

ENFORCEMENT COSTS AND TRADEMARK PUZZLES

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INTRODUCTION

ACCORDING to the standard account, trademark law, at its core, benefits consumers by preventing deceptive and confusing uses of source-identifying marks. No one doubts that this is the central function of protecting trademarks, but there is a problem with the standard account. It fails to explain a number of important trademark doctrines. Some of these ill-fitting doctrines, especially those that reflect expansions in the scope of trademark law over the past thirty years, are quite controversial. Others have been around too long and lie too close to the heart of trademark law to invite controversy despite their puzzling features. The existence of these doctrines raises serious questions about the completeness of the standard account.

For example, the core of trademark law¹ protects some ordinary word marks without any concrete evidence that consumers actually use them to identify a product's source and with virtually no evidence that consumers will be confused or deceived, or for that matter harmed in any significant way.² Moreover, trademark law has expanded over the past few decades to furnish relief that, according to many critics, risks serious anticompetitive effects in the underlying product market without sufficient compensating benefits in terms of product information for consumers.³ One of the most

¹ I use the term "trademark" in its informal sense to denote any source-identifying symbol and "trademark law" to denote the legal protection given to those symbols. The term "trademark" is sometimes given a more specialized meaning, as referring to any symbol used in association with *goods*, while "service mark" denotes any symbol used in association with *services* and "trade name" denotes any name used to identify a *business*. E.g., 15 U.S.C. § 1127 (2000) (providing definitions of "trade name," "trademark," and "service mark"). Also, the term "trademark" is sometimes reserved for symbols that are entirely separate from the product or its packaging and affixed solely for the purpose of serving as a source identifier. This definition would exclude features of the product or its packaging; what we today call "trade dress." Unless otherwise specified, the term "trademark," as I use it in this Article, includes "trademarks" in the narrower sense as well as "service marks," "trade names," and all types of "trade dress." For a history of changing terminology in the trademark field, see 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, ch. 4 (4th ed. 2002) [hereinafter *McCarthy on Trademarks*].

² See *infra* notes 87, 105, 106, 112 and accompanying text.

³ See, e.g., David J. Franklyn, *Owning Words in Cyberspace: The Accidental Trademark Regime*, 2001 *Wis. L. Rev.* 1251, 1252; Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 *Yale L.J.* 1687, 1688, 1693 (1999); Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*,

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widely discussed and heavily criticized examples of this trend is the protection of product design “trade dress,” which gives exclusivity in elements of the product itself and thus risks conferring a monopoly in the underlying product market.⁴ These cases are difficult to square with an account that assumes trademarks are solely devices for delivering product information to consumers.

This Article argues that one important reason these doctrines seem so puzzling is that the standard account is incomplete: it ignores enforcement costs. The usual approach to analyzing trademark issues focuses on the *substantive* benefits and costs of giving firms exclusive rights in marks. The benefits include efficiently conveying product information to consumers and encouraging firms to maintain and improve the quality of their products,⁵ while the costs include raising barriers to entry, conferring monopoly power in the product market, and restricting use of information that should be in the public domain. The problem with this substantive approach is that it ignores *procedural* aspects; in particular, the costs of enforcing trademark law, including the administrative costs of adjudicating trademark lawsuits and the error costs of over- and under-enforcing trademark rights.

Enforcement costs are important to the design of trademark rules, because trademark policies are closely connected to the specifics of market context.⁶ Trademark policies depend on the likely consumer response in the marketplace and resulting harm, the effect of trademark protection on firm incentives to invest in a mark,

108 Yale L.J. 1717, 1721–28 (1999); Glynn S. Lunney, Jr., Trademark Monopolies, 48 Emory L.J. 367, 371–72 (1999); Harvey S. Perlman, Taking the Protection-Access Tradeoff Seriously, 53 Vand. L. Rev. 1831, 1832–33 (2000); Christopher R. Perry, Trademarks as Commodities: The “Famous” Roadblock to Applying Trademark Dilution Law in Cyberspace, 32 Conn. L. Rev. 1127, 1136 (2000).

⁴ See *infra* notes 161–97 and accompanying text.

⁵ *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163–64 (1995).

⁶ For examples of other writing in the intellectual property field focusing on enforcement costs, see Robert G. Bone, A New Look at Trade Secret Law: Doctrine in Search of Justification, 86 Cal. L. Rev. 241 (1998) (using enforcement costs to explain and critique trade secret rules); Douglas Lichtman, Copyright as a Rule of Evidence, 52 Duke L.J. 683 (2003) (explaining the design of copyright rules as a response to high enforcement costs, especially costs associated with proving copyright infringement); see also *Castrol Inc. v. Pennzoil Co.*, 987 F.2d 939, 951 n.1 (3d Cir. 1993) (Roth, J., dissenting) (justifying a stricter burden of proof for false advertising claims under § 43(a) of the Lanham Act in part by the resulting enforcement cost savings, including reduced error and administrative costs).

the scope of the product market, the trademark owner's power in that market, and so on. Because of the complexity of these factors, a case-specific inquiry into the costs and benefits of trademark protection is likely to be administratively burdensome and error-prone. Indeed, a careful factual inquiry into the actual consumer harm from multiple trademark use and the anti-competitive effects of protecting a mark could easily transform a routine trademark case into something akin to a complex antitrust case with the high enforcement costs typical of that litigation.⁷

The law often responds to high enforcement costs by relying on general rules or standards that simplify the inquiry. Trademark law is no exception. It makes heavy use of presumptions and rules of thumb to prove such things as source-identification (secondary meaning), consumer confusion, and market foreclosure. These doctrinal devices, however, sometimes extend protection further than—and sometimes not as far as—*substantive* trademark policies alone would support.

For example, the central test for liability in a trademark infringement case is the likelihood of consumer confusion.⁸ Courts addressing this issue focus almost exclusively on probabilities and rarely give serious consideration to the potential harm to consumers if confusion actually materializes or the potential harm to competition if exclusive rights are granted.⁹ Even the rules for making the probability assessment rely on simplifying assumptions about consumer behavior and the market, assumptions that tend to skew the results in favor of protecting the mark. While these features of standard doctrine sometimes support liability in cases where the risk of consumer harm would not justify it, they also limit the administrative costs of an in-depth factual inquiry and reduce the error costs associated with failing to find liability when liability

⁷ William M. Landes & Richard A. Posner, *The Economic Structure of Intellectual Property Law* 188 (2003) (observing that inquiry into the economic effects of protecting marks could turn a trademark case into something “like an antitrust case governed by the Rule of Reason,” which is “very costly to try or even to settle”).

⁸ See 3 McCarthy on Trademarks, *supra* note 1, § 23:1.

⁹ See Restatement (Third) of Unfair Competition, § 21 cmts. a, j, k (1995) (stating that likelihood of confusion is the touchstone of liability and that while some cases also consider factors related to harm, such as intent to expand, investment in expansion plans, or inferior quality, these should be considered, if at all, only at the remedy stage and not at the liability stage).

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should be imposed. It is a mistake to complain about over-inclusion without taking account of these cost savings as well.

Part I of this Article will summarize the policies at stake in the standard account and provide an overview of trademark doctrine. Part II will briefly define enforcement costs and describe the interaction between its administrative and error cost components. This background sets the stage for a discussion of the role enforcement costs play in explaining trademark doctrine. My claim is not that judges *explicitly* mention enforcement costs when justifying decisions or rules. Sometimes they do,¹⁰ but most often they simply announce a rule or decision without much explicit policy justification.¹¹ What I will argue, beginning in Part III, is that an enforcement cost analysis can explain many of the puzzling features of current trademark law better than other explanations and that these puzzling doctrines persist in part because of their enforcement cost advantages.

It is important to be clear about the nature of my argument. I do not claim to know what judges are actually thinking when they decide particular trademark cases, even if it were possible to acquire such knowledge (which I doubt). My argument has a hypothetical quality. It resembles an “as if” story: judges decide cases *as if* enforcement cost constraints influence what they consider a sensible approach. Of course, the argument has a normative aspect as well: the enforcement cost advantages of a rule *should be* considered when evaluating the rule’s efficacy.

Part III will examine doctrines at the core of traditional trademark law. These doctrines protect some word symbols without any showing that they function as trademarks and without any evidence that consumers are actually confused. Moreover, they impose liability even when the plaintiff’s and defendant’s products are identical in quality such that consumers actually get what they want (and sometimes at a cheaper price). These rules can be explained as doctrinal devices to minimize enforcement costs.

¹⁰ See, e.g., *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205, 213–14 (2000) (justifying a secondary meaning requirement for product design trade dress as a way to reduce anticompetitive strike suits and resulting error and administrative costs).

¹¹ Even those critics who attribute expansive trademark doctrines to judicial “propertization” of trademark law, see *infra* note 66 and accompanying text, rely mostly on case results rather than on widespread and explicit judicial endorsements of a property rationale.

Part IV will then examine expansions of trademark law, focusing on two areas: the use of trademark law to protect marks on non-competing products and the application of trademark law to trade dress. The doctrine in each of these areas responds to the risk of high enforcement costs. The result is an imperfect embodiment of substantive trademark policy, but the imperfections are the price of managing enforcement cost constraints.

Although the primary aim of the Article is to explain some puzzling features of current trademark doctrine and to encourage courts and commentators to consider enforcement costs more explicitly, the Article's analysis also has normative implications for reform. In the Conclusion, I will briefly discuss two possible reforms: the use of disclaimers as the exclusive remedy for merchandising rights cases and the abolition of all trademark protection for trade dress. That discussion will show that adding enforcement costs to the policy mix makes trademark reform a more complicated matter than many critics suppose.¹²

I. AN OVERVIEW OF TRADEMARK POLICY AND DOCTRINE

Simply put, a trademark is a source identifier; that is, a symbol that denotes a single seller of goods or services or a single firm or business and distinguishes it from other sellers, firms, or businesses. The most familiar kind of trademark is a brand name such as CREST for toothpaste or TIDE for laundry detergent. A consumer seeing the word CREST on a tube of toothpaste assumes that the particular tube comes from the same source as all the other tubes of CREST toothpaste, including those that the consumer has purchased in the past.

¹² Some critics believe that solving the problems with trademark law is a relatively simple matter. They trace the source of the problems to judicial ignorance and over-eagerness and recommend educating judges and urging restraint. See, e.g., Lemley, *supra* note 3, at 1713–14 (arguing that most of the problems can be solved by encouraging judges to exercise “common sense” and vigilance in “relating the protection plaintiffs seek to the principles of trademark theory and rejecting claims that are not well-founded on trademark principles”); Lunney, *supra* note 3, at 478–84 (proposing that courts take “three simple steps” that will restore trademark law to its traditional bounds: becoming more sensitive to the anticompetitive effects of trademark protection, encouraging judges to place greater value on copying and imitation, and limiting protection to instances of clearly harmful consumer confusion).

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Trademarks, however, are not limited to single words such as CREST or TIDE. Theoretically, any symbol can serve as a source identifier depending on the meaning consumers give it. This includes phrases, musical jingles, product packaging, and even readily discernible features of the product itself, such as the color of wire fencing,¹³ the décor of a restaurant,¹⁴ the design of furniture,¹⁵ the layout of a famous golf hole,¹⁶ and even an artist's unusual style.¹⁷ If consumers believe that every product sporting the particular symbol comes from the same source, then the symbol has acquired the source-identifying property of a trademark.¹⁸

In this Part, I first present the standard policy reasons for and against protecting trademarks, including economic and moral arguments. I then describe the general features of trademark doctrine and highlight some of the ways courts have expanded trademark law over the past several decades.

A. The Standard Policy Arguments

1. Economic Arguments

The standard economic arguments stress two main benefits of protecting marks: reducing consumer search costs and creating incentives to maintain and improve product quality.¹⁹ First, consider search costs. When a mark distinguishes one source or brand from another, a consumer can rely on the mark to assure that any particular item has the characteristics and the quality that he or she seeks.

To illustrate, suppose a person wants to buy a bottle of Coca-Cola. Certain attributes of the product, such as its color and price, are readily ascertainable upon inspection before purchase, but

¹³ See *Keystone Consol. Indus. Inc. v. Mid-states Distrib. Co.*, 235 F. Supp. 2d 901, 908–10 (C.D. Ill. 2002).

¹⁴ See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 770 (1992).

¹⁵ See *Krueger Int'l, Inc. v. Nightingale Inc.*, 915 F. Supp. 595, 607 (S.D.N.Y. 1996).

¹⁶ See *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 541–42 (5th Cir. 1998).

¹⁷ See *Romm Art Creations Ltd. v. Simcha Int'l, Inc.*, 786 F. Supp. 1126, 1136 (E.D.N.Y. 1992).

¹⁸ I use the word “product” in this Article to include both goods and services.

¹⁹ See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163–64 (1995); 1 McCarthy on Trademarks, supra note 1, § 3:5; Landes & Posner, supra note 7, at 166–68.

many product attributes are not. Most significantly, the prospective consumer has no way to verify the taste before purchasing the soft drink. He can, however, rely on the COCA-COLA trademark as assurance that the bottle he intends to buy has the taste and other qualities he has come to associate with a Coca-Cola soft drink. Thus, the trademark COCA-COLA serves as a relatively low-cost way for the prospective consumer to connect information about the brand to the particular bottle of soft drink being considered. This information can come from personal experience, word-of-mouth, or advertising.

If other firms were free to use the COCA-COLA trademark on their soft drinks, consumers could no longer rely on the trademark to indicate a single source and thus could no longer be confident that the COCA-COLA mark indicated a Coca-Cola soft drink rather than, say, Dr. Pepper. Indeed, if many consumers liked Coca-Cola, other firms would have an incentive to use the COCA-COLA mark in order to attract those consumers to their soft drinks. With multiple soft drinks bearing the same mark, consumers would eventually learn to discount the information value of the COCA-COLA trademark and turn to other, potentially more costly, methods to verify quality—or do without reliable quality information altogether.

Thus, legal protection for trademarks helps maintain the source-identifying property of a mark by preventing other firms from using the mark to attract consumers to their products. Confident that marks identify a single source, consumers can rely on a mark as a mechanism for applying product information to a particular purchasing decision.

Moreover, protecting a mark as a source identifier creates incentives for a firm to advertise product information under the mark. Insofar as advertising communicates useful information less expensively than alternative methods,²⁰ consumers benefit by getting

²⁰ People disagree, of course, about the value of advertising. Much of the criticism has to do with a belief that advertising makes consumers buy products that they actually do not want or need. A related criticism is that advertising erects socially undesirable barriers to market entry. I discuss these criticisms briefly in a later section. See *infra* notes 50–53 and accompanying text.

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more information through the mark, and their search costs are further reduced.²¹

The second major goal of trademark law from an economic perspective is supporting incentives to maintain and even improve product quality.²² Consider what might happen if firms were able to use one another's marks. As discussed above, consumers would be confused at first and make purchasing decisions at odds with their preferences. Then, as they came to realize that trademarks were not reliable source identifiers, they would turn to more costly methods of obtaining product information.

But suppose such information is too costly to obtain. In that case, consumers would be unable to tell whether one item—for example, a bottle of soft drink—that looked just like another was in fact better than the other with respect to any characteristics hidden from view (such as taste). Without some way to communicate quality, no firm would have an incentive to improve quality because doing so would increase costs and thus require the firm to charge a higher price.²³ Consumers, unable to distinguish the higher from the lower quality product, would be unwilling to pay the higher price.²⁴ Indeed, price competition would drive the quality of hidden characteristics down to a bare minimum as firms reduced costs in order to reduce price.

²¹ In fact, some economic models suggest that advertising investment alone can signal product quality even when the informational content of the ads is zero. See, e.g., Paul Milgrom & John Roberts, Price and Advertising Signals of Product Quality, 94 J. Pol. Econ. 796 (1986). The intuition is that firms would invest more in advertising products if consumers would infer from heavier advertising that the products are better—and vice versa. If the intuition is true, then an equilibrium is possible where firms invest more in advertising high quality than low quality products and consumers draw the correct product quality inference.

²² See *Qualitex Co.*, 514 U.S. at 164; 1 McCarthy on Trademarks, supra note 1, § 3:5; Landes & Posner, supra note 7, at 168.

²³ This is the most extreme result and holds when consumers are unable to obtain *any* information about hidden characteristics. More precisely, the more costly it is for consumers to obtain this information, the fewer consumers will in fact conduct the search, the fewer sales a firm will make, and the lower the firm's incentives to invest in product quality.

²⁴ A firm might try to signal higher quality through its higher price, but a competitor with a lower quality product would simply charge the same higher price. Consumers anticipating this strategy would know not to rely on price as a signal of quality and as a result would not be willing to pay the higher price.

Put simply, if consumers lacked the ability to distinguish one brand from another, firms would have no reason to create brands with more costly but higher quality characteristics. Consumers would be left to choose from a range of products far too limited to satisfy the full range of their preferences, and economic efficiency would suffer as a result.²⁵

2. *Moral Arguments*

a. *Lying or Intentional Deception*

The clearest moral principle relevant to trademark law is the moral norm against intentional deception or lying. In the nineteenth century, American courts developed trademark law by analogy to the common law tort of fraud and usually imposed liability only on proof of intentional deception.²⁶ Although modern law no longer requires intentional deception—instead imposing liability even when the defendant innocently adopts a confusingly similar mark—the law still treats use of a mark with intent to deceive consumers more harshly than use without such intent.²⁷ It is possible that the harsher treatment reflects, at least in part, an underlying belief that intentional deception through use of a mark is morally wrong.²⁸

²⁵ The dynamic that I describe in this paragraph should be familiar to economists as an application of Akerlof's "lemons" model. See George A. Akerlof, *The Market for "Lemons": Quality Uncertainty and the Market Mechanism*, 84 Q.J. Econ. 488, 499–500 (1970).

²⁶ See 1 McCarthy on Trademarks, *supra* note 1, § 5:2 (noting that the dominant theory in the nineteenth century was "passing off" or "palming off," in which "the element of fraudulent intent was emphasized over the objective facts of consumer confusion").

²⁷ For example, some courts are willing to find that a plaintiff's descriptive mark has secondary meaning and therefore is protectible simply on a showing that the defendant adopted a similar mark intending to deceive consumers. See 2 McCarthy on Trademarks, *supra* note 1, §§ 15:12–19, :36–38. Moreover, a number of courts have held that proof of the defendant's intent to deceive consumers can give rise to a presumption of likelihood of confusion and hence liability. See, e.g., *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 258 (2d Cir. 1987); 3 McCarthy on Trademarks, *supra* note 1, §§ 23:110–111. Finally, intent to deceive also affects the award of profits and damages, as well as the scope of injunctive relief. See *Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1405 (9th Cir. 1993); 3 McCarthy on Trademarks, *supra* note 1, § 23:112.

²⁸ There are also economic reasons why intent might be a relevant factor, including that an intentional wrongdoer is frequently more difficult to deter. See Landes &

b. Consumer Autonomy

Intentional deception is not the only basis for moral blame. Suppose, for example, that the defendant adopts a mark with absolutely no concern for prior users and complete insensitivity to any consumer harm. This type of reckless disregard for the interests of others is morally problematic. Indeed, some theorists believe that recklessness, and even negligence, can be sufficient to justify tort liability on moral grounds.²⁹

Trademark law, however, does not require reckless disregard or even negligence. A firm is liable for causing consumer confusion even when it conducts a reasonable search and innocently adopts the same mark believing (mistakenly) that it is the first user in the relevant market.³⁰ This strict liability rule can be justified on economic grounds, but a persuasive moral justification is difficult to find. A possible argument is that causing consumer confusion violates a right based on consumer autonomy that guarantees consumers accurate information or at least freedom from confusing representations or actions. Professor McCarthy, in his well-known treatise on trademark law, states a position rather like this when he defends a consumer's right "to be told the truth" even if the defendant's product is identical in quality and the consumer suffers no actual harm:

The consumer is entitled to be told the truth about the origin or sponsorship of products. . . . If the consumer is reasonably mistaken as to the source or sponsorship of an alleged infringer's

Posner, *supra* note 7, at 168. Although philosophers disagree about what it is exactly that makes deception a moral wrong, see generally Larry Alexander & Emily Sherwin, *Deception in Morality and Law*, 22 *Law & Phil.* 393, 395–404 (2003), the moral basis for condemning a firm that adopts a trademark in order to deceive consumers into buying a different quality product seems relatively clear-cut in most cases, either on consequentialist grounds (because of the harm it risks to consumers) or on deontological grounds (because of the violation of consumer autonomy or the intrinsic nature of the act as a lie).

²⁹ See, e.g., Kenneth W. Simons, *Deontology, Negligence, Tort, and Crime*, 76 *B.U. L. Rev.* 273, 278–85 (1996) (arguing that it is possible to find a deontological moral justification even for liability based on negligence).

³⁰ 3 McCarthy on Trademarks, *supra* note 1, § 23:106 (stating the rule that good faith is no defense to infringement); Restatement (Third) of Unfair Competition, *supra* note 9, § 22 cmt. b (stating likelihood of confusion results in infringement regardless of whether the defendant knew of the plaintiff's prior use).

goods, she suffers a real and independent injury to her rights regardless of whether or not she is economically injured by the poor quality of the infringer's goods or services.³¹

The problem with this justification is that no convincing argument exists for a strong consumer autonomy right. Even assuming that the value of autonomy has moral implications for consumer choice in the marketplace,³² it cannot support a right to accurate information or even a right not to be confused. Some confusion is inevitable, and perfect accuracy is impossible to achieve. Our moral practices do not condemn a person just because he does or says something that confuses another; respect for individual autonomy does not impose such burdensome demands.

More specifically, it is virtually impossible to guarantee completely accurate information in the marketplace, and many perfectly acceptable marketing practices generate confusion. Given variations in the ability to process information, there is always a chance that some consumers will be misled.³³ Because of this, efforts to reduce confusion for some will often increase confusion for others. For example, when a firm advertises under its mark, it would not be surprising, given the limitations of language, that

³¹ 4 McCarthy on Trademarks, *supra* note 1, § 24:16 (emphasis removed); see also 1 *id.* § 2:35. Although the first sentence might mean only that a consumer has a right not to be told intentional lies, a more reasonable interpretation of the passage, taken as a whole, is that it endorses a consumer's right not to be reasonably mistaken or misled even when that condition is brought about unintentionally. To be fair, Professor McCarthy does not make much of this point in the rest of his treatise, and for good reason. Such a right is not only impossible to satisfy but also is in hopeless conflict with other rights.

³² Whether the value of autonomy can support a moral claim on the part of consumers depends to a large extent on the reasons why we distribute goods through the market. The utilitarian justification views the market as a device for achieving an efficient allocation of resources that maximizes social welfare. On this view, consumer autonomy is a purely instrumental value—a means to the end of making the market work effectively—and no consumer has an individual moral right to demand any particular treatment or any specific market features. In contrast, a libertarian justification for the market focuses on the way the market respects individual liberty by guaranteeing freedom of choice. On this view, consumer autonomy can have intrinsic and not just instrumental value, and therefore can support a moral right. As I argue in the text, however, the moral right cannot possibly guarantee perfect information or a complete absence of confusion.

³³ For an insightful analysis of this problem in the false advertising context, see Richard Craswell, *Interpreting Deceptive Advertising*, 65 *B.U. L. Rev.* 657, 672–78 (1985).

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some consumers would end up with an inaccurate understanding of even purely factual matters. Taken to the extreme, protecting a strong consumer autonomy right would result in a ban on all trademarks or at least on all advertising involving marks.

My point is simply that a right to consumer autonomy cannot justify imposing liability based only on a finding that the defendant's use of the mark causes consumer confusion. It should not be surprising then that consumer autonomy by itself plays a very limited role in trademark justification. It is at best a value that adds some weight in favor of an infringement conclusion justified on other grounds.

c. Unjust Enrichment

A third moral consideration, "unjust enrichment," focuses on sellers rather than consumers.³⁴ It supposes that a seller is unjustly enriched when it appropriates to its own advantage the "goodwill" that another seller has developed in its mark.

