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Trademark's Judicial De-Evolution: Why Courts Get Trademark Cases Wrong Repeatedly

Glynn S. Lunney, Jr.*

ABSTRACT

Trademark law has de-evolved. It has transitioned from an efficient mechanism for ensuring competition into an inefficient regime for capturing economic rents. In this Article, I focus on the role that party self-interest has played in biasing the evolution of trademark law. This self-interest tends to lead parties to (1) challenge efficient legal rules and seek to replace them with inefficient, anticompetitive rules, and (2) accede to inefficient, anticompetitive rules once they are in place. Almost by definition, when a rule of trademark law promotes competition, it reduces the market surplus or rents that current producers capture. As a result, parties will seldom spend resources either to defend an efficient trademark rule or to challenge an inefficient trademark rule in the hope of replacing it with a more efficient rule. Instead, inefficient trademark rules offer a party, usually the trademark owner, the opportunity to capture rents. As a result, at least one party will have a correspondingly strong interest in defending such inefficient trademark rules or, if necessary, challenging efficient trademark rules in the hope of replacing them with inefficient trademark rules.

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The net result has been something of a perfect storm for trademark law. Efficient legal rules are repeatedly challenged until they are replaced with inefficient legal rules, at which point no one challenges them. The entirely predictable result of this process is exactly what scholars have observed: courts have re-written trademark law so that it protects far too much and far too broadly. Rather than ensure competition, it serves to restrict competition and to maximize the profits of trademark owners. Rather than promote consumer welfare, it has become a form of corporate welfare.

We cannot, however, fix the problems with trademark law through substantive trademark doctrine. Substantive reform, even radical substantive reform, would simply provide a new starting point from which inefficient common law evolution would again proceed. To fix the ongoing de-evolution of trademark law, we need to change the process of trademark litigation to ensure, first, that parties have an adequate incentive to defend and fight for efficient legal rules, and second, that courts have the information they need to recognize the efficient legal rule and render judgment accordingly. In this Article, I identify and evaluate several possible mechanisms for solving trademark's ongoing common law de-evolution.

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INTRODUCTION

Once upon a time, trademark law served the interests of consumers. No more. Today, trademark law serves the interests of trademark owners.

Somewhat surprisingly, courts, and not Congress, are to blame for trademark's evolution from efficient market regulator to inefficient rent protector. If we look back at the Trademark Act of 1946, more generally known as the Lanham Act, Congress provided for a narrowly tailored regime of limited protection that promoted competition and enhanced consumer welfare. Yet, since the enactment of the Lanham Act, courts have re-written the statute into a bloated and sometimes-incoherent morass. As a result, trademark law today protects far too much and reaches far too broadly. Rather than ensure competition, it serves instead to restrict competition and to maximize the profits of trademark owners. Rather than promote consumer welfare, it has become a form of corporate welfare.

A number of scholars have decried various doctrinal developments that reflect this trend. These substantive critiques have focused on: (1) the expanding subject matter of trademark law;¹ (2) the expanding scope of the infringement standards and over enforcement of trademark rights;² (3) an

1. For my own previous work on this subject, see Glynn S. Lunney, Jr., *The Trade Dress Emperor's New Clothes: Why Trade Dress Does Not Belong on the Principal Register*, 51 HASTINGS L.J. 1131 (2000) [hereinafter Lunney, *The Trade Dress Emperor*] (explaining the mistakes in law and policy that led to the recognition of trade dress protection under the Lanham Trademark Act). For works by other authors, see, for example Peter J. Karol, *Affixing the Service Mark: Reconsidering the Rise of an Oxymoron*, 31 CARDOZO ARTS & ENT. L.J. 357 (2013) (observing that much of recent trademark expansionism can be tied to lax service-mark requirements, and criticizing brand-owner abuse of the service mark registration regime); Alexandra J. Roberts, *How to Do Things with Word Marks: A Speech-Act Theory of Distinctiveness*, 65 ALA. L. REV. 1035 (2014) (arguing that trademark law overprotects descriptive terms).

2. For my own previous work on this subject, see Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367 (1999) [hereinafter Lunney, *Trademark Monopolies*] (analyzing the shift from deception-based trademark protection to property-based trademark protection). For works by other authors, see, for example, Mark Bartholomew, *Trademark Morality*, 55 WM. & MARY. L. REV. 85, 157 (2013) (arguing that "by expansively defining probative intent, judges protect established brands at the expense of young upstarts. By and large, the judicial focus on intent helps only trademark plaintiffs."); Stacey L. Dogan & Mark A. Lemley, *The Trademark Use Requirement in Dilution Cases*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 541 (2008) (arguing that dilution theories are so broad that other doctrines—like the use in commerce requirement—need to function as bulwarks that cabin overbroad claims); Michael Handler, *What Can Harm the Reputation of a Trademark? A Critical Re-evaluation of Dilution by Tarnishment*, 106 TRADEMARK REP. 639 (2016) (criticizing tarnishment theories of dilution as overbroad and empirically unlikely to track actual harm to brands); Mary LaFrance, *No Reason to Live: Dilution Laws as Unconstitutional Restrictions on Commercial Speech*, 58 S.C. L. REV. 709 (2007) (arguing that dilution laws are unconstitutional limitations on speech because dilution is not limited to speech that is false or misleading); Mark A. Lemley & Mark P. McKenna, *Scope*, 57 WM. & MARY L. REV. 2197, 2209 n.30 (2016) (collecting examples of overbroad trademark enforcement); Mark A. Lemley & Mark P. McKenna, *Owning Mark(ets)*, 109

undue weakening of the limitations on trademark protection and the prerequisites to obtain protection;³ and (4) a general disconnect between sensible trademark policy and actual trademark doctrine.⁴ Despite the wide range of these critical perspectives, none as yet have explored why judicial law-making has gone so badly wrong in trademark law. Of course, in any human system, occasional mistakes will happen. Yet, the mistakes in trademark cases have not been isolated: they have been consistent, even systematic. Bad decisions tend to stick. Good decisions don't. Instead, good decisions tend to be either distinguished and rewritten until they are meaningless, or extended to different facts and become bad decisions.⁵ The question is, why? Why have

MICH. L. REV. 137, 137 (2010) (arguing that trademark owners empirically enforce marks against uses even when "neither mark owners nor consumers suffer any injury from that use"); Jeremy N. Sheff, *Veblen Brands*, 96 MINN. L. REV. 769 (2012) (criticizing post-sale theories of confusion endorsed by the lower federal courts); Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEX. L. REV. 507, 507 (2008) ("[T]he cognitive theory of dilution . . . does not rest on sufficient empirical evidence to justify its adoption."); Alfred C. Yen, *The Constructive Role of Confusion in Trademark*, 93 N.C. L. REV. 77 (2014) (arguing that consumer confusion should not be categorically treated as harmful because certain amounts or types of confusion may be socially and economically valuable).

3. See, e.g., Dan L. Burk, *Cybermarks*, 94 MINN. L. REV. 1375 (2010) (criticizing trademark protection for functional uses of marks, such as searching and indexing); Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1670 (2007) (arguing that undue expansion of the concept of trademark use in the sale of key word advertisements on the Internet improperly expands the scope of trademark infringement by converting parties who, at best, might be secondarily liable to direct infringers); Jake Linford, *Are Trademarks Ever Fanciful?*, 105 GEO. L.J. 731 (2017) (criticizing the notion of fanciful trademarks by noting that trademark holders rely on sound symbolism); Lunney, *Trademark Monopolies*, *supra* note 2, at 385–88; Roberts, *supra* note 1 (arguing that trademark law overprotects descriptive terms); Vanessa P. Rollins, *Trademark Fair Use: Braun® Versus the Bunny*, 13 MARQ. INTELL. PROP. L. REV. 285 (2009) (arguing that trademark law employs unduly narrow approaches to fair use).

4. See, e.g., Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 777 (2004) ("[C]ourts have stretched trademark doctrine . . . based . . . not on the normative goals of trademark law, but on unexplored instincts and tenuous presumptions about consumer expectations and practices."); Mary LaFrance, *Steam Shovels and Lipstick: Trademarks, Greed, and the Public Domain*, 6 NEV. L.J. 447 (2006) (exploring anticompetitive consequences of the Federal Trademark Dilution Act); Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687 (1999) (arguing that courts produce economically inefficient results by treating trademarks as real property); Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L.J. 1717 (1999) (arguing that trademark doctrine has become disconnected from its economic and normative justifications); Lunney, *Trademark Monopolies*, *supra* note 2, at 421–39 (showing that existing trademark doctrine generates market power and associated welfare losses without any offsetting welfare gains); Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 VA. L. REV. 67 (2012) (arguing that expansive trademark protection does not protect consumers and suggesting how trademark scope should be redefined to protect consumers); P. Sean Morris, *Trademarks as Sources of Market Power: Drugs, Beers and Product Differentiation*, 35 J.L. & COM. 163 (2017) (examining empirical examples of market foreclosure and entry barriers to argue that trademark law causes anticompetitive results).

5. For example, in trade dress protection, the United States Patent and Trademark Office first allowed the registration of trade dress on the principal register in 1958. The trade dress at issue was the truly unusual shape of the Haig & Haig pinch whiskey bottle. See *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) 229 (Comm'r Pat. 1958). Twenty-four years later, the Court of Customs and Patent

courts repeatedly expanded trademark protection in ways that any reasonable, objective evaluation would show is undesirable?

As it turns out, at least part of the answer is deceptively simple: courts are captives of their own process, and that process is party driven. Faced with a given legal rule, parties decide whether to comply or violate the rule; they decide whether to litigate or settle any resulting dispute; and they decide what arguments and theories to advance and then provide the information the court uses to resolve the dispute. Parties thus set the judicial agenda, and they control the information available for judicial decision-making. Perhaps most importantly, in doing all of this, parties act in their own self-interest. To the extent that parties are rational and self-interested, they will not care whether an existing legal rule is efficient or inefficient, nor will they care about the costs or benefits that an existing legal rule imposes on others. They will care only about how the existing legal rule affects them.

The party-driven nature of the judicial process introduces, among other issues, three potential biases into the evolution of legal rules: (1) selection bias; (2) activity bias; and (3) framing bias.⁶ First, a selection bias arises because the parties' incentives lead them to bring the wrong cases to court for judicial resolution. In order to maximize their profits, trademark owners repeatedly bring litigation challenging efficient or defending inefficient interpretations of trademark law. At the same time, that same self-interest will often influence potential parties not to challenge inefficient or defend efficient interpretations of trademark law. Second, even before litigation begins, activity bias arises in markets as parties decide which legal rules to challenge and with which to comply. Once again, parties' potential self-interests lead them to act in ways that will lead to litigation challenging efficient interpretations of trademark law, but not inefficient ones. Third, framing bias arises because the standing rules of trademark law frame the dispute as one between two competitors. The standing rules thus implicitly frame the question for the court as: Who, as

Appeals approved the registration of the far more ordinary and everyday shape of the Glass Plus bottle. See *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1343–44 (C.C.P.A. 1982).

6. See *infra* Part III.A. As this Article will discuss, law and economics scholars, beginning with Paul Rubin, have focused on the role that party self-interest plays in shaping the evolution of common law rules. See Paul H. Rubin, *Why is the Common Law Efficient?*, 6 J. LEGAL STUD. 51 (1977); see also *infra* notes 197–217 and accompanying text. Initially, they thought that this self-interest, acting like the invisible hand of the market, would lead the common law to evolve toward efficient legal rules, but they eventually concluded that such efficient evolution would happen in only rare and special circumstances. See, e.g., Robert Cooter & Lewis Kornhauser, *Can Litigation Improve the Law Without the Help of Judges?*, 9 J. LEGAL STUD. 139, 145 (1980) (showing that—rather than applying generally—the common law process leads to efficient legal rules only in the exceptional circumstance where every rule but the best rule is challenged); Steven Shavell, *The Fundamental Divergence Between the Private and the Social Motive to Use the Legal System*, 26 J. LEGAL STUD. 575, 577–79 (1997) (discussing misalignments between private and social incentives in litigation). This Article extends that analysis and is the first to apply it to the evolution of trademark law as a case study.

between these two competitors, should prevail? Yet the real question in trademark litigation should be: How do I rule so that consumers prevail?

Both selection bias and activity bias arise in the evolution of trademark law because trademark litigation often entails asymmetric stakes. In trademark litigation, courts have, at least traditionally, rarely awarded damages.⁷ Instead, courts have traditionally awarded the successful trademark plaintiff injunctive relief that orders a defendant to stop using the infringing mark. As a result, the stakes in trademark litigation are usually whether the defendant may continue a given course of conduct or must cease. This choice between allowing and prohibiting the use of the mark and the corresponding choice between a narrower and broader interpretation of trademark protection represents a decision between encouraging and discouraging competition—or in some cases, between competition and monopoly. Given a choice between more competition and less, the optimal legal rule is almost always the legal rule that leads to more competition. As a general matter, competition leads to lower prices, greater consumer choice, and a more efficient allocation of available resources.⁸ More competition is therefore almost always better than less.⁹

Unfortunately, while increased competition is great for consumers, it does not usually generate much in the way of economic rents for sellers. In fact, increased competition tends to reduce, even eliminate, the combined rents or producer surplus available to competitors in the market. While increased competition can sharply increase consumer surplus, consumers do not have standing under federal trademark law. Only commercial market participants (i.e. sellers) do. As a result, if trademark law is or becomes inefficiently

7. See, e.g., *Fishman Transducers, Inc. v. Paul*, 684 F.3d 187, 194 (1st Cir. 2012) (noting that “damages awards turn out to be comparatively rare in trademark cases primarily, it appears, because of the difficulty of proving them.”) (citing Michael J. Freno, *Trademark Valuation: Preserving Brand Equity*, 97 TRADEMARK REP. 1055, 1062–63 (2007)). The two exceptions to this general rule are (1) reverse confusion, and (2) counterfeiting cases.

