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Recommended Citation

Glynn S. Lunney Jr, *Trademark Monopolies*, 48 Emory L. J. 367 (1999).

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EMORY LAW JOURNAL

Volume 48

SPRING 1999

Number 2

ARTICLES

TRADEMARK MONOPOLIES

*Glynn S. Lunney, Jr.**

Since 1742, when Lord Hardwicke seemingly equated trademark protection with monopoly in one of the first trademark cases,¹ until the mid-1950s, concerns that trademarks represented a form of illegitimate monopoly effectively constrained the growth of trademark protection.² In the twentieth century, Edward Chamberlin became the leading proponent of the trademark as monopoly view with the publication of his work, *The Theory of Monopolistic Competition*, in 1933.³ In his work, Chamberlin argued that a trademark enabled its owner to differentiate her products and then to exclude others from using the differentiating feature.⁴ By doing so, trademark

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¹ See *Blanchard v. Hill*, 26 Eng. Rep. 692, 693 (Ch. 1742) (refusing to enjoin second card-maker from using certain stamp on his playing cards even though first card-maker was given exclusive right to use the stamp by charter granted by King Charles). In the course of the opinion, Lord Hardwicke referred to the charter as "one of those monopolies which were so frequent" under certain earlier monarchs. *Id.*

² See *Standard Brands, Inc. v. Smidler*, 151 F.2d 34, 41 (2d Cir. 1945) (Frank, J., concurring) ("[E]mphasis on the exceptional nature of the monopoly-creating judge-made trade-name doctrine stimulated increasing judicial caution in its application. The courts (expressly or tacitly) insisted that, more adequately than theretofore, consideration must be given to the overall policy of not unduly hampering competition.").

³ EDWARD CHAMBERLIN, *THE THEORY OF MONOPOLISTIC COMPETITION* 56, 204 (1933).

⁴ *Id.*

protection can effectively cede control over distinct product markets to individual producers and thereby generate for trademark owners the downward sloping demand curve of a monopolist, with its associated monopoly rents and deadweight losses. Although Chamberlin himself recognized the need for product differentiation and rejected the supposed ideal of the perfect competition model,⁵ his work became a common rallying point for the trademark as monopoly argument.⁶ During the legislative debates leading to the Trademark Act of 1946,⁷ his work served as a basis for the Justice Department's opposition to broad trademark protection.⁸

Beginning in the early 1900s, however, proponents of broader trademark protection, including Edward S. Rogers and Frank Schechter, began to

⁵ See *id.* at 94, 110-13, 214-15. Chamberlin explained:

The explicit recognition that product is differentiated brings into the open the problem of variety and makes it clear that *pure competition may no longer be regarded as in any sense "ideal" for purposes of welfare economics*. . . . Differences in tastes, desires, incomes, and locations of buyers, and differences in the uses which they wish to make of commodities all indicate the need for variety and the necessity of substituting for the concept of a "competitive ideal" an ideal involving both monopoly and competition.

Id.; see also EDWARD CHAMBERLIN, TOWARDS A MORE GENERAL THEORY OF VALUE 93-99 (1957) ("The main point I want to make is that the welfare ideal itself (as well as the description of reality) involves a blend of monopoly and competition . . ."); F.M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 22 (1970) ("Chamberlin is undeniably correct. Consumers *are* willing to sacrifice some allocative nicety for variety, and so the social ideal must be not pure competition but some alloy of pure and monopolistic competition.").

⁶ See GEORGE J. ALEXANDER, HONESTY AND COMPETITION 25-27 (1965); JOE S. BAIN, BARRIERS TO NEW COMPETITION (1956); JOE S. BAIN, INDUSTRIAL ORGANIZATION 249-50, 258-59 (1968); WILLIAM S. COMANOR & THOMAS A. WILSON, ADVERTISING AND MARKET POWER 41-137 (1974); Kurt Borchardt, *Are Trademarks an Antitrust Problem?*, 31 GEO. L.J. 245, 246 (1943); Ralph S. Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165 (1948); Charlie E. Mueller, *Sources of Monopoly Power: A Phenomenon Called "Product Differentiation,"* 18 AM. U. L. REV. 1 (1968); A.G. Papandreou, *The Economic Effect of Trademarks*, 44 CAL. L. REV. 503, 505 (1956); James M. Treece, *Copying Methods of Product Differentiation: Fair or Unfair Competition?*, 38 NOTRE DAME L. REV. 244, 262 (1963); James M. Treece, *Protectability of Product Differentiation: The Is and Ought Compared*, 18 RUTGERS L. REV. 1019, 1020 (1964).

⁷ Act of July 5, 1946, ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051-1127 (1994)). This Act is more popularly known as the Lanham Act, after its principal sponsor, Representative Fritz G. Lanham.

⁸ See *Trade-Marks: Hearings Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong. 58-71 (1944) ("*1944 Trade-Mark Hearings*") (Department of Justice, Report on H.R. 82, The Trade-mark Bill) ("*Report of the Department of Justice on the Trade-Mark Bill*"); *Trade-Marks: Hearings Before a Subcomm. of Senate Comm. on Patents*, 77th Cong. 23-53 (1942) ("*1942 Trade-Mark Hearings*"); see also Sigmund Timberg, *Trade-Marks, Monopoly, and the Restraint of Competition*, 14 LAW & CONTEMP. PROBS. 323, 325-26 (1949) (Chief, Judgments and Judgment Enforcement Section, Antitrust Division, Department of Justice and Special Assistant to the Attorney General).

confront the trademark as monopoly argument.⁹ In part, their strategy was simply rhetorical, intended to change the terms of the debate and to ridicule their opponents. Trademarks were simply property, proponents insisted, not monopoly,¹⁰ and those who believed otherwise were "infected with monopoly-phobia."¹¹ On the substantive side, the proponents argued that trademarks provide consumers with a convenient and essential means for distinguishing between competing goods in the marketplace.¹² By identifying the source of goods, a trademark provides consumers with information that they need (and cannot otherwise readily obtain) in order to match their desires to particular products.¹³ Even if trademark protection would lead to product differentiation, and thereby preclude perfect competition, trademark protection would nonetheless leave room for "effective or workable,"¹⁴ "fair,"¹⁵ or "responsible"¹⁶ competition. Although not perfect, such competition was thought clearly superior to the alternative of supermarket shelves filled with goods distinguishable only by their readily apparent physical characteristics.¹⁷

⁹ See EDWARD S. ROGERS, *GOOD WILL, TRADE-MARKS AND UNFAIR COMPETITION* (1914); Edward S. Rogers, *Protection of Industrial Property*, 27 MICH. L. REV. 491 (1929); Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

¹⁰ See, e.g., 1 RUDOLF CALLMANN, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* § 15.5, at 224 (2d ed. 1950).

¹¹ *Eastern Wine Corp. v. Winslow-Warren, Ltd.*, 137 F.2d 955, 958 (2d Cir.) ("There are some persons, infected with monopoly-phobia, who shudder in the presence of any monopoly."), *cert. denied*, 320 U.S. 758 (1943); see also *Standard Brands, Inc. v. Smidler*, 151 F.2d 34, 42 & n.18 (2d Cir. 1945) (Frank, J., concurring); 1 CALLMANN, *supra* note 10, § 15.5, at 225 (alleging a noticeable judicial monopolophobia had improperly limited scope of trademark protection); Beverly W. Pattishall, *Trade-Marks and the Monopoly Phobia*, 50 MICH. L. REV. 967 (1952).

¹² See, e.g., *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853-54 (1982); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 99 (1918); *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 821 n.5 (9th Cir. 1980); *Standard Oil Co. v. Humble Oil & Refining Co.*, 363 F.2d 945, 954 (5th Cir. 1966), *cert. denied*, 385 U.S. 1007 (1967); *Smidler*, 151 F.2d at 36; *Independent Baking Powder Co. v. Boorman*, 130 F. 726, 728 (C.C.D.N.J. 1904); S. REP. NO. 1333 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274-75; S. CHESTERFIELD OPPENHEIM & GLEN E. WESTON, *FEDERAL ANTI-TRUST LAWS* 772 (3d ed. 1968); ROGERS, *supra* note 9, at 52-53; Pattishall, *supra* note 11, at 977-83.

¹³ See, e.g., S. REP. NO. 1333, *supra* note 12. "One [purpose of any trademark statute] 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 get." *Id.* at 1274. "Trademarks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other." *Id.* at 1275.

¹⁴ OPPENHEIM & WESTON, *supra* note 12, at 772.

¹⁵ S. REP. NO. 1333, *supra* note 12, at 1275 ("To protect trademarks, therefore, is . . . to foster fair competition.")

¹⁶ *Levi Strauss & Co.*, 632 F.2d at 821 n.5 ("On the contrary, the pocket tab trademark gives the public a reliable indication of source and thus facilitates responsible marketplace competition.")

¹⁷ See generally JEAN JACQUES LAMBIN, *ADVERTISING, COMPETITION AND MARKET CONDUCT IN OLIGOPOLY OVER TIME* (1976); JULIAN L. SIMON, *ISSUES IN THE ECONOMICS OF ADVERTISING* (1970); Lee

Often, this debate resembled a ritualized semantic dance, where both sides pretended the answer was simply a matter of applying the proper descriptive label. Those on one side would assert that trademarks led to monopoly in its descriptive sense, as if that were sufficient to establish that such protection was undesirable, or monopoly in the normative sense. Those on the other side would counter that trademarks were property, again in the descriptive sense, as if that was sufficient to establish that such protection was desirable or property in the normative sense. Yet, not all monopoly is harmful, and not all property is desirable. Moreover, as descriptive terms, property and monopoly are not opposites at all,¹⁸ as the debaters seemed to assume.¹⁹

On rare occasion, however, the debaters would move beyond labels and rhetoric and attempt to address the underlying substance of one another's concerns. When they did, they usually recognized the merit in both positions. Trademark protection can cede control of distinct product markets to individual producers and thereby lead to monopoly. Trademark protection can also provide consumers with a means to match desire to precise product in the marketplace and can thereby improve the market's ability to satisfy society's wants. Given this reality, the only sensible conclusion, and the one eventually reached, was that trademark protection can both advance and disserve the development of an efficient and desirably competitive market.²⁰ The proper

Benham, *The Effect of Advertising on the Price of Eyeglasses*, 15 J.L. & ECON. 337 (1972); Benjamin Klein & Keith B. Leffler, *The Role of Market Forces in Assuring Contractual Forces*, 89 J. POL. ECON. 615 (1981); Phillip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729 (1974); Phillip Nelson, *The Economic Consequences of Advertising*, 48 J. BUS. 213 (1975); Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311 (1970); Carl Shapiro, *Premiums for High Quality Products as Returns to Reputations*, 98 Q.J. ECON. 659 (1983); George J. Stigler, *The Economics of Information*, 69 J. POL. ECON. 213 (1961); see also William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987).

¹⁸ Property refers to a set of legal relationships or rights with respect to a thing. Monopoly refers to the absence of substitutes for the thing in the marketplace.

¹⁹ More recent commentators have taken a similar position. See, e.g., DONALD S. CHISUM & MICHAEL A. JACOBS, *UNDERSTANDING INTELLECTUAL PROPERTY LAW* § 1C (Matthew Bender 1992); Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 HARV. J.L. & PUB. POL'Y. 108, 109 (1990). But, as I have explained elsewhere, the suggested dichotomy between property and monopoly is simply wrong. See Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 517-19, 497 n.43, 518 n.143 (1996). Consider a simple example. If a single individual owns all land in a given geographic region, her ownership interest in the land is certainly property, but it may also amount to monopoly, given the absence of others with land for sale in that area. For an example of land ownership turned monopoly, see *Hawaii Housing Authority v. Midkiff*, 467 U.S. 229 (1984) (noting legislative findings by state of Hawaii that land ownership was sufficiently concentrated within the state to generate supracompetitive land prices).

²⁰ Judge Frank has given some of the most thoughtful expressions of this view. See *Eastern Wine Corp. v. Winslow-Warren, Ltd.*, 137 F.2d 955, 957-58 (2d Cir.), cert. denied, 320 U.S. 758 (1943); see also

task was, therefore, one of crafting a trademark regime that appropriately balanced the competitive interests at stake²¹ by providing protection that minimized material deception without discouraging competitive entry.

The resulting competitive balance effectively guided and constrained the growth of trademark protection until the mid-1950s. Since that time, however, a substantial and ongoing expansion of trademark protection has threatened this balance. This expansion has encompassed both the recognition of new trademark subject matter²² and a more complete bundle of ownership rights,²³ and despite some pretense on the issue, has been only tenuously connected to concerns over material consumer deception. Instead, the expansion has focused on a trademark's value not merely as a device for conveying otherwise indiscernible information concerning a product ("deception-based trademark"), but as a valuable product in itself ("property-based trademark").²⁴

While playing on some of the themes found in traditional deception-based trademark law, this shift from viewing a trademark as a source of information about a product, to viewing the trademark as the product, has sharply changed the emphasis and context in which trademark's traditional themes have played out. Under this property-based view of trademark law, confusion becomes not just a question of probable confusion as to source, but possible confusion over any connection between the plaintiff and the allegedly infringing use. Similarly, the need for incentives that trademark law addresses becomes not just a question of minimizing consumer deception to ensure a market that generates accurate pricing signals, but a matter of rewarding and thereby encouraging

Standard Brands, Inc. v. Smidler, 151 F.2d 34, 42 (2d Cir. 1945) (Frank, J., concurring).

The public today is displaying a revived, lively interest in "free enterprise." That revived interest, one may hope, will not prevent a discriminating consideration of socially desirable monopolies or partial monopolies Those who, oversimplifying economic problems, thoughtlessly urge the elimination of virtually all monopolies, not only disregard the unavoidable existence of monopolistic elements in almost all kinds of competition but dangerously invite a program which, by neglecting socially valuable aspects of some industrial integrations ("oligopolies") in some mass production industries, might tragically reduce our living standards.

Id. See also CHAMBERLIN, TOWARDS A MORE GENERAL THEORY OF VALUE, *supra* note 5, at 93-95.

²¹ See *Eastern Wine Corp.*, 137 F.2d at 959 ("No one seriously questions whether there should be some monopolies; the only question is as to what monopolies there should be, and whether and how much they should be regulated legislatively or curbed judicially."); *Picard v. United Aircraft Corp.*, 128 F.2d 632, 636 (2d Cir.), *cert. denied*, 317 U.S. 651 (1942).

²² See *infra* text accompanying notes 25-82.

²³ See *infra* text accompanying notes 83-200.

²⁴ See also Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 397 (1990).

investment in the marks themselves. And, trademarks become property not merely in the formal, legal sense of a right assigned to an entity reasonably well-placed to protect and vindicate the mark's information function, but in the more ordinary, more substantive, and ultimately more absolute sense of a thing belonging fully and completely to its owner.

As this shift took hold, many courts and commentators succumbed to "property mania"—the belief that expanded trademark protection was necessarily desirable so long as the result could be characterized as "property." The result has been a radical and ongoing expansion of trademark protection, both in terms of what can be owned as a trademark and in terms of what trademark ownership entails. This expansion, and its associated reinterpretation of trademark's underlying policies, presents a serious threat to social welfare and has placed at risk the competitive balance that deception-based trademark law originally established. Like deception-based trademark protection, property-based trademark protection can enable a trademark owner to differentiate her product and exclude others from using the differentiating feature. It can thereby cede control over distinct product markets to individual producers and generate for a trademark owner the downward sloping demand curve of a monopolist. However, unlike deception-based trademark, property-based trademark has only a tenuous relationship to consumer deception, and therefore lacks the offsetting efficiency advantages associated with deception-based trademark's quality control and certification functions. As a result, property-based trademark appears presumptively anticompetitive—it generates market power and associated efficiency losses without the offsetting efficiency gains that are thought to justify deception-based trademark.

Recognizing that property-based trademark cannot claim deception-based trademark's efficiency advantages, proponents of property-based trademark have sought alternative justifications to counterbalance its anticompetitive costs. In particular, proponents have sought to draw an analogy between property-based trademark and the property rights extended inventors and authors under patent and copyright law. To the extent, the analogy goes, that property-based trademark gives a mark's owner exclusivity in her mark and generates some degree of market power, this result is no different than patent and copyright. And although such market power may generate some anticompetitive consequences, it is nonetheless necessary and desirable to ensure the creation of the good in the first place. Otherwise, in the absence of such protection, free riders and other exploiters would undermine the incentive necessary to ensure an optimal level of investment in desired marks.

Yet, this analogy is fatally flawed. Unlike patent and copyright, trademark law neither ties its prerequisites for protection to a need for additional incentive, nor defines its protection to ensure an appropriate incentive level. As a result, trademark's expansion risks creating an incentive structure fundamentally at odds with social welfare. Property-based trademark protection thus risks creating "trademark monopolies," not merely in the neutral economic sense, but in the ordinary and pejorative sense of unjustified and inappropriate market power.

I. TRADEMARK'S EVOLUTION: FROM INFORMATION SOURCE TO PRODUCT

To explore trademark's evolution from information source to product, the following sections present examples illustrating how trademark protection has changed in terms both of what can be owned as a trademark and what such ownership means. These examples are not intended to address every aspect of trademark's expansion over the last forty years, but to illustrate the substantial expansion that has occurred in the scope and nature of trademark ownership and the associated shift in trademark's underlying objectives. In exploring these examples, we find that each offers some, at least superficially plausible, deception-based rationale to which courts will often pay token homage. Even a casual examination, however, reveals the flimsy or otherwise problematic nature of the proffered deception-based rationale and suggests an alternative, sometimes unspoken, rationale behind the decision. Looking further, we find clear indications that the decisions are ultimately about protecting a trademark's value as a desirable product in and of itself, independent of the mark's value as an information source.

A. *Expanding Trademark's Subject Matter*

At the time Congress enacted the Trademark Act of 1946, trademark law encompassed a number of substantive limitations on what could qualify as protectible subject matter. Advertising slogans, trade names, and trade dress, for example, were not recognized or protected as trademarks and received protection against imitation under the doctrine of unfair competition, if at all.²⁵

²⁵ See, e.g., *Elgin Nat'l Watch Co. v. Illinois Watch Case Co.*, 179 U.S. 665, 673-78 (1901) (noting distinction between technical trademarks and geographically-descriptive words protected only under doctrine of unfair competition); *Barton v. Rex-Oil Co.*, 2 F.2d 402, 404 (3d Cir. 1924) (noting distinction between technical trademarks and descriptive names protected only under doctrine of unfair competition); *Upjohn Co. v. William S. Merrell Chem. Co.*, 269 F. 209, 210-11 (6th Cir. 1920) (noting distinction between

In part, these restrictions arose from the common law's requirement that the claimed trademark must have been affixed to the associated product to receive protection.²⁶ In part, they arose from the sense that consumers did not rely on these to identify the source of the associated goods or services, and the corresponding conclusion that slogans, trade names, and trade dress were not therefore serving a trademark function.²⁷ Since that time, courts and the Patent and Trademark Office, and to a lesser extent Congress, have gradually relaxed these limitations and have allowed the registration and protection of slogans, trade names, and trade dress as trademarks. We can explain some of this expansion by stretching trademark's traditional deception-based rationale: As marketing methods have changed in the twentieth century, some consumers may have come to rely on slogans, trade names, or trade dress to identify the source of goods or services. Yet, we must also acknowledge that much of this expansion has little to do with any plausible concern over consumer deception and rests squarely on the sense that someone who creates something of value ought to receive the fruits of her labors. Of the various ways in which trademark's subject matter has expanded, the judiciary's increased willingness to protect a product's shape, design, or configuration as a trademark presents

technical trademark and product design or trade dress protected only under doctrine of unfair competition), *cert. denied*, 257 U.S. 638 (1921); *John T. Dyer Quarry Co. v. Schuylkill Stone Co.*, 185 F. 557, 563 (C.C.D.N.J. 1911) (recognizing distinction "between the infringement of a trade-mark proper . . . and such wrongful and fraudulent simulation of mere trade-names, description, dress or package as under the circumstances of a given case amounts only to unfair competition in trade in contradistinction to trade-mark infringement"); see also Walter J. Derenberg, *The Lanham Act of 1946: Practical Effects and Experiences After One Year's Administration*, 38 TRADEMARK REP. 831, 834-36 (1948).

²⁶ See, e.g., *Gray v. Armand Co.*, 24 F.2d 878, 878 (App. D.C. 1928) ("It follows, therefore, that to establish a right to the registration of a trade-mark, two things are necessary: That it must have been actually applied to vendible goods, and that the goods have been sold in interstate commerce."); *Albers Bros. Milling Co. v. Acme Mills Co.*, 171 F. 989, 992 (C.C.D. Or. 1909) ("User as a trade-mark signifies that the mark shall be affixed, either upon the goods themselves, or upon the boxes or wrappers containing them It is not sufficient that the word or symbol be employed as a means of advertisement merely."); see also W.L.P.A. Molengraaff, *The Nature of the Trade-Mark*, 29 YALE L.J. 303, 303-06 (1920) (noting that product features cannot serve as a trademark because a trademark must be separable from product to which it is attached).

²⁷ See, e.g., *Burmel Handkerchief Corp. v. Cluett, Peabody & Co.*, 127 F.2d 318 (C.C.P.A. 1942) (affirming refusal to register "Handkerchief of the year" as trademark because it referred to qualities of product, not its source); *In re National Stone-Tile Corp.*, 57 F.2d 382, 383 (C.C.P.A. 1932), ("We also agree with the Commissioner that it is probable that the purchasing public would not look upon appellant's grooves in its tile as constituting a trade-mark; . . . we do not think the purchasing public would look upon tile containing such grooves as indicating origin of the tile"); *Kipling v. G.P. Putnam's Sons*, 120 F. 631, 636 (2d Cir. 1903) ("The court will take judicial knowledge of the fact that it is customary to publish books with ornamental designs stamped or printed on the covers, but no one . . . ever imagined that such pictures and ornaments were the trade-marks of the authors of the books.").

the clearest case of the switch from deception-based to property-based protection and will serve as the focus for our discussion in this section.

Before 1946, product features received very limited protection against imitation under trademark and unfair competition law. At this time, trade dress and product features (including the shape, configuration, or design of a product) were not protected as trademarks and received protection, if at all, only under the doctrine of unfair competition.²⁸ While the standards for trademark infringement and unfair competition were similar, they differed in one key respect—similarity alone was sufficient to demonstrate trademark infringement, but it was not sufficient to demonstrate unfair competition.²⁹ To

²⁸ See, e.g., *Coats v. Merrick Thread Co.*, 149 U.S. 562, 566 (1893); *Lucien Lelong, Inc. v. Lenel, Inc.*, 181 F.2d 3, 4-5 (5th Cir. 1950) ("It is elementary that a color or container cannot be a trade-mark. . . . [T]here can be no trade-mark in a package, the shape of a bottle, or a letter of the alphabet."); *Philadelphia Novelty Mfg. Co. v. Roush*, 40 F. 585, 587 (C.C.S.D.N.Y. 1889) ("[I]n ordinary circumstances, the adoption of packages of peculiar form and color alone, unaccompanied by any distinguishing symbol, letter, sign, or seal, is not sufficient to constitute a trade-mark."); *Adams v. Heisel*, 31 F. 279, 280 (C.C.N.D. Ohio 1887); WILLIAM HENRY BROWNE, TRADEMARKS §§ 89b, 89c, at 137-138 (2d ed. 1885) ("There are decisions which, at the first glance, seem to hold that the *mere form* of a vendible article may constitute a technical trademark. Careful analyses cannot fail to induce the conclusion, that the principles of unfair competition, rather than those appertaining to trade-marks, were the bases of judgment."); *Societe Anonyme de la Distillerie de la Liqueur Benedictine de L'Abbaye de Fecamp v. Puziello*, 250 F. 928, 928 (E.D.N.Y. 1918) (granting relief for imitation of packaging under theory of unfair competition) ("The statute of February 20, 1905, allowing the registration of a trade-mark in use for more than 10 years, does not alter the fundamental proposition, that a trade-mark is a design or mark rather than a container or package."); JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION §§ 53, 54, 57 (4th ed. 1924); Molengraaff, *supra* note 26, at 304. Molengraaff argues:

[P]erhaps the imitation of one of the properties of an article may give rise to an action for unfair competition or for "passing off"; but in no case does the quality, the color, the shape or the size constitute a trade-mark of which the essence is that it be a symbol not inherent in the article but applied or attached to it.

Id.

²⁹ *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 120-22 (1938); *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) ("The petitioner or anyone else is at liberty under the law to manufacture and market an exactly similar preparation . . . [b]ut the imitator of another's goods must sell them as his own production."); *Feathercombs, Inc. v. Solo Prods. Corp.*, 306 F.2d 251, 257 (2d Cir.), *cert. denied*, 371 U.S. 910 (1962); *Modern Aids, Inc. v. R.H. Macy & Co.*, 264 F.2d 93, 94 (2d Cir. 1959) (*per curiam*) ("Even [where a plaintiff is entitled to relief under unfair competition against an imitator], however, the relief would go no further than to require the defendant to make plain to buyers that the plaintiff was not the source of the machines sold by it."); *Paramount Indus., Inc. v. Solar Prods. Corp.*, 186 F.2d 999, 1001-02 (2d Cir. 1951); *Elizabeth Arden, Inc. v. Frances Denney, Inc.*, 99 F.2d 272, 273 (3d Cir. 1938) (*per curiam*); *Vogue Ring Creations, Inc. v. Hardman*, 410 F. Supp. 609, 613 (D.R.I. 1976) ("It is well established that copying another's article is not, standing alone, unfair competition. It must be shown that the defendant so confusingly presented his product through packaging, labeling or otherwise as to lead purchasers to believe that they were buying the plaintiff's article."); *Remco Indus., Inc. v. Toyomenka, Inc.*, 286 F. Supp. 948, 952, 955 (S.D.N.Y. 1968); *Key West Hand Print Fabrics, Inc. v. Serbin, Inc.*, 244 F. Supp. 287, 292 (S.D.

demonstrate unfair competition, a plaintiff was required to show that the defendant had falsely represented its goods as those of the plaintiff, either expressly, through affirmative acts of deception, or implicitly, by duplicating too closely a feature that was non-functional and had acquired secondary meaning.³⁰ Moreover, in evaluating these claims, courts recognized the central role that imitation played in ensuring a competitive marketplace³¹ and, for the sake of the resulting competition, tolerated the confusion that would inevitably result.³² So long as the defendant undertook reasonable precautions to identify the imitation as its own, copying of articles protected by neither patent nor copyright was privileged, and the resulting similarity, even if it generated a certain degree of confusion, was not actionable.³³

Two doctrines further limited the availability and scope of protection for product features in those cases where a plaintiff sought to prove actionable deception by implicit misrepresentation. First, courts would not presume

Fla. 1965). For other differences, see Milton Handler & Charles Pickett, *Trade Marks and Trade Names - An Analysis and Synthesis: I*, 30 COLUM. L. REV. 168 (1930) (describing greater requirements for and narrower scope of protection for trade names under doctrine of unfair competition as compared to protection of and for trademarks).

³⁰ See, e.g., *Day-Brite Lighting, Inc. v. Sandee Mfg. Co.*, 286 F.2d 596, 600 (7th Cir. 1961).

³¹ See, e.g., *American Safety Table Co. v. Schreiber*, 269 F.2d 255, 272 (2d Cir. 1959) (characterizing imitation as "the life blood of competition"); *Chas. D. Briddell, Inc. v. Alglobe Trading Corp.*, 194 F.2d 416, 418 (2d Cir. 1952) ("For the common law favors competition; and it is of the essence of competition that competitors copy and undersell the product of an originator. The competitors do not lose their favored common-law position merely because someone chooses to call them 'free riders.'").

³² See *Kellogg Co.*, 305 U.S. at 121; *American Safety Table Co.*, 269 F.2d at 273 ("Since a certain amount of confusion as to source was inherent in the process of imitation, the courts have developed a body of principles by which to determine whether or not the confusion was permissible."); *Chas. D. Briddell, Inc.*, 194 F.2d at 419-20; *General Time Instruments Corp. v. U.S. Time Corp.*, 165 F.2d 853, 854 (2d Cir.), cert. denied, 334 U.S. 846 (1948); *Selchow & Righter Co. v. Western Printing & Lithographing Co.*, 142 F.2d 707, 709 (7th Cir.), cert. denied, 323 U.S. 735-36 (1944); *Grosjean v. Panther-Panco Rubber Co.*, 26 F. Supp. 344, 352 (D. Mass. 1939) ("Assuming the admissibility of all the evidence proffered on this subject, . . . it all shows only isolated cases of confusion such as would naturally result where a new firm enters a field long exclusively occupied by another."), *aff'd*, 113 F.2d 252 (1st Cir. 1940).

³³ See *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917) (noting that so long as defendant was careful to identify goods as its own, the defendant was fully entitled to "copy the plaintiff's goods slavishly down to the minutest detail"); see also *Warner & Co.*, 265 U.S. at 532; *Day-Brite Lighting, Inc.*, 286 F.2d at 600; *West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 586, 589, 595 (6th Cir. 1955); *Gum, Inc. v. Gumakers of Am., Inc.*, 136 F.2d 957, 960 (3d Cir. 1943); *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 269 (7th Cir. 1943); *Sinko v. Snow-Craggs Corp.*, 105 F.2d 450, 452 (7th Cir. 1939); *Remington-Rand, Inc. v. Mastercraft Corp.*, 67 F.2d 218, 220 (6th Cir. 1933); *Meccano, Ltd. v. Wanamaker*, 250 F. 450, 452-53 (2d Cir. 1918), *aff'd*, 253 U.S. 136 (1920); *John H. Rice & Co. v. Redlich Mfg. Co.*, 202 F. 155, 158-60 (3d Cir. 1913); *Marvel Co. v. Pearl*, 133 F. 160, 161 (2d Cir. 1904) ("Unfair competition is not established by proof of similarity in form, dimensions, or general appearance alone."); *Globe-Wernicke Co. v. Fred Macey Co.*, 119 F. 696, 704 (6th Cir. 1902).

secondary meaning, but required affirmative proof.³⁴ Moreover, at this time, proof of secondary meaning required a showing of both: (1) recognition—that consumers believed that certain features came from a certain source; and (2) materiality—that the identification of source mattered to consumers.³⁵ As Judge Learned Hand explained in *Crescent Tool Co. v. Kilborn & Bishop Co.*, “it is an absolute condition to any relief whatever that the plaintiff . . . show that the appearance of his wares has in fact come to mean that some particular person . . . makes them, and that the public cares who does make them, and not merely for their appearance and structure.”³⁶ Second, protection under unfair competition extended only to nonfunctional product features. Under this doctrine, a feature was considered functional, and therefore could be freely copied, so long as it served “a substantial and desirable use.”³⁷ In practice,

³⁴ See, e.g., *Chas. D. Briddell, Inc.*, 194 F.2d at 419-20 (denying relief where plaintiff failed to demonstrate secondary meaning); *Bliss v. Gotham Indus., Inc.*, 316 F.2d 848, 854-55 (9th Cir. 1963) (denying protection where secondary meaning not shown); *General Time Instruments Corp.*, 165 F.2d at 854-55 (denying relief where plaintiff failed to demonstrate secondary meaning); *Swanson Mfg. Co. v. Feinberg-Henry Mfg. Co.*, 147 F.2d 500, 503 (2d Cir. 1945) (“Without [secondary meaning] or patent protection it was not unfair competition merely to copy the plaintiffs’ purses and sell duplicates of them.”); *Zangerle & Peterson*, 133 F.2d at 270 (“[T]here can be no unfair competition unless the plaintiff has clearly established that its table had acquired in the trade a secondary meaning.”); *American Fork & Hoe Co. v. Stampit Corp.*, 125 F.2d 472, 475-76 (6th Cir. 1942) (denying relief where plaintiff failed to establish secondary meaning); *Sinko*, 105 F.2d at 452-53 (denying protection where plaintiff failed to establish secondary meaning); *A.C. Gilbert Co. v. Shemitz*, 45 F.2d 98, 99 (2d Cir. 1930); *Upjohn Co. v. William S. Merrell Chem. Co.*, 269 F. 209, 212-13 (6th Cir. 1920), cert. denied, 257 U.S. 638 (1921); *Rushmore v. Manhattan Screw & Stamping Works*, 163 F. 939 (2d Cir. 1908).

³⁵ See *Crescent Tool Co.*, 247 F. at 300; see also *Day-Brite Lighting, Inc.*, 286 F.2d at 600 (ruling that the findings “that the public was likely to believe that defendant’s panels were plaintiff’s Cleartext panels and that the trade associates the appearance of Cleartext panels with plaintiff and its trademark ‘Cleartext’” are insufficient to establish requisite secondary meaning); *Selchow & Righter Co.*, 142 F.2d at 709 (denying relief for failure to establish secondary meaning where the plaintiff failed to show that the public knew or cared whether plaintiff or defendant manufactured any particular Parcheesi game set); *A.C. Gilbert Co.*, 45 F.2d at 99-100 (denying relief where there was no evidence “to show that fruit juice extractors of the design in question have been bought because they originated with the complainant rather than because they were useful articles of a neat appearance”); *Huston v. Buckeye Bait Corp.*, 145 F. Supp. 600, 607 (S.D. Ohio 1955) (To establish secondary meaning, “[t]here must be an established identity so that one looks at the product externally and says, ‘That is the article I want because I know the source of its production and I want the article made by that manufacturer.’”).

³⁶ *Crescent Tool Co.*, 247 F. at 300 (emphasis added). See also *Hygienic Specialties Co. v. H.G. Salzman, Inc.*, 302 F.2d 614, 620 (2d Cir. 1962); *Blisscraft of Hollywood v. United Plastics Co.*, 294 F.2d 694, 697 (2d Cir. 1961) (“To establish a secondary meaning . . . it must be shown that . . . purchasers are moved to buy it because of its source.”); *Lewis v. Vendome Bags, Inc.*, 108 F.2d 16, 18 (2d Cir. 1939) (“Nor does the fact that bags of the appearance of exhibit 3 have become popular as a result of the plaintiff’s advertising make the defendant’s duplication of them a tort.”) (citations omitted), cert. denied, 309 U.S. 660 (1940); Note, *Developments in the Law: Competitive Torts*, 77 HARV. L. REV. 888, 912-13 (1964) (noting distinction between association and motivation in defining secondary meaning).

³⁷ *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) (finding that defendant could

these doctrines, together with a willingness to tolerate confusion for the sake of competition, made relief for product imitation difficult to obtain and effectively limited relief, when obtained, to a requirement that the defendant properly and clearly label its imitations as its own.³⁸

When Congress enacted the Trademark Act of 1946, it considered the question whether it should change this approach and expressly allow protection of trade dress and product features as trademarks. This consideration focussed on the possibility that the proposed trademark legislation, by expressly allowing registration of trade dress on the supplemental register, might allow trade dress to be registered on the principal register after it had acquired secondary meaning.³⁹ And early drafts defined the term "trademark"

imitate exactly chocolate flavoring of medication because it "serves a substantial and desirable use"). *See also* Norwich Pharmacal Co. v. Sterling Drug, Inc., 271 F.2d 569, 572 (2d Cir. 1959) (finding color pink for a stomach remedy was functional because it was "designed to present a pleasing appearance to the customer and to the sufferer"); Pagliero v. Wallace China Co., 198 F.2d 339, 343 (9th Cir. 1952); J.C. Penney Co. v. H.D. Lee Mercantile Co., 120 F.2d 949, 954 (8th Cir. 1941) ("A feature of goods is functional . . . if it affects their purpose, action or performance; or the facility or economy of processing, handling or using them.") (quoting RESTATEMENT (FIRST) OF TORTS § 742 (1938)); *Crescent Tool Co.*, 247 F. at 300; *Smith v. Krause*, 160 F. 270, 271 (C.C.S.D.N.Y. 1908) (refusing to protect the words 'Merrie Christmas,' woven into a ribbon as a trademark because "the fact that it has 'Merrie Christmas' inscribed upon it adds a value to it over the value of a plain ribbon").

³⁸ *See, e.g., Warner & Co.*, 265 U.S. at 532-33 (holding injunction may properly prohibit defendant and its agents from suggesting to its customers feasibility of substituting its product for that of the plaintiff, and may even require the defendant to attach a label to its products stating that its product is not to be sold or dispensed in response to a request for the plaintiff's product, but a prohibition on the use of the product feature at issue, chocolate, "goes too far" and was improper); *Bose Corp. v. Linear Design Labs., Inc.*, 467 F.2d 304, 310 (2d Cir. 1972) (finding no unfair competition despite similarity between original and imitator given that defendant had plainly labeled its product as its own); *Modern Aids, Inc. v. R.H. Macy & Co., Inc.*, 264 F.2d 93, 94 (2d Cir. 1959) (per curiam) (noting that even if plaintiff can show consumer deception as a result of defendant's imitation, relief is limited to requirement of proper labeling); *West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 588, 589 (6th Cir. 1955); *J.C. Penney Co.*, 120 F.2d at 955-56 (ruling that "[l]abeling is the usual and accepted method of distinguishing the goods of one manufacturer from those of another in the market" and limiting relief to requirement of proper labeling and accuracy in statements made concerning defendant's products).

³⁹ Ironically, the cross-over argument was articulated during the legislative debates preceding enactment by opponents of broad trademark protection. In response, proponents of broad protection denied that the broad definition of mark incorporated for the supplemental register was intended to or would have any such effect. They insisted that the purpose of the broad supplemental register definition was to ensure that domestic users could obtain a registration that would enable them to seek trademark protection for trade dress and product design in foreign countries where such were recognized as trademarks. *See Department of Justice Report on H.R. 82, supra* note 8, at 62 (noting potential for cross-over registration of trade dress and product features); *Hearings on H.R. 13486 Before the House Comm. on Patents*, 69th Cong. 67-68 (1927) (statement of Henry B. Brownell) (explaining cross-over registration possibility and stating that the "provision for the registration of goods is an exceedingly dangerous one"; in response, Mr. Rogers, one of the draftsmen and principal supporters of the Trademark Act, responded that the provision for registration of configurations was intended to apply only on the supplemental register, and the principal register would

for purposes of the principal register in a way that might have allowed such cross-over registration.⁴⁰ After the Department of Justice expressed its concern during the 1942 hearings that the trademark bill raised the spectre of monopoly,⁴¹ Congress made two changes in the bill to eliminate the possibility of such cross-over registration. First, Congress tightened the language concerning registration of packages and configuration of goods as marks on the supplemental register to limit application of this broader definition of "mark" to the supplemental register.⁴² Second, and more importantly,

encompass only those trademarks recognized as such under court decisions within the United States); *Hearings on S. 2679 Before the Joint Comm. on Patents*, 68th Cong. 94-95 (1925) (statement of S.G. Nottingham) (expressing worry that by recognizing configuration of goods as registrable mark on secondary register, bill would allow registration of such on principal register, and would thereby "put all of the parts manufacturers out of business"); see also *infra* note 46 (colloquy between Representative Lanham and Mr. Rogers). Only after the Trademark Act passed did the proponents of broader protection advance the cross-over argument as a basis for the registration of trade dress and product design on the principal registration. Thus, Daphne Robert articulated the cross-over registration argument in her book, *The New Trademark Manual*, published after the Trademark Act's enactment, as follows:

Packages and configurations of goods which have become distinctive through use may be registrable on the principal register under Section 2(f). That section provides that nothing in the Act shall prevent the registration of 'marks' which have become distinctive. "Marks" are defined as trade-marks, service-marks, collective marks, and certification marks entitled to registration, whether registered or not. Since packages and configurations of goods are entitled to registration under the Act, it would seem to follow that if they become distinctive they are registrable on the principal register.

DAPHNE ROBERT, *THE NEW TRADEMARK MANUAL* 67 (1947); see also 4 RUDOLF CALLMANN, *supra* note 10, § 98.4(d), at 2137 (making same cross-over argument). In *Ex parte Minnesota Mining & Mfg. Co.*, the applicant advanced precisely this argument in seeking registration on the principal register of a package configuration, and the Patent and Trademark Office squarely rejected it. 92 U.S.P.Q. (BNA) 74, 75-76 (Chief Examn'r 1952) (noting that Congress adopted separate definitions for "marks" registrable on the supplemental register and "trade-marks" registrable on the principal register).

⁴⁰ Thus, in H.R. 9041, introduced into the 75th Congress in 1938, the following definition for trademarks registrable on the principal register was given: "The term 'trade-mark' includes any mark so used as to distinguish the user's goods from the goods of others . . ." H.R. 9041, 75th Cong. § 43 (1938), *reprinted in*, *Trade-marks: Hearings on H.R. 9041 Before the Subcomm. on Trade-marks of the House Comm. on Patents*, 75th Cong. 9 (1938) ("1938 Trade-Mark Hearings"); see also H.R. 102, 77th Cong. § 45 (1941), *reprinted in Trade-marks: Hearings on H.R. 102, H.R. 5461, and S. 895 Before the Subcomm. on Trade-marks of the House Comm. on Patents*, 77th Cong. 13 (1941) ("The terms 'trade-mark' and 'mark' include any mark which is entitled to registration under the terms of this Act and whether registered or not."); H.R. 4744, 76th Cong. § 46 (1939), *reprinted in Trade-marks: Hearings on H.R. 4744 Before the Subcomm. on Trade-marks of the House Comm. on Patents*, 76th Cong. 172 (1939) ("1939 Trade-Mark Hearings") ("The term 'trade-mark' includes any mark which is entitled to registration under the terms of this Act and whether registered or not.").

⁴¹ See 1942 *Trade-Mark Hearings*, *supra* note 8, at 40-41.

⁴² Compare H.R. 82, 78th Cong. § 23 (1944), *reprinted in 1944 Trade-Mark Hearings*, *supra* note 8, at 14 ("For the purposes of registration on the supplemental register, a mark may consist of any trade-mark, symbol, label, package, configuration of goods . . ."), and Trademark Act of 1946, § 23(c), 15 U.S.C.

