

NOTES

THE RULE OF ROGERS v. COMMISSIONER *

THE usefulness of the general power of appointment prior to the 1942 Revenue Act¹ as a device for avoiding federal estate taxes was attributable in large part to a conceptualistic reading by the courts of admittedly inadequate statutory provisions.² Typical of "elusive and subtle casuistries"³ thereby developed was the so-called divestment theory,⁴ adopted by the lower federal courts⁵ following *Helvering v. Grinnell*.⁶ By reading local property concepts of devolution of title⁷ into the word "pass" of Section 811(f) of the Internal Revenue Code,⁸ it was established that if a taker in default received by appointment a

* Estate of Rogers v. Commissioner, 320 U. S. 410 (1943).

1. 56 STAT. 798, 942, Revenue Act of 1942, § 403. Section 403 of the 1942 Act, amending section 811(f) of the Internal Revenue Code, virtually eliminates the general power of appointment as an avoidance device. The special power is still effective, however, if carefully set up. See Eisenstein, *Powers of Appointment and Estate Taxes: II* (1943) 52 YALE L. J. 494.

2. See 1 PAUL, FEDERAL ESTATE AND GIFT TAXATION (1942) c. 9; Eisenstein, *Powers of Appointment and Estate Taxes: I* (1943) 52 YALE L. J. 296; Griswold, *Powers of Appointment and the Federal Estate Tax* (1939) 52 HARV. L. REV. 929.

3. *Helvering v. Hallock*, 309 U. S. 106, 118 (1940).

4. In his summary of then-existing loopholes before the Ways and Means Committee, Mr. Randolph E. Paul, Tax Adviser to the Secretary of the Treasury, described the divestment theory as consisting of "principles developed by the Supreme Court and the lower courts [which] bar the imposition of an estate tax where the recipients appointed by the decedent are the persons who would take the property in the absence of exercise." *Hearings before Committee on Ways and Means on H. R. 7378*, 77th Cong., 2d Sess. (1942) 91. See also H. R. REP. No. 2333, 77th Cong., 2d Sess. (1942) 160; SEN. REP. No. 1631, 77th Cong., 2d Sess. (1942) 232.

5. See *Lewis v. Rothensies*, 138 F. (2d) 129 (C. C. A. 3d, 1943); *Central Hanover Bank & Trust Co. v. Commissioner*, 118 F. (2d) 270 (C. C. A. 2d, 1941); *Legg's Estate v. Commissioner*, 114 F. (2d) 760 (C. C. A. 4th, 1940); *Rothensies v. Fidelity-Philadelphia Trust Co.*, 112 F. (2d) 758 (C. C. A. 3d, 1940).

6. 294 U. S. 153 (1935).

7. See, e.g., *Freeman's Estate* (No. I), 35 Pa. Super. 185, 189 (1908), approved in *Freeman's Estate*, 280 Pa. 273, 277, 124 Atl. 435, 436 (1924): "In the absence of an expressed contrary intention a legacy bequeathed in default of appointment, vests in the legatee on the death of the testator, subject to be divested by the exercise of the power of appointment: 4 Kent's Com., 324; *Fearne on Remainders*, 226; *Perry on Trusts*, sec. 250; *Cunningham v. Moody*, 1 Vesey, 174." See also *Matter of Lansing*, 172 N. Y. 238, 74 N. E. 882 (1905). But cf. *Matter of Cooksey*, 182 N. Y. 92, 74 N. E. 880 (1905).

8. Prior to the 1942 amendments, section 811(f) [section 302(f) of the Revenue Act of 1926, 44 STAT. 9, 71, as amended by section 803(b) of the Revenue Act of 1932, 47 STAT. 169, 279] provided that "the value of the gross estate of the decedent shall be determined by including the value at the time of his death of all property . . . (f) to the extent of any property passing under a general power of appointment exercised by the decedent. . . ." Not only must property "pass," but it must pass as the result of the "exer-

lesser interest than he would have taken in default, no tax was due on that interest.⁹ Since the 1942 amendments to section 811(f) do not apply to property subject to a power of appointment by a donee dying before October 21, 1942,¹⁰ and since the divestment theory implies a conception of the proper relation of local rules of property to a scheme of federal taxation which is in conflict with the principle of uniformity,¹¹ the recent delimitation of the divestment theory by the United States Supreme Court is of more than merely historical significance.

In *Estate of Rogers v. Commissioner*¹² the donee of a general testamentary power of appointment exercised his power to create interests which were qualitatively different and presumably less in value than those which the appointees would have received as takers in default under the donor's will if the power had not been exercised.¹³ The appointees did not renounce,¹⁴ and the Commissioner included their interests in determining the donee's gross taxable estate.

cise" of a "general" power of appointment. See *Morgan v. Commissioner*, 309 U. S. 78, 81 (1940); *Estate of Isabella C. Hoffman*, 3 B. T. A. 1361 (1926). Tax immunity, when granted, is rationalized in those cases where property has in fact been transferred pursuant to the active exercise of a general power of appointment by saying either that the power is deemed not to have been "exercised" or that the property is deemed not to have "passed" as the result of the exercise. Compare 3 RESTATEMENT, PROPERTY (1940) § 369, comment *a*, illus. 2, with *Helvering v. Grinnell*, 294 U. S. 153 (1935). It is important from the standpoint of efficient tax administration that one or the other of these rationales be consistently adopted. See note 25 *infra*.

9. For a recent statement of the divestment rationale, see *Lewis v. Rothensies*, 138 F. (2d) 129, 133 (C. C. A. 3d, 1943): ". . . where, according to local law, nothing passes in the exercise of a general power of appointment when the donee appoints to the same persons who would have taken the property in default of appointment, there is not in such circumstances a 'passing' of the property so as to render it subject to the provisions of Sec. 302(f) [*i.e.*, 811(f)]." See also *Griswold*, *supra* note 2, at 933-38.