Essential to any unjust enrichment theory is its account of what makes enrichment "unjust." Free riding on another's efforts cannot be enough.³⁵ Indeed, much of what we know about the world is the result of free riding on the research and efforts of others. Nor can it be unjust merely to take the commercial value another firm has developed through its own investment. If it were, most competition would be unjust, for competitors take commercial value whenever they divert sales from another firm.³⁶ Finally, it should make no difference to the argument that "goodwill" in particular has been appropriated.³⁷ Suppose a firm enters a new product market that an-

³⁴ See 1 McCarthy on Trademarks, *supra* note 1, § 2:31 (discussing the unjust enrichment theory of trademark infringement); see also 4 *id.* § 24:21 (referring to the "unjust enrichment" argument).

³⁵ Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 Va. L. Rev. 149, 167 (1992) (noting that a prohibition against free riding alone is "drastically overbroad" because "[a] culture could not exist if all free riding were prohibited within it").

³⁶ William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 Memphis St. U. L. Rev. 199, 223 (1991) (criticizing the unjust enrichment or free riding argument on the ground that market competition necessarily involves free riding).

³⁷ See *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 122 (1938) (noting that it is not unfair in itself simply to share in the goodwill of an article even if that goodwill has been built up by a firm's expenditures on advertising); Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165,

other firm has pioneered. Although the new entrant obviously benefits from the pioneer's efforts to cultivate consumer demand and to build general goodwill for the new product, we do not think that the new entrant is doing something morally blameworthy.³⁸

It should not be surprising, then, that unjust enrichment has a rocky history in trademark law. In the early twentieth century, commentators began to treat a trademark owner's goodwill as its property, though without a clear understanding of what exactly constituted "goodwill."³⁹ This property theory competed with the traditional justification that focused on preventing consumer confusion and deception, and the result was a sharp debate over the true foundation of trademark law.⁴⁰ Nevertheless, courts continued to focus mainly on preventing consumer confusion and to treat appropriation of goodwill as essentially a derivative concern limited mostly to cases of confusion.⁴¹

1205 (1948) (criticizing the reliance on misappropriation of goodwill as a justification for trademark protection and noting that most ideas and information should be and are freely available for others to use).

³⁸ See *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 248, 259 (1918) (Brandeis, J., dissenting) (noting that the law encourages competitors to follow on the heels of those who pioneer new markets).

³⁹ See, e.g., Harry D. Nims, *The Law of Unfair Competition and Trade-Marks* 32, 35 (2d ed. 1917) (stating "[g]ood-will is unquestionably property" and observing that "[r]ecently . . . it has been seen that the actual property to be protected, is *not* the mark, but the good-will behind the mark, of which the mark is but a symbol"); C.J. Foreman, *Economics and Profits of Good-Will*, 13 *Am. Econ. Rev.* 209, 209 (1923) (noting the confusion and conflict over the concept of goodwill: "consumers' good-will has received considerable attention from economists, jurists, businessmen and accountants, but divers conflicting conceptions of this subject have been ever present in their thought").

⁴⁰ See, e.g., James Love Hopkins, *The Law of Trademarks, Tradenames and Unfair Competition* §§ 20–22 (4th ed. 1924) (discussing the confusion about the proper basis of trademark law—protecting property in the mark or the mark's goodwill versus preventing fraud on the public).

⁴¹ See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412–13 (1916) (asserting that "[t]he essence of the wrong consists in the sale of the goods of one manufacturer or vendor for those of another"); *Riverbank Labs. v. Hardwood Prods. Corp.*, 165 F. Supp. 747, 756 (N.D. Ill. 1958) (concluding that the distinction between the "capitalization" theory, which forbids someone from capitalizing on the efforts of another, and the "confusion" theory rests "upon a foundation of semantics," for a firm can capitalize on another firm's reputation or goodwill only by confusing consumers); *Hilson Co. v. Foster*, 80 F. 896, 897 (S.D.N.Y. 1897) (stating that advertising investment creating goodwill is entitled to protection just as much as investment in buildings and machinery, but limiting protection to preventing consumer confusion or deception); Hopkins, *supra* note 40, § 22 (declaring that trademark law is a branch of

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Since the 1930s, unjust enrichment rhetoric⁴² has appeared from time to time in a number of trademark opinions.⁴³ Many of these references are too casual in nature to suggest that courts consider unjust enrichment a core independent principle of trademark law. Courts use the rhetoric sometimes to bolster liability based on confusion grounds, sometimes to assess the defendant's bad faith for purposes of an accounting remedy, and sometimes to evaluate the intent factor in a likelihood of confusion analysis.⁴⁴ Some cases rely on unjust enrichment more prominently, but these generally lie at the periphery of trademark law.⁴⁵

unfair competition and that unfair competition, at its most general level, involves "restrain[ing] fraudulent competition in all its guises of misrepresentation of identity").

⁴² By "unjust enrichment rhetoric," I mean any references that locate the wrong in the defendant's benefiting at the plaintiff's expense, such as references to the defendant's "free riding" on the plaintiff's goodwill or "riding on the plaintiff's coattails," or references to the famous "reap/sow" metaphor from *International News Service v. Associated Press*, 248 U.S. 215, 239 (1918) (stating that the defendant "is endeavoring to reap where it has not sown").

⁴³ See, e.g., *Warner Bros. v. Gay Toys, Inc.*, 658 F.2d 76, 80 (2d Cir. 1981) ("To deny [the plaintiff] injunctive relief would be to enable [the defendant] 'to reap where [i]t has not sown'." (third alteration in original) (quoting *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 239 (1918))); *Kroger Co. v. Johnson & Johnson*, 570 F. Supp. 1055, 1060 (S.D. Ohio 1983) ("This case is somehow reminiscent of the plight of the Little Red Hen whose friends declined to plant, harvest or thresh the wheat; grind or bake the flour, but were all too ready to share with her the bread that resulted."); *Santa's Workshop, Inc. v. Sterling*, 2 A.D.2d 262, 264 (N.Y. App. Div. 1956) ("[A] competitor may not unfairly appropriate the same concept to sow confusion from which he reaps a profit.").

⁴⁴ See, e.g., *Comerica Inc. v. Fifth Third Bankcorp*, 282 F. Supp. 2d 557, 573 (E.D. Mich. 2003) (mentioning free riding when applying the intent factor of the multi-factor likelihood of confusion test); *Tommy Hilfiger Licensing, Inc. v. Nature Labs, LLC*, 221 F. Supp. 2d 410, 419 (S.D.N.Y. 2002) (stating the necessary intent for bad faith in trademark cases is intent to free ride on the owner's goodwill); *Estate of Jenkins v. Paramount Pictures Corp.*, 90 F. Supp. 2d 706, 714 (E.D. Va. 2000) (looking at intent to free ride as part of a multi-factor test for secondary meaning); *Phoenix Mfg. Co. v. Plymouth Mfg. Co.*, 286 F. Supp. 324, 330 (D. Mass. 1968) (discussing the use of unjust enrichment language and a property rights theory to justify an accounting of profits as a remedy for infringement).

⁴⁵ Many of these cases involve controversial expansions of trademark liability, such as through statutory dilution claims. Dilution theories can support expansive liability that is difficult to square with traditional trademark principles, so it is perhaps not surprising that courts use broad unjust enrichment rhetoric in this field. See, e.g., *Ty Inc. v. Perryman*, 306 F.3d 509, 512 (7th Cir. 2002) (finding some actions wrongful under a dilution theory even without blurring or tarnishment because of free riding); *HThane Int'l, Inc. v. Trek Bicycle Corp.*, 305 F.3d 894, 910 (9th Cir. 2002) (analyzing a dilution claim in terms of preventing free riding).

Thus, the moral norm of unjust enrichment fits trademark law rather poorly. If it were unjust simply to take a firm's goodwill, trademark law would reach well beyond anything recognized today.⁴⁶ It follows that any injustice must lie in the means by which goodwill is appropriated, such as deceiving or confusing consumers. But then the bulk of the normative work is done by whatever norm condemns the particular means and not by the fact of appropriation per se.

3. The Problems (Costs) of Protecting Trademarks

There are costs to protecting trademarks. I shall discuss enforcement costs later in this Article. The costs usually cited involve adverse effects on the market for the underlying product. In the best of all possible worlds, trademark law would protect the mark only as a source identifier and leave the market for the product unaffected. In reality, however, trademark protection can give the trademark owner power in the product market.

For example, when trademark law protects a descriptive word, such as FISH-FRI for a batter mix used to fry fish, there is a risk that competing firms will have difficulty finding other words to use as trademarks to describe the same features of their products.⁴⁷ A trademark like FISH-FRI is more than a device to communicate to consumers product information acquired through advertising, experience, or word of mouth; the word itself communicates information directly. A firm with exclusive rights to a descriptive word like FISH-FRI therefore gets an immediate advertising advantage. How much of an advantage and how much market power it confers depend on how many alternatives are available for competitors to use as trademarks for their own products.

⁴⁶ It would even extend beyond the broadest applications of the blurring prong of dilution theory. See Elliot B. Staffin, *The Dilution Doctrine: Towards A Reconciliation with the Lanham Act*, 6 *Fordham Intell. Prop. Media & Ent. L.J.* 105, 117-31 (1995) (providing an overview of blurring dilution theory). Blurring, at least, requires a strong mark (even if strong only in a local area), whereas the broad unjust enrichment theory would make any use of a mark wrongful if the use evoked positive emotions or feelings associated with the mark.

⁴⁷ See *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 792-93 (5th Cir. 1983) (holding that plaintiff's mark FISH-FRI is descriptive for a batter mix used to fry fish).

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Many argue that the problem of market power is particularly serious in trade dress cases, where trademark law protects design elements of the product itself.⁴⁸ If consumers adopt some unusual product feature as a source identifier for the product, such as the shape of a Ferrari car or the distinctive décor of a restaurant, it makes sense for trademark law to protect the feature in order to prevent consumer confusion. However, giving exclusivity in a design feature can also prevent competing firms from selling products with that feature and therefore risks creating a monopoly in the underlying product market.⁴⁹

Finally, some argue that protecting a mark can be harmful to consumers and creates barriers to entry when it generates consumer loyalty to a single brand.⁵⁰ The claim is that advertising *creates* preferences that are in some sense “bad” because they involve brand loyalty. This assumes there is some way to distinguish between brand loyalty and ordinary consumer preferences, but it is not obvious how this can be done in a normatively acceptable or even a coherent way.

For example, consider the problem of generic drugs.⁵¹ Many consumers prefer more expensive brand name drugs to their generic equivalents.⁵² Some critics of trademark law argue that this is evidence of the perverse effects of brand loyalty. The firm selling the brand name drug invests in developing consumer loyalty to its trademark during its period of patent exclusivity and thereby locks consumers into the brand name drug, interfering with their ability

⁴⁸ See, e.g., Graeme B. Dinwoodie, *The Death of Ontology: A Teleological Approach to Trademark Law*, 84 *Iowa L. Rev.* 611, 636–39 (1999) (acknowledging potential exclusion of competitors as a problem with trade dress protection).

⁴⁹ I discuss the trade dress cases in Section IV.B.

⁵⁰ This argument was very popular in the late 1940s and 1950s, when mass advertising became widespread. Many economists today reject the barrier to entry argument. See, e.g., Landes & Posner, *supra* note 7, at 173 (noting that “[t]he hostile view of brand advertising anyway is unsound”). The argument nevertheless has enjoyed a bit of a revival in recent trademark law scholarship. See Lunney, *supra* note 3, at 427–31.

⁵¹ As another example, beer companies sometimes market the identical beer under distinct brands and promote each brand differently. Beer drinkers often become loyal to a particular brand even though the brands are the same in all their objective characteristics. This behavior might seem irrational, but it is not necessarily so. The consumer might prefer one brand to another because of the brand’s humorous television commercials. Maybe she likes to drink beer that has “cool” ads or enjoys talking about the ads with other beer drinkers or bartenders.

⁵² See Landes & Posner, *supra* note 7, at 313–14.

to realize the gains from lower-priced generics after the patent expires. But this is not the only possible explanation for the behavior. For instance, it might be perfectly rational for a consumer to pay a higher price for a brand name drug if the consumer believes that the brand name manufacturer is likely to exercise more skill and care in the manufacturing process. In that case, the consumer pays a premium in return for a smaller risk of getting a defective batch.⁵³

The point is straightforward. Just because advertising creates new preferences in addition to supplying information to help satisfy preferences already formed does not mean that the induced preferences are “irrational” or “bad” or that they should count as a social cost in considering whether to protect the mark. In order to draw this conclusion, one needs a normative theory of good and bad preferences, and any such theory is difficult to defend in a nonpaternalistic way.

B. A Brief Overview of Trademark Doctrine

The three main policy reasons for protecting marks—reducing consumer search costs, maintaining and improving product quality, and remedying intentional deception—all relate to the quality of the product information available to consumers. Even the incentive to maintain and improve product quality does not stand alone as a distinct goal of trademark law; instead, it is linked to safeguarding the information transmission function of marks. Trademark doctrine reflects this focus.

In summarizing trademark doctrine, it is useful to distinguish between traditional core doctrines and more controversial expansions beyond the core. Diagram 1 illustrates this distinction.

⁵³ See *id.* at 173–74.

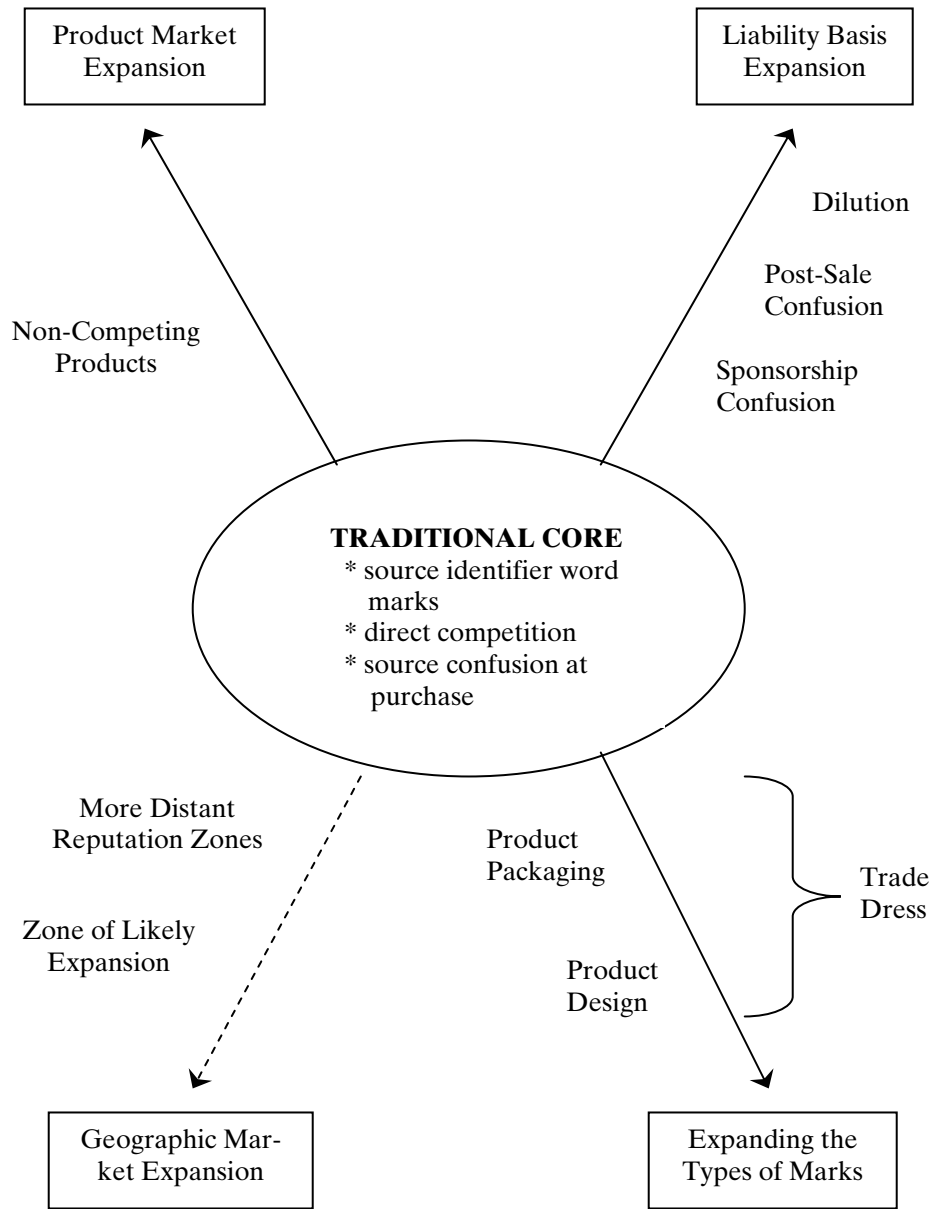


Diagram 1

At its uncontroversial core, trademark law (1) protects word marks like CREST for toothpaste that are originally adopted by a seller and affixed to a product (or its packaging) for the exclusive purpose of serving as a source identifier and that consumers use for that purpose; (2) against defendants who use the same or a very similar mark on *directly competing* products and in the same or closely proximate geographic market; and (3) under circumstances where the competing use is likely to deceive or confuse consumers *at the point of purchase* so they mistakenly believe that the competing product *comes from the trademark owner* (“source confusion”).

It is true that trademark law has never been strictly confined to this core, but from its inception in the mid-nineteenth century, it has been strongly influenced by the gravitational attraction of the core paradigm. For example, although as early as the late nineteenth and early twentieth century trademark law protected some features of product packaging, it did so only in a limited way.⁵⁴ So too, although the law at the time reached beyond the trademark owner’s immediate geographic market, it did not reach far, and when it did, it usually required the plaintiff to show bad faith.⁵⁵

The core-versus-expansion distinction is most useful for its analytic value. The core of trademark law defines those cases where liability is most strongly supported by the underlying substantive policies. For example, when a direct competitor in the same geographic market uses the same mark, the risk of consumer confusion is at its peak and the trademark owner stands to lose substantial sales. Moreover, when consumers are confused at the point of purchase and believe that the defendant’s product comes from the plaintiff, the harms from confusion are potentially most serious. The mark’s ability to reduce search costs is likely to be significantly impaired and the trademark owner’s incentives to invest in advertising and maintain product quality severely undermined. And when the mark is a word, especially a word like CREST for toothpaste that does not have any intrinsic descriptive meaning, there is

⁵⁴ See Lunney, *supra* note 3, at 375–76.

⁵⁵ See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 96–98 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 419 (1916).

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no significant risk of creating market power by conferring exclusivity.⁵⁶

As Diagram 1 illustrates, modern trademark law reaches beyond the core in several different ways.⁵⁷ Many of the doctrinal developments responsible for these expansions took place in the last twenty or thirty years, and many of these are quite controversial. The diagram illustrates these expansions with arrows. Entries more distant from the core (in other words, those farther out along the arrow) confer broader rights, fit more poorly with substantive trademark policies, and invite more controversy.

One expansion is in the direction of recognizing more types of symbols as protectible marks. Today, any kind of symbol can qualify for trademark protection if it can serve as a source identifier and meet the other requirements.⁵⁸ Trade dress is the most controversial extension in this direction. Within the trade dress area, protection for product design (such as the unusual shape of a car or an attractive floral design on china) is much more controversial than protection for product packaging (such as a decoration on a box or a musical jingle regularly used in connection with a service).⁵⁹

A second direction of expansion extends protection beyond the trademark owner's primary market. This can happen along two different axes: expansions into distant geographic markets and expan-

⁵⁶ But see Stephen L. Carter, *The Trouble With Trademark*, 99 *Yale L.J.* 759, 768–72 (1990) (challenging the assumption that there are “irrelevant marks,” that is, marks that do not confer a competitive advantage on their owners).

⁵⁷ The diagram does not include all the expansions. For example, courts in recent years have relaxed the traditional rule against assignments in gross and have allowed trademark owners sometimes to sell marks separate from the underlying business. See 2 *McCarthy on Trademarks*, supra note 1, § 18:10.

⁵⁸ See *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163 (1995) (finding no reason to exclude color as a trademark per se as long as it has secondary meaning and acts as a source identifier).

⁵⁹ See *Landscape Forms, Inc. v. Columbia Cascade Co.*, 113 F.3d 373, 378–79 (2d Cir. 1997) (explaining that the traditional test from *Abercrombie & Fitch v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976) works better for product packaging because there are more alternatives and consumers “are more likely to rely on the packaging of a product than on the product’s design as an indication of source”); *Versa Prods. Co. v. Bifold Co.*, 50 F.3d 189, 207 (3d Cir. 1995) (expressing more concern with deterring copying product design than product packaging); *Restatement (Third) of Unfair Competition*, supra note 9, § 16 cmt. b (explaining the different treatment of product design and product packaging for several reasons, including the fact that consumers are more likely to use packaging as a source identifier and that packaging has less competitive aspects). I discuss the trade dress cases in Section IV.B.

sions into distant product markets. Protecting the mark beyond the trademark owner's actual geographic market is somewhat controversial, especially when the protection extends into zones of likely expansion.⁶⁰ But the most controversial development involves extending protection into distant *product* markets. In particular, a trademark owner can enjoin use of its mark on non-competing products by arguing that consumers are likely to be confused into believing that the trademark owner has sponsored or authorized the use or is affiliated in some way with the user's business or activity. This is known as "sponsorship confusion."⁶¹ In addition, courts sometimes protect strong marks against uses that dilute the mark's distinctive quality—so-called "anti-dilution" theories—even when there is no risk of consumer confusion about source or sponsorship.⁶²

A third direction of expansion recognizes actionable confusion (and even dilution) other than at the point of purchase.⁶³ For example, Levi-Strauss was able to enjoin Lois Sportswear from selling jeans with the distinctive Levi's stitching pattern on the theory that members of the public, seeing someone wearing Lois Sportswear jeans, might be confused into believing that those jeans were Levi's jeans—even if the package labeling eliminated any possibility of consumer confusion at the time of purchase.⁶⁴ This is known as "post-sale confusion."⁶⁵

Some critics of modern trademark law argue that these developments, taken together, reflect a judicial trend toward protecting marks not as source identifiers for consumers, but as repositories of goodwill and commercial value for trademark owners. The effect

⁶⁰ See *Raxton Corp. v. Anania Assocs.*, 635 F.2d 924, 930 (1st Cir. 1980) (criticizing the zone of natural expansion doctrine when applied to enjoin innocent junior users); Carter, *supra* note 56, at 794.

⁶¹ See 4 McCarthy on Trademarks, *supra* note 1, § 24:6 (explaining that trademark protection extends to "related goods" that may be connected somehow in consumers' minds even if the goods themselves do not compete).

⁶² *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 429–31 (2003) (describing dilution theory as protecting trademark owners regardless of consumer confusion).

⁶³ *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244–45 (6th Cir. 1991).

⁶⁴ *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 871 (2d Cir. 1986).

⁶⁵ Some courts have even extended this theory to dilution claims, recognizing actionable dilution and even blurring dilution in the post-sale context. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 218 (2d Cir. 1999).

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of this trend, the critics insist, is to “propertize” trademark law inappropriately by transforming the underlying substantive policies from preventing consumer deception and confusion to protecting the trademark owner’s property rights in the mark. For example, Professor Glynn Lunney frames the point in the following way: “[T]he expansion [of trademark law since the mid-1950s] 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’).”⁶⁶

The “property” or “propertization” label tends to obscure rather than advance the argument. In a sense, all trademark law creates “property rights.” It is the trademark owner, after all, who owns the rights, not the consumers who are supposed to benefit, and those rights are not based on contract or some other pre-existing relationship.