Congress rewrote the definition of "trademark" for purposes of the principal register to include the limitation that a trademark must consist of "any word, name, symbol or device or any combination thereof."⁴³ This change ensured that the definition of "trademark" for purposes of the principal register tracked the long-standing understanding of the term under which it had been perfectly clear that neither trade dress nor product features were eligible for protection as trademarks.⁴⁴ Presumably, Congress was aware of this understanding and

§ 1091(c) (1994), with H.R. 4744, 76th Cong. § 23 (1939), *supra* note 40, at 5 ("For the purpose of this register . . ."), and H.R. 9041, 75th Cong. § 25 (1938), *supra* note 40, at 4 ("For the purposes of this section . . ."). Even before the change, proponents of broader protection stated that the inclusion of "label, package, [and] configuration of goods" in the definition of marks eligible for registration on the supplemental register was "strictly limited" and "100 percent for" the purpose of enabling domestic companies to obtain protection for such subject matter in foreign countries where it was sometimes recognized as trademark subject matter. See 1938 Trade-Mark Hearings, *supra* note 40, at 180 (statement of Mr. Rogers); 1939 Trade-Mark Hearings, *supra* note 40, at 127 (statement of Mr. Rogers).

⁴³ Compare H.R. 82, 78th Cong. § 45 (1944), reprinted in 1944 Trade-Mark Hearings, *supra* note 8, at 14 ("The term 'trade-mark' includes any word, name, symbol or device or a combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."), and Trademark Act of 1946, § 45, codified as amended at 15 U.S.C. § 1127 (1994) ("The term 'trademark' includes any word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others . . ."), with H.R. 4744, 76th Cong. § 46 (1939), *supra* note 40, at 9, 172 ("The term 'trade-mark' includes any mark which is entitled to registration under the terms of this Act and whether registered or not."). While it is true that the word "includes" is not ordinarily treated as exclusive in statutory interpretation, here Congress added the phrase specifically to address the cross-over registration possibility, and the phrase ought, therefore, to be read at the very least to accomplish that purpose. See Derenberg, *supra* note 25, at 835, 841, 846 (noting that items that might qualify as trade-dress "were deliberately left outside the definition of 'trademark' in section 45" and are not therefore eligible for registration on the principal register). Indeed, Commissioner Leeds in her decision recognizing the registrability of trade dress on the principal register implicitly acknowledged this, when she justified her decision by pretending that a container fell within the meaning of the words "symbol or device," rather than by pretending that the words "word, name, symbol, or device" were not intended as a substantive limitation on proper trademark subject matter. *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) 229, 230-31 (Comm'r Pat. 1958). In addition, Congress's express recognition of "package" and "configuration of goods" as "marks" for the supplemental register, 15 U.S.C. § 1091(c) (1994), demonstrated that Congress was perfectly aware of the distinction between technical trademarks and trade dress, and under the apt language rule, intended to retain that distinction as between the principal and supplemental registers. See Derenberg, *supra* note 25, at 834 ("Since labels and packages are expressly relegated to the supplemental register, there is no room on the principal register for registration of entire labels or packages.").

⁴⁴ See *Ex parte Minnesota Mining & Mfg. Co.*, 92 U.S.P.Q. (BNA) 74, 76 (Chief Exam'r 1952); see also *McLean v. Fleming*, 96 U.S. 245, 254 (1877) ("Subject to the qualification before explained, a trademark may consist of a name, symbol, figure, letter, form, or device, if adopted and used by a manufacturer in order to designate the goods he manufactures or sells to distinguish the same from those manufactured or sold by another."); BROWNE, *supra* note 28, §§ 87, 89b, 89c, at 137-138 ("The mark may consist in . . . any symbol or emblem, however unmeaning in itself, as a cross, a bird, a quadruped, a castle, a star, a comet, a sun; or it may, and frequently does, consist of a combination of various objects, copied from nature, art, or fancy." Later section titles include "§ 89b. *The mere Form of a vendible Commodity not a Trade-Mark*" and "§ 137. *The Style or Peculiarity of Package is not per se a Trade-Mark*").

by adopting this definition of trademarks eligible for registration on the principal register, intended to limit registration of trade dress and product features to the supplemental register only.⁴⁵ The legislative history and other provisions of the Trademark Act confirm this reading.⁴⁶ In consequence, after

⁴⁵ Compare 15 U.S.C. § 1127 (1994) (providing for purposes of the principal register, “[t]he term ‘trademark’ includes any word, name, symbol, or device, or any combination thereof”), with 15 U.S.C. § 1091(c) (1994) (“For the purposes of registration on the supplemental register, a mark may consist of any trademark, symbol, label, package, configuration of goods, name, word, slogan, phrase, surname, geographical name, numeral, or device or any combination of any of the foregoing . . .”); see also *Ex parte Minnesota Mining*, 92 U.S.P.Q. (BNA) at 74 (holding that product packages did not satisfy definition of trademark and could not be registered on the principal register).

⁴⁶ In terms of the legislative history consider the following colloquy between Mr. Rogers and Representative Lanham concerning the broad definition of mark contained in section 23 for the supplemental register.

Mr. Rogers. There is a very definite reason for including the language [that includes “symbols, labels, package, configuration of goods, name, word, slogan or phrase” in the definition of marks for the supplemental register] to which my friend objects. In many foreign countries, the only way one can get trade-mark protection is by registration. That is generally so in Latin America. Moreover, in order to get protection there—and protection depends upon registration—a foreigner must produce a certificate of registration from his home land, and one purpose of the supplemental register is to provide protection in foreign countries. They do not have the same concept of trade -marks down there that we have; they regard, many of them, as trade-mark subject-matter things that we consider designs, or what not.

Now a configuration of goods generally—take Argentina, for instance—is regarded as a trade-mark; the shape of a perfumery bottle, or something of that kind.

Rep. Lanham. It would be a design patent here?

Mr. Rogers. It would be a design patent here. If we cannot get registration in this country for that sort of configuration, we cannot get any protection in Argentina. Now it is strictly limited for that purpose in this section, that a trade-mark may be deemed to include these various things.

1939 *Trade-Mark Hearings*, *supra* note 40, at 127. For other aspects of the legislative history indicating that trade dress was not eligible for registration on the principal register, see *supra* notes 39-42. Other aspects of the Trademark Act that confirm this reading are: First, the language providing for registration on the principal register was essentially identical to the registration language of the 1905 Act. Compare Act of Feb. 20, 1905, ch. 592, § 5, 33 Stat. 724, 725 (“That no mark by which the goods of the owner of the mark may be distinguished from other goods of the same class shall be refused registration . . .”), with Trademark Act of 1946, § 2, 15 U.S.C. § 1052 (1994) (“No trade-mark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration.”). In interpreting this language under the 1905 Act, registration of trade dress had not been allowed. Second, Congress did not extend the secondary meaning requirement in the registration section to trade dress, but only to descriptive and misdescriptive marks. See 15 U.S.C. § 1052(e)-(f) (1994). Because the secondary meaning requirement was well-established for trade dress protection under unfair competition law, Congress surely would have extended it to trade dress had it intended to allow registration of trade dress as a trademark on the principal register. Third, Congress did not include a functionality limitation in the registration section. Again, the limitation

enactment of the Trademark Act, the common law doctrine of unfair competition remained the sole source of substantive protection available for trade dress and product features.⁴⁷ In 1952, the Patent and Trademark Office twice confirmed this reading of the Trademark Act, and squarely held that neither trade dress nor product features were, as a matter of law, eligible for registration on the principal register.⁴⁸

Six years later, however, in 1958, the Patent and Trademark Office reversed its position, and allowed the registration of a product package on the principal register.⁴⁹ In her opinion, Assistant Commissioner Daphne R. Leeds made no attempt to explain or justify her departure from established law and Congress's plain intentions.⁵⁰ Her reasoning, as such, consisted entirely of the

was well-established in the law, and Congress's failure to include it confirms that Congress did not intend to recognize trade dress as subject matter eligible for registration on the principal register. The alternative interpretation, that Congress intended both to recognize trade dress as registrable trademarks and to eliminate the secondary meaning and functionality requirements, is absurd. The legislative history clearly refutes any intention of such a radical change, given that the discussions of trade dress registration were limited to the possibility, at best, of cross-over registration once secondary meaning was established. Cf. *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686, 693-94 (2d Cir. 1971) (rejecting plaintiff's proposed "plain language" interpretation of the standing requirement for section 43(a) because "had Congress contemplated so revolutionary a departure . . . , its intention could and would have been clearly expressed"). Moreover, even courts sympathetic to the registration of trade dress as trademarks on the principal register have not gone so far. After adding trade dress as registrable subject matter, they have promptly rewritten the registration provision to incorporate the secondary meaning and functionality requirements for such "marks." See *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332 (C.C.P.A. 1982) (recognizing that trade dress is registrable on the principal register but only if the dress is non-functional and has secondary meaning). Only the Fourth Circuit has so far missed the boat on this issue. See *Shakespeare Co. v. Silstar Corp.*, 9 F.3d 1091 (4th Cir. 1993) (mistakenly reasoning that because Congress did not include functionality as a defense to incontestability, Congress did not intend functionality to serve as a defense to incontestability), *cert. denied*, 511 U.S. 1127 (1994).

⁴⁷ As others have explained, Congress did not intend for section 43(a) to provide a federal forum for such common law unfair competition claims, and certainly did not intend to modify the substantive requirements of such cause of action. See, e.g., Kenneth B. Germain, *Unfair Trade Practices Under Section 43(a) of the Lanham Act: You've Come a Long Way Baby - Too Far, Maybe?*, 49 IND. L.J. 84, 109-12 (1973).

⁴⁸ *Ex parte Minnesota Mining*, 92 U.S.P.Q. (BNA) at 75-76; *Ex parte Boye Needle Co.*, 100 U.S.P.Q. (BNA) 124, 124 (Chief Exam'r 1952); see also *Lucien Lelong, Inc. v. Lenel, Inc.*, 181 F.2d 3 (5th Cir. 1950); *Ex parte Mars Signal-Light Co.*, 85 U.S.P.Q. (BNA) 173, 175 (Comm'r Pat. 1950); *Ex parte Pulitzer Pub. Co.*, 82 U.S.P.Q. (BNA) 229 (Comm'r Pat. 1949); 3 CALLMANN, *supra* note 10, § 65, at 974 n.1, § 71.4, at 1103 ("Although many marks that were not considered registrable under the 1905 Act, may now be registered under the Lanham Act, the concept and definition of a trade-mark and its function is not expanded by the new Act."); *Derenberg*, *supra* note 25, at 835, 841 (noting that labels and packages cannot be registered on the principal register).

⁴⁹ See *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) 229 (Comm'r Pat. 1958).

⁵⁰ Commissioner Leeds had been a key supporter of the Trademark Act of 1946, and was undoubtedly aware that Congress had specifically rewritten the definition of trademark to eliminate trade dress and product features from eligibility for the principal register. See *1944 Trade-Mark Hearings*, *supra* note 8, at 20 (testimony of Commissioner Leeds) (testifying that trademarks "are symbols or names, words or

strategic placement of dashes in a way meant to suggest that a bottle was a "symbol or device" within the meaning of the Trademark Act.⁵¹ In terms of legitimate statutory interpretation, this reasoning could not be more wrong. As discussed, Congress added the "word, name, symbol or device" language specifically to exclude product packaging or features from the principal register and to relegate them exclusively to the supplemental register.⁵² Moreover, when Congress added the "word, name, symbol, or device" limitation to the bill in 1944, "symbol" and "device" were terms of art that had long been part of the traditional definition of a technical trademark. They referred not to "anything at all that is capable of carrying meaning,"⁵³ but to an emblem or artistic figure attached to a product.⁵⁴ Even when the actions of Ms. Leeds are viewed in the best possible light, Ms. Leeds simply took advantage of her authority as administrator to rewrite the statute to reflect her personal predilec-

devices"). Despite this, she articulated the cross-over registration argument in *The New Trademark Manual*. See Robert, *supra* note 39, at 67. A trademark applicant, Minnesota Mining & Manufacturing, Inc., articulated this argument in 1952 in an attempt to persuade the Patent and Trademark Office to permit registration on the principal register of its package configuration. But Commissioner Leeds' predecessor as Assistant Commissioner of Trademarks expressly rejected it. See *Ex parte* Minnesota Mining & Mfg., Inc., 92 U.S.P.Q. (BNA) at 75-76. Given this rejection of her central argument for allowing registration of product configuration and features on the principal register, Commissioner Leeds was undoubtedly aware that her opinion represented a departure from both Congress's intent and settled law. Moreover, Commissioner Leeds did not articulate her argument that the term "device" would include product features in her testimony during the process leading to the Trademark Act of 1946, nor did she articulate it in *The New Trademark Manual*. In fact, it does not appear that Commissioner Leeds articulated this argument until after her predecessor at the Patent and Trademark Office properly rejected her argument for the cross-over registration of product features and trade dress.

⁵¹ Commissioner Leeds resorted to this artifice in two places, once at the start and once at the end of her decision. See *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) at 230 ("The fundamental question, then, is not whether or not containers are registrable on the Principal Register, but it is whether or not what is presented is a trademark—a symbol or device—identifying applicant's goods and distinguishing them from those of others."); *id.* at 231 ("[T]he contour or conformation of the container may be a trademark—a symbol or device—which distinguishes the applicant's goods, and it may be registrable on the Principal Register.").

⁵² See *supra* notes 39-48 and accompanying text.

⁵³ *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 162 (1995) (adopting literal meaning of "symbol or device" in defining trademark subject matter, rather than recognizing their more limited scope as terms of art).

⁵⁴ See *Ex parte* Minnesota Mining & Mfg., Inc., 92 U.S.P.Q. (BNA) at 76. The court reasoned that:

The word "device" appearing in the definition of trademark cannot aid applicant. The word "device," which also appears in the older definitions, is not used as referring to a mechanical or structural device but is used in the sense of one of the definitions of the word; "an artistic figure or design used as a heraldic bearing or as an emblem, badge, trade mark, or the like," rather than in one of the other meanings of the word.

Id. See also *supra* note 28 (discussing narrow definition of "symbol or device" within trademark law as an emblem attached to a product).

tions and to override by fiat Congress's deliberate choice. As an exercise of judicial (or quasi-judicial) reasoning, the decision is an embarrassment, reflecting the sort of naked assertion of agency authority and administrator hubris about which the theories of agency capture and bureaucratic expansion warn.⁵⁵

Rather than ridicule and rejection, however, Commissioner Leeds' decision found ready acceptance both with courts and commentators.⁵⁶ The Supreme Court attempted to slow the expansion of such protection with its rulings in *Sears and Compco*.⁵⁷ Yet, despite what seems to be very clear language in the opinions limiting such protection,⁵⁸ the effectiveness of these two decisions as limits on the protection of product features under unfair competition and trademark law proved both transient and superficial.⁵⁹ Following

⁵⁵ One of the principal concerns within the theory of agency capture is the so-called revolving door, where bias can arise from an industry's practice of hiring the administrators that are supposed to regulate them. After leaving her position with the Patent and Trademark Office, Commissioner Leeds worked as an attorney in trademark cases, and Haig & Haig became one of her clients. See *Haig & Haig, Ltd. v. Maradel Prods., Inc.*, 249 F. Supp. 575, 576 (S.D.N.Y. 1966) (listing "Daphne Robert Leeds" as "of counsel" for plaintiff).

⁵⁶ See *Kohler Co. v. Moen Inc.*, 12 F.3d 632, 635 (7th Cir. 1993); *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176 (7th Cir. 1989); *Service Ideas, Inc. v. Traex Corp.*, 846 F.2d 1118 (7th Cir. 1988); *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 337 (7th Cir. 1985); *In re Teledyne Indus., Inc.*, 696 F.2d 968 (Fed. Cir. 1982); *In re Morton Norwich Prods., Inc.*, 671 F.2d 1332 (C.C.P.A. 1982); *In re Mogen David Wine Corp.*, 328 F.2d 925 (C.C.P.A. 1964); *In re Kotzin*, 276 F.2d 411, 414-15 (C.C.P.A. 1960); *Oxford Pendaflex Corp. v. Rolodex Corp.*, 204 U.S.P.Q. (BNA) 249 (T.T.A.B. 1973); *In re Superba Cravats, Inc.*, 145 U.S.P.Q. (BNA) 354 (T.T.A.B. 1965).

⁵⁷ See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

⁵⁸ The Court held:

That an article copied from an unpatented article could be made in some other way, that the design is "nonfunctional" and not essential to the use of either article, that the configuration of the article copied may have a "secondary meaning" which identifies the market to the trade, or that there may be "confusion" among purchasers as to which article is which or as to who is the maker, may be relevant evidence in applying a State's law requiring such precautions as labeling; however, and regardless of the copier's motives, neither these facts nor any others can furnish a basis for imposing liability for or prohibiting the actual acts of copying and selling.

Compco Corp., 376 U.S. at 238. See also Ralph S. Brown, *Product Simulation: A Right or A Wrong?*, 64 COLUM. L. REV. 1216, 1220-21 (1964); Walter J. Derenberg, *Product Simulation: A Right or A Wrong?*, 64 COLUM. L. REV. 1192 (1964) (observing that Justice Black's language would seem to preclude protection of product features under either trademark or unfair competition law even if feature is non-functional and distinctive).

⁵⁹ Lower courts took two basic tacks to eliminate the force of the *Sears* and *Compco* decisions. First, courts and the Patent and Trademark Office took the position that the decisions were irrelevant to the issue whether the federal law of trademarks and unfair competition could extend protection to product features. See *In re Honeywell, Inc.*, 497 F.2d 1344, 1349 (C.C.P.A. 1974) ("Nor do we believe that the language of

Commissioner Leeds' decision, the recognition of product packaging, designs, and features as trademarks steadily expanded,⁶⁰ and the substantive limitations that the common law had imposed on the protection of trade dress and product features under unfair competition law were steadily eroded. With the acceptance of trade dress and product features as trademarks, similarity alone became sufficient to sustain a cause of action against an imitator, even in the absence of some further deceptive acts.⁶¹ Moreover, the law's traditional willingness to permit a considerable degree of confusion in order to leave room for competitive imitation vanished, and courts began to seize on the slightest evidence of confusion as proof of infringement. The secondary meaning requirement suffered dual blows. First, courts dropped the materiality aspect of secondary meaning altogether and found secondary

the opinions in [*Sears and Compco*] . . . is pertinent to the present issue of registrability for federal trademark protection."); *In re Mogen David Wine Corp.*, 372 F.2d 539 (C.C.P.A. 1967) (ruling that *Sears and Compco* do not affect registrability of product features or designs under Lanham Act); *see also* *Keene Corp. v. Paraflex Indus., Inc.*, 653 F.2d 822, 823 n.1 (3d Cir. 1981) (ruling that *Sears and Compco* do not affect protection of product features or designs under section 43(a) of the Lanham Act). Second, in terms of state law protection, courts limited the reach of the decisions by ignoring their literal words and pretending that the decisions prohibited only that state law protection directed at "functional" "product" features, where both "functional" and "product" were narrowly defined. *See Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 203-04 (2d Cir. 1979); *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1214 (8th Cir.) (limiting reach of *Sears and Compco* to functional features), *cert. denied*, 429 U.S. 861 (1976); *Time Mechanisms, Inc. v. Qonaar Corp.*, 422 F. Supp. 905 (D.N.J. 1976) (pretending that *Sears and Compco* did not restrict state law protection of non-functional features which had acquired secondary meaning); *National Football Leagues Props., Inc. v. Consumer Enter., Inc.*, 327 N.E.2d 242 (Ill. Ct. App. 1975) (pretending that emblems bearing NFL team names and logos were not products within meaning of *Sears and Compco*). Both of these positions are illegitimate. While it may be true that *Sears and Compco*, because they focused on preemption of state law, are not, strictly speaking, binding authority with respect to the proper scope of federal trademark protection for such features, clearly the Court's language and reasoning is relevant to whether courts and the Patent and Trademark Office should rewrite the Lanham Act to recognize such protection under federal law. *See Landscape Forms, Inc. v. Columbia Cascade Co.*, 113 F.3d 373, 379 (2d Cir. 1997) (noting that "the Lanham Act must be construed in the light of a strong federal policy in favor of vigorously competitive markets," and finding *Sears and Compco* relevant even if their preemption analysis does not strictly apply to Lanham Act); *Kohler Co. v. Moen Inc.*, 12 F.3d 632, 648-51 (7th Cir. 1993) (Cudahy, J., dissenting). Congress certainly did not intend to provide it and, if implied revocations are generally to be avoided, certainly they should be avoided here when it is the courts and the administrative agency, rather than Congress itself, rewriting the bargain that the Patent Act reflects. As for the second issue, the Court, in its *Compco* decision, expressly denied protection for the product features, even though the Court assumed that the features were non-functional and had secondary meaning. *Compco Co.*, 376 U.S. at 238.

⁶⁰ The Court of Customs and Patent Appeals recognized the protection of product features or designs as "trademarks" registrable on the principal register in 1974. *See In re Honeywell, Inc.*, 497 F.2d 1344 (C.C.P.A.), *cert. denied*, 419 U.S. 1080 (1974).

⁶¹ *See, e.g., Taco Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774, 776 (1992) (upholding infringement finding based upon similarity alone); *Krueger Int'l, Inc. v. Nightingale, Inc.*, 915 F. Supp. 595, 607 (S.D.N.Y. 1996) (finding infringement based upon similarity alone).

meaning on the basis of recognition alone.⁶² Second, courts watered down the recognition aspect of the secondary meaning requirement as well, by ruling that at least some forms of trade dress could be inherently distinctive⁶³ and by allowing a plaintiff to establish recognition, where required, from use or from the defendant's imitation of the feature.⁶⁴ As for the third substantive limitation, courts reinterpreted the functional limitation to focus, not on whether a feature was useful or desirable or functional in its ordinary sense, but on whether the feature was the only useful or desirable alternative available.⁶⁵ The right to "copy the plaintiff's goods slavishly down to the

⁶² See, e.g., *Vaughan Mfg. Co. v. Brikam Int'l, Inc.*, 814 F.2d 346, 348 (7th Cir. 1987) (defining "secondary meaning" as "an association in the minds of the consumer between the trade dress of a product and a particular producer" and omitting any materiality requirement); *Carter-Wallace, Inc. v. Proctor & Gamble Co.*, 434 F.2d 794, 802 (9th Cir. 1970) (explaining "secondary meaning has been defined as *association*, nothing more"). Indeed, when a court recently enforced the materiality requirement, see *Anti-Monopoly, Inc. v. General Mills Fun Group, Inc.*, 684 F.2d 1316 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983), in a manner and on facts essentially identical to an earlier decision, see *Selchow & Righter Co. v. Western Printing & Lithographing Co.*, 142 F.2d 707, 708-09 (7th Cir. 1944), there was a substantial uproar and in response to interest group pressures, Congress amended the definition of "generic" trademarks to eliminate a purchaser motivation inquiry. See *Trademark Clarification Act of 1984*, Pub. L. No. 98-620, § 102, 98 Stat. 3335; see also *Hans Zeisel, The Surveys that Broke Monopoly*, 50 U. CHI. L. REV. 896, 903-09 (1983) (arguing that Ninth Circuit's approach to secondary meaning and genericness poses a radically different question than traditional doctrine).

⁶³ *Two Pesos, Inc.*, 505 U.S. at 774, 776.

⁶⁴ Compare *A.C. Gilbert Co. v. Shemitz*, 45 F.2d 98, 99 (2d Cir. 1930) (ruling that similarity resulting from imitation and "many sales and much advertising" did not establish secondary meaning in design of article), and *General Time Instruments Corp. v. United States Time Corp.*, 165 F.2d 853, 854-55 (2d Cir.) (ruling that sale of 3,000,000 clocks and expenditure of \$2 million in advertising from 1939 to 1946 insufficient to establish secondary meaning), *cert. denied*, 334 U.S. 846 (1948), with *Clamp Mfg. Co. v. Enco Mfg. Co., Inc.*, 870 F.2d 512, 517 (9th Cir.) (finding secondary meaning based upon sales and advertising expenditures alone), *cert. denied*, 493 U.S. 872 (1989). The Patent and Trademark Office has indicated that the statutory presumption of secondary meaning from five years of "substantially exclusive and continuous use" found in section 1052(f), 15 U.S.C. § 1052(f) (1994), will not automatically apply where, under the circumstances, the claimed mark is a product feature or product design. See *In re Craigmyle*, 224 U.S.P.Q. (BNA) 791 (T.T.A.B. 1984); *In re Kwik Lok Corp.*, 217 U.S.P.Q. (BNA) 1245, 1248 (T.T.A.B. 1983); see also PATENT AND TRADEMARK OFFICE, DEPARTMENT OF COMMERCE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1212.05 (revised ed. 1997). Before applying the presumption in such cases, the Patent and Trademark Office requires evidence that the feature has, in fact, been used as a trademark. See, e.g., *In re Kwik Lok Corp.*, 217 U.S.P.Q. (BNA) at 1248. But at least some courts have been willing to find secondary meaning based on use and advertising, without independent proof that the feature or design is being used as a mark. See *Sunbeam Prods., Inc. v. West Bend Co.*, 123 F.3d 246, 255-56 (5th Cir. 1997) (applying section 1052(f) presumption to secondary meaning issue in case where claimed trademark was a kitchen stand mixer's appearance); *Clamp Mfg. Co.*, 870 F.2d at 517.

⁶⁵ See, e.g., *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1188 (7th Cir. 1989) ("[F]unctional means not simply that the feature serves a function, but that the feature is necessary to afford a competitor the means to compete effectively."); *Fabrica Inc. v. El Dorado Corp.*, 697 F.2d 890, 896 (9th Cir. 1983) (rejecting the notion that "a design feature is functional by definition if it increases appeal and sales of the product"). More generally, compare *Pagliari v. Wallace China Co.*, 198 F.2d 339, 343 (9th Cir.

minutest detail" touted by Judge Hand⁶⁶ was reduced in the hands of the Court of Customs and Patent Appeals to "the right to compete effectively" and would apply only where there was an absolute "need to copy."⁶⁷

Taken together, these changes have created an environment that welcomes claims based on little more than a defendant's imitation of a successful product.⁶⁸ While courts have continued to recite deception-based rationales, the actual likelihood of such deception in most of these cases is typically slight or non-existent.⁶⁹ And the law has moved steadily away from the common law's

1952) (interpreting functional to incorporate any feature which is "an important ingredient in the commercial success of the product"), and *Industria Arredamenti Fratelli Saporiti v. Charles Craig Ltd.*, 725 F.2d 18, 20 (2d Cir. 1984), with *Vuitton et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769, 774 (9th Cir. 1981) (limiting application of functionality to cases where design is not also serving as a trademark and to cases where copying is necessary to avoid a monopoly), and *Wallace Int'l Silversmiths, Inc. v. Godinger Silver Art Co., Inc.*, 916 F.2d 76, 81 (2d Cir. 1990) (limiting application of functionality doctrine to cases where protection would "significantly hinder competition by limiting the range of adequate alternative designs").

⁶⁶ *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917); see also *Chas. D. Bridgell, Inc. v. Alglobe Trading Corp.*, 194 F.2d 416, 419 (2d Cir. 1952) (noting that right to copy applied "even if the defendant copies 'slavishly' or 'down to the last detail'"); *James Heddon's Sons v. Millsite Steel & Wire Works, Inc.*, 128 F.2d 6, 12 (6th Cir. 1942); *A.C. Gilbert Co. v. Shemitz*, 45 F.2d 98, 100 (2d Cir. 1930) ("It is to be remembered that the defendants would have the right to copy the Gilbert design slavishly so long as they did not represent that the goods sold were those of the complainant.").

⁶⁷ *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1339 (C.C.P.A. 1982); *In re Bose Corp.*, 772 F.2d 866, 872 (Fed. Cir. 1985) ("If the feature asserted to give a product distinctiveness is the best, or at least one, of a few superior designs for its *de facto* purpose, it follows that competition is hindered."); see also *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 519 (10th Cir. 1987) (ruling that feature may be "slavishly copied" only where necessary to create an "equally functional" product); *Sicilia di R. Biebow & Co. v. Cox*, 732 F.2d 417, 429 (5th Cir. 1984) (stating that a feature will be "functional" only "if it is dictated by utilitarian characteristics or by the functions that the relevant product or trade dress is intended to serve") (emphasis added); *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 331 (2d Cir. 1983) (stating that a feature will be functional only if it is "dictated by the functions to be performed").

⁶⁸ For cases finding unfair competition or trademark infringement based upon imitation and consequent similarity, see, for example, *Animal Fair, Inc. v. AMFESCO Indus., Inc.*, 620 F. Supp. 175, 191 (D. Minn. 1985) ("In the present case, there is clearly a likelihood of confusion between the two bear's foot slippers. The substantial similarity which plaintiff demonstrated in order to prevail on its copyright claim is the primary factor which leads to this conclusion."). See also Todd R. Geremia, Comment, *Protecting the Right to Copy: Trade Dress Claims for Expired Utility Patents*, 92 Nw. U. L. REV. 779, 800 (1998) (noting that elimination of the secondary meaning requirement and the narrowing of the functionality doctrine seriously undermine the right to copy from expired utility patents).

⁶⁹ The evidence of confusion in the *Sears* and *Compco* cases has become entirely typical of the type of evidence sufficient to establish infringement. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 226 (1964) (holding evidence of confusion consisted of similar appearance plus: (1) labels were not attached to showroom lamps; (2) customers had asked manufacturer of higher priced lamp about the difference in the lamps; and (3) two customers, who purchased the more expensive lamp, complained to the manufacturer of the more expensive lamp when they learned that "substantially identical lamps" were available at a "much lower price"); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 236-37 (1964) (explaining evidence of confusion consisted of similar appearance plus request by a single plant manager that Day-Brite service what turned out to be Compco fixtures); see also *American Safety Table Co. v. Schreiber*, 269 F.2d 255, 270

focus on actual deception.⁷⁰ Where the common law once required actual proof of secondary meaning, secondary meaning can now be presumed from the uniqueness of a design⁷¹ or inferred from the fact of imitation itself.⁷² Where the common law once required deceptive acts in addition to mere product similarity, similarity alone is now sufficient to support an infringement finding.⁷³ Where the common law once limited relief to a requirement of proper labeling, proper labeling is no longer sufficient to avoid an infringement finding, and courts will prohibit the imitation of desired product features even where a defendant is careful to identify the imitation as its own.⁷⁴ In each case, these changes have removed the need for a plaintiff to prove a probability of actual consumer deception and moved sharply toward an almost irrebuttable presumption of infringement drawn simply from the imitation of a successful original.⁷⁵

(2d Cir. 1959) (finding unfair competition from product simulation even though court recognized that "[t]here is some but not much evidence of actual confusion").

⁷⁰ See *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 269-70 (7th Cir. 1943) ("The essence of unfair competition is fraud. And like fraud, it is never presumed, and its existence must be established by a clear preponderance of the evidence.") (citations omitted).

⁷¹ See, e.g., *Krueger Int'l, Inc. v. Nightingale, Inc.*, 915 F. Supp. 595, 607 (S.D.N.Y. 1996) (finding that chair design was distinctive and hence protected as trademark where design was "unique among high density stacking chairs" and had "a distinctive overall look").

⁷² See, e.g., *Coach Leatherware Co. v. Ann Taylor, Inc.*, 933 F.2d 162, 169 (2d Cir. 1991) (stating that inference of secondary meaning can be drawn from fact of imitation alone); *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1220 & n.13 (8th Cir.) (holding that inferences of secondary meaning and likelihood of confusion can be drawn from fact of imitation alone), *cert. denied*, 429 U.S. 861 (1976); *Animal Fair, Inc.*, 620 F. Supp. at 190 (drawing inferences of secondary meaning and likelihood of confusion from fact of imitation).

⁷³ See, e.g., *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 332 (2d Cir. 1983) (enjoining defendant from producing toy cars that looked like a car appearing on plaintiff's television show even though there was no showing that purchasers knew or cared whether plaintiff sponsored or produced the defendant's cars).

⁷⁴ For example, in *Dogloo, Inc. v. Doskocil Mfg. Co.*, 893 F. Supp. 911, 921-22 (C.D. Cal. 1995), the district court enjoined the imitation of a successful igloo-shaped doghouse under trademark law based upon the similarity between the shapes of the plaintiff's and defendant's respective products. In enjoining the imitation, the district court relied on a survey where some of the labeling that ordinarily accompanied the product had been removed. See *id.* at 916; see also *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254 (2d Cir. 1987) (finding likelihood of confusion despite distinct labeling); *Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.* 510 F.2d 1004, 1008 (5th Cir.) (finding infringement even where consumers were not confused as to source), *cert. denied*, 423 U.S. 868 (1975). Some courts go further and find that disclaimers or other labeling efforts intended to ensure proper source identification are themselves evidence of infringement. See *Pebble Beach Co. v. Tour 18 I Ltd.*, 942 F. Supp. 1513, 1544-50, 1550 n.35 (S.D. Tex. 1996) (using own name in conjunction with another's mark and including disclaimers in advertising are evidence that support finding of likelihood of confusion), *aff'd*, 155 F.3d 526 (5th Cir. 1998).

⁷⁵ At this time, imitation is a basis for drawing inferences of secondary meaning and likelihood of confusion, but a trier of fact may decide not to draw such inferences based upon imitation in particular cases. See *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176, 1183-84 & n.16 (7th Cir. 1989) (noting that

Perhaps recognizing that deception-based concerns cannot support these changes, proponents of broader protection have relied increasingly on arguments that trademark protection for product features is necessary to provide the appropriate incentive, and to avoid providing a disincentive, for the development of attractive and desirable product designs.⁷⁶ A district judge from Colorado has given the clearest expression of this justification:

One salutary purpose of the Lanham Act in this context [of protecting product design as a trademark] is to protect a creative artists' rights in his or her creation and thus provide incentive to be creative. By protecting and fostering creativity, a product with features different and perhaps preferable to the Blue Mountain product may well be developed.⁷⁷

Other courts have relied on similar concerns, although not always articulated in such a straightforward manner. For example, when it eliminated the secondary meaning requirement for the protection of trade dress under section 43(a), the Court, in *Two Pesos, Inc. v. Taco Cabana, Inc.*, argued that enforcing the secondary meaning requirement would expose "the developer of fanciful or arbitrary trade dress" to "an unfair prospect of theft [or] financial loss" "at the outset of its use."⁷⁸ Given that the use has just begun, the "theft" or "financial loss" to which the Court is referring cannot be the "theft" by defendant of the positive associations in the minds of consumers between the restaurant's appearance and otherwise unobservable⁷⁹ features of the plaintiff's

imitation may be considered as a factor tending to prove secondary meaning and likelihood of confusion, but emphasizing that it is not the sole factor); *Fuddrucker's, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987) (noting that trier of fact may draw inferences of secondary meaning and likelihood of confusion from fact of imitation); see also *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 16 cmt. b, illus. 2 (1995).

⁷⁶ See, e.g., *Wallace Int'l Silversmiths, Inc. v. Godinger Silver Art Co.*, 916 F.2d 76, 80 (2d Cir. 1990) (refusing to follow "important ingredient" test for functionality on the grounds that such test "discourages both originators and later competitors from developing pleasing designs"); *LeSportsac, Inc. v. KMart Corp.*, 754 F.2d 71, 77 (2d Cir. 1985); *Keene Corp. v. Paraflex Indus.*, 653 F.2d 822, 825 (3d Cir. 1981) (justifying broader protection for product features under trademark law in order to avoid discouraging the "use of a spark of originality which could transform an ordinary product into one of grace").

⁷⁷ *Hartford House Ltd. v. Hallmark Cards, Inc.*, 647 F. Supp. 1533, 1540 (D. Colo. 1986), *aff'd*, 846 F.2d 1268 (10th Cir.), *cert. denied*, 488 U.S. 908 (1988).

⁷⁸ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 771 (1992) (quoting Brief for Petitioner at 10).

⁷⁹ Early courts were careful to note that trademarks played a more essential role when they conveyed information that could not be otherwise discerned by inspection. In *Upjohn Co. v. William S. Merrell Chemical Co.*, the court explained:

Nor do we overlook the fact that similarity in appearance would be more significant with a medicinal tablet than with a piece of furniture. In the latter case the question of origin is important only as to materials and workmanship, and of these the purchaser can largely judge for himself,

food and service.⁸⁰ Such positive associations do not, as the jury found and the Court conceded, yet exist.⁸¹ Until secondary meaning has developed, the only possible losses the plaintiff might suffer from such "theft" are: (1) if the restaurant appearance is unique and desirable, imitation would reduce the monopoly rents the plaintiff would otherwise earn from its investment in creating such appearance; and (2) if the plaintiff desired such monopoly rents, allowing imitation would force the plaintiff to replace its imitated appearance with a new, equally desirable appearance. Either of these losses flows not from the deceptiveness of the defendant's actions, but from the fact of imitation itself. In short, eliminating the secondary meaning requirement for trade dress allowed the Court to protect the plaintiff's investment in creating a desirable restaurant appearance while maintaining the fiction of a deception-based rationale that the jury findings specifically refute. Protecting the appearance of a restaurant in order to encourage the creation of attractive restaurants may, of course, prove a salutary purpose, but it has little to do with trademark's traditional concerns.⁸²

Property-based, not deception-based, concerns lie, therefore, at the heart of the *Two Pesos, Inc.* decision and of the expansion of trademark subject matter more generally. As the next subsections explain, property-based concerns

while in the former case the efficiency of the drug must depend upon the skill and honesty of the maker, and so the purchaser cares more about getting the original whose merit he knows . . .

269 F. 209, 213 (6th Cir. 1920), *cert. denied*, 257 U.S. 638 (1921).

⁸⁰ See *Laureyssens v. Idea Group, Inc.*, 964 F.2d 131, 137 (2d Cir. 1992).

⁸¹ *Two Pesos, Inc.*, 505 U.S. at 766 (acknowledging jury's finding of no secondary meaning in appearance of restaurant).

⁸² See Stephen L. Carter, *Does It Matter Whether Intellectual Property Is Property?*, 68 CHI-KENT L. REV. 715, 721-22 (1993) (noting that *Two Pesos* reflects property-based view of trademarks). The Court's formal rationale that congressional silence on a secondary meaning requirement for trade dress suggested that Congress did not intend to require secondary meaning before trade dress could receive protection as a trademark is equally unpersuasive. See *Two Pesos, Inc.*, 505 U.S. at 772-73. Congress did not include a secondary meaning requirement for trade dress in section 2(e) because it did not intend to allow registration of trade dress on the principal register. See *supra* notes 39-52 and accompanying text. Presumably, if we follow the Court's reasoning on this subject to its logical conclusion, the Court must also hold that Congress intended to abandon the functionality limitation on the protection of product features as trademarks because Congress did not specifically include a functionality limitation anywhere in the Trademark Act. For an example of such a mistake, see *Shakespeare Co. v. Silstar Corp.*, 9 F.3d 1091 (4th Cir. 1993) (mistakenly reasoning that because Congress did not include functionality as a defense to incontestability, Congress did not intend functionality to serve as a defense to incontestability), *cert. denied*, 511 U.S. 1127 (1994). It is bad enough that the Court is incapable of reading the plain language and legislative history of the Trademark Act to relegate trade dress and product features exclusively to the supplemental register as Congress intended. For the Court to use that first mistake as a basis to construct an edifice of further mistakes makes a mockery of the principles of legitimate statutory construction.

have driven parallel expansions in the bundle of rights accorded a trademark owner.

B. Expanding the Exclusive Right to Use

At the dawn of the twentieth century, the right to exclude associated with trademark ownership was carefully circumscribed, limited to excluding others from using the same or a near identical mark on the "same" goods in the same geographic area.⁸³ The likelihood that continued use of the allegedly infringing mark by the defendant would lead a substantial number of consumers to the actual (and incorrect) belief that the plaintiff had manufactured the defendant's goods and through such deception divert sales from the plaintiff to the defendant, defined both the extent and the limit of the trademark owner's right to exclude.⁸⁴

⁸³ See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916); *Hyde Park Clothes, Inc. v. Hyde Park Fashions, Inc.*, 204 F.2d 223, 224 (2d Cir. 1953) (finding no infringement where plaintiff used mark in connection with manufacture and sale of men's clothing and defendant used mark in connection with manufacture and sale of women's clothing); *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, 201 F. 510 (7th Cir. 1912) (refusing to find trademark infringement where plaintiff used mark on condensed milk and defendant used same mark on ice cream because condensed milk and ice cream are different goods). The 1905 Act codified the "same" goods limitation in its registration provision, by prohibiting registration of a mark "substantially identical with a trade-mark appropriated to goods of the same descriptive properties." Act of Feb. 20, 1905, ch. 592, 33 Stat. 724, 726; *American Tobacco Co., Inc. v. Gordon*, 10 F.2d 646, 647 (D.C. Cir. 1925) (ruling that existing registration for PALL MALL for cigarettes does not bar another's registration of PALL MALL for cigars and pipes because the goods do not share the "same descriptive properties").

⁸⁴ See, e.g., *McLean v. Fleming*, 96 U.S. 245, 255-56 (1877); *Gorham Co. v. White*, 81 U.S. (14 Wall.) 511, 528 (1871); *Canal Co. v. Clark*, 80 U.S. (13 Wall.) 311, 322 (1871); *E.I. DuPont de Nemours & Co. v. Waxed Prods. Co., Inc.*, 85 F.2d 75, 80 (2d Cir. 1936); *Kann v. Diamond Steel Co.*, 89 F. 706 (8th Cir. 1898). As the Eighth Circuit explained:

The deceit, or probable deceit, of the ordinary purchaser to such an extent that he buys, or will probably buy, the property of one manufacturer or vendor, in the belief that they are those of another, is a sine qua non of the maintenance of such a suit, because every one has the undoubted right to sell his own goods, or goods of his own manufacture, as such, however much such sales may diminish or injure the business of his competitors.

Kann, 89 F. at 707. See also *N.K. Fairbank Co. v. R.W. Bell Mfg. Co.*, 77 F. 869, 876 (2d Cir. 1896); *Amoskeag Mfg. Co. v. Spear*, 2 Sandf. 599 (N.Y. Super. 1849). As the *Amoskeag* court explained:

At present, it is sufficient to say that, in all cases where a trade-mark is imitated, the essence of the wrong consists in the sale of the goods of one manufacturer or vendor as those of another, and it is only when this false representation is directly or indirectly made, and only to the extent to which it is made, that the party who appeals to the justice of the court can have a title to relief.

