CHAPTER 1

Unfair Competition and Trademarks

WHAT DO WE MEAN when we speak of intellectual property? What ideas lie behind it? What are its merits?

In the United States, until some thirty years or so ago, the term "intellectual property" was not much used and had no clear meaning. American lawyers (practitioners and academics alike) generally spoke directly of unfair competition, trade secrets, trademarks, copyright, or patent law without supposing that these discrete doctrinal fields should be thought of as part of a larger, overarching subject. Even today, when "intellectual property" is in common usage in this country (and is often employed as though it were a term of art), the fact remains that its clearest function is taxonomical: intellectual property is to copyright, for example, as "family" is to "genus" or "species" to "variety."[1] It is understood to embrace the doctrines that make up its constituent parts, rather than to convey a deeper meaning grounded in theory. To be sure, serious efforts at theory have begun to emerge, some of them engaging indeed,[2] but none can be said to have gained wide acceptance. Instead, the term suggests at most a rough correspondence among the doctrines it embraces—a correspondence derived from the doctrines, however, rather than the other way around.[3]

Yet the term "property" itself traditionally conveys a powerful ideological message in which the right of exclusive and adverse possession plays a central role. Many of us share a common (if tacit) understanding of property that is both atavistic and archetypal; we are thus apt to view it as a kind of ur-right invested with ancient but still essential attributes of our selves in our relationships with others. Property in this not unusual sense typically begins with the recognition of something of value (in legal usage, the res, or, literally, "thing"), around which principles for holding the thing to oneself or sharing it with others are defined and redefined from time to time as circumstances may require. In American

life property often appears to define the boundary between that which is private (and mine or yours) and that which is public (and either theirs or everybody's), thereby simultaneously setting us apart from society at large and linking us to it. This is commonly understood to be a function of individual or personal autonomy and dignity arrayed against an aggregation of collective undertakings by and with others, the entirety compounded of entitlements and offsetting obligations both simple and complex.[4] Intellectual property undoubtedly has succeeded to this idea of property in some considerable measure. The deeper theoretical meanings may remain tentative and unsettled, and perhaps even chimerical; but those who embrace intellectual property most ardently find it tempting to suppose that there is an idea behind it nevertheless, which translates (even if, to some degree, by default) into the ancient overarching idea of property at large—again, an idea in which one's personal, exclusive, and adverse possession is offset by complex public obligations. Understood in this way, the concept of intellectual property serves both an ideal and a pragmatic end. We suppose that it is right and decent that a person should possess the fruits of his intellectual labor. We suppose that possession is desirable in practical economic terms as well, for a decent recognition of this central notion of property is widely thought to serve as an incentive to intellectual productivity that might not otherwise be forthcoming, and to the efficient management of the products that are its consequence. And we imagine that, in the end, not merely the individual but society at large will benefit from this state of affairs.[5]

In this part of our book, we begin by responding to the questions we first posed above. In the first two chapters we briefly sketch the doctrines that intellectual property embraces,[6] proceeding in the order in which we have listed them here, while adding or elaborating upon others. We note the rough correspondences among them, as well as their justifications and anomalies. Then, in two additional chapters that complete this part, we will raise the questions that are the occasion for our later efforts in this book: How are we to judge these intellectual property doctrines on their merits? What benefits do they confer upon us? At what cost to freedoms that we value, especially the freedom of thought and speech? What role does the Constitution play in arriving at the balance

that now obtains? And is that role adequate to our needs—or amenable to change?