Stripped of its property rhetoric, the complaint is that judges are protecting marks against uses that generate no significant risk of consumer harm and are doing so only because those uses take

⁶⁶ Lunney, *supra* note 3, at 371; see also Lemley, *supra* note 3, at 1688 (explaining that courts protect marks “as things valuable in and of themselves, rather than for the product goodwill they embody”); *id.* at 1693 (“[T]here is an increasing tendency to treat trademarks as assets with their own intrinsic value, rather than as a means to an end.”). For other examples, see Franklyn, *supra* note 3, at 1252 (noting that trademark law is becoming more “propertized” with the expansion of the likelihood of confusion test, the recognition of dilution, and other changes); Litman, *supra* note 3, at 1721–28; Harvey S. Perlman, Taking the Protection-Access Tradeoff Seriously, 53 *Vand. L. Rev.* 1831, 1832–33 (2000) (noting doctrinal changes that have refocused trademark law away from its traditional function of preventing consumer confusion toward conferring substantial property rights on trademark owners); see also Matthew D. Caudill, Beyond the Cheese: Discerning What “Causes Dilution” Under 15 U.S.C. § 1125(c), 13 *Fordham Intell. Prop. Media & Ent. L.J.* 231, 260 (2002) (noting that “[s]ome commentators purposefully advocate a property right for the holders of famous trademarks” and “[o]ther commentators view the property right as a dangerous expansion of trademark rights to the detriment of competition”). But see Maya Alexandri, The *International News* Quasi-Property Paradigm and Trademark Incontestability: A Call for Rewriting the Lanham Act, 13 *Harv. J.L. & Tech.* 303, 343–48 (2000) (advocating that fanciful, arbitrary, and suggestive marks be treated as the full-fledged property of their owners); Simone A. Rose, Will Atlas Shrug? Dilution Protection for “Famous” Trademarks: Anti-Competitive “Monopoly” or Earned “Property” Right?, 47 *Fla. L. Rev.* 653, 687–97 (1995) (defending a broad dilution theory on the ground that it properly recognizes the trademark owner’s property right in the “quality image” and “persona” of a famous mark).

commercial value from the trademark owner. The usual explanation has to do with the force of crude moral intuitions that do not belong in trademark law, intuitions that condemn free riding as unjust enrichment and underwrite a Lockean-type entitlement to the fruits of one's own investment. The result is that judges end up protecting the mark as something of value to its owner rather than as a device to inform consumers.

For example, critics claim that when courts give firms trademark rights in visible features of products as trade dress on the theory that consumers use those features to identify source—such as the appearance of a Hummer vehicle⁶⁷ or the rabbit-style shape of a corkscrew⁶⁸—those courts are actually protecting the features as valuable additions to the products. In a number of these cases, consumers who buy another product that looks like the trademark owner's, such as another vehicle that resembles a Hummer, are not likely to be deceived or confused into thinking that the trademark owner is involved, or to be seriously harmed even if they are confused. The consumers want the product with the feature and can check the source in other ways if they care.

The “propertization” critique has some force, but not as much as these critics claim. Occasionally courts do refer to the unfairness of free riding and the trademark owner's moral entitlement to reap the benefits of his investment in goodwill, and those concerns probably do play a role in justifying some of the very broadest expansions of trademark law.⁶⁹ But there is another explanation that fits many of the problematic results and does not require the bold assumption that courts are willing to ignore conventional trademark policies in order to “propertize” trademark law. This alternative explanation focuses on the way enforcement costs shape trademark doctrine. Not all of the controversial rules and decisions can be explained in this way, but any successful effort at reform

⁶⁷ *Gen. Motors Corp. v. Let's Make a Deal*, 223 F. Supp. 2d 1183 (D. Nev. 2002).

⁶⁸ *Metrokane, Inc. v. Wine Enthusiast*, 160 F. Supp. 2d 633 (S.D.N.Y. 2001).

⁶⁹ One example involves the merchandising rights cases, which also might have something to do with supporting incentives to provide entertainment services. I discuss these cases in Section IV.A. See *infra* notes 157–60 and accompanying text. Another example involves the broadest applications of blurring dilution theory, such as to product design trade dress.

depends on being able to distinguish those that can from those that cannot.

II. ENFORCEMENT COSTS IN GENERAL

As I use the term in this Article, enforcement costs mean the costs of judicially enforcing legal rights.⁷⁰ In general, there are two types of enforcement cost: administrative (or process) costs and error costs.⁷¹ Administrative costs include the private and public costs of litigating trademark suits.⁷² *Expected* administrative cost is a function of two variables: the frequency of trademark litigation and the average cost of resolving a trademark suit. Any rule that reduces either the frequency or the average cost, or both, reduces expected administrative cost.

Error costs are the costs generated by erroneous outcomes in trademark cases.⁷³ The relevant outcomes include settlements and fully adjudicated judgments. Two different types of error must be considered separately: false positives and false negatives. Generally, a false positive occurs when a party obtains a result he should not have obtained and a false negative occurs when a party fails to obtain a result that he should have obtained. In trademark law, a

⁷⁰ A more complete analysis would consider the indirect effects of trademark rules on parties' incentives to rely on private and other nonjudicial enforcement measures and the costs that result from those incentives.

⁷¹ This is a standard way to evaluate an enforcement scheme, whether that scheme involves litigation in court or proceedings before an agency. See, e.g., Richard A. Posner, *An Economic Approach to Legal Procedure and Judicial Administration*, 2 J. Legal Stud. 399 (1973). See generally Robert G. Bone, *Civil Procedure: The Economics of Civil Procedure* 125–57 (2003) (describing an enforcement cost analysis and applying it to pleading rules); Louis Kaplow, *The Value of Accuracy in Adjudication: An Economic Analysis*, 23 J. Legal Stud. 307 (1994) (analyzing the error cost and administrative cost tradeoffs for various procedural rules in adjudication).

⁷² A broader view of administrative costs would also include the costs of protecting trademark rights before the Patent and Trademark Office, such as when a trademark owner initiates an opposition to someone else's registration of a similar mark or starts a concurrent use proceeding. However, including these additional costs would only complicate the analysis without changing the conclusions.

⁷³ Error cost analysis is a branch of decision theory and has been extensively developed in that literature. See generally R. Duncan Luce & Howard Raiffa, *Games and Decisions: Introduction and Critical Survey* (1989). It has also been applied frequently to legal problems in a number of different areas. See, e.g., C. Frederick Beckner III & Steven C. Salop, *Decision Theory and Antitrust Rules*, 67 *Antitrust L.J.* 41, 44–45 (1999).

false positive occurs when a plaintiff who should not prevail succeeds in protecting a trademark, and a false negative occurs when a plaintiff who should prevail fails to protect a mark or is discouraged from bringing suit in the first place by the prospect of high litigation costs.⁷⁴

The *expected cost* of each type of error depends upon two factors: the frequency of the error and the social cost produced by that type of error. The reason to distinguish between the two different types of error is that they may produce different social costs. Many legal rules reduce the frequency of one type of error only to increase the frequency of the other. For example, the rule imposing a beyond-a-reasonable-doubt burden of persuasion in criminal cases reduces the frequency of erroneous convictions but increases the frequency of erroneous acquittals. The rule is justified on the ground that the social cost of an erroneous conviction (in terms of lost liberty) is much greater than the social cost of an erroneous acquittal.

Thus, an error cost analysis must consider the frequency of the two different types of error separately when their costs differ. For example, if there are many alternative words for firms to use as trademarks, an erroneous decision to give a particular firm trademark protection in one such word would not be terribly costly because a competitor could easily choose another word for its mark. On the other hand, erroneously failing to protect the word when it in fact serves as a source-identifying mark might be very costly if consumers end up confused about a competing firm's product. In this example, the cost of a false negative error is much greater than the cost of a false positive error. As a result, a rule that reduces the frequency of false negatives even as it increases the frequency of false positives is likely to be superior on error cost grounds, as long as the latter effect is not too great.⁷⁵

There is an important relationship between administrative costs and error costs. A rule that reduces administrative costs usually increases at least one type of error cost, and vice versa. For example, as Part III discusses in some detail, a rule that conclusively pre-

⁷⁴ See generally Bone, *supra* note 71, at 128–32 (discussing false positives and negatives).

⁷⁵ See generally *id.* at 128–40 (describing the interaction of these variables).

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sumes consumers use a mark as a source identifier eliminates the need to collect, present, and contest evidence of source identification and therefore reduces the cost of litigating a trademark suit. At the same time, the rule increases the frequency of false positives by protecting some marks that are not in fact source identifiers and should not be protected.

Errors can result from mistakes during the process of decision or from deficiencies in the applicable legal rule. A mistake during the decisional process can occur because the court finds the facts or the relevant law incorrectly or applies the law to the facts incorrectly.⁷⁶ But mistakes also occur when an accurate application of the substantive rule to the facts produces a result at odds with the underlying substantive policies.

The rest of this Article develops these points in the context of specific trademark doctrines. Before proceeding, however, it is important to mention a caveat. Many of the variables relevant to an enforcement cost analysis are empirical. The frequency of lawsuits and the risk of error, for example, depend on empirical facts that are difficult to ascertain. When reliable empirical information is unavailable—which is often the case—one must rely on reasonable predictions and assumptions based on analogy, experience, and common sense. The only alternative is to ignore administrative and error costs altogether, but that is a risky course of action in a field such as trademark law where the substantive policies implicate complex market factors that are difficult and costly to prove.

III. ENFORCEMENT COSTS AT THE TRADEMARK CORE

This Part examines some important doctrines that lie at the core of traditional trademark law. These doctrines at first glance seem inconsistent with the substantive policies described in Section I.A—reducing consumer search costs, maintaining and improving product quality, remedying intentional deception, and (perhaps) protecting consumer autonomy. They make much more sense, however, when enforcement costs are added to the policy mix. Part

⁷⁶ It is not necessary to assume that there is a uniquely correct decision for each case. When there is a range of reasonable decisions, it is an error to make a decision that falls outside the reasonable range.

IV shows that the same thing is true for some of the more controversial modern expansions of trademark doctrine.

Consider the following hypothetical. Suppose a firm, Paul's Cosmetics ("PC"), has just begun selling a shampoo called AFARION, marketing it through retail drug stores. Shortly after PC's AFARION shampoo hits the market, a competing firm, Diane's Cosmetics ("DC"), begins selling a shampoo of its own, also called AFARION, through the same retail drug outlets in direct competition with Paul's shampoo. Assume that the shampoo itself is not under patent and DC is perfectly free to make and sell its shampoo product.

PC sues DC for trademark infringement. This is a paradigmatic trademark case lying at the very core of trademark protection. Given the broad outline of trademark doctrine and policy in Part I, one might expect that PC would have to introduce evidence showing two things: first, that a substantial segment of consumers actually use AFARION as a source identifier; and second, that DC's use of the AFARION mark confuses those consumers into believing that DC's shampoo comes from PC. As it turns out, however, PC need do neither of these things. PC can enjoin DC from using the AFARION mark on its shampoo without ever showing that the mark actually functions as a source identifier and without ever showing that any consumer is confused. Indeed, PC can get injunctive relief on these facts essentially by proving that it was the first to sell shampoo under the mark AFARION, and it can get injunctive relief even if DC's shampoo is identical in quality to its own (and therefore consumers get the same quality product from DC as from PC). The following discussion uses an enforcement cost analysis to explain these features.⁷⁷

⁷⁷ I cannot prove, of course, that judges actually had or have enforcement costs in mind. Indeed, as I discuss, these core doctrines were originally justified by formalistic arguments. It is significant, however, that in the early twentieth century, when the formalist system began to collapse, some jurists justified these rules as evidentiary presumptions in terms that drew on strands of an enforcement cost rationale. They argued in effect that the factual circumstances made secondary meaning, confusion, and the like so highly probable that a presumption was warranted. See, e.g., Milton Handler & Charles Pickett, *Trade-Marks and Trade Names—An Analysis and Synthesis* (Part II), 30 *Colum. L. Rev.* 759, 770 (1930); Edward S. Rogers, *Comments on the Modern Law of Unfair Trade*, 3 *Ill. L. Rev.* 551, 562–64 (1909). In any event, the persistence of these doctrines to the present day suggests that some kind of functional

A. Protecting Marks Without Proof of Secondary Meaning

Traditional trademark law classifies marks into five different categories: fanciful, arbitrary, suggestive, descriptive, and generic.⁷⁸ “Fanciful marks” are completely new words or symbols created just for the purpose of being used as a mark.⁷⁹ Examples include POLAROID for cameras and CUTEX for nail polish remover; before they were coined for use as trademarks, the words “polaroid” and “cutex” did not exist.

“Arbitrary marks” are marks that already have meaning, but the meaning conveys absolutely no information about the products to which they are attached; in other words, the association of mark with product is purely arbitrary.⁸⁰ Consider SUN for computer equipment. “Sun” is a word in the English language but its meaning has nothing to do with computer hardware or software.

“Suggestive marks” merely suggest attributes of the products to which they are attached. It is often said that for a mark to be suggestive, it must take a leap of imagination for a consumer to see how the meaning of the mark itself is connected to the product.⁸¹ “Descriptive marks,” on the other hand, directly describe attributes of the product without any need for imagination.⁸² For example, COPPERTONE is a suggestive mark because it merely suggests the effects of using suntan lotion (one’s skin becomes copper

justification is probably at work, and I canvass the various options before concluding that the enforcement cost explanation is the most convincing.

⁷⁸ *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976) (listing the categories of trademarks); 2 McCarthy on Trademarks, supra note 1, § 11:1 fig. 11:1A (displaying the spectrum of trademark categories).

⁷⁹ 2 McCarthy on Trademarks, supra note 1, § 11:4 (defining fanciful marks).

⁸⁰ *Id.* (defining arbitrary marks).

⁸¹ The leap of imagination test holds that if a mark “requires imagination, thought and perception to reach a conclusion as to the nature of the goods,” it is a suggestive mark. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 792 (5th Cir. 1983) (quoting *Stix Prods., Inc. v. United Merchs. & Mfrs., Inc.*, 295 F. Supp. 479, 488 (S.D.N.Y. 1968)).

⁸² *Id.*

in tone),⁸³ whereas FISH-FRI is descriptive for a batter mix used to fry fish because it outright describes that kind of product.⁸⁴

Finally, a “generic mark” is a mark that consumers use to denote a general class of products rather than a particular brand within the class.⁸⁵ For example, if a seller uses the word SHOE as a mark for the shoes it sells (as in SHOE shoes), that mark would be classified as generic because the word SHOE means all kinds of shoes to consumers. For a more realistic example, the mark THE COMPUTER STORE was held to be generic for a store offering computer sales and services.⁸⁶

The classification of a mark determines the legal requirements for establishing exclusive rights in the mark. For fanciful, arbitrary, and suggestive marks—known collectively as “inherently distinctive” marks—the prospective trademark owner need only show that it was the first to use the mark in trade by selling its product under the mark.⁸⁷ For descriptive marks, on the other hand, the prospective owner must show that it was the first to develop secondary meaning in the mark.⁸⁸ Secondary meaning exists when a substantial number of consumers actually associate the mark with a single source; in other words, when the mark actually functions as a source identifier.⁸⁹ Generic marks receive no protection at all.⁹⁰

⁸³ Id. at 792 (noting that COPPERTONE is a suggestive mark in regard to sun tanning products) (citing *Douglas Labs., Inc. v. Copper Tan, Inc.*, 210 F.2d 453 (2d Cir. 1954)).

⁸⁴ Id. at 793 (holding that plaintiff’s mark FISH-FRI is descriptive for a batter mix used to fry fish).

⁸⁵ 2 McCarthy on Trademarks, supra note 1, § 12:1 (explaining that generic words can never be trademarks).

⁸⁶ See *In re Computer Store, Inc.*, 211 U.S.P.Q. (BNA) 72, 75 (T.T.A.B. 1981).

⁸⁷ 2 McCarthy on Trademarks, supra note 1, § 11:4 (explaining that inherently distinctive marks require proof of secondary meaning).

⁸⁸ Id. § 16:34 (explaining secondary meaning requirement for descriptive marks).

⁸⁹ See Vincent N. Palladino, *Surveying Secondary Meaning*, 84 Trademark Rep. 155, 160–62 (1994) (discussing variations in secondary meaning definitions).

⁹⁰ 2 McCarthy on Trademarks, supra note 1, § 12:1 (explaining that generic words can never be trademarks). This is not precisely correct. Sometimes a mark, which starts off as a source identifier, becomes generic over time as consumers adopt it as a name for the product class. Id. Famous examples include aspirin, cellophane, elevator, and thermos. In these situations, there is often a period of time when most consumers understand the mark in generic terms, but a substantial fraction still use it as a source identifier. During these transitional periods, courts will sometimes require the defendant to add qualifiers to the word in order to mitigate consumer confusion. Once the transition to generic status is complete, however, the court will lift the restrictions and

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In our shampoo hypothetical, AFARION is a fanciful mark. To the best of my knowledge, the word does not exist outside the hypothetical. Thus, in order to establish exclusive rights to the mark, PC would have to show only that it was the first to offer bottles of shampoo for sale to consumers with the AFARION mark affixed. What is important for our purposes is that PC need not present any evidence of secondary meaning. It obtains exclusive rights in AFARION even if no consumer actually uses the word as a source identifier for shampoo.

This is somewhat puzzling at first glance. After all, if trademark law is based on protecting symbols as source identifiers, why are some symbols protected without any proof that they function as such? To some extent, the rule is a historical artifact. In the late nineteenth and early twentieth centuries, what we now call fanciful and arbitrary marks were known as “technical trademarks,” and the first user of a technical trademark obtained exclusivity without any showing of secondary meaning. According to historians of trademark law, this approach rested on a property theory of trademark protection that fit the formalistic mode of legal thought that prevailed during the late nineteenth century.⁹¹ However, the rule has survived long after the demise of the formalistic theory that originally supported it,⁹² and its survival suggests that it probably has functional value as well.

allow others to use the generic mark freely. For an example of this approach, see *King-Seeley Thermos Co. v. Aladdin Industries, Inc.*, 321 F.2d 577 (2d Cir. 1963).

⁹¹ The idea was that fanciful and arbitrary marks, having no commonly understood meaning in relation to the products to which they were affixed, did not ever qualify as “common property” (unlike descriptive marks) and so could become the exclusive possession of their creators upon use. See Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 *Trademark Rep.* 305, 316–20 (1979); Kenneth J. Vandeveld, *The New Property of the Nineteenth Century: The Development of the Modern Concept of Property*, 29 *Buff. L. Rev.* 325, 344–45 (1980).

⁹² The formalistic property theory collapsed with the rise of sociological jurisprudence and legal realism in the first half of the twentieth century. The realists in particular argued that a mark itself had no intrinsic value and that the characterization of marks or goodwill as “property” did nothing to advance the analysis. Whether something of value was property depended on whether and how the law protected it, and decisions about legal protection necessarily turned on the policies at stake. See Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 *Colum. L. Rev.* 809, 814–17 (1935) (criticizing the protection of technical trademarks as property and noting that the property theory simply conceals the underlying policy justifications).

It is often said that inherently distinctive marks are protected without proof of secondary meaning because their distinctiveness makes them natural source identifiers.⁹³ But this explanation is unconvincing. Source identification is not something intrinsic or natural to a symbol; it is an empirical property that results from the way a symbol actually operates in the marketplace.

A more convincing explanation involves enforcement costs.⁹⁴ If judicial determinations of secondary meaning were always accurate and if secondary meaning could be proven without cost, it would make sense to put parties to their proof in all cases. But courts do make mistakes, and proof of secondary meaning is expensive. The rule that protects inherently distinctive marks on first use in trade in effect conclusively presumes secondary meaning, and a conclusive presumption is justified in these cases because it minimizes the sum of error and administrative costs.

To see this point more clearly, start with the proposition that a fanciful, arbitrary, or suggestive mark like AFARION is likely to be adopted as a source identifier if it is placed in a prominent position on a product's label. Because the symbol has no other meaning to consumers (or in the case of suggestive marks, no other obvious meaning), consumers, who are accustomed to seeing source identifiers on labels, are very likely to assume that the symbol is a trademark and use it as such. Thus, the probability is extremely

With this insight, it became clear that all trademarks should be subject to the same fundamental set of principles. See, e.g., Zechariah Chafee, Jr., *Unfair Competition*, 53 *Harv. L. Rev.* 1289, 1296–98 (1940) (noting that judges now realize that the difference between technical trademarks and trade names makes no actual difference because both are protected on the same set of principles); Milton Handler & Charles Pickett, *Trade-Marks and Trade Names—An Analysis and Synthesis (Part I)*, 30 *Colum. L. Rev.* 168 (1930) (arguing that the law of technical trademark infringement and the law of unfair competition are converging and should be unified); Handler & Pickett, *supra* note 77.

⁹³ See Jane C. Ginsburg et al., *Trademark and Unfair Competition Law: Cases and Materials* 110–13 (3d ed. 2001) (explaining the justifications for not requiring proof of secondary meaning for technical trademarks); Lisa P. Ramsey, *Descriptive Trademarks and the First Amendment*, 70 *Tenn. L. Rev.* 1095, 1108–09 (2003) (characterizing inherently distinctive marks as natural source identifiers).

⁹⁴ See Landes & Posner, *supra* note 7, at 188–89 (arguing trademark classification typology reduces administrative costs); Robert C. Denicola, *Freedom to Copy*, 108 *Yale L.J.* 1661, 1673 (1999) (noting that the inherent distinctiveness doctrine “avoids the administrative costs of a case-by-case balancing of the informational advantages and competitive disadvantages of protection” and also furthers predictability).

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high (though not certain) that an inherently distinctive mark will become a source identifier, and in a reasonably short period of time.

Furthermore, proof of secondary meaning is expensive and not always easy to provide in a convincing way, especially during the early stages of marketing. Consumer surveys are the best evidence of secondary meaning, but surveys are difficult to design properly and expensive to conduct.⁹⁵ Moreover, there are many ways to challenge surveys, so defendants have many opportunities to contest survey evidence and thereby escalate litigation costs.⁹⁶ Judges also find it difficult to evaluate survey methodology,⁹⁷ especially when confronted with competing expert testimony, and this increases the likelihood of error. Partly to reduce the burden and cost of survey evidence, courts permit trademark owners to establish secondary meaning with circumstantial evidence such as volume of sales, expenditures on advertising, and the like.⁹⁸ However, this evidence is still expensive to compile, invites adversarial conflict when presented at trial, and is unlikely to be available in an impressive way during the early stages of a marketing campaign.

We can thus see the benefits of conclusively presuming secondary meaning in inherently distinctive marks. Because of the high probability that these marks already have or will soon acquire secondary meaning, the conclusive presumption is very likely to be

⁹⁵ See 2 McCarthy on Trademarks, supra note 1, § 15:30 (citing cases for the proposition that consumer surveys are the most persuasive evidence of secondary meaning); Palladino, supra note 89, at 185 (noting that when it comes to surveys, “[d]esigning questions to measure secondary meaning remains a difficult undertaking, fraught with uncertainty and likely to be less than entirely successful”).

⁹⁶ See 5 McCarthy on Trademarks, supra note 1, § 32:158 (noting that typically each side will produce its own survey and “[t]hen ensues the ‘battle of the experts’”); Palladino, supra note 89, at 157–58 (explaining that when surveys are conducted, “a contest usually is waged at trial or at a motion hearing by ‘competing experts and rival studies’”).

⁹⁷ See *Indianapolis Colts, Inc. v. Metro. Baltimore Football Club Ltd.*, 34 F.3d 410, 414–15 (7th Cir. 1994) (describing the difficulty courts have controlling and evaluating the battle of experts over trademark surveys and proposing that parties decide on a neutral third-party expert to help the court in evaluating the competing expert testimony). See generally 5 McCarthy on Trademarks, supra note 1, § 32:196 (noting that the cases too often reveal a “hypercritical attitude towards surveys”).

⁹⁸ See 2 McCarthy on Trademarks, supra note 1, §§ 15:30, :42 (noting that circumstantial evidence is frequently used instead of or in addition to survey evidence).

correct most of the time.⁹⁹ Moreover, the conclusive presumption saves the litigation costs of actually proving secondary meaning in individual cases.