Amoskeag Mfg. Co., 2 Sandf. at 606.

During the course of the twentieth century, courts, and to a lesser extent Congress,⁸⁵ gradually broadened the scope of the trademark owner's exclusive use right. Expansion with respect to use of the mark on different goods, for example, began in 1917 when the Second Circuit ruled that the Aunt Jemima Mills Co. was entitled to exclude another from using "Aunt Jemima" as a mark on pancake syrup.⁸⁶ Aunt Jemima had itself only used the mark with respect to self-rising flour, but the court found that the defendant's syrup, though different, was sufficiently related "that the public, or a large part of it . . . would conclude that [the defendant's syrup] was made by the [plaintiff]."⁸⁷ Although the *Aunt Jemima* court retained confusion as to source as the relevant test,⁸⁸ its recognition that use of the trademark on related goods could create actionable confusion opened the door to claims of infringement based upon such use. After opening the door to such claims, the Second Circuit found it almost impossible to define any sensible stopping point. If the defendant's goods were not identical, they might nonetheless be sufficiently related that consumers would likely believe that the plaintiff had produced them.⁸⁹ If not so related to create confusion as to source, consumers might nonetheless believe that the plaintiff had sponsored the defendant's goods⁹⁰ or, given the complexities of corporate ownership, that the plaintiff and defendant were

⁸⁵ During this period, Congress's principal substantive change was reflected in the Lanham Act's constructive notice provision. 15 U.S.C. § 1072 (1994). By providing that registration of the mark on the principal register was constructive notice of the registrant's ownership, Congress gave the trademark owner nationwide priority over all confusingly similar marks adopted subsequent to a mark's registration. *See, e.g.*, *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 362 (2d Cir. 1959). The Trademark Act of 1946 also allowed descriptive terms to be registered as trademarks after they had acquired secondary meaning, and shifted the scope of protection from "same descriptive properties" to a likelihood of confusion. But these changes simply recognized doctrinal changes that the courts had already made. *See, e.g.*, *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9-10 (2d Cir. 1976) (noting Act's express recognition of descriptive terms as trademarks); *Pep Boys v. Edwin F. Guth Co.*, 197 F.2d 527, 528-29 (C.C.P.A. 1952) (noting omission of "same descriptive properties" language in 1946 Act, but interpreting the omission as a shift in focus to likelihood of confusion directly, rather than an expansion). For a discussion of the 1962 Housekeeping Amendments that refutes the popular belief that Congress intended to expand the confusion standard to encompass confusion as to sponsorship, see *infra* text accompanying notes 325-52.

⁸⁶ *See Aunt Jemima Mills Co. v. Rigney & Co.*, 247 F. 407, 408, 410 (2d Cir. 1917), *cert. denied*, 245 U.S. 672 (1918).

⁸⁷ *Id.* at 410.

⁸⁸ *Id.* (finding that goods were sufficiently related that public would believe that the plaintiff had made the defendant's goods).

⁸⁹ *See Wall v. Rolls-Royce*, 4 F.2d 333 (3d Cir. 1925) (finding infringement of "Rolls-Royce" mark for automobiles by use of same mark on radio tubes on grounds that consumers might believe that automobile manufacturer had begun manufacturing radio tubes).

⁹⁰ *See Triangle Publications, Inc. v. Rohrlisch*, 167 F.2d 969, 972-73 (2d Cir. 1948); *Alfred Dunhill of London, Inc. v. Dunhill Shirt Shop, Inc.*, 3 F. Supp. 487 (S.D.N.Y. 1929).

somehow affiliated.⁹¹ In short, by opening the door to infringement claims with respect to noncompeting goods, the Second Circuit found itself on the often-invoked, but rarely encountered, slippery slope. Although no less a jurist than Learned Hand set himself the task of identifying the appropriate stopping place,⁹² the court was unable to do so. In *Polaroid Corp. v Polarad Electronics Corp.*,⁹³ the Second Circuit eventually abandoned the same goods limitation almost entirely, merely incorporating proximity of goods as a factor to be considered in resolving the likelihood of confusion issue.⁹⁴

Altogether this evolution from *Aunt Jemima* to *Polaroid* took forty-four years. Because of the time involved, each step in the evolution seemed, on its own, exceedingly small and each step, once taken, became the justification for taking the next step. Yet, taken together, these individually small steps generated a radical expansion in the protection afforded trademark owners with respect to noncompeting uses. Much of this expansion was based on an ever more-tenuous chain of assumptions and inferences. Consumer desire for, and the efficiency advantages associated with, trademark protection that will enable consumers to identify easily the particular soda they want from a shelf full of sodas seem reasonably clear. Whether consumers know of, or value, the permissions the law may require for, or the corporate ownership structure involved in, the production of such goods is far less clear.⁹⁵ Moreover, the

⁹¹ See *Carling Brewing Co. v. Philip Morris Inc.*, 297 F. Supp. 1330, 1337 (N.D. Ga. 1968). The court argued:

Given the general situation where the public is generally unaware of the specific corporate structure of those whose products it buys, but is aware that corporate diversification, mergers, acquisitions and operation through subsidiaries is a fact of life, it is reasonable to believe that the appearance of "Black Label" on cigarettes could lead to some confusion as to the sponsorship of EITHER or both the cigarettes and the beer. Whether the public concludes (if it really draws a specific conclusion) that plaintiff's Black Label beer may have become connected with Philip Morris, or that Carling may now be putting out cigarettes is immaterial.

Id.

⁹² See *S.C. Johnson & Son, Inc. v. Johnson*, 175 F.2d 176, 179-80 (2d Cir. 1949); *S.C. Johnson & Son, Inc. v. Johnson*, 116 F.2d 427, 429-30 (2d Cir. 1940); *Yale Elec. Corp. v. Robertson*, 26 F.2d 972, 973-74 (2d Cir. 1928).

⁹³ 287 F.2d 492 (2d Cir. 1961).

⁹⁴ *Id.* at 495.

⁹⁵ When a consumer buys MICHELOB brand beer, presumably her principal concern is that the beer reflect a consistent quality and qualities over time. So long as those source-related concerns are satisfied, whether the source responsible for MICHELOB beer also manufactures, either directly or through an affiliate, BUDWEISER, KING COBRA, and O'DOUL'S brands is of little immediate importance. In addition, some companies establish separate affiliates with separate marks specifically to present a variety of price/quality mixes to the market. Chevrolet, Cadillac, and Saturn are all brands or affiliates of General Motors, but they do not for that reason share target a common price/quality point. Similarly, when mi-

open-ended infringement inquiry that resulted from this process is a virtual invitation to litigation, particularly for larger rivals looking to harass their smaller competitors. Further, this process makes it almost impossible to predict accurately how any given trier of fact will resolve any particular case.⁹⁶ Like other forms of legal uncertainty, trademark's open-ended infringement standard renders investment in what may reasonably appear to be fair, noninfringing competition vulnerable to second-guessing by a judge or jury.⁹⁷ While this risk has always been present to some degree, the expansion in trademark's likelihood of confusion standard makes the risk far more substantial today, both because the standard reaches far more and often seemingly-innocent conduct and because its breadth grants the trier-of-fact almost complete discretion on the infringement issue.⁹⁸

Nevertheless, some aspects of this expanded infringement standard retain a link to trademarks' traditional role of conveying otherwise indiscernible information to the consumer. While the expanded protection encompasses information concerning sponsorship, endorsement, or corporate affiliations, and not merely a product's source, improving the information flow with respect to these issues has, at least, a plausible claim to the kind of efficiency advantages associated with traditional deception-based trademark. Whether or not we are persuaded that these advantages will prove sufficient, in degree, to

crobreweries became popular, Miller Brewing Company established a separate division, Plank Road Brewing, to target that market. Again, the distancing of affiliate from the parent was intentional, intended to allow the affiliate to establish its own trade identity and price/quality mix for the burgeoning microbrewed beer market. In these cases, that there exists some relationship between the parent and subsidiary tells us very little about the relationship between the price/quality mixes we will find in the various products of parent and subsidiary.

⁹⁶ See, e.g., *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947 (7th Cir. 1992) (affirming finding of bad faith infringement of THIRST AID mark by defendant's use of the phrase "Gatorade is thirst aid for that deep down body thirst" in an advertising campaign).

⁹⁷ Cf. Herbert Hovenkamp, *Antitrust's Protected Classes*, 88 MICH. L. REV. 1, 17-20 (1989) (recognizing and identifying as "WL3" the welfare losses associated with rent-seeking activities of a monopolist).

⁹⁸ See *1944 Trade-Mark Hearings*, *supra* note 8, at 71-72 (statement of Mr. Moyer, Department of Justice) ("[T]he possibility that a competitor will be faced with a lawsuit or litigation . . . is sufficient, particularly if the competitor is a small man, to keep him out of the field."). Mr. Moyer explained:

I again wish to emphasize that the right of a dominant company to maintain a lawsuit, or to find colorable sanctions for monopoly or restraint of trade, as demonstrated in the patent field, which has not yet been clarified and has been in litigation for over 100 years, opens the door to all the evils of express legal sanction. The mere fact that a sanction is colorable and requires or invites litigation is sufficient to maintain monopoly or restraint through the long course of private litigation or public litigation in the courts.

Id. at 97.

balance the competitive losses such protection implicates, the desirability of such expanded protection is at least debatable when it corresponds to an expanded informational role. However, in some cases, the link between expanded protection and expanded informational role becomes not merely attenuated, but altogether disappears. In these cases, protection is extended to the trademark owner in order to protect the mark's value as a desirable product in and of itself, rather than as a source of otherwise indiscernible information concerning the product to which it is attached. The following subsections discuss three situations where courts have used the likelihood of confusion standard to generate such property-based protection.

1. *Circular Confusion: The Ornamental Use Cases*

The first example concerns the so-called ornamental use cases. In these cases, the defendant markets products bearing the plaintiff's mark, not for the information the mark conveys concerning the goods to which it is attached, but for its own sake, as an ornament. Although the trademark's value as an information source in these cases is either non-existent or distinctly secondary to its value as a product, some courts will nevertheless enjoin such use by pretending that it creates a likelihood of confusion as to sponsorship. A handful of courts have been more honest.

In *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Manufacturing, Inc.*,⁹⁹ for example, the National Hockey League and thirteen of its member teams sought to enjoin Dallas Cap from manufacturing and selling embroidered emblems depicting the teams' symbols.¹⁰⁰ The plaintiffs alleged that such use constituted trademark infringement.¹⁰¹ The defendant countered that it was simply marketing the emblems as products and did not intend the presence of the team symbol on an emblem to indicate the emblem's source. The trial court agreed with the defendant's contentions, and rejected the plaintiffs' claims. In doing so, the trial court specifically found that: (1) there was no likelihood of confusion as to the source of the emblems; and (2) the defendant had not made any false representations concerning the source of the emblems.¹⁰²

⁹⁹ 510 F.2d 1004 (5th Cir.), *cert. denied*, 423 U.S. 868 (1975).

¹⁰⁰ *Id.* at 1008.

¹⁰¹ Protection for twelve of the team symbols was sought on the basis that such symbols had been registered on the principal register as service marks for ice hockey entertainment services. *See id.* at 1009. Protection for the thirteenth was sought as an unregistered mark, under section 1125. *See id.*

¹⁰² *See id.* at 1012.

On appeal, the Fifth Circuit reversed, concluding that "confusion [was] self-evident from the nature of defendant's use."¹⁰³ In response to the defendant's arguments and the district court's findings, that buyers would not be confused as to who manufactured the physical article itself, the Fifth Circuit simply asserted that such lack of confusion was irrelevant:

The certain knowledge of the buyer that the source and origin of the trademark symbols were in plaintiffs satisfies the [confusion or deception] requirement of the [Trademark Act]. The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem.¹⁰⁴

Because, the Fifth Circuit explained, the teams had created both the symbols and the demand for them, the teams were entitled under trademark law to preclude others from entering the market for emblems displaying such symbols.¹⁰⁵

While other decisions have purported to tie the results in such ornamental use cases more closely to an examination of consumers' actual expectations, such an approach is, at best, pretense. Attempting to rely on consumer expectations to resolve the issue merely generates the answer the law has already given. Consumer expectations concerning marketing practices are not formed in a vacuum, but grow out of what consumers experience in the marketplace. To the extent the law is effective, it will control what consumers experience in the marketplace and therefore, shape their expectations. If the law prohibits unlicensed reproduction and sale of apparel or other goods bearing team emblems, this will substantially control what happens in the marketplace, and consumers will come to expect licensing as the norm, except in obvious bootleg environments.¹⁰⁶ On the other hand, if the law allows such

¹⁰³ *Id.*

¹⁰⁴ *Id.*; see also *id.* at 1012-13 ("Where the consuming public had the certain knowledge that the source and origin of the trademark symbol was in the Toronto team, the reproduction of that symbol by defendant constituted a violation of § 1125.").

¹⁰⁵ See *id.* at 1011. As the court explained:

Were defendant to embroider the same fabric with the same thread in other designs, the resulting products would still be emblems for wearing apparel but they would not give trademark identification to the customer. The conclusion is inescapable that, without plaintiff's marks, defendant would not have a market for his particular product among ice hockey fans desiring to purchase emblems embroidered with the symbols of their favorite teams.

Id.

¹⁰⁶ In such environments, the consumer is typically fully aware that the t-shirt or watch she is buying for far less than the price of similar authorized goods is an imitation. Courts nevertheless enjoin such sales,

activity, again, the market will respond accordingly and consumers will come to expect competition as the norm, except in those locations, such as stadium souvenir shops, that are physically controlled by the trademark owner.¹⁰⁷ Whether such use is likely to generate confusion, of sponsorship or otherwise, is thus circular—both a reflection and the determinant of the trademark owner's rights.¹⁰⁸

Moreover, unlike true sponsorship cases, where the mark's value is almost entirely due to the suggestion of quality control or quality certification conveyed,¹⁰⁹ in ornamental use cases, consumers value the mark's presence on the product apart from its role in conveying any such information.¹¹⁰ Even where some consumers derive information from the mark's presence, the value of that information is usually slight. A consumer may believe, for example, that Mutual of Omaha "went along with" an ornamental use.¹¹¹ This is

despite this lack of confusion, by pretending that such sales may create on-looker or post-sale confusion. See *Payless Shoesource, Inc. v. Reebok Int'l Ltd.*, 998 F.2d 985 (Fed. Cir. 1993) (ruling on-looker confusion actionable); *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867 (2d Cir. 1986) (same); *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches*, 221 F.2d 464, 466 (2d Cir.) (finding imitation actionable because it could create on-looker or post-sale confusion), *cert. denied*, 350 U.S. 832 (1955); see also *infra* text accompanying notes 138-56.

¹⁰⁷ See *Supreme Assembly v. J.H. Ray Jewelry Co.*, 676 F.2d 1079, 1083 (5th Cir. 1982) (distinguishing *Boston Prof'l Hockey Ass'n* and finding no likelihood of sponsorship confusion with respect to manufacture of jewelry in the shape of trademarked fraternal symbol on the basis "that there is no historical custom or practice" with respect to such sponsorship).

¹⁰⁸ See *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 33 (1st Cir. 1989) (recognizing circular nature of inquiry, but prohibiting sale of t-shirts bearing plaintiff's mark because plaintiff had created value of mark); see also 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24.9 (4th ed. 1996).

¹⁰⁹ Even in true sponsorship cases, the question whether mistaken perceptions of sponsorship are likely and will prove material can be difficult. Compare *Triangle Publications, Inc. v. Rohrlich*, 167 F.2d 969, 972-73 (2d Cir. 1948) (finding by majority that sponsorship confusion is likely in case involving unauthorized use of "Ms. Seventeen" mark on bras), with *id.* at 976 (Frank, J., dissenting) (characterizing trial court's finding of a likelihood of sponsorship confusion as a "shaky kind of guess").

¹¹⁰ See, e.g., *Boston Athletic Ass'n*, 867 F.2d at 33-34 (acknowledging that defendant's t-shirts bearing plaintiff's mark sold even though consumers were not confused as to source, sponsorship, or endorsement); *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 332 (2d Cir. 1983) ("It was not proved that consumers of 'General Lee' models care whether the goods are manufactured or sponsored by any single source . . ."); *Boston Prof'l Hockey Ass'n*, 510 F.2d at 1012 (recognizing mark's value as product even when there was no confusion as to source); Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603 (1983) (noting that articles bearing trademarks as ornaments "frequently cost significantly more than the items in the rear [plain, unadorned articles], yet they sell"); Dreyfuss, *supra* note 24, at 402 (defining as "surplus value" the value that consumers place on having a mark on a t-shirt "in excess" of its value as information source).

¹¹¹ See *Mutual of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 398-402 (8th Cir. 1987) (finding infringement of "Mutual of Omaha" trademark by use of the phrase "Mutant of Omaha" on a t-shirt based in large part on survey that found 10% of consumers believed that the plaintiff "went along with" the use); see also

information and if incorrect, confusion, of a sort. But consumers will likely place little value on that information in making a decision whether to purchase a "Mutant of Omaha" t-shirt.¹¹² Whatever information value the similar phrase may have is distinctly secondary to its humor content, particularly for those likely to purchase the shirt.¹¹³

Moreover, that there might be those who affirmatively desire "authorized" goods would not justify a different result. There may be just as many consumers who would rather purchase lower-priced, or receive higher quality, unauthorized goods.¹¹⁴ If a court were to use the likelihood of confusion standard to prohibit such unauthorized use, then it would effectively preclude competitive entry, and would sacrifice the second group's desires for the sake of the first. This is not, in the vast majority of cases, appropriate or desirable. Rather, the better approach, and the one trademark law traditionally adopted, is to require the original market entrant to find some alternate way of conveying the relevant distinction to the buying public so that each consumer can find and properly identify the goods that she desires.¹¹⁵

Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526, 544 (5th Cir. 1998) (finding that confusion over whether plaintiff gave permission for defendant's use was actionable); *Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club Ltd.*, 34 F.3d 410, 415-16 (7th Cir. 1994) (finding actionable confusion based on possibility that consumers would mistakenly believe that plaintiff had given permission for the defendant's use); *Anheuser-Busch, Inc. v. Balducci Publications*, 28 F.3d 769, 772, 775 (8th Cir. 1994) (finding actionable confusion where consumers believed that plaintiff gave permission for the defendant's use); *University of Ga. Athletic Ass'n v. Laite*, 756 F.2d 1535, 1546 (11th Cir. 1985).

¹¹² Cf. *Nike, Inc. v. "Just Did It" Enters.*, 6 F.3d 1225, 1231 (7th Cir. 1993) (noting that "[a]n intent to parody, however, raises the opposite inference" concerning the source of the parodist's goods).

¹¹³ See *Girl Scouts v. Personality Posters Mfg. Co., Inc.*, 304 F. Supp. 1228, 1235 (S.D.N.Y. 1969) (finding that poster of pregnant girl in Girl Scout uniform with the motto "Be Prepared" did not infringe any of plaintiff's trademarks and noting that "the reputation of the plaintiff is so secure against the wry assault of the defendant that no such damage has been demonstrated").

¹¹⁴ The Court had long before rejected IBM's argument that it needed to control the supply of cards for use in its computers in order to ensure their proper quality. See *United States v. IBM*, 298 U.S. 131, 138-40 (1936). But see *University of Ga. Athletic Ass'n*, 756 F.2d at 1546 (arguing that because some consumers may desire authorized goods, complete prohibition on unauthorized goods justifiable). In these cases, the imitator can supply either equivalent quality goods at a lower price, or higher quality goods at the same price, as an official licensee because it uses the royalty otherwise paid to the licensor to cover its own profits or to improve the quality of its products. This is often not the case today because the law prohibits, and indeed criminalizes, such competition. As a result, would-be competitors cannot invest efficiently in the production of their goods because of concerns over seizure and forfeiture.

¹¹⁵ This is the approach adopted in gray market good cases, for example. See, e.g., *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 592-93 (5th Cir. 1993) (refusing to presume that consumers will believe that every retailer marketing product is necessarily an authorized retailer); see also *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1076-77 (9th Cir. 1995) (noting bootstrap nature of confusion argument in such cases).

But in the ornamental use cases, the courts have rejected this traditional approach and the competitive balance it embodies. Instead, most courts have simply presumed that confusion is likely and enjoined the use on the strength of that presumption.¹¹⁶ In reaching this result, some courts have attempted to tie their decision to deception-based concerns, but those that do invariably fail to recognize the circular nature of such inquiry. Even if some non-circular confusion may result, the better approach would be to allow the use and leave the market to sort out alternate methods for conveying the desired information. Yet, courts in these cases typically grant such broad relief that they foreclose competitive entry altogether. Granting such broad relief makes clear that these cases reflect far more concern with protecting the trademark owner's investment in her mark as a product, than they do about addressing relevant consumer deception.¹¹⁷

2. *Imaginary Confusion: The Tarnishment Cases*

The second example concerns so-called trademark tarnishment cases. Here, the defendant has taken the plaintiff's mark, and placed the mark in an unflattering or morally objectionable context.¹¹⁸ Although there is little reason to believe, and certainly no evidence to suggest, that a substantial number of consumers will blame the mark's owner for the objectionable nature of the

¹¹⁶ See *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 33 (1st Cir. 1989) (enjoining defendant under Lanham Act from producing t-shirts with certain design independently desired by consuming public because that would allow defendants to "obtain a 'free ride' at plaintiff's expense," and therefore plaintiff did not have to prove "that members of the public will actually conclude that defendants' product was officially sponsored by the [plaintiff]"); *University of Ga. Athletic Ass'n*, 756 F.2d at 1546 (enjoining defendant from selling "Battlin' Bulldog Beer" with cans emblazoned with the University of Georgia's canine mascot, even though confusion as to source or sponsorship was not shown); *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 333 (2d Cir. 1983) (enjoining defendant under section 43(a) from entering market for toys that replicate appearance of car from popular television series: "Nor is there any doubt that consumers wanted the toy in part because they (or their children) identified the toy with the television series. This is sufficient even though . . . there was no showing that consumers believed that the toy cars marketed by Gay Toys were sponsored or authorized by Warner."); *Processed Plastic Co. v. Warner Communications, Inc.*, 675 F.2d 852 (7th Cir. 1982) (same); see also *In re Paramount Pictures Corp.*, 213 U.S.P.Q. (BNA) 1111, 1112 (T.T.A.B. 1982) (allowing registration on principal register of ornamental use of MORK AND MINDY on t-shirts because it "can serve as an indication of a secondary source of origin").

¹¹⁷ See *Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012-13 (5th Cir. 1975).

¹¹⁸ See, e.g., *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200 (2d Cir. 1979); *Coca-Cola Co. v. Alma-Leo U.S.A., Inc.*, 719 F. Supp. 725, 728 (N.D. Ill. 1989); *Eastman Kodak Co. v. Rakow*, 739 F. Supp. 116 (W.D.N.Y. 1989); *General Elec. Co. v. Alumpa Coal Co.*, 205 U.S.P.Q. (BNA) 1036 (D. Mass. 1979); *Gucci Shops, Inc. v. R.H. Macy & Co., Inc.*, 446 F. Supp. 838 (S.D.N.Y. 1977); *Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F. Supp. 1183 (E.D.N.Y. 1972).

use,¹¹⁹ courts have again presumed a likelihood of confusion in order to protect the mark's value.

The leading case is again from the Fifth Circuit. In *Chemical Corp. v. Anheuser-Busch, Inc.*,¹²⁰ Anheuser-Busch sued Chemical Corp. to enjoin the use of the slogan "Where there's life . . . there's bugs" to advertise a floor wax that contained an insecticide.¹²¹ Anheuser-Busch alleged that this slogan infringed its rights in its "Where there's life . . . there's Bud" slogan used to advertise Budweiser beer.¹²² The district court enjoined the defendant's use, finding that "the association of bugs with Bud or Budweiser is sufficient to merit the apprehension that the ill repute of one type of goods is likely to be visited upon the other."¹²³ A panel of the Fifth Circuit agreed.¹²⁴

In much of its opinion, the panel tried to treat the case as if it called for simply a slight extension of the traditional infringement analysis, similar to that required in the *Aunt Jemima* case. Yet, the panel's analysis in this regard is transparently deficient. For example, the panel referred on several occasions to a supposed finding of the district court that the defendant's use would create confusion as to the source of defendant's waxes.¹²⁵ Yet, the district court did not make such a finding.¹²⁶ In fact, the district court expressly disclaimed the necessity of such a finding, and relied instead on the doctrine of dilution, even though the relevant state, Florida, had not adopted a dilution or anti-dilution

¹¹⁹ Of course, there will always be a few who make such a mistake. See *Gemini Rising, Inc.*, 346 F. Supp. at 1189-90 & n.9. However, such isolated confusion has not traditionally been sufficient to support a finding of trademark infringement. See, e.g., *Universal Money Ctrs., Inc. v. AT&T*, 22 F.3d 1527, 1535 (10th Cir. 1994) (ruling that isolated instances of actual confusion not sufficient to create genuine issue with respect to likelihood of confusion issue).

¹²⁰ 306 F.2d 433 (5th Cir. 1962), cert. denied, 372 U.S. 965 (1963).

¹²¹ *Id.* at 435.

¹²² *Id.* at 434.

¹²³ *Id.* at 435.

¹²⁴ See *id.* at 438.

¹²⁵ See *id.* at 435, 437.

¹²⁶ The panel opinion quoted the relevant portions of the district court's opinion in its decision. See *id.* at 434-35. Yet, in the quoted portions, the district court found only that similarities in the parties' advertisements might lead some "to confuse the[ir] advertising," and that based upon all the facts presented, "the association of bugs with Bud or Budweiser is sufficient to merit the apprehension that the ill repute of one type of goods is likely to be visited upon the other." *Id.* Because the advertising is not the product at issue, see *id.* at 435 (identifying relevant goods as beer and wax), confusion as to the source of the advertising does not establish confusion as to the source of the defendant's waxes. Similarly, "the association of bugs with Bud" and the resulting tarnishment is not a confusion as to the source of wax or beer at all.

statute.¹²⁷ Further, the panel cited two opinions of the Florida Supreme Court as support for its decision.¹²⁸ Yet, neither supports the panel's decision. In one, the Florida Supreme Court did not address whether use of a similar mark on a noncompeting good could establish trademark infringement.¹²⁹ In the other, the court addressed the issue, but reached a resolution contrary to that of the *Chemical Corp.* panel.¹³⁰ Finally, the panel cited several decisions for the proposition that "'parties need not be in direct competition for the doctrine [of unfair competition] to be effective.'"¹³¹ While this proposition is true, the panel left out an important limitation found in the cited decisions: While the parties need not be in direct competition, their goods must be sufficiently related that confusion as to source becomes likely.¹³² Although generalizations

¹²⁷ See Findings of Fact and Conclusions of Law, filed Mar. 24, 1961 (M.D. Fla. 1961), reprinted in Record of Appeal, *Chemical Corp. v. Anheuser-Busch, Inc.*, No. 19007, at 797 (on file with author and available from the National Archives, A-32-33-7, Box 1559).

Where similar trademarks have been used on dissimilar goods, courts have applied the doctrine of dilution, the underlying rationale of which is the gradual diminution or whittling away of the value of the mark as the result of the extensive use of [a] deceptively similar mark, constitutes an invasion of a property right and gives rise to an actionable wrong not dependent on a showing of competitive relationship or the likelihood of confusion to purchasers thereof. This is, of course, an equitable doctrine which cannot be obviated by defendant's observation of the fact that the State of Florida has not enacted a statute specifically embracing it.

Id.

¹²⁸ *Chemical Corp.*, 306 F.2d at 437-38 (citing *Sentco, Inc. v. McCulloh*, 68 So. 2d 577 (Fla. 1953) and *Sun Coast, Inc. v. Shupe*, 52 So. 2d 805 (Fla. 1951)). Because Anheuser-Busch had not yet registered its "Where there's life . . . there's Bud" mark, the case arose initially under Florida law. *Chemical Corp.*, 306 F.2d at 436. By the time the case was tried, Anheuser-Busch had obtained registration of its mark, and the panel indicated that Anheuser-Busch was entitled to similar relief under the Lanham Act as well. See *id.* at 439.

¹²⁹ See *Sentco, Inc.*, 68 So. 2d at 578 (finding confusion where competitor imitated trade dress of plaintiff).

¹³⁰ *Sun Coast, Inc.*, 52 So. 2d at 805. In resolving likelihood of confusion where defendant used mark on realty business and plaintiff used mark in connection with an apartment hotel, the court concluded: "We cannot see how the public could be deceived by appellees' use of the title 'Suncoast' when there is no similarity in the businesses of the parties." *Id.* Other cases cited by the panel also weigh against the panel's conclusion. See *Webb's City, Inc. v. Bell Bakeries, Inc.*, 226 F.2d 700, 703 (5th Cir. 1955) (ruling that there could be neither trademark infringement nor unfair competition in the absence of proof that defendant's use of trademark was likely to lead to confusion as to the source of the defendant's goods); *Creamette Co. v. Conflin*, 191 F.2d 108, 112 (5th Cir. 1951) (finding no infringement of plaintiff's "creamette" mark for macaroni by defendant's use of same mark for ice cream, given distance between products).

¹³¹ *Chemical Corp.*, 306 F.2d at 437 (citing *Pure Foods, Inc. v. Minute Maid Corp.*, 214 F.2d 792 (5th Cir.), cert. denied, 348 U.S. 888 (1954); *Tampa Cigar Co. v. John Walker & Sons, Ltd.*, 222 F.2d 460 (5th Cir. 1955); and *Bulova Watch Co. v. Stoltzberg*, 69 F. Supp. 543 (D. Mass. 1947)).

¹³² See *Tampa Cigar Co.*, 222 F.2d at 461 (affirming as not clearly erroneous finding that defendant's use of "Johnny Walker" mark for its cigars would create likelihood of confusion as to the source of those cigars where plaintiff had used trademark exclusively on whiskey); *Pure Foods, Inc.*, 214 F.2d at 797 (affirming as not clearly erroneous finding that defendant's use of "Minute Made" for its frozen meats would

are difficult on this issue, the goods at issue in *Chemical Corp.*, beer and floor wax, fell on the unrelated side of the line—at least as that line had been drawn by the cases the panel cited.¹³³

In any event, the pun-ish nature of the defendant's use in *Chemical Corp.* completely undermines the panel's pretense of a straightforward application of the reasoning in the *Aunt Jemima* case. The *Aunt Jemima* case and its progeny dealt with an attempt to transfer positive buying experiences associated with the plaintiff's goods to the defendant's by creating a like-to-like link between the two. These cases focused on sympathetic uses where the defendant attempted to increase the desirability of its goods by suggesting that they were just like the plaintiff's.¹³⁴ Of course, some sympathetic uses are perfectly legal—comparative advertising, for example. A sympathetic use constitutes trademark infringement only if a defendant has gone beyond using the plaintiff's trademark as a means of facilitating ready identification and comparison of two distinct products, and has used the mark to carry the false suggestion that the plaintiff is standing behind the defendant's products.¹³⁵ Whatever the proper boundaries for liability in such cases, it is simply unclear why they would apply in a case such as the *Chemical Corp.* case. *Chemical Corp.*'s use of the slogan "Where there is life . . . there's bugs" for its floor wax was not an attempt to suggest that the floor wax was desirable because it was just like Budweiser beer. It was not a sympathetic use at all. Rather, the similarity between the plaintiff's and defendant's slogans served merely as a mnemonic device. By creating a humorous twist on a well-known slogan, the

create likelihood of confusion as to the source of those meats where plaintiff had used trademark exclusively on frozen orange juice); *Bulova Watch Co.*, 69 F. Supp. at 546-47 (finding shoes and watches sufficiently related so that defendant's use of mark on shoes would create likelihood of confusion as to the source of those shoes where plaintiff had used trademark exclusively on watches).

¹³³ Thus, in *Pure Foods, Inc.*, the Fifth Circuit emphasized that both were frozen foods, an area where expansion had, in fact, occurred. *Pure Foods, Inc.*, 214 F.2d at 797. The *Tampa Cigar Co.* and *Bulova Watch Co.* decisions are less forthcoming with respect to the reasons why a consumer might believe that a producer would expand from whiskey to cigars, or watches to shoes. Yet, neither represents as great a stretch as beer to floor wax. Indeed, beer and floor wax are as unrelated as goods such as operating an apartment hotel and realty business, or macaroni and ice cream, which courts had found insufficiently related to create a likelihood of confusion. See *Creamette Co.*, 191 F.2d at 111; *Sun Coast, Inc.*, 52 So. 2d at 805.

¹³⁴ To accomplish such a transfer, the defendant must do more than use the plaintiff's mark in order to compare or contrast her goods with those of the plaintiff. She must affirmatively suggest that the plaintiff is the one responsible for the qualities and quality of the defendant's goods. Otherwise, consumers will recognize the comparison for what it is and weigh it accordingly.

¹³⁵ See, e.g., *August Storck K.G. v. Nabisco, Inc.*, 59 F.3d 616, 618 (7th Cir. 1995) (noting that it is legal to use another's mark for the sake of comparison, but not to create a likelihood of confusion as to source, sponsorship, or endorsement).

defendant made its slogan more memorable than it would otherwise be, and thereby increased the efficiency of its advertising.

Such a mnemonic use differs from a sympathetic use in two critical ways. First, a mnemonic use will remain effective only so long as the distinction between the two parties and their products remains clear. If too many consumers misunderstand the import of the defendant's commercial, and see it as simply another ad for the plaintiff and its products, that would defeat the purpose of the advertisement. These consumers would not be led to purchase the defendant's product, thinking it was just like the plaintiff's; they would not even realize that the defendant's product was being advertised. In contrast, such actual confusion enhances the effects of a sympathetic use. For a sympathetic use, the closer the use comes to suggesting that the defendant's products are not merely like the plaintiff's, but are, in fact, the plaintiff's, the more effective the transfer of desirable associations from the plaintiff to the defendant's products. For this reason, relevant confusion is inherently less likely when the similarity in the trademarks serves only as a memory aid. Second, such a mnemonic use lacks entirely the illegitimate aspect of the sympathetic use. It gains its effectiveness from improving consumers' ability to recall the advertising, not from suggesting, as an illegitimate sympathetic use does, that the defendant's products have desirable, but indiscernible, qualities because the plaintiff is standing behind the defendant's products.

Consider the advertisements at issue in *Chemical Corp.* If the pun is too subtle, consumers may mistakenly believe that the advertisements are simply more ads for Budweiser beer, rather than a clever ad for floor wax. While such a mistaken perception of the ads may represent confusion over the source of the ads, as the district court found,¹³⁶ such confusion does not reflect a mistaken link between the plaintiff and the defendant's floor wax. Indeed, because these confused consumers do not perceive the ad as one for floor wax at all, but as a beer advertisement, they have no opportunity to draw the necessary link between the plaintiff and the defendant's wax. On the other hand, for those consumers who recognize the pun, few are likely to believe that the play on Anheuser-Busch's slogan is meant to suggest that Anheuser-Busch is the one responsible for the quality or qualities of the floor wax.

Thus, the *Chemical Corp.* panel's deception-based arguments provide only a veneer of legitimacy for the panel's conclusion. Despite its protests, the

¹³⁶ *Chemical Corp.*, 306 F.2d at 434.

panel's decision boils down to the conclusion that "the plaintiff has a property interest in the slogan, built up at great expense."¹³⁷ Because the defendant's actions may reduce the value of that interest or appropriate some part of it, its actions must be enjoined.¹³⁸ Other courts, though not all,¹³⁹ have agreed with this reasoning, and have extended such property-based protection given the mere possibility that a mnemonic or pun-ish use may reduce the value of a plaintiff's trademark.¹⁴⁰

3. Irrelevant Confusion: *The Prestige Good Cases*

Prestige goods, where courts have relied on post-sale or on-looker confusion as a basis for protection, represent the third example of extending property-based trademark protection under the likelihood of confusion standard. Here, less expensive imitations duplicate the looks or styling of a more expensive, prestige good. To combat such imitation, the manufacturer or distributor of the prestige good claims that the looks and styling of its product constitute a trademark, and argues that imitation constitutes trademark infringement. Price

¹³⁷ *Id.* at 437.

¹³⁸ *See id.* at 438. The Fifth Circuit wrote:

We are aware of the fact that the Court should not be swayed by its instinctive reaction upon reading the record that this is a brazen and cheap effort by the defendant below to capitalize on the good will created by the tremendous expenditure in advertising by the plaintiff. This, of course, is not enough to warrant the grant of relief, but any conduct that is of such a nature as to fairly reek with unfairness and a callous indifference to the damage that might occur to others from the action taken by it will naturally be examined most carefully by a trial court and by an appellate court whose duty it is to determine whether such conduct falls afoul of any established legal principles. Finding, as we do, the liberal trend in the equity courts of the state of Florida, towards the protection of trade names and slogans from unfair attacks by others, we are not reluctant to conclude that what is here morally reprehensible is also legally impermissible.

Id.
¹³⁹ Some courts have refused to find such uses actionable. *See Nike, Inc. v. "Just Did It" Enters.*, 6 F.3d 1225, 1331-32 (7th Cir. 1993); *Anheuser-Busch, Inc. v. L&L Wings, Inc.*, 962 F.2d 316, 318 (4th Cir. 1992); *Cliffs Notes, Inc. v. Bantam Doubleday Dell Publishers Group, Inc.*, 886 F.2d 490, 496-97 (2d Cir. 1989); *Jordache Enters., Inc. v. Hogg Wyld, Ltd.*, 828 F.2d 1482, 1486 (10th Cir. 1987); *L.L. Bean, Inc. v. Drake Publishers, Inc.*, 311 F.2d 26, 33-34 (1st Cir. 1987).

¹⁴⁰ *See Anheuser-Busch, Inc. v. Balducci Publishers*, 28 F.3d 769 (8th Cir. 1994); *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200 (2d Cir. 1979); *Coca-Cola Co. v. Alma-Leo U.S.A., Inc.*, 719 F. Supp. 725, 728 (N.D. Ill. 1989); *Eastman Kodak Co. v. Rakow*, 739 F. Supp. 116 (W.D.N.Y. 1989); *General Elec. Co. v. Alumpa Coal Co.*, 205 U.S.P.Q. (BNA) 1036 (D. Mass. 1979); *Gucci Shops, Inc. v. R.H. Macy & Co., Inc.*, 446 F. Supp. 838 (S.D.N.Y. 1977); *Coca-Cola Co. v. Gemini Rising, Inc.*, 346 F. Supp. 1183 (E.D.N.Y. 1972); *see also Conde Nast Pubs., Inc. v. Vogue Sch. of Fashion Modeling, Inc.*, 105 F. Supp. 325, 331 (S.D.N.Y. 1952) ("But whether [defendant's use of mark] has led to some confusion or not, it is plain that the use by the defendants does in fact lessen the distinctiveness of the mark 'Vogue.' Allowed to continue, the value of the mark will be impaired . . .").

and other differences between the prestige good and the imitation almost invariably ensure that actual purchasers are not confused by the imitation's similar appearance. Nevertheless, courts have posited the possibility that an on-looker might mistake an imitation for the original, and then relied on the possibility of such on-looker confusion as a sufficient basis for finding trademark infringement.¹⁴¹

In the leading case, *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches, Ltd.*,¹⁴² Mastercrafters sought a judgment declaring that its imitation of Vacheron's Atmos clock did not constitute unfair competition. On the likelihood of confusion issue, Mastercrafters contended that there were substantial differences in the pricing, features, packaging, and labeling of the two clocks that would preclude purchasers from mistaking the imitation for the original.¹⁴³ The district court agreed, finding it "inconceivable" that purchasers would confuse the two clocks in view of their differences.¹⁴⁴

On appeal, the Second Circuit agreed that a customer looking to purchase one of the two clocks would not mistake one for the other.¹⁴⁵ On the other hand, the Second Circuit continued, a visitor to such a customer's home might not examine a displayed clock closely, and might, therefore mistake one for the other.¹⁴⁶ Given the prestige associated with the Atmos clock, such visitor would likely assume that the clock was an Atmos clock, even when it was not, or so the Second Circuit was willing to assume.¹⁴⁷ In consequence, by

¹⁴¹ See *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 871, 872-73 (2d Cir. 1986); *Montres Rolex, S.A. v. Snyder*, 718 F.2d 524, 528 (2d Cir. 1983), *cert. denied*, 465 U.S. 1100 (1984); *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1982); *A.T. Cross Co. v. Jonathan Bradley Pens, Inc.*, 470 F.2d 689, 692 (2d Cir. 1972); *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir.), *cert. denied*, 350 U.S. 832 (1955); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 493-94 (S.D. Fla. 1986); *Rolls-Royce Motors Ltd. v. A&A Fiberglass, Inc.*, 428 F. Supp. 689, 694 (N.D. Ga. 1977); see also *United States v. Hon*, 904 F.2d 803, 804 (2d Cir. 1990) (expanding criminal liability for trademark infringement to encompass such on-looker confusion), *cert. denied*, 498 U.S. 1069 (1991); *United States v. Yamin*, 868 F.2d 130 (5th Cir.) (same), *cert. denied*, 492 U.S. 924 (1989); *United States v. Torkington*, 812 F.2d 1347, 1352-53 (11th Cir. 1987) (same); *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir. 1987) (accepting reasoning and conclusion of *Torkington* and finding likelihood of confusion even where seller expressly informed buyer that the item was an imitation); Malla Pollack, *Your Image Is My Image: When Advertising Dedicates Trademarks to the Public Domain—With an Example from the Trademark Counterfeiting Act of 1984*, 14 CARDOZO L. REV. 1391, 1451-74 (1993) (discussing approach).

¹⁴² 221 F.2d 464 (2d Cir.), *cert. denied*, 350 U.S. 832 (1955).

¹⁴³ *Mastercrafters Clock & Radio Co.*, 119 F. Supp. at 213-16.

¹⁴⁴ *Id.*

¹⁴⁵ See *Mastercrafters Clock & Radio Co.*, 221 F.2d at 466.

