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GOVERNMENT SUBSIDIES AND INTELLECTUAL PROPERTY RIGHTS: CONFINING THE APPLICABILITY OF THE SUBSIDIES DOCTRINE TO CASH BENEFITS

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I. INTRODUCTION

The government subsidies doctrine permits the government, in determining what to fund, to constitutionally discriminate against speech activities on the basis of content, and perhaps also viewpoint. Traditionally, this doctrine has been applied only to purely monetary or "cash" benefits allotted to selected recipients. In contrast, courts generally have not treated monetizable benefits, like intellectual property rights, as government subsidies implicating the doctrine. To expand the government subsidies doctrine to monetizable benefits would invoke significant First Amendment considerations. Monetizable benefits, including trademark registration, should not be categorized as government subsidies — to do so would unjustifiably entrust the government with broad control over expressive activities.

In December 2015, the Federal Circuit sitting *en banc* held that the Lanham Act's prohibition on the registration of "disparaging marks" violated the First Amendment. In reviewing that case, *In re Tam*, the court rejected the government's argument that trademark registration is a government subsidy and therefore subject to the government subsidies doctrine.[1] This holding takes the "disparagement" provision outside the reach of heavy First Amendment scrutiny. The benefit of trademark registration, then, does not constitute a subsidy.

This Note examines the government subsidies doctrine, both as conventionally applied to cash benefits and also as envisaged with respect to monetizable benefits. Employing the analysis of the question of trademark registration from *In re Tam* as an illustration, it argues that the subsidies doctrine should not be extended to monetizable benefits like intellectual property rights.

Part II explores the tensions presented by the government subsidies doctrine as it exists today, but acknowledges that the doctrine is well established and can be justified in the cash benefits domain. Part III considers monetizable benefits, specifically those provided to trademark registrants under the Lanham Act, like that at issue in *In re Tam*.

Part IV argues that, despite the possibility of discerning the value of monetizable benefits, courts should not expand the government

1. 808 F.3d 1321, 1323 (Fed. Cir. 2015).

subsidies doctrine to cover such benefits for three primary reasons. First, many of the justifications for the government subsidies doctrine as applied to cash benefits, particularly the problem of limited federal funding, are inapplicable in the context of monetizable benefits. Second, monetizable benefits diverge from cash benefits in ways that exacerbate the inherent problems with the government subsidies doctrine. For example, the government is more likely to maintain a monopoly over a benefit if that benefit is monetizable rather than cash. Recipients of cash benefits may alternatively be able to disaggregate their activities, receiving funding for some actions while also separately engaging in the unsubsidizable speech. Such opportunities are unlikely to exist in the monetizable context. Third, expanding the doctrine would grant the government too much power to discriminate against speech.

II. THE TRADITIONAL NOTION OF GOVERNMENT SUBSIDIES: CASH BENEFITS

A. The Government Subsidies Doctrine

The government subsidies doctrine essentially permits the government to engage in at least content-based discrimination when making decisions about what to subsidize.[2] Judge Timothy Dyk, who dissented in part in *In re Tam*, argued that the government may even engage in viewpoint discrimination.[3] The doctrine has been applied in many circumstances. For example, the government can consider standards of public decency when awarding financial grants to artists, and can deny tax exemptions to organizations engaged in lobbying.[4]

This governmental discretion is not unfettered, however; Congress cannot attach *unconstitutional* conditions to its funding decisions. This unconstitutional conditions doctrine specifies that the "government may not grant a benefit on the condition that the beneficiary surrender a constitutional right, even if the government may withhold that benefit all together."[5] It is also commonly interpreted to mean that the government is barred from doing "indirectly what it may not do directly."[6]

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2. *See* Robert Post, Essay, *Subsidized Speech*, 106 YALE L.J. 151, 154–55 (1996).

3. 808 F.3d at 1371 (Dyk, J., concurring in part and dissenting in part) ("Contrary to the majority, the Supreme Court has never held that this kind of subsidy must be viewpoint neutral. . . . And the court has upheld subsidies that were facially viewpoint discriminatory.").

4. Both of these examples are discussed further in Section II.C, *infra*.

5. Kathleen M. Sullivan, *Unconstitutional Conditions*, 102 HARV. L. REV. 1413, 1415 (1989).

6. Robert Post, *supra* note 2 (quoting Kathleen M. Sullivan, *Unconstitutional Conditions*, 102 HARV. L. REV. 1413, 1415 (1989)).

Perry v. Sindermann illustrates the unconstitutional conditions doctrine.[7] The case involved a teacher in Texas who was fired for publicly criticizing the education system.[8] The Supreme Court reasoned that a person has "no 'right' to a valuable governmental benefit," and that the government can "deny him the benefit for any number of reasons," but also held that the government "may not deny a benefit to a person on a basis that infringes his constitutionally protected interests — especially, his interest in freedom of speech."[9] Accordingly, the Court concluded that the teacher had no entitlement to his employment, a valuable government benefit, but that that benefit also could not be taken away for an unconstitutional reason.

Because of the government subsidies doctrine, the classification of a benefit as a government subsidy lowers the level of review applied. Generally, a regulation that burdens private speech because of government disapproval with the underlying message is subject to strict scrutiny, which requires that the regulation address a compelling governmental interest with a narrowly tailored means to achieve that interest. Where the government provides a subsidy, however, its funding decisions are subject to less demanding scrutiny. In essence, while "the review of regulations favors the regulated, the review of speech subsidies favors the government."[10] Thus, categorizing monetizable benefits as government subsidies would lower the level of scrutiny applied to the law and shift power from the recipient to the government during subsequent review.

B. Complexities in Principle and Practice

Whether the government subsidies doctrine, even as applied only to cash benefits, is fully compatible with the Constitution is contentious. Professor Cass Sunstein has prominently called it an "anachronism," a product of the "collision of the regulatory-welfare state with the preexisting common law framework."[11] There are three primary legal theories that support the government's power to attach conditions to subsidies: (1) the Holmesian position, (2) the anti-redistribution rationale, and (3) the subsidy-penalty distinction. As Professor Sunstein argues, each contains significant flaws.

