer program he developed while employed at CP Chemicals.²⁶⁷ Miller was the laboratory's supervisor, a job that included computerization of analytical data generated in the lab.²⁶⁸ Miller became concerned about the efficiency of manual calculations in the quality control of one of the products.²⁶⁹ He then wrote a computer program to assist in the matter.²⁷⁰ The development was done at home on his own time without further payment.²⁷¹ CP managers knew about the program and requested Miller to write further programs for other products, which he did.²⁷² After the employment was terminated, the parties disputed the ownership of the first program.²⁷³

Following *Community for Creative Non-Violence v. Reid (CCNV)*,²⁷⁴ the court applied agency tests to determine the scope of Miller's employment.²⁷⁵ On the first test, the court found that "the development of the computer program was at least incidental to his job responsibilities," despite the fact the job description did not mention computer programming.²⁷⁶ On the second test, the court found that the work was done during the time period of employment, though from the home, on Miller's time and with no additional pay.²⁷⁷ The third test was decisive. The court found a fit between the disputed work (the computer program) and the

²⁶⁵ 808 F. Supp. 1238 (D.S.C. 1992).

²⁶⁶ See also *King v. SA Weather Service* 2008 (143) SCA (S. Afr.).

²⁶⁷ *Miller*, 808 F. Supp. at 1239.

²⁶⁸ *Id.* at 1240.

²⁶⁹ *Id.*

²⁷⁰ *Id.*

²⁷¹ *Id.*

²⁷² *Id.*

²⁷³ *Id.* at 1240–41.

²⁷⁴ 490 U.S. 730 (1989).

²⁷⁵ *Miller*, 808 F. Supp. at 1243.

²⁷⁶ *Id.*

²⁷⁷ *Id.*

employer's interests, in that it was "directly related to a specific product . . . for the primary benefit of the employer."²⁷⁸

This reasoning fails to take into account both copyright law and employment law perspectives. The risk that the time and effort invested in the making of the work might turn out to be a waste, was borne solely by the employee. Had the program not succeeded, Miller would have borne the costs. The costs and the risks at stake are those associated with the making of the work and with utilizing it. The fact that the work was product-specific and hence less likely to be commercialized is less relevant. Consider, for example, an independent contractor who approaches a firm, saying that she has studied its business and thinks it can improve its production by applying a device (or software) she designed for its particular use. The risk is borne only by her: if she fails to sell, she will be left with a useless product. In other words, the *Miller* court made too much of the fit between the software and the employer's business. The focus should have remained on the fit between the job description, interpreted in a pro-employee manner as discussed in the next part, and the actual work done, asking about the location and placement of the risks.²⁷⁹ Awarding the copyright to the employer in this context lessens the incentives of the employees to think outside the box, initiate new tools and develop software that benefits all.

* * *

To summarize, under a copyright law perspective, the initial allocation of copyright should correspond to the risks taken in producing the work in the first place and in commercializing it later on.²⁸⁰ In designing allocation rules, the legislature or the courts should consider the uneven chances of a corrective transaction. The typical situation is that the employer is the best risk-bearer.²⁸¹ Nevertheless, instead of one scenario, the law

²⁷⁸ *Id.* at 1244 n.7.

²⁷⁹ The court was aware that a contract could have solved the uncertainty, but failed to take into account the unequal bargaining power of the employee vis-à-vis the employer. The court admitted that the work-made-for-hire doctrine might create harsh results, but placed the burden on the employee to obtain a written agreement. *Id.* at 1245.

²⁸⁰ See discussion *supra* Part II.A.

²⁸¹ See discussion *supra* Part II.A.

should address several typical situations and shape legal categories accordingly. The kind of work, the business model of the employer, and the kind of employee are all factors to be considered.²⁸² A penalty default rule may convey information but it will be ineffective and cause other unnecessary costs.²⁸³ The information gaps should be addressed in a different manner.

This analysis supports the second element in the work-made-for-hire doctrine, i.e., whether the work was created within the scope of the employment, with a proposal to interpret it with an emphasis on the question of risk, instead of the current three-prong test borrowed from agency law.²⁸⁴ A second leg of the allocation rule looks not only at the work at stake and the risk bearer, but at the relationship between the parties, and this is where employment law enters.

III. EMPLOYMENT LAW

Thus far, we have discussed the question of ownership of works created by employees from a copyright law perspective under its economic conception. Courts supplement copyright law with tests borrowed from agency law, which in turn derives from tort law.²⁸⁵ Relationships between a hiring party and a hired party, whether employees or not, might also be subject to principles of contract law.²⁸⁶ The absence of employment law within this legal construction is striking. This part suggests that we insert and integrate principles of employment law into the copyright law analysis. The integration is important in the particular case but it also serves a broader argument, that copyright law should not be isolated from other legal fields.