¹⁴⁶ See *id.*

¹⁴⁷ See *id.*

duplicating the shape and appearance of the Atmos clock, Mastercrafters enabled consumers to obtain the appeal of an Atmos clock at a lower price by purchasing Mastercrafters' imitation.¹⁴⁸ This, the Second Circuit stated, represented a form of "poaching on the reputation of the Atmos clock" that would support an unfair competition action.¹⁴⁹ Later cases have recognized such on-looker confusion as sufficient to support an action for trademark infringement, relying principally on language from *Boston Professional Hockey Ass'n* to justify their results.¹⁵⁰

Yet, the reasoning behind this leap from on-looker confusion to actionable harm remains unclear. Given that duplicating the appearance is necessary in order to duplicate the appeal of the original for consumers,¹⁵¹ on-looker confusion seems merely an inevitable side-effect of ensuring competitors the freedom to introduce a product that consumers will accept as a reasonable substitute for the original.¹⁵² In attempting to counter this point, some courts have simply assumed that on-looker confusion, being a form of confusion, necessarily represents actionable harm;¹⁵³ others have substituted name-calling

¹⁴⁸ See *id.*

But, as the judge found, plaintiff copied the design of the Atmos clock because plaintiff intended to, and did, attract purchasers who wanted a "luxury design" clock. This goes to show at least that some customers would buy plaintiff's cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers' homes would regard as a prestigious article.

Id.

¹⁴⁹ *Id.*

¹⁵⁰ See *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244-45 (6th Cir. 1991); *Vuitton et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769, 775 (9th Cir. 1981); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492-95, 492-93 n.2 (S.D. Fla. 1986); *Rolls-Royce Motors Ltd. v. A&A Fiberglass, Inc.*, 428 F. Supp. 689, 692, 694-95 (N.D. Ga. 1976). Other courts have criticized *Boston Prof'l Hockey Ass'n* for over-extending the purpose and reach of trademark law. See, e.g., *International Order of Job's Daughters v. Lindenburg & Co.*, 633 F.2d 912, 918 (9th Cir. 1980) ("We reject the reasoning of *Boston Hockey* . . . [O]ur reading of the Lanham Act and its legislative history reveals no congressional design to bestow such broad property rights on trademark owners."), *cert. denied*, 452 U.S. 941 (1981). The Fifth Circuit has also retreated from its reasoning in that case. See *Kentucky Fried Chicken v. Diversified Packaging Corp.*, 549 F.2d 368, 388-89 (5th Cir. 1977) ("Our cases demonstrate unbroken insistence upon likelihood of confusion, and by doing so they reject any notion that a trademark is an owner's 'property' to be protected irrespective of its role in the operation of our markets.").

¹⁵¹ See *Mastercrafters Clock & Radio Co.*, 221 F.2d at 466.

¹⁵² See *id.* (noting that duplication of prestige article's appearance would allow consumers to obtain an effective substitute at a lower price); *Ferrari S.P.A. Esercizio*, 944 F.2d at 1242 (noting that purpose of imitation was to allow consumers to obtain an effective substitute at a lower price).

¹⁵³ Judge Spellman has offered the following as justification for such protection:

This Court can envision a scenario where an individual sporting a gold counterfeit Rolex watch walks through the metal detector at an airport only to discover that he has triggered the alarm.

("poaching") for reasoning at this key juncture, as the *Mastercrafters* court did. A few have tried to explain the reasons for recognizing on-looker confusion as actionable, and have suggested two possible justifications for this extension of trademark law. First, they have suggested that where an article has a distinctive and readily recognizable shape or appearance, on-lookers examining an imitation might believe it was the original, and "find[ing] themselves unimpressed with the quality of the item[,] . . . be inhibited from purchasing the [original]."¹⁵⁴ This type of confusion comes very near the focus of deception-based trademark because it concerns incorrect information that may influence consumer-buying decisions. But courts have typically offered only the barest possibility of such confusion,¹⁵⁵ and it is difficult to believe that such confusion would actually prove very widespread, particularly as consumers became aware of the need to separate more precisely imitators from the original. The proffering of this rationale seems, therefore, little more than a rote recital, intended to raise the specter of possible confusion and to create some tenuous link to trademark's deception-based foundations.

As a second reason for such protection, courts have worried that imitations may become so commonplace that the original will lose the cache or prestige associated with being uncommon, rare, or unique.¹⁵⁶ Potential buyers will turn

When he attempts to remove the watch, the guards keep insisting that a gold Rolex watch cannot be the problem. If the "sport" isn't confused, certainly the guards should be.

Rolex Watch U.S.A., Inc., 645 F. Supp. at 493 n.3.

¹⁵⁴ *Id.* at 495; see also *Ferrari S.P.A. Esercizio*, 944 F.2d at 1245 ("If the replica Daytona looks cheap or in disrepair, Ferrari's reputation for rarity and quality could be damaged.").

¹⁵⁵ See *Rolex Watch U.S.A., Inc.*, 645 F. Supp. at 495. As the court explained:

At this juncture, the Court can only speculate as to the forms such cheapening or dilution might take and the injuries that might ensue. Individuals examining the counterfeits, believing them to be genuine Rolex watches, *might* find themselves unimpressed with the quality of the item and consequently be inhibited from purchasing the real time piece. Others who see the watches bearing the Rolex trademarks on so many wrists *might* find themselves discouraged from acquiring a genuine because the items have become too common place and no longer possess the prestige once associated with them.

Id. (emphasis added); see also *Ferrari S.P.A. Esercizio*, 944 F.2d at 1244-45 ("Because Ferrari's reputation *could be damaged . . .*") (emphasis added).

¹⁵⁶ See *Ferrari S.P.A. Esercizio*, 944 F.2d at 1245; *Rolex Watch U.S.A., Inc.*, 645 F. Supp. at 495; see also *United States v. Hon*, 904 F.2d 803, 806 (2d Cir. 1990); *United States v. Yamin*, 868 F.2d 130, 132-33 (5th Cir.) (Congress's decision to criminalize the use of counterfeit marks is "not just designed for the protection of consumers. [It is] likewise fashioned for the protection of trademarks themselves and for the prevention of the cheapening and dilution of the genuine product.") (quoting *United States v. Gantos*, 817 F.2d 41, 43 (8th Cir.), *cert. denied*, 484 U.S. 860 (1987), and *United States v. Gonzalez*, 630 F. Supp. 894, 896 (S.D. Fla. 1986)), *cert. denied*, 492 U.S. 924 (1989)).

away from the now seemingly common original, and look elsewhere for ways to display their wealth ostentatiously.¹⁵⁷ Yet, this rationale, while it may couch itself in terms of confusion and reputation, seems to rest on the sense that the ordinary rule of competition should not apply to prestige goods.¹⁵⁸ Trademark law must prohibit imitations of prestige goods, the courts seem to say, because otherwise a producer will not be able to maintain the artificial scarcity necessary to preserve the status of a prestige good. As we shall see, the economics of prestige goods do not justify such differing treatment,¹⁵⁹ but, in any event, relying on trademark law to isolate and preserve such exclusive islands of prestige from competition represents a radical shift from trademark's deception-based foundations.

4. *No Confusion? An Aside Briefly Concerning Dilution*

The theory of dilution, recognized by Congress in the Federal Dilution Act of 1995, might be seen as a capstone on this expansion of the trademark infringement standard. Certainly, when first proposed, Frank Schechter intended dilution to reach one situation, the use of a famous mark on a dissimilar product, that was not at that time reached by the ordinary trademark infringement standard.¹⁶⁰ As discussed above, however, trademark's infringement standard has steadily expanded since Schechter's article, and now largely addresses the case with which Schechter was concerned or that might otherwise fall within the dilution rubric. When states nevertheless proceeded to adopt dilution statutes beginning in the 1940s, courts responded, with very few exceptions, by treating the protection available under dilution as coterminous

¹⁵⁷ See *Rolex Watch U.S.A., Inc.*, 645 F. Supp. at 495 ("Others who see the watches bearing Rolex trademarks on so many wrists might find themselves discouraged from acquiring a genuine because the items have become too common place and no longer possess the prestige once associated with them."); see also *Ferrari S.P.A. Esercizio*, 944 F.2d at 1245.

¹⁵⁸ Thus, where competition resulting in lower priced goods is generally thought desirable, courts often complain about the lower prices that imitations of prestige goods generate. See *Rolex Watch U.S.A., Inc.*, 645 F. Supp. at 495 ("The fact that such [imitation] watches can be obtained at cheap prices only aggravates the problem."); *Gonzalez*, 630 F. Supp. at 896 (finding no likelihood of confusion because substantial price differences readily identify the imitations "is tantamount to sanctioning the very introduction into commerce of [imitations] that are sold at low prices"). Cf. *Montre Rolex, S.A. v. Snyder*, 718 F.2d 524, 528 (2d Cir. 1983) (noting that "the owners of trademarks on prestige items are particularly likely to be plagued by recurring counterfeit problems"); S. REP. NO. 98-526, at 4-5 (1984), reprinted in 1984 U.S.C.C.A.N. 3627, 3630-31 (suggesting that imitations of trademarks of prestige goods must be prohibited because "counterfeiters [can earn] enormous profits . . . by capitalizing on the reputations, development costs, and advertising efforts of honest manufacturers at little expense to themselves").

¹⁵⁹ See *infra* text accompanying notes 303-11.

¹⁶⁰ See Schechter, *supra* note 9.

with that available under the (expanded) likelihood of confusion standard.¹⁶¹ In practice, the dilution analysis focused on essentially the same factors¹⁶² and reached the same result as the likelihood of confusion standard.¹⁶³ Even cases often identified as leading dilution decisions, such as *Dallas Cowboy Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*,¹⁶⁴ typically focused on, and found infringement under, the likelihood of confusion standard.¹⁶⁵ Having found a likelihood of confusion, some of these decisions went on to discuss dilution. But at that point, the dilution theory was no longer necessary to the court's

¹⁶¹ See, e.g., *Holiday Inns, Inc. v. Holiday Out in America*, 481 F.2d 445, 450 (5th Cir. 1973) (rejecting plaintiff's dilution claim on the grounds that absent a likelihood of confusion there can be no dilution); *George A. Dickel Co. v. General Mills, Inc.*, 317 F.2d 954, 956 (C.C.P.A. 1963). The court held:

On the other hand, if likelihood of confusion does not exist, use by appellee of CASCADE for its prepared baking mix, which use might dilute the selling power or whittle away the mark's uniqueness, cannot be considered by us as a basis for rendering judgment in favor of appellant because without purchaser confusion there can be no "dilution."

Id.; see also David S. Welkowitz, *Reexamining Trademark Dilution*, 44 VAND. L. REV. 531, 546-47 (1991). On the other side, three appellate decisions have affirmed a preliminary injunction based upon a dilution claim. See *Viacom, Inc. v. Ingram Enters., Inc.*, 141 F.3d 886, 892 (8th Cir. 1998) (enjoining use preliminarily on the basis of a likelihood of success on dilution claim, but finding no likelihood of success on Lanham Act section 43(a) claim); *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39, 42 (2d Cir. 1994); *Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Celozzi-Ettelson Chevrolet, Inc.*, 855 F.2d 480, 484 (7th Cir. 1988). A fourth decision suggested that while the alleged infringement did not create a likelihood of confusion, it may have been actionable under a dilution theory, but the court did not resolve the dilution issues because the relevant state law did not recognize a dilution cause of action. See *Anheuser-Busch, Inc. v. Florists Ass'n*, 603 F. Supp. 35, 38-39 (N.D. Ohio 1984) (finding no likelihood of confusion by defendant's use of plaintiff's slogan "THIS BUD'S FOR YOU" for floral advertisements and refusing to reach question of dilution because Ohio did not have a dilution statute).

¹⁶² Compare *Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 875 F.2d 1026, 1035 (2d Cir. 1989) (Sweet, D.J., concurring) (suggesting that after a plaintiff proves the strength of her mark, six factors are relevant to likelihood of dilution: similarity of the marks, similarity of the products, sophistication of consumers, predatory intent, renown of the senior user, and renown of the junior user), with *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (identifying eight factors to resolve likelihood of confusion: strength of the plaintiff's mark, similarity of the marks, proximity of products, bridging the gap, actual confusion, defendant's bad faith, quality of the defendant's products, and sophistication of the buyers).

¹⁶³ See *supra* note 161. In the legislative history accompanying the Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985, the Committee cited one decision—*Mortellito v. Nina of California, Inc.*, 335 F. Supp. 1288 (S.D.N.Y. 1972)—for the difference between likelihood of confusion and likelihood of dilution. See H.R. REP. NO. 374, at 3 (1995), reprinted in 1995 U.S.C.A.N. 1029, 1030. Ironically, in the *Mortellito* decision itself, the dilution theory was unnecessary to the court's decision as the court had already found a likelihood of confusion and therefore trademark infringement under section 43(a) of the Trademark Act. *Mortellito*, 335 F. Supp. at 1294-95.

¹⁶⁴ 604 F.2d 200 (2d Cir. 1979).

¹⁶⁵ See, e.g., *Dallas Cowboys Cheerleaders, Inc.*, 604 F.2d at 202-06 (explaining why defendant's use created a likelihood of confusion).

decision and was often tacked onto the court's opinion as little more than an afterthought.¹⁶⁶

Because of the expansion in the likelihood of confusion standard, dilution statutes have proven more redundant than capstone. Nevertheless, dilution deserves mention, even if its adoption has only encouraged courts to continue their expansions of the likelihood of confusion standard.

C. *Expanding the Right to Convey*

As courts expanded trademark law's right to exclude to encompass a mark's full "value," they also crafted a corresponding expansion in the right to convey associated with trademark ownership. As with the right to exclude, courts carefully circumscribed a trademark owner's right to convey in the first half of the twentieth century to reflect its deception-based origins. A trademark owner could assign "her" mark to another only when transferred together with the associated business in which the mark was used.¹⁶⁷ From a deception-based perspective, this limitation makes perfect sense. With deception-based protection, a mark receives protection because it has become distinctive and consumers have come to rely on the mark as a source of information concerning the source or other unobservable features of the product or service associated with the mark. When a trademark is assigned with the underlying business and the underlying business continues with simply a new owner, the information conveyed by the trademark remains essentially true.¹⁶⁸ But when a mark is assigned without the underlying business, there is less reason to believe that the information the mark conveyed will remain accurate. In such a case, a consumer may or may not be satisfied with the new goods associated with the mark, but if she buys or considers buying them believing they are the old goods, she has been deceived. Allowing a trademark owner to assign a mark without the associated, underlying business risks the very confusion trademark law aims to remedy.¹⁶⁹

¹⁶⁶ In *Dallas Cowboys Cheerleaders, Inc.*, for example, the court's discussion of likelihood of dilution is relegated to a single footnote. 604 F.2d at 205 n.8 ("Even if plaintiff had not established a likelihood of confusion, it would be entitled to relief under New York General Business Law § 368-d, which permits the enjoining of trademark copying despite the absence of confusion as to source or sponsorship.")

¹⁶⁷ See, e.g., *Kidd v. Johnson*, 100 U.S. 617, 620 (1880); *Filkins v. Blackman*, 9 F. Cas. 50, 51-52 (C.C.D. Conn. 1876) (No. 4,786).

¹⁶⁸ See *Levitt Corp. v. Levitt*, 593 F.2d 463 (2d Cir. 1979).

¹⁶⁹ See *ABC v. Wahl Co.*, 121 F.2d 412, 413 (2d Cir. 1941); *Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc.*, 43 F.2d 937 (2d Cir. 1930) (finding assignment invalid where assignee did not receive recipe for product previously associated with mark because the assignee could not supply the genuine 4711 eau de co-

Early on, courts recognized this and prohibited assignments of a mark apart from the underlying business under the assignment-in-gross doctrine.¹⁷⁰

During the process leading to the enactment of the Trademark Act of 1946, proponents of broader trademark protection sought to change this rule and worked for express recognition of the principle that a trademark owner may freely transfer her mark.¹⁷¹ Although Congress specifically considered language in several early bills that would have authorized assignments "with or without the good will of the business"¹⁷² or "upon such terms and conditions as the parties may agree,"¹⁷³ it eventually rejected this language. In its place, Congress adopted assignment language virtually identical to that found in the 1905 Act and permitted assignment of a mark only "with the goodwill of the business in which the mark is used."¹⁷⁴ Under the rules of statutory interpretation, Congress's conscious consideration of this issue and its express change of the assignment provision to track the assignment provision of the 1905 Act provides the clearest possible indication that Congress intended to retain the traditional prohibition on assignments in gross. Yet, some courts have refused to accept Congress's plain statement on this issue.

logne); *Bulte v. Igleheart Bros.*, 137 F. 492, 499 (7th Cir. 1905) ("To uphold such a transfer [without the associated business] would be to ignore the fundamental office of a trade-mark, would be to disregard its purpose and object, would be to sanction a fraud upon the public purchasing the article.").

¹⁷⁰ See *United Drug Co. v. Rectanus Co.*, 248 U.S. 90, 97 (1918); *ABC*, 121 F.2d at 413 (stating that "a right to the use of a trademark or trade-name cannot be transferred in gross"); *Carroll v. Duluth Superior Milling Co.*, 232 F. 675, 680 (8th Cir. 1916); *Bulte*, 137 F. at 499; *MacMahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474-75 (8th Cir. 1901); *Independent Baking Powder Co. v. Boorman*, 175 F. 448, 451 (C.C.D.N.J. 1910) ("The law is well settled that a trade-mark cannot be transferred by itself."); *Eiseman v. Schiffer*, 157 F. 473, 476 (C.C.S.D.N.Y. 1907).

¹⁷¹ See ROBERT, *supra* note 39, at 23-24.

¹⁷² When the trademark bill was introduced in the 75th Congress, it provided that "a registered trademark shall be assignable either with or without the good will of the business." H.R. 9041, 75th Cong. § 10 (1938); see also ROBERT, *supra* note 39, at 23-24. This language was retained when the bill was reintroduced in the 76th Congress. H.R. 4744, 76th Cong. § 10 (1940); see also ROBERT, *supra* note 39, at 23-24.

¹⁷³ H.R. 102, 77th Cong. § 10 (1943); see also ROBERT, *supra* note 39, at 24.

¹⁷⁴ Trademark Act of 1946, § 10, 15 U.S.C. § 1060 (1994). The 1905 Act provided: "Every registered trade-mark . . . shall be assignable in connection with the good will of the business in which the mark is used." Act of Feb. 20, 1905, § 10, 33 Stat. 727. In the Lanham Act, Congress also allowed a business which had several product lines, each with its own trademark, to assign a particular trademark together with its associated product line independently. See Trademark Act of 1946, § 10, 15 U.S.C. § 1060 (1994) (allowing transfer "with that part of the goodwill of the business connected with the use of and symbolized by any other mark"). However, this did not represent an attempt to weaken the traditional assignment rule. See ROBERT, *supra* note 39, at 26-27. It was simply an adaptation of the traditional assignment rules to changing business conditions in which companies had expanded and diversified their product lines. See 1944 *Trademark Hearings*, *supra* note 8, at 22-23 (noting that change from 1905 Act "would permit a registrant who owns more than one mark to dispose of one mark if he wishes to do so") (statement of Ms. Robert).

The first break came in 1962, when the Court of Custom and Patent Appeals upheld an assignment in gross in *Hy-Cross Hatchery, Inc. v. Osborne*.¹⁷⁵ The facts of the case were simple: a trademark's owner assigned the mark to another for one hundred dollars.¹⁷⁶ There was language in the assignment stating that the assignment was made "together with that part of the good will of the business connected with the use of and symbolized by the mark."¹⁷⁷ But the "successor" admitted that he received nothing from the prior owner's business as part of the assignment, except the mark.¹⁷⁸ Indeed, the successor essentially stipulated that he received the name, a "goodwill" recital, and nothing more.¹⁷⁹ Under preexisting law, the transfer represented a clear cut, and invalid, assignment in gross. Yet, the Court of Custom and Patent Appeals upheld the assignment.¹⁸⁰

To the argument that such an assignment was in gross, and therefore invalid, the court responded by pointing out that before the assignment, the prior owner held the right to use the mark in connection with his business.¹⁸¹ After the assignment, the successor held that right.¹⁸² For the *Hy-Cross* court, this was enough. Because the assignment transferred the exclusive right to use the mark from one owner to another, the assignment was valid.¹⁸³ Whether there was a simultaneous transfer of the associated business—the critical inquiry under the traditional assignment-in-gross doctrine—simply had no legal relevance.¹⁸⁴

On its face, the opinion appears nonsensical, substituting a play on words at the key juncture¹⁸⁵ for the reasoning and analysis usually associated with judicial opinions. Taken literally, the opinion appears to collapse the distinction

¹⁷⁵ 303 F.2d 947, 950 (C.C.P.A. 1962).

¹⁷⁶ *See id.* at 948-49.

¹⁷⁷ *Id.* at 949.

¹⁷⁸ *Id.*

¹⁷⁹ *Id.*

¹⁸⁰ *See id.* at 950.

¹⁸¹ *See id.* ("Unlike the cases relied on, Osborne, so far as the record shows, was using the mark at the time he executed the assignment of it. . . . He was selling chicks which his advertising of record shows were designated as 'No. 111 HY-CROSS (Trade Mark) AMERICAN WHITES.'")

¹⁸² *See id.* ("As part of his assignment, by assigning the goodwill, [Osborne] gave up the right to sell 'HY-CROSS' chicks. . . . By the assignment Welp, the assignee, acquired that right.")

¹⁸³ *Id.*

¹⁸⁴ *See id.* ("Thus, what had once been Osborne's business in 'HY-CROSS' chicks became Welp's business. We do not see what legal difference it would have made if a crate of eggs had been included in the assignment, or a flock of chickens destined to be eaten.")

¹⁸⁵ *See id.* ("Thus, what had once been Osborne's business in 'HY-CROSS' chicks became Welp's business.")

between the trademark and its associated goodwill, and to eliminate the tie between goodwill and the underlying business in which the mark had been used.¹⁸⁶ By doing so, the *Hy-Cross* court essentially eliminated the assignment-in-gross rule. The opinion itself is curiously lacking in any explanation for these radical changes in the law, but apparently rests on a definition of "goodwill" that the proponents of a broader assignment right had advanced, and Congress had rejected, in the debates leading to the adoption of the Trademark Act of 1946. If, as the free assigners had argued, the "goodwill" associated with a mark is nothing more than the mark's ability to attract customers,¹⁸⁷ then the transfer of the exclusive right to use a mark from one owner to another necessarily transfers the goodwill associated with the mark. Before the assignment, the prior owner held the right to use the mark to attract customers; after the assignment, the successor holds that right. Under this definition of goodwill, any transfer of the exclusive right to use a mark necessarily transfers the associated goodwill, and the *Hy-Cross* court's statements that the prior owner had transferred to the successor both the mark and its associated goodwill become tautologically true.

But accepting such a definition of "goodwill" does far more than merely validate the assignment at issue in *Hy-Cross*. Every trademark assignment allows the assignee to use the mark, and thereby exploit its selling power. If a transfer of selling power is all that the Trademark Act of 1946 requires to validate an assignment, every assignment necessarily entails such a transfer. Every assignment would, therefore, be valid.¹⁸⁸ Moreover, if goodwill is nothing more than selling power, and a transfer of selling power is all that the Lanham Act requires, the reasons for a mark's selling power would presumably be irrelevant to the question of whether an assignment was valid. In consequence, an assignment would be valid without regard to the potential for consumer deceit it might create.¹⁸⁹ In short, by equating goodwill with selling

¹⁸⁶ See *id.*

¹⁸⁷ As Daphne Robert explained it: "[Good will] is that magnetic aura which surrounds a mark and attracts customers again and again." ROBERT, *supra* note 39, at 25. For the contrary interpretation of goodwill that Congress adopted, where goodwill is tied to the business, see the colloquy between Mr. Whitman and Representative Lanham during the 1939 Hearings. See *1939 Trade-Mark Hearings*, *supra* note 40, at 88-93.

¹⁸⁸ See ROBERT, *supra* note 39, at 25, 27-28 (suggesting such a rule with caveats concerning: (1) discontinuance of use by assignor; and (2) situations where two marks are inextricably intertwined, such that an assignment of one, but not the other, would necessarily result in misinformation).

¹⁸⁹ See *Hy-Cross Hatchery, Inc.*, 303 F.2d at 950. As the court explained:

As for the argument that the transfer should have been held illegal because Osborne sold one kind of chick and Welp sold another under the mark, whereby the public would be deceived, we

power, the *Hy-Cross* court appeared to repudiate the assignment-in-gross doctrine altogether.

Later court decisions have universally rejected this aspect of the *Hy-Cross* decision, and have chosen to retain some semblance of the prohibition on assignments in gross.¹⁹⁰ However, rather than retain the traditional assignment-in-gross doctrine and ask whether the assignment included a transfer of the underlying business, these courts have sought to provide a trademark owner greater freedom to assign her mark as she sees fit. They designed, therefore, a new rule for determining whether to apply the "in gross" label, that they believed more precisely balanced the risks of "public deceit"¹⁹¹ that certain trademark assignments can create against the "right" of the trademark owner to convey "her" mark as she sees fit. Under this new rule, courts ask whether sufficient continuity exists between the goods associated with the mark before, and the goods associated with the mark after, the mark's assignment. So long as this sufficient continuity exists courts will find the assignment valid.¹⁹²

Although the courts devised this "sufficient continuity" rule in order to protect the public from the deception that may result from the assignment of a trademark without the associated business, the rule fails at this purpose. Under the rule, "sufficient continuity" turns on whether the products associated with a mark before and after its assignment "have substantially the same characteristics."¹⁹³ In practice, a post-assignment product will satisfy the rule so long as it is of the same type as the pre-assignment product. An attempt to assign a mark used in connection with a wholesale cola syrup to one intending to use the mark on a retail pepper beverage may be invalid.¹⁹⁴ But an assignment from

think the record does not support this. The type of chick appears to have been otherwise indicated than by the trademark

Id.

¹⁹⁰ See *In re Roman Cleanser Co.*, 802 F.2d 207 (6th Cir. 1986); *Money Store v. Harris Corp. Fin., Inc.*, 689 F.2d 666 (7th Cir. 1982); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969).

¹⁹¹ *Pepsico, Inc.*, 416 F.2d at 289; see also *Visa, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1376 (Fed. Cir. 1982) (upholding assignment where assignee continued "sufficiently similar" services as those offered by assignor); *Money Store*, 689 F.2d at 678 (upholding assignment where assignee did not offer "a service different from that offered by the assignor"); *Main Street Outfitters, Inc. v. Federated Dep't Stores, Inc.*, 730 F. Supp. 289, 292 (D. Minn. 1989) (upholding assignment where assignee sold goods under mark that were "substantially the same" as those sold by assignor).

¹⁹² Courts usually define a sufficiently similar product as one "having substantially the same characteristics" as the pre-assignment product. *Pepsico, Inc.*, 416 F.2d at 288.

¹⁹³ *Id.*

¹⁹⁴ *Pepsico, Inc.*, 416 F.2d at 290; see also *Warner-Lambert Pharm. Co. v. General Foods Corp.*, 164 U.S.P.Q. (BNA) 532 (T.T.A.B. 1970).

one chick producer to another will be valid, even if the precise characteristics of the products involved differ substantially.¹⁹⁵ Yet, it is precisely these subtle differences in product quality and formulation that trademarks serve to identify. That a product belongs in one or another broad category of products is usually apparent, without regard to the trademark, simply from the form, packaging, and appearance of the product, or from its location on a store's shelves.¹⁹⁶ A consumer does not, therefore, typically rely on a trademark to tell her that she is buying a chick. Rather, she relies on the trademark to tell her precisely what she can expect from this particular brand of chick. In consequence, when a consumer continues to see a mark on what appears to be the same product, she will likely expect that the product so marked is, in fact, the precise product she recalls.¹⁹⁷ If we allow an assignee to vary the product's formulation and qualities, yet use the same trademark, then the trademark will serve as a means for deceiving consumers as to what they are buying.¹⁹⁸

¹⁹⁵ See *Hy-Cross Hatchery, Inc., v. Osborne*, 303 F.2d 947, 950 (C.C.P.A. 1962); see also *Glamorene Prods. Corp. v. Procter & Gamble Co.*, 538 F.2d 894 (C.C.P.A. 1976) (upholding assignment of mark "BOUNCE" that assignor used on its dry-cleaning detergent, when assignee used its mark on its dry-cleaning detergent).

¹⁹⁶ A word or phrase that denotes a broad category of product could not serve as a trademark for a product within that category in any event. See, e.g., *Genesee Brewing Co. v. Stroh Brewing Co., Inc.*, 124 F.3d 137, 151 (2d Cir. 1997) (finding "honey brown ale" to be generic and therefore unprotectable under either trademark or unfair competition law); see also Ralph H. Folsom & Larry L. Teply, *Trademarked Generic Words*, 89 YALE L.J. 1323, 1326-30 (1980) (explaining genericness doctrine).

¹⁹⁷ The *Hy-Cross* court found that such confusion was unlikely because "[t]he type of chick appears to have been otherwise indicated than by the trademark, as by the numbers above quoted as well as by name." *Hy-Cross Hatchery, Inc.*, 303 F.2d at 950. However, this response misses the point. A trademark owner may well use the same mark on several species of chicks and attach an additional mark, number, or name to indicate the species, but this does not eliminate the quality assurance that the trademark should provide for each product to which it is attached. Every type of Kellogg's cereal, every type of Ford automobile, every type of Microsoft software, has a separate trademark to indicate the type of cereal, automobile, or software at issue. Nevertheless, the presence of the "family" mark on each of these varieties provides a reassurance that each such product will share a given level of quality control and value.

¹⁹⁸ To this argument, the *Hy-Cross* court and various commentators have responded by pointing out that a trademark owner has some leeway to vary the precise formulation of the products associated with a mark. See *Hy-Cross Hatchery, Inc.*, 303 F.2d at 950 ("[Assignor], moreover, was not under any obligation to the public not to change the breed of chicks he sold under the mark from time to time."); see also 3 CALLMANN, *supra* note 10, § 78.1, at 1274 ("If a trade-mark owner can change his business or the qualities of his article or service without forfeiting the right to continue his use of the same trade-mark, it should be recognized that a transferee can do likewise."). Having stated this proposition, the *Hy-Cross* court leaves implied what it apparently sees as a necessary corollary, that an assignee should have the same leeway. See *Hy-Cross Hatchery, Inc.*, 303 F.2d at 950. For a variety of reasons, however, the argument is not persuasive. First, the Trademark Act expressly limits a mark owner's freedom to change the nature of the goods or services associated with the mark, authorizing cancellation of a registered mark where the registrant so changes the goods or services associated with a mark that confusion as to source results. See 15 U.S.C. § 1064(3) (1994) (authorizing cancellation of a mark at any time "if the registered mark is being used by . . . the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used").

In contrast, where an assignee intends to use the mark on a "new and different" product, a consumer would at least have the opportunity to recognize that the new product was not the same as the one she had previously purchased, and could adjust her expectations accordingly. Deception may, therefore, prove somewhat less likely when the assignee uses the mark on a "new and different" product.¹⁹⁹

As a result, rather than bar those assignments likely to generate consumer confusion, the sufficient continuity rule authorizes precisely those assignments most likely to create such confusion.²⁰⁰ Driven by a perceived need to recognize some idealized, complete bundle of rights for the trademark owner, courts have expanded the right to convey in a way that turns trademark protection on its head and have balanced away the public interest basis for trademark protection. Rather than preserve trademarks as means of providing otherwise unavailable information, the sufficient continuity rule is likely to create the very confusion that trademark law is supposed to prevent.

But even to the extent that mark owners are often allowed considerable leeway to change the nature of the underlying goods, the situation of the assigned mark is materially different. Initially, the interests of a mark's longstanding owner are more likely to coincide with the public interest than the interests of a new assignee. When a longstanding owner makes changes in a trademarked product over the years, there is little reason to believe that those changes reflect anything other than changes in public tastes and desires, costs savings, or other efficiencies that might be achieved in the good's production. In contrast, it is unlikely that an assignee's changes in the underlying product made at the time of an assignment happen to coincide with, and match, similar external changes in the demand for, and cost of, the product. Rather, the assignee simply wants to take advantage of the mark's selling power to market her good, whatever the differences between the goods associated with the mark before and after an assignment. Moreover, even if either could technically exploit the selling power of a mark by deception, a longstanding owner is likely to have an emotional and mental attachment to the mark from years of working with it that will preclude such action. In the hands of a new buyer, however, no such attachment exists and there is simply no reason to assume that an assignee will preserve the value of the trademark as a long-term asset, rather than simply exploit the short-term value of the confusion that may result. As a result, expanding the assignment right authorizes the existing owner to sell the mark to the highest bidder without considering the public interest at stake.

¹⁹⁹ Of course, such an assignment is not therefore valid. If the products are so disparate that confusion is not likely, then use of the trademark on the new product lies outside the boundaries of the mark owner's property and an attempt to assign a mark to establish another's rights in the new field is necessarily ineffective. In such a case, an attempt to use an assignment to claim the assignor's priority and extend it to a new product so as to establish priority over, or a laches defense against, one of the assignee's competitors would be ineffective. *See, e.g.,* *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 286-87 (8th Cir. 1969) (assignee obtained assignment of rights in "Peppy" mark in an attempt to obtain the assignor's priority; if the assignment had been effective, assignee would likely have had good defense against plaintiff's infringement claim).

²⁰⁰ *See id.*

D. Summary: Trademarks are Property, But So What

As a rhetorical strategy, proponents of broader trademark have repeatedly insisted that trademarks are “simply” a form of property. But to say that something is someone’s property is, at least from a legal perspective, to say very little. Such a statement merely establishes that the law has defined certain legal relations between the “owner” and others with respect to the thing.²⁰¹ The statement says nothing at all about the nature of the relations defined.²⁰² On the other hand, from an ordinary perspective to say that something belongs to someone is to say quite a bit more.²⁰³ The label “my property” invariably conjures images of legal rights with respect to control, disposition, and use reminiscent of the “sole and despotic dominion” Blackstone accorded landowners under English common law.²⁰⁴ It conjures such images, ironically, even though an English landowner’s rights have never been as absolute as Blackstone’s language suggests.

When we trace trademark’s continuing expansion, we find, in essence, a transition in trademark from property in the formal sense of a certain, but usually quite limited, set of legal rights, to property in the more ordinary sense of full and absolute ownership. Originally, trademark law was justified on grounds of preventing consumer deception. Ownership was assigned to the person who adopted the mark for her trade, not because she had created it or its favorable associations, but because such person was conveniently placed and strongly motivated to vindicate the broader public interest in a mark’s ability to identify accurately the source of the goods to which it was attached.²⁰⁵ While the mark was its owner’s property, it was her property only in the limited sense that she held the legal right to seek a remedy should another adopt a mark sufficiently similar to threaten the mark’s ability to indicate product source.²⁰⁶

²⁰¹ RESTATEMENT (FIRST) OF PROPERTY ch. 1, Introductory Note (1936).

²⁰² See generally Thomas C. Grey, *The Disintegration of Property*, in PROPERTY: NOMOS XXII 69 (J. Roland Pennock & John W. Chapman eds., 1980).

²⁰³ On the division between ordinary and legal understandings of property, see generally BRUCE A. ACKERMAN, PRIVATE PROPERTY AND THE CONSTITUTION 26-29 (1977).

²⁰⁴ 2 WILLIAM BLACKSTONE, COMMENTARIES *2.

²⁰⁵ Although this interest could in theory be vindicated by consumers themselves, or by a government agency (approaches that would merit serious consideration today) neither would have appeared as either a practical or appropriate alternative when trademark protection first arose.

²⁰⁶ In *Hanover Star Milling Co. v. Metcalf*, the Court held:

Common-law trade-marks, and the right to their exclusive use, are of course to be classed among property rights . . . but only in the sense that a man’s right to the continued enjoyment of his trade reputation and the goodwill that flows from it, free from unwarranted interference by others, is a property right, for the protection of which a trade-mark is an instrumentality.

Beyond this limited right the owner's property rights did not extend. As a result, a mark's owner did not have the right to control every use that might reduce, or capture for someone else, some part of "her" mark's value, nor did she have the right to exercise dominion over "her" mark in whatever way she desired.

As part of their attacks on this traditional, and in their view limited, conception of trademarks, proponents of broader trademark invoked the "property" label in order to tap the collective's ordinary understanding of ownership, and to suggest *sub rosa* that trademark ownership should necessarily entail a degree of control and dominion over the mark similar to that associated with other forms of property ownership.²⁰⁷ Their arguments met with some scattered success in court decisions in the 1930s and 1940s, but they failed to obtain recognition for their views when Congress enacted the Trademark Act of 1946.²⁰⁸ After this rebuff, proponents of broader trademark

240 U.S. 403, 413 (1916) (citation omitted). In *Industrial Rayon Corp. v. Dutchess Underwear Corp.*, the court held:

[T]rademark is not property in the ordinary sense but only a word or symbol indicating the origin of a commercial product. The owner of the mark acquires the right to prevent the goods to which the mark is applied from being confused with those of others and to prevent his own trade from being diverted to competitors through their use of misleading marks.

92 F.2d 33, 35 (2d Cir. 1937), *cert. denied*, 303 U.S. 640 (1938). In *DuPont Cellophane Co. v. Waxed Products Co., Inc.*, the court held:

As has often been said, a trade-mark is only property in a limited sense. It may be transferred with a business, but the only right which the owner of the mark acquires against competitors is "to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his."

85 F.2d 75, 80 (2d Cir. 1936) (citations omitted).

²⁰⁷ See also Dreyfuss, *supra* note 24, at 406 (noting that arguments for broader trademark are "suggestive of real property and the relative ease with which claims in such cases are usually decided in favor of the property owner").

²⁰⁸ See *supra* text accompanying notes 25-189. Of course, many of the proponents of broader trademark protection were also the authors of the leading trademark treatises, and at least some of them used the platform their treatises provided to pretend that Congress had, in fact, adopted their proposals for broader protection. See, e.g., ROBERT, *supra* note 39, 23-26 (recounting Congress's rejection of "free assignability" language and adoption of language virtually identical to assignments provision found in 1905 Act, but then emphasizing that "the new statute is broader in scope with reference to an assignment than was the prior law"); *id.* at 65-67 (noting that Congress defined trademarks for purpose of the primary register to exclude trade dress and product configuration, while it defined trademarks registrable on the secondary register to include trade dress and product configuration and concluding that trade dress and product configuration were therefore registrable on the principal register with secondary meaning); *id.* at 159-65 (noting that Congress authorized infringement actions only where use would likely create, on behalf of the purchaser, "confusion of source," but suggesting that Act nonetheless encompassed confusion as to sponsorship or affiliation); see also 3 CALLMANN, *supra* note 10, § 80.3, at 1365-67 (arguing that original Trademark Act

protection returned to the courts and, as the above examples illustrate, were gradually successful in persuading courts to adopt the broader view of trademark protection that Congress had rejected. Despite this expansion, a trademark owner's property in her mark remains limited, at least to some extent, even today. There remain uses of her mark that the owner cannot control and limits on her own freedom to do with the mark as she sees fit.²⁰⁹ Yet, as a result of this expansion, a mark's owner today has far more ability to control the unauthorized use of her mark and far more freedom to do with her mark as she sees fit, often in circumstances entirely divorced from, and sometimes actually in conflict with, her mark's informational role.²¹⁰ The mark has become its owner's property not merely in a formal and limited sense, but in an ordinary and increasingly absolute sense.

In evaluating this expansion, the examples set forth above serve, if nothing else, as a useful reminder that much of what we presently take for granted in trademark law is of recent construction, crafted by courts without much guidance from Congress and sometimes in plain derogation of Congress's stated intentions. Rampant judicial activism is not something we ordinarily associate with trademark law, perhaps because we perceive the court-driven expansion of property ownership (a conservative agenda) as somehow qualitatively different than court-driven expansions of tort or products liability (a liberal agenda). But trademark's expansion raises the same questions concerning competence and authority that excessive judicial activism raises in other fields, and those questions suggest that considerably more restraint concerning trademark's expansion is warranted than has recently been shown.²¹¹

encompassed dilution cause of action despite requirement of purchaser confusion "as to the source" and despite express lack of dilution language such as that used in state anti-dilution statutes).

²⁰⁹ See, e.g., *Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 502-08 (2d Cir. 1996) (holding that owner of trademark "SPAM" not entitled to stop defendant's use of "SPA'AM" as name of character in film); *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 592-93 (5th Cir. 1993) (holding that owner of trademark not entitled to prevent unauthorized sale of genuine trademarked goods); *New Kids on the Block v. News Am. Publ'g, Inc.*, 971 F.2d 302 (9th Cir. 1992) (holding that trademark owner not entitled to prevent use of mark in newspaper survey that raised money for charity); *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285 (8th Cir. 1969) (holding that trademark owner could not validly assign interest in trademark to one who intended to use the mark on a product that was not substantially the same as the original product associated with the mark); *Shakespeare Co. v. Silstar Corp.*, 906 F. Supp. 997, 1015-16 (D.S.C. 1995) (finding that fair use doctrine precludes owner of trademark in clear tip on fishing rod from preventing defendant from using similar tip on its fishing rods where tip affected functional characteristics of the rod).

²¹⁰ See *supra* text accompanying notes 157-89.

²¹¹ It is always surprising how many courts and commentators who ordinarily would side with Justice Brandeis on almost any issue forget his admonition in *International News Service v. Associated Press*:

In turning to the expansion's substantive merits more directly, we begin with the point that the "property" label, even if descriptively accurate, does not resolve the normative issue. Both deception-based and property-based trademark protection create property regimes, but the "property" label does not help us determine whether one or the other of these regimes, or perhaps some other, best serves society's needs. To make such a determination, we must look beyond the labels and examine the welfare consequences of trademark protection.²¹²

But with the increasing complexity of society, the public interest tends to become omnipresent; and the problems presented by new demands for justice cease to be simple. Then the creation or recognition by courts of a new private right may work serious injury to the general public, unless the boundaries of the right are definitely established and wisely guarded.