The first position, associated with Justice Oliver Wendell Holmes, is based upon the notion that the government has the power

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7. 408 U.S. 593 (1972).

8. *See id.* at 594–95.

9. *Id.* at 597.

10. Ellen P. Goodman, *Bargains in the Information Marketplace: The Use of Government Subsidies to Regulate New Media*, 1 J. TELECOMM. & HIGH TECH. L. 217, 220 (2002).

11. Cass R. Sunstein, *Why the Unconstitutional Conditions Doctrine is an Anachronism (with Particular Reference to Religion, Speech, and Abortion)*, 70 B.U. L. REV. 593, 596 (1990).

to create the program, and thus has the power to attach conditions. Accordingly, government-imposed conditions should rarely fail constitutional muster.[12] The trouble with this view is simple: the government would always win — no matter how many constraints it had imposed upon funding recipients.

The second position, the anti-redistribution rationale, maintains that the subsidies doctrine is superior to the alternative — a de facto proscription on spending programs.[13] Without the subsidies doctrine, any time the government subsidizes one activity and not another, an impermissible redistribution of taxpayer money has occurred.[14] But redistribution per se is not prohibited under the Constitution, nor does a ban on redistribution conform with the post-New Deal state that permits government regulation and redistribution.[15]

Finally, the contemporary subsidy-penalty distinction argues that the government may subsidize speech, but cannot penalize it.[16] But distinguishing a subsidy from a penalty is an arduous task. Making this judgment requires identifying a proper baseline.[17] What should constitute an ordinary subsidy, and what instead would be an extraordinary penalty? Even if the distinction could be made clear, it would remain difficult to maintain given the "omnipresence" of government funding.[18]

The application of the government subsidies rule to cash benefits, therefore, represents an imperfect compromise, allowing the government to practically provide for some redistribution while doing its best to limit the extent to which that power might be abused.

C. Cash Benefits

Traditionally, only "cash" benefits have been treated as government subsidies. These benefits have primarily taken the form of direct funding[19] or tax exemptions.[20] Though the subsidies doctrine often stands in conflict with the purposes of the First Amendment, as discussed in Section II.B, it is a good but imperfect compromise that al-

12. *See id.* at 597–98.
13. *See id.* at 599–600.
14. *See id.* at 600.
15. *See id*. at 600–01.
16. *See id.* at 601–02.
17. *See id.* at 603–04.
18. *Id.* at 604.
19. *See, e.g.*, Nat'l Endowment for the Arts v. Finley, 524 U.S. 569, 569 (1998) (subjecting federal funding for the arts to consideration of "general standards of decency and respect for the diverse beliefs and values of the American public") (citing 20 U.S.C. § 954(d)(1)).
20. *See, e.g.*, Regan v. Tax'n With Representation of Wash., 461 U.S. 540, 551 (1983) (permitting Congress to exclude organizations involved in lobbying activities from 26 U.S.C. § 501(c)(3) tax exemption status).

lows the government to distribute cash benefits while limiting the worst of the potential consequences.

The rationales for preserving the subsidies doctrine, despite its flaws, are stronger where the government grants involve direct transfers of cash. Principally, the government does not have the means to fund everything; it must necessarily select the activities for which to provide funding. To remain truly content-neutral, the government would have to withhold all funding or award it randomly — neither of which are particularly desirable substitutes. Moreover, the problems with the doctrine as applied to cash benefits may be less severe because of the existence of alternative funding opportunities. First, with respect to cash benefits, recipients have access, at least in theory, to other sources of funding (for example, private grants). And second, recipients may be able to disaggregate allowed activities from barred activities and use the federal funding to support only the permissible ones. The complexities presented by the application of the government subsidies doctrine to cash benefits are high, but potentially justifiable. However, these justifications fall short when applied to monetizable benefits, as explained in Section IV.B. Before turning to that analysis, this section further explores the justifications for applying the government subsidies doctrine to cash benefits.

1. Direct Funding

The government has broad power to define the limits of programs for which it appropriates public funds.[21] *National Endowment for the Arts v. Finley* illustrates the breadth of government discretion in direct funding. In *Finley*, the Supreme Court dealt with the implications of the government subsidies doctrine as applied to direct funding.[22] In 1965, Congress passed the National Foundation on the Arts and the Humanities Act, which vested the National Endowment for the Arts ("NEA") with the authority to award financial grants to support the arts.[23] In 1990, after public backlash directed at controversial works that were featured in exhibits funded by the NEA, Congress amended the law to require consideration of "general standards of decency and respect for the diverse beliefs and values of the American public."[24] Justice O'Connor, writing for the majority, rejected a First Amendment challenge and upheld the statute as facially valid.[25] The court found that Congress had merely created a subsidy subject to the

21. *See In re Tam,* 808 F.3d at 1349 (quoting United States v. Am. Library Ass'n, 539 U.S. 194, 211 (2003)).
22. *See* 524 U.S. 569 (1998).
23. *Id.* at 573.
24. *Id.* at 576 (quoting 20 U.S.C. § 954(d)(1)).
25. *Id.* at 572–73.

NEA's aesthetic judgment — a form of content-based discrimination — which raised no First Amendment issues unless the NEA exercised its discretion in a way that suppressed disfavored viewpoints.[26] Justice O'Connor further noted that, "[s]o long as legislation does not infringe on other constitutionally protected rights, Congress has wide latitude to set spending priorities."[27]

In other words, though Congress could have exceeded its discretion by imposing an unconstitutional condition on the grantees,[28] if the conditions are not unconstitutional, the Court will apply the government subsidies doctrine where the challenged benefits involve the direct transfer of monetary funds.