At the same time, the need to classify marks creates its own enforcement costs. The greatest costs are produced by the descriptive versus suggestive distinction. Parties often litigate this classification vigorously, since it makes an important difference as to whether the plaintiff must present secondary meaning evidence.¹⁰⁰ Nevertheless, even here, courts have adopted tests that limit the costs. For example, the most common test used to distinguish descriptive from suggestive marks—the so-called “leap of imagination” test—is relatively easy to apply and does not require much evidence.¹⁰¹

⁹⁹ There are cases in which a plaintiff seeks to protect an inherently distinctive mark immediately after the plaintiff starts marketing and before there has been enough time for the mark to become a source identifier. Technically, these marks cannot function as trademarks since they have not yet acquired secondary meaning. But they are very likely to acquire secondary meaning in a short period of time. Therefore, there is no reason to deny exclusivity at the outset, and giving protection from the beginning will encourage firms to invest in these marks. Moreover, because inherently distinctive marks do not confer a strong competitive advantage—there are many alternatives available for competitors to use—giving exclusivity prematurely should not generate significant additional social costs.

¹⁰⁰ Daniel I. Schloss, Note, Marks of Distinction: Rethinking Secondary Meaning Standards in Trademark Law after *Qualitex v. Jacobson*, 14 *Cardozo Arts & Ent. L.J.* 695, 703–04 (1996) (claiming heated litigation focuses on whether a mark is in the distinctive category).

¹⁰¹ See, e.g., *Dranoff-Perlstein Assocs. v. Sklar*, 967 F.2d 852, 858 (3d Cir. 1992) (explaining that courts most commonly use the leap of imagination test to determine whether a mark is suggestive); 2 McCarthy on Trademarks, *supra* note 1, § 11:67 (stating the most popular test for determining suggestive marks is the “imagination test”); see also *J&J Snack Foods Corp. v. Nestle USA, Inc.*, 149 F. Supp. 2d 136, 151 (D.N.J. 2001) (applying the leap of imagination test to determine whether the mark “BREAK & BAKE” for pre-made cookie dough is descriptive or suggestive); *Shade’s Landing, Inc. v. Williams*, 76 F. Supp. 2d 983, 988 (D. Minn. 1999) (defining suggestive marks as requiring a “leap of imagination”); *Stix Prods., Inc. v. United Merchs. & Mfrs.* 295 F. Supp. 479, 488 (S.D.N.Y. 1968) (establishing that “[a] term is suggestive if it requires imagination, thought and perception to reach a conclusion as to the nature of goods”). The vagueness of the leap of imagination test, however, introduces uncertainty into classification decisions, which can generate its own costs. Other tests include the dictionary test (looking the word mark up in the dictionary to see if its primary meaning is descriptive of the product) and the competitive alternatives test (determining whether competitors have multiple equally effective marks available to communicate the same information about their competing products). See, e.g., *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 792–93 (5th Cir. 1983).

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To be sure, a conclusive presumption does not always produce the correct result. Although unlikely, it is possible that consumers will reject an inherently distinctive mark as a source identifier. In these cases, granting exclusivity is a mistake. These mistakes, however, should not be terribly costly from a social point of view. Because inherently distinctive marks communicate no information about the product (or in the case of suggestive marks, do so only with a leap of imagination), competing firms are not at a disadvantage when an inherently distinctive mark is mistakenly accorded exclusivity. Competitors, after all, have many other equally effective options to use as marks for their own products. This is clearest for the case of fanciful marks: where the mark has no ordinary meaning at all, its owner gets no informational advantage from the mark itself, and exclusivity in the mark does not deplete the supply of equally effective alternative symbols available to competitors.¹⁰²

To summarize, a rule conclusively presuming secondary meaning for inherently distinctive marks saves substantial litigation costs and is likely to be correct most of the time. Moreover, when it is incorrect, the social costs of the resulting false positive errors should be small. By contrast, a rule that always requires proof of secondary meaning for inherently distinctive marks generates high litigation costs and still produces erroneous results, especially when firms have difficulty obtaining the necessary proof. Moreover, when a court makes a false negative error—that is, mistakenly fails to give exclusivity in a mark that consumers in fact use as a source identifier—the social costs of the error can be quite high, given the risk that consumers will be misled by competing firms using the same mark. It follows that the conclusive presumption rule is superior on error and administrative cost grounds because it eliminates the more costly false negatives, generates very few false positives, and saves a great deal in litigation costs.

The cost-benefit balance is different for descriptive marks as a result of two features of descriptive marks. First, the probability that a descriptive mark actually has or soon will acquire secondary meaning is lower than for inherently distinctive marks. A consumer

¹⁰² Furthermore, a mark without secondary meaning is too weak to confer any real monopoly power on its owner, even if, as some argue, powerful brand names can create social costs by erecting barriers to entry.

could simply conclude that the mark is on the label in order to describe the product rather than to serve as a source identifier. For example, consumers might think that a seller of donuts put the word TASTY on its label simply to communicate that its donuts are tasty. In that case, the seller would have to make an effort to get consumers to give TASTY a source-identification meaning as well. As a result, a conclusive presumption of secondary meaning should produce more false positive errors for descriptive marks than for inherently distinctive marks.

The second important feature of descriptive marks is that they directly describe something about the product. Thus, mistakenly giving exclusivity in a descriptive mark can put competing firms at a disadvantage if there are few alternative marks capable of describing the product in an equally effective way.¹⁰³ For example, if only one firm has the right to put the word FISH-FRI in a prominent and highly conspicuous position on the label of its batter mix for frying fish, competing firms must find other words or symbols to do the same thing on the labels of their batter mix products. However, there is only a limited supply of words or other symbols that communicate the same thing as FISH-FRI in an equally effective way, and many of the alternatives would be so similar to FISH-FRI as to confuse consumers. As a result, mistakenly giving exclusivity in a descriptive mark runs the risk of impeding competition in the underlying product market by giving the mark's owner an advertising advantage.¹⁰⁴

B. Protecting Marks Without Proof of Consumer Confusion

If a direct competitor, such as DC in the shampoo hypothetical, also uses a mark like AFARION on shampoo, a court will enjoin

¹⁰³ *Dranoff-Perlstein Assocs.*, 967 F.2d at 858 (explaining that the policy behind treating distinctive marks differently from descriptive marks is to prevent unfair disadvantages to competitors in describing their products).

¹⁰⁴ My purpose here is not to defend these rules but rather to show that the best way to understand them is in terms of reducing enforcement costs. It might turn out that a conclusive presumption rule is also desirable for descriptive marks. If the probability were high enough that consumers would adopt a descriptive mark as a source identifier even without special efforts at marketing promotion, and if exclusivity in descriptive marks conferred a relatively minor competitive advantage (on average), then the reduction in administrative costs made possible by a conclusive presumption might well exceed the increase in error costs.

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the competing use with absolutely no evidence that any actual consumer is confused and very little concrete evidence that consumers are likely to be confused.¹⁰⁵ The finding of liability and the award of an injunction are virtually automatic.¹⁰⁶

What justifies a rule that presumes confusion in cases where a direct competitor uses an identical mark? Enforcement costs provide an answer.¹⁰⁷ We start with the assumption that consumers are very likely to be confused when a direct competitor uses exactly the same mark on the same kind of product and markets it through the same channels. Confusion is not absolutely certain, of course, since consumers might find other ways to distinguish the products, but it is reasonable to suppose that it is likely.

Second, obtaining evidence of actual confusion can be very difficult, especially when the competitor has not yet sold a large quantity of products under the mark.¹⁰⁸ Surveys are useful for this pur-

¹⁰⁵ A trademark owner is not required to prove actual consumer confusion; it is enough if the trademark owner can prove a substantial likelihood of confusion. *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 875 (2d Cir. 1986) (“[I]t is black letter law that actual confusion need not be shown to prevail under the Lanham Act, since actual confusion is very difficult to prove and the Act requires only a likelihood of confusion as to source.”). An identical or almost identical mark used on a directly competing product is frequently enough to prove the requisite likelihood. See, e.g., *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979) (noting that when goods compete, “infringement usually will be found if the marks are sufficiently similar that confusion can be expected”); Restatement (Third) of Unfair Competition, supra note 9, § 21 cmt. b & Reporter’s Note (noting that similarity of the marks usually dominates the confusion analysis when products directly compete and concluding that “if the actor uses an identical or nearly identical mark on directly competing goods, there is ordinarily a likelihood of confusion”).

¹⁰⁶ It is also worth mentioning in this connection that there is some dispute about whether a strong showing of likelihood of confusion can support liability for damages as well as injunctive relief. See James M. Koelemay, Jr., *A Practical Guide to Monetary Relief in Trademark Infringement Cases*, 85 Trademark Rep. 263, 278–79 (1995) (noting that some courts are willing in damages suits to infer actual confusion from a strong showing of likelihood of confusion).

¹⁰⁷ In recent years, however, some courts have begun to apply the multi-factor confusion test, previously used for non-competing products, to cases of direct competition as well. See 4 McCarthy on Trademarks, supra note 1, § 24:22. See generally infra notes 132–34 and accompanying text (explaining this fact-sensitive multi-factor test). This might make liability less automatic, but probably only for cases where marketing methods are very different or consumers are highly sophisticated.

¹⁰⁸ See *Daddy’s Junky Music Stores, Inc. v. Big Daddy’s Family Music Ctr.*, 109 F.3d 275, 284 (6th Cir. 1997) (recognizing that it is often difficult to obtain evidence of actual confusion); 3 McCarthy on Trademarks, supra note 1, § 23:12.

pose, but they are expensive and difficult to design (just as in the context of proving secondary meaning).¹⁰⁹

Third, if a competitor is mistakenly enjoined from using the same mark under circumstances where consumers are not in fact confused, the social costs should not be high—at least if the mark is fanciful, arbitrary, or suggestive—because there should be many alternatives available to competitors.¹¹⁰ However, if a competitor is not enjoined when consumers are in fact confused, the social costs are likely to be much higher.

Therefore, a rule that requires proof of actual confusion and places the burden on the trademark owner is likely to result in erroneous acquittals (false negatives) because of the difficulty of proof, and those errors are likely to produce confused consumers and thus relatively high social costs. It follows that a rule conclusively presuming confusion when marks are identical and the defendant competes directly for the same consumers will reduce administrative costs and eliminate erroneous acquittals and their associated costs. To be sure, the rule also increases erroneous liability findings (false positives), but given that confusion is very likely, the increase should be slight and the social costs not terribly high.

On balance, the same kind of cost-benefit analysis that justifies a conclusive presumption of secondary meaning for inherently distinctive marks also supports a rule presuming a likelihood of confusion for identical marks on directly competing products. Moreover, the rule might draw further support from the moral wrong of intentional deception.¹¹¹ When marks are identical and the defendant's use is proximate, it is very likely that the defendant was aware of the plaintiff's prior use and intended to deceive consumers. As the similarity between the two marks declines and the competitive relationship between the products becomes more distant, it

¹⁰⁹ See *supra* notes 95–98 and accompanying text.

¹¹⁰ The costs of a mistake are likely to be higher for descriptive marks because of the limited number of synonyms available. This suggests that the presumption rule perhaps should be limited to descriptive marks.

¹¹¹ Indeed, many courts are willing to infer likelihood of confusion from proof that the defendant intended to deceive consumers. See, e.g., *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 258–59 (2d Cir. 1987); 3 *McCarthy on Trademarks*, *supra* note 1, §§ 23:110–111.

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becomes less plausible to assume that the junior user knew about the senior user and intended to deceive.

C. Protecting Marks Without Proof of Lower Quality

PC can get an injunction barring DC from using AFARION on shampoo even if DC's shampoo is of identical quality in all respects to PC's.¹¹² A plaintiff is not required to prove that the defendant's product is of lower quality in order to obtain a remedy, and it is no defense that the defendant's product is of identical quality. At first glance, this rule might seem odd if the purpose of trademark law is to assure that consumers obtain accurate information about what they buy. If DC's product is identical in quality to PC's, then information about PC's product applies equally to DC's.

To make the example even more compelling, suppose that PC has market power and DC is a new entrant. Under these circumstances, one can imagine a social benefit in allowing DC to use the same mark to get a foothold in the market. Yet no exception is recognized, even for new market entrants.

Why should trademark law enjoin junior users without regard to product quality? If the defendant intentionally deceives consumers, moral norms might weigh in favor of enjoining the use regardless of quality, but it is not clear that any material misrepresentation occurs when products are of identical quality.¹¹³ A strong consumer autonomy right might justify the rule, but as we saw in Part I, it is not possible to support such a right.

¹¹² See 4 McCarthy on Trademarks, *supra* note 1, § 24:15 (noting that the "overwhelming majority view" is that it is not necessary to prove that the defendant's goods are of lower quality).

¹¹³ There are difficult cases here. Suppose a consumer prefers the plaintiff's products because he admires the plaintiff's environmental policies or is impressed with the cleverness of the plaintiff's television commercials. Under these circumstances, the quality of the defendant's product must include these features as well. If the defendant does not have environmental policies or commercials at least as good as the plaintiff's from the consumer's point of view, then the defendant's products, understood in this broader sense, are lower quality. Still, the main point holds: it is not clear that there is any material misrepresentation if the defendant's products in fact share the same environmental and television commercial standards as the plaintiff's. Of course, it might be very difficult to make the quality comparison, and as I shall argue below, this supports an enforcement cost argument for ignoring quality differences at the liability stage.

It is said that imposing liability when products are identical protects the trademark owner from the risk that the competing product's quality might decline in the future.¹¹⁴ The idea is that no firm's reputation should be at the mercy of a competitor. But it is hard to see how this argument is relevant if the concern is to avoid consumer harm. Consumers are harmed if the risk materializes, of course, but when the risk materializes, the defendant's product is then of lower quality and the use of the mark is actionable as trademark infringement on any view.¹¹⁵

A more promising explanation has to do with creating optimal incentives to develop goodwill in a mark. Suppose that trademark law prevented uses only on lower quality products. A firm deciding how much to invest in advertising and developing goodwill under the mark would know that a competitor could adopt the same mark on an identical quality product. Knowing that competitors could free ride on its investment in its mark, the rational firm would invest less in advertising and promoting the mark. Moreover, competing firms would not likely make up the difference, because all firms using the same mark would have incentives to free ride on one another's investments, yielding a suboptimal level of investment in the mark. Thus, making liability independent of product quality helps assure a socially optimal level of investment in the information-transmission benefits of trademarks and aims to maximize consumer welfare in the long run.

Although this argument has considerable force, it depends on the assumption that the marginal benefit of the additional investment in the mark justifies the marginal increase in enforcement costs associated with litigating identical quality as well as lower quality cases. But it is not clear how large the marginal benefit is. Consumers learn about product quality through experience and word of mouth, neither of which requires any specific investment

¹¹⁴ See 4 McCarthy on Trademarks, *supra* note 1, § 24:15 (citing *Mobil Oil Corp. v. Pegasus Petroleum Corp.* and other cases where courts cited future decline in quality as a reason for refusing to accept quality as a defense to an infringement claim).

¹¹⁵ The rule might be justified if the risk of a quality drop were very high, but there is no reason to think that a competitor would necessarily have a strong incentive to reduce product quality if it were allowed to use the mark on an identical quality product. After all, the competitor would know that it faced the risk of a trademark infringement suit and an injunction if it reduced product quality and would stand to lose the benefit of any investments in product advertising it had made to that point.

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by the trademark owner. Thus, while the risk of free riding will reduce expenditures on advertising and promoting the mark, it is not clear how much social benefit additional advertising expenditures would add.¹¹⁶

There is, however, a second explanation that provides additional support for the rule making liability independent of product quality: it minimizes enforcement costs. In particular, the rule is likely to have substantial benefits in reducing expected error costs and possibly in reducing expected administrative costs. The rule avoids false negatives, the risk of which is likely to be quite high when lower quality is difficult to detect and prove. Moreover, the rule reduces the administrative cost of litigating a trademark suit by avoiding the need to present quality-related evidence. This latter benefit is likely to be quite large when quality differences are not easily verifiable.

More specifically, economists distinguish among three different types of product features: search attributes, experience attributes, and credence attributes.¹¹⁷ Search attributes are features, such as color and price, that consumers can verify by inspecting the product before purchase. Experience attributes are features, such as taste, that consumers can verify only by experiencing the product after purchasing it. Credence attributes are features, such as prolonged life expectancy, that consumers can never verify or have great difficulty verifying on their own (after all, how can one tell how long he would have lived had he not used the product?).

Competitors have no incentive to produce lower quality search attributes because consumers can easily detect them before buying the product. Competitors have a stronger incentive to produce lower quality experience attributes, but that incentive is weakened when the competitor must rely on repeat purchases to make a profit. The strongest incentive to reduce quality arises in connec-

¹¹⁶ For some products, such as perfume, advertising is important not so much because it communicates information about a separate product, but instead because it helps to create the product by evoking emotional and affective associations that induce consumer demand. Protecting trademarks in this situation promotes policies beyond information transmission and enters the realm of encouraging incentives to create new products.

¹¹⁷ See Michael R. Darby & Edi Karni, Free Competition and the Optimal Amount of Fraud, 16 J.L. & Econ. 67, 68–69 (1973); Phillip Nelson, Advertising as Information, 82 J. Pol. Econ. 729, 730 (1974).

tion with credence attributes, since consumers cannot verify the quality difference on their own. Thus, credence attributes are the most likely to suffer when a competitor sells a lower quality product.

For the same reasons that it is so difficult for consumers to verify the quality of credence attributes, however, it will also be difficult and costly for a firm to detect a quality difference and to prove the quality difference in court. Experience with false advertising cases confirms this. Product quality is an essential element of a plaintiff's prima facie false advertising case. The plaintiff must plead and prove that the defendant's product is not the same quality as its advertising claims.¹¹⁸ This frequently requires scientific testing and expert testimony, and the courtroom dispute can reduce to a very costly battle of experts.¹¹⁹

These difficulties of detection and proof have several likely consequences. First, they add substantially to the administrative costs of litigating a trademark suit. Second, they exacerbate the risk of judicial error in determining a quality difference. These two factors together can also undermine the law's ability to deter competitors from reducing product quality, if the high cost of litigation and the error risk discourage the filing of a significant fraction of potential lawsuits. Moreover, the substantial risk of judicial error in ascertaining a quality difference (especially one material to consumer choice) is likely to undermine the deterrent effect of whatever litigation is brought. As a result, a competitor deciding whether to sell an inferior quality product might expect a good chance of escaping liability.¹²⁰

¹¹⁸ 4 McCarthy on Trademarks, *supra* note 1, § 27:24 (outlining the elements of a prima facie case of false advertising, including misrepresentation of the product's nature, qualities, or geographic origin).

¹¹⁹ See, e.g., Jean Wegman Burns, *Confused Jurisprudence: False Advertising Under the Lanham Act*, 79 B.U. L. Rev. 807, 843-45 (1999) (arguing that false advertising cases drain court resources and invite litigation abuse due to their prevalence and complexity); Craswell, *supra* note 33, at 728 (noting that false advertising trials are "often extensive affairs examining much survey evidence and expert testimony"); Lee Goldman, *The World's Best Article on Competitor Suits for False Advertising*, 45 Fla. L. Rev. 487, 512 (1993) (explaining that false advertising litigation is often time-consuming and expensive).

¹²⁰ To illustrate, consider the following simple hypothetical. Assume that costs are so high that trademark owners file suit only 60% of the time when there is in fact a quality difference. Also assume that courts make mistakes about quality in 30% of the

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Although the analysis is sketchy, the basic intuition is clear: the centrality of credence attributes to the quality analysis will exacerbate administrative and error costs in a system of trademark law that imposes liability only for lower quality products. Therefore, the opposite rule, one that imposes liability without regard to quality, should reap substantial benefits.

It is easy to see why the benefit in terms of error cost reduction might be substantial. The quality-independent rule reduces the litigation cost barrier to suit and eliminates all the false negative errors due to difficulties in proving quality. Therefore, firms that market lower quality products can expect to be sued and found liable more frequently. Moreover, because a failure to enjoin use of a mark on a lower quality product can produce serious consumer harm, any major reduction in the false negative error risk should yield a substantial reduction in expected error cost.

To be sure, the rule also imposes liability when product quality is identical. But if the free rider argument is persuasive, this is a desirable result and thus no error at all. Even if this result is treated as an error (in other words, if an ideal trademark system would permit use of marks on identical quality products), the reduction in false negative error costs is likely to exceed the increase in false positive costs. This is so in part because there should be relatively few firms marketing identical quality products under a rule that makes liability turn on product quality (because of the enforcement cost impediment to deterrence discussed above), and therefore relatively few occasions when a switch to the opposite rule could create false positive error. Moreover, a false positive—enjoining or deterring use of the mark when product quality is identical—has only the effect of forcing a competitor to choose another word mark.¹²¹

cases and that they are as likely to err in one direction as in the other. Consider a competitor deciding whether to market an identical or a lower quality product. The competitor knows that if it markets a lower quality product, the probability that it will be sued is only 60% and that it will manage to escape liability 30% of the time. Thus, the probability that it will escape any liability is 58% ($40\% + (30\% \times 60\%) = 58\%$).

¹²¹To illustrate, suppose there are 100 trademark cases. If defendants have strong incentives to reduce quality, most of these cases should involve lower quality defendant products—say, 80 of the 100. If it is difficult to prove a quality difference, which should be true if most of the relevant features are credence attributes, then requiring proof should produce a significant risk of error—say, courts make mistakes 20% of

The rule's impact on expected administrative costs is less certain but still likely to be positive. What makes the result less certain is the presence of two opposing effects. On one hand, the rule reduces the average cost of litigating each trademark suit. On the other hand, it can increase the total number of suits if trademark owners are more likely to file when litigation is less expensive. However, there are a number of factors that should reduce the magnitude of the second effect. A rule that ignores quality difference increases the certainty of trademark litigation, which should increase the settlement rate and thus reduce the number of suits actually going to trial.¹²² Moreover, the rule increases plaintiffs' likelihood of recovery and of obtaining a preliminary injunction, which should create a stronger deterrent to copying a mark and thus increase defendants' compliance with the substantive law. With a higher rate of compliance, there should be fewer occasions for filing trademark lawsuits and therefore fewer suits. In sum, although the rule's net impact is somewhat unpredictable, it is quite possible that it will reduce administrative as well as error costs.

These arguments for ignoring quality difference depend on factual predictions that are impossible to make more precise without a

the time and are equally likely to err either way. This means that a rule requiring proof of lower quality would produce 4 false positives (cases where lower quality is found when it is not in fact present) (20% x 20), but 16 false negatives (cases where identical quality is found when in fact defendant's product is lower quality) (20% x 80).

Now compare the number of errors with the rule that liability is invariant to quality. That rule produces 20 false positives (because it in effect assumes lower quality in all 20 cases where in fact the quality is identical), but it reduces the number of false negatives to 0. Given that a false positive merely forces a competitor to choose another mark while a false negative can allow a competitor to use the mark when its product is in fact lower quality, the social cost of a false negative is likely to be much higher than the social cost of a false positive. As a result, a rule that makes liability invariant to proof of quality is likely to be superior because it reduces the more costly and more frequent kind of error—false negatives.

¹²² A major obstacle to settlement is uncertainty about the outcome of trial. When the outcome is uncertain, parties can reach different estimates of likely success, and when each side thinks it has a good chance of winning, settlement is very difficult to achieve. See, e.g., Bruce L. Hay & Kathryn E. Spier, *Settlement of Litigation*, in 3 *The New Palgrave Dictionary of Economics and the Law* 442, 442–43 (1998). Anything that reduces uncertainty—such as, in this case, a rule that eliminates a factual dispute over quality—reduces the degree of divergence in estimates, which should increase the settlement rate.

great deal of additional empirical information.¹²³ However, the central point is clear: Any convincing justification for ignoring quality difference is very likely to depend on enforcement costs—either as part of an argument based on deterring free riding or as the primary rationale for the rule itself.

D. Summary

Thus, even core rules of traditional trademark law—that inherently distinctive marks need no proof of secondary meaning, that sometimes consumer confusion is all but conclusively presumed, and that liability can attach even to use on identical quality products—are hard to justify on grounds of preventing consumer harm. Still, they make sense when one considers enforcement costs as well. As the next Part shows, the same enforcement cost analysis goes a long way toward explaining some of the more controversial expansions of trademark law. Not all the results are good, but the reasons for the bad results are more complicated than many critics suppose.

