PROGRESS AS IMPACT: A CONTEMPORARY VIEW OF THE COPYRIGHT AND PATENT CLAUSE
Alina Ng Boyte

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Alina Ng Boyte†

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I. INTRODUCTION

The law recognizes and protects private property rights for several reasons. Property rights give an individual personal autonomy over valuable assets, encourage labor and productivity, ensure democracy, prevent depletion of open-access resources, and allocate limited resources efficiently. Intellectual property rights are also largely instrumental. The broader societal goal supported by intellectual property laws, particularly copyright and patents, is the progress of science (generally taken to mean “systematic and theoretical knowledge”) and the useful arts (generally taken to mean “technology or commercial practices”). The instrumental role of intellectual property is generally recognized as laying the foundation for the exclusive rights that intellectual property owners enjoy and the monopolies that society bears for a temporary time to benefit from the creativity and inventiveness of authors and inventors. Today, this view of intellectual property as instrumental in promoting progress supports a more global understanding that intellectual property contributes towards economic growth and cultural well-being by creating the incentives for authors and inventors to produce and disseminate knowledge and useful inventions to the rest of society. Hence, because

1 Margaret Jane Radin, Property and Personhood, 34 Stan. L. Rev. 957 (1982).
4 Garrett Hardin, The Tragedy of the Commons, 162 Science 1243, 1245 (1968).
6 However, there are natural rights justifications for intellectual property rights based on John Locke’s labor theory that the person who labors to create intangible products would also have property rights in those creations. Wendy J. Gordon, A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property, 102 Yale L.J. 1533, 1540 (1993).
8 Sir Thomas Babington Macaulay’s 1841 speech to the House of Commons about the burdens of copyright law encapsulated this evil so well when he called copyright law “a tax on readers for the purpose of giving a bounty to writers.” Yet, Babington recognized “the necessity of giving a bounty to genius and learning” and to “willingly submit even to this severe and burdensome tax.” Sir Thomas Babington Macaulay, A Speech Delivered in the House of Commons on the 5th of February 1841, in The Miscellaneous Writings and Speeches of Lord Macaulay 609, 613 (1871).
“the progress and well-being of humanity rest on its capacity to create and invent new works in the areas of technology and culture,” legal institutions should recognize and protect intellectual property rights to reward activities that increase this capacity.  

While the progress goals of patent and copyright laws appear settled by case-law, the meaning of “progress” itself is open to different interpretations. Some commentators, looking at the Constitutional embodiment of the progress goal for copyright and patent laws in the United States, argue that the constitutional language imposes limitations on congressional power to pass broad patent and copyright laws that do not have the effect of promoting the progress of knowledge and the state of inventive endeavors. Some commentators argue that the language ensures that Congress has the authority to pass copyright and patent laws that secure rights to authors and inventors for the purposes of promoting progress, while others suggest that the clause

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10 Id.

11 See Mazer v. Stein, 347 U.S. 201, 219 (1954) (the Court refers to copyright as embodying the view that “encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors.” (emphasis added)); Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975) (the Court says that underlying copyright is the understanding that “[c]reative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts.” (emphasis added)); Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984) (the Court, speaking of both copyrights and patents, points out that the “monopoly privileges that Congress may authorize are ... [not] primarily designed to provide a special private benefit. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors . . . by the provision of a special reward.” (emphasis added)); Graham v. John Deere Co., 383 U.S. 1, 6 (1966) (The “constitutional command ... [to] promote the Progress [of Science] ... is the standard expressed in the Constitution and it must not be ignored”); Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932) (“The sole interest of the United States ... lie[s] in the general benefits derived by the public from the labors of authors”).

12 U.S. CONST., art. I, § 8, cl. 8 (stating that “The Congress shall have Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” This clause is known as the “Intellectual Property Clause”).


14 Edward C. Walterscheid, Conforming the General Welfare Clause and the Intellectual Property Clause, 13 HARV. J.L. & TECH. 87, 95 (1999) (stating that the progress clause in the Constitution “was included, not for the purpose of limiting Congress only to the authority to grant patents and copyrights, but rather to assure that Congress would in fact have authority to issue patents and copyrights in addition to
is a mere “preamble, indicating the purpose of the power but not in limitation of its exercise.”15 There are also varied understandings of the targeted goal of progress. These ideas of progress range from increased production of knowledge and inventions qualitatively and quantitatively,16 to their dissemination and spread in society,17 to the creation and dissemination of works that cause no harm and contribute some “serious literary, artistic, political, or scientific value.”18

The thing to note, however, is that society’s progress depends much more on the impact and value generated from the proactive use of intellectual property, rather than on the creation and dissemination of technical knowledge that often lies dormant and unused by the intellectual property holder and society. The mere production and diffusion of patented inventions and copyrighted works will not, by default, create progress nor contribute to any advancement or betterment of society if these inventions and works are not designed to solve a problem in the market or in society, enrich their users, create wealth, or provide their users with transformative experiences.19 A more modern and effective understanding of progress may be to consider activities that generate impactful writings and discoveries as more important than the mere creation or dissemination of these works. This will force creators and inventors to evaluate how the works they create impact markets and societies and encourage lawmakers and policymakers to develop policies and laws that facilitate the creation, dissemination, and use of more impactful works. This will necessitate the distinction between using intellectual property rights as a means of whatever other means it saw fit to use to promote the progress of science and useful arts.”).

15 1 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 1.03[A] (2019) (“This introductory phrase is, in the main, explanatory of the purpose of copyright without, in itself, constituting a rigid standard against which any copyright act must be measured.”); id. § 1.03[B] (“[T]he introductory phrase, rather than constituting a limitation on Congressional authority, has for the most part tended to expand such authority.”) (footnote omitted)).

16 Malla Pollack, What is Congress Supposed to Promote?: Defining “Progress” in Article I, Section 8, Clause 8 of the United States Constitution, or Introducing the Progress Clause, 80 Neb. L. Rev. 754, 756 (2001).

17 Id. at 756–57.


19 The United Nations Sustainable Development Goals of 2015 focus on the integration of the three dimensions of sustainable development: economic development; social development; and environmental protection, with people at the center of sustainable development. These goals are good starting point to think about creating impact through the use of intellectual property. See generally Ved P. Nanda, The Journey from the Millennium Development Goals to the Sustainable Development Goals, 44 Denv. J. Int’l L. & Pol’y 389, 390 (2016) (discussing the development and adoption of the Sustainable Development Goals world-wide).
legal protection and exclusion and, in contrast, as a means to pursue more socially and economically impactful activities. The former produce inefficiencies that at best slow progress and at worst produce deadlocks.\(^{20}\) The latter has the potential to move societies towards more meaningful, connected, and collaborative spaces that become springboards for creativity, innovation, and the solution to some of the world’s most pressing problems.\(^{21}\)

This paper argues that the incentive-welfare functions of patents and copyrights would be enhanced by embracing a more purpose-driven view of inventions and creative expressions. This paper is divided into three parts to show how conceptualizing “progress” as the betterment of society through the use of impactful intellectual property will ultimately benefit both the creator and recipient of the work so that the incentive-welfare function of the law is maximized. Part I of the paper explores the concept of progress as a goal undergirding the patent and copyright systems and shows how the conventional understanding of progress as “creation” or “dissemination” created a widespread view that patents and copyrights are, in essence, legal protections from free-riding market competitors and users of the work. Part II demonstrates how legal protectionism of intellectual property sidelines more productive and lucrative uses of intellectual property to create business value and social impact which, in turn, produce market success, rewards, and the incentives intellectual property owners need to continue to invest in socially desirable and impactful activities. Part III discusses how

\(^{20}\) See Christopher A. Cotropia, *The Upside of Intellectual Property’s Downside*, 57 UCLA L. REV. 921, 925–32 (2010) (describing production reduction and innovation constriction as the downside to intellectual property laws); Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 Harv. L. Rev. 281, 351 (1970) (arguing that copyright protection “can lead to prices higher than necessary to secure production; it can impose large transactions costs; it can even help a firm or group of firms to limit competition throughout an industry.”); Thomas B. Nachbar, *Intellectual Property and Constitutional Norms*, 104 Colum. L. Rev. 272, 354 (2004) (“The average seller of intellectual property makes no more than nominal profits; the intellectual property regime is merely a way to allow intellectual property sellers to charge more than their marginal cost because, for intellectual property producers, selling at marginal cost will always result in a loss. The presence of widespread competition among sellers of intellectual property (especially in the case of copyright) is enough to prevent them from being able to extract supracompetitive rents.”).

\(^{21}\) See Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 Colum. L. Rev. 257–58 (2007) (arguing that positive externalities generated from innovation should be considered a social surplus that cannot be internalized through property rights); Madhavi Sunder, *IP3*, 59 Stan. L. Rev. 257, 289 (2006) (arguing that intellectual property has the potential to shift the balance of inequities around the globe by transferring information and making resource-poor countries information-rich); Mark Schultz & Alec van Gelder, *Creative Development: Helping Poor Countries by Building Creative Industries*, 97 Ky. L.J. 79 (2008).
intellectual property producers can build business value into their copyrights and patents so that their markets recognize and reward them for value-creation and impact and how the United Nations Sustainable Development Goals serve as a metric to assess impact. This article concludes that it is timely and appropriate to expand the understanding of progress to incorporate other concerns for social development and impact as the sole instrumental goal of the copyright and patent systems.

II. THE MEANING OF PROGRESS IN THE IP Clause

The words “to promote the progress of science and the useful arts” serve as the Polaris for the exercise of Congressional power under the intellectual property clause of the Constitution. In *Bilski v. Kappos*, the Supreme Court stated that the clause was “both a grant of power and a limitation,” enabling Congress to reward authors and inventors for producing socially beneficial works and that it “reflect[ed] a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’” The word “progress” by itself is, however, open to interpretation. Legal historians and scholars of intellectual property and constitutional law have proposed various readings of the progress clause to provide guidance on how Congress’s powers under the intellectual property clause should be exercised and to help us evaluate whether congressional acts such as

22 Simone A. Rose, *The Supreme Court and Patents: Moving Toward a Postmodern Vision of “Progress”?*, 23 FORDHAM INT’L J. TRADE & COMP. L. 1197, 1209 (2013) (positing that the Supreme Court in Mayo v. Prometheus began to embrace a broader understanding of progress “by acknowledging access to basic “building-block” research as a fundamental right which sometimes supersedes the presumptive power of patents to incentivize research.”).

23 Goldstein v. California, 412 U.S. 546, 555 (1973) (“The objective [of U.S. CONST. art. I, § 8, cl. 8] is to promote the progress of science and the arts. As employed, the terms ‘to promote’ are synonymous with the words ‘to stimulate,’ ‘to encourage,’ or ‘to induce.’ To accomplish its purpose, Congress may grant to authors the exclusive right to the fruits of their respective works. An author who possesses an unlimited copyright may preclude others from copying his creation for commercial purposes without permission. In other words, to encourage people to devote themselves to intellectual and artistic creation, Congress may guarantee to authors and inventors a reward in the form of control over the sale or commercial use of copies of their works.”).


25 *Id.* at 648.


27 *Id.* at 810.
the Copyright Term Extension Act, which extends the copyright term by 20 years, actually promotes or restricts progress.\textsuperscript{28} The literature on the meaning of progress can be categorized into three broad categories as follows.

A. Creation

In his article, \textit{Congress’s Power to Promote the Progress of Science: Eldred v. Ashcroft},\textsuperscript{29} Lawrence Solum proposed that progress meant the advancement of “learning or the continuation of scientific activity.”\textsuperscript{30} According to Solum, the words “promote the Progress of Science” meant “to encourage the advancement of science or to encourage scientific activity.”\textsuperscript{31} The phrase “encouragement of learning” is synonymous to the progress of science and could be used interchangeably.\textsuperscript{32} Solum identified a subtle difference between progress as the advancement of a process or a cause and progress as an activity. Looking at the first Copyright Act of 1790 and its subtitle, “[a]n Act for the encouragement of learning,” Solum suggested that “the first Congress believed that the promotion of the progress of science meant encouragement of learning, and therefore, . . . to ‘promote the Progress’ of a given activity was to ‘encourage’ that activity.”\textsuperscript{33} Given this interpretation, Solum believed that when the Constitution gave Congress the power to promote progress, it empowered Congress to encourage the process of creating and inventing and not the results of creative and inventive activities.\textsuperscript{34}

Edward Walterscheid also suggested that the word “progress” means, and was intended by the founders at the 1787 Constitutional Convention to mean, “advancement in science and the useful arts, including through the efforts of writers and inventors in creating new

\textsuperscript{28} Lawrence B. Solum, \textit{Congress’s Power to Promote the Progress of Science: Eldred v. Ashcroft}, 36 \textit{Loy. L.A. L. Rev.} 1, 63–78 (2002); \textit{See} generally Mitchell, \textit{supra} note 13, at 1651 (arguing that the “progress-promoting clause [should be read] as a grant of power,” and not as an “end” or “objective” to “which Congress may legislate. This reading allowed the Court [in Eldred v. Ashcroft] to avoid closely considering whether the CTEA actually promotes progress and instead to skip directly to a rational basis review of the CTEA, focusing on the “limited Times” language of the IP Clause--a review the Court performed with the usual extreme deference to Congress.”).

\textsuperscript{29} Solum, \textit{supra} note 28, at 45–46.

\textsuperscript{30} \textit{Id.}

\textsuperscript{31} \textit{Id.}

\textsuperscript{32} \textit{Id.}

\textsuperscript{33} \textit{Id.}

\textsuperscript{34} \textit{Id.}
writings and finding out new discoveries of a utilitarian nature.”

To Walterscheid, “the [Progress] Clause was intended to provide an incentive for advances in science and the useful arts through encouragement of the intellectual efforts of writers and inventors.”

Michael Birnhack offers a more expansive and nuanced view of progress which goes beyond the creation of creative and inventive works by first-in-place authors and inventors that are often romanticized as sole genius creators. In his article, The Idea of Progress in Copyright Law, Birnhack argues that progress means building up the existent state of knowledge and removing impediments to the acquisition of it. As Birnhack points out, there are two metaphors in copyright that capture this meaning of progress. The first, Birnhack calls “On The Shoulders Of Giants, or simply OTSOG” describes new acquisitions of knowledge from creators and inventors, “giants of the past.” Change, and as a result progress, occurs when we rely on knowledge created by our predecessors to enable us to “see even further ahead.” The second metaphor, which Birnhack calls “building,” describes the production of knowledge as a human enterprise involving many authors and inventors who lay “bricks” over the bricks (or the works) of others and build on each other’s works as equals. Birnhack concludes by suggesting that we should think about “copyright law as a legal space that addresses the knowledge process: the creation, dissemination, and use of knowledge.”

B. Diffusion or Spread

Malla Pollack’s article, What is Congress Supposed to Promote?, advances the idea that the word “progress” in the intellectual property clause means spread, diffusion, or distribution. Pollack argues that “Congress may only create temporary individual rights for ‘authors’ or

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36 Id.
37 See Martha Woodmansee, The Genius and the Copyright: Economic and Legal Conditions of the Emergence of the 'Author', EIGHTEENTH-CENTURY STUDIES, Summer 1984, at 425, 426.
39 Id. at 53.
40 Id. at 41–43.
41 Id. at 43.
42 Id. at 46.
43 Id. at 56.
44 Pollack, supra note 16, at 754.
45 Id. at 755.
‘inventors’ to exclude others from use of ‘their respective writings and discoveries’ when such individual rights ‘promote’ the spread of knowledge . . . and technology . . . .” Looking at dictionaries, the Pennsylvania Gazette, and the “Idea of Progress” literature, Pollack attempted to glean the meaning of the word as it would have been understood and used in the 18th century when the Constitution was drafted. She asserts that the “ordinary American of 1789 was most likely to have read ‘progress’ in the Progress Clause of the Constitution to mean ‘spread.’” Other scholars, such as Joshua Mitchell, understand progress to mean a qualitative advancement of knowledge and technology but also the dissemination of such works. As Mitchell puts it, “[a] work that advances knowledge in some field but is not disseminated cannot be said to have promoted progress in any meaningful sense. Similarly, a work that is disseminated among the masses but that does not expand the boundaries of knowledge is not progress promoting.”

C. Advancement

Another body of literature advances the view that the word “progress” means an advancement of science and the useful arts. Mitchell understood the word to mean a qualitative advancement of knowledge and technology. Other scholars such as Sean O’Connor, argue that progress encouraged through copyright and patent laws must be bounded by “fields in which demonstrable progress can be shown,” which would exclude the fine arts and many of the works that copyright law protects. To O’Connor, these were fields “based on taste or sentiment [that] could not be shown to ‘progress.’” These fields would also lead to “impossible value judgments for granting exclusive rights,” the type of judgment that the Supreme Court was reluctant to make in Bleistein v. Donaldson Lithographing Co.

Barton Beebe also makes the point that the progress clause did not include the fine arts. Where “science” in the clause was generally considered in the 18th century to encompass “systematic theoretical and

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46 Id. at 756.
47 Id. at 794–809.
48 Id. at 809.
50 Id.
51 Id. at 1657.
52 O’Connor, supra note 26, at 740–41.
53 Id. at 787.
54 Id. at 820–21.
56 Beebe, supra note 6, at 323–24.
empirical knowledge” and “useful arts” protected “technology or commercial practices,”57 “it was [also] well recognized at the time that neither category encompassed the fine arts.”58 Courts have, however, construed the progress clause to include the fine arts and aesthetics59 and Beebe points out that this has resulted in two different standards for what constitutes progress.60 In patent law, progress means advancement over previous knowledge because it is easier to make qualitative judgments about whether a work “supersedes, refines, or supplements previous” ones.61 But for copyright protected works, many of which are artistic and aesthetic, the standard is the accumulation of works and the goal is to encourage the creation of as many works as possible.62 In Beebe’s words, “[t]he weak accumulationist account of aesthetic progress retreats to the quantitative in an effort to disengage from the qualitative.”63

Datan Oliar reads “progress” as a limitation, and not a non-binding preamble, to Congress’s exclusive rights granting powers.64 As a result of this limitation, Oliar argues that Congress is bound to promote progress through the laws it passes to protect authors and inventors.65 Oliar argues that if the progress clause was seen as a limitation on congressional power, the Supreme Court in Eldred v. Ashcroft would have decided that the Copyright Term Extension Act was not a constitutional exercise of power under the intellectual property clause because goals that do not specifically relate to the promotion of progress would not have been considered legitimate goals.66 Oliar does not, however, touch on what progress means as a verb so it is unclear from his article whether the limitation he argued for meant that Congress’s power extended to passing laws that increased the production of works and the diffusion of works or whether Congress’s powers were even more specifically limited to encouraging the promotion of works that advanced knowledge and the state of technology.

57 Id. at 323.
58 Id.
59 Beebe, supra note 7, at 325.
60 Id. at 325–26.
61 Id. at 345.
62 Id. at 346.
63 Id.
64 Oliar, supra note 13, at 1776.
65 Id. at 1831–32 (arguing that Congress would need to show that its goals underlying the Copyright Term Extension Act can be checked against “some objective indicia for the promotion of progress that go beyond Congress's subjective belief.”).
66 Id. at 1832 (stating that the Court in Eldred allowed Congress to pursue goals such as “the improvement of foreign balance of trade and the achievement of international uniformity of laws” while passing CTEA, goals which would not have been allowed if the in-pursuit-of-progress limitation was read into the Constitution).
Ned Snow, in his article *The Regressing Progress Clause*, argues that the progress clause should be used to disqualify copyrightable works from legal protection if their content fails to promote or impedes progress.\(^{67}\) Snow argues that commentators and courts have construed the progress of science to be the “creation and spread of [general] knowledge and learning”\(^{68}\) and “implie[d] that any sort of content is eligible for copyright protection” even if the content offends public morals or is harmful.\(^{69}\) Snow posits that the purpose of copyright law is not to encourage creativity in authors but to encourage the advancement of useful content.\(^{70}\) A normative reading of the progress clause would necessitate that only works demonstrating “at least a modicum of social value rather than those that would regress Science and useful Arts” should be encouraged.\(^{71}\) Snow advocates for content discrimination through the progress clause and maintains that “resources that the government invests in creating and maintaining a monopoly system should not advance that which is wasteful, harmful or otherwise regressive to society.”\(^{72}\) While Snow does not explicitly state what might amount to actual progress, his idea that the progress clause lays out a standard for value-judgement and content-discrimination to prevent works that are “otherwise regressive to society” indicates that, to him, progress means an advancement and betterment from the status quo.\(^{73}\)

**D. As Interpreted by the Court**

In *Golan v. Holder*,\(^ {74}\) the Supreme Court examined Section 514 of the Uruguay Round Agreements Act (URAA), which grants copyright protection to works protected in their country of origin but lack protection in the United States for any of the following three reasons: (1) they originated from a country that did not enjoy protection from the United States at the time they were published; (2) they were sound recordings fixed before 1972; or (3) the author had not complied with certain U.S. statutory formalities.\(^ {75}\) The plaintiffs, who were orchestra conductors, musicians, publishers, and other users of these works in the public domain, argued that Congress, in passing § 514, exceeded its

\(^{67}\) Snow, *supra* note 18, at 53.

\(^{68}\) See, e.g., *id.* at 39 (quoting *Golan v. Holder*, 565 U.S. 302, 324 (2012)).

\(^{69}\) *Id.*

\(^{70}\) *Id.* at 50–51.

\(^{71}\) *Id.* at 56.

\(^{72}\) *Id.* at 56–57.

\(^{73}\) *Id.*


\(^{75}\) *Id.* at 307.
authority under the Copyright Clause. The Court considered the plaintiffs’ claim that Congress lacked the authority, under the progress clause, to enact § 514 because the removal of works from the public domain meant that the plaintiffs did not have the content to create works of their own, which, in turn, restricted the creation of new works. Rejecting the argument, Justice Ginsburg stated that the progress clause did not limit the provision of incentives to just the creation of new works; the clause also encouraged the dissemination of works. To the Court in Golan, “progress” meant the creation and dissemination of creative works.

Because of the difficulty of measuring the effect of creative works on the state of existing knowledge in any qualitative way, for the copyright system, the courts take “progress” to mean the creation and spread of knowledge. Earlier, in Sony v. Universal City Studios, the Supreme Court stated that copyright law served an “important public purpose,” which is “to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” The Court’s focus here seemed to be on the creation of works through copyright laws. The Court in Harper & Row Publishers, Inc. v. Nations Enterprises Inc. a year later stated that copyright laws passed under the intellectual property clause are “intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” The Court examining the purpose of copyright said that “[b]y establishing a marketable right to the use of one's expression, copyright supplies the economic incentive ‘to create and disseminate ideas.’” These copyright cases have tended to focus on the act of creating and disseminating creative works as the impetus for progress.