248 U.S. 215, 262-63 (1918) (Brandeis, J., dissenting).

²¹² Professor Ralph S. Brown has offered a second, more fundamental critique of trademark protection and advertising. He has argued that the principal purpose of advertising is to create artificial distinctions between products, making one product appear superior to another, when they are, in fact, identical. In his view, this is simply waste and trademark protection, to the extent that it encourages such advertising, is correspondingly undesirable. See Brown, *supra* note 6, at 1167-83. Proponents of trademark protection have countered that the higher prices associated with certain trademarked or advertised goods reflect a real increase in the value of such goods. Advertising and trademarks provide valuable information to consumers, and this information is itself the "actual" difference between the advertised and unadvertised products. Because of the value added by advertising, consumers are willing to pay more for trademarked goods and derive greater satisfaction from the purchase of such goods. Trademark protection is, therefore, desirable to ensure the flow of such information. There are three difficulties with the response and its underlying assumption that an increased willingness to pay must necessarily correspond to an increased satisfaction level. First, to the extent that advertising and a trademark successfully generate an unthinking buying response—a trained reaction to the presence of a trademark where perception of the mark stimulates hand to wallet without conscious thought—does that represent a legitimate form of welfare enhancement? Were Pavlov's dogs happier after they had been trained to salivate at the sound of a dinner bell? These questions are fundamental in that they test the boundaries of what we mean by "rational," "utility maximizing" behavior and challenge the assumed link between actions and desires. Our decision to prohibit subliminal advertising suggests that, at least, some such unthinking or trained ("Pavlovian") buying responses do not represent legitimate welfare enhancement. Second, where persuasion is involved in a purchase, that persuasion may wear off, or be less than fully effective, and so lead to an increased incidence of divided choosers or regret. Third, some advertising and associated trademarks serve as a form of blackmail. Such advertising seeks to persuade us by first creating or exacerbating our insecurities and self-doubts. It tells us that we are not pretty enough, not popular enough, not hip enough, not rich enough. Only after it has shaken our self-image and disturbed our self-contentment does this type of advertising step forward to offer a remedy. Many consumers are susceptible to these ads and will take the remedy offered. This advertising can therefore persuade consumers to purchase a good they would not otherwise have bought or pay more for a good than they would otherwise have paid. This increased willingness to buy does not, however, reflect an aggregate increase in utility, even if we limit our consideration to those consumers who are persuaded to purchase. In many cases, the consumer may pay the higher price simply to restore her pre-advertisement satisfaction level. See SCHERER, *supra* note 5, at 381. Indeed, in some cases, the insecurities and self-doubts that such advertising creates remain even after the purchase, so that consumers spend more and more on products, only to experience less and less satisfaction. Thus, despite the widespread availability of

II. THE WELFARE CONSEQUENCES OF TRADEMARK PROTECTION

In evaluating the welfare consequences of trademark protection, we begin with its immediate consequences. In any form, trademark protection grants to a particular individual a bundle of rights, with respect to an intangible thing, generically labeled the "mark." One of the rights typically included in this bundle is the right to exclude others from using the mark in certain contexts. While trademark protection leaves others free to devise their own marks and to build their own following among consumers, its prohibition on using another's mark both increases the cost of introducing a competing product and can create a difference that consumers consider material between otherwise identical products. Trademark protection can provide a means for consumers to distinguish between available products more readily and can thereby ensure that consumers have a choice in the products they buy, but choice is not competition.²¹³ And, in many cases, by ensuring a difference between brands, trademark protection can establish for a trademark owner the downward sloping demand curve of a monopolist.

The Department of Justice took precisely this position during the debates leading to the enactment of the Trademark Act of 1946, and in its 1944 Report, strenuously opposed key provisions of the trademark bill on the grounds that they would limit competition and promote undesirable monopoly.²¹⁴ Relying

surgical and non-surgical beauty aids (or perhaps because of them and the need to create a demand for them), women are less satisfied with their appearances today, than they were a century ago. See SUSAN BORDO, *UNBEARABLE WEIGHT* 100-10 (1993) (arguing that Madison Avenue uses existing insecurities of women, including their weight, to manipulate women further through advertising); NAOMI WOLF, *THE BEAUTY MYTH* 73-84 (1992) (arguing that women's self-hatred is intensified by images of women in advertising).

²¹³ I can choose between salt and pepper to spice my food, but the existence of such choice does not mean that salt and pepper compete. Given the quite different taste consequences of applying these two different spices, it is quite likely that consumers will actively prefer one or the other and will not see one as an acceptable substitute for the other. More generally, choice is competition only if consumers are indifferent between the choices available. See also PAUL A. SAMUELSON, *ECONOMICS* 452 (6th ed. 1964). As Professor Samuelson explained:

To the economist, perfect competition does *not* mean spirited rivalry among cigarette advertisers. It does *not* mean a titanic struggle in which Cornelius Vanderbilt cuts his freight fare on the New York Central below Daniel Drew's cut-price rates quoted for the Erie Railroad. It does *not* mean two or more textbook publishers or chemical companies vying with one another to have the best research, quality, and trade marks.

Id.

²¹⁴ *Report of the Department of Justice on the Trade-Mark Bill*, *supra* note 8, at 58-71. The Department of Justice's arguments centered on three issues. First, by allowing registration of, and providing

on real world examples where trademarks had served to maintain monopoly or market power, the Justice Department successfully persuaded Congress of the legitimacy of these concerns and of the need to rewrite several key sections of the proposed bill.²¹⁵ Despite this, some remain skeptical that trademark protection can serve as the basis for monopoly. Our examination of the welfare consequences of trademark protection begins, therefore, with a consideration of monopoly and an examination of trademark protection's anticompetitive potential.

A. Welfare Losses of Trademark Protection: Trademark Monopolies

In the simplest terms, a monopoly exists when there is only a single producer in a distinct product market. Behind this superficially straightforward definition lies the more difficult task of defining distinct product markets. Usually, economists and antitrust lawyers define product

incontestability for, ordinary names and descriptive words, the proposed bill would give the owners of such marks monopolies, by limiting the ability of potential competitors to identify effectively their wares as substitutes. *See id.* at 59-62, 70-71; *see also 1942 Trade-Mark Hearings, supra* note 8, at 23-34, 41-53. Second, by limiting the reselling of repaired or second-hand trademarked goods, the proposed bill threatened the elimination of the used goods market, with a concomitant increase in market concentration and control for the original manufacturer. *See Report of the Department of Justice on the Trade-Mark Bill, supra* note 8, at 62-63; *see also 1944 Trade-Mark Hearings, supra* note 8, at 72-74 (statement of Elliott H. Moyer, special assistant to the attorney general, Antitrust Division, Department of Justice). Third, by allowing joint use and control of a mark through contracts, or through certification and collective marks, the bill would facilitate and provide colorable sanction for anticompetitive agreements, pertaining to market allocation, price-fixing, and product distribution. *Report of the Department of Justice on the Trade-Mark Bill, supra* note 8, at 63-65, 68-70; *see also 1942 Trade-Mark Hearings, supra* note 8, 39-40; Timberg, *supra* note 8, at 324-45 (describing use of trademarks as direct source of market power and to facilitate anticompetitive practices); Borchardt, *supra* note 6, at 251-59 (describing use of trademarks to facilitate anticompetitive practices); Bartholomew Diggins, *Trade-Marks and Restraints of Trade*, 32 GEO. L.J. 113 (1944) (same).

²¹⁵ The key changes include the following. The cancellation section, section 14, was rewritten to allow cancellation of generic marks and improperly used certification marks. *Compare* H.R. 82, § 14, *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 6, *with* Act of July 5, 1946, § 14, 60 Stat. 433. A genericness exception was added to the defensive incontestability provision in section 15. *Compare* H.R. 82, § 15, *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 6, *with* Act of July 5, 1946, § 15(4), 60 Stat. 434. Section 32(3), which allowed the trademark owner to control the resale of reconditioned and second-hand goods was deleted. *Compare* H.R. 82, 78th Cong. § 32(3) (1944), *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 10, *with* Act of July 5, 1946, § 32, 60 Stat. 438 (1946). Section 33(b), the affirmative incontestability provision, was rewritten to incorporate a genericness defense in the preamble; *compare* H.R. 82, 78th Cong. § 33(b) (1944), *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 10, *with* Act of July 5, 1946, § 33(b), 60 Stat. 438; to broaden the defense for improper joint use; *compare* H.R. 82, 78th Cong. § 33(b)(3) (1944), *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 10, *with* Act of July 5, 1946, § 33(b)(3), 60 Stat. 438; and to add a defense where "the mark has been or is being used to violate the antitrust laws of the United States." *Compare* H.R. 82, 78th Cong. § 32 (1944), *reprinted in 1944 Trade-Mark Hearings, supra* note 8, at 10, *with* Act of July 5, 1946, § 33(b)(7), 60 Stat. 439.

markets in terms of the cross-elasticity of demand between two products by examining the willingness of consumers to switch from one product to another, should the first product's price increase.²¹⁶ In markets where perfect substitutes are available, any price increase by one producer will lead all consumers to switch instantaneously and without cost to one of the available substitutes. In such a case, absent collusion, a single producer would have no market power, *i.e.* no ability to raise her price above market level. If a producer were to attempt to do so, consumers would simply turn to one of the available substitutes. On the other hand, if such perfect substitutes are not available, then a producer will necessarily have some degree of market power. The only question is how imperfect substitutes must be, and how much market power a producer must have, before we label a distinct good a separate product market and its producer a monopolist.

If we were to seek the optimal allocation of resources found in the perfect competition model, only perfect competition would suffice.²¹⁷ The presence of any degree of market power would render the perfect competition model's optimal allocation unattainable.²¹⁸ Therefore, if we sought to achieve such perfect competition, we would necessarily label any degree of market power, however attained, an unlawful monopoly. In real world markets perfect competition, if it exists at all, is exceedingly rare, and would be impossible to achieve if we sought it.²¹⁹ For that reason, along with others, economists and lawyers typically define markets not in terms of perfect substitutes, but in terms of reasonable or near-perfect substitutes. The question is not whether the alternative products available would prevent any profitable price increase by a producer,

²¹⁶ See, e.g., *Brown Shoe Co., Inc. v. United States*, 370 U.S. 294, 325 (1962); *United States v. E.I. duPont de Nemours & Co.*, 351 U.S. 377, 394 (1956); SCHERER, *supra* note 5, at 479-80.

²¹⁷ See, e.g., R.G. Lipsey & Kelvin Lancaster, *The General Theory of Second Best*, 23 REV. ECON. STUD. 11, 16-17 (1956).

²¹⁸ See *id.* at 16-17.

²¹⁹ See, e.g., CHAMBERLIN, *supra* note 3, at 214-15 (noting that pure competition "may no longer be regarded as in any sense an 'ideal' for purposes of welfare economics" and that "[i]n many cases it would be quite impossible to establish it"); CHAMBERLIN, *TOWARDS A MORE GENERAL THEORY OF VALUE*, *supra* note 5, at 93 ("[P]ure competition is evidently a theoretical concept, and . . . the practical-minded economist is often ready enough to point out that 'no one has ever advocated that it be established.'"); SAMUELSON, *supra* note 213, at 39, 43-44. As Professor Samuelson noted:

A cynic might say of perfect competition what Bernard Shaw said of Christianity: The only trouble with it is that it has never been tried. . . . All economic life is a blend of competitive and monopoly elements. . . . It would be humanly impossible, therefore, to attempt to create *perfect* competition by law.

Id. SCHERER, *supra* note 5, at 24 ("There are many reasons why, in the real world, it is impossible or undesirable to satisfy all the assumptions of the purely competitive general equilibrium model.")

but whether the alternatives would render unprofitable a producer's attempt to impose a "small but significant and nontransitory" price increase.²²⁰ Product markets are, in turn, defined by asking whether a "small but significant" price increase, of five or perhaps ten percent, on the first product, would lead so many first product consumers to switch to some other product that the price increase would prove unprofitable.²²¹ If enough consumers would switch to render such a price increase unprofitable, then the products to which consumers would turn are included within the relevant market as competing products. If consumers would not switch, then no "competing" product exists and the producer's goods constitute a distinct product market.²²² In such a case, the producer is a monopolist.

If we were to apply such a test to define product markets for trademarked goods, we would find that many of the most popular brands constitute product markets unto themselves. I often explore this issue in my Intellectual Property class by posing the following hypothetical: Assume that the student lounge has two soda vending machines, one which serves a twelve-ounce can of Coca-Cola for sixty-five cents, the other, a twelve-ounce can of Pepsi-Cola for sixty cents.²²³ I then ask: How many of you, who would ordinarily prefer a Coke,

²²⁰ See Department of Justice & Federal Trade Commission, Horizontal Merger Guidelines § 1.11 (1992); see also *Satellite Television & Associated Resources, Inc. v. Continental Cablevision, Inc.*, 714 F.2d 351, 355 n.5 (4th Cir. 1983) (applying Guidelines approach to define relevant product market), *cert. denied*, 465 U.S. 1027 (1984); *Bon-Ton Stores, Inc. v. May Dept. Stores Co.*, 881 F. Supp. 860, 872 (W.D.N.Y. 1994) (using Guidelines approach to define relevant product market).

²²¹ A "sufficient" number will have switched if, given the number of consumers who switch, the price increase is not profitable. In addition to depending on the percentage reduction in sales volume ("switching") caused by the price increase, the profitability of a price increase will depend on a number of factors, including the fixed costs associated with producing the product, the "normal" or competitive profit margin associated with the product, and any change in the marginal cost of the product given the reduced production volume. For example, if a product has a normal profit margin of \$.10 per unit, has no fixed costs, and has a marginal cost of \$.90 per unit, a 5% price increase would prove profitable so long as the producer's sales volume did not fall by more than 33.3%. Under the same assumptions, a 10% price increase would prove profitable so long as the producer's sales volume did not fall by more than 50%. Alternatively, if the product had a normal profit margin of \$.10 per unit, had total fixed costs of \$1 million, and marginal costs of \$.40 per unit, the percentage reduction in sales volume necessary to render a price increase unprofitable would vary depending on the total number of units sold at the competitive price. If 2 million units had been sold at a competitive level, a 5% price increase would be unprofitable only if the producer's sales volume fell by more than 7.7%. If 4 million units had been sold at a competitive level, then a 5% price increase would be unprofitable only if the producer's sales volume fell by more than 9.6%.

²²² See, e.g., *FTC v. Butterworth Health Corp.*, 946 F. Supp. 1285, 1290 (W.D. Mich. 1996) ("The relevant market is defined by identifying competitors who could provide defendants' customers with alternative sources for defendants' services in the event defendants, as the merged entity, attempted to exercise their market power by raising prices above competitive levels.").

²²³ I start with the products priced differently, rather than starting at the same price, then ask about the

would purchase a Pepsi in this instance because of the price difference? Invariably, almost no one indicates a willingness to switch. While obviously unscientific, the response (or lack thereof) strongly suggests that Coke is itself a distinct product market, even assuming the usual hand-raising reticence often found in law school classrooms.²²⁴

Although the characterization of Coke as a distinct product market may generate discomfort for some, we must keep firmly in mind that the fact that consumers *can* switch, or that the products are objectively similar, or that consumers can “make do” with the second product, does not control the analysis. Proper market definition must focus on actual buying decisions.²²⁵ In consequence, it is not whether consumers can switch or whether a reasonable consumer would switch, but whether actual consumers do switch, in response to the small, but significant and nontransitory price increase. Similarly, consumer perceptions of similarity and of difference, not objective “reality,” ultimately control individual buying decisions, and therefore define relevant mar-

effects of a price increase for two principal reasons. First, if the price increase is made express, some students will say that they would switch as a way of objecting to the price increase itself, or perhaps with the hope that a short boycott period will lead Coca-Cola to reverse the increase. Second, to avoid such marketplace reactions, the ability to increase the price, if available, will typically already have been exercised by the time a good gets to market.

²²⁴ For a summary of more scientific investigations generating similar results, see SCHERER, *supra* note 5, at 381-84. In class, I usually continue the cross-elasticity discussion, by asking how many Coke drinkers would switch if the Cokes were \$.75 or even \$1.00. Typically, even 50-100% price increases appear potentially profitable. See also David Menzies, *Fabulous Food Flops*, FOOD IN CANADA, May 1998, at 36 (“New Coke was introduced after Coke conducted years of exhaustive blind taste tests and found consumers preferred the taste of the new formulation. Numbers don’t lie but Coke never counted on the emotional and nostalgic attachment to its 100-year-old flagship brand.”); Chris Roush, *Pop Went Flat, but Coca-Cola Learned Lessons*, TAMPA TRIB., Apr. 16, 1995, at C-1 (noting that even though new Coke beat both Pepsi and old Coke in blind taste tests, it failed in marketplace because consumers had a “deep and abiding emotional attachment” to the old Coke) (quoting Donald Keough, president, Coca-Cola); Roy Bradshaw, *Response Regarding Brand Worship*, (posted Jul. 13, 1998) <<http://cards.badm.sc.edu/elmar/raw/d425.txt>>. Bradshaw explains:

I am not sure that this quite meets your scenario but for a number of years I have been conducting a class experiment with Marketing Research students on preferences for soft drink brands. Even after the provision of evidence, including their own blind tasting information, about the inferior qualities of their preferred brands, the majority of students continued to purchase these same preferred brands. I have always assumed that this was because the image and cognate feelings associated with a particular brand were more important than any differences in the range of products on offer (e.g. differences in taste, quality, etc.).

Id.

²²⁵ See, e.g., CHAMBERLIN, TOWARDS A MORE GENERAL THEORY OF VALUE, *supra* note 5, at 94 (noting that “what people want—an elaborate system of consumers’ preferences—is the starting point in welfare economics”).

kets. Objective similarities may influence consumer perceptions, but they do not control them. Finally, if a switch requires a consumer to "make do," such a description necessarily suggests that the switch entails some degree of consumer disutility (or deadweight loss) precisely measured by the extent to which the consumer considers the switch "making do."

Of course, consumers may consider Pepsi a closer substitute for Coke, than a generic cola, iced tea, orange juice, or water, in that more consumers would consider switching to Pepsi, given a price increase on Coke, than to one of these other forms of liquid refreshment. To that extent, the availability of Pepsi from a competing entity may limit profitable Coke price increases to a greater extent than would the availability of one of these other, less-perfect substitutes. But this does not establish that the availability of Pepsi from a competing source would prevent any profitable Coke price increase, nor does it establish that enough consumers would actually switch to Pepsi given a small, but significant and nontransitory increase in Coke's price, to render such a price increase unprofitable.

It may be that competition between Coke and Pepsi for new consumers, or for the proverbial infra-marginal consumer, would effectively prevent such a price increase from being profitable, but the difficulty with relying on these possible sources of competition is that all too often they remain only possibilities. In many cases, they exert no real influence on actual pricing and purchasing decisions. Perhaps for that reason, these forms of competitive pressure are more often assumed than proved²²⁶ and in any event, even where present, serve only to limit, not eliminate, market power.²²⁷

If we were to extend this type of pricing analysis to other products, we would almost certainly find that many popular brands do possess sufficient

²²⁶ See *Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451, 465-78 (1992) (refusing to accept defendant's argument that Court should presume that competition for new entrants would preclude market power over locked-in users). Compare Edmund W. Kitch, *Patents: Monopolies or Property Rights?*, 8 RES. IN L. & ECON. 31, 40-46 (1986) (asserting that Xerox's patents on its copying technologies gave it no market power), with F. M. Scherer, *Comment on Edmund Kitch*, 8 RES. IN L. & ECON. 51, 52-57 (ridiculing Kitch's conclusions).

²²⁷ Even admitted "monopolies" face competition from imperfect substitutes at the margins. See CHAMBERLIN, TOWARDS A MORE GENERAL THEORY OF VALUE, *supra* note 5, at 71 ("And whatever the area monopolized, the monopolist will always face competition in some degree from the wider area beyond its limits."). With oil, for example, consumers can substitute at the margins other energy sources, conservation measures, and oil from other countries for oil produced from nations that have joined Oil Producing & Exporting Countries ("OPEC"). These alternatives have undoubtedly limited, to some extent, OPEC's ability to set a supracompetitive price for its oil, yet they have not prevented supracompetitive prices altogether.

brand loyalty to constitute distinct product markets.²²⁸ To the extent a protected trademark serves as the device for capturing such brand loyalty, even narrow trademark protection will quite often prohibit competitors from marketing a product that consumers will recognize and accept as a perfect or even reasonable substitute for the popular brand.

This market power arises from a number of sources. First, like other forms of information, the information that a trademark provides is imperfect. A trademark typically provides information that concerns our satisfaction only with respect to the trademark's associated product. It does not usually provide information, at the same cost, concerning all of the potential substitutes and their relative merits.²²⁹ In consequence, once a consumer has come to believe, whether from advertising or prior purchases, that she will be satisfied with a particular trademarked good, the cost of acquiring information with respect to other products, when combined with a degree of risk aversion, can render other products unacceptable as substitutes. Having found products with which she is satisfied, the consumer is simply unwilling to expend her scarce time and mental energies to identify alternative products that may prove marginally

²²⁸ See Borchardt, *supra* note 6, at 246. Professor Borchardt states:

In spite of this characterization of a trade-mark as a competitive device, Rogers admits a little later that the preference which a buyer might have for Quaker Oats is a habit which "is worth something to the producer of the goods to whose use we have become habituated. It *eliminates competition* for to us there is nothing 'just as good.'"

Id. (quoting EDWARD S. ROGERS, GOOD WILL, TRADE-MARKS AND UNFAIR TRADING 56 (1914)) (emphasis supplied by Borchardt). While the notion of a single brand being a distinct product market will undoubtedly discomfort some, antitrust law has begun moving in that direction as well. As antitrust's focus has shifted from whether two products might be made to serve the same purpose in a very broad sense, to a more realistic appraisal of actual consumer preferences in the marketplace, narrower and more realistic definitions of the relevant market have inevitably followed. In cases that focus more precisely on actual consumer preferences, courts and juries have recognized that consumers may often consider a single brand the relevant market. See *Eastman Kodak Co.*, 504 U.S. at 465-78, 482 n.31 (1992) (finding sufficient evidence that Kodak-brand copiers constituted distinct product market and citing other cases that single brand constituted distinct product market); *NCAA v. Board of Regents*, 468 U.S. 85, 112-13 (1984) (affirming district court's finding that NCAA football constitutes distinct product market); *U.S. Anchor Mfg., Inc. v. Rule Indus., Inc.*, 7 F.3d 986, 996 (11th Cir. 1993) (finding that market for Danforth brand of anchors and market for functionally-equivalent generic anchors were separate and distinct).

²²⁹ See Nelson, *Information and Consumer Behavior*, *supra* note 17, at 311 (noting the lack of perfect information and suggesting that "monopoly power for a consumer good will be greater if consumers know about the quality of only a few brands of that good"). Moreover, even if false advertising law limits to some extent outright falsehoods in advertising, it leaves considerable room for a slanted presentation of a product. See, e.g., Robert Pitofsky, *Beyond Nader: Consumer Protection and the Regulation of Advertising*, 90 HARV. L. REV. 661, 663 (1977) (noting that advertising is a "self-serving source" of information).

better or to incur the risk and uncertainty involved with switching.²³⁰ Because of these costs and the uncertainties involved in switching, the information a trademark provides can “lock-in” a consumer to products bearing that trademark, just as someone who has learned the commands for a particular electronic spreadsheet will be reluctant to switch to another.²³¹ As numerous advertising slogans have suggested, these switching costs are often substantial, particularly when compared to the potential gains available with respect to small ticket items, such as cereal, toothpaste, detergent, and other common household purchases.²³² Moreover, after sufficient experience, a consumer’s association of a trademark with certain desirable features may become so ingrained as to pass below conscious thought and generate an unthinking or “Pavlovian” buying response.²³³ Once the response reaches that level, a consumer may no longer stop to think about which brand she buys; her purchasing decisions will become merely a habit.²³⁴ Unless startled or shocked

²³⁰ See Folsom & Teply, *supra* note 196, at 1340-41; Landes & Posner, *supra* note 17, at 280, 292.

²³¹ See *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 49 F.3d 807, 818 (1st Cir. 1995), *aff'd by an equally divided court*, 516 U.S. 233 (1996).

²³² See ROGERS, *supra* note 9, at 55-59 (explaining power of habits in controlling buying and selling practices); see also *Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655, 657 (S.D.N.Y. 1959) (noting that Warner-Lambert was still earning sufficient rents from production of Listerine mouthwash to cover its annual royalty payment of \$1.5 million in the late 1950s, even though the formula for Listerine mouthwash became public knowledge before 1949). Consider, for example, how many times over the last 10 years you have switched spreadsheet or word-processing programs, with how many times you have switched brands of breakfast food, beer, soda, or your favorite board-game. See Nelson, *Information and Consumer Behavior*, *supra* note 17, at 327 (noting that monopoly power is greater with experience goods).

²³³ See LAMBIN, *supra* note 17, at 115-16. As Lambin explained:

Brand loyalty or consumer inertia may augment the height of the barrier of entry for new firms. The results clearly show that a substantial degree of inertia exists in the sample markets, and a potential entrant in these markets will have to incur the cost of overcoming consumer inertia. Since these markets are advertising intensive, this is *prima facie* evidence that advertising helps erect entry barriers.

Id.; see also Dale Hein & Cathy Durham, *A Test of the Habit Formation Hypothesis Using Household Data*, 73 REV. ECON. & STAT. 189 (1991) (noting traditional assumption that habit plays central role in consumer buying, critiquing preexisting empirical studies that attempt to measure habit effect, proposing new approach that provides lower estimate of the influence of habit effects, but concluding that “[habit effects] are still highly significant and play an important role in consumer behavior”); Papandreou, *supra* note 6, at 508-09 (“Consumer allegiances built over the years with intensive advertising, trade-marks, trade names, copyrights and so forth extend substantial protection to firms already in the market. In some markets this barrier to entry may be insuperable.”). The name is an allusion, of course, to Pavlov and his stimulus-response research with animals. See also *supra* note 212.

²³⁴ Studies have shown that consumers often enter a trance-like state when they enter the supermarket, seeing nothing but the desired brands. See *Pulling Consumers by Design*, THE GROCER, Mar. 16, 1996, at 48. As the article explained:

into action by some sharp change in price, features, or quality,²³⁵ the consumer's rational and conscious mind may simply disengage from the buying process, and the consumer may fail to recognize potentially competing substitutes should they become available.

Second, a dominant brand enjoys network effects²³⁶ and natural monopoly characteristics inherent in its popularity. Only the most popular brand of cola may be available at a restaurant;²³⁷ only the most popular game may have a ready supply of players; only the most popular sports leagues may have a ready audience around the water-cooler with which to share joys and sorrows following the weekend's games. Choose a less popular product, and you may find yourself unable to find the beverage you desire when you go out, or unable to find others with which to share your chosen pastime. Disutility results simply from choosing a less popular brand. Similarly, association with a popular brand may become part of an individual's identity to such an extent that other brands are simply unacceptable.²³⁸ These types of "popularity networks" undoubtedly exert a more subtle influence on decisions and conduct

A curious paradox occurs in supermarkets. When consumers enter a place where they must look in order to buy, they develop a blind eye. Bombarded by thousands of different brands, packs, colours, graphics, overt and covert marketing messages, shoppers protect themselves with a personal filter system which we call selective perception. According to each person's criteria, only certain packs "pop out" from the background noise of too many brands clamouring for attention.

Id.; see also Sally Williams, *Supermarket Shopping*, THE INDEPENDENT (London), July 8, 1995, at 12 ("Shopping, like any mundane activity, is done on automatic . . .").

²³⁵ See, e.g., Menzies, *supra* note 224, at 36 (noting that radical reduction in quality of Schlitz beer caused it to fall from second best-selling beer to less than 1% of the beer market, from 24 million barrels of beer in early 1970s to 15 million barrels in 1980).

²³⁶ A network effect refers to a case where "the utility that a user derives from consumption of the good increases with the number of other agents consuming the good." Michael L. Katz & Carl Shapiro, *Network Externalities, Competition, and Compatibility*, 75 AM. ECON. REV. 424, 424 (1985); see also Mark A. Lemley & David McGowan, *Legal Implications of Network Economic Effects*, 86 CAL. L. REV. 479, 488-95 (1998).

²³⁷ If each restaurant serves only one cola, then each must choose between the most popular cola and some less popular cola. If prices and quality are otherwise the same, a rationale profit-maximizing restaurateur will choose to carry the most popular brand, because that brand is likely to satisfy more of her customers than any other choice.

²³⁸ See Susan Fournier, *Consumers and Their Brands: Developing Relationship Theory in Consumer Research*, 24 J. CONSUMER RES. 343, 348-63 (1998) (exploring the various relationships that can develop between individuals, their self-identities, and their brand preferences); Roush, *supra* note 224, at C-1 (noting that old Coke maintained its market position over Pepsi and new Coke, even though blind taste tests ranked old Coke third among the three); see also Pollack, *supra* note 141, at 1397-1422, 1429 ("Theoretically, if objects and advertising interact as I have described, the self-definition aspects of a product should be protected from trademark monopoly as functional . . .").

than the network effects associated with telephone networks, but people are social creatures, and these effects, together with the imprimatur of desirability often associated with popularity, undoubtedly pressure consumers to conform. Dominant brands also experience returns to scale and declining costs, particularly with respect to advertising,²³⁹ that can provide significant advantages over smaller rivals. Taken together, these advantages substantially insulate dominant brands from competitive pressures, and tend to ensure that dominant brands remain dominant over time.²⁴⁰

Thus, many consumers will often not switch from the brand they know to another even if, in a perfect information world, they would recognize the second product as offering a better price/quality mix. In such cases, products bearing the appropriate brand will constitute a distinct product market, and trademark law will enable the mark owner to prohibit a competitor from offering products bearing that brand and to exclude would-be competitors from the market. As with any other monopoly, protecting such a market-defining trademark will enable the trademark owner to charge supracompetitive prices for her goods and will generate rents for the trademark owner. Such protection will, in consequence, lead to waste of the sort associated with monopolies generally. First, the supracompetitive prices and available rents will lead individuals to expend excessive resources attempting to capture the potential rents such market power offers.²⁴¹ The expensive scrambling that will result as

²³⁹ See, e.g., COMANOR & WILSON, *supra* note 6, at 217-34; LAMBIN, *supra* note 17, at 127-29. With advertising, these advantages extend both to formal advertising, because of declining costs, and informal, word-of-mouth advertising, because of a larger consumer base. Moreover, if, as Phillip Nelson has suggested, the primary information that consumers obtain from advertising is "that the brand advertises," Nelson, *Advertising as Information*, *supra* note 17, at 732, where more extensive advertising is evidence of product superiority, *see id.*, then dominant brands necessarily have a distinct advantage over would-be competitors considering entry into a market.

²⁴⁰ Thus, where the Internet was once thought to represent a brave new world for competition, established brands are now beginning to replicate their traditional dominance on the Net. See, e.g., *Brands Bite Back*, THE ECONOMIST, Mar. 21, 1998, at 78-79 (noting that "brands that are already big have an enormous advantage [on the Internet], particularly among people coming online for the first time who will tend to turn to names familiar from the real world"). Established brands enjoy this advantage even when their efforts to transition to the Internet fail to recognize the strengths and weaknesses of the new medium. *See id.* at 78-81. ("[The Time Warner Internet entry] is a slow, badly designed site. Nevertheless, the power of its brands [Time, People, and Fortune] attracts customers."). The steady erosion of Apple's market share in the computer market during the 1990s, serves as a useful reminder that the power of a brand does not preclude market share erosion when the associated product fails to keep pace, but only serves to slow that erosion. See, e.g., Peter H. Lewis, *Clan Macintosh Feels the Pain*, N.Y. TIMES, Apr. 2, 1998, at G-1 (noting Apple's declining share of the computer market from 11.8% in 1993 to 4.2% in 1997).

²⁴¹ See generally Gordon Tullock, *The Welfare Costs of Tariffs, Monopolies, and Theft*, 5 W. ECON. J. 224 (1967) (articulating need to recognize resources wasted seeking the rents available from monopolies as one of the social welfare losses generated by monopoly); Arnold Plant, *The Economic Theory Concerning*

each producer seeks a market niche from which she can capture such rents, will both increase the costs associated with popular branded goods and lead to excessive product differentiation.²⁴² Moreover, as part of this scramble, producers will advertise and incur other selling expenditures to shape consumer wants in ways that can skew consumer preference toward less desirable products.²⁴³ Second, supracompetitive prices will impose deadweight losses, as some consumers who would have paid a more competitive price will be unwilling to pay the higher, more monopolistic price for access to the branded good. In addition, consumer taste and preferences change over time and satisfying those demands calls for a dynamic process of identifying and keeping up with changing demands. We should fully expect that a single producer, facing only indirect or marginal "competition," will have somewhat less reason and ability to satisfy those demands than a multitude of producers competing directly against each other.

B. Welfare Benefits of Trademark Protection: The Mark As Source of Valuable Information

Despite the anticompetitive consequences that flow from trademark protection, such protection may nevertheless remain justified so long as the mark improves the flow of otherwise indiscernible information concerning: (1) the product to consumers, and (2) consumer desires to producers.²⁴⁴ Where a

Patents for Inventions, 1 *ECONOMICA* 30 (n.s. 1934) (arguing that the availability of rents from patent protection may lead to investment of excessive resources seeking the available rents).

²⁴² See, e.g., Treese, *Protectability of Product Differentiation*, *supra* note 6, at 1021-22.

²⁴³ Economists have taken to pretending that the shifts in demand achieved through selling expenditures are necessarily efficient. If an advertisement persuades a consumer to pay more for an article or to buy one article rather than another, the assumption seems to be that the consumer's actual buying decision must necessarily reflect the consumer's preference structure. See, e.g., Nelson, *The Economic Consequences of Advertising*, *supra* note 17, at 213 ("We economists have no theory of taste changes, so this approach leads to no behavioral predictions."). As discussed *supra* note 212, this is inaccurate—at best a consumer's purchasing decision reflects her perception of what best satisfies her desires, and this perception may well be wrong, particularly when shaped by advertising. The assumption remains plausible only because for most products measuring satisfaction by anything other than actual purchasing decisions is difficult. But where an objective standard for identifying superior products exists, studies have shown that selling expenditures can skew demand toward less desirable products. See, e.g., Daniel Q. Haney, *Older, Better Heart Drugs Often Ignored*, *CHATTANOOGA TIMES*, Mar. 21, 1998, at A5 (noting that extensive advertising and promotional expenditures on newer heart drugs still protected by patent lead to increased usage of such drugs even though studies had shown that they were less effective than older drugs not so heavily marketed). Similar effects are likely, but more difficult to quantify, for products whose desirability cannot be as easily measured by objective standards.

²⁴⁴ Courts and commentators have suggested other rationales for trademark protection, such as encouraging higher quality products, allowing a producer to exploit exclusively favorable consumer demand that

trademark serves as a source of otherwise indiscernible information concerning a product, protecting the trademark enables consumers to connect their desires to a specific good on the store shelf.²⁴⁵ Protecting a mark in such cases can thereby eliminate, for example, the impractical (and unsanitary) need for a consumer to taste every beverage displayed on the soda aisle to find the taste that she has been looking for; she need only look at the label. Trademarks can, thus, reduce the searching costs involved in identifying the desired product.²⁴⁶ Moreover, by enabling consumers to connect information to precise product more accurately, trademarks help consumers express more accurately their preferences and tastes for the varying mix of product features, quality, and prices each finds desirable. Trademarks can, therefore, help ensure that the pricing signals received by producers from the market (or "expressed demand") more accurately reflect consumers' actual tastes and preferences (or "actual demand"). By narrowing the gap between expressed and actual demand, deception-based trademark protection allows producers to recognize, respond to, and satisfy the actual demand more efficiently,²⁴⁷ at least under certain assumptions.²⁴⁸

she has developed (sometimes described euphemistically as capturing her goodwill), or providing a quality guarantee. See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995) (suggesting that one purpose of trademark law is to help "assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product"); Sidney A. Diamond, *The Public Interest and the Trademark System*, 62 J. PAT. OFF. SOC'Y 528, 544 (1980) (suggesting that trademarks are desirable because they lead to higher quality goods); Klein & Leffler, *supra* note 17, at 626-27, 629-634 (suggesting that trademarks can serve as a guarantee of quality). But these are effects, not purposes of deception-based trademark protection. To the extent they are desirable, they are adequately captured by a focus on trademark's informational role. If we go beyond protecting trademarks as an information source, and attempt to expand trademark to address these effects directly, for example, by protecting a producer's client base or requiring higher quality, even when consumers are not deceived or prefer a lower quality, we will find that we have broadened trademark too much with undesirable and anticompetitive consequences. See *infra* text accompanying notes 249-63, 296-302.

²⁴⁵ See, e.g., Dreyfuss, *supra* note 24, at 400-01; Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759 (1990) (describing trademarks as "packets of information").

²⁴⁶ See *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985). The Seventh Circuit explained:

The purpose [of trademarks] is to reduce the cost of information to consumers by making it easy for them to identify the products or producers with which they have had either good experiences, so that they want to keep buying the product (or buying from the producer), or bad experiences, so that they want to avoid the product or the producer in the future.

Id.; *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968) ("Without some method of product identification, informed consumer choice, and hence meaningful competition in quality, could not exist."); see also Stigler, *supra* note 17, at 220-24 (setting forth notion of consumer search costs and suggesting that advertising can effectively reduce such costs).

²⁴⁷ Without such a means, or even in some cases with such a means, consumers will turn to price as an indicator of quality. See *FTC v. Mary Carter Paint Co.*, 382 U.S. 46 (1965); see also Pitofsky, *supra* note 229, at 671. As a higher price becomes associated with increasing quality on its own, such association will

C. *The Competitive Balance*

Given the competing concerns discussed above, the question becomes whether, in any given case,²⁴⁹ the resulting efficiency gains from better satisfying consumers' actual desires outweighs the anticompetitive consequences of protecting a mark. In considering this balance, we begin with a simple observation: The surest way to avoid any possible confusion between brands in a market is to prohibit competition altogether. If there were only one source for sodas, one source for breakfast cereal, and one source for clothing, then consumers would invariably purchase such goods from the corresponding producer. In such a world, confusion over the source of goods would simply not arise. In that sense, competition itself, by introducing the presence of multiple sources for any given good or service, creates the potential for confusion.²⁵⁰ Despite this, no one seriously suggests that we should therefore eliminate competition altogether. Although such a step would virtually eliminate consumer confusion, detailed empirical analysis is unnecessary to conclude that the efficiency losses from prohibiting all competition would far exceed any conceivable gains from the marginal reduction in confusion that such a prohibition would achieve.

At the other end of the spectrum, allowing competitors to duplicate any aspect of another's product, including a feature that plays no role other than identifying the product's source, would ensure that competitors could produce

generate upward pressure on prices unrelated to higher product costs. See *Mary Carter Paint Co.*, 382 U.S. at 48-49 (noting that Mary Carter had typically sold its paint "two-for-one," so that it could advertise a "higher" single can price and thereby suggest that its paint was equivalent to the quality of paints typically sold in the higher price range); see also Klein & Leffler, *supra* note 17, at 634-35 (noting the risk that reliance on price as indicator of quality can generate upward pressure on prices, but suggesting that consumers can rely on price as indicator of quality in some circumstances without generating such upward pressure).

²⁴⁸ For trademarks to serve as an information source that improves market efficiency, we must assume, at a minimum, that consumers: (1) have or can obtain accurate information concerning product features; (2) can associate those features with a specific mark; (3) can recall that association; (4) can distinguish the desired mark from other marks; and (5) that the association remains valid over time. See Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 526-31 (1988).

²⁴⁹ Or perhaps more accurately, providing appropriate protection requires a balance for certain readily identifiable categories of cases, rather than on a case-by-case basis. As in any area of law, a case-by-case approach would generate both excessive transaction costs and excessive uncertainty.

²⁵⁰ It is not uncommon in trademark surveys conducted for litigation to encounter consumers who respond that they believe that the two products are manufactured by the same company because they believe that all products of that kind are manufactured by the same entity. See, e.g., *Sara Lee Corp. v. Kayser-Roth Corp.*, No. 6:92CV00460, 1994 U.S. Dist. LEXIS 19198, at *63 n.17 (M.D.N.C. Oct. 13, 1994) ("At least one response coded as 'same company [because] same name' should not have been: the respondent actually said she thought the pantyhose were made by the same company 'because I think all pantyhose are made by the same company.'"), *rev'd on other grounds*, 81 F.3d 455 (4th Cir. 1996).

an "imitation" indistinguishable from, and therefore perfectly competitive with, the original. But consumers in the marketplace would face a more difficult task matching their desires to precise products in the marketplace and would have to turn to some alternative means for identifying precise products, such as a personal relationship with the supplier.²⁵¹ While Professor Chamberlin has suggested an approach along these lines,²⁵² the plausible alternatives to trademarks for identifying precise products are likely to prove both substantially more expensive and substantially less effective for a variety of consumers goods.²⁵³ As with the other extreme, the marginal welfare gains that would result from rooting out the last vestiges of market power associated with a minimally-protective trademark regime are far outweighed by the welfare losses entailed in forcing producers and consumers to abandon trademarks altogether as an information source. The desirability of providing at least some trademark protection seems equally clear.

In moving to the question of how much trademark protection is ideal, we can break down the relevant efficiency considerations for cases between these two extremes as follows. First, the anticompetitive losses from trademark protection stem from three factors:

- (1) The extent to which the thing claimed as a trademark has value independent of the information it provides consumers;

²⁵¹ See SIDNEY WEBB & BEATRICE WEBB, *INDUSTRIAL DEMOCRACY* 683 (1920) (arguing that the broadening of trademark protection is undesirable because it diminishes the role merchants formerly played as expert advisers to the consuming public).

²⁵² CHAMBERLIN, *supra* note 3, at 272-74. Professor Chamberlin explained his approach and the countervailing arguments as follows:

Let us turn to the consumer. It will be said at once that trademarks are necessary in order to protect him against deception and fraud. If producers were free to imitate the trade-marks, labels, packages, and products of others, no one would have any incentive to maintain the quality of his goods, for they would inevitably be imitated by inferior products at lower prices, put up to look identical. . . . The law of trade-marks and unfair competition safeguards [the consumer] by putting a premium on differentiation and protecting the monopolies thereby established. Equally effective, however, would be a policy of permitting imitation provided only it were perfect, or of defining standards of quality by law.

Id. at 273. If this approach seems far-fetched, keep in mind that this is essentially the approach we have adopted for the sale of beef, generic drugs, and a variety of other products.

