

# LEGAL ENVIRONMENT OF BUSINESS

Online Commerce, Business  
Ethics, and Global Issues

EIGHTH EDITION

A long-exposure photograph of a city skyline at night. The foreground shows a multi-lane highway with vibrant, multi-colored light trails from moving vehicles, creating a sense of motion and energy. The background features several illuminated skyscrapers, including a prominent one with a curved facade and another with a grid-like window pattern. The sky is a deep twilight blue.

Henry Cheeseman

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**Online Commerce,  
Business Ethics, and Global Issues**

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## Dedication



*Vietnam Memorial, Washington DC*

*Mark H. Dixon*

*My friend*

# PREFACE

## NEW TO THE EIGHTH EDITION

This eighth edition of *Legal Environment of Business* is a significant revision of Professor Cheeseman's legal environment textbook that includes many new cases, statutes, and features.

### New U.S. Supreme Court Cases

More than 12 new U.S. Supreme Court cases, including:

- *Shelby County, Texas v. Holder* (certain coverage provisions of the Voting Rights Act held to be unenforceable)
- *Burwell v. Hobby Lobby Stores, Inc.* (federal law cannot require owners of closely held businesses to provide health insurance coverage for contraceptive methods if it would violate the owners religious beliefs)
- *Maryland v. King* (taking of DNA from a suspect at the time of booking is a reasonable search and seizure)
- *United States v. Windsor* (federal Defense of Marriage Act violates equal protection)
- *McCullen v. Coakley, Attorney General of Massachusetts* (state statute that restricted free speech rights near abortion clinics held unconstitutional)
- *POM Wonderful LLC v. Coca-Cola Company* (a company may sue a competitor for using a false food label)
- *Riley v. California* (the police cannot, without a valid warrant, search digital information on the cell phone of a person who has been arrested)
- *Schuette v. Coalition to Defend Affirmative Action* (state law that bans affirmative action in college admissions does not violate equal protection)
- *American Broadcasting Companies, Inc. v. Aereo, Inc.* (technology company engaged in copyright infringement by streaming copyright holders' television programs over the Internet)
- *Association for Molecular Pathology v. Myriad Genetics, Inc.* (naturally occurring DNA segment is a product of nature and not eligible for patent)

### New State and Federal Court Cases

More than 35 new state and federal court cases, including:

- *Waldo v. Consumers Energy Company* (employer liable for punitive damages for repeated sexual harassment of female employee by male coworkers)
- *Cast Art Industries, LLC v. KPMG LLP* (accounting firm found not liable to nonclient third party)
- *Bennett v. Nucor Corporation* (employer liable for permitting racially hostile work environment)
- *Eco-Clean, Inc. v. Brown* (university found liable when student driving a university vehicle was found to be an agent of the university)
- *Ftega v. Facebook, Inc.* (forum-selection clause in Facebook's user agreement is enforceable)
- *Mance v. Mercedes-Benz USA* (arbitration clause in Mercedes-Benz automobile purchase contract enforced)
- *United States v. Barrington* (students at university convicted of computer fraud for hacking into the university's Internet-based grading system and changing grades)

- *Ford Motor Company v. Ghreiwati Auto* (executive order preventing sales to parties in foreign country made existing contract illegal)
- *Broadcast Music, Inc. v. McDade & Sons, Inc.* (live band at bar liable for copyright infringement for singing copyrighted songs)
- *Aleo v. SLB Toys USA, Inc.* (injured plaintiff awarded \$20 million for pool slide manufacturer's gross negligence)
- *Martinez v. Houston McLane Company, LLC* (patron at baseball game assumed risk of being struck by baseball in outfield seats)
- *United States v. Maury* (corporate executives sentenced to jail for causing environmental pollution by intentionally dumping hazardous waste into a river)
- *Williams Construction Company v. Occupational Safety and Health Review Commission* (employer liable for violating occupational safety rules for trench cave-in that killed a worker)
- *Cummins v. BIC USA, Inc.* (manufacturer of cigarette lighter not liable to burned child because someone had removed the child-resistant guard from the lighter)
- *National Labor Relations Board v. Starbucks Corporation* (Starbucks's enforcement of a one-union-button-only dress code is not an unfair labor practice)
- *Jones v. City of Seattle, Washington* (firefighter awarded \$12 million for city's negligence when he fell through fire station's pole hole)