Patent cases go a step further beyond just the creation and dissemination of works. As the Supreme Court explained in Graham v. John Deere, progress means “[i]nnovation, advancement, and things which add to the sum of useful knowledge” that might support a

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76 Id. at 307–08.
77 Id. at 324–25.
78 Id. at 325–26.
79 See id.
81 Id. at 429.
83 Id.
84 Id. at 558.
competitive economy.\textsuperscript{86} These elements of progress “are inherent requisites in a patent system which by constitutional command must ‘promote the Progress of [the] useful Arts.”\textsuperscript{87} The Court in \textit{KSR v. Teleflex}\textsuperscript{88} made a similar observation that “[g]ranting patent protection to advances that would occur in the ordinary course without real innovation retards progress.”\textsuperscript{89} More recently, the Supreme Court in \textit{Bilski v. Kappos} said that novelty, non-obviousness, and patent disclosures exist to “serve a critical role in adjusting the tension, ever present in patent law, between stimulating innovation by protecting inventors and impeding progress by granting patents when not justified by the statutory design.”\textsuperscript{90} The view that progress is achieved through innovation aligns more with scholarly commentary that progress should be an advancement from the status quo.\textsuperscript{91} In contrast, courts construe progress with copyright law, which is more aligned with creation and spread.\textsuperscript{92} This may be because of the difficulty of making qualitative assessments when it comes to creative works, as O’Connor argues.\textsuperscript{93}

\section*{III. Progress as Impact}

Construing the word “progress” in the intellectual property clause as the creation, diffusion, or advancement of knowledge and technology is a good springboard for thinking about what we hope to achieve through copyrights and patents.\textsuperscript{94} Encouraging authors and inventors to produce quantitatively more and qualitatively better works is a good thing for society.\textsuperscript{95} Building intellectual capital, spreading knowledge, improving technological practices, and providing others with an education yield many beneficial outcomes to the public.\textsuperscript{96} However, encouraging the creation and dissemination of more and better works to

\begin{thebibliography}{99}
\bibitem{86} Graham v. John Deere Co., 383 U.S. 1, 6 (1966).
\bibitem{87} \textit{Id}.
\bibitem{89} \textit{Id.} at 419.
\bibitem{90} \textit{Bilski v. Kappos}, 561 U.S. 593, 609 (2010).
\bibitem{91} O’Connor, \textit{supra} note 26 at 810
\bibitem{92} \textit{Id.} at 771.
\bibitem{93} \textit{Id.} at 786–87.
\end{thebibliography}
society through the grant of exclusive rights does not necessarily advance progress.97

Creating and disseminating creative and inventive works may encourage progress in the field,98 heighten current standards of knowledge and technology,99 and even advance the state of the industry.100 But there is an important distinction between (1) advancing the current state of knowledge, technical skills, and technological know-how and (2) advancing the human condition and well-being of members of society that the literature has yet to make.

A. History of Progress as Impact

A paragraph in the earliest copyright statutes of Massachusetts, New Hampshire, and Rhode Island equates progress with the advancement and “improvement of knowledge, the progress of civilization, and the advancement of human happiness.”101 This differs from progress measured against qualitative or quantitative advancements of knowledge and technical skills. Instead, in these early preambles to state copyright acts, the focus was on a more effective and practical outcome, i.e., the improvement of society as a whole, as a young United States tried to figure out the best and cheapest way of directing creative, innovative, and entrepreneurial activity towards important sectors, such as manufacturing and agriculture, to build the nation.102

97 See Tim Wu, Intellectual Property, Innovation, and Decentralized Decisions, 92 VA. L. REV. 101, 103–04 (2006) (“While we may accept that intellectual property offers strong ex ante incentives to innovate . . . there is a flip-side danger of too much centralization of decisionmaking. . . . For example, in 1892, the United States granted an exceptionally broad patent to Thomas Edison for his light bulb. The result was to centralize light bulb decisionmaking in the Edison company for approximately twelve years. The results were not inspiring. Improvement in incandescent lighting became a one-company show, and many competitors were put out of business.”).


99 Sunder, supra note 21, at 332 (“[A] cultural theory of intellectual property recognizes not only the symbiotic relationship between technology and intellectual property, but also views intellectual property—including its technology policy—within a context of cultural development and social movements, from the rise of identity politics to the elaboration of Knowledge Societies and the rumblings of a New Enlightenment.”).

100 Wu, supra note 97, at 113 (discussing how intellectual property rights affect “product development decisions in the industries influenced by intellectual property”).

101 Oliar, supra note 13, at 1807.

Creative thinking, innovation, and entrepreneurial activity are more important than the creation and dissemination of creative and inventive works if the outcome or progress we hope to achieve is the improvement of society.\textsuperscript{103} The improvement that the founding fathers sought through copyrights and patents was to build a young nation,\textsuperscript{104} encourage creativity and innovation in important sectors,\textsuperscript{105} and find a way to promote progress of science and the useful arts.\textsuperscript{106} The intellectual property clause served a purpose in the Constitution but it was not so much as a recognition of the powers that Congress had to promote progress as it was an instruction on how Congress had to achieve progress.\textsuperscript{107} Progress that might have built a young nation coming up in the 18th century could be achieved in many ways\textsuperscript{108} and the grant of patents and copyrights may not have been the most effective way of encouraging creative, innovative, and entrepreneurial activity necessary to encourage industrial innovation.\textsuperscript{109}

Edward Walterscheid hypothesizes that the grant of exclusive rights was the most cost-effective and pragmatic way for the government to “encourag[e] the rise of manufacturing while providing the desired pecuniary incentive to inventors and authors.”\textsuperscript{110} As a member of the public at that time observed, the intellectual property clause, “[a]s to those monopolies, which, by way of premiums, are granted for certain

\textsuperscript{103} Aaron X. Fellmeth, \textit{Uncreative Intellectual Property Law}, 27 \textit{Tex. Intell. Prop. L.J.} 51, 55 (2019) (arguing that “[t]he widespread belief that intellectual property law exists primarily to promote creativity is a myth. A nuanced examination of the relevant statutes, and of the long history of jurisprudence interpreting them, leads to the conclusion that creativity is not really at the core of intellectual property law at all.”).

\textsuperscript{104} Walterscheid, \textit{supra} note 102, at 34.

\textsuperscript{105} Id.

\textsuperscript{106} Id. at 45–48.

\textsuperscript{107} Id. at 33 (“The clause was intended not so much as an express authority to promote the progress of science and the useful arts, but rather as a means of ensuring authority to do so in a particular way, namely, by securing exclusive rights for limited times to authors and inventors in their respective writings and discoveries.”).

\textsuperscript{108} Building the right environment for healthy competition (as opposed to monopolies) is one way to advance a sector in the economy. Fellmeth, \textit{supra} note 103, at 55–56 (“While creativity is not irrelevant to these bodies of [patent and copyright] law[s], the popular claim that promoting creativity is the sole or primary purpose of either copyright or patent law is misconceived.”). \textit{See also} Rafi Mohammed, \textit{The Taxi Industry Can Innovate, Too}, \textit{Harv. Bus. Rev.} (February 13, 2015), https://hbr.org/2015/02/the-taxi-industry-can-innovate-too (arguing for the need to deregulate the taxicab industry and for taxicabs to start innovating to continue to be relevant).

\textsuperscript{109} Walterscheid, \textit{supra} note 102, at 33 (noting that “a strong movement would arise in Europe in the nineteenth century that would argue that [the granting of exclusive rights for limited times in writings and inventions or discoveries] was precisely the wrong way to encourage industrial innovation.”).

\textsuperscript{110} Id. at 34.
years to ingenious discoveries in medicine, machines, and useful arts; they are common in all countries, and more necessary in this, as the government has no resources to reward extraordinary merit.”\(^{111}\)

Patent and copyright laws may be the most efficient way to achieve progress through the creation and dissemination of intellectual works in the hopes that they advance knowledge and technological practices for the benefit of society.\(^{112}\) Encouraging the creation and dissemination of these works will, economists posit, produce dynamic economic efficiencies resulting in improvements over the existing state of technological skills and knowledge.\(^{113}\) Efficiency is, however, not the same as effectiveness.\(^{114}\) And encouraging the creation and dissemination of creative works through patent and copyright laws is not necessarily the most effective and direct way to promote progress in society, create industrial transformations, and improve the human condition.\(^{115}\) For example, one wonders how society would progress if someone invented and patented any of these things, all of which actually received a patent:

[A] face mask to prevent a person from eating, a bird diaper, an apparatus for simulating a ‘high five,’ an air conditioning unit for a shoe (to keep one's feet cool), a method of swinging on a swing, an electronic toilet queue, a dust cover for a dog, and a method of exercising a cat by using a laser pointer (like a flashlight) on the floor and moving the beam of light so the cat chases it.\(^{116}\)

Producing and disseminating copyrighted and patented works without thinking of how they will impact the market, industry, or economy will not promote progress especially if there is nothing in the law that premises the grant of exclusive rights on innovative and

\(^{111}\) Id. at 56.

\(^{112}\) ROBERT P. MERGES, JUSTIFYING INTELLECTUAL PROPERTY 6 (2011) (saying that “[e]fficiency is an important goal in any area of the law, and IP is no exception. The imprint of this important principle is all over IP law; in fact many aspects of the social practice known as IP law cannot be effectively explained without reference to the principle of efficiency.” Merges then goes on to categorize efficiency as a second-order rather than foundational goal of the intellectual property systems.).


\(^{114}\) Id. at 998–99 (explaining that “The more absolute the property right given to original authors and inventors, the more critical efficient licensing is to subsequent innovation, and the more sensitive the industry is to market failures in licensing.”).


creative thought by the inventor author. As Aaron Fellmeth shows, intellectual property laws themselves do not compel creativity or innovativeness. While patents and copyrights encourage inventiveness and creativity, the specific right-granting provisions of the law do not require that the author show that there was some form of creative thinking or innovation that led to the creation of the work. This thereby discounts the “claim that promoting creativity is the sole or primary purpose of either copyright or patent law.” Fellmeth further asserts that “not only are these bodies of law not about creativity, it is not even accurate to speak of them as “incentivizing” in the first place in that the exclusive rights granted by the law are, instead of a reward, just a cost-effective way for the government to correct an imperfect market for public goods where there is susceptibility to free-riding.

B. Alternative Methods of Promoting Progress

The grant of patents and copyrights to encourage the creation and dissemination of knowledge and technological skills is not the only way to promote the progress of science and the useful arts. Exploring better and more effective ways of achieving the goal of progress is beneficial to society. Two questions arise if, as Walterscheid argued, the copyright and patent clause was intended to only provide the authority to Congress to promote progress in a very specific mode i.e., “by securing exclusive rights for limited times to authors and inventors in their respective writings and discoveries.” The first question is how would the government promote progress more effectively if not through its authority to grant exclusive rights to authors and inventors under the intellectual property clause? Second, how do we think about progress more practically in contemporary societies when the creation and dissemination of knowledge and technological know-how through copyrights and patents do not always improve the human condition or benefit society as a whole?

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117 Fellmeth, supra note 103, at 91–92.
118 Id. at 84–88 (describing how creative and innovative thinking is not a prerequisite to the grant of a patent or a copyright).
119 Id.
120 Id. at 56.
121 Id.
122 See id. at 93–95. See also Walterscheid, supra note 102, at 34–35.
123 Walterscheid, supra note 102, at 33.
124 Margaret Chon, Intellectual Property and the Development Divide, 27 CARDOZO L. REV. 2821, 2823 (2006) (stating that “the field of development economics suggest[s] strongly that intellectual property should include a substantive
1. Promoting Progress Effectively

Randall Holcombe pointed out that there is a difference between progress and growth.\textsuperscript{125} Growth, such as economic growth, is measured by an increase in key economic indicators such as income growth.\textsuperscript{126} Progress, on the other hand, is measured by changes in types of output and methods of production as well as an improvement in human welfare.\textsuperscript{127} Holcombe noted the increase and growth in the quantity of output is a direct result of “changes in both the nature of output and the processes,” which Holcombe considers to be progress.\textsuperscript{128} Progress in one sector of the economy also has an impact on other sectors as the benefits from one sector overflows into another.\textsuperscript{129} In his observations about the growth of the automobile industry, Holcombe said:

The growth of the automobile industry in the twentieth century illustrates the importance of changes in both production processes and the types of goods produced. Economic progress meant enhancing people’s transportation options by making automobile travel available to a large segment of the population, changing the type of output. Assembly line production allowed a substantial increase in the output of automobiles per worker. But focusing on the growth in output per worker obscures the more important fact that the types of goods produced, and the way they were being produced, had been substantially transformed within that span of a century.\textsuperscript{130} (emphasis added)

It is important in our thinking about progress to realize that growth and progress are not synonymous.\textsuperscript{131} Growth is necessarily an incidental consequence of progress but it is also possible to have growth without achieving any form of progress.\textsuperscript{132} As Holcombe points out: “[e]conomic analysis has tended to focus on growth—the production of increasing amounts of output—so it is important to see the distinction

\textsuperscript{125} Randall Holcombe, Progress and Entrepreneurship, Q. J. Austrian Econ., Fall 2003, at 3, 8.
\textsuperscript{126} Id. at 4.
\textsuperscript{127} Id.
\textsuperscript{128} Id. at 6.
\textsuperscript{129} Id. at 7.
\textsuperscript{130} Id.
\textsuperscript{131} Id. at 8.
\textsuperscript{132} Id.
between growth and progress, and to see that in the long run, progress brings with it growth, but growth does not necessarily imply progress.”

To promote progress effectively requires governments to figure out its sine qua non so it can create the conditions essential to have not just incremental growth but actual progress that enhances lives and improves the human condition. Having healthy innovation policies in place, encouraging creative thinking, and supporting entrepreneurial activities are more central to building a competitive economy and would be more effective in promoting progress than growing a knowledge base and technological know-how quantitatively and qualitatively without considering how those outputs actually impact society. This illustrates that the exclusive rights granted through patent and copyright laws are not the only way to create and build a competitive economy, but they are also a pragmatic, and cost effective way to do so.

John Dewey’s ideas on progress would help governments understand their role in promoting it outside of the intellectual property system. Dewey discussed two observations in his paper, *Progress.* The first is progress is not the product of social change but rather of people who decide to make social change a priority. The second observation is the “ease of social change is a condition of progress.” Dewey goes on to restate his point that “while social change … represents an indispensable condition of progress, it does not present a guarantee for progress. The latter depends upon deliberate human foresight and socially constructive work.” If governments take Dewey’s points about progress seriously, they would direct and invest more resources into creating the conditions in which human beings could decide to make progress a priority.

Often the people with the greatest direct impact on progress turn out not to be authors and inventors, but rather entrepreneurs. Holcombe
pointed out that much of progress is a direct result of entrepreneurship.\textsuperscript{142} Entrepreneurial activities uniquely focus on developing and innovating new types of products and services (outputs) that satisfy customer desires and transform their experiences, while at the same time finding more profitable and innovative methods of production.\textsuperscript{143} Governments committed to promoting progress must find ways to support and encourage entrepreneurs and provide them with the environment that allows for creative thinking and innovation.\textsuperscript{144}

The promotion of progress does not have to center on the grant of intellectual property rights. While exclusive rights are efficient in encouraging the production and dissemination of creative and inventive works, they do not directly encourage entrepreneurship.\textsuperscript{145} For progress, having intellectual property rights is helpful but having entrepreneurship is essential.\textsuperscript{146} The government should build the space to help entrepreneurs think creatively and be innovative, engage in multi-disciplinary or cross-industrial collaboration, develop human-centric designs, and give them the opportunity to effectively meet market needs through quick trials and errors and the redesigns of products or services.\textsuperscript{147} Promoting and facilitating entrepreneurship and helping entrepreneurs bring their product or service to the market is the most effective way to promote progress without granting exclusive rights to authors and inventors.\textsuperscript{148}

\section*{2. Thinking About Progress Practically}

The exclusive rights granted and protected by patents and copyright laws can be an efficient and cost-effective way of promoting progress for the government. But patents and copyrights \textit{per se} do not generate entrepreneurial activity so essential to progress because they target authors and inventors and not entrepreneurs.\textsuperscript{149} The right to make

\textsuperscript{142} Id. at 4 (“The changes in types of output and methods of production that create economic progress are the result of entrepreneurship...”).

\textsuperscript{143} Id. at 9.

\textsuperscript{144} Id. at 19.

\textsuperscript{145} Bilski, 561 US at 651.

\textsuperscript{146} Holcombe, \textit{supra} note 125, at 10.


\textsuperscript{148} See generally Walterscheid, \textit{supra} note 35, at 376 (2004) (suggesting that the promotion of entrepreneurship can be effective for progress, as opposed to granting individuals exclusive rights).

copies under §106(a) of the Copyright Act\textsuperscript{150} might be valuable to an author who just completed a novel and would like to assign that right to a publisher but the reproduction right but may not even encourage entrepreneurial activity, which centers more on idea generation, market testing, marketing, and sales,\textsuperscript{151} none of which require an assignment of an exclusive right to exclude to proceed.\textsuperscript{152} In addition, asserting—or even expecting partners to enter into a non-disclosure agreement—might turn off potential partners who might otherwise work with an entrepreneur.\textsuperscript{153} Emphasizing and trading in exclusive rights over creative and inventive works would be at odds with entrepreneurship that is more “opportunity obsessed, holistic in approach, and leadership balanced” than rights-based.\textsuperscript{154} And progress through entrepreneurship must be a product of high-creativity, experimentation, failure and reinvention in order to obtain value, not just for the entrepreneur, but for all participants and stakeholders in the process.\textsuperscript{155}

A more practical understanding of progress through the grants of patents and copyrights must take into account the fact that the entrepreneurial process depends less on the creation and dissemination of knowledge and technological know-how and skills to generate value. Instead, at the heart of the entrepreneurial process is market analysis and the “recognition of opportunities, followed by the will to seize these opportunities,” calculated risk-taking, creative thinking (as opposed to creative production), innovation (as opposed to invention), and the design of products and services that have market resonance.\textsuperscript{156} The reward here is market success and pay-out, not for the production and

\textsuperscript{150} 17 U.S.C. § 106(a) (2018).

\textsuperscript{151} Hobbs, supra note 149, at 3 (“the entrepreneurial process is fundamentally about dynamic change in the manner in which services and products are created and/or recreated. The entrepreneur recognizes possibilities for building a business or organization, seeks the resources necessary for bringing the enterprise into existence, and successfully develops plans for bringing the service or product to market.”).

\textsuperscript{152} Adam Mossoff, Exclusion and Exclusive Use in Patent Law, 22 HARV. J.L. & TECH. 321, 327 (2007) (“the Federal Circuit has stated bluntly that it is “elementary” that “a patent grants only the right to exclude others and confers no right on its holder to make, use, or sell” an invention”).

\textsuperscript{153} Brad Bernthal, Investment Accelerators, 21 STAN. J.L. BUS. & FIN. 139, 144 (2016) (“Many industry professionals would not become mentors if formality were required. Professional investors active in entrepreneurial finance, for example, refuse to sign NDAs and confidentiality agreements in order to avoid the risk of liability. Investors and certain entrepreneurs, moreover, will not enter into direct agreements for compensation because they would violate an express or implied duty of loyalty agreement to work solely for a primary employer.”).

\textsuperscript{154} Hobbs, supra note 149, at 20.

\textsuperscript{155} Id. at 3.

\textsuperscript{156} Id. at 4.
dissemination of products and services, but for the impact the product or service has on the market, the lives of its users, and society.  

Implicit in this entrepreneurial process is the ability for entrepreneurs to learn, especially from unsuccessful attempts at innovation and bringing a product or service to fruition.  

A more practical approach to thinking about progress through entrepreneurial activity is to identify how these activities—risk-taking, creative-thinking, market-testing—may be directed towards improving society and creating a space where learning and relearning can happen.  

Thinking of the progress of science and the useful arts in a more practical way can be used to improve society. The way intellectual property rights are currently used, as a right to exclude used to exert monopolistic control over the market, had not been as effective as entrepreneurial activity in moving industries, the economy, and society towards something better and in improving social welfare. An increment in the production and dissemination of patents and copyrights may be used as a measure for economic growth. But, as Holcombe rightfully pointed out, growth is not synonymous with progress, and the correlation between intellectual property production and an increase in industrial and economic activity does not establish a causal link between intellectual property production or dissemination and progress.  

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157 Id. at 11.  
159 Tom Kelley & David Kelley, Creative Confidence: Unleashing the Creative Potential Within Us All 50–52 (2013) (describing how successful entrepreneurs embrace and learn from failure).  
162 Holcombe, supra note 125, at 4, 8 (“If one wants to use economic analysis to understand how human welfare has improved over time, and how it can continue to be improved, then the analysis must focus on progress, broadly defined, rather than narrowly on income growth.”).  
163 Walterscheid, supra note 102, at 36 (“There is a natural tendency to suggest that the dramatic increase in patenting activity in England from 1760 onward correlates well with the increase in economic and industrial activity resulting from the industrial revolution. While no hard evidence has been developed that the Framers were in fact cognizant of such a correlation, nonetheless, they undoubtedly were aware of the significant increase in industrial and economic activity in Great Britain and sought to provide a framework of governance that would permit the national
A different benchmark is needed to help decide when intellectual property rights actually promote progress and improve social welfare. As entrepreneurial activity emerges as the sine qua non of progress, understanding the value of patents and copyrights to entrepreneurs becomes important because how entrepreneurs use these exclusive rights and how their value is perceived by an entrepreneur will have a direct effect on entrepreneurship and ultimately, progress.\(^{164}\)

As human beings whose entrepreneurial activities and determination to improve the human condition contribute to a better society and advance social welfare, people have a direct effect on how we progress collectively, whether as a community, a country or as global citizens, and our use of resources must be responsible.

Garrett Hardin’s seminal 1968 essay on “the tragedy of the commons” describes the unfortunate consequence of having a common pasture that was unowned and made accessible to everyone.\(^{165}\) Hardin explained that when a common open-access resource is shared by many people, each user’s self-interest will cause him to maximize his use of the commons as much as possible, often at the expense of the rest of the community.\(^{166}\) When every user tries to capture all the benefit of the resource for himself while imposing the cost of his use on everyone else in the community, the resource is overused and becomes depleted.\(^{167}\) In Hardin’s words, “Each man [becomes] locked into a system that compels him to increase his herd without limit–in a world that is limited.”\(^{168}\) This is the tragedy of the commons.\(^{169}\) As Hardin points out, when people are allowed to pursue self-interest in an open-access commons, the overuse of the resource will lead to ruin.\(^{170}\) To avoid the tragedy, Hardin proposes implementing access and use controls of the underlying resource.\(^{171}\)

The tragedy of the commons has been used by some courts and scholars to justify intellectual property rights.\(^{172}\) The justification goes
government to provide incentives similar to those perceived to be associated with Great Britain’s patent system”).

\(^{164}\) See RANDALL HOLCOMBE, ENTREPRENEURSHIP AND ECONOMIC PROGRESS 1, 38 (2007).

\(^{165}\) Hardin, supra note 4, at 1244.

\(^{166}\) Id.

\(^{167}\) Id.

\(^{168}\) Id.

\(^{169}\) Id.

\(^{170}\) Id. (“Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all.”).

\(^{171}\) See id. at 1245–46.

something like this: because intellectual property works like copyrightable material, can be overexposed and their value whittled down, intellectual property rights are necessary so that these works can be efficiently exploited in the market and the intellectual property owner able to decide on the conditions of use.\textsuperscript{173} For example, William Landes and Richard Posner stated that “all valuable resources, including copyrightable works, should be owned, in order to create incentives for their efficient exploitation and to avoid overuse.”\textsuperscript{174} In response, Mark Lemley pointed out “[t]his ‘tragedy of the information commons’ theory is not only distinct from, but indeed largely at odds with, the classic incentive story” because “on this explanation, intellectual property rights exist not to encourage the creation and dissemination of an idea, but to suppress efficiently the overuse of the idea”\textsuperscript{175} (emphasis added).