10. 56 STAT. 798, 941, Revenue Act of 1942, § 401.

11. See Paul, *The Effect on Federal Taxation of Local Rules of Property in SELECTED STUDIES IN FEDERAL TAXATION* (2d Ser. 1938).

12. 320 U. S. 410 (1943).

13. *Id.* at 411: "Rogers, Sr., gave his son, the decedent, a general testamentary power of appointment over certain property, with limitations in default of appointment to the heirs, under New York law, of the son. On the son's death these heirs were his widow, a daughter and a son, to each of whom would have come upon default one-third of the property. However, the decedent did exercise his power. His will, as determined by a decree of the Surrogate's Court of the County of New York, New York (. . . 170 Misc. 85, 9 N. Y. S. 2d 586), created the following interests so far as here relevant: a fraction of the appointable property, 6.667%, went in three equal shares to the widow, the daughter, and a grandson; of the balance, two equal shares were put in trust for the benefit of the widow and daughter, respectively, while the other third was appointed outright to the grandson. The decedent made no appointment to his son."

14. Renunciation by the appointees of their equitable life estates would probably have resulted in acceleration of the remainder interests under the donee's will. See *Matter of Matthiessen*, 175 Misc. 466, 23 N. Y. S. (2d) 802 (Surr. Ct. 1940); 2 RESTATEMENT, PROPERTY (1936) § 231; 1 SIMES, FUTURE INTERESTS (1936) §§ 755-61.

The Board of Tax Appeals, after finding that the interests of the appointees were less in value than those which they would have received if there had been no exercise of the power, reversed,¹⁵ citing *Rothensies v. Fidelity-Philadelphia Trust Company*¹⁶ and *Legg's Estate v. Commissioner*.¹⁷ The Circuit Court of Appeals for the Second Circuit, with Judge Frank and Judge Hand writing separate opinions and Judge Chase concurring in the result, reversed the Board of Tax Appeals and reinstated the Commissioner's original valuation.¹⁸ Judge Frank argued that renunciation by the appointees was the decisive factor in the *Grimell*¹⁹ decision. Therefore, where, as in the *Rogers* case, there was no renunciation, the appointed interests, although less in value than those which the appointees would have taken in default, constituted property passing under a general power of appointment exercised by the decedent donee. Judge Hand, while accepting Judge Frank's conclusion, was unwilling to commit himself "to the absolute doctrine that in the absence of renunciation all interests appointed must inevitably pass under the power,"²⁰ preferring to substitute for the renunciation test the proposition that "no interests should be excluded from the donee's estate to whose creation the exercise of the power was necessary."²¹ Since, in the *Rogers* case, the appointees received interests which were qualitatively different from those which they would have taken under the donor's will if the power had not been exercised, those interests were properly included in the donee's estate. The Circuit Court's inability to agree on a rationale illustrates the confusion caused by the Supreme Court's failure to indicate in *Helvering v. Grinnell* whether the fact that the appointed interests were identical to the interests in default or the fact that the appointees had renounced was primarily responsible for the result reached in that case.²²

The Supreme Court affirmed the Circuit Court's decision without explicitly adopting either Judge Frank's or Judge Hand's rationale.²³ Mr. Justice Frankfurter, for the majority, stated that "for the purpose of ascertaining the corpus

15. Estate of Henry H. Rogers, C. C. H. 1941 B. T. A. Serv. ¶ 12,230-A (B. T. A. mem.).

16. 112 F. (2d) 758 (C. C. A. 3d, 1940).

17. 114 F. (2d) 760 (C. C. A. 4th, 1940).

18. Commissioner v. Rogers' Estate, 135 F. (2d) 35 (C. C. A. 2d, 1943).

19. 294 U. S. 153, 155 (1935). Judge Frank, however, observed, "I might hesitate to interpret Grinnell as I have . . . were it not for the subsequent decision in *Helvering v. Safe Deposit Company*. . . ." Commissioner v. Rogers' Estate, 135 F. (2d) 35, 38 (C. C. A. 2d, 1943). In *Helvering v. Safe Deposit & Trust Company of Baltimore*, 316 U. S. 56, 65 (1942) the Court in discussing the *Grinnell* case, stated: "The subsequent renunciation by the appointees of the right to receive by appointment and their election to take as remaindermen in default of appointment were held by this Court to place the property subject to the power outside the scope of § 302(f)." It is probable, however, that the *Grinnell* case was primarily based on identity of interests. See Eisenstein, *supra* note 2, at 318 *et seq.*

20. Commissioner v. Rogers' Estate, 135 F. (2d) 35, 40 (C. C. A. 2d, 1943).

21. *Id.* at 39.

22. See Eisenstein, *supra* note 2, at 318 *et seq.*

23. Estate of Rogers v. Commissioner, 320 U. S. 410 (1943).

on which an estate tax is to be assessed, what is decisive is what values were included in dispositions made by a decedent, values which but for such dispositions could not have existed."²⁴ *Helvering v. Grinnell* was cited for the proposition that "where a donee of a power merely echoes the limitations over upon default of appointment he may well be deemed not to have exercised his power, and therefore not to have passed any property under such a power."²⁵ Thus, while affirming the identity of interests interpretation of the *Grinnell* case, Mr. Justice Frankfurter limited the application of the divestment theory to dispositions which merely "echo" the limitations over. The rule of the *Rogers* case would seem to be that in the absence of renunciation any disposition which alters the quantity, quality, or discount value of the appointee's interest in default²⁶ or which, if renounced, would not be duplicated by the

24. *Id.* at 413. Mr. Justice Frankfurter's "values which but for such dispositions could not have existed" would appear to be similar to Judge Hand's "interests . . . to whose creation the exercise of the power was necessary."