8. See FRANK H. KNIGHT, *RISK, UNCERTAINTY AND PROFIT* 85–86 (1921) (noting that perfect competition produces the optimal allocation of available resources and thereby maximizes social welfare); see also F.M. SCHERER, *INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE* 12–19 (Edward Jaffe et al. eds., 2d ed. 1970) (same); GEORGE J. STIGLER, *THE THEORY OF PRICE* 38 (1942) (same); Francis M. Bator, *The Simple Analytics of Welfare Maximization*, 47 AM. ECON. REV. 22 (1957) (same); Arnold Plant, *The Economic Aspects of Copyright in Books*, 1 ECONOMICA 167, 170 (1934) (“The output which monopoly alone can evoke is not normally regarded as preferable to the alternative products which free competition would allow to emerge.”).

9. I recognize the limitations that Lipsey and Lancaster’s work on second-best theory places on this statement. See R.G. Lipsey & Kelvin Lancaster, *The General Theory of Second Best*, 22 REV. ECON. STUD. 11, 13 (1956) (proving that once the conditions of perfect competition are not satisfied in one market, it becomes impossible to say whether social welfare will increase or decrease by making another market more competitive). In this particular context, however, I believe that increasing competition in consumer markets is welfare-enhancing for the usual reasons—specifically lower prices and greater consumer choice. But if second-best theory makes an overall welfare claim impossible, this Article’s analysis remains important and relevant as a positive description of the process. I will also freely confess, as between trademark owners and consumers, a distributive preference for consumers.

anticompetitive, challenging the law is socially desirable, but unlikely. Moreover, unlike the legislature, federal courts may not simply reach out and rule on whatever injustices they perceive in our society. Rather, under Article III, they must wait for parties to bring disputes before them.

Unfortunately, the expected returns for a trademark defendant challenging an inefficient, anticompetitive trademark rule usually do not justify the expense of such a challenge. Although prevailing in litigation would enable a trademark defendant to remain in or enter a market—and to thereby capture whatever profit, rent, or surplus it can—prevailing in litigation also enables other competitors to do likewise. Moreover, these other competitors can enter the market without bearing the cost of litigation.¹⁰ Because prices in reasonably competitive markets are a function of marginal cost, even a prevailing trademark defendant will find it difficult to recoup its litigation expenses by raising its prices. If it tried to do so, other competitors, who did not bear the cost of litigation, will undercut its prices and take its sales.¹¹ Similarly, because the market is competitive, any given competitor will not usually earn sufficient rents directly to cover the costs of litigation. As a result, a self-interested trademark defendant will seldom find it worthwhile to spend the resources necessary to challenge an inefficient interpretation of trademark law. Rather than bear the cost of litigation, most would-be defendants modify their behavior to comply with the law, even if it is inefficient. Or if sued, they tend

10. Non-mutual collateral estoppel would allow a similarly situated defendant to assert the prior ruling to bar the trademark plaintiff from asserting a claim it had previously lost against a different defendant. *See* *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (recognizing non-mutual collateral estoppel in patent litigation and holding that a patentee is estopped from asserting a patent against a defendant after a court has found the patent invalid in litigation involving another defendant).

11. Patent law confronts a similar free rider problem for defendants challenging the validity of questionable patents. Challenging such patents is a public good, but may not be in the self-interest of any given defendant. If a defendant successfully invalidates a patent or enters a market by establishing non-infringement, other competitors can follow the path the defendant paid to blaze. Prices will fall and consumer surplus will rise sharply. However, the successful defendant will capture relatively little of the resulting welfare gain. While the process is similar in trademark, there is a fundamental difference. The existing literature focuses on inadequate incentives to challenge a particular patent. This Article shows that a similar process creates inadequate incentives to challenge inefficient interpretations of trademark law, rather than a particular trademark, though that may also be true. There is extensive literature on the inadequacy of the incentive to challenge questionable patents, particularly in the pharmaceutical patent and reverse payment settlement context. *See* FED. TRADE COMM'N, *PAY-FOR-DELAY: HOW DRUG COMPANY PAYOFFS COST CONSUMERS BILLIONS* 8 (2010); Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 *BERKELEY TECH. L.J.* 943 (2004); Glynn S. Lunney, Jr., *FTC v. Actavis: The Patent-Antitrust Intersection Revisited*, 93 *N.C. L. REV.* 375, 387–88 (2015) [hereinafter Lunney, *FTC v. Actavis*]; John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 *U. ILL. L. REV.* 305, 333–34 (2001) [hereinafter Thomas, *Patent Bounties*]; *see also* Gideon Parchomovsky & Alex Stein, *Intellectual Property Defenses*, 113 *COLUM. L. REV.* 1483 (2013) (recognizing that this problem may apply to intellectual property cases more generally).

to settle. The net result of this selection process is exactly what we have observed in trademark law: bad decisions tend to stick.

Efficient and pro-competitive interpretations of trademark law will, on the other hand, face repeated challenges. Almost by definition, successfully challenging an efficient interpretation of trademark law will lead to less competition. It may do so directly, by prohibiting a would-be competitor from entering a market altogether. Or it may do so indirectly, by increasing a competitor's costs or the degree of product differentiation in the market. Where increased competition reduces economic rents, decreased competition increases them. For a trademark plaintiff, the prospect of capturing those increased rents provides a powerful incentive to challenge an efficient interpretation of trademark law if they believe they have a chance to persuade a court to re-interpret trademark law in a way that reduces competition. As a result, even if a court gets it right in a given case and adopts an efficient, pro-competitive interpretation of trademark law, we should expect self-interested trademark plaintiffs to repeatedly challenge the resulting legal rule. Given heterogeneity in the *a priori* beliefs of judges as to the merits of various legal rules, such repeated challenges will, sooner or later, find a sympathetic judicial ear. When they do, the original pro-competitive interpretation of trademark law will become less so, as later decisions limit and distinguish it. The inevitable result of this process is, again, exactly what we have observed: good decisions don't last.

The net result has been a perfect storm for trademark law: in the face of an efficient legal rule, self-interested trademark plaintiffs litigate until the rule becomes inefficient. At which point, self-interested trademark defendants largely accede to it. In trademark law, the party-driven nature of litigation thus brings exactly the wrong cases to court. Parties, by and large, choose to litigate cases that seek to move trademark law towards a set of legal rules that are both inefficient and anticompetitive, maximizing trademark owners' profits at the expense of the broader public interest.¹²

Unfortunately, courts, as captives of their process, are not likely to recognize and consistently reject the inefficient legal interpretations trademark plaintiffs repeatedly advance. The same asymmetric stakes that bring the wrong cases to court also make judicial mistakes on trademark issues more likely. Because of the asymmetric stakes, trademark owners will have more to spend on litigation. With their greater resources, trademark owners can hire better lawyers, retain more-persuasive experts, and gather evidence more extensively. Just as courts do not have perfect information on the efficient legal rule, they also do not have perfect information as to the facts of any given case. Inside the courtroom, asymmetric resources are likely to skew courts' and juries' views of

12. Cf. Marc Galanter, *Why the "Haves" Come Out Ahead: Speculations on the Limits of Legal Change*, 9 L. & SOC'Y REV. 95, 97-102 (1974) (explaining how well-to-do parties prevail in litigating content of legal rules).

the truth. Outside the courtroom, these asymmetric resources support a whole ecosystem of lawyers and trade groups, dedicated to establishing the propositions not only that trademark owners deserve these rents, but that interpreting the law in a manner that ensures trademark owners can capture more of these rents is good for the economy and society as a whole. The resulting praise for expanding trademark law and criticism of any narrowing, again, make it difficult for courts to recognize and correct their mistakes.

The asymmetric stakes and resulting selection bias that bring the wrong cases for judicial resolution also skew the nature of the cases and defendants that courts will see. An average defendant will seldom bother litigating a case that falls near trademark's traditional or existing prohibitions. Instead, they will litigate only those cases where they feel that they have a very high chance of winning—cases where the plaintiff is advancing some novel theory or otherwise stretching trademark's traditional reach. For that reason, most cases that are litigated will be outliers. Courts will not, however, readily recognize them as such. Because they have limited information, courts will tend to look at the set of litigated cases to define what constitutes a “normal” or typical trademark dispute. But if all litigated cases are outliers, using the set of litigated cases to define “normal” will prove misleading. A given trademark plaintiff's claim will not seem outrageous compared to other litigated claims if only outrageous claims are litigated.

At the same time, the same asymmetric stakes also create a second potential bias: activity bias. Once a court has held that certain conduct constitutes trademark infringement, that initial ruling will change the associated market in ways that tend to reinforce the appearance that the court's initial ruling was correct. Mainstream manufacturers and retailers will avoid the conduct at issue and leave the field to more opportunistic and thinly capitalized entities.¹³ The quality of would-be defendants' goods will fall. As the risk of a finding of trademark infringement rises, so too does the risk that goods will be

13. In the field of sports merchandising, when the issue of selling unauthorized t-shirts bearing a team's emblem first arose in the 1970s, we see defendants such as Champion Products—a well-known, mainstream sportswear manufacturer. *See Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040, 1047 (3d Cir. 1982). After the courts expanded trademark law to prohibit such unauthorized merchandise, Champion Products and other mainstream manufacturers and retailers acted in their self-interest and acceded to the rule. As a result, when the issue arose thirty years later, the defendant was Smack Apparel—a thinly capitalized, opportunistic retailer, rather than a well-known, mainstream sportswear manufacturer. *See Bd. of Supervisors v. Smack Apparel Co.*, 550 F.3d 465, 477–78 (5th Cir. 2008), *cert. denied*, 556 U.S. 1268 (2009). Smack Apparel was willing to risk its capital on the uncertain, or perhaps not so uncertain, borders of the merchandising prohibition for the same reason drug dealers and bootleggers were: the illegality, or perhaps questionable legality, of the behavior limited competition and ensured a high profit margin. In the trademark world, counterfeiting is profitable precisely because trademark law prohibits it. Paradoxically, counterfeiting—if done successfully—becomes more profitable as trademark prohibitions on counterfeiting are more stringently enforced. *See infra* notes 256–260 (providing further discussion of the *Smack Apparel* case).

seized as a remedy.¹⁴ As the risk of seizure rises, a party's willingness to invest capital in, and hence ensure the quality of, the associated goods will fall. As a result, the risk that consumers will be tricked into buying lower quality goods becomes a self-fulfilling prophecy. Moreover, if we have two legal rules, one of which is repeatedly challenged, while the other is left unchallenged, there is a natural and human tendency to believe that there must be some underlying problem with the first rule, but not the second. Unfortunately, that very natural tendency is exactly wrong in the trademark context. Rather than reflect the efficiency or desirability of the underlying rule, it simply reflects the parties' asymmetric stakes. Thus, instead of helping courts recognize their mistakes, the asymmetric stakes will lead parties in the marketplace to respond in ways that tend to reinforce a court's initially mistaken ruling.

In addition to the previously recognized problems of selection and activity bias, a third potential source of bias for judicial law-making generally is the framing bias that arises from resolving issues in the context of litigation. Through standing rules, litigation frames a dispute as a conflict between the interests of the plaintiff and the defendant. The litigation frame implicitly suggests that the role of the court is to decide, as between the plaintiff and the defendant, where justice lies. But focusing exclusively on fairness, justice, or equity as between the parties directly before the court can lead a court badly astray—because litigants may not properly represent the interests of other potential parties and the public. That is why hard facts make bad law.

In the trademark context, viewing the dispute as a conflict between the interests of the plaintiff and the defendant is particularly pernicious. Such a framing omits entirely what is usually the most important interest, that of consumers. The stakes in trademark law are not just asymmetric, but misleadingly so. The self-interest of the plaintiff and the defendant fails to encompass the substantial welfare gains that increased competition brings to consumers. The asymmetric stakes for the parties thus fail to reflect the true and full welfare implications of a trademark rule for society generally. Because of standing rules, consumers are not a party before the court; they have no opportunity to present evidence showing how the court's ruling will affect their welfare. The trademark plaintiff and defendant, on the other hand, are parties before the court and do have the opportunity to present evidence on how the court's ruling will affect them. It is only natural for a court to focus on the parties before it. While both parties can argue and present evidence attempting to show that their position would also improve consumer welfare, courts justifiably greet such evidence with skepticism, as it comes second-hand from a self-interested party. The litigation frame thus encourages a court to view a

14. 15 U.S.C. § 1116(d) (2008) (providing "seizure of goods" as a remedy for use of a counterfeit mark).

trademark dispute as a dispute solely between the parties and to ignore or downplay the consumer interest.