The tragedy of the commons argument should not be used to justify broad expansion of intellectual property rights because intellectual property is not prone to depletion in the same way as physical and real property.\textsuperscript{176} However, Hardin’s notion that open-access resources can be ruined because of overuse and overexploitation applies to entrepreneurship, as well as the generation and testing of innovative ideas that can make the lives of their users better, happier, healthier, and more productive.\textsuperscript{177} As successful entrepreneurship depends on the sharing of ideas, collaboration, and group ownership of a product,\textsuperscript{178} it becomes important to recognize property rights in the collective so that: (1) the collective can market test their product or service with the assurance that they have a means of preventing unauthorized use by someone who is not a member of the collective and (2) to allow the collective to make an impact without interference when the product or

\begin{footnotesize}
\begin{enumerate}
\item[173] See id.
\item[174] William M. Landes & Richard A. Posner, \textit{Indefinitely Renewable Copyright}, 70 U. CHI. L. REV. 471, 474–75 (2003) (“[W]e show that just as an absence of property rights in tangible property would lead to inefficiencies, so an absence of copyright protection for intangible works may lead to inefficiencies because of congestion externalities and because of impaired incentives to invest in maintaining and exploiting these works.”).
\item[175] Lemley, \textit{supra} note 172, at 142.
\item[176] Dan L. Burk, \textit{Law and Economics of Intellectual Property: In Search of First Principles}, 8 ANN. REV. L. & SOC. SCI. 397, 406 (2012) (“[T]hat intellectual property does not immediately appear to be scarce or depletable in the sense that common pool real property is inevitably depleted--this is almost the definition of a non-rivalrous good. If there is no scarcity, then it would seem that there could be no tragedy; the good is effectively inexhaustible, and so a mechanism to allocate the resource would be not only unnecessary but counterproductive, imposing exclusivity where there had been open access.”).
\item[177] See generally id. at 405.
\item[178] See Kelley & Kelley, \textit{supra} note 159, at 186–90.
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\end{footnotesize}
service is eventually introduced in the market.\textsuperscript{179} When market-entry happens, market exploitation of the work becomes the entrepreneur’s priority and the exclusive rights granted by copyrights and patents allow the entrepreneur to act as a gate-keeper and decide who gets to exploit the now publicly-accessible product or service.\textsuperscript{180} The exclusive rights provide the entrepreneur and the rest of the public with a clear bright line of when and in what conditions the intellectual property can be exploited.\textsuperscript{181} This right to exclude is important, not because the information itself is prone to overuse and ruin, but because information overuse could result in a less valuable product or service in the market when the resources used to produce it are scarce and limited.\textsuperscript{182}

As intellectual property rights support entrepreneurial activity by ensuring that the product or service remains valuable once it is introduced into the market, governments can use these rights to ensure that they promote progress. It is essential that intellectual property rights protect the value of the entrepreneurship by making sure that scarce entrepreneurial resources that go towards producing products and services that improve human welfare are not depleted or ruined.\textsuperscript{183} The consequence of letting entrepreneurial resources deplete and ruin will disincentivize entrepreneurial activity essential to progress.\textsuperscript{184} In order to ensure that intellectual property rights create the necessary environment for entrepreneurship to thrive, they should be used judiciously by entrepreneurs as well.\textsuperscript{185} Products and services that entrepreneurs put into the market and society only have progressive value if they are able to create an impact, change user experience, and create market resonance.\textsuperscript{186} Products and services entrepreneurs introduce into the market also have to be designed well to attract

\textsuperscript{179} Burk, supra note 176, at 402.

\textsuperscript{180} Henry E. Smith, Intellectual Property as Property: Delineating Entitlements in Information, 116 YALE L.J. 1742, 1817 (2007) (“The exclusion strategy’s delegation of the gatekeeping function to owners is particularly important when the uses behind the gate are costly to delineate or even to foresee.”).

\textsuperscript{181} Burk, supra note 176, at 406.

\textsuperscript{182} Smith, supra note 180 at 1758.


\textsuperscript{184} Id.


\textsuperscript{186} See Nish Acharya, A Progressive Agenda For Entrepreneurship And Job Creation in America, FORBES (Mar. 14, 2019), https://www.forbes.com/sites/nishacharya/2019/03/14/a-progressive-agenda-for-entrepreneurship-and-job-creation-in-america/#7ed233777eb5 (arguing that progressive values in entrepreneurship will be required in the next phase of the American economy).
customers and a loyal following. To enable entrepreneurs to capture the market value of their product or service, entrepreneurs must be taught and encouraged to create products and services that have an impact on society and on the market.

Using the intellectual property clause to promote progress through entrepreneurial activity requires us to rethink some of the standards in copyright and patent law. There may need to be more emphasis placed on the creativity and innovation which underlie entrepreneurship and the process of bringing a product or service to the market. The originality standard may have to be revised to require a higher standard of creativity than that established by the Supreme Court in Feist Publications, Inc. v. Rural Telephone Services Co. The requirement that a patent be novel and non-obvious may also have to be revised to require more creative thinking and innovation than that required by Graham v. John Deere Co. and the cases that follow. While a lot can be written about how to change the legal standards to satisfy the idea of progress as impact and whether such changes would be constitutional and within the purview of the courts, that important analysis will have to be in a separate paper.

IV. MEASURING IMPACT

Two important metrics for measuring progress in terms of economic growth is gross national product and gross domestic product. Using intellectual property’s impact on GDP is a more effective measure of economic and societal progress than qualitative and quantitative assessments for the creation and dissemination of intellectual works.

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188 See Acharya, supra note 186 (identifying cross sections between entrepreneurs and progressive social impact ideology).
189 Fellmeth, supra note 103, at 55 (arguing that the purpose of intellectual property law is not to incentivize creativity).
191 See Graham v. John Deere Co., 383 U.S. 1, 17 (1966) (determining patentability requires consideration of the invention’s novelty, utility, and obviousness to one of ordinary skill in the art).
Impact has a more direct connection to progress than creation and dissemination.\footnote{194} But how do we measure impact and how do we know that the entrepreneurial activity we try to promote actually improves social welfare and enhances the human condition? One way to ensure that we as a society, a nation, and a part of the global community achieve progress is to use metrics that lead us to peace, prosperity, and environmental sustainability.\footnote{195} These are goals that ensure that we collectively progress and are able to sustain our existence on the planet. In order to direct entrepreneurial activity towards these goals and progress, the United Nations Sustainable Development Goals (SDG) should be used to help us make that paradigm shift.\footnote{196} The seventeen goals\footnote{197} that world leaders unanimously approved in September 2015 should be central to the progress we want to achieve as people, a country and a global citizenry. These goals are guideposts framing how we as a global citizenry progress toward a more sustainable future and how we should address these global challenges.\footnote{198}

When entrepreneurship focuses on developing products and services that address the sustainable goals, the effect of entrepreneurial activities on progress is direct.\footnote{199} For example, an entrepreneur who develops an app to support wellness by connecting medical providers with people who need them finds an innovative way to address health concerns and address the 3rd SDG goal of good health and well-being. In that process, the entrepreneur contributes to progress in the health sector, but the entrepreneurial activity will produce benefits that also improve complementary sectors like technology, education, and poverty as people become more health conscious and more productive and engaged in other areas of their lives. The SDG targets are good metrics to guide entrepreneurial activity toward a specified outcome. For example, one of the targets for “zero hunger” is to “end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient

\footnote{194 See supra Part II.B.}
\footnote{195 See id.}
\footnote{196 See id.}
\footnote{197 The 17 Goals, https://sdgs.un.org/goals (last visited Oct. 11, 2020). These goals are: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation, and infrastructure, reduced inequalities, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institutions, and partnerships.}
\footnote{198 Id.}
\footnote{199 Id.}
food all year round” by 2030. For entrepreneurs in the food and agriculture industry, this target provides important and actionable metrics that will let the entrepreneur keep track of their activity and where they need to direct their actions and create impact.

V. CONCLUSION

As the pace of change accelerates and society moves faster, it has become imperative to have an idea of where we would like to go. As a society, we can either progress or regress, and the choice is up to us as people to choose our destination. Progress, as Dewey pointed out, is not change and depends a lot on “human foresight and socially constructive work.” As we consider scientific progress and development of the useful arts under the intellectual property clause, the disconnect between acts of creating and disseminating works and social and economic progress becomes apparent. A better solution would be to identify the activities that actually have an effect on progress and bring those within the ambit of the intellectual property clause.

200 Id.
201 Id.
202 Dewey, supra note 136, at 315.
FROM THE TRAIL OF TEARS TO TAM: HOW UNITED STATES TRADEMARK LAW FAILS NATIVE AMERICANS

Lindsay R. Johnson† & Mary-Kathryn Hawes‡

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ABSTRACT

The power of trademarks has long been evidenced in American society. Trademarks wield tremendous commercial and social power, capitalizing on the psychological function and effect of symbols to provide legal protection to brands. Yet, what happens when an entity creates and owns a trademark that is a representation of a people or race who have no connection to the entity, makers of the product, or the product itself? What happens when a brand misappropriates Native American culture and imagery in its trademark because it is commercially advantageous? Should trademark protection be extended to a brand that publicly reinforces misconceptions and stereotypes? Prior to 2017, section 2(a) of the Lanham Act barred trademark registration for disparaging trademarks. However, in 2017, the Supreme Court held in Matal v. Tam that the disparagement clause of section 2(a) unconstitutionally violated the First Amendment. Not only did the Matal v. Tam decision extend trademark protection to disparaging trademarks (such as the Redskins), it also facilitated the continued misappropriation of Native American culture in trademarks. At the least, it is disheartening that the Lanham Act aims to protect the goodwill that a brand has amassed over the years yet refuses to recognize and protect the cultural goodwill that Native Americans have built over centuries. This Article explores the treatment of Native Americans through trademarks, analyzes the impact of the Matal v. Tam decision on current and future protection of Native American culture, and proposes a legal solution that seeks to balance Native American cultural rights with the First Amendment right to freedom of speech.

I. INTRODUCTION

In 2005, the American Psychological Association (“APA”) published a resolution recommending the immediate retirement of American Indian mascots, symbols, images, and personalities by schools, colleges, universities, athletic teams, and organizations. The APA relayed conclusive findings of the negative social and psychological impact of the use of such symbols in organizational settings. Amongst these negative psychological, social, and organizational effects, the APA reported that the continued use of such symbols not only “undermines the ability of American Indian Nations
to portray accurate and respectful images of their culture, spirituality, and traditions,"² but serves as a form of “discrimination against Indigenous Nations” that may violate the “civil rights of American Indian people[.]”³

In its resolution, the APA acknowledged that racism and racial discrimination are attitudes and behaviors that are “learned and . . . threaten human development.”⁴ The continued use of American Indian mascots, symbols, images, and personalities by organizations not only serves as an avenue through which such attitudes and behaviors are learned, but also establishes “unwelcome” and “hostile . . . environments” that “undermine the . . . experiences of members of all communities—especially those who have had little or no contact with Indigenous peoples.”⁵

Considering these findings, the continued misappropriation, registration, and commercial use of Native American representations as trademarks provides an interesting study in the modern treatment of a marginalized group through both commerce and the law. Prior to 2017, section 2(a) of the Lanham Act prevented trademark registration for disparaging marks.⁶ However, in Matal v. Tam⁷ (“Tam”) the Supreme Court held that the disparagement clause in section 2(a) of the Lanham Act unconstitutionally violated the First Amendment.⁸ The Tam decision facilitates the continued marginalization and disenfranchisement of Native Americans. In light of the Tam decision, the Lanham Act serves as a safe harbor and provides commercial protection for brands that misappropriate Native American culture.

This Article first discusses the important psychological role trademarks play in society. Next, this Article analyzes current legal protections afforded to Native American intellectual property and trademarks through the Indian Arts and Crafts Act. This Article then considers how the recent Supreme Court decision in Tam shapes the landscape of current and future protection of Native American intellectual property and culture. Finally, this Article addresses the deficiencies of solutions under the Lanham Act and proposes a legal solution that seeks to balance the protection of Native American peoples and tribal groups with the First Amendment right to free speech.

² Id.
³ Id.
⁴ Id.
⁵ Id.
⁸ Id. at 1751.
II. THE PSYCHOLOGY OF TRADEMARKS

A. Overview

“The protection of trade-marks [sic] is the law’s recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them.”

Trademarks wield tremendous commercial and legal power. Not only do trademarks serve as source identifiers, they direct commerce by acting as imbues of value and meaning in the minds of consumers while simultaneously providing legal protections to brands. Undoubtedly, trademarks influence consumer choices daily, and thus, trademarks have innate psycho-social characteristics that play a significant role in commerce and intellectual property protection under United States law.

Trademark law, and invariably trademark protection, is premised on the psychological assumption that the exposure to such marks will trigger ideas and emotions in the mind of a consumer. Both the registration process and protection afforded to trademarks by their governing body of law affirm the role of these psychological aspects. This impact is further evidenced by the common requests of circumstantial evidence and surveys used to distinguish consumer response to marks in various legal tests under the Lanham Act.

Thus, in the quest to create a successful trademark, commercial entities and service providers have turned to various modes of investigation—such as neuromarketing—to study the psychological effects and efficacy of brands and branding techniques. Through such studies, branding experts and psychologists have discovered that consumers transfer feelings about a product’s trademarks to the product itself, and experts have identified a physical correlate between the

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10 See, e.g., Jessica Litman, Breakfast with Batman: The Public Interest in the Advertising Age, 108 YALE L.J. 1717, 1730 (1999) (“The argument that trade symbols acquire intrinsic value—apart from their usefulness in designating the source—derives from consumers’ investing those symbols with value for which they are willing to pay real money.”).
11 Id.
14 Tushnet, supra note 12, at 508.
consumer experience before and after a consumer is exposed to the trademark.\textsuperscript{15}

Repetitive exposure to a mark improves its credibility within the human mind and has been linked to very real neurological changes, which can “transform ‘objective’ sensory information, such as taste, in a consumer’s memory, prior to the judgement process, and after the consumer ha[s] tasted the product.”\textsuperscript{16} Exposure to the mark transforms the consumer’s perception of their objective experience, thereby altering the experience itself. For example, one study found that in a blind taste test, 51% of test subjects preferred Diet Pepsi, while only 44% preferred Diet Coke.\textsuperscript{17} Conversely, in a branded taste test, 65% of subjects preferred Diet Coke, while 23% preferred Diet Pepsi.\textsuperscript{18} In the branded taste test, the subjects were “tasting the trademark.”\textsuperscript{19} Repeated exposure to a trademark allows the mark to control a piece of the consumer’s mind and solidifies power of the mark. As marketers often contend, “the strongest brands in the world own a place in the consumer’s mind.”\textsuperscript{20}

B. The Psychological Difference Between Design and Word Marks

Design marks are processed more efficiently in the human brain than word marks. The human mind responds to and processes visual stimuli quicker and more effectively than any other type of data, including words.\textsuperscript{21} Specifically, visuals are processed 60,000 times faster than text.\textsuperscript{22} Researchers have also found that it takes a twentieth of a second for consumers to form opinions and biases about websites.\textsuperscript{23}

\begin{thebibliography}{23}
\bibitem{15} Id. at 514.
\bibitem{16} Id. at 515.
\bibitem{17} Id. at 513, n. 20 (citing Sanjoy Ghose & Oded Lowengart, Taste Tests: Impacts of Consumer Perceptions and Preferences on Brand Positioning Strategies, 10 J. TARGETING, MEASUREMENT & ANALYSIS FOR MKTG. 26, 30 (2001)).
\bibitem{18} Id.
\bibitem{19} Id. at 513–14.
\bibitem{20} Tushnet, supra note 12, at 516.
\bibitem{22} Gillet, supra note 21.
\bibitem{23} Tushnet, supra note 12, at 508, n.1 (citing Gitte Lindgaard et al., Attention Web Designers: You Have 50 Milliseconds to Make a Good First Impression!, 25 BEHAV. & INFO. TECH. 115, 115 (2006) (stating the results of a study on visual appeal)).
\end{thebibliography}
Thus, visual information conveyed through design marks is not only processed more quickly than information contained in word marks, but design marks also almost instantly evoke an opinion in the consumer’s mind. After this initial opinion is formed, cognitive biases make it easier for consumers to reinforce the initial opinion gleaned from the design mark, as opposed to considering new information that might undermine or change their initial assessment.

Because of the immediate and lasting impact of visual stimuli, it is difficult for Native Americans, as an already marginalized and disenfranchised group, to reclaim and take control of negative cultural or racial stereotypes used in design marks. Individually, these design marks create microimpressions that, collectively, reinforce Native American stereotypes based in culture and identity. When non-Native entities register and use design marks that culturally appropriate visual representations of Native Americans, the registrant can change, shape, and control the meaning of an identity and culture. This kind of appropriation leads to an immediate and effective dilution or misrepresentation of the meaning of a people’s identity and cultural products.

From the earliest days of colonization, some Americans have sought to strip Native Americans of their culture and identity, and trademark law is no exception. By permitting non-Natives to misappropriate Native American culture in design marks and subsequently register and use these marks in commerce, United States trademark law facilitates the stripping of Native American’s control over their identity, consequently eviscerating their ability to commercially use and advance their own cultural products and identity. At best, these marks deliberately suggest a misleading source identifier that strategically exploits, for commercial advantage, the identity of a race and culture. At worst, these marks mock, demean, and crudely characterize a group that has been systematically oppressed for centuries.

24 Id.
25 Id.
26 Id.
29 RESOLUTION, supra note 1, at 1.
C. The Psycho-Socio-Economic Effects of Misappropriation of Racial Representations in Design Marks

The psychological effects of repeated exposure to misappropriating marks have far-reaching implications on intellectual property rights and trademark law. Non-Native use and registration of marks using Native American representations not only undermines the ability of American Indians to portray accurate and respectful images of themselves and their culture, but it also directly affects how Native Americans are treated in society.\textsuperscript{30} The appropriation of Native American identity through design marks is especially damaging, considering that these marks have the ability to convey a more detailed, immediate message that remains in the human psyche and dominates judgment heuristics.\textsuperscript{31}

Moreover, the psycho-social repercussions of trademarks containing ethnic slurs and stereotypical representations of Native Americans are cyclical and invidious.\textsuperscript{32} Research compiled and submitted by psychology professors in an \textit{amicus curiae} brief to the United States Supreme Court in \textit{Harjo v. Pro-Football, Inc.}\textsuperscript{33} demonstrated that members of a group subject to ethnic slurs were more likely to be segregated into ethnic neighborhoods, deemed suitable for hazardous work, and portrayed to children in negative ways, among other social and economic consequences.\textsuperscript{34} Specifically, research relating to the use of Native American mascots, and subsequently trademarks, showed that the images not only perpetuated a narrow and false public perception of American Indian culture and identity, but they also diminished and degraded the Native American identity itself.\textsuperscript{35} Even when the stereotyped individual did not personally believe the stereotype, these adverse effects remained, potentially because such stereotypes dehumanize and trivialize Native American culture.\textsuperscript{36} This degradation of identity has been internalized by Native Americans, leading to higher rates of depression and suicide.\textsuperscript{37}

The socio-economic and commercial implications for Native Americans of this kind of cultural appropriation, identity representation, and cultural disparagement through trademarks is dire. Not only do

\begin{itemize}
\item\textsuperscript{30} \textit{Id.} at 2.
\item\textsuperscript{31} Tushnet, supra note 12, at 508, 513–14.
\item\textsuperscript{33} 558 U.S. 1025 (2009).
\item\textsuperscript{35} \textit{Id.} at 11–12, 14–15.
\item\textsuperscript{36} \textit{Id.} at 18.
\item\textsuperscript{37} \textit{Id.} at 12.
\end{itemize}
these design marks psychologically disempower a class of individuals with a long history of persecution and discrimination, but they place Native Americans at a particular disadvantage. By permitting non-Native individuals and companies to capitalize on and profit off of Native American cultural misappropriation, these design marks render Native Americans the victims of economic exploitation. Logically, if a consumer sees ten products featuring Native representations as design marks on a shelf, and only one of the products was actually created by Native Americans, the likelihood of commercial success for that Native product is less than if there was only one product that both featured a Native representation as a design mark and was actually a Native product. Because trademark law seeks to prevent unfair competition and minimize likelihood of confusion between competing marks, it inherently follows that the misappropriation of Native American likenesses and identities on non-Native products or services undermines that purpose.

Ultimately, the government has a substantial interest in ending the legal, economic, and psychological exploitation, discrimination, and stereotyping of Native Americans and their culture due to the history of oppression and exploitation in the United States. Although exploitation of Native Americans through trademarks should not deserve governmental protection, the Lanham Act, in the wake of Tam, currently provides a safe harbor for such misappropriation. However, Congress has demonstrated its willingness to serve this compelling government interest of protecting Native Americans by passing both the Indian Arts and Crafts Acts of 1935 and 1990.

III. THE INDIAN ARTS AND CRAFTS ACT

A. Background and Legislative History of the Indian and Crafts Acts of 1990

Pursuant to the Indian Arts and Crafts Act of 1935 (“IACA 1935”), the Indian Arts and Crafts Board (“IACB”) was created by Congress38 to “promote the economic welfare of Indian tribes and the Indian wards of the Government through the development of Indian arts and crafts and the expansion of the market for the products of Indian art and craftsmanship.”39 IACA 1935 was specifically enacted to improve the economic status of Native Americans, establish and expand marketing opportunities for Indian people, and assist Indian tribes in developing a

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framework to support the preservation and evolution of tribal cultural activities.\textsuperscript{40} Through IACA 1935, the IACB was empowered to create a government trademark of genuineness, register trademarks in the United States Patent and Trademark Office ("USPTO") without charge, and establish standards and regulations for the use of such trademarks.\textsuperscript{41}

IACA 1935 also established criminal penalties for counterfeiting and misrepresenting the IACB’s trademark of genuineness in the sale of Indian-produced goods and products.\textsuperscript{42} Specifically, the language of Section 6 of IACA 1935 provides that:

\begin{quote}
[a]ny person who shall willfully offer for sale any goods, with or without any Government trademark, as Indian products or Indian products of a particular Indian tribe or group, resident within the United States or the Territory of Alaska, when such person knows such goods are not Indian products or are not Indian products of the particular Indian tribe or group, shall be guilty of a misdemeanor and be subject to a fine not exceeding $2,000 or imprisonment not exceeding six months, or both such fine and imprisonment.\textsuperscript{43}
\end{quote}

Unfortunately, IACA 1935 was without teeth because little enforcement action was taken.\textsuperscript{44} Thus, when Congress considered enacting the Indian Arts and Crafts Act of 1990 ("IACA 1990"), Congress had little quantitative data on whether the IACB assisted Native American artists in the registration of trademarks or instituted criminal actions against infringers under section 6.\textsuperscript{45}

However, Congress was ultimately provided information on the sales of Indian arts and crafts.\textsuperscript{46} In 1985, the United States Department of Commerce issued a report estimating that the annual sale of Indian arts and crafts totaled several hundred million dollars.\textsuperscript{47} The report further detailed that unmarked, foreign imitations of Indian arts and crafts took advantage of the essentially unregulated industry, “siphoning off 10 to 20 percent of the market for genuine handicrafts

\begin{footnotes}
\footnote{\textsuperscript{40} H.R. REP. NO. 101-400(i), at 4 (1990) [hereinafter HOUSE REPORT 1990].}
\footnote{\textsuperscript{41} Id.}
\footnote{\textsuperscript{42} IACA 1935 § 5.}
\footnote{\textsuperscript{43} Id. § 6.}
\footnote{\textsuperscript{45} HOUSE REPORT 1990, supra note 40, at 4.}
\footnote{\textsuperscript{46} Id.}
\footnote{\textsuperscript{47} Id. at 4–5.}
\end{footnotes}
produced domestically.“This amounted to an estimated theft of forty to eighty million dollars a year from the genuine manufacturers’ markets.

