Violation of the Anti-Trust Laws as a Defense in Civil Actions

William B. Lockhart
VIOLATION OF THE ANTI-TRUST LAWS AS A
DEFENSE IN CIVIL ACTIONS

By WILLIAM B. LOCKHART*

THREE Supreme Court decisions in the current term have raised anew the question as to when violation of the federal anti-trust laws will bar the violator who seeks judicial aid to enforce legal "rights." 1

The problem may take many forms, but basically they all come down to this. A plaintiff comes into court to enforce what on its face is a simple legal right. He brings an action on an unpaid note, or on an account for the price of goods sold, or for damages for breach of a contract to buy or sell goods, or to enjoin infringement of a patent or trade-mark. May the defendant defeat such an action by showing that the plaintiff's "right" is so connected with his violation of the anti-trust laws that to grant the relief sought will assist the plaintiff in his illegal practices or in reaping its fruits?

This defense has been raised with stubborn persistence for fifty years2 despite the narrow limits within which the courts confined it. This persistence began to bear fruit in the field of patent litigation in 1942.3 The decisions in the current term of the Court possibly suggest increased liberality toward the defense in other fields as well,4 and the latest decision adopts a refreshingly pragmatic

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2This persistence was particularly marked in efforts to defeat suits for infringement of patents, trademarks and copyrights. Prior to 1942 the defense was rejected in 35 such cases in the lower federal courts. See infra note 226.
3See infra, pp. 531, 554.
4See infra, pp. 539-40.
approach to the problem. Even Congress gave an equivocal blessing to the defense in trademark litigation during the past year. These indications of a trend toward broader recognition of the defense call for its re-examination and re-appraisal.

LEGISLATIVE HISTORY OF THE DEFENSE

When the Sherman Act was adopted in 1890, Congress provided four sanctions for enforcement of the anti-trust policy. These were criminal penalties, injunction by government suit, forfeiture of property under limited circumstances, and a private action for treble damages by persons injured in their property or business by violation of the act. Nothing in the act as it came from Congress expressly authorized violation of the Sherman Act to be asserted as a defense to a civil action. This was no oversight, for the legislative history shows that such a sanction was repeatedly called to the attention of the lawmakers at the time Sherman Act was under consideration.

Seven of the twenty-one anti-trust bills introduced in Congress in the same month as the original Sherman bill contained sections authorizing such a defense in various terms. Two expressly provided that the purchaser of any commodity from a violator would not be liable for the price. Five deprived the federal courts of jurisdiction to enforce rights arising out of transactions in violation of the act. One of these was referred to the Senate Finance Committee on the same day it received the Sherman Bill. Indeed, the original Sherman Bill itself contained an analogous provision permitting any person damaged by a violation to recover back the full purchase price of any commodity advanced in price by an illegal combination.

5See infra, pp. 542-49.
6See infra, pp. 566-68.
8For the text and history of all bills see Bills and Debates in Congress Relating to Trusts, (1903) Sen. Doc. No. 147, 57th Cong., 2nd Sess., Bills and Debates in Congress Relating to Trusts, 1902-1913, Prepared for Committee on Judiciary, House of Representatives (1914)
11(1889) S. 6 and (1899) S. 1 (Sherman bill) See (1889) 21 Cong. Rec. 96.
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With all this material under consideration, two Senate committees and one House committee recommended passage of antitrust legislation containing no reference to violation of the law as a defense to a civil suit. The only private sanction recommended was that for treble damages. On the floor of the Senate, one amendment and one substitute bill, each containing provisions which would have authorized the defense, were voted down, but the defense was a minor factor not mentioned in the debates and likely did not influence the votes.

It would be a mistake to attach much significance to this legislative history. At no time during the debates on the bill was any vote directed to this one issue. Still, the fact that this device was before both the Senate and the House, in committee and otherwise, in a number of different forms, without adoption or even being brought to a vote, at least indicates that there was no substantial enthusiasm for it.

This was not the case in a number of state legislatures during this same period. In 1890 and 1891 five states provided in their anti-trust laws that the purchaser from a violator could prove the violation as a complete defense to an action for the purchase price.

Within fifteen years three additional states had added such a provision, and two more had provided that a person damaged

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38The Senate bills were introduced on December 4 and the House bills on December 18, 1889, except for H.R. 3844 which was introduced on January 6, 1890 and was identical in its defense provision with H.R. 202. See (1889-90) 21 Cong. Rec. 232, 243, 254, 255, 256, 402. The Senate Finance Committee recommended out the revamped Sherman bill on January 14, 1890. See (1890) 21 Cong. Rec. 541. It seems a reasonable assumption that the Senate committee would have examined not only the bills referred to it, but also the pending House bills on the same subject. All this material was also available to the Senate Committee on the Judiciary to which the bill was referred after lengthy Senate debate and many amendments. See (1890) 21 Cong. Rec. 2731. That Committee drafted a completely new bill which gave no recognition to the defense. See (1890) 21 Cong. Rec. 2901. The House Committee on the Judiciary, to which the Sherman Bill was referred after its passage in the Senate, had before it house bills containing each type of defense provision. H.R. 202 and H.R. 3844 (defense to action for purchase price); H.R. 811 and H.R. 846 (federal courts deprived of jurisdiction). See (1889-90) 21 Cong. Rec. 232, 254, 256, 402. Yet the House Committee recommended passage of the Senate bill without change. See (1890) House Rep. No. 1707, 51st Cong., 1st Sess., (1890) 21 Cong. Rec. 4068.

39The Committee on the Judiciary substitute treble damages for the double damages recommended in the bill previously reported out by the Committee on Finance. See (1890) 21 Cong. Rec. 2455, 2901.

38See (1890) 21 Cong. Rec. 2613-15.
39See (1890) 21 Cong. Rec. 2657-61.
40Ia. Laws 1891, p. 206 § 6; Iowa Laws 1890, c. 28, § 5; Mo. Laws 1891, p. 186 § 3; N. Mex. Laws 1891, c. 10, § 3; Okla. Stat. 1890, § 6621.
by the violation could recover back the entire purchase price.\textsuperscript{19}
With two exceptions\textsuperscript{20} those provisions are still in effect.\textsuperscript{21}

Approval of this defense in state legislation led to no change by Congress. A number of bills for amending and supplementing the Sherman Act included this type of defense as an incidental feature, but all died in committee.\textsuperscript{22} After 1890 no bill appears to have been introduced for the primary purpose of recognizing this defense with one perennial exception. From 1894 to 1933 repeated efforts were made to secure legislation to defeat patent infringement suits when the patent was being used to violate the anti-trust laws.\textsuperscript{23} The nearest such a patent bill came to enactment was an inadvertent one-day Senate approval, quickly recalled upon discovery\textsuperscript{24}

\textsuperscript{20}See Ark. Acts 1913, No. 161, § 1, Neb. Laws 1905, c. 162, not containing such a defense provision, was held to repeal the earlier act by implication. See State v. Omaha Elev. Co., (1906) 75 Neb. 637, 106 N. W 979, 110 N. W 874.
\textsuperscript{24}(1930) S. 4442, 71st Cong., 2d Sess., was reported out recommended for passage by the Committee on Patents. See (1930) 72 Cong. Rec. 9778, Sen.
In 1914 when the Clayton Act was adopted the need was recognized for more effective legal relief to private parties injured by violation of the anti-trust laws. Private parties threatened by loss or damage from violation of the law were given the right to injunctive relief, and treble damage actions were facilitated by making judgment in a government suit or prosecution prima facie evidence of the violation there established. Despite these efforts to aid private parties, no action was taken to incorporate the provisions of pending bills which would have authorized broad application of the defense that the plaintiff in a civil action had violated the anti-trust laws.

The closest Congress ever came to approving this defense for Rep. 757, 71st Cong., 2d Sess. The bill was unanimously passed by the Senate four days later without explanation or debate. See (1930) 72 Cong. Rec. 9864. The next day the Senate requested the House to return the bill when a senator expressed his desire to move to reconsider the bill. See (1930) 72 Cong. Rec. 9924. The House complied although a representative expressed his fear that the Senate might "chloroform" the bill. See (1930) 72 Cong. Rec. 10072. It did. The bill as passed by the Senate provided two defenses to an infringement suit: (1) Agreement by the complainant with any other person owning patent rights relating to the same business, the effect of which is to substantially lessen competition or tend to create a monopoly. (2) Use or control of the patent by the complainant in violation of the anti-trust laws. See (1930) 72 Cong. Rec. 9864. On its return to the Senate, Senator Dill, the originator of the bill, explained his intent to strike out the first defense, so that the bill would create no new illegalities. See (1930) 72 Cong. Rec. 11583. Nothing more was heard of the bill, excepting introduction of similar bills by Senator Dill in 1931 and 1933. Since that date legislative proposals in this direction have been directed toward compulsory licensing. See Note (1946) 56 Yale L. J. 77, 116-18.


The House Committee on the Judiciary, which reported out the Clayton Bill [H.R. 15657, (1914) House Rep. 627, 63d Cong., 2d Sess.,] examined Senator La Follette's bill, and credited it and a companion bill by a Wisconsin representative [(1913) H.R. 54, 63d Cong., 1st Sess.] with providing the model for its amendment making a judgment in a government suit or prosecution conclusive evidence of the violation there established for use in a private treble damage action. See (1914) 51 Cong. Rec. 9488. Adoption of one of Senator La Follette's provisions to aid private parties suggests that omission of the other was not inadvertent.
any purpose was in the Trade-Mark Act of 1946. Under that Act the plaintiff in an infringement suit who has used his trademark to violate the anti-trust laws is clearly deprived of the incontestability rights created by the Act, and it may be interpreted to make such violation a complete defense to an infringement suit. This effect of the Act will be considered at a later point.

With this one possible exception in the Trade-Mark Act, Congress has never shown any disposition to enact legislation giving affirmative approval to the defense that the plaintiff in a private action has violated the anti-trust laws. On the other hand, no genuine issue has ever been made of the defense so as to bring it to a vote on either floor of Congress. Therefore, it cannot be said that Congress has ever affirmatively indicated either its disapproval of the defense, or its dissatisfaction with the manner in which the defense has been handled in the courts.

**Common Law Background of the Defense**

Failure of Congress to provide expressly for the defense in the anti-trust legislation can hardly be taken as a disapproval of its use in appropriate cases in view of the common law background of the terms used in the Sherman Act.

In prohibiting contracts, combinations and conspiracies “in restraint of trade,” and making it unlawful to “monopolize, or attempt to monopolize,” Congress adopted language which reached far back into the common law. Ever since 1415 the common law courts had been refusing to enforce contracts or agreements “in restraint of trade” or tending toward a monopoly, though there

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30See infra, pp. 566-68.
31See (1890) 26 Stat. at L. 209, (1940) 15 U. S. Code, § 1, 2.
33The broad scope of the common law doctrine is succinctly summarized by Mr. Justice Stone in Apex Hosiery Co. v. Leader, (1940) 310 U. S. 469, 497, 60 S. Ct. 982, where he adds that the “common law doctrines relating to contracts and combinations in restraint of trade were well understood long before the enactment of the Sherman law.” See also the exhaustive opinion by Taft, J., in United States v. Addyston Pipe and Steel Co., (C.C.A. 6th 1898) 85 Fed. 271, 279-91. The cases and secondary authorities are collected in Handler, Cases and Materials on Trade Regulation, (1937) 102-206. For a summary of the cases prior to 1890 dealing with the contracts not to compete see Smith’s Leading Cases (8th Am. Ed., 1885) 765-83, annotation to Mitchell v. Reynolds, (1711) 1 P Wms. 181, 24 Eng. Rep. 347, 3 Am. & Eng. Encyc. of Law, (1887) 882-86. For a thorough analysis of the cases prior to 1890 relating to the less orthodox “restraint of trade” by price fixing and similar restrictive trade practices see Peppin, Price Fixing Agreements under the Sherman Anti-Trust Law, (1940) 28 Calif. L. Rev. 297 308-351, Note, (1932) 32 Col. L. Rev. 291, 295-97
had been no complete harmony as to the scope of the doctrine.\textsuperscript{24} The principal sanction by which this policy had been developed and enforced was simply the refusal of the Courts to give any aid to parties seeking to enforce contracts in restraint of trade.\textsuperscript{33}

Refusal to enforce such contracts was merely one expression of the more general common law doctrine that courts would refuse their aid to parties seeking to enforce agreements which were illegal or contrary to public policy.\textsuperscript{30} This doctrine was applied


\textsuperscript{33}See Apex Hosiery Co. v. Leader, (1940) 310 U. S. 469, 497, 60 S. Ct. 982; United States v. Addyston Pipe and Steel Co., (C.C.A. 6th 1889) 85 Fed. 271, 279; Mogul Steamship Co. v. McGregor Gow & Co., (1891) 1892 A. C. 25 passim. The cases cited above all concur in the conclusion that contracts in restraint of trade were “illegal and unenforceable at common law” but “were not penalized and gave rise to no actionable wrong.” A brief examination of any summary of the common law restraint of trade cases will demonstrate that in nearly all of the cases the defense of illegality was asserted against an attempt to enforce the contract. See, e.g., Sanderson, Restraint of Trade in English Law, (1926) 7-47, Smith’s Leading Cases, (8th Am. ed., 1885) 756-83; Peppin, supra note 33 at 327-49. The convictions in England for price fixing combinations were based primarily upon statutes, though there is some dispute as to whether some may have had their origin in the common law. See Peppin, supra note 33 at 310-24. Examination of Professor Peppin’s collection of American cases relating to price fixing prior to 1890 (28 Calif. L. Rev. at 336-50) reveals that none were criminal cases except those few relating to conspiracies to raise wages (id. at 342-44) and one abortive attempt to convict for a genuine price fixing agreement. Commonwealth v. Tack, (Phila. Quar. Sess., 1868) 1 Brewst. 511. At an early date the courts recognized authorized private actions for treble damages in favor of those harmed by a monopoly. (1623-4) 21 Jac. I, c. 3. While that statute provides that all monopolies shall be tried “according to the common law of this realm,” there is nothing to indicate that damages for monopoly or other restraint of trade were allowed at common law. Cf. Peppin, supra note 635 at 28 Calif. L. Rev. 305, n. 27 Mogul Steamship Co. v. McGregor Gow & Co., supra, expressly rules that no such damages were allowable at common law. Immediately prior to enactment of the Sherman Act, the sanction of quo warranto to dissolve a corporation engaging in particularly vicious types of restraint of trade was invoked in a few cases. People ex. rel. Peabody v. Chicago Gas Trust Co., (1889) 130 Ill. 268, 22 N. E. 798, People v. North River Sugar Refining Co., (1889) 54 Hun. 354, 7 N. Y. Supp. 406; State v. Nebraska Distilling Co., (1890) 29 Neb. 700, 46 N. W. 155. These scattered exceptions only serve to emphasize the conclusion that the policy against restraint of trade was developed and enforced primarily through refusal of the courts to enforce “rights” arising out of agreements contravening the policy. Cf. Jones, Historical Development of the Law of Business Competition, (1926) 35 Yale L. J. 905, 36 Yale L. J. 42, 207, at 215.

\textsuperscript{30}See, e.g., Hanauer v. Doane, (U.S. 1871) 12 Wall. 342, 349; Williston. Contracts (Rev. Ed. 1937) c. 48-52, Restatement, Contracts, c. 18. See standard textbooks at time Sherman Act was adopted cited infra note 44.
both to agreements which violated statutory law and to those found to violate "public policy" as determined by the courts. The policy against restraint of trade was primarily a court-created policy, which was supplemented by early English and American statutes aimed at the grosser restraints, and which finally found nation-wide expression in the Sherman Act.

In the Sherman Act Congress simply took over the common law terms and concepts relating to restraint of trade and made them clearly applicable to interstate and foreign commerce. It broadened them slightly so as to make certain to include combinations or conspiracies in restraint of trade regardless of form, and fitted them out with the public remedies of criminal prosecution, injunction and forfeiture and the private remedy of treble damages. There was nothing whatever in the Act to indicate any intention to take away that sanction which had been the very tool by which the common law policy against restraint of trade had been developed.

The lawyers in Congress, who constituted a substantial majority of all senators and representatives, must have been familiar with this common law background. The standard American textbooks

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40See Jones, supra note 35, Peppin, supra note 33, at 310-15.

41At about the same time, the policy against monopoly and restraint of trade was also finding expression in state statutes creating criminal and other sanctions. Ill. Laws 1891, p. 206, Iowa Laws 1890, c. 28, Ky. Acts 1889, c. 1621, Maine Acts 1889, c. 266, Mo. Laws 1891, p. 186, New Mex. Laws 1891, c. 10, Okla. Stat. 1890, § 6619; Tenn. Laws 1889, c. 250, Tex. Laws 1889, p. 141.


43In the Senate 68 of the 86 senators, or 79%, were lawyers. In the House 225 of the 328 representatives, or 69%, were lawyers. All members of the Senate Committee on the Judiciary which drafted the bill as finally adopted were lawyers, as were all members of the House Committee on the Judiciary which recommended its passage. See note 15 supra. Six of the ten members of the Senate Committee on Finance which first reported out the Sherman Act for passage were also lawyers. See biographical sketches and records of committee membership in (1890) Congressional Directory, 51st Cong. 1st Sess., Sen. Misc. Doc. No. 13, Part 3, 51st Cong., 1st Sess.
of that day on the basic subject of Contracts stressed the defense of illegality, and its application to contracts in restraint of trade. This background was emphasized at the very beginning of the debates when a number of cases were stated in which the courts refused to enforce such contracts.

In view of this common law background, at least those lawyers in Congress who were instrumental in drafting the Act and determining its scope must have realized that violation of the anti-trust laws would be raised promptly as a defense in civil actions and that under established common law doctrine the defense would be available in many cases without any express provision in the Act to that effect. Failure to include an express provision in that regard would therefore seem to indicate only an intention to let the courts determine the scope of the defense rather than to exclude it altogether. This conclusion seems consistent with and reinforced by the evident purpose of Congress to leave to the courts the greater problem of giving precision of meaning to its general expression of policy against monopolies and restraint of trade.