Since the work of Kahneman and Tversky,¹⁵ we know that how we frame an issue will influence how we resolve the issue. In trademark disputes, we can usually frame the question to be answered in two ways. First, we can frame the question as whether the plaintiff or the defendant better deserves to capture producer surplus associated with a market or a demand that the plaintiff has created.¹⁶ Second, we can frame the question as whether consumers would be better off if the plaintiff or the defendant prevailed. The standing rules of trademark litigation implicitly suggest that the first frame is the correct one. But from a social welfare or utilitarian perspective the second framing of the question is correct. Unfortunately, while some courts have been able to look beyond a defendant's seeming opportunism and recognize that the second frame is the correct one,¹⁷ most have not. Seeing the dispute as simply a question of who gets to collect surplus that the trademark plaintiff's efforts have created, courts are too quick to rule in favor of trademark plaintiffs. The frame that trademark litigation creates has thus contributed to trademark law's de-evolution.

This is not to say that trademark's evolution has been entirely one-sided. While the general trend of trademark law has been towards decidedly broader protection, that trend has not been universal. Courts have sometimes narrowed the availability or scope of trademark protection by creating specific defenses or limitations on protection. These cases and their associated doctrinal developments serve as an important reminder that although trademark plaintiffs usually have more at stake in trademark litigation, that is not always true. In some cases, a particular defendant, because of their market position, the nature

15. See Daniel Kahneman & Amos Tversky, *Prospect Theory: An Analysis of Decision Under Risk*, 47 *ECONOMETRICA* 263 (1979).

16. For an example of a court making this frame explicit, consider the Third Circuit's explanation for allowing the University of Pittsburgh to enforce merchandising rights despite forty years of non-enforcement:

It is, however, equally beyond question that, while the market for imprinted soft goods, in the sense of their physical availability to the public and the public's corresponding knowledge of that availability, exists as a result of Champion's efforts, the ultimate demand for the product is a direct result of the efforts of Pitt to make its name widely known through athletic and educational accomplishments. With negligible exception, a consumer does not desire a "Champion" T-shirt, he (or she) desires a "Pitt" T-shirt. The entire impetus for the sale is the consumer's desire to identify with Pitt or, perhaps more realistically, with Pitt's successful athletic programs. From this point of view, then, it is Champion which seeks to profit from Pitt's investment, particularly in its athletic program. This formulation of the issue reflects a growing and unsettled aspect of the law of unfair competition both at common law and under the Lanham Act.

Univ. of Pittsburgh v. Champion Prods. Inc., 686 F.2d 1040, 1047 (3d Cir. 1982).

17. See *Smith v. Chanel, Inc.*, 402 F.2d 562, 568 (9th Cir. 1968) (noting that "[d]isapproval of the copyist's opportunism may be an understandable first reaction, '[b]ut this initial response to the problem has been curbed in deference to the greater public good.' *American Safety Table Co. v. Schreiber*, 269 F.2d at 272.").

of their industry, or other circumstances, has both: (1) a stake in the specific litigation at issue, and (2) a broader economic interest tied to the conduct at issue in the litigation. In at least some of these cases, the plaintiff's stake is far more limited, encompassing only the specific use at issue. In such cases, we should expect the trademark defendant not only to fight, but to fight harder than the opposing trademark plaintiff. Just as we expect trademark law to evolve in favor of trademark plaintiffs generally because plaintiffs usually have more to gain from winning, the evolutionary perspective suggests that, in those exceptional cases where a given trademark defendant has more to gain, we should expect trademark law to develop in ways that favor that defendant and others similarly situated. Again, this is what we observe.

Unfortunately, cases where a trademark defendant has more to gain have proven to be the exception, rather than the rule. As a result, these cases have not been enough to turn trademark law's expansive, evolutionary tide. Moreover, rather than serve to limit the expansion of trademark protection generally, courts have tended to use these exceptional cases as a basis for creating specialized doctrines or defenses that narrow trademark protection only for a particular use or a specific class of defendants. The resulting increase in trademark law's complexity has sharply increased the costs and risks of trademark litigation. As a result, trademark law is becoming an increasingly two-tiered system. For those that can afford litigation, trademark law produces reasonably sensible, albeit expensive, results; but for those that cannot afford trademark litigation, trademark law has become something else entirely. It has become a mockery of justice that bars entities both from enforcing their own trademark rights and from defending themselves against bullies.

The net result of these evolutionary pressures is that trademark law has become both inefficient and unduly complex. Simply put, the expanded forms of trademark protection we have today create market power with no redeeming pro-competitive benefits. Against this generally overbroad protection, courts have created a range of narrow, complex, and idiosyncratic defenses that insulate only particular uses by particular users in particular situations.

Unfortunately, fixing trademark law will require more than mere correction of substantive trademark doctrine. The judicial decisions that have systematically expanded trademark protection in ways that maximize trademark owners' rents while reducing consumer welfare are not accidents; they are the inevitable result of a common law evolutionary process that is biased in favor of trademark plaintiffs. Absent some fundamental change in the process of trademark litigation or common law development, even if we could adopt a "perfect" trademark regime, it would not last. It would simply provide a new starting point, similar to the 1946 Lanham Trademark Act, from which inefficient common law development of trademark doctrine would proceed. More fundamental structural change is therefore required.

To explore these issues, Part I begins with a review of the judicial expansion of trademark protection over the last century, exploring how courts have sacrificed both efficiency and consumer welfare to increase the profits of trademark owners.¹⁸ Part II, then, examines that process and looks at how cases are selected for litigation. Through this examination, it identifies the ways in which the different incentive structures facing trademark plaintiffs and trademark defendants are likely to bias trademark's common law evolution. Part III explores possible solutions to the structural defects in the trademark litigation process.

My key point, though, is simple. Addressing the problems that have developed with trademark law requires not only changes to specific substantive trademark doctrine, but also changes to the structure and process of trademark litigation. Such structural reform must ensure: first, that more of the right cases are selected for judicial resolution, so that inefficient legal rules tend to be challenged, while efficient legal rules are not; and second, that courts do a better job of resolving correctly the cases before them. Only through such structural reform can we ensure that whatever substantive doctrinal revisions we make to trademark law will endure. If we do not make such structural changes, then these evolutionary pressures will continue to influence the development of trademark law. As bad as trademark law is today, in terms of inefficiency and undue complexity, left unchecked, these evolutionary pressures will lead to a trademark law of tomorrow that is far, far worse. With these thoughts in mind, we now turn to the story of trademark's evolution.

I.

TRADEMARK LAW'S EVOLUTION: FROM CONSUMER WELFARE TO CORPORATE WELFARE

Although the Court has suggested that Congress, in enacting the Trademark Act of 1946, "significantly changed and liberalized the common law,"¹⁹ that is untrue. With only two or perhaps three limited exceptions,²⁰ Congress retained the traditional scope and limitations of the common law. Congress did not adopt the radically expanded trademark protection we suffer from today. The judiciary did. Before and after the Trademark Act's enactment in 1946, courts radically expanded the subject matter and scope of trademark protection by systematically overturning Congress's carefully considered

18. In noting these doctrinal changes, I am not suggesting that courts have intentionally sacrificed consumer welfare for corporate welfare. To the contrary, I am fairly certain that courts would advance consumer welfare if they knew how. But courts are captives of their own process.

19. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 171 (1995).

20. The two innovations found in the Trademark Act were: (1) Congress allowed descriptive words that had become distinctive (in the trademark sense) to be registered as trademarks, *see id.*; and (2) Congress created the incontestability defense, limiting the grounds on which an incontestably registered trademark could be challenged. A third possible innovation is the recognition of service marks.

judgment on the proper scope and limits of trademark protection. We now turn to two of the more egregious examples of trademark law's judicial de-evolution.

A. Judicial Expansion of Trademark Protection: A Tale of Two Examples

1. Expanding the Infringement Standard

Our first tale concerns the judicial expansion of trademark's infringement standard. It begins with the standard that Congress adopted in the Trademark Acts of 1881 and 1905. In both of those Acts, Congress defined the scope of trademark protection using identical language:

Any person who shall, *reproduce, counterfeit, copy, or colorably imitate* any trade-mark registered under this act and affix the same to *merchandise of substantially the same descriptive properties* as those described in the registration, shall be liable to an action on the case for damages for the wrongful use of said trade-mark²¹

As set forth, the language contained two important and express limitations on the scope of trademark protection. First, it limited protection to instances where a defendant had “reproduce[d], counterfeit[ed], cop[ied], or colorably imitate[d]” a registered mark.²² In practice, this limited protection to a defendant's use of either the same or a nearly identical mark. Second, it further limited protection to those instances where a defendant used the same mark on “merchandise of substantially the same descriptive properties.”²³ In practice, this limited protection to a defendant's use of the same types of goods. These statutes thus expressly required a would-be trademark plaintiff to satisfy the so-called double identity test—by showing that a defendant used the same mark on the same goods.²⁴

Under this standard, the use of the same mark on a different product did not constitute trademark infringement. For example, in 1912, Borden's Condensed Milk, which had long used Borden as the brand name for its condensed milk, sued another company that began using the name “Borden's” for ice cream.²⁵ Although the district court granted relief, the Seventh Circuit reversed and rejected the claim.²⁶ The court held that because milk and ice

21. Act of Mar. 3, 1881, ch. 138, 21 Stat. 502, 503–04 (emphasis added); Trademark Act of 1905, ch. 592, 33 Stat. 724, 728.

22. Act of Mar. 3, 1881, ch. 138, 21 Stat. 502, 503–04; Trademark Act of 1905, ch. 592, 33 Stat. 724, 728 (containing the same “reproduce, counterfeit, copy, or colorably imitate” language).

23. Act of Mar. 3, 1881, ch. 138, 21 Stat. 502, 503–04; Trademark Act of 1905, ch. 592, 33 Stat. 724, 728 (containing the same “merchandise of substantially the same descriptive properties” language).

24. For a modern application of the double-identity test, see Rebecca Tushnet, *Registering Disagreement: Registration in Modern American Trademark Law*, 130 HARV. L. REV. 867, 932–34 (2017).

25. *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, 201 F. 510 (7th Cir. 1912).

26. *Id.* at 515.

cream were not competing products, there could be no unfair competition.²⁷ Recognizing that ice cream and milk did not share the “same descriptive properties,” the plaintiff nevertheless argued that it should be entitled to relief for two reasons.²⁸ First, it intended to enter the ice cream market.²⁹ The court rejected this argument, insisting that the law “deals with acts and not intentions.”³⁰ Because the defendant actually began selling ice cream under the Borden’s name first, the defendant held the rights to that name for ice cream.³¹ The plaintiff’s intent to enter that market was simply irrelevant.³² Second, the plaintiffs argued that it was selling its condensed milk to ice cream manufacturers, and that could lead ice cream dealers to mistakenly believe that the plaintiff had made the defendant’s product.³³ The court also rejected this argument, holding that the specter of confusion was simply too “speculative and remote” to justify relief.³⁴

Just five years later, however, the Second Circuit reached the opposite conclusion on similar facts in *Aunt Jemima Mills Co. v. Rigney & Co.*³⁵ In that case, the plaintiff had used the name “Aunt Jemima’s” for self-rising flour for years, when the defendant began using “Aunt Jemima’s” for syrup.³⁶ Because the two goods did not have “the same descriptive properties,” the district court dismissed the complaint.³⁷ On appeal, the Second Circuit reversed.³⁸ Although the court acknowledged the traditional limits of trademark law, it nonetheless felt that the two products were sufficiently related that consumers were likely to believe that the plaintiff had made the defendant’s product.³⁹ It therefore granted relief and enjoined the defendant’s use.⁴⁰ As the court explained:

It is said that even a technical trade-mark may be appropriated by any one in any market for goods not in competition with those of the prior user. This was the view of the court below in saying that no one wanting syrup could possibly be made to take flour. But we think that goods, though different, may be so related as to fall within the mischief which equity should prevent. Syrup and flour are both food products, and food products commonly used together. Obviously the public, or a large part of it, seeing this trade-mark on a syrup, would

27. *Id.* at 514.

28. *Id.*

29. *Id.* at 514–15.

30. *Id.* at 515 (quoting *George v. Smith*, 52 F. 830, 832 (C.C.S.D.N.Y. 1892)).

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. 247 F. 407 (2d Cir. 1917).

36. *Id.* at 412.

37. *Aunt Jemima Mills Co. v. Rigney & Co.*, 234 F. 804, 805 (E.D.N.Y. 1916), *rev'd*, 247 F. 407 (2d Cir. 1917).

38. *Aunt Jemima Mills Co.*, 247 F. at 409–10.