The Department of Commerce report played a significant role in the enactment of IACA 1990, as Congress elected to expand the scope of IACA 1935 in order to effectively protect Native Americans from infringement. Congress revised IACA 1935 to expand the powers of the IACB to include registration of trademarks on behalf of any “Indian Individual, Indian Tribe or group,” instead of maintaining the IACA 1935 standard of registering a single government trademark for genuineness for use on all Indian products. This amendment permitted the IACB to register trademarks for Native Americans with the USPTO free of charge and to establish standards and regulations for the use of government-owned trademarks. Moreover, IACA 1990 extended the IACB’s enforcement capacity and permitted the United States Attorney General, rather than local district attorneys, to bring enforcement actions. Further, IACA 1990 allowed the IACB to refer complaints to the FBI for investigation.

Some of the most significant additions to IACA 1990 involved stricter criminal and civil penalties for the misrepresentation of Indian products and provided a host of remedies for Native American litigants. IACA 1990 increased criminal fines and penalties for entities that “knowingly” misrepresent their goods as Indian products. Notably, IACA 1990 added a civil cause of action for misrepresentation that permits aggrieved parties to obtain injunctive relief, punitive costs of the lawsuit, reasonable attorneys’ fees, damages (including treble damages), and an alternate remedy of no less than $1,000 for each day on which a violation continues.

IACA 1990 also added an amendment to 18 U.S.C. § 1159(a) that closely parallels the false designation provision of section 43(a) of the Lanham Act. The words “in a manner that falsely suggests” were specifically added to 18 U.S.C. § 1159(a), which governs the criminal

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48 Id.
49 Id.
50 Id.
51 Id. at 5–6.
52 Id. at 4.
53 Id. at 6.
55 Id. at 235.
56 Id. at 240–41.
57 Id.
fines imposed for the misrepresentation of Indian produced goods and products.\textsuperscript{59} Crucial to this language is that it is unlawful to “offer or display for sale or sell any good, with or without a Government trademark, in a manner that falsely suggests it is Indian produced . . . .”\textsuperscript{60} Together, these additions to IACA 1990 created a civil cause of action that incentivized private enforcement of the Indian Arts and Crafts Act.

**B. It Is Beneficial for Plaintiffs to Bring Claims Under the Indian Arts and Crafts Act of 1990 Because There is a Lower Burden of Proof**

Section 1159, in conjunction with 25 U.S.C. § 305(e) and 18 U.S.C. § 1158 of IACA 1990, which permit aggrieved parties to seek minimum statutory damages, affords Native Americans a significant advantage over litigants who pursue false advertising claims under the Lanham Act or related state law.\textsuperscript{61} Under IACA 1990, litigants may bring a civil or criminal suit against violators of the truth-in-advertising law and its trademark provisions.\textsuperscript{62} However, unlike the showing of proof required under the Lanham Act or other related state laws, plaintiffs bringing claims under the criminal and civil sections of IACA 1990 are not required to prove damages.\textsuperscript{63}

This lowered burden of proof significantly helps Native American litigants, as it is often difficult to prove actual harm stemming from the use or misuse of an identity mark or a design mark containing a Native American representation.\textsuperscript{64} This standard is indicative of the dual purpose of IACA 1990 which, as expressed in the legislative history, is to preserve both (1) the market for American Indian arts and crafts and (2) Native American culture itself.\textsuperscript{65}

**C. Deficiencies of the Indian Arts and Crafts Act of 1990**

IACA 1990 is not without critics. While some scholars interpret IACA 1990 as preventing the unauthorized appropriation of Native

\textsuperscript{59} § 1159(a).

\textsuperscript{60} Id.

\textsuperscript{61} 25 U.S.C. § 305(e); 18 U.S.C. §§ 1158 (2009); § 1159.

\textsuperscript{62} Protection of Products of Indian Art and Craftsmanship, supra note 38.

\textsuperscript{63} See id.

\textsuperscript{64} See Mark Trahant, Native American imagery is all around us, while the people are often forgotten, NAT’L GEOGRAPHIC (Oct. 5, 2018), https://www.nationalgeographic.com/culture/2018/10/indigenous-peoples-day-cultural-appropriation/ (discussing how Native American culture and symbols are used in the United States).

American “property” in the form of Native American identity, others dismiss this notion as farfetched, concluding there is no evidence that Congress intended to recognize Native American identity as a property right. While IACA 1990 does not explicitly confer a property right in identity, IACA 1990 does attempt to protect the intellectual property of an oppressed culture and legislate cultural survival.

Further, many Native Americans object to what they consider to be the “chilling effect” of IACA 1990 on the production of Indian arts and crafts. IACA 1990 limited its definitions of “Indian,” “Indian tribe, band, nation,” and “Indian group” to people enrolled in a tribe or those that have proof of state or federal recognition. Certainly, this limited definition deters non-Native entities that wish to exploit and benefit from the sale of Native look-a-like products. However, for Native Americans that have chosen not to register with a tribe or for tribes who have not received formal state or federal recognition, these limited definitions are problematic and exclude unregistered peoples from IACA 1990’s protection. Though final regulations interpreting IACA 1990 were promulgated in November 1996, many questions remain unresolved about protection under IACA 1990 in areas such as collaborative works between Native Americans and non-Natives, Native American owned factories and the products produced from such factories, and Native Americans creating products overseas.

Additionally, while IACA 1990 does not require Native American plaintiffs to prove damages, plaintiffs may still be required to prove an injury in fact in order to meet Article III standing requirements. The Seventh Circuit in Native American Arts, Inc. v. Peter Stone Co. reaffirmed the Supreme Court’s recent decision in Spokeo, Inc. v. Robbins and underscored that despite the lowered burden under IACA 1990, a plaintiff must prove a concrete injury—even in the context of a statutory violation—to have Article III standing.

Notably, while the Seventh Circuit cited the Supreme Court’s decision in Spokeo as support for ruling against the plaintiff in Native American Arts, Spokeo did not pertain to an IACA 1990 plaintiff or

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66 Id. at 1028–29.
68 Id. at 1035.
70 Hapiuk, supra note 65, at 1034.
71 Id. at 1037.
72 See infra Part V.C.1.
75 Native Am. Arts, 222 F. Supp. 3d at 646.
involve any specific considerations afforded to plaintiffs under IACA 1990.\textsuperscript{76} Even though the Seventh Circuit rejected the argument that a violation of IACA 1990 was sufficient to confer Article III standing, other circuit courts, including the Ninth Circuit, have reached the opposite conclusion.\textsuperscript{77} Thus, some jurisdictions may have more favorable standing requirements for IACA 1990 plaintiffs.\textsuperscript{78}

D. The Indian Arts and Crafts Act of 1990 Provides a Base to Protect Native American Trademark Rights

Even with these deficiencies, IACA 1990 provides an excellent base from which narrowly tailored amendments can be made to protect Native American intellectual property. Such amendments can prevent the misappropriation and exploitation of Native American representations in trademarks. The use of IACA 1990 and the IACB to regulate and protect Native American intellectual property and cultural identity provides distinct advantages over solutions under the Lanham Act, especially in light of the Supreme Court’s recent decision in \textit{Matal v. Tam}.

IV. THE SUPREME COURT’S DECISION IN MATAL V. TAM DENIES NATIVE AMERICANS EFFECTIVE TRADEMARK PROTECTION UNDER THE LANHAM ACT

A. The Case: \textit{Matal v. Tam}

Section 2(a) of the Lanham Act bars trademark registration for a mark that “consists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt or disrepute.”\textsuperscript{79} In determining whether a mark is considered disparaging, the USPTO engages in a two-prong analysis.\textsuperscript{80} First, the examining attorney analyzes the:

likely meaning of the matter in question, taking into account not only dictionary definitions, but also the relationship of the matter to the other elements in the mark, the nature of the goods or services, and the manner

\textsuperscript{76} \textit{Spokeo}, 136 S. Ct. at 1549.
\textsuperscript{77} Johnson, \textit{supra} note 44.
\textsuperscript{78} \textit{Id}.
\textsuperscript{80} Matal v. Tam, 137 S. Ct. 1744, 1753 (2017).
in which the mark is used in the marketplace in connection with the goods or services.\(^{81}\)

If the examining attorney finds that the mark referred to persons, institutions, beliefs, or national symbols, the examining attorney then explores “whether that meaning may be disparaging to a substantial composite of the referenced group.”\(^{82}\) If the examining attorney finds that a “substantial composite” of the referenced group would find the mark disparaging, then a prima facie case of disparagement is made and the burden shifts to the applicant to demonstrate that the mark was not disparaging.\(^{83}\)

On June 19, 2017, the Supreme Court in *Matal v. Tam* unanimously concluded that the disparagement clause of section 2(a) of the Lanham Act violated the First Amendment.\(^{84}\) The Supreme Court was confronted with the ideal case for abolishing the disparagement clause: favorable facts and a compelling plaintiff. In *Tam*, a rock band consisting of Asian-American musicians wanted to trademark their band name, “The Slants.”\(^{85}\) While “slants” is a derogatory term for Asian-Americans, the band wanted to use the term in their name to create a positive association and reclaim the term.\(^{86}\) The USPTO denied The Slants’ application based on the disparagement clause in section 2(a), finding that a number of dictionaries defined “slants” as a “derogatory or offensive” term and that a substantial composite of people found the term offensive.\(^{87}\)

After granting certiorari, the Supreme Court first rejected the government’s argument that trademarks are government speech, not private speech, and thus, section 2(a) was immune from a First Amendment challenge.\(^{88}\) The Supreme Court reasoned that the government neither creates nor edits trademarks prior to registration.\(^{89}\) Further, an examining attorney does not evaluate whether a mark aligns with government policy or the viewpoints of other marks on the

\(^{81}\) *Id.* (quoting TMEP § 1203.03(b)(i) (8th ed. Apr. 2017)).

\(^{82}\) *Id.* at 1753–54.

\(^{83}\) *Id.* at 1754.

\(^{84}\) *Id.* at 1751.

\(^{85}\) *Id.*

\(^{86}\) *Id.*

\(^{87}\) *Id.* at 1751, 1754.

\(^{88}\) *Id.* at 1754; *see e.g.*, Pleasants Grove City v. Summum, 555 U.S. 460, 467 (2009). Government speech is not regulated by the First Amendment, given that the government essentially adopts a viewpoint when it takes a position and it would be “paralyzing” for the government to have to engage in viewpoint neutrality. *Tam*, 137 S. Ct. at 1757.

\(^{89}\) *Tam*, 137 S. Ct. at 1758.
Principal Register. Instead, an examining attorney engages in a content-neutral evaluation and cannot deny an application unless the mark meets one of the statutory exceptions to registration. Third parties are responsible for challenging the mark prior to registration. The Court found that trademarks traditionally have not been used to convey a government message and there is no evidence to suggest that the public associates the government with trademarks. The Court noted that:

[It] is far-fetched to suggest that the content of a registered mark is government speech. If the federal registration of a trademark makes the mark government speech, the Federal Government is babbling prodigiously and incoherently. It is saying many unseemly things. It is unashamedly endorsing a vast array of commercial products and services. And it is providing Delphic advice to the consuming public.

Analogously, if the Supreme Court found that trademarks were government speech, then the same should necessarily apply to copyrights. The Supreme Court rejected the government’s distinction that First Amendment protections should remain in place for copyrights because copyrights are “the engine of free expression.” Instead, the Supreme Court went beyond the traditional notions of trademarks as source identifiers and found that trademarks, like copyrights, “often have an expressive content.” Ultimately, as the Supreme Court succinctly stated, “[t]rademarks are private, not government, speech.”

After the Supreme Court determined that trademarks were not government speech, the opinion proceeded in three separate concurrences, with each Justice concluding that the disparagement...
clause was unconstitutional viewpoint discrimination. First, Justice Alito rejected the government’s argument that the trademark registration process was analogous to a government-provided subsidy or government program. While the Supreme Court has occasionally found that viewpoint discrimination within government subsidy programs is constitutionally permissible, trademark registrations are not such a case. Even though the government expends funds by operating the USPTO, the government does not subsidize the registration of trademarks; thus, viewpoint discrimination is impermissible. While the disparagement clause “applies equally” to marks on either side of an issue, denial of “disparaging” marks is viewpoint discrimination because “[g]iving offense is a viewpoint.”

After disposing of the government speech issue, Justice Alito declined to address whether trademarks constituted commercial speech. Instead, he found that even if trademarks are considered commercial speech, the disparagement clause could not survive Central Hudson review because the disparagement clause is not “narrowly drawn.” The idea that the government has an interest in preventing offensive speech “strikes at the heart of the First Amendment.” Justice Alito concluded that “[s]peech that demeans on the basis of race, ethnicity, gender, religion, age, disability, or any other similar ground is hateful; but the proudest boast of our free speech jurisprudence is that we protect the freedom to express ‘the thought that we hate.’”

While the government tried to pass Central Hudson review by asserting that they had a substantial interest in “protecting the orderly flow of commerce,” given that trademarks can be analogized to...

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99 See id. at 1760–65 (Justice Alito concurring with three justices); id. at 1765–69 (Justice Kennedy concurring in part and concurring in judgment with three justices); id. at 1769 (Justice Thomas concurring in part and concurring in judgment). Justice Gorsuch did not participate in the decision of the case. See id.
100 Id. at 1760–63.
101 Id. at 1760.
102 Id. at 1761.
103 Id. at 1763.
104 Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm’n, 447 U.S. 557, 566 (1980). Central Hudson is a form of intermediate scrutiny utilized for commercial speech. Id. at 573. Central Hudson is essentially a four-prong test, asking: (1) whether the expression is protected by the First Amendment and concerns lawful activity that is not misleading, (2) whether the asserted governmental interest is substantial, (3) whether the regulation directly advances the governmental interest asserted, and (4) whether the regulation is more extensive than necessary to serve that interest. Id. at 566.
105 Tam, 137 S. Ct. at 1764.
106 Id.
107 Id. (quoting United States v. Schwimmer, 279 U.S. 644, 655 (1929) (Holmes, J., dissenting)).
discriminatory conduct, Justice Alito rejected such an argument.\textsuperscript{108} Because the disparagement clause “reaches any trademarks that disparages any person, group, or institution,” it is not narrowly drawn and necessarily fails Central Hudson review.\textsuperscript{109} Thus, Justice Alito concluded that the disparagement clause in section 2(a) violated the free speech clause of the First Amendment.\textsuperscript{110}

In a separate concurrence, Justice Kennedy wrote for four Justices and argued that the disparagement clause clearly implicated First Amendment protections for viewpoint discrimination, considering that “[a] subject that is first defined by content and then regulated or censored by mandating only one sort of comment is not viewpoint neutral.”\textsuperscript{111} Further, the concurrence rejected the Government’s argument that the disparagement clause is viewpoint neutral because an examining attorney rejects a mark on the basis of the applicant’s audience’s reaction, and not the individual applicant’s views.\textsuperscript{112} The dissonance between the Government’s interpretation that this is a disparaging trademark and the Slants’ desire to reclaim the racial slur “confirms the constitutional vice of the statute.”\textsuperscript{113}

Justice Kennedy noted that regardless of whether trademarks are considered commercial speech, trademarks denied under the disparagement clause are necessarily subject to heightened scrutiny because of viewpoint discrimination.\textsuperscript{114} This concurrence also avoided the question of whether trademarks are commercial speech, though Justice Kennedy asserted that “[t]o the extent trademarks qualify as commercial speech, they are an example of why that term or category does not serve as a blanket exemption from the First Amendment’s requirement of viewpoint neutrality.”\textsuperscript{115}

Justice Thomas also wrote a short concurrence, arguing that regardless of whether speech is commercial, strict scrutiny is appropriate where the government regulates speech based on the idea it conveys.\textsuperscript{116} Following the Tam decision, the Supreme Court ruled that the “immoral and scandalous” clause of section 2(a) was also

\textsuperscript{108} Id.
\textsuperscript{109} Id. at 1764–65 (emphasis in original) (“It is not an anti-discrimination clause; it is a happy-talk clause.”).
\textsuperscript{110} Id. at 1765.
\textsuperscript{111} Id. at 1765–66.
\textsuperscript{112} Id. at 1767 (“Indeed, a speech burden based on audience reactions is simply government hostility and intervention in a different guise.”).
\textsuperscript{113} Id.
\textsuperscript{114} Id.
\textsuperscript{115} Id.
\textsuperscript{116} Id. at 1769.
unconstitutional under the First Amendment, given that it engaged in the same viewpoint discrimination condemned in *Tam*.

**B. The Supreme Court’s Decision in Tam Heightens the Divide Between Freedom of Speech and Continued Marginalization of Native Americans**

Ultimately, the Supreme Court in *Tam* reaffirmed First Amendment protections for trademarks and the “the thought that we hate,” though they failed to determine whether trademarks are commercial speech. Morality and the law are not always congruent and, under *Tam*, a registrant’s freedom of speech trumps considerations of disparagement, immorality, and scandal. In light of this holding, an applicant can theoretically register design marks with people in blackface. Or, an applicant could trademark a band named “The Wetbacks,” in an attempt to celebrate immigration restrictions. So long as these marks are used in commerce, they can be approved for registration, given that section 2(a) no longer precludes registration.

After the Supreme Court rendered their *Tam* decision, Simon Tam, a member of The Slants and the mark’s registrant, stated that “if people want to use so-called disparaging (or to that extent, scandalous and immoral) speech, then there will be consequences. But those consequences will and should be decided by the affected communities, not the government.” Such an argument is necessarily premised on the idea that market forces will step in to fill the gap left by section 2(a). However, for Native Americans, who lack the political, social, and economic power to bring about these consequences and keep disparaging trademarks in check, the *Tam* decision deals yet another blow to this marginalized community. Where market forces prohibit a company from selling an iPhone entitled “Blackface,” they conversely encourage companies to use Native Americans in their logos and design

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118 *Tam*, 137 S. Ct. at 1764 (quoting United States v. Schwimmer, 279 U.S. 644, 655 (1929) (Holmes, J., dissenting)).
119 Conrad, supra note 97, at 123.
120 Id. at 125 (citing “E-mail from Simon Tam, lead singer of The Slants, to Mark Conrad, Assoc. Prof. of Law and Ethics, Gabelli School of Business, Fordham University (July 7, 2017, 07:10 PM EST)); see also Tanya Behnam, Article, Battle of the Band: Exploring the Unconstitutionality of Section 2(a) of the Lanham Act and the Fate of Disparaging, Scandalous, and Immoral Trademarks in a Consumer-Driven Market, 38 LOY. L.A. ENT. L. REV. 1, 28–34 (2017) (noting that proponents of *Tam* argue that the decision will not cause an influx of disparaging trademark applications, because it is not economically advantageous to use such marks in commerce).
121 See, e.g., Conrad, supra note 97, at 147.
marks to capitalize on the cultural goodwill that Native Americans have engendered.\footnote{122 See infra Part IV.C.}

Ultimately, the Tam decision heightens the divide between freedom of speech and the continued marginalization of Native Americans. In 2014, Time Magazine found that there were over 600 active design marks featuring Native American men and women, registered to 450 companies.\footnote{123 Chris Wilson, The 450 Companies That Still Have Indian Mascots, TIME (June 18, 2014, 1:35 PM), https://time.com/2894357/redskins-trademark-indian-interactive/.} While the Tam case involved a word mark, “The Slants,” and the opportunity to reclaim a derogatory racial slur, this right of reclamation does not directly translate to design marks. Unlike word marks, design marks are processed more quickly in the brain, almost “instantaneously evoke[] an opinion in the consumer’s mind,” and, for marks misappropriating Native American culture, create micro-impressions that reinforce racial and cultural stereotypes.\footnote{124 Tushnet, supra note 12, at 508.} In light of the oppressive history of Native Americans and the continued use of Native American culture in design marks by non-Native companies, Native Americans do not have a meaningful right of reclamation in design marks.

C. The Tobacco Industry Demonstrates Cultural Misappropriation of Native Americans in Trademarks\footnote{125 The statements in this section are documented evidence of third-party historical reflections and in no way reflect the current opinions of the University, this Journal, or its members.}

The tobacco industry is an excellent case study in the continued misappropriation of Native American culture in trademarks. Native Americans were the original cultivators of tobacco, using the unprocessed crop, known as traditional tobacco, for spiritual, religious, and cultural ceremonies, and “to honour and welcome guests, to communicate with the Creator, as a prayer offering or to share wisdom.”\footnote{126 Joanne D’Silva, et al., Tobacco Industry Misappropriation of American Indian Culture and Traditional Tobacco, 27 TOBACCO CONTROL 57, 57 (2018).} Since the 1900’s, the tobacco industry intentionally incorporated Native American culture into their trademarks and advertisements to insinuate that their product is associated with Native Americans, conjure images of naturality, create emotional connections, and blur the lines between traditional and commercial tobacco products.\footnote{127 Id. at 57, 61.} In 1951, Lorillard explicitly admitted that they utilized Native Americans in their logos as “an enduring tribute,” considering
that tobacco was “their race’s gift to grateful humanity” and that Lorillard was indebted to the “red man” for introducing the world to tobacco.\footnote{128} Lorillard was not the only tobacco company to utilize Native Americans in their trademarks; Natural American Spirits, Kent Cigarettes, and Red Man Chewing Tobacco were among the well-known brands participating in this “enduring tribute.”\footnote{129} In a 1949 advertisement for Old Gold cigarettes, Lorillard featured a Native American male in a headdress with the text, “No heap big medicine talk.”\footnote{130} In 1941, R.J. Reynolds used a fictionalized encounter with a Native American in a radio advertisement for Camel Cigarettes, in which the Native American character stated “me dumb Injun.”\footnote{131} Santa Fe Natural Tobacco Company’s packaging featured a man smoking a “peace pipe.”\footnote{132} A 1960’s Kent Cigarettes television commercial involved Native Americans approaching a pioneer wagon train, as if the Native Americans were about to attack, though the Native Americans ultimately showed the pioneers their broken “peace pipe” and asked to trade for Kent cigarettes.\footnote{133}

By “enduring tribute,” perhaps the tobacco companies more accurately meant: “reinforc[ing] public misconceptions of Native people while ignoring the rich history that traditions and words have for many native cultures.”\footnote{134} Market studies demonstrated that the use of Native American imagery on tobacco products “bond[ed] people with America’s origins,” led consumers to believe that they were supporting a “worthy Native cause,” blurred the lines between commercial and traditional tobacco products, and insinuated that tobacco products were natural and healthy.\footnote{135}

Further, such associations were affirmed and perpetuated in tobacco industry documents, which acknowledged that the imagery used in design marks created explicit ties to the Native American community.
and misled consumers to believe they were supporting Native American companies. 136 “Given historical trauma and continued disenfranchisement of Native people, there is a need for the immediate end to discriminatory and degrading use of Native imagery that takes a toll on health and undermines the intellectual property rights of Indigenous communities.” 137 Notwithstanding that need, the decision in Tam placed a significant roadblock in the path of Native Americans and their reclamation of their culture’s potential for commercialization.