Page citations in the following texts refer respectively to recognition of (1) defense of illegality (unenforceability), (2) public policy as one basis for the defense, (3) the defense applied to restraint of trade, and (4) the defense applied to price fixing, elimination of competitive bidding, agreements tending toward monopoly and other restrictions on competition as distinct from the typical contracts not to compete. See Anson, English Law of Contract (2nd Am. ed., 1887) 223, 238 and 248, 248-49, 249; Bishop, Law of Contracts (1887) 180, 181, 195-99, 198 and 200; Chitty, Law of Contracts (8th Am. ed. 1851) 570, 575, 576-78, 578, (11th Am. ed., 1874) 971, 982, 982-87, 987; 2 Parsons, Law of Contracts (4th ed., 1860) 253-1, 253, 254-260, 260; Pollock, Principles of Contracts (1st Am. ed., 1881) 241 and 317, 276, 309-17, 309-10; Smith, Law of Contracts (7th Am. ed., 1885) 208, 212, 213-27 The same recognition of these basic principles appears in the following: 3 American & English Encyclopedia (1887), 869, 875, 882-86, 883-86; 1 Bouvier, Institutes of American Law (1851), 295, 297, 299; Smith, Leading Cases (8th Am. ed. 1885) 756 and 777, 777, 756-83 and 782-83.

See (1890) 21 Cong. Rec. 2456-60.

Senator Hoar, a member of the Senate Committee on the Judiciary in 1890, claimed to have drafted the Sherman Act as finally adopted by Congress. See 2 Roar, Autobiography of Seventy Years (1903) 364, cf. Peppin, supra n. 35, 28 Calif. L. Rev. at 306 n. 29. He explained that the Committee thought "it was best to use this general phrase [restraint of trade] which, as we thought, had an accepted and well known meaning in the English law, and then after it had been construed by the Court, and a body of decisions had grown up under the law, Congress would be able to make such further amendments as might be found by experience necessary." See Roar, op. cit. supra at 364, quoted also in (1908) 42 Cong. Rec. 5438. See Senator Hoar's statement in Congress that the common law language was deliberately chosen. (1903) 36 Cong. Rec. 522-23. During the debates on the bill in the House, it was frankly admitted that the scope and coverage of the act would not be known until it was construed by the Courts. See (1890) 21 Cong. Rec. 4089, 4092, 4100.
The Defense in the Supreme Court

The defense that the plaintiff should be denied judicial aid to enforce a private right arising out of violation of the anti-trust laws has been raised in two general classes of cases: (1) Those involving attempts to enforce or protect contract rights of various kinds, and (2) those involving attempts to secure remedies for torts, principally actions for infringement of patents, copyrights or trade-marks. With one minor exception, the contract cases were the only ones in which the defense was considered by the Supreme Court prior to 1942.

The defense as applied to contracts.

The problem first arose in 1902 in Connolly v. Union Sewer Pipe Co. This was an action to recover for the price of pipe sold to the defendants. The defense was that the plaintiff was a "trust" or "combination" through which several competitors had pooled their interests and agreed to maintain prices in excess of the market value, and that this action was to recover the price of goods sold by plaintiff while acting as such combination in violation of the common law and the Sherman Act. The Supreme Court sustained the action of the trial court which had rejected the defense and directed a verdict for the plaintiff.

The Supreme Court recognized that no recovery could be allowed on a contract in violation of a statute, and referred to its recent extended review of the cases which it had summarized as holding unanimously that "no court will lend its assistance in any way toward carrying out the terms of an illegal contract."
It then denied the defense on the ground that neither the common law nor the Sherman Act made unlawful the sale of property by an illegal combination, and that this was an action to enforce contracts of sale which were "collateral" to the illegal arrangement rather than to enforce the illegal arrangement itself.\(^4\)

Three years earlier, in refusing to enforce a partnership contract which involved collusive bids, the Court had emphasized that the reason for refusing to enforce rights arising out of illegal contracts was to discourage such transactions and reduce them to a minimum.\(^5\) Liberal application of that reason might well have led to a different result in this initial case. Certainly, it seems anomalous to rule that parties to an illegal price fixing agreement will be denied judicial aid against a backsliding conspirator but are entitled to judicial aid to enforce the agreed price against their victims. Refusal to aid Sherman Act violators in reaping excessive profits from their victims would be far more effective in promoting the policy of the law than refusal to enforce the price fixing agreement against fellow-conspirators who will voluntarily comply with it while it is profitable. To enforce the "collateral" contract lends the aid of the Court to the law violators in accomplishing the very purpose of their conspiracy and one of the primary evils at which the Sherman Act was aimed—sales at artificially pegged prices.

The Court was not forced by precedent to deny the defense in the Connolly case.\(^6\) In classifying the sale as "collateral" to the illegal transaction and hence enforceable,\(^7\) the Court was invoking a previously recognized but ill-defined limitation on the doctrine that it would enforce no contract in violation of the Sherman Act but found no violation had been proved. Bement v. National Harrow Co., (1902) 186 U. S. 70, 88, 22 S. Ct. 747

\(^4\)See 184 U. S. at 545, 547, 549-51.


\(^6\)The decisions in point were by inferior courts which had permitted recovery for the price of goods or services sold by members of an interstate price fixing combination not violating the Sherman Act. The Charles E. Wisehall, (1898 C.C.A. 2d) 86 Fed. 671; National Distilling Co. v. Cream City Importing Co., (1893) 86 Wis. 352, 56 N. W. 864, cf. Dennehy v. McNulta, (1898 C.C.A. 7th) 86 Fed. 825 (attempt by buyer to recover back part of price from member of illegal combination). A host of such decisions now stem from the Connolly case. See Williston, Contracts § 1661.

\(^7\)Subsequent decisions confirm the conclusion that the "collateral" nature of the sale was the basis for the decision. See Continental Wall Paper Co. v. Voight & Sons Co., (1909) 212 U. S. 227, 261, 29 S. Ct. 280; Wilder Mfg. Co. v. Corn Products Co., (1915) 236 U. S. 165, 172, 35 S. Ct. 398; Small Co. v. Lamborn & Co., (1925) 267 U. S. 248, 252, 45 S. Ct. 300.
fense of illegality. Previous Supreme Court decisions invoking the limitation could easily have been distinguished had the Court chosen to do so. None of them had sustained, as collateral or otherwise, an attempt to enforce “rights” growing out of an illegal transaction against one whom the law was devised to protect, and the absence of this feature had been stressed in one case. None had lent the aid of the Court in the accomplishment of an illegal purpose. None had enforced contracts made in furtherance or aid of an illegal purpose, and one had suggested that such a subsequent collateral contract would not be enforced. The only cases involving attempts to enforce collateral contracts in aid of an illegal purpose or plan had denied relief by finding that such contracts were themselves illegal or contrary to public policy. Cer-

58See e.g. the involved opinion three years earlier in which the earlier cases involving “collateral” transactions were reviewed. McMullen v. Hoffman, (1889) 174 U. S. 639, 19 S. Ct. 839. Even the latest treatise on Contracts still reveals considerable uncertainty as to where the line is to be drawn. See Williston, Contracts § 1752-56.

59The leading case enforced as collateral an agreement to repay funds advanced to procure legal release of goods seized by the government for prior illegal importation by defendant. Armstrong v. Toler, (U.S. 1826) 11 Wheat. 258. The next upheld as collateral an insurance contract on a vessel not legally registered and hence subject to forfeiture to the government. Ocean Insurance Co. v. Polleys, (U.S. 1839) 13 Peters 157. Another upheld an assignment of the amount due on an executed illegal contract, which amount had later been voluntarily paid to the assignor, but suggested that the Court would not enforce a “subsequent collateral contract if made in aid and in furtherance of the execution of” an illegal contract. McBlair v. Gibbes (U.S. 1855) 17 How. 232, 236. A later case required one partner to share with another the proceeds resulting from executed illegal transactions. Brooks v. Martin, (U.S. 1864) 2 Wall 70. The case was questioned and its authority as a precedent limited to its facts in McMullen v. Hoffman (1899) 174 U. S. 639, 668, 19 S. Ct. 839, in which held that one partner, could not recover from another his share of the profits from an executed legal contract because the partners had pretended to submit competitive bids for the contract. See Wade, Restitution of Benefits Acquired Through Illegal Transactions, (1947) 95 U. Pa. L. Rev. 261, 293, indicating that the English predecessors of Brooks v. Martin were discredited prior to the Connolly case. Cf. Planter’s Bank v. Union Bank (U.S. 1873) 16 Wall 483 (an agent making an illegal sale required to account to his principal for the proceeds) But cf. Irvin v. Williar, (1884) 110 U. S. 499, 4 S. Ct. 160; Embrey v. Jemison, (1889) 131 U. S. 336, 9 S. Ct. 776 (broker negotiating sale for future delivery found to be wagering contract cannot recover amount due from principal).

60See Brooks v. Martin, (U.S. 1864) 2 Wall. 70, passim.


62Hanauer v. Doane, (U.S. 1871) 12 Wall. 342 (Sale to contractor known to be purchasing supplies for confederate army). Hanauer v. Woodruff, (U.S. 1873) 15 Wall. 439 (Note in payment for confederate bonds already in circulation) In the latter case the court conceded that the purchase of the bonds was collateral to the illegal issue of the bonds, but held that because the purchase of the bonds gave them “value and currency” and hence advanced the purpose for which they were issued, it “draws to itself the illegality of the original transaction.”
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tantly, then, precedents would have permitted the Court to rule in the Connolly case that it was contrary to public policy to enforce a sale (1) made at a rigged price in execution or aid of an illegal price fixing agreement, (2) against a member of the buying public for whose protection the law was devised, (3) when recovery would aid the law violator to accomplish the very purpose of his illegal agreement.65

The opinion does not make articulate the underlying reasons for the Court's choice to apply the collateral contract doctrine to defeat the defense of illegality. The following reasons are suggested:

(1) Though the defense could have been recognized without doing violence to prior precedents, it would have required an extension beyond prior applications of the doctrine. The Court may well have hesitated to extend the doctrine for the benefit of a buyer who sought a windfall by retaining but not paying for commodities he had purported to buy. Three years earlier it had recognized this unfortunate aspect of the defense of illegality, but had ruled, in effect, that the policy of encouraging compliance with the law by refusing to enforce rights arising out of violations was more important than avoiding incidental benefits to undeserving parties.66 Rejection of the defense here would appear to indicate

65On the premise that "the whole doctrine of avoiding contracts for illegality and immorality is founded on public policy" the Court reasoned in Hannauer v. Doane, supra note 62, that "it is certainly contrary to public policy to give the aid of the courts to a vendor who knows that his goods were purchased . . . for the purpose of being employed in the commission of a criminal act, injurious to society or to any of its members." See 12 Wall at 349. By a similar approach the Court was free to rule that it was contrary to public policy to give the aid of the Court to a vendor who sold his goods in execution and culmination of a criminal price-fixing conspiracy injurious to society and its members, including the buyer. It could have ruled, as in the Hannauer cases, supra note 62, that though the sale at the pegged price was collateral to the illegal price fixing agreement it so defeated the policy of Congress as to be itself contrary to public policy and hence illegal.


67See Continental Wall Paper Co. v. Vought & Sons Co., (1909) 212 U. S. 227, 270-71, 29 S. Ct. 280, considered infra pp. 521-24. Although Mr. Justice Holmes was appointed to the Court after the Connolly case, he was joined in the above expression by Justices Brewer, Peckham and White who had concurred in the Connolly decision. This expression takes on added weight when it is noted that the minority became a majority in the third major case, in which Chief Justice White wrote the opinion. See Wilder Mfg. Co. v. Corn Products Co., (1915) 236 U. S. 163, 35 S. Ct. 398, discussed pp. 524-29 infra. A similar viewpoint was intimated by Mr. Justice Holmes in an earlier opinion joined in by six of the justices who had concurred in the Connolly decision. See Cincinnati Packet Co. v. Bay, (1906) 200 U. S. 179, 185, 26 S. Ct. 208, considered infra pp. 520-21.
that the Court considered the policy of requiring buyers to pay for their purchases more important that the discouragement of anti-trust violations, at least when such discouragement would involve any extension of the common law doctrine of illegality. This philosophy was given expression in Mr. Justice Holmes' dissent against application of the defense in favor of a buyer in 1909:

"the policy of not furthering the purposes of the trust is less important than the policy of preventing people from getting other people's property for nothing when they purport to be buying it."

(2) The Court was cognizant of the direct remedy by recovery of treble damages provided by Congress for victims of anti-trust violators. It may have concluded that such a remedy was adequate to deter violators and protect their victims without the necessity for judicial recognition of a remedy which went beyond the traditional application of the defense of illegality to statutory violations. In a somewhat different form, this consideration was given controlling weight in a later decision.

(3) The Court may possibly have been influenced by the failure of Congress to provide expressly for this defense in favor of a buyer from an illegal combination. The opinion states that a different problem would have been presented had Congress done so, but there is no indication in the opinion or the briefs that the Court was cognizant of the legislative history relating to the defense in Congress. Such history might well be advanced as justification for not extending the defense beyond its traditional common law applications.

(4) The Court may also have been influenced by the undesirability of complicating a simple action on a note or contract with the tremendous volume of collateral evidence often required to establish violation of the anti-trust laws. The defense might thus dwarf the original issue. Nothing in the opinion appears to suggest this reason.

Three years after the Connolly case, the defense was again raised in an action for the purchase price of two river packets. See 184 U. S. at 552. The reference to treble damages was in refusing to permit such damages to be established by way of set-off in this action for the price of goods sold. On this matter see infra note 206.
The contract not only stipulated the price but also provided that the buyer would maintain the rates charged by the seller “above Portsmouth, Ohio.” In a cryptic opinion by Mr. Justice Holmes the Court “assumed” that the agreement related to rates between Ohio points although both parties were engaged in interstate shipping above Portsmouth. It then added that if the agreement had “any indirect bearing on commerce with another state” this would not make the whole agreement void so as to defeat an action for the agreed price. This decision that the “subordinate undertaking” to maintain rates would not make the undertaking to pay the purchase price unlawful takes on added significance in the light of a 1947 decision which reached the opposite conclusion in a closely analogous case. The problem of separating legal from illegal undertakings will be considered in connection with the later case. It is sufficient to notice that in this 1906 decision the Court was admittedly influenced by its desire to “be astute to avoid allowing a party to escape from his just and substantially legal undertaking on such a ground.”

The second major case dealing with this problem was *Continental Wall Paper Co. v. Voight and Sons Co.* This was an action on account brought in the federal Circuit Court for the unpaid balance due on wall paper sold to defendant. The answer alleged substantially the same type of combination involved in the *Comollo* case by which 98% of the wall paper manufacturers pooled their interests to eliminate competition and enhance prices. It added one important factor: the combination, through its instrumentality, the Wall Paper Company, required that all jobbers obtaining wall paper agree to take their entire needs from the combination and to resell only at prices stipulated by the combination. Because he could not obtain wall paper elsewhere, defendant signed such an agreement. The wall paper for which this action was brought was ordered and delivered pursuant to that stock to Northern Securities Company on the ground that property delivered under an illegal contract cannot be recovered back by a party in pari delicto. Harriman v. Northern Securities Co., (1905) 197 U. S. 244, 25 S. Ct. 493.

See 200 U. S. at 185-86.


See 200 U. S. at 185.


This was accomplished by an agreement to buy all requirements from plaintiff up to a specified amount, fixed at twice the jobber’s requirements in the past. See 212 U. S. at 247-8.
agreement at prices named in the agreement and previously fixed by a committee of the manufacturers. Such prices exceeded the fair market value of the wall paper by more than the amount still due and sought to be recovered in this action. This answer was held to state a good defense in a five to four decision.

Mr. Justice Harlan, author of the opinion in the Connolly case, was called upon to distinguish it. This he did on the ground that in the Wall Paper case both plaintiff and defendant were parties to agreements which were essential parts of the illegal conspiracy and the accounts sued on were made out pursuant to those illegal agreements. He reasoned that judgment for the plaintiff would give the aid of the Court in making effective the illegal agreements that constituted the forbidden combination and by means of which the combination proposes to accomplish forbidden ends.

The irony of this distinction is highlighted by the argument in plaintiff’s brief that the Connolly case was controlling because “the defendant was not a member of the trust but a victim of the trust.” Fortunately for the “victim” he was found to be a party to the illegal combination and hence entitled to protection under the anti-trust laws.

For the minority, Mr. Justice Holmes contended that the sales were independent of the illegal agreement between the parties, which only served to establish the price and did not make the sales illegal. He further argued that since under the Connolly decision the victim’s knowledge of the seller’s unlawful purpose and his economic compulsion to buy at an unreasonable price did not relieve him of the duty to pay the price, the mere signing of an illegal agreement under the same compulsion should have no greater effect.

While the controversy took the form of determining whether the contract sued upon was illegal, the opinions revealed that the basic philosophy of the majority and minority differed. As previously indicated, the minority openly stated that it considered the policy of making a buyer pay the agreed price more important.

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77See infra note 85.
78See 212 U. S. at 261.
79See 212 U. S. at 261, 262.
80See Brief for the Petitioner. p. 85. Mr. Justice Holmes, in dissenting, also stresses that defendant was not a party to the plan, but only a victim, and hence should have to pay! See 212 U. S. at 270-71.
81See 212 U. S. at 268-69.
82See 212 U. S. at 270-71.
83See supra p. 520.
than the policy of not furthering the purposes of the trust. On the other hand, the majority stressed the opposing view that a court should not

"... lend its aid, in any way, to a party seeking to realize the fruits of an agreement that appears tainted with illegality, although the result of applying that rule may sometimes be to shield one who has got something for which as between man and man he ought, perhaps, to pay..."

Such expressions, coupled with ambiguous reference to denying court aid to "the execution of the agreements which constituted that illegal combination" suggested that, perhaps, the Court would go beyond this case and refuse to aid in collecting prices determined by illegal agreements between sellers even without an illegal agreement with the buyer, since the latter would be auxiliary only and could hardly be said to "constitute" the illegal combination. Possibly for this reason the minority intimated its fear that the Connolly case was being overruled.