39. *Id.*

40. *Id.* at 412.

conclude that it was made by the complainant.⁴¹

Although the case law proceeded in fits and starts, sometimes embracing the *Aunt Jemima* approach, and sometimes the traditional “same descriptive properties” approach,⁴² gradually the courts began to embrace the broader *Aunt Jemima* approach. Although plainly inconsistent with the statutory language of the Trademark Act of 1905, this did not appear to trouble courts much. Eventually, they simply held that Congress had intended to adopt the related goods test when it used the “same descriptive properties” language in the 1905 Act.⁴³

Although the Second Circuit in *Aunt Jemima* expanded trademark’s infringement standard to encompass use of the same mark on related goods, this expansion nevertheless retained trademark’s traditional focus on confusion as to source. As the *Aunt Jemima* court itself found, syrup and self-rising flour were sufficiently related that “the public, or a large part of it, . . . would conclude that [the defendant’s product] was made by the complainant.”⁴⁴

Just seven years after *Aunt Jemima*, however, the Sixth Circuit expanded the infringement standard further yet, and abandoned confusion as to source as a requirement for finding trademark infringement.⁴⁵ In *Vogue Co. v. Thompson-Hudson Co.*, the plaintiff had long used the name “Vogue”—along with a mark depicting a woman and a capital letter “V,” known as the “V-Girl”—for its fashion magazine.⁴⁶ When the defendant thereafter adopted a strikingly similar V-Girl for its hats, the plaintiff sued, alleging trademark

41. *Id.* at 409–10.

42. The Supreme Court confronted the question whether trademark protection extended beyond goods with the same descriptive qualities in *Beech-Nut Co. v. Lorillard. Co.*, 273 U. S. 629 (1927). The Court found it unnecessary to resolve the issue: “It may be true that in a case like the plaintiff’s its rights would not be sufficiently protected by an injunction against using the marks upon goods of the same class as those to which the plaintiff now applies it and to which its registration is confined. Upon that we express no opinion.” *Id.* at 632.

43. As Judge Learned Hand explained:

There remains the question of registration, the goods not being of the ‘same descriptive properties’ in the colloquial sense. It would plainly be a fatuity to decree the registration of a mark whose use another could at once prevent. The act cannot mean that, being drafted with an eye to the common law in such matters. While we own that it does some violence to the language, it seems to us that the phrase should be taken as no more than a recognition that there may be enough disparity in character between the goods of the first and second users as to insure against confusion. That will indeed depend much upon trade conditions, but these are always the heart of the matter in this subject. It is quite true that in *Rosenberg v. Elliott* (C. C. A.) 7 F.(2d) 962, the court felt bound to find that caps and suits had the same descriptive properties, quite independently of the confusion which had arisen. We cannot say that that is the case here, for the fact that flash-lights and locks are made of metal does not appear to us to give them the same descriptive properties, except as the trade has so classed them. But we regard what the trade thinks as the critical consideration, and we think the statute meant to make it the test, despite the language used.

Yale Elec. Corp. v. Robertson, 26 F.2d 972, 974 (2d Cir. 1928) (L. Hand, J.) (citation omitted).

44. *Aunt Jemima Mills Co.*, 247 F. at 410.

45. *Vogue Co. v. Thompson-Hudson Co.*, 300 F. 509 (6th Cir. 1924).

46. *Id.* at 509–10.

infringement.⁴⁷ The district court dismissed the complaint on the grounds that no reasonable consumer would believe that Vogue magazine had begun manufacturing the defendant's hats.⁴⁸ Although the Sixth Circuit agreed that such confusion as to source was unlikely, it nonetheless reversed.⁴⁹ In the Sixth Circuit's view, the defendant's use would likely lead consumers to believe that the plaintiff had sponsored or endorsed the defendant's hats.⁵⁰ It held that such sponsorship confusion was sufficient to sustain the cause of action.⁵¹

As the court explained:

Plaintiff's magazine is so far an arbiter of style, and the use of plaintiff's trade-mark upon defendants' hats so far indicates that the hats were at least sponsored and approved by the plaintiff, that the same considerations which make the misrepresentation so valuable to defendants make it pregnant with peril to plaintiff.⁵²

As the twentieth century wore on, courts continued to expand the infringement standard. In 1955, the Second Circuit expanded the infringement standard to encompass confusion arising post sale among onlookers, rather than at the time of purchase by the purchaser.⁵³ In 1968, a federal district court expanded the infringement standard to encompass confusion as to affiliation or association, a much broader and more ambiguous standard than confusion as to source or endorsement.⁵⁴ In 1975, the Second Circuit expanded the infringement standard to encompass initial interest confusion—confusion that

47. *Id.* at 510.

48. As the Sixth Circuit explained:

The District Court thought that, so far as the case counted on unfair competition, it must be dismissed, because there was no competition between the publishing of the magazine and the manufacture of hats, and that, so far as it counted on trade-mark infringement, it failed, because magazines and hats are not articles 'of the same descriptive qualities.'

Id.

49. *Id.* at 512.

50. *Id.* at 511.

51. *Id.* at 512.

52. *Id.*

53. *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-LeCoultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955); *see also Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1245 (6th Cir. 1991) (holding that cars which were intended to mimic the appearance of Ferraris infringed upon Ferrari's trade dress in its cars even though purchasers were not confused); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492 (S.D. Fla. 1986) (holding that sale of low-priced imitation Rolexes constituted trademark infringement even though purchasers were not confused).

54. *Carling Brewing Co. v. Philip Morris Inc.*, 297 F. Supp. 1330, 1337–38 (N.D. Ga. 1968). In an attempt to justify the expansion, the court explained:

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

Id. at 1337.

initially attracts the attention of consumers to the defendant's goods, even though it is dispelled before any actual purchase.⁵⁵ In the same year, the Fifth Circuit expanded the infringement standard to create a merchandising right for professional and, by extension, amateur sport teams.⁵⁶ It did so by holding that use of a sports team's logo on merchandise, or as merchandise, inevitably led consumers to believe that the team had sponsored or approved the use.⁵⁷ In 1977, the Tenth Circuit expanded the infringement standard to encompass reverse confusion—confusion where, rather than mistakenly believing that the plaintiff made the defendant's goods, consumers mistakenly believe that the defendant made the plaintiff's goods.⁵⁸

Congress, for its part, did not take the lead in expanding trademark protection. On the only two occasions when Congress appeared to expand the infringement standard,⁵⁹ it merely adopted statutory language that recognized what courts had already done.⁶⁰ Thus, in the 1946 Act itself, Congress replaced

55. Grotian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons, 523 F.2d 1331, 1341–42 (2d Cir. 1975).

56. Bos. Prof'l Hockey Ass'n v. Dall. Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1012 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975); *see also* Warner Bros., Inc. v. Gay Toys, Inc., 658 F.2d 76, 79 (2d Cir. 1981) (recognizing a similar merchandising right for popular television shows).

57. As the court explained:

The confusion or deceit requirement is met by the fact that the defendant duplicated the protected trademarks and sold them to the public knowing that the public would identify them as being the teams' trademarks. The certain knowledge of the buyer that the source and origin of the trademark symbols were in plaintiffs satisfies the requirement of the act.

See Bos. Prof'l Hockey Ass'n, 510 F.2d at 1012. In a later decision, the Fifth Circuit insisted that this language, despite what it says, did not do away with the confusion requirement:

Boston Hockey also reiterated our unbroken insistence on a showing of confusion, and we believe that our opinion must be read in that context. Under the circumstances there—involving sales to the consuming public of products bearing trademarks universally associated with Boston Hockey—the fact that the buyers knew the *symbols* originated with Boston Hockey supported the inescapable inference that many would believe that the *product itself* originated with or was somehow endorsed by Boston Hockey.

Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 389 (5th Cir. 1977).

58. Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co., 561 F.2d 1365, 1371–72 (10th Cir. 1977) (applying Colorado law). Applying Indiana law, the Seventh Circuit had rejected the reverse confusion theory just nine years before. *Westward Coach Mfg. Co. v. Ford Motor Co.*, 388 F.2d 627, 633–34 (7th Cir. 1968), *cert. denied*, 392 U.S. 927 (1968).

59. On a third occasion, Congress amended the infringement standard through a 1962 Housekeeping Amendment to the Lanham Act. Some courts have cited this action as an excuse for their own expansions of the trademark infringement standard. *See, e.g.*, Ferrari S.P.A. v. Roberts, 944 F.2d 1235, 1244 (6th Cir. 1991) (relying on the “1967” [sic] Amendment as evidence that Congress intended public confusion generally to be actionable); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492 (S.D. Fla. 1986) (relying on the 1962 Amendment as evidence that confusion of public, and not just purchasers or prospective purchasers, was actionable); *Rolls-Royce Motors Ltd. v. A & A Fiberglass, Inc.*, 428 F. Supp. 689, 694 n.10 (N.D. Ga. 1976) (justifying its finding of infringement, in part, based on differences between how the Lanham Act was “originally drafted” and how it had been amended). But as discussed, Congress did not intend this amendment to expand the infringement standard in the ways courts have interpreted. *See Lunney, Trademark Monopolies*, *supra* note 2, at 469–75.

60. Some may argue that Congress broadened the infringement standard through two other statutory amendments: (1) the 1962 Housekeeping Amendments to the Lanham Act; and (2) the

the “same descriptive properties” language of the 1881 and 1905 Trademark Acts with language adopting *Aunt Jemima*’s likelihood of confusion as to source approach.⁶¹ And in 1988, Congress amended section 43(a) to encompass confusion as to affiliation or sponsorship.⁶² But in these amendments, Congress simply acceded to parts of the broader infringement standard that courts had created.

In short, trademark’s infringement standard expanded substantially over the course of the twentieth century, and the judiciary is responsible for that expansion.

2. *Expanding Trademark Subject Matter: The Rise of Trade Dress Protection*

Our second tale concerns the administrative and judicial expansion of the subject matter eligible for protection as a trademark, and in particular, the rise of so-called “trade dress” protection. Today, the phrase “trade dress” refers to those aspects of a product’s packaging or its configuration, shape, or design that consumers use to identify the product’s source.⁶³ In form, a trade dress claim looks and sounds like a trademark claim: by imitating distinctive packaging or product features, competitors can trick consumers into buying their products mistakenly believing they are getting the original. In substance, however, a trade dress claim is usually an attempt to bar the imitation of a new and popular product outright. It seeks to bar not only unfair competition, but competition generally.

Because trade dress protection poses inherently greater risks to competition,⁶⁴ before the 1946 Trademark Act, trademark protection was available only for words, emblems, or symbols affixed to products.⁶⁵ The shape

Federal Trademark Dilution Act of 1995. I have explained why both arguments are wrong in another article. See Lunney, *Trademark Monopolies*, *supra* note 2, at 408–10, 469–78.

61. Trademark Act of 1946, ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. § 1114(1)(a) (2012)). Although the relevant statutory language is routinely ignored today, Congress retained the language imposing the first identity requirement, *i.e.* that the defendant’s mark be nearly identical, in the 1946 Act. Compare Act of Mar. 3, 1881, ch. 138, 21 Stat. 502, 503 (“Any person who shall reproduce, counterfeit, copy, or colorably imitate any trade-mark registered under this act . . .”), with Act of July 5, 1946, ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. § 1114(1)(a) (2012)) (“Any person who shall, without the consent of the registrant—(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark . . .”).

62. See Trademark Law Revision Act of 1988, Pub. L. No. 100-667, § 132, 102 Stat. 3946 (codified as amended at 15 U.S.C. § 1125(a) (1994)).

63. As the Court recognized in *Two Pesos, Inc. v. Taco Cabana, Inc.*, where distinctive trade dress includes a product’s “total image and overall appearance” “and may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.” 505 U.S. 763, 764 n.1 (1992) (quoting *Taco Cabana v. Two Pesos*, 932 F.2d 1113, 1118 (5th Cir. 1991) and *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983)).

64. See, *e.g.*, Lunney, *The Trade Dress Emperor*, *supra* note 1, at 1162–75.

65. Today, this is often referred to as the “technical” trademark limitation. See *id.* at 1140–41.

or configuration of a product could not qualify as a trademark; at best, imitation of the configuration of a product or its packaging could give rise to a claim for unfair competition.⁶⁶ This was an important distinction. While both claims focus on whether a defendant's actions are likely to trick or deceive consumers as to the source of the goods they are buying, for a trademark claim, both secondary meaning and a likelihood of confusion can be inferred from the similarity of the marks alone.⁶⁷ In contrast, for unfair competition, the deception had to be shown.⁶⁸ It was not enough to show that a defendant had imitated a popular product.⁶⁹ Proving unfair competition required something

66. See, e.g., *Coats v. Merrick Thread Co.*, 149 U.S. 562, 572 (1893) (determining that, without a patent, the similar product was “the common property of all mankind” while still considering whether there was unfair competition); *Lucien Lelong, Inc. v. Lenel, Inc.*, 181 F.2d 3, 4–5 (5th Cir. 1950) (“It is elementary that a color or container cannot be a trade-mark. . . . [T]here can be no trade-mark in a package, the shape of a bottle, or a letter of the alphabet.”); *Société Anonyme de la Distillerie de la Liqueur Benedictine de L’Abbaye de Fecamp v. Puziello*, 250 F. 928, 928 (E.D.N.Y. 1918) (granting relief for imitation of packaging under the theory of unfair competition and noting that “[t]he statute of February 20, 1905, allowing the registration of a trade-mark in use for more than 10 years, does not alter the fundamental proposition, that a trade-mark is a design or mark rather than a container or package.”); *Phila. Novelty Mfg. Co. v. Rouss*, 40 F. 585, 587 (C.C.S.D.N.Y. 1889) (“[I]n ordinary circumstances, the adoption of packages of peculiar form and color alone, unaccompanied by any distinguishing symbol, letter, sign, or seal, is not sufficient to constitute a trade-mark.”); *Adams v. Heisel*, 31 F. 279, 280 (C.C.E.D. Ohio 1887) (“It is well settled that a person cannot obtain the monopoly incident to a trade-mark by the mere form of a vendable commodity that may be adopted.”); WILLIAM HENRY BROWNE, A TREATISE ON THE LAW OF TRADEMARKS AND ANALOGOUS SUBJECTS § 89c at 109 (2d ed. 1885) (noting that “[t]here are decisions which, at the first glance, seem to hold that the *mere form* of the vendible article may constitute a technical trade-mark. Careful analyses cannot fail to induce the conclusion, that the principles of unfair competition, rather than those appertaining to trade-marks, were the bases of judgment.”); JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION §§ 53, 54, 57 (4th ed. 1924).