This part first presents the dilemma arising from the legal setting and briefly draws the contours of the discussion by explaining the methodology undertaken here (Part III.A). Second,

²⁸² See discussion *supra* Part II.C.

²⁸³ See discussion *supra* Part II.B.

²⁸⁴ See *supra* notes 96–98 and accompanying text.

²⁸⁵ See *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 740–41 (1989). See generally Jacob, *supra* note 16.

²⁸⁶ See Burnham, *supra* note 63, at 400; Mundlak, *supra* note 258, at 319.

this part unpacks the notion of unfairness in the employment context (Part III.B) and then discusses concrete legal mechanisms that correspond to the unpacked meaning of fairness (Part III.C).

A. *Setting the Stage*

1. Fairness and Efficiency

Instincts of justice (and more often, of injustice) often tilt us towards the weaker party in a legal conflict. We wish to assist the poor in their struggle with the rich or the citizen struggling to find his way through the corridors of the bureaucratic state. We wish to lend a supporting hand to the person in need. However, while these are just instincts, they are perhaps not shared by all. Instincts are a good reason to question and revisit current norms, deliberate and think of improvements to the existing order, but they are insufficient grounds in themselves for legal reasoning. Instincts cannot substitute rational logic, though the latter can and should reflect considerations of justice, even of compassion. The question of initial ownership reflects a tension between instincts of justice or fairness and efficiency.²⁸⁷ This is not to say that efficiency is by nature unjust, or that justice and fairness are by nature inefficient. However, in the context of the discussion here, the efficient solution in many cases is to award ownership to the employer, an allocation which at first sight might not seem fair to many observers. Here, I try to breakdown this intuitive dichotomy, show its complexity and fine-tune the legal rules accordingly.

The unfairness instincts play an active role in both the popular²⁸⁸ and legislative forums.²⁸⁹ These instincts arise when the employer earns much from a work made by the employee while

²⁸⁷ See Guy Davidov, *The (Changing?) Idea of Labour Law*, 146 INT'L LAB. REV. 311, 313–14 (2007) [hereinafter Davidov, *The (Changing?) Idea of Labour Law*].

²⁸⁸ See, e.g., Courtney Love, Remarks at the Digital Hollywood Online Entertainment Conference (June 14, 2000), available at <http://archive.salon.com/tech/feature/2000/06/14/love/> (criticizing the record industry's pressure to include sound recordings in the "work for hire" doctrine in the U.S.).

²⁸⁹ See, e.g., Hardy, *supra* note 23, at 183–85 (discussing testimonies before Congress while it debated the 1976 Copyright Act).

the employee does not share the gains.²⁹⁰ Bluntly speaking, the (un)fairness instinct is that the employer rips off the weak employee's creative works and the revenues. It is especially acute in situations where there are "unbargained for or unforeseen uses, [in which] one party will gain what the other loses,"²⁹¹ i.e., when "unforeseen uses . . . bring windfall profits to the hiring party,"²⁹² or put differently, "an *ex ante* 'fair' bargain can turn into an *ex post* rip-off."²⁹³ The complaint about unfairness can be read as a merger of two narratives—that of the romantic author prevalent in copyright law²⁹⁴ with that of the exploited, weak employee, in employment law.²⁹⁵ Of course, "weak" and "powerful" are relative and fuzzy terms. Is the employee so weak vis-à-vis the employer? Is the unfairness instinct valid? If so, how should the law account for it?

The tension appears in the legal layer of the allocation spectrum, discussed above.²⁹⁶ The American model seems at first sight to prefer efficiency to fairness,²⁹⁷ whereas the German model seems at first sight to focus almost entirely on the author and prefer fairness to efficiency.²⁹⁸ While the tension between justice/fairness instincts and efficiency surfaces within each model, the focus here is on the American model. Both elements of the work-made-for-hire doctrine reflect the conflict between efficiency and fairness. A broad interpretation of the scope element, i.e., a low threshold that easily recognizes works as made within the scope of employment, supports the employers, whereas a narrower interpretation would support the employees. Part II addressed the

²⁹⁰ See Davidov, *The (Changing?) Idea of Labour Law*, *supra* note 287, at 312 ("The right of the employer to issue commands and make unilateral decisions with regard to the workplace confers significant powers, which can sometimes be abused.").

²⁹¹ See Hardy, *supra* note 23, at 185.

²⁹² *Id.* at 190.

²⁹³ TOWSE, CREATIVITY, INCENTIVE AND REWARDS, *supra* note 225, at 17 (emphasis added).

²⁹⁴ See Jaszi, *supra* note 41, at 456; Woodmansee, *supra* note 41, at 425. Others doubt the influence of the romantic author on the law. See Mark A. Lemley, *Romantic Authorship and the Rhetoric of Property*, 75 TEX. L. REV. 873, 882–88 (1997).