Certainly, the decision did not go that far on its facts, and squared with prior doctrine by limiting the defense to actions attempting to enforce contracts themselves illegal. Nevertheless, it made progress toward protecting the victim of an illegal conspiracy to fix the price. Such a victim could set up violation of the anti-trust laws as a defense if he was fortunate enough to have been required to sign an agreement to buy exclusively from the combination and to maintain resale prices dictated by it. Even though no effort was made to enforce those illegal aspects of the agreement, their presence in the contract was sufficient to defeat an action for the agreed price. Had the agreement to pay the price stood alone, it would have been enforceable under the Connolly

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84 See 212 U. S. at 270-71.
85 See 212 U. S. at 262. Neither opinion noted the practical consideration that the defendant had already paid the "fair market value" of all wall paper purchased so that no element of undeserving windfall to the defendant was actually involved. He had already paid over $144,000 and the amount still due was $56,762.10. See 212 U. S. at 233, 253. Should the defense possibly be available only to prevent recovery of the excess over that which would have been charged had there been no law violation? Such an approach would deny court aid to reap the fruits of illegality but still require a buyer to pay for what he keeps. It would involve no more speculative determinations than those now approved in treble damage actions. Cf. Bigelow v. R. K. O. Radio Pictures, (1946) 327 U. S. 251, 66 S. Ct. 574, Eastman Kodak Co. v. Southern Photo Materials Co., (1927) 273 U. S. 359, 47 S. Ct. 400; Goldman Theatres v. Loew's, (E.D. Pa. 1946) 69 F Supp. 103. The majority of the Court avoided a similar issue in Bruce's Juices v. American Can Co., (1947) 67 S. Ct. 1015 considered infra pp. 542-49.
86 See 212 U. S. at 261, 262.
87 See 212 U. S. at 272.
case, but adding the other illegal elements was enough to make any part of the agreement unenforceable. This, again, involves the problem of separating legal from illegal elements of a contract, and the dissent suggests that the decision is contrary to the conclusion in the Cincinnati Packet case. This aspect of the case will be considered at a later point.

Intervening between the Wall Paper case and the third major decision was a clear-cut holding in the Dr Miles case, in which the rule that an illegal contract would not be enforced was applied to a resale price maintenance contract held to violate the Sherman Act. The Court refused to enjoin the defendant from inducing plaintiff’s dealers to violate their contracts not to sell below agreed prices. Though the defendant was not a party to the contract, the violator was seeking court aid to make the contract effective by enjoining interference with it. Obviously the same result would have been reached had the plaintiff sought to enforce the contract against a dealer. No member of the Court questioned the soundness of recognizing the illegality as a defense, though Mr Justice Holmes dissented to the holding that the contract violated the Sherman Act.

The third major case was Wilder Manufacturing Co. v. Corn Products Co., decided in 1915. That was an action in a state court for the amount due for glucose sold and delivered to defendant. The defendant tried to bring the case within the principle of the Wall Paper case by alleging that the plaintiff, the seller, was a combination of glucose manufacturers, and that the defendant had bought the glucose “in execution of” a contract by which a rebate was to be paid if all glucose requirements were obtained from the plaintiff. It added the further defense that each pur-

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88See supra p. 521.
89See 212 U. S. at 269.
90See infra pp. 539-40. The majority did not mention this factor.
93(1915) 236 U. S. 165, 35 S. Ct. 398.
94See Transcript of Record, p. 21, where counsel used the very words italicized by Mr. Justice Harlan in the Wall Paper case. See 212 U. S. at 261.
95Counsel had to stretch the facts to allege a contract here, as all plaintiff had done was to offer a “profit sharing” rebate on 1906 purchases if the defendant purchased its glucose requirements exclusively from plaintiff
chase contract provided the goods were sold for consumption and not for resale. The Court sustained the state court's action in striking this defense from the answer.

Chief Justice White, writing for a unanimous Court, distinguished the Wall Paper case on the ground that the decision there "was rested exclusively upon the elements of illegality inhering in the particular contract of sale" on which the action was based. On the other hand, he ruled that in the Wilder case the contract for rebate (if any) and the proviso that the glucose was not for resale were "intrinsically legal" and the defendant would not be permitted to establish their illegality by showing their use by an illegal combination to accomplish forbidden results. Then, ostensibly to explain why defendant could not rely upon the illegal purposes and activities of the combination to establish the illegality of the contract, the Chief Justice advanced a new and broad ground for excluding violations of the anti-trust laws as a defense in private actions.

This new ground was the broad ruling that the Sherman Act provided comprehensive remedies for its enforcement and these excluded the right of individuals to enforce the Act or of the Courts to entertain complaints of its violation except by the remedies provided in the act. Two reasons were advanced for this conclusion: (1) The "familiar doctrine" that "where a statute creates a new offense and denounces the penalty, or gives a new right and declares the remedy, the punishment or the remedy can be only that which the statute prescribes." (2) To permit an individual to assert the illegality of a combination in its suit to enforce an otherwise legal right would destroy the powers conferred on the Attorney-General to enforce the Sherman Act and frustrate the remedies it creates.

The first reason had been suggested by Mr. Justice Brewer in...
a separate dissenting opinion in the *Wall Paper* case, in which he would have applied the dogma as an inexorable rule of law. The dogma had taken form in a series of Supreme Court cases involving the National Currency Act where the problems were somewhat analogous to the problem here, but it was not so ironclad as to compel its application in all cases. Indeed, the Court’s discretion to apply or reject the dogma as it saw fit was demonstrated in the Wilder opinion itself which recognized the availability of the defense where the contract itself violated the Act as in the *Wall Paper* case. No particular emphasis was placed upon the doctrine, as it was merely stated in one sentence.

Chief Justice White’s primary emphasis was laid upon his second reason that to permit a private individual to assert such a defense would bring about “destruction of the powers conferred” and “frustration of the remedies” provided by the Sherman Act. This, he says, is “apparent” because the power of the Attorney-General to put an end to the illegal existence of the combination for all purposes, and so to protect the public, is “incompatible”

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103 Prior to the National Currency Act cases the dogma had been announced as follows in denying the right of a depositor to recover his entire deposit in an individual action against a stockholder of a closed bank. Pollard v. Bailey, (U.S. 1875) 20 Wall. 520, 527

A general liability created by statute without a remedy may be enforced by an appropriate common law action. But where the provision for liability is coupled with a provision for a special remedy, that remedy, and that alone, must be employed.

The National Currency Act of 1864 provided that if usurious interest were charged, the entire interest called for by a note would be forfeited, and if usurious interest had been paid, twice the amount of the interest paid could be recovered in an action of debt. (1864) 13 Stat. at L. 99, 108. This was first held not to justify the pleading of usury as a defense to an action for the principal. Farmers’ and Mechanics Nat. Bank v. Dearing, (1875) 91 U. S. 29; cf. Oates v. National Bank, (1880) 100 U. S. 239. Later, on the same theory, the statute was held not to authorize pleading by way of set-off that the usurious interest already paid exceeded the amount due on the principal, instead, double damages must be recovered by a special action of debt brought under the statute. Barnet v. National Bank, (1879) 98 U. S. 555.

104 See Stewart v. Baltimore & O. R. R., (1897) 168 U. S. 445, 18 S. Ct. 105; Tenn. Coal, Iron and R. R. Co. v. George, (1914) 233 U. S. 354, 34 S. Ct. 587, cf. United States v. Babcock, (1919) 250 U. S. 328, 331, 39 S. Ct. 464. In the Stewart case Mr. Justice Brewer wrote the opinion ruling that the doctrine should not be applied to prevent the personal representative of the deceased, killed in Maryland, from bringing an action in the District of Columbia on a Maryland wrongful death statute which provided that such actions must be brought by and in the name of the state of Maryland.

105 See 236 U. S. at 172, 177

106 See 236 U. S. at 175.
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with the power of the individual to assert the combination's illegal existence. But the latter power would not destroy the former. The mere failure in the private action to enjoin further activities of the combination would not, as the Chief Justice suggests, put the combination in "possession of authority to violate the law" or purge it of its illegal character. The expressly authorized treble damage action would have the same identical effect, or lack of effect, on the Attorney-General's powers as would application of the defense. Nor could recognition of the defense in the state courts "defeat the jurisdiction" of the federal courts to enforce the law, as suggested by the Chief Justice. The Attorney-General could still proceed in the federal courts with all public remedies against an offender regardless of the outcome of an action for the price of goods sold by the offending corporation.

Despite this obscure reasoning, it is clear that the Chief Justice here gave expression with characteristic vigor to a conviction that the public aspects of anti-trust enforcement are the important ones and that the Court should confine private enforcement to the statutory remedies. Possibly he was thinking of the danger of clogging the federal courts with anti-trust trials which would accomplish no useful purpose, but he does not say so. He may have visualized abundant confusion if state courts were permitted to interpret the anti-trust laws, but the reasons he gave barred the defense in federal as well as state courts. Possibly he believed that trial of anti-trust violation in a private suit might occasionally handicap the Department of Justice in a pending or planned action it was not yet ready to try. This objection is hardly valid, however, in view of the express authority for private treble damage actions and private actions for injunction without prior consent by the Attorney General.107

It seems more likely that the key to this muddy but far-reaching paragraph is found at the very end. There the Chief Justice concludes that

107 The private remedy by injunction was added by Section 16 of the Clayton Act in 1914. See (1914) 38 Stat. at L. 737, (1940) 15 U. S. C. § 26. While this was not in effect at the time of the lower court decision, it would seem proper for the Court to consider it in weighing the future effect of a contemplated decision.

108 Not only did this case settle the limits of the defense of anti-trust violation for over 25 years, but this paragraph also established for other purposes the doctrine that the remedies provided by the Anti-Trust Acts are exclusive. See, e.g., Geddes v. Anaconda Copper Mining Co., (1921) 254 U. S. 590, 593, 41 S. Ct. 209; General Investment Co. v. Lake Shore & M. S. Ry., (1922) 260 U. S. 261, 286, 43 S. Ct. 106; United States v. Cooper Corp., (1941) 312 U. S. 600, 604, 61 S. Ct. 742.
the possibility of the wrong to be brought about by allowing the property to be obtained under a contract of sale without enforcing the duty to pay for it, not upon the ground of the illegality of the contract of sale but of the illegal organization of the seller, may have operated to confine the right to question the legal existence of the corporation or combination to public authority sanctioned by the sense of public responsibility and not to leave it to individual action prompted it may be by purely selfish motives."

Here, again, emerges the conflict between encouraging compliance with the anti-trust laws by denying court aid in reaping fruits of violation as against preventing rascals from escaping their obligations to pay for what they have bought.110 Here, where the sales contract itself is found to be legal, the latter consideration is held to be controlling, but only one of the judges who had found the former consideration controlling in the Wall Paper case were still on the Court.111

Reverting to the considerations suggested in connection with the Connolly case as possible reasons for limiting the defense,112 we find the first two emerging as important factors in the Wilder case

(1) The Court expressly emphasizes the undesirability of a windfall to the buyer and indicates that such windfalls will be confined to cases where the contract itself is illegal.

(2) The Court takes the position that the remedies expressly provided by Congress are adequate and exclusive, although the opinion appears to recognize an exception to this rule where the contract itself violates the anti-trust laws.

(3) There is no suggestion that the Court was cognizant of the legislative history indicating Congressional lack of enthusiasm for the defense,113 though the passage last quoted appears to indicate that the Chief Justice suspected the defense may have been deliberately omitted from the Act.114 Had this point been pursued, the Court might have found support for its decision in the failure of Congress to incorporate the defense in the Clayton Act in 1914 after the Court had limited the defense to contracts themselves illegal.115

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109See 236 U. S. at 176.
110See supra pp. 522-23.
111Of the majority deciding the Wall Paper case only Mr. Justice Day remained.
112See supra pp. 519-20.
113See supra pp. 508-12.
114The Chief Justice here was obviously referring to sanctions provided in the Sherman Act.
115See supra pp. 511, 516-17. It should be remembered, however, that the last decision prior to the adoption of the Clayton Act was the Wall Paper case.
(4) There is no open recognition of the undesirability of a mass of collateral evidence relating to anti-trust violations in a simple suit on a contract. However, appreciation of this factor may possibly be indicated by the very ruling itself which confines the defense to contracts inherently illegal and excludes consideration of collateral conspiracies and improper use of contracts to demonstrate their illegality.\footnote{It is only where the invalidity is inherent in the contract that the Act may be interposed as a defense. With that exception the remedies which the Act provides for violations of it are exclusive.\footnote{Sola Elec. Co. v. Jefferson Co., (1942) 317 U. S. 173, 63 S. Ct. 172; Katzinger Co. v. Chicago Metallic Mfg. Co., (1947) 67 S. Ct. 416; MacGregor v. Westinghouse Elec. & Mfg. Co., (1947) 67 S. Ct. 421. These cases are considered infra pp. 531-41.}}

Whatever may have motivated the Court, its decision in the Wilder case made it plain that the broader implications of the Wall Paper opinion would not be followed and the defense would be confined to contracts themselves illegal. Indeed, the exclusive remedies reasoning in the Wilder opinion suggested to some that possibly the Wall Paper and Dr. Miles cases would be considered overruled and the defense not recognized in any case.\footnote{Whether this limitation may possibly go so far as to deny the defense unless the contract in invalid on its face is considered infra pp. 540-41.}

This possibility seemed foreclosed when the Court applied the defense to defeat a resale price maintenance contract in 1918\footnote{Boston Store v. American Graphophone Co., (1918) 246 U. S. 8, 38 S. Ct. 257 (applied Dr. Miles ruling to patented product).} and a contract violating Section 3 of the Clayton Act in 1922.\footnote{Standard Fashion Co. v. Magrane-Houston Co., (1922) 258 U. S. 346, 42 S. Ct. 257.}

While neither opinion cited the Wilder case, or referred to the exclusive remedy doctrine, the possible conflict was reconciled as follows in 1925:

"It is only where the invalidity is inherent in the contract that the Act may be interposed as a defense. With that exception the remedies which the Act provides for violations of it are exclusive.\footnote{See supra p. 523.}"

Since that date the Supreme Court has applied the defense on three occasions to contracts violating the anti-trust laws.\footnote{See Small Co. v. Lamborn & Co., (1925) 267 U. S. 248, 45 S. Ct. 300.}

Doctrinally, Small Co. v. Lamborn & Co.\footnote{This was dictum, as the contract involved was found to be collateral to the illegality.} was simply another case enforcing a collateral contract made by a member of an illegal price-fixing combination with a stranger to the combination. Practically, it was distinguishable from the Wilder and Connolly cases which had intimated the defense might be given a much broader scope than first indicated in the Connolly case. See supra p. 523.\footnote{Sola Elec. Co. v. Jefferson Co., (1942) 317 U. S. 173, 63 S. Ct. 172; Katzinger Co. v. Chicago Metallic Mfg. Co., (1947) 67 S. Ct. 416; MacGregor v. Westinghouse Elec. & Mfg. Co., (1947) 67 S. Ct. 421. These cases are considered infra pp. 531-41.}
on the ground that defendant was not seeking to retain a product without paying for it. In an action for breach of contract, plaintiff sought to recover the difference between the contract price and the price he had obtained on the market for sugar defendant had refused to accept. In answer, defendant alleged that plaintiff entered into a combination with others to create a false appearance of a sugar shortage and to sell at an excessive agreed price. Defendant, misled by the conspiracy, contracted to buy sugar at that excessive price and paid for all sugar it accepted, but refused to accept the undelivered balance after the true market conditions were known and market prices had dropped. The Supreme Court affirmed a federal district court order sustaining a demurrer to this defense.

In the Supreme Court, counsel for defendant urged that plaintiff should be denied judicial aid in its efforts to reap the fruits of its illegal price-fixing agreement since the “undelivered part of the contracts is wholly executory and defendant has received nothing” In rejecting the defense, the Court did not even advert to this argument. Instead, it reasoned that the contracts to purchase sugar were not “in themselves invalid under the Anti-Trust Act, but only * * * collateral to a combination prohibited by it.” and hence were enforceable under the doctrine of the Connolly and Wilder cases. Apparently to distinguish the Wall Paper decision, the Court added that defendant was not a party to the illegal combination and had purchased the sugar without any restrictions on his right to resell it.

This series of cases appears, then, to culminate in a strictly formal rule which confines the defense to cases in which the plaintiff seeks to enforce the contract against a party to the conspiracy So long as defendant is only a victim, with no obligations to the conspirators except to pay the illegally enhanced price, the seller can invoke the aid of the court to enforce his unwarranted profit even though his victim refuses to accept delivery upon learning of the conspiracy Necessarily, this last decision appears to negative any significance which might be attached to the weight given in the Wilder opinion and the strong dissent in the

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123The defense is summarized very briefly in the opinion. For a more detailed statement of the defense see Transcript of Record, pp. 9, 29-30.
124See Brief for Plaintiff In Error, p. 10.
125See 267 U. S. at 252.
126Reference to the absence of restrictions on the defendant’s right to resell as it might choose implies that the Court considered the defense still available to a minor party to the conspiracy, such as a buyer who agrees to maintain resale prices dictated by the combination. But see Sinclair Ref. Co. v. Wilson Gas & Oil Co., (W.D. S.C. 1931) 52 F (2d) 974, 975 (defense available between major parties to conspiracy only)
Wall Paper case to the injustice of permitting a buyer to retain his purchase without paying for it. Instead, by its cryptic conclusion that except where the "invalidity is inherent in the contract" the remedies provided by the act "are exclusive," the Small Co. opinion appears to rest this line of cases on the second consideration mentioned above—the adequacy and exclusiveness of the express remedies provided by Congress.

From 1925 to 1942 violation of the anti-trust laws was not raised as a defense in any Supreme Court decision. The exclusive remedy doctrine and the collateral contract rule appeared to have set at rest most uncertainties concerning the scope of the defense, though its repeated and usually futile assertion in the lower federal courts might be thought to reflect basic dissatisfaction with the narrow limits within which it had been confined. In 1942 two decisions, one on patent infringement and the other on a patent licensing agreement, gave new life to the defense.