²⁵³ In the 1930s and 1940s, some commentators supported grade marks, that carefully describe exact quantity and quality, as a superior alternative to trademarks. See, e.g., 1 LEVERETT S. LYON ET AL., *GOVERNMENT & ECONOMIC LIFE* 222-29 (1939); MARGARET G. REID, *CONSUMERS AND THE MARKET* 362-78 (1939); Carl A. Auerbach, *Quality Standards, Informative Labeling, and Grade Labeling as Guides to Consumer Buying*, 14 *LAW & CONTEMP. PROBS.* 362 (1949).

- (2) The marginal increase in the risk, expense, and time required for competitors to develop an alternative that consumers will recognize and accept as a substitute for the original as a result of protection; and
- (3) The extent to which the imitations become increasingly imperfect substitutes for the original as protection increases.

As trademark protection expands in various ways, the efficiency losses that follow from one or several of these factors are likely to become more significant. Even where protection does not go so far as to foreclose competitive entry altogether, protection will necessarily entail some degree of anticompetitive loss as it will require would-be competitors to undertake greater effort to work around the protection provided.²⁵⁴ As protection expands, this task becomes more difficult, time-consuming, and expensive, and consumers will likely perceive the offerings as increasingly less perfect substitutes for the original or known brand. As a result, broader trademark protection generally means higher prices for consumers and more extensive anticompetitive losses for society.

On the other side of the coin, the informational advantages associated with trademark protection also flow from three factors:

- (1) The extent to which the thing claimed as a mark conveys otherwise unavailable information concerning the associated product;²⁵⁵
- (2) The value of the information conveyed in terms of its materiality to the purchasing decision; and
- (3) The availability of, or ability to develop, alternative means for conveying the information.

On this side, however, expanding trademark protection does not necessarily generate a corresponding marginal increase in efficiency gains. The reason for this is simple: If consumers already have one trademark available as a source of information concerning a product, they gain little from having a second, third, or fourth for the same information.²⁵⁶ Additional marks largely

²⁵⁴ See Folsom & Teply, *supra* note 196, at 1334-37, 1345 (noting increasing costs for competitors as protection expands given the need to develop alternate means of identifying potential substitute as viable substitute).

²⁵⁵ See, e.g., *id.* at 1353.

²⁵⁶ A number of courts have pretended that the efficiency advantages from protecting product designs or features as trademarks are comparable to those associated with protection of word marks. But this is obvi-

duplicate information already available, and if the information really matters, a reasonable consumer would both know to rely, and can rely, on the information source already available.²⁵⁷ The third factor also expressly recognizes that if we should consider a defendant's ability to develop alternative designs as a factor that may limit the anticompetitive consequences of protection, we must also consider a plaintiff's ability to develop alternative marks as a factor that limits the procompetitive consequences of protecting any given mark. Moreover, even where expanded protection is tied to an expanded informational role, not all information has equal value. As discussed, the efficiency advantages associated with being able to identify any given product among a shelf full of similar products are clear, but information concerning the legal permissions or corporate structure involved in the production of a good is likely to prove of far less value to consumers. As a result, expanded trademark protection is likely to generate only small marginal increases in the information-based efficiencies associated with protection when compared to a minimally-protective regime.

This balance tends to suggest that protection for trademarks serving an important informational role may well be desirable, but only if narrowly tailored to avoid imposing any significant costs on the competitive process. Even here, two caveats are in order. First, even narrow trademark protection may render a popular brand a distinct product market, economically speaking, and generate for the brand-owner the downward sloping demand curve of a monopolist. Nevertheless, so long as the brand loyalty results from the producer's investment in product features desired given the price charged, which desirability the mark uniquely serves to identify, we can reasonably conclude that protecting the mark will, on balance, promote desirable competition, even if it also ensures the producer's exclusivity in the branded product market. Second, even with narrow trademark protection, our conclusion that such protection is desirable must be tempered by the recognition that the information a mark conveys is necessarily limited and often one-sided. While protecting a source of such imperfect information may have value,²⁵⁸ in some cases, protecting trademarks

ously false. Once a consumer has one method of identifying precise product, such as a word mark, the marginal efficiency advantages from protecting additional "marks" for the product, whether trade dress, product features, or product design, are slight and decreasing.

²⁵⁷ Coca-Cola's decision to continue marketing new and old Coke under variations of its Coca-Cola trademarks provides one indication of the slight differences in marks required for consumers to distinguish products when they have reason to do so.

²⁵⁸ See Alan Schwartz & Louis L. Wilde, *Intervening in Markets on the Basis of Imperfect Information: A Legal and Economic Analysis*, 127 U. PA. L. REV. 630, 638 (1979).

will lead to a market share and price equilibrium further from a "perfect information" equilibrium than would a refusal to provide trademark protection at all.²⁵⁹

When we move beyond narrowly tailored protection for marks serving an important informational role, the competitive balance suggests a different answer, however.²⁶⁰ As the value of the information conveyed by a given mark lessens, consumers will, by definition, rely on other indicators to connect information to precise product and will therefore have other means to signal producers concerning the mix of price, quality, and other unobservable product features desired. The potential efficiency gains from protecting such a mark decrease. At the same time, the anticompetitive risks associated with protecting a mark valued for its own sake increase. When a word, or something else that might serve as a trademark, has value to consumers for its own sake, aside from its role in connecting information to precise product, protecting the mark will require others to expend additional resources replicating the mark's attraction as product, without imitating the mark too closely. Such protection will therefore increase the costs and risks associated with introducing a competing product. Such protection will also lessen the extent to which consumers will consider such "competing" products perfect substitutes for the original, not merely because the information readily available concerning the products will differ but because the products themselves will differ. Because protection renders direct competition both more expensive and more difficult, it will tend to increase the market power, prices, and rents associated with popular brands. The inefficiencies associated with such protection will increase correspondingly, as deadweight costs and rent-seeking are directly proportional to the market power and rents available. When these potential efficiency losses begin to outweigh the potential efficiency gains from providing protection, the balance suggests that trademark law has reached its appropriate limits.

²⁵⁹ This is most obvious in cases where identical goods are produced and sold under different trademarks at different price points. See, e.g., *Dateline: C-ing the Difference; Health Benefits of Vitamins, and Tips on Which Brands to Buy* (NBC television broadcast, Mar. 30, 1997) (finding that prices for various brands of vitamin C varied 30-50% in the marketplace, where, in fact, the vitamin C tablets sold under the various brandnames were identical and were all made by the same company at the same factory; only the labels changed). Here, there is no plausible argument that the trademark serves as "greater assurance that the good will actually be manufactured to the specifications of the formula." See Landes & Posner, *supra* note 17, at 275.

²⁶⁰ See also Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 851-63 (1997) (suggesting a similar competitive balance and arguing that dilution upsets it).

D. The Competitive Balance and Expanded Trademark Protection

As a general approach to trademark's proper scope, a competitive balance not only suggests a rationale for and limits to traditional deception-based trademark protection, but also raises serious questions about the desirability of expanded trademark protection generally. Even where expanded protection has some plausible tie to an expanded informational role, such protection, even if it does not result in market foreclosure, is likely to increase significantly the time and expense involved in introducing competing products and to increase, by legal mandate, the differentiation present in the marketplace. Expanded protection will therefore weaken competition as a force in the marketplace. Even if the result in any given case is only "a relatively weak monopoly,"²⁶¹ the marginal value of the information-based efficiencies associated with this expanded protection is simply too slight to outweigh the anticompetitive potential such protection entails.

Moreover, even if some parts of this expansion could be justified based upon the efficiencies associated with improved information flow, still we must acknowledge that much of this expansion has nothing at all to do with deception-based concerns, but represents an attempt to protect the investment in creating a desirable product for its own sake. Under trademark's traditional balance, such property-based protection appears presumptively undesirable. If the claimed "mark" serves no informational role at all, protection gains us nothing and undoubtedly imposes some marginal increase in would-be competitors' costs. Even where the claimed "mark" plays some informational role, protection remains undesirable unless the marginal efficiencies associated with this informational role exceed the anticompetitive losses protection would entail. To the extent consumers value the mark or its appearance on an article principally for its own sake, rather than for the information it may convey concerning the quality, source, or other unobservable features of the article, the anticompetitive consequences of excluding others from the market will generally outweigh the efficiency gains generated by the mark's informational role. In such cases, it is almost always easier for the would-be trademark owner to devise an alternate means of conveying the relevant information than it is for the would-be competitor to devise an alternate product that nevertheless duplicates the appeal of the original. And, in many cases, prohibiting a would-be competitor from introducing a product that incorporates

²⁶¹ Kohler Co. v. Moen Inc., 12 F.3d 632, 650 (7th Cir. 1993) (Cudahy, J., dissenting).

the feature claimed as a trademark would effectively mean that the would-be competitor cannot introduce a competing product at all.

Obviously, there will be close cases, where a mark has substantial value both as product and as information source.²⁶² But that does not mean that there will not also be easy cases, where it is perfectly clear, at least if we are honest with ourselves, which type of value is at stake. In such a case, where a mark's value as product outweighs its value as information source, applying trademark's traditional balance would suggest that extending protection to and excluding others from using the mark would be undesirable.²⁶³ Whatever slight efficiency gains might be realized from the information conveyed by the mark would be outweighed by the efficiency losses that excluding others from a distinct product market would create. Indeed, in such a case, the word, symbol, or device at issue is not really serving as a trademark at all, but is simply the product, or a feature of the product, being sold. Consequently, unless some other efficiency gain can be tied to extending protection in such cases, protecting marks based on their value independent of their informational role risks creating monopolies, not merely in the neutral, descriptive sense, but in the ordinary and pejorative sense of unjustified and inappropriate market power.

III. PROPERTY-BASED RATIONALES FOR PROPERTY-BASED TRADEMARK

In expanding trademark's protection to encompass a trademark's value as product, many courts and commentators have frankly acknowledged that deception-based rationales do not support expanded protection, and have proffered property-based rationales as an alternative justification for the expansion.²⁶⁴ Often, these property-based rationales seem to begin with the sense that the trademark owner is "naturally" entitled to full, complete, and exclusive control over a mark that she has created.²⁶⁵ Perhaps recognizing,

²⁶² For an example of a close case, see *Vuitton et Fils S.A. v. J. Young Enterprises, Inc.*, 644 F.2d 769 (9th Cir. 1981), where a prestigious manufacturer of accessories used a repeated image of its trademark as the pattern for the fabric covering its goods. Even in these close cases, the very fact that a potential competitor found imitation profitable should be sufficient to establish the property-based nature of the protection, at least where the goods are otherwise properly labeled.

²⁶³ See *International Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912, 918-20 (9th Cir. 1980).

²⁶⁴ See *supra* text accompanying notes 75-82, 103-05, 137-40.

²⁶⁵ See *Federal Trademark Dilution Act of 1995: Hearing on H.R. 1295, Before the Subcomm. on Courts and Intellectual Property of the House Comm. on the Judiciary*, 104th Cong. 120-21 (1995) (statement of Rep. Bono).

however, that natural rights' day, if it ever was, has passed, few courts will rest their conclusions on natural rights rhetoric or the simple-minded syllogism of but-for causation. Moreover, courts have repeatedly emphasized that the mere expenditure of money to promote and popularize a product, even if the expenditure is substantial, is not sufficient to establish an individual's exclusive rights in the product.²⁶⁶ These statements would seem to eliminate a natural rights basis for property-based trademark protection. Rather than rely on natural-rights reasoning, proponents of property-based trademark have therefore turned to arguments that parallel those found in discussions of patent and copyright, and in the field of property more generally, as to why private ownership is desirable. These arguments take essentially two tacks. Some courts have argued that a supposed need for incentives, and the threat that free riders or other exploiters would present, justifies property-based trademark. Others have argued for property-based trademark protection on the grounds that only such protection can ensure assignment of scarce resources to their highest and best use. As we shall see, these arguments prove ultimately hollow in the context of trademark protection.

A. Property-Based Rationales I: Incentives, Free Riders, and Trademark Protection

As their first argument for property-based trademark protection, courts and commentators have worried that without protection, imitation and free riding by others will undermine the incentive necessary to ensure sufficient investment in desirable trademarks. A similar argument has proven popular as a justification for patent and copyright protection,²⁶⁷ but for all its popularity,

²⁶⁶ See *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 122 (1938); *Smith v. Chanel, Inc.*, 402 F.2d 562, 568 (9th Cir. 1968) ("A large expenditure of money does not itself create legally protectable rights. Appellees are not entitled to monopolize the public's desire for the unpatented product, even though they themselves created that desire at great effort and expense."); *American Safety Table Co. v. Schreiber*, 269 F.2d 255, 272 (2d Cir. 1959); *Millinery Creators' Guild, Inc. v. FTC*, 109 F.2d 175, 177 (2d Cir. 1940) ("[The creator] suffers a real loss when the design is copied as soon as it appears; the imitator in turn reaps a substantial gain by appropriating for himself the style innovations produced by the creator's investment. Yet the imitator may copy with impunity . . ."); *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 279-80 (2d Cir. 1929).

²⁶⁷ Public goods analysis as such began with Professor Samuelson's 1954 article, *The Pure Theory of Public Expenditure*. See Paul A. Samuelson, *The Pure Theory of Public Expenditure*, 36 REV. OF ECON. & STATS. 387 (1954). Although his analysis focused principally on explaining and justifying government expenditure on, and provision, of certain goods, *id.* at 387-88, in his later articles, Professor Samuelson used "concerts" as an example of the type of good to which his analysis might apply. See Paul A. Samuelson, *Aspects of Public Expenditure Theories*, 40 REV. OF ECON. & STATS. 332 (1958); Paul A. Samuelson, *Diagrammatic Exposition of a Theory of Public Expenditure*, 37 REV. OF ECON. & STATS. 350 (1955). Professor

both the theory and the reality of the free-rider rationale remain poorly understood.

In the traditional analysis, a lighthouse illustrates the problem that free riders present for the private production of a public good.²⁶⁸ Once built and placed in service, the lighthouse shines its light and warns of rocks both for those who contributed to its construction and operation and for those who have not. Moreover, because of practical considerations—broadly denominated “transaction costs”—the owner or operator of the lighthouse often has no effective way of preventing non-paying ships from using the lighthouse as a navigational aid as they pass by.²⁶⁹ As a consequence, at least some ships are able to obtain the benefit of the lighthouse without paying for its construction or upkeep. We can label these non-paying ships “free riders” in the following precise sense: They are willing to pay for the benefit of the navigational aid, in that they value the light from the lighthouse at more than their pro rata share of its construction and operations costs, yet transaction costs allow them to escape contributing to the lighthouse’s expense.²⁷⁰ When free riders are present, producers in the market will receive compensation only from a fraction of those who receive the benefits of their labor. As a consequence, free riders will reduce the apparent demand for and the incentive to supply lighthouses, and will lead to a marginal reduction in lighthouse supply, either

Kenneth J. Arrow first applied a public good analysis directly to intellectual property issues. See Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in *THE RATE AND DIRECTION OF INVENTIVE ACTIVITY* 609, 617 (1962).

²⁶⁸ See ARMEN A. ALCHIAN & WILLIAM R. ALLEN, *UNIVERSITY ECONOMICS: ELEMENTS OF INQUIRY* 246 (3d ed. 1972); SAMUELSON, *supra* note 213, at 45 n.1, 158-60. But see R.H. Coase, *The Lighthouse in Economics*, 17 *J.L. & ECON.* 357 (1974) (noting that private, commercial operation of lighthouses was common historical practice).

²⁶⁹ In economic parlance, the term “non-excludable” describes goods characterized by an inability to exclude non-payers. See, e.g., ROBERT HANEY SCOTT & NIC NIGRO, *PRINCIPLES OF ECONOMICS* 444 (1982). In his 1954 article, Professor Samuelson used the term “collective consumption goods” as the label for goods where “each individual’s consumption of such a good leads to no subtraction from any other individual’s consumption of that good.” Samuelson, *Pure Theory*, *supra* note 267, at 387. Professor Demsetz subsequently proposed a distinction between “public goods,” which are characterized by nonrivalrous consumption and an ability to exclude non-payers from access to the good, and “collective goods,” which are characterized by nonrivalrous consumption and an inability to exclude non-payers. See Harold Demsetz, *The Private Production of Public Goods*, 13 *J.L. & ECON.* 293, 295 (1970). The inability to exclude non-payers was implicit in Professor Samuelson’s definition of collective consumption goods. See Samuelson, *Pure Theory*, *supra* note 267, at 387 (“[C]ollective consumption goods [are goods] which all enjoy in common.”).

²⁷⁰ See, e.g., Harold Demsetz, *Towards a Theory of Property Rights*, 57 *AM. ECON. REV.* 347, 348 (1967) (providing parallel definition of externalities: “What converts a harmful or beneficial effect into an externality is that the cost of bringing the effect to bear on the decisions of one or more of the interacting persons is too high to make it worthwhile . . .”).

by reducing the number of lighthouses built or by delaying the construction or reducing the features of any given lighthouse. The traditional analysis equates such marginal reductions in supply with suboptimal or inefficient activity levels.²⁷¹ And on that basis, the traditional analysis concludes that free riders are undesirable and their presence sufficient to justify government intervention, at least where the degree of free riding present justifies the likely administrative costs of intervention.

But the traditional analysis and its resulting conclusion are flawed. Free riding does not necessarily equate with inefficient activity levels. Underlying the traditional analysis are two necessary assumptions: first, all markets are perfectly competitive; and second, all costs and benefits are fully internalized. Neither assumption is in fact true. Real world markets contain substantial elements of market power and cost-benefit externalization. When we adjust our analysis to reflect these realities, we find that free riders are both desirable and necessary to achieve efficient activity levels in the economy as a whole.

1. A Simple Model Illustrating the Interaction of Free Riding and Market Power

To illustrate, consider a simple model of a two product world where the two products have identical supply and demand curves, and a fixed amount of resources are available for use in the production of the two products. Using this model, we can work through the effects of free riding and market power on the efficient allocation of resources within the market as a whole.

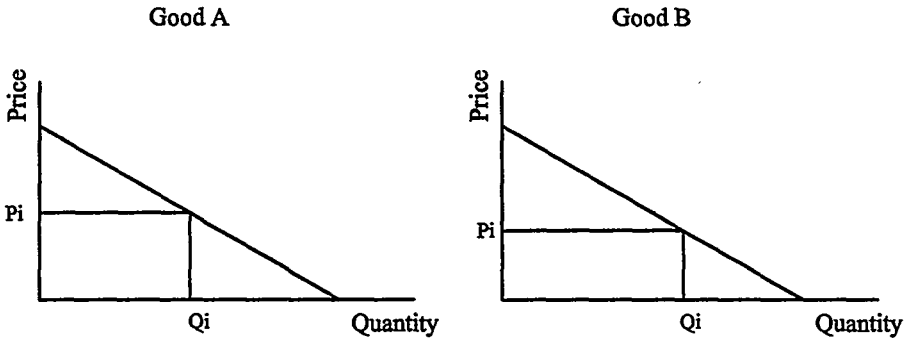
Example 1 — Perfect Competition, Perfect Internalization: To begin, we start with the assumptions that: (1) both goods are produced within perfectly competitive markets; and (2) the costs and benefits associated with the goods are fully internalized. Under these assumptions, resources will flow into the two activities until all available resources are consumed and will reach equilibrium at the point where price, marginal cost, and marginal utility from a given unit of production are all equal for each good.²⁷² Because we have assumed identical demand and supply curves for our two goods, production of any given unit of either good imposes identical costs and generates identical value. As a consequence, resources will be allocated evenly between the production of the two goods, until they are all consumed. In more practical terms, half of

²⁷¹ See, e.g., SAMUELSON, *supra* note 213, at 465-66; Thomas E. Borchering, *Competition, Exclusion and the Optimal Supply of Public Goods*, 21 J.L. & ECON. 111 (1978).

²⁷² See, e.g., JOAN ROBINSON, *THE ECONOMICS OF IMPERFECT COMPETITION* 95, 317 (1933).

the available resources will go into the production of Good A and half will go into the production of Good B. Such an equilibrium is illustrated in Figure 1.

Figure 1. Production under conditions of perfect competition and full internalization.



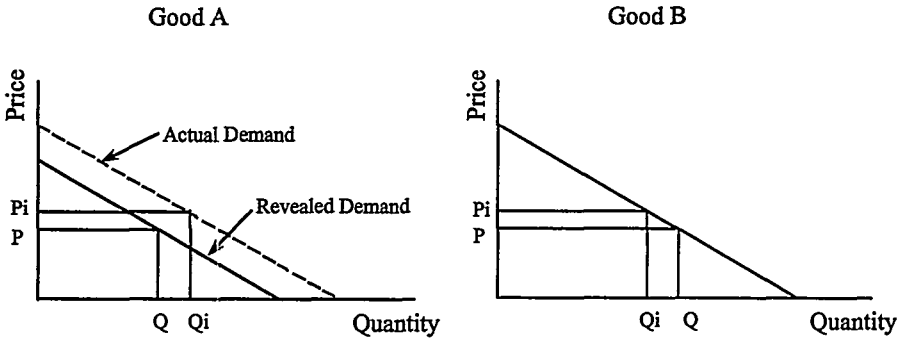
Under these assumptions, the allocation of resources between the two activities and the activity levels in each market reflect the theoretical optimum posited by the perfect competition model, where the market price for every commodity equals its marginal cost and its marginal utility.²⁷³ With this optimum as a basis for comparison, we can now relax our assumptions concerning perfect competition and full internalization as a way of exploring the effects of free riders and monopolization on activity levels.

Example 2 — Perfect Competition, Good A Free Riding: As a first step, assume that there is some degree of free riding present in the consumption of Good A. While the “actual” demand for Good A remains constant, the paying or “revealed” demand for the good will fall because some part of the actual demand will be satisfied by free riding. Producers in the market will not receive compensation for the free-rider portion of the actual demand and to the

²⁷³ See, e.g., *id.*

extent they are rational, profit-making entities, they will respond only to the revealed demand curve in making production decisions. As the degree of free riding increases, an increasing part of the actual demand will be satisfied by free riding and, as a result, the separation between the actual and revealed demand curves will increase.²⁷⁴ If we assume a given level of free riding and distribute available resources fully between the production of Good A and Good B, under conditions of perfect competition, *i.e.*, such that price (under the revealed demand curve for Good A) equals marginal cost, society's resources will be allocated unevenly between the production of the two goods. Because the presence of free riders conceals, in a sense, a part of the actual demand for and social value of Good A, the production of Good A appears less valuable and less profitable than the production of Good B. As a result, the market will allocate somewhat less of society's resources to the production of Good A, and somewhat more to the production of Good B, than was the case in our first example. The resulting equilibrium is illustrated in Figure 2.

Figure 2. Production under conditions of perfect competition and free riding in the consumption of Good A.



²⁷⁴ If very little free riding is present, the revealed demand curve will fall only slightly to the left of the actual demand curve. If a great deal of free riding is present, the revealed demand curve will fall substantially to the left.

If we compare the activity levels in Figure 2 with those in Figure 1, where Q represents activity levels with free-riders and Q_i represents the ideal activity levels found in Example 1, we find that production of Good A is somewhat lower and production of Good B somewhat higher than was the case in our first example. To the extent the activity levels in our first example were optimal, we can label the reduced production of Good A "suboptimal" or "inefficient" in the following sense: Marginal resources continue to flow into the production of Good B beyond the point at which society would have more highly valued their use in the production of Good A.²⁷⁵ One way to remedy this inefficiency would be to eliminate, through government intervention or private action, the free riders. Eliminating the free riders would cause producers of Good A to perceive and respond to the actual demand curve for Good A, and would restore the optimal equilibrium achieved in our first example.

This example suggests that the presence of free riders can lead to inefficient activity levels and waste.²⁷⁶ To the extent its assumptions accurately represent real-world markets, it provides a basis for concluding that free riding may justify government intervention, where transaction costs prevent a private law, negotiated solution and where the degree of free riding present justifies the resulting administrative costs.

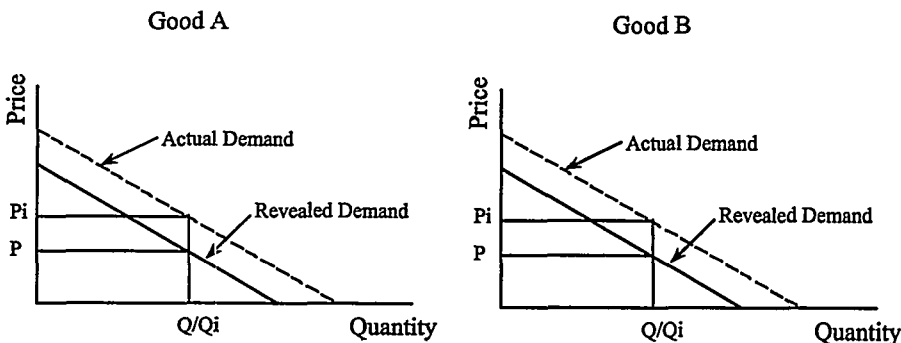
So far this tends to confirm the traditional analysis. This is not the end of the story, however. To reach this point, the traditional analysis and its resulting conclusion have necessarily assumed perfect competition in all markets and perfect internalization in all markets except for the one under consideration. To the extent these assumptions are inaccurate, the traditional analysis and its resulting conclusion must also be inaccurate. When we relax these assumptions to examine the effects of free riding under more realistic assumptions concerning market conditions, we find that free riding may prove both necessary and desirable to achieve an efficient allocation of resources, as the following examples illustrate.

²⁷⁵ For similar definitions of allocative efficiency, see SUBCOMM. ON PATENTS, TRADEMARKS AND COPYRIGHTS OF THE SENATE COMM. ON THE JUDICIARY, 85TH CONG. (prepared by Fritz Machlup); Lunney, *supra* note 19, at 489, 598; and Robert M. Hurt & Robert M. Schuchman, *The Economic Rationale of Copy-right*, 56 AM. ECON. REV. 421, 429-30 (1966).

²⁷⁶ The additional resources unused in the production of Good A because of the presence of free riders do not go unused in the market as a whole, but they shift to the production of Good B. Nevertheless, this constitutes waste or inefficiency because society apparently values the additional units of Good A that would have been produced more than the value of the additional units of Good B that were produced, but for the presence of the free riders.

Example 3 — Perfect Competition, Free Riding on Both Goods: In Example 2, we assumed that free riding was present only with respect to the consumption of Good A, but that is unlikely to be true in the real world. In real-world markets, free riding and other positive or negative externalities are ubiquitous,²⁷⁷ and we should account for this in our model. To explore this, we will assume that Good B also experiences free riding in its consumption and, for the sake of convenience, will assume that Good B experiences a level of free riding similar to Good A. Again, we can illustrate the effects of such free riding on the markets for the two goods by creating a revealed demand curve for each good. As above, free riding will satisfy a part of the the actual demand for each good and thereby reduce the revealed demand for each good. The revealed demand curve will fall below the actual demand curve, and the separation between actual and revealed demand curve will represent the degree of free riding present in the two markets. As before, producers will make production decisions and set their activity levels with respect to production of Good A and Good B according to the revealed demand curves for each good. In this case, however, because Good A and Good B experience similar degrees of free riding, the revealed demand curves make the production of the two goods appear equally valuable, both privately and socially, relative to one another. As a consequence, if we divide society's resources between these two activities, until all available resources are consumed and revealed price equals marginal cost, the available resources will be allocated evenly between the two goods, as shown in Figure 3.

Figure 3. Production under perfect competition and free riding in the consumption of both goods.



²⁷⁷ See *infra* text accompanying notes 285-87.

As Figure 3 suggests, where Good A and Good B experience similar degrees of free riding, the activity levels for each good, or Q , are identical to those that would be found in the optimal case, Q_i . Because both goods experience similar degrees of free riding, they appear, as they are, equally valuable and available resources are divided equally between them, as they should be. As in our first example, half of the available resources go to the production of Good A and half to Good B. The market is, therefore, allocating available resources efficiently.²⁷⁸

If we followed the traditional analysis, however, and focused solely on the free riding present with respect to the consumption of Good A, the traditional analysis would suggest that we should take steps to eliminate the free riding and would further suggest that doing so would improve the efficiency of the market. Yet, if we did so, without simultaneously correcting the free-rider situation for Good B,²⁷⁹ activity levels for Good B would remain dictated by its revealed demand curve, while activity levels for Good A would now follow the actual demand curve for Good A. Such "partial internalization" would generate a misleading impression in the marketplace by falsely suggesting that the production of Good A was more valuable than the production of Good B. As a result, taking action to correct the Good A free-rider situation would lead more resources into the production of Good A and fewer resources into the production of Good B. Government action to correct the Good A free-rider situation would generate precisely the sort of inefficiency we were trying to prevent. Resources would continue to flow into the production of Good A beyond the point at which they would otherwise have been more valuably used to produce Good B.²⁸⁰

²⁷⁸ While production levels are identical in Figure 3 to those found in Figure 1, some might point to the lower prices found in Figure 3 (P) compared to the ideal prices (P_i) as evidence of inefficiency or perhaps of labor exploitation. However, there is nothing to substantiate such a suggestion. While the lower market prices for the goods may suggest lower wages for labor or other inputs, the buying power of the wage remains the same because any reduction in labor or other input price is exactly offset by the lower market price for the finished goods.

²⁷⁹ Such partial internalization might result for any number of reasons. Most importantly, Congress is likely to respond to internalize an externality when the cost of the externality falls on a concentrated interest group, such as authors and publishers or the owners of popular trademarks, and the benefits fall on a dispersed group, such as the public generally. In such a case, the disproportionate lobbying advantages of the concentrated group make government action to internalize the externality likely, even when it is objectively undesirable. On the other hand, if the benefit of an externality falls on a concentrated group and its cost on a dispersed group, the government is less likely to act to internalize fully the externality, as in the case of pollution by the coal industry of the Northeast.

²⁸⁰ Some might argue that the appropriate course is for the government to act to address both free-rider situations. But this is incorrect. Because resources were optimally allocated before government interven-

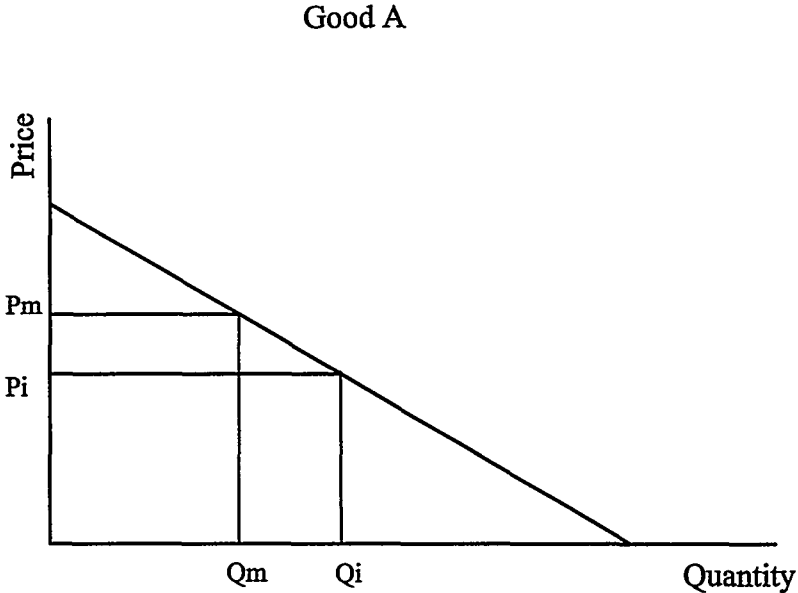
From this example, we can derive the first principle limiting application of the traditional analysis: Relative externality. To the extent that free riding exists in one sector of the economy, the presence of free riding in other sectors is essential to achieve an efficient allocation of resources in the market generally. Where free riding exists in several sectors of the economy, eliminating free riding from one sector may reduce the efficiency of the market as a whole.

Example 4 — Good A Produced Under Monopoly Conditions with Free Riding: To reach the conclusion that free riding was undesirable in Example 2, we also assumed that the goods were produced within perfectly competitive markets. But perfectly competitive markets, like full cost/benefit internalization, are rare outside of economic theory.²⁸¹ Our model should therefore account for how the presence of market power affects the analysis. To explore this, we will focus on the production of Good A and assume that the production of Good A occurs under conditions of monopoly, rather than perfect competition. In contrast to our previous three examples, production of Good A will no longer fall at the point where marginal cost equals price. Rather, the producer of Good A will, following the typical principles for a monopolist, maximize her profit by setting an output lower, and a price level higher, than was the case under perfect competition, as illustrated in Figure 4.1.

tion, intervention cannot improve the allocation of resources. All intervention would accomplish in Example 3 is an additional expenditure of the resources required to administrate the internalization mechanism. Such a result also applies to free-rider situations more generally. For example, assume that a coastline has six harbors, that each harbor requires a lighthouse, and that each harbor receives an equal share of the shipping traffic. In such a case, we can allow each harbor to charge a lighthouse fee only for that shipping that visits the harbor, allowing ships that do not stop in a given harbor to free ride on that harbor's lighthouse, or we can establish a uniform lighthouse tax for the harbors as a group and then divvy up the resulting revenues among the six harbors. Under these assumptions, there is no reason to believe that the second system will prove more efficient, either at ensuring an optimal supply of lighthouses or otherwise. (A formal proof of this proposition is beyond the scope of this paper, but such proof would merely show that there is a given sum of money that the shipping industry is willing to pay for these lighthouses and given the equal levels of shipping at each port, it is irrelevant to the funding of the lighthouses whether each harbor receives one-sixth of the available lighthouse funds from a levy for ships that dock in that harbor or as its share of the general lighthouse fund.) Indeed, the second system may prove less efficient, as the central collection of the lighthouse fees provides a pool of money at greater risk of being distributed on a patronage and pork basis rather than legitimate need. We might identify this sort of efficient free riding, reciprocal free riding, as it suggests a corollary limiting principle.

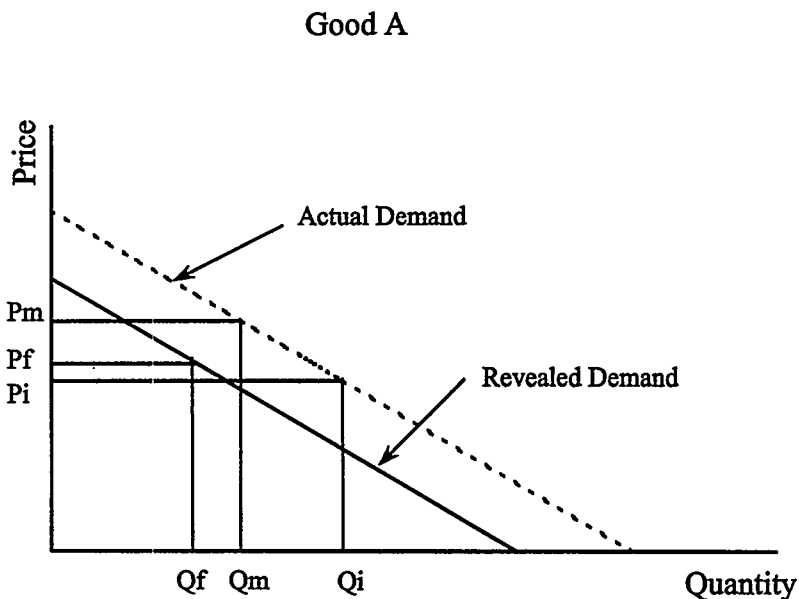
²⁸¹ See, e.g., SCHERER, *supra* note 5, at 10; see also *supra* note 208.

Figure 4.1 Good A Production: Perfect competition and monopoly compared with full internalization.



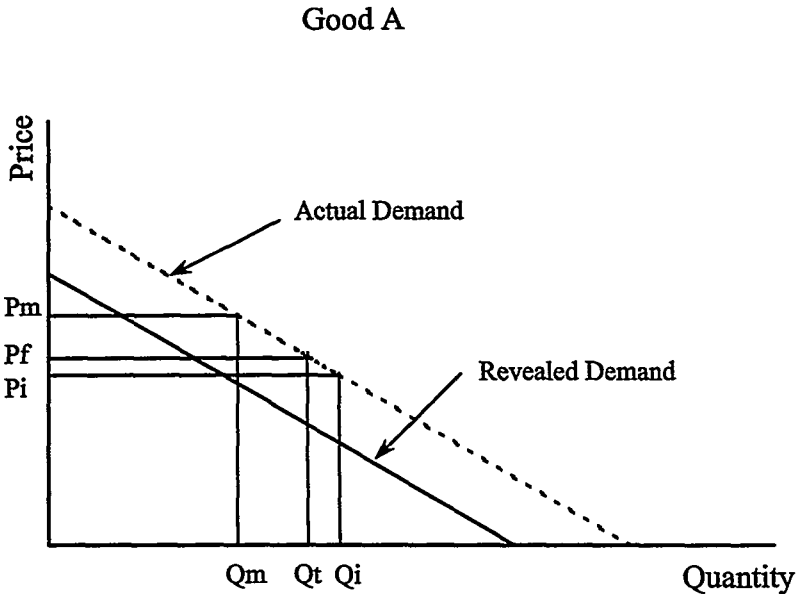
Thus, quantity under monopoly conditions, or Q_m , is less than quantity under conditions of perfect competition, or Q_i , and price under monopoly conditions, or P_m , is higher than price under conditions of perfect competition, or P_i . This result is unsurprising as it merely confirms the traditional analysis of monopoly. If we continue the analysis, however, by assuming that free riding exists with respect to the consumption of Good A, we find a somewhat surprising result. When Good A's production takes place under conditions of monopoly, the presence of free riders will reduce the price for, and increase the supply of, Good A in the market. As free riding increases, it will tend to drive the Good A price, or P_f , towards the theoretical optimum identified in Example 1, as illustrated in Figure 4.2.

Figure 4.2 Good A Production: Perfect competition and monopoly compared with free riding.



Moreover, while free riding under these conditions also appears to reduce Good A production levels, as the shift from Q_m to Q_f on Figure 4.2 suggests, Q_f reflects only paid-for production and does not include that portion of the demand satisfied by free riding. When we account for that portion of the demand for Good A satisfied through free riding, we find that total Good A production levels, or Q_i , defined as paying production plus free-rider "production," more closely approach the perfect competition ideal, as illustrated in Figure 4.3.

Figure 4.3 Production of Good A: Perfect competition and monopoly compared with free riding.



This example suggests that free riding can counterbalance the inefficiency that market power otherwise generates. Where market power tends to restrict output and increase prices, free riding tends to increase output and reduce prices.²⁸² If we nevertheless followed the traditional analysis and attempted to eliminate the Good A free riding, we would eliminate this important counterbalance and thereby increase the degree of allocative inefficiency present in the market as a whole.

²⁸² To determine the effect of such free riding on the allocation of resources to Good B, we must first distinguish between cases of true free riding, where the free rider obtains the benefit of the activity at no additional cost to society, and imitative or competitive free riding, where another producer satisfies part of the demand for a good by imitating a successful product. With competitive free riding, satisfying the "free-rider demand," defined as the difference between the actual and revealed demand curves, will require the expenditure of resources in order to create the competing products. While an imitator might require somewhat fewer resources to satisfy any given demand than the originator, competing free riders will use, at least, some resources to satisfy the free-rider demand and will therefore reduce by a like amount the resources available for production of Good B. As a result, competitive free riding will not only tend to bring Good A production and price levels closer to the theoretical optimum from Example 1, but will also tend to bring Good B production and price levels closer to optimum, as well.

From this example, we can derive a second principle limiting application of the traditional analysis: competitive free riding. To the extent that there is some degree of market power present in a market, some degree of free riding is essential to achieve a more efficient allocation of resources.

Example 5 — Innovation & Incentives: As a corollary to the conclusion that free riders necessarily lead to inefficient activity levels, the traditional analysis also suggests that the presence of free riders will reduce the incentive to invest in creative and innovative products to a level where too little innovation occurs. Yet, like the principal conclusion of the traditional analysis, this corollary is also flawed and for similar reasons.

To examine this, consider the competitive market structure for a new product over time. When first introduced, the new product is likely to have some distinct attraction or appeal over preexisting products. If the new product is successful, our innovator will likely face a downward sloping demand curve for her product, at least initially, and will be able to charge a price for her new product in excess of marginal cost. She will earn "rents" on her new product when first introduced. When competitors learn of these rents, they will likely seek to imitate the original in an attempt to capture some part of the available rents for themselves. But this process will require time both to identify those successful products where imitation will prove profitable and to introduce the competing imitation into the market. Nevertheless, competitors will, over time, gradually begin to introduce products that duplicate the precise appeal of our innovator's. Our innovator will, as a consequence, face an increasingly competitive market for her good. Even after competitive entry has occurred, our innovator may retain some market power.²⁸³ But competition from the newly available substitutes will almost certainly reduce, compared to the lead-time period, our innovator's market power and profit-maximizing price for her product.

In the context of this dynamic market structure, the incentive to innovate comes from the rents that the innovator can earn during the lead-time and post-entry period. While sometimes discounted, the advantages available from the lead-time period can prove substantial. In any number of markets, innovators have built first mover advantages into a near-permanent market share domi-

²⁸³ During the lead-time period, the innovator will have an opportunity to develop a reputation and cultivate a loyal consumer base that can insulate her from competition to some extent in the post-entry period. See Richard Schmalensee, *Product Differentiation Advantages of Pioneering Brands*, 72 AM. ECON. REV. 349 (1982).

nance of the resulting industry.²⁸⁴ A legal prohibition on imitation can increase these advantages, and the rents associated with innovation. Such a prohibition serves both to delay competitive entry until someone happens to stumble upon or re-create the appeal of the innovator's product without copying, and to increase the expense of creating a competing product. But the fact that prohibiting imitation can increase the incentive to innovate does not establish the desirability of such a prohibition.

First, such protection would increase the monopoly costs associated with innovation. For reasons similar to those explored in Example 4, imitation, and competitive free riding more generally, is affirmatively desirable to counter-balance the inefficiencies associated with the more extensive lead-time monopoly that broader protection would bring. Competition would become a weak and sporadic force if we were to rely on coincidence and happenstance alone to create it. For this reason, the notion that an individual is entitled to perpetual exclusivity in a market that she has created is simply foreign to our law.