25. *Id.* at 415. If, as Mr. Justice Frankfurter suggests, the rationale of the *Grinnell* case is to be interpreted as one of non-exercise rather than non-passage of title, the intellectual basis underlying the subsequent development of the *Grinnell* doctrine necessarily collapses. See Eisenstein, *supra* note 2, at 304, 319 *et seq.* Under this interpretation renunciation is no longer material in the *Grinnell* situation, since in any case where the donee "merely echoes the limitations over" there is no exercise to be renounced. The effect of renunciation where the donee has done more than merely echo the limitations over is uncertain. See note 39 *infra*.

From the standpoint of efficient tax administration it is probably unfortunate that the Court did not see fit to adopt the renunciation test. An appointee will normally not renounce unless he can reasonably expect to take under his then-existing right in default interests equal in value to his appointed share, that is, in the *Grinnell* and *Lewis* situations. Thus, the renunciation test would probably result in the same tax incidence as the rule of the *Rogers* case, except possibly in the *Lewis* situation. See discussion, p. 577 *infra*. The gain in administrative efficiency, however, would be great.

Furthermore, it is possible that Mr. Justice Frankfurter's interpretation may have unfortunate results under the 1942 Act. Section 403 of the 1942 Act, as amended by section 505 of the 1943 Act, states that a preëxisting general power is not taxable where the donee dies before January 1, 1945, without having exercised it, and that a preëxisting non-general power is not taxable, regardless of when the donee dies after October 21, 1942, if the power is not exercised. It was assumed prior to the *Rogers* case that an appointment to the takers in default of appointment was a taxable exercise under the new law. This view was written into the Treasury Regulations. See U. S. Treas. Reg. 105, § 81.24(b) (1); *cf.* U. S. Treas. Reg. 108, § 86.2(b) (3) relating to the gift tax. The *Rogers* interpretation of the *Grinnell* case may mean that the position taken in the regulations is wrong. In any case new doubts have been created to plague the 1942 Act.

26. For the purpose of analysis a difference in *quality* is defined as a difference in terms of traditional property classification (*e.g.*, a life estate as opposed to a vested remainder in fee); a difference in *quantity* as a difference in terms of dollars and cents, acres, number of shares, etc., between the property subject to the interest in default and that subject to the appointed interest. A difference in quantity, moreover, is to be distinguished from a difference in *discount value* (as of the time of the donee's death). Thus, it is possible to have interests which are qualitatively and quantitatively identical but of different discount value. See *Lewis v. Rothensies*, 138 F. (2d) 129 (C. C. A. 3d, 1943).

renouncing appointee's then-existing rights in default²⁷ is an assessable item under section 811(f).

The metaphysical refinements of the divestment theory which *Estate of Rogers v. Commissioner* is designed to dissipate are well illustrated by *Lewis v. Rothensies*,²⁸ decided by the Circuit Court of Appeals for the Third Circuit while the *Rogers* case was pending in the Supreme Court. In that case the donee of a general power exercised his power to create a life estate with remainder over to his surviving children, who were the takers in default under the donor's will.²⁹ In holding that the Commissioner erred in including the remainder interests of the children in the donee's gross estate, the Circuit Court took as its major premise the proposition that "where, according to local law, nothing passes in the exercise of a general power of appointment when the donee appoints to the same persons who would have taken the property in default of appointment, there is not in such circumstances a 'passing' of the property so as to render it subject to the provisions of section 302(f)." ³⁰ This interpretation of the *Grimell* case, which is basic to the divestment theory in that federal tax incidence is thereby made to depend on local notions of passage of title, was expressly repudiated in *Estate of Rogers v. Commissioner*.³¹ Whether or not property has "passed" within the meaning of section 811(f) is now a question of federal law, to be determined without reference to local property concepts.³²

27. For example, if *A* and *B* were the takers in default in equal shares and the donee appointed one-half of the property to *A* and the other half to *C*, *A*'s appointed interest is identical from the standpoint of quality, quantity, and discount value to that which he would have taken if the power had not been exercised. Yet, if *A* had renounced, his then-existing rights in default would have entitled him to only a fourth, instead of a half of the property. See *Matter of Taylor's Estate*, 121 Misc. 7, 200 N. Y. Supp. 321 (Surr. Ct. 1923), *aff'd*, 209 App. Div. 299, 204 N. Y. Supp. 367 (1st Dep't 1924), *aff'd*, 239 N. Y. 582, 147 N. E. 204 (1924).

28. 138 F. (2d) 129 (C. C. A. 3d, 1943).

29. *Id.* at 130: "The facts having bearing on the question here involved are that Algernon R. Clapp . . . appointed by will in trust for his wife for life and after her death to their two daughters outright in remainder certain properties over which he had a general testamentary power of appointment under the will of his father, B. Frank Clapp The will of the father provided that the trust which he created should terminate upon the death of his widow, the death of his son and the attainment by the children of the latter of the age of twenty-one years; and it further directed that, upon the termination of the B. Frank Clapp trust, the trustee should . . . convey to the then surviving issue of the son, per stirpes, the whole of the trust estate 'excepting . . . such portion or portions thereof as may have been disposed of by my surviving son . . . by his . . . Will(s) made in pursuance of the powers hereinbefore conferred'."

30. *Id.* at 133.

31. 320 U. S. 410, 413 (1943): "whether local tax legislation deems the appointed interest to derive from the will of the donor or that of the donee of the power . . . whether for some purposes in matters of local property law title is sometimes traced to the donee of a power and for other purposes to the donor . . . are matters of complete indifference to the federal fisc."

