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PATENTED ARTICLES AND PUBLIC CONTRACTS

NELSON ROSENBAUM

Modern warfare having caused the scientist to discover, and the industrialist to accept novel ideas, we have been promised that the postwar era will be a period of new and more efficient machines and processes, with different and better materials. Military security now prevents the disclosure of many of the innovations,¹ but their use and improvement is a matter of daily occurrence in military preparation and battle.

When peace is achieved, these modern implements, almost invariably protected by patent grants or controlled by monopolies, will be ready for civilian use. Sound public administration will call for the use of these newer, more efficient, and, often, cheaper inventions. Will public agencies, acting in compliance with statutory procedures prescribed for them, be able to procure these new devices?² That is the problem which will be discussed here.

Most public agencies in this country must award contracts in excess of five hundred dollars by competitive bidding, *i.e.*, to the lowest, or lowest *responsible* bidder.³ Statutes requiring competitive bidding have been adopted with a view towards insuring economy in the public administration⁴ so that "the public may receive the benefit of the greatest possible value for the least expenditure,"⁵ with the view of promoting honesty, fidelity and good morality in the administration of contract awards,⁶ and, lastly, to eliminate favoritism.⁶

¹Where the disclosure of an invention by the granting of a patent might be detrimental, the Commissioner of Patents may order that the invention be kept secret and withhold the grant of the patent for such period as the national interest requires. 40 STAT. 394 (1917), amended, 54 STAT. 710 (1940), 55 STAT. 657 (1941), 35 U. S. C. §§ 42-42f (1940, Supp. 1943). A discussion of this type of legislation will be found in Stewart, Jr., *Patents: War Secrecy and Beyond* (1942) 30 GEO. L. J. 285.

²The research department of Curtis Publishing Company has recently conducted a survey of 350 major industries, which revealed that 58 percent of the companies interviewed are planning some kind of new product or products for the post-war days. The New York Times, January 15, 1944.

³*Flynn Construction Co. v. Leininger*, 125 Okla. 197, 201, 257 Pac. 375, 378 (1927); *Great Northern Railway Co. v. City of Leavenworth*, 81 Wash. 511, 825, 142 Pac. 1155, 1159 (1914). See Rosenbaum, *Criteria for Awarding Public Contracts to the Lowest Responsible Bidder* (1942) 28 CORNELL L. Q. 37.

⁴*Harlem Gaslight Co. v. Mayor*, 33 N. Y. 309, 329 (1865).

⁵*Chapman v. Reiter*, 177 Wash. 392, 397, 31 P. (2d) 1005, 1007 (1934).

⁶*Harlem Gaslight Co. v. Mayor*, 33 N. Y. 309 (1865); *Hannan v. Board of Education*, 25 Okla. 372, 377, 378, 107 Pac. 646, 648, 649 (1909).

⁶*Ibid.* Justice Vann, before being elevated to the New York Court of Appeals, described favoritism in relation to awarding public contracts as "one of the most insidious and dangerous kinds of fraud." *Larned v. City of Syracuse*, 17 App. Div. 19, 26, 44 N. Y. Supp. 857, 859 (1897).

The procurement of a patented article or process⁷ on the basis of competitive bidding has been under judicial consideration for three quarters of a century.⁸ The problem arises because competitive bidding requires bidders to submit proposals on equal terms, usually in response to definite specifications;⁹ but this equality obviously cannot exist when the article or process specified is patented, since the patentee has "an exclusive right to make, use and vend the particular device described and claimed in the patent."¹⁰ Of course, were there no legal compulsion for competitive bidding, patented articles could be purchased by public officials without restraint and by private negotiation.¹¹ But because generally there is such legal compulsion, public officials in some jurisdictions have been unable to obtain a valuable specified article because, being patented, it did not lend itself to competitive bidding.¹² Public officials in other jurisdictions have gotten over this hump by saying that statutes requiring competitive bidding have no application to patented articles.¹³ Jurisdictions adhering to the former course of excluding the acquisition of patented articles are said to follow the "Wisconsin" rule, while jurisdictions permitting the acquisition of patented articles come under the "Michigan" rule.

Neither of these rules alone could be expected to prove satisfactory. The former, or "exclusion" rule, if followed strictly, would impair the efficacy of the public service; while the latter, or "permissive" rule, if similarly applied, might lead to abuses and loss to the public treasury. For example, in a case where a patented article is named in a contract together with unpatented materials on which competition could readily be procured, the supplier of

⁷The terms "patented article" and "patented process" are used in this article interchangeably.

⁸*Dean v. Charlton*, 23 Wis. 590, 99 Am. Dec. 205 (1868); *Hobart v. City of Detroit*, 17 Mich. 246, 97 Am. Dec. 185 (1868).

⁹*Ricketson v. City of Milwaukee*, 105 Wis. 591, 81 N. W. 864 (1900).

In *Flynn Construction Co. Inc. v. Leininger*, 125 Okla. 197, 201, 257 Pac. 375, 378 (1927) the court said that "competitive bidding means bidding upon the same thing, upon the identical undertaking, upon the same material items in the subject matter." 3 McQUILLIN, MUNICIPAL CORPORATIONS (2d rev. ed. 1943) § 1313. *Matter of McNutt v. Eckert*, 257 N. Y. 100, 104, 177 N. E. 386, 387 (1931); *Davies v. Village of Madelia*, 205 Minn. 526, 532, 287 N. W. 1, 4 (1939); *State ex rel. Sanders v. Grisso*, 184 Okla. 348, 350, 87 P. (2d) 155, 157-158 (1939).

¹⁰*Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488, 62 Sup. Ct. 402 (1942).

¹¹*Yarnold v. City of Lawrence*, 15 Kan. 126 (1875); *Kansas City Transfer Co. v. Huling*, 22 Mo. App. 654 (1886); *Warren v. Barber Asphalt Paving Co.*, 115 Mo. 572, 22 S. W. 490 (1893); *Bunker v. Hutchinson*, 74 Kan. 651, 87 Pac. 884 (1906); *Dillingham v. Spartanburg*, 75 S. C. 549, 56 S. E. 381 (1907).

¹²*Dean v. Charlton*, 23 Wis. 590, 99 Am. Dec. 205 (1868).

¹³*Hobart v. City of Detroit*, 17 Mich. 246, 97 Am. Dec. 185 (1868); *Hoffman v. City of Muscatine*, 212 Iowa 867, 232 N. W. 430, 77 A. L. R. 680 (1930); *Smith v. City of Seattle*, 192 Wash. 64, 72 P. (2d) 588 (1937).

the patented article would have an opportunity to charge exorbitant prices upon the unpatented items.¹⁴ Some jurisdictions which recognized the permissive rule, becoming alarmed over the possible abuses of this rule by public officials,¹⁵ enacted statutes securing competition as the sole criterion for awarding contracts.¹⁶ Subsequent experiences in other localities showed that these legislative fears were not altogether unwarranted.¹⁷ On the other hand, where the exclusion rule was sanctioned, the legislature came to the aid of public corporations, making available to them newly invented patented devices by authorizing their purchase under conditions which maintained some form of competition.¹⁸

¹⁴In *Matter of Eager*, 46 N. Y. 100, 106 (1871) the court said: "Even if we should hold that patented articles may be contracted for by the city, notwithstanding the impossibility of competition, we ought to stop there, and not go to the length of sanctioning a practice, whereby competition may be prevented, by unnecessarily coupling a work not patented, with one which is patented, and advertising for an entire proposal for the whole."

¹⁵In *Attorney General v. Detroit*, 26 Mich. 263 (1872) it was said (p. 270): "If they (public officials) invite proposals for a particular thing or process, they necessarily in so doing exclude everything else which might be substituted for the thing called for; and there is no clearer field for corruption and favoritism than in shaping proposals, if in fact the city is in corrupt hands."

¹⁶In 1872, in *Matter of Dugro*, 50 N. Y. 513, the permissive rule was adopted. The next year the legislature adopted a statutory method for procuring patented articles for the City of New York. The statute as enacted (L. 1873, Ch. 335, § 115, as amended, L. 1873, Ch. 757, § 22) provided: "***, except for repairs no patented pavement shall be laid, and no patented article shall be advertised for, contracted for or purchased. Except under such circumstances that there can be a fair and reasonable opportunity for competition, the conditions to secure which shall be prescribed by the board of estimate and apportionment." The present charter of the City of New York still contains the foregoing provisions, but there has been added this additional provision: "unless the board of estimate [formerly the board of estimate and apportionment] by a three-fourths vote shall find that it is to the interest of the city in a particular case to purchase and shall authorize the purchase of a patented article as to which competition cannot be secured." (§ 348 New York city charter [1938]).

¹⁷In 1920 there developed in Essex County, New Jersey, a so-called "patented paving scandal" owing to the fact that the paving of certain roads was limited to two patented pavements. As a result, there was enacted in 1923 an act known as the "Open Specification for Public Paving" (Ch. 188, Pub. L. 1923, N. J. STAT ANN. (1940) tit. 27, ch. 2, § 4) which provides: "If a patented, proprietary pavement or paving material, or ingredients used in paving, is included in the specifications, the body having charge of the work shall not only specify such type of construction, but shall also place in the specifications one or more equivalent types of construction upon which no patent exists, or upon which there is no proprietary right or condition, as an alternate type, and bids shall be asked for on the various types so specified. The award shall be made to the lowest responsible bidder on the types of construction so placed in competition." The history of the factual background for this law will be found in REED, TWENTY YEARS OF GOVERNMENT IN ESSEX COUNTY, NEW JERSEY (1938) ch. V.