D. Unlike the Slants in Tam, Native Americans Do Not Have a Meaningful Right of Reclamation

In light of Tam, Native Americans do not have a meaningful right of reclamation because their culture and goodwill have been claimed, marketed, and profited by many non-Native people and brands. The misappropriation of Native American culture in the tobacco industry is one example of this systemic problem. As seen through the tobacco industry, market forces encourage brands to utilize Native American culture and identity in their design marks. 138 These companies are not seeking to reclaim a derogatory term; they are merely using designs of a culture they bear no relation to in an attempt to capitalize on the Native American culture’s goodwill. 139 If one of the overarching purposes of trademark law is to protect the goodwill that a brand has built around their mark, 140 then inherently, the mass registration of Native American design marks by non-Native individuals and companies undermines this goal. It is inimical and disheartening that the Lanham Act has been interpreted to protect the goodwill that a brand has amassed over the years, yet it refuses to protect an ethnic group that has amassed similar cultural goodwill.

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136 Id.; see, e.g., Natural American Spirit, Philip Morris Records, supra note 132.
137 Id. at 61 (citations omitted).
138 Id.
139 Marlene B. Hanson & W. Casey Walls, Protecting Trademark Goodwill: The Case for a Federal Standard of Misappropriation, 81 Trademark Rep. 480, 487 (1991) (noting that the word “goodwill” refers to “an intangible business value, reflective of the consumer’s propensity to continue doing business with a particular seller”).
140 Park ‘n Fly v. Dollar Park & Fly, 469 U.S. 189, 198 (1985) (“The Lanham Act provides national protection of trademarks in order to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers.”).
V. IN LIGHT OF THE TAM HOLDING, THE INDIAN ARTS AND CRAFTS ACT OF 1990 PROVIDES THE BEST ROUTE FOR EFFECTIVE TRADEMARK PROTECTION FOR NATIVE AMERICANS

A. Trademark Law Has Become a Two-Tiered Litigation System That Contributes to the Cycle of Misappropriation That Disenfranchises Native Americans

Trademark cases, for the aforementioned reasons, require individualized considerations, especially when such cases involve marginalized groups. Trademark law intersects with various other disciplines and involves balancing rights that are fundamental to our pursuit of equal protection, our judicial processes, and our freedoms. As such, courts have gradually moved from relying upon predictable but imperfect rules (i.e. section 2(a)) to creating rules that are more fluid.141

While these open-ended rules are theoretically more tailored to the situation, these rules have also created a variety of defenses “for particular defendants in particular cases on particular issues.”142 Such a system has caused trademark litigation costs to skyrocket, made case outcomes unpredictable, and excluded entities that can no longer afford to participate in the trademark system.143 This financial barrier effectively inhibits entities from asserting their trademark rights or defending themselves against overreaching assertions.144

As stated by Glynn S. Lunney, Jr. in his article Two-Tiered Trademarks, the rising cost of litigation has resulted in trademark law becoming a two-tiered system. In the upper tier, parties can afford to litigate, while in the lower tier, one party can afford to litigate and the other cannot.145 For disputes that fall in the lower tier, parties that cannot afford the high cost of participation in the trademark system lose.146 Thus, two disputes that are nearly identical on the merits, but that fall into different tiers, will be resolved differently within the trademark system.147

The implication of this two-tiered trademark system for marginalized groups seeking to protect their intellectual property, cultural products, and the use of representations of their racial and

142 Id.
143 Id.
144 Id.
145 Id.
146 Id.
147 Id. at 297.
cultural identity in trademarks is apparent. In seeking justice for the few that can litigate, the judicial system has rewritten law that very aptly might have served the interest of the many. In light of the recent changes in section 2(a) of the Lanham Act, Native Americans must seek trademark protection elsewhere. Protection must be extended in order to safeguard the interest of the marginalized populations that are caught in a cycle of misappropriation that strips them of psychological, political, and economic capital, and neuters their ability to fight injustices within the trademark system.

B. After Tam and the Abolition of the Disparagement Clause, Lanham Act Remedies Are Insufficient to Protect Native Americans from Cultural Appropriation in Trademarks

Following the abolition of the disparagement clause, there are no viable paths under the Lanham Act for Native Americans to defend against cultural misappropriation in design marks. While it is theoretically possible to replace the “disparagement” and “immoral and scandalous” clauses of section 2(a) with a clause barring registration of obscene trademarks, obscenity only protects against sexual speech. Thus, such an amendment is useless in protecting Native Americans, given that such design marks traditionally do not involve sexual speech.

1. Certification Marks Are an Insufficient Remedy Because Infringers Are Still Permitted to Use Their Misleading Design Marks

Considering that IACA 1990 permits the IACB to obtain trademark registrations free of charge for Native Americans and tribes, there is an argument for increased registration of certification marks by the IACB. Certification marks are used to identify and certify sources that meet external standards established by the mark’s owner. Certification marks are used to identify “regional or other origin, material, mode of manufacture, quality, accuracy, or other

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148 Id. at 296, 298–99.
149 Miller v. California, 413 U.S. 15, 25 (1973). Obscene speech is not protected by the First Amendment. To qualify as obscene, speech must fit the Miller test, which requires that the work, taken as a whole, appeals to the prurient sexual interest, that the work be patently offensive, and that the work lacks serious literary, artistic, political, or scientific value. Id.
150 See, e.g., Wilson, supra note 123.
characteristic[s].”

Similar to how certification marks are used to identify gluten-free food products, the IACB could obtain a certification mark to certify genuine Native American products.

However, certification marks do not resolve the root of the problem. Because certification marks are used to demonstrate that a good or service meets external standards, a product that does not meet the standard is only barred from placing the certification mark on their product. Brands can continue to sell goods or services without a certification mark, with one repercussion being that consumers may recognize that the good or service is not certified.

However, companies misappropriating Native American culture and goodwill in their logos do not need a certification mark to communicate that their product is produced by Native Americans; their misleading design marks inherently act as a quasi-certification mark. Thus, it is not helpful for the IACB to obtain a certification mark, considering that it would still permit companies to use Native American representations in their design marks.

2. Protection Under Lanham Act § 32 and § 43 Is Also Insufficient Because Native Americans Lack Standing to Bring Suit Under These Provisions

Further, protection under section 32 of the Lanham Act is unlikely to provide a viable remedy, given that likelihood of confusion requires the plaintiff to have a registered mark to prevail. Native Americans seeking to protect their cultural integrity and goodwill may not have a registered mark to provide standing under section 32. Thus, a likelihood of confusion claim under section 32 is unlikely to provide a remedy for Native Americans.

While section 43(a) of the Lanham Act codifies common law and permits unregistered mark owners to bring suit, a claim under section 43(a)(1)(A) for false association is also unlikely to be successful.

153 Id.
154 Id.
156 15 U.S.C. § 1114(1)(a) (providing that a person who uses in commerce “any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant”).
157 15 U.S.C. § 1125(a)(1)(A) (providing a civil cause of action for a mark that “is likely . . . to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person[.]”).
Even though the text of section 43(a) theoretically permits “any person who believes that he or she is or is likely to be damaged” to bring a civil action, courts generally require plaintiffs to “allege some probable injury to a commercial activity” in order to have standing to sue under the false association prong of section 43(a). Native Americans that do not have a commercial interest at stake, yet seek to protect themselves from cultural misappropriation, would not have standing under section 43(a)(1)(A). Thus, in light of Tam and the abolition of the disparagement clause in section 2(a), there is no viable path under the Lanham Act for Native Americans to challenge marks that misappropriate their culture and goodwill.

C. Expansion of the Indian Arts and Crafts Act of 1990 Provides Effective Trademark Protection for Native Americans

A more feasible solution is the expansion of the Indian Arts and Crafts Act beyond just arts and crafts to include representations of Native American identity and culture in trademarks. While the Tam decision essentially eradicates any possibility of a cultural sensitivity argument within the Lanham Act, IACA 1935 and IACA 1990 are testaments to Congress’s desire to protect the cultural integrity of Native Americans. Specifically, section 305(e)(b) of IACA 1990 provides a civil cause of action against a person who “directly or indirectly, offers or displays for sale or sells a good, with or without a Government trademark, in a manner that falsely suggests it is Indian produced, an Indian product, or the product of a particular Indian or Indian tribe or Indian arts and crafts organization.”

Thus, by expanding IACA 1990 to include representations of Native American identity and culture in trademarks, it would be possible to bring suit against companies, like Natural American Spirits and Red Man Chewing Tobacco, that utilize a design mark that falsely suggests a connection to Native Americans. While the “falsely suggest” language from section 305(e)(b) parallels the language used in the disparagement clause of section 2(a), expanding protection under IACA 1990 to include representations of Native American culture and identity would not trigger a fatal First Amendment challenge because section 305(e)(b) does not have the same arbitrary, content-based distinctions that section 2(a) suffered from.

1. Although Standing May Present an Issue in Certain Jurisdictions, Viewing the Injury Suffered as an Injury to Native American Culture May Provide a Remedy

Expanding protection under IACA 1990 is not without its flaws. In order to bring a lawsuit, a plaintiff must have standing, meaning that the plaintiff must have “alleged such a personal stake in the outcome of the controversy as to warrant his invocation of federal-court jurisdiction and to justify exercise of the court’s remedial powers on his behalf.”162 The Supreme Court has delineated three elements to meet the constitutional minimum of Article III standing:

First, the plaintiff must have suffered an “injury in fact”—an invasion of a legally protected interest which is (a) concrete and particularized, and (b) “actual or imminent, not ‘conjectural’ or ‘hypothetical[.]’” Second, there must be a causal connection between the injury and the conduct complained of—the injury has to be “fairly trace[able] to the challenged action of the defendant, and not . . . th[e] result [of] the independent action of some third party not before the court.” Third, it must be “likely,” as opposed to merely “speculative” that the injury will be “redressed by a favorable decision.”163

It can be difficult for IACA plaintiffs to meet this standing requirement. For example, in Native American Arts, Inc. v. Peter Stone, Co.,164 Native American Arts (“NAA”) sued Peter Stone under IACA 1990.165 NAA alleged that Stone sold a jewelry collection entitled the “Wolfwalker” Collection and advertised the collection as “Authentic Native American Jewelry,” and “Genuine Indian Handmade,” among other descriptors.166 While the jewelry designer was never specifically asked if she was Native American, she noted that she used the word “Wolfwalker” because her “spiritual roots are Native American.”167

In dismissing NAA’s claim for lack of standing, the Court noted that the injury suffered goes beyond mere speculation and requires evidence,

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165 Id. at *1.
166 Id. at *9–10.
167 Id. at *10 (emphasis in original).
which can be demonstrated through loss of sales or evidence of competition.\textsuperscript{168} Additionally, the Court spent time distinguishing NAA’s arguments that “the products that Peter Stone sells is diverting a sale from a company like [NAA].”\textsuperscript{169} Diverting sales from a company “like” NAA was insufficient. NAA was required to demonstrate that Stone actually diverted sales from NAA; the injury must have been “fairly traceable” from Stone to NAA.\textsuperscript{170}

As the Court stated, “[t]he mere fact that someone falsely designate[d] a product as Native American d[id] not imbue NAA—or any other Indian Arts and Crafts organization—with Article III standing without proof of a concrete injury in fact, fairly traceable to the company being sued.”\textsuperscript{171} However, as previously mentioned, the sentiments of courts in the Seventh Circuit, as stated here, may not be echoed or supported in other jurisdictions.\textsuperscript{172} Even though standing requirements may be more stringent in certain jurisdictions, a plaintiff bringing a case under IACA 1990 must be mindful of the Article III standing requirements and circuit precedent.

Thus, while the expansion of IACA 1990 provides the best theoretical prospects for Native Americans, a lack of standing may be inhibiting in certain jurisdictions, such as the Seventh Circuit. One solution to standing issues under IACA 1990 could be to view the actual injury suffered as “an injury to Indian heritage or culture as a whole.”\textsuperscript{173} Considering that IACA 1990 was enacted to protect Native American culture from infringement and misappropriation, this argument is particularly compelling. “Given stagnant economics and high unemployment, together with a history of oppression and outright colonization, American Indians ought to profit, or at least control who profits, from sales of Indian arts and crafts.”\textsuperscript{174} Broadening the standard for what constitutes an “actual injury” provides such a remedy.

2. Congress Has Demonstrated Support for Expanding IACA 1990 in Recent Years

Further, an amendment to IACA 1990 that permits Native Americans to seek recourse from entities that exploit Native American representations and identities in their trademarks has gathered support in recent years. In July 2017, a Senate Hearing was held to explore the

\textsuperscript{168} Id. at *24–26 (citations omitted).
\textsuperscript{169} Id. at *27 (emphasis in original).
\textsuperscript{170} Id. at *27, *33.
\textsuperscript{171} Id. at *34–35.
\textsuperscript{172} See supra Part III.C.
\textsuperscript{173} Hapiuk, supra note 65, at 1042.
\textsuperscript{174} Id. at 1021.
expansion of IACA 1990 to include greater protection for cultural identity concepts.\textsuperscript{175} Specifically, one speaker stated: “Just as there is trademark and patent protection for intellectual property concepts, so too should there be for... cultural identity concepts.”\textsuperscript{176} Such an amendment could potentially permit tribes to bring a class action lawsuit against a non-Native company that used a Native American representation in their trademarks. Not only would such an amendment serve the compelling government interest of preserving genuine Native American source identifiers, it would also prevent the proliferation of misleading marks that confuse consumers and exploit the goodwill of Native American culture through unfair trade practices.

3. Expansion of IACA 1990 to Include Representations of Native American Culture and Identity in Trademarks Would Likely Pass the Central Hudson Test for Commercial Speech

An expansion of IACA 1990 to include protection for Native Americans and a cause of action against entities that misappropriate Native American representations in design marks would likely pass the Central Hudson Test for commercial speech.\textsuperscript{177} Although the Supreme Court in \textit{Tam} evaded the question of whether trademarks are considered commercial speech, the \textit{Tam} decision was focused on the expressive, not commercial, aspects of the trademark.\textsuperscript{178} Yet, trademarks can theoretically be both expressive and commercial speech.\textsuperscript{179} Trademarks are specifically registered for a commercial purpose. By requiring marks to be (1) distinctive and (2) used in commerce (or registered with a bona fide intent to be used in commerce) to be eligible for trademark protection, the Lanham Act inherently recognizes this commercial purpose.\textsuperscript{180}

\textsuperscript{175} Field Hearing Before the Committee on Indian Affairs: Cultural Sovereignty Series: Modernizing the Indian Arts and Crafts Act to Honor Native Identity and Expression: Hearing Before the S. Comm. on Indian Affairs, 115th Cong. 115-75 (2017) (statement of Dallin Maybee, Chief Operating Officer, Southwestern Association for Indian Arts).

\textsuperscript{176} Id.


\textsuperscript{178} Matal v. Tam, 137 S. Ct. 1744, 1763–64, 1767, 1769 (2017).

\textsuperscript{179} See Gary Myers, \textit{Trademarks & The First Amendment After Matal v. Tam}, 26 J. INTELL. PROP. L. 67, 75 (2019) (“The commercial nature of a trademark does not preclude consideration of the expressive nature of this speech[.]”).

As the trademark itself is a creation of the commercial need to identify sources and prevent both consumer confusion and unfair business practices in commerce, it logically follows that trademark laws should be afforded the intermediate scrutiny traditionally afforded to laws regulating commercial speech. Thus, proceeding under the assumption that trademarks are commercial speech, such an amendment would likely pass the Central Hudson test because the amendment would be narrowly tailored to curb the registration and use of trademarks by non-Natives that misappropriate and exploit Native American culture and goodwill by non-Natives. This assumption is further supported by Justice Alito’s concurrence in Tam, where he argued that the disparagement clause necessarily failed Central Hudson review because it was not narrowly drawn. Section 2(a) reached “any trademark that disparages any person, group, or institution.” Inherently, this suggests that a solution under IACA 1990 would survive Central Hudson review because it is narrowly tailored to apply only to Native Americans.

Ultimately, the legislative history of IACA 1935 and 1990 clearly demonstrate the government’s substantial interest in protecting Native American culture and economic development. Such expansions of IACA 1990 directly advance the substantial government interest in protecting Native American culture and craft. Accordingly, the expansion of IACA 1990 would survive Central Hudson review under a First Amendment challenge. The government has a substantial interest in protecting Native Americans from misappropriation in trademarks, regulation under IACA 1990 would directly advance the asserted government interest, and the regulation is narrowly tailored and not more extensive than necessary to serve that interest, given that IACA 1990 only extends protections to Native Americans.

VI. CONCLUSION

This Article contends that Native American trademark rights can be effectively protected by expanding the Indian Arts and Crafts Act of 1990 beyond just arts and crafts to include representations of Native American identity and culture in trademarks. Design marks that misappropriate Native American identity and culture have been shown to create micro-impressions that reinforce racial and cultural stereotypes. By permitting non-Native companies to misappropriate and register marks featuring Native American representations,

182 Tam, 137 S. Ct. at 1749.
183 Id. at 1765 (emphasis in original).
trademark law not only undermines the ability of Native Americans to portray accurate and respectful images of themselves and their culture, but it facilitates the marginalization and disenfranchisement of Native Americans. The psycho-socio-economic effects of such exploitative marks necessitate a narrowly tailored solution.

Unfortunately, the Lanham Act, in the wake of the Supreme Court’s decision in Matal v. Tam, currently provides a safe harbor for such misappropriation and heightens the divide between freedom of speech and the continued marginalization of Native Americans. By finding the disparagement clause in section 2(a) of the Lanham Act unconstitutional, the Supreme Court neutered Native Americans’ ability to protect their culture and identity from misappropriation in trademarks.

Expansion of the Indian Arts and Crafts Act of 1990 to include representations of Native American identity and culture in trademarks provides an effective solution. By passing the Indian Arts and Crafts Acts of 1935 and 1990, Congress demonstrated its intent to protect the culture and economic welfare of Native Americans. Because the Indian Arts and Crafts Act only provides remedies to Native Americans, such a solution would effectively balance protection for Native Americans with the First Amendment right to free speech.

In the interim, all hope is not completely lost. Since the initial writing of this Article, the Black Lives Matter movement has swept the nation, bringing racial injustice and inequity issues to the forefront and causing brands to take a look at how their trademarks perpetuate harmful stereotypes. In 2020 alone, Aunt Jemima, Land O’Lakes, and Uncle Ben’s, among others, have all committed to change their logos to remove antiquated and stereotypical images and designs. Yet, there is still work to be done. As of 2014, there were over 600 active trademarks—registered to 450 different companies—that featured Native Americans. Ultimately, while the Lanham Act currently lacks legal protections for Native Americans, “[b]rands can no longer stand

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187 Id. (noting that Mrs. Butterworth’s brand was undergoing a complete redesign and that Cream of Wheat’s parent company was reviewing its packaging to ensure Cream of Wheat does not “inadvertently contribute to systemic racism”).

188 Wilson, *supra* note 123.
apart from social movements and activism. In order to succeed, they have to personify change—to *be the change*—through rebranding themselves, or risk serious criticism.”

From the Trail of Tears to *Tam*, the United States has permitted, and continues to permit through trademark law, the systematic stripping of Native American culture, identity, and goodwill. Expansion of the Indian Arts and Crafts Act of 1990 provides an effective legal remedy to this systemic problem and allows Native Americans the chance to reclaim their cultural identity.

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COMING TO TERMS: RE-RESTATING THE TENTATIVE DRAFT OF THE RESTATEMENT OF CONSUMER CONTRACTS

Louis J. Hallow, III†

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I. INTRODUCTION

For better or worse, the rise of technology in the consumer marketplace has undoubtedly changed the practice of consumer contracting. Consumers, whether they are aware or not, regularly enter into standard form agreements with businesses when purchasing goods, software, services, and other products online. For instance, consumers encounter these standard-form consumer contracts when purchasing tickets to a concert, creating and using social media accounts, subscribing to cable packages, ordering food online, and using mobile phone applications. Accordingly, “most of us make more legal agreements in a year than our grandparents made in a lifetime.”

Although consumers benefit from the simplicity and efficiency of completing transactions through consumer contracts, they also face a number of disadvantages caused by their lack of awareness and inability to understand the legal implications of the terms in these standard form agreements. The main concern is that consumers, with good reason, will never read or understand any of the standard terms, yet will manifest assent to and thereby accept the terms of the contract. Generally speaking, this concern is the reality. Hence, there is no

2 Budnitz, supra note 1, at 236.
9 See Jared S. Livingston, Invasion Contracts: The Privacy Implications of Terms of Use Agreements in the Online Social Media Setting, 21 ALB. L.J. SCI. TECH. 591, 603 (2011).
10 See, e.g., id.
11 See id. at 602.
12 Hoffman, supra note 8, at 1596 n.3 (citing Yannis Nakos et al., Does Anyone Read the Fine Print?, 43 J. LEGAL STUD. 1, 19 (2014) (showing the results of a study
“check” on businesses, therefore enabling them to include prejudicial and consumer unfriendly terms in the contract that the consumer, if fully informed, would likely reject.\textsuperscript{13}

In a consumer contract, the business generally drafts most (and often all) of the terms.\textsuperscript{14} These terms are typically non-negotiable\textsuperscript{15} and presented on a “take-it-or-leave-it basis.”\textsuperscript{16} In most cases, even if the contract’s terms are negotiable, the majority of consumers are either unaware of the possibility to negotiate or lack the legal knowledge to understand the terms and their legal consequences.\textsuperscript{17} Businesses typically draft these terms without consumer input and present the terms to the consumer in lengthy and technical language.\textsuperscript{18} But in reality, the overwhelming majority of consumers never read any of the terms in standard-form agreements regardless of how the business presents the terms to the consumer on the webpage.\textsuperscript{19}

In an attempt to better balance the interests of consumers in standard-form contracting, particularly in electronic consumer contracting, the American Law Institute promulgated \textit{The Restatement of Consumer Contracts}, which is now evolving through a series of drafts (“Restatement Draft”).\textsuperscript{20} As with any Restatement, the goal is to restate the law as it presently stands in a manner that allows courts to render consistent and accurate judgements.\textsuperscript{21}

Overall, the Reporters’ efforts in composing this draft are exceptional. At first glance, the Restatement Draft seems applicable to the many variations of consumer contracts and synchronous with the majority of case law.\textsuperscript{22} But the Restatement Draft is not perfect,

\begin{itemize}
  \item in which consumers visited the End-Used License Agreement pages for 0.08\% of paid and 0.22\% of freeware retailers).
  \item \textsuperscript{16} Klass, supra note 13, at 52 (“The business . . . gives those standard terms to many consumers, all on a take-it-or-leave-it-basis.”).
  \item \textsuperscript{17} See id.
  \item \textsuperscript{18} Id.
  \item \textsuperscript{19} Yannis Bakos et al., \textit{Does Anyone Read the Fine Print? Consumer Attention to Standard-Form Contracts}, 43 J. LEGAL STUD. 1, 1 (2014).
  \item \textsuperscript{20} See Richard L. Revesz, \textit{Foreword to Restatement of the Law Consumer Contracts}, at xv (AM. LAW INST., Tentative Draft 2019).
  \item \textsuperscript{22} RESTATEMENT OF THE LAW CONSUMER CONTRACTS, at xi.
\end{itemize}
especially with respect to Section Two. In particular, the Reporters give a faulty approach for the adoption of standard terms under Section Two.\textsuperscript{23} For reference, the language for Subsection 2(a) is as follows:

A standard contract term is adopted as a part of a consumer contract if the consumer manifests assent to the transaction after receiving: (1) a reasonable notice of the standard contract term and of the intent to include the term as part of the consumer contract, and (2) a reasonable opportunity to review the standard contract term.\textsuperscript{24}

There are two significant problems with this subsection. First, the language of Subsection 2(a) is ambiguous because it is impossible for consumers to determine which terms they adopt upon the manifestation of assent.\textsuperscript{25} Second, the reasonable notice requirement is not a clear representation of the current state of consumer contract law.\textsuperscript{26} In effect, the language of Section Two allows businesses to enforce agreements against consumers—many of which neither read nor understand the terms—by meeting a considerably low bar for assent and notice.\textsuperscript{27}

Section Two of the Restatement of Consumer Contracts cannot effectively balance the asymmetry of information between business and consumers in standard-form contracting based solely on rules which truly reflect the current state of the case law. This article focuses on Section Two of the Restatement Draft’s requirements for the adoption of standard terms in a consumer contract agreement. With an emphasis on the language of Subsection 2(a)’s notice requirement, this article analyzes the general workability of the Restatement Draft with regard to various forms of consumer contracts. Finally, this article suggests ways to strengthen the Restatement Draft’s approach to the incorporation of standard terms in consumer contracts.