### **New Special Features on Ethics, Critical Legal Thinking, Contemporary Environment, Digital Law, and Global Law**

More than 15 new features, including:

- Crowdfunding and Funding Portals
- Foreign Intelligence Surveillance (FISA) Court
- High-Tech Companies Settle Antitrust Charges
- Class Action Waivers
- Veterans and Military Personnel Employment Protections
- Stop Trading on Congressional Knowledge Act
- Dodd-Frank Wall Street Reform and Consumer Protection Act
- JOBS Act: Emerging Growth Company

## To the Students

Contemporary students have different needs than previous generations. Having been exposed to the electronic world for your entire lives, you think, learn, and process information in different ways than prior generations. This new eighth edition of *Legal Environment of Business* and its electronic supplements have been designed especially for your needs.

Many of you may be apprehensive about taking a law course because it may seem daunting or different from studying many of your other courses. But it is not. As you embark on your study of the law, you will know that this course presents the “real world,” that is, real legal disputes involving real people like yourselves. The course also offers you an opportunity to develop your critical thinking skills, which will serve you in addressing legal and other issues that you may encounter. And learning the subject matter of this course will help you make more informed and confident decisions in your business and personal life.

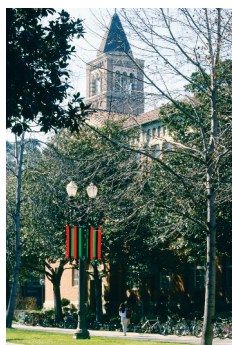
Each semester, as I stand in front of a new group of students in my legal environment and business law classes, I am struck by the thought that I draw as much from them as they do from me. Their youth, enthusiasm, and questions—and even the doubts a few of them hold about the relevance of law to their futures—fuel my teaching. They don’t know that every time they open their minds to look at an issue from a new perspective or critically question something, I have received a wonderful reward for the work I do.

I remind myself of this every time I sit down to write and revise the *Legal Environment of Business*. My goal is to present the legal environment, business law, ethics, digital law, and global law in a way that will spur students to ask questions, to go beyond rote memorization.

Law is an evolving outgrowth of its environment, and the legal environment keeps changing. This new eighth edition of the *Legal Environment of Business* emphasizes coverage of online law and e-commerce as key parts of the legal environment. In addition, this book covers social, ethical, and global issues that are important to the study of the legal environment.

It is my wish that my commitment to these goals shines through in this labor of love, and I hope you have as much pleasure in using this text as I have had in creating it for you.

Henry Cheeseman



# ABOUT THE AUTHOR

Henry R. Cheeseman is professor emeritus of the Marshall School of Business of the University of Southern California (USC), Los Angeles, California.

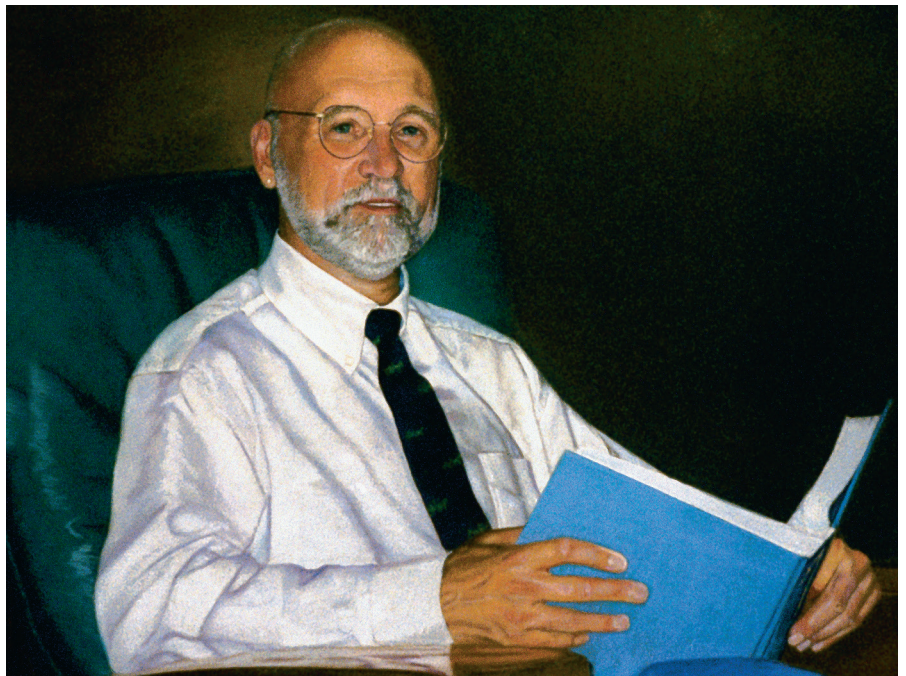
Professor Cheeseman earned a bachelor's degree in finance from Marquette University, both a master's in business administration (MBA) and a master's in business taxation (MBT) from the University of Southern California, a juris doctor (JD) degree from the University of California at Los Angeles (UCLA) School of Law, a master's degree with an emphasis on law and economics from the University of Chicago, and a master's in law (LLM) degree in financial institutions law from Boston University.

