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## TORT RESPONSIBILITY FOR DESTRUCTION OF GOODWILL

FLOYD A. WRIGHT\*

A discussion of the development of the various definitions of goodwill is not within the scope of this article, but it is necessary first to mention briefly the origin and general nature of goodwill.<sup>1</sup>

From an early date the common law courts had strongly opposed any agreements between parties which tended in the least towards restraint of trade. Because of this strict rule, the goodwill concept was very slow in its development; for goodwill in its very nature connotes some form of restraint. In 1415, Judge Hall, in *Dyer's Case*,<sup>2</sup> emphatically denounced contracts in restraint of trade. This policy continued unmodified until 1620, when the case of *Broad v. Jollyfe*<sup>3</sup> came before the courts. In that case the court allowed the vendor of a stock of goods to recover against the purchaser for breach of an agreement not to compete. This seems to be the first decision wherein any sort of goodwill in connection with the sale of a business was sanctioned by the courts. However, if trademarks are to be classed as a species of the genus goodwill, goodwill may be said to have been recognized by the English courts at least as early as the sixteenth century. In the case of *Southern v. How*,<sup>4</sup> as reported in *Popham*, 143, 144 (K. B. 1618), Justice Doderidge referred to an earlier case, said to have been decided in 1580, wherein it had been held that a clothier could recover from one who infringed upon the trademark used to designate his cloth. Since the case referred to was never reported, and since the case citing it was reported inaccurately, this case, although often cited, is of questionable value as an authority.

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<sup>1</sup>There has been a wide divergence among the goodwill concepts of economists, accountants, business men and jurists. It is only with legal goodwill that we are here concerned.

<sup>2</sup>YEAR BOOK, 2 Hen. V, fol. 5, pl. 26. For a good collection of cases showing the historical development of this branch of the law see *Piggly Wiggly Corp. v. Saunders*, 1 F. (2d) 572 (W.D. Tenn. 1924). See also COMMONS, LEGAL FOUNDATIONS OF CAPITALISM (1924) 263 *et seq.*

<sup>3</sup>Cro. Jac. 596, Noy, 98, 2 Rolle, 201, W. Jones, 13 (1620). This case created much interest within the judicial realm of the common law. After the case had been passed upon by the highest court of common law it was appealed to "all the justices and barons of the Exchequer."

<sup>4</sup>This case is also reported in Cro. Jac. 468, 471 (1618); but as reported there the clothier's case is cited by Justice Doderidge as having been decided in 1591, and as having allowed a recovery in favor of the purchaser of the cloth who was suing for the deceit.

Professor Briggs points out that the term "goodwill" was used in an English will as early as 1571.<sup>5</sup> The term was employed by the court in *Gibblett v. Read*, decided in 1744.<sup>6</sup> In that case, however, it was used only by way of illustrating another matter. Again, in 1769 Justice Yates, in the famous copyright case of *Millar v. Taylor*,<sup>7</sup> incidentally remarked: "The goodwill of a shop, or of an ale-house and the custom of the road (as it is called among carriers), are constantly bargained for and sold, as if they were property." The learned judge emphatically denied, however, that such could be absolute, perpetual, exclusive property, even though traders might traffic in it. Although this was only dictum in a dissenting opinion, and was stated to illustrate a practice not recognized in law, it clearly shows that a definite goodwill concept existed then, at least among traders. Up until the beginning of the industrial revolution, goodwill figured very little as an economic concept, and still less as an element in law. Before 1810 goodwill had received no recognition except in a small way.

Lord Eldon's memorable decision of *Crutwell v. Lye*,<sup>8</sup> in 1810, was the beginning of the modern legal theories of goodwill. Not until half a century later, however, do we find the American courts giving any consideration to the subject.<sup>9</sup>

Before the middle of the nineteenth century, the English cases involving goodwill were few in number; and not many made their appearance in the American reports before 1875. Most of the English cases have arisen during the last fifty years, while most of the American cases date back only about a third of a century. More recently, however, they have been coming thick and fast. During the last decade there have been reported upwards of two hundred American cases touching upon goodwill in the narrower sense. If trademarks and other closely-related intangibles are included under the heading of goodwill, the number will be further increased by several hundred.

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<sup>5</sup>*Goodwill—Definition and Elements in Law* (1928) 46 J. OF ACCOUNTANCY 194.

<sup>6</sup>9 Mod. 459. Lord Hardwicke remarked, "Suppose the house were a house of great trade, he [the executor] must account for the value of what is called the good-will of it."

<sup>7</sup>4 Burr. 2303, 2369 (K. B. 1769).

<sup>8</sup>17 Ves., Jr. 335 (Ch. 1810).

<sup>9</sup>*Buckingham v. Waters*, 14 Calif. 146 (1859). It must be borne in mind that this applies only to goodwill in the narrower sense. Other forms of goodwill intangibles such as trademarks, trade names, etc., until more recently were not recognized as being in principle identical with other goodwill.

In law, as well as in economics, accounting, and business, scores of conflicting theories of goodwill have sprung up.<sup>10</sup> Beginning with the United States Supreme court case of *Menendez v. Holt*,<sup>11</sup> the American courts soon established a more or less orthodox form of defining goodwill. In a surprisingly large number of cases the judges adopted a conventional method, which is somewhat as follows: first pointing out that goodwill was defined by Lord Eldon<sup>12</sup> as "nothing more than the probability, that the old customers will resort to the old place," they proceed with the statement that Vice-Chancellor Wood<sup>13</sup> thought that Lord Eldon's concept was "too narrow," and suggest that it must include "every positive<sup>14</sup> advantage." Then usually they insert Justice Story's definition,<sup>15</sup> possibly adding that it was the "most comprehensive," or perhaps the "best" definition. Here they either stop, or come forward to add another definition to the scores already in existence.