²⁹⁵ See Davidov, *The (Changing?) Idea of Labour Law*, *supra* note 287, at 312.

²⁹⁶ See discussion *supra* Part I.B.

²⁹⁷ See *supra* Part I.C.1.

²⁹⁸ See discussion *supra* Part I.C.4.

efficiency side in this tension. Now we need to unpack the “fairness” part of this juxtaposition. Beforehand, a short methodological comment is due.

2. Methodology

Studying the intersection of two separate legal fields can be conducted in several ways. One is doctrinal and searches for a rather technical way to coordinate between the two bodies of law so to minimize friction in their application. A second, deeper level of inquiry, asks whether the two fields are compatible, by turning to the underlying theories of each. The second track requires that we first explore each field of law separately and then examine the match of the principles, rather than examining the rules which are supposed to execute the principles.²⁹⁹ The theoretical inquiry is complicated when each body of law has several underlying theories, which might not be in harmony.

Several theories explain copyright law, ranging from an instrumental conception under which copyright is a means to serve the public,³⁰⁰ to a competing conception, which views copyright as a means to serve the authors’ proprietary rights.³⁰¹ Employment law as well can be read under several views, emphasizing equity (fairness) or efficiency and various attempts to reconcile the two.³⁰² Thus, in examining the relationship between copyright law and employment law, we can either map all possible theories of each field of law and inquire all possible pairs of the theories’ interrelationships, or, choose in advance our preferable theory of each field. Here I undertake the latter approach and juxtapose copyright law under its economic theory, with employment law, under its fairness conception.

²⁹⁹ For an application of the second, theoretical track, in the context of the relationship between copyright law and free speech jurisprudence, see Michael D. Birnhack, *More or Better? Shaping the Public Domain*, in *THE FUTURE OF THE PUBLIC DOMAIN—IDENTIFYING THE COMMONS IN INFORMATION LAW* 59, 85 (Lucie Guibault & P. Bernt Hugenholtz eds., 2006).

³⁰⁰ See STERLING, *supra* note 75, at 58.

³⁰¹ For theories of copyright law, see Edwin C. Hettinger, *Justifying Intellectual Property*, 18 *PHIL. & PUB. AFF.* 31, 38 (1989); Justin Hughes, *The Philosophy of Intellectual Property*, 77 *GEO. L.J.* 287, 296 (1988).

³⁰² See Davidov, *The (Changing?) Idea of Labour Law*, *supra* note 287, at 313–14.

This pair of rival principles chosen for examination is probably the most intriguing one, as the principles on the table are efficiency and fairness. In this sense, I believe the gap between copyright law and employment law is much wider than had we examined copyright law under a non-utilitarian, *droit d'auteur* view and compared it with employment law, with a fairness-reading in mind. The latter view informs German law, discussed above, which strives to protect the individual author/employee more than the hiring party.³⁰³ Equally, had we examined copyright law under a strict economic reading and treated the employment relationship as a labor market, similar to other free markets, there would not be much of a conflict (and authors/employees would not fare very well).

B. Fairness in Employment

This section unpacks the meaning of fairness in the context of an employee's copyrighted works. The discussion identifies information deficiencies and external factors as causes of unfairness, but then examines the employment relationship as a shift of risks.

1. Fairness

Fairness is a moral principle that in itself does not say much. Often, fairness is an ex post conclusion or observation, but does not include ex ante guidance. In order to render this principle helpful, we need to unpack the meaning of fairness in the employment context, a rather daunting task. I will narrow down the task to ownership in works made in the workplace context.

What does fairness mean in the context of employment law? The crux of the fairness argument is a well-known lesson of employment law, that the employer and the employee have unequal bargaining power.³⁰⁴ The employee is often much weaker

³⁰³ See discussion *supra* Part I.C.4.

³⁰⁴ Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 138; see Hugh Collins, *Justifications and Techniques of Legal Regulation of the Employment Relation*, in *LEGAL REGULATION OF THE EMPLOYMENT RELATION* 3, 10–11 (Hugh Collins, Paul Davies & Roger Rideout eds., 2000).

than the employer.³⁰⁵ Absent legal rules or social norms to limit the employer's power, the employer could exploit the employee and mistreat him or her. The ultimate power to fire the employee would loom in the background of the employment relationship but at the forefront of the employee's concerns.

However, much like "fairness," unequal bargaining power is a description of a particular employment context or even of general modes of employment, but it is not instructive in itself.³⁰⁶ Finding that there is unequal bargaining power is too general an observation and only directs us to search for ways to correct the inequality. Hence, this much-used term, too, needs to be unpacked. Of course, some argue that there is no inherent unfairness in the employment context and that it is just a matter of demand and supply.³⁰⁷ However, even those who hold such a market-based view would agree that market failures should be identified and corrected.³⁰⁸

Several scholars attempted to do exactly this. Hugh Collins, for example, pointed to three main reasons for market failures, which in turn justify regulation of the employment relationship: inadequate information, the use of monopoly power in the market, and high transaction costs.³⁰⁹ Guy Davidov suggests that inequality of bargaining power exists when market failures enable

³⁰⁵ See Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 138–39.