32. *Id.* at 414: "Whether by a testamentary exercise of a general power of appoint-

The fact that the Circuit Court chose an erroneous rationale in *Lewis v. Rothensies* does not necessarily mean, of course, that the Court reached an erroneous result. It might be argued that the dispositions to the children in that case were mere "echoes" of the limitations over upon default and that their interests, therefore, fell within the *Rogers* delimitation of the *Grinnell* doctrine. The children's interests under the donor's and the donee's wills were qualitatively and quantitatively the same, that is, vested remainders in fee in certain trust properties, the sole effect of the donee's exercise of his power being to interpose an additional life estate.³³ Under such circumstances it might seem, therefore, that to regard the appointee's failure to renounce as the determining factor is "to sacrifice substance for form," since renunciation would in no way have affected the children's then-existing interests.³⁴

That such an argument would prevail is doubtful, however, in view of the Court's analysis in the *Rogers* case. If the donee had not exercised his power, the children would on the death of the donee have had under the donor's will a right to immediate possession, instead of a right to possession subject to a life estate. The latter might conceivably be regarded as a "value" created by the donee in exercising his power. That this "value" is worth less to the children than the value which they would have taken under the donor's will in default of appointment is immaterial.³⁵ If, on the other hand, the Court should see fit to limit its concept of assessable "values" to those "necessary to effectuate the arrangements made by decedent's will,"³⁶ it might be argued that the children's interests under the donee's will were non-assessable "values," since the creation of a life estate was all that was necessary to effectuate the dispositions desired by the donee. But in view of the general tenor of Mr. Justice Frankfurter's opinion, it is probable that the *Grinnell* doctrine is to be applied only in the case of a donee who has made no attempt to exercise his power other than to appoint to takers in default interests in no way distinguishable from those which they would have taken in the absence of appointment.

ment property passed under § 302(f) [§ 811(f)] is a question of federal law, once state law has made clear, as it has here, that the appointment had legal validity and brought into being new interests in property."

33. For a similar fact situation, see *Lee v. Commissioner*, 57 F. (2d) 399 (App. D. C. 1932), *cert. denied*, 286 U. S. 563 (1932). The court in that case held that the interests appointed to the takers in default were assessable. The Supreme Court in the *Grinnell* case, however, expressly disapproved the circuit court's decision. *Helvering v. Grinnell*, 294 U. S. at 158.

34. The Circuit Court in the *Lewis* case made this point an alternative argument. *Lewis v. Rothensies*, 138 F. (2d) 129, 136 (C. C. A. 3d, 1943): "That nothing passed in the instant case by virtue of the donee's appointment of the trust property to his children after the death of his wife is evident from the fact that, had the son by his will done no more than appoint to his wife for life (as he did), his children would have taken the trust property in remainder just the same for that is what the donor's will provided."

35. *Estate of Rogers v. Commissioner*, 320 U. S. 410, 413 (1943).

36. *Id.* at 415.

Aside from the situation where the appointed interest differs from the interest in default only in discount value, there is little doubt but that any interest which differs from that which the appointee would have taken or which, if renounced, would not have been duplicated by the renouncing appointees then-existing rights in default is, under the rule of the *Rogers* case, to be included in the donee's gross estate. Thus, if *A* and *B* are the takers in default in equal shares and if the donee appoints one half of the property to *A* and the other half to *C*, *A*'s appointed interest is taxable, although it is the same in respect to quality, quantity, and discount value as that which he would have taken in default.³⁷ Similarly, if the gift in default is \$100,000 and the appointed share \$60,000, or if the gift in default is an absolute remainder in \$100,000 and the appointed share a life estate in the same amount, the appointed share is, in each instance, an assessable value. The fact that the appointed share is of a presumably lower discount value than the gift in default is immaterial. What is decisive is the fact that in each instance the appointed share is part of a scheme of testate distribution which is the donee's, not the donor's. Where the donee by exercising his powers has substituted his scheme of distribution for that of the donor, that is, where he has done more than "merely echo . . . the limitations over upon default," the appointed interests are, in the absence of renunciation, taxable. It is by no means certain, moreover, that tax immunity will necessarily accompany renunciation. Mr. Justice Frankfurter's emphasis on the donee's act in shaping the devolution, coupled with an apparently deliberate avoidance of the renunciation issue,³⁸ may mean that renunciation is no longer of any significance.³⁹

37. If the donee merely appointed one-half of the property subject to the power to *C*, *A* as one of two takers in default would have to share the remaining one-half with *B*. See 3 RESTATEMENT, PROPERTY (1940) § 368, illus. 1. Thus, the one-half appointed to *A* is a value "which but for such dispositions could not" exist. *Estate of Rogers v. Commissioner*, 320 U. S. 410, 413 (1943). See also *Commissioner v. Rogers' Estate*, 135 F. (2d) 35, 40 (C. C. A. 2d, 1943).

38. Although the Court had in 1942 specifically stated that renunciation was responsible for the result reached in the *Grimmell* case, *Helvering v. Safe Deposit & Trust Company of Baltimore*, 316 U. S. 56, 65 (1942), Mr. Justice Frankfurter made no mention of the possible effect of renunciation in spite of the fact that one of the two judges writing opinions below had expressly relied on the Safe Deposit interpretation of the *Grimmell* case.

39. In view of the Court's emphasis on the fact that the donee in the *Rogers* case altered the donor's pattern of distribution, it may be that renunciation is immaterial unless it restores the donor's pattern of distribution. Since the donor's pattern would be restored only where the donee merely "echoes" the limitations over and since in those circumstances there is no "exercise" to be renounced, it may be that renunciation has no tax consequences. See note 25 *supra*. It can easily be argued, however, that any disposition by a donee is non-existent to the extent that local law ignores it once the appointee renounces. See note 32 *supra*.