Mr. Story's definition, which describes goodwill as an internal economic concept, has been approved by the courts in a large number of cases; and the cases during the last decade show that the courts have made little or no effort to work out a more adequate definition.

<sup>10</sup>Foreman, *Conflicting Theories of Good Will* (1922) 22 COL. L. REV. 638; see also Wright, *The Nature and Basis of Legal Goodwill* (May, 1929) ILL. L. REV.

<sup>11</sup>128 U. S. 514, 9 Sup. Ct. 143 (1888).

<sup>12</sup>*Cruttwell v. Lye*, *supra* note 8, at 346. Justice Fowler in the New York case of *In re Borden's Estate*, 95 Misc. 443, 159 N. Y. Supp. 346 (Surr. Ct. 1916), refused to follow this time-honored procedure, stating that Lord Eldon's opinion came too late to be a part of the common law of New York. He then defined goodwill as "that economic value recognized in law and denoting the chance of future profit while carrying on an established business of repute in public consideration."

<sup>13</sup>*Churton v. Douglas, Johns. & H.* 174, 188, 28 L. J. Ch. 841, 19 English Ruling Cases 666 (Ch. 1859).

<sup>14</sup>In the report of this case in English Ruling Cases the words "every advantage—affirmative advantage" are used.

<sup>15</sup>Mr. Justice Story defined goodwill as "the advantage or benefit which is acquired by an establishment beyond the mere value of the capital, stock, funds, or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant or habitual customers, on account of its local position or common celebrity, or reputation for skill or affluence, or punctuality, or from other accidental circumstances or necessities, or even from ancient partialities or prejudices." STORY, PARTNERSHIP, § 99. As broad as it is, there are many instances of goodwill (bases) not coming within the scope of this definition. Mr. Story attempted to include in his definition all of the multifarious economic bases upon which legal goodwill rests. "This definition seems to have been extracted from *England v. Downs*, 6 Beav. 269, . . ." *Millspaugh Laundry v. First Nat. Bank of Sioux City et al.*, 120 Iowa, 1, 94 N. W. 262, 263 (1903).

Goodwill is an aggregate of legal relations attaching to certain valuable intangible trade connections, which give the possessor a differential competitive advantage over others not possessing such relations. Goodwill is uniformly declared to be property. Property, in our modern conception, is no more than legal relations. Unquestionably, the present confusion concerning goodwill would be reduced if goodwill were treated only as legal relations. This would leave the economic phenomena which serve as the bases of goodwill to be analyzed and treated as economic facts.<sup>16</sup> The courts would need a new technique. The underlying economic phenomena must be analyzed, broken up, classified. In view of the growing co-ordination of legal, economic, and business thought, we may reasonably expect earned goodwill to be encouraged, monopoly goodwill to be looked upon with suspicion, and exploitation goodwill to be strongly condemned.

Many modern writers have traced the origin of the term "goodwill," and have found that the word itself is relatively new. But the *intangible res* itself (goodwill) has existed and has been protected since very early times. Because we have failed to find the specific word "goodwill" in early records, we have therefore (wrongly) concluded that the legal goodwill concept did not exist.

Defamation, in a large part, is no more than an intentional invasion of a person's goodwill. Since the development of the law of libel and slander was independent of the development of the law dealing with goodwill as such, it would be quite impossible to expect that the law applying to both would develop in exactly the same manner. The bases of the law of defamation are not in every instance strictly economic, as is the case with goodwill. For instance, if A publishes a statement imputing that B is suffering from a loathsome disease, it is actionable; and this is true, even though B has retired from business and at the most could only be affected socially by his friends shunning him. Yet, we could hardly term that an invasion of a property right, his goodwill. But where A slanders B in relation to B's business or profession, it is clearly a tortious destruction of B's goodwill. B's business reputation in the defamation cases is no different from his business reputation in the goodwill decisions—they are both one and the same thing. Under a good many circumstances the court has given protection under a different name.

In the interesting case of *Hughes v. Samuels Brothers*,<sup>17</sup> a libel action was brought to recover for injury to nothing other than

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<sup>16</sup>For a more complete analysis of the concept of goodwill see Wright, *supra* note 10.

<sup>17</sup>179 Iowa, 1077, 159 N. W. 589 (1916).

business goodwill. The plaintiff and defendants were rival undertakers in a small town in Iowa. The defendants caused a card to be printed in this form: "Bear in mind our Undertaking Department. Satisfaction guaranteed." . . . and signed the plaintiff's name to it. The defendants thereupon sent the card to a man whose wife was then lying critically ill in a hospital. The plaintiff filed a petition claiming damages for the alleged libel. The defendants demurred to the petition. On appeal the court overruled the demurrer, saying in part:

"The card was so framed and mailed by the defendants as to lead the receiver to believe that the plaintiff had composed and mailed it, and this was their purpose in mailing it. What possible reason could they have in preparing and publishing this card? Was it to help a rival? Was it to exploit the business of a rival? Was it intended as a letter of credit to the public, by and through which he would be better installed in its confidence and esteem? Is this the usual and ordinary course of procedure on the part of rival business firms? With the largest charity, we cannot think this was the purpose of the publication. What, then, was the purpose in the minds of these defendants when they composed and sent these cards to the sick and dying in that community? Was it not rather, as the petition says, to deprive him of public confidence and esteem? Was it not rather to expose him to public contempt and ridicule? Was it not rather to divert business through this means, from the plaintiff, and to injure him by such diversion?"