COMPETITION, FAIR AND OTHERWISE

The term "unfair competition" conveys something of its meaning in the words from which the term is formed. Competition is not generally frowned on in American law, of course, nor was it in the late English law from which American law descended. To the contrary, competition has long enjoyed wide approval and a generous latitude.[7] In contemporary American life competition is omnipresent, and is privileged to a degree that may actually strike some observers as indecent if not unfair. A competitor like Wal-Mart may move into a quiet town on the edge of the prairie knowing that any number of small businesses, which may very well have flourished in that place for decades in the hands of pioneers who settled there and their descendants or successors, are now to be driven from the field. This can seem hard, as indeed it is in a perfectly ordinary sense of the word. But the proprietors of a clothing or shoe store, or grocery or hardware or toy store, who can no longer afford to open their doors, have no legal cause of action against Wal-Mart for the misfortune that has befallen them. The superstore's superior purchasing power, which translates into lower prices to consumers as well as gains in efficiency, may bring ruin to these and other smaller storekeepers, but that result is permissible and fair (some would say desirable) when it is the consequence of competition. The law affords no direct remedy. Against the moral considerations that may trouble one or another of us, we posit the economic superiority of competition thus untrammeled. The market will tell us what we want, it is said, and in so doing will enable us to maximize our collective welfare through the efficiencies that result. Efficiency is a choice we make, and if that choice conflicts with morality, so be it. Whether or not the choice involves a conflict is of course a normative question to which more than one answer may be given; many believe the efficient choice is in natural fact the better moral choice as well—for the same aesthetic reasons, conceptually, that form is sometimes said to be at its best when it follows function.[8]

In a narrow range of competitive circumstances, however, the law may intervene on principles that are grounded in deeper considerations of fairness or decency. Lawyers are accustomed to thinking of these principles as having their origins in *equity*, a term of art in Anglo-American law that reflects both a substantive standard and some vestigial remnants of procedure. When the competition involved is seen to be unfair or inequitable, ruinous consequences for competitors (of the sort that Wal-Mart routinely brings in its wake) may become actionable. There are again no clear guidelines here, but it is probably correct to say, for example, that competition engaged in for no purpose other than to ruin another is actionable. Thus, in one well-known case involving a small Minnesota town at the turn of the century, the state's supreme court held that a silent partner in a barbershop who underwrote the opening of that establishment solely for the purpose of driving an earlier barber out of business had committed an act of unfair competition. The inequity in this setting was seen to lie in the deliberate, unadulterated intent or purpose to harm another for no better reason than to achieve that very end.[9]

Somewhere between the two extremes of vigorous competition and ruin for its own sake lies the boundary between fair and unfair competition, a line defined by rules no clearer, but presumably no less worthy, than the economic and moral precepts that give rise to them. Along its way it traverses ground marked off by such proscriptions as are to be found still in the older remedies against fraud, deceit, and misrepresentation, and then meanders on across a sprawling landscape of rights, wrongs, and remedies that we need not explore or map in their entirety.[10] For the purposes of this book it is enough to say only three things more about unfair competition at large: first, that it is older than the other doctrinal fields that make up intellectual property; second, that it is less a creature of statute than are these others, and more a reflection of decisions by judges; and third, that in the matter of remedies (which frequently include injunctive relief) the judges' decisions tend, as we have said, to be grounded in equity (or a perceived sense of fairness), with room for greater procedural flexibility from case to case than is to be expected from the more fixed constellation of money-centered remedies that typically make up the common law.

All of this having been said for the sake of introduction, there are now two parts of the general concept of unfair competition that bear a closer singling out. They function in ways analogous to newer, more parochial doctrines that make up intellectual property law, and they remain influential in that field despite their greater age.

"Passing Off" and the Question of Property

One is the concept called "passing off," which in its original form constrains a merchant against selling his goods as if they were another's. In practice the rule is straightforward enough, and is easily applied and understood. The proprietor of a soda fountain which serves no cola drink but Pepsi-Cola may not sell Pepsi to a customer who has asked for Coca-Cola without first noting that Pepsi is all he has to offer, and then securing the customer's acquiescence in the proposed substitution. The seller may not simply provide Pepsi as if it were Coke. This is a conventional scenario in which passing-off figures; but sometimes a business may prefer to sell another's goods as if they were its own. This too is ordinarily forbidden, under a corollary to the passing off doctrine known as "reverse passing off." For example, a fledgling jeweler may not sell and take credit for a more experienced or better artist's work in order to establish a reputation or to secure custom as yet undeserved.[11]