¹⁸In Wisconsin, after the adoption of the rule in *Dean v. Charlton*, 23 Wis. 590, 99 Am. Dec. 205 (1868), the legislature provided in the city charter of Milwaukee (1914, c. 5, § 23) that the city could purchase the right to use any patented article at a stipulated royalty to the patent holder for improvements payable out of assessment funds.

In order to secure as much competition as might be available, even though patented articles were specified, two additional methods commonly known as the "equal opportunity"¹⁹ and "alternate"²⁰ rules, were adopted in some states. Furthermore, the so-called "repair" rule²¹ was introduced to solve the problem of whether parts essential for replacements of patented articles acquired by public agencies had to be purchased by competitive bidding.

Much of the remainder of this paper will be taken up with a discussion of these various rules.

The Wisconsin Rule

The Wisconsin rule, prohibiting the specification of a patented article in a public contract required to be awarded on competitive bids, had its origin in *Dean v. Charlton*.²² In this case the improvement called for the grading of a street and the laying of a patented pavement. The cost of this improvement was to be paid by assessments levied upon the abutting property. One firm had the exclusive right to lay the specified patented pavement. There was no general power in the municipality to do this work at the expense of the abutting property owners. The power to lay pavements and assess their cost against the abutting property arose from a special statute which required the contract for such work to be awarded to the lowest responsible bidder. It was held that the naming of a patented article thwarted the very basis upon which the power to pave the street was given, the securing of competition for the work, and such competition

¹⁹*Hastings v. Columbus*, 42 Ohio St. 585 (1885); *Kilvington v. City of Superior*, 83 Wis. 222, 53 N. W. 487, 18 L. R. A. 45 (1892); *Hoffman v. City of Muscatine*, 212 Iowa 867, 232 N. W. 430, 77 A. L. R. 680 (1930).

²⁰*Attorney General v. Detroit*, 26 Mich. 263 (1872); *Brener v. City of Philadelphia*, 305 Pa. St. 182, 157 Atl. 466 (1931). See Note (1935) 96 A. L. R. 712, discussing the validity of alternate plans or materials in proposals for bids on public contracts.

²¹*Silsby Mfg. Co. v. Allentown*, 153 Pa. St. 319, 26 Atl. 646 (1893).

²²23 Wis. 590, 99 Am. Dec. 205 (1868). The argument was advanced in this case that the willingness of the holders of the patent to sell the right to lay the patented pavement at the same sum per square yard to any person secured the competition intended by the statute. This claim was rejected on the ground that any person could buy the exclusive right to lay the patented pavement in the location in question, so that the successful bidder might find himself at the mercy of the buyer of such patented pavement rights, which situation would not create competition, but would deter it. However, the court did indicate a method by which all the available competition could be secured when patented articles are specified, which has since been largely adopted and is known as the "equal opportunity" rule. See text *infra* at page 342 *et seq.* In *Neacy v. City of Milwaukee*, 171 Wis. 311, 176 N. W. 871, as late as 1920, the Supreme Court of Wisconsin expressed its adherence to the rule of *Dean v. Charlton* and explained its meaning to be "that any article which is not a subject of competitive bidding is obnoxious to the provisions of city charters requiring that all contracts should be let pursuant to competitive bidding."

"was not preserved in the letting of this contract; and it was, therefore, beyond the scope and in violation of the spirit of the charter." Other courts which follow the exclusion rule stress the necessity of having "real and practical competition"²³ for the work, and argue that "no one can compete, on equal terms, with a man who controls the sale of the thing needed,"²⁴ and that under these conditions "there can hardly be a lowest bidder."²⁵

In some instances where assessable improvements are undertaken, the statute provides that after competitive bids are received for such work, if a given percentage of the property owners desire to take over the contract themselves they may do so. This is allowed, no doubt, to enable the property owners to perform the work at a price less than that of the lowest bidder. In such a case it has been held that the specification of a patented article is illegal, since there can be but one bidder and the property owners could not exercise their right to take over the contract without coming to terms with the patentee or paying heavy damages for infringement.²⁶

Under the Wisconsin rule it is illegal to contract for the delivery of an unpatented article under a coined or trade name.²⁷ It is also improper to let a contract for an article which is in fact patented, although the contract deceptively does not designate it as such; and in such a case the court will receive evidence that the article mentioned is patented.²⁸

When it is illegal to include a patented article in a public contract, a contractor cannot even recover for the performance of the unpatented work, because the patented article precluded all persons, other than the patentee, from successfully securing the contract.²⁹ However, where the contract does not demand a patented device, a contractor's voluntary use of a patented contrivance does not prevent the contractor from claiming the contract price for the work so performed.³⁰

The Michigan Rule

The Michigan, or liberal rule, allowing the designation of a patented arti-

²³Burgess v. City of Jefferson, 21 La. Ann. 143 (1869).

²⁴Temple v. City of Portland, 77 Or. 559, 151 Pac. 724 (1915); State v. City of Elizabeth, 35 N. J. L. 351 (1872).

²⁵*Ibid.*

²⁶Nicolson Pavement Co. v. Painter, 35 Cal. 699 (1868).

²⁷Seibert v. City of Indianapolis, 40 Ind. App. 296, 81 N. E. 99 (1907); Saxon v. City of New Orleans, 124 La. Ann. 717, 50 So. 662 (1909); Terwilliger Land Co. v. City of Portland, 62 Or. 101, 123 Pac. 57 (1912).

²⁸Village of Rossville v. Smith, 256 Ill. 302, 100 N. E. 292 (1912); Schoëllkopf v. City of Chicago, 294 Ill. 110, 128 N. E. 337 (1920).

²⁹Nicolson Pavement Co. v. Fay, 35 Cal. 695 (1868).

³⁰Dunne v. Altschul, 57 Cal. 472 (1881).

cle in a public contract to be awarded on competitive bids, was enunciated in *Hobart v. City of Detroit*³¹ upon facts similar to *Dean v. Charlton, supra*. The argument raised by counsel that the specification of a patented pavement was illegal as preventing the competition intended by the statute, was rejected on the ground that such a holding would deprive the public agencies of the use of newer, more useful, and in some instances cheaper inventions. The court dispelled the fear that a public agency was helpless against paying exorbitant prices for a patented contrivance by pointing out that the awarding officer could reject an unreasonable bid, and concluded that the requirement of competitive bidding was intended to secure competition only when practicable.

The claim that calling for a patented article does not "admit of competitive bids," where contracts are required to be let to the lowest bidder, has been rejected by other courts upon the reasoning that the selection of the materials to be used in constructing a public improvement rests in the discretion of the designated public officer or body, whose discretion should not be curtailed or limited by a general directory provision providing for competitive bids. It has also been held that statutes such as those in question merely prescribing forms of procedure for the activities of public bodies, are obligatory only to the extent to which they are applicable by their terms; that the legislature cannot be presumed to have intended that a power shall be exercised or work contracted for only if admitting of competitive bidding. Therefore, if an article specified does not lend itself to competition, nevertheless, a public officer has power to specify it, and the article may be considered as an exception to the statutory provision requiring the receipt of competitive bids.³²

Other courts adopting the permissive rule do so on the basis of public necessity and welfare, pointing out that it was "never intended that the city authorities should be unable to make a contract, however necessary to the public welfare such contract might be, if the article desired, or the manner of performance of the contract, required the use of a patented article."³³

³¹17 Mich. 246, 97 Am. Dec. 185 (1868); see also *Motz v. City of Detroit*, 18 Mich. 495, 515 (1869).

³²*Matter of Dugro*, 50 N. Y. 513 (1872). Prior to this decision, Mr. Justice Ingraham, in *Astor v. The Mayor*, N. Y. Daily Transcript, February 8, 1869, speaking for the General Term, in upholding the validity of a contract calling for a patented pavement, stated that the legislature, when it originally adopted the requirement for competitive bidding on public contracts, did not have in mind the question of patented articles; and if it intended to preclude the use of patented articles by public agencies, it would have so stated in express language. See also *State ex rel. Stamford v. Board of Purchase and Supplies*, 111 Conn. 147, 157, 149 Atl. 411, 413 (1930).

³³*Barber Asphalt Paving Co. v. Hunt*, 100 Mo. 22, 13 S. W. 98, 8 L. R. A. 110 (1890).

Where a statute authorizes the use of a particular patented article, provided bids therefor are advertised for, and a contract is awarded in compliance with such provisions, the contract is valid, even though there be but one bidder, the patentee. For the legislature is presumed to have known, at the time it enacted the statute, that the patented article was such that it might not be the subject of competition. The provision for advertising for bids to furnish the patented article is not a restriction upon the contracting officer's power to secure the patented implement, but is "merely a regulation of the mode of discharging" the duty imposed upon him "in obtaining proposals" for such article.³⁴

The right to specify a patented article does not authorize a contracting officer to include it in one contract with work which is unpatented and capable of separate performance and for which competition can be secured.³⁵ A contract so awarded is void.³⁶ By combining these two items in one contract, competition is excluded on that for which competition may be obtained. The proper practice to follow in such a case is to receive separate proposals for the work capable of being performed separately.