IV. ENFORCEMENT COSTS AND TRADEMARK EXPANSIONS

I will now focus on two areas of trademark expansion that have triggered controversy in recent years. One is the expansion of liability theories to include a generous use of the sponsorship confusion rationale to impose liability in distant product markets. The second, and perhaps most controversial, is the use of trademark law to protect trade dress, particularly “product design” trade dress.

The development of the doctrine in these two areas makes much more sense if it is understood as a judicial effort to promote substantive trademark policies within enforcement cost constraints. Because of enforcement costs, the doctrine makes use of presumptions and rules of thumb that abstract from the details of market

¹²³ For example, one might expect that the cost and difficulty of proving a quality difference would decline as the quality difference became more severe. Thus, serious problems might arise only for moderate quality differences. However, credence attributes are difficult enough to measure that even serious differences might be tricky to prove.

context and avoid the necessity of evaluating consumer and competitor harms in each case.¹²⁴

A. Sponsorship Confusion

Source confusion, in which consumers believe that the defendant's product is made or sold by the plaintiff, lies at the uncontroversial core of trademark law. As we saw in Section I.B, however, courts today recognize actionable forms of confusion beyond source.¹²⁵ In particular, under a sponsorship confusion theory, a trademark owner can enjoin use of its mark on non-competing products by arguing that consumers are likely to believe mistakenly that the trademark owner sponsored, authorized, or is affiliated with the user's activity.¹²⁶ This expansion of trademark protection to non-competing product markets raises a number of difficult issues and has been the subject of controversy over the years.¹²⁷

To illustrate, recall our AFARION hypothetical. Suppose that PC still sells AFARION shampoo, but DC sells AFARION soap rather than shampoo. To many consumers, soap and shampoo are closely related products, and the close relationship is such that sponsorship (and maybe even source¹²⁸) confusion is likely. The two

¹²⁴ Obviously there is not enough space to discuss all of the recent expansions in trademark doctrine. There are also other types of confusion-based theories that I do not discuss in detail, such as initial interest confusion and reverse confusion. Some of these developments also do not fit well with traditional trademark principles, but their recognition does not necessarily signal a judicial desire to propertize marks. A number of factors are involved, including new risks associated with use of internet technology.

¹²⁵ See supra note 61 and accompanying text.

¹²⁶ See generally 4 McCarthy on Trademarks, supra note 1, § 24:2 (describing the evolution of confusion-based theories in three stages, starting with source confusion involving only competing products, then expanding to include non-competing products with the same descriptive properties, and finally expanding further to include non-competing products that are merely related in consumer perception).

¹²⁷ See, e.g., *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) ("The problem of determining how far a valid trademark shall be protected with respect to goods other than those to which its owner has applied it, has long been vexing and does not become easier of solution with the years.").

¹²⁸ Source confusion could arise if consumers believed that companies selling shampoo frequently sold soap as well. Today source confusion reaches more cases of non-competing products than in the past because of the widespread prevalence and broad scope of horizontal integration and the impact of this practice on consumer expectations. The discussion in the text, however, is not affected by whether the confusion is

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products are sold to the same types of consumers, often in the same retail stores. Both are used for bathing, and they are products that many consumers expect to be marketed by a single company. The risk of confusion is probably a bit less if DC sells AFARION perfume and even less if it sells AFARION clothes, since consumer expectations weaken with more distant product lines. At the extreme, if DC sold an automobile called the AFARION, the two products would be so dissimilar that there could be no substantial likelihood of sponsorship (or source) confusion in the minds of consumers.

Courts recognize sponsorship confusion as actionable trademark infringement because sponsorship can say something to a consumer about product quality.¹²⁹ The link between sponsorship and product quality is relatively straightforward. If consumers have come to associate AFARION with a high quality shampoo—say, mild and gentle with superior cleaning properties—they are likely to expect the same from AFARION soap if they believe that PC is affiliated with DC in some way. If DC's soap fails to meet these standards, consumers can end up deceived by the mark in ways that fall squarely within the scope of substantive trademark policies.¹³⁰

about source or sponsorship, since the important factor is that the products do not compete.

¹²⁹ The first major case credited with expanding trademark protection to non-competing products is *Aunt Jemima Mills Co. v. Rigney & Co.*, 247 F. 407 (2d Cir. 1917), which held that pancake flour and syrup are sufficiently related products that consumers would be confused about source, plaintiff's reputation would be placed at risk, and plaintiff's goodwill would be appropriated. See also Edward C. Luken, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 U. Pa. L. Rev. 197, 202–06 (1927) (noting confusion in the case law over how closely related non-competing products need be for infringement, and criticizing courts for applying the relatedness test, suggesting that they instead apply the basic principle that one “may not palm off his goods as the goods of another”). The theory of sponsorship confusion became ever more popular during the twentieth century as firms increasingly expanded into related (and not so related) product markets and as the growing prominence of mass advertising brought these connections home to many consumers.

¹³⁰ The immediate harms to consumers are obvious. In addition, there could be long-term harms. If consumers have a bad experience with DC's soap and believe that PC was involved in some way, they might transfer some of the blame to PC. As a result, DC's use of AFARION could damage PC's goodwill in the mark; faced with that risk, PC might invest less in developing its mark.

There are also potential harms even when the quality of the two products is identical or at least not noticeably different. Firms selling in one market often expect to enter related markets in the future. If the firm were unable to protect its initial mark in those future markets after entry, it would have to adopt a different mark for each new product market it entered and reinvest in developing goodwill.¹³¹ The total cost of all these separate investments in different marks could easily exceed the cost of investing in a single mark and exploiting the transferable goodwill in new markets.

Even so, sponsorship confusion is less compelling than source confusion, and the doctrine reflects this difference. Although likelihood of confusion is almost conclusively presumed for source confusion when the defendant uses the same mark on a directly competing product, this is not the case for sponsorship confusion. Instead, courts use a more fact-sensitive test, sometimes called the “digits of confusion” test, which evaluates sponsorship confusion on a case-by-case basis.¹³² The test employs a number of factors, although the precise number varies with the jurisdiction.¹³³ A typical list includes (1) strength of the plaintiff’s mark; (2) similarity of the two marks; (3) proximity of the products; (4) similarity of marketing channels; (5) degree of consumer overlap; (6) sophistication of consumers; (7) likelihood of entry into the defendant’s market; and (8) the defendant’s intent in adopting the mark.¹³⁴

From the perspective of enforcement costs, it makes sense to conduct a more fact-specific inquiry when products do not compete. Use of an identical mark is less likely to create confusion when it is used on a different product. Moreover, if confusion takes place, the resulting harm to consumers is likely to be less serious when the products are different. And any adverse effect on incentives to invest in the mark is reduced significantly by the availabil-

¹³¹ See Landes & Posner, *supra* note 7, at 201–05.

¹³² *Elvis Presley Enters. v. Capece*, 141 F.3d 188, 194 (5th Cir. 1998); see also *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495–96 (2d Cir. 1961); 4 McCarthy on Trademarks, *supra* note 1, §§ 24:22, :30.

¹³³ See Jerome Gilson & Anne Gilson LaLonde, *The Lanham Act: Time for a Face Lift?*, 92 Trademark Rep. 1013, 1018 (2002) (reporting the number of factors in each circuit, which varies from a low of six in the Eighth Circuit to a high of thirteen in the Federal Circuit, with most circuits using seven or eight).

¹³⁴ See 4 McCarthy on Trademarks, *supra* note 1, §§ 24:29–:43 (surveying the tests in all federal circuits).

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ity of a source confusion theory to enforce exclusivity in the trademark owner's primary market.

There is something puzzling, however, about the way courts analyze the sponsorship confusion cases. They focus almost exclusively on the probability of confusion and pay little serious attention to the magnitude of the harm that might result if confusion materializes.¹³⁵ Sometimes judges seem content simply to tally how many factors favor and how many oppose a finding that confusion is likely.¹³⁶ More frequently, they analyze and weigh the factors to de-

¹³⁵ See, e.g., *Paddington Corp. v. Attiki Imps. & Distributions, Inc.*, 996 F.2d 577, 584, 587–88 (2d Cir. 1993) (deciding the issue of likelihood of confusion based on a multi-factor test without considering harm to consumers); *Keds Corp. v. Renee Int'l Trading Corp.*, 888 F.2d 215, 222–23 (1st Cir. 1989) (finding likelihood of confusion sufficient for preliminary injunction without inquiring into the degree of consumer harm); *Frisch's Rests., Inc. v. Elby's Big Boy*, 670 F.2d 642, 648–49 (6th Cir. 1982) (analyzing likelihood of confusion with eight factors without considering existence or degree of consumer harm); *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348, 354 (9th Cir. 1979) (same). See generally Ann Bartow, *Likelihood of Confusion*, 41 *San Diego L. Rev.* 721, 748 (2004) (criticizing judicial likelihood of confusion analysis on several grounds, including that judges often assume gullible consumers and that they fail to consider whether the defendant's use causes harm). The history of sponsorship confusion in the Second Circuit is revealing in this regard. See 4 *McCarthy on Trademarks*, supra note 1, § 24:55. Between 1940 and 1960, there was a split within the Second Circuit over how to handle cases involving non-competing products. Judge Learned Hand took the position, which was extremely influential during the period, that liability should be limited to situations where the trademark owner not only showed likely confusion but also actual harm if confusion were to materialize. He recognized two types of harm in these cases: injury to the trademark owner's reputation due to use of the mark on a lower quality product, and impairment of the trademark owner's ability to use the mark if it actually planned to enter the defendant's market. See, e.g., *S.C. Johnson & Son, Inc. v. Johnson*, 175 F.2d 176, 179–80 (2d Cir. 1949) (suggesting that confusion alone should not be enough for liability when the defendant adopts a non-fanciful and non-arbitrary mark innocently on a non-competing product, and that the original mark owner's interests—in the reputation of his mark and his future ability to extend his product to new markets—should be weighed against the interests of the subsequent user). On the other side of the debate stood Judge Charles Clark, who was often willing to find liability on the basis of likely confusion without a showing of concrete harm. See, e.g., *Hyde Park Clothes, Inc. v. Hyde Park Fashions, Inc.*, 204 F.2d 223, 226, 228 (2d Cir. 1953) (Clark, J., dissenting) (relying on the Lanham Act and the consumer's interest in knowing that plaintiff's reputation does not back up defendant's products to suggest that liability should depend only on whether the second mark will confuse consumers). Eventually, Judge Clark's approach prevailed when the Second Circuit adopted the multi-factor test of confusion in *Polaroid*, 287 F.2d at 495.

¹³⁶ See, e.g., *Sports Auth., Inc. v. Prime Hospitality Corp.*, 89 F.3d 955, 965 (2d Cir. 1996) (holding that the district court should have found likelihood of confusion since

termine the likelihood of consumer confusion.¹³⁷ The striking aspect is that they seldom make any serious effort to measure the degree of actual harm from confusion.¹³⁸

The absence of a harm analysis is puzzling because confusion by itself is not the problem. The aim is not to produce a less confused society. Consumer confusion is a concern for the law only because it produces harms serious enough to warrant a legal response. Likelihood of confusion is relevant, of course, but only as a measure of the probability that harm will occur.¹³⁹

“five factors would have weighed in favor of [plaintiff] and three in favor of [defendant]” but also pointing out that the analysis is not a mechanical process).

¹³⁷ See, e.g., *Paddington Corp.*, 996 F.2d at 584 (cautioning lower courts against simply tallying the factors and declaring the party with the larger number as the winner). For example, the stronger the plaintiff’s mark, the more similar the defendant’s mark, and the more proximate the products, the more likely consumers will think of the plaintiff’s mark and make an association when they see the defendant’s similar mark. But when the products reach consumers through different marketing channels, the marketing differences sometimes distinguish the products sufficiently to reduce the likelihood that consumers will make a mental association. Additionally, the more sophisticated the consumer, the more he should know about the products and the more likely he is to be aware that the two sellers are unrelated.

¹³⁸ The Lanham Act does not mention harm expressly. Section 1114(1)(a) imposes civil liability for infringement of a registered mark on any person who shall 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.

15 U.S.C. § 1114(1)(a) (2000). Section 1125(a)(1)(A) imposes civil liability for infringement of an unregistered mark whenever the defendant’s use “is likely to cause confusion, or to cause mistake, or to deceive.” 15 U.S.C. § 1125(a)(1)(A) (2000). Given this, one might argue that judges ignore harm only because the Lanham Act says they must. However, the Lanham Act mostly codified the then-existing law of trademark infringement and unfair competition, so one cannot necessarily attribute the prevailing practice to the statute. Moreover, given the split within the Second Circuit, see *supra* note 135, it is not clear that the statute’s language precludes consideration of consumer harm as part of the liability analysis. Indeed, if a court wished to consider harm today, it could do so by holding that the only “confusion” or “mistake” that is relevant under the statute is confusion or mistake that causes significant harm. See *Warner Bros. v. Gay Toys, Inc.*, 553 F. Supp. 1018, 1019–20, 1019 n.4 (S.D.N.Y. 1983) (noting that confusion should not be enough for trademark infringement in the absence of even a “scintilla of evidence” that anyone cares who makes or sponsors the product).

¹³⁹ A helpful way to think about this point is in terms of expected costs (although I do not necessarily mean to limit myself to a utilitarian analysis). In an economic model, the likelihood of confusion measures the probability of harm, and probability is multiplied by the actual magnitude of the harm to arrive at the expected cost of the defendant’s competing use.

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Many critics of modern trademark law blame this judicial practice of ignoring harm for some of the most troubling trademark expansions.¹⁴⁰ The critics argue that when judges ignore harm, they end up imposing liability in cases where the confusion from the defendant's use in fact produces very little consumer harm and the use itself confers significant social benefit. The critics propose a simple solution: that courts pay more attention to the degree of harm caused by confusion.¹⁴¹ The issue is more complicated, however.

To be sure, some of the factors in the "digits of confusion" test could be used to measure harm, but courts seldom use them for that purpose. For example, the likelihood of entry into the defendant's market might be used to measure the possible harm if the trademark owner is forced to adopt a different mark after it enters. Possible harms include reduced incentives to develop the mark in the original market and inefficiencies from depriving consumers in the new market of the opportunity to use the transferable information already embodied in the mark. Many courts note the risk of future confusion after entry, but few make a serious effort to predict the resulting harm.¹⁴² Some courts focus on likelihood of entry only as a general factor: when consumers believe that firms like the plaintiff's often enter product markets like the defendant's, they will be more inclined to believe that the plaintiff already has done so and make the incorrect association.¹⁴³

¹⁴⁰ See, e.g., Lemley, *supra* note 3, at 1697–1713; Litman, *supra* note 3, at 1721–25; Lunney, *supra* note 3, at 406–08.

¹⁴¹ See Lunney, *supra* note 3, at 478–84.

¹⁴² See, e.g., *Daddy's Junky Music Stores v. Big Daddy's Family Music Ctr.*, 109 F.3d 275, 287 (6th Cir. 1997) (stating rule that likelihood of expanding into the defendant's market is a "strong indication" of future confusion, but not examining the likely harm); *Champions Golf Club, Inc. v. Champions Gold Club*, 78 F.3d 1111, 1122 (6th Cir. 1996) (same); *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 874 (2d Cir. 1986) (declaring that future entry into the defendant's market would increase consumer confusion, but not examining harm).

¹⁴³ See Restatement (Third) of Unfair Competition, *supra* note 9, § 21 cmt. j (explaining that consumer perception is what counts because likelihood of confusion, not harm, is the focus for liability); 4 McCarthy on Trademarks, *supra* note 1, §§ 24:17–:19 (stating that "the product market expansion rationale appears mainly to be a make-weight" and noting that consumer perceptions about market expansion are more relevant than actual plans).

Therefore, the question is whether a rule that focuses on likelihoods and ignores harms makes sense for sponsorship confusion. The answer is it makes sense as a way to deal with enforcement costs (although the argument is not as strong as in the case of source confusion).¹⁴⁴ Explicitly taking account of the probable harm from confusion on the facts of each case could add substantially to the administrative costs of litigating a trademark suit. If harm were a serious consideration, parties might contest such issues as the importance of the product characteristic to the average consumer or the impact on the trademark owner's ex ante investment incentives of an inability to exploit goodwill in the defendant's product market at a later time.

Judicial experience with state law misappropriation cases sheds light on how enforcement costs might be affected if courts focus on harm. Misappropriation is a tort, distinct from trademark infringement, that provides relief when the defendant takes something of value from the plaintiff under special circumstances that make the appropriation wrongful. Only about fourteen states recognize the tort, and those that do severely limit its reach.¹⁴⁵ One of the reasons the tort has such limited support is the difficulty judges have determining what constitutes a "wrongful" taking. This determination requires an evaluation of the harms to the plaintiff from appropriation, the impact on incentives, and the harms to others from restricting the free flow of information. These factors depend on complex factual inquiries that are costly and burdensome to make and tax the competence of courts.¹⁴⁶ Indeed, even

¹⁴⁴ When defendant's use directly competes in the same product market, serious harm is quite likely to result from source confusion, and a presumption of infringement based on likelihood alone saves the administrative costs of inquiring into actual harm and the false negative error costs of failing to find serious harm when it exists.

¹⁴⁵ See Edmund J. Sease, *Misappropriation is Seventy-Five Years Old; Should We Bury It or Revive It?*, 70 N.D. L. Rev. 781, 801-02, 805 (1994).

¹⁴⁶ See, e.g., Restatement (Third) of Unfair Competition, *supra* note 9, § 38 cmts. b, c (justifying rejection of a broad misappropriation tort on the ground, in part, that balancing the competing policies is a "complicated and difficult undertaking" better left to the legislature); Douglas G. Baird, *Common Law Intellectual Property and the Legacy of International News Service v. Associated Press*, 50 U. Chi. L. Rev. 411, 417-18, 428-29 (1983) (noting the problems with judicial competence and the difficulties courts have determining appropriate analogies, but endorsing a limited form of the tort); Gary Myers, *The Restatement's Rejection of the Misappropriation Tort: A Victory for the Public Domain*, 47 S.C. L. Rev. 673, 694-95 (1996) (identifying some of

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where the tort is recognized, many courts refuse to extend it to cases in which the defendant does not directly compete with the plaintiff, again partly in order to contain high enforcement costs.¹⁴⁷

Similar problems are likely to arise if harms are considered on a case-by-case basis in trademark law. Courts, however, have responded not by limiting liability to directly competing products, as in the misappropriation cases, but instead by focusing almost exclusively on likelihood of confusion and largely ignoring the degree of harm. There are shortcomings with this approach, of course, and these shortcomings may be more serious for non-competing than for competing products. Consumers are less likely to suffer serious harm when products do not compete, so there is less to gain in error cost terms by finding liability without a harm inquiry.¹⁴⁸

the shortcomings with the misappropriation tort, including that courts are not well-equipped to handle such an amorphous and ill-defined tort without clear boundaries). The other reason for rejecting or limiting the doctrine is concern about preemption by federal intellectual property statutes. Baird, *supra*, at 418.

¹⁴⁷ See, e.g., *United States Golf Ass'n v. St. Andrews Sys., Data-Max, Inc.*, 749 F.2d 1028, 1038–39 & n.17 (3d Cir. 1984) (limiting misappropriation to directly competing products and noting the difficulty a court is likely to have speculating on incentive effects in justifying broader protection); Restatement (Third) of Unfair Competition, *supra* note 9, § 38 cmt. c (noting that most of the successful misappropriation cases involve direct competition and that “such circumstances present the most compelling case for protection,” although ultimately endorsing legislative rather than common law protection). But see *United States Golf Ass'n v. Arroyo Software Corp.*, 81 Cal. Rptr. 2d 708, 714 (Cal. Ct. App. 1999) (issuing injunction on facts similar to *United States Golf Ass'n v. St. Andrews Sys., Data-Max, Inc.*, because California does not impose a direct competition requirement); *Bd. of Trade v. Dow Jones & Co.*, 456 N.E.2d 84, 90 (Ill. 1983) (extending protection to non-competing uses but only on a limited basis where the harm is likely to affect the plaintiff's incentives in a significant way and the costs of protection are likely to be small).

¹⁴⁸ To illustrate, suppose that DC sells toothpaste rather than soap. A consumer might well believe that PC is involved in some way with a seller of toothpaste bearing the AFARION mark. Toothpaste nevertheless shares few salient properties in common with shampoo. The important features of PC's AFARION shampoo—that it is mild and gentle with superior cleaning properties—make sense for soap but do not transfer readily to toothpaste. This means that consumers might be confused about sponsorship, but they are not likely to be seriously harmed. To be sure, they might blame PC for their general disappointment with AFARION toothpaste, but the adverse impact on substantive trademark policies is likely to be much less serious than for AFARION soap. It is interesting to note in this connection that during the first half of the twentieth century, courts usually protected trademarks beyond the owner's primary market only when the non-competing product had some of the same descriptive properties. See 4 McCarthy on Trademarks, *supra* note 1, § 24:2 (explaining that this limitation was a statutory requirement of the 1905 Federal Trademark Act). To-

Nevertheless, focusing on confusion and downplaying or ignoring harm might still be the best approach in light of enforcement cost concerns. None of the obvious alternatives is clearly superior. One alternative would limit the harm inquiry by focusing only on quality differences. This approach would impose liability for sponsorship confusion only when the defendant's product is significantly lower in quality.¹⁴⁹ When quality is inferior, the policy reasons for protection are much stronger, and the harms are more likely to be serious. Still, as discussed in Section III.C, requiring proof of a quality difference as a condition to liability can compound error costs and perhaps increase administrative costs as well. In fact, proving a quality difference is likely to be even more difficult when the products do not compete, since the parties can also dispute the appropriate quality baseline against which to evaluate the defendant's product.¹⁵⁰

Another alternative would permit courts to consider harm but only at the remedy stage. This is the approach adopted by the *Restatement (Third) of Unfair Competition*, which imposes liability on the basis of likely confusion alone and then permits adjustments to

day, however, trademarks are protected when used on related products even when those products have none of the same characteristics. *Id.*

¹⁴⁹ Some courts applied this approach to non-competing goods for a period during the mid-twentieth century but abandoned it later on. See 4 McCarthy on Trademarks, *supra* note 1, § 24:15.

¹⁵⁰ A variation on this approach would include quality as one of the factors in the "digits of confusion" test. Indeed, some formulations of the test do include quality as a factor; see, e.g., *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961); although it is not always clear whether a court is using inferior quality to measure harm or just to militate against a probability finding (as when the quality difference is so severe and so apparent to consumers that there is little risk a consumer would believe the plaintiff was involved). Including quality as a factor would allow a court to consider quality differences that are obvious and thereby likely to damage the reputation of the plaintiff's mark when consumers are confused. Obvious differences are much easier to prove and thus do not risk as high administrative and error costs. Still, obvious quality differences that clearly damage reputation are much less likely to trigger a risk of sponsorship confusion, so the harm is not likely to materialize. Adding a quality factor to the mix also invites litigation over quality differences that are less obvious, which is bound to increase administrative and error costs. See *Restatement (Third) of Unfair Competition*, *supra* note 9, § 21 cmt. k (noting that quality of the defendant's product is relevant at the remedy stage insofar as it could damage the reputation of the plaintiff's mark, but also that differences in quality are likely to reduce the likelihood of confusion by consumers).

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the scope of injunctive relief to take account of harm.¹⁵¹ The *Restatement's* approach, however, does not avoid high enforcement costs; it only shifts those costs to the remedy stage.