VULNERABILITY OF PATENTS TO ATTACK IN ANTI-TRUST SUITS*

FORECLOSURE of attack on monopolies by demonstration of the invalidity of patents used as sanctions for price-fixing agreements is threatened by the recent district court decision in *United States v. United States Gypsum Company*.¹ The United States brought an action under the Sherman Act,² alleging that the defendants had used certain patent license agreements to effect a combination and conspiracy in restraint of trade. The complaint³ expressly alleged that the patents were invalid on the grounds, among others, of lack of invention, existence of a prior art, and prior publication. The defendants' motion for partial judgment⁴ dismissing that allegation was granted, the court ruling that without statutory authority the Government may not attack the validity of patents except for fraud.

The opinion of the majority was based in part on two cases involving governmental grants of land⁵ for the proposition that the Government cannot show that a patent was issued by mistake or error, and on *United States v. American Bell Telephone Company*⁶ for the rule that an attack by the Government on the validity of letters patent is permitted only in the case of fraud. While principles controlling grants of land have frequently been considered analogous to those controlling the issuance of patents for inventions,⁷ the

* *United States v. United States Gypsum Co.*, 59 U. S. Pat. Q. 318 (D. D. C. 1943).

1. 59 U. S. Pat. Q. 318 (D. D. C. 1943). But see Bland, J., dissenting, *id.* at 333.

2. 26 STAT. 209 (1890), 15 U. S. C. §§ 1, 2, 3, 4 (1940).

3. The relevant parts read: "Many of the patents mentioned and described in said license agreements by which the said combination has been, and is being carried out in part, are process or machine patents. The article and product claims of . . . [the] patents . . . mentioned . . . in said license agreements . . . are each invalid and void for each of the following reasons: (a) there is no real invention or novelty . . . (b) the claims . . . disclose no patentable invention in view of the prior art . . . (c) the alleged inventions . . . were shown and described in printed publications in the United States more than two years prior to the filing of . . . applications; (d) the alleged inventions . . . are inoperative and devoid of novelty and utility; (e) the . . . inventions . . . were abandoned by the inventor and he was guilty of laches . . . (f) the . . . inventions were not reduced to practice until after other inventors had invented and reduced the same to practice and applied for patents thereon; (g) the . . . inventions are described in ambiguous and not in properly clear, concise and exact terms and (h) the defendants have been informed of the invalidity of the claims of the . . . patents and have unreasonably failed to file . . . any disclaimer. . . ." *United States v. United States Gypsum Co.*, 59 U. S. Pat. Q. 318, 321 (D. D. C. 1943).

4. The motion was one to strike the paragraph in question upon the ground that the allegations thereof were immaterial and impertinent to the issues in the case, or, in the alternative, for partial judgment.

5. *United States v. Coronado Beach Co.*, 255 U. S. 472 (1921), and *Burke v. Southern Pacific R. R.*, 234 U. S. 669 (1914).

6. 167 U. S. 224 (1897).

7. Compare *Mowry v. Whitney*, 14 Wall. 434 (U. S. 1871); *United States v. American Bell Telephone Co.*, 167 U. S. 224 (1897).

circumstances of the land cases cited indicate that their holdings would not control either the situation of the principal case or those involved in other land cases which apparently establish contradictory principles. In the first land case⁸ relied upon by the court, *United States v. Coronado Beach Company*, the Government had attempted to show that the extent of a grant under which a private party claimed land, which the Government sought to condemn, was erroneous. The Supreme Court held that the extent of the grant was validly determined in the patent and the patent conclusive on the United States. It would seem that this holding has little bearing on the issue of the *Gypsum* case because a statute⁹ made the land grant in question conclusive upon the United States. Statutes regulating the issuance of patents for inventions¹⁰ establish no similar finality. Moreover, since the extent of the land patent was the object of controversy,¹¹ the issue was primarily one of construction, not of validity. The second land case¹² held that strangers, who had no interest in the land at the time of the issuance of the patent, could not attack the patent's validity. This holding could hardly be extended to prevent attack by the Government, which was clearly not a stranger to the original grant.

Several land cases hold, moreover, that the attorney general may bring a suit in equity to cancel a patent issued by mistake particularly if the mistake was of such a character that it might be deemed an unauthorized act.¹³ In *United*

8. *United States v. Coronado Beach Co.*, 255 U. S. 472 (1921). ". . . although it well may be that in view of the purpose set out in his petition [the original patentee's for the grant] and the circumstances the grant could have been construed more narrowly, that was a matter to be passed upon and when the decree and the patent went in favor of the grantee it is too late to argue that they are not conclusive against the United States." *Id.* at 488.

9. 9 STAT. 634 (1851). Cf. the language of the district court in *United States v. Coronado Beach Co.*, 274 Fed. 230, 234 (S. D. Cal. 1919): "In construing this section, the Supreme Court, in the case of *Botiller v. Dominguez*, 130 U. S. 238, says: 'The fifteenth section declares that . . . any patent issued under the act, "shall be conclusive between the United States and the said claimants only;" that is to say, *it shall be conclusive on the United States . . .*' . . . The statute and said decision is to the effect that the patent shall be conclusive on the United States." *Id.* at 234.

10. 35 U. S. C. §§ 1-88 (1940).

11. "The more serious questions . . . concern primarily the extent of the grant . . ." *United States v. Coronado Beach Co.*, 255 U. S. 472, 486 (1921). The extent of a land grant would seem comparable to the scope of a patent for invention. Yet in anti-trust suits courts may inquire "into the prior art to ascertain the scope of the claims of the various patents involved." *United States v. Standard Oil Co. of Indiana*, 33 F. (2d) 617 (N. D. Ill. 1929); see *United States v. Univis Lens Co.*, 316 U. S. 241, 248 (1942). Therefore, the holding in *United States v. Price*, 111 F. (2d) 206 (C. C. A. 10th, 1940), that the court may not look to antecedent proceedings on which a governmental land grant was founded to determine the extent of the grant seems inapplicable to the situation in the principal case.