67. See, e.g., *Md. Stadium Auth. v. Becker*, 806 F. Supp. 1236, 1241 (inferring both secondary meaning and a likelihood of confusion from the defendant's intentional copying of a word mark, “Camden Yards”), *aff'd*, 36 F.3d 1093 (4th Cir. 1994).

68. See *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 269–70 (7th Cir. 1943) (stating that “[t]he essence of unfair competition is fraud. And like fraud, it is never presumed, and its existence must be established by a clear preponderance of the evidence.”) (citations omitted).

69. *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 120 (1938) (noting that “a particular manufacturer can no more assert exclusive rights in a form . . . which, in the minds of the public, is primarily associated with the article rather than a particular producer, than it can in the case of a name with similar connections in the public mind.”); *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) (stating that “[t]he petitioner or anyone else is at liberty under the law to manufacture and market an exactly similar preparation . . . [b]ut the imitator of another's goods must sell them as his own production.”); *Feathercombs, Inc. v. Solo Prods. Corp.*, 306 F.2d 251, 257 (2d Cir. 1962), *cert. denied*, 371 U.S. 910 (1962); *Modern Aids, Inc. v. R.H. Macy & Co.*, 264 F.2d 93, 94 (2d Cir. 1959) (per curiam) (noting that “[e]ven [where a plaintiff is entitled to relief against an imitator for unfair competition], however, the relief would go no further than to require the defendant to make plain to buyers that the plaintiff was not the source of the machines sold by it”); *Paramount Indus., Inc. v. Solar Prods. Corp.*, 186 F.2d 999, 1001–02 (2d Cir. 1951); *Elizabeth Arden, Inc. v. Frances Denney, Inc.*, 99 F.2d 272, 273 (3d Cir. 1938) (per curiam); *Vogue Ring Creations, Inc. v. Hardman*, 410 F. Supp. 609, 613 (D.R.I. 1976) (stating that “[i]t is well established that copying another's article is not, standing alone, unfair competition. It must be shown that the defendant so confusingly presented his product through packaging, labeling or otherwise as to lead purchasers to believe that they were

more.⁷⁰ Moreover, even where deception was shown, relief was usually limited to a requirement of proper labeling.⁷¹

While unfair competition law thus provided some protection against imitation of a product's design or packaging, that protection was difficult to obtain. Even when obtained, the remedy was sharply limited. In *William R. Warner & Co. v. Eli Lilly & Co.*, for example, the plaintiff brought suit against the defendant when the defendant copied the plaintiff's popular product.⁷² The plaintiff's product, known as Coco-Quinine, was a mixture of chocolate and quinine, and was sold as a medicinal or pharmaceutical compound.⁷³ The defendant's product was a similar chocolate and quinine mixture known as Quin-Coco.⁷⁴ Soon after the defendant began selling its compound, the plaintiff

buying the plaintiff's article."); *Remco Indus., Inc. v. Toyomenka, Inc.*, 286 F. Supp. 948, 952, 955 (S.D.N.Y. 1968); *Key West Hand Print Fabrics, Inc. v. Serbin, Inc.*, 244 F. Supp. 287, 292 (S.D. Fla. 1965). For other differences, see generally Milton Handler & Charles Pickett, *Trade Marks and Trade Names—An Analysis and Synthesis: I*, 30 COLUM. L. REV. 168 (1930) (describing greater requirements, and narrower scope of protection, for trade names under the doctrine of unfair competition as compared to protection of trademarks).

70. See *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917) (noting that so long as defendant was careful to identify goods as its own, the defendant was fully entitled to "copy the plaintiff's goods slavishly down to the minutest detail"); see also *Warner & Co.*, 265 U.S. at 532 (allowing competitor to use chocolate as flavoring for quinine mixture but requiring proper labeling to identify defendant's product as its own); *West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 586, 589, 595 (6th Cir. 1955) ("The identical imitation of the goods of another does not in itself constitute unfair competition."); *Gum, Inc. v. Gumakers of Am., Inc.*, 136 F.2d 957, 960 (3d Cir. 1943) (copying of cylinder-shaped bubble gum not actionable as unfair competition where defendant's product labeled as its own); *Zangerle & Peterson Co. v. Venice Furniture Novelty Mfg. Co.*, 133 F.2d 266, 269 (7th Cir. 1943) ("Copying a design not patentable is not unfair competition."); *Sinko v. Snow-Craggs Corp.*, 105 F.2d 450, 452 (7th Cir. 1939) (finding imitation of the plaintiff's product not actionable); *Remington-Rand, Inc. v. Mastercraft Corp.*, 67 F.2d 218, 220 (6th Cir. 1933) (similarity in appearance in defendant's products not actionable); *Meccano, Ltd. v. Wanamaker*, 250 F. 450, 452–53 (2d Cir. 1918) (defendant not liable for unfair competition as long as it properly labels its similar products as its own), *aff'd*, 253 U.S. 136 (1920); *John H. Rice & Co. v. Redlich Mfg. Co.*, 202 F. 155, 158–60 (3d Cir. 1913) (similarity in product's design and appearance alone not actionable as unfair competition); *Marvel Co. v. Pearl*, 133 F. 160, 161 (2d Cir. 1904) (noting that "[u]nfair competition is not established by proof of similarity in form, dimensions, or general appearance alone."); *Globe-Wernicke Co. v. Fred Macey Co.*, 119 F. 696, 704 (6th Cir. 1902).

71. See, e.g., *Bose Corp. v. Linear Design Labs., Inc.*, 467 F.2d 304, 309–10 (2d Cir. 1972) (finding no unfair competition despite similarity between original and imitator because defendant had plainly labeled its product as its own); *Modern Aids, Inc. v. R.H. Macy & Co., Inc.*, 264 F.2d 93, 94 (2d Cir. 1959) (per curiam) (noting that even if plaintiff can show consumer deception as a result of defendant's imitation, relief is limited to the requirement of proper labeling); *West Point Mfg. Co. v. Detroit Stamping Co.*, 222 F.2d 581, 588, 589 (6th Cir. 1955); *J.C. Penney Co. v. H.D. Lee Mercantile Co.*, 120 F.2d 949, 955–56 (8th Cir. 1941) (ruling that "[l]abeling is the usual and accepted method of distinguishing the goods of one manufacturer from those of another in the market" and limiting relief to requirement of proper labeling and accuracy in statements made concerning defendant's products).

72. 265 U.S. 526, 528 (1924).

73. *Id.*

74. *Id.* at 528–29.

sued, alleging, *inter alia*,⁷⁵ unfair competition due to the similarities between the products.⁷⁶ The trial court rejected the claim, but the Third Circuit reversed and held that the defendant should be unconditionally enjoined from using chocolate in its product.⁷⁷ The Supreme Court disagreed, however.⁷⁸ In its view, the wrong was not in imitating the plaintiff's product.⁷⁹ Rather, the wrong was in suggesting to pharmacists "that, without danger of detection, prescriptions and orders for Coco-Quinine could be filled by substituting Quin-Coco."⁸⁰ It was this deceptive passing-off, not the mere imitation of a popular product, that made the defendant's competition unfair.⁸¹ Despite finding for the plaintiff, the Court limited relief to a requirement that the defendant label its product in a manner that clearly distinguished it from Coco-Quinine and that affirmatively stated it was not to be substituted for Coco-Quinine when a prescription called for, or a customer asked for, Coco-Quinine.⁸²

As the *William R. Warner & Co.* decision reflects, the protection available to a plaintiff against product imitation under the rubric of unfair competition was sharply limited. In enacting the Trademark Act of 1946, Congress retained this traditionally limited scope. In the Act, Congress expressly barred the registration of trade dress on the principal register, as well as its protection under section 43(a). To do so, Congress in 1943 expressly amended the bill that would become the Trademark Act of 1946. At the behest of the Department of Justice, Congress amended the bill to limit the subject matter of "trademarks" and "service marks" eligible for registration on the principal register and for protection under section 43(a) to "any word, name, symbol, or device, or any combination thereof."⁸³ Now, readers who are familiar with only the last thirty years of trademark decisions may point out that Justice Breyer, in *Qualitex*, interpreted the words "symbol or device" in the Act to encompass "anything at all that is capable of carrying meaning."⁸⁴ Unfortunately, the Court's interpretation is not just wrong, but exactly the opposite of what Congress

75. The plaintiff also alleged trademark infringement due to the similarities in the parties' names for their respective products. The Court rejected the claim on the grounds that a descriptive name could not serve as a trademark. *Id.* at 529.

76. *Id.*

77. *Id.* at 533.

78. *Id.*

79. *Id.*

80. *Id.* at 530.

81. *Id.*

82. *Id.* at 532–33.

83. Trademark Act of 1946, ch. 540, 60 Stat. 427, (codified as amended at 15 U.S.C. § 1127 (2016)) ("The term 'trademark' includes any word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others . . ."). For a more detailed discussion of these issues, please see Lunney, *The Trade Dress Emperor*, *supra* note 1, at 1148–50.

84. *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 162 (1995) ("Since human beings might use as a 'symbol' or 'device' almost anything at all that is capable of carrying meaning, this language, read literally, is not restrictive.").

intended. The Court took language that Congress specifically intended to limit the scope of trademark subject matter, by defining that subject matter in terms of historically recognized categories, and interpreted that language to broaden the scope of trademark subject matter.

In giving the phrase “symbol or device” a broad interpretation, the *Qualitex* Court violated virtually every major canon of statutory construction. First, the Court interpreted the Act as if the 1943 narrowing amendment had not occurred.⁸⁵ Second, the Court gave the words “symbol or device” their broad ordinary meaning, rather than the narrower meaning that they carried as terms of art within trademark law.⁸⁶ Third, the Court’s broad interpretation made the other words in the statutory definition, “word” and “name,” redundant.⁸⁷ Fourth, even though Congress used different words to define the subject matter for the principal register and the supplemental register, the Court’s broad interpretation essentially rewrote the Act to define the “trademarks” and “service marks” that are eligible for registration on the principal register as broadly as the “marks” that are eligible for registration only on the supplemental register.⁸⁸ Fifth, the Court also ignored the relevant

85. *Compare Trade-marks: Hearings before a Subcomm. of the Comm. on Patents on H.R. 82*, 78th Cong. 14 (1944) (“The term ‘trade-mark’ includes any word, name, symbol or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.”), and Trademark Act of 1946, ch. 540, 60 Stat. 427 (“The term ‘trademark’ includes any word, name, symbol, or device, or any combination thereof . . . used by a person . . . to identify and distinguish his or her goods . . . from those manufactured or sold by others . . .”), with H.R. 4744, 76th Cong. § 46 (1939), reprinted in *Trade-marks: Hearings on H. 4744 Before the Subcomm. on Trademarks of the House Comm. on Patents*, 76th Cong. 172 (1939), at 9, 172 (“The term ‘trade-mark’ includes any mark which is entitled to registration under the terms of this Act and whether registered or not.”). See, e.g., *I.N.S. v. Cardoza-Fonseca*, 480 U.S. 421, 442–43 (1987) (noting that “[f]ew principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded in favor of other language.”) (quoting *Nachman Corp. v. Pension Benefit Guaranty Corp.*, 446 U.S. 359, 392–93 (1980) (Stewart, J., dissenting)); see also *Stone v. I.N.S.*, 514 U.S. 386, 397 (1995) (“When Congress acts to amend a statute, we presume it intends its amendment to have real and substantial effect.”).

86. See *McDermott Int’l, Inc. v. Wilander*, 498 U.S. 337, 342 (1991); *Morissette v. United States*, 342 U.S. 246, 263 (1952) (stating that “where Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken . . .”); *Woods v. Lawrence Cty.*, 66 U.S. 386, 399 (1861) (noting that “terms of art are to be understood in their technical sense when used in a statute”).

87. See, e.g., *Ratzlaf v. United States*, 510 U.S. 135, 140–41 (1994) (noting that courts must construe statutes to give effect, if possible, to every provision); *Market Co. v. Hoffman*, 101 U.S. 112, 115 (1879) (stating that “[i]t is a cardinal rule of statutory construction that significance and effect shall, if possible, be accorded to every word”).