Thus, an enforcement cost analysis helps to explain why judges avoid inquiring into the degree of harm and focus almost exclusively on the likelihood of confusion—even when sponsorship rather than source confusion is involved. It also helps to explain judicial decisions that expand actionable confusion beyond sponsorship, such as into the realm of post-sale confusion.¹⁵² I discuss post-sale confusion in more detail later.¹⁵³ For now, it is sufficient to note that while post-sale confusion can generate consumer harms, those harms are not likely to be as serious as for sponsorship confusion. To some critics, this means that trademark law should not recognize post-sale confusion unless the plaintiff actually demonstrates serious harm in her particular case.¹⁵⁴ Measuring the degree of harm in each case is bound to be quite costly, however, as is identifying the cases where the inquiry might be worthwhile. Thus, the trend toward expanding types of actionable confusion does not necessarily reflect a judicial desire to give firms property rights in their marks—in other words, to “propertize” trademark law—as some critics argue.¹⁵⁵ Instead, the trend can be explained in large part by an awareness of the potentially high enforcement costs of a more limited and refined approach.¹⁵⁶

Still, there are cases in which it is relatively easy to see that the harm from confusion is slight while the harm from enjoining the

¹⁵¹ See Restatement (Third) of Unfair Competition, supra note 9, § 35 & cmt. c (allowing harm as a factor relevant at the remedy stage).

¹⁵² See, e.g., *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208 (2d Cir. 1999) (protecting the goldfish design of Pepperidge Farm's goldfish crackers on a dilution theory); *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235 (6th Cir. 1991) (protecting the exterior design of Ferrari cars on a post-sale confusion theory); *Lois Sportswear, U.S.A. v. Levi Strauss & Co.*, 799 F.2d 867, 872–73 (2d Cir. 1986) (finding likelihood of confusion at time of purchase and post-sale).

¹⁵³ See infra notes 208–12 and accompanying text (discussing post-sale confusion harms).

¹⁵⁴ See, e.g., Lunney, supra note 3, at 404–08.

¹⁵⁵ See, e.g., *id.* at 406–08.

¹⁵⁶ To be sure, courts sometimes refer to protecting the seller's goodwill as a reason for preventing post-sale confusion. But this is hardly a new development. Courts have used the goodwill argument ever since the late nineteenth century without firmly instantiating it as a core principle of trademark law. See supra notes 34–46 and accompanying text.

defendant's use is much greater. In these cases, the enforcement cost explanation for ignoring harm loses much of its force. At least when these cases are easily identifiable, such that the administrative cost of classifying a case in the category is not too high, there are strong reasons to recognize an exception.

The clearest examples of this are merchandising rights and promotional use cases.¹⁵⁷ In these cases the mark itself has consumption value, and the trademark owner sells it strictly for that value. For example, consider a firm that sells caps displaying the BOSTON RED SOX name and logo without permission from the Boston Red Sox organization. A straightforward application of the "digits of confusion" test supports a finding of substantial likelihood of sponsorship confusion on these facts because Boston Red Sox fans interested in buying the cap might believe that the Boston Red Sox organization has sponsored or endorsed the defendant's activity.¹⁵⁸

However, except possibly for a few fans who want an authorized Boston Red Sox cap, most people are unlikely to be harmed by the confusion. Red Sox fans want a cap that displays the team name and logo, and they can verify by sight that the defendant's cap does that. In other words, the most salient product features in this example are all search attributes. Moreover, the incentives of the Boston Red Sox organization to develop goodwill in BOSTON RED SOX as a source identifier are not likely to be impaired by the defendant's use. The baseball team needs some name, and it promotes its name mostly through its baseball games and related sporting entertainment services.¹⁵⁹ Finally, the defendant is not intentionally deceiving or confusing consumers. He *is* intentionally using the Red Sox name and trying to benefit from its popularity,

¹⁵⁷ See *Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004 (5th Cir. 1975); Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. Rev. 603 (1983).

¹⁵⁸ See 4 McCarthy on Trademarks, *supra* note 1, § 24:12 (reporting the results of a consumer survey purporting to show that most people believe that permission is required to display famous names and logos).

¹⁵⁹ The team's incentive to field a winning baseball team might be impaired, but that is not strictly a concern of trademark law.

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but these acts are very different, as a moral matter, from intentional deception.¹⁶⁰

Therefore, despite the likelihood of confusion, there is little in the way of trademark-related harm in merchandising cases, and the substantive policies favoring trademark protection are not strongly implicated. Moreover, there is no strong enforcement cost rationale for extending protection as far as courts do. The “propertization” critics are correct that many of these cases reflect problematic expansions of trademark law, and in the Conclusion I briefly discuss a proposal to address the problem.

In sum, the enforcement cost perspective helps to explain the otherwise puzzling feature of sponsorship confusion law: that courts tend to focus on likelihood of confusion and give short shrift to actual harm. From an error and administrative cost perspective, this approach makes sense whenever the administrative costs of determining harm are high and the social costs of a false negative (that is, an erroneous failure to find infringement) greatly exceed the social costs of a false positive (that is, an erroneous infringement finding). This approach does not always fit its underlying policy terribly well, however, and when the mismatch between doctrine and policy becomes too severe, as seems to be true for many of the merchandising rights cases, application of the doctrine needs to be examined more carefully.

B. Trade Dress Cases

Next to the merchandising rights cases, the trade dress cases generate the most controversy—and for good reason. There is no question that the protection of trade dress sometimes gives a firm economic power in the product market. But the reasons for the excesses are more complicated than many critics suppose. Once again, an enforcement cost perspective helps locate the source of the problem. The following discussion first describes the messy state of current law on trade dress protection and then shows that

¹⁶⁰ See, e.g., *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604, 611 (7th Cir. 1986) (holding that intent to deceive is different than intent to copy); *Kaufman & Fisher Wish Co. v. F.A.O. Schwarz*, 184 F. Supp. 2d 311, 319–20 (S.D.N.Y. 2001) (same).

many of the problems stem from the need to deal with enforcement cost constraints.

1. A Brief Summary of Trade Dress Law

Trade dress is a very broad category that embraces any aspect of the appearance of a product. It includes elements of the packaging or features of the product itself. It can also include the overall commercial impression of the product or the marketing scheme. According to one common definition, trade dress “involves the total image of a product and may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.”¹⁶¹

In the past, protected forms of trade dress were limited mostly to features of a product’s packaging, such as a design or arrangement on a box or perhaps a floral pattern on the back of a chair.¹⁶² Over the past thirty years, however, courts increasingly have used trademark law to protect features of a product itself, such as the overall shape of Ferrari’s Daytona Spyder sports car¹⁶³ or the combination of features that compromise a line of “emotionally expressive” greeting cards.¹⁶⁴ Indeed, the pink color of insulating material has been given protection,¹⁶⁵ as have the sound of the NBC chimes¹⁶⁶ and the distinctive perfumed smell of scented sewing thread.¹⁶⁷

¹⁶¹ *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 n.1 (1992) (quoting *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983)); see also *Blue Bell Bio-Med. v. Cin-Bad, Inc.*, 864 F.2d 1253, 1256 (5th Cir. 1989) (stating trade dress is the “total image and overall appearance” of a product).

¹⁶² See McCarthy on Trademarks, supra note 1, § 8:4; Jay Dratler, Jr., Trademark Protection for Industrial Designs, 1988 U. Ill. L. Rev. 887, 897–99. The body of law that protected trade dress in the late nineteenth and early twentieth centuries was known as “unfair competition,” but the principles were the same as those that belong to trademark law today.

¹⁶³ *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1237–38, 1247 (6th Cir. 1991).

¹⁶⁴ *Hartford House, Ltd. v. Hallmark Cards, Inc.*, 846 F.2d 1268 (10th Cir. 1988) (granting greeting card company a preliminary injunction against infringement of the overall look of its cards).

¹⁶⁵ *In re Owens-Corning Fiberglas Corp.*, 774 F.2d 1116 (Fed. Cir. 1985); see also *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995) (granting protection to color of dry cleaning press pads).

¹⁶⁶ See *Qualitex Co.*, 514 U.S. at 162.

¹⁶⁷ *In re Clarke*, 17 U.S.P.Q. 2d (BNA) 1238 (T.T.A.B. 1990) (allowing registration of a plumeria blossom scent as a trademark for sewing thread). See generally Stephen

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From one perspective, these developments seem quite sensible. A trademark is just a symbol that consumers use to identify a single source of a product, and, at least in theory, anything could function as such a symbol, including features of a product's packaging or design. To be sure, there is a difference between a word mark, like AFARION or CREST, and features of a product's trade dress. A firm that adopts a word mark usually intends the word to serve primarily as a source identifier, whereas a firm that adopts a design for its product or packaging usually intends the design to serve primarily as a way to make the product more attractive or more functional.

Seller motivation, however, should not make a difference to trademark protection. The *sine qua non* of protection is that a symbol serves as a source identifier, which depends on how consumers use it in the marketplace. When the design features of a product or its packaging are the most visible and striking elements—more striking than the actual word mark itself—it seems quite reasonable for consumers to use those features as an indication of source. In that case, the trade dress ends up functioning as a trademark even if the seller never intended it to serve that purpose. If a different seller uses the same trade dress, one has to be concerned about a risk of consumer confusion just as with any other trademark.

Still, there is a special problem with protecting trade dress that does not apply to word marks. Enjoining other firms from using a design feature can impede competition in the product market when the design feature serves an important function for the product itself.¹⁶⁸ For example, if the streamlined shape of a car makes the car more aerodynamically efficient and improves gas mileage, protecting the shape through trademark law could make it difficult for others to compete with the trademark owner in the automobile market. Trademark law is supposed to protect design only as a de-

F. Mohr & Glenn Mitchell, *Functionality of Trade Dress: A Review and Analysis of U.S. Case Law 173-96* (3d ed. 1997) (listing trade dress cases organized according to thirty different product classifications alphabetically ranging from "advertisements and promotional materials" to "toys").

¹⁶⁸ See Graeme B. Dinwoodie, *The Death of Ontology: A Teleological Approach to Trademark Law*, 84 *Iowa L. Rev.* 611, 636-39 (1999) (arguing that strong trade dress protection may in effect harm consumers by excluding competing products).

vice for transmitting product information to consumers. Copyright and patent law protect designs and inventions for their aesthetic and utilitarian values.¹⁶⁹

Moreover, copyright and patent law set strict limits on protection, including a limited period for exclusive rights—limits that trademark law does not share.¹⁷⁰ Naturally, when a firm cannot use patent or copyright law because its design does not qualify or because the patent or copyright term has expired, the firm will try to use trademark law to achieve the same result. This use of trademark law, however, is inconsistent with trademark goals and also risks circumventing the limits imposed by other intellectual property laws.

Thus, applying trademark law to trade dress creates a policy tension. On one hand, there are the standard substantive policies favoring protection. On the other hand, there are the competing policies of preserving robust competition in the product market and avoiding conflicts with the goals of the patent and copyright statutes. This tension exists for all trademark cases, but it is much more severe for trade dress because the risks of monopoly and statutory conflict are more acute. Protecting fanciful, arbitrary, and suggestive word marks, for example, does not confer much market power, since competitors can compete effectively by choosing different words. Sellers do gain a modest advantage by using descriptive word marks, since the word itself communicates information about the product, but the advantage pales in comparison to what sellers can obtain by preventing competitors from using important features of the product itself.

Over the past decade, the Supreme Court has struggled with this policy tension in the course of deciding four cases dealing with trade dress protection. In the first case, *Two Pesos, Inc. v. Taco Cabana, Inc.*, decided in 1992, the Court held that trade dress could be inherently distinctive and therefore protectible without proof of secondary meaning.¹⁷¹ In so doing, it upheld a finding that the un-

¹⁶⁹ See, e.g., *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29–30 (2001).

¹⁷⁰ The basic term of copyright is author's life plus seventy years. 17 U.S.C. § 302(a) (2000). The basic term of patent protection is twenty years from the date of application. 35 U.S.C. § 154(a)(2) (2000). Trademark protection lasts indefinitely, for as long as the mark serves a source-identifying function. 15 U.S.C. § 1115 (2002).

¹⁷¹ 505 U.S. 763, 766–67 (1992).

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usual décor of a fast-food Mexican restaurant was inherently distinctive and protectible.

In the next case, *Qualitex Co. v. Jacobson Products Co.*, decided in 1995, the Court held that even a single color could qualify for trade dress protection if it had acquired secondary meaning.¹⁷² More generally, *Qualitex* made clear that any symbol, including any type of trade dress, could be the subject of trademark protection; there were no per se exclusions at all.

After *Two Pesos* and *Qualitex*, many lower courts extended quite generous protection to trade dress, and firms responded by filing more trade dress infringement suits.¹⁷³ Commentators complained that too many of these trade dress cases were actually anti-competitive strike suits filed not to protect a source-identifying symbol from a confusing use, but rather to exclude a competitor from the market. In its two most recent opinions, the Supreme Court cut back significantly on the scope of trade dress protection. The Court first established a secondary meaning requirement for all “product design” trade dress and then revised the functionality doctrine to make it easier to find functionality and thus to deny protection to some trade dress.

¹⁷² 514 U.S. 159, 163 (1995) (protecting the source-identifying green-gold color of dry cleaning pads).

¹⁷³ See Jay Dratler, Jr., Trade Dress Protection for Product Configurations: Is There a Conflict with Patent Policy?, 24 Am. Intell. Prop. L. Ass'n Q.J. 427, 431 (1996) (observing that “trade dress litigation, which includes litigation over product configurations, has burgeoned in recent years” (footnote omitted)); Lunney, supra note 3, at 387–88 (listing a number of doctrines that together “created an environment that welcomes claims based on little more than a defendant’s imitation of a successful product”). A generous interpretation of trademark doctrine in the trade dress cases made it possible for some firms to obtain relief without ever showing that consumers used their trade dress as a source identifier or were likely to suffer any harm at all from confusion. If the court was willing to classify the firm’s trade dress as inherently distinctive, there was no need to show source-identification, and the digits of confusion test supported an inference of likelihood of confusion without any showing of actual harm. Moreover, establishing likelihood of confusion was rather easy in those jurisdictions that equated intent to copy with intent to deceive. See generally id. (discussing these and other doctrinal expansions of liability). Finally, the functionality doctrine, the principal check on expansive trade dress protection, did not screen cases very well because courts were often willing to define the product class in broad terms. See infra notes 216–25 and accompanying text.

a. Secondary Meaning for Product Design

In the third case, *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, decided in 2000, the Court retreated from its earlier *Two Pesos* holding.¹⁷⁴ The Court drew a distinction between “product packaging” and “product design,” holding that product packaging could be inherently distinctive, but product design always required proof of secondary meaning.¹⁷⁵

The Court invoked the provisions of the Lanham Act but in the end relied mainly on what amounted to an error cost analysis.¹⁷⁶ The Court reasoned that consumers are not likely to adopt design features of the product itself as source identifiers, because most people think of designs as decorative or functional.¹⁷⁷ Moreover, making it too easy for firms to sue for product design infringement invites strike suits intended to stop new entrants from competing in the same product market.¹⁷⁸ In error cost terms, conclusively presuming source-identification for product design trade dress is likely to produce a high false positive error risk, and those false positives are likely to be more costly than for ordinary word marks. Forcing firms to prove secondary meaning makes it harder for them to sue and easier for defendants to obtain summary judgment in frivolous suits.

It is not clear whether the *Wal-Mart* decision achieved its intended effect of screening strike suits. Unable to make use of inherent distinctiveness, firms have switched to the standard circumstantial case for proving secondary meaning, relying on such factors as sales volume, advertising expenditures, and evidence that the defendant intended to copy the trade dress and free ride on the plaintiff’s “goodwill.”¹⁷⁹ In response, some courts have tightened up

¹⁷⁴ 529 U.S. 205, 214–15 (2000). The trade dress at issue in *Wal-Mart* concerned children’s clothing designs, which the Court described as “a line of spring/summer one-piece seersucker outfits decorated with appliques of hearts, flowers, fruits, and the like.” *Id.* at 207.

¹⁷⁵ *Id.* at 215–16.

¹⁷⁶ See *id.* at 212–14.

¹⁷⁷ *Id.* at 213.

¹⁷⁸ *Id.* at 213–14.

¹⁷⁹ See, e.g., *Herman Miller, Inc. v. Palazzetti Imps. & Exps., Inc.*, 270 F.3d 298, 314–16 (6th Cir. 2001) (reversing grant of summary judgment on ground that circumstantial evidence of secondary meaning created issue of fact); *Gen. Motors Corp. v. Let’s Make a Deal*, 223 F. Supp. 2d 1183, 1195–96 (D. Nev. 2002) (finding secondary mean-

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the requirements of a circumstantial evidence case, emphasizing the need to show that the product design itself was prominently featured in the advertising and stressing the difference between intentional deception and intentional copying.¹⁸⁰ Indeed, one court has demanded such strong proof that it is unclear how a plaintiff can satisfy the burden without actually furnishing direct evidence of secondary meaning.¹⁸¹

b. Broadening the Functionality Bar

The year after *Wal-Mart*, the Supreme Court decided the fourth and most recent trade dress case in this line, *TrafFix Devices, Inc. v. Marketing Displays, Inc.*¹⁸² *TrafFix Devices* cuts back further on trade dress protection, and it does so by expanding the functionality doctrine's bar. To understand what *TrafFix Devices* does, it is first necessary to understand how the functionality doctrine works.

Trademark law uses the functionality doctrine to prevent the creation of product monopolies. The doctrine bars trademark protection for features that contribute to making the product function the way it does. The goal is to preserve robust competition in the product market and avoid conflicts with copyright and patent laws.

ing in the Hummer design by relying on circumstantial evidence and copying); *Eazy-power Corp. v. ICC Innovative Concepts Corp.*, No. 98C3189, 2002 U.S. Dist. LEXIS 20023, at *17-*22 (N.D. Ill. Oct. 17, 2002) (finding circumstantial evidence created genuine issue of fact as to secondary meaning); *U-Neek, Inc. v. Wal-Mart Stores, Inc.*, 147 F. Supp. 2d 158, 171-72 (S.D.N.Y. 2001) (denying summary judgment to the defendant on secondary meaning by relying on circumstantial evidence).

¹⁸⁰ See *Yankee Candle Co. v. Bridgewater Candle Co.*, 259 F.3d 25, 43-45 (1st Cir. 2001); *Kaufman & Fisher Wish Co. v. F.A.O. Schwarz*, 184 F. Supp. 2d 311, 318-20 (S.D.N.Y. 2001).

¹⁸¹ See *Yankee Candle Co.*, 259 F.3d at 43-45 (criticizing the plaintiff's circumstantial evidence case for secondary meaning on the ground that it lacked "any evidence that actual consumers associated the claimed trade dress with Yankee"). In addition, lower courts after *Wal-Mart* must classify trade dress as "product packaging" or "product design." The *Wal-Mart* Court made this task somewhat easier by holding that close cases should be classified as "product design," requiring secondary meaning. *Wal-Mart*, 529 U.S. at 215. But the Court also recognized that some trade dress might not fit easily into either category and yet could be protected without proof of secondary meaning. *Id.* at 214-15 (proposing that the restaurant décor in *Two Pesos* was "either product packaging . . . or else some *tertium quid* that is akin to product packaging and has no bearing on the present case").

¹⁸² 532 U.S. 23 (2001).

The doctrine requires more than descriptive functionality. After all, trade dress always serves some utilitarian or aesthetic purpose by helping the product work the way it is supposed to or making the product more aesthetically pleasing to consumers. If any kind of functionality, in the ordinary sense, were enough to disqualify trade dress from protection, there would be no trade dress protection at all.

Thus, the law distinguishes between descriptive functionality (functionality in the ordinary lay sense) and legal functionality (functionality that bars trademark protection). The courts have had great difficulty developing a workable test for legal functionality. The objective is clear—to identify situations in which granting exclusive rights in the trade dress will have too severe an impact on competition—but courts disagree about how best to implement this objective.

Prior to *TrafFix Devices*, there were a number of tests for legal functionality,¹⁸³ but the prevailing test, the so-called “effect-on-competition test,” focused on whether trade dress protection would adversely affect competition in the underlying product market.¹⁸⁴ On one hand, if competitors have access to many equally effective trade dress alternatives, then protecting the plaintiff’s particular trade dress will not impair competition. On the other hand, if competitors have few alternatives, then giving the plaintiff exclusivity through trademark law will prevent other firms from competing. Thus, the test focused on the number of effective alternatives available to competitors.

In *TrafFix Devices*, the Supreme Court altered this test in several ways. The Court distinguished between two types of trade dress: (1) trade dress that is “essential to the use or purpose of the

¹⁸³ See Mohr & Mitchell, *supra* note 167, at 21–24 (describing different definitions of functionality); Mitchell M. Wong, The Aesthetic Functionality Doctrine and the Law of Trade-Dress Protection, 83 Cornell L. Rev. 1116 (1998) (distinguishing ten different tests for functionality).

¹⁸⁴ See Wong, *supra* note 183, at 1142 (noting that the competition theory is the prevailing theory of functionality); *id.* at 1146 (noting that the number of comparable alternatives is “the conceptual soul of the competition theory”). Indeed, in its *Qualitex* decision, the Supreme Court endorsed the effect-on-competition test and its focus on the number of effective trade dress alternatives, which probably contributed to its popularity. *Qualitex Co.*, 514 U.S. at 165–66.

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article” or that “affects [its] cost or quality”;¹⁸⁵ and (2) all other trade dress, variously described as “ornamental,” “incidental,” and “arbitrary.”¹⁸⁶ Although there is some disagreement about the proper interpretation of *TrafFix Devices*,¹⁸⁷ many courts and commentators construe the opinion to deem the first type of trade dress legally functional regardless of the number of alternatives.¹⁸⁸ Thus, competitors are always free to use trade dress that “is the reason the device works”¹⁸⁹ or that confers a significant cost or quality advantage.¹⁹⁰ By contrast, the second type of trade dress is not always legally functional; whether it is depends on the number of equally effective alternatives available for competitors. In other words, the first type of trade dress is automatically barred from protection as functional, while the second type is barred only if it fails the effect-on-competition test with its focus on the number of effective alternatives.

It appears that *TrafFix Devices* has succeeded in cutting back on product design trade dress protection.¹⁹¹ In fact, one can view *Traf-*

¹⁸⁵ *TrafFix Devices, Inc.*, 532 U.S. at 33 (quoting *Qualitex Co.*, 514 U.S. at 165).

¹⁸⁶ *Id.* at 30, 34 (describing the second type as an “arbitrary flourish”); see also *id.* at 33 (equating the second prong with “esthetic functionality”).

¹⁸⁷ Compare *Eppendorf-Netheler-Hinz GmbH v. Ritter GmbH*, 289 F.3d 351, 357–58 (5th Cir. 2002) (holding that alternatives are irrelevant to the first category of trade dress), with *Valu Eng’g, Inc. v. Rexnord Corp.*, 278 F.3d 1268, 1276 (Fed. Cir. 2002) (holding that a court can consider alternatives for both categories).

¹⁸⁸ See, e.g., *Eppendorf-Netheler-Hinz GmbH*, 289 F.3d at 357–58 (holding that although there are alternatives, the configuration of the plaintiff’s disposable pipettes is essential to the use or function of the pipettes and therefore functional within *TrafFix Devices*’s first trade dress category); *Antioch Co. v. W. Trimming Corp.*, 196 F. Supp. 2d 635 (S.D. Ohio 2002) (reversing denial of summary judgment after *TrafFix Devices* on the ground that the plaintiff’s photo album design falls within *TrafFix Devices*’s first category).

¹⁸⁹ *TrafFix Devices*, 532 U.S. at 34.

¹⁹⁰ The Court also held that if the trade dress was the subject of an expired utility patent and disclosed in the patent claims, there is a strong evidentiary presumption that the trade dress falls in the first category and is therefore functional. *Id.* at 29–30.