Professor Cheeseman was director of the Legal Studies in Business Program at the University of Southern California. Professor Cheeseman taught legal environment, business law, and ethics courses in both the Master of Business Administration (MBA) and undergraduate programs of the Marshall School of Business of the University of Southern California. At the MBA level, he developed and taught courses on corporate governance, securities regulation, mergers and acquisitions, and bankruptcy law. At the undergraduate level, he taught courses on the legal environment of business, business law, ethics, business organizations, and cyberlaw.

Professor Cheeseman received the Golden Apple Teaching Award on many occasions by being voted by the students as the best professor at the Marshall School of Business of the University of Southern California. He was named a fellow of the Center for Excellence in Teaching at the University of Southern California by the dean of the Marshall School of Business. The USC's Torch and Tassel Chapter of the Mortar Board, a national senior honor society, tapped Professor Cheeseman for recognition of his leadership, commitment, and excellence in teaching.

Professor Cheeseman writes leading legal environment and business law textbooks that are published by Pearson Education, Inc. These textbooks include *Business Law*; *Contemporary Business Law*; and *Legal Environment of Business*.

Professor Cheeseman is an avid traveler and amateur photographer. The interior photographs for this book were taken by Professor Cheeseman.





# ACKNOWLEDGMENTS

When I first began writing this book, I was a solitary figure, researching cases online and in the law library, and writing text on the computer and by hand at my desk. As time passed, others entered upon the scene—copy editors, developmental editors, research assistants, reviewers, and production personnel—and touched the project and made it better. Although my name appears on the cover of this book, it is no longer mine alone. I humbly thank the following persons for their contributions to this project.

## THE EXCEPTIONAL PEARSON PROFESSIONALS

Many thanks to Denise Vaughn, Program Manager, and Tom Benfatti, Project Manager, for shepherding this eighth edition of the *Legal Environment of Business* through its many phases. I'd also like to thank Shyam Ramasubramony, Project Manager at S4Carlisle, for his dedication to make the schedule work.

I also appreciate the ideas, encouragement, effort, and decisions of the management team at Pearson: Donna Battista, Vice President, Business Publishing; Stephanie Wall, Editor-in-Chief; Ashley Santora, Program Manager Team Lead; and Judy Leale, Project Manager Team Lead, for their support in the publication of this book.

I would especially like to thank the professionals of the sales staff of Pearson Education, Inc., particularly all the knowledgeable sales representatives, without whom the success of this textbook would be impossible.

## PERSONAL ACKNOWLEDGMENTS

### My Family

I thank my wife, Jin Du, for her encouragement during the writing of this book. I thank my parents—Henry B. and Florence, deceased—who had a profound effect on me and my ability to be a writer. I also thank my brother Gregory—with whom a special bond exists as twins—and the rest of my family: my sister Marcia, deceased; Gregory's wife, Lana; Gregory Junior, my nephew, and his wife, Karen; my niece, Nicky, and her husband, Jerry; and my great-nieces Addison, Lauren, and Shelby.

### Students

I'd like to acknowledge the students at the University of Southern California (USC) and the students at other colleges and universities in the United States and around the world. Their spirit, energy, and joy are contagious. I love teaching my students (and, as important, my students teaching me). At the end of each semester, I am sad that the students I have come to know are moving on. But each new semester brings another group of students who will be a joy to teach. And thus the cycle continues.