2. Tax Exemptions and Deductions

A similar logic applies the government subsidies doctrine to the terms of tax exemptions. In *Regan v. Taxation With Representation of Washington*, the Supreme Court determined that tax exemptions and deductions are "a form of subsidy that is administered through the tax system," similar to "a cash grant."[29] Taxation With Representation of Washington ("TWR"), a non-profit corporation, applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.[30] The Internal Revenue Service, however, rejected TWR's application because of the organization's substantial lobbying activities, which bar tax-exempt status under the statute.[31] TWR, in response, filed suit seeking a declaratory judgment that it qualified for the tax exemption under Section 501(c)(3).[32] The Court, in rejecting TWR's challenge, stated, "[t]he Code does not deny TWR the right to receive deductible contributions to support its non-lobbying activity, nor does it deny TWR any independent benefit on account of its intention to lobby. Congress has merely refused to pay for the lobbying out of public monies."[33]

Again, the Court extended the government subsidies doctrine to reach a new form of monetary benefits: tax exemptions. Though different in form, the limited resource rationale for the doctrine is applicable in these circumstances as well. By relieving parties of their obligation to pay taxes, the government achieves the same outcome as

26. *See id.* at 587, 613.
27. *Id.* at 588.
28. *See, e.g.*, F.C.C. v. League of Women Voters of Cal., 468 U.S. 364, 398–99 (1984) (holding that the government cannot require public television stations to refrain from "editorializing" as a condition of receiving funding).
29. Regan v. Tax'n With Representation of Wash., 461 U.S. 540, 544 (1983).
30. *Id.* at 542.
31. *Id.*
32. *Id.*
33. *Id.* at 545.

if it had provided a subsidy. Whether the government offers a $1,000 subsidy to an organization or offers it a $1,000 reprieve from the taxes it would otherwise be required to pay, the effect on the recipient is the same. So, because the government relies on public taxes to fund programs, and would be unable to fund programs without taxes, the limited resources rationale still applies. Consequently, the application of the doctrine to such tax benefits is logical.

III. A NEW FRONTIER: MONETIZABLE BENEFITS

The established jurisprudence that grants the government wide latitude in allocating monetary benefits traditionally has not been extended to monetizable benefits. Though it is theoretically possible to calculate the cash value of monetizable benefits, there are persuasive reasons not to extend the government subsidies doctrine. *In re Tam*, a case about the application of the doctrine to trademark protections under the Lanham Act, illustrates the distinguishing features of monetizable benefits that make the extension of the government subsidies doctrine unnecessary and inappropriate.

A. In Re Tam

The members of an Asian-American rock band, led by Mr. Simon Shiao Tam, named their group "The Slants."[34] Their motivation for selecting this provocative title was to reclaim a racial slur and stereotype against people of Asian descent. The Slants felt Asians should be proud of their cultural heritage and sought to use their musical talents to engage with political discussions about race and society.[35]

To protect the band's name, Mr. Tam filed two unsuccessful trademark applications for THE SLANTS with the United States Patent and Trademark Office ("USPTO"), both of which were refused for being disparaging toward Asians.[36] After the second rejection, Mr. Tam lodged an appeal with the Trademark Trial and Appeal Board ("TTAB"). The TTAB upheld the examiners' determinations, stating, "it is abundantly clear from the record not only that THE SLANTS . . . would have the 'likely meaning' of people of Asian descent but also that such meaning has been so perceived and has prompted significant responses by prospective attendees or hosts of the band's performances."[37] Mr. Tam appealed to the Federal Circuit,

34. *In re Tam*, 808 F.3d at 1331.

35. *See id.*

36. *See id.* Mr. Tam's 2010 appeal to the Trademark Trial and Appeal Board was dismissed for failure to file a brief.

37. *In re* Tam, 108 U.S.P.Q.2d 1305 (T.T.A.B. 2013).

which initially upheld the TTAB's decision,[38] but then ordered an en banc rehearing of the case to determine whether a "bar on registration of disparaging marks in 15 U.S.C. § 1052(a) violate[s] the First Amendment."[39]

At the rehearing, one of the government's arguments was that it was granting a subsidy — trademark registration — to markholders who federally register their marks. Accordingly, the government subsidies doctrine should apply. Under the government's argument, it would have been constitutionally permissible to discriminate on the basis of content, and the prohibition of disparaging marks would have been an allowable exercise of that right.[40] In dissent, Judge Dyk agreed with the government that this case involved the denial of a subsidy; "[t]hat trademark registration is a subsidy is not open to doubt . . . federal trademark registration is not a 'regulatory regime.'"[41]

The majority ultimately rejected that argument on several grounds.[42] First, they commented that the scope of subsidy cases had always involved government funding or government property (including tax breaks).[43] The right to register a trademark is neither. And second, the court noted that classifying trademark registration as a government subsidy would give the government too much freedom; the subsidies doctrine would "swallow nearly all government regulation."[44]

B. Valuing Trademark Registration

1. The Lanham Act

In 1946, Congress enacted the Lanham Act, the statute at issue in *In re Tam*, to promote the two purposes of trademark law: guaranteeing that consumers receive genuine products and protecting owners from infringement.[45] Under the Lanham Act, registration confers sig-

38. *See In re* Tam*,* 785 F.3d 567, 568 (Fed. Cir. 2015), *vacated*, 600 F. App'x 775 (Fed. Cir. 2015).

39. *In re* Tam, 808 F.3d at 1334.

40. En Banc Brief for the Appellee at 22–23, *In re* Tam, 808 F.3d 1321 (Fed. Cir. 2015) (No. 14-1203).

41. *In re Tam,* 808 F.3d at 1368 (internal citations omitted).

42. *See id.* at 1353 ("Trademark registration is not a subsidy.").

43. *Id.* at 1351. Government funding and property primarily include direct cash grants and tax exemptions, as discussed *supra* in Section II.C.