Often the charge is made that the specified patented device possesses no superiority or other advantage over another unpatented one. The courts, however, are loath to set aside the judgment of public officers acting in good faith.³⁷ To cast aside such selection there must be proof of bad faith, not

In *Holbrook v Toledo*, 18 Ohio Cir. Dec. 284, 28 Ohio Cir. Ct. Rep. 284 (1906), a similar doctrine of pragmatism was laid down regarding the specification of patented articles by public agencies. The court there said (pp. 296-297): "Wherever the exclusive right to a thing is owned or controlled, it has seemed to us that the people of a city ought not to be deprived of an opportunity to avail themselves of a useful and valuable thing simply because it is so controlled. And this kind of monopoly which we guard by the issuing of letters patent is a monopoly which has been encouraged, because it stimulates inventive genius and in the end results in great good to humanity. Not much encouragement would be given to the inventor of a patented pavement if his market were restricted to individuals, if municipalities were shut out of the number of purchasers of that which he has invented. Individuals do not ordinarily buy pavements. And the question then comes, whether it is public policy to discourage inventions along this line which in the end may inure to the highest benefit of the cities. *** it is wise that the people who have organized themselves into municipalities should be free to avail themselves of every beneficent invention keeping pace with the world's progress." See also *Saunders v. City of Iowa City*, 134 Iowa 132, 111 N. W. 529, 9 L. R. A. (N. S.) 392 (1907); *Smith v. City of Seattle*, 192 Wash. 64, 72 P. (2d) 588 (1937).

³⁴*Greaton v. Griffin*, 4 Abb. Prac. (N. S.) 310 (1868).

³⁵*Matter of Eager*, 46 N. Y. 100 (1871); *Temple v. City of Portland*, 77 Or. 559, 151 Pac. 725 (1915).

³⁶*Matter of Eager*, 46 N. Y. 100 (1871).

³⁷*Meek v. City of Chillicothe*, 181 Mo. App. 218, 167 S. W. 1139 (1914); *Wegmann Realty Co. v. City of St. Louis*, 329 Mo. 972, 47 S. W. (2d) 770 (1932); *Hillig v. City of St. Louis*, 337 Mo. 291, 296, 85 S. W. (2d) 91 (1935); *Beckwith v. City of New Rochelle*, 138 Misc. 62, 245 N. Y. Supp. 21 (1929), *aff'd*, 230 App. Div. 785, 245 N. Y. Supp. 21 (2d Dep't 1930).

evidence of bad judgment, for otherwise the courts would be substituting their judgment for that of the public officials charged with the duty of making the necessary selections, and deprive public agencies of the opportunity to secure those things best suited for their purposes, and, often, at lower prices.³⁸

In applying the permissive rule in practice, the question of advertising for bids arises. Some decisions hold that such advertising is not required, because there is no opportunity for competition and negotiation of the contract is more appropriate.³⁹ A similar conclusion was reached where the patented article (parking meters) had not been sufficiently developed to permit the drawing of a definite competitive specification.⁴⁰ A legal requirement for obtaining a minimum of two bids as a condition precedent to an award of a public contract does not apply where the permissive rule is followed.⁴¹

On the other hand, it has been decided that a contract for a patented device is subject to the statute requiring advertising for bids and the failure to do so voids the contract awarded.⁴² One view taken of this question is that to neglect to advertise for bids would permit the secret negotiation of public contracts without the beneficial advantage of publicity, and that even patented articles may be subject to competition on the part of numerous licensees of such articles.⁴³ Clearly, however, when the statute provides for competitive bidding, except where the circumstances "do not admit of competition," a contract for a patented pavement controlled by one person in the locality may be entered into without advertising for bids,⁴⁴ whereas this would not be so in the case of the purchase of an automobile,⁴⁵ because such an article

³⁸*Meek v. City of Chillicothe, and Wegmann Realty Co. v. City of St. Louis, supra*, note 37; *Beckwith v. City of New Rochelle, supra*, note 37.

³⁹*Astor v. Mayor, N. Y. Daily Transcript*, February 8, 1869 (Gen. Term, 1st Dep't); *People v. Van Nort*, 65 Barb. 331 (Gen. Term, 1st Dep't 1873); *Baird v. Mayor*, 96 N. Y. 567, 582 (1884); *Silby Manufacturing Co. v. Allentown*, 153 Pa. St. 319, 26 Atl. 646 (1893); *Addressograph Sales Agency v. County of Lucerne*, 32 Lucerne Leg. Reg. 444 (1938).

⁴⁰*Hodgeman v. City of San Diego*, 53 Cal. App. (2d) 610, 128 P. (2d) 412 (1942). Appellant's petition for a hearing by the Supreme Court was denied, 53 Cal. App. (2d) 619, 128 P. (2d) 412 (1942).

⁴¹*State ex rel. City of Stamford v. Board of Purchase and Supply*, 111 Conn. 147, 149 Atl. 410 (1930).

⁴²*Limestone County v. Knox*, 234 S. W. 131, *rehearing denied* (1921), cited with approval in *Vilbig Bros. v. City of Dallas*, 127 Tex. 563, 91 S. W. (2d) 336 (1936), *motion for rehearing overruled*, 127 Texas 573, 96 S. W. (2d) 229 (1936).

⁴³*Worthington v. City of Boston*, 41 Fed. 23 (D. Mass. 1890), *rev'd on other grounds*, 152 U. S. 695, 14 Sup. Ct. 737 (1894).

⁴⁴*Lord v. City and County of Honolulu*, 20 Haw. 175 (1910). A similar provision has been added to the New York City Charter, but this provision requires a three-fourths vote of the board of estimate before it becomes effective, *supra* note 16.

⁴⁵*West v. County of Hawaii*, 24 Haw. 310 (1918). The purchase of automotive equip-

does admit of competition. In the absence of judicial precedent or statutory dispensation, and as a matter of proper administrative practice, for the purpose of protecting the contract awarded from possible attack, the requirement for advertising for bids should be observed, for "disclosure is the antidote to partiality and favor."⁴⁶

Monopolized Articles

Often there exists an article or product which is not patented, but is of especial excellence. These commodities may be of exclusive manufacture, *i.e.*, a proprietary article; or their source, if mined or quarried, may be within the control of one individual or corporation. Like patented articles, they too do not lend themselves to competition. Here again the question arises whether they may be procured by public agencies when competitive bidding is required.

When the product specified is held in monopoly in the community where the work is to be performed, it has been held that, though such a product was properly requested by the required percentage of property owners, it cannot be legally specified.⁴⁷ A similar holding was founded on the premise that even if a certain monopolized product was most suitable for a contemplated project, such product should not be used, but should merely be adopted as the standard of quality and fitness, and material equal to it should be used.⁴⁸ In other words, to secure desirable material a public agency "must not be the victim" of a monopoly.⁴⁹ This criterion of "or equal" has received sharp judicial criticism.⁵⁰ But, if the specified material is sold in the open market, the fact that one company produces and sells most of it does not invalidate its selection, even in those jurisdictions that object to a public corporation being the "victim" of a monopoly, since a contractor may procure it from a competitor of the dominant company.⁵¹

The opposite view has been taken by many courts,⁵² upon the theory that when a public official believes in good faith that a certain monopolized

ment, without competitive bidding, where the statute calls for such competition, is illegal. *McRoberts v. Ammons*, 104 Colo. 96, 88 P. (2d) 958 (1939).

⁴⁶*Fordham Church v. Walsh*, 244 N. Y. 280, 291, 155 N. E. 575, 578 (1927).

⁴⁷*Boon v. City of Utica*, 5 Misc. 391, 25 N. Y. Supp. 846 (Sup. Ct. 1893); *Monaghan v. City of Indianapolis*, 37 Ind. App. 280, 76 N. E. 424 (1905); *Fineran Bitulithic Paving Co.*, 116 Ky. 495, 76 S. W. 415 (1903).

⁴⁸*Fishburn v. City of Chicago*, 171 Ill. 338, 49 N. E. 532, 39 L. R. A. 482 (1898).

⁴⁹*Schoellkopf v. City of Chicago*, 294 Ill. 110, 128 N. E. 337 (1920).

⁵⁰*City of Springfield v. Haydon*, 216 Ky. 483, 288 S. W. 337 (1926); *Johns v. City of Pendleton*, 66 Ore. 182, 133 Pac. 817, 46 L. R. A. (N. S.) 990 (1913).

⁵¹*City of Quincy v. Kemper*, 304 Ill. 303, 136 N. E. 763 (1922).