### Colleagues

Certain people and colleagues are enjoyable to work with and have made my life easier as I have endeavored to write this new eighth edition of the *Legal Environment of Business*. I would like to thank Kerry Fields, my colleague in teaching legal environment and business law courses at USC, who is an excellent professor and a wonderful friend. I would also like to thank Helen Pitts, Debra Jacobs,

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### **Educators**

I would also like to thank the professors who teach legal environment and business law courses for their dedication to the discipline. Their experience in the law and teaching ability make them some of the greatest professors on any college or university campus.

### **Reviewers**

The author and publisher would like to acknowledge the following reviewers for their time and valuable feedback:

Leslie Ann Dunn, *Georgia Perimeter College*  
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William Sloane, *McCann School of Business & Technology*

## **AUTHOR'S PERSONAL STATEMENT**

While writing the preface and acknowledgments, I have thought about the thousands of hours I have spent researching, writing, and preparing this manuscript. I've loved every minute, and the knowledge gained has been sufficient reward for the endeavor.

I hope this book and its supplementary materials will serve you as well as they have served me.

*With joy and sadness,  
emptiness and fullness,  
honor and humility,  
I surrender the fruits of this labor*

**Henry R. Cheeseman**

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PART

*I*

# Legal and Ethical Environment



## CHAPTER

# 1

# Legal Heritage and the Digital Age

### STATUE OF LIBERTY, NEW YORK HARBOR

The Statue of Liberty stands majestically in New York Harbor. During the American Revolution, France gave the colonial patriots substantial support in the form of money for equipment and supplies, officers and soldiers who fought in the war, and ships and sailors who fought on the seas. Without the assistance of France, it is unlikely that the American colonists would have won their independence from Britain. In 1886, the people of France gave the Statue of Liberty to the people of the United States in recognition of friendship that was established during the American Revolution. Since then, the Statue of Liberty has become a symbol of liberty and democracy throughout the world.



## Learning Objectives

After studying this chapter, you should be able to:

1. Define *law*.
2. Describe the functions of law.
3. Explain the development of the U.S. legal system.
4. List and describe the sources of law in the United States.
5. Discuss the importance of the U.S. Supreme Court's decision in *Brown v. Board of Education*.

## Chapter Outline

### Introduction to Legal Heritage and the Digital Age

#### What Is Law?

**LANDMARK U.S. SUPREME COURT CASE** • *Brown v. Board of Education*

#### Schools of Jurisprudential Thought

**CASE 1.1 • U.S. SUPREME COURT CASE** • *POM Wonderful LLC v. Coca-Cola Company*

**GLOBAL LAW** • *Command School of Jurisprudence of Cuba*

#### History of American Law

**LANDMARK LAW** • *Adoption of English Common Law in the United States*

**GLOBAL LAW** • *Civil Law System of France and Germany*

#### Sources of Law in the United States

**CONTEMPORARY ENVIRONMENT** • *How a Bill Becomes Law*

**DIGITAL LAW** • *Law of the Digital Age*

#### Critical Legal Thinking

**CASE 1.2 • U.S. SUPREME COURT CASE** • *Shelby County, Texas v. Holder*

“Where there is no law, there is no freedom.”

—John Locke  
*Second Treatise of Government, Sec. 57*

## Introduction to Legal Heritage and the Digital Age

In the words of Judge Learned Hand, “Without law we cannot live; only with it can we insure the future which by right is ours. The best of men’s hopes are enmeshed in its success.”<sup>1</sup> Every society makes and enforces laws that govern the conduct of the individuals, businesses, and other organizations that function within it.

Although the law of the United States is based primarily on English common law, other legal systems, such as Spanish and French civil law, also influence it. The sources of law in this country are the U.S. Constitution, state constitutions, federal and state statutes, ordinances, administrative agency rules and regulations, executive orders, and judicial decisions by federal and state courts.

Businesses that are organized in the United States are subject to its laws. They are also subject to the laws of other countries in which they operate. Businesses organized in other countries must obey the laws of the United States when doing business here. In addition, businesspeople owe a duty to act ethically in the conduct of their affairs, and businesses owe a responsibility not to harm society.