The court, in other words, found that the defendants were intentionally destroying the plaintiff's goodwill, and hoped by so doing to divert business to themselves.

It is unfortunate that the courts are required to stretch the action for libel to cover such situations. Clearly, the plaintiff should have a remedy for the wrong suffered; and doubtless the court was correct in overruling the defendants' demurrer. Nevertheless, this was not a clear case of libel as such. So to treat cases of this nature requires the court to resort to far-fetched imputations, bordering on pure fiction. There is an abundance of other decisions in which the courts have gone quite this far in giving relief in libel cases. It would be much more logical for the plaintiff to bring an action specifically for destruction of goodwill. And there is no question but that an action for unfair competition would be sustained.

The courts could very well hold for the plaintiff on common law grounds. It is stated in general terms in *Comyn's Digest, Action on Case A* "In all cases where a man has a temporal loss or damage by the wrong of another, he may have an action upon the case to be

repaired in damages. The intentional causing such loss to another, without justifiable cause, and with the malicious purpose to inflict it, is of itself a wrong." Dean Ames<sup>18</sup> in discussing the same general topic remarked: "The principle I have suggested would allow relief in all of these cases, and its adoption by the courts is fairly justified by the rules of equity and the Statute of Edward I. This principle is very neatly expressed in the new German Code:<sup>19</sup> 'Any act done wilfully by means of which damage is done to another in a manner *contra bonos mores* is an unlawful act.'"

In the case of *Behre v. National Cash Register Co.*,<sup>20</sup> the plaintiff was engaged in selling cash registers for a competitor of the defendant. The defendant, apparently with the aim and design of injuring him as a salesman for the rival company, inserted this advertisement in a newspaper of general circulation: "Mr. Chas. H. Behre is no longer connected with the National Cash Register Company, and has not been since August, 1893. Any contract made by him for the company will be void." The publication was held to be libelous *per se*, and the plaintiff's petition was found to have stated a cause of action.

The Georgia courts are extremely liberal in allowing libel actions based upon mere imputations. In the case of *Pavesich v. New England Life Insurance Co. et al.*,<sup>21</sup> the plaintiff, an artist, brought an action against the Insurance Company, joining as party defendants its general agent in Atlanta and a local photographer. It appeared that in an issue of one of the leading newspapers in Atlanta there was inserted a picture of the plaintiff, which would be easily recognized by persons who knew him, placed beside a picture of an ill-dressed and sickly-looking person. Above the picture of the plaintiff were these words, "Do it now. The man who did." Above the other picture were the words, "Do it while you can. The man who didn't." Below the two pictures were these words, "These two pictures tell their own story." Under the plaintiff's picture the following appeared: "In my healthy and productive period of life I bought insurance in the New England Mutual Life Insurance Co., of Boston, Mass., and today my family is protected and I am drawing an annual dividend on my paid-up policies." Under the picture of the tramp were words to the effect that he had not taken insurance and now realized his mistake. The Insurance Company's general agent had

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<sup>18</sup>*Law and Morals* (1908) 22 HARV. L. REV. 97, 111.

<sup>19</sup>*The German Civil Code* (1896) § 826.

<sup>20</sup>100 Ga. 213, 27 S. E. 986 (1897).

<sup>21</sup>122 Ga. 190, 50 S. E. 68 (1905).

procured the plaintiff's picture from the defendant photographer. The petition contained two counts, one for libel, and the other for a violation of the plaintiff's right of privacy. The petition was held to be good on both counts against a demurrer. Justice Cobb traced the right of privacy back to the Roman law; and had the case been placed on that ground entirely it would not be open to criticism, but it requires a stretch of the imagination to bring it within the scope of libel. Clearly, however, the act of the defendants injured the plaintiff's professional goodwill, a property right meriting protection, call it libel or what we may.

In another Georgia case, *Holmes v. Clisby*,<sup>22</sup> the plaintiff, a shoe dealer in Macon, advertised for \$2.65 "Queen Quality" shoes, which normally sold for \$3.00. The defendant, a rival shoe dealer, who also sold that brand of shoes, thereupon inserted this notice in a local newspaper: "We hereby give notice that the firm of Clisby and McKay is our only authorized agent in Macon for the sale of genuine QUEEN QUALITY shoes under our guarantee. Our damaged shoes we sell to certain dealers under an agreement that they shall be sold as imperfect goods; . . . Those who buy Queen Quality shoes of other dealers than those designated by us as our authorized agents will have only themselves to blame for any disappointment or loss that may ensue." The name of the manufacturer of Queen Quality shoes was signed to the notice. The court held this to be libel, again extending the action to protect business goodwill.<sup>23</sup>

In *Dennis v. Johnson*,<sup>24</sup> the exhibiting of a quantity of chips and barrel staves with a sign indicating that they were left around the defendant's house by the plaintiff who was superintending the construction of the building, was held to be libelous *per se*. This was no more than protection of goodwill.

Aside from the cases in which the action of libel has been unduly extended in order to protect goodwill, it is correct to say that all libel and slander actions, if the damages are in connection with the plaintiff's business or profession, are no more than a device for protecting the plaintiff's goodwill.<sup>25</sup> That is, although these wrongs

<sup>22</sup>118 Ga. 820, 45 S. E. 684 (1903). See the same case on second appeal, 121 Ga. 241, 48 S. E. 934 (1904).