⁵²See notes 53-57 *infra*.

product is essential to the rendering of proper public service, he should not be barred from using it⁵³ or be satisfied with anything asserted to be equally as good,⁵⁴ nor should he be required to speculate with an uncertain material, even if it costs less,⁵⁵ especially when the specified product is the only suitable one.⁵⁶ This rule has been approved in cases where public agencies have had previous satisfactory results from the use of a monopolized material,⁵⁷ particularly when it is sold to all contractors at the same price.⁵⁸ This kind of specification, nevertheless, enables a public agency to protect itself against being charged excessive prices by its power to decline to purchase the non-competitive product.⁵⁹ The judicial philosophy of these holdings is the belief that while the purpose of competitive bidding is to promote honesty and economy in public contracts, it has not for its aim the deprivation of public agencies of the right to procure the best available implement, simply because it is held in monopoly or is procurable from only a limited source. To deprive public bodies, in this day of scientific advancement, of the use of a monopolized article would take from them the opportunity of rendering the most efficient and economical service.⁶⁰ Therefore, as with patented articles, when public officials honestly decide without fraud, bad faith or corruption that a non-competitive medium is best for their purpose, the courts will not substitute their judgment for that of the public officials.⁶¹

However, if the thing specified is one of common manufacture or mining, to require that it be obtained from a single source or manufacturer is illegal, when the same article of equal excellence is manufactured or mined by others.⁶² Unless a monopoly is based solely on the excellence of the

⁵³Newark v. Bonnel, 57 N. J. L. 424, 31 Atl. 408 (1895); Kingston Bituminous Products Co. v. City of Long Branch, 124 N. J. L. 472, 12 A. (2d) 237 (1940).

⁵⁴Holmes v. Common Council of Detroit, 120 Mich. 226, 79 N. W. 200 (1899).

⁵⁵Ryan v. City of Paterson, 66 N. J. L. 533, 49 Atl. 587 (1901).

⁵⁶Swift v. City of St. Louis, 180 Mo. 80, 79 S. W. 172 (1904); Keokuk Water Works Co. v. City of Keokuk, 224 Iowa 718, 277 N. W. 291 (1933).

⁵⁷City of Springfield v. Haydon, 216 Ky. 483, 288 S. W. 337 (1926); Smith v. City of Seattle, 192 Wash. 64, 72 P. (2d) 588 (1937); Kingston Bituminous Products Co. v. City of Long Branch, 124 N. J. L. 472, 12 A. (2d) 237 (1940).

⁵⁸Gualco v. City of Bakersfield, 86 Cal. App. 167, 260 Pac. 308 (1927); Eckerle v. Ferris, 175 Okla. 107, 51 P. (2d) 766 (1935).

⁵⁹Cf. Hobart v. City of Detroit, 17 Mich. 246, 97 Am. Dec. 185 (1868).

⁶⁰Smith v. City of Seattle, 192 Wash. 64, 72 P. (2d) 588 (1937).

⁶¹Custer v. City of Springfield, 167 Mo. App. 354, 151 S. W. 759 (1912); Cleveland Trinidad Paving Co. v. Lord, 145 Mo. App. 141, 130 S. W. 371 (1910); Smith v. City of Seattle, *supra* note 57.

⁶²Larned v. City of Syracuse, 17 App. Div. 19, 44 N. Y. Supp. 857 (4th Dep't 1897); Smith v. Syracuse Improvement Co., 161 N. Y. 484, 55 N. E. 1077 (1900); Schoenberg v. Field, 95 Mo. App. 242, 68 S. W. 945 (1902); Diamond v. City of Mankato, 89 Minn. 48, 93 N. W. 911, 61 L. R. A. 448 (1903); National Surety Co. v. Kansas City Hydraulic Press Brick, 73 Kan. 196, 84 Pac. 1034 (1906); Curtice v. Schmidt, 202 Mo. 703,

product, it cannot be utilized by a public official.⁶³ Therefore, where there are asphalts of equal excellence it is illegal to specify an asphalt from a single source;⁶⁴ the same is true of paving brick,⁶⁵ stone from a single quarry,⁶⁶ or cement for paving purposes.⁶⁷ Such an illegal monopoly is not validated by stating an upset price at which it should be secured from the single source.⁶⁸

Alternate Rule

In practice the two original rules of procurement concerning patented devices for public agencies were, as previously indicated, far from satisfactory in some respects. To improve the situation a method was devised for securing bids based upon the specification in the alternative of several articles which served the same purpose, with the final selection being made after all the bids were opened and considered.⁶⁹ In this manner two kinds of competition are carried on simultaneously: (1) between different products (alternates), and (2) upon the same product.⁷⁰ Business men, in conducting their

101 S. W. 61 (1907); Taylor v. Schroeder, 130 Mo. App. 483, 110 S. W. 26 (1908); Muff v. Cameron, 134 Mo. App. 607, 114 S. W. 1125 (1908); Glennon v. Gates, 136 Mo. App. 421, 118 S. W. 98 (1909); State v. Amlin, 13 Ohio Dec. 334 (1902); Kratz v. Allentown, 304 Pa. St. 51, 55, 155 Atl. 116, 117 (1931); McCutcheon v. City of Shreveport, 157 La. 699, 102 So. 875 (1925).

⁶³Curtice v. Schmidt, 202 Mo. 703, 101 S. W. 61 (1907); Wegmann Realty Co. v. City of St. Louis, 329 Mo. 972, 47 S. W. (2d) 770 (1932).

⁶⁴Diamond v. City of Mankato, 89 Minn. 48, 93 N. W. 911 (1903).

⁶⁵See cases cited note 62 *supra*.

⁶⁶State v. Amlin, 13 Ohio Dec. 334 (1902); Kratz v. Allentown, 304 Pa. St. 51, 155 Atl. 116 (1931).

⁶⁷Cf. Swift v. City of St. Louis, 180 Mo. 80, 79 S. W. 172 (1904).

⁶⁸Larned v. City of Syracuse, 17 App. Div. 19, 44 N. Y. Supp. 857 (4th Dep't 1897); Glennon v. Gates, 136 Mo. App. 421, 118 S. W. 98 (1909), cited with approval in Hillig v. City of St. Louis, 337 Mo. 291, 85 S. W. (2d) 91 (1935).

⁶⁹Attorney General v. Detroit, 26 Mich. 263 (1872); Gage v. City of Chicago, 207 Ill. 56, 69 N. E. 588 (1904); Baltimore City v. Flack, 104 Md. 107, 64 Atl. 702 (1906); Parker v. City of Philadelphia, 220 Pa. St. 208, 69 Atl. 671 (1908); Campbell v. Southern Bitulithic Co., 32 Ky. Law. Rep. 777, 106 S. W. 1189 (1908); De Neffe v. Duby, 115 Ore. 511, 239 Pac. 109 (1925); Hodges v. City of Roswell, 31 N. M. 384, 247 Pac. 310 (1926); Brener v. City of Philadelphia, 305 Pa. St. 182, 157 Atl. 466 (1931); Burns v. Broderick, 140 Misc. 859, 251 N. Y. Supp. 788 (Sup. Ct. 1931).

This method of securing alternate bids on pavements contracts is authorized by statute in some jurisdictions, so that patented pavements may be selected after all the bids are received if the awarding official deems it to be in the best interest of the city to lay a patented pavement. Vilbig Bros. v. City of Dallas, 127 Tex. 563, 91 S. W. (2d) 336 (1936); *motion for rehearing overruled*, 127 Tex. 573, 96 S. W. (2d) 229 (1936); Bechthold v. City of Wauwatosa, 228 Wis. 544, 277 N. W. 657 (1938). See note in (1935) 96 A. L. R. 712, discussing validity of seeking bids on the basis of alternate materials.

⁷⁰Chief Justice Christiancy, in *Attorney General v. Detroit*, 26 Mich. 263, at 276, speaking of a street pavement contract, but which remarks are true of anything else, said: "When the pavement of a street is in contemplation, there are two kinds of competition

usual commercial dealings, receive bids upon this basis, sometimes described as "duplex competition," with beneficial results to themselves. It cannot be presumed that the legislature in prescribing competitive bidding intended to deprive public agencies of this satisfactory business technique.⁷¹ The more diverse are the products brought into the contest, the greater will be the competition.⁷² Since preference for the article to be purchased is determined after the bids are received, it is improbable that those seeking the adoption of their product will ask exorbitant prices.⁷³

Under this plan the initial choice of the type of product to be purchased is not determined by the lowest price submitted on any of the alternates. The awarding officer, after taking into consideration all the necessary factors, chooses the type of product or article, *i.e.*, alternate, which in his judgment is best for the public needs; but once such selection is made, the award must go to the lowest, or lowest responsible, or lowest and best bidder thereon, depending on the statutory standard.⁷⁴

When the statute provides that the material to be bought must be selected in advance of the advertising for bids this alternate method of soliciting bids is illegal.⁷⁵

There are various methods of receiving bids by this alternate method. The simplest method is to set forth the specifications of an unpatented, but monopolized article as the standard and require the alternate to be its equal with regard to quality or other essential factors.⁷⁶

But the method just described cannot be applied in the case of a patented article. To describe the patented article as the standard necessarily excludes all alternates. Where the commodity to be furnished is in a field consisting entirely of patented articles, a method that may be adopted is to establish a general specification that any of the articles can meet, with the awarding officer selecting the type and make that he considers best adapted to the work to be performed.⁷⁷ In such a case the patentee can be asked to furnish

which it is very desirable to create among those who may wish to undertake the work: *First*, that between the *different kinds of pavement*, or those prepared to engage in putting them down; and *second*, that between parties prepared to put down the *same kind*."

⁷¹Baltimore City v. Flack, 104 Md. 107, 130, 64 Atl. 702, 711 (1906).

⁷²Attorney General v. Detroit, 26 Mich. 263, 271-272. Cf. Landsborough v. Kelly, 1 Cal. (2d) 739, 37 P. (2d) 93, 96 A. L. R. 707 (1934).