³⁰⁶ *Id.* at 140 (noting that this concept "suffers from inherent vagueness").

³⁰⁷ *Id.* at 139.

³⁰⁸ For a justification of employment law as a social means to correct market failures, see Alan Hyde, *What is Labour Law?*, in BOUNDARIES AND FRONTIERS OF LABOUR LAW: GOALS AND MEANS IN THE REGULATION OF WORK 37 (Guy Davidov & Brian Langille eds., 2006). Hyde argues that

[I]abour and employment law is the collection of regulatory techniques and values that are properly applied to any market that, if left unregulated, will reach socially sub-optimal outcomes because economic actors are individuated and cannot overcome collective action problems On this view, labour law is not the set, in theory infinite, of human values that might rationally be imposed by societies on markets. Rather, labour law is the much narrower set of values that correct market failures through particular legal techniques.

Id. at 53–54.

³⁰⁹ See Collins, *supra* note 304, at 7–11.

the employer to influence the terms of the contract more than the employee can.³¹⁰ Put differently, various failures of the employment market are often conceived and rephrased as unequal bargaining power.

These failures can be grouped into factors *internal* to the relationship between the employer and employee and those *external* to the particular relationship, which the parties cannot control but may use or abuse within the relationship. The first group includes information deficiencies of various kinds, bounded rationality and lock-in costs.³¹¹ The second group includes market conditions, such as the level of unemployment and whether the employer enjoys a monopolistic status.³¹²

2. Information Deficiencies

Information deficiencies play a crucial role: without knowledge about the rule of allocation of the copyright work, one cannot plan his or her steps and is unlikely to raise the issue of ownership in negotiations, and in fact, the entire incentives-talk of copyright law becomes shallow and empty. How many authors are familiar with copyright law principles, i.e., which works are protected and which are not? How would an author respond to the work-made-for-hire doctrine, had she known about it? Perhaps she would prefer to remain an independent contractor, or, if she is an employee, she would try to “work around” the doctrine and make the work outside the scope of employment, or perhaps discuss the issue with the employer before engaging in the costly making of the work. Information about the law, about the status of the author as an employee and about the circumstances of making the work—is crucial.

Unlike the employee, the employer usually is more knowledgeable about copyright law, especially an employer in the content industry.³¹³ There is an asymmetry of information between the parties.³¹⁴ Dealing with copyright law might be central to the

³¹⁰ Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 139.

³¹¹ *See id.*

³¹² *See id.*

³¹³ *See* Collins, *supra* note 304, at 7–8.

³¹⁴ *Id.* at 8.

employer's business, but even if this is not the case, the employer typically enjoys ongoing legal services. The employer in the content business is a repeat player and has better (institutional) memory than the hired, creative party.³¹⁵

On the other hand, the employee has better knowledge regarding his or her ability to perform the expected job and make the works which he or she was hired to make.³¹⁶ The employee usually knows, or at least knows better than the new employer, her abilities, how she manages her time, works under pressure, and the like circumstances. The employer also bears related costs, such as monitoring the employees once hired, and is subject to employees' strategic behavior.³¹⁷

However, the dual asymmetries do not negate each other. The employer has some information about the employee's abilities, based on prior works, recommendations, and the employer's experience in hiring new employees.³¹⁸ In as much as ownership is concerned, the employer is on the stronger side of this asymmetry of information, and in the typical case, is in a better position to plan and affect ownership.³¹⁹ When the employee has experience in similar dealings, though, he or she is likely to raise the issue of ownership and place it on the negotiations table, and will not automatically accept the allocation offered by the employer.³²⁰

Bounded rationality, i.e., various factors which cause human decision making to be imperfect and not fully rational, further enhance the inferiority of the employee vis-à-vis the employer.³²¹ The employer is better positioned to assess the likelihood of success of the work in the market and can more easily survey and

³¹⁵ See Towse, *Copyright Policy*, *supra* note 45, at 69–71.

³¹⁶ See Collins, *supra* note 304, at 8 (pointing out, in the general context of employment, a dual informational asymmetry about the quality of the proposed employment relationship).

³¹⁷ See Simon Deakin & Frank Wilkinson, *Labour Law and Economic Theory: A Reappraisal*, in *LEGAL REGULATION OF EMPLOYMENT RELATION* 29, 43 (Hugh Collins, Paul Davies, Roger Rideout eds., 2000).

³¹⁸ See Collins, *supra* note 304, at 7.

³¹⁹ See Collins, *supra* note 304, at 7–8. See generally *Merges*, *supra* note 65, at 12.

³²⁰ See *Merges*, *supra* note 65, at 14.