¹⁹¹ The *TrafFix* case itself is a good example. In that case, the plaintiff marketed a road sign device with two springs that bent in the wind to prevent the sign from blowing over. The plaintiff sought to enjoin the defendant from selling a similar device with dual springs, arguing that its dual-spring design was source-identifying trade dress. In reversing the district judge’s grant of summary judgment for the defendant, the court of appeals applied the effect-on-competition test for functionality and held that a reasonable jury could find a sufficient number of alternative designs to support a nonfunctionality determination. *TrafFix Devices*, 532 U.S. at 27–28. The Supreme Court, however, held that the trade dress was functional without regard to the num-

Fix Devices as a further step in the direction of limiting rights in trade dress in order to reduce the error costs associated with anti-competitive strike suits, a course the Court charted in the *Wal-Mart* case. Although *Wal-Mart* relied on the error cost argument explicitly and *TrafFix Devices* did not, the impact of both cases is similar: each holding makes it harder for plaintiffs to obtain preliminary injunctions and easier for defendants to obtain summary judgment in weak and frivolous trade dress suits involving features of the product itself.¹⁹² *Wal-Mart* does this by forcing plaintiffs to present evidence of secondary meaning. *TrafFix Devices* does it by converting a highly factual determination of available alternatives into a much less fact-sensitive exercise in classifying trade dress (making summary judgment more available to defendants). Moreover, *TrafFix Devices* makes this change for the type of trade dress that is most susceptible to anti-competitive litigation: trade dress that is closely tied to what the product is supposed to do. When plaintiffs have a harder time obtaining preliminary injunctions and defendants have an easier time obtaining summary judgment, frivolous strike suits are much less likely to be filed.¹⁹³

ber of alternatives available because it was essential to the use and purpose of the sign device. In doing this, it relied on the fact that the dual-spring design was the subject of an expired utility patent, but it also made clear that the result would have been the same without a patent. *Id.* at 33–34; see also *id.* at 35 (“Whether a utility patent has expired or there has been no utility patent at all, a product design which has a particular appearance may be functional because it is ‘essential to the use or purpose of the article’ or ‘affects the cost or quality of the article.’” (quoting *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 850 n.10 (1982))).

¹⁹² In addition, Congress amended § 43(a) of the Lanham Act in 1998 to add § 43(a)(3), which puts the burden on the plaintiff to show that unregistered trade dress is nonfunctional. 15 U.S.C. § 1125(a)(3) (2000).

¹⁹³ Since a frivolous suit has little chance of winning at trial, the only reason plaintiffs file strike suits is to use the threat of high litigation costs to pressure defendants into capitulating or settling on favorable terms. The availability of early summary judgment and the adoption of tougher preliminary injunction standards make it harder for frivolous plaintiffs to mount a credible threat, which reduces their settlement leverage. For a discussion of anticompetitive strike suits in intellectual property, see Michael J. Meurer, Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation, 44 B.C. L. Rev. 509 (2002). For a description of the dynamics of frivolous litigation in general, see Robert G. Bone, Modeling Frivolous Suits, 145 U. Pa. L. Rev. 519 (1997).

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Still, *TrafFix Devices* has created a great deal of confusion.¹⁹⁴ Some courts, including the Court of Appeals for the Federal Circuit, simply refuse to read the opinion as ruling out consideration of alternatives for *TrafFix Devices*'s first category of trade dress.¹⁹⁵ Furthermore, courts that faithfully apply the two-part test still struggle with classifying trade dress in the appropriate category.¹⁹⁶ One difficult area is trade dress with aesthetic or ornamental rather than practical utilitarian value. The *TrafFix Devices* Court strongly suggested that all such trade dress belongs in its second category, subject to the effect-on-competition test.¹⁹⁷ This is problematic, however, if consumers buy the product primarily for its aesthetic or ornamental design features. In such cases, it is difficult to see why the trade dress does not belong in the first category, as essential to the use or purpose of the article or as affecting its cost or quality.

The facts of the *Wal-Mart* case nicely illustrate this conundrum. The trade dress at issue in *Wal-Mart* concerned attractive designs for children's clothing, elements difficult to classify under *TrafFix Devices*. On one hand, the design features can be considered ornamental and aesthetic, and therefore nonfunctional, if there are enough alternative designs for others to use. On the other hand, the designs seem essential to the use or purpose of the clothing (which presumably includes attractiveness, not just utility) and affect its quality. After all, defendant Wal-Mart presumably found it profitable to copy plaintiff's designs for this very reason. If this is true, however, then under *TrafFix Devices*, the trade dress must be

¹⁹⁴ See Harold R. Weinberg, Trademark Law, Functional Design Features, and the Trouble with *TrafFix*, 9 J. Intell. Prop. L. 1, 6 (2001) (criticizing *TrafFix Devices* in part for limiting the alternatives test and unnecessarily confusing trade dress analysis by creating two new categories).

¹⁹⁵ See *Valu Eng'g, Inc. v. Rexnord Corp.*, 278 F.3d 1268, 1276 (Fed. Cir. 2002); *Maharishi Hardy Blechman, Ltd. v. Abercrombie & Fitch Co.*, 292 F. Supp. 2d 535, 547-48 (S.D.N.Y. 2003); *Logan Graphic Prods., Inc. v. Textus USA, Inc.*, No. 02C1823, 2002 U.S. Dist. LEXIS 24547, at *30-32 (N.D. Ill. Dec. 23, 2002).

¹⁹⁶ See, e.g., *Keystone Consol. Indus., Inc. v. Mid-states Distrib. Co.*, 235 F. Supp. 2d 901, 906 (C.D. Ill. 2002) (holding that color strip on top of wire fencing was ornamental only and not functional even though it also helped installers to identify which side was up); *Metrokane, Inc. v. Wine Enthusiast*, 160 F. Supp. 2d 633, 638 (S.D.N.Y. 2001) (holding rabbit corkscrew design was "more . . . 'ornamental' than merely functional" and not legally functional despite its being derived from an expired utility patent).

¹⁹⁷ *TrafFix Devices*, 532 U.S. at 33 (equating the second category with aesthetic functionality).

deemed functional under the first category and not protected at all. Indeed, one could interpret *TrafFix Devices* to place all trade dress that would qualify as “product design” under *Wal-Mart* into the first functionality category. But this would render *Wal-Mart*’s holding pointless, because product design would be barred from trade dress protection on grounds of functionality even if it had secondary meaning.

2. *An Enforcement Cost Analysis*

Thus, the Supreme Court’s two most recent cases are best understood within an enforcement cost framework, as responses to the high error costs produced by a broad trade dress law. Still, trade dress continues to be doctrinally confused, and the changes wrought by *Wal-Mart* and *TrafFix Devices* add additional points of confusion to the mix. Why have courts struggled so much with trade dress protection, and why is it so difficult to articulate a workable set of rules? The answers to these questions have a great deal to do with enforcement costs as well. The substantive policies underlying trade dress law are clear enough, and absent high enforcement costs, it would be feasible to implement those policies through a sensible set of legal standards. However, enforcement cost constraints make the task much more complicated.

To see this point clearly, it is important to recognize that trademark protection for trade dress *always* gives the seller some exclusivity in a product. All trade dress—whether elements of packaging or product design—must add consumption value to the product; otherwise firms would not use it. After all, a word mark usually exists to perform the source-identification function. But if this is true, and the trade dress is added, at least in part, to make the product more attractive to consumers, then trade dress is always part of the product in the sense that it is part of what makes the product satisfy consumer tastes. It follows that giving exclusivity in trade dress necessarily goes beyond protecting source-identification and gives rights in a feature of the product itself.¹⁹⁸

¹⁹⁸ To illustrate, suppose the seller of a doll puts an unusual and colorful graphic on the box. It is possible that consumers might use the graphic exclusively as a source identifier for the doll; however, the graphic itself would have to have absolutely no impact on the product’s appeal, which is extremely unlikely. The box will also have some kind of word mark that serves as the trademark for the doll (such as BARBIE)

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One might respond to this realization by denying all trademark protection to trade dress. In the Conclusion, I suggest some reasons why this might be a sound approach from an enforcement cost perspective, but it is plainly not the approach the courts have taken.¹⁹⁹ Indeed, trademark law has protected some types of trade dress ever since the late nineteenth century.²⁰⁰ Courts instead have developed special doctrines, such as functionality, to try to strike a balance among competing policy concerns.

Most critics of trade dress law accept this intermediate solution but object to cases that they believe go too far. Sometimes these critics complain that the courts are protecting trade dress when there is no risk of consumer harm.²⁰¹ More frequently, they object that the monopoly costs of enjoining competitors from using the

and also the seller's name (such as MATTEL). With ordinary trademarks and trade names already in place, it seems unlikely that the seller would bother to design a graphic and put it on each box just to create another source identifier. The graphic is valuable because it also makes the product more attractive to consumers at the price the seller charges. For the graphic to affect sales, it must be part of what makes the product satisfy consumer tastes.

The same might be said for any mark, but ordinary word marks operate in a different way. When consumers buy a product, they buy a bundle of goods. Part of that bundle is the consumption value of the product itself, including whatever satisfaction comes from buying a product with distinctive packaging. But part of the bundle is the value of the information communicated by the mark. Because consumers have ready access to information about the product, they are able to avoid the search costs of obtaining the same information in other ways and are able to make choices that better fit their preferences. These benefits make the product more valuable. Viewed in this way, protecting marks always ends up protecting part of what makes the product valuable to consumers. However, the difference between the consumption value associated with trade dress and the information value associated with ordinary word marks is that the value of the information is brand-specific and thus not something that other firms can use without altering (unless, of course, they are marketing identical products of the same quality).

¹⁹⁹ Nor is it an approach that Congress has taken, at least recently. See 15 U.S.C. § 1125(a)(3) (2000) (codifying the functionality doctrine and assigning the burden to the plaintiff when trade dress is not registered).

²⁰⁰ See, e.g., Lunney, *supra* note 3, at 375 n.28 (citing cases from the late nineteenth and early twentieth centuries in support of the proposition that trade dress and product features were protected under the doctrine of unfair competition during that time); see also 1 McCarthy on Trademarks, *supra* note 1, § 2:7 at 2-13 to 2-14 (noting that the law of unfair competition covers a greater scope than trademark infringement, in part through prohibiting the simulation of trade dress).

²⁰¹ See, e.g., Lunney, *supra* note 3, at 387-90.

trade dress far exceed any consumer benefits.²⁰² Each of these complaints is based on the same general concern, namely, that trademark law is being used to protect the commercial value of an important design feature without sufficient justification in terms of traditional trademark goals. The question is why the doctrine produces these results and why it is so difficult to avoid them.

a. No Consumer Harm

It is very difficult to find a trade dress case that does not involve some risk of consumer harm. If any salient product characteristic is hidden from view, there is a chance that consumers who rely on distinctive trade dress as a source-identifying symbol will be harmed by confusingly similar trade dress.

To illustrate, consider the following situation based on an actual case, *Herman Miller, Inc. v. Palazzetti Imports and Exports, Inc.*²⁰³ In that case, the plaintiff Herman Miller sold a leather-upholstered, tilt-and-swivel lounge chair with a unique, sleek modern design. The chair had become extremely popular over the years partly because of the fame of its designers, Charles and Ray Eames, and partly because of Herman Miller's extensive advertising, which featured the chair prominently.²⁰⁴ The defendant, Palazzetti Imports,

²⁰² See, e.g., Lemley, *supra* note 3, at 1700–01 (noting that the expansion of trademark protection to cover product configuration gives any manufacturer the ability to invoke such protection, even as the link between product configuration and consumer source identification has disappeared).

²⁰³ 270 F.3d 298 (6th Cir. 2001).

²⁰⁴ Charles and Ray Eames produced the design in 1956 for the plaintiff Herman Miller, Inc. The plaintiff claimed that the chair and a matching ottoman were the most famous of the Eames' furniture designs. It sought to protect nine features as its trade dress, which it described as follows:

- (1) Smooth curved, molded shells; the lounge chair having three shells, the ottoman, one.
- (2) The molded shells being exposed from below the ottoman and from the back, sides, and underside of the chair.
- (3) The edges of each molded shell being exposed from the front of the lounge chair and ottoman.
- (4) Each of the molded shells being shaped like a flattened "U."
- (5) Each molded shell with cushioned upholstery.
- (6) Each molded shell having "buttons" that create permanent creases in the upholstery.
- (7) The back of the lounge chair consisting of two molded shells, connected in the rear by two exposed bars, each bar being angled to tilt the upper molded shell slightly forward of the lower molded shell.
- (8) The angled bars spaced from the shells.
- (9) Upholstered armrests that extend downwardly into the chair and that connect the two molded back shells to the molded seat shell.

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was in the business of selling reproductions of well-known and popular furniture. When the defendant began selling a virtually identical reproduction of the Eames lounge chair, Herman Miller sued for trademark infringement, arguing that the Eames design was its protectible trade dress and that the defendant's use of the same design was likely to cause consumer confusion as to source and sponsorship.²⁰⁵

If a court is not to rule out protection for trade dress altogether, the shape of the chair is certainly a candidate. The shape is unusual for a chair, and during the period in which Herman Miller was the only seller, it is quite conceivable that consumers would have come to identify the design with Herman Miller. To be sure, the design comprises much of the consumption value of the chair; it is primarily what consumers want when they buy the product. That does not exclude the possibility, however, that the design might also serve an information transmission function, especially for those consumers who are likely to focus on the chair itself and not the word marks associated with it.

When the defendant enters the market with its replica of the Eames lounge chair, consumers might buy the defendant's chair thinking it was sold by or at least authorized by the plaintiff. If they have a bad experience with the defendant's chair, they might associate that bad experience with the plaintiff, stop buying the plaintiff's furniture, and tell their friends to do the same. In other words, a distinctive and unusual product design can serve two purposes for consumers simultaneously: it can contribute to the consumption

Id. at 302.

²⁰⁵ Although design patent and copyright are sometimes available to protect the design elements of useful articles, trade dress is frequently the only option. To obtain a design patent, the applicant must go through a possibly lengthy and expensive administrative review and must demonstrate that its design is not only novel but also a significant advance over the prior art (that is, nonobvious). See 35 U.S.C. § 171 (2000). These requirements create significant obstacles to the patent alternative. As for copyright, the Copyright Act excludes from protection the designs of useful articles that are not separable from the article's utilitarian features. See 17 U.S.C. § 101 (2000) (definition of "pictorial, graphic, and sculptural works"); id. § 102 (indicating that such works are eligible for copyright protection). This is a serious problem for using copyright, especially when the design encompasses the overall shape of the article itself. See, e.g., *Brandir Int'l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1143-47 (2d Cir. 1987) (holding that the undulating wire design of a bicycle rack is barred from copyright protection as the design of a useful article).

value of the product, and it can serve as a source identifier. So long as the consumer uses the mark—here the distinctive design—as a symbol representing a bundle of information, images, and emotions associated with the particular product, the mark has secondary meaning and use by a direct competitor runs the risk of creating confusion.

It is a different question, however, whether the confusion creates any harm that trademark law is supposed to prevent. In our example, many of the salient features of the Eames lounge chair are search attributes, features that consumers can verify by inspecting the product before purchase. For instance, a consumer interested in buying an Eames lounge chair can easily verify that the defendant's chair has the desired shape and appearance. If that is all the consumer cares about, then even if she bought the defendant's chair thinking she was getting the plaintiff's, she would not suffer any harm as a result. She would end up getting exactly what she wanted, and possibly at a lower price. As a result, protecting the design would give Herman Miller a monopoly in these lounge chairs with no corresponding benefit, and possibly even at a cost to consumers.

Still, there is a difference between many, or even most, of the salient features of a product being search attributes and *all* of those features being search attributes. In the chair example, consumers are interested in other product features besides shape and size, and not all of those features qualify as search attributes. For instance, consumers are likely to care about the durability and quality of the leather and stitching and the reliability of any warranties—features not apparent on inspection.

As search attributes constitute more of what consumers value in a product, however, it becomes less clear that protecting trade dress serves trademark purposes. For example, suppose that instead of leather lounge chairs, the plaintiff sold very simple plastic and metal stacking chairs with a distinctive modern design.²⁰⁶ Consumers can verify almost every salient attribute of the chairs prior to purchase. They can try sitting in the chairs to test their comfort and sturdiness. They can try stacking the chairs to verify that they

²⁰⁶ See *Krueger Int'l, Inc. v. Nightingale Inc.*, 915 F. Supp. 595, 607 (S.D.N.Y. 1996) (holding that the design of plastic and metal stacking chairs is protectible trade dress).

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stack easily. They need not worry about leather, fabric, or the quality of stitching, as they did for the lounge chair. Still, durability and warranties are not search attributes and can be verified only through experience.²⁰⁷

In sum, most trade dress cases involve some trademark-related consumer harm. But there is one controversial application to trade dress that is more difficult to square with traditional policies. In these cases, courts impose liability on a *post-sale* confusion or dilution theory.²⁰⁸ At first glance, it might seem that there could be no consumer harm when consumers are not deceived or confused at the point of purchase, but the matter is much more complicated.

To illustrate, I shall focus on post-sale confusion because it is more frequently invoked in the trade dress cases than dilution.²⁰⁹ In a post-sale confusion case, members of the public are confused when they view the defendant's product with the visible trade dress after purchase. For example, in *Lois Sportswear, U.S.A. v. Levi Strauss & Co.*, Lois Sportswear sold jeans with the well-known

²⁰⁷ For another example of a case involving a product with search and non-search attributes, consider *Topps Co. v. Gerrit J. Verburg Co.*, 41 U.S.P.Q.2d 1412, 1413, 1420 (S.D.N.Y. 1996), in which the court granted a preliminary injunction protecting the plaintiff's diamond ring shape for lollipops. Children bought the lollipops to slide on their fingers to mimic a diamond ring while they ate. Obviously, the diamond ring shape was primarily what children wanted when they bought the lollipops, and that shape was clearly a search attribute. Still, there were some salient features that children could not verify by inspection, including the taste, the time it takes for the candy to dissolve, and the durability of the ring mount.

²⁰⁸ See, e.g., *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244–45 (6th Cir. 1991) (protecting the exterior design of Ferrari cars on a post-sale confusion theory); see also *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 218, 222 (2d Cir. 1999) (upholding the grant of a preliminary injunction protecting the goldfish design of Pepperidge Farm's goldfish crackers on a post-sale dilution theory and suggesting liability could be founded on a post-sale confusion theory as well).

²⁰⁹ There are only a few cases in which courts have applied a dilution theory to protect trade dress, and they are very controversial. See Paul Heald, *Sunbeam Products, Inc. v. The West Bend Co.: Exposing the Malign Application of the Federal Dilution Statute to Protect Configurations*, 5 J. Intell. Prop. L. 415, 415, 427 (1998). Moreover, there is a serious question whether the use of dilution, especially a blurring dilution theory, to protect trade dress is consistent with the anti-dilution statutes and especially with the anti-dilution provisions of the Lanham Act, 15 U.S.C. § 1125(c) (2000). In any event, the Supreme Court recently held that the federal statute requires proof of actual dilution, *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003), a requirement that should make a blurring theory very difficult to establish when trade dress is involved.

Levi's stitching pattern.²¹⁰ Lois Sportswear's jeans were sold in packaging that had features signaling to purchasers that Levi Strauss was not involved, but the court was concerned that members of the public viewing the jeans after purchase might assume they were Levi's.²¹¹ In another example, a car buyer who spends a great deal of money to purchase a vehicle resembling General Motors's Hummer is not likely to believe that General Motors is involved, but members of the public who view the vehicle at a distance might believe that it was made by General Motors.

Even though buyers are not confused at the point of purchase, there is nonetheless a potential for trademark-related consumer harm. If the quality of the defendant's product is inconsistent with the plaintiff's reputation, then the public is likely to revise its opinion of the plaintiff's product in a way that injures the plaintiff's goodwill. For example, if Lois Sportswear's jeans clash with the style that Levi Strauss promotes, consumers are likely to revise their opinion of Levi's jeans and their associations with the LEVI mark based on their mistaken impression that Levi Strauss is involved. So too, if the defendant's Hummer-like vehicle is smaller and less impressive than General Motors's Hummer, members of the public, who are possible future car buyers, might alter their opinions of General Motors and its cars.

These effects concern trademark law for two reasons. First, consumers are misled in a way that affects their purchasing decisions. To be sure, any confusion they suffer will be corrected at the point of purchase, but only if they choose to buy the plaintiff's product. Second, the prospect of injury to goodwill is likely to discourage firms from investing as much in developing goodwill in their marks. Preventing this kind of harm is within the scope of traditional trademark principles.

It is much more difficult to justify post-sale confusion when the defendant's product is identical to the plaintiff's in all visible aspects. In that case, third parties observing the defendant's product are likely to assume it is the plaintiff's but not think any less of the

²¹⁰ 799 F.2d 867, 869, 876 (2d Cir. 1986) (finding likelihood of confusion at time of purchase and post-sale).

²¹¹ *Id.* at 869.

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plaintiff's product as a result.²¹² Indeed, the plaintiff might even benefit if its trade dress becomes more recognizable or widely known as a result of the increased exposure, or if the prominence of its trade dress creates a bandwagon effect that increases its sales.

Increased public exposure of trade dress, however, is not always helpful to a seller. When the product is a prestige good, such as a luxury car or a Rolex watch, its value depends in large part on its scarcity.²¹³ When trademark law protects the product's trade dress on a post-sale confusion theory, what is being protected is a special component of "goodwill"—prestige value—that is quite different from the product information value trademark law usually protects. For example, a major element in the value of Ferrari's Daytona Spyder is the prestige of owning and driving the car, and that prestige depends in large part on scarcity. If other companies could sell much cheaper automobiles that looked just like Ferrari's, the prestige value of the Ferrari would drop precipitously and owners of real Ferraris would be harmed.²¹⁴

Nevertheless, protecting prestige value is not the same as protecting trade dress as a source of product information for consumers. Prestige value is part of the product itself, so giving exclusive rights for this reason in effect enlists trademark law to create a product monopoly. On the other hand, prestige is a type of consumer information about a product that is closely tied to the source-identification function of marks; it is, in other words, an element of goodwill broadly understood. Part of the reason the Ferrari design has the prestige it does is because consumers associate it with a single source, and its prestige is created in part by Ferrari's investment in advertising its marks. Indeed, prestige is sometimes an outgrowth of advertising that communicates emotional

²¹² Therefore, the enforcement cost argument for not requiring inferior quality, discussed in Section III.C, does not apply here. It is worth noting, however, that it might be difficult to determine whether consumer perceptions of the defendant's and the plaintiff's products are in fact identical, especially when the principal associations with the marks are emotional and affective.

²¹³ See *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 495 (S.D. Fla. 1986); see also Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 *J.L. & Econ.* 211, 214 (1986).

²¹⁴ *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244–45 (6th Cir. 1991). For an analysis of this effect in the publicity rights area as a manifestation of the tragedy of the commons, see Mark F. Grady, *A Positive Economic Theory of the Right of Publicity*, 1 *UCLA Ent. L. Rev.* 97, 102–05 (1994).

and affective information about a product. Hence, protecting prestige value can enhance a firm's incentives to supply that kind of information to consumers.

This is not the place to examine this issue in detail. It is enough to note that post-sale confusion *can* create the kind of consumer harms that trademark aims to prevent. Even prestige value might qualify, but if it does not, the reason is because of a normative judgment about the proper scope of trademark law rather than a conclusion that consumers are not harmed. The general point is clear: With a few possible exceptions, the trade dress cases present at least some risk of consumer harm, although the magnitude of the harm might be quite small in certain types of cases.²¹⁵

b. Too Broad a Product Monopoly

The main concern, however, is that courts grant too broad a product monopoly in some trade dress cases without a commensurate benefit to consumers. The functionality doctrine is supposed to prevent this from happening. So why does that doctrine fall short?

Recall the two-part test from *TrafFix Devices*, in which trade dress that is "essential to the use or purpose of the article" or "affects the cost or quality" is always functional no matter how many alternatives are available to competitors, but trade dress that is "ornamental," "incidental," and "arbitrary" is functional only if there are few equally effective alternatives.²¹⁶ To apply this test, a court must first define what the "product" or "article" is. This is necessary to determine whether the particular trade dress in question is essential to the use or purpose or affects the cost or quality of the "article" and also to determine what counts as an equally effective alternative available to competitors. A product, however, can be defined in many different ways, and there is no obviously right definition to choose.