⁷³See note 71 *supra*.

⁷⁴See Attorney General v. Detroit; Baltimore City v. Flack; Campbell v. Southern Bitulithic Co.; De Neffe v. Duby, all cited *supra* note 69.

⁷⁵Stocking v. Warren Brothers, 134 Wis. 235, 114 N. W. 789 (1908). This rule has been changed. Wis. STAT. (1939) § 62.15, sub. 7.

⁷⁶Gage v. City of Chicago, 207 Ill. 56, 69 N. E. 588 (1904).

⁷⁷Parker v. Philadelphia, 220 Pa. St. 208, 69 Atl. 671 (1908). The absence of any

his own specification.⁷⁸ Another scheme is to specify one patented article, and, as its alternate, describe the article with all its patented features eliminated.⁷⁹ Of course, one patented device and other patented or unpatented devices performing the same function may be specified as alternates.

In selecting the alternate and making the award thereon, regardless of whether the award must be made to the lowest or lowest responsible bidder, the quality and adaptability of the article to the particular requirements of the job may be considered.⁸⁰

Equal Opportunity Rule

There is unanimity of opinion that the use of patented articles or processes is very often of advantage to the public service.⁸¹ To overcome the objection that the specification of a patented medium precludes the competition called for by the statutes requiring competitive bidding, still another plan has been devised for securing all the competition that the circumstances allow.

The idea appears to have been first suggested in *Dean v. Charlton*, *supra*. Under this plan all bidders have an equal opportunity to secure the patented portion of the specifications upon the same terms from the patent holder.

This equality for the bidders is obtained by the contracting agency securing from the patentee, before the advertisement for bids, a binding agreement that he will allow any successful bidder to use his process upon payment of a fixed royalty; or, in the case of a patented article, that he will sell the patented contrivance to any successful bidder at a stated price.

This method gives a public agency several beneficial results: (1) it permits the use of patents for the benefit of the public service; (2) it prevents the patentee from using his monopoly to charge exorbitant prices as to those

specifications where alternate bids are employed is illegal, *Swezey v. Mayor of Malden*, 273 Mass. 536, 174 N. E. 269 (1931).

⁷⁸*Penniman v. Bennett*, 224 Ill. App. 53 (1922); *Brener v. City of Philadelphia*, 305 Pa. St. 182, 157 Atl. 466 (1931); *cf.* *Bechthold v. City of Wauwatosa*, 228 Wis. 544, 277 N. W. 657 (1938).

⁷⁹*Brener v. City of Philadelphia*, 305 Pa. St. 182, 157 Atl. 466 (1931); *cf.* *Patterson v. Zanesville*, 42 Ohio App. 428, 182 N. E. 352 (1932), *motion to certify record overruled*, 42 Ohio App. xlvii.

⁸⁰*Cleveland Fire Alarm Telegraph Co. v. Board of Fire Commissioners*, 55 Barb. 288 (Sup. Ct. 1869); *West v. City of Oakland*, 30 Cal. App. 560, 159 Pac. 202, 204 (1916); *Hodgeman v. City of San Diego*, 53 Cal. App. (2d) 610, 128 P. (2d) 412 (1942); *Mitchell v. Walden Motors Co.*, 235 Ala. 34, 177 So. 151 (1937).

⁸¹*Dean v. Charlton*, 23 Wis. 509, 99 Am. Dec. 205 (1868); *Hobart v. City of Detroit*, 17 Mich. 246, 97 Am. Dec. 185 (1868); *Fishburn v. City of Chicago*, 171 Ill. 338, 49 N. E. 532, 39 L. R. A. 482 (1898); *Saunders v. City of Iowa City*, 134 Iowa 132, 111 N. W. 529, 9 L. R. A. (N. S.) 392 (1907).

things which are not within the terms of his patent grant;⁸² (3) it places it within the power of a public agency to name the price for the patented implement or process, by recognizing its right to decline to call for it if the price asked is not reasonable.⁸³ But under this rule no power can properly be given to the patentee to select the successful bidder. Accordingly, a provision which gives the patentee the power to choose the successful bidder upon the basis of his plant and equipment being most satisfactory to the patentee is illegal.⁸⁴

This rule of equal opportunity obviously cannot be applied in the case where the contract to be awarded calls for furnishing a single patented or monopolized article, as it is self-evident, that in such a case, there can be no competition.⁸⁵

The rule of equal opportunity has been accepted in many jurisdictions because of its efficacy.⁸⁶ It enables public agencies to obtain all the competition

⁸²*Cf.* Matter of Eager, 46 N. Y. 100 (1871); Temple v. City of Portland, 77 Ore. 559, 151 Pac. 724 (1915).

⁸³In *People v. Van Nort*, 65 Barb. 331 (Gen. Term, 1st Dep't [1873]), speaking of soliciting bids on a patented article by public advertisement, the court said (p. 333): "There is no opportunity for any competition, in consequence of the patent, and the public officer might more advantageously, and with as much propriety, negotiate for a contract directly, as to receive proposals." See *Baird v. Mayor*, 96 N. Y. 567, 582 (1884). See also *Addressograph Sales Agency v. County of Lucerne*, 32 Lucerne Leg. Reg. 444 (1938).

⁸⁴*Monaghan v. City of Indianapolis*, 37 Ind. App. 280, 76 N. E. 424 (1905). *But cf.* *Grimes v. City of Seaside*, 87 Ore. 256, 170 Pac. 310 (1918).

⁸⁵*Cf.* concurring opinion of Sullivan, J., in *McEwen v. City of Coeuer d'Alene*, 23 Idaho 746, 771-772, 132 Pac. 308, 317 (1913).

⁸⁶*Hastings v. Columbus*, 42 Ohio St. 585, 595 (1885); *Kilvington v. City of Superior*, 83 Wis. 222, 53 N. W. 487, 18 L. R. A. 45 (1892); *Perine Contracting and Paving Co. v. Quackenbush*, 104 Cal. 684, 38 Pac. 533 (1894); *State of Kansas v. Shawnee Co.*, 57 Kan. 267, 45 Pac. 616 (1896); *Bye v. Atlantic City*, 73 N. J. L. 402, 64 Atl. 1056 (1906); *Saunders v. City of Iowa City*, 134 Iowa 132, 111 N. W. 529, 9 L. R. A. (N. S.) 392 (1907); *LaCoste v. City of New Orleans*, 119 La. Ann. 469, 44 So. 267 (1907); *Milner v. City of Trenton*, 80 N. J. L. 253, 75 Atl. 939 (1910); *Tousey v. City of Indianapolis*, 175 Ind. 295, 94 N. E. 225 (1912); *Reed v. Rockcliff-Gibson Construction Co.*, 25 Okla. 633, 107 Pac. 168 (1910); *Ford v. City of Great Falls*, 46 Mont. 292, 127 Pac. 1004 (1912); *Johns v. City of Pendleton*, 66 Ore. 182, 133 Pac. 817, 46 L. R. A. (N. S.) 990 (1913); *McEwen v. City of Coeuer d'Alene*, 23 Idaho 746, 132 Pac. 308 (1913); *Whitmore, Rauber & Vicinus v. Edgerton*, 87 Misc. 216, 149 N. Y. Supp. 508, *aff'd*, 167 App. Div. 508, 152 N. Y. Supp. 1149 (4th Dep't 1915); *Great Northern Railroad Co. v. City of Leavenworth*, 81 Wash. 511, 142 Pac. 1155 (1914); *Sherrett v. City of Portland*, 75 Ore. 449, 147 Pac. 382 (1915); *Wurdeman v. City of Columbus*, 100 Neb. 134, 158 N. W. 924 (1916); *Farmer v. Dahl*, 19 Ariz. 395, 171 Pac. 130 (1918); *Wagoner v. City of La Grande*, 89 Ore. 192, 173 Pac. 305 (1918); *Grimes v. City of Seaside*, 87 Ore. 256, 170 Pac. 310 (1918); *Burns v. City of Nashville*, 142 Tenn. 541, 221 S. W. 828 (1920); *Adams v. Van Zandt*, 199 N. Y. Supp. 225 (Sup. Ct. 1923), *aff'd*, 219 App. Div. 761, 219 N. Y. Supp. 766 (4th Dep't 1927), *aff'd*, 246 N. Y. 642, 159 N. E. 684 (1927); *Sanborn v. City of Boulder*, 74 Colo. 358, 221 Pac. 2077 (1923); *Woodworth v. Town of Sebastopol*, 72 Cal. App. 187, 236 Pac. 981 (1925); *Delahoussaye v. Board of Trustees of City of New Iberia*, 158 La. Ann. 566, 104 So. 370 (1925); *Litchfield v. City of Bridgeport*, 103 Conn. 565, 131 Atl. 560 (1925); *Brydon v. City of Hermosa Beach*, 93 Cal. App. 615, 270 Pac. 255 (1928), *rehearing denied*

the situation permits, and at the same time avail themselves of new discoveries and improvements.⁸⁷ Those jurisdictions that have failed to adopt the equal opportunity rule have done so upon the hypothesis that this method does not permit the competition called for by the statute as to the supplying of the patented article itself.⁸⁸