This chapter discusses the nature and definition of law, theories about the development of law, and the history and sources of law in the United States.

*Human beings do not ever make laws; it is the accidents and catastrophes of all kinds happening in every conceivable way that make law for us.*

Plato  
*Laws IV, 709*

## What Is Law?

The law consists of rules that regulate the conduct of individuals, businesses, and other organizations in society. It is intended to protect persons and their property against unwanted interference from others. In other words, the law forbids persons from engaging in certain undesirable activities. Consider the following passage:

*Hardly anyone living in a civilized society has not at some time been told to do something or to refrain from doing something, because there is a law requiring it, or because it is against the law. What do we mean when we say such things?*

*At the end of the 18th century, Immanuel Kant wrote of the question “What is law?” that it “may be said to be about as embarrassing to the jurist as the well-known question ‘What is truth?’ is to the logician.”<sup>2</sup>*

*A lawyer without history or literature is a mechanic, a mere working mason: if he possesses some knowledge of these, he may venture to call himself an architect.*

Sir Walter Scott  
*Guy Mannering, Ch. 37 (1815)*

## Definition of Law

The concept of **law** is broad. Although it is difficult to state a precise definition, *Black’s Law Dictionary* gives one that is sufficient for this text:

*Law, in its generic sense, is a body of rules of action or conduct prescribed by controlling authority, and having binding legal force. That which must be obeyed and followed by citizens subject to sanctions or legal consequences is a law.<sup>3</sup>*

### law

That which must be obeyed and followed by citizens, subject to sanctions or legal consequences; a body of rules of action or conduct prescribed by controlling authority and having binding legal force.

*Commercial law lies within a narrow compass, and is far purer and freer from defects than any other part of the system.*

Henry Peter Brougham  
House of Commons,  
February 7, 1828

## Functions of the Law

The law is often described by the function it serves in a society. The primary functions served by the law in this country are the following:

1. Keeping the peace

**Example** Some laws make certain activities crimes.

2. Shaping moral standards

**Example** Some laws discourage drug and alcohol abuse.

3. Promoting social justice

**Example** Some laws prohibit discrimination in employment.

4. Maintaining the status quo

**Example** Some laws prevent the forceful overthrow of the government.

5. Facilitating orderly change

**Example** Laws are enacted only after considerable study, debate, and public input.

6. Facilitating planning

**Example** Well-designed commercial laws allow businesses to plan their activities, allocate their productive resources, and assess the risks they take.

7. Providing a basis for compromise

**Example** Laws allow for the settlement of cases prior to trial. Approximately 95 percent of all lawsuits are settled in this manner.

8. Maximizing individual freedom

**Example** The rights of freedom of speech, religion, and association are granted by the First Amendment to the U.S. Constitution.

### CONCEPT SUMMARY

#### FUNCTIONS OF THE LAW

- |                            |                                   |
|----------------------------|-----------------------------------|
| 1. Keep the peace          | 5. Facilitate orderly change      |
| 2. Shape moral standards   | 6. Facilitate planning            |
| 3. Promote social justice  | 7. Provide a basis for compromise |
| 4. Maintain the status quo | 8. Maximize individual freedom    |

## Fairness of the Law

On the whole, the U.S. legal system is one of the most comprehensive, fair, and democratic systems of law ever developed and enforced. Nevertheless, some misuses and oversights of our legal system—including abuses of discretion and mistakes by judges and juries, unequal applications of the law, and procedural mishaps—allow some guilty parties to go unpunished.

**Example** In *Standefer v. United States*,<sup>4</sup> Chief Justice Warren Burger of the U.S. Supreme Court stated, “This case does no more than manifest the simple, if discomfoting, reality that different juries may reach different results under any criminal statute. That is one of the consequences we accept under our jury system.”