88. See, e.g., *Keene Corp. v. United States*, 508 U.S. 200, 208 (1993); *Cardoza-Fonseca*, 480 U.S. at 432 (1987) (“[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.”) (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)).

legislative history wherein Congress explained that it was adopting the amendment specifically to bar trade dress protection.⁸⁹

Of course, the *Qualitex* decision was not the first judicial mistake on the trade dress issue. Rather, it was the culmination of a forty-year succession of errors. Almost as soon as the ink was dry on the Trademark Act, would-be trade dress owners began petitioning the Patent and Trademark Office (“PTO”) and the judiciary to overturn Congress’s carefully considered decision to relegate trade dress to the supplemental register.⁹⁰ In 1952, for example, Minnesota Mining & Manufacturing, better known as “3M,” sought to register the now-classic shape of a cellophane tape dispenser on the principal register.⁹¹ But the PTO refused. The Chief Examiner specifically rejected the argument that Congress intended “symbol or device” to be interpreted broadly.⁹² As the Chief Examiner explained with respect to the word “device,” for example:

The word “device” appearing in the definition of trademark cannot aid applicant. The word “device,” which also appears in the older definitions, is not used as referring to a mechanical or structural device but is used in the sense of one of the definitions of the word; “an artistic figure or design used as a heraldic bearing or as an emblem, badge, trade mark, or the like,” rather than in one of the other meanings of the word.⁹³

Rather than refer to a mechanical device, Congress intended the word “device” to carry its technical meaning within trademark law as a coat of arms or other form of heraldry.

But would-be trade dress owners did not give up. Year after year, they continued to seek registration of their trade dress on the principal register.⁹⁴

89. See Lunney, *The Trade Dress Emperor*, *supra* note 1, at 1150–52 (quoting Mr. Rogers’ statement that the broader language allowing registration of trade dress on the supplemental register was solely for the purpose of enabling registration of trade dress in foreign countries that recognized such protection).

90. Congress expressly defined “marks” eligible for registration on the supplemental register to include both “package” and “configuration of goods” and thus provided for registration of trade dress on the supplemental register. 15 U.S.C. § 1091(c) (2012). The supplemental register, however, provides no substantive domestic rights. See, e.g., *Innovation Ventures, LLC v. N2G Distributing, Inc.*, 763 F.3d 524, 530 n.2 (6th Cir. 2014) (noting that a “Supplemental Registration confers no substantive trademark rights beyond those under common law [and] [s]ection 26 of the Lanham Act expressly excludes Supplemental Registrations from certain advantages gained by registration on the Principal Register”) (quoting 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 19:36 (4th ed. 2014)). Providing for registration on the supplemental register does, however, facilitate obtaining protection in other countries that require proof of a domestic registration before they will register a foreign mark.

91. *Ex parte* Minn. Mining & Mfg. Co., 92 U.S.P.Q. (BNA) 74, 76 (Chief Exam’r 1952).

92. *Id.*

93. *Id.*

94. See, e.g., *Ex parte* Babson Bros. Co., 103 U.S.P.Q. (BNA) 115, 116 (Chief Exam’r 1954) (“What applicant is attempting to register is a ‘configuration of goods’ and it has been held in a number of cases that such configuration, if registrable, cannot be registered on the Principal Register but only the Supplemental Register.”); *Ex parte* Boye Needle Co., 100 U.S.P.Q. (BNA) 124, 124

Case after case, their petitions were rejected. Finally, twelve years later in 1958, they found a sympathetic administrative ear. And with a stroke of her pen, the new Commissioner of Trademarks Daphne Robert Leeds overturned Congress's decision on the issue and allowed trade dress on the principal register.⁹⁵

Once the PTO got the federal trade dress ball rolling, courts were eager to lend a hand. Indeed, when the PTO tried to slow the trade dress trend it had started, courts rejected its attempts. In 1960, in *In re Kotzin*, when the PTO refused to register the placement and shape of a clothing tag on its own—without the associated words or symbols that appeared on the tag—the Court of Customs and Patent Appeals insisted that the applicant could obtain registration as long as it could show secondary meaning.⁹⁶ In 1964, in *In re Mogen David Wine Corp.*, when the PTO refused to register the shape of a wine bottle because it was protected by a design patent, the Court of Customs and Patent Appeals again reversed.⁹⁷ In 1982, in *In re Morton-Norwich Products*, when the PTO refused to register the shape of the Glass Plus spray bottle on the grounds that it was functional, the Court of Customs and Patent Appeals reversed and sharply narrowed the functionality limitation on trade dress protection.⁹⁸ In 1985, in *In re Owens-Corning Fiberglas Corp.*, when the PTO refused to register the color pink uniformly applied to fiberglass insulation as a trademark, the Federal Circuit reversed and held that a uniform color could serve as a trademark.⁹⁹

The other federal appellate courts, although a bit late to the game, soon joined in. In 1976, the Eighth Circuit became the first federal appellate court to

(Chief Exam'r 1953); *Burgess Battery Co. v. Marzall*, 101 F. Supp. 812, 814 (D.D.C. 1951), *aff'd sub nom.* *Burgess Battery Co. v. Watson*, 204 F.2d 35 (D.C. Cir. 1953) (“The omission of reference to labels or dress of goods in connection with the principal register and the inclusion thereof on the supplemental register would seem to indicate an intention to confine such matters to the supplemental register.”); *Ex parte Am. Enka Corp.*, 81 U.S.P.Q. (BNA) 476, 478 (Comm'r Pat. 1949) (noting that “this definition [of a trademark] was apparently taken, directly, or indirectly from that contained in the treatise on the ‘Law of Trade-Marks,’ by Francis H. Upton, published in 1860, prior to the enactment of any provision in Federal law for the registration of trade marks”).

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

96. 276 F.2d 411, 414–15 (C.C.P.A. 1960).

97. 328 F.2d 925, 932 (C.C.P.A. 1964); see also *In re Honeywell, Inc.*, 497 F.2d 1344, 1347 (C.C.P.A. 1974) (reversing PTO's refusal to register the shape of a home thermostat as a trademark where a design patent protected the shape and the shape was the product itself).

98. 671 F.2d 1332, 1343–44 (C.C.P.A. 1982).

99. 774 F.2d 1116, 1127–28 (Fed. Cir. 1985). Given that the PTO initially rejected the notion that a uniform color could serve as a trademark and only changed its position when the Federal Circuit forced it to do so, it is more than a little curious that Justice Breyer in his *Qualitex* opinion relies on the PTO's position as support for the Court's conclusion that a uniform color could serve as a trademark. See *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 172 (1995) (noting that “the Patent and Trademark Office had adopted a clear policy (which it still maintains) permitting registration of color as a trademark”).

protect trade dress under section 43(a).¹⁰⁰ Other circuits were not far behind.¹⁰¹ Strikingly, none of these decisions even discussed the fact that Congress specifically amended the language of section 43(a) to preclude trade dress protection. As the circuit courts gleefully jumped on the trade dress express, the Supreme Court was eventually presented with the opportunity to fix the lower courts' mistake. However, rather than correct the mistake, the Court joined the parade through its 1992 decision in *Two Pesos v. Taco Cabana*. In a truly embarrassing opinion,¹⁰² the Court further loosened the standards for protecting trade dress by holding that trade dress could be inherently distinctive and thus receive protection without proof of secondary meaning.¹⁰³ The Court offered no explanation or basis for rewriting section 43(a) to encompass trade dress protection, but simply assumed that Congress must have intended such protection all along. Just three years later in *Qualitex Corp. v. Jacobsen Products*, the Court had a second chance to correct the mistaken expansion of subject matter eligible for trademark protection. Instead, it chose once again to rubber stamp those mistakes. Indeed, it went a step further and tried to justify the judicial recognition of trade dress protection by pointing to the broad ordinary language meaning of the phrase "symbol or device" in the statute.¹⁰⁴

100. *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210 (8th Cir. 1976), *cert. denied*, 429 U.S. 86 (1976); *see also* *LeSportsac, Inc. v. K mart Corp.*, 754 F.2d 71, 75 (2d Cir. 1985); *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 830–32 (11th Cir. 1982); *Sun-Fun Products, Inc. v. Suntan Research & Development Inc.*, 656 F.2d 186, 192 (5th Cir. 1981).

101. *See, e.g.*, *Keene Corp. v. Paraflex Indus., Inc.*, 653 F.2d 822 (3d Cir. 1981).

102. Although there are a number of aspects of the decision that are embarrassing, two are particularly so. First, the Court insisted there was no textual basis for treating traditional trademarks and trade dress differently. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992) ("It would be a different matter if there were textual basis in § 43(a) for treating inherently distinctive verbal or symbolic trademarks differently from inherently distinctive trade dress."). Contrary to the Court's insistence, however, Congress added the "word, name, symbol, or device" language to section 43(a) specifically to preclude trade dress protection. *See, e.g.*, Walter J. Derenberg, *The Lanham Trade-Mark Act of 1946: Practical Effects and Experiences After One Year's Administration*, 38 TRADE-MARK REP. 831, 835 (1948) (noting that items that might qualify as trade dress "were deliberately left outside the definition of a 'trademark' in section 45" and are therefore not eligible for registration on the principal register). Hence, there is a quite clear and express statutory basis for treating traditional trademarks and trade dress differently. Second, the Court further insisted it cannot "engraft[] onto § 43(a) a requirement of secondary meaning" not otherwise found in the statutory language. *Two Pesos*, 505 U.S. at 774. Yet at the same time, the Court had no trouble "engrafting" onto the statute a functionality limitation. *Id.* at 775 (noting that "[o]nly nonfunctional, distinctive trade dress is protected under § 43(a)"). Of course, there was no functionality limitation in the statute in 1992. Congress added a functionality limitation to section 2 six years later, in 1998. *See* Trademark Law Treaty Implementation Act, Pub. L. No. 150-330, § 201(a)(2)(A)(ii), 112 Stat. 3064, 3069 (1998) (codified as amended at 15 U.S.C. § 1052(e)(5) (2016)). Because Congress intended to preclude trade dress protection altogether in 1946, there was no need for a functionality limitation in the statute. Congress did not add such a limitation until the courts forced its hand in 1998 and 1999. *See* Trademark Law Treaty Implementation Act, Pub. L. No. 150-330, § 201(a)(2)(A)(ii), 112 Stat. 3064, 3069 (1998) (codified as amended at 15 U.S.C. § 1052(e)(5) (2016)); Trademark Amendments Act of 1999, Pub. L. No. 43, § 5, 113 Stat. 218, 220 (codified as amended at 15 U.S.C. § 1125(a)(3) (2016)).

103. *Two Pesos*, 505 U.S. at 776.

104. *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 162 (1995).

The Court was apparently unaware that Congress added that phrase precisely to bar trade dress protection.¹⁰⁵

As courts formally recognized product design and packaging as a type of trademark despite Congress's expressly stated intention to the contrary, they also watered down the requirements for protection against product imitation and thereby broadened the scope of that protection. First, where the common law once required actual proof of secondary meaning, the Supreme Court's *Two Pesos* decision eliminated that requirement for non-generic, non-descriptive product packaging.¹⁰⁶ Even where courts required proof of secondary meaning, they allowed the trier of fact to infer it from the uniqueness of a design, the extent of sales or advertising, or the fact of imitation itself.¹⁰⁷ Second, where the common law once defined a product feature as functional so long as it served "a substantial and desirable use,"¹⁰⁸ courts narrowed the functionality limitation to encompass only those features that were "essential to the use or purpose of the article or . . . affect[ed] the cost or quality of the article."¹⁰⁹ Third, where the common law once required deceptive acts in addition to mere product similarity, courts held that similarity alone was sufficient to support an infringement finding.¹¹⁰ Finally, where the common

105. The defendant in the case, *Jacobson Products*, did argue that pre-1946 Supreme Court cases had stated that a uniform color was not eligible for trademark protection, *id.* at 169-73, but did not apparently explain to the Court how, when, and why Congress added the "word, name, symbol, or device" language to the bill that became the Trademark Act of 1946.

106. See *Two Pesos*, 505 U.S. at 776. *But see* *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000) (restricting the *Two Pesos* analysis to product packaging and requiring proof of secondary meaning for product design claimed as trade dress).

107. Compare *A.C. Gilbert Co. v. Shemitz*, 45 F.2d 98, 99 (2d Cir. 1930) (ruling that similarity resulting from imitation and "many sales and much advertising" did not establish secondary meaning in design of article), and *Gen. Time Instruments Corp. v. U.S. Time Corp.*, 165 F.2d 853, 854-55 (2d Cir. 1948), *cert. denied*, 334 U.S. 846 (1948) (ruling that sale of 3,000,000 clocks and expenditure of \$2 million in advertising from 1939 to 1946 was insufficient to establish secondary meaning), with *Clamp Mfg. Co. v. Enco Mfg. Co., Inc.*, 870 F.2d 512, 517 (9th Cir. 1989), *cert. denied*, 493 U.S. 872 (1989) (finding secondary meaning based upon sales and advertising expenditures alone).