_Sola Electric Co. v. Jefferson Co._ was an action by the holder

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127 Cf. supra pp. 520, 522-23, 528.
128 See 267 U. S. at 252.
129 See supra pp. 520, 528.

of a patent against a licensee authorized to manufacture and sell transformers covered by the patent. The owner sought to collect unpaid royalties and to enjoin violation of a provision by which the licensee agreed not to sell the transformers for less than the prices prescribed by the patent holder. Such a price agreement by a manufacturing licensee was lawful under accepted doctrine, but defendant pleaded that the patent was invalid and hence the price agreement violated the Sherman Act and was not enforceable. The lower courts ruled that having accepted a license under the patent, the licensee was estopped to deny its validity.

The Supreme Court reversed those decisions and ruled unanimously that the traditional estoppel rule must yield to the policy of the Sherman Act which "in the public interest precludes the enforcement of such unlawful agreements." Therefore, the licensee could assert the illegality of the price fixing agreement, and "may offer any competent evidence to establish its illegality, including proof of the invalidity of the patent." In its opinion the Court stated the holding in the Wall Paper case with apparent approval. The implications of the Sola decision are best considered in connection with two 1947 cases which carried the defense of illegality one step beyond the explicit ruling in the Sola case to defeat actions for royalties because the licenses also called for price fixing.

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183 Bement v National Harrow Co., (1902) 186 U. S. 70, 22 S. Ct. 747, United States v. General Electric Co., (1926) 272 U. S. 476, 47 S. Ct. 192. For a discussion of the limitations and possibly uncertain future of this doctrine see Steffen, Invalid Patents and Price Control, (1946) 56 Yale L. J. 1, 2-6. The Department of Justice has urged the Court, when necessary, to overrule the Bement and General Electric cases and eliminate all patentee control over a licensee's selling price. See Brief for the United States, pp. 44-61, United States v. Univis Lens Co., (1942) 316 U. S. 241, 62 S. Ct. 1088. The Court did not find occasion to pass on this question. See 316 U. S. at 252. Early in 1947 the Bement and General Electric cases were approved by four dissenting justices in an opinion by Mr. Justice Frankfurter who took pains to point out that Mr. Justice Brandeis, alert though he was to prevent "undue extension of the patent monopoly," had participated in and subsequently cited with approval the General Electric decision. See MacGregor v. Westinghouse Elec. and Mfg. Co., (U.S. 1947) 67 S. Ct. 421, 426-27, considered infra pp. 533-41. Such pains on a point admittedly not questioned in the case suggests possible fortification against a future attack on the outcome of which no great assurance was felt.

184 Ever since 1856 the Supreme Court had assumed that a licensee could not challenge the validity of a patent. See e.g., Kinsman v Parkhurst, (U.S. 1856) 18 How. 289, 293, United States v. Harvey Steel Co., (1905) 196 U. S. 310, 317, 25 S. Ct. 240. A "* * * weighty body of cases affirmed and applied that doctrine with rare unanimity," as did also the authors on patent law. See dissenting opinion of Mr. Justice Frankfurter in MacGregor v. Westinghouse Elec. & Mfg. Co., (1947) 67 S. Ct. 421, 424, where the authorities are summarized.

185 See 317 U. S. at 177.
Both the Katzinger\footnote{Katzinger Co. v. Chicago Metallic Mfg. Co., (1947) 67 S. Ct. 416.} and the MacGregor\footnote{MacGregor v. Westinghouse Elec. & Mfg. Co., (1947) 67 S. Ct. 421.} cases were actions by patent holders against licensees to collect royalties for products manufactured pursuant to licensing agreements. In both cases the license agreement contained a price fixing provision but in neither case did the plaintiff seek to enforce that provision.\footnote{In the Katzinger case there was no possibility that the provision would have future effect, for the entire license agreement had been terminated, and the action was to recover royalties for items manufactured prior to its termination. See 67 S. Ct. at 418, 420.} In each case the defendant contended that the patent was invalid, making the price fixing provision illegal, which, it was claimed, made the entire licensing agreement illegal and unenforceable. In the lower courts, opposite results were reached in the two cases because of opposing views as to the severability of the price fixing from the royalty provisions.\footnote{See 67 S. Ct. at 419, 423.} Having granted certiorari because of the conflict, the Supreme Court sustained the defense in both cases by five to four decisions.

The Court's reasoning\footnote{The Court's reasons appear primarily in the Katzinger opinion, on the authority of which the MacGregor case was decided the same day. The following page references relate to the Katzinger opinion except as indicated. A single dissenting opinion was written appearing under the caption of both cases. See 67 S. Ct. 424.} may be outlined as follows

1. The Sola case held that rules of estoppel cannot screen price fixing agreements from court scrutiny, and in the public interest the federal courts must keep the way open to challenge the validity of patents utilized for price fixing.\footnote{See 67 S. Ct. at 419. This ruling was applied in the Katzinger case despite an express agreement not to contest the validity of the patent.}

2. The Sola case further held that in case the patent were found invalid, neither the price fixing nor the royalty agreements could be enforced.\footnote{See 67 S. Ct. 419-20. The minority protested strongly against this interpretation of the Sola case, urging that though a claim for royalties was made in the case the sole issue to which the Court's attention was directed, and which it decided, was the enforceability of the price-fixing provisions. See 67 S. Ct. at 425. Since the majority also ruled independently and explicitly on the separability issue in the Katzinger and MacGregor cases, this conflict on the inferences to be drawn on the royalty issue from the Sola decision appears to warrant no further consideration.}

3. Had the Sola case left open the severability of the royalty from the price fixing agreement we would again arrive at the same conclusion,\footnote{See 67 S. Ct. at 420.} and "we hold that the covenant to pay..."
royalties was not severable from the covenant to sell at fixed prices.\textsuperscript{144}

It should be noted that the reason for refusing to enforce the royalty provision was not the invalidity of the patent, and hence the absence of any basis for a royalty. No such argument was suggested, and there was no intimation in the majority opinions that in the absence of price-fixing provisions the licensee could escape his obligation to pay royalties by challenging the validity of the patent. Instead, the decisions were based squarely on the ground that the royalty provisions were unenforceable because inseparable from the illegal price-fixing provisions.

In the dissenting opinion by Mr. Justice Frankfurter, the minority of four seemed primarily concerned with the inroads made on the ninety-year-old doctrine that a licensee under a patent is estopped from challenging its validity. In the \textit{Sola} case the Court had unanimously approved an exception to that doctrine when the issue was enforcement of a price-fixing provision which violated the Sherman Act if the patent were invalid, but the dissenters could not agree that the same considerations required denial of the estoppel doctrine when the only issue was collection of royalties. Only in a footnote are any doubts raised about the severability ruling of the majority,\textsuperscript{145} for the minority’s objections went deeper than that, indicating fear that the estoppel doctrine may have been “deprived of life” without being given a “decent public burial.”\textsuperscript{146}

These three license agreement decisions appear significant in the following respects bearing on the future scope of the defense:

(1) The ruling on severability is more strict than the usual approach to contracts containing legal and illegal elements, and appears to reveal an inclination to use the defense as a sanction to discourage anti-trust violations, even though the particular relief sought could be given without aiding the viola-

\textsuperscript{144} See 67 S. Ct. at 423 (MacGregor opinion)

\textsuperscript{145} See 67 S. Ct. at 427, n. 6.

\textsuperscript{146} See 67 S. Ct. at 427-28. Compare Mr. Justice Frankfurter’s vigorous dissent in Scott Paper Co. v. Marcalus Co., (1945) 326 U. S. 249, 258-64, 66 S. Ct. 101, in which the Court made inroads on the analogous doctrine estopping an assignor from challenging a patent to the detriment of his assignee. Repeated citation of the Scott Paper case in the majority opinions, plus reliance upon that case as demonstrating a public interest in keeping the competitive economy free from invalid patents (See 67 S. Ct. at 420), may have stimulated the minority’s doubt as to whether “the doctrine of estoppel has or has not survived.” See 67 S. Ct. at 427, Note (1947) 47 Col. L. Rev. 477
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1. This may foreshadow further limitations on the exclusive remedy doctrine.

2. In its practical aspects, this ruling broadens the possible scope of the defense as applied to contracts containing elements which violated the anti-trust laws.

3. The decisions negative any possible implication of the Wilder case that the defense might be confined to contracts invalid on their face.

(1) The formal reason given for holding the royalty provisions not severable from the price fixing provisions of the license agreement was far from compelling.

"Metallic's obligation to pay the royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of the law, its integrated companion must go with it. See Hazelton v. Sheckells, 202 U. S. 71, 26 S. Ct. 567."

The rule stated by the Court would be properly applied to an executory contract in which A has agreed to perform a legal act in exchange for two acts by B, one legal and the other illegal. In such a case A is not obligated to perform because the full consideration for which he bargained cannot be furnished, nor is B obligated to perform, since he cannot rely upon A's performance. That was the situation involved in the Hazelton case, the only authority cited by the Court on this point. But the usual rule is otherwise where, as here, the contract is fully executed on its legal side and B has promised in exchange two acts, one legal, the other illegal. The full legal consideration having already been furnished by A, whether on a unilateral contract or a bilateral contract fully performed on its legal side, A is entitled to insist upon performance of the legal consideration by B even though he may not require the illegal. Not only had the Supreme Court previously recognized the enforceability of the legal consideration when the full

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147 See 67 S. Ct. at 420.
148 See Williston, Contracts § 1782; Restatement, Contracts § 607, comment a; Note (1934) 33 Mich. L. Rev. 278, 282, 283.
149 Hazelton v. Sheckells, (1906) 202 U. S. 71, 26 S. Ct. 567. There A agreed to sell property to B in consideration of (a) $9000 and (b) illegal services in influencing Congressional action. It was held that B could not enforce the contract by compelling a conveyance by A, though he had rendered the illegal services and tendered the $9,000.
150 See Williston, Contracts § 1779, 1782; Restatement, Contracts (1932) § 607, Comment a; Note (1934) 33 Mich. L. Rev. 278, 284; Rogers, Void, Illegal or Unenforceable Consideration, (1908) 17 Yale L. J. 338, 348-44.
consideration on the other side had been furnished, \textsuperscript{151} but in the \textit{Cincinnati Packet} case had actually reached that result in a case involving an alleged Sherman Act violation and quite analogous on this issue to the \textit{Katzinger} and \textit{MacGregor} cases. \textsuperscript{152}

The \textit{Cincinnati Packet} case, and the usual rule applied to contracts partially invalid on one side but fully performed on the legal side, made readily available to the Court a doctrine by which it could easily have held the royalty provisions severable from the price provisions had it desired that result. On the other hand, such a result was not compelled by the authorities, for the normal rules as to severability had previously yielded to considerations of public interest where denial of all relief under the contract would promote a public policy of greater importance than enforcement of private rights. \textsuperscript{153} Thus, the courts had ruled that where the contract required conduct malum in se or grossly immoral, \textsuperscript{4} or where the entire contract was for an illegal purpose \textsuperscript{155} though embodying


\textsuperscript{152}Cincinnati Packet Co. v. Bay, (1906) 200 U. S. 179, 26 S. Ct. 208, considered supra pp. 520-21. In the Cincinnati Packet case defendant had received full performance from plaintiff, he had the ships. In the Katzinger and MacGregor cases, defendants had received full performance from plaintiffs, pursuant to the patent they had manufactured products for which royalties were sought. In the former case plaintiff sought the agreed price only, making no effort to enforce the rate agreement claimed to violate the Sherman Act. In these later cases, plaintiffs sought the agreed royalty only, making no effort to enforce the price agreements. In the Cincinnati Packet case the Court questioned whether the Sherman Act was involved, but ruled that even if interstate commerce were involved the illegality of the rate agreement would not defeat an action for the price. While the opinion is cryptic, the viewpoint of the court is reflected by the citation of Pigots Case, (1614) 11 Co. Rep. 26b, 77 Eng. Repr. 1177, the leading case on severability, and Oregon Steam Navigation Co. v. Winsor, (U.S. 1873) 20 Wall. 64, a leading Supreme Court case on the severability of legal from illegal provisions in restraint of trade where ancillary to a sale.

\textsuperscript{153}See Note (1934) 33 Mich. L. Rev. 278, 279-82.


some legal elements, such illegality tainted the entire contract so as to make it unenforceable though formally severable.156

Whether that qualification on formal severability rules should apply to violation of the anti-trust laws was an open question. The Cincinnati Packet case had considered a rate-fixing violation, if any, severable from an agreement to pay the price, and had stressed the importance of the private obligations of the parties. The Wall Paper case, on the other hand, had defeated an action for the price of goods sold when the contract had provided for resale price maintenance and exclusive dealing and had stressed the deterrent effect of defeating recovery. But the Wall Paper opinion had not considered the severability issue, and was easily distinguishable on the ground that the entire sales contract had for its object the accomplishment of an illegal plan to acquire a monopoly.157 When the main purpose was legal, lower courts had usually held contract provisions violating state158 and federal159 anti-trust laws severable from legal provisions, and this was the prevailing view on contracts in restraint of trade at common law.160 Therefore, the Court was free in this case to choose between enforcing private legal rights, or refusing to do so as a sanction to enforce compliance with the anti-trust policy against price restrictions. It chose the latter course.

After stating the vulnerable formal rule quote above, the Court gave its real reason for the result reached

"Moreover, solicitude for the interest of the public fostered

156 See Williston, Contracts § 1779; Note (1934) 33 Mich. L. Rev. 278, 280; Rogers, supra note 338.

157 See 212 U. S. at 261. Cf. cases cited supra note 155.


160 Oregon Steam Navigation Co. v. Winsor, (U.S. 1873) 20 Wall. 64 (contract not to compete); Rawleigh Medical Co. v. Walker, (1917) 16 Ala. App. 232, 77 So. 70 (resale price maintenance and exclusive dealing contract held not to bar action for price), see Williston, Contracts, § 1659, 1660.
by freedom from invalid patents and from restraints of trade, which has been manifested by the line of decisions of which the Scott Paper Co. and the Sola case are two of the latest examples, requires that there be no departure from the guiding principles they announced.\textsuperscript{161}

This reason is incomplete without the Court's previous explanation of the policy back of the Sola case. After pointing out that had Chief Justice Stone intended to restrict the Sola holding to the price provisions only, he would have indicated in the opinion or mandate that they were severable from the royalty provisions, the Court added

"That decision, instead of resting on such a narrow procedural base, was firmly grounded upon the broad public interest in freeing our competitive economy from trade restraints which might be imposed by price-fixing agreements stemming from narrow or invalid patents."\textsuperscript{162}

Read in relation to the point at issue, severability of royalty from price-fixing provisions, such language can only mean that the public interest in freedom of competition from price-fixing arrangements, at least in the case of invalid patents, requires that the royalty provisions be condemned also as a form of sanction to enforce the policy against price restraints. This understanding of the opinion is born out by its subsequent reference to defendant's challenge of the patent as "a service to the public interest," thus justifying the defense even though defendant first suggested the price restriction.\textsuperscript{163}

This renewed emphasis on enforcing anti-trust policy by the defense of illegality raises some question as to the future of the exclusive remedy dogma as an inexorable rule.\textsuperscript{164} While these cases can technically be brought within the exception to that rule as involving contracts themselves illegal, the court's expressed purpose to defeat enforcement of the legal portions of the contract "as a service to the public interest" in freeing our competitive economy from trade restraints imposed by plaintiff\textsuperscript{165} seems at war with the basis for the exclusive remedy doctrine. These decisions take on added significance in this regard when considered in connection with another line of cases,\textsuperscript{166} originating also in 1942, recognizing violation of the anti-trust laws as a defense in patent

\textsuperscript{161}See 67 S. Ct. 420.
\textsuperscript{162}Ibid.
\textsuperscript{163}Ibid.
\textsuperscript{164}See infra pp. 543, 548.
\textsuperscript{165}See 67 S. Ct. at 420.
\textsuperscript{166}See infra pp. 552-63.
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infringement actions. Together, these two lines of cases may foreshadow further limitations on the exclusive remedy doctrine.

(2)

The same considerations which dictated the results in the Katzinger and MacGregor cases would seem to apply likewise to contracts containing price restrictions not tied to patents. The policy against price-fixing is at least as great where there is no patent as where an invalid patent is claimed, in the former situation the possible justification of a good faith attempt to protect a patent is entirely absent. Though the Katzinger opinion mentions the interest in freedom from invalid patents, it contains no intimation of a more charitable viewpoint where no patent is claimed. The opinion stresses the public interest in "freedom from invalid patents and from restraints of trade" as manifested by a "line of decisions" of which the Scott Paper Co. and Sola cases "are two of the latest examples." But the Sola case was the first to involve price-fixing supported by an invalid patent; hence, the prior cases referred to must have been those relating to price fixing alone. Of these the Wall Paper case was the primary example dealing with illegality as a defense. The Sola opinion relied upon and restated the Wall Paper holding to support its ruling on the defense issue. This subsequent reliance in the Katzinger opinion on the "line of decisions" represented by the Sola case would appear to suggest further endorsement of the Wall Paper decision denying recovery of the price of goods when the contract contained price fixing and exclusive dealing provisions violating the Sherman Act.

The broader question is whether in the light of the Katzinger, MacGregor, Sola and Wall Paper cases the Court may now be expected to defeat an action for the price of goods sold, or for breach of a contract to buy goods or some other perfectly legal provision in a contract, when the contract also contains a price maintenance provision violating the Sherman Act, or an exclusive dealing or tying clause violating Section 3 of the Clayton Act, or some other violation of the anti-trust laws. The formal approach taken by the Court in the Katzinger opinion would, if

167 See 67 S. Ct. at 420 (italics supplied).
168 See 317 U. S. at 177
followed, lead to the conclusion that the agreement to pay a certain price for goods and the agreement to resell the goods at a fixed price constitute an "integrated consideration," requiring that if the latter is illegal "its integrated companion must go with it." Granting that such formalism is not usually applied when the legal side of the contract has been fully executed and may be retracted in later cases, the policy consideration stressed in the Katzinger opinion appears to apply with equal force to any contract containing an illegal provision of such a nature as to constitute a serious threat to competition. If it chose to do so, the Court could distinguish the Katzinger and MacGregor cases as based on the additional evils of monopoly under invalid patents as well as on the evils of price control, and distinguish the Wall Paper case as involving a contract having monopoly as its principal object. Yet those distinguishing features are simply matters of degree, and the same principle would seem controlling whenever the public interest in preserving effective competition from the particular evil outweighs the interest in enforcement of the related private rights of anti-trust violators. The significance of these recent cases lies in the greater weight the Court now appears to be attaching to enforcement of the anti-trust policy

(3)

While in none of these three cases does the Court depart from the requirement that the contract itself must be illegal, it does permit the defendant to establish by extrinsic evidence the illegality of a contract legal on its face. Thus a slightly broader meaning was given to the Wilder and Small Co. requirement that the anti-trust violation must be "inherent in the contract" than might have been given had the Court not been sympathetic to the defense.