*The law, in its majestic equality, forbids the rich as well as the poor to sleep under bridges.*

Anatole France

## Flexibility of the Law

U.S. law evolves and changes along with the norms of society, technology, and the growth and expansion of commerce in the United States and the world. The following quote by Judge Jerome Frank discusses the value of the adaptability of law:

*The law always has been, is now, and will ever continue to be, largely vague and variable. And how could this be otherwise? The law deals with human relations in their most complicated aspects. The whole confused, shifting helter-skelter of life parades before it—more confused than ever, in our kaleidoscopic age.*

*The constant development of unprecedented problems requires a legal system capable of fluidity and pliancy. Our society would be straight-jacketed were not the courts, with the able assistance of the lawyers, constantly overhauling the law and adapting it to the realities of ever-changing social, industrial, and political conditions; although changes cannot be made lightly, yet rules of law must be more or less impermanent, experimental and therefore not nicely calculable.*

*Much of the uncertainty of law is not an unfortunate accident; it is of immense social value.<sup>5</sup>*

A landmark U.S. Supreme Court case—*Brown v. Board of Education*—is discussed in the following feature. This case shows the flexibility of the law because the U.S. Supreme Court overturned a past decision of the U.S. Supreme Court.

*Law must be stable and yet it cannot stand still.*

Roscoe Pound  
*Interpretations of Legal History* (1923)

### Critical Legal Thinking

Are there any benefits for the law being “vague and variable”? Are bright-line tests possible for the law? Explain the statement, “Much of the uncertainty of law is not an unfortunate accident; it is of immense social value.”



## LANDMARK U.S. SUPREME COURT CASE *Equal Protection*

### Brown v. Board of Education

**“We conclude that in the field of public education the doctrine of ‘separate but equal’ has no place.”**

—Warren, Justice

Slavery was abolished by the Thirteenth Amendment to the Constitution in 1865. The Fourteenth Amendment, added to the Constitution in 1868, contains the Equal Protection Clause, which provides that no state shall “deny to any person within its jurisdiction the equal protection of the laws.” The original intent of this amendment was to guarantee equality to freed African Americans. But equality was denied to African Americans for years. This included discrimination in housing, transportation, education, jobs, service at restaurants, and other activities.

In 1896, the U.S. Supreme Court decided the case *Plessy v. Ferguson*.<sup>6</sup> In that case, the state of Louisiana had a law that provided for separate but equal accommodations for African American and white railway passengers. The Supreme Court held that the “separate but equal” state law did not violate the Equal Protection Clause of the Fourteenth Amendment. The “separate but equal” doctrine was then applied to all areas of life, including public education. Thus, African American and white children attended separate schools, often with unequal facilities.

It was not until 1954 that the U.S. Supreme Court decided a case that challenged the “separate but equal” doctrine as it applied to public elementary and high schools. In *Brown v. Board of Education*, a consolidated case that challenged the separate school systems of four states—Kansas, South Carolina, Virginia, and Delaware—the Supreme Court decided to revisit the “separate but equal” doctrine announced by its forebearers in another century. This time, a unanimous Supreme Court, in an opinion written by Chief Justice Earl Warren, reversed prior precedent and held that the separate but equal doctrine violated the Equal Protection Clause of the Fourteenth Amendment to the Constitution. In its opinion, the Court stated,

*Today, education is perhaps the most important function of state and local governments. We conclude that in the field of public education the doctrine of “separate but equal” has no place. Separate educational facilities are inherently unequal. Therefore, we hold that the plaintiffs and others similarly situated for whom actions have been brought are, by reason of the segregation complained of, deprived of the equal protection of the laws guaranteed by the Fourteenth Amendment.*

(continued)



After *Brown v. Board of Education* was decided, it took court orders as well as U.S. army enforcement to integrate many of the public schools in this country. *Brown v. Board of Education*, 347 U.S. 483, 74 S.Ct. 686, 1954 U.S. Lexis 2094 (Supreme Court of the United States, 1954).

### Critical Legal Thinking Questions

It has been said that the U.S. Constitution is a “living document”—that is, one that can adapt to changing times. Do you think this is a good policy? Or should the U.S. Constitution be interpreted narrowly and literally, as originally written?

#### WEB EXERCISE

To view court documents related to *Brown v. Board of Education*, go to [www.loc.gov/exhibits/brown/brown-brown.html](http://www.loc.gov/exhibits/brown/brown-brown.html).

#### jurisprudence

The philosophy or science of law.

*The law is not a series of calculating machines where definitions and answers come tumbling out when the right levers are pushed.*

William O. Douglas  
*Dissent, A Safeguard of  
Democracy (1948)*

## Schools of Jurisprudential Thought

The philosophy or science of the law is referred to as **jurisprudence**. There are several different philosophies about how the law developed, ranging from the classical natural theory to modern theories of law and economics and critical legal studies. Classical legal philosophies are discussed in the following paragraphs.