\textsuperscript{23} See \textit{infra} Part III(A)(1).
\textsuperscript{24} \textit{Restatement of the Law Consumer Contracts} § 2(a).
\textsuperscript{25} Livingston, \textit{supra} note 9.
\textsuperscript{26} Klass, \textit{supra} note 13, at 56.
\textsuperscript{27} \textit{Id.} at 52.
\textsuperscript{28} \textit{Id.} at 48.
II. BACKGROUND

A. Life Cycle of a Restatement

Founded in 1923,29 the American Law Institute (“ALI”) is an independent organization that seeks to simplify and develop the common law through Restatements of the Law, model codes, and Principles of Law.30 Restatements of the Law are primarily addressed to courts and “aim at clear formulations of common law and its statutory elements or variations and reflect the law as it presently stands or might appropriately be stated by a court.”31 In creating Restatements, the ALI seeks to improve and transform the law and keep up with societal trends by communicating with lawyers, judges, and other scholars throughout the drafting process.32

Restatements are composed primarily by Reporters, who are tasked with structuring the ALI’s project, and preparing and presenting drafts to Advisers and the Members Consultative Group (MCG)33 for discussion.34 Generally, Reporters first prepare a “Preliminary Draft” of the project, which is then sent to the project’s advisors and members for revision and review.35 After the draft is revised, the Reporters prepare a “Council Draft” for consideration by the Council and project participants.36 If approved by the Council, the Reporters incorporate the revisions made by the Council, and create a “Tentative Draft” for review and approval by the membership at the Annual Meeting.37 Alternatively, if the Council concludes that the Council Draft is not ready for submission to the membership, the draft will be discussed at an Annual Meeting, and later resubmitted as a “Discussion Draft” once the appropriate changes are made.38 Finally, if both the Council and Membership approve of the draft, the Reporters prepare the official document for publication.39 This process repeats itself “until each

29 THE AMERICAN LAW INSTITUTE, supra note 21, at 2.
30 Id. at ix.
31 Id. at 3.
32 Id. at 4.
33 The MCG is composed of current ALI members. These individuals volunteer to participate in the project and provide insight by submitting comments to the Reporters and/or attending project meetings. How the Institute Works, AM. LAW INST., https://www.ali.org/about-ali/how-institute-works/ (last visited Sept. 9, 2020).
34 THE AMERICAN LAW INSTITUTE, supra note 21, at 1.
35 Id. at 15.
36 Id. at 17.
37 Id. at 18.
38 Id. at 18.
39 Id. at 19.
segment of the project has been approved by both the council and the membership.\textsuperscript{40}

\textbf{B. A Brief History of the Restatement of Consumer Contracts}

In 2012, following Harvard Law Professor Oren Bar-Gill’s presentation at the 2011 ALI Annual Meeting on his study about the asymmetry of information and of negotiation between consumers and businesses in standard-form contracts,\textsuperscript{41} the ALI launched a Restatement of the Law on Consumer Contracts (“Restatement”).\textsuperscript{42} In creating this Restatement, Professor Bar-Gill, now joined by Professor Omri Ben-Shahar of the University of Chicago Law School and Professor Florencia Marotta-Wurgler of New York University School of Law as Reporters, aim to

[C]larify how the courts have applied the principles embodied in the Restatement of the Law Second, Contracts, and the Uniform Commercial Code to transactions that either were either not contemplated at the time those projects were completed (and therefore not addressed), like the purchase of software license and all online transactions, or that became a more significant part of the economy since that time.\textsuperscript{43}

The ALI’s Council approved a Discussion Draft of all Sections of the Restatement at the ALI’s 2017 Annual Meeting.\textsuperscript{44} Two years later at the Annual Meeting, both the Council and Membership approved Section One of the Restatement.\textsuperscript{45} All other Sections, however, have only been approved by the ALI’s Council and are currently pending review by the membership as a “Tentative Draft.”\textsuperscript{46}

\begin{footnotes}
\footnote{40 Project Life Cycle, AM. LAW INST., https://www.ali.org/projects/project-life-cycle/ (last visited Sept. 9, 2020).}
\footnote{41 New York University School of Law, NYU Law Professor Oren Bar-Gill on Consumer Psychology and Consumer Protection, YOUTUBE (June 1, 2011), https://www.youtube.com/watch?v=frvcS69juSs.}
\footnote{42 Revesz, supra note 20.}
\footnote{43 Id.}
\footnote{44 Id.}
\footnote{45 Id.}
\footnote{46 Id.}
\end{footnotes}
C. The Tentative Draft for the Restatement of Consumer Contracts: Section Two

Section Two of the Restatement focuses on the adoption of standard contract terms in consumer contract agreements. This Section attempts to maintain the simplicity of streamlined contracting while providing consumers a reasonable opportunity to understand the contract’s standard terms and reject undesirable transactions. The Reporters designed Section Two to “operate[] in a reality in which consumers are fully unaware of some ‘core’ aspects of the transaction but are unlikely to read and exercise meaningful informed consent to the non-core standard contract terms.”

A consumer contract, as defined by Section One of the Restatement, is “[a] contract between a business and a consumer other than an employment contract.” As noted above, these standard-form consumer contract agreements allow businesses to increase productivity levels because they are not required to negotiate each individual contract with consumers when selling products or services. According to the Reporters, “[t]he efficiencies of mass production and mass distribution of products and services would be hindered if the terms of each transaction with each consumer had to be individually negotiated.” In addition, consumer contracts enable businesses to avoid liability in online transactions by allocating risks and liabilities to consumers through standard form agreements.

Although consumer contracts facilitate and expedite the process of conducting online transactions, these standard form agreements can be problematic for both consumers and courts. As the Reporters note, “[c]onsumer contracts present a fundamental challenge to the law of contracts, arising from the asymmetry in information, sophistication, and stakes between the parties to the contracts—the business and the consumers.”

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48 Id.
49 Id.
50 Id. § 1(a)(4).
51 Id. at 1; see also Nehf, supra note 15, at 1693; Schmitz, supra note 17, at 218.
52 See RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS, reporters’ introduction at 1.
53 See Hillman & Rachlinski, supra note 14, at 463–64 (discussing the importance of allocating risks and liabilities in standard form agreements).
54 Id. at 491–92.
55 Id. at 440–41.
56 RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS, reporters’ introduction at 1.
detailed legal terms and consequences through their experience with transactions and the advice of counsel. Consumers, on the other hand, typically neither have the assistance of legal counsel nor the same level of experience as businesses in conducting transactions. In reality, consumers rarely read standard contract terms, no matter where the terms are located. This asymmetry in information creates a lack of bargaining power between the parties, and causes consumers to enter into contracts without understanding the terms or their legal implications.

D. The Presentation of Consumer Contracts

The Reporters note that businesses can often enforce consumer contracts through clickwrap, browsewrap, or shrinkwrap agreements. Clickwrap agreements require consumers to play an active role and physically manifest assent by clicking an “I agree” box and confirming that they have read the terms and conditions before entering a transaction. Courts regularly enforce these agreements, so long as “the manner in which terms and notice of terms are presented satisfy the constructive-notice requirements that focus on language, placement, and conspicuousness of the terms” because of the consumer’s active role in manifesting assent.

In contrast, browsewrap agreements generally do not require a “click” for consumers to manifest assent. Instead, browsewrap agreements appear as a hyperlink on the website that, if clicked, redirects the consumer to a webpage containing the terms and

57 Id.; see also Michael I. Meyerson, The Reunification of Contract Law: The Objective Theory of Consumer Form Contracts, 47 U. MIA. L. REV. 1263, 1269–70 (1993) (“It is no secret that consumers neither read nor understand standard form contracts . . . . Moreover, businesses hardly want the consumer to read form contracts.”).
58 See RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 2, reporters’ notes at 35.
59 Id.; Hoffman, supra note 8, at 1296.
60 Hillman & Rachlinski, supra note 14, at 432–33.
61 See id. at 429, 431–32, 464 (explaining how businesses increasingly use browsewrap and clickwrap software in the electronic contracting environment); ProCD, Inc. v. Zeidenberg, 86 F.3d 1447, 1448 (7th Cir. 1996) (“Shrinkwrap licenses are enforceable unless their terms are objectionable on the grounds applicable to contracts in general . . . .”).
62 Hillman & Rachlinski, supra note 14, at 464.
63 RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 2, reporters’ notes at 44–45 (citing Berkson v. Gogo LLC, 97 F. Supp. 3d 359, 403; Corwin v. NYC Bike Share, LLC, 248 F. Supp. 3d 475, 489 (S.D.N.Y. 2017) (explaining the various methods of online contracting must meet the constructive-notice requirement)).
64 Id. at 46.
conditions. For courts to enforce browsewrap agreements, consumer must have reasonable notice of the terms to which they are agreeing. Stated simply, the hyperlink to the terms must be conspicuous.

Shrinkwrap differs from clickwrap and browsewrap agreements in that the consumer does not receive the terms until after she has paid for the product or service. Further, the method for manifesting assent to shrinkwrap agreements typically occurs when the consumer opens the box for the product or downloads the software that she has already purchased. Prior to 1996, courts regularly refused to enforce shrinkwrap agreements. Judge Easterbrook’s influential decision in ProCD v. Zeidenberg, however, changed this practice. Relying on the Uniform Commercial Code, Judge Easterbrook concluded that consumers can assent to the terms of an agreement in any manner agreed upon by the parties, including acceptance and contract formation that involves both buying software and thereafter “using the software after having an opportunity to read the license at leisure.”

E. Arbitration Provisions in Consumer Contracts

The inability to understand a consumer contract’s terms can often lead to consumers unknowingly agreeing to mandatory arbitration provisions. Following a series of Supreme Court decisions enforcing arbitration clauses against consumers, the practice of businesses including such agreements in consumer contracts became increasingly pervasive. These clauses generally consist of several hyperlinks that

65 Id.
66 Id. at 47.
67 See, e.g., Nicosia v. Amazon.com, Inc., 834 F.3d 220, 233 (2d Cir. 2016) (“Whether there was notice of the existence of additional contract terms presented on a webpage depends heavily on whether the design and content of that webpage rendered the existence of the terms reasonably conspicuous.”).
69 Id. at 468.
70 Id.
71 86 F.3d 1447, 1448–49 (7th Cir. 1996).
72 See id.
73 U.C.C. § 2–204(1) (AM. LAW INST. & UNIF. LAW COMM’N 2017).
74 ProCD, 86 F.3d at 1452.
76 See generally AT&T Mobility, L.L.C. v. Concepcion, 563 U.S. 333 (2011) (finding that the arbitration clause was not unconscionable); Rent-A-Ctr. W., Inc. v. Jackson, 561 U.S. 63 (2010) (finding that the arbitration clause in the employment agreement was valid and enforceable).
lead to different terms, and ultimately provide that privately appointed arbitrators govern all legal disputes between the parties.\textsuperscript{77}

In addition, arbitration clauses often include legal provisions that bar class action remedies, implement choice of law clauses, alter statutes of limitations, place limitations on discovery, and exclude certain damages remedies.\textsuperscript{78} Moreover, businesses commonly include provisions in consumer contracts providing for an arbitrator, and not a court, to determine both the enforceability of the contract and the validity of the arbitration provision.\textsuperscript{79} Hence, because arbitration agreements lack an appellate process, arbitrators may govern an entire legal proceeding between a business and a consumer.\textsuperscript{80}

\section*{F. The Reporters’ Safeguard: The Doctrine of Unconscionability}

The long-standing common law doctrine of unconscionability serves as a safeguard for consumers in the Restatement.\textsuperscript{81} In Section Five, the Reporters provide a two-pronged unconscionability test to “protect contracting parties against fundamentally unfair and unreasonably one-sided terms.”\textsuperscript{82} There the Reporters call for “heightened judicial scrutiny of the substance of standard terms . . . to ensure that the terms are fair, reasonable, and conform to [the] consumers’ actual expectations” through the unconscionability doctrine.\textsuperscript{83} Section Five attempts to prevent the enforcement of “substantively”\textsuperscript{84} and “procedurally”\textsuperscript{85} unconscionable contracts that are “fundamentally unfair”\textsuperscript{86} or “unreasonably one-sided”\textsuperscript{87} that either

\begin{itemize}
\item \textsuperscript{77} Nehf, \textit{supra} note 15, at 1706.
\item \textsuperscript{78} \textit{Id.} at 1709 n.79 (Griffin, J., dissenting) (quoting Mercedes Homes, Inc. v. Colon, 966 So. 2d 10, 20 (Fla. Dist. Ct. App. 2007)) (“[A]ll consumer transactions, no matter the size or type, now contain an arbitration clause. And with every reinforcing decision, these clauses become ever more brazenly loaded to the detriment of the consumer—who gets to be arbitrator; when, where, how much does it costs; what claims are excluded; what damages are excluded, what statutory remedies are excluded; what discovery is allowed; what notice provisions are requires; what shortened statutes of limitation apply; what prerequisites even to the right to arbitrate are thrown up—not to mention the fairness or accuracy of the decision itself.”).
\item \textsuperscript{79} \textit{Id.} at 1707.
\item \textsuperscript{80} \textit{Id.} at 1707–08.
\item \textsuperscript{81} \textit{RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS} § 5 cmt. 1 (AM. LAW INST., Tentative Draft 2019).
\item \textsuperscript{82} \textit{Id.}
\item \textsuperscript{83} Klass, \textit{supra} note 13, at 53.
\item \textsuperscript{84} \textit{RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS} § 5(b)(1).
\item \textsuperscript{85} \textit{Id.} § 5(b)(2).
\item \textsuperscript{86} \textit{Id.} § 5(b)(1).
\item \textsuperscript{87} \textit{Id.}
\end{itemize}
limit the business’s liability and the consumer’s remedies, or unfairly expand the consumer’s liability or the business’s remedies. The crux of this doctrine relies on the substantive prong, which attempts to prevent binding consumers with egregiously unfair terms in standard-form contracts.

Indeed, Section Five eliminates some disadvantages that consumers face in standard-form agreements, namely, egregiously one-sided contracts and unfair terms; however, consumers face a number of disadvantages under Section Two’s approach for the adoption of standard terms.

III. ANALYSIS

A. An Overview of Section Two

Section Two of the Restatement Draft provides two distinct subsections for determining the adoption of standard contract terms in a consumer contract. Subsection 2(a) of the Restatement governs the adoption of terms if such terms are reasonably available to the consumer prior to manifesting assent to the transaction. Under this section, the Restatement adopts the standard contract term if—before manifesting assent—the consumer receives “(1) a reasonable notice of the standard contract term and the intent to include the term as part of the consumer contract, and (2) a reasonable opportunity to review the standard contract term.” In this scenario, the Reporters claim that the consumer contract adopts the “core deal terms” along with the other standard and nonstandard contract terms reasonably available to the consumer before the consumer manifests assent.

Subsection 2(b), on the other hand, governs the requirements for adopting a standard contract term when the term is available for the consumer to review after the consumer manifests assent. In this section, the Restatement adopts the standard contract term if

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88 Id. § 5(c)(1).
89 Id. § 5(c)(2).
90 Id. § 5, reporters’ notes at 89.
91 See id. § 5, cmt. 1.
92 See id. § 2.
93 See id. § 2(a).
94 Id.
95 Id. § 2 cmt. 3 (“Such core deal terms often include price and payment methods, a shorthand description of the product, key delivery arrangements, and a few successfully communicated legal limitations . . . .”).
96 Id. § 2 cmt. 4.
97 Id. § 2(b)(1).
[b]efore manifesting assent to the transaction, the consumer receives a reasonable notice regarding the existence of the standard contract term intended to be provided later and to be part of the contract, informing the consumer about the opportunity to review and terminate the contract, and explaining that failure to terminate would result in the adoption of the standard contract term.98

Furthermore, the Restatement provides that after the consumer manifests assent, the consumer must receive both a reasonable opportunity to review the standard contract term99 and to “terminate the transaction without unreasonable cost, loss of value, or personal burden, and does not exercise that power.”100 Finally, Subsection 2(c) provides that a consumer contract exists if the consumer manifests assent to the transaction, even if some of the standard contract terms are not adopted.101 In these cases, however, “the terms of the contract are those adopted under subsections (a) and (b), and, if the consumer elects, the unadopted standard terms along with any terms supplied by law.”102

In essence, the Reporters distinguish Subsection 2(a) and Subsection 2(b) based on whether the terms of the agreement are reasonably available for review prior to or after the consumer manifests assent.103 In either scenario, the Reporters claim that a consumer contract is not formed unless the consumer manifests assent to the transaction.104 The standard adopted for consumer assent is relatively low and serves as an advantage for businesses105—“[a] consumer may manifest assent to the transaction proposed by the business in any manner and by any medium reasonable in the circumstances.”106 In creating these separate, temporal-based adoption rules, the Reporters “seek to preserve the convenience of streamlined contracting while providing consumers [a] reasonable opportunity to scrutinize the standard contract terms and avoid unwanted transactions.”107

98 Id.
99 Id. § 2(b)(2).
100 Id. § 2(b)(3).
101 Id. § 2(c) (emphasis added).
102 Id.
103 See id. § 2 cmt. 2.
104 Id.
105 Klass, supra note 13, at 48.
106 RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 2 cmt. 2.
107 Id. § 2 cmt. 1.
1. The Adoption of Terms Under Subsection 2(a): An Illustration

As mentioned, Subsection 2(a) of the Restatement of Consumer Contracts adopts a standard contract term if a consumer manifests assent to the term after receiving reasonable notice of the term, the intent to include the term in the consumer contract, and a reasonable opportunity to review the term.\textsuperscript{108} This part of the article examines and tests the general workability of the requirements for Subsection 2(a) through the Restatement’s Illustration examples.

Illustration Two in the Restatement Draft represents a prototypical clickwrap\textsuperscript{109} agreement between a business and consumer.\textsuperscript{110} In this Illustration, the consumer wishes to purchase a product from the business’s website.\textsuperscript{111} The website asks the consumer to read the “Terms and Conditions” provided in a scroll-down text box and click “I Agree” for the consumer to effectively manifest assent.\textsuperscript{112} According to the Illustration, if the consumer clicks the box, she has manifested assent to the transaction and adopts all of the terms in the scroll-down box as a part of the contract.\textsuperscript{113} But if the consumer does not click the box, “the website does not allow the consumer to complete the purchase.”\textsuperscript{114}

Illustration Two seems like a relatively straightforward clickwrap agreement. But the Restatement’s language in Subsection 2(a) states that “[a] standard contract term” is adopted as part of a consumer contract if the consumer manifests assent after receiving notice and a reasonable opportunity to review the standard contract term.\textsuperscript{115} So, why does Illustration Two claim that the consumer contract adopted all of the terms in the scroll-box when Section 2(a) only provides for the adoption of a standard contract term? Based on the Restatement’s use of the word term, and not terms in Section 2(a), is it even possible for the consumer to adopt multiple or all the terms of the contract under Subsection 2(a)? This language is ambiguous. Subsection 1(a)(5)”

\textsuperscript{108} Id. § 2(a).
\textsuperscript{109} Even though this Illustration is demonstrated with a clickwrap agreement, the analysis would be the same for other forms of consumer contracts with respect to the adoption of standard terms.
\textsuperscript{110} RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 8, reporters’ notes at 118 (Illustration 2 is based on Bob Robertson, Inc. v. Webster, 609 S.W.2d 683, 685–86 (Tex. Ct. App. 1984)).
\textsuperscript{111} Id. § 2, illus. 2.
\textsuperscript{112} Id.
\textsuperscript{113} Id. (emphasis added).
\textsuperscript{114} Id.
\textsuperscript{115} Id. (emphasis added).
definition of a “standard contract term”\textsuperscript{116} does not resolve this ambiguity, nor do the Reporters provide an explanation for their choice of the word “term” instead of “terms” in the Restatement’s plain language.

Although this detail may seem minute, the plain language of the Restatement leaves consumers (and courts) merely guessing as to which term, or terms, a consumer adopts upon manifestation of assent. Accordingly, to resolve this ambiguity the Reporters must clarify whether the consumer, upon manifestation of assent, adopts a “term”\textsuperscript{117} as proposed in the black letter language of Section Two or all of the terms\textsuperscript{118} as suggested in the Illustration.

2. The Restatement’s Faulty Notice Requirement Under Subsection 2(a)(1)

As with any other common-law contract, Section Two of the Restatement requires that the consumer receive notice of the standard contract term in order to include the term as a part of the contract.\textsuperscript{119} Put simply, under either subsection, consumer contracts do not adopt any standard terms if the consumer does not receive reasonable notice. Section Two, however, slightly varies the “notice” requirement between Subsections 2(a) and 2(b). Under Subsection 2(a)(1), the consumer must receive “a reasonable notice of the standard contract term and of the intent to include the term as a part of the consumer contract.”\textsuperscript{120} Subsection 2(b), on the other hand, describes a slightly different, slightly tighter requirement for giving reasonable notice that better represents the existing state of the law. In short, Subsection 2(b) requires that the consumer receive reasonable notice to the existence of the term, not the actual term itself or its contents.\textsuperscript{121}

Despite the Reporters’ aim in Section Two to ensure consumers receive reasonable notice, their efforts fall short. The plain language of Subsection 2(a)(1) is clear, but unhelpfully abstract. The Reporters fail to define “reasonable notice” anywhere in the Restatement.\textsuperscript{122} Instead, they reference several cases in the Reporters’ Notes in which courts made fact-specific inquiries to determine whether the consumer had

\textsuperscript{116} Id. § 1(a)(5) (“A term, relating to a consumer contract, that has been drafted prior to the transaction for use in multiple transactions between business and consumer parties.”) (emphasis added).
\textsuperscript{117} Id. § 2.
\textsuperscript{118} Id. § 2, illus. 2.
\textsuperscript{119} Id. § 2.
\textsuperscript{120} Id. § 2(a)(1) (emphasis added).
\textsuperscript{121} Id. § 2(b)(1) (emphasis added).
\textsuperscript{122} See generally id.
“reasonable notice.” Moreover, the Reporters’ best explanation of reasonable notice is that “[i]n some contexts, market norms, or course of dealing, may provide sufficient notice to the consumer that additional standard contract terms are intended to apply to the transaction.”