In all of the cases theretofore applying the defense to anti-trust violations the illegality had actually appeared in the contract itself. After the Wilder and Small Co. decisions, two

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170 See 67 S. Ct. at 420.
171 See supra pp. 535-36.
172 See supra pp. 525, 529.
173 In all but the Wall Paper case the illegality not only appeared in the contracts, but was the very clause vainly relied upon by plaintiffs to establish their case. Dr. Miles Medical Co. v. Park & Sons Co., (1911) 220 U. S. 373, 31 S. Ct. 376, considered supra p. 524; Boston Store v. American Graphophone Co., (1918) 246 U. S. 8, 38 S. Ct. 257, cited supra p. 529; Standard Fashion Co. v. Magrane-Houston Co., (1922) 258 U. S. 346, 42 S. Ct. 360, cited supra p. 529. In the Wall Paper case the sales and unpaid accounts relied upon by plaintiff were alleged by defendant to have been made pursuant to a contract which on its face called for illegal resale price maintenance. See supra p. 521.
lower courts denied the defense by stressing the absence of illegality on the face of the contract though they did not explicitly indicate that the defense required the contract itself to reveal the illegality.\textsuperscript{174} To so require would be contrary to several earlier Supreme Court cases not involving the anti-trust laws which applied the defense of illegality though the illegality appeared neither on the face of the contract nor in plaintiff's proof of his case.\textsuperscript{175} The reference in the \textit{Connolly} opinion to plaintiff's ability to prove his case without the illegality appearing was directed to demonstrate the collateral nature of the illegality,\textsuperscript{176} not the necessity that it must appear as a part of plaintiff's case to constitute a defense. Plaintiff's inability to prove his case without showing illegality would seem sound as one affirmative test to establish the defense, but his ability to prove his case without such showing is not dependable as a negative test to defeat the defense.\textsuperscript{177} There is a vast difference between barring plaintiff because he has revealed illegality in proving his case, and refusing to permit defendant to show that a contract valid on its face is, in fact, illegal due to extrinsic facts not appearing in the contract.

Any doubts on this score should have been put to rest by the \textit{Sola}, \textit{Katzinger} and \textit{Westinghouse} cases. In each case the license contract requiring a manufacturing licensee to sell the patented product at prices stipulated by the patentee was perfectly valid on its face, but the Court permitted the illegality to be shown by going outside the contract to prove the invalidity of the patent.\textsuperscript{178} Surely the same result will be reached when the invalidity of the contract can be shown by other extraneous facts, such as a showing that a resale price maintenance contract apparently valid under the Miller-Tydings amendment is actually invalid because the price has been dictated to the producer by a horizontal combination of distributors.\textsuperscript{179} To hold otherwise would sacrifice substance


\textsuperscript{176}See 184 U.S. at 549.

\textsuperscript{177}See Williston, Contracts § 1753.

to form, and offer an easy method to avoid this defense by careful

The Supreme Court's latest word on this defense appears in a
five to four decision in an action begun in a Florida state court
for the price of cans sold by American Can Company to Bruce's
Juices, Inc.\footnote{Ibid. The four dissenting justices in the Katzinger and Westinghouse
cases were joined by Chief Justice Vinson to make up a majority.} There the majority refused to recognize as a de-
discriminatory prices favoring defendant's competitors. Testimony
at a pre-trial hearing revealed that during a five year period de-
fendant had paid plaintiff some $2,000,000 for cans and that the
$114,000 renewal notes on which the action was based represented
the unpaid balance and were not identified with any particular
transactions. The alleged discrimination resulted from quantity
discounts available on equal terms to all buying the required
quantities.\footnote{Quantity discounts available to all on equal terms do not necessarily
reflect only the "due allowance" authorized by the act for differences in
cost resulting from different quantities. See ibid.} The trial court found that the defense was not avail-
able as a matter of law and entered judgment for the plaintiffs
without any trial on the merits of the defense. This was affirmed
by the Florida Supreme Court.\footnote{Bruce's Juices v. American Can Co., (1945) 155 Fla. 877, 22 S. (2d)
461.}

In the United States Supreme Court two alternative grounds
were urged on appeal (1) Such illegality is a complete defense
to any action for the sales price. (2) Such illegality is a defense
to so much of the notes as represents the illegal price differential,
and determination of the amount due on this theory should be left
to a trial on the merits. The majority opinion took the position
that the second alternative could not be established on the facts
since the notes were not identified with any particular transac-
tion,\footnote{See 67 S. Ct. at 1017-18.} and much of its opinion on the legal issue seemed directed
directly only to whether illegal discrimination, if established, would con-
stitute a complete defense to an action for the purchase price. Its
answer was "No." The minority opinion took the position that
the defendant should have been given the opportunity to prove its
second alternative,\footnote{See 67 S. Ct. at 1022-25.} and considered only whether illegal dis-
crimination should bar an action to recover that portion of the
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purchase price representing the discrimination. Its answer was "Yes." Thus the two opinions do not quite come to grips with the same legal issue, and the considerations urged in one opinion are in some instances not relevant to the issue considered in the other.

This much is clear. The majority decided, without equivocation, that discriminatory pricing in violation of the Robinson Patman Act is not a complete defense to an action for the purchase price. On this point no dissent is expressed, hence, this may be considered fairly well settled despite the five to four decision. The remaining problem is whether, in a case squarely presenting the issue, a purchaser may avoid liability for so much of the purchase price as represents the illegal differential. The rationale of majority opinion points toward a negative answer.

The majority bases its decision primarily upon its conclusion that in the Robinson-Patman Act Congress provided remedies which were adequate and exclusive, but the exclusive remedy dogma was not invoked as a rule of law. Instead, the opinion considered the precise statute before the Court and advanced several related reasons for its conclusion that no judicial remedy should be added to those provided by Congress.

Pointing out that the "only sanctions provided by Congress" were treble damages to redress private injury and criminal proceedings to vindicate the public interest, the Court urged that uncollectibility of the purchase price was apparently never considered by Congress despite its obvious effectiveness as a sanction. Instead Congress "declined to adopt" a much less drastic sanction to "compel the remission of the excess charged," and "at no time does it appear that either house wanted to go so far as to permit a buyer to get goods for nothing." While this reasoning is directed to the more drastic remedy of a complete defense, it appears to apply as well to the more moderate defense against collection of the excess only. If Congress would not compel remission of the excess it would not have been likely in an anti-dis-

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187 The exclusive remedy language in the Wilder case was quoted in connection with the Court's explanation of the Sherman Act cases, but was not invoked nor relied upon as the basis for denying the defense. See 67 S. Ct. at 1021.
188 See 67 S. Ct. at 1018. At this point the Court overlooked the Act's most effective remedies, the Federal Trade Commission's cease and desist order expressly authorized by Section 2 (b) of the Act (15 U. S. C. 13(b), and the government suit in equity to enjoin further violations. Elsewhere the opinion indicates the Court's familiarity with the Federal Trade Commission's jurisdiction. See 67 S. Ct. at 1016.
189 The history is fully documented in the opinion. See 67 S. Ct. at 1019.
190 See ibid.
The opinion then answers counsels' contention that such a defense is needed because the treble damage remedy is often inadequate due to the protracted and expensive nature of anti-trust litigation and the speculative character of the damages. The Court was not diverted to a consideration of the inadequacy of treble damages as demonstrating the need for the defense in the case of anti-trust violations generally. It directed its answer to demonstrate that as applied to price discrimination under the Robinson-Patman Act the treble damage remedy is entirely adequate. It reasoned that if Bruce can prove the illegal discrimination in this suit, "it can do the same in a triple damage suit." The damages are no more speculative or unprovable in one suit than the other, and proof of the illegal prices without more "would establish its rights to recover three times the discriminatory difference." Hence "no reason suggests itself why Congress should have intended" a defensive remedy amounting to only one-third the amount recoverable "on the same proof" in a treble damage action. Since the alternative defense against payment of the discriminatory excess only "is but a weak one-third shadow of the one Congress expressly gave, we cannot see the need for judicial reduplication in miniature."

While this analysis of the statutory remedies was first directed against permitting "a buyer to get goods for nothing," it closes with the above reference to the alternative attempt to avoid liability for the discriminatory differential only. The entire analysis on this point seems to apply with equal force to this alternative defense and to indicate the probable view of the majority on this issue.

In addition to its reliance on the statutory remedies, the majority advanced the related consideration that "annexation" of the defense to the statute, either as an "inference of unexpressed

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191 Cf. 67 S. Ct. at 1020, considered infra p. 545.
192 See 67 S. Ct. at 1019; Brief for the Petitioner, p. 26-29; authorities cited infra notes 318, 320. Counsel for Bruce also urged that all three government remedies depended on the government's initiative, and at best could only prevent or deter future violations, not require reimbursement for excesses already charged.
193 See infra pp. 570-71.
194 See 67 S. Ct. at 1019.
195 See id. at 1021.
196 See id. at 1022.
197 See id. at 1019.
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intention of Congress" or by some common law doctrine, would bring undesirable results at war with the purposes of the statute. Two such results were emphasized. The first was that such a defense would tend to result in withholding credit from the small buyer when quantity discounts are granted to the large buyer under circumstances raising doubts as to the operation of "this rather difficult statute." In that manner a seller might readily avoid the risk of loss from a defense measured, not by the extent of the harm, but by the amount of credit advanced. Such reasoning was directed against recognition of illegal discrimination as a complete defense to the amount due, and applies with less force to the alternative defense permitting the buyer to escape payment of the discriminatory excess only. Still, some incentive to withhold credit to avoid this lesser defense could arise, though the smaller risk of loss would minimize the probability of such drastic action by a seller interested in the good will of all customers.

The second undesirable result urged was the danger that recognition of the defense would defeat the policy of the Act by bringing about price discrimination in favor of those who buy for credit and then assert the defense. Those who buy for cash pay the full price and cannot take advantage of the defense. This consideration would apply equally both to the broad and to the narrow defense, since even under the narrow defense Bruce could take advantage of the lower price which would not be available to his competitors who paid the full price without litigation. The weight of this consideration might well be questioned, for substantially the same objection could be urged to the treble damage remedy expressly provided by Congress. The buyer who brings such an action will recover three times the illegal discrimination and have an even greater advantage over his competitor who chooses to pay the price demanded without litigation.

198 See ibid.

199 See id. at 1020. The Court stressed the irrationality of a defense where the "reparation" would not be "measured at least roughly by the extent of the injury," as are treble damages. See consideration of this factor infra p. 573.

200 In fact, it might be questioned whether there is any substantial likelihood that credit would be withheld even though the broader defense were recognized, in view of the importance of good will to the seller and the relatively few buyers who would risk their credit standing and possible trade reprisals to take advantage of such a defense.

201 See 67 S. Ct. at 1020. The court pointed out that if the broader defense succeeded Bruce would obtain a discount amounting to approximately 5% on all purchases made.

202 Apparently with his tongue in his cheek, Mr. Justice Jackson suggests that these two undesirable results could only be avoided by reopening all past transactions tainted by the discount system to permit recovery of
The dissenting opinion by Mr. Justice Murphy does not controvert this analysis except the basic conclusion that the statutory sanctions are exclusive. It urges repeatedly that the courts and the judicial process should not be used “to effectuate what Congress clearly made illegal” by aiding in the collection of the discriminatory differential, and would make a finding that “the language and policy of the Act frowned upon” such use of the courts. As applied to antitrust violations without adequate statutory remedies for the injured party, such considerations would seem entitled to great weight. But as applied to actions to collect a discriminatory price in the federal courts a complete rebuttal could be made by replying that treble damages are now recoverable in a counterclaim on substantially the same pleading and proof as would have been required to establish the defense. Hence the federal courts would not aid in collecting the illegal price, but instead would credit the buyer with three times the illegal excess. Such a rebuttal provides little comfort for the buyer sued in the state court, who must bring a separate action in the federal court to secure this relief. But in the end the total judicial machinery of the nation would effectuate the purpose of the Act, and there may be good reason for withholding the complex problems of quantity discounts in national commerce from state courts whose decisions could be reviewed and kept in line with federal policy only by the Supreme Court itself.

the “whole purchase price.” He adds that this would “soon end illegal quantity discounts—by ending the business,” and that Congress could hardly have contemplated or left the way open for “so deadly a remedy.” See 67 S. Ct. at 1020. No such drastic remedy had been suggested, but if it were within the court’s power to recognize such a remedy, it would be equally within its power to limit such recovery to the amount of the discrimination only. Such affirmative remedies would seem clearly subject to the exclusive remedy rule, particularly in this instance where Congress had rejected the less drastic remedy which would have permitted recovery of the excess.

203See 67 S. Ct. at 1023, 1024-25.
204See 67 S. Ct. at 1023.
205See infra pp. 570-71.
207See supra p. 544.
208So long as the Act is not within the jurisdiction of state courts, the principal burden of maintaining consistent policy will continue to be borne by the Circuit Courts of Appeals, guided to a considerable extent by Federal Trade Commission policy, with only an occasional appeal to the Supreme Court. The desirability of having the Federal Trade Commission decide quantity discount problems in the first instance (67 S. Ct. at 1016) and may well have shuddered at the thought of reviewing state
As a direct answer to the majority view that the statutory remedies are exclusive, the dissenting opinion also urged that "a specific statutory provision is unnecessary to make an illegal contract unenforceable in the courts." The majority recognized that the Court would not enforce a contract "intrinsically illegal" under the Sherman Act "to which both defendant and plaintiff are parties and which has as its object and effect accomplishment of illegal ends which would be consummated by the judgment."

It reasoned, however, that this "case law as to the Sherman Act does not fit the Robinson-Patman Act," stressing three related characteristics:

1. No single sale can violate the Robinson-Patman Act.
2. Hence, illegality would pose problems as to whether and when a sale would be made invalid by prior, simultaneous, or subsequent discriminatory sales.
3. The violation "is not inherent in the contract sued upon . . . but can only be found in different transactions" to which only the seller is a party.

This reasoning of the majority seems directed against the broader defense denying all recovery, though formally the same points could have been urged against the lesser defense. As to neither does the reasoning carry conviction. Admittedly the simple concept of illegal contracts requires some refinement when applied to illegal discrimination, but feasible theories could readily have been advanced had the Court desired to recognize the defense. For example, the minority reasoned that the illegality affects, not the sale in its entirety, but only the "discriminatory differential" which "falls squarely within the area of illegality defined by the stat-

court decisions on that issue. Such considerations will likely influence Congress not to take advantage under the anti-trust laws of its recently recognized power to require state courts to enforce federal statutes by treble damage actions. Cf. Testa v. Katt, (1947) 67 S. Ct. 810.

See 67 S. Ct. at 1023.

See id. at 1020.

See id. at 1021. In developing this view that discrimination involves transactions with others, the opinion makes the point that while no court would aid the plaintiff if he must show the illegality to recover, he can establish his case here without showing illegality. See ibid. The possible implication that the illegality must appear as a part of the plaintiff's case is palpably unsound as pointed out in the dissenting opinion, See 67 S. Ct. at 1025. Such a limitation on the defense of illegality would be inconsistent with a number of Supreme Court decisions. See pp. 540-42 supra. It would be inconsistent in result not only with the Sola, Katzinger and Westinghouse cases, but also with the recent patent infringement cases considered infra pp. 552-59. That such an implication was not intended by the majority seems indicated by its recognition of McMullen v. Hoffman, (1899) 174 U. S. 639, 19 S. Ct. 839, one of the leading authorities on this point.
ute." On this theory, only that part of the purchase price which discriminates against the buyer would be "illegal" and not recoverable.

The failure of the majority to advert to this theory of the minority, and to come to grips with the theoretical problems involved in applying the illegality concept, suggests that it was not particularly concerned over those problems. It appears to have devoted just enough attention to the concept of illegal contracts to distinguish the prior Sherman Act decisions without raising doubts as to their continued authority. Its primary interest, and the whole emphasis of its opinion, is to be found, not in any doctrinaire or theoretical approach, but in practical considerations relating to indications of Congressional intent, adequacy of statutory remedies, and undesirable consequences which might result from recognition of the defense.

This essentially practical approach is the primary significance of the Bruce's Juices case, apart from the holding itself. For the first time, the Court has carefully analyzed a statute to determine whether the statutory sanctions are really adequate, and whether recognition of the defense would advance or hinder the aims and purposes of Congress. Prior decisions dealing with this defense in contract cases had proceeded, in the main, on doctrinaire grounds. Either the illegality was collateral and the defense not available, or was inherent in the contract and the defense was available. Occasional flashes suggest that this doctrinaire approach may have concealed more practical thinking, and the Katzinger opinion early in 1947 seemed based primarily on the value of the defense as a sanction to discourage misuse of patents to maintain prices illegally, rather than on any conceptual approach to illegality.

This last decision, concurred in by the four justices who dissented in the Katzinger case, gives some reason to hope that hereafter violation of the anti-trust laws as a defense will be approached from the standpoint of practical realities.

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212 See id. at 1024.

213 See e.g. the reasoning in the Wall Paper case, noted supra p. 523, and Mr. Justice Holmes dissent in the same case, noted supra p. 520. Chief Justice White's involved and obscure reasoning in the Wilder case possibly deserves mention in this connection. See supra pp. 526-28.