<sup>23</sup>For another interesting Georgia case, although it involves personal reputation rather than business or professional goodwill, see *Stewart v. The Swift Specific Co.*, 76 Ga. 280 (1886).

<sup>24</sup>42 Minn. 301, 44 N. W. 68 (1890).

<sup>25</sup>The text writers dealing with libel and slander quite generally have failed to observe that in this large group of cases the purpose of the action is to guard goodwill property rights.

normally are redressed by actions for libel and slander, protection of goodwill, is, nevertheless, the primary purpose to be served in allowing such recoveries.

Closely akin to this class of cases are the *privacy* cases. There is considerable conflict in this field of the law.<sup>26</sup> Often a distinction has been made between cases in which privacy pure and simple is involved and those dealing with privacy conjoined with a pecuniary or business interest.<sup>27</sup> In the latter group are included the cases in which the purpose of the encroachment upon the plaintiff's personality was for the defendant's commercial gain. It is even more important to distinguish between the privacy cases in which the plaintiff had suffered social embarrassment, or personal pain from his injured sensibilities, and those in which the encroachment has injured the plaintiff in his business or profession. This latter group of cases involve the protection of goodwill. Such right of privacy is a property right. In the case of *Munden v. Harris*,<sup>28</sup> the court remarked:

"Property is not necessarily a taxable thing any more than it is always a tangible thing. . .

"One may have peculiarities of appearance, and if it is to be made a matter of merchandise, why should it not be for his benefit? It is a right which he may wish to exercise for his own profit and why may he not restrain another who is using it for gain? If there is a value in it, sufficient to excite the cupidity of another, why is it not the property of him who gives it the value and from whom the value springs?"

The cases quite generally have held right of privacy to be a distinctly personal right for which recovery can be had only during the life-time of the person injured and by proof of special damages.<sup>29</sup> Such a view seems sound in cases where the injury has been to the plaintiff's sensibilities or to his social standing. But in cases involving injury to his business by destruction of his goodwill there has been such a property damage as should warrant a survival of the action.

Further, the destruction of goodwill is often redressed by an action on the case for slander of title.<sup>30</sup> Formerly, this action was

<sup>26</sup>CHAPIN, TORTS (1917) § 67. Larremore, *The Law of Privacy* (1912) 12 COL. L. REV. 693.

<sup>27</sup>*Ibid.*, at 694.

<sup>28</sup>153 Mo. App. 652, 658, 134 S. W. 1076 (1911).

<sup>29</sup>*Torts—Invasion of the Right of Privacy* (1928) 1 SO. CALIF. L. REV. 293.

<sup>30</sup>ODGERS, LIBEL AND SLANDER (1881) 126 *et seq.*; NEWELL, SLANDER AND LIBEL (4th ed. 1924) 614 *et seq.*; BURDICK, LAW OF TORTS (3d ed. 1913) 434 *et seq.*; POLLOCK, THE LAW OF TORTS (12th ed. 1923) 309. Also see HOLLAND, JURISPRUDENCE (12th ed. 1917) 188n.

available only for the protection of title to real property; but now it is applied also in situations involving personal property, including patent rights, copyrights, trademarks, etc. Pollock speaks of this wrong as being a special variety of deceit. Its principal elements are malice and special damages. In the case of *Western Counties Co. v. Lawes Chem. Co.*,<sup>31</sup> the court ruled that a rival trader is guilty of slander of title by false assertions concerning the superiority of his own wares. This, however, has been quite generally repudiated.<sup>32</sup> A mere "puffing" of one's own goods should not form a basis for destruction of goodwill through slander of title. To allow a recovery on such grounds would open wide the door to needless litigation. This type of action has served in affording protection to goodwill only within a very limited scope. Pollock suggests that "Goodwill in the accustomed sense does not need the same kind of protection, since it exists by virtue of some express contract which affords a more convenient remedy."<sup>33</sup> In the United States today, with circumstances similar to those in the earlier cases in which the plaintiff thus sought relief, an action may be brought more properly under the head of "unfair competition;" in England under "passing off."

The courts, in cases involving deceit, fraud, or misrepresentation resulting in injury to, or loss of, goodwill, generally allow a recovery.<sup>34</sup> The goodwill of a business is a property interest, the sale of which, if induced by fraud, entitles the buyer to damages.<sup>35</sup> The vendor

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<sup>31</sup>L. R. 9 Ex. 218 (1874).

<sup>32</sup>See the remarks of Lord Herschell in *White v. Mellin*, [1895] A. C. 154, 165. See also PEARCE, *PASSING OFF* (1928) 3.

<sup>33</sup>*Supra* note 30, at 312. The author's statement would seem to be predicated upon the assumption that goodwill rights are limited more or less to rights *in personam*, as well as upon the hypothesis that there is no convenient remedy in tort for protection of goodwill. The former assumption is, of course, not correct, and the latter has been somewhat true, although unfortunately so.

<sup>34</sup>For instance, see *Marsh v. Billings*, 7 Cush. 322 (Mass. 1851). In that case the defendant coach owners used the name of a hotel on their coaches and drivers' caps, so as to lead the public to think they were authorized or employed by the lessee of the hotel, thus taking business from the party to whom the proprietor of the hotel had given an exclusive license. The court allowed the licensee to recover.