44. *Id.* at 1354. The court makes the point that if registration were a subsidy, any regulation could be classified a subsidy. *Id.*

45. Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 782 n.15 (1992) (Stevens, J., concurring) (quoting S. REP. NO. 79-1333, at 3 (1946)) (suggesting that the first goal is to "protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to

nificant rights and benefits to trademark holders, including the right to exclusive nationwide use of the mark where there was no prior use by others and the right to sue in federal court for enforcement.[46]

The USPTO will register marks unless they fall into one of several categories barred from registration under Section 2(a) of the Lanham Act.[47] *In re Tam* concerned the category of disparaging marks, which includes any mark that "dishonor[s] by comparison with what is inferior, slight[s], deprecate[s], degrade[s], or affect[s] or injure[s] by unjust comparison."[48]

2. Monetizing Trademark Rights

Trademark rights, unlike the government benefits discussed in Section II.C, are not purely cash benefits. These rights, however, do admittedly confer economic benefits on markholders. Marks function to identify sources, which lowers consumer search costs, incentivizes higher quality products and services, rewards investment, accords market power to the markholder, and preserves personhood interests.[49] And registration confers the advantages enumerated under the Lanham Act, discussed in Section III.B.1, *supra*. For all of those reasons, a registered mark will be valued more highly in a sale. This sentiment was reflected in Justice Felix Frankfurter's opinion in *Mishawaka Rubber & Woolen Manufacturing Company v. S.S. Kresge Company*:

> The protection of trade-marks 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. A trade-mark is a merchan-

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get" and the second is to guarantee that owners can guard their "investment from . . . misappropriation by pirates and cheats").

46. Other rights include (1) a presumption of validity; (2) incontestability after five years of consecutive post-registration use; (3) the ability to obtain treble damages if infringement is proved to be willful; (4) assistance from United States customs officers in restricting the importation of infringing or counterfeit goods; (5) preventing cyber-squatters from misappropriating domain names; and (6) the capacity to gain recognition and protection from other state parties to the Paris Convention in a simpler manner under the Madrid Protocol. *See* 15 U.S.C. §§ 1057(b), 1065, 1117, 1124, 1125(d), 1141(b) (2012). Though the common law offers some protections, they are not as expansive as those benefits conferred under the Lanham Act. For example, under the common law, rights are limited to the geographic scope in which the mark was actually used; federal protections are national. 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 26:32 (4th ed.).

47. 15 U.S.C. § 1052 (2006).

48. *In re* Geller, 751 F.3d 1355, 1358 (Fed. Cir. 2014) (citing Pro-Football, Inc. v. Harjo, 284 F.Supp.2d 96, 124 (D.D.C. 2003)). The Lanham Act also precludes registration of immoral, deceptive, or scandalous matter. 15 U.S.C. § 1052 (2012).

49. *See generally* William W. Fisher, *Theories of Intellectual Property*, *in* NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY 168 (Stephen Munzer ed., 2001).

> dising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same — to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.[50]

However, the nature of value calculation differs from cash benefits in a significant way. One scholar noted that the copyright system, like the trademark system, does not grant rightsholders a positive economic benefit, like a cash grant or tax break does.[51] Instead, copyright registration enables rightsholders to better capitalize on their works in the private market. It is the market then, not the government, that determines the value of the intellectual property protection.[52] Classifying copyrights (and trademarks) as government subsidies ignores the fact that this is a market traditionally based on consumer preferences.

It is true that defining the precise value of a trademark as determined by the market can be complicated. In today's global economy, trademark valuation has "metamorphosed into brand valuation."[53] Financial markets measure the value of companies by estimating the future cash flows that are generated by assets — and these assets include the brand, which is frequently protected by trademark.[54] Brands — and therefore trademarks — have enormous value.[55] Calculating the monetary worth of trademarks, though challenging because

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50. 316 U.S. 203, 205 (1942).

51. Ryan Radia, *A Balanced Approach to Copyright*, CATO UNBOUND (Jan. 11, 2013), https://www.cato-unbound.org/2013/01/11/ryan-radia/balanced-approach-copyright [https://perma.cc/HQD8-XKCX].

52. *Id. See also* Timothy Lee, *Reform Copyright — To Resemble Traditional Property Rights*, CATO UNBOUND (Jan. 18, 2013), https://www.cato-unbound.org/2013/01/18/timothy-b-lee/reform-copyright-resemble-traditional-property-rights [https://perma.cc/7F8N-JUQE].

53. WESTON ANSON ET AL., INTELLECTUAL PROPERTY VALUATION: A PRIMER FOR IDENTIFYING AND DETERMINING VALUE 61 (2005).

54. PHILLIP SANDNER, THE VALUATION OF INTANGIBLE ASSETS: AN EXPLORATION OF PATENT AND TRADEMARK PORTFOLIOS 70–72 (2009). For further analysis on the valuation of intellectual property rights, see Heather Hamel, *Valuing the Intangible: Mission Impossible? An Analysis of Intellectual Property Valuation Process*, 5 CYBARIS: AN INTELL. PROP. L. REV. 183 (2014) (citing exclusivity and consumer recognition as major factors for trademark valuation).

55. *See, e.g.*, Ashley Post, *Google Tops List of 10 Most Valuable Trademark*s, INSIDE COUNSEL (June 15, 2011), http://www.insidecounsel.com/2011/06/15/google-tops-list-of-10-most-valuable-trademarks [https://perma.cc/SL8E-PEMV].

the value is determined by the market and not the government, is nevertheless possible. As explained in the next Part, however, this calculation should not implicate the government subsidies analysis.

IV. THE CASE AGAINST TREATING MONETIZABLE BENEFITS AS SUBSIDIES

The government subsidies doctrine presents contentious questions about the role government should have in imposing conditions on the recipients of benefits, but there are justifications for applying it to cash benefits. These rationales are far weaker with respect to monetizable benefits.

After explaining the complications in defining a subsidy, this Part argues that monetizable benefits should not be treated as government subsidies subject to the government's discretionary content- or viewpoint-based discrimination. First, the practical redistributionist justification for the doctrine is inapplicable where conferred benefits are monetizable; monetizable benefits do not require outlay of federal funds, and, as a result, there is not a limited pool of resources from which to distribute monetizable benefits. Second, recipients of cash funds theoretically have access to other sources of funding whereas the government is frequently the only provider of a monetizable benefit. Moreover, cash-benefit recipients can often disaggregate impermissible speech activities from those that are eligible for government funding, which recipients of monetizable benefits can do less often. Third, the implications of expanding the government subsidies doctrine create even more potential for abuse and discrimination against unpopular viewpoints.