214 See supra pp. 537-38.

215 On the other hand, the decision is readily subject to misuse as an authority for the dogma that the statutory remedies of the anti-trust laws are exclusive. Such a use would not fairly reflect the holding, since the reasons for holding the remedies exclusive in this case were directed only to the particular statute, its legislative history, and the adequacy of its remedies to correct violations of its prohibitions on discrimination. To con-
What light does this decision shed on the factors suggested earlier as possible reasons for limiting the defense in anti-trust cases? 

(1) While the majority referred several times to permitting "the buyer to get his goods for nothing," there is no indication that the Court felt, as did Mr. Justice Holmes, that the policy against permitting a windfall should outweigh the policy of the anti-trust laws. On the contrary, the Court's first concern appeared to be enforcement of the policy of the Robinson-Patman Act. It concluded that the policy of the Act would not only be enforced just as well with the statutory sanctions only, but that recognition of the defense as an added sanction would threaten certain results detrimental to the purposes of the act.

(2) The exclusiveness of the statutory remedies was recognized in the opinion but not as a doctrinaire rule to be applied without regard to the adequacy of those remedies.

(3) For the first time the Court openly examined the legislative history for light as to what Congress would likely have done with this defense, and gave some weight to that history. If this approach is followed, the legislative history detailed in the earlier portion of this article may in the future be given increased attention in the application of this defense.

(4) No weight is given expressly to the possible undesirability of a mass of collateral evidence relating to anti-trust violations, and to the difficulties of determining anti-trust issues, in a simple suit on a contract. However, there were indications that the Court was cognizant of these practical considerations and may have been influenced by them. In its preliminary analysis of the case the majority pointed out that the economic effects of quantity discounts "are for the Federal Trade Commission to judge," and that until it has acted the "courts are not given guidance as to what the public interest does require to conclude that the Bruce's Juices case is authority for applying the exclusive remedy dogma to all possible violations of the anti-trust laws ignores the very meat of the majority opinion.

See supra pp. 519-20, 528-29.

See 67 S. Ct. 1018, 1019.

See supra p. 520.

See supra pp. 543-45.

See supra pp. 543-44.

While the Court added that it was unnecessary to "consider these features of the Act" since, granting the violation, no defense was asserted, the difficulty of this issue may well have had some influence on the conclusion that such problems should not be determined in a simple suit to recover the purchase price of goods. Further, the Court's emphasis upon the necessity of going into transactions entirely separate from and unrelated to the sale in order to find a violation of the Robinson-Patman Act may likewise reflect a belief that it is not wise to permit such collateral matters to complicate a simple contract action.

These factors will receive further consideration in the concluding summary.

The defense as applied to torts.

The only tort cases in which the defense has raised significant problems have been those for infringement of patents, trademarks or copyrights. Ever since adoption of the Sherman Act defendants in such infringement suits persistently raised the defense that plaintiff was using the patent, trademark or copyright for monopolistic purposes in violation of the act. Just as consistently the lower federal courts rejected the defense except in a few

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222 See 67 S. Ct. at 1016.

223 See id. at 1017.

224 See 67 S. Ct. at 1021, considered supra p. 547, note 211.

225 Violation of the anti-trust laws has been recognized as a defense to actions for inducing breach of contract. See supra p. 524. Two circuit courts of appeal have applied the defense in treble damage actions where the plaintiff participated with defendant in the violation on which the action was based. Bluefields S. S. Co. v United Fruit Co., (C.C.A. 3d 1917) 243 Fed. 1, Eastman Kodak Co. v. Blackmore, (C.C.A. 2d 1921) 277 Fed. 694. The Supreme Court has assumed the defense would be available to defeat a treble damage action in a proper case, but has held that plaintiff's compliance with defendant's illegal restrictions in order to obtain goods required to carry on his business does not bar him from recovery for subsequent violations by defendant in which plaintiff did not participate. Eastman Kodak Co. v Southern Photo Materials Co., (1927) 273 U. S. 359, 47 S. Ct. 400, cf. Victor Talking Mach. Co. v. Kemeny, (C.C.A. 3d 1921) 271 Fed. 810.


The result was no different when the Sherman Act was expressly relied upon. Patent cases Brown Saddle Co. v. Troxel, (C.C. Ohio, 1899) 98
cases of a special type decided just prior to approval of the defense by the Supreme Court in 1942.


See infra pp. 554-56.
an interloper in helping himself to the property. This reason seems valid in those cases in which the patent, trademark or copyright was not being used by the anti-trust violator as an instrumentality by which to accomplish his illegal purpose. In such cases protection of the patent will not aid the illegal purpose and the mere fact that a patent holder violates the anti-trust laws does not make him an outlaw

When the patent is being used as the key by which the Sherman Act is violated a very different problem is presented. For example, in a number of patent infringement cases the defense was that competitors had assigned their patents to the plaintiff and taken licenses in return as one step in a conspiracy to enhance prices and control production in violation of the Sherman Act. In such cases the infringement suit was one of the primary means by which the combination, through use of the patents, maintained the monopolistic position which made its price and production control effective. Nevertheless the defense was rejected. Equally unsuccessful was the defense that plaintiff was a party to a conspiracy of copyright holders to restrain trade in violation of the Sherman Act and was using this particular infringement suit to make that conspiracy effective. A similar result was reached where defendant claimed the plaintiff was using a trademark to make effective an unlawful monopoly in the sale of Coca Cola.

**Patents.**

In the Morton Salt case in 1942 the Supreme Court discredited this entire line of lower court decisions without referring to them. While the Court appeared only to be taking the next logical step in the line of cases applying the *Carbice* doctrine, it

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rested the decision upon a ground which would clearly recognize, at least in equity, the defense that the patent was being used to violate the anti-trust laws.

The progenitor of the *Carbice* doctrine was the *Motion Picture Patents* case\(^{24}\) which held in 1917 that the holder of a patent on a motion picture projector could not prevent the buyer of the projector from using films produced by other companies. The Court ruled that the patent monopoly did not include unpatented products used with patented products. Hence, the use of films not furnished by the patent holder was not an infringement and the furnishing of the films by another was not contributory infringement.

The *Carbice* case\(^{35}\) went one step further in 1931. There, plaintiff held a patent on an ice cream transportation package using solid carbon dioxide (dry ice) as the refrigerating agent, and licensed use of the package only by those purchasing dry ice from plaintiff. It did not sell or deal in the packages, only in the dry ice. Charging contributory infringement, it sought to enjoin defendant from selling dry ice for use in such packages. Unlike the *Motion Picture Patents* case, denial of relief was not based on the absence of infringement by the users of the package. This was not in issue. Relief was denied, rather,

"* * * because the Dry Ice Corporation is attempting, without sanction of law, to employ the patent to secure a limited monopoly of unpatented material used in applying the invention. The present attempt is analogous to the use of a patent as an instrumentality for restraining commerce which was condemned, under the Sherman Anti-Trust Law, in *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20.\(^{256}\)"

At this point Mr. Justice Brandeis added in a footnote

"In such cases, the attempt to use the patent unreasonably to restrain commerce is not only beyond the scope of the grant, but also a direct violation of the Anti-Trust Acts.\(^{257}\)"

While the decision denies judicial aid on the ground that the Court will not sanction an attempt to secure a limited monopoly beyond the scope of the patent,\(^{258}\) the reference to the anti-trust laws at


\(^{256}\) See 283 U. S. at 33-34.

\(^{257}\) See 283 U. S. at 34, n. 4.

\(^{258}\) See 283 U. S. at 35. The case is subsequently explained on this basis and followed in *Leitch Mfg. Co. v. Barber Co.*, (1938) 302 U. S. 458, 463, 58 S. Ct. 288, which involved basically the same issues as the *Carbice* case.
least suggests the possibility of the same result where the patent is being used, as in the Standard Sanitary Mfg. case, as the major instrumentality of a price fixing combination.

The Morton Salt case in 1942 involved a similar attempt, this time to secure a limited monopoly on unpatented salt tablets for canned foods by leasing a patented salt tablet depositor to canners on condition that only plaintiff's salt tablets would be used with the depositor. Apparently seeking to avoid the Carbice rule, no claim of contributory infringement was made. Plaintiff based its action for an injunction and accounting solely on direct infringement of the patent by Morton Salt Company's manufacture and sale to canners of a salt depositing machine claimed to infringe the patent. Finding that plaintiff was using its patent "to restrain competition in the marketing of unpatented salt tablets for use with the patented machines," the Supreme Court denied relief on grounds analogous to the clean hands doctrine, emphasizing public rather than private interests. It reached the same conclusion in the Chemical Co. case decided the same day.

While the lower courts had been concerned with whether or not plaintiff's practices violated Section 3 of the Clayton Act, the Court did not find it necessary to answer this question. Instead, it invoked the

"principle of general application that courts, and especially courts of equity, may appropriately withhold their aid when the plaintiff is using the right asserted contrary to the public interest."


241Several lower federal courts had already applied the Carbice doctrine to similar cases of direct infringement where the patent was being used to obtain a limited monopoly on an unpatented product. See cases cited supra note 227

242Morton Salt Company was also engaged in selling salt tablets to the canners using its salt depositing machine, but the Supreme Court considered this immaterial, and assumed "for the purposes of this case that petitioner is doing no more than making and leasing the alleged infringing machines." See 314 U. S. at 491, 493.

243See 314 U. S. at 491.


246See 314 U. S. at 492. In support, the Court cited the following, all equity cases Virginia Ry. v. Federation, (1937) 300 U. S. 515, 552, 57 S. Ct. 592 (Equity may require employer to perform its statutory duty to negotiate with labor union in view of strong public interest "Courts of
The Court found inapplicable the usual rule limiting the clean hands doctrine to wrongful conduct connected with the subject matter of the litigation in a manner affecting the equities between the parties, because "maintenance of the suit concerns the public interest." Having thus rejected the basis on which some earlier lower court decisions had held the clean hands doctrine no defense where anti-trust violations were concerned, the Court went on to point out that successful prosecution of an infringement suit, even against one not competing in the sale of the unpatented product, would be "a powerful aid to the maintenance of the attempted monopoly of the unpatented product" because it would persuade "the public of the validity of the patent." Hence, maintenance of the suit would be contrary to public policy and it was properly dismissed for want of equity.

The Court indicated that basis for its decision was broader than merely preventing misuse of a patent to obtain a limited monopoly on unpatented products. Its reasons were "fundamentally equity may, and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved."). Central Kentucky Natural Gas Co. v. Railroad Commission, (1933) 290 U. S. 264, 270-73, 54 S. Ct. 154 (Dicta. as condition of equitable relief from illegal tax or rate, court of equity may require plaintiff to comply with tax or rate conceded to be legal). Harrisonville v. Dickey Clay Mfg. Co., (1933) 289 U. S. 334, 337-8, 53 S. Ct. 602 (Injunction against operation of nuisance [sewage disposal plant] may be denied "where an important public interest would be prejudiced."). Beasley v. Texas & Pacific Ry., (1903) 191 U. S. 492, 497, 24 S. Ct. 164 (Whether legal or illegal, covenant not to build depot on land deeded to railroad will not be enforced in equity where paramount public interests control), Securities and Exchange Commission v. U. S. Realty Co., (1940) 310 U. S. 183, 194, 59 S. Ct. 795. The Court also cited a similar dictum in United States v. Morgan, (1939) 307 U. S. 183, 194, 59 S. Ct. 795.


248 See 314 U. S. at 493.


250 See 314 U. S. at 493

251 See 314 U. S. at 494.
the same" as those for barring an infringement suit against a vendee of a patented or copyrighted article for violation of a condition for maintenance of resale prices.\textsuperscript{252} It was "the adverse effect upon the public interest of a successful infringement suit, in conjunction with the patentee's course of conduct" which barred him, even though the particular defendant may not have "suffered from the misuse of the patent."\textsuperscript{255}

What other types of misuse, short of anti-trust violations, might justify that result is beyond the scope of this article.\textsuperscript{254} Certainly, however, the controlling considerations in the Morton Salt case would lead to barring an infringement suit when the patent is being used as the instrumentality or key for making effective a price maintenance scheme or other anti-trust violation.\textsuperscript{255} Indeed, use of the patent to violate the anti-trust laws would seem to establish an even stronger case, for the successful infringement suit would not only promote the effectiveness of the scheme by persuading the "public of the validity of the patent," but would actually eliminate the very competition threatening the effectiveness of the price maintenance scheme, or, as an alternative, would force the infringer into the combination. The Court's familiarity with such use of infringement suits to force competitors into combina-

\textsuperscript{252}See 314 U. S. at 493-94. The Court cited the following Adams v. Burke, (U.S. 1874) 17 Wall. 453 (no infringement for purchaser of patented product to use it outside of area authorized by patentee), Bauer & Cie v. O'Donnell, (1913) 237 U. S. 1, 33 S. Ct. 616 (no infringement for purchaser of patented product to sell for less than stipulated minimum price), Bobbs-Merrill Co. v. Straus, (1918) 246 U. S. 3, 38 S. Ct. 257 (resale price maintenance contract for patented product illegal). The decisions in the last two cases were based directly on the illegality of the provision under the anti-trust laws.

\textsuperscript{254}For speculation on the future influence of the decision in this regard see Note (1942) 51 Yale L. Jr. 1012, 1015-18. See, e.g., Vitamin Technologists v. Wisconsin Alumni Research Foundation, (C.C.A. 9th, 1945) 146 F (2d) 941, 944-46 (suggesting that clean hands doctrine should defeat infringement because patentee kept rickets-preventing vitamin from oleomargarine, the "butter of the poor"), cf. Hazel-Atlas Co. v. Hartford Co., (1944) 322 U. S. 238, 246, 64 S. Ct. 997 (setting aside a 1932 infringement judgment because of fraud on the patent office).

\textsuperscript{255}It appears significant that to support the reasons underlying the Morton Salt decision the Court cited two cases refusing to enforce resale price maintenance devices violating the Sherman Act and other cases refusing to give effect to analogous price maintenance schemes in patent and copyright litigation. See cases cited supra note 252.
VIOLATION OF ANTI-TRUST LAWS

VIOLATION OF ANTI-TRUST LAWS may well have influenced later decisions which assume that the doctrine of the Morton case applies to anti-trust violations.

The Mercoid cases, decided two years later, each involved a combination patent on a heating system, the use of which was licensed only when an unpatented device constituting an integral part of the completed combination was obtained from the patentee or its licensees. The Court held this arrangement violated the anti-trust laws and under the doctrine of the Morton case barred contributory infringement suits against parties furnishing the unpatented device to direct infringers. In one of the cases the licensee producers of the unpatented device were required to maintain stipulated prices, another clear violation of the anti-trust laws. In that case the Court concluded.

"... the effort here made to control competition in this unpatented device plainly violates the anti-trust laws, even apart from the price-fixing provisions of the license agreements. It follows that petitioner is entitled to be relieved against the consequences of those acts. It likewise follows that respondent may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent. Morton Salt Co. v. G. S. Suppiger Co." The dissents in the Mid-Continent case take issue with other rulings but raise no question as to the propriety of defeating an infringement suit when the patent is being used to violate the anti-trust laws. Indeed, one year later the approval of this defense in patent infringement cases was confirmed, when Mr. Justice Roberts, See e.g. United States v. Masonite Corp., 316 U. S. 265, 268-70, 62 S. Ct. 1070; Hartford Empire Co. v. United States, (1945) 323 U. S. 386, 395-96, 65 S. Ct. 373, Transparency-Wrap Mach. Corp. v. Stokes & Smith Co., (1947) 67 S. Ct. 610, 616, cf. TNEC Final Report and Recommendations, (1941) Sen. Doc. No. 35, 77 Cong. 1st Sess., 36-37. Mercoid Corp. v. Mid-Continent Co., (1944) 320 U. S. 661, 64 S. Ct. 268, Mercoid Corp. v. Minneapolis-Honeywell Co., (1944) 320 U. S. 680, 64 S. Ct. 278. This statement related to a prayer for an injunction against threatened infringement suits and for treble damages. This relief was later granted. See Mercoid Corp. v. Minneapolis-Honeywell Co., (C.C.A. 7th, 1944) 142 F. (2d) 549. See 320 U. S. 684. The division related to an issue of res judicata and to an intimation in the opinion raising some doubt as to the future of the contributory infringement doctrine. See 320 U. S. 674-80; Comment (1944) 42 Mich. L. Rev. 915 (contributory infringement issue), Note (1944) 57 Harv. L. Rev. 900 (same); (1944) 44 Col. L. Rev. 447 (same), (1944) 57 Harv. L. Rev. 574 (res judicata issue), (1944) 92 U. Pa. L. Rev. 461 (same), Wood, The Tangle of Mercoid Case Implications, (1944) 13 Geo. Wash. L. Rev. 61.
one of the dissenters in the *Mid-Continent* case, broadly stated that the *Morton Salt* and *Chemical Co.* cases

"apply the doctrine that, so long as the patent owner is using his patent in violation of the anti-trust laws, he cannot restrain infringement of it by others."\(^{261}\)

The decisions actually applying the doctrine of the *Morton Salt*, *Chemical Co.* and *Mercoid* cases are much narrower than this broad language. All are based on misuse of the patent to secure a limited monopoly on unpatented articles,\(^ {262}\) or to restrain competition by protecting the patented product from legal competition with unpatented products.\(^ {263}\) No case has called for a ruling on the effect of misusing the patent to violate the anti-trust laws in some other manner, such as for price maintenance,\(^ {264}\) but no opinion has thrown doubt on the availability of such a defense. On the contrary, the reference in one of the *Mercoid* opinions to violation of the anti-trust laws defeating the infringement suit "even apart from the price fixing provisions of the license agreements,"\(^ {265}\) and the reliance in the *Morton Salt* opinion on the

\(^{261}\)See *Hartford Empire Co. v. United States*, (1945) 323 U. S. 386, 415, 65 S. Ct. 373, Notes (1945) 45 Col. L. Rev 601, (1946) 56 Yale L. Jr. 77 While approving the holding in the *Morton Salt* and related cases, the Court refused to interpret those cases as authority justifying a degree in a government anti-trust suit which in effect forfeited the patents when used to violate the anti-trust laws. The decree which had required royalty free licensing of all applicants was modified to require compulsory licensing at reasonable royalties. See 323 U. S. at 413-417 The court divided four to two on this issue, Justices Black and Rutledge dissenting, and Justices Douglas, Murphy and Jackson not participating in the decision. Of the original majority of four, only Justices Frankfurter and Reed are now on the bench. It is not surprising, therefore, that the Department of Justice has not given up and has recently urged the court to overrule the *Hartford* case on this issue. See argument for United States in *United States v. National Lead Co.* , No. 89-91, 1946 Term, 15 Law Week 3297 (Feb. 11, 1947) The bearing of this aspect of the *Hartford Empire* case on the principle of the *Morton Salt* case is considered infra note 285.