<sup>35</sup>*Cherry v. Kirkland*, 138 Ark. 33, 210 S. W. 344 (1919). If the defendant fraudulently ousts the plaintiff from his business the plaintiff may recover for loss of his goodwill. *Donleavy v. Johnston*, 24 Calif. App. 319, 141 Pac. 229 (1914). See also *Fine v. Lawless*, 139 Tenn. 160, 201 S. W. 160 (1918). An action will lie against the manager of a bank who dissolves the business so that he may convert the goodwill to another bank for the purpose of personal benefit. *Barrett v. Bloomfield Sav. Inst. et al.*, 64 N. J. Eq. 425, 54 Atl. 543 (1903).

of goodwill is under a duty to refrain from doing, in bad faith, anything to destroy it.<sup>36</sup>

In the case of *Muraco v. Don*<sup>37</sup> the defendant sold out his shoe-repair business and goodwill to the plaintiff. Thereafter the defendant proceeded to divert all of the shoe-repair business possible to another shop; upon this new business he received a commission from the other shoemaker. This diversion of trade seriously impaired the goodwill conveyed. The court held that the plaintiff, owing to the defendant's fraudulent conduct, might recover for the loss of goodwill. It is well settled that in case the vendor of a business and its goodwill falsely represents the extent of such goodwill, the vendee may either rescind the contract of purchase, or proceed by a tort action.<sup>38</sup> Goodwill, as the subject matter in actions for deceit and other kindred torts, is becoming increasingly important, with unfair competition assuming a very prominent place.

Unfair competition is the natural enemy of goodwill. The tremendous development of commerce, with the resulting keen rivalry in trade, has brought a marked increase in fraudulent competition. The law of unfair competition is of very recent development, dating back scarcely a quarter of a century.<sup>39</sup> It might be defined as the act of passing off or attempting to pass off, upon the public, the goods or business of one person as and for the goods or business of another. It is a tort,<sup>40</sup> and a fraud,<sup>41</sup> but there need not be actual fraud; fraud may be "inferred" if the consequence of the defendant's acts is to create a probability of deception of the public.<sup>42</sup> Such fraud may be no more than a consciousness connected with probable deception. Perhaps it might be better to discard "fraud" as an essential element in cases of unfair competition; this has already been accomplished in situations in which technical trademarks are involved.

Since the basis of the action of unfair competition is protection of goodwill, the owner of a mark cannot demand such protection in a

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<sup>36</sup>*Patterson v. Rogers*, 148 Ark. 222, 229 S. W. 711 (1921). It is often stated that the vendor owes no other duty than not to be guilty of unfair competition. That, however, leaves the major problem still unsolved for the variable "unfair competition" then remains to be interpreted.

<sup>37</sup>250 Pac. 1109 (Calif. App. 1926).

<sup>38</sup>*Baccus v. Crow*, 150 Ga. 141, 103 S. E. 228 (1920); *Eivers v. Peard*, 100 Or. 197, 197 Pac. 264 (1921); *Cruess v. Fessler*, 39 Calif. 336 (1870).

<sup>39</sup>Haines, *Efforts to Define Unfair Competition* (1919) 29 YALE L. J. I.

<sup>40</sup>*Vacuum Oil Co. v. Eagle Oil Co.*, 122 Fed. 105 (C.C.N.J. 1903); *Chubb v. Griffiths*, 35 Beav. 127 (1865).

<sup>41</sup>*Cohen v. Nagle*, 190 Mass. 4, 76 N.E. 276 (1906); *Finney's Orchestra v. Finney's Famous Orchestra*, 161 Mich. 289, 126 N. W. 198 (1910).

<sup>42</sup>*Application of the "Fraud" Rule in Unfair Competition* (1929) 29 COL. L. REV. 44.

territory into which his business does not extend, for the defendant cannot pass off his goods for those of the plaintiff's where the plaintiff's products are unknown.<sup>43</sup> The infringement of a trademark is only one means of palming off the goods of one person as and for the products of another, and, indeed, the remedy for infringement is based squarely upon the principle that the palming off of the defendant's wares has damaged the plaintiff's property. Infringements encroach upon goodwill property rights. Mr. Rogers tells us that "it is now established that unfair competition is the genus and trademark infringement the species."<sup>44</sup>

The forms of unfair competition are so various that it is difficult to lay down broad general rules. In the cases where the trade name of another is appropriated in order that one may palm off his wares as those of another, relief may be had by injunction or by a judgment for damages. The public will not ordinarily be deceived if the trade name is applied to an entirely dissimilar product. As Mr. Rogers further states, "Goodwill . . . is of no use to anybody unless the thing towards which it is directed can be distinguished from others towards which it is not directed."<sup>45</sup> Difficulty arises in ascertaining where the line should be drawn in separating "similar" from "dissimilar" products. It must be left to the discretion of the court.

It has been held to be an unlawful infringement to use the trademarks of baking powder on baking soda, of toilet brushes on tooth brushes, of player pianos on phonographs, of pancake flour on syrup, of canned salmon on canned fruits, of men's suits on men's hats and caps, or to employ a trade name of axes on shovels, of cameras on bicycles, of automobiles on radio tubes,—but not so, when a trade name of an automobile is used on fire extinguishers.<sup>46</sup> In situations

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<sup>43</sup>Goble, *Where and What a Trade-Mark Protects* (1927) 22 ILL. L. REV. 379. However, it is not impossible for deception to arise even though the defendant operates outside of the plaintiff's trade territory, as, for instance, where the plaintiff's advertising extends into this extra-territory, or people live in the one territory after living in the other. If such persons first have lived in the plaintiff's territory and then have removed to the defendant's territory there might be deception; then should such persons return to the plaintiff's trade territory, it would affect the plaintiff's goodwill there. See also *Trade Regulation—Restraint on Use of Another's Tradename in a Different Geographical Market* (1928) 28 COL. L. REV. 386; *Trademarks—Registration—Territorial Extent of Rights* (1928) 13 MINN. L. REV. 74.

