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Does Congress Have the Power to Make the States Amenable to Suit in Federal Court for Claims Under the Lanham Act?

by Jay E. Grenig

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Editor's Note: Because the respondents' briefs were not available before *Preview*'s deadline, this article was based on the petitioner's brief and lower court opinions.

ISSUE

Does the Eleventh Amendment bar bringing suit in federal court against a state for false advertising in violation of the Lanham Trade-Mark Act?

FACTS

Since 1987, College Savings Bank has sold a certificate of deposit known as the CollegeSure CD. The purpose of the CollegeSure CD is to help individuals save money for college expenses. College Savings guarantees returns sufficient to fund the uncertain future cost of education. The CollegeSure CD is administered using a patented methodology.

Prepaid Postsecondary Education Expense Board administers a similar investment program intended to provide sufficient funds to cover future college expenses. In conjunction with the sale of its accounts, Florida Prepaid published brochures and issued annual reports.

College Savings first brought action in federal district court against Florida Prepaid in 1994 alleging that Florida Prepaid had infringed its patent. The Supreme Court agreed to hear Florida Prepaid's appeal in that case. *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank,* Docket No. 98-531 (see the article in this issue of *Preview*).

College Savings later brought a second action in the same federal district court in 1995 against Florida Prepaid, this time alleging that it had violated Section 43(a) of the Lanham Trade-Mark Act (15 U.S.C. § 1125(a)). College Savings claimed that Florida Prepaid made misstate-

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COLLEGE SAVINGS BANK V. FLORIDA PREPAID POSTSECONDARY EDUCATION EXPENSE BOARD
DOCKET NO. 98-149

ARGUMENT DATE:
APRIL 20, 1999
FROM: THE THIRD CIRCUIT

Case at a Glance

The Supreme Court is asked whether the Florida Prepaid Postsecondary Education Expense Board impliedly waived its Eleventh Amendment immunity from suit in federal court by marketing and selling prepayment tuition plans. The Court also is asked whether Congress may subject states to suit in federal court for engaging in false advertising of commercial products.

ments about Florida Prepaid's tuition savings plans in its brochures and annual reports constituting unfair competition. College Savings relied on the Trademark Remedy Clarification Act of 1992 (TRCA), which purports to abrogate the states' Eleventh Amendment immunity under the Lanham Act.

Florida Prepaid filed motions to dismiss College Savings' complaint. It argued that the court did not have jurisdiction over the case because Florida Prepaid, as an arm of the state of Florida, was protected from suit in federal court by the Eleventh Amendment. The United States thereafter intervened to defend the constitutionality of the Lanham Act's application to the states.

The district court found that the TRCA was an unconstitutional attempt to abrogate the states' Eleventh Amendment immunity and dismissed College Savings' suit. The court concluded that inasmuch as the case did not involve a protected property interest, the enactment of the TRCA was not a proper exercise of Congress' powers under Section 5 of the Fourteenth Amendment. It also found that Florida Prepaid had not waived its Eleventh Amendment immunity.

College Savings appealed the dismissal. Affirming the district court, the U.S. Court of Appeals for the Third Circuit also held that the TRCA exceeded the scope of Congress' authority and that Florida Prepaid had not waived its Eleventh Amendment immunity. 131 F.3d 353 (3d Cir. 1997). The Supreme Court of the United States agreed to review the Third Circuit's decision. 119 S.Ct. 79 (1999).

Case Analysis

The Eleventh Amendment provides that the "Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State." Determining whether Congress has abrogated the states' constitutionally secured immunity from suit in federal court is a two-step inquiry: (1) determining whether Congress has unequivocally expressed its intent to abrogate immunity, and (2) examining whether in purporting to abrogate immunity, Congress has overstepped its constitutional authority.

Supreme Court decisions have established that Eleventh Amendment immunity is not absolute. See Kevin Worthen, "Federalism: State Immunity from Tribal Suits Enforcing the Indian Gaming Regulatory Act: Indian Rights in the New Era of Federalism," *Preview of United States Supreme Court Cases* 19 (1995).

The Supreme Court has held that at least some constitutional provisions grant Congress the authority to subject states to suit in federal court so long as Congress makes its intent to abrogate state sovereign immunity unmistakably clear. *See Atascadero State Hosp. v. Scanlon,* 473 U.S. 234 (1985).

In *Seminole Tribe of Florida v. Florida,* 517 U.S. 44 (1996), the Supreme Court held that Congress could not abrogate the sovereign immunity of the states when acting pursuant to its plenary power to regulate commerce under Article I of the Constitution. The Court said that by ratifying the Fourteenth Amendment, the states agreed to waive their Eleventh Amendment immunity only with respect to the rights guaranteed by the Fourteenth Amendment. In recognizing states' broad Eleventh Amendment immunity from the authority of the federal judiciary, the Court left open the question of what recourse would be available to a patent or copyright holder if a state misappropriates a patent or copyright.

Since *Seminole Tribe,* the only legislative tool the Supreme Court has recognized for abrogating the sovereign immunity of the states is Congress' power to enforce the substantive provisions of the Fourteenth Amendment.