A. Difficulties in Defining a Subsidy

Though Judge Moore, writing the opinion for *In re Tam*, confidently concluded that trademark registration is not a subsidy,[56] such a characterization depends on how subsidy is defined — an area of law which courts have left muddled. However, there are a few competing approaches, each with their own advantages and disadvantages.

One approach is to distinguish subsidies by comparing them to regulations. If Congress conditionally grants a subsidy, the government subsidies doctrine applies; if Congress is exercising its governmental power, it is regulating, not subsidizing, and the government

56. *In re Tam*, 808 F.3d at 1353 ("Trademark registration does not implicate Congress's power to spend or to control the use of government property. Trademark registration is not a subsidy.").

may attach far fewer conditions.[57] But the distinction between a subsidy and a regulation is hazy, so, without real guiding principles, courts retain broad authority to classify certain benefits as subsidies and others as regulations. This method of distinguishing subsidies from non-subsidies, though theoretically reasonable, does not provide the clarity that should exist where the government is making decisions affecting the First Amendment rights of beneficiaries.

Alternatively, the distinction could be drawn between benefits where there are other sources for providing the subsidy and those in which there are no alternative means. In essence, the question would be whether the government has a monopoly over the provision of the benefit. When the government supports a speech activity, as it did with the NEA funding at issue in *Finley*, recipients have alternative (e.g. private) mechanisms to enable speech activities. This lowers the potential effects of abuse of the government subsidies doctrine. But, the government is generally the only possible provider of monetizable benefits. For example, only the federal government enjoys the power to issue federal trademarks, and thereby administer the benefits enumerated under the Lanham Act.

This approach to defining subsidies is admittedly appealing. Because recipients have no other means of achieving such a benefit, they face a dilemma between losing the benefit or forgoing certain speech activities. While this is an important reason to distinguish between cash and monetizable benefits (see Section IV.B), there are innate administrative difficulties with this test. Like the subsidy versus regulation distinction, it is not always clear whether the government maintains a monopoly over a certain benefit. This is true even as applied to trademarks; what constitutes a market substitute? The federal government, through the Lanham Act, appears to maintain a monopoly over federal trademark registration. But trademark protection also exists in common law and at the state level. Moreover, the owner still has a right to use the mark in commerce without the Lanham Act's heightened protections. Whether this is a sufficient market substitute is ambiguous — though there are technically other sources for trademark protection, they are far inferior to the protections provided by the Lanham Act.

A last way to define subsidies and limit the government subsidies doctrine is to look at whether the conferred benefit is a cash or monetizable benefit. This requires an examination of the nature of the benefit: did the government supply recipients with cash or cash equivalents? Or did the recipients receive benefits of a different type? This test captures the important qualities of subsidies that make the government subsidies doctrine necessary, and limits the application of

57. *See* Goodman, *supra* note 10, at 268.

the doctrine in a way that minimizes its potential for abuse. It is, like the other tests, imperfect, but it strikes a good balance between practical redistribution and protection of the rights of the regulated.

B. The Inappositeness of Cash Benefit Justifications to Monetizable Benefits

Though there are tensions between the government subsidy doctrine and First Amendment principles, discussed in Section II.B, there are pragmatic reasons for applying the doctrine to cash benefits. However, those arguments are often unconvincing when applied to monetizable benefits. It is therefore unsurprising that courts traditionally have refused to extend the subsidy doctrine in situations not involving awards of money. In *Bullfrog Films v. Wick*, the Ninth Circuit held that an exemption from import duties was not a subsidy because "no Treasury Department funds [were] involved,"[58] and the Fifth Circuit held in *Department of Texas v. Texas Lottery Commission* that lottery licenses were "wholly distinguishable" from subsidy cases "because no public monies or 'spending' by the state are involved."[59] In contrast, the grants in *Finley* and tax exemptions in *Regan* required government funding. These decisions reflect one of the most important differences between cash and monetizable benefits, as distinguished by the monetizable benefits test — whether or not the government could practically provide the benefit to all grantees or whether practicality dictates that Congress limit eligibility.

Trademark registration, like the benefits at issue in *Bullfrog Films* and *Texas Lottery Commission*, is monetizable, not cash. As a preliminary matter, Congress passed the Lanham Act pursuant to its authority under the Commerce Clause, not the Spending Clause; the act's purpose under Section 1127 is "to regulate marks used in interstate commerce, prevent customer confusion, and protect the goodwill of markholders," not to subsidize owners.[60] Furthermore, the trademark registration process is not funded by public taxes. Since 1991, registration fees from applicants, not public taxes, have funded the USPTO appropriations.[61] In other words, with registration, the government acts as an intermediary for money provided by individuals wishing to

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58. 847 F.2d 502, 509 (9th Cir. 1988). The court distinguished *Regan v. Tax'n With Representation* "to use Treasury funds to subsidize the lobbying activity." *Bullfrog Films*, 847 F.2d at 509. In *Bullfrog*, however, no Treasury funds were involved — any actual subsidy would come from "the treasuries of the foreign states that agree to waive their customs duties." *Id.* at 509 (citing Bullfrog Films v. Wick, 646 F. Supp. 492, 501 (C.D. Cal. 1986)).

59. 760 F.3d 427, 436 (5th Cir. 2014).

60. *See In re Tam*, 808 F.3d at 1354.