108. *William R. Warner & Co. v. Eli Lilly & Co.*, 265 U.S. 526, 531 (1924) (finding that defendant could imitate exactly the chocolate flavoring of plaintiff's medication because it "serves a substantial and desirable use"); see also *Norwich Pharmacal Co. v. Sterling Drug, Inc.*, 271 F.2d 569, 572 (2d Cir. 1959) (finding the pink color for a stomach remedy functional because it was "designed to present a pleasing appearance to the customer and to the sufferer"); *Pagliari v. Wallace China Co.*, 198 F.2d 339, 343 (9th Cir. 1952); *J.C. Penney Co. v. H.D. Lee Mercantile Co.*, 120 F.2d 949, 954 (8th Cir. 1941) ("A feature of goods is functional . . . if it affects their purpose, action or performance; or the facility or economy of processing, handling or using them.") (quoting RESTATEMENT (FIRST) OF TORTS § 742 (1938)); *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 300 (2d Cir. 1917); *Smith v. Krause*, 160 F. 270, 271 (C.C.S.D.N.Y. 1908) (refusing to protect the words "Merrie Christmas," woven into a ribbon as a trademark because "the fact that it has 'Merrie Christmas' inscribed upon it adds a value to it over the value of a plain ribbon").

109. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 850 n.10 (1982).

110. The evidence of confusion in the *Sears* and *Compco* cases has become entirely typical of the type of evidence sufficient to establish infringement. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 226 (1964) (holding evidence of confusion consisted of similar appearance plus: (1) labels were not attached to showroom lamps; (2) customers had asked manufacturer of higher priced lamp

law once limited relief to a requirement of proper labeling, courts held that proper labeling was no longer sufficient to avoid an infringement finding. Courts would prohibit the imitation of desired product features even where a defendant was careful to identify the imitation as its own.¹¹¹

As with the infringement standard, Congress was not the one to expand the subject matter of trademark protection and weaken the limitations on so-called trade dress protection. It was the courts. Despite Congress's express direction to the contrary, courts first recognized trade dress as a type of protectable trademark, then steadily whittled away the common law's limitations on the availability and scope of that newly recognized protection.

B. Separating the Wheat from the Chaff: When Expansive Trademark Protection Hurts Consumers

Essentially all of this judicial expansion in trademark protection hurts consumers and reduces social welfare. In the marketplace, social welfare is the aggregate welfare of the market participants. Thus, social welfare is maximized when the sum of producer and consumer welfare in that marketplace is maximized. If we use producer and consumer "surplus"—defined as the economic benefit captured in excess of marginal cost—as a measure of that welfare, then social welfare is maximized when the total surplus to the producers and consumers in a given market is maximized.¹¹² In a perfectly competitive market, competition drives prices down to the marginal cost of production.¹¹³ In such a competitive market, producers that are more efficient than the marginal producer earn some surplus,¹¹⁴ but consumers capture the

about the difference in the lamps; and (3) two customers, who purchased the more expensive lamp, complained to the manufacturer of the more expensive lamps when they learned that "substantially identical lamps" were available at a "much lower price"); *Compeco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 236–37 (1964) (explaining evidence of confusion consisted of similar appearance plus a request by a single plant manager that Day-Brite service was what turned out to be fixtures made by Compeco); see also *Am. Safety Table Co. v. Schreiber*, 269 F.2d 255, 270 (2d Cir. 1959) (finding unfair competition from product simulation even though court recognized that "[t]here is some but not much evidence of actual confusion").

111. Indeed, some courts have gone so far as to say that proper labeling is itself a wrong. See, e.g., *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1220–21 (8th Cir. 1976) (noting that "Fruehauf's reliance upon the fact that its trailer was labeled as its own product and sold through its own channels of distribution is not only misplaced, but also self-defeating. . . . [S]uch a marketing practice by a dominant figure in the market tends to promote rather than ensure against confusion.") (citation omitted).

112. See, e.g., JEAN TIROLE, *THE THEORY OF INDUSTRIAL ORGANIZATION* 11, 67 (1988) (noting that when the goods at issue are only a small share of consumer expenditures and price changes therefore generate small income effects, "it may be appropriate to assume . . . that the consumer surplus is a good approximation of welfare").

113. See, e.g., *id.* at 6 ("A key property of competitive equilibrium is that each good is sold at marginal cost.").

114. In the traditional analysis, supply curves slope upward and demand curves slope downward. Price is set at the point where the supply and demand curves intersect. In a competitive market, this is at the marginal cost of the marginal supplier. All of the non-marginal suppliers face

vast majority of the available surplus.¹¹⁵ By restricting competition, policy makers can increase prices in the market and thereby shift some of the surplus from consumers to producers. But shifting surplus from consumers to producers does not merely redistribute wealth. To shift surplus from consumers to producers requires raising prices, and raising prices inevitably imposes some degree of deadweight loss, as some consumers will be unable to afford the higher prices.¹¹⁶ As a result, to increase producer surplus by any given amount, we must transfer at least that much surplus from consumers *and* reduce consumer surplus yet further as a result of the deadweight losses higher prices impose.¹¹⁷ Moreover, when the prospect of producer surplus appears, producers may spend real resources competing to capture it. Such rent-seeking expenditures can convert what would have been surplus into cost.¹¹⁸ For that reason, maximizing total surplus in a market requires maximizing consumer surplus in the market.¹¹⁹ Or to put it in a more familiar form, competition maximizes social welfare; monopoly and market power reduce it.¹²⁰

Applying this simple rule to trademark law requires a realistic appraisal of whether a given trademark decision will yield competition and, if so, what sort

lower marginal costs and so earn rents equal to the difference between their marginal cost and the price. For a graphical illustration, see *id.* at 9.

115. Consumers capture surplus equal to the difference between their reservation value for a good and the price of that good. For example, if I am very thirsty, I might be willing to pay ten dollars for a bottle of water. In a competitive market, I do not have to pay my full reservation value, but only the market price for such a bottle. The difference remains in my pocket as consumer surplus. For a graphical illustration, see, for example, *id.* at 8.

116. As Tirole has explained:

In contrast with the behavior of a competitive firm . . . , a firm exercising monopoly power over a given market can raise its price above marginal cost without losing all its clients. Such behavior leads to a price that is too high and to a “dead-weight” welfare loss for society

Id. at 65.

117. See, e.g., *id.* at 76 (noting that “monopoly pricing lowers consumer surplus and raises a firm’s profit relative to a competitive behavior. The decrease in surplus exceeds the increase in profit by an amount equal to the dead-weight loss.”).

118. See, e.g., *id.* at 76 (stating that “[i]t is clear that the existence of this potential rent may lead to rent-seeking behavior. Firms will tend to spend money and exert effort to acquire the monopoly position; once installed in that position, they will tend to keep on spending money and exerting effort to maintain it.”) The practice of paying radio stations and other public performance venues to play a particular song in order to increase the popularity of, and hence demand for, the song is one example. See, e.g., R. H. Coase, *Payola in Radio and Television Broadcasting*, 22 J.L. & ECON. 269 (1979) (providing a detailed account of payola throughout the past century).

119. See, e.g., *id.* at 9 (noting that “[t]he total surplus is maximized when the consumer price is equal to the marginal cost . . .”).

120. This is the first theorem of welfare economics. See, e.g., *id.* at 6 (noting that “[r]oughly stated, the first [fundamental welfare theorem] says that a competitive equilibrium is Pareto optimal . . .”). For application of this principal more generally in intellectual property scholarship, see, for example, Kristelia A. Garcia, *Facilitating Competition by Remedial Regulation*, 31 BERKELEY TECH. L.J. 183, 190 (2016); Andrea M. Hall, *Standing the Test of Time: Likelihood of Confusion in Multi Time Machine v. Amazon*, 31 BERKELEY TECH. L.J. 815, 842 (2016); Camilla A. Hrdy, *Patent Nationally, Innovate Locally*, 31 BERKELEY TECH. L.J. 1301, 1325 (2016); Louis Kaplow, *On the Meaning of Horizontal Agreements in Competition Law*, 99 CALIF. L. REV. 683, 686 (2011).

of competition. Compare, for example, the welfare consequences of the *Vogue* hat case with those of the *Boston Professional Hockey* decision. By enjoining the defendant from selling hats labeled “Vogue”, the *Vogue* court did not prohibit the defendant from entering the market for fashionable hats. The defendant was free to do so as long as it did not use a mark for its hats that would mislead consumers. It could still make and sell fashionable hats; it just had to market them under a different name.¹²¹ In contrast, by prohibiting the defendant from selling the emblems of NHL teams and from selling merchandise bearing those emblems, the *Boston Professional Hockey* court effectively barred the defendant from entering the market for such merchandise altogether. While the defendant remained free to sell t-shirts or other merchandise without the NHL symbols, a significant number of consumers likely would not consider them acceptable substitutes for real NHL merchandise. After the court’s decision, for consumers who wanted such merchandise, there would be only one source: the NHL itself. Moreover, unlike the *Vogue* mark, the emblem on a jersey plays no trademark role. It conveys no otherwise unobservable information regarding the quality or nature of the merchandise.¹²² The *Boston Professional Hockey* decision thus replaced competition with monopoly and thereby reduced social welfare.¹²³

Moreover, we cannot justify the *Boston Professional Hockey* decision on the basis that the NHL created the demand for the merchandise, a version of “if value, then right,”¹²⁴ as the court seemed to.¹²⁵ Neither can we justify it on the slightly different basis that the NHL will reinvest the surplus from merchandise sales into improving the product.¹²⁶ If either were a sufficient basis for

121. I have defined the relevant market as the market for fashionable hats. For an extensive justification of that market definition, see Lunney, *Trademark Monopolies*, *supra* note 2, at 421–38; see also Mark A. Lemley & Mark P. McKenna, *Is Pepsi Really a Substitute for Coke? Market Definition in Antitrust and IP*, 100 GEO. L.J. 2055 (2012) [hereinafter Lemley & McKenna, *Market Definition*] (advocating a similar approach).

122. Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli*, 54 EMORY L.J. 461, 478–95 (2005); Lunney, *Trademark Monopolies*, *supra* note 2, at 395–99, 433–37.

123. I recognize that some consumers may prefer authorized merchandise, but the leagues can satisfy that demand by identifying their apparel as “official” or “authorized.” That some consumers may want official merchandise provides no justification for depriving other consumers of the choice to buy unauthorized apparel by prohibiting the sale of such merchandise altogether.

124. Felix Cohen used the “if value, then right” phrase to capture the argument that if a person or entity creates value, the law should recognize a legal right in the creator to capture that value. See Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809 (1935).

125. See *Bos. Prof’l Hockey Ass’n, Inc., et al. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975). (“The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem.”)

126. As Arnold Plant once said, “a special case for a monopoly . . . cannot rest on the general proposition that if business men are enabled to make monopoly profits, some of them will be devoted to good works.” ARNOLD PLANT, *THE NEW COMMERCE IN IDEAS AND INTELLECTUAL PROPERTY* 15 (1953).

accepting monopoly, then monopoly would become preferable to competition generally—an absurd outcome. As a general rule, competitive markets already provide the efficient level of incentive for firms to invest in quality products.¹²⁷

In those rare and exceptional cases where competitive markets are likely to fail to provide sufficient incentive, patent and copyright provide incentives to fill the gap.¹²⁸ Even if patent and copyright leave some gaps unfilled, we should not use trademark law to address remaining gaps.¹²⁹ In contrast to trademark, patent and copyright are expressly tailored to address such instances of market failure. Their limitations on subject matter and prerequisites serve to provide protection only in cases where the nature and extent of creative investment make market failure likely.¹³⁰ At the same time, their scope of protection, available defenses such as copyright fair use, and limited duration serve to provide both protection and a corresponding incentive sufficient to correct the likely market failure without imposing undue social cost.¹³¹

Trademark has none of these features. Its subject matter is not limited, and its prerequisites are not tailored to define when the nature and extent of the creative investment makes market failure likely.¹³² Similarly, its scope and duration of protection are not designed to provide an incentive that is precisely sufficient to correct that market failure without imposing undue social costs.¹³³

127. Klein and Leffler have modeled brands as an informal guarantee of product quality. See generally Benjamin Klein & Keith B. Leffler, *The Role of Market Forces in Assuring Contractual Performance*, 89 J. POL. ECON. 615 (1981). In their model, consumers continue to purchase brands that honor their implicit and informal guarantee of quality and abandon those that do not. *Id.* at 620–21. As part of their model, Klein and Leffler show that some degree of supra-competitive pricing is necessary to make this informal guarantee effective. *Id.* at 621–23. The rents associated with that pricing provide the incentive for maintaining quality and the punishment for failing to do so. *Id.*

128. See, e.g., Lothar Determann & David Nimmer, *Software Copyright's Oracle from the Cloud*, 30 BERKELEY TECH. L.J. 161, 168 (2015); Robert P. Merges, *A Few Kind Words for Absolute Infringement Liability in Patent Law*, 31 BERKELEY TECH. L.J. 1, 4 n.3 (2016); Philip Merksamer, *Ariosa Diagnostics v. Sequenom: Metastasis of Mayo and Myriad and the Evisceration of Patent Eligibility for Molecular Diagnostics*, 31 BERKELEY TECH. L.J. 495, 500 (2016).