³²¹ See Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 139.

study the market to assess whether there is, or is expected to be, competition.³²² The employer also has better access to marketing channels and more resources to market the work. Employees, on the other hand (and this is an admitted gross generalization) are less informed about market conditions and marketing channels but nevertheless tend to overestimate the potential commercial success of the work.³²³ Reality is often harsh. Add to this optimism bias the instincts of ownership (I made it, it's mine!), and the endowment effect is in play.³²⁴

The interim conclusion is that the employee is disadvantaged vis-à-vis the employer.

3. External Factors

External factors lend further power to the employer at the expense of the employee. A young musician is thrilled to be offered “a contract” to produce a record; an author is tremendously excited about a publisher’s offer to publish a book; and an academic is interested in publication, not necessarily in the money and ownership of the work, but rather in the fact of publication itself, else (academic) perishing might be real. While the musician, author, and academic are often freelancers rather than employees, the analysis is similar in the case of those authors who opt for an employment relation rather than remaining independent contractors. When the employer’s interests are commercial and the employee’s interests are more personal and less commercial, this divergence of interests is likely to reflect itself in a reduced interest in the issue of ownership on the employee’s side.

In some cases, the employment market and the strength of the particular employer in the market create an ex ante power advantage to the employer: if 86% of the U.S. music market is in the hands of the “big four” labels,³²⁵ then a junior musician does

³²² See Towse, *Copyright Policy*, *supra* note 45, at 69.

³²³ *Id.* at 69, 71.

³²⁴ See Sunstein, *supra* note 160, at 112.

³²⁵ Patrick Burkart, *Loose Integration in the Popular Music Industry*, 28 *POPULAR MUSIC & SOC'Y* 489 (2005). This figure is dated to 2005, and the “big four” refers to Universal Music Group (UMG), Sony-Bertelsmann Music Group (Sony-BMG), Electric and Musical Industries (EMI), and Warner Music Group (WMG). *See id.*

not have much choice.³²⁶ Going “indie” (independent) is a costly, risky avenue.³²⁷ While superstars are not powerless and perhaps even more powerful than the industry player, they are, by definition, very few. The vast majority of authors seem, at first sight, to be trapped in an unpleasant situation.

4. Trading Risks

An intermediate conclusion would be rather dim: authors are powerless, and alternative routes are few. However, we should take into account not only the point of view of the author, but rather zoom-out and examine the deal between the employee-author and the employer as a whole. Presenting the deal as a rip-off ignores the transfer of risks between the parties.

The discussion here merges with the previous discussion of risks in the workplace, conducted under a copyright prism.³²⁸ In most cases, the employment relationship reflects a trade-off of risks and benefits between the parties.³²⁹ The employee is hired to create works. She provides her time and work power in exchange for security.³³⁰ The risk-averse author who lacks the knowledge, funds, or will to run her own business would turn to the salaried employment option.³³¹ Her option to do so is dependent, of course, on the availability of an employer who is willing to hire employees rather than to commission an independent contractor, assuming that the market of employees is competitive and that the employee

³²⁶ *Id.* (discussing the market share of the majors and arguing that the music industry operates as a rent-seeking cartel and noting that the independent music industry accounts for only 14% of U.S. music sales and the “big four” controls the rest of the market (86%)).

³²⁷ Technology enables young artists direct publication avenues, such as by uploading their music to P2P sharing programs, a personal website, or a social network.

³²⁸ See discussion *supra* Part II.A.3.

³²⁹ See Ann-Sophie Vandenberghe, *Labour Contracts*, in 3 ENCYCLOPEDIA OF LAW AND ECONOMICS 541, 550 (Boudewijn Bouckaert & Gerrit De Geest eds., 2000) (“At the heart of the principal-agent problem lies the inevitable trade-off between the provision of incentives to work hard and the sharing of risks.”).

³³⁰ Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 143 n.34.

³³¹ See Vandenberghe, *supra* note 329, at 548.

2009]

WHO OWNS BRATZ?

155

has several potential employers to choose from.³³² The author would receive a stable salary and other benefits such as pension and paid vacations; he or she also would not be subject to various risks associated with making the work and commercializing it or risks such as liability for torts (assuming that the vicarious liability doctrine applies).³³³ The author would also not need to engage in managing the business, searching for clients, dealing with regulators, etc.

These benefits do not come without a price. The author loses ownership.³³⁴ She needs to follow the instructions of her employer and is limited in her artistic and creative freedom, at least in the workplace.³³⁵ The alternative is undertaking the costs of expression and the risk herself. When these risks are too high, the alternative is not engaging in any creative work at all.

* * *

Viewing the employment relationship in the content business as a trade of risks is attractive, as it coincides with the copyright analysis. However, the information deficiencies and external factors are not obliterated just because there is a deal and a contract between the parties. We need to search for responses to the difficulties discussed here.