<sup>44</sup>*Unfair Competition* (1919) 17 MICH. L. REV. 490, 493; Rogers, *Protection of Industrial Property* (1929) 27 MICH. L. REV. 491, 497. HOLLAND, *op. cit. supra* note 30, at 211 n.

<sup>45</sup>Rogers, *op. cit. supra* note 44, at 493.

<sup>46</sup>Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products* (1927) 75 U. PA. L. REV. 197.

wherein the plaintiff cannot establish that he has a valid trademark, often he may still have a remedy on the basis of unfair competition.<sup>47</sup> The courts frequently find considerable difficulty in determining if there is sufficient resemblance between the trademark or trade name of the defendant and that of the plaintiff to work any appreciable injury to the latter's goodwill by misleading the public. Regardless of the form it may take, deception of the public injures the competing *entrepreneur* by diverting his customers and depriving him of sales which he otherwise would have made.<sup>48</sup> This, rather than protection of the public against imposition, would appear to be the true and sound basis for the private remedy in tort, although it is often stated that the remedy proceeds upon the theory of protection to the public against fraud.<sup>49</sup> Others have given additional reasons for allowing a recovery. In a recent comment three reasons were set out as follows:

"The courts in giving relief in unfair competition have based their actions upon three grounds, namely, (1) to promote honesty and fair dealing; (2) to protect the purchasing public; and (3) to protect the rights and property of individuals. Included in that last ground is that intangible something, peculiar to every business—Goodwill. That goodwill is a thing of value and a subject of property was very early recognized and it is now well settled. Included in and making up the goodwill and passing with it upon the sale of the business is the business name, trademark, trade name and the secrets of the business. And as the goodwill itself is property, the parts of which it is made up are, separately considered, property."<sup>50</sup>

But it seems better to regard the first two reasons as of no significance; for the cases involving the question do, or could well, turn upon the question of a property interest being involved.<sup>51</sup>

The ground on which the courts generally give relief in trademark and trade name infringement cases is the property right which the plaintiff has in his goodwill. The trade name has value because it aids the plaintiff in his economic pursuits—it gives him a certain differential advantage over his competitors. Chief Judge Cardozo

<sup>47</sup>BURDICK, *op. cit. supra* note 30, at 440; Glenn, *Pre-Emption in Connection with Unfair Trade* (1919) 19 COL. L. REV. 29. An author, or artist, may possess goodwill in addition to his property interest protected by copyright. Kelley, *Rights of Authors and Artists Outside the Copyright Law* (1919) 5 CORNELL LAW QUARTERLY 48.

<sup>48</sup>American Tobacco Co. v. Polacsek, 170 Fed. 117 (S.D.N.Y. 1909).

<sup>49</sup>Yale & Towne Mfg. Co. v. Alder, 154 Fed. 37 (C.C.A. 2d, 1907); Munro v. Tousey, 129 N. Y. 38, 29 N. E. 9 (1891).

<sup>50</sup>*Unfair Competition* (1928) 17 GEO. L. J. 67, 70.

<sup>51</sup>Wendt, *Unfair Competition: Property Rights as Basis of Action* (1927) 12 CORNELL LAW QUARTERLY 416, 418; Glenn, *op. cit. supra* note 47, at 31 and 34.

has remarked, "Men will pay for any privilege that gives a reasonable expectancy of preference in the race of competition."<sup>52</sup> It is this value which the *entrepreneur* seeks to have protected. Value arises from profitable transactions; so it is logical to concede that a name or mark can only be valuable property in connection with a business. It is then clear that the property in or attaching to trademarks and trade names is in no way different from other goodwill property.

It is still insisted by some authorities that the gravamen of trademark infringements is false representation, and not the violation of a property right. It recently was stated, "While the notion of property persisted for many years, it is now pretty well accepted that the wrong is the misrepresentation resulting from the appropriation and use of a mark..."<sup>53</sup> The problem resolves itself into the question as to where the emphasis is to be placed. False representation is a violation of certain rights, privileges, powers and immunities. Property is in no way more than an aggregate of this same sort of legal relations. Property is always a question of degree. Trademarks are generally referred to as property, and they, like other forms of goodwill, have been held to be property for various purposes. So it would not seem amiss to say that an infringement is a violation of a property right. But, of course, either leads nowhere. The underlying reason goes back to the question whether sound social and economic policy warrants protection of the plaintiff against the particular aggression engaged in by the defendant. With that determined the rest is simple, call the gist of the wrong what we may. If the court thinks that social needs demand that such aggression be checked, it gives a decision in the plaintiff's favor. This means that for purposes of the particular situation the plaintiff has certain rights, privileges, etc., and that the defendant has violated them. What difference does it make whether the stress is to be placed upon the *legal relations*, or upon the *violation* of those relations? It is but a matter of accent—of emphasis.

The large groups of infringements of various kinds, each presenting varied types of invasions of the many special species of goodwill, such as that attaching to trademarks, trade names, patents, copyrights, etc.,—as well as the multifarious means by which other classes of unfair competition are carried out make it quite impossible to do more here than merely touch upon a few of the more common forms. It would seem to be necessary, however, in passing, to mention briefly

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<sup>52</sup>*In re Brown et al.*, 242 N. Y. 1, 150 N. E. 581, 582 (1926).