### Natural Law School

The **Natural Law School** of jurisprudence postulates that the law is based on what is “correct.” Natural law philosophers emphasize a **moral theory of law**—that is, law should be based on morality and ethics. Natural law is “discovered” by humans through the use of reason and choosing between good and evil.

**Examples** Documents such as the U.S. Constitution, the Magna Carta, and the United Nations Charter reflect this theory.

The following U.S. Supreme Court case involves the moral theory of law and the issue of ethics.



### CASE 1.1 U.S. SUPREME COURT CASE *Moral Theory of Law and Ethics*

#### POM Wonderful LLC v. Coca-Cola Company

134 S.Ct. 2228, 2014 U.S. Lexis 4165 (2014)  
Supreme Court of the United States

“Lanham Act suits provide incentives for manufacturers to behave well.”

—Kennedy, Justice

#### Facts

POM Wonderful, LLC (POM) is a grower of pomegranates, a fruit, and a maker and distributor of pomegranate juice and juice blends. POM produces and sells a pomegranate-blueberry juice blend that consists of 85% pomegranate and 15% blueberry juices.

The Coca-Cola Company’s Minute Maid Division makes a juice blend sold with a label that, in describing the contents, displays the words “pomegranate blueberry” with far more prominence than other words on the label. In truth, Coca-Cola’s pomegranate blueberry juice is made of five different juices, and contains but 0.3% pomegranate, 0.2% blueberry juice, and 0.1% raspberry juice. The Coca-Cola

pomegranate blueberry juice is actually made with 99.4% apple and grape juices.

Despite the minuscule amount of pomegranate and blueberry juices in the blend, the front label of the Coca-Cola product displays the words “POMEGRANATE” and “BLUEBERRY” in all capital letters on two separate lines. Below those words, Coca-Cola placed the phrase “flavored blend of 5 juices” in much smaller type. And below that phrase, in still smaller type, were the words “from concentrate with added ingredients”—and, with a line break before the final phrase—“and other natural flavors.” Coca-Cola’s front label also displays a vignette of blueberries, grapes, and raspberries in front of a halved pomegranate and a halved apple.

POM sued Coca-Cola under Section 43 of the federal Lanham Act, which allows one competitor to sue another to recover damages for unfair competition

arising from false and misleading product descriptions. Coca-Cola tried to avoid POM's lawsuit by asserting that the Federal Food, Drug, and Cosmetic Act (FDCA), a federal statute that protects the safety of food products, did not require any different labeling. The U.S. district court and the U.S. court of appeals held in favor of Coca-Cola. POM appealed to the U.S. Supreme Court.

### Issue

Can a private party bring an unfair competition lawsuit under the Lanham Act against a competitor that challenges the truthfulness of a food label?

### Language of the U.S. Supreme Court

*The Lanham Act creates a cause of action for unfair competition through misleading advertising and labeling. Coca-Cola is incorrect that the best way to harmonize the statutes is*

*to bar POM's Lanham Act claim. By serving a distinct compensatory function that may motivate injured persons to come forward, Lanham Act suits provide incentives for manufacturers to behave well.*

### Decision

The U.S. Supreme Court held that the POM may proceed with its Lanham Act unfair competition lawsuit against Coca-Cola and remanded the case for further proceedings.

### Ethics Questions

Do you think that Coca-Cola was trying to trick consumers into buying cheap apple-grape juice by labeling it pomegranate blueberry juice? Do you think Coca-Cola acted ethically in this case?

## Historical School

The **Historical School** of jurisprudence believes that the law is an aggregate of social traditions and customs that have developed over the centuries. It believes that changes in the norms of society will gradually be reflected in the law. To these legal philosophers, the law is an evolutionary process.

**Example** Historical legal scholars look to past legal decisions (precedent) to solve contemporary problems.

## Analytical School

The **Analytical School** of jurisprudence maintains that the law is shaped by logic. Analytical philosophers believe that results are reached by applying principles of logic to the specific facts of a case. The emphasis is on the logic of the result rather than on how the result is reached.

**Example** If the U.S. Constitution would have freed the slaves or granted females the right to vote, it would not have been ratified by the states in 1788.

