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Unfair Competition—Public Will Be Protected Although Plaintiff Has No Standing in Court

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RECENT DECISIONS

UNFAIR COMPETITION — PUBLIC WILL BE PROTECTED ALTHOUGH PLAINTIFF HAS NO STANDING IN COURT

Razors manufactured for plaintiff were pledged with plaintiff's written consent to secure a loan from General Factors. When the loan was not repaid General Factors sold the razors to defendant, who put them on the market. Plaintiff brought suit, alleging that defendant was selling defective razors bearing plaintiff's trade-mark without the customary one-year guarantee, in violation of plaintiff's fair trade rights. On appeal from summary judgment for defendant, *Held:* plaintiff's consent was a complete waiver of its rights, and the summary judgment was properly granted, as no issue of fact was presented. However, while plaintiff had no standing in court, the court itself had inherent power to protect the public from deceptive practices in commerce. Accordingly, the decree was modified to prohibit defendant from offering the razors to the public without indicating to prospective purchasers that the razors were defective and not guaranteed. *Stahly, Inc.* v. *M. H. Jacobs Co.,* 183 F. 2d 914 (7th Cir. 1950), *cert. denied* 95 L. Ed. 146.

Originally, the idea of unfair competition was that if *A* established a market and a reputation for his goods, *B*, his competitor, could not interfere with *A's* business by inducing the public to buy *B's* goods in the mistaken belief that they were buying the goods of *A*. *A's* action, if successful, protected his market and his reputation. At the same time it protected that part of the public who were buying the goods in reliance upon the quality and standards established by *A*. Modern business conditions have led the courts to introduce refinements and subtleties, with increasing emphasis in some of the opinions upon the right of the public to be protected and the determination of the courts to furnish such protection. See *Yale Electric Corp.* v. *Robertson, Commissioner of Patents,* 26 F. 2d 972 (2d Cir. 1928).

One class of cases involves the situation where plaintiff introduces a new product and highly publicizes the name applied to it. After expiration of plaintiff's patents defendant also enters the field. Whether defendant can use the name publicized by plaintiff depends upon whether plaintiff has caused the public to associate that name with a certain type of product, or with a certain manufacturer, i.e., plaintiff. For example, does "cellophane" suggest to the public just a transparent plastic material, or the DuPont brand of such material? See *DuPont Cellophane Co.* v. *Waxed Products Co.,* 85 F. 2d 75 (2d Cir. 1936); *Bayer* v. *United Drug,* 272 Fed. 505 (S. D. N. Y. 1921). In both of these cases the courts held the names to be generic terms associated by the public only with the products, not with any particular manufacturers; yet to avoid any possibility of confusion the defendants were forbidden to use the names without qualification.

Another group of cases involves parties who are not competing, but who use the same trade name on their products. In *Aunt Jemima Mills* v. *Rigney & Co.,* 247 Fed. 407 (2d Cir. 1917), a company marketing maple syrup using

the name "Aunt Jemima" was held guilty of unfair competition in a suit by the makers of Aunt Jemima pancake flour. See also *Stork Restaurant, Inc.* v. *Stahati,* 166 F. 2d 348 (9th Cir. 1948); *Horlick's Malted Milk Corp.* v. *Horlick,* 143 F. 2d 32 (7th Cir. 1944); *Rosenberg Bros. & Co.* v. *Elliott,* 7 F. 2d 962 (3d Cir. 1925). In these cases the courts denied the defendants' rights to use certain trade names because the public tends to rely on well-known trade names even when used on very different goods than those with which the names are commonly associated, and because use in connection with such goods, if they were inferior, would tend to impair public confidence in the trade name itself.

Then there are a large number of cases involving the repair or repackaging, by one firm, of goods originally produced by another, in which the original producer has sought to prevent use of his name or trademark in connection with the sale of the repaired or repackaged goods. For example, in *Prestonettes, Inc.* v. *Coty,* 264 U. S. 359 (1924), defendant was compelled to inform the public by appropriate labels that its product, although originally made by Coty, had been repackaged by defendant. This was said to be for the protection of purchasers, but of course it was also a concession to the demands of Coty that it not be held responsible by the public for any inferiority in the product as marketed by the defendant. See also *Champion Spark Plug Co.* v. *Sanders,* 331 U. S. 125 (1947); *Bayer Co.* v. *Shoyer,* 27 F. Supp. 633 (E. D. Pa. 1939); *Auto Acetylene Light Co.* v. *Prest-O-Lite,* 264 Fed. 810 (6th Cir. 1920); *Genetral Electric Co.* v. *Re-New Lamp Co.,* 121 Fed. 164 (D. Mass. 1903), 128 Fed 154 (D. Mass. 1904); 34 GEO. L. J. 118.

The cases cited by the court in *Stahly, Inc.* v. *M. H. Jacobs,* the principal decision, fall within the three groups just discussed. Despite the language used in some of the opinions, in each of those cases there was a right belonging to the plaintiff, however tenuous. The result in each case was to afford protection to that right. In the *Stahly* case, on the other hand, there was no right in the plaintiff which had not been waived. The cases cited in the *Stahly* opinion, therefore, do not support the result reached there.

The decree rendered by the federal court of appeals in the *Stahly* case was an exercise of judicial power. The authority of the court to use such power depends upon Article III, Sections 1 and 2, of the United States Constitution. Section 2 provides that the judicial power shall extend to cases or controversies under certain specified circumstances. For a case or controversy, there must be at least two parties having adverse legal interests. *Aetna Life Insurance Co.* v. *Haworth,* 300 U. S. 227 (1937).