<sup>53</sup>Rogers, *op. cit. supra* note 44, at 494.

unfair competition under the Federal Trade Commission Act.<sup>54</sup> The passage of the Act was a response to the pressing need for a more adequate protection of goodwill, and for more satisfactory security against fraud upon the public than was afforded at common law. Although the common law gradually was extended in order to function better under the entirely new and rapidly changing economic conditions, it fell far short of meeting fully the needs of the times. Without legislative pronouncement to serve as an impetus as well as a norm, we would be anticipating an extraordinary feat on the part of the courts if we were to predict that they would liberate the common law from its shackles of *stare decisis* and cause it to take on a degree of acceleration consonant with modern dynamic industrial and economic progress. The law has progressed rapidly, but trade and industry have developed more rapidly.

According to Mr. Seligson:

"Most of the common law of unfair competition developed out of the practice of protecting trademarks and trade names from unscrupulous competitors who attempted to palm off their goods as those of the well established brand. It has gradually broadened, however, so as to include almost all cases where one's business is harmed by the improper acts of a competitor. Although the common law has thereby shown a happy degree of elasticity and adaptability to modern needs, yet courts in many cases while condemning the wrongful conduct of the defendant have felt themselves powerless to give relief under the common law."<sup>55</sup>

The Federal Trade Commission Act sets out that "Unfair methods of competition in commerce are declared unlawful. The Commission is empowered and directed to prevent . . . using unfair methods of competition in commerce."<sup>56</sup> The Act does not define what is unfair competition, but leaves that for the Commission to determine. There have been some conflicting views as to whether the Commission is limited by the common law conception of "unfair competition" or whether it may create new categories of unfair trade. One authority said:

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<sup>54</sup>15 U.S.C.A. § 41 *et seq.* Unfair competition under this Act although made a statutory wrong is nothing other, to the extent that it provides a remedy for private wrongs, than a tort in nature.

<sup>55</sup>*Trade Regulation* (1923) 9 AM. B. A. J. 698, 700. See Rogers, *op. cit. supra* note 44, at 492.

<sup>56</sup>15 U.S.C.A. § 45. Of course, the Federal Trade Commission has no jurisdiction if interstate commerce is not involved. *Utah-Idaho Sugar Co. v. Fed. Trade Commission*, 22 F. (2d) 122 (C.C.A. 8th, 1927). See also case note on this case, (1928) 41 HARV. L. REV. 675.

"It is submitted that the jurisdiction of the Federal Trade Commission extends not only to practices tending towards the creation of a monopoly or the undue restraint of trade, but also to those which are merely otherwise injurious to competitors and to the public, where the Commission in the reasonable exercise of its discretion determines that a proceeding is to the public interest, even though the practice involved has not yet been forbidden in any common law case."<sup>57</sup>

The law under the Federal Trade Commission Act, like common law, cannot remain static. New and ever-changing methods in business develop fresh competitive devices, resulting in previously-unknown objectionable trade practices.<sup>58</sup> So it is to be expected that under this Act "unfair competition" must remain a variable concept.

Industrial goodwill<sup>59</sup> has also come in for some court protection. Justice Pitney, in the *Hitchman Case*, stated:

"In short, plaintiff was and is entitled to the goodwill of its employees, precisely as a merchant is entitled to the goodwill of his customers although they are under no obligation to continue to deal with him. The value of the relation lies in the reasonable probability that, by properly treating its employees, and paying them fair wages, and avoiding reasonable grounds of complaint, it will be able to retain them in its employ, and to fill vacancies occurring from time to time by the employment of other men on the same terms. The pecuniary value of such reasonable probabilities is incalculably great, and is recognized by the law in a variety of relations."<sup>60</sup>

Conversely, the employee is similarly protected.<sup>61</sup> But where there is a struggle for economic advantage, protection should be cautiously applied, unless the result sought by the offender is of itself unlawful,

<sup>57</sup>Seligson, *op. cit. supra* note 55, at 701; Haines, *op. cit. supra* note 39, at 3 *et seq.*

<sup>58</sup>Notz, *New Phases of Unfair Competition and Measures for Its Suppression—National and International* (1921) 30 YALE L. J. 384, 389 *et seq.*

<sup>59</sup>COMMONS, *op. cit. supra* note 2, at 199. YANG, GOODWILL AND OTHER INTANGIBLES (1927) 10, 30, 35 and 47. Firms are more and more realizing the value of this type of goodwill. Hall, *The Spirit of Cooperation Between Employer and Employee* (1929) 11 LAW AND LABOR 51.

<sup>60</sup>*Hitchman Coal & Coke Co. v. Mitchell*, 245 U. S. 229, 252, 38 Sup. Ct. 65 (1917); *Smith v. Goodman, Howell & Co.*, 75 Ga. 198 (1885); *Walker v. Cronin*, 107 Mass. 555 (1871). The so-called "right to a free labor market," since it is a right enjoyed by all, could not in itself be treated as goodwill property; although it correctly may be called a "liberty."