\(^{263}\)See *National Lockwasher Co. v. Garrett Co.*, (C.C.A. 3d 1943) 137 F (2d) 255, cert. denied 305 U. S. 649, 59 S. Ct. 243 (Licensed manufacture of patented washer only on condition that licensees did not also manufacture non-patented competing washers)

\(^{264}\)The *Frank Adam Elec. Co.*, and *Sylvania Industrial Corp.* cases, supra note 262, each could have been based upon the misuse of the patent to control prices in violation of the Sherman Act, but they appear to have been based instead on the misuse of a patent to restrain competition with unpatented products.

\(^{265}\)See 320 U. S. at 684 (italics supplied)
analogy of the price maintenance cases, seem fairly to imply the same result would be reached if the patent were used to control prices in violation of the Sherman Act.266

Two questions on the application of this defense to patent infringement litigation remain. (1) May the holder of the patent correct his misuse so as to permit subsequent judicial protection for the patent? (2) Will the defense be available to defeat an action for damages for infringement when no equitable relief is sought.

The first question is answered in the affirmative in the Morton Salt and Chemical Co. opinions. There the Court stated that when the improper use had been fully abandoned and the consequences of that misuse fully dissipated, it would be appropriate to grant relief from infringement.267 The Chemical Co. case held, however, that a mere expression of willingness to abandon the illegal practice, made during litigation,268 would not justify the granting of relief.269 Certainly, unless the Court or Congress take the position that misuse of the patent works its forfeiture,270 the patentee should be permitted to protect it, once the effect of discontinued abuses has been dissipated.271

The second question remains open under the decisions. In all


267 See 314 U. S. at 493 and 498.

268 On appeal to the Circuit Court of Appeals the patentee indicated a willingness to license use of the patent without requiring use of his unpatented material. See Chemical Co. v. Ellis, (C.C.A. 1st 1941) 117 F. (2d) 829, 837

269 See 314 U. S. at 498. Cf. Universal Sewer Pipe Corp. v. General Const. Co. (N.D. Ohio 1941) 42 F. Supp. 132 (during course of trial method of doing business was actually changed, the court issued an injunction against future infringement), Sylvania Industrial Corp. v. Visking Corp., (C.C.A. 4th 1943) 132 F. (2d) 947 (court holds plaintiff's "purge was complete" 5 weeks after relief denied, and entitled to accounting for infringement from date purge was complete), Campbell v. Mueller, (C.C.A. 6th 1947) 159 F. (2d) 803 (cancellation during trial of price fixing agreement held to "purge" prior violation).

270 See Hartford-Empire Co. v. United States, (1945) 323 U. S. 386, 415-416, 65 S. Ct. 373, considered supra note 261, and infra notes 284 and 285. There, in refusing to hold, in effect, that patents were forfeited because misused in violation of the anti-trust laws, the Court makes detailed reference to the fruitless attempts to secure Congressional action to accomplish that result. Cf. Note (1946) 56 Yale L. Jr. 77, 116-118.

271 Mere failure in the Mercoid opinions to advert to this means of avoiding permanent disqualification to protect the patent furnishes no reason to suspect a change in the Court's view, since the issue was not involved in those cases. But see argument for United States in United States v. National Lead Co., No. 89-91, 1946 Term, 15 Law Week 3297, 3299 (Feb. 11, 1947).
Supreme Court cases applying the defense the prayer for an accounting for the profits and damages was denied along with the denial of the injunction. Though the Supreme Court opinions did not refer expressly to the denial of the prayers for an accounting, subsequent lower court decisions held that the infringing defendant need not account for the period during which the patent was misused. The result of these decisions was to deny any compensation for use of the patent while it was being misused, but since plaintiffs had sought an injunction and accounting, basically equitable relief, the decisions cannot be considered conclusive on the availability of the defense when only damages are sought as in an action at law.

It has been suggested that a patent holder barred from equitable relief by the doctrine of the Morton Salt case may possibly still


274 In these cases all actions were brought under that section of the patent law authorizing (1) "injunctions according to the course and principles of equity" and (2) accounting for the profits and damages "in any such case." See (1922) 42 Stat. 392, (1940) 35 U. S. C. 70 (prior to 1946 amendment). Due to the difficulties of ascertaining the profits in such accounting suits, this section was amended in 1946 to authorize (1) an injunction and (2) when infringement is found "in any case," damages as "due compensation not less than the reasonable royalty." See (1946) 60 Stat. at L. 778, 35 U. S. C. A. § 70 (Supp. 1946), (1946) Hearings before Committee on Patents on H. R. 5231, (1946) Sen. Rep. No. 1503, 79th Cong., 2d Sess., Note (1946) 56 Yale L. Jr. 77, 111 n. 88. Retained in its original form is the early provision authorizing an action for damages for infringement "by an action on the case." See (1870) 16 Stat. at L. 207, (1940) 35 U. S. C. § 67 Prior to the fusion of law and equity into a single civil action (Rule 2, Federal Rules of Civil Procedure, (1940) 28 U. S. C. A. following section 723c), an action under the latter section would have been "at law" while one under the former section would have been considered "in equity." Under the new rules, a distinction is still made recognizing the purely "legal" character of the relief sought under 35 U. S. C. 67 so as to require a jury trial on demand, as distinct from the "equitable" character of the relief under 35 U. S. C. 70 not justifying a jury trial. Ryan Distributing Corp. v. Caley, (E.D. Pa. 1943) 51 F. Supp. 377, see Beament Mills v. Eday Fabric Sales Corp., (C.C.A. 2d 1942) 124 F. (2d) 563, 565, Bellavance v. Plastic-Craft Novelty Co., (D. Mass. 1939) 30 F. Supp. 37, 38-39. If the availability of the defense must turn on whether the relief sought is "equitable" or "legal," an action exclusively for damages "not less than a reasonable royalty" might well be considered in the nature of an action at law, whether considered as brought under 35 U. S. C. 70 without any prayer for equitable relief, or as brought under 35 U. S. C. 67 but reading the new meaning of damages into that old section.
be entitled to recover damages for past infringement.\textsuperscript{275} This thought that the defense of patent misuse by anti-trust violation, or monopolistic conduct falling short of such violation, is limited to cases of equitable cognizance possibly finds support in the opinions which repeatedly refer to withholding of relief by equity and equity courts.\textsuperscript{276} Further, all cases relied upon in the leading Morton Salt opinion related to equitable relief,\textsuperscript{277} and the principle of the Morton Salt case has generally been considered as based fundamentally on the equity doctrine of “unclean hands.”\textsuperscript{278} Despite these indications to the contrary, there are good reasons to anticipate the defeat of a plaintiff seeking only damages for past infringement during a period while he was using the patent to violate anti-trust policy.

The underlying reason given in the Morton Salt opinion, and recognized in subsequent cases,\textsuperscript{279} for denying relief when the patent is used to violate the policy of the anti-trust and patent laws appears to apply with as much force to an action for damages as to a suit for an injunction. The Morton Salt opinion reasons that a successful infringement suit will be a powerful aid in attaining the wrongful purpose for which the patent is being used by persuading the public of its validity.\textsuperscript{280} A court decision upholding and enforcing the patent will have this same effect, whether it enjoins future infringement or only enters judgment for past infringement. The user of a patented process refusing to buy unpatent ingredients from the patentee, or a non-cooperative competitor holding out against a combination manipulating prices through patents, would seem just as likely to be coerced by a threat to collect damages for

\textsuperscript{275}See Notes (1946) 56 Yale L. Jr. 77, 112-16, (1945) 45 Col. L. Rev. 601, 618.


\textsuperscript{277}See cases cited supra notes 234, 246, 252, and infra notes 295 and 315.


\textsuperscript{280}See supra pp. 555-56.
past infringement as by a threat of injunction against future infringement. In either case, the success of the action would bring the recalcitrant party into line, and by example would influence others to comply with the demands of the patent holder. In either case, enforcement of the patent "rights" would furnish court aid to a party using his patent in a manner contrary to the public interest and thus help in accomplishment of the improper purpose.

The spectacle of the same court refusing an injunction and accounting for profits and damages because of illegal use of the patent, and subsequently permitting an action for damages for the same infringement occurring during the same period of illegal use would scarcely appeal to any judge. To avoid such a result, the Court could find a ready answer to the contention that the Morton Salt and subsequent cases only authorize the withholding of relief by "equity" and "equity courts." All it need say is that there was no occasion in those equity cases to go beyond the particular issues presented, but that the same policy considerations there stressed apply with equal force to an action for damages only. It could add that in those cases no thought was given to a "legal" action for damages only, since full relief by accounting for profits was authorized only in the section creating an equitable action. The opinions could hardly be expected to contain a reservation making allowance for a 1946 legislative change substituting damages "not less than a reasonable royalty" for the old accounting for profits. Still, the Court could point out that even this contingency can be brought within the terms of Morton Salt opinion which was not confined to equity cases but was based expressly on a "principle of general application that courts, and especially courts of equity" may withhold their aid when the plaintiff asserts a right contrary to the public interest.

The ruling in the Hartford-Empire case adds further support to this view. In that government anti-trust suit involving a serious

281 The same incongruity is conceivable in the analogous cases refusing to enjoin infringement of trademarks or unfair competition because of plaintiff's misuse of the trade-mark or trade name to misrepresent the character or origin of the product. See e.g. Manhattan Med. Co. v. Wood, (1883) 108 U. S. 218, 2 S. Ct. 436, Worden v. Calif. Fig Syrup Co., (1903) 187 U. S. 516, 23 S. Ct. 161, Derenberg, Trade Mark Protection and Unfair Trading, (1936) 659-80. All such cases appear to have arisen in "equity," but if an action for damages only were brought would a court grant such relief when it had earlier denied equitable relief? Or would the court find that the host of equity cases had established such misuse of a trade-mark or trade name as a substantive defense to any action for infringement or unfair competition?

282 See note 274 supra.

283 See 214 U. S. at 492 (italics supplied)
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misuse of patents the Court authorized an injunction barring any "recovery" for damages for infringements which may have occurred prior to the date of the final decree.\textsuperscript{284} That decision seems based on the underlying thought that a patent owner is entitled to no relief of any kind for infringement occurring during such misuse of the patent.\textsuperscript{285} After such a ruling, it is hardly likely that the Court would permit a patentee to recover for infringement in a private action when it is shown that the infringement occurred while the patent was being used to violate the anti-trust laws.

TRADE-MARKS

Will the principle of the Morton Salt and Mercoid cases be applied in the analogous fields of trade-marks and copyrights where the same problem could easily arise?

In recent years the misuse of trade-marks to implement restraints on competition has received increased attention\textsuperscript{286} and a

\textsuperscript{284}See Hartford-Empire v. United States, (1945) 323 U. S. 386, 419-20, 65 S. Ct. 373. The opinion calls for an injunction against all infringement suits pending when the government suit was brought. It expressly provides that the patent owner shall be "deprived of all damages and profits which it might have claimed for past infringement" against those taking licenses under the patents. It provides that the decree shall be without prejudice to the future institution of suits for infringement against those not taking licenses for infringements "arising out of their use after the date of the decree," and that the decree shall not forbid "any defendant from seeking recovery for infringement occurring after the date of the final decree" except for certain patents on which compulsory licensing is required. Since the original decree had enjoined all infringement suits until the consequences of the anti-trust violation had been fully dissipated, the modification here directed seems clearly to authorize a decree barring any kind of relief or recovery for infringement occurring prior to the date of the final decree.

\textsuperscript{285}The Court's refusal in the Hartford-Empire case to approve a decree requiring compulsory, royalty-free licensing has been characterized as contrary in principle to the Morton Salt case. See Notes (1945) 45 Col. L. Rev. 601, 618; (1946) 56 Yale L. J. 77, 115. Does such criticism take sufficient account of this ruling which permits no action for infringement occurring prior to the correction of the improper practices by the final decree of the court and which is consistent in principle with the proviso in the Morton Salt case that enforcement of the patent would be permitted when the improper practices had been corrected and its evil effects dissipated. See supra p. 559. From this standpoint, the quarrel with the Hartford-Empire case would seem more properly directed to the apparent assumption that the entry of the final decree would dissipate the evil effects of years of repressive and monopolistic practices. However, the evils had revolved primarily around certain patents, and as to these the Court recognized the evil effects would continue, for it required compulsory licensing at reasonable royalties and did not authorize infringement suits for such patents. See 323 U. S. at 417-20.

number of recent anti-trust prosecutions have been based on such misuse. The Miller-Tydings amendment in 1937 legalizing certain resale price maintenance contracts for commodities bearing the trade-mark, brand or name of the producer created tempting opportunities to use trade-marks to give the appearance of legality to price maintenance schemes which still violated the Sherman Act as amended. In several recent cases trade-marks and trade names were among the chief instrumentalities used to create effective price control in violation of the Sherman Act. The possibilities of using trade-marks to create industry-wide price control with the appearance of legality have been graphically demonstrated. Another common practice is to use trade-marks as a device for division of territory between otherwise potential competitors in national and international markets. Other methods by which trademarks become instruments to restrain trade have been set out in detail elsewhere.

One case in 1916 presented the problem here posed, as to whether misuse of a trade-mark to bring about restraint of trade in violation of the Sherman Act may be sufficient reason to deny protection against infringement. The Coca-Cola Company, owner of the “Coca-Cola” trade-mark, manufactured Coca-Cola syrup and sold it exclusively to two distributors who, with the Company’s consent, divided the territory of the United States between them. These two distributors, in turn, with the consent and approval of the Company, granted to local bottlers the exclusive right to bottle and sell as “Coca-Cola” the beverage made from the syrup within each bottler’s restricted territory, in some instances covering several states. Through devious channels the defendant secured the genuine Coca-Cola syrup and bottled and sold the genuine beverage, using the trade-mark without consent. In an action by


See Borchardt, supra note 286, at 251-3, Diggins, supra note 286, at 117-31.


See supra note 286.

the Company to restrain this infringement of the trade-mark, the
Circuit Court of Appeals ruled that the alleged violation of the
Sherman Act by the series of contracts assigning exclusive terri-
tories constituted no defense.

Would the same result be reached today in view of the deci-
sions in the patent cases, assuming proper stress were laid on the
misuse of the trademark to restrain competition, rather than stressing
the contracts themselves? Would an infringement suit be suc-
cessful today if brought against an infringer when it is shown in
defense that the plaintiff is using the trade-mark to make effective
an illegal price maintenance scheme?

It would seem that the basic reasons which influenced the deci-
sion in the Morton Salt case could be applied with equal force to the
case of a trade-mark. A successful infringement suit would aid
the trade-mark owner in making its illegal purpose effective. It
would eliminate one of the most effective means of combating the
illegal scheme by restraining the competitive use of the trade-mark
by those refusing to participate in the scheme. Whether the scheme
be exclusive division of markets, or some form of price fixing, the
existence of non-cooperative competition in the very trade-mark
itself would go a long way toward defeating the illegal practice.
To restrain such competition, however flagrant the infringement
might be, would place the stamp of judicial approval on the trade-
mark, and thus give support to the scheme itself. The “general
principle” enunciated in the Morton Salt case that courts, and
especially courts of equity, will withhold relief when the plaintiff
is using a right contrary to the public interest would seem directly
applicable to this situation.

Two authorities relied upon in the Morton Salt opinion give
added support to the belief that this defense may be recognized in
a proper trade-mark case. In support of its decision that misuse
of a patent contrary to the public interest justifies denial of court
aid, the Court relied\(^2\) on its two leading decisions holding that
equity will deny relief for trade-mark infringement when plaintiff
misuses the trade-mark to misrepresent the character or origin of
his product.\(^3\) Misuse of a trade-mark to bring about illegal re-
straint of trade would seem even more detrimental to the public
interest and, therefore, to provide a sound reason for denying
court aid while the misuse continues.

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\(^2\)See 314 U. S. at 494.
\(^3\)Manhattan Med. Co. v. Wood, (1883) 108 U. S. 218, 2 S. Ct. 436
161 (character); see Derenberg, op. cit. supra note 281 at 659-80.
This problem has been complicated by the Trade Mark Act of 1946. Section 33(b) of that act makes five years continuous use of a mark after registration conclusive evidence of the registrant's exclusive right to use the mark on the goods specified except when one of the following defenses or defects is established.

(7) That the mark has been or is being used to violate the anti-trust laws of the United States.  

This seventh defense was inserted in the bill by the Senate after it had passed the House of Representatives, and was accepted by the conference committee.

At the very least this subsection 7 means that use of the mark to bring about an anti-trust violation will deprive the registrant of the advantage of incontestability ordinarily resulting from five year's use after registration, and throw him under Section 33(a) which makes registration only prima facie evidence of the exclusive right, subject to "all legal and equitable defenses" available without registration. In explaining the conference report, this restrictive meaning was attributed to the amendment by Representative Lanham, the original sponsor of the bill in the House. At least on the surface it is the logical interpretation, since subsection 7 is formally an exception only to Section 33(b). On the other hand, both the original report of the Senate Committee recommending the change, and Senator O'Mahoney's subsequent explanation of the change in rebuttal of Representative Lanham's remarks, points to a different understanding among the Senate backers of the

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299See (1946) 92 Cong. Rec. 7522-23. A minor modification was made substituting "use to violate" in place of "use in violation of." The purpose of the change was to require a clear causal relation between the use of the trademark and the anti-trust violation. See (1946) 92 Cong. Rec. 7873-4, 7524-5, Diggins, supra note 286 at 194.