12. *Burke v. Southern Pacific R. R.*, 234 U. S. 669 (1914).

13. *United States v. Stone*, 2 Wall. 525 (U. S. 1864); *Hughes v. United States*, 4 Wall. 232 (1866); *McLaughlin v. United States*, 107 U. S. 526 (1882); *Mullan & Another v. United States*, 118 U. S. 271 (1886); *Germania Iron Co. v. United States*,

*States v. Stone*¹⁴ the United States had by mistake issued a patent to land reserved from sale as a military reservation in a prior treaty. It was held that the patent was "but evidence of a grant" and void for lack of authority. This decision was followed by the Supreme Court in a later case¹⁵ which affirmed the cancellation of a grant of land approved by the Secretary of the Interior in his mistaken belief that certain coal lands were not mineral lands within the exemptions of the controlling act. The rule of the *Stone* case was further extended by the Supreme Court in a case where letters patent had inadvertently been issued to a third party by a clerk in the Interior Department while a motion for rehearing on two rejected applications was pending.¹⁶ The court allowed cancellation of the patent, although the mistake consisted merely of noncompliance with a departmental rule. Two more recent cases reaffirm the same doctrine.¹⁷

Similarly the holding in the *American Bell Telephone* case¹⁸ does not necessarily stand for the proposition that fraud is the only permissible ground on which the Government may attack the validity of patents. In the *Bell* case the attorney general brought a suit in equity to cancel a patent for a telephone receiver alleging fraud and lack of patentability. The Supreme Court held that no fraud was proven and that the mere possibility that the Patent Commissioner's judgment might have been erroneous did not confer authority on the Attorney General to bring a cancellation suit on the same facts as were before the Commissioner. It is improbable, however, that the Court intended to restrict its equitable power to set aside a patent to cases of fraud, for the opinion explicitly

165 U. S. 379 (1893); *United States v. Minnesota*, 270 U. S. 181 (1926); *Southern Pac. Ry. v. United States*, 51 F. (2d) 873 (C. C. A. 9th, 1931), *cert. denied*, 284 U. S. 675 (1931).

14. 2 Wall. 525 (U. S. 1864).

15. *Mullan & Another v. United States*, 118 U. S. 271 (1886). The court cited the *Stone* case for the proposition that "the patent is but evidence of a grant, and the officer who issues it acts ministerially and not judicially. If he issues a patent for land reserved from sale by law, such patent is void for want of authority." *Id.* at 278. *Cf. McLaughlin v. United States*, 107 U. S. 526 (1882).

16. *Germania Iron Co. v. United States*, 165 U. S. 379 (1893). Appellants contended that the Government's bill could not be sustained because no fraud was proved. *Id.* at 382. In this connection Mr. Justice Brewer's language is very pertinent to the principal case. Although he stressed that "a patent from the United States is a solemn muniment of title not lightly to be challenged or set aside, and all that has been heretofore said in support of the sanctity of such an instrument we reaffirm," *id.* at 382, he rejected the contention that absence of fraud should bar the Government's action, because "if such omission can be operative to deprive the land department of its appropriate jurisdiction, it affords too strong an inducement for an intentional omission, proof of which may well be beyond the power of the government." *Id.* at 385.

17. *United States v. Minnesota*, 270 U. S. 181 (1926) (action by the United States to recover Indian land erroneously patented as swamp lands), and *Southern Pac. Ry. v. United States*, 51 F. (2d) 873 (C. C. A. 9th, 1931), *cert. denied*, 284 U. S. 675 (1931).

18. 167 U. S. 224 (1897).

states the principle that a suit in equity by the United States is the proper remedy for relief when a patent has been granted "by mistake or accident."¹⁹ In the light of this language it would appear that the holding does not exclude evidence of a patent's invalidity in all instances, but applies only to cases where lack of authority is a debatable point for which no fitting or new evidence is introduced. Since lack of sufficiently clear evidence may also have been a factor in the *Coronado* case, neither of these cases contradict the principle that the Government may attack a patent issued by fraud or mistake.

It may be argued, however, that neither the land cases nor the *Bell* case are controlling authorities for the *Gypsum* case, because they represented direct and not collateral attacks against allegedly invalid patents. But, as the majority recognizes, the reasoning of the *Bell* case seems "as apt for incidental attack upon the validity of patents as for direct attack."²⁰ The issue presented by

19. Although the holding of the *Bell* case seems clear, it has been much debated. Walker on *Patents* cites the case for the rule that equity has jurisdiction to repeal Letters Patent for invention where they were issued "by any such mistake as those for which courts of equity grant relief . . . whenever the United States files a bill of complaint, stating the facts and praying that the Letters Patent may be annulled," although this jurisdiction "does not extend to error of judgment in deciding any *debatable* question of difference of invention." 2 WALKER, PATENTS (Deller's ed. 1937) § 233 (emphasis supplied). Likewise Mr. Woodward suggests that the decision "may be inapplicable when the existence of invention is questioned, as by bringing evidence of the prior art and the like." Woodward, *Cancellation of Patents on Ground of Invalidity* (1943) 25 J. PAT. OFF. SOC. 264, 267. If Mr. Justice Brewer's opinion is read in the light of the lower court decision, which it affirmed, such a construction seems inescapable. There it was said: "The examiner and the board had before them all the facts bearing on this branch of the case which we now have, and understood the law . . . ; so that the patent was issued under no mistake of either law or fact." *American Bell Telephone Co. v. United States*, 68 Fed. 542, 565 (C. C. A. 1st, 1895). Thus the holding was not that no repeal could be had because of mistake, but simply that there was no mistake. Accordingly, the language of the Supreme Court which seems to indicate a prohibition of all cancellation suits except those brought for fraud is dictum at most. Even as such its meaning as modified by other dicta in the same opinion seems not to be the one given it by the court in the *Gypsum* case. Thus the Court said: "In *United States v. American Bell Tel. Co.*, . . . [159 U. S. 548 (1895)] it was decided that where a patent for a grant of any kind issued by the United States has been obtained by fraud, by mistake, or by accident, a suit by the United States against the patentee is the proper remedy for relief. . . . But . . . there was no attempt to define the character of the fraud . . . or mistake, or the extent of the error as to power which must be established. . . . It was not affirmed that proof . . . of any error . . . was sufficient." *United States v. Bell Telephone Co.*, 167 U. S. 224, 269 (1896). The plain meaning of this language is that the court did not hold the alleged error in the particular case substantial enough to warrant a proceeding to vacate the patent. But the view of the principal case that the *Bell* doctrine limits cancellation suits to instances of fraud has been adopted by a few commentators. See Woodward, *A Reconsideration of the Patent System as a Problem of Administrative Law* (1942) 55 HARV. L. REV. 950, 956; Greenberg, *Present Trends in Collateral Attacks on Patent Validity* (1942) 24 J. PAT. OFF. SOC. 746, 750; (1944) 57 HARV. L. REV. 388.