To illustrate this point, consider the Eames lounge chair example from the previous Section. Under the *TrafFix Devices* test, whether the chair design is legally functional depends on how the article or product is defined. Suppose the article is defined as an "Eames

²¹⁵ Merchandising rights cases are a good example.

²¹⁶ *TrafFix Devices*, 532 U.S. at 32–34.

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lounge chair.” In other words, suppose the Eames chair is so special that consumers *strongly* prefer it to any other type of chair. Thus, the Eames chair in effect defines its own product market. In that case, the design *must* be legally functional no matter what test is applied—the Eames design is obviously essential to the use and purpose of the article, and there is no way firms can compete in the product market for Eames chairs other than to use the same design. But the legal functionality determination is much less clear if the article is defined as “a leather lounge chair.” At the extreme, the design would clearly be nonfunctional if the article were defined as simply “a chair,” since the Eames design is not essential to the use of a chair and competitors would have plenty of alternatives to compete in the chair market.

Consider another example.²¹⁷ Suppose the plaintiff sells a diamond-ring shaped lollipop on a ring mount. Children buy the lollipop, place it on a finger, and eat it. The plaintiff seeks to enjoin a competitor who is selling a virtually identical diamond-ring shaped lollipop. If the article/product is defined as “a diamond-ring shaped lollipop,” then the design is clearly legally functional. But the legal functionality determination is much less clear if the article is defined as “a lollipop in the shape of any jewel mounted on a ring,” and even less obvious if the article is “a lollipop that functions as a toy.” Of course, the trade dress would unquestionably be nonfunctional if the article were defined simply as a “lollipop candy.”²¹⁸

Courts rarely address this market definition problem, however. Occasionally, they must do so when the plaintiff seeks to protect very general product features as trade dress and the defendant claims that those features are so general that they define a product class. This claim is analogous to arguing that a word mark is generic.²¹⁹ In effect, the defendant is arguing that the trade dress is

²¹⁷ This example is taken from the facts of *Topps Co. v. Gerrit J. Verburg Co.*, 41 U.S.P.Q.2d 1412, 1413 (S.D.N.Y. 1996).

²¹⁸ This is how the *Topps Co.* court actually defined the product, which made it easy to find nonfunctionality in the case. *Id.* at 1418–19.

²¹⁹ Normally the product definition problem is not difficult for word marks, as there are usually many different brands and the court has evidence distinguishing brand from product type. However, sometimes the problem can be tricky. For example, in *A.J. Canfield Co. v. Honickman*, 808 F.2d 291 (3d Cir. 1986), the plaintiff was the first to market a diet soda with a chocolate fudge flavor and used the mark “Diet Chocolate Fudge Soda.” The new soda attracted a lot of media attention and became ex-

generic for a type of product and that protecting it on a trademark theory will give the plaintiff too large a monopoly by foreclosing competition throughout an entire product class.²²⁰

Aside from these relatively rare cases, however, courts seldom bother to define the product before making the functionality determination. Instead, they seem to rely on intuition and make rough judgments, mostly implicit, about the appropriate level of generality at which to define the product. This practice is striking since even specific trade dress can be closely tied to the product itself if the product is defined at a sufficiently low level of generality. As we saw above, the chair design is functional if the product is an Eames chair, and the diamond ring shape is functional if the product is a diamond-ring shaped lollipop.

Courts that employ such an intuitive approach generally end up choosing a very general or broad definition of the product or article.²²¹ For example, in the actual case that inspired the lollipop example, the court defined the product as “a lollipop” and therefore concluded that the plaintiff’s diamond ring design could be pro-

tremely popular. *Id.* at 293. The defendant then sold a chocolate fudge soda and used “Diet Chocolate Fudge” on the label. *Id.* at 294. To decide whether “Diet Chocolate Fudge” was generic (or simply descriptive) the court had to determine first whether chocolate fudge soda was its own separate product class or just another diet soda. *Id.* at 299. The problem was that the plaintiff was the only seller of chocolate fudge soda for a long period of time, so there was no evidence of different brands. *Id.* at 303. The *Canfield* court analyzed the problem from first principles and concluded that the plaintiff’s product was its own distinct product class, chocolate fudge soda, and that its mark was generic. *Id.* at 303–08.

²²⁰ See, e.g., *Antioch Co. v. W. Trimming Corp.*, 347 F.3d 150, 159–60 (6th Cir. 2003) (holding that the plaintiff cannot use trade dress law to monopolize a type of scrapbook album); *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 631–32 (6th Cir. 2002) (noting that trade dress law cannot be used to protect a general marketing approach or theme); *Jeffrey Milstein, Inc. v. Gregor, Lawlor, Roth, Inc.*, 58 F.3d 27, 33–34 (2d Cir. 1995) (denying trade dress protection to a die-cut design for greeting cards because it was merely an idea or concept that defined a general type of greeting card); *Kaufman & Fisher Wish Co. v. F.A.O. Schwarz*, 184 F. Supp. 2d 311, 320–22 (S.D.N.Y. 2001) (refusing to protect the general features of a doll because those features defined a general category of angelic wishing dolls with a charity tie-in marketing concept); *Häagen-Dazs, Inc. v. Frusen Glädjé, Ltd.*, 493 F. Supp. 73, 75 (S.D.N.Y. 1980) (refusing to protect the plaintiff’s “Scandinavian concept” by enjoining the defendant from using Nordic imagery in marketing its ice cream).

²²¹ See *Topps Co.*, 41 U.S.P.Q.2d at 1418 (noting that “[c]ourts define product lines rather broadly for purposes of determining functionality”).

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tected without creating market power.²²² The court reasoned that competitors could compete effectively by using other lollipop designs.²²³ Similarly, in a case involving trade dress protection for a Superman doll, the court assumed that the product market was “toy dolls” generally (rather than Superman dolls),²²⁴ and in a case involving protection of a novel bike rack design, the court defined the product as “bicycle racks” generally (rather than bicycle racks that use the novel element of a one-piece undulating wire design).²²⁵

The effect of choosing a broad definition of the product or article is to expand the scope of trade dress protection. A broad definition makes it easier for plaintiffs to prove that the particular trade dress features are not “essential” to the use or purpose of the article on the first prong of the *TrafFix Devices* test. For example, the Eames chair design is not essential to the use or purpose of a “chair” as such, because it is not anything that a chair needs in order to function as a chair. Likewise, the diamond ring shape is not essential to the use or purpose of a lollipop because a lollipop does not need to be a particular shape in order to be a lollipop. Furthermore, a broad definition of the product or article also makes it easier for plaintiffs to show that competitors have equally effective alternatives to compete under the second prong of the *TrafFix Devices* test, since the broader the definition, the greater the number of specific embodiments (alternatives) it encompasses.

Hence, given that the effect is the expansion of trade dress protection, the central question is why do courts adopt a broad product definition. One possible answer—one that propertization critics would be quick to embrace—is that judges are quite consciously using trademark law to grant a broad property right in the commercial value of attractive designs, either on a Lockean labor-desert theory or an incentive-based utilitarian theory. This explanation, however, is far too simplistic. The opinions provide very few indications that courts actually consider such policies when

²²² *Id.*

²²³ *Id.*

²²⁴ *In re DC Comics, Inc.*, 689 F.2d 1042, 1045 (C.C.P.A. 1982).

²²⁵ *Brandir Int'l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1148 (2d Cir. 1987).

making the functionality determination.²²⁶ Moreover, for this answer to explain a widespread pattern of broad definitions, most judges would have to be willing to disregard basic policies underlying trademark law. Absent more compelling evidence, it is unreasonable to rely on such an assumption.

A more plausible answer has to do with high enforcement costs. Working out a narrow and more precise definition of the product market would force courts to examine the details of market structure and the relative magnitude of consumer and competitor harms. Doing this would likely generate high enforcement costs and might well turn an ordinary trade dress case into something akin to a complex antitrust case.²²⁷

For example, an important factor to consider in defining the product market is how much power the trademark owner has to raise its price if competitors are prevented from using the same trade dress. One way to measure this factor is to ask how consumers would respond to price increases for the plaintiff's product, and doing this generally involves use of an economic index called cross-elasticity of demand.²²⁸ This is the approach sometimes employed in antitrust monopolization cases, where product market definition is essential to determining how much market power the defendant has.²²⁹ To measure cross-elasticity, one needs a good deal of empiri-

²²⁶ The most frequently cited example is *Keene Corp. v. Paraflex Industries, Inc.*, where the court rejected an expansive aesthetic functionality test in part because it "provides a disincentive for development of imaginative and attractive design." 653 F.2d 822, 825 (3d Cir. 1981). Even in this case, however, the court's reference to the incentive argument was relatively brief and its decision to reject the more expansive test could be justified on the basis of more conventional trademark policies.

²²⁷ But see Anna F. Kingsbury, *Market Definition in Intellectual Property Law: Should Intellectual Property Courts Use an Antitrust Approach to Market Definition?*, 8 Marq. Intell. Prop. L. Rev. 63, 68-70 (2004) (noting that the functionality doctrine requires a determination of the product market and recommending that courts use the antitrust test for this purpose, although without giving sufficient attention to administrative and error costs).

²²⁸ See William M. Landes & Richard A. Posner, *Market Power in Antitrust Cases*, 94 Harv. L. Rev. 937, 939-52 (1981) (using a definition of market power in antitrust cases encompassing a version of the "Lerner Index," which depends on the firm's elasticity of demand).

²²⁹ This is essentially the approach taken in the 1992 United States Department of Justice's and Federal Trade Commission's Horizontal Merger Guidelines, which define a market as "a product or group of products such that a hypothetical profit-maximizing firm that was the only present and future seller of those products likely would impose at least a 'small but significant and nontransitory' increase in price."

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cal information about the market, which is both difficult and costly to obtain.²³⁰

Applying the cross-elasticity measure to the trade dress cases would require a court to engage in the very costly process of predicting how consumers might respond to price increases when competitors offer products with different designs.²³¹ In our Eames lounge chair example, it is quite possible that consumers who purchase an Eames chair are looking for that particular chair, since it is a famous classic design. If so, then protecting the Eames design as trade dress would give the seller power to raise the price of the chairs above the competitive level. How high the seller could raise the price depends on the cross-elasticity of demand; that is, on how strongly consumers are attached to the Eames design and how willing they are to switch to another chair design when the price goes up. If consumers would switch with only a slight increase in price, then protecting the Eames design would give the plaintiff very little monopoly power. But if consumers so strongly prefer the Eames design that they would stick with it even in the face of a substantial price increase, then protecting the design would give the plaintiff substantial market power and generate a large deadweight loss.²³²

U.S. Dep't of Justice & F.T.C., Horizontal Merger Guidelines § 1.11 (1992 rev. 1997), *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,104 (rev. ed. 1997) [hereinafter Horizontal Merger Guidelines]. See generally Phillip Areeda & Louis Kaplow, *Antitrust Analysis: Problems, Text, Cases 569-73* (4th ed. 1988) (using cross-elasticity and consumer substitution to define the product market).

²³⁰ See Landes & Posner, *supra* note 228, at 943 (describing the administrative difficulties courts are likely to have estimating elasticity of demand). The Horizontal Merger Guidelines identify four factors relevant to defining the market under its so-called "SSNIP" test, and each of these factors is highly fact dependent and requires a good deal of empirical information. Horizontal Merger Guidelines, *supra* note 229, § 1.11.

²³¹ See Keith N. Hylton, *Antitrust Law: Economic Theory and Common Law Evolution* 231 (2003) (observing that "it should come as no surprise that parties spend vast sums of money in litigation in efforts to get the Court to accept their definition of the relevant market" in antitrust cases); Robert G. Harris & Thomas M. Jorde, *Antitrust Market Definition: An Integrated Approach*, 72 Cal. L. Rev. 1, 5 (1984) (stating that "[b]ecause the measurement of market power depends principally on market share, relevant market definition is critical to determining an antitrust violation, and is therefore litigated with great vigor").

²³² See Hylton, *supra* note 231, at 232-34 (describing this process with an example of canoes and pleasure boats). The same is true for the diamond-ring shaped lollipop. If children strongly prefer the diamond ring shape to other lollipop designs, protecting the diamond ring shape could give the seller a great deal of monopoly power and sup-

In addition, any functionality determination in trademark law must consider the amount of consumer harm that might result if the trade dress is not protected. The purpose of product definition in trademark law is different than the purpose of market definition in antitrust law. In trademark law, product definition is tied to the goal of the functionality doctrine, and that goal is not just to prevent firms from securing market power. The goal of the functionality doctrine is to strike a balance between limiting the acquisition of market power and reducing information-related consumer harms. This means that a functionality analysis should tolerate market power over price when doing so is justified by the information-related consumer harms that trade dress protection avoids.²³³

For example, even if consumers stick with the Eames design when price is increased substantially, a court might still be justified in defining the product or article as a “chair” and protecting the design, if many consumers use the design to guarantee the quality of the materials and stitching. The problem is that measuring the magnitude of consumer harm, like measuring the degree of market power, can be very costly.

The above analysis is rough, of course, but it illustrates what is required to strike the policy balance for functionality. That courts do not engage in this kind of detailed analysis is not surprising. In general, trademark law, as we saw in Section IV.A, focuses on the likelihood of confusion and not the magnitude of resulting harms. More important, determining market harms—harms to consumers and harms to competitors—is complicated and costly. It is understandable that judges would define the product in an intuitive way, and given the difficulty of choosing a more specific definition, opt for a more general characterization consistent with linguistic convention and customary patterns of classifying items in ordinary

port substantial increases in price above the competitive level. But see *Topps Co. v. Gerrit J. Verburg Co.*, 41 U.S.P.Q.2d 1412, 1419 (S.D.N.Y. 1996) (noting the defendant’s admission that its diamond-ring shaped lollipop competes with plaintiff’s quite different “Push-Pop” design).

²³³ Cf. *A. J. Canfield Co. v. Honickman*, 808 F.2d 291, 303 n.18 (3d Cir. 1986) (refusing to adopt a cross-elasticity test to define the product class for determining whether a mark is generic, because cross-elasticity might not be “suited to the subtleties of the trademark context”).

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conversation.²³⁴ This approach might produce some undesirable trade dress decisions that confer more monopoly power than is justified by the consumer harm avoided, but such is the inevitable result of coping with high enforcement costs.²³⁵

CONCLUSION

Too often, we focus on substance and forget about procedure. When considering the optimal design of substantive rules, it is customary to take enforcement for granted and simply assume that whatever rules are chosen will be enforced without great difficulty. Reality is quite different. Enforcement is costly, and courts make mistakes. The central insight is a simple but critical one: procedure matters to how substance should be shaped, and in particular, enforcement costs are directly relevant to the design of substantive rules.

Trademark law already reflects this insight. The rules courts have developed both at the core and in the areas of expansion re-

²³⁴ For example, most people would include an Eames chair in the general category of "chair," and it would be unusual for someone to refer to an Eames chair as a completely separate thing distinct from that general class. Of course, although it would clash with normal usage, it still would be easy for a judge to define the product in the narrowest possible way, as the particular item with the specific design in question. But then trade dress would always define its own market with the result that it would always be legally functional and never protectible.

²³⁵ The lollipop case might well be an example of such a bad decision, although it is hard to tell without more information about the cross-elasticity of demand for the diamond-ring shaped lollipop. If children primarily want the diamond ring shape, and if the concealed attributes of lollipops (such as the taste and the lasting power) do not vary significantly among competing sellers, there is little chance that children will not get what they want when they buy a competitor's lollipop. There might, however, be long-term harm to consumers if the original firm invested less in its lollipop shape as a source identifier, knowing that others might be able to appropriate it. Nevertheless, since most of what the lollipop offers consumers is the visible shape, there is less need for a source identifier to communicate information about hidden qualities. Moreover, the firm is likely to promote the shape in any event for its consumption value, since it is the shape that sells the lollipop. Therefore, if consumer harm is not likely to be terribly serious, then the court should tolerate very little market power. As a result, the court should define the product market at a relatively low level of generality where the plaintiff has very little power to raise price. Unless children treat many other lollipop designs as near perfect substitutes for the diamond-ring shaped design, the product should be defined as diamond-ring shaped designs or perhaps jewel-ring shaped designs and the number of alternatives evaluated accordingly. In the actual case, of course, the judge did not follow this approach. See *supra* note 218 and accompanying text.

flect enforcement cost concerns. Indeed, the main goal of this Article has been to show that initially puzzling features of trademark law are much less puzzling when enforcement costs are considered.

This conclusion has two important implications. First, some of the contemporary criticism of trademark law is misplaced. Before accusing judges of ignoring trademark policies and in effect allowing actions for misappropriation under the guise of trademark, one should first see how much enforcement cost constraints can explain. Some of the criticisms have merit, but it is important to understand which do and which do not.

The second implication has to do with reform. If enforcement cost constraints are responsible for some of the problematic applications of trademark law, it is not enough simply to demand that judges pay closer attention to trademark policies. Instead, reforms must take account of enforcement problems.

For example, one reform worth considering involves limiting relief in the merchandising rights cases to disclaimer remedies.²³⁶ Today courts rarely accept disclaimers as a defense to trademark infringement and often order defendants to stop using the mark altogether rather than simply disclaim any affiliation or connection with the plaintiff.²³⁷ Yet an enforcement cost analysis points to substantial advantages from using a disclaimer approach in merchan-

²³⁶ For an overview of the merchandising rights cases, see *supra* notes 157–60 and accompanying text. The analysis in the text assumes that judges should treat merchandising rights cases as genuine trademark suits and not as disguised misappropriation cases aimed at granting exclusive rights in licensing markets (such as the licensing market for Red Sox caps and other paraphernalia). This assumption is warranted. Any decision to grant exclusive rights in licensing markets should not be made by judges twisting trademark law to serve purposes it was never meant to serve. Rather, it should be made by Congress, which is much better suited to analyze the social costs and benefits and tailor the scope of protection accordingly.

²³⁷ Courts in general are reluctant to allow defendants to escape liability by using disclaimers that deny any connection with the plaintiff, even if the disclaimer is in writing and placed in a conspicuous spot. See, e.g., *Home Box Office, Inc. v. Showtime/The Movie Channel Inc.*, 832 F.2d 1311, 1315–16 (2d Cir. 1987) (placing a “heavy burden” on the defendant to show that its disclaimers “significantly reduce the likelihood of consumer confusion”); Vincent N. Palladino, *Disclaimers Before and After HBO v. Showtime*, 82 Trademark Rep. 203, 220–22 (1992) (explaining that courts are loathe to draft and order a disclaimer without a hearing on its efficacy, and defendants have not succeeded very often in convincing a court to approve a disclaimer in lieu of an outright injunction against use).

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dising cases.²³⁸ A disclaimer remedy can prevent both consumer confusion and the acquisition of monopoly power by official licensees. The use of disclaimers reduces the risk of false positives compared to enjoining the use altogether, and it is not likely to increase the risk of false negatives by much given that the disclaimer alerts those consumers who care about owning officially authorized merchandise. Once consumers become accustomed to looking for disclaimers, they will know how to tell whether the merchandise is officially authorized, and those consumers who simply want the item with the logo regardless of source will benefit from lower prices and greater selection. Also, by standardizing the acceptable form of disclaimer, administrative costs can be reduced as well.²³⁹

Another possible reform would eliminate all trade dress protection, or at least all trade dress protection for product design.²⁴⁰ We

²³⁸ For trademark cases involving ordinary word marks, the additional administrative costs of determining a disclaimer's effectiveness could easily exceed the error cost benefits that the use of disclaimers in lieu of outright injunctions might generate. As we have seen, the social cost of mistakenly enjoining the defendant's use is relatively small in word mark cases, especially when the mark is a fanciful, arbitrary, or suggestive word. On the other hand, the social cost of mistakenly failing to enjoin a confusing use could be quite high. Therefore, a cautious approach to disclaimers might be justified in these cases. The enforcement cost analysis, however, comes out differently when consumer harm from confusion is slight and the cost of enjoining the defendant's use substantial, as is likely to be the case in merchandising rights cases.

²³⁹ A standardized form along the lines of "unofficial merchandise not licensed, authorized or approved by [fill in the blank]" should be sufficient in this situation and would avoid the administrative costs of tailoring the disclaimer to the facts of each case. In addition, merchandising rights cases are quite easy to identify, so classifying a case in this category should not be a costly matter.

²⁴⁰ The reader might wonder why courts concerned at least partly about enforcement costs would ever have protected trade dress in the first place if I am correct that trade dress protection should be abolished. Of course, the discussion in Section IV.B did not purport to explain the origins of trade dress protection; its purpose was to provide an enforcement cost explanation for some of the broader applications. One reason courts might have adopted trade dress protection at the beginning is that they did not anticipate all the enforcement cost problems. After all, the early trade dress cases mostly involved product packaging, and as we saw above, the protection of product packaging does not create as serious an enforcement cost problem as the protection of trade dress involving product design. Therefore, I feel more confident about proposing the abolition of product design trade dress than I do proposing the abolition of all trade dress. But the broader proposal should be considered as well, especially as the two categories are not always easy to distinguish. One final point: Given the extensive precedent supporting trade dress protection and the recent congressional endorsement in amendments to the Lanham Act, any abolition of trade dress protection

saw that because courts are unable to evaluate harms efficiently and effectively in specific situations, they define product markets broadly, and as a result tend to give excessively broad protection to trade dress. Elimination of trade dress protection would dispose of these errors and ensure that trademark law does not intrude into the realms of patent, copyright, and antitrust.²⁴¹ Further, it would eliminate the administrative costs associated with determining secondary meaning, functionality, and the like. It is true that the proposal would increase the risk of false negative error in the form of erroneous denials of protection for trade dress that consumers actually use to identify source. Nevertheless, consumers faced with competing products with similar trade dress should eventually learn to rely on other symbols, such as word marks, for source identification, and sellers who can no longer obtain exclusivity in trade dress are likely to encourage consumers to make the switch.²⁴²

These proposals are merely suggestions intended to illustrate how a policy analysis that includes enforcement costs can guide sensible reform. A serious treatment would require a much more extensive analysis than is possible here. Whatever the merits of

would almost certainly have to be (and in any event probably should be) done by Congress rather than the courts.

²⁴¹ The disclaimer approach is not as effective for trade dress as for the merchandising rights cases. In a merchandising rights case, the defendant's goal is to duplicate a well-known mark or logo, so the defendant is always aware of the plaintiff's identity and would know to affix a disclaimer. In trade dress cases, on the other hand, a firm can adopt similar trade dress innocently, without knowing of the plaintiff's prior use and thus without the information necessary to add a disclaimer. Furthermore, it is not clear to me that the benefits of a disclaimer remedy are worth the costs of enforcement in the trade dress cases, including the cost of litigating secondary meaning, priority, and other issues relevant to determining exclusive rights, and the costs of adjudicating the occasional challenge to the placement or content of a disclaimer.

²⁴² The moral arguments for protecting trade dress are weak. Here one must distinguish between an intent to deceive and an intent to copy or free ride. Only the former intent has moral significance for trademark law. See *Duraco Prods., Inc. v. Joy Plastic Enters.*, 40 F.3d 1431, 1453 (3d Cir. 1994); *Kaufman & Fisher Wish Co. v. F.A.O. Schwartz*, 184 F. Supp. 2d 311, 319-20 (S.D.N.Y. 2001). Usually the reason a defendant copies trade dress is to compete with the plaintiff by selling a similar product, not to deceive consumers. To be sure, the defendant might be free riding on the investment that the plaintiff made in developing an attractive or useful trade dress. However, free riding by itself is not morally wrongful, and more important, it does not fit the consumer-oriented substantive policies of trademark law. Free riding might adversely affect ex ante incentives to create trade dress (although this is debatable), but those concerns are utilitarian, not moral, and they are for patent and copyright rather than for trademark law.

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these particular proposals, however, this Article will have succeeded if it gets courts and commentators to think harder about administrative and error costs when evaluating current trademark rules and considering reforms. Only with this level of awareness will it be possible to craft a body of doctrine that balances all the relevant policies in a desirable and workable way.