300See (1946) 92 Cong. Rec. 7524-25.

301See (1946) Sen. Rep. No. 1333, 79th Cong., 2d Sess. 2 "It is made a defense to a suit on a mark if the mark is used in violation of the anti-trust laws."

302The Senator's comments on this point were prefaced by the remark that he "felt there might be some misinterpretation of the language employed by one of the Members of the House in attempting to explain the Senate amendment." (1946) 92 Cong. Rec. 7872.
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bill who were responsible for subsection (7). According to the Senator, it was intended that use of a trade-mark to violate the anti-trust laws should not only make the mark contestable but should constitute a defense to all infringement suits. Such conflicting statements of intent, possibly aimed at influencing subsequent interpretation, can be of little aid to the Court.

The act itself, however, provides considerable support for Senator O'Mahoney's interpretation of Section 33 (b) (7). Despite the formal organization which makes the seven defenses appear only as exceptions to the conclusive evidence provision, the term "defenses or defects" suggests a broader intent. Examination of the other six "defenses" reveals that each is of a character which would completely defeat any infringement action under the act. From the character of these defenses the Court could readily conclude that paragraphs (1) to (7) were intended to specify those defenses which should always be available in all infringement actions, even against a claim of incontestability. This would harmonize with the organization of the entire section on the theory that made registration for less than five years only "prima facie evi-

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294 See id. at 7872-73. "Trade-marks from time to time have been used in violation of the anti-trust laws. It was felt that under the language of the bill trade names could be used to prolong a patent monopoly after expiration of the patent. One of the Senate amendments, agreed to with slight modification by the House, was intended to eliminate this possibility. . Mr. President, the point I wish to make perfectly clear is that use of such a mark to violate the anti-trust laws, constitutes a defense to an infringement suit. . It is of such importance to the public of the United States that restraint of trade should not be permitted, that the Senate inserted this amendment to make it a defense to an infringement suit as well as to make it a ground of contestability if it should be shown that the registrant was using the mark in violation of the anti-trust law."

295 Representative Lanham's remarks were made "in order that its interpretation may be made clear." See id at 7524. See also supra note 303.

296 The first three defenses (1) fraud in obtaining registration (2) abandonment, and (3) assignment and use of the mark so as to misrepresent the source of the goods were a complete defense under the old act. See (1905) 33 Stat. at L. 729, 15 U. S. C. 101. The new act expressly makes them a ground for cancellation of the registration at any time. See Sec. 14 (c). The second and third are a defense under common law rules. See Derenberg, op. cit. supra note 281 at 598, 659. The new act's more liberal view toward registration of personal names and descriptive and geographic terms, when not used primarily in that sense, (Sec. 2(c), (e)) made necessary the fourth defense. This permits defendant, charged with infringement, to show that the term was used as his individual name in his own business or used in good faith to describe commodities or their geographic origin. Such defense is obviously intended to be available prior to expiration of the five year contestable period as well as afterward. The fifth and sixth defenses recognize prior use as a defense within the limited area in which such prior use was proven, despite the expiration of the five year contestibility period. Section 15 makes the mark contestible to this extent at all times.

297 But cf. (1946) 92 Cong. Rec. 7524 where Representative Lanham states all seven "defenses" are intended only to defeat incontestability.
dence" of the exclusive right to the mark subject to "any legal or equitable defense or defect," whereas 33(b) made registration for more than five years "conclusive evidence" of the exclusive right, subject to certain limited defenses which should always be available to defeat a claim of infringement. It is reasonable to conclude that the less favored trade-marks under 33(a) were intended to be subject to all defenses available against the more favored trade-marks under 33(b).

This latter interpretation would not only appear justifiable as a matter of statutory interpretation, but would be consistent with the principle of the Morton Salt case as applied to trade-marks. If the more restrictive view of Section 33(b) (7) is taken, it would still be possible for the Court to apply the principle of the Morton Salt case as a "legal or equitable defense" under 33(a), though it would likely not do so if it concludes that Congress intended misuse to defeat only the incontestability of the mark.  

COPYRIGHTS

Substantially the same problem could arise in connection with misuse of copyrights to violate the anti-trust laws. The most obvious example is the operation of the American Society of Composers, Authors and Publishers (Ascap) before the 1941 settlement of the government anti-trust injunction suit by a consent decree and the criminal prosecution by a plea of nolle contendere and a fine. Prior to the consent decree, the Ascap practices alleged to violate the anti-trust laws were molded around the licensing of musical copyrights for public performance. Other methods of misusing copyrights to violate the anti-trust acts are readily conceivable, such as sale of books by the copyright owner only upon agreement of the buyer to maintain stipulated resale prices.  

309See (1941) 9 U. S. Law Week 2514-15, where the decree is summarized.  
310See (1941) 9 U. S. Law Week 2548. A total of $35,750 in fines was imposed.  
311The Ascap practices, and the anti-trust problems raised, are well considered in Cohn, Music, Radio Broadcasters and the Sherman Act, (1941) 29 Geo. L. Jr. 407.  
312Cf. Bobbs-Merrill Co. v. Straus, (1908) 210 U. S. 339, 28 S. Ct. 722, holding that it was not copyright infringement for dealer to resell a book for less than the price at which dealer was "licensed" to resell it. It may well be questioned whether any copyrighted book is "in free and open competition with commodities of the same general class" so as to bring such an agreement within the protection of the Miller Tydings amendment. Cf. Eastman Kodak Co. v. Federal Trade Commission (C. C. A. 2d 1946) 158 F. (2d) 592, cert. denied (1947) 67 S. Ct. 869.
Or by the "block-booking" device the distributor of a copyrighted motion picture film may license its exhibition only on condition that the licensee also contract to exhibit certain of its other films.\textsuperscript{313} In cases of that character, should the copyright owner be entitled to court aid to enforce the copyright against infringers, thus making his scheme more effective?

In the past the lower courts unanimously ruled that violation of the anti-trust laws by Ascap would not constitute a defense to infringement. These cases all preceded the \textit{Morton Salt} decision, and their standing might very well be questioned in the light of that case. It would seem that whenever the copyright is used to make effective an arrangement which violates the anti-trust laws, substantially the same reasoning developed in the \textit{Morton Salt} case, and applied above to the case of trade-marks, could be urged with equal force to defeat a copyright infringement suit.\textsuperscript{314}

As in the case of trade-marks, the clean hands doctrine has heretofore been invoked to deny relief from copyright infringement when the copyright was being misused in such a manner as to deceive the public.\textsuperscript{315} In the \textit{Morton Salt} opinion the Court relied on that holding as analogous to the misuse of a patent.\textsuperscript{316} Misuse of a copyright to violate the anti-trust laws would seem even more harmful to the public interest than its misuse in a deceptive manner, and hence to be within the principle of the \textit{Morton Salt} case.\textsuperscript{317}


\textsuperscript{314}Both in the case of trade-marks and copyrights, availability of the defense in "law" as well as in "equity" would present problems similar to those considered in connection with patents. See supra pp. 559-63. In view of the liquidated damages available for copyright infringement [((1912) 37 Stat. 489, (1940) 17 U. S. C. § 25 (b)] and the non-repetitive nature of many such infringements, actions for damages only will be more frequent in copyright cases than in trade-mark cases where plaintiff's primary concern will be to protect his mark against future infringement by injunction.


\textsuperscript{316}See 314 U. S. at 494.

\textsuperscript{317}Recent lower court decisions could be invoked to support this position. Circuit Judge Augustus N. Hand has intimated that the principle of the Mercoid and Morton Salt cases should apply to misuse of a copyright to extend its monopoly beyond that granted through block-booking of films and analogous devices. See United States v. Paramount Pictures, (S.D. N.Y. 1946) 66 F Supp. 323, 348-49. Violation of the anti-trust laws by Ascap was held to create "unclean hands" so as to bar Ascap from the equitable relief it sought against enforcement of a restrictive state statute alleged to interfere with Congressional authority over copyrights. Buck
CONSIDERATIONS AFFECTING THE FUTURE SCOPE OF THE DEFENSE

While the outlines of the defense have been marked in the decided cases, problems as to its scope will continue to arise in cases for which the Supreme Court decisions provide no certain guide. It is proposed in conclusion to suggest a few of the considerations which should be weighed in making future decisions, whether judicial or legislative.

It is suggested that in determining the availability of the defense for any particular class of case the need and value of the defense in making Congressional policy effective should be weighed against the injustices and procedural difficulties which might be caused by its application.

Is there any genuine need for the defense in enforcing the Congressional policy embodied in the anti-trust acts? This resolves itself into two related questions (1) Are the present sanctions provided by the anti-trust acts adequate? (2) If not, will recognition of this defense provide any substantial assistance in making Congressional policy effective?

The answer to the first question must be an emphatic negative. The inadequacy of all remedies, public and private, were developed in detail in the monographs, proceedings and recommendations of the Temporary National Economic Committee whose recommendations for improvements have not been adopted by Congress. The inadequacy of the treble damage remedy, either as compensation to the injured private party or as a deterrent to the violator, is graphically demonstrated by its history revealing v. Gallagher, (W.D. Wash. 1940) 36 F Supp. 405, Note (1941) 50 Yale L. Jr. 1114. To bar an action for copyright infringement on the same ground would seem less drastic.


The recommendation for severe civil penalties was embodied in a bill introduced by Senator O'Mahoney. See (1939) S. 2719, 76th Cong., 1st Sess., (1939) 84 Cong. Rec. 8191-2. Brief Committee hearings were held on the bill but it died in committee. See (1939) Hearings Before a Subcommittee of the Senate Committee on the Judiciary on S. 2719, 76th Cong. 1st Sess.


See Note (1939) 49 Yale L. Jr. 284, 298, cf. Donovan and Irvine,
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ing an average at best of one successful case per year for the first fifty years of the Sherman Act.\textsuperscript{321}

The crucial question is the second: Will recognition of the defense be of any real value in enforcing Congressional policy? That should depend, in part, upon whether the reasons for failure of the treble damage action as an effective sanction would likewise render ineffectual the defense of illegality. Three reasons are suggested as major factors in the failure of the treble damage remedy: (1) The difficulty and impossibility in many cases of proving the damages caused by anti-trust violations due to the innumerable factors entering into business losses and failures.\textsuperscript{322} (2) Proof of the anti-trust violation against a strongly entrenched, well financed defendant often entails financial and legal burdens beyond the capacity of any litigant except the government itself.\textsuperscript{323} (3) In many cases the private party will refrain from challenging an anti-trust violation because he fears the loss of business advantage or possible trade reprisals if he breaks with the violator.\textsuperscript{324}

The defense would relieve the victim of the difficulties involved in establishing damages, but in many instances the second and third reasons outlined above would handicap the usefulness of the defense in substantially the same degree and manner as they handicap the treble damage remedy. Proof of the violation would seem equally difficult whether on the offensive or the defensive, and refusal to pay for goods purchased not only invites reprisals and loss of business advantage with the seller but involves the added threat of harm to the credit rating generally. The probable effect of these factors seems reflected in the scanty use of the defense in those states which expressly make violation of their local anti-trust laws a complete defense to an action for the price of goods sold by the violator.\textsuperscript{325}

However, many cases will arise not presenting these difficulties which beset the treble damage action. Possibly the clearest of these is the patent infringement suit by one who has misused the patent

\textsuperscript{321}See Hamilton and Till, op. cit. supra note 318 at 83-84, Donovan and Irvine, supra note 320; cf. Note (1946) 41 Ill. L. Rev. 462.
\textsuperscript{322}See Hamilton and Till, op. cit. supra note 318 at 82-83; Note (1939) 49 Yale L. J. 284, 296-98; and see references cited supra note 25.
\textsuperscript{323}Cf. (1939) 49 Yale L. J. 284, 296.
\textsuperscript{324}This inference is drawn from the very few reported cases under such statutes. In some states there are none. See supra note 21 for reference to the statutes involved.
\textsuperscript{325}Stanley Co. v. Lagomarsino, (S.D. N.Y. 1931) 53 F. (2d) 112.
to violate the anti-trust laws. The infringer is not dependent upon
the patentee's good will and will not hesitate to challenge him, in
fact, he has already done so or no infringement suit would have
been brought. In most such cases, the misuse of the patent can be
established without imposing difficult or impossible burdens on
the defendant. Copyright and trade-mark cases present similar
opportunities for effective use of the defense as do those cases in
which a price-fixing license contract is challenged on the basis of
the patent's invalidity. Contract cases can readily arise in which
proof of the violation is relatively simple and the defendant has
nothing to lose by challenging the alleged violator. For example, in
a lower federal court a defendant who had sold his business to
plaintiff sought to avoid enforcement of an ancillary agreement not
to compete on the ground that it was part of a general plan by which
plaintiff sought a monopoly in an interstate area in violation of the
Sherman Act. In many such cases of infinite variety the treble
damage action would be of doubtful value because of the require-
ment of provable damages, but the defense of illegality would serve
a useful purpose, both by refusing judicial aid in the accomplish-
ment of the illegal design and by bringing about the correction
of illegal practices.

Even when the defense would normally involve the third fac-
tor mentioned above, it will occasionally be asserted when the
defendant is already at odds with the plaintiff. Though such
cases may not be great in number, the defense has value as one
means by which the Court, in the particular case before it, can
prevent an anti-trust violator from accomplishing his purpose by
refusing any judicial aid to that end. In such a case the Court
would be serving, to a lesser degree, the same function it performs

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326Stanley Co. v. Lagomarsino, (S.D. N.Y. 1931) 53 F (2d) 112.
The court rejected the defense apparently on the ground that the alleged
illegality was "collateral" as it did not appear on the face of the contract.
Cf. Camors-McConnell Co. v. McConnell, (C.C. Ala. 1905) 140 Fed. 412
Co., (C.C.A. 1st, 1923) 293 Fed. 509 (knowledge of buyer's purpose
to secure corner on quicksilver market held to bar seller in action for

327Not only have the practices been corrected in particular cases
when misuse of patents was invoked as a defense (see supra note 269),
but the threat of defeat in infringement suits appears to be causing industry
to realize the necessity of modifying its practices. See Bateman, Should
Anti-Trust Law Penalties or Unenforceability of the Patent Monopoly Be
16, 65-7

328For example, in the Connolly, Wall Paper and Wilder cases buyers
asserted the defense against their suppliers.
when it enjoins the violation in a suit instituted by the government.

Are there countervailing considerations which should outweigh this limited value of defense in the enforcement of Congressional policy?

One criterion suggested by Mr. Justice Jackson in weighing the defense as a sanction in the Bruce’s Juices case was whether it was a “rational, nondiscriminatory and appropriate means of making the policy of the statute effective. To allow a buyer to get his goods for nothing because the seller violated the Act by giving someone else a greater discount, does not meet this test.”

The inappropriateness of permitting a person to get something for nothing has continuously reasserted itself as a factor in the history of the defense as applied to the anti-trust laws. While a windfall to the defendant has not been sufficient to bar the defense against enforcement of a contract inherently illegal, the windfall factor has doubtless been important in keeping the defense within fairly narrow bounds. It should be recognized, however, that this consideration has no merit or weight as applied to contracts executory on both sides, or requiring action which will make monopolistic plans effective. Indeed, it would seem that judicial refusal to enforce an executory contract at an illegally rigged price, or an ancillary agreement not to compete when it is one of several designed to monopolize a business, or to enjoin infringement of a patent being used to violate the law, is a most rational and appropriate means of making the statutory policy effective.

The procedural burdens of transforming a simple suit involving private rights into a complicated anti-trust trial, with the tremendous volume of evidence sometimes required, has been adverted to earlier as one consideration which may possibly have influenced the Court in past decisions. Though no Supreme Court opinion has expressly relied upon this factor, it might be thought significant that none of the cases recognizing the defense have involved such burdens. In all of them the violation plainly appeared or was apparently susceptible of ready proof, but the same could be said of those cases in which the Supreme Court rejected the defense. The character of those cases in which the defense has been attempted suggests that the importance of this factor can easily be exag-

329 See 67 S. Ct. at 1019.
330 See supra pp. 520, 521, 523, 528.
331 See supra p. 523.
332 See pp. 520, 529 supra.
generated. While cases are conceivable in which the anti-trust issue would impose an undue burden on the court, out of all proportion to the value of the defense as a sanction, such cases are most unlikely because the financial burden upon the defendant to establish the defense would also be out of all proportion to the value he would derive from it. When proof of the violation would require the extensive and expensive investigation and litigation involved in many government anti-trust actions, no private litigant could or would undertake it except possibly in a treble damage action promising large returns.\(^3\)

The weight which should be given to these and other competing factors will vary with the character of the private right against which the defense is asserted, the general type of violation alleged, the legislative history of the particular statute involved, and the adequacy of its remedies for that type of violation. That such factors will at least be considered seems probable. The Supreme Court's latest word on the defense encourages the belief that in deciding future problems concerning its scope increased attention will be given to such underlying policy considerations and less to the artificial labeling of transactions as collateral or inherently illegal.

\(^{3}\)In case Congress should look with favor on the defense, as in the case of trade-marks, its effective scope could be increased without greatly increasing the judicial burden by amending Section 5 of the Clayton Act to permit judgments in government suits and prosecutions to be used as prima facie evidence of the violation there established when violation is placed in issue as a defense. See (1914) 38 Stat. 731, (1940) 15 U. S. C. 16. Section 5 would be far more effective if the judgment were made conclusive evidence of the violation as originally proposed. See supra note 28. Making it prima facie evidence has permitted the reopening of the entire issue and defeated to some extent the original purpose. See Hamilton and Till, op. cit. supra note 318 at 83. Doubts were raised in Congress as to the constitutionality of giving conclusive effect to the judgment. See (1914) Sen. Rep. No. 698, 63rd Cong., 2d Sess. 45, (1914) 51 Cong. Rec. 13849-58. These doubts failed to distinguish between making one fact conclusive evidence of another and making a judgment conclusive evidence of the facts adjudicated therein when used against a party who has already had his day in court on those issues. Cf. Morgan, Federal Constitutional Limitations Upon Presumptions Created by State Legislation, Harvard Legal Essays (1934) 323.