C. Responding to Inequality

The legal solutions we need to search for should fit as much as possible both our conception of copyright law under the incentives theory and our conception of employment law as fairness. Operating within a general free-market paradigm and having pointed to some of the market's deficiencies, we need to address them. This sub-section points to two possible non-exclusive

³³² Davidov, *The Reports of My Death Are Greatly Exaggerated*, *supra* note 30, at 138–40.

³³³ *Id.*

³³⁴ 17 U.S.C. § 101 (2006); *see also* Fisk, *Authors at Work*, *supra* note 42, at 56–59 (discussing the difficulty of reconciling corporate ownership and individual artistic expression).

³³⁵ This is similar to the situation of the independent contractor who needs to follow the instructions of the commissioner of her work, but has the choice not to take the job in the first place.

mechanisms. First, informed consent narrows the claim of unfairness regarding ownership of copyrighted works made in the workplace. Explicit contracts and job descriptions are tools to address such deficiencies, accompanied with appropriate interpretative instructions. These mechanisms solve the problem that penalty default rules wish to address, without changing the initial allocation. Second, mechanisms of group negotiations might ease our instincts of unfairness.

1. Informed Consent

Information about the commercial-legal options and ownership of copyright can reduce much of the initial observation of unfairness. If an author understands her options, roughly being (1) establishing her own business, undertaking the risks, and maintaining ownership; (2) providing a work as an independent contractor, without transferring the rights but allowing for a license to use the work in agreed-upon circumstances, and thus shifting only some of the risks; or (3) shifting the entire risk to the hiring party, in exchange for a risk-free salary and giving up ownership, then she can better decide which avenue to choose. With more information, surprises might be minimized and the author might be able to leverage the elements she gives up or retains (risk, ownership, management hassle) to receive better terms (payment, internal incentives like a bonus, control over uses of the work).

How can informed consent be achieved? One kind of information-enhancing tools lies in the market itself. The factors mentioned in Part II—the work at stake, the kind of employer, and the kind of employee³³⁶—are useful here too. These factors create a matrix of options.³³⁷ The more creative the work is (a photograph, painting, musical work), the more we can classify the employer as being in the content/cultural industry, and the more the author conceives of herself as a creative author, the more the situation creates awareness of all parties. The circumstances of the employment themselves convey a clear message to all parties

³³⁶ See *supra* discussion Part II.

³³⁷ In each parameter it is better to think of a spectrum of options rather than a binary form, hence I resist the temptation to add a table which offers only binary options.

involved, that the creative author was hired to make creative works which will be sold or used by the employer. Hence, ownership lies with the employer. Thus, when a doll producer firm offers a designer a job as a doll designer, the issue of ownership is not, or rather should not, be a surprise. This is the “Bryant” case.³³⁸

The digitization of many kinds of works that began in the 1990s teaches us, authors included, that old works do have a potential for new commercial uses. For example, a song written for one purpose can later serve as a ring-tone on a cellular phone or for a television advertisement. None of this is a secret. This is the *Tasini* case.³³⁹

On the other hand, when an employee who does not perceive himself as a creative author works in a non-creative industry, performs a routine task, and then creates a work of authorship there, e.g., a computer program worthy of commercialization, then we could say that the circumstance does not provide clear indications as to ownership.³⁴⁰ This is the “Miller” case.³⁴¹

In other words, the circumstances of employment themselves serve as a rather strong signal about the importance of ownership.

The latter discussion indicates that the temporal dimension is crucial here. Information that is gained after the employment contract was struck is not of much use. Hence, the focus should be on ex ante consent, and more specifically, informed consent.

There are further mechanisms to inform the parties of their rights. A written contract is an obvious mechanism to clarify the two sides of the deal, now shaped as an ongoing employment relationship. However, contracts are often incomprehensible or indeterminate and require ex post interpretation. Moreover, employment contracts are dynamic and change in the course of employment.³⁴² Changes in the patterns of employment do occur in the course of employment, even if they do not find an explicit

³³⁸ See *supra* notes 1–6 and accompanying text.

³³⁹ See *supra* notes 140–43 and accompanying text.

³⁴⁰ See *supra* notes 266–79 and accompanying text.

³⁴¹ See *Miller v. CP Chems., Inc.*, 808 F. Supp. 1238, 1239 (D.S.C. 1992).

³⁴² See *Mundlak*, *supra* note 258, at 313; see also *Vandenbergh*, *supra* note 329, at 552.

anchoring in a written document.³⁴³ A written contract in long-term employments is inherently incomplete, because it does not address every single possible event that might occur during the relationship.³⁴⁴ Repeat actions which are not objected to by the other party become part of the contract.³⁴⁵ Thus, initial information and consent might change; they might be blurred or diluted and no longer serve the informing function.