Where the methods for securing patented things or using patented processes are prescribed by the statute, the equal opportunity rule cannot be employed if it conflicts with such statute. Thus, if the charter requires a city to obtain the right to use the patented article or process upon the payment of a stated royalty before awarding the contract, it is illegal to permit the patentee to consent to sell his patented article or permit the use of his process to any bidder at a fixed price.^{88a} It is likewise illegal to use this procedure where the statute prohibits the procurement of patented articles unless "a fair and reasonable opportunity for competition" is had, and in such a case there must be competition in furnishing the patented feature itself.⁸⁹

The right of the patentee to bid on the contract for which he has agreed to sell his patent at a fixed price to any successful bidder has been questioned. The better view maintains that since the patentee's profit on his patent is secured whether or not he obtains the contract, his entry in the field for the contract provides additional competition.⁹⁰ This is particularly so when the patent is also being offered in competition with other articles under the alternate rule, *supra*, and no one is willing to submit a bid based on the patent but the patentee himself.⁹¹ However, there are many *dicta* to the effect that the patentee cannot bid.⁹² If the price to be paid for the patented implement

and petition for hearing denied by the Supreme Court, 93 Cal. App. 931, 270 Pac. 255 (1928); *Beckwith v. City of New Rochelle*, 138 Misc. 62, 245 N. Y. Supp. 21 (N. Y. Sup. Ct. 1929), *aff'd*, 230 App. Div. 785, 245 N. Y. Supp. 21 (2d Dep't 1930); *Hoffman v. City of Muscatine*, 212 Iowa 867, 232 N. W. 430, 77 A. L. R. 680 (1930).

⁸⁷*Saunders v. City of Iowa City*, 134 Iowa 132, 111 N. W. 529, 9 L. R. A. (N. S.) 392 (1907), cited with approval, *Hoffman v. Muscatine*, 212 Iowa 867, 232 N. W. 430 (1930).

⁸⁸*Siegel v. City of Chicago*, 223 Ill. 428, 79 N. E. 280 (1906).

^{88a}*Allen v. City of Milwaukee*, 128 Wis. 678, 106 N. W. 1099 (1906).

⁸⁹*Rose v. Low*, 85 App. Div. 461, 83 N. Y. Supp. 598 (1st Dep't 1903), cited with approval in *Polansky v. Walsh*, 220 App. Div. 559, 222 N. Y. Supp. 120 (1st Dep't 1927).

⁹⁰*La Coste v. City of New Orleans*, 119 La. Ann. 469, 44 So. 267 (1907); *Whitmore, Rauber & Vicinus v. Edgerton*, 87 Misc. 216, 149 N. Y. Supp. 508, *aff'd*, 167 App. Div. 960, 152 N. Y. Supp. 1149 (4th Dep't 1915), cited with approval in *Adams v. Van Zandt*, 219 App. Div. 761, 219 N. Y. Supp. 766 (4th Dep't 1927), *aff'd*, 246 N. Y. 642, 159 N. E. 684 (1927); *Litchfield v. City of Bridgeport*, 103 Conn. 565, 131 Atl. 560 (1925); *Hoffman v. City of Muscatine*, 212 Iowa 867, 232 N. W. 430 (1930).

⁹¹*Hoffman v. City of Muscatine*, 212 Iowa 867, 232 N. W. 430 (1930).

⁹²*McEwen v. City of Coeur d'Aléne*, 23 Idaho 746, 132 Pac. 308 (1913); *Burns v. City of Nashville*, 142 Tenn. 541, 221 S. W. 828 (1920).

is so exorbitant as to give the patentee an advantage over his competitors which enables him to secure the contract, it may well be that the courts will declare a contract so obtained illegal and void.⁹³ The courts should go far to maintain fair dealings when the equal opportunity rule is employed. In a case where the patentee gave one of the bidders a secret advantage so that the favored bidder could secure the contract, the contract obtained by such bidder was declared unenforceable, for the practice of giving a secret advantage to a favored bidder tended to deter others from bidding and would thereby lessen and possibly wipe out the very competition which the equal opportunity rule sought to encourage.⁹⁴

Sometimes the patent covers, not the material, but the process, such as the construction of a gravel road. In such a case it is held that the patentee cannot by a suit for contributory infringement prevent a supplier from selling the unpatented materials to a contractor, even though the supplier knows, that the contractor intends to use the patentee's process.⁹⁵ The significance of this holding appears in those instances where the patent is a process and the equal opportunity agreement provides for the use of the process with the purchase of the unpatented materials from the patentee at fixed prices. Such an arrangement has been held illegal as it creates for the benefit of the patentee an unauthorized and illegal monopoly on unpatented materials which are not within the protection of his patent grant.⁹⁶ But if such unpatented material of the patentee is of especial excellence, under the monopolized article rule, *supra*, it can be specified and the prices at which it is to be procured from the patentee likewise fixed in the license or equal opportunity agreement.⁹⁷

When a public agency has an equal opportunity agreement on a patented device for its contractors and itself, and it legally undertakes to perform work that is ordinarily let at competitive bidding, there appears to be no valid ob-

⁹³Johnson v. Atlantic City, 82 N. J. L. 204, 81 Atl. 1105 (1911).

⁹⁴*Ibid.* See also State *ex rel.* Washington Paving Co v. Clausen, 90 Wash. 450, 156 Pac. 554, L. R. A. 1917 A 436 (1916), where the contract was held only voidable before performance because there were alternates specified which created competition.

⁹⁵In *Leitch Manufacturing Co. v. Barber Co.*, 302 U. S. 458, 58 Sup. Ct. 288 (1938) the court held that the owner of a patent cannot "extend the monopoly (of his patent) to unpatented material used in practicing the invention," and that "every use of a patent as a means of obtaining a limited monopoly of unpatented materials is prohibited. It applies whatever the nature of the device by which the owner of the patent seeks to effect such unauthorized extension of the monopoly."

⁹⁶See *Seibert v. City of Indianapolis*, 40 Ind. App. 296, 81 N. E. 99 (1907), as explained in *Tousey v. City of Indianapolis*, 175 Ind. 295, 94 N. E. 225 (1911).

⁹⁷*Swift v. City of St. Louis*, 180 Mo. 80, 79 S. W. 172 (1904); *Gualco v. City of Bakersfield*, 86 Cal. App. 167, 260 Pac. 308 (1927).

jection to its taking advantage of such agreement and securing the patented article under the terms stated therein, even though it is not at public letting.⁹⁸ Of course, all other items in the project would have to be obtained on competitive bids if the value of each came within the range that required competitive bidding.

Repair Rule

Patented articles often wear out within their normal life and have to be replaced. The right of an owner of a patented article to make a repair or replacement to it is not within the scope of this article.⁹⁹ But it can be stated as a proper rule of procedure in the procurement of such repair or replacement parts that if their purchase from a source other than the patentee or his authorized licensee would constitute an infringement of the patent, such repair or replacement parts may be obtained by private negotiation from the patentee or his licensee.¹⁰⁰ If there are several licensees competitively engaged in supplying these repair parts, there appears to be no reason why these parts should not be obtained on the basis of competitive bidding. On the other hand, if there can be no claim for infringement, these repair or replacement parts should be purchased upon the basis of competitive bidding.

Statutory Methods in Various States and Cities

After the adoption of the permissive rule in New York,¹⁰¹ the legislature, fearful of the liberal features of this rule, adopted a more restrictive method for procuring patented articles for the City of New York.¹⁰² On the other hand, in Wisconsin, where the rigid rule of exclusion was approved,¹⁰³ the legislature assisted its public corporations by permitting them to secure and use patented articles under procedures somewhat similar to those of the equal opportunity and alternate rules.¹⁰⁴ In Illinois the use of the restrictive

⁹⁸Cf. *Warren Brothers Co. v. Boyle*, 42 Cal. App. 246, 257 *et seq.*, 183 Pac. 706 (1919).

⁹⁹This question is treated in: WALKER, PATENTS (Deller ed. 1937) §§ 379, 509; AMDUR, PATENT LAW AND PRACTICE (1935) 672-688; ELLIS, PATENT ASSIGNMENTS AND LICENSES (2d ed. 1943) §§ 500-501. See also *Morgan Envelope Co. v. Albany Paper Co.*, 152 U. S. 425, 14 S. Ct. 627 (1894).

¹⁰⁰*Silsby Manufacturing Co. v. Allentown*, 153 Pa. St. 319, 26 Atl. 646 (1893). This rule is recognized in the statutory method of procuring patented articles provided by the New York city charter (§ 348) by excepting repairs from the competitive method established there for procuring patented articles. See also *Yingling v. Dunlap*, 68 Pa. Sup. Ct. 425 (1917), cited with approval in *Sheets v. Armstrong*, 307 Pa. St. 385, 161 Atl. 359 (1932).

¹⁰¹*Matter of Dugro*, 50 N. Y. 513 (1872).

¹⁰²See note 16 *supra*.

¹⁰³*Dean v. Charlton*, 23 Wis. 590, 99 Am. Dec. 205 (1868).