The Fourteenth Amendment is a clear limitation on the authority of the states and fundamentally altered the balance of state and federal power struck by the Constitution. Section 1 of the Fourteenth Amendment prohibits any state from making or enforcing any law abridging the privileges or immunities of citizens of the United States, depriving any person of life, liberty, or property without due process of law, or denying the equal protection of the laws. Section 5 of the Amendment grants Congress the power to enforce the prohibitions of Section 1 by "appropriate legislation."

Meanwhile, one of the main purposes of the Lanham Act is to protect persons engaged in interstate commerce from unfair competition caused by false or misleading representations or advertising about goods, services, or commercial activities. 15 U.S.C. § 1125(a)(1). Congress amended the Lanham Act in 1992 when it enacted the TRCA to clarify its intent to abrogate the Eleventh Amendment immunity of

states in actions under the Lanham Act. See 15 U.S.C. § 1125(a). Congress enacted the TRCA in response to the Supreme Court's decisions requiring explicit and unambiguous statutory language to manifest Congress' intent to abrogate the states' immunity under the Eleventh Amendment.

The Third Circuit reasoned that *Seminole Tribe*'s limitations on the scope of Congress' powers to abrogate a state's Eleventh Amendment immunity render the TRCA unconstitutional. According to the Third Circuit, in order for a law to be a valid mechanism to enforce the due process clause of the Fourteenth Amendment, it must not create new substantive rights but instead must provide a method of protecting against violations of rights that are already extant.

Legislation enacted pursuant to Section 5 of the Fourteenth Amendment that deters or remedies constitutional violations can fall within the sweep of Congress' enforcement power even if in the process it prohibits conduct that is not itself unconstitutional and intrudes into "legislative spheres of autonomy previously reserved to the States." *City of Boerne v. Flores,* 521 U.S. 507 (1997). Even though the violations against which a federal law protects do not have to rise to the level of constitutional violations, the federal law must further the goals of protecting property from state action undertaken without due process of law.

Contending that the TRCA protects intangible property rights, College Savings argues that the TRCA should be seen as protecting "property" as defined under the Fourteenth Amendment. According to College Savings, the TRCA necessarily involves a protected property right in that it attempts to protect businesses from harm. On the other hand, the Third Circuit reasoned that improper interference with business prospects does not involve a property right protected under the Fourteenth Amendment.

College Savings also contends that Florida Prepaid has constructively waived its Eleventh Amendment immunity on two different grounds: the *Parden* doctrine and the conduct of Florida Prepaid in this litigation.

Under the *Parden* doctrine, a state's Eleventh Amendment immunity can be constructively waived if (1) Congress enacts a law providing that a state will be deemed to have waived its Eleventh Amendment immunity if it engages in the activity covered by the federal legislation; (2) the law does so through a clear statement that gives notice to the states; (3) a state then engages in that activity covered by the federal legislation; and (4) the activity in question is not an important or core government function.

The Third Circuit found that the activity in question does involve an important or core government function because it is related to education. However, College Savings argues that Florida Prepaid does not provide education directly; instead it provides a means through which individuals can save for the costs of college tuition with an investment program. According to College Savings, Florida Prepaid is engaging in a commercial enterprise and advertising its products in interstate commerce.

College Savings also contends that Florida Prepaid has waived its Eleventh Amendment immunity by appearing in this litigation, by filing a counterclaim, and by failing initially to raise the Eleventh Amendment immunity defense.

According to the Third Circuit, however, sovereign immunity is an issue that may be raised at any time during the pendency of a case. According to the Third Circuit, appearing and offering defenses on the merits of a case does not automatically waive Eleventh Amendment immunity. The circuit court also noted that the reason Florida Prepaid delayed raising an Eleventh Amendment defense was that the constitutionality of the TRCA was not in question before the Supreme Court's 1996 decision in *Seminole Tribe.*

Although it asserts that Florida Prepaid did waive its sovereign immunity by engaging in a commercial activity and by advertising in interstate commerce after the enactment of the TRCA, the United States agrees with the Third Circuit that a state commercial entity that engages in false and misleading advertising of its own product does not thereby "deprive a competitor of 'property' within the meaning of the Fourteenth Amendment."

SIGNIFICANCE

In this case and its companion case (*Florida Prepaid Postsecondary Education Expense Bd. v. College Savings Bank,* Docket No. 98-531) along with a third case, *Alden v. Maine,* No. 98-436, *Preview* 358 (1999), the Supreme Court will be considering the constitutional lines between Congress' lawmaking power and states' rights and duties. These cases require the justices to confront how best to preserve the constitutional guarantees of dual sovereignty.

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The Supreme Court thus has the opportunity to clarify or limit its recent decisions in *Seminole Tribe* and *City of Boerne* and thereby delineate the extent of Congress' power under the Fourteenth Amendment to abrogate the states' sovereign immunity as protected by the Eleventh Amendment.

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Amicus Briefs

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