The employer, knowing that current doctrine operates in his or her favor (if, under agency law, the author is an employee and the work was made within the scope of the employment relationship), might not be meticulous in authoring the contract, perhaps deliberately so. Thus, the informing function of the contract is likely to be lost.

One possible solution would be a penalty default rule, but for reasons discussed above, it is likely to be counter-productive.³⁴⁶ The dynamic nature of employment contracts is yet another reason why penalty default rules are ineffective in their intended purpose of informing the weaker party of the stakes. Setting an initial allocation rule is a singular event, whereas the circumstances of the employment might change this allocation later on, without a ceremonial event. Accordingly a statutory allocation to either side is likely to become irrelevant shortly after employment commences. A second solution to the information deficiencies would be for courts to adopt an interpretive rule, under which vague terms and other interpretive doubts operate in favor of the employee. Such an interpretive rule would provide an incentive to the employers to be more precise in the contracts they author.

Another carrier of information is the job description, which is relevant in deciding the second (“scope”) element of the work-made-for-hire doctrine.³⁴⁷ Instead of turning to the rather vague triple test borrowed from agency law,³⁴⁸ a job description may provide a clearer point of reference: if the work made by the

³⁴³ See Mundlak, *supra* note 258, at 313.

³⁴⁴ See Vandenberghe, *supra* note 329, at 552.

³⁴⁵ *Id.*

³⁴⁶ See *supra* Part II.B.

³⁴⁷ See 17 U.S.C. § 101 (2006).

³⁴⁸ See *supra* text accompanying notes 96–97.

employee falls within the listed tasks, then it is safe to determine that it was made within the scope of employment, and if it does not fall within the description, then the author remains the owner. Job descriptions are not obligatory, but where they do exist, they have been used as important interpretive sources about the parties' expectations and actual behavior, including in the context of the current discussion.³⁴⁹

Employers are likely to attempt broad and vague definitions of the job descriptions, so they can later claim that a certain task, or a certain work, were within the scope of employment. Hence, given the dynamic nature of the employment relationship, once again, the interpretive mode adopted by the courts is crucial. An interpretive rule operating in favor of the employee will serve as an *ex post* incentive to the employers, to be more precise in the next case, *ex ante*. Thus, the job description should be interpreted narrowly.

However, informed consent is no magic cure to all problems, as authors might misunderstand and subsequently misjudge their options; understanding the options might be costly, as legal advice might be needed and other factors, such as cognitive biases, might divert their judgment. The market and the law can respond with various background structures to minimize the biases. One such example is group negotiations.

2. Group Negotiations

Singling out a specific employment relationship and observing inequality of power between the parties might miss the larger picture. A possible way to figure out this complex field is framing the relationship in terms borrowed from game theory, as a repeat game or a one-shot game between the parties, followed by some

³⁴⁹ One court noted that "Courts deciding whether an employee's project was the 'kind of work' the employee was hired to perform rely heavily on the employee's job description." *City of Newark v. Beasley*, 883 F. Supp. 3, 8 (D.N.J. 1995). Other cases have referred to job descriptions, though they do not seem to have followed the interpretive approach advocated here. *See Avtec Sys. Inc. v. Peiffer*, 21 F.3d 568, 569 (4th Cir. 1994); *Gilpin v. Sieber*, 419 F. Supp. 2d 1288, 1297-98 (D. Or. 2006); *Genzmer v. Pub. Health Trust of Miami-Dade County*, 219 F. Supp. 2d 1275, 1276 (S.D. Fla. 2002); *Miller v. CP Chems., Inc.*, 808 F. Supp. 1238, 1244 (D.S.C. 1992) (citing *Marshall v. Miles Labs.*, 647 F. Supp. 1326, 1330 (N.D. Ind. 1986)).

distinctions. Instead of focusing on one employment context with one employer and one employee, we should ask whether there is a larger market-picture. If authors can act together, they might be able to overcome the weakness of each of them when they act on their own. Common action of authors-employees can shift a one-shot game into a more efficient repeat game. The Hollywood screenwriters' strike in late 2007 provides an example of a successful common action.³⁵⁰ The screenwriters could have chosen the legal avenue and relied on *Tasini*, but given *Tasini's* aftermath, it seems that the screenwriters achieved more by striking.

In a one-shot game, the parties are focused on the gains and losses from that specific interaction and each party attempts to maximize its gains. If one party in a one-shot game is stronger than the other, absent a legal rule to the contrary, the stronger party is likely to take advantage of its power at the expense of the other party. This is often the situation of independent contractors. To prevent this, all legal models assist the weaker side in various ways. The U.S. model, for example, leaves the copyright with the independent contractor, unless several conditions are met.³⁵¹ These conditions delineate when a relationship is a work-made-for-hire; only specific kinds of commissioned works qualify, and, most importantly in my view, the parties must formalize their relationship and explicitly specify that the work is to be considered a work-made-for-hire.³⁵² These requirements, once fulfilled, contain a clear signal to the parties about the kind of transaction into which they are entering, including the issue of copyright ownership. The required formalities inform both parties, and each side can now assess its situation and decide whether to enter the transaction or not.