<sup>61</sup>*London Guarantee & Accident Co., Ltd., v. Horn*, 206 Ill. 493, 69 N. E. 526 (1903); *Brennan v. United Hatters, Local No. 17, et al.*, 73 N. J. L. 729, 65 Atl. 165 (1906); *Moran v. Dunphy*, 177 Mass. 485, 59 N. E. 125 (1901).

or the offender's conduct is motivated by un-mixed malice.<sup>62</sup> To permit unjustifiable destruction of goodwill, regardless of its form, would tend to discourage fair dealing on the part of the dealer or employer. Cobbs, J., in *Sanderfur v. Beard*, in speaking of goodwill remarked, "It is what he [the *entrepreneur*] builds up by probity of character and a lifetime of good works and good deeds. It does not spring up like 'Jonah's gourd' in a night, . . ."<sup>63</sup>

In a few cases the courts have been confronted squarely with the question of tortious destruction of goodwill. In *Sullivan v. Waterman*,<sup>64</sup> decided in 1898, the defendant who hired certain rooms in the plaintiff's house, so misbehaved himself while in the occupancy of the rooms, by bringing immoral and dissolute women, and by allowing others to bring such women into the rooms at night for immoral purposes, that his actions resulted in injury to the plaintiff in her business, and to the good name, credit, and reputation of her house. On demurrer to the declaration the court held that an action would lie. The court said:

"The good name of a boarding house or lodging house, like the good name of an hotel or other place of entertainment, is of vital importance to the success of the proprietor; and any one who wrongfully injures such good name is guilty of a tortious act, which the law will redress in damages."

In 1913 the case of *Hall v. Galloway*<sup>65</sup> presented a similar question, except that a hotel instead of a rooming house was involved. The court held that an action of nuisance would lie, for injury to property had resulted.

In accord with these two cases is the recent case of *Jay Bee Apparel Stores, Inc., v. 563-565 Main Street Realty Corp.*<sup>66</sup> This case, like the

<sup>62</sup>Cheshire, *Unlawful Molestation* (1923) 39 L. Q. REV. 193.

<sup>63</sup>249 S. W. 274, 276 (Tex. Civ. App. 1923).

<sup>64</sup>20 R. I. 372, 39 Atl. 243 (1898).

<sup>65</sup>76 Wash. 42, 135 Pac. 478 (1913). See (1914) 27 HARV. L. REV. 290.

<sup>66</sup>130 Misc. 22, 223 N. Y. Supp. 537 (Sup. Ct. 1927). See also (1927) 41 HARV. L. REV. 263-4, and (1927) 27 COL. L. REV. 1010. In the case of *Liquidators of Nicholson Pub. Co. v. E. S. Upton Printing Co.*, 152 La. 270, 93 So. 91 (1922), it was held that where a publishing company sells its job printing business with the goodwill, the goodwill being the principal consideration, the contract had not been breached by the vendor's going into liquidation, thus damaging the goodwill.

It is interesting to notice the remarks of Lord Mansfield in the famous copyright case (*supra* note 7) in which he remarked: "The remedy is the same, by an action on the case for damages, or a bill in equity for specific relief. No action of detinue, trover, or trespass *vi et armis*, lies; for the limited property is equally a property in notion, and has no corporeal, tangible substance." 3 CAMPBELL, LIVES OF THE CHIEF JUSTICES (7th ed. 1878) 326.

two others, came up on a demurrer to the petition. One of the defendants owned a department store, known as "Fields," in the city of Buffalo. The plaintiff became the lessee of the women's wear department, while another department was conducted by the other defendant. The entire store, although the different departments were operated by different lessees, was conducted so that it would appear to the public to be run as a single department store under one management. The defendant lessee conducted its department in such a manner as to work gross fraud and deceit upon the public, for which it was convicted of the crime of grand larceny. This brought disrepute upon the entire store, so that the public withdrew much of its patronage, which resulted in a heavy loss to the plaintiff. The court held that an action would lie, saying in part:

"After reading the complaint herein I have reached the conclusion that this is an action in tort based on an injury to property. The term 'an injury to property' does not necessarily mean a physical injury to tangible property, but includes any and every invasion of one's property rights by actionable wrong. . . Therefore each party to the arrangement was under a duty to conduct its own business so as not to bring discredit upon the concern as a whole."

The opinion in the last of these three cases bases the recovery squarely upon the general principles of tort responsibility. The court is to be commended for going straight to the solution of the problem without groping about in the haze trying to locate some specific common law form of action upon which a recovery might be hung. How much more rational the decisions in the other two cases would have been had the courts dealt with the question in this same manner rather than resorting to the false subtlety of dragging in the action of private nuisance. Since goodwill is property—a real asset of substantial value<sup>67</sup>—there seems to be no logical reason for courts refusing to afford it protection against intentional, or even negligent, destruction. All of the essential elements of tort are present.

Some have objected strenuously to the extension of the protection of goodwill on the ground that it has been working a serious curtailment of freedom to contract.<sup>68</sup> Doubtless goodwill which depends upon an unearned increment for the basis of its value should be frowned upon by the courts. Since its value necessarily varies with the legal protection afforded it, the courts, by refusing protection to unearned goodwill, may place a check upon it. Goodwill

<sup>67</sup>Wood v. Pender-Doxy Grocery Co., 144 S. E. 635, 637 (Va. 1928).

<sup>68</sup>Foreman, *Contractual Growth of Unearned Profits* (1919) 19 COL. L. REV. 192.

developed by efficiency should be encouraged. All forms of earned goodwill are economically beneficial, for they enable the *entrepreneur* to predict more accurately what is to be brought about in the future. He is thereby enabled to plan more accurately and more efficiently. It is predicated upon an anticipation of reasonable future conduct of others. If monopoly is eliminated the goodwill then remains largely as a reward for efficiency—a spur to economic activity. The protection of efficiency goodwill means its future development: its continued development means social progress.