20. *United States v. U. S. Gypsum Co.*, 59 U. S. Pat. Q. 318, 333 (D. D. C. 1943).

either class of case is essentially one of estoppel,²¹ and there seems to be little reason to hold the Government estopped from attacking its own grant in one situation and not in the other. While the apparently conflicting holdings of the cases in respect to the issuance of land patents might suggest a distinction based on a rule correlating permissibility of attack with its directness, acceptance of this theory would merely double the number of suits to be brought in an anti-trust proceeding. In view of increasing unwillingness to allow procedural niceties to slow the pace of law "without the warrant of clear necessity,"²² the court can hardly be supposed to have acted on such a theory in the *Gypsum* case.

It would seem, moreover, that the generally accepted rule that estoppel will not lie against the Government and that the United States is not bound by unauthorized acts of its officers²³ is well applicable to the *Gypsum* case. Since the controlling statute authorizes the Patent Office to issue patents only when

21. It is argued in defendants' brief that the question of estoppel is "wholly irrelevant" to the issue, since the presence of estoppel would imply a right to attack the validity of a patent in the absence of circumstances creating the estoppel, and it is that latter right which is denied. Brief for Defendants, pp. 21-24, *United States v. U. S. Gypsum Co.*, 59 U. S. Pat. Q. 318, 333 (D. D. C. 1943). But the right in question was recognized in *United States v. Stone*, 2 Wall. 525 (U. S. 1864), and in *Mowry v. Whitney*, 14 Wall. 434 (U. S. 1871), as the modern equivalent of the old English *scire facias* practice for the repeal of royal grants. See Woodward, *Cancellation of Patents on Ground of Invalidity* (1943) 25 J. PAT. OFF. SOC. 266. Moreover, it seems more realistic to think of different departments of the government specifically rather than to use the blanket term "government." That federal courts, which are agencies of the Government, have the right to review administrative acts of the Government without express statutory permission has recently been laid down by the Supreme Court. *Stark v. Wickard*, 64 Sup. Ct. 559 (1944).

22. Mr. Justice Cardozo, dissenting, in *Reed v. Allen*, 286 U. S. 191, 209. "A system of procedure is perverted from its proper function when it multiplies impediments to justice without the warrant of clear necessity." *Id.* at 209. Cf. 1 MOORE, FEDERAL PRACTICE (1938) 4, 175.

23. Act of an agent can never bind principal by way of estoppel, unless it is within the scope of his agency. The Government is not bound by estoppels under an instrument created by itself. *Johnson v. United States*, 13 Fed. Cas. No. 7419 (C. C. Me. 1830). The principle that estoppel will not lie against the United States and that the government is not responsible for unauthorized acts of its officers "is so elementary and well established that citations of authority do not seem necessary. . . ." *Sternfeld v. United States*, 32 F. (2d) 789, 790 (N. D. N. Y. 1929). *United States v. Carbon County Land Co.*, 46 F. (2d) 980 (C. C. A. 10th, 1931), and cases there cited. *United States v. Crary*, 1 F. Supp. 406 (W. D. Va. 1932).

"Suits may be maintained by the Government in its own courts to set aside one of its patents . . . when it is necessary in order to enable it to discharge its obligations to the public . . . [In that case] it has all the privileges and rights of a sovereign. The statutes of limitation do not run against it. The laches of its own officials does not debar its right." *United States v. American Bell Telephone Co.*, 167 U. S. 224, 264 (1897). ". . . local rules of estoppel will not be permitted to thwart the purposes of statutes of the United States." *Sola Electric Co. v. Jefferson Co.*, 317 U. S. 173, 176 (1942) (patent

there is an invention of a new and useful art and no prior public use,²⁴ lack of authority would be established by new evidence showing that the invention was anticipated in the prior art or that some other condition existed which made the statute inapplicable.²⁵ In addition, a rule preventing a showing of lack of authority by holding the Government estopped from pleading invalidity would make the issuance of letters patent conclusive on the patent's validity. Yet since *Reckendorfer v. Faber* letters patent have been held entitled only to a *prima facie* presumption of validity,²⁶ and on at least one occasion a court has on its own motion held a patent invalid when in its opinion it lacked invention.²⁷ The inventor's right to appeal from the Commissioner of Patent's decision²⁸ or to file a bill in equity to obtain a patent²⁹ as well as the defense of invalidity possible in infringement suits³⁰ show plainly that the Commissioner's finding is not intended to be conclusive in every instance. The Government itself has the statutory right to avail itself of all defenses that may be pleaded by a private defendant in an action for infringement.³¹

Considerations of public policy would make it seem deviational if the Government while free to plead invalidity when doing battle in a proprietary capacity should be "estopped" from doing so when defending the public interest in its sovereign capacity. Likewise they should caution against a rule which burdens the public with a patent that a threatened private interest could defeat.³² The court's opinion in the *Gypsum* case suggests that a governmental

licensee not estopped to challenge a price-fixing clause in his license agreement by showing patent's invalidity).