If a court may enjoin defendant's practices in a case where the plaintiff has waived all its rights, there is no reason why a court cannot issue an injunction in a case where the plaintiff never had any rights to begin with, regardless of waiver. If the plaintiff in the *Stahly* case could bring an action against the defendant resulting in an injunction against that defendant, there

is no reason why any member of the public could not have brought the action with the same result. Indeed, if such person could show himself to be a purchaser of razors, likely to be deceived by defendant's practices, he would have a better ground for bringing the action than the plaintiff had in the *Stahly* case, since as a consumer he would at least have some slight interest which he had not waived. But that interest would probably be insufficient to support jurisdiction. See *Massachusetts* v. *Mellon,* 262 U. S. 447 (1923); *Fairchild* v. *Hughes,* 258 U. S. 126 (1922). If there is no case or controversy within the meaning of the Constitution in a situation where the plaintiff has only a very minute and speculative interest, how can there be such a case or controversy in a situation where it is determined as a matter of law that the plaintiff has waived all of his rights, and therefore has no interest whatsoever to support his suit?

Perhaps the cardinal error of the court in the *Stahly* decision was in exposing itself to criticism unnecessarily. Protection of the public from unfair practices in commerce should not depend upon the coincidental violation of the private right of someone willing and able to take the matter into court. But it is not necessary to assert an inherent power in the courts themselves to take independent action in such cases.

In *American Washboard Co.* v. *Saginaw Manufacturing Co.,* 103 Fed. 281, 285 (6th Cir. 1900), the court stated: "It is doubtless morally wrong and improper to impose upon the public by the sale of spurious goods, but this does not give rise to a private right of action unless the property rights of the plaintiff are thereby invaded. There are many wrongs which can only be righted through public prosecution, and for which the legislature, and not the courts, must provide a remedy." See also *Ely-Morris Safe Co.* v. *Mosler Safe Co.,* 273 U. S. 132 (1925); *Hanover Star Milling Co.* v. *Metcalf,* 240 U. S. 403 (1916); *Leow's Boston Theatres* v. *Low,* 248 Mass. 456, 143 N. E. 496 (1924); 1 NIMS, UNFAIR COMPETITION AND TRADE MARKS (1947 Ed.) 47. It was this attitude on the part of the courts which led to the establishment of the Federal Trade Commission, the purpose of which is to protect the public from the effects of unfair competition in those situations where there is no private party with interest sufficient to maintain suit. See *Federal Trade Commission* v. *Klesner,* 280 U. S. 19, 27 (1929); *Royal Baking Powder Co.* v. *Federal Trade Commission,* 281 Fed. 744 (2d Cir. 1922).

A similar case may be taken as an example of the way the *Stahly* case should have been disposed of. In *Armstrong Cork Co.* v. *Ringwalt,* 235 Fed. 458 (D. N. J. 1913), an unfair competition action was dismissed on the ground that no invasion of property rights of the plaintiff had been charged. On appeal, the Circuit Court reversed and sent the case back for further hearing, making the suggestion that perhaps the case should be referred to the Federal Trade

Commission. *Armstrong Cork Co.* v. *Ringwalt,* 240 Fed. 1022 (3d Cir. 1917). This was done, and the Commission took appropriate action. *Federal Trade Commission* v. *Ringwalt Linoleum Works,* 1 F. T. C. 436 (1919).

In conclusion, it appears that the *Stahly* decision was against the weight of authority, was based upon questionable theory, and was quite unnecessary, since there was a statutory remedy created especially for the type of situation involved.

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CONFLICT OF LAWS — RIGHT TO BRING ACTION BASED ON A TAX OR REVENUE STATUTE IN A SISTER STATE

I. The county of Wayne, Michigan, brought an action in the New York City Municipal Court to collect a personal property tax allegedly due and owing from the defendant. Defendant's motion for a dismissal of the complaint was granted on grounds that the court lacked jurisdiction to entertain the action. The Appellate Term reversed. The Appellate Division reversed the Appellate Term and reinstated the the judgment of the Municipal Court, holding that as at matter of policy the New York courts do not lend themselves to the enforcement of the revenue laws of another state. *Wayne County* v. *American Steel Export Co.,* 277 App. Div. 585, 101 N. Y. S. 2d 522 (1st Dept. Dec. 1950).

II. The State of Ohio brought an action in Kentucky to recover certain monies owed by the defendant to the Industrial Commission of the State of Ohio for a workmen's compensation assessment. The Kentucky Court of Appeals, reversing the circuit court, held that whether the action was one to collect a tax due a sister state or one to enforce a transitory contract claim, the Kentucky courts would entertain jurisdiction. *Ohio* v. *Arnett,* — Ky. —, 234 S. W. 2d 722 (Oct. 1950).

These holdings reached by Kentucky and New York reflect the divergent views among our courts, both state and federal, as to whether or not one state should permit its courts to be used by another state seeking to enforce a tax claim. The Supreme Court has held that a *judgment* is not to be denied full faith and credit merely because it is for taxes; *Milwaukee County* v. *M. E. White Co.,* 296 U. S. 268 (1935); but the Court expressly left open the question whether a state is required under full faith and credit to enforce the tax claims of another not yet reduced to judgment.

It has long been a general principle that state laws in and of themselves have no extraterritorial effect. *Magnolia Petroleum Co.* v. *Hunt,* 320 U. S. 430 (1943); *Mertz* v. *Mertz,* 271 N. Y. 466, 3 N. E. 2d 597, 108 A. L. R. 1120 (1936); but see 28 U. S. C. § 1738 (1948). However, states ordinarily enforce