Second, once we have decided that we are going to allow some imitation in order to ensure competition, allowing competitors to imitate a new product in any given market does not necessarily lead to inefficient incentive levels for reasons similar to those explored in Example 3. As in Example 3, the analysis should focus on the relative extent of the copying advantages and resulting incentives available. That competitors can save some expense over an innovator by copying becomes an efficiency problem only when the copying advantage available for a given innovative product substantially exceeds that available generally in the economy. Unless a competitor can copy a given innovative product or product type much more quickly, more easily, and more exactly, than the typical innovative product, then the ordinary operation of the market, including the first mover advantages available, will ensure an appropriate incentive for innovation.

Third, as we saw in Example 3 with partial internalization, prohibiting imitative free riding in one sector of the economy, when imitation remains permissible in other sectors of the economy, will generate an excessive incentive in the protected market sector. Such a prohibition would not only generate

²⁸⁴ Examples abound, ranging from Coca-Cola to Listerine to Reynolds Wrap. Bayer only recently lost its position as market leader for aspirin, nearly a century after Bayer first introduced the product. *See, e.g., Move by McNeil May Intensify Competition in Internal Analgesics*, CHAIN DRUG REV., Aug. 11, 1997, at 11 (chart showing that Excedrin's dollar value of sales exceeded Bayer's sales).

a windfall for producers and impose deadweight costs on consumers without countervailing public benefit, but also would lead individuals to devote additional marginal resources to the protected market activity when those resources would otherwise have been more valuably used elsewhere in the economy.

Thus, when applied to a dynamic model of innovation, the two principles of relative free riding and competitive free riding suggest a third, corollary principle: sufficient incentive. So long as the copying advantages available to competitors are not excessive, imitation, even if it deserves the label "free riding," will not lead to suboptimal levels of innovation. Rather, imitation will tend to promote the efficiency of the market as a whole, by reducing the monopoly costs otherwise present for innovative goods, while ensuring that the innovator nevertheless retains a reasonable opportunity to recover an appropriate return on her effort.

2. Sensible Rules for A Second-Best World

This two-product model and associated analysis suggest that the policy implications of free riding in the real world are far less clear than the traditional analysis suggests. At the very least, we must acknowledge that free riding alone does not establish market failure, nor does it suffice to justify government intervention. This is true even where the degree of free riding present would otherwise appear to justify the administrative costs of intervention. Based upon the model, we can go further than this and identify several principles for defining the relationship between free riding and justified government intervention. First, free riding can justify government action only where the degree of free riding present in a given market substantially exceeds the degree of free riding present in the marketplace generally. Second, in such a case, any action taken to address the free-rider problem should not attempt to eliminate the free riding altogether, but should seek only to reduce it to the level generally present in other sectors of the economy. Third, even where an unusually high degree of free riding is present in a market, government intervention will remain unjustified if the free riding is serving to counterbalance market power otherwise present.

To apply these principles requires some empirical sense for the degree of free riding and market power that are present generally in real-world markets. Even a cursory glance reveals that both are exceedingly common in the real world. The intellectual property system itself, for example, leaves consider-

able room for free riding.²⁸⁵ We can find such room in the express refusal to protect some types of information, such as industrial design, unauthored facts, and new, but obvious inventions. We can find such room in the limitations we place on the protection available, such as the limited times of patent and copyright protection, and the refusal to bar non-equivalent imitations of a patented invention and the taking of ideas from a copyrighted work. We even find room for free riding in Justice Pitney's *Lochner*-era paean to property rights, *International News Service v. Associated Press*, in his express recognition that a competitor may lawfully use another's work as a "tip" to guide and direct the competitor's newsgathering efforts.²⁸⁶ As a result of these and other factors, considerable free riding occurs. Although the empirical evidence is sparse, it suggests that the cost to develop and introduce a product for an imitator is about sixty-five percent of the innovator's costs even with the availability of patent and copyright protection.²⁸⁷ The presence of such extensive free riding does not, under the guidelines we have developed, suggest that too little legal protection presently exists and that more is required. Rather, that this degree of free riding exists generally in the market suggests that property-based trademark can be justified only to the extent that it protects subject matter which, as a class, is subject to a degree of free riding substantially in excess of this threshold.

Similarly, we have already discussed how traditional deception-based trademark protection can serve as a tool for establishing and preserving market power and much of this analysis carries over to property-based trademark protection. Property-based protection goes further than deception-based protection, however, and expressly prohibits imitation as imitation, not just imitation as misrepresentation. By doing so, property-based trademark poses a more serious threat to competition. To the extent that devising an alternate means of

²⁸⁵ See James Boyle, *A Theory of Law and Information: Copyright, Spleens, Blackmail, and Insider Trading*, 80 CAL. L. REV. 1413 (1992) (suggesting that law must generally divide information into public and private).

²⁸⁶ See *International News Serv. v. Associated Press*, 248 U.S. 215, 243-44 (1918). During his ten years on the Court, Justice Pitney also authored *Coppage v. Kansas*, 236 U.S. 1 (1915), one of the pillars of the Court's *Lochner* jurisprudence.

²⁸⁷ See EDWIN MANSFIELD ET AL., TECHNOLOGY TRANSFER, PRODUCTIVITY, AND ECONOMIC POLICY 132-53 (1982) (summarizing empirical investigation of imitator's cost advantage); Edwin Mansfield et al., *Imitation Costs and Patents: An Empirical Study*, 91 ECON. J. 907, 909 (1981) (noting average ratio of imitation cost to innovation cost of "about 0.65" in various industries where products receive patent protection); see also Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281, 293-302 (1970) (detailing imitator's cost advantage for creative efforts protected by copyright); Lunney, *supra* note 19, at 606-28 (exploring imitator's cost advantage for creative efforts protected by copyright).

conveying information that identifies a product as an acceptable substitute requires less time and expense than devising an alternate product that consumers will accept as a substitute, property-based trademark is likely to have a more substantial anticompetitive impact than deception-based trademark.

3. *Applying the Derived Rules to Evaluate Property-Based Trademark*

Having identified the relevant principles, application of them reveals that the free-rider rationale cannot support property-based trademark. Although free riding may occur in two situations that property-based trademark could address, the degree of free riding present is not excessive and will likely prove affirmatively desirable to counterbalance market power otherwise present. Protection against such free riding is therefore not warranted and is indeed undesirable. Moreover, even if such protection were desirable, the prerequisites for, and scope of, trademark protection are inherently unsuited to identifying and addressing cases where the free riding inefficiencies present would justify protection.²⁸⁸

In the first free-rider situation that property-based trademark might address, an individual begins marketing an innovative good. The product may represent only a slight variation from existing products or services or it may represent a more substantial innovation, but in either case, there was some effort and expense involved in coming up with the new good and in bringing it to market. If, for some reason, neither patent nor copyright protection was available for the innovative aspect of the good, competitors would, absent some other protection, be able to copy the advance and enter the market with a competing product at a somewhat lower cost than our innovator. To the extent that consumers desire the innovative feature, competitors would likely engage in such "free riding."²⁸⁹ Property-based trademark can prevent this, by pretending that the innovative aspect is serving as a trademark and protecting it directly against imitation or by leaving open that possibility and thereby heightening the prospect of litigation against those who would otherwise consider imitating the innovation.

Yet, in cases where courts have extended such trademark protection, there is neither evidence nor reason to believe that the copying advantage available

²⁸⁸ See Dreyfuss, *supra* note 24, at 399, 409 (noting parallel flaws in the patent/copyright analogy).

²⁸⁹ As I have explained elsewhere, because the competitor typically pays for at least one unit of the original, the label "free" riding is literally inaccurate with respect to copying competitors. See Lunney, *supra* note 19, at 581 n.353.

substantially exceeds that which we tolerate generally in the market. The ability to see that an innovator's "igloo-shaped" doghouse, upscale, drive-through Mexican restaurant, or golf-course hole design has proven popular, may provide some information concerning potentially profitable markets for entry, but does not save the competitor much when it comes to producing a competing product. It is not as if the would-be competitor can simply place the doghouse, restaurant, or golf course on a mechanical copying device, and run off "copies" at a fraction of the original's price.

More generally, patent and copyright already substantially address the circumstances where a disproportionate copying advantage will likely arise. Undoubtedly, these statutes, like any other, are somewhat over- and under-inclusive, and it is certainly possible that they may leave unprotected some identifiable class of innovative goods where disproportionate copying advantages exist. Yet, given the political dynamic involved, Congress is far more likely to over-protect innovative goods than under-protect,²⁹⁰ making it very unlikely that any significant, deserving class of innovative goods remains unprotected.²⁹¹

In any event, even if there were some class of identifiable innovative goods that remains under-protected, trademark protection is inherently ill-suited to address that need. Aside from the jurisprudential concerns that would arise from a court-driven attempt to expand trademark law to fill that gap,²⁹² the

²⁹⁰ See John Kay, *The Economics of Intellectual Property Rights*, 13 INT'L REV. L. & ECON. 337, 347 (1993); Lunney, *supra* note 19, at 629 n.476; Stewart E. Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197, 1244-46 (1996). The drafters of the Constitution recognized this tendency and attempted to address it by drafting the patent and copyright clause of Article I as much as a limitation on, as a grant of, congressional power to enact such statutes. See *Trade-mark Cases*, 100 U.S. 82, 94 (1879) (striking down the Trademark Act of 1870 on the grounds that trademarks did not satisfy the constitutional limitations embodied in the patent and copyright clause).

²⁹¹ Industrial design represents the most plausible instance of an innovative good left under-protected by patent and copyright protection, but Congress has repeatedly rebuffed pleas for additional protection specifically tailored to such goods. See *Carol Barnhart Inc. v. Economy Cover Corp.*, 773 F.2d 411 (2d Cir. 1985) (noting Congress's refusal to adopt copyright protection for industrial design); *The Industrial Innovation and Technology Act: Hearings on S. 791 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary*, 100th Cong. 213 (1987) (statement of Ralph Oman, Register of Copyrights); J.H. Reichman, *Design Legislation and the Legislative Agenda*, 55 LAW & CONTEMP. PROBS. 281 (1992) (discussing Congress's refusal to enact design legislation). Again, given the political dynamic involved, Congress's refusal to provide such protection is a virtually conclusive indication that such protection is undesirable.

²⁹² See *International News Serv. v. Associated Press*, 248 U.S. 215, 262 (1918) (Brandeis, J., dissenting) (warning against expanding unfair competition to address perceived gaps in copyright and patent protection).

central prerequisite for trademark protection, distinctiveness, is incapable of distinguishing between those cases where the copying advantage becomes disproportionate and justifies protection and those where it does not. Distinctiveness focuses on whether consumers recognize a feature as an identifier of the good's manufacturer, not on whether the feature is one the copying of which enables a competitor to obtain a disproportionate advantage. As a result, even if there were an under-protected class of innovative goods, using property-based trademark to fill this gap in protection would result in protection radically over- and under-inclusive. Extensive property-based trademark protection might, on occasion, extend protection to an otherwise under-protected innovation, in cases where distinctiveness and disproportionate copying advantage happen to coincide. But because distinctiveness and undue copying advantage focus on entirely different issues, there is little reason to believe that such coincidences will prove common. Property-based trademark is therefore an exceedingly poor tool for identifying innovative goods left under-protected by patent and copyright, even if we assume that a class of such goods exists.

Further, even if an under-protected class of innovative goods exists and even if property-based trademark protection could adequately identify and extend protection only to this under-protected class of goods, the resulting protection trademark law would provide is not tailored to providing an appropriate incentive level. As discussed, even where excessive free riding exists, appropriate protection should reduce, but not eliminate, the free-riding advantage available. Unlike patent and copyright law, however, trademark protection is neither necessarily limited in duration, nor does its infringement standard incorporate the allowance for free riding found in patent's and copyright's infringement standards.²⁹³ Rather than allow an appropriate degree of free riding, attempting to use trademark protection to address this assumed gap would tend to prohibit free riding altogether, given the substantial differences between an innovator's and a would-be competitor's goods that trademark's infringement standard would typically require.²⁹⁴ As a result, even

²⁹³ See *Jeffrey Milstein, Inc. v. Greger, Lawlor, Roth, Inc.*, 58 F.3d 27, 31-33 (2d Cir. 1995) (attempting to narrow the permissible scope of trademark protection in ways corresponding to the limitations in patent and copyright protection).

²⁹⁴ For example, if the Court had not stepped in, the trial and appeals courts' decisions to find unfair competition when Sears marketed a look-alike pole lamp would preclude anyone from marketing a lamp too similar in appearance to Stiffel's pole lamp. While there are certainly other lamp designs available, a prohibition on lamps that look too much like a pole lamp might well prohibit others from manufacturing lamps that consumers would consider acceptable as a near-perfect or reasonable substitute for the pole lamp. In

if there were a deserving class of goods that property-based trademark could distinguish and protect, property-based trademark would almost certainly substantially over-protect this class of goods. Over-protection would in turn lead to undue deadweight costs and to excessive investment in the protected class. For these reasons, the possibility that copyright and patent have left unaddressed some instance of disproportionate free riding does not justify crafting a property-based trademark regime to fill this supposed gap.

In the second situation where property-based trademark might address a potential free-rider issue, an individual has been marketing a product for some time and has thereby developed recognition and perhaps fame for the trademark associated with the product. The individual then seeks to exploit, through merchandising or other methods, the value of the trademark as product that has also thereby developed. Here, the argument is that the individual has created the trademark's value as product and should therefore be able to exploit exclusively this value. In economic terms, a proponent of such protection might identify the trademark use and the product use of the mark as joint goods similar to those that arise from raising cattle.²⁹⁵ Like the hide and other byproducts obtained when raising cattle for beef, the product use of the mark is a byproduct of the trademark use and ought to belong to the trademark owner, just as the whole cow belongs to the rancher, or so the argument would go.

This implicit appeal to adopt a treatment for trademarks similar to the one we have for cattle, holds a dangerous, if superficial, attraction, but has little substantive merit, as both economists and courts have recognized.²⁹⁶ The

consequence, if the finding of unfair competition had not been overturned, consumers desiring a pole lamp would have had to turn to Stiffel as the only source for such lamps.

²⁹⁵ See JAMES M. BUCHANAN, *THE DEMAND AND SUPPLY OF PUBLIC GOODS* (1968); Demsetz, *supra* note 269, at 293, 304-06. Demsetz argues:

The allocation of resources to the production of public goods can be understood with the aid of the model formulated long ago by Alfred Marshall for the analysis of joint supply. Just as the slaughtering of steer provides goods to both leather users and meat consumers, so the production of a public good, by definition, yields benefits that can be enjoyed by more one individual . . .

Id. at 304-06.

²⁹⁶ See *National Basketball Ass'n v. Motorola, Inc.*, 105 F.3d 841, 853-55 (2d Cir. 1997) (refusing to extend exclusive ownership rights to noncompeting uses under misappropriation doctrine); *United States Golf Ass'n v. St. Andrews Sys.*, 749 F.2d 1028, 1037-41 (3d Cir. 1984) (same); *National Football League v. Governor of Del.*, 435 F. Supp. 1372 (D. Del. 1977); Paul A. Samuelson, *Contrast Between Welfare Conditions for Joint Supply and for Public Goods*, 51 REV. ECON. & STAT. 26, 26, 30 (1969) ("In this sense I find it misleading to characterize the public case as a case of joint supply."). *But see Board of Trade v. Dow Jones & Co.*, 456 N.E.2d 84, 91 (Ill. 1983) (finding that plaintiff had the right, under unfair competition law, to extend exclusive control over the trademark Dow Jones Industrial Average and portfolio of stocks from

central difference is that, with cattle, no one has the exclusive right to raise cattle and cattle-raising is, in fact, one of the more competitive markets in our economy.²⁹⁷ Moreover, whether we assign ownership of any given cattle hide to one person or another, or to no one at all, does not *ipso facto* increase the supply of hides, nor is it likely to affect their market price.²⁹⁸ In contrast, trademark law does limit the right of others to use an individual's trademark, and by doing so, can exclude others from producing a mark that consumers consider a market-defining feature. As a result, a decision to assign ownership of the mark as product to no one at all can increase the supply of, and reduce the price for, the mark as product. If, for example, we assign ownership of the DALLAS COWBOYS mark as product to one entity, then that entity will, like any profit-maximizing monopolist, reduce the output and raise the price of DALLAS COWBOYS merchandise.²⁹⁹ If, on the other hand, we allow anyone to make such use, that decision will ensure competition in the supply of such merchandise, and we should expect both increased output and lower prices. Moreover, so long as the various producers have some other way to identify their particular DALLAS COWBOYS merchandise to consumers, consumers will be able to identify the precise product, product quality, and product price they desire. There is, therefore, little reason to believe that allowing anyone to produce such merchandise would necessarily lead to a race-to-the-bottom in the quality of such merchandise.³⁰⁰

As a variation on this argument, some would point out that assigning the exclusive right to the mark as product to the trademark owner may lead the owner to reinvest some of the rents thereby earned back into the good underlying the trademark. Such an assignment may lead to increased quality in the underlying good. This may be true, but cannot justify protection. As

which it is calculated, to noncompeting use for commodity futures contracts because plaintiff created underlying good).

²⁹⁷ See SAMUELSON, *supra* note 213, at 43 (noting that "imperfect competition" is the rule, "except possibly [for] the millions of farmers who individually produce a negligible fraction of the total crop"); SCOTT & NIGRO, *supra* note 269, at 178-79 ("Perfect competition does not exist in the real world, although several major industries approximate it surprisingly well. Among them are farming . . .").

²⁹⁸ At least so long as we do not assign ownership of all hides to one entity.

²⁹⁹ Almost by definition, property-based trademark protection only comes into play when the mark defines a distinct product market. If the trademark owner was not earning supracompetitive profits (or rents) from the mark as product, the market would not attract competitive entry. See, e.g., SCHERER, *supra* note 5, at 13. As a result, a trademark owner will need to seek legal protection against such entry only where he is earning rents on his mark as product.

³⁰⁰ Quality might fall somewhat below that maintained by the NFL, when it is the exclusive lawful supplier of such goods, but this merely suggests that the NFL, like many monopolists, overinvests in quality, compared to actual consumer desires.

Arnold Plant once said, "a special case for a monopoly . . . cannot rest on the general proposition that if business men are enabled to make monopoly profits, some of them will be devoted to good works."³⁰¹ The point of trademark is not to "encourage" ever-higher quality goods; consumers may actively prefer a good with something less than the highest possible quality, particularly when it comes at something less than the highest possible price. Trademark's task is simply to help identify goods accurately to consumers, so that they may obtain the precise price/quality mix they desire. If consumers desired and were willing to pay for higher quality in the underlying good, presumably the market would so signal, and the producer could respond accordingly. If consumers are unwilling to pay for such higher quality directly, then the possibility that granting the producer a monopoly in the mark as product may enable the producer to force consumers to pay for such higher quality indirectly cannot justify such protection.

In addition, with or without such protection, there will always be one product and only one product that is the most popular in an industry. Such a result is inherent in the nature of "most popular"; it is both a natural (because there can only be one) and a network (because it depends on what people as a group believe) monopoly. The trademark associated with the most popular product in an industry shall, in turn, often have value as a product, whether emblazoned across apparel or embossed on a wide array of other consumer goods.³⁰² Allowing the mark owner, through a property-based trademark regime, to exploit this product value exclusively, may well generate rents for the owner, because of the monopoly character of the resulting market. Some of these rents may even be reinvested in the quality of the underlying good, as proponents of property-based protection have suggested. But such protection would not only force consumers to pay indirectly for quality that they were unwilling to pay for directly, it would also allow the owner to cross-subsidize production of the underlying good and thereby obtain a cost advantage over less popular rivals in the underlying good. As a result, property-based protection tends to insulate the underlying good from competition, reinforce the dominant brand's market position, and generate corresponding anticompetitive losses.

³⁰¹ ARNOLD PLANT, *THE NEW COMMERCE IN IDEAS AND INTELLECTUAL PROPERTY* 15 (1953).

³⁰² See *Tuxedo Monopoly, Inc. v. General Mills Fun Group, Inc.*, 648 F.2d 1335, 1336 (C.C.P.A. 1981) ("We also find no error in the board's conclusion that it is a matter of common knowledge that famous marks are frequently used on items such as clothing, glassware, and trash cans . . ."); see also 15 *THE COCA-COLA CATALOG* (Spring 1997) (showing 32 pages of merchandise of various types bearing Coca-Cola trademarks) (on file with author).

Moreover, establishing such protection, because some part of the available rents might be reinvested in the underlying good and thus contribute to the mark's value as product, would violate a basic tenet of intellectual property. It would award a mark owner the entire value of the mark as product when the effort, *i.e.*, the partial reinvestment of rents, that is the basis for protection, contributes only a small part of that value.³⁰³ It would also award that value even though there was already sufficient incentive, from sales of the underlying good, to achieve the product quality that consumers desire.

Extending property-based trademark because of potential free-rider issues thus appears undesirable. Some of the conduct that property-based trademark addresses may well fall within a broad conception of free riding,³⁰⁴ but even if property-based trademark prohibits free riding in some cases, it prohibits free riding that almost certainly advances consumer welfare. Given the availability of patent, copyright, and other legal and technological fences against free riding, it is unlikely that some distinct class of innovative goods remains unprotected. Even if there were, property-based trademark is simply unsuited to identify and protect such class of goods appropriately. As a result, a careful analysis of the free-rider rationale reinforces our initial conclusion that property-based trademark fosters monopoly and impairs desirable competition, without creating offsetting efficiency advantages.

B. Property Based Rationales II: Highest Valued Use

As an alternative to the free-rider rationale, some courts and commentators have suggested that property-based trademark is desirable because exclusive ownership of a mark, like exclusive ownership of tangible property, serves to ensure that the mark is devoted to its highest valued use. In the context of tangible property, or private goods, the argument is that assigning a single,

³⁰³ Cf. Edwin C. Hittinger, *Justifying Intellectual Property*, 18 PHIL. & PUB. AFF. 31, 37 (1989). Hittinger explained the principle as follows:

[A]ssuming that labor's fruits are valuable, and that laboring gives the laborer a property right in this value, this would entitle the laborer only to the value she added, and not to the *total* value of the resulting product. Though exceedingly difficult to measure, these two components of value (that attributable to the object labored on and that attributable to the labor) need to be distinguished.

Id.

³⁰⁴ Although someone who has bought an original on the open market and then copies it is not, in a literal sense, a free rider (because she paid for the original), the term free rider is sometimes extended to such copying. See *Chas. D. Briddell, Inc. v. Alglobe Trading Corp.*, 194 F.2d 416, 418 (2d Cir. 1952) (recognizing the use of the term "free ride" to describe such conduct).

exclusive owner tends to ensure that the property will end in the hands of the individual who values it most highly.³⁰⁵ Exclusive ownership tends to minimize the coordination problems inherent in joint ownership and reduce other transaction costs associated with ownership transfers.³⁰⁶ For private goods, it tends, therefore, to ensure that, however ownership is initially assigned, the individual who values the good most highly will be able to outbid all others for the good. By analogy, ownership of a mark should also be exclusively assigned to ensure that it is put to its highest valued use. As with tangible property, if someone plans a potentially inconsistent, or conflicting, use of a trademark, and that use is more valuable, the individual can purchase the mark away from its present owner. If that use is less valuable, and the present use is the more valuable, then assigning exclusive ownership to the present user will bar the less valuable use, because the individual planning the new, less valuable use will be unable to purchase the mark from its existing owner. As a result, where the present use is more valuable, assigning exclusive ownership ensures that such use will continue without interference, and where the new use is more valuable, assigning exclusive ownership will provide a means for the new user to acquire, without undue transaction costs, ownership of the mark.

There are two central difficulties with this analogy, however. First, absent legal protection, a trademark is a public good, not a private good. As a result, there is ordinarily no need to assign exclusive ownership. Unlike a private good, where it is usually the case that one use of the good physically precludes another,³⁰⁷ for trademarks, it is physically possible for both uses to proceed. The physical fact of rivalrous consumption that is central to the justification of private ownership of private goods is simply absent for trademarks.³⁰⁸ Nevertheless, something like rivalrous consumption can arise with trademarks in the situation where one individual's use generates value in one sense but reduces the mark's value in some other. For example, use of a well-known

³⁰⁵ See, e.g., RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 11 (4th ed. 1992) ("By a process of voluntary exchange, resources are shifted to those uses in which the value to consumers, as measured by their willingness to pay, is highest. When resources are used where their value is highest, we may say that they are being employed efficiently.")

³⁰⁶ See, e.g., Demsetz, *supra* note 269, at 354-59 (arguing that private property regime is generally more efficient because it reduces transaction costs and collective action problems).

³⁰⁷ See, e.g., Alfred C. Yen, *The Legacy of Feist: Consequences of the Weak Connection Between Copyright and the Economics of Public Goods*, 52 OHIO ST. L.J. 1343, 1365 ("If someone eats an apple, no one else may do so.")

³⁰⁸ See Dreyfuss, *supra* note 24, at 407 ("Accordingly, . . . the rationale that supports exclusive rights in real property [e.g. physical fact of rivalrous consumption] has no application here.")

mark for beer in an effective parody may generate value as humor, but it may also reduce the selling power of the mark for beer. The conflicting messages that the two uses convey may represent a form of rivalrous consumption sufficiently analogous to the rivalrous consumption of private goods to justify some protection against the second use.

At best, however, this type of rivalrous consumption would justify protection only in those cases where the value lost for the one use exceeded the value generated through the second.³⁰⁹ This “net-lost-value” condition is usually satisfied where there is a true probability that consumers will be materially misled by the second use, and deception-based trademark appropriately resorts to an exclusive ownership regime in this instance. But when we move beyond such deception-based protection into the realm of imaginary confusion discussed above, the likelihood of confusion standard simply fails to address the net value gained or lost as a result of the second use. Use of the phrase “Mutant of Omaha” on a t-shirt certainly generates some value—consumers were buying the shirt, after all; it may also reduce the selling power of the “Mutual of Omaha” mark for insurance, though this was simply assumed and not proven. But the relative magnitude of the values gained and lost is a question that, once we leave the issue of material consumer confusion, the likelihood of confusion does not address. As a result, property-based trademark is poorly suited to identifying cases where the net-lost-value condition has been satisfied.

Moreover, while satisfying the net-lost-value condition is necessary to justify an exclusive ownership regime, it is not sufficient. The value potentially lost as a result of a conflicting use is a type of negative externality, and as such, is subject to the relative externality and the sufficient incentive principles identified above. Under these principles, the externality created by such conflicting uses justifies government intervention only if disproportionate to the externalities associated with other productive activities, and only if so large as to eliminate a sufficient incentive to create popular marks. In terms of the relative externality that arises from such conflicting uses, we permit ridicule and outright misuse of another’s goods, subject only to the constraints of product disparagement and false advertising. If we exempt trademarks from

³⁰⁹ Alternatively, we might assume that the net-lost-value condition will usually be satisfied and seek to justify exclusive ownership for all cases on that basis without actually requiring proof of net lost value in any given case. However, it is certainly easy to imagine many cases where the second use of a mark will not satisfy the net-lost-value condition. We cannot, therefore, assume that the net-lost-value condition will so often be satisfied as to justify an across-the-board exclusive ownership regime.

these activities, such a decision will over-protect trademarks, relative to the protection we extend other productive activities. By crafting a regime that provides relatively greater protection for investments in trademarks, we will attract excessive investment into the creation of selling symbols, causing marginal resources to continue to flow into the protected area when they would otherwise have been more valuably used elsewhere.

The sufficient incentive principle also suggests that such protection is undesirable.³¹⁰ As a general rule, only popular and well-known marks will become targets of such use. For such brands, the potential revenue and rents available from sales of the underlying good provide an incentive sufficient to ensure that becoming a market leader remains a profitable endeavor. If there were any doubt concerning the sufficiency of the incentive available, we need only note that famous marks did, in fact, develop during the nineteenth and early twentieth centuries when such property-based protection remained unavailable.³¹¹ In a sense, these types of conflicting uses of popular trademarks simply parallel the effects of competition on innovative goods. Both may "compete away" the higher prices and rents otherwise available to the mark owner or product innovator, but such competition is, in either case, affirmatively desirable. It ensures broader availability and use at more reasonable prices, and thereby minimizes deadweight losses. Moreover, it does so without unduly undermining the incentives available, and as we have seen, a contrary decision to protect the mark against such competition would over-protect the mark relative to the protection other productive activities receive and encourage overinvestment in selling symbols.

³¹⁰ See Dreyfuss, *supra* note 24, at 409 ("The exigencies of the marketplace require its participants to develop signals in order to differentiate their goods from those of their rivals.").

³¹¹ See, e.g., Robert S. Lynd, *Report of President Hoover's Research Committee on Recent Social Trends in the United States*, in 2 THE PEOPLE AS CONSUMERS 876 (1932); Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 815 (1935) (rejecting plea for broader legal protection on the basis of higher economic value because such an approach "purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it is legally protected"); Dreyfuss, *supra* note 24, at 404-06 (providing similar analysis for "if value, then right" approach); see also *National Fruit Prod. Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499, 506 (D. Mass. 1942) (noting that "businessmen previously have been willing to place as high as value as forty-two million dollars upon a single trademark"). In *National Fruit Product Co.*, Judge Wyzanski argued that the increasing value of trademarks justified further broadening of trademark protection. *Id.* at 506 ("Courts should hesitate, by reversing the trend of their decisions, to destroy the economic values which those very decisions created."). The difficulty with this rationale is that it justifies ever-broadening protection. Broader protection generates higher value which justifies even broader protection generating even higher values and so on.

Second, even if one found the private good analogy fully persuasive, adoption of a private property and market regime to reconcile these conflicting uses would remain inappropriate. The assumption behind the efficiency of assigning exclusive ownership of private goods is that market transactions will occur that will lead the goods into the hands of the highest valued user. If the second use generates more value, the second user will be able to offer the first user a price that the first user will accept to transfer ownership. But the simple fact is that once ownership of a trademark is assigned to a particular individual, that owner is not likely to license, at any price, uses that the owner finds unpalatable. Consumers may value the humor content of a parody, but a trademark owner will rarely find a parody of her mark funny.³¹² Given the nature of the typical second use found in the imaginary confusion cases, however the right is initially assigned, there it will remain. Market transactions reassigning the right from its initial owner(s) are unlikely, even where an objective evaluation would reveal the potential for a net value gain.³¹³ In the absence of such transactions, there is simply no reason to believe that a regime of exclusive ownership is more likely than some other property regime to ensure the highest valued use of public goods, such as trademarks.³¹⁴

³¹² See, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 592 (1994) ("Yet the unlikelihood that creators of imaginative works will license critical reviews or lampoons of their own productions removes such uses from the very notion of a potential licensing market.").

³¹³ As I have explained elsewhere, these uses represent an extreme form of the offer-asking problem. If we grant the trademark owner the right to control these uses, she will set her asking price for this right at a level that will ensure that such uses do not occur. If we grant others the right to make such uses, the trademark owner will be unable to offer a price sufficient to buy up this right from those who would like to exercise it. See Glynn S. Lunney, Jr., *Protecting Digital Works: Copyright or Contract?*, 1 *TUL. J. TECH. & INTEL. PROP.* 1, ¶ 41 (1999), available in <<http://www.law.tulane.edu/JOURNALS/jtip/V111/copycon.htm>>.

³¹⁴ See Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 *COLUM. L. REV.* 839, 875-77 (1990) (noting reasons why seemingly-rational exchanges in the patent area may not go forward and suggesting that we cannot rely on an exclusive rights approach to assign resources optimally in such cases). Because potentially conflicting uses of the trademark will not be valued rationally in monetary terms, the issue becomes a question not of property, but of liberty. The proper question, therefore, is not whether the second use generates a net loss or a net gain from an economic perspective, but whether the loss in liberty from a government prohibition on speech is justified by the potential devaluation of a mark that the speech may otherwise cause. An extended discussion of the resolution of this issue is beyond the scope of this argument, but although there are free speech interests on both sides, government intervention to preclude others from using a mark in their speech, commercial or otherwise, is an undue burden on important First Amendment interests. See *L.L. Bean, Inc. v. Drake Pub., Inc.*, 811 F.2d 26, 33-34 (1st Cir. 1987) (holding that a parody of another's trademark is protected by First Amendment); Robert C. Denicola, *Trademarks as Speech: Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols*, 1982 *WIS. L. REV.* 158; Harriette K. Dorsen, *Satiric Appropriation and the Law of Libel, Trademark, and Copyright: Remedies Without Wrongs*, 65 *B.U. L. REV.* 923 (1985); Dreyfuss, *supra* note 24; Diane L. Zimmerman, *Information as Speech, Information as Goods: Some Thoughts on Marketplaces and the Bill of Rights*, 33 *WM. & MARY L. REV.* 665 (1992).

C. *Prestige Goods and Artificial Scarcity*

Conceding that property-based trademark cannot be justified generally, an argument might still be made for such protection in the special case of prestige goods. For ordinary consumer goods, demand for the good increases, more or less steadily, as the price of the good falls.³¹⁵ If cars or computers or houses become less expensive, people who already have one may buy a second (or a third) or upgrade to a higher quality version; people who could not previously afford one may find themselves able to. For prestige goods, this relationship between decreased price and increased demand does not hold true.³¹⁶ In fact, just the opposite will, at some point, occur. If diamonds became as common and inexpensive as polished pebbles, demand for diamonds as a symbol of love and affection would, after people adjusted their thinking, fall rapidly. Would you give your fiancée a pretty pebble on her engagement ring? If not, why would you give her a diamond ring if diamonds were every bit as common?³¹⁷ For prestige goods, demand increases initially as prices fall, but if prices fall too much and the object becomes too common, it becomes useless as a status symbol, and demand will fall as prices fall.³¹⁸ For that reason, we might consider the costs of limiting the supply and increasing the market price of prestige goods different from those costs for ordinary goods. With ordinary goods, higher prices and limited supply force some to do without that would otherwise have purchased the goods, and the disutility they experience as a result is a pure economic or deadweight loss. But with prestige goods, similar losses resulting from limited supply and higher prices may be necessary to preserve the prestige value of the good. This may suggest that, in evaluating the efficiency consequences of artificially limiting the supply of prestige goods, the disutility of those deprived of access should be balanced against the higher prestige value made possible by the supply reduction.

³¹⁵ See, e.g., William F. Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 YALE L.J. 267, 358 (1966).

³¹⁶ Harvey Leibenstein developed the leading model of prestige goods reflecting this tendency in 1950. See Harvey Leibenstein, *Bandwagon, Snob, and Veblen Effects in the Theory of Consumers' Demand*, 64 Q.J. ECON. 183 (1950), reprinted in READINGS IN PRICE THEORY (William Breit & Harold M. Hochman eds., 1971); see also Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 J.L. & ECON. 211, 214 (1986) ("Each snobbish consumer has a demand curve that depends both on price and on the consumer's expectation about the total number of units consumed. Ceteris paribus, the law of demand holds, but, additionally, quantity demanded by each individual is negatively related to total expected consumption.").

³¹⁷ I use the diamond ring/fiancée example not to be sexist, but as an example of a prestige good that has become accepted as a *de facto* standard in our society.

³¹⁸ See, e.g., *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 495 (S.D. Fla. 1986) (noting that the seeming increase in commonness of the watch would lead some would-be purchasers to look elsewhere).

This analysis omits two central considerations, however. First, to the extent that one good loses value as a signifier of prestige, a new prestige good will arise to take its place. As a result, increasing the supply of one prestige good, even if it entails the complete destruction of the good's value for purposes of prestige,³¹⁹ does not represent an economic loss, but a transfer of prestige value from the old standard to the new.³²⁰ If diamonds become as common as pebbles, individuals owning diamonds as prestige goods would lose that prestige value, but some other good would arise as the new prestige standard and individuals holding the new standard would find the prestige value of their goods increased proportionately. As a result, the supposed balance between higher and lower prestige value as supply increases is simply wrong. It is an illusion maintained by ignoring the transfer of prestige value that would occur from one prestige good, should its supply expand, to its replacement status symbol. Because the prestige value is not lost, but simply transferred to another good, the disutility experienced by those deprived of a given prestige good because of artificial supply limitations is a deadweight loss, just like the loss created by limiting access to ordinary goods. In consequence, that the prestige value of any particular good depends on scarcity does not justify expanding trademark protection to ensure such scarcity.³²¹

³¹⁹ If a second party is offering an imitation of the prestige good at a lower price, consumer demand for the imitation will remain only so long as the original good retains some prestige value. As a result, the second party has a strong incentive not to market such a large supply of imitations indistinguishable from the original as to destroy altogether the prestige value of the original.

³²⁰ A similar process would likely occur if a refusal to protect celebrities' right of publicity caused a loss in any given celebrity's advertising value. Some new celebrity or perhaps some other advertising gimmick would arise to take the old celebrity's place. There is no reason to believe that a refusal to protect any given celebrity's advertising value would reduce the total advertising value present in our economy. *But see* Mark F. Grady, *A Positive Economic Theory of the Right of Publicity*, 1 *UCLA J. ENT. L.* 97, 102-05 (1994) (trying to suggest that a refusal to protect each individual celebrity's advertising value would reduce the total advertising value present in the economy); *see also* Posner, *supra* note 305, at 43 (making similar argument for right of publicity). If worse comes to worse and all celebrity values are depleted, advertisers can always resort to describing the factual characteristics and prices of their goods honestly. *Cf.* Robert P. Merges, *Rent Control in the Patent District: Observations on the Grady-Alexander Thesis*, 78 *VA. L. REV.* 359, 370-71, 373-74 (1992) (critiquing similar analysis by Professor Grady in the patent area on the grounds that invention, unlike tangible property, "is not a zero-sum game").

³²¹ Professor Gordon has pointed out that reduced protection for prestige items may lead to increased "churning," as we rotate through a succession of goods each becoming in turn a prestige standard. Although this churning will likely consume resources, both for the creation of new prestige goods and for the imitation of existing ones, these effects would be largely offset however by the fact that greater leeway to imitate will also decrease the potential rents available from becoming a prestige good standard. The decreased rents available make both the imitation of existing prestige goods and the creation of new prestige goods less attractive. As a result, even if some churning results, the resources expended on maintaining and imitating a prestige good may decrease with less protection for prestige goods as compared to the resources expended in a high protection regime.

Second, precisely to the extent that it depends on denying others access to the good, the prestige value of a good is illegitimate and undeserving of legal protection.³²² When purchasing prestige goods, more so than ordinary goods, the value of the purchase derives not merely from how the good makes an individual feel, but how it makes the individual feel relative to others. There is a certain one-upmanship inherent in acquiring prestige goods such that one person's acquisition of a prestige good imposes substantial dissatisfaction on others. Seeing a prestige good in another's hands will lead many individuals to reevaluate and revise downward the satisfaction level each associates with her current possessions.³²³ That individuals spend money "keeping up with the Jones's" not only confirms the accuracy of an aphorism describing our consumption-driven lifestyles, but provides one measure of the negative externality that the "Jones's" acquisition of a prestige good imposes on others.³²⁴ As a result, when we focus on the net social value of prestige goods, by adjusting their private value for the purchaser by the negative externality the acquisition imposes on others, there is good reason to question whether such goods generate any net increase in social welfare. While refusing to provide property-based trademark protection will not necessarily eliminate ostentatious displays of wealth, the substantial negative externalities associated with such displays eliminates any plausible claim for special treatment of trademarks in an effort to preserve marks as signifiers of prestige.

D. Formal Justifications for the Expansion

As an alternative to policy-driven justifications for the property-based expansion of trademark protection, some courts and commentators have offered the formal justification that they are simply implementing the policy choices that Congress has made.³²⁵ In particular, they have commonly

³²² Cf. *Standard Brands, Inc. v. Smidler*, 151 F.2d 34, 41 n.13 (2d Cir. 1945) (Frank, J., concurring) ("It is perhaps not inappropriate to ask whether snobbism and catering to ignorance are important social interests deserving governmental assistance.")

³²³ See SCHERER, *supra* note 5, at 21 (noting "that there are external diseconomies in consumption, e.g., that the purchase of a new hair shirt by Mr. Willoughby may not only increase his utility, but simultaneously reduce the utility of envious neighbors").

³²⁴ Another tragic measure are the lives lost in those instances where someone is murdered for possession of a prestige good. See, e.g., Clarence Moore, *Style Is a Matter of Life and Death Among Teenagers*, COM. APPEAL, Dec. 19, 1991, at E9 (citing murders over Fila sneakers, Air Jordan basketball shoes, and Georgetown University jacket, and noting that "[s]ome child psychologists and sociologists believe that shoe manufacturers such as Reebok, British Knight and Nike should be held responsible for some of the violence").

³²⁵ See, e.g., *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244 (6th Cir. 1991) (relying on "1967 [sic]" amendment as evidence that Congress intended public confusion generally to be actionable); *Rolex*

identified a 1962 Housekeeping Amendment as reflecting Congress's decision to recognize property-based trademark protection. In the 1962 Amendment, Congress changed the infringement standard for registered marks set forth in section 1114(1)(a) of the Lanham Act by deleting the italicized phrase:

- (1) Any person who shall, without the consent of the registrant—
- (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive *purchasers as to the source or origin of such products or services.*³²⁶

As the legislative history accompanying the Act explains, Congress modified the statutory language in this way for two reasons—one a matter of form and one a matter of substance.³²⁷

In terms of form, the Trademark Act incorporates a likelihood-of-confusion standard with respect to registered marks, or marks seeking registration, in four different sections. Section 1051(a)(1)(A) requires an applicant seeking registration of a mark to state that the mark for which registration is sought is not likely to cause confusion with a valid, prior mark.³²⁸ Section 1052(d) authorizes the Patent and Trademark Office to refuse registration of a mark that is likely to cause confusion with a valid, prior mark.³²⁹ Section 1066 authorizes the Commissioner of the Patent and Trademark Office to declare an interference where a mark for which registration is sought is likely to cause confusion with a previously registered mark.³³⁰ And section 1114(1)(a) authorizes an infringement action when another uses a mark that is likely to cause confusion with a registered mark.³³¹

Before the 1962 Amendment, these four sections expressed the likelihood of confusion standard in three different ways. Section 1114(1)(a) defined

Watch U.S.A., Inc. v. Canner, 645 F. Supp. 484, 492 (S.D. Fla. 1986) (relying on 1962 Amendment as evidence that confusion of public, and not just purchasers or prospective purchasers, now actionable); Rolls-Royce Motors Ltd. v. A&A Fiberglass, Inc., 428 F. Supp. 689, 694 n.10 (N.D. Ga. 1976).