24. 46 STAT. 376 (1930), 35 U. S. C. § 31 (1940).

25. The responsibility of determining limits of statutory authority of administrative agencies is a judicial function. *Stark v. Wickard*, 64 Sup. Ct. 559, 571 (1944).

26. *Reckendorfer v. Faber*, 92 U. S. 347 (1875). See *Dunbar v. Myers*, 94 U. S. 187, 196 (1876); *Julius Kaiser & Co. v. Rosedale Knitting Co.*, 98 F. (2d) 839, 840 (C. C. A. 3d, 1938), *cert. denied*, 305 U. S. 649 (1938) (presumption of validity does not arise when interfering applicants agreed to arbitrate priority with the purpose of forming a patent pool); 48 C. J. (1929) § 258. Statistical studies indicate that a high percentage of patents tested in the courts are found invalid. See *Evans, Disposition of Patent Cases by the Courts* (1942) 24 J. PAT. OFF. SOC. 19; *Federico, Patents in the Circuit Courts of Appeal, 1925 to 1936* (1938) 20 J. PAT. OFF. SOC. 72.

27. *Slawson v. Grand Street R. R.*, 107 U. S. 649 (1882). "If they [the letters patent] are void because the device or contrivance described therein is not patentable, it is the duty of the court to dismiss the case on that ground, whether the defence be made or not. It would ill become a court of equity to render a money decree . . . for the infringement of letters patent which are void on their face for want of invention." *Id.* at 652.

28. 53 STAT. 1212 (1939), 35 U. S. C. § 59a (1940).

29. *Ibid.*, 25 U. S. C. § 63 (1940).

30. 29 STAT. 692 (1897), as amended 53 STAT. 1212 (1939), 35 U. S. C. § 69 (1940).

31. 36 STAT. 851 (1918), as amended 40 STAT. 705 (1918), 35 U. S. C. § 68 (1940).

32. Ordinarily private infringement suits test the validity of patents. But when all users of the patent are parties to license agreements and primarily interested in the maintenance of fixed prices, this test is not likely to be applied.

attack on a patent would constitute a breach of faith.³³ But it would appear that the Government never promises monopoly rights without the fact of invention. A showing that no invention justifying a patent was made by a patentee should, therefore, terminate a grant of patent privileges for failure of a condition precedent.³⁴ In fact, a subsequent declaration of invalidity may still leave the patent owner with a gratuitous profit made at the expense of the public during a possibly considerable period.

Nor does the argument that the Attorney General should not be allowed to overrule another government department commend itself. The powers of the patent office are narrowly limited by statute, and suggestions which have been made³⁵ for enlarging them, have not yet been enacted. In the absence of such a statute, it would seem that the Attorney General, who has the specific duty to enforce the anti-trust laws, is the only officer who can prevent the use of an invalid patent after its issuance. The language of recent Supreme Court decisions indicates that the often recognized abuses of the patent system³⁶ are no longer viewed with complacency. Indeed, the Court seems to have invited by a number of dicta in other anti-trust cases the attack which the decision in the *Gypsum* case foreclosed.³⁷ It is difficult to reconcile with such a policy a decision which may bestow immunity from prosecution under the anti-trust acts on a patentee without benefit of invention.

33. Compare the similar line of argument in Greenberg, *Recent Trends in Collateral Attacks on Patent Validity* (1942) 24 J. PAT. OFF. SOC. 746.

34. Patents have been considered contracts between the inventor and the Government, the consideration on the part of the inventor being his disclosure of the invention "in such plain and full terms that any one . . . may practice it." *Fried. Krupp Aktien-Gesellschaft v. Midvale Steel Co.*, 191 Fed. 588, 594 (C. C. A. 3d, 1911), *cert. denied*, 230 U. S. 728 (1912); *H. C. White Co. v. Morton E. Converse & Son Co.*, 20 F. (2d) 311, 313 (C. C. A. 2d, 1927) (L. Hand, J.), *cert. denied*, 275 U. S. 547 (1927). Accordingly, it may be argued that if the fact of lack of invention is established, the contract must fail for want of consideration, and the Government is no longer bound by its grant.

35. See S. 2491, 77th Cong., 2d Sess. (1942); *cf.* HAMILTON, TNEC REP., PATENTS AND FREE ENTERPRISE 168, Monograph 31 (1941); Woodward, *supra* note 19; Letter to Creekmore Fath, General Counsel for the Senate Patent Committee, from Edwin M. Borchard, June 8, 1942.

36. See *Mercoird Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661, 666 (1944); *Cuno Engineering Corp. v. Automatic Devices Corp.*, 314 U. S. 84, 92 (1941); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, 492 (1941). Hamilton gives a comprehensive survey of uses and abuses. HAMILTON, *op. cit. supra* note 35.

37. "Inasmuch as the Government did not appeal from these findings, we need not consider . . . the validity or scope of the . . . patents. . . ." *United States v. Standard Oil Co.*, 283 U. S. 163, 181 (1931). "In considering that question we assume the validity of the patents, which is not questioned here." *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 456 (1940). "We assume arguendo that the patents in question . . . are valid." *United States v. Masonite Corp.*, 316 U. S. 265, 276 (1942). "The record gives no account of the prior art and does not provide us with other material to which, if available, resort might appropriately be had in determining . . . the validity and scope of the patent claims. . . ." *United States v. Univis Lens Co.*, 316 U. S. 241, 248 (1942) (italics supplied).