61. Figueroa v. United States, 466 F.3d 1023, 1028 (Fed. Cir. 2006). *See also* 56 Fed. Reg. 65147 (1991); Omnibus Budget Reconciliation Act of 1990, Pub. L. No. 101-508, S. 10101, 1990 U.S.C.C.A.N. (104 Stat.) 1388.

register their trademarks, rather than as a disburser of money from the U.S. Treasury as in more typical subsidies cases. Moreover, courts have not considered copyright registration, discussed in Section IV.D, to be a government subsidy, and the Copyright Office is only partially funded by user fees.[62]

The natural, and perhaps obvious, extension of this argument is that there is not a limited funding pool for trademark registration. It is true that the government's fiscal resources are constrained. And where the government elects to provide monetary funds, it plainly does not have the financial resources to fund *everything*. As a result, it must make choices based on content; when the government subsidizes speech, it must necessarily discriminate based on content.[63]

This rationale is entirely inapplicable to monetizable benefits like trademark registration that do not require the government to fund anything. Where the government allots non-monetary benefits, like trademark registration, its resources are virtually unlimited. The registration of intellectual property rights, for example, is non-rivalrous. The USPTO could register every mark that comes before it and actually increase revenue. The government therefore cannot logically rely on the constrained resources argument to justify the refusal to register disparaging marks under Section 2(a) of the Lanham Act.[64] Accordingly, refusal to extend trademark registration to disparaging marks cannot be justified as a necessary, permissible, selective funding decision.[65]

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62. *In re Tam*, No. 14-1203, at 53. Copyright Office Fees: Registration, Recordation and Related Services; Special Services; Licensing Division Services; FOIA Services, 79 Fed. Reg. 15910-01 (Mar. 24, 2014) (explaining that fee amounts are set to recover "a significant part of the costs to the Office of registering copyright claims"). To the extent that any federal funds are spent on trademark registration, like USPTO employee benefits, which are funded from the general treasury and administered by the Office of Personnel Management, such an indirect relationship is insufficient to qualify as government spending. Administrative costs are entwined with any benefit the government might confer; if this were satisfactory, any benefit would implicate the Spending Clause. *In re Tam,* No. 14-1203, at 53. The government also likely indirectly funded the benefits in *Bullfrog* and *Texas Lottery*. *See Bullfrog Films*, 847 F.2d. 502; Dep't of Texas, Veterans of Foreign Wars of the United States, et al. v. Texas Lottery Comm'n, et al., 760 F.3d 427 [hereinafter *Texas Lottery*]. The Ninth and Fifth Circuits only considered whether government spends funds on the benefits themselves, not indirect means. *See generally Bullfrog Films*, 847 F.2d. 502; *Texas Lottery*, 760 F.3d 427.

63. As previously mentioned, the government could distribute cash randomly or not at all, both of which also seem highly undesirable. *See* Section II.B, *supra*.

64. *Cf.* Chase Ruffin, *You Don't Have to, But It's in Your Best Interest: Requiring Express Ideological Statements as Conditions of Federal Funding*, 29 GA. ST. U. L. REV. 1129, 1148 (2013).

65. *Cf. id.*

C. Further Differences Between Cash and Monetizable Benefits

1. Government Monopolies

Cash and monetizable benefits differ in another fundamental way: who can provide the benefit. When the government is supplying cash, the recipient, at least theoretically, can find other funders. Tax breaks are functionally equivalent. The difference between adding a positive by providing money and removing a negative by relieving a party from its tax obligations is fairly insignificant where the underlying benefit is monetary. Discharging an obligation to pay $1,000 is comparable to providing $1,000 in that either way the recipient nets $1,000. Private sources can also provide the recipient with $1,000 worth of funding. If conditions were attached to that benefit, the recipient could accept them or find another source to provide $1,000 — be it private grants, fundraising, crowdfunding, investors, or another avenue.

But when the government provides a monetizable benefit, it is often the only entity that can provide that benefit. If the USPTO denies an applicant's trademark application, there is nobody else to provide the benefit of trademark protection. No other entity can supplant the government's role because an offer to register a trademark by anyone other than a trademark examiner is meaningless without the ability to enforce the protective provisions found in federal legislation.

A caveat: as discussed in Section IV.A, it is not always clear whether there is an available alternative to a given benefit. One might argue that common law protection is a sufficient alternative to federal trademark registration so that the government subsidies doctrine should still apply. Uncertainty in determining what counts as an alternative weakens this sort of government monopoly inquiry as the primary way to determine whether the government subsidies doctrine makes sense. At the same time, the general concept presents a persuasive justification for why we should not be too quick to extend the doctrine to monetizable benefits, which are more likely to be under the primary control of the government.

2. Disaggregation of Activities

A last argument against the same treatment for cash and monetizable benefits relies on the possibility of the potential recipient's disaggregation of their activities. In cases where the government is providing funds, those funds can be used for permissible speech activities. For example, after *Finley*, artists may submit only statutorily compliant art to the NEA for consideration of grants but are otherwise free to continue making art that offends "general standards of decency

and respect for the diverse beliefs and values of the American public."[66]

The disaggregation of activities was also an integral factor in the reasoning of *Rust v. Sullivan*.[67] Title X of the Public Health Services Act provides money for family planning services, but prohibits funding for "programs where abortion is a method of family planning." [68] This included restrictions on "counseling, referral, and advocacy" related to abortion, which challengers asserted violated healthcare providers' First and Fifth Amendment rights.[69] The Supreme Court, in upholding the act, emphasized the distinction between the grantees and their projects: those projects funded under Title X could not discuss abortion as a method of family planning, but Title X grantees could still engage in abortion-related speech as long as those activities were "kept separate and distinct from the activities of the Title X project."[70] In theory, recipients of Title X funds can disassociate those activities that involve impermissible abortion-related speech from those that do not.