¹⁰⁴*Supra* note 18; and see WIS. STAT. (1939) § 62.15, sub. s. 7, 8.

rule became a costly proposition, for, in precluding competition from patented pavements, it resulted in high road construction costs. In an endeavor to overcome this condition, the alternate rule was observed to permit competition from patented roadways.¹⁰⁵

Ohio adopted a limited exclusion rule by prohibiting the specification of "the exclusive use of a patented article or process protected by a trade-mark or an article or process wholly controlled by any person, firm or corporation or combination thereof."¹⁰⁶ In the city of New Orleans, the exclusion rule with all its severity was enacted into law for paving contracts.¹⁰⁷ Pennsylvania, on the other hand, gave legislative sanction to the permissive rule with all its liberal features for certain purchases by a designated type of municipal corporation.¹⁰⁸

Under a statute allowing the purchase of patented articles "under such circumstances that there can be a fair and reasonable opportunity for competition," with the conditions therefor to be prescribed by the local governing body, the use of the equal opportunity rule, allowing a specified patented device to be obtained by any bidder at the same price has been held illegal upon the ground that no competition upon the patented article itself is thereby possible.¹⁰⁹ Under such a statute the correct procedure is to adopt the alter-

¹⁰⁵ILL. ANN. STAT. (Smith-Hurd, 1936) Ch. 121, § 176. The method outlined under this statute is very similar to that provided for in New Jersey to overcome the effect of the permissive rule. See note 17 *supra*.

¹⁰⁶OHIO GEN. CODE ANN. (Page, 1938) § 3811. Under this regulation the use of a monopolized but unpatented article is also banned from being exclusively specified, even though it is considered the best article on the market. *Mog v. City of Cleveland*, 27 Ohio Dec. 62, 18 N. P. Rep. (N. S.) 49 (1915). The holding in *Patterson v. Zanesville*, 42 Ohio App. 428, 182 N. E. 352 (1932), *motion to certify the record overruled*, 42 Ohio App. xlvii, approves a procedure to meet the requirements of this statute, a general specification which does not contain any of the details of any one single manufacturer. See also *Fox v. City of Cincinnati*, 7 O. O. 7, 22 Ohio Law Abstract 290 (1936), which held that this statute does not apply where the specification does not call for an article controlled by one bidder, but which can be manufactured by those in the business "at reasonable and justifiable outlays."

¹⁰⁷City Charter of New Orleans § 44 (e), *amended*, Act 338 of 1936 of Louisiana. This statute, it seems, invalidates the New Orleans rule of equal opportunity on paving contracts. See note 116 *infra*.

¹⁰⁸PA. STAT. ANN. (Purdon, 1931) tit. 53, § 15401. The act provides as follows: "The borough authorities shall not be required to prepare specifications and advertise for the purchase of articles or parts thereof which are patented and manufactured products, apparatus or appliances, nor in all such cases shall they be required to exact a bond: Provided, This Act shall not apply to materials used in street improvements." For a construction of this statute read *Gerhart v. Getz*, 28 D. & C. 291. (1936).

¹⁰⁹*Rose v. Low*, 85 App. Div. 461, 83 N. Y. Supp. 598 (1st Dep't 1903). In *Allen v. City of Milwaukee*, 128 Wis. 678, 106 N. W. 1099, 5 L. R. A. (N. S.) 680 (1906), a similar holding was made against the validity of the equal opportunity rule where the statute authorizing the procurement of patented articles intended to have competition on the patented work itself by the city securing from the patentee a license to use his patent.

nate method, so that the patented device itself competes with other unpatented or patented devices employed for the same purpose.¹¹⁰ It is obvious that under such a statute, calling for competition, a specification which demands bids only upon a patented article is void.¹¹¹ An article which is itself unpatented, though made by a patented machine, but competes with some other unpatented articles mentioned in the contract for the award, does not come within the condemnation of this statute.¹¹² But this is not so when a single article is specified and it is manufactured by a patented machine.¹¹³ Where competition exists under the conditions outlined by the governing board, a taxpayer cannot by judicial action require the board to include additional classes of work in the contract so that there may be further competition.¹¹⁴

There are countless variants in the laws regulating the procurement of patented articles. The New York city charter dispenses with competitive bidding when a stated percentage of the local governing body considers the purchase of a patented article desirable, and when competition on it cannot be secured.¹¹⁵ A New Orleans statute adopts the same idea whether or not competition can be secured.¹¹⁶ Other statutes adopt a straight equal oppor-

¹¹⁰Warren Brothers v. City of New York, 190 N. Y. 297, 83 N. E. 59 (1907).

¹¹¹Kay v. Moore, 93 App. Div. 484, 87 N. Y. Supp. 831 (2d Dep't 1904). After the injunction *pendente lite* in this case was affirmed, the action went to trial on the merits resulting in a permanent injunction which was again affirmed by the Appellate Division (109 App. Div. 913, 95 N. Y. Supp. 1138 [2d Dep't 1905]) and by the Court of Appeals (185 N. Y. 591 [1906]).

¹¹²Holly v. City of New York, 128 App. Div. 499, 112 N. Y. Supp. 797 (1st Dep't 1908).

¹¹³Gordon v. Sturgis, 28 N. Y. L. J. 1894 (Sup. Ct. N. Y. Co. February 25, 1903). In *Lamborn v. Hutton*, 132 Kan. 226, 294 Pac. 676 (1931), where the statute prohibited "the naming of the brand of material or the name of the manufacturer thereof," a contract providing for the impacting of concrete, which could only be done with patented machines which the patentee agreed to lease to any bidder at the same price, was nevertheless held to be illegal. See also *Pollock v. Kansas City*, 87 Kan. 205, 123 Pac. 985, 42 L. R. A. (N. S.) 465 (1912). However, where the purchase of a patented article is prohibited, unless there has been a "fair and reasonable opportunity for competition," a contract not for the purchase of a patented article, but calling only for its use by the contractor has been upheld. *Stockton v. City of Buffalo*, 108 App. Div. 170, 95 N. Y. Supp. 509 (4th Dep't 1905).

Similarly, in *Neacy v. City of Milwaukee*, 171 Wis. 311, 176 N. W. 871 (1920), involving the statute described in *Allen v. Milwaukee*, *supra* note 109, a contract calling for an unpatented pole to be made only by a process which was patented was held to be illegal because the statute intended to cover any product which is not at all the subject of competition because of the protection of patents.

¹¹⁴Hastings Pavements Co. v. Cromwell, 67 Misc. 212, 124 N. Y. Supp. 388 (1910), *appeal dismissed*, 143 App. Div. 942, 127 N. Y. Supp. 1124 (2d Dep't 1911).

¹¹⁵New York city charter § 348 (1938).

¹¹⁶New Orleans city charter § 29a (Act 254 of 1918 of Louisiana); but as to patented pavements, the equal opportunity rule must be used. Cf. note 107 *supra*; see also Los Angeles city charter § 386.

tunity rule.¹¹⁷ The alternate rule has been used, but with modifications. In New Jersey, where the alternate rule was selected for paving work, the requirement was added that the patented pavement could be specified if it were brought into competition with an equivalent type of non-patented pavement.¹¹⁸ Therefore, under this law the specification of a patented machine-rolled pavement against an unpatented hand-laid pavement was improper and a contract advertised on this basis was illegal.¹¹⁹ A similar statute, providing for the specification of three distinct types of pavements, was held not observed when three different methods of mixing the same ingredients were specified so that the final product was the same pavement.¹²⁰

Naturally, when the law authorizes the specification of a patented article, there is no legal compulsion to apply any of the devices which permit of competition, such as the equal opportunity or alternate rules or others mentioned in this article.¹²¹ Some charter provisions, at the outset, preclude the raising of any question as to the legality of ordering a patented article, even though competitive bidding is required, by expressly providing that the requirement of competition shall not "prevent the city from contracting for the doing of work with patented processes or from purchasing patented appliances."¹²²

Federal Procurement of Patented Articles

The agencies of the federal government are able to secure for their use any patented article, material or process. This is made possible by an act of Congress authorizing the sovereign to exercise its right of eminent domain as to the patents, upon payment of compensation to the patentee.¹²³ Under

¹¹⁷Los Angeles Charter (St. 1925, p. 1037), Art. 1, § 3, subd. 10 as explained in *Braun, Bryant & Austin v. McGuire*, 201 Cal. 134, 255 Pac. 808 (1927); L. 1919, Ch. 40 of Wisconsin.

¹¹⁸*Supra* note 17.

¹¹⁹*E. J. Flaherty Co. v. Town of Kearney*, 107 N. J. L. 45, 150 Atl. 676 (1930), *aff'd*, 107 N. J. L. 518, 154 Atl. 627 (1931).

¹²⁰*Putman v. Murden*, 97 Ind. App. 313, 184 N. E. 796 (1933).

¹²¹*U. S. Fidelity & Guaranty Co. v. California-Arizona Construction Co.*, 21 Ariz. 172, 186 Pac. 502 (1920); *Feland v. City of Phoenix*, 25 Ariz. 317, 217 Pac. 65 (1923).

¹²²Spokane city charter § 37 (1939).

¹²³36 STAT. 851 (1910), *amended*, 40 STAT. 705 (1918), 35 U. S. C. § 68 (Supp. 1943), the pertinent parts of which read: "Whenever an invention described in and covered by a patent of the United States shall be used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, such owner's remedy shall be by suit against the United States in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. *** In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement, as set forth in this chapter, or otherwise. ***"

A study of the operation of this law is to be found in an editorial note by Arthur H.

this law the rights of the patentee under his patent are appropriated for the use of the government with the *entire* burden of compensation to the patentee for such appropriation being assumed by the United States,¹²⁴ thereby protecting the government's contractor in the use of the patent from the restraints of an injunction suit and from any liability in damages to the patent holder.¹²⁵ The statute, in effect, prevents the suppression of a patent so far as the national government is concerned.¹²⁶

However, if a federal contract does not specify or require the use of a patent, its use by a contractor for his own convenience in performance of his contract is not under the protection of the act, and he may be enjoined from using such patent and be liable in damages to the patentee for infringement.¹²⁷

Conclusion

No insurmountable barrier exists to the acquisition of patented articles by public bodies. Any judicial or statutory impediments can be removed by appropriate remedial statutes, as the source of the problem is of legislative origin.