## Sociological School

The **Sociological School** of jurisprudence asserts that the law is a means of achieving and advancing certain sociological goals. The followers of this philosophy, known as *realists*, believe that the purpose of law is to shape social behavior. Sociological philosophers are unlikely to adhere to past law as precedent.

**Examples** Laws that make discrimination in employment illegal and laws that impose penalties for drunk driving reflect this theory.

*Even when laws have been written down, they ought not always to remain unaltered.*

Aristotle

## Command School

The philosophers of the **Command School** of jurisprudence believe that the law is a set of rules developed, communicated, and enforced by the ruling party rather than a reflection of the society's morality, history, logic, or sociology. This school maintains that law changes when the ruling class changes.

**Example** During certain military conflicts, such as World War II and the Vietnam War, the federal government has enacted draft laws that require men of a certain age to serve in the military if they meet certain physical and other requirements.

### Critical Legal Studies School

The **Critical Legal Studies School** proposes that legal rules are unnecessary and are used as an obstacle by the powerful to maintain the status quo. Critical legal theorists argue that legal disputes should be solved by applying arbitrary rules that are based on broad notions of what is “fair” in each circumstance. Under this theory, subjective decision making by judges would be permitted.

**Example** This school postulates that rape laws often make it difficult for women to prove legally that they have been raped because these laws have mostly been drafted from a male’s perspective. Therefore, says this school, these laws should be ignored and the judge should be free to decide whether rape has occurred in his or her subjective decision making.

### Law and Economics School

The **Law and Economics School** believes that promoting market efficiency should be the central goal of legal decision making. This school is also called the **Chicago School**, named after the University of Chicago, where it was first developed.

**Example** Proponents of the law and economics theory suggest that the federal government’s policy of subsidizing housing—by a law that permits a portion of interest paid on mortgage loans to be deducted from an individual borrower’s federal income taxes and laws that created government-sponsored enterprises (Fannie Mae and Freddie Mac) that purchase low-rate interest mortgages made by banks and other lending institutions—provide incentives so that too many homes are built. If these laws did not exist, then the free market would determine the exact number of homes that should be built.

## CONCEPT SUMMARY

### SCHOOLS OF JURISPRUDENTIAL THOUGHT

School	Philosophy
Natural Law	Postulates that law is based on what is “correct.” It emphasizes a moral theory of law—that is, law should be based on morality and ethics.
Historical	Believes that law is an aggregate of social traditions and customs.
Analytical	Maintains that law is shaped by logic.
Sociological	Asserts that the law is a means of achieving and advancing certain sociological goals.
Command	Believes that the law is a set of rules developed, communicated, and enforced by the ruling party.
Critical Legal Studies	Maintains that legal rules are unnecessary and that legal disputes should be solved by applying arbitrary rules based on fairness.
Law and Economics	Believes that promoting market efficiency should be the central concern of legal decision making.

The following feature discusses the Command School of jurisprudence of Cuba.



## Global Law

### Command School of Jurisprudence of Cuba



#### HAVANA, CUBA

Cuba is an island nation located in the Caribbean Sea less than 100 miles south of Key West, Florida. In 1959, Fidel Castro led a revolution that displaced the existing dictatorial government. Castro installed a communist government that expropriated and nationalized much private property. The communist government installed a one-party rule over the country and installed a command economy and system of jurisprudence. More than one million Cubans fled the island to the United States, where many created a thriving community and economy in Miami, Florida. Under a state-controlled planned economy based on socialist principles, the production of goods and food items in Cuba fell substantially, and major shortages of houses, medical supplies, and other goods and services occurred. After more than five decades of a command economy, Cuba is permitting limited free-market measures, but 90 percent of workers are still employed by the government.

## History of American Law

When the American colonies were first settled, the English system of law was generally adopted as the system of jurisprudence. This was the foundation from which American judges developed a common law in America.

### English Common Law

**English common law** was law developed by judges who issued their opinions when deciding cases. The principles announced in these cases became *precedent* for later judges deciding similar cases. The English common law can be divided into cases decided by the *law courts*, *equity courts*, and *merchant courts*.

#### English common law

Law developed by judges who issue their opinions when deciding a case. The principles announced in these cases became precedent for later judges deciding similar cases.