This holds true for tax exemptions as well. The benefit at issue in *Regan*, 501(c)(3) tax exemptions for nonprofit organizations, required recipients to refrain from lobbying. [71] But the law stopped short of wholly barring lobbying activities. Instead, nonprofits could create a separately incorporated lobbying affiliate qualified under 501(c)(4), and provide records to prove that no tax-deductible contributions were used to pay for lobbying.[72] Justice Blackmun's concurrence went further and emphasized that the constitutionality of Section 501(c)(3) turned *solely* on the fact that organizations could separately engage in lobbying activities.[73]

Though money is fungible, monetizable benefits are not. Individuals whose trademark applications are rejected as "disparaging" have no other recourse to obtain federal protection for their marks. They cannot meaningfully separate their speech activities in the context of branding, unlike the artists in *Finley*, or the grantees in *Rust*, or the organizations in *Regan*. At most, trademark registrants can select an approvable mark to register with the USPTO, and continue using the "disparaging" mark without the Lanham Act's protections. But given

66. 20 U.S.C. § 954(d)(1) (2012).
67. 500 U.S. 173 (1991).
68. 42 U.S.C. § 300a-6 (2012).
69. *Rust*, 500 U.S. at 173.
70. *Id.* at 175 (italics omitted).
71. Regan v. Tax'n With Representation of Wash., 461 U.S. 540 (1983).
72. *Id.* at 553.
73. *Id.* (stating that "[a] § 501(c)(3) organization's right to speak is not infringed, because it is free to make known its views on legislation through its § 501(c)(4) affiliate without losing tax benefits for its nonlobbying activities" but that a substantial restriction "would negate the saving effect of § 501(c)(4)").

the importance of brand recognition, discussed in Section III.B.2, this is not a useful disaggregation of cash benefits. While recipients of monetary funds can separate their activities with fairly minimal effort, trademark registrants face a Hobson's choice: either select a mark that the government will approve, or abandon federal protections altogether.

D. The Broad Implications of Expanding the Government Subsidies Doctrine

1. Expansion into Other Forms of Government Regulation

Judge Moore, writing for the majority in *In re Tam*, noted that if the Federal Circuit were to "accept the government's argument that trademark is a government subsidy and that therefore the government is free to restrict speech within the confines of the trademark program, it would expand the 'subsidy' exception to swallow nearly all government regulation."[74] The government's ability to discriminate against certain speech should be limited, which suggests barring the application of the government subsidies doctrine to all non-cash benefits like trademark registration. Consider two other areas of law that could be subject to the subsidies doctrine should a court apply it in the trademark context: copyright and the heckler's veto.

There are obvious similarities between the copyright and trademark registration processes — the creators have some rights before registering the work or mark, but receive valuable "attendant benefits"[75] by registering with the United States Copyright Office or USPTO, respectively. The logic underlying the classification of trademark registration as a government subsidy would quite naturally lead to analogous treatment of the copyright system.[76]

In the copyright context, to grant the government the power to discriminate on the basis of content and viewpoint would be to vest the government with the power to censor artistic expression, plainly undermining free speech principles. As a result, Judge Moore warned against categorizing copyright as a government subsidy: "[t]his idea — that the government can control speech by denying the benefits of copyright registration to disfavored speech — is anathema to the First Amendment."[77] If Congress can prohibit registration of dis-

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74. *In re Tam,* No. 14-1203, at 55.

75. *Id.*

76. There are arguments that copyright registration should be treated as a subsidy. *See* Tom W. Bell, *Copyright Porn Trolls, Wasting Taxi Medallions, and the Propriety of "Property"*, 18 CHAP. L. REV. 799, 813 (2015) (arguing that copyrights should not be considered property but belong "to a bestiary of modern, artificial, statutory privileges, such as welfare benefits, farm subsidies . . . and taxi medallions.").

77. *In re Tam,* No. 14-1203, at 55–6.

paraging trademarks, what is to stop them from altering the Copyright Act to prohibit the protection of works that contain "racial slurs . . . or religious insults, ethnic caricatures, misogynistic images, or any other disparaging terms or logos."[78] While this would certainly exclude objectionable works like Adolf Hitler's *Mein Kampf* (which has only recently fallen out of the scope of copyright protection),[79] it could also reach classic works like Margaret Mitchell's *Gone with the Wind* or Mark Twain's *Adventures of Huckleberry Finn*. And if the USPTO's practices are any indication,[80] the application of these standards in the copyright context would be highly inconsistent.

Or consider the potential for abuse that would arise around the heckler's veto doctrine, which is concerned with the potential for the government to restrict speakers' free speech rights by withholding protection in response to negative reactions by audiences. Courts have required that the government bear the costs of protecting speakers in these situations.[81] In practice, this means the government cannot place additional financial burdens on speakers whose speech may elicit hostile reactions from the audience.[82] This is, in essence, a subsidy to the speaker: the government provides heightened security to protect their speech. It is theoretically possible to determine the monetary value of the security, just as it is possible to estimate the monetary value of

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78. *Id.* at 58 (internal citations omitted). Before 1941, the Copyright Office did refuse registration for immoral and illegal works; the Copyright Register of 1941 noted that the Copyright Office was "not an office of censorship of public morals," but it would refuse registration to "obscene, seditious, or blasphemous" publications. COPYRIGHT OFFICE, 44TH ANNUAL REPORT FOR THE REGISTER OF COPYRIGHTS 29 (1941) (citations omitted). By the 1970s, however, the House Judiciary Committee clarified that Congress sought to avoid content-based restrictions on copyrightability. *See* H.R. REP. NO. 94-1467, pt. 51, at 47 (1976). Courts reinforced this principle. *See, e.g.*, Mitchell Bros. Film Grp. v. Cinema Adult Theater, 604 F.2d 852, 855 (5th Cir. 1979) (noting that "[t]he legislative history of the 1976 Act reveals that Congress intends to continue the policy of the 1909 Act of avoiding content restrictions on copyrightability").

79. A full consideration whether illegal works should be excluded from copyrightability is outside the scope of this Note. For an argument that works involving illegal activity should be excluded, see Eldar Haber, *Copyrighted Crimes: The Copyrightability of Illegal Works*, 16 YALE J.L. & TECH. 454 (2014).

80. In *In re Tam*, Judge Moore referred to the USPTO's trademark registrations and denials as "arbitrary and . . . rife with inconsistency." *In re Tam,* 785 F.3d at 31 n.7. As one example, the USPTO found HAVE YOU HEARD SATAN IS A REPUBLICAN? disparaging and denied registration, yet did not find THE DEVIL IS A DEMOCRAT disparaging. *Id.*

81. *See* Perry Educ. Ass'n v. Perry Local Educators' Ass'n, 460 U.S. 37, 45 (1983) ("In places which by long tradition or by government fiat have been devoted to assembly and debate, the rights of the state to limit expressive activity are sharply circumscribed . . . [and i]n these quintessential public forums, the government may not prohibit all communicative activity."). *See also* Erica Goldberg, *Must Universities "Subsidize" Controversial Ideas?: Allocating Security Fees When Student Groups Host Divisive Speakers*, 21 GEO. MASON U. CIV. RTS. L.J. 349, 358–60 (2011).