Unlike independent contractors, the employee and the employer are engaged in a repeat game. In a content industry context, the employer is interested in the employee creating more

³⁵⁰ See Press Release, Writers' Guild of America, Writers Guild Members Overwhelmingly Ratify New Contract (Feb. 26, 2008), http://www.wga.org/subpage_newsevents.aspx?id=2780.

³⁵¹ See 17 U.S.C. § 201(a), (b) (2006).

³⁵² *Id.* §§ 101, 201.

works of quality and the employee knows that. The employer who is interested in a steady stream of works realizes that it will be counter-productive to treat the employee in an unfair manner, all other factors being equal.³⁵³ In the normal course of the employment relationship and under the assumptions of no other market failures, these considerations mean that the salary will be reasonable and/or that the employer will search for ways to create incentives for the employees where there are unexpected, unforeseen gains.³⁵⁴ Internal incentives can take the form of bonuses or a more direct sharing of the revenues, such as an escalating scheme: After covering the expenses, the more revenue the work produces, the higher will be the employee's share.³⁵⁵

The result of the dynamics described here can be achieved by forming a union. Once the employees act together, they are no longer in a continuous one-shot game subject to the arbitrary will of the employer, but rather, they are part of a multiple repeat game between two parties whose respective power is now on par, or at least not as unequal as before unionizing.

The assumptions underlying this analysis should be underlined, so we know the limits thereof and can address other situations accordingly. The above applies to the content industry, where employees are hired to make creative works. A content industry, by definition, engages in the continuous production of creative works, hence the game is a repeat one. Both parties are aware (or should be) of the trade-off of risks. The consideration takes place *ex ante*, when the author still has the choice of working as an individual, independent contractor, or as an employee. The author therefore engages in the transaction at free will and has been informed, and thus the requirement of informed consent is satisfied

³⁵³ One factor that might disturb this scenario is the market power of the employer. If the employer has a monopolistic power in the field and the employee's skills are not easily applicable in other industries, then the employer is likely to be able to extract more from the employees.

³⁵⁴ Vandenberghe, *supra* note 329, at 550.

³⁵⁵ The sharing of gains should not be at the expense of the steady salary, otherwise the risk component of the salary increases and the employer is likely to reduce the base salary. See LANDES & POSNER, *THE ECONOMIC STRUCTURE*, *supra* note 145, at 272. A salary based solely on a pay for performance principle runs into many difficulties. See Vandenberghe, *supra* note 329, at 550.

and asymmetries of information are narrowed. When these assumptions do not apply, such as in a non-content industry where an employee unexpectedly makes a work of authorship, the ownership was not discussed and was not traded-off, it would not make sense to talk about a repeat game.

CONCLUSION

This article searched for the most efficient and fair rule of initial allocation of copyright in works created by authors in the workplace. Applying a dual perspective of both copyright law and employment law results in several lessons. *First*, we should recognize typical cases, in which we can identify the risk-bearer (a lesson from copyright law). Possible criteria for devising such typical cases are the kind of work, the kind of employee, and the business of the employer. These criteria serve as proxies for the allocation of risks and fairness and are helpful under both the copyright and the employment law analysis, thus providing convenient common grounds to integrate the two bodies of law and diffuse the tension between efficiency and fairness. *Second*, the law should allocate the rights to the best risk-bearer (a lesson from copyright law), while searching for potential instances of unequal bargaining power such as information deficiencies and addressing them (a lesson from employment law). *Third*, the law should avoid allocations which the market is likely to instantly correct in a costless manner (a lesson from the Coasean analysis and *Tasini's* aftermath). *Fourth*, from an employment law perspective, this article suggested that we should search for mechanisms that correct information deficiencies. These led us to distinguish between different factual situations, which fit the typical cases proposed under the copyright law analysis. Furthermore, this article suggested the enhanced use of written job descriptions, accompanied by pro-author interpretive rules. *Fifth*, we realized that penalty default rules would not be an efficient tool to overcome information deficiencies in the employment context, due to the nature of the employment relationship and their subsequent demoralization costs.

2009]

WHO OWNS BRATZ?

163

Thus, this article largely supports the current legal model, with some proposed modifications regarding the interpretation of the work-made-for-hire doctrine. However, it is based on a joint copyright-employment analysis, rather than an agency/tort shaky basis.

The result of this analysis seems to be counterintuitive, or at least contrary to some intuitions. At first sight, it might seem that creative employees (the “Bryants”) are less protected under the above analysis than those who happen to make a creative work by chance (The “Millers”). However, the analysis showed that the trade-off risks and the informed consent satisfactorily responds to the unfairness instincts.