One question which has received considerable attention in the field of patents is their suppression or non-exploitation by their owners. The Temporary National Emergency Committee has suggested a solution, recommending the enactment of legislation requiring that all future patents be made

Behrens and George C. Roemig entitled, *Recovery for Government Use of Patented Inventions* (1940) 9 GEO. WASH. L. REV. 217; see also Note (1941) 54 HARV. L. REV. 1051. This type of legislation has been called a "compulsory contract" as it restricts the patentee to securing his compensation for infringement from the Federal Government. See Lenhoff, *The Scope of Compulsory Contracts Proper* (1943) 43 COL. L. REV. 587, 589.

¹²⁴*Richmond Screw Anchor Co. v. United States*, 275 U. S. 331, 48 Sup. Ct. 194 (1928). The statute as originally adopted only protected government officials from an injunction for infringement [*Crozier v. Krupp*, 224 U. S. 290, 32 Sup. Ct. 488 (1912)], but not the government contractor [*Cramp & Sons v. Curtis Turbine Co.*, 246 U. S. 28, 38 Sup. Ct. 271 (1918)]. To overcome this situation, during World War I an amendment was made to the statute, which is its present form, so that a government contractor was also protected from an injunction suit and a claim for damages for infringement. The historical background of the amendment of the statute will be found in *Wood v. Atlantic Gulf & Pacific Co.*, 296 Fed. 718 (S. D. Ala. 1924). See also Fenning, *Patent Infringement by the Government* (1928) 37 YALE L. J. 773.

¹²⁵*Cramp & Sons v. Curtis Turbine Co.*, 246 U. S. 28, 38 Sup. Ct. 271 (1918); *Broome v. Hardie-Tynes Manufacturing Co.*, 92 F. (2d) 886 (C. C. A. 5th, 1937); *Pollen v. Ford Instrument Co.*, 108 F. (2d) 762 (C. C. A. 2d, 1940); *Western Electric Co. v. Hammond*, 135 F. (2d) 283 (C. C. A. 1st, 1943).

¹²⁶This is confirmed by the report of the National Patent Planning Commission, H. R. Doc. No. 239, 78th Congress, 1st Sess. (1943) pp. 2, 10.

¹²⁷*Wood v. Atlantic Gulf & Pacific Co.*, 296 Fed. 718 (S. D. Ala. 1924).

available for use by anyone upon the payment of a fair price for this privilege, with judicial or administrative machinery to determine whether the royalty demanded is reasonable or prohibitive.¹²⁸ The National Patent Planning Commission, in its initial report, has reached the conclusion that the incorporation of such a general system in our patent laws would not be advantageous, although it is impressed with the need of some degree of compulsion in certain fields, such as national defense, public health and safety. It therefore recommends a statutory provision that no injunction prohibiting the use of the patented article shall issue in an infringement suit, whenever the court finds that the particular use of the invention is necessary to the national defense or required in the interests of public health and safety, and further providing that the owner shall receive reasonable compensation for its use.¹²⁹

State legislatures need not wait for Congressional action to secure the benefits of these proposals for their agencies. Under the sovereign power of eminent domain they can pass laws for the condemnation of patents along the same lines as indicated in the federal statute for the appropriation of patents to the use of the national government,¹³⁰ and can delegate the power

¹²⁸*Final Report and Recommendations of the Temporary National Economic Committee*, SEN. Doc. No. 35, 77th Congress, 1st Session (1941) 36. This recommendation reads as follows:

"(a) *Licensing of Patents*—In order to eliminate the use of patents in ways inimical to the public policy inherent in the patent laws, as well as that of the anti-trust laws, we recommend that the Congress enact legislation which will require that any future patent is to be available for use by anyone who may desire its use and who is willing to pay a fair price for the privilege. Machinery, either judicial or administrative, should be set up to determine whether the royalty demanded by the patentee may fairly be said to represent reasonable compensation or is intended to set a prohibitive price for such use.

"This proposal is intended to prevent the suppression of patents as well as to provide for their availability for use in an equitable manner in any industry where they are a major factor.

"[Approved. Dissenting: Sumners and Taylor.]"

The quantum of compensation to be given to a patentee when a compulsory license is granted is discussed in Note (1942) 42 COL. L. REV. 843.

¹²⁹*Report of the National Patent Planning Commission*, H. R. Doc. No. 239, 78th Cong., 1st Sess. (1943). This recommendation is based on the fact that the Commission found that the courts do not grant injunctions against cities in patent infringement suits where to do so might affect the public health or safety. In support of this view, see Sommers, *Municipal Liability for Patent Infringement* (1938) 24 A. B. A. J. 162.

¹³⁰For the statute that can be used as a model for state legislation, with the exception that the jurisdiction for the recovery of the entire compensation from the municipality may be laid in a competent local court instead of the Court of Claims, see note 123 *supra*.

In *Cincinnati v. Louisville & Nashville R. R. Co.*, 223 U. S. 390, 32 Sup. Ct. 267 (1912), the court, discussing the power of eminent domain possessed by the states, said (p. 400): "But the right of every state to authorize the appropriation of every description of property for a public use is one of those inherent powers which belong to state governments, without which they could not well perform their functions. It is a power not surrendered to the United States and is untouched by any of the provisions of the

of initiating such condemnation to their various agencies.¹³¹ When such legislation is adopted, competitive bidding will be in operation without the need of rules such as heretofore discussed and without the use of statutes regulating the procurement of patented articles. Further, through the use of the condemnation procedure public agencies can more effectively deal with the alleged holders of patents, both valid and invalid, who threaten patent litigation to curtail competition.¹³²

Federal Constitution, provided there be due process of law, that is, a law authorizing it, and provision made for compensation. This power extends to tangibles and intangibles alike." Further, in *Western Union Telegraph Co. v. Louisville & Nashville R. R. Co.*, 258 U. S. 13, 42 Sup. Ct. 258 (1922) it was iterated that a state has the right to say upon what property or to what extent the right of eminent domain shall be exercised. In *Georgia v. Chattanooga*, 264 U. S. 472, 480, 44 Sup. Ct. 369, 370 (1924) it was said that the right of eminent domain is "superior to property rights . . . and extends to all property within the jurisdiction of the state."

¹³¹The states have the power to delegate their right of eminent domain to their public subdivisions and agencies. *People ex rel. Horton v. Prendergast*, 220 App. Div. 351, 358, 222 N. Y. Supp. 29 (3d Dep't 1927), *aff'd*, 248 N. Y. 215, 162 N. E. 10 (1928), *appeal dismissed*, 278 U. S. 579, 49 Sup. Ct. 177 (1929); *Peters v. City of Reading*, 321 Pa. St. 220, 184 Atl. 23 (1936); *Williamson v. Housing Authority*, 186 Ga. 673, 199 S. E. 43 (1938); *Romano v. Housing Authority*, 123 N. J. L. 428, 10 A. (2d) 181 (1939), *aff'd*, 124 N. J. L. 452, 12 A. (2d) 384 (1940); *Burnham v. Mayor*, 309 Mass. 388, 35 N. E. (2d) 242, 135 A. L. R. 750 (1941).

¹³²Russell Forbes, Commissioner of Purchase, in his *Report to Mayor, F. H. LaGuardia, on the Work of the Department of Purchase of the City of New York for the Year 1938*, pp. 21, 31, complained about the use of what he termed "nuisance" patents by reputable manufacturers to intimidate city contractors with threats of patent litigation to curtail competition. One instance of such activity caused the successful contractor to delay deliveries to the City of New York for several months, even though the claims of the patentee were unfounded.

Some interesting statistics are available to show what success patentees have in sustaining their patents in litigation. In the Circuit Courts of Appeals during the twelve years from 1925 to 1936, out of 1449 patents 630 were held to be invalid, *i.e.*, 43.4%. In addition 27.4% were held not to be infringed [*Federico, Patents in The Circuit Courts of Appeal, 1925-1936* (1938) 20 JOUR. PAT. OFF. SOC. 731]. A further study made by the Hon. Evan A. Evans, Circuit Justice, Seventh Circuit [24 JOUR. PAT. OFF. SOC. 19 (1942)] shows that from October 1936 to March 1941, in the Circuit Courts of Appeals, 54.11% of the patents were declared invalid and 74.88% were held to be invalid or not infringed. Justice Evans' study covered patent litigation in the Supreme Court for the forty years ending in 1940 with the finding that 54.94% of the patents before that body were found to be invalid, and 74.72% were found to be invalid or not infringed.

These investigations indicate, at least, that in the Circuit Courts of Appeals "where the life or death of ninety-nine out of every hundred patents in litigation is determined" (24 JOUR. PAT. OFF. SOC. 19) 72% of the patents are invalid and/or have not been infringed.