In each instance these rules belong to the larger field of unfair competition because the practices they prohibit are readily seen to be dishonest and unfair. In what sense, however, do they also belong among the doctrines ascribed to intellectual property? In each instance they protect the originators of goods against the adverse consequences of potential misunderstanding or misrepresentation: a consumer might otherwise conclude, for example, that the "Coke" he thinks he has been served is not up to its usual standards; a person who is misled as to the provenance of a piece of jewelry may continue for at least a while to patronize the lesser jeweler to the detriment of the better artisan. These are consequences of unfairness, but they are also threats to one of the main interests of competitors in maintaining the origins and identity of their goods, services, and the like. Repeated enough times, the experience of substitution may seriously undermine the ability of Coca-Cola

or the established jeweler to recoup the investment they have made in bringing their products to market. Disincentives to production are apt to follow. In the case of reverse passing off, meanwhile, something akin to plagiarism can be seen as well. The seller is appropriating credit for another's effort, thereby depriving the true creator of the recognition, and perhaps again the market, to which he is entitled. Beyond these considerations, and in either setting, there is also a wider interest of consumers and the public in avoiding misrepresentation or misunderstanding. When these infect a transaction the public's interest in an efficient marketplace is affronted, as is the consumer's interest in defending his personal integrity against deceit. All of these considerations are said to justify the branch of unfair competition law known as passing off: a sense of decency and fair play; a concern for maintaining the origins, identity, and integrity of goods or services, and thus the market for them; rewarding the original creator with recognition and an ability to recoup his or her investment; and defending the consumer against personal indignities.[12] These may be seen as the particular concerns of this branch of unfair competition; as we will soon see, they are also among the reasons why we recognize interests in trademarks, copyrights, and patents. One can say that there is at least a rough correspondence among them all.[13]

Misappropriation

Meanwhile, a second branch of unfair competition, capable of standing alone but especially noteworthy for the role it has played in the development of other intellectual property doctrines, is sometimes termed "misappropriation." In the United States, the most celebrated example arose in 1918, in *International News Service v. Associated Press,*[14] a decision of the Supreme Court involving an appropriation by International News Service of the content of news dispatches generated by the Associated Press. The raw news events from which these dispatches were compiled could not be copyrighted in themselves, nor had AP taken steps to perfect copyright in its written version of them. To the contrary, AP had posted the dispatches on a public bulletin board accessible to anyone who might pass by. INS copied the dispatches and circulated them to its

own client newspapers without acknowledgment or attribution to AP. In these circumstances, Justice Holmes thought that what INS had done amounted to reverse passing off, and should therefore be enjoined unless and until INS acknowledged the provenance of the dispatches it had taken. But a majority of the Court held that the appropriation was a competitive wrong in itself, in that it deprived AP of its ability to recoup the investment it had made in seeking out and reporting the news. Under this view of the matter, AP could claim at least a "quasi property" interest in the news; the injunction against INS would run until the value of the news as news had abated.

Given the theory of the case, and the remedy that followed, this is arguably the most important single decision in the history of intellectual property in America. Certainly it is among the most frequently discussed.[15] We will devote an entire chapter to the case later in our book. For the moment, though, it will suffice to state the central maxim from which the theory and the remedy derived, and for which the case itself stands: namely, that one should not reap where one has not sown. This is, of course, a principle instilled in most of us from earliest childhood. It is the lesson we learn, for example, when we read "The Little Red Hen" and countless other fables grounded in a similar morality. Its corollary, that we are entitled to reap what we have sown, leaving others free to do the same if they have the wit and the will, is at the center of at least one widely accepted and long-held idea of property, an idea that antedates the more particular development of intellectual property doctrines.[16] The principle that underlies the notion of misappropriation as unfair competition is accordingly among the most powerful in the entire field of intellectual property. One senses the wisdom and justice in it, as the Court did in *INS*—or, then again, perhaps one does not, as Holmes did not—but its appeal is not solely that of a common moral precept. The Court's ruling in the case also reflected a conventional economic understanding, then and now, which is that incentives to invest must include an ability to recoup the investment with enough certainty, and in anticipation of enough profit, to justify investing again, meanwhile foregoing other opportunities. The injunction against misappropriation was fashioned with this in mind.