The Reporters fail to address the bottom line, which is the efficacy of giving consumers reasonable notice of the standard contract term. Fundamentally, they fail to answer if it actually matters that consumers are not sufficiently alerted as to the substance of the standard contract terms to “scrutinize” the terms. The Reporters note that “credible empirical evidence, as well as common sense and experience, suggest that consumers rarely read standard contract standard terms no matter how they are disclosed.” In fact, one study showed that “only one or two in 1,000 shoppers access a product’s EULA [end-user license agreement] for at least 112 seconds.” Furthermore, this data demonstrates only that the consumer opened, not read, the product’s EULA. Finally, even if consumers actually read the standard contract terms, they are unlikely to understand the terms and their legal consequences because of the agreement’s technical and complex language.

A rule seems somewhat empty—maybe pointless—that provides for giving consumers reasonable notice of the terms of an agreement when consumers never open or read the hyperlink to the terms. Surely the Reporters do not believe that notice of the terms is meaningfully given in consumer contracts considering their acknowledgement that consumers rarely read the terms. In addition, the second clause of Subsection 2(a)(1) is similarly suspect in also requiring that the consumer has notice of the “intent to include the term as part of the consumer contract.” Again, how can a consumer have notice of the “intent to include the term” when the consumer is actually oblivious to the term itself?

Essentially, Subsection 2(a)’s language requiring reasonable notice “to the term” does not reflect the existing state of the law because courts simply do not care if the consumer has notice of the actual term.

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123 Id. § 2, reporters’ notes at 35–52.
124 Id. § 2, cmt. 9.
125 Id. § 2, cmt. 2.
126 Id. § 2, reporters’ notes at 35.
127 Yannis Bakos et al., supra note 19, at 3.
128 See id.
129 Klass, supra note 13, at 52.
130 See, e.g., RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 2, reporters’ notes at 35; Yannis Bakos et al., supra note 19, at 1.
131 RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS § 2(a)(1).
132 Id.
133 See Berkson v. Gogo LLC, 97 F. Supp. 3d 359, 397 (E.D.N.Y. 2015)
Instead, courts regularly find notice for browsewrap, clickwrap, and shrinkwrap agreements—despite whether the consumer reads, views, or understands any of the actual terms—so long as the hyperlink to the terms is conspicuous. Thus, for Subsection 2(a)’s requirement of reasonable notice to better represent the current state of the law, the language for notice must change.

B. Requiring Constructive Notice in Consumer Contracts

One improvement for Section Two of the Restatement’s notice requirement is simple: change the language of Subsection 2(a)’s reasonable notice requirement to match the language of Subsection 2(b). In other words, Subsection 2(a) should adopt the language of Subsection 2(b) requiring consumers to have reasonable notice to the existence of the standard contract terms. The effect would be to require, in both circumstances, that consumers receive constructive notice of the terms of a standard form contract.

As mentioned previously, Restatements seek to provide clear formulations of common law and reflect the existing status of the law as it might be stated in court. Although the proposal above does not necessarily improve the consumer’s position to acknowledge and understand the terms, the proposed constructive notice requirement serves as a more accurate representation of the current state of the law.

In determining reasonable notice under Subsection 2(a), courts do not consider if the consumer opens or reads the contract’s terms, which are often presented in detailed and extensive arbitration clauses. Nor do courts care if the consumer reads or understands the terms of the contract. Instead, courts are more concerned with the

(explaining that courts generally find clickwrap agreements enforceable because of the active role the consumer plays in manifesting assent by clicking the box); Forrest v. Verizon Commc’ns, Inc., 805 A.2d 1007, 1010 (D.C. 2002) (finding a binding contract because the consumer clicked “Accept” before proceeding with the transaction); Moore v. Microsoft Corp., 741 N.Y.S.2d 91, 92 (N.Y. App. Div. 2002) (enforcing a contract because the consumer manifested assent by clicking the box before downloading the software).

134 See, e.g., Nguyen v. Barnes & Noble Inc., 763 F.3d 1171, 1178–89 (9th Cir. 2014) (explaining that enforceability of a browsewrap consumer contract turns on the conspicuousness of the hyperlink).

135 See discussion supra Section II(A).

136 See, e.g., Nguyen, 763 F.3d at 1179 (“[F]ailure to read a contract before agreeing to its terms does not relieve a party of its obligations under the contract . . . .”).

137 Id. at 1177 (“Whether a user has inquiry notice of a browsewrap agreement . . . depends on the design and content of the website and the agreement’s webpage.”); Specht v. Netscape Commc’ns Corp., 306 F.3d 17, 23 (2d Cir. 2002) (refusing to enforce terms of use that were not easily visible); see also In re Zappos.com Inc.,
conspicuousness and accessibility for the link to the terms in consumer contracts.\textsuperscript{138} In other words, courts are likely to find notice if consumers have reasonable notice \textit{to the existence} of the standard contract terms.\textsuperscript{139}

With the adoption of this proposed language, courts would not have to falsify the notion that a consumer has “reasonable notice” of the standard contract term when the consumer fails to read or understand any of the agreement. Rather, despite whether the consumer reads or understands the terms, the constructive notice requirement would allow courts to find reasonable notice so long as the consumer is aware of the \textit{existence} of the consumer contract’s terms.\textsuperscript{140} In effect, this existence standard would allow courts to enforce unread and uninformed consumer contracts. With the proposed language, however, courts would no longer have to stretch the truth by finding notice “reasonable” when the consumer is oblivious and wholly without the opportunity to “scrutinize”\textsuperscript{141} the terms. Accordingly, the proposed constructive notice requirement more accurately reflects the current approach that courts take in determining notice in consumer contracts.

\textit{1. Constructive Notice in Consumer Contracts: An Illustration}

Imagine that a consumer enters a business’s website to purchase a product. When the consumer reaches the checkout page, she enters her credit card and personal information and is then asked to click “I AGREE” to complete the transaction. Directly above the “I AGREE” button, the business places a stand-alone link to the terms and conditions in large, bold font, notifying the consumer that the transaction is subject

\textsuperscript{138} \textit{See Nicosia v. Amazon.com, Inc.}, 834 F. 3d 220, 232 (2d Cir. 2016) (“[A]n internet user need not actually read the terms and conditions or click on the hyperlink that makes them available as long as she has notice of their existence.”); \textit{Nguyen}, 763 F.3d at 1177 (explaining that notice turns on whether the hyperlink to the terms is conspicuous); \textit{Schnabel v. Trilegiant Corp.}, 697 F.3d 110, 121 (2d Cir. 2012); \textit{Berkson}, 97 F.Supp.3d at 382 (“Reasonably conspicuous notice of the existence of contract terms . . . [is] essential if electronic bargaining is to have integrity and credibility.”)

\textsuperscript{139} \textit{See, e.g., Nicosia}, 834 F.3d at 233 (“In determining the validity or browsewrap agreements, courts often consider whether a website visitor had actual or constructive notice of the conditions.”); \textit{Nguyen}, 763 F.3d at 1179–80 (refusing to enforce a consumer contract because the consumer did not have constructive notice of the terms and conditions).

\textsuperscript{140} \textit{Nguyen}, 763 F.3d at 1173.

\textsuperscript{141} \textit{RESTATEMENT OF THE LAW OF CONSUMER CONTRACTS}, reporterr’s introduction at 2 (AM. LAW. INST. Tentative Draft 2019).
to the terms and conditions in the link above. In this scenario, the Reporters claim that if the “I AGREE” box and conspicuous hyperlink are visible when the consumer clicks the “I AGREE” button, the consumer has reasonable notice and contract adopts the terms.\textsuperscript{142} By contrast, the Reporters claim that the consumer does not have reasonable notice of the terms if the business places the Terms and Conditions in at the bottom of all webpages (including the checkout page), and the link is in a small font and unviewable to the consumer when she clicks “I AGREE.”\textsuperscript{143}

In either scenario, however, the Restatement’s Illustration fails to mention whether the consumer actually opened and viewed the terms. Operating under the assumption that the consumer failed to read or view the terms,\textsuperscript{144} the issue arises of the whether the consumer actually had reasonable notice “of the standard contract terms.”\textsuperscript{145} As noted earlier, the Restatement draft’s finding of enforceability\textsuperscript{146} in the first contract scenario is irrational as the consumer cannot have notice of a standard contract term when the consumer never viewed or read the term. Regardless of whether the consumer opened or read the terms in the second scenario, the business provided the consumer with notice to the existence of the standard contract terms\textsuperscript{147} simply through the conspicuousness of the link, which is displayed in large, bold, and contradicting font.\textsuperscript{148} Therefore, courts could enforce this agreement without having to misrepresent the notion that the consumer had reasonable notice of the standard contract term. For these reasons, the Restatement should adopt the proposed requirement of constructive notice to the existence of the standard contract terms.

2. The Counterargument to Adopting an Actual Notice Requirement

Although the constructive notice requirement better represents the current state of the law, it does not harmonize the asymmetry of

\textsuperscript{142} Id.
\textsuperscript{143} Id.
\textsuperscript{144} An overwhelming majority of consumers fail to open or read terms and conditions in consumer contracts. \textit{See} Hoffman, \textit{supra} note 8.
\textsuperscript{145} \textit{Restatement of the Law Consumer Contracts} § 2 (emphasis added).
\textsuperscript{146} \textit{See id.} § 2, illus. 15.
\textsuperscript{147} \textit{See id.}
\textsuperscript{148} \textit{See id.} (“If . . . there is a prominent, stand-alone notice in a central portion of the checkout page, in contrasting, large font, not blended with other notices, stating that the transaction is subject to Terms and Conditions that are noticeably linked for the consumer to access, all visible when the consumer clicks ‘I agree to purchase’; then the terms are adopted as a part of the consumer contract under subsection [2](a).”)
information between businesses and consumers in standard-form agreements. As some courts require either actual notice or constructive notice,\textsuperscript{149} some may suggest that the Restatement Draft require only \textit{actual} notice to the terms in order to balance this asymmetry.\textsuperscript{150} This argument, however, fails because requiring actual notice would burden both businesses and consumers.\textsuperscript{151}

Regarding consumers, actual notice would phase out the effortless and swift practice of conducting online transactions by obligating consumers to open and view all of the terms. Many websites contain several layers of individual hyperlinks for each particular set of the business’s terms and conditions.\textsuperscript{152} Thus, requiring consumers to open each set of terms when entering transactions would be tedious and time consuming, and ultimately would fail to meet the Reporters’ aim to maintain the simplicity of consumer contracting.\textsuperscript{153} As for business, such a requirement would demand costly, sophisticated software to meet this actual notice requirement.\textsuperscript{154} Moreover, requiring actual notice would not be a clear representation of the existing state of the law.\textsuperscript{155}

\textbf{IV. Conclusion}

The Reporters’ endeavor in composing the Tentative Draft for the Restatement of Consumer Contracts is remarkable. In drafting this project, the Reporters analyzed and extracted the UCC and common law principles that courts use in adjudicating consumer contract disputes\textsuperscript{156} and formulated them into a predominantly accurate Restatement. Despite the Reporters’ efforts, however, Section Two of the Restatement is imperfect. In particular, the Restatement provisions for

\textsuperscript{150} \textit{Restatement of the Law of Consumer Contracts}, reporters’ introduction at 1.
\textsuperscript{151} See \textit{id.} (explaining consumers’ disadvantages in consumer contracts because of the asymmetry of information). See generally Budnitz, \textit{supra} note 1, at 237–40 (discussing the presence of technology in the consumer marketplace and the benefits that come from the simplicity of conducting online transactions).
\textsuperscript{152} See, e.g., Ticketmaster, \textit{supra} note 3.
\textsuperscript{153} \textit{See Restatement of the Law of Consumer Contracts} § 2 cmt. 1.
\textsuperscript{155} Nicosia v. Amazon.com, Inc., 834 F.3d 220, 233 (2d Cir. 2016).
\textsuperscript{156} \textit{Restatement of the Law of Consumer Contracts}, reporters’ introduction at 5.
adoption of standard contract terms and reasonable notice fail to align
with the purpose of the Restatement.157

Foremost, the Reporters’ failure to specify which term, or terms, a
consumer adopts upon manifesting assent will likely trouble courts
when adjudicating consumer contract disputes. The language of the
Restatement Draft provides that a consumer adopts the standard
contract term158 upon manifesting assent to the transaction, but fails to
account for which term the consumer adopts, and whether the consumer
can adopt multiple terms upon the manifestation of assent. Although
this critique seems minimal, courts already struggle with adjudicating
c consumer contracts,159 and the failure to implement clear language for
the adoption of standard terms will further hinder courts’ ability to
resolve these disputes.

Furthermore, the Restatement’s requirement for “reasonable notice
of the standard contract term”160 is not a clear representation of the
current state of consumer contract law. The Reporters claim that one
purpose of Section Two is to provide the consumer with a reasonable
opportunity to scrutinize the contract’s terms.161 As mentioned earlier,
the Reports are irrational to claim that a consumer has reasonable notice
to something that they never read.162 Even if the consumer did read the
terms, it is not likely to understand the legal implications of the terms
because businesses commonly draft these terms in lengthy and technical
language.163

Thus, to better reflect the present state of consumer contract law, the
Restatement should implement a constructive notice requirement,
providing that businesses give consumers notice to the existence of
the standard contract terms. A constructive notice requirement is preferable
because courts are willing to enforce these agreements, regardless of
whether the consumer reads the terms, so long as the hyperlink to the
terms is conspicuous.164 Therefore, even if this requirement fails to
equalize the asymmetry of information between businesses and
consumers in standard-form agreements, the proposed language serves
as a better reflection of the current state of the law.

157 The American Law Institute, supra note 21, at 1.
159 See, e.g., id. at 6.
160 Id. § 2.
161 Id. § 2, cmt. 1.
162 See discussion supra Section III.
163 See Klass, supra note 13, at 52; Schmitz, supra note 17.
164 See Nicosia v. Amazon.com, Inc., 834 F.3d 220, 233 (2d Cir. 2016) (“[W]hen
terms are linked in obscure sections of a webpage that users are unlikely to see, courts
will refuse to find constructive notice.”); Specht v. Netscape Commc’ns Corp., 306
F.3d 17, 30 (2d Cir. 2002) (“Clarity and conspicuousness of arbitration terms are
important in securing informed assent.”).
# IOLTA Inadequacies and Proposed Reforms

Olivia Bane†

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I. INTRODUCTION

In the United States, the Interest on Lawyers Trust Accounts (IOLTA) program is one of the most significant sources of funding for civil legal service programs representing indigent people. IOLTA revenue totaled approximately $270.2 million in 2019, and nearly 90% of IOLTA program grants support legal aid offices and pro bono programs. IOLTA’s mission to “provide civil legal aid to the poor and support improvements to the justice system.” Although IOLTA is a large source of funding, its basis in the Federal Funds Target Rate (FFTR) hinders its ability to reliably finance low-income civil legal services. The Federal Open Market Committee (FOMC) of the Federal Reserve System adjusts the FFTR based on economic indicators signaling inflation or recession, slashing the target rate during recessions to encourage market growth. As a result, IOLTA funds decrease during economic recessions when people are most in need of low-income legal services.

To become a more dependable source of funding, state IOLTA programs can utilize a number of strategies to increase their revenues and diversify their revenue streams. This Comment discusses potential avenues to increase and stabilize IOLTA funding during economic downturns, including launching incentive programs with banks through state bar organizations, following a model that other states have already implemented successfully. This Comment also explores other policy options including setting a mandatory minimum rate on IOLTA accounts uncorrelated with the FFTR, directing more funds from uncollected class action settlement funds toward IOLTA programs, and directing additional court fees toward IOLTA programs during recessions. These strategies have the potential to grow IOLTA funding and increase its predictability, enabling programs to more effectively fulfill their mission of providing civil legal aid to the poor and

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3 IOLTA Overview, supra note 1.
6 Id.
supporting improvements to the justice system, without heavily burdening banks, the legal profession, or the general public.

II. BACKGROUND

Nonprofit legal aid organizations are the primary providers of civil legal services for indigent people. The majority of the funding for legal aid agencies comes from two sources: state-based IOLTA programs and the federal Legal Services Corporation (LSC), which has a congressionally-apportioned annual budget. State and local grants, federal grants, and private grants account for the remainder of the funding for legal service organizations. The LSC is a larger source of legal aid funding than IOLTA, and the gap between the two has widened in the past decade as IOLTA funds have shrunk, in large part due to low interest rates.

Although the LSC has a larger pool of funds than IOLTA, the LSC restricts the activities of recipient agencies more than IOLTA programs do. Organizations that accept LSC funding cannot lobby legislative bodies; initiate or participate in class-action lawsuits; defend clients in criminal defense matters; advocate for abortion rights; or represent prisoners, illegal immigrants, or assisted suicide defendants. The LSC’s limitations prompt some legal aid entities to forego LSC funds entirely and rely on IOLTA money, private donations, and state and local grants.

In 1981, the Florida Bar Association Foundation launched the first IOLTA program. IOLTA programs now exist in all fifty states, the District of Columbia, and the U.S. Virgin Islands. IOLTA programs are mandatory in all but five states, which have opt-out programs instead. States have discretion to decide how to administer their IOLTA programs and determine what activities they will fund.

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9 Id.
12 Stevenson, supra note 8, at 456.
13 Id.
14 Id. at 456–57.
15 Id. at 458, at n.12.
16 IOLTA Overview, supra note 1.
18 IOLTA Overview, supra note 1.
While IOLTA is mostly localized, two national IOLTA organizations do exist. First, the American Bar Association (ABA) has an IOLTA commission. The ABA Commission on IOLTA collects, maintains, analyzes, and disseminates information on IOLTA programs; makes recommendations for ABA policy relating to IOLTA; acts as a liaison with state IOLTA programs; hosts IOLTA workshops; and oversees the IOLTA Clearinghouse, which provides information, materials, and technical assistance for designing and operating IOLTA programs.19 The ABA Commission on IOLTA also monitors other fields that may affect IOLTA, such as banking, grants, tax law, and constitutional law.20 The other nationalized IOLTA body is the National Association of IOLTA Programs (NAIP), a 501(c)(3) organization established in 1986 to help grow and develop IOLTA programs.21 The NAIP works in tandem with the ABA Commission on IOLTA to IOLTA’s mission of providing civil legal aid to the poor and improving the justice system.”22

A. Interest Collection and Allocation to State IOLTA Programs

Lawyers often hold client funds to pay expenses like court fees or future attorneys’ fees.23 If the funds are substantial enough or held long enough to generate net interest, the client receives the interest from their money.24 However, when the clients’ funds are held only for a short-term or when the fiscal amount is nominal as determined by state rules, the clients’ money may earn less interest in a trust account than the costs of collecting interest for the client.25 As such, when the cost of securing the income for the client would be higher than the interest itself, attorneys deposit client funds into an IOLTA account.26 ABA Model Rule of Professional Conduct 1.15 describes IOLTA accounts as “pooled trust accounts that contain other nominal or short-term client funds.”27 From the inception of IOLTA, banks have forwarded the small amounts of interest earned on these pooled interest-bearing trust accounts to state IOLTA programs.28 IOLTA is generally regarded as

19 Id.
20 Id.
23 IOLTA Overview, supra note 1.
24 What is IOLTA?, supra note 22.
25 IOLTA Overview, supra note 1.
26 What is IOLTA?, supra note 22.
27 IOLTA Overview, supra note 1.
28 Id.
a convenient way to fund legal services without increasing taxes or depriving clients of collecting interest, as IOLTA is funded only by nominal, uncollectable interest amounts.\textsuperscript{29}

State IOLTA programs internally determine the allocation of funds among indigent civil legal aid providers and activities to improve the justice system.\textsuperscript{30} Most states include IOLTA regulations within their state rules of professional conduct.\textsuperscript{31} Some states regulate IOLTA with court rules, while others codify IOLTA regulations in statutes or state bar rules.\textsuperscript{32} Some states specifically define what constitutes a “nominal” amount of funds, while others give discretion to the depositing attorney. For example, Maryland Business Occupations and Professions Section 10-303 requires a lawyer to deposit funds into an IOLTA account when the lawyer reasonably expects that 1) the interest would not exceed $50; or 2) the interest would exceed $50 but “would not cover the cost of administering an interest bearing account on which interest is payable to the client or beneficial owner.”\textsuperscript{33} Other states allow the depositing lawyer to decide what constitutes a nominal amount, like Illinois’ Rule of Professional Conduct 1.15, which provides, “The decision as to whether funds are nominal or short-term shall be in the reasonable judgment of the depositing lawyer or law firm.”\textsuperscript{34}

Although IOLTA’s broader purpose is consistent nationally, state IOLTA programs differ in how they distribute funds to various types of recipients.\textsuperscript{35} In Pennsylvanıa, for example, IOLTA supports non-profit organizations providing civil legal assistance to poor and disadvantaged populations within the state.\textsuperscript{36} Arizona uses IOLTA funds more broadly to “assist in the delivery of legal services to the poor and law-related education programs designed to teach young people, educators and other adults about the law... [and] fund studies or programs designed to improve the administration of justice.”\textsuperscript{37} Generally, state IOLTA rules use similar language to express IOLTA’s mission of funding civil legal services for those who cannot afford them.\textsuperscript{38}

\textsuperscript{29} Stevenson, supra note 8, at 458–59.
\textsuperscript{30} See IOLTA Overview, supra note 1.
\textsuperscript{31} Arthur, supra note 7, at 732.
\textsuperscript{32} Id. at 732–33.
\textsuperscript{34} Ill. Rule of Prof’l Conduct r. 1.15 (2015).
\textsuperscript{35} Arthur, supra note 7, at 732.
\textsuperscript{36} Id.
\textsuperscript{37} Id.
\textsuperscript{38} Id.
B. Rate Rules

State rules mandate IOLTA reporting and record-keeping requirements, attorneys’ responsibilities, and the terms of eligibility for bank participation. Most states have adopted IOLTA comparability requirements, which require IOLTA deposits to earn at least as much interest as comparable non-IOLTA deposits or to earn a certain percentage of the FFTR. For example, California’s comparability rule stipulates that the rate of interest on an IOLTA account “shall not be less than the interest rate or dividends generally paid by the eligible institution to non-attorney customers on accounts of the same type meeting the same minimum balance and other eligibility requirements as the IOLTA account.” A minority of states have yet to specify a minimum interest rate for IOLTA accounts. While rate comparability provisions ensure IOLTA accounts earn as much interest as non-IOLTA accounts, IOLTA accounts likewise endure the fluctuating interest rates that affect other deposit accounts. Numerous factors outside the control of IOLTA programs influence deposit rates and banks' rate-setting decisions, giving IOLTA programs little control over the amount of funds they actually receive.