82. *See* Gary Peller & Mark Tushnet, *State Action and a New Birth of Freedom*, 92 GEO. L.J. 779, 799 n.96 (2004) ("[T]he First Amendment requires a subsidy from taxpayers generally to demonstrators.").

trademark registration. But there is something deeply troubling about allowing the government to select which speakers it will protect. If courts treat protection from the heckler's veto as a government subsidy, the government could, for example, provide protection to anti-Christian speakers while refusing to protect those speaking against Islam. Such power is alarming, but these results may occur if the government subsidies doctrine is extended to monetizable benefits.

2. The Danger of Permitting the Government to Practice Viewpoint Discrimination

As discussed in Part II, the government subsidies doctrine has traditionally been applied to monetary benefits and permits the government to discriminate against speech on the basis of content, and possibly also viewpoint. Extending the government's ability to discriminate based on speech activities — particularly when done on the basis of viewpoint — presents two primary dangers. First, ceding to the government the authority to examine speech and determine whether it contains an idea, and if so, how that idea should be classified, jeopardizes individual liberty.[83] An equally powerful concern, which flows from the first, is that such state power chills individual thought and expression.[84]

These First Amendment concerns are exacerbated as society produces innovative technologies that continue to expand the scope of our abilities to communicate and intensify the role of intellectual property rights.[85] Problems related to trademark registration have manifested in three primary ways. First, prohibiting "disparaging" marks forces users to select other marks that conform to the government's standards. Second, the USPTO applies Section 2(a) inconsistently, artificially controlling access to the marketplace.[86] Third, Congress has extended its regulatory reach further than the underlying purpose of the Lanham Act.

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83. Melissa S. Vignovic, National Endowment of the Arts v. Finley*: The Propriety of Viewpoint in Arts Funding* Still *Unknown*, 6 VILL. SPORTS & ENT. L.J. 433, 453–54 (1999) ("The first danger to liberty lies in granting the State the power to examine publications to determine whether or not they are based on some ultimate idea and if so for the State to classify them. The second, and corollary, danger is to speech from the chilling of individual thought and expression.") (citing Rosenberger v. Rector and Visitors of the Univ. of Va., 515 U.S. 819, 835 (1995)).

84. *Id.*

85. *See generally* Goodman, *supra* note 10, at 218 ("The emergence of new communications technologies and the convergence of existing media over the past decade have dramatically increased the salience of First Amendment concerns in communications regulation.").

86. *See supra* note 80.

Because federal trademark registration is so significant in the valuation of brands,[87] individuals may be wary to adopt marks that are ineligible for protection. While they may still be free to use the mark in commerce without the benefits conferred by federal registration, potential users are unlikely to use their mark without government-issued protections. Without a doubt, such an approach will have grave chilling effects on the choice of marks to be used in commerce.

Furthermore, the USPTO's inconsistency in employing the Lanham Act's Section 2(a) to trademark applications is troublesome. For example, it denied an application for the mark HAVE YOU HEARD SATAN IS A REPUBLICAN?[88] because it disparaged the Republican Party, but it did not classify the mark THE DEVIL IS A DEMOCRAT as disparaging to the Democratic Party.[89] The unpredictability involved in the "disparaging" marks prohibition is illustrative of the dangers of granting the government authority to approve certain marks, while discriminating against others. It is hard to conceive of an objective definition of "disparaging" unaffected by subjective moral judgments. In fact, the Supreme Court has rejected such judgments in other contexts.[90] The government should not retain the power to artificially shape public opinion by condoning certain marks and barring others from registration, blocking the benefits bestowed by the Lanham Act.

Finally, permitting the government to discriminate is especially harmful where the discrimination bears no connection to the underlying legislation. Though Congress retains the power to define the scope of the law, it should not retain the power to control expression beyond that stated purpose. The Lanham Act's purpose, as discussed in Section III.B.1, is to guard against consumer confusion and to protect from the misappropriation of marks. The prohibition on disparaging marks does neither.[91]

V. CONCLUSION

The government subsidies doctrine permits the government, when making decisions about what to subsidize, to constitutionally engage in content-based discrimination and possibly also viewpoint-based discrimination. This analysis has traditionally been applied to mone-

87. INTERNATIONAL TRADEMARK ASSOCIATION, ASSIGNMENTS, LICENSES AND VALUATION (2016), http://www.inta.org/TrademarkBasics/FactSheets/Pages/BrandValuation.aspx [https://perma.cc/7ATM-NAE2].

88. U.S. Trademark Application Serial No. 85/077,647 (filed Jul. 2, 2010).

89. U.S. Trademark Application Serial No. 85/525,066 (filed Jan. 25, 2012) (abandoned after publication for separate reasons).

90. *See* Lawrence v. Texas, 539 U.S. 558 (2003) (rejecting the government's moral disapproval of same-sex sodomy).

91. *In re Tam*, No. 14-1203, at 54–55.

tary benefits, like cash grants and tax exemptions, but should not be extended to reach monetizable benefits. The government, in *In re Tam*, argued that it was providing a subsidy, trademark registration, and was therefore free to discriminate against marks deemed disparaging by USPTO examiners. The Federal Circuit, hearing the case en banc, rejected this argument and commented that the subsidies analysis has traditionally been applied only to monetary benefits.

Such a limiting principle is desirable. The primary justification for the government subsidies doctrine, namely limited government funding, is inapplicable to the monetizable benefits context. Furthermore, the government often has a monopoly over monetizable benefits but is not the only source of cash funding, and recipients of cash benefits can often disaggregate their activities, whereas recipients of monetizable benefits generally cannot. Finally, expanding the government subsidies doctrine unnecessarily expands the government's capability to discriminate against certain types of speech with which it disagrees and the related First Amendment concerns.