Misappropriation and Exclusivity

Misappropriation, then, is one way to characterize what INS had done. But to speak of the case in this way is to place the emphasis on the wrongdoing of the competitor. To understand the premise of the case fully, we will also want to restate it in terms of an affirmative entitlement belonging to AP. From this perspective we can see that the sine qua non of the (quasi) property interest the Court acknowledged and approved lay in the right of AP to the exclusive possession of the news it had gathered and the dispatches it had prepared, and in its corresponding ability to prevent others from engaging in unauthorized appropriation. Exclusivity and (mis)appropriation were juxtaposed in the majority's view of unfair competition. The one was seen as precluding the other, at least in the absence of a license by the proprietor of the affirmative right. This relationship—again, this juxtaposition between exclusivity and appropriation—is central not only to the doctrine of misappropriation in unfair competition, but to no fewer than six other doctrines at the center of the field of American law we have lately come to call intellectual property. In the federal statutory realms of (1) copyright and (2) patent law, as in the common (or state) law realms of (3) copyright in evanescent works (or common law copyright, as it is often called), (4) trade secrets, and (5) the so-called right of publicity, we will find that the concepts of exclusivity and appropriation are similarly paired. In trademark law, meanwhile, at both the federal and state levels, a growing effort to curtail (6) trademark "dilution" is centered upon the argument that famous marks should be protected against use (or appropriation) by others, even in circumstances in which that usage causes no confusion in the marketplace of the sort that trademarks are traditionally meant to preclude. The thought behind the law of dilution is that the trademark proprietor, having invested in the development of a highly distinctive mark, should be entitled to its exclusive use. Indeed it is accurate, and perhaps even more useful, to say that only in that part of trademark law concerned mainly with confusion does the concept of exclusivity versus appropriation not hold its usual sway; and as we will see, even in that setting the appeal in exclusivity exerts a powerful, if not always transparent, influence on the actual decisions in cases.

The Role of Exclusivity Versus Appropriation

Of course we must delineate these additional areas of substantive law in greater detail if the full import of what we have just said is to be made clear. This we propose to do in the next several pages. But meanwhile it is not premature to observe, as we have, that the idea of exclusivity in a work of the intellect, a commonplace in virtually all of American intellectual property discourse, is also taken by most judges who entertain it to mean that the possessor of the exclusive right is entitled to enjoin others from unauthorized uses of that work—this in order to acknowledge the proprietor's moral claims to recognition, and also to maintain the incentive that the law supposes the producer must have in order to continue to produce the work.[17] When we speak of intellectual property, then, we may well have in mind one or more of the rough correspondences already noted in our treatment of passing off: *a sense of decency and fair play; a concern for maintaining the origins, identity, and integrity of goods or services, and thus the market for them; rewarding the true creator with recognition; and defending the consumer against personal indignities.* What we mean is also likely to be bound up in a juxtaposition of exclusivity and appropriation, offered in the service of moral entitlement, as well as incentives to continued productivity and efficient management.[18]

Misappropriation Extended: Three Doctrines

It is conventional among scholars and judges today to disapprove of misappropriation-as-doctrine on two grounds: first, that the tendentious nature of its jurisprudence renders it excessively protean; and second, that its origins in the *INS* case are suspect as an unwarranted exercise of common law jurisdiction by a federal court.[19] But scholars and judges may propose; in practice experience disposes. And in practice the underlying tenets of misappropriation (the appearance of unfairness and inefficiency in unjust enrichment and free riding—or, in other words, reaping where one has not sown) have come to dominate the thinking in every area of intellectual property in which Congress and federal law have not effectively preempted or largely occupied the field. Three such areas stand out.