³²⁶ See 15 U.S.C. § 1114(a) (1994).

³²⁷ See S. REP. NO. 87-2107 (1962), reprinted in 1962 U.S.C.C.A.N. 2844, 2845, 2847, 2850.

³²⁸ See 15 U.S.C. § 1051(a)(1)(A).

³²⁹ See 15 U.S.C. § 1052(d).

³³⁰ See 15 U.S.C. § 1066.

³³¹ See 15 U.S.C. § 1114(1)(a).

likelihood of confusion in the terms of whether a mark "is likely to cause confusion, or to cause mistake, or to deceive purchasers as to the source or origin of such goods or services."³³² Section 1051(a)(1)(A) defined likelihood of confusion in terms of whether a mark was "in such near resemblance there to as might be calculated to deceive."³³³ Sections 1052(d) and 1066 defined likelihood of confusion in terms of whether a mark so resembled another's prior mark "as to be likely . . . to cause confusion, or to cause mistake, or to deceive purchasers."³³⁴ Congress's first purpose in amending the Trademark Act was to replace these inconsistent expressions of the likelihood of confusion standard with a single, consistent expression: "is likely to cause confusion, or to cause mistake, or to deceive."

In terms of substance, Congress struck the word "purchasers" that had appeared in sections 1052(d), 1066, and 1114(1)(a) in order to ensure that the likelihood-of-confusion inquiry considered the effect of a mark on potential purchasers as well as actual purchasers of the goods or services at issue.³³⁵ Congress intended this deletion to effect a substantive change in the infringement standard and said so.³³⁶ There is no indication that Congress intended any other substantive change in the infringement standard.

Nevertheless, some courts and commentators have argued that Congress, by deleting the language "as to the source or origin of such goods or services" from section 1114(1)(a), intended a much more substantial expansion of the infringement standard.³³⁷ Specifically, they have argued that Congress intended to expand the infringement standard to encompass not only prospective purchaser confusion as to source, but confusion of any one as to any relation between the trademark owner and the allegedly infringing use.³³⁸

³³² See S. REP. NO. 87-2107 (1962), reprinted in 1962 U.S.C.C.A.N. at 2850.

³³³ See *id.* at 2847.

³³⁴ See *id.*

³³⁵ See *id.* at 2847.

³³⁶ See *id.*

³³⁷ See *James Burrough Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976); *Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1010 (5th Cir.), cert. denied, 423 U.S. 868 (1975); *Syntex Labs., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971); *Rolex Watch U.S.A. v. Canner*, 645 F. Supp. 484, 492-93 & n.2 (S.D. Fla. 1986); *Rolls-Royce Motors Ltd. v. A&A Fiberglass, Inc.*, 428 F. Supp. 689, 694 & n.10 (N.D. Ga. 1976).

³³⁸ See *James Burrough Ltd.*, 540 F.2d at 274; *Boston Prof'l Hockey Ass'n, Inc.*, 510 F.2d at 1010; *Syntex Labs., Inc.*, 437 F.2d at 568; *Rolex Watch U.S.A.*, 645 F. Supp. at 492-93 & n.2; *Rolls-Royce Motors Ltd.*, 428 F. Supp. at 694 & n.10.

Although examining the change in section 1114(1)(a)'s language in isolation appears to provide some support for such an argument, three considerations conclusively refute it. First, we must recall the context in which the deletion of the "as to source or origin" language from section 1114(1)(a) occurred. Congress was seeking to render consistent four statutory sections that had previously contained varying expressions of the likelihood-of-confusion standard. Two of the sections had identical language and defined the standard as whether two marks were likely "to cause confusion, or to cause mistake, or to deceive purchasers."³³⁹ After deleting the word "purchasers" from this language to expand the infringement inquiry to encompass prospective purchasers,³⁴⁰ the easiest way to render the four statutory sections consistent was simply to amend the other two sections, including section 1114(a)(1), to use the same language. Moreover, even though the other three statutory sections had not been expressly limited to confusion as to source, the Court of Customs and Patent Appeals, which was principally responsible for interpreting those sections, had focused the confusion inquiry under those sections on confusion as to the source or origin of the goods at issue.³⁴¹ In

³³⁹ See *supra* text accompanying notes 321.

³⁴⁰ See *supra* text accompanying notes 322-23.

³⁴¹ See, e.g., *Sakrete, Inc. v. Slag Proc., Inc.*, 305 F.2d 482, 484 (C.C.P.A. 1962) (interpreting section 1052(d) to require a likelihood of confusion with respect to the source or origin of the goods at issue even in the absence of express language so defining the confusion requirement); *Clinton Det. Co. v. Procter & Gamble Co.*, 302 F.2d 745, 746 (C.C.P.A. 1962). The Court of Customs and Patent Appeals sometimes suggested that confusion as to source could include, in an appropriate case, confusion as to endorsement or corporate affiliation. See, e.g., *General Shoe Corp. v. Hollywood-Maxwell Co.*, 277 F.2d 169, 171 (C.C.P.A. 1960) (Rich, J., concurring) ("I agree that the concurrent use of the identical mark on women's shoes and brassieres would be likely to confuse purchasers of the goods as to their commercial sponsorship, which is what I take to be the meaning of the expression 'source.'"). In practice, however, the court did not use an endorsement approach to extend a mark's protection very far beyond the products to which it was tied until after the 1962 Amendment. See, e.g., *George A. Dickel Co. v. General Mills, Inc.*, 317 F.2d 954, 956 (C.C.P.A. 1963) (finding no likelihood of confusion between mark CASCADE for baking mixes and same mark for whiskey); *Fred W. Amend Co. v. American Character Doll Co.*, 223 F.2d 277, 280-81 (C.C.P.A. 1955) (finding no likelihood of confusion between mark CHUCKLES for candy and same mark for dolls); *Joseph S. Cohen & Sons Co. v. Hearst Magazines, Inc.*, 220 F.2d 763, 765 (C.C.P.A. 1955) (finding likelihood of sponsorship confusion between mark GOOD HOUSEKEEPING used as certification mark for goods identical to those on which another was using GOOD HOUSEKEEPER mark); *Pep Boys v. Edwin F. Guth Co.*, 197 F.2d 527, 529 (C.C.P.A. 1952) (finding no likelihood of confusion between mark CADET for storage batteries and same mark for electric lighting fixtures); *Alligator Co. v. Larus & Bro. Co.*, 196 F.2d 532, 537 (C.C.P.A. 1952) (finding no likelihood of confusion between mark ALLIGATOR for tobacco products and same mark for raincoats, topcoats, and jackets). Even where the court found a likelihood of confusion as to similar marks on somewhat unrelated goods, it did so on the basis of likelihood of confusion as to source given the facts presented. See *In re Sylvan Sweets Co.*, 205 F.2d 207, 208 (C.C.P.A. 1953) (finding that use of CAMEL mark on candy cigarettes, packaged and marked almost identically, to CAMEL mark as presented on real cigarettes created a likelihood of confusion as to "origin in view of the great similarity of the

essence, because all four sections of the statute concerned trademark confusion and trademark confusion had traditionally concerned confusion as to source, confusion as to source was implicitly required, even in the absence of an express statement to that effect. As a result, Congress could reasonably believe that an express declaration of the nature of confusion required to establish trademark confusion for infringement purposes was unnecessary. And Congress could delete the "as to source or origin" language from section 1114(1)(a) without intending to change the type of confusion that would count as trademark confusion.

Second, if we move beyond how the Amendment changed the statute's plain language, the legislative history accompanying the 1962 Amendment provides no support for inferring that Congress intended such a substantial, indeed radical, change in trademark's infringement standard. To the contrary, the Amendment itself was labeled a "Housekeeping Amendment," and the legislative history specifically described the Amendment as being "in large part a housekeeping measure, making minimal substantive changes in the trademark law."³⁴² Moreover, when Congress intended the Amendment to effect a substantive change in the infringement standard, as it did with respect to potential purchasers, the legislative history expressly stated that intention.³⁴³ Against this background of "housekeeping measure," "minimal substantive changes," and express statement when a substantive change was intended, the proposition that Congress intended to expand the infringement standard to encompass confusion of any sort, and yet failed to mention such intention, is more than a little difficult to accept.³⁴⁴

In addition, a certain level of estoppel comes into play in properly interpreting the 1962 Amendment. Based upon concerns that had arisen in the operation of the Trademark Act, a committee was formed in 1948 to study and

marks and the manner in which they are used on the packages containing the goods of the parties"). This simply represented a continuation of the court's approach under the 1905 Act. See *Radio Corp. of Am. v. Rayon Corp. of Am.*, 139 F.2d 833, 837 (C.C.P.A. 1943) (finding likelihood of confusion under 1905 Act between mark RCA for radios and electrical apparatus and RCA for knitted rayon materials).

³⁴² See S. REP. NO. 87-2107, reprinted in 1962 U.S.C.C.A.N. at 2845; see also Pollack, *supra* note 141, at 1480-81.

³⁴³ See S. REP. NO. 87-2107, reprinted in 1962 U.S.C.C.A.N. at 2847.

³⁴⁴ See, e.g., *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1177-78 (3d Cir. 1993) (relying on similar reasoning to conclude that Congress did not intend to recognize consumer standing for false advertising claims in the 1988 amendments to section 43(a) of the Lanham Act); *Colligan v. Activities Club of New York, Ltd.*, 442 F.2d 686, 689-94 (2d Cir. 1971) (same for consumer standing under original language of section 43(a)).

recommend changes in the Trademark Act.³⁴⁵ Based upon these discussions, proponents of broader protection had introduced, in 1951, a bill to amend the Trademark Act in various ways, including a substantial expansion in the scope of the infringement inquiry under section 1114.³⁴⁶ A similar, but less far-reaching, bill was introduced in 1953 and again in 1954.³⁴⁷ In each case, Congress refused to accept the proposed changes.³⁴⁸ In fact, Congress did not agree to amend the Trademark Act until the proposals for change were narrowed to the point where they became merely technical. Only then, did Congress adopt the 1962 Amendment.³⁴⁹ Given the inability of proponents of broader trademark to obtain the express substantive expansion they were looking for, the 1962 Amendment should be read simply as the housekeeping amendment it was and not as an acceptance of the substantive expansion that Congress had specifically rejected.³⁵⁰

Third, immediately following the 1962 Amendment, courts gave no significance to the deletion of the "as to the source or origin" language and continued to interpret the infringement standard to require confusion as to the source or origin of the goods at issue.³⁵¹ Only after more than ten years had

³⁴⁵ See S. REP. NO. 87-2107, reprinted in 1962 U.S.C.C.A.N. at 2846.

³⁴⁶ See S. 1957, 82d Cong. § 19 (1951), reprinted in 9 JEROME GILSON & JEFFREY M. SAMUELS, TRADEMARK PROTECTION AND PRACTICE, pt. IV, at 205, 207 (1998) (proposing to delete the "among purchasers as to the source or origins of the good at issue" language and proposing to add subsection (c) that would prohibit the use of "a registered mark in commerce otherwise than as a trade or service mark in such manner as to be likely to cause the mark to lose its significance as a mark").

³⁴⁷ See S. 2540, 83d Cong. (1953), reprinted in 9 GILSON & SAMUELS, *supra* note 346, pt. IV, at 211 (1998); S. REP. NO. 87-2107, reprinted in 1962 U.S.C.C.A.N. at 2846.

³⁴⁸ See S. REP. NO. 87-2107, reprinted in 1962 U.S.C.C.A.N. at 2846 (noting the history of amendment attempts).

³⁴⁹ See *id.* at 2844. The Report stated:

The purpose of this [1962 Amendment] is to make a number of miscellaneous changes in the Trademark Act of 1946 so as to clarify the meaning of several of its provisions. The provisions of the bill affect details of registration, administrative and court procedure, internal organization of the Patent Office regarding trademark matters, and refinements in language that experience has shown to be desirable. It also corrects typographical errors in the Trademark Act of 1946.

Id.
³⁵⁰ See, e.g., *Serbin v. Ziebart Int'l Corp.*, 11 F.3d 1163, 1177-79 (3d Cir. 1993) (concluding that Congress did not intend to recognize consumer standing for false advertising claims under section 43(a) by 1988 Amendments, where legislative history stated desire to change the rule, but Congress had specifically rejected proposed statutory language that would have done so); see also Pollack, *supra* note 141, at 1481-86 ("This narrow reading of the Report's ambiguous language is supported by its careful omission of the broader statements made by several witnesses at the hearings.")

³⁵¹ See, e.g., *Carter-Wallace, Inc. v. Procter & Gamble Co.*, 434 F.2d 794, 799-800 (9th Cir. 1970); *Sun-Maid Raisin Growers of Cal. v. Sunaid Food Prods.*, 356 F.2d 467, 469 (5th Cir. 1966).

passed did courts begin to attach any significance to the deletion and rely on it as a basis for broadening the types of confusion that would constitute infringement.³⁵² That the discovery of Congress's supposed intentions with respect to the infringement standard came only after considerable time had passed reinforces the conclusion that Congress had not, in fact, intended to eliminate the confusion-as-to-source requirement. Rather, this delay suggests that these courts attributed this intention to Congress simply to conceal their unsanctioned, expansionist rewriting of trademark's infringement standard.

Others have pointed to the 1988 amendments to section 43(a) and the Federal Dilution Act of 1995 as justification for expansive, property-based trademark protection. However, in both instances, Congress appeared to retain trademark's traditional focus on a mark's value as information source, rather than as product. Thus, the 1988 amendment to section 43(a) prohibits the use of a trademark, or colorable imitation thereof, where the use is likely to cause confusion not only as to source, but also as to sponsorship or endorsement by the trademark owner of another's products. While this amendment may have accepted an expanded infringement standard for unregistered marks, and perhaps, by implication, for registered marks as well, the expanded infringement standard simply recognized additional types of information that a mark may convey as deserving of protection.³⁵³

The Federal Dilution Act, which adds a federal dilution cause of action for famous marks to the Trademark Act, comes closer to express congressional recognition of property-based trademark protection, but even here, interference with a mark's information function remains the central consideration. To see that the dilution amendment does not reflect a purely property-based view of trademarks, we need only compare section 43(c) to a statutory section where Congress has expressly provided for property-based trademark protection—

³⁵² See *James Burrough Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976); *Boston Prof'l Hockey Ass'n. v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1010 (5th Cir.), cert. denied, 423 U.S. 868 (1975); *Syntex Labs., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971). A similar change in position concerning the Amendment is found in Callmann's treatise. Compare 3 RUDOLF CALLMANN, CALLMANN ON UNFAIR COMPETITION AND TRADE-MARKS § 80.1, at 120 (1965 Supp.) (noting that Amendment expanded confusion inquiry to encompass "potential as well as actual purchasers," but complaining that the Amendment did not "go far enough"), with 3A LOUIS ALTMAN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 20.01, at 4 (boldly proclaiming that the Housekeeping Amendment means that "[t]he Lanham Act is no longer limited to confusion of source; it covers all kinds of trade identity confusion").

³⁵³ Moreover, the Amendment simply acknowledged what the courts had already done. See S. REP. NO. 100-515, at 40 (1988), reprinted in 1988 U.S.C.A.N. 5577, 5603 ("Section 35 revises Section 43(a) of the Act (15 U.S.C. 1125(a)) to codify the interpretation it has been given by the courts.").

section 110 of the Amateur Sports Act of 1978.³⁵⁴ The key language of these two sections differs markedly. While section 110 prohibits any use “for purpose of trade” of certain symbols and marks associated with the Olympic Games, section 43(c) prohibits only those uses of a famous mark that “cause dilution of the distinctive quality of the mark.”³⁵⁵ Section 110 thus does not tie protection of the Olympic marks to their information function, and in that sense, provides express property-based protection.³⁵⁶ Section 43(c), on the other hand, expressly limits its protection to uses that interfere with the information function or distinctive quality of the famous mark. The difference in statutory language between these two sections demonstrates that Congress both knows how to provide property-based protection for trademarks and chose not to do so in the Federal Dilution Act of 1995.

When we move beyond whether section 43(c) expressly recognizes property-based protection to the question of precisely what sort of information-based protection the Federal Dilution Act provides for famous marks, the answer is less clear. A key difficulty in interpreting section 43(c) is that the operative language—“dilution of the distinctive quality of the mark”—is inherently ambiguous. On its face, this language is simply unclear as to whether Congress intended to recognize both blurring and tarnishment of a famous mark as actionable, and if so, what conduct might rise to the level of actionable blurring or tarnishment.³⁵⁷ Perhaps more importantly, the language also fails to explain how blurring or tarnishment relates to trademark’s likelihood-of-confusion standard. As discussed,³⁵⁸ dilution in practice has proven redundant, simply duplicating protection available to mark owners under the expanded likelihood-of-confusion standard that courts have created over the last thirty years. As a result, it is simply unclear what effect the dilution provision in section 43(c) should or will have on the protection available for famous marks.³⁵⁹

³⁵⁴ Amateur Sports Act of 1978, Pub. L. No. 95-606, § 1(b), 92 Stat. 3048 (codified at 36 U.S.C. § 380 (1994)).

³⁵⁵ 15 U.S.C. § 1125(c) (1994 & Supp. III 1997).

³⁵⁶ See *San Francisco Arts & Athletics, Inc. v. United States Olympic Comm.*, 483 U.S. 522 (1987).

³⁵⁷ The House Report accompanying the Act suggested that dilution should encompass both “subsequent uses that blur the distinctiveness of the mark or tanish or disparage it.” H.R. REP. NO. 374, at 2 (1995), reprinted in 1995 U.S.C.C.A.N. 1029. But the Court has warned against trusting such statements in legislative history where they are often inserted at the request of a special interest group.

³⁵⁸ See *supra* text accompanying notes 160-66.

³⁵⁹ If we turn to the legislative history to resolve these ambiguities, Congress’s strongest motivation for recognizing a dilution cause of action appears to have been a desire to provide famous mark owners a basis

Moreover, whatever protection Congress may have intended section 43(c) to provide, Congress specifically tied the scope of that protection to “the distinctive quality of the mark.” In the trademark field, distinctiveness is a term of art that refers to a mark’s ability to identify the source of particular goods or services. As a general rule of statutory construction, when Congress includes a term of art in a statute, courts should assume that Congress both was aware of the term’s special meaning within its field and intended for courts to interpret the statute in the light of that meaning.³⁶⁰ We can get a sense for how this rule of statutory construction would apply in interpreting section 43(c) by substituting the meaning of the phrase “distinctive quality” for the actual statutory language. If we were to do so, and were also to replace the ambiguous phrase “causes dilution” with its statutory definition of “lessens,” section 43(c)(1) would read:

The owner of a famous mark shall be entitled, subject to the principles of equity . . . , to an injunction against another person’s commercial use in commerce of a mark or trade name, if such use . . . [lessens] the [famous] mark[’s ability to identify the source of the particular goods or services with which it is associated]

Interpreting section 43(c)(1) in this way suggests that a use “causes dilution” only when it reduces the famous mark’s ability to identify a product’s source. Such a plain language interpretation reinforces our practice-based observations

for seeking special protections for their marks abroad. See H.R. REP. NO. 104-374, at 4 (1995), *reprinted in* 1995 U.S.C.C.A.N. 1029, 1031. As the House Report explains:

Passage of a federal dilution statute would also assist the executive branch in its bilateral and multilateral negotiations with other countries to secure greater protection for famous marks owned by U.S. companies. Foreign countries are reluctant to change their laws to protect famous U.S. marks if the U.S. itself does not afford special protection for such marks.

Id. The legislative history identifies national uniformity to prevent forum shopping and to decrease litigation as another key purpose. See *id.* at 1030-31. As the House Report states:

A federal dilution statute is necessary because famous marks ordinarily are used on a nationwide basis and dilution protection is currently only available on a patch-quilt system of protection, in that only approximately 25 states have laws that prohibit trademark dilution. . . . Protection for famous marks should not depend on whether the forum where the suit is filed has a dilution statute. This simply encourages forum-shopping and increases the amount of litigation.

Id. Perhaps courts should interpret the dilution provision simply to implement this purported purpose and read section 43(c) as providing no increased domestic protection for such marks.

³⁶⁰ See, e.g., *Chas. D. Briddell, Inc. v. Alglobe Trading Corp.*, 194 F.2d 416, 421 (2d Cir. 1952) (“[W]hen the legislature borrows [words of art], they are deemed to retain their previous meaning unless there is a contrary legislative intention clearly expressed in the statute or its history.”).

that section 43(c) merely duplicates the protection already available to famous marks under the likelihood of confusion standard.

In consequence, adoption of section 43(c) should not be read to reflect Congress's acceptance or endorsement of property-based trademark. And courts need not feel constrained to recognize and continue expanding property-based trademark protection. Rather, courts retain considerable leeway to determine the availability, nature, and scope of protection available under the Trademark Act. Moreover, given that courts, and not Congress, have been the principal architects of property-based trademark protection, courts bear a heavy responsibility for the unjustified market power and associated efficiency losses such protection has created. They should therefore take an active role in restricting protection for marks where a mark's value as product exceeds its value as information source.³⁶¹

IV. RESTORING THE BALANCE

We can make a start on returning trademark law to a sensible, and legitimate, footing by taking three simple steps. First, we must abandon the myths that have grown up around trademark law. Second, we must again recognize copying as essential to the existence of desirable competition and restore imitation to its central and lawful place in a desirably competitive market. And third, we must limit actionable confusion to cases where, if the use is allowed to continue, a substantial number of purchasers or prospective purchasers will actually become confused concerning information that will materially influence their buying decisions.

Three trademark myths are particularly troublesome. The first is the mistaken notion that Congress adopted a broad view of both trademark subject matter and the bundle of rights associated with trademark ownership in the Trademark Act. This is simply false. During the debates leading to the Trademark Act, Congress specifically rejected any number of proposals reflecting the broader approach to trademarks in favor of the traditional approach.³⁶² Even in the 1988 Amendments and the Federal Dilution Act of

³⁶¹ This is a shorthand phrase for the balancing test and factors previously identified. See *supra* text accompanying notes 249-60.

³⁶² See *supra* notes 39-48, 171-74, 214 and accompanying text. On Congress's generally conservative intent, consider the following colloquy concerning the proposed trademark bill generally and the generic words doctrine specifically:

Senator Lucas. I, for one, do not want to pass any legislation that is going to change the fundamen-

1995, Congress did not embrace a property-based approach to trademark, retaining instead a broader, but still deception-based, focus. Moreover, coming as late in the day as they did, Congress's actions in 1988 and 1995 simply acknowledged some of the steps on the path that the courts and a large number of states had taken long before and so provide little independent support for property-based trademark.

The second myth is that trademark protection cannot create monopoly or otherwise engender anticompetitive losses. Proponents of broader protection often rely on this myth when confronted with the argument that protection in any given case would prove anticompetitive, insisting that protection will not result in "market foreclosure" or that the functionality defense will necessarily preclude anticompetitive results.³⁶³ The recital of platitudes does not change economic realities, however. Under present doctrine, neither black jeans nor two-piece swimwear would qualify as functional, in the sense of superior to the preexisting color or style, when first introduced.³⁶⁴ Yet, assuming on that basis that no anticompetitive losses would result from assigning the exclusive right to produce such apparel color or style to its originator is foolhardy. Consumer preferences are too widely varied and idiosyncratic, and individual producers too imperfect in their ability to identify and satisfy those desires, to believe that a single producer will be as able to satisfy consumer desires as

tal law that has been handed down here by the courts for a long, long time, on trademarks.

Rep. Lanham. I don't think that does.
 Senator Lucas. I do not think so either.

Rep. Lanham. No.

Senator Lucas. I think the fundamental law should be preserved.

1942 *Trade-Mark Hearings*, *supra* note 8, at 44.

³⁶³ For examples of such comforting reassurances, see *Qualitex Co. v. Jacobsen Prods. Co.*, 514 U.S. 159, 164 (1995) ("The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature."); *id.* at 169 ("The functionality doctrine, as we have said, forbids the use of a product's feature as a trademark where doing so will put a competitor at a significant disadvantage because the feature is 'essential to the use or purpose of the article' or 'affects [its] cost or quality.'") (quoting *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 850 n.10 (1982)).

³⁶⁴ See *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 343 (7th Cir. 1985) (ruling that hexagonal shape of plastic stacking office trays was not functional because traditional rectangular-shaped trays were more popular, though maybe "too drab to be a good substitute for a fancier shape").

would a large number of producers.³⁶⁵ Moreover, even if the differences between blue and black jeans, or between one- and two-piece swimwear, are not sufficient to render one or the other “functional,” as presently defined, consumers are likely to have distinct preferences for particular styles or colors and will often be relatively unwilling to substitute one style or color for another. As a result, “competition” between blue and black jeans, or between one-piece and two-piece swimwear, is likely to prove far less effective at constraining supracompetitive pricing than the competition that would otherwise be present. Even if producers remain formally free to offer other jean colors or swimwear styles, assigning the black jeans market or the two-piece swimwear market exclusively to one entity will necessarily generate higher prices and rents and impose corresponding welfare losses.

The functionality defense may once have served, in combination with other aspects of traditional trademark doctrine, as an effective limit on trademarks becoming anticompetitive weapons. But the present doctrine does not address market foreclosure in some cases at all³⁶⁶ and, even when it applies, limits protection only after significant anticompetitive losses have ensued.

The belief that no anticompetitive consequences will follow unless market foreclosure results is equally problematic.³⁶⁷ Any degree of protection increases the expense and risks for would-be competitors and thereby increases the prices that consumers will pay for goods in the marketplace. Any degree

³⁶⁵ Cf. *Merges*, *supra* note 320, at 372-75 (noting that assigning broad patent rights to single holder creates risk that patent holder will not perceive and pursue vigorously desirable improvements and add-on inventions).

³⁶⁶ See, e.g., *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 331-32 (2d Cir. 1983) (refusing to apply functionality defense to allow defendant to produce toy car that imitated appearance of car on television series even though there appeared to be distinct consumer demand for this particular toy car on grounds that appearance of toy car was not “an advance in the useful arts”); *National Football League Props., Inc. v. Wichita Falls Sportswear, Inc.*, 532 F. Supp. 651, 663 (W.D. Wash. 1982) (“Even assuming the marks are functional does not, however, preclude trademark protection. A functional feature may additionally serve as a trademark and be protected as such.”).

³⁶⁷ In *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998), for example, Judge King asserted that there were no anticompetitive consequences from applying what she inaccurately characterized as “traditional trade-dress analysis” to a golf hole design because Tour 18 was left free to copy the golf holes, “enjoining only its copying of the lighthouse.” *Id.* at 552. Yet, even if Judge King’s implicit assertion that the presence of the lighthouse was not a feature that consumers desire was accurate—a point strongly refuted by the fact that Tour 18 spent the time and money necessary to have the feature built—the very fact that Tour 18 had to spend thousands of dollars defending against a lawsuit, where its entire investment was at risk, even though there was not the slightest evidence of a single consumer who had been materially influenced by whatever false information might have been conveyed by Tour 18’s imitation, was itself conclusive evidence of the anticompetitive consequences of the court’s approach.

of protection also mandates differences between the original good and later entries and thereby renders the later entries less perfect substitutes for the original. Even if it does not result in "market foreclosure," legal protection increases costs and product differentiation and generates corresponding anti-competitive losses.³⁶⁸ In some cases, these anti-competitive losses may be small enough to be offset by improved information efficiencies. But they will exist, and given that other means of conveying information as to source are usually available, the traditional definition of functionality more realistically captures the point at which the anti-competitive losses will likely justify a refusal to protect a product feature as a trademark.³⁶⁹

The third myth is that the likelihood of confusion analysis can resolve difficult questions concerning the appropriate scope of trademark protection. As the above discussion concerning circular, imaginary, and irrelevant confusion suggests, the issue of whether confusion should be actionable turns not merely on a factual analysis of whether confusion exists, but on a policy determination that the type of confusion present warrants legal intervention. Too often courts simply plug the facts of a case into their version of the *Polaroid* factor test and pretend that the result is necessarily a sensible one.³⁷⁰ By doing so, they foreclose a careful consideration of whether the confusion present is a type of confusion that is likely to generate inefficiencies sufficient to justify a legal prohibition in the first place.

³⁶⁸ Moreover, while some degree of product differentiation may prove desirable as a response to consumer preferences, see CHAMBERLIN, *supra* note 3, at 93-94; SAMUELSON, *supra* note 213, at 492 (recognizing desirability of some, but not too much differentiation, while noting inability of conventional economics to predict optimal level of differentiation), there is little reason to believe that differentiation dictated by legal command, rather than consumer desires, is necessarily efficient.

³⁶⁹ Alternatively, we can discuss functionality and its anti-competitive potential in terms of the availability of alternative designs. But again, a definition of "alternative designs" that appropriately balances the competitive consequences of protection must closely parallel the traditional definition of functionality. Competition is not adequately protected simply because there are, in theory, equally attractive designs that might be created. The question is whether there is another design, readily identifiable or known, that could be created or adopted at no more cost and risk than imitating the design claimed as a trademark, that consumers will consider a substitute for the original as perfect as an imitation of the original. If the cost and expense of the "alternative" design, and its acceptability as a substitute, are not substantially the same as for the imitation, then forcing the would-be competitor to turn to the alternative would entail anti-competitive losses that would almost certainly outweigh the informational efficiencies protection would generate.

³⁷⁰ See *Pebble Beach Co.*, 155 F.3d at 543 (noting that "no golfer will stand on the tee at Tour 18 and believe that he or she is playing at Pebble Beach, Pinehurst, or Harbour Town," yet determining factor test weighed in favor of finding likelihood of confusion; after warning that factor test is not the end of the inquiry, nevertheless holding conduct actionable without expressly considering whether whatever information presence of lighthouse may convey is worth protecting).

Along with abandoning these myths, courts must recognize, once again, the central role of copying in a competitive economy. Imitation to deceive consumers may be a legitimate target for trademark law, but imitation as competition is not.³⁷¹ Too often, courts recently have found imitation actionable simply because the defendant intentionally imitated a popular product.³⁷² Of course, this is precisely the sort of imitation that is most desirable from a competitive and consumer welfare standpoint. Allowing fact finders to infer infringement from this sort of imitation will necessarily limit the level of desirable imitation in the economy and reduce the economy's competitiveness. In dealing with imitation, we should follow the course the Court has set in antitrust law where an action that is as consistent with a legitimate purpose, as an illegitimate one, cannot serve as a basis for inferring illegitimate behavior.³⁷³ Because imitation generally is as consistent with the legitimate goal of simply competing, as it is with the illegitimate goal of deception, imitation should not serve as a basis for inferring actionable deception.³⁷⁴

³⁷¹ See *Norwich Pharmacal Co. v. Sterling Drug, Inc.*, 271 F.2d 569, 571-72 (2d Cir. 1959). The court explained:

Moreover, the essential distinction in this area of the law, overlooked by the court below, is the difference between a deliberate attempt to deceive and a deliberate attempt to compete. Absent confusion, imitation of certain successful features in another's product is not unlawful and to that extent a 'free ride' is permitted.

Id.
³⁷² See, e.g., *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1242 (6th Cir. 1991) (relying on intentional imitation of successful product as evidence of unfair competition); *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 34 (1st Cir. 1989) (finding intentional use of plaintiff's mark on defendant's t-shirts to created presumption of actionable confusion); *Warner Bros., Inc. v. Gay Toys, Inc.*, 724 F.2d 327, 334 (2d Cir. 1983) (finding intentional imitation of car associated with a given television series sufficient to establish actionable infringement under section 43(a)).

³⁷³ See *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 588 (1986) ("[C]onduct as consistent with permissible competition as with illegal conspiracy does not, standing alone, support an inference of antitrust conspiracy."); *Monsanto Co. v. Spray-Rite Serv. Corp.*, 465 U.S. 752, 764 (1984).

³⁷⁴ See *Norwich Pharmacal Co.*, 271 F.2d at 573 ("[A]ny notion that mere proof of deliberate copying without more shifts the burden [on secondary meaning] to the defendant [is mistaken]."); *Remco Indus., Inc. v. Toyomenka, Inc.*, 286 F. Supp. 948, 955 (S.D.N.Y. 1968) ("The inference of intent to deceive that plaintiff seeks to draw from copying is not a permissible one and plaintiff's theory that palming off may be inferred from mere copying is erroneous."). More recently, several courts have recognized that copying and imitation serve legitimate and desirable functions and on that basis have refused to presume that imitation establishes trademark infringement or unfair competition. See, e.g., *Fuddrucker, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 844-45 (9th Cir. 1987). Yet, even courts that have recognized the legitimate interests served by imitation nevertheless allow imitation alone to serve as a basis for inferring infringement. See *id.*

As the third and final step, courts should focus the confusion analysis on material information, defined as information about a product that will influence consumer buying.³⁷⁵ Under such a standard, confusion as to source can be actionable where source matters to consumers. Similarly, confusion as to endorsement can be actionable, but only if the factual situation is one where endorsement is typically found and likely to influence consumer buying. On the other hand, information concerning permission to use another's mark or corporate ownership structures should not generally serve as a basis for finding trademark infringement. Although mistakes concerning information on these subjects may qualify as confusion, this information is less often material to consumer buying decisions than confusion as to source and moreover, risks limiting desirable forms of competition.

If, for example, we used the "permission" approach to judge the legality of comparative advertising involving another's trademark, or of an unauthorized retailer's sale of a branded product, we would often find a likelihood of confusion.³⁷⁶ Many consumers may well (mistakenly) believe that a mark owner's permission is required to use the mark in a comparative advertisement or to resell a branded product.³⁷⁷ But this is not material confusion. For

³⁷⁵ As Judge Learned Hand once warned:

There is always the danger that we may be merely granting a monopoly, based upon the notion that by advertising one can obtain some "property" in a name. We are nearly sure to go astray in any phase of the whole subject, as soon as we lose sight of the underlying principle that the wrong involved is diverting trade from the first user by misleading consumers who mean to deal with him.

S.C. Johnson & Sons, Inc. v. Johnson, 116 F.2d 427, 429 (2d Cir. 1940).

³⁷⁶ For either use, the defendant is using the same mark on the same product in the same market channels to reach the same consumers. In *Pebble Beach Co.*, the Fifth Circuit recognized that application of the factor test will generally lead to a finding of likelihood of confusion for comparative advertising, but suggested that the nominative fair use doctrine can address this problem. 155 F.3d 526, 546 (5th Cir. 1998). Unfortunately, the court did not explain how the nominative fair use defense could apply when a likelihood of confusion was otherwise found.

³⁷⁷ Such a result is particularly likely if the survey question begins with a leading introduction. See *Pebble Beach Co. v. Tour 18 I Ltd.*, 942 F. Supp. 1513, 1549 (S.D. Tex. 1996) (relying on survey results where survey questions began "Tour 18 advertises it has copied 18 of America's most famous golf holes from different courses" and "Tour 18 also uses the names of these other golf courses to advertise its holes and course to the public"), *aff'd*, 155 F.3d 526 (5th Cir. 1998). As soon as a survey question begins by stating that one party has copied another's product or is using another's name, the survey will inevitably reveal that many consumers believe that permission was required or obtained for the action. Such apparent confusion is not so much evidence of material deception that will divert sales, however, as it is a reflection of ordinary conceptions of "ownership." Control questions that attempt to distinguish this permission confusion from material deception must, at the least, focus on an instance where one party's use of another's well-known trademark is legal. A refusal to use such an appropriate control question represents a frank ad-

example, even if consumers believed that Coca-Cola gave permission for Pepsi to use the Coke trademarks in a Pepsi advertisement, they are not likely to believe that Coca-Cola is thereby substantively endorsing or standing behind Pepsi products. Consumers may simply believe that permission is a formality that the law requires for comparative advertising with which companies comply as a matter of course. Because of this (mistaken) belief, the Pepsi advertisement may generate some "permission" confusion, but is unlikely to generate confusion material to Pepsi versus Coke buying decisions. Moreover prohibiting comparative advertisements on the basis of "permission" confusion would substantially limit "[a] competitor's chief weapon is his ability to represent his product as being equivalent and cheaper."³⁷⁸

In any event, because protection always imposes some anticompetitive costs, we must remain careful that the information that we are protecting has some real value to consumers and is not serving as a mere pretext for property-based protection. Even if we are willing to presume that confusion as to source is usually material,³⁷⁹ confusion as to other issues is inherently less likely to involve an issue that will actually matter to consumers when they decide which products to buy. As a result, when confusion concerns something other than source, courts should expressly require the plaintiff to establish that the confusion concerns material information, just as we do with implicit false advertising claims more generally.³⁸⁰ Otherwise, the anticompetitive consequences such expanded protection entails will almost invariably outweigh the associated informational efficiencies.

mission by the surveyor that his survey reveals nothing other than misconceptions about the nature of trademark ownership, rather than material confusion. See *id.* at 1550 n.34 (using control question that failed to gauge level of inherent belief that permission required whenever one party uses another's mark).

³⁷⁸ R.G. Smith v. Chanel, Inc., 402 F.2d 562, 567 (9th Cir. 1968) (quoting George J. Alexander, *Honesty and Competition*, 39 S. CAL. L. REV. 1, 4 (1966)).

³⁷⁹ Even for confusion as to source, the traditional trademark approach required proof that source mattered to consumers. See *supra* notes 35-36 and accompanying text.

³⁸⁰ See, e.g., U.S. Healthcare, Inc. v. Blue Cross, 898 F.2d 914, 922 (3d Cir. 1990); Lillian R. BeVier, *Competitor Suits for False Advertising Under Section 43(a) of the Lanham Act: A Puzzle in the Law of Deception*, 78 VA. L. REV. 1, 29-30 (1992) (noting that courts have found false advertising for explicitly false claims without proof of materiality, but warning that courts should be hesitant to presume that an advertisement will materially mislead consumers).

V. THE DEATH OF COMPETITION?

Until recently, courts have remained cautious that they not convert into legal command their instinctive dislike of a "copyist's opportunism."³⁸¹ "No copying, do your own work" may prove an appropriate, if misleading,³⁸² admonition for the educational process and its associated examinations. But extending it too readily to the market directly threatens competition and its associated welfare benefits. In the marketplace, imitation and copying are essential for competition to remain an effective force for the public good. If we cannot, for that reason, embrace the copyist, we must, at the very least, tolerate her efforts, not for her own sake, but for the broader public interest that she serves.³⁸³

Over the last thirty years, however, judges, commentators, and administrators have moved sharply against the common law's presumption that competition and copying are legal and desirable. Based in part on an instinctive reaction to copying, in part on a mistaken assumption that free riding is invariably inefficient, and in part on a pretense of consumer deception, courts have taken trademark law and fashioned it into a legal regime that expressly excludes would-be competitors from copying features essential to entering distinct product markets and that substantially limits the degree of competition in the marketplace generally. By excluding the copying of features that consumers desire for reasons other than the source-related information they convey, the resulting legal regime of "property-based" trademark tends to divide industries into distinct market segments and then assign each segment exclusively to one producer. While there is at least some potential for product substitution across these market segments, this indirect

³⁸¹ *R.G. Smith*, 402 F.2d at 568; see also *Brown*, *supra* note 58, at 1227. *Brown* argues:

The imperfect stabilization of the concept of functionality (and related issues) probably stemmed, not from judicial obtuseness, but from the sort of pressures typified by the Seventh Circuit decisions now reversed [in *Sears* and *Compco*]. The short-comings of these decisions are not the result on ineptitude; they are rather still another reflection of what I have several times referred to as a persistent urge to create some general protection against copiers. That urge has never achieved dominant expression in the cases. But it runs along like the Manichean heresy, forever pitting the forces of light and the alleged forces of darkness.

Id.

³⁸² Such a command is misleading because most education, certainly through the undergraduate level, consists of little more than copying. We copy the letters as the teacher writes them on the board, the math tables in our books, and the histories that others have prepared.

³⁸³ See *R.G. Smith*, 402 F.2d at 568 ("By taking his 'free ride,' the copyist, albeit unintentionally, serves an important public interest by offering comparable goods at lower prices.").

“competition” will generally prove less effective at imposing price discipline than the direct competition that would exist absent property-based trademark’s legal command. Moreover, even in cases where property-based trademark does not foreclose competitive market entry altogether, it substantially increases the costs and risks associated with entry, and by mandating differences between products, increases the extent to which consumers will be unwilling to substitute one product for another. For these reasons, property-based trademark protection necessarily results in higher prices, more extensive deadweight losses, and inefficiently allocated resources.

Against these very real costs, proponents of broader trademark protection have offered very little. In terms of deception-based justifications, these cases almost invariably involve no real possibility of actual and material consumer deception—certainly no more than is inevitable if there is to be competition at all. The proffered property-based justifications for expansive trademark protection are similarly unavailing. Even if there are gaps for free riding left by copyright and patent protection, the free riding that remains is almost certainly affirmatively desirable, and even if not, trademark law simply cannot identify and redress appropriately whatever undesirable free riding copyright and patent leave unaddressed.

In delineating the boundary between fair and unfair competition, we must keep firmly in mind that if competition is to remain an effective force for promoting social welfare, we must leave room for would-be competitors to operate. Which lawyer to hire cannot become the first and most important decision that a would-be entrepreneur faces in deciding to enter a market or otherwise satisfy some perceived consumer demand. In this light, property-based trademark goes too far toward prohibiting imitation as imitation, rather than limiting itself to imitation as material deception.

In recognizing property-based trademark, we have moved sharply from a legal regime where copying and competition were the norm and protection the exception, toward a regime where protection is the norm and copying and competition the exceptions. We have moved from a regime where the burden was on the party seeking legal protection to establish the need for protection, toward a regime where the burden is on the party seeking to compete to establish the need for competition. And we have divorced trademark law from its historical and sensible policy focus on the probability of material confusion, and crafted an overbroad, ill-considered legal regime that serves simply to enrich certain trademark owners at the expense of consumers, the market’s

competitive structure, and the public interest more generally. By creating market power and anticompetitive losses without offsetting efficiency advantages, property-based trademark protection fully deserves the label "trademark monopoly."