C. IOLTA’s Weaknesses

While IOLTA generates millions of dollars for civil legal services, IOLTA’s current structure presents at least one major weakness in supplying a consistent source of funds for legal aid services: IOLTA program revenues fluctuate with the central interest rate set by the Federal Reserve and with the overall strength of the American economy. In 1981, when states first began adopting IOLTA programs, the federal funds rate remained above 6% every year until 2002. In 2003, the Federal Reserve lowered the FFTR to an all-time low of 1% to combat the 2001 recession. In 2008, the Federal Reserve

39 Id. at 730, 732.  
40 Id. at 730–31.  
41 Id. at 734.  
42 Id. at 733.  
43 Id. at 734.  
44 Id.  
45 Stevenson, supra note 8, at 458–59.  
46 See id. at 465.  
47 See id.  
48 Arthur, supra note 7, at 745.  
again set a record low FFTR of just 0.25%, which was the tenth rate cut in just over the span of a year.\textsuperscript{50} Bank interest rates, which were once more than 5% for IOLTA accounts, fell to just above zero for many IOLTA accounts.\textsuperscript{51} As a consequence, IOLTA funding decreased significantly while the demand for civil legal services remained high. Betty Torres, the executive director of the Texas Access to Justice Foundation, which distributes funds to eighty-nine legal aid offices throughout Texas, said, “In many states, the bottom fell out of IOLTA.”\textsuperscript{52}

Further precipitating funding decreases, IOLTA deposits often originate from real estate transactions, which diminished when the housing market crashed, leaving generally fewer and smaller deposits to generate interest.\textsuperscript{53} As a result of the Federal Reserve's efforts to keep borrowing rates low by lowering the FFTR and banks' ensuing actions to decrease interest rates, IOLTA revenues dropped drastically in 2007, with lasting effects.\textsuperscript{54} From 2007 to 2011, IOLTA funding nationwide plummeted nearly 75%, from $371 million in 2007 to $93 million in 2011.\textsuperscript{55} In 2013, Jane Curran, executive director of the Florida Bar Foundation, which oversaw the nation’s first IOLTA program, said, “Our revenues have gone down 88% since rates dropped. That means cuts in programs, people, offices.”\textsuperscript{56}

The 2020 COVID-19 pandemic again illustrated the effect that extraordinarily low interest rates have on IOLTA funding.\textsuperscript{57} In March 2020, the Federal Reserve dropped the FFTR to a range of 0% to 0.25%.\textsuperscript{58} Due to low interest rates, 2020, NAIP members anticipate a $123 million loss of IOLTA funds, a 46% reduction from 2019 to 2020.\textsuperscript{59} David Holtermann, President of NAIP and Associate Director of the Lawyers Trust Fund of Illinois, said, “Losses of this magnitude are a concern under any circumstance. It is especially worrisome at a time when civil legal aid programs already are responding to increased need from families whose housing, income, safety, and health have been

\textsuperscript{50} Id.
\textsuperscript{52} Terry Carter, \textit{IOLTA Programs Find New Funding to Support Legal Services}, ABA J. (Mar. 1, 2013, 7:29 AM), http://www.abajournal.com/magazine/article/iolta_programs_find_new_funding_to_support_legal_services.
\textsuperscript{54} Arthur, \textit{supra} note 7, at 742.
\textsuperscript{55} Carter, \textit{supra} note 52.
\textsuperscript{56} Id.
\textsuperscript{57} NAIP, \textit{supra} note 2.
\textsuperscript{58} Id.
\textsuperscript{59} Id.
negatively impacted by the COVID-19 pandemic.” Both the 2008 recession and the 2020 pandemic have demonstrated how IOLTA’s rate rules do not ensure consistent allocation of funding to legal aid programs. When the economy suffers and more people are in need of free or low-cost legal services, less IOLTA funds and fewer legal aid attorneys are available. Additionally, the unpredictability of IOLTA funds results in the inability of legal service providers to garner any semblance of predictability in annual budgetary planning.

D. Compensating for IOLTA Decreases

To offset reductions in IOLTA funds, states have utilized a combination of other methods to raise funds for legal services. Some states have temporarily increased court fees, shifting the costs of funding legal services onto the public in a minor way. For example, in December 2009, the Supreme Court of Pennsylvania worked with the state legislature to obtain a temporary increase of $1 in certain court filings. The fee increase raised approximately $2,800,000 over the 25-month period that it was in effect.

Alternatively, some states have increased attorneys’ professional fees to benefit IOLTA programs and expanded non-compulsory fundraising efforts within the private bar, shifting costs onto private attorneys rather than the general public. As a potentially large, yet unstable funding source, IOLTA makes budget planning difficult for its recipients. Many IOLTA programs try to moderate these issues by engaging in regular fundraising and applying for grants from private foundations or government entities. Despite IOLTA’s widely acknowledged success as a funding source for low-income legal services, its heavy fluctuations in available funds are a “continuing source of consternation” for dependent legal aid entities.

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60 IOLTA Overview, supra note 1.
61 Arthur, supra note 7, at 742–43.
62 Stevenson, supra note 8, at 465.
63 Arthur, supra note 7, at 744.
64 See e.g., Tracy Carbasho, IOLTA Continues to Fund Legal Services Despite Decrease in Funds, Increase in Need, 12 LAW. J. 5, 5 (2010).
65 Id.
66 Id.
67 See Carter, supra note 52.
68 Id.
69 Stevenson, supra note 8, at 465–66.
70 Id. at 465.
III. Analysis

At the present moment, IOLTA is an undependable, unstable source of funding for legal aid organizations. Specifically, during economic recessions, IOLTA does not adequately fulfill its mission of funding legal services to the poor and supporting improvements to the justice system. While states have seen increases in IOLTA funds after implementing IOLTA comparability rules, such rules are the bare minimum needed to increase IOLTA funds. Unfortunately, comparability rules do not address the uncertain nature of IOLTA funding, as the rules merely result in IOLTA accounts receiving the same interest rates available to other customers, which may be close to zero.\textsuperscript{71} The slump of IOLTA funding during economic downturns, coupled with decreases in LSC funding during these times, creates an unstable financial climate for legal aid organizations and lowers their abilities to provide services when their clients often need them most.\textsuperscript{72} IOLTA programs should utilize a number of strategies to diversify their revenues, including creating mutually beneficial partnerships with banks, setting a mandatory minimum rate on IOLTA accounts that is not based on the FFTR, widely awarding cy pres funds to IOLTA programs, and directing more court fees toward IOLTA programs during recessions.

A. State Bar Partnership Programs with Banks

Following the models of states like Oregon and Texas, other state bar associations can likewise begin to actively encourage banks to voluntarily pay higher than the minimum interest rates.

1. Oregon’s Approach

The Oregon Law Foundation (OLF), the branch of the Oregon Bar that allocates IOLTA funding, has boosted its pool of IOLTA funds by actively developing relationships with banks and encouraging them to voluntarily provide higher interest on IOLTA accounts.\textsuperscript{73} In return, the OLF heavily promotes these banks to Oregon attorneys.\textsuperscript{74} The OLF publicizes its partner banks as “Leadership Banks” that fall into one of

\textsuperscript{71} Id. at 467.
\textsuperscript{72} Carter, supra note 52.
\textsuperscript{74} Id.
two categories of interest rates.75 “Visionary” banks pay at least 1.0% interest, while “Advocate” banks pay between 0.75% and 1.0% interest.76 Neither Visionary nor Advocate banks charge service fees against the interest paid.”77

On its webpage instructions for opening an IOLTA account, the OLF informs attorneys about the Leadership Bank Program and encourages attorneys to establish their IOLTA accounts at one of the participating banks.78 The OLF also encourages attorneys with preexisting IOLTA accounts to move their accounts to Leadership Banks.79 As of 2012, one-third of Oregon banks were Leadership Banks, including five of the ten largest banks in the state.80

The OLF program has succeeded for a number of reasons, including clear and consistent messaging in marketing to attorneys and banks, relationship building with prominent individuals at banks, and inclusion of bankers on the OLF board.81 The OLF’s website implores attorneys to use careful consideration in selecting a bank, stating, “Using the right financial institution costs nothing but makes up to 175x more for justice for all.”82 The OLF’s slogan is: “Where you bank matters!” Such messaging encourages attorneys to prudently consider where they establish their IOLTA accounts because the funds make an impact in the state. Furthermore, the OLF’s relationships with members of the financial community have helped its program flourish, establishing credibility and familiarity with bankers and banks.83 In 2015, the OLF added two additional bankers to its board, for a total of four bankers, further strengthening its partnership with the banking community.84

In addition to receiving promotion within the state’s legal community, Oregon banks that pay above-market interest rates receive credit through the Community Reinvestment Act (“CRA”).85 The CRA is a federal act dating back to 1977, passed with the intent of encouraging depository institutions to help meet the credit needs of low-

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76 Id.
77 Id.
79 See id.
80 Ken Smith et al., Partnership Bank Programs: Maximizing IOLTA Revenue in Difficult Times, 16 DIALOGUE MAG. 1, 1 (2012).
82 For Lawyers, supra note 78.
83 Collins, supra note 81, at 26.
84 Id.
and moderate-income neighborhoods. After the OLF lobbied federal regulators, the regulators conceded that participation in the OLF’s program constituted a “qualified investment” when banks pay over and above interest rates for similar accounts. Thus, Oregon financial institutions receive credit from the CRA for paying above-market interest rates on IOLTA accounts, which boosts the institutions’ CRA ratings. Both through publicity and CRA credits, participating Oregon banks receive tangible benefits from the OLF program.

As a result of OLF’s relationships with banks and its participation in the CRA program, Oregon has seen some of the highest average net yields on IOLTA accounts in the country. Even when the federal funds rate reached nearly zero, Oregon’s Leadership Banks continued to pay between 0.7–1% on IOLTA accounts. Significantly, 69% of IOLTA deposits in Oregon sat in accounts paying an average net yield of 0.71%, compared with an estimated 0.10% yield that the same banks paid their non-IOLTA customers with comparable accounts.

Oregon’s voluntary bank partnership approach has proven more successful than the comparability rules used in most states. In 2011, the OLF hired an independent consultant to help determine whether Oregon should join the forty other states currently utilizing comparability rules. The research revealed that over the previous years, OLF’s bank partnership strategy produced higher interest rates than a comparability rule would have.

2. Texas’s Approach

In 2007, the Texas Access to Justice Foundation (TAJF) launched a similar program, Prime Partners, to incentivize banks to pay more than required under IOLTA comparability rules. Similar to the OLF, the TAJF highlights Prime Partners on its website and encourages attorneys to establish IOLTA accounts at these banks. As Prime Partners, banks benefit from promotion to attorneys on the TAJF website, publicity in quarterly bar newsletters, and awards at local bar association events.

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86 Collins, supra note 81, at 26.
88 Smith et al., supra note 80.
89 Our Strategy, supra note 73.
90 Smith et al., supra note 80.
91 See id.
92 See id.
93 Our Strategy, supra note 73.
94 Smith et al., supra note 80.
95 Id.
96 Id.
At the offset, Texas Prime Partner banks agreed to pay 70% of the FFTR, compared to the 60% required under the benchmark provision in the rule.\textsuperscript{97} However, when rates dropped below 1% after 2009, the TAJF adjusted the Prime Partner rate to a flat 1%.\textsuperscript{98} Now, a bank can participate as a Prime Partner by paying the higher of at least 75% of the FFTR or a minimum flat rate of 1% on IOLTA accounts. In 2007, when the FFTR was 5.25%, the TAJF estimated that participating banks were paying $4,000,000 more annually than required under comparability rules.\textsuperscript{99} After the FFTR dipped to almost zero, three of the five largest Prime Partner banks left the program rather than continuing paying higher interest rates.\textsuperscript{100} Although the loss was significant, two top-tier banks and several second-tier banks remain among the program’s seventy banks.\textsuperscript{101}

As one out of every seven Texas banks is a Prime Partner, this program continues to generate significantly higher IOLTA funds within the state.\textsuperscript{102} In 2012, Prime Partner banks’ flat 1% contributions generated an additional $1,500,000 of IOLTA funds, which is enough to fund thirty legal aid attorneys if paid the national average salary of $50,000 per year.\textsuperscript{103} To maintain strong relationships with partnering banks and assure continued participation is worthwhile, the TAJF sends its partner banks an annual report listing the benefits and visibility the banks received throughout the year.\textsuperscript{104}

3. Implementation of a Bank Partnership Program

With clear models to follow, the creation of statewide partnership programs with banks is a strong policy suggestion for other states to follow, combining the best of what both Oregon and Texas have created. First, such a program should present banks with a clear business proposition: paying higher-than-required interest on IOLTA accounts will benefit the banks, not just the legal aid organizations. Second, the state bar programs should publicize banks’ participation in their email communications, on their websites, and at statewide and local bar events.\textsuperscript{105} Third, such programs should continually engage participating banks by sending them updates, inviting bankers to state

\textsuperscript{97} Id.
\textsuperscript{98} Id.
\textsuperscript{99} Id.
\textsuperscript{100} Id.
\textsuperscript{101} Id.
\textsuperscript{102} Id.
\textsuperscript{103} Id.
\textsuperscript{104} Id.
\textsuperscript{105} Id.
and local bar association events, recognizing partner banks at bar association functions with awards, and including bank leaders on their management boards when possible. Fourth, the program should present key messaging points to both attorneys and banks about why and how to take advantage of these voluntary programs. Finally, the partnership program should work to attract top-tier banks, knowing that other banks often follow. A notable advantage of such a bank partnership program is its relatively low implementation and operating costs. Every state already has a body that administers IOLTA funds, a website that tells attorneys how to set up IOLTA accounts, and periodic bar association newsletters, emails, and events, ergo, advertising a bank partnership program requires little additional consternation. The financial success of the Texas and Oregon programs suggest that any additional operating costs of running a bank partnership program would be covered by the additional revenues these programs generate.

Additionally, the voluntary nature of this incentive program likely helps the financial community view the program favorably and accept it more readily than a more coercive policy solution, such as a compulsory minimum interest rate. While banks do absorb the costs of the higher-than-required interest rates they pay as part of such a program, the benefits received, such as publicity, an increasingly positive reputation within the local legal community, and CRA credits, help to mitigate the increased costs. Other states can and should implement some of these strategies that have helped states like Oregon and Texas generate higher IOLTA revenues than the national averages.

B. Mandatory Minimum Interest Rate Unrelated to the Federal Funds Rate

A second policy option allows state bars to set a mandatory minimum interest rate for banks’ IOLTA accounts that is entirely unrelated to the FFTR. IOLTA programs could adopt a range of minimum interest rates that participating banks must apply to IOLTA accounts, with the applicable rate being based on each participating

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106 Id.
107 See id.
108 See id.
110 See Smith et al., supra note 80.
111 Id.
112 Id.
bank’s profitability over the past twelve months, rather than on the FFTR. Alternatively, state IOLTA programs could set a reasonable minimum interest rate that applies to all IOLTA accounts within the state, regardless of a bank’s profitability and the FFTR. Establishing a minimum interest rate that does not fluctuate in tandem with the federal funds rate could not only boost IOLTA income overall, but it would also help stabilize IOLTA funding for the legal aid organizations that rely upon it.

1. IOLTA Rates Tied to Bank Profitability

One way to implement a mandatory minimum interest rate is to tie participating IOLTA banks’ minimum interest rates to bank profitability rather than the FFTR, since bank profitability does not necessarily correlate with the FFTR.113 Despite an almost static federal monetary policy from 2008–2013,114 banks showed positive performance trends due to lower funding costs, “increased portfolios of debt securities,” and an “uptick in lending volumes,” suggesting banks could afford to pay higher IOLTA rates.115

By basing a bank’s IOLTA rate minimum on a certain percentage of a bank’s annual profit, IOLTA program administrators could create a basis for IOLTA allocations that does not fluctuate with the current state of the national economy, dropping when low-income clients need legal services most. Rather, the interest rate would align with what banks can afford, with the stipulation that the interest rate does not dip below a specified minimum. Interest rates tied to bank profitability would be somewhat akin to a graduated tax income tax structure, in which entities pay more interest as they can afford to pay more. This would be a change from the current structure of most IOLTA accounts, in which banks are free to set interest rates as they wish, as long as they are comparable to other similar, non-IOLTA accounts.116

This policy option has not yet been tested to determine its burdensomeness or effectiveness. Although this option would require participating banks to report their annual profitability to state bar programs, this may not impose a significant additional reporting burden as banks are already subject to significant reporting requirements, such

115 SCHILDACH & WENZEL, supra note 113.
as 10-Ks.\textsuperscript{117} IOLTA participation is optional for banks, so if a bank did not feel comfortable basing rates on profitability, they could choose not to participate. However, it would be helpful to survey existing IOLTA banks to find out how palatable such a program would be and if enough banks would continue to voluntarily participate in IOLTA to make this feasible. Additionally, this policy option would likely work best in combination with a partnership program between the state IOLTA program and the banks to help the banks become invested in the mission of IOLTA and willing to pay mandatory higher rates than they did previously.

2. \textit{IOLTA Rates Based on a Statutory Minimum}

A second, more simplistic manner of implementing a minimum interest rate is to require banks that offer IOLTA accounts to pay at least a fixed minimum rate. Current comparability rules merely require IOLTA funds to earn at least as much interest as comparable non-IOLTA deposits at the same bank, which could be nearly zero.\textsuperscript{118} A fixed statutory minimum rate would act as a slightly higher floor beneath which interest rates could not drop, and it could otherwise continue work in tandem with the federal funds rate.\textsuperscript{119} Although this minimum rate policy shifts more IOLTA costs onto banks, banks that choose to participate can receive benefits from their participation in IOLTA programs, like obtaining more attorney customers, which can help offset some of this burden.

For any policy that shift costs to banks, however, the costs should remain small to encourage banks to continue participating in IOLTA and to avoid straying too far from the generally-appreciated nature of IOLTA, which is how it funds legal services without taxing the public or the legal profession in a noticeable way.\textsuperscript{120} Again, this policy option would likely work best in combination with banks and IOLTA programs working together in some type of partnership program in order to increase cooperation and retention of banks.

\textsuperscript{117} Will Kenton, \textit{10-K, INVESTOPEDIA}, https://www.investopedia.com/terms/1/10-k.asp (last updated Mar. 16, 2020). 10-K’s are comprehensive reports filed annually by publicly traded companies about their financial performance.

\textsuperscript{118} Arthur, \textit{supra} note 7, at 734.


\textsuperscript{120} Stevenson, \textit{supra} note 8, at 458.
C. Cy Pres Awards

In addition to one of the aforementioned options, states could utilize cy pres awards to increase IOLTA funding and allow legal service organizations to reserve funds for future economic slumps, without shifting burdens onto banks, the public, or the legal profession. Cy pres awards direct uncollected class action settlement awards to charitable organizations.121 Cy pres means “as near as possible,” and these awards are an equitable remedy that courts can utilize to make the “next best use” out of the funds.122 When direct distribution to class members is not feasible because members cannot be located or transaction costs outweigh members’ potential recovery, distribution to charitable organizations can provide the next best benefit to class members.123 The rationale behind cy pres award distributions is similar to the rationale for donating small amounts of trust account interest to IOLTA programs. When direct distribution of interest to clients or class action funds to class members is not feasible, distribution to charitable organizations provides a societal benefit—funding legal services.124

Some states award cy pres funds directly to IOLTA, typically with courts designating that a portion of the residual funds will go to the program that manages the state’s IOLTA funds.125 In 2006, Washington became one of the first states to codify cy pres as the preferred method for distributing residual class action funds.126 Washington now requires that at least 25% of all residual class action funds be distributed to the legal aid fund that administers Washington’s IOLTA program and provides legal aid services to indigent persons in the state.127 Indiana, Pennsylvania, and Kentucky followed suit, mandating that a minimum percentage of residual class action funds be funneled to the programs that manage their IOLTA funds.128

As only a handful of states currently have structures for awarding cy pres funds to IOLTA programs,129 there is significant potential for

123 Goodlander, supra note 12 at 738–39.
124 Id.
125 Id. at 965.
126 Id. at 948; WASH. CT. R. 23(f)(2).
127 Shiel, supra note 122, at 971–72.
129 Id.
this funding source to grow. *Cy pres* awards can be substantial. In 2010, for example, Texas’ IOLTA program received approximately $2,600,000 in *cy pres* funds, and the Montana Justice Foundation received approximately $1,380,000. Due to the windfall nature of *cy pres* funds, they are not stable sources of annual revenue. Nonetheless they are a welcome, largely untapped way to increase IOLTA funding.

States with *cy pres* funds generally award the money to legal service organizations immediately, but for the purpose of improving funding stability long-term, states could reserve part of the *cy pres* funds to distribute during economic downturns. Some states give legal aid organizations discretion to reserve a portion of IOLTA funds to stabilize the amounts available in future years. Similarly, if a state IOLTA program receives a windfall due to a generous *cy pres* award, it could save some of the funds to have more control over its future budget in economically uncertain times.

Using *cy pres* awards to distribute residual funds in class action suits has been somewhat controversial, largely because *cy pres* awards commonly lack judicially-enforced standards. Without clear rules for how to distribute *cy pres* awards to charities, critics fear that self-interested judges will abuse the appropriation of class funds to charities and use these awards to support the self-interests of the court. However, the *cy pres* structures that Washington, Indiana, Pennsylvania, and Kentucky use alleviate these concerns because they do not allow judges to hand-pick charities to receive *cy pres* awards. Rather, *cy pres* awards go directly to the state’s IOLTA program, in which the IOLTA administrators decide how to apportion the funds among a variety of civil legal aid organizations and other causes that help improve the justice system.

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130 Carter, supra note 52.


132 See, e.g., MINN. SUPREME COURT LEGAL SERVS. ADVISORY COMM., ANNUAL REPORT 5 (2018) (“The Lawyer Trust Account Board . . . adopted a reserve policy to save money in the higher interest years to offset cuts in the lower interest years.”).

133 See, e.g., MASS. IOLTA COMM., OPERATIONS HANDBOOK FOR FINANCIAL INSTITUTIONS (2018) (“A charity may, in its discretion, reserve IOLTA funds from current distribution to stabilize the amounts available for distribution in future years.”).


135 Shiel, supra note 122, at 945.

136 Id. at 955.

137 See id. at 971–72.

138 Id. at 972.
D. Countercyclical Policies for IOLTA Revenues

One final and largely unexplored policy option is building countercyclical elements into IOLTA funding. Currently, IOLTA revenues drop to their lowest when the economy is weak and the need for legal aid services is greatest. To stabilize IOLTA funding long-term, there must be a way to ensure that funds are available to provide access to justice when it is most needed. To help stabilize IOLTA funding, state IOLTA programs can work ahead to create funding avenues that will activate during economic downturns. For instance, state IOLTA programs could establish rules stipulating that certain additional court or professional fees will automatically activate if the federal funds rate drops below a certain percentage, possibly in areas that surge during recessions, such as foreclosures and consumer credit collection.

During the 2008 recession, some states implemented additional court filing or professional fees which effectively raised money for limited spurts of time. For instance, Pennsylvania’s temporary increase of $1 in certain court filings beginning in 2009 generated approximately $2,800,000 annually while it was active and automatically expired after twenty-five months. In 2013, the Maryland Legal Services Corporation was able to partially offset its reduction in IOLTA revenue by successfully petitioning the legislature for court filing fees. Implementing back-up funding sources or petitioning the court for filing fees takes time and does not provide legal aid organizations with much indication in advance of what their budgets will look like when this new funding becomes available.

In order to increase IOLTA stability, state legislatures could pass legislation now, stipulating that similar fee increases benefitting the state’s IOLTA program will automatically take effect in the future event of a certain specified low federal funds rate. As a result, during the next economic recession, legal aid organizations may still experience a

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141 Id.
142 See Carter, supra note 52.
143 Carbasho, supra note 64, at 5.
145 Carter, supra note 52.
decline in funds (depending on the amount of money that the court fees or professional fees garner), but they would know that they will also receive the money generated through these activated fees and be able to plan accordingly.

IV. CONCLUSION

By strategically expanding and diversifying their revenue streams, IOLTA programs can become more dependable sources of funding for legal services organizations. Creating mutually beneficial partnerships with banks, setting a mandatory minimum interest rate on IOLTA accounts not based on the FFTR, allocating *cy pres* funds to IOLTA programs, and directing court fees to IOLTA programs during recessions are policy solutions that can lessen the financial strain that IOLTA recipients currently experience due to variations in the FFTR and low interest rates. Most importantly, these strategies can help IOLTA programs grow and more effectively fulfill their mission of providing civil legal aid to the poor and supporting improvements to the justice system.