129. See Lunney, *Trademark Monopolies*, *supra* note 2, at 456–62.

130. See, e.g., Clark D. Asay, *The Informational Value of Patents*, 31 BERKELEY TECH. L.J. 259, 321 (2016); Jamie F. Cárdenas-Navia, *Thirty Years of Flawed Incentives: An Empirical and Economic Analysis of Hatch-Waxman Patent-Term Restoration*, 29 BERKELEY TECH. L.J. 1301, 1307 (2014) (arguing that patent exclusivity is required because of high investment costs); Pamela Samuelson, *Functionality and Expression in Computer Programs: Refining the Tests for Software Copyright Infringement*, 31 BERKELEY TECH. L.J. 1215, 1292–94 (2016) (arguing that copyright protection should focus on helping investors recoup costs). To be clear, I am not talking about the market failure that arises from imperfect information. Trademark law is tailored to address that market failure. The question then becomes whether the mark at issue is: (1) providing material and otherwise unobservable information to the consumer; and (2) that information cannot be made available through a cheaper (to competition) means. See Lunney, *Trademark Monopolies*, *supra* note 2, at 431–32.

131. See, e.g., Alan Devlin, *Patent Law's Parsimony Principle*, 25 BERKELEY TECH. L.J. 1693, 1710–11 (2010); Jane C. Ginsburg, *Fair Use for Free, or Permitted-but-Paid?*, 29 BERKELEY TECH. L.J. 1383, 1385–86 (2014); Hannibal Travis, *Pirates of the Information Infrastructure: Blackstonian Copyright and the First Amendment*, 15 BERKELEY TECH. L.J. 777, 777 (2000).

132. See Lunney, *Trademark Monopolies*, *supra* note 2, at 457–59.

133. See *id.* at 458–59.

Most obviously, where patent and copyright protection both have defined and limited terms, trademark protection is potentially perpetual, lasting as long as the protected “mark” remains in use and retains its distinctiveness.

In sum, to maximize total surplus, courts should strive to maximize consumer surplus. To maximize consumer surplus, courts should resolve trademark disputes to promote competition and to minimize monopoly and market power. Yet, courts have not done so. To understand why, the following Section takes a preliminary look at the judicial decisions through which trademark law has become inefficient for consumers.

C. *Judicial Decision Making: A Dysfunctional Process*

Looking at the judicial de-evolution of trademark law over the course of the last hundred years, certain dysfunctional patterns emerge. First, pro-competitive trademark decisions tend to be challenged repeatedly until they are distinguished or rewritten, while anticompetitive decisions tend to stick. Second, sound reasoning that supports efficient interpretations of trademark law is ignored, and absurdly weak reasoning that supports inefficient interpretations triumphs. Third, trademark defense counsel often fail to make relevant arguments in the initial cases, and *stare decisis* makes it difficult to correct them afterwards.

All it takes is one bad decision for an anticompetitive trademark rule to stick. Consider, for example, the path by which so-called trade dress became eligible for registration on the principal register. Almost as soon as the ink dried on the Trademark Act of 1946, applicants attempted to register various forms of trade dress on the register. In a series of well-reasoned decisions from 1949 to 1954, the Patent and Trademark Office repeatedly denied the registrability of trade dress on the principal register.¹³⁴ But parties seeking trade dress registration did not give up. They kept at it for a decade until finally, in 1958, they found a receptive, and perhaps corrupt,¹³⁵ administrator willing to overturn Congress’s carefully considered decision on the issue and allow the registration of trade dress on the principal register.¹³⁶ Thus, the pro-competitive rule denying registration to trade dress was repeatedly challenged until the law changed.

Compare that to the recognition of a merchandising right for sports teams. In its 1975 *Boston Professional Hockey* decision, the Fifth Circuit rewrote trademark law to give professional sports teams the right to control the sale of

134. See *supra* note 94 and accompanying text.

135. As I have explained elsewhere, see Lunney, *The Trade Dress Emperor*, *supra* note 1, at 1156 n.88, Assistant Commissioner Leeds rewrote the law to allow trade dress registration on the principal register for a company that would become her client when she left the Office and returned to private practice.

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

merchandise bearing their team names and logos.¹³⁷ A few years later, in 1982, the Third Circuit reiterated and reinforced the merchandising right in its *University of Pittsburgh v. Champion Products* decision.¹³⁸ In that case, after a bench trial, the district court found that laches precluded the University of Pittsburgh's enforcement of the merchandising right where Champion had been selling unlicensed apparel and other merchandise bearing the University's name and logo for more than forty years.¹³⁹ On appeal, a panel of the Third Circuit reversed and held that laches did not apply based largely on the "if value, then right" reasoning of *Boston Professional Hockey*.¹⁴⁰ The University's efforts created the value of the logo; Champion "merely package[d] and exploit[ed] it."¹⁴¹ Thus, the Third Circuit held that the University had enforceable rights in the logo.¹⁴²

These two decisions created an inefficient, welfare-diminishing merchandising right for sports teams. They both raised prices for, and restricted consumer choice with respect to, such merchandise. Moreover, they imposed these anticompetitive consequences without reducing material consumer confusion or search costs.¹⁴³ Yet, unlike the efficient legal rule barring the

137. See *Bos. Prof'l Hockey Ass'n, Inc., et al. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975) (holding as a matter of law that sales of unauthorized merchandise bearing team logos or the logos themselves created an actionable likelihood of confusion).

138. 686 F.2d 1040 (3d Cir. 1982), *cert. denied*, 459 U.S. 107 (1982).

139. *Id.* at 1042–43 (noting that Champion had been selling merchandise bearing the Pitt name and logo since 1936).

140. *Id.* at 1049.

141. *Id.*; see also *Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040, 1047 (3d Cir. 1982) ("[I]t is Champion which seeks to profit from Pitt's investment, particularly in its athletic program.").

142. *Id.* at 1049.

143. In trying to explain the nature of the consumer confusion that was present, the *Boston Professional Hockey* court asserted:

The confusion or deceit requirement is met by the fact that the defendant duplicated the protected trademarks and sold them to the public knowing that the public would identify them as being the teams' trademarks. The certain knowledge of the buyer that the source and origin of the trademark symbols were in plaintiffs satisfies the requirement of the act.

Bos. Prof'l Hockey Ass'n, Inc., et al. v. Dall. Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1012 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975). The court's explanation, however, entirely fails to show consumers are confused. At a minimum, confusion presumably requires that a consumer holds a belief that is not true. Here, consumers believe that the symbols represent the team. True. As the district court found, they also believe that Dallas Cap & Emblem made the emblems without a license from the team. Also, true.

Because the court's reasoning is so weak, outside the context of sports teams, the Ninth Circuit expressly rejected the reasoning of *Boston Professional Hockey*. See *Int'l Order of Job's Daughters v. Lindenburg & Co.*, 633 F.2d 912, 918 (9th Cir. 1980). Even the Fifth Circuit itself later "re-interpreted" the language of the decision. See *Ky. Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 389 (5th Cir. 1977) (insisting that the *Boston Professional Hockey* decision required proof of a likelihood of confusion). Yet, thirty years later, when the Fifth Circuit revisited the merchandising right in the sports context, it reiterated the same fallacious reasoning. *Bd. of Supervisors for La. State Univ. Agric. and Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 477–78 (5th Cir. 2008) ("By associating the color and other indicia with the university, the fans perceive the

registration of trade dress, parties did not line up to challenge this new, inefficient rule. Despite the extremely weak reasoning of the two decisions establishing the rule, potential defendants essentially acceded to the merchandising right and modified their behavior to comply. As a result, it took more than thirty years before the sports merchandising right was challenged in a federal appellate court.¹⁴⁴

Likewise, poorly reasoned, inefficient decisions in trademark law have had inexplicably more staying power than well-reasoned, efficient decisions. For example, on the issue of whether trade dress should be eligible for registration on the principal register, the efficient legal rule is to deny such registration.¹⁴⁵ The early decisions adopting this efficient rule and rejecting trade dress registration were careful and well-reasoned. They traced the historical usage of the terms “symbol” and “device” within trademark law to understand their meaning in the 1946 Act;¹⁴⁶ they recognized and gave effect to Congress’s intentional adoption of a narrower definition of “trademarks” for registration on the principal register and a broader definition of “marks” eligible for registration on the supplemental register;¹⁴⁷ and they recognized that Congress intended to maintain the historical practice of denying formal trademark status to so-called trade dress and relegating claims for trade dress protection to the realm of unfair competition.¹⁴⁸ In contrast, in 1958, Assistant

university as the source or sponsor of the goods because they want to associate with that source.”), *cert. denied*, 556 U.S. 1268 (2009).

144. See *Bd. of Supervisors for La. State Univ. Agric. and Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465 (5th Cir. 2008), *cert. denied*, 556 U.S. 1268 (2009).

145. As I have explained elsewhere, see Lunney, *Trade Dress Emperor*, *supra* note 1, at 1162–81, trade dress tends to stifle desirable competition. Even where a product’s design or packaging provides material information to consumers, there are alternative and cheaper (to competition) mechanisms, such as arbitrary word marks, to convey that same information.

146. See *Ex parte Pulitzer Publ’g Co.*, 82 U.S.P.Q. (BNA) 229, 231 (Comm’r Pat. 1949) (noting that “the definition appearing in the 1946 Act appears not only entirely consistent with the definitions and statements of the nature of trade marks appearing in many decided cases, . . . but to have been taken almost literally from such cases and earlier text authority”); see also *Burgess Battery Co. v. Marzall*, 92 U.S.P.Q. (BNA) 90, 91–92 (D.D.C. 1951) (“The omission of reference to labels or dress of goods in connection with the principal register and the inclusion thereof on the supplemental register would seem to indicate an intention to confine such matters to the supplemental register.”); *Ex parte Am. Enka Corp.*, 81 U.S.P.Q. (BNA) 476, 478 (Comm’r Pat. 1949) (noting that “the definition [of trademark] in section 45 of the Act of 1946 . . . was apparently taken, directly, or indirectly from that contained in the treatise on the ‘Law of Trade-Marks,’ by Francis H. Upton, published in 1860 . . .”).

147. See *Ex parte Minn. Mining & Mfg. Co.*, 92 U.S.P.Q. (BNA) 74, 75 (Chief Exam’r 1952); see also *Ex parte Babson Bros. Co.*, 103 U.S.P.Q. (BNA) 115, 116 (Chief Exam’r 1954); *Ex parte Boye Needle Co.*, 100 U.S.P.Q. (BNA) 124, 124 (Chief Exam’r 1953); *Burgess Battery Co.*, 92 U.S.P.Q. at 91–92 (noting that “[t]he omission of reference to labels or dress of goods in connection with the principal register and the inclusion thereof on the supplemental register would seem to indicate an intention to confine such matters to the supplemental register.”).

148. See *Ex parte Minn. Mining & Mfg. Co.*, 92 U.S.P.Q. (BNA) at 76 (“Applicant asserts that a court would enjoin a competitor from any attempt to pass off its goods as those of the applicant, but this does not indicate that the court would base its action upon trade mark rights . . .”); see also

Commissioner Daphne Leeds adopted the inefficient legal rule and allowed the registration of trade dress on the principal register.¹⁴⁹ In her opinion, she did not address the language, history, or policy against providing such protection; nor did she acknowledge Congress's deliberate decision to bar such protection. Instead, Leeds merely stated without reasoning or support, "[T]he contour or conformation of the container may be a trademark—a symbol or device—which distinguishes the applicant's goods, and it may be registrable on the Principal Register."¹⁵⁰ Her "reasoning," such as it is, consists of the use of dashes to suggest equivalence between a "contour of a container" and a "symbol or device." It is absurd on its face. Yet, over time, Leeds's "reasoning" prevailed.

We see a similar dynamic in the narrowing of the functionality doctrine, where weak reasoning once again prevailed to justify inefficiently expansive protection. Much like the initial denial of registration for trade dress, we start functionality's evolution with a well-reasoned decision. In 1952, the Ninth Circuit considered whether a china pattern could receive protection against imitation under unfair competition law in *Pagliari v. Wallace China*.¹⁵¹ The court concluded that the pattern was functional and therefore could not be protected against imitation under the rubric of unfair competition.¹⁵² In embracing a broad, and not-incidentally efficient, interpretation of functionality, the court acknowledged that a defendant might be able to compete by creating its own designs, but held that this was irrelevant. The court stated, "[t]he law encourages competition not only in creativeness but in economy of manufacture and distribution as well."¹⁵³ As time passed, trade dress plaintiffs repeatedly challenged this sensible ruling until finally, the Third Circuit rejected this efficient interpretation of functionality and replaced it with its own narrow, inefficient interpretation.¹⁵⁴ In doing so, the Third Circuit considered only one side of the competitive balance. Its reasoning insisted that

Lucien Lelong, Inc. v. Lenel, Inc., 181 F.2d 3, 4–5 (5th Cir. 1950) (recognizing that "there can be no trade-mark in a package, the shape of a bottle, or a letter of the alphabet").

149. See *Ex parte Haig & Haig, Ltd.*, 118 U.S.P.Q. (BNA) 229, 230–31 (Comm'r Pat. 1958).

150. Commissioner Leeds resorts to this substitute for reasoning twice. See *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) 229, 230 (Comm'r Pat. 1958) (stating that "[t]he fundamental question, then, is not whether or not containers are registrable on the Principal Register, but it is whether or not what is presented is a trademark—a symbol or device—identifying applicant's goods and distinguishing them from those of others."); *id.* at 231 (stating that "the contour or conformation of the container may be a trademark—a symbol or device—which distinguishes the applicant's goods, and it may be registrable on the Principal Register.").

151. 198 F.2d 339 (9th Cir. 1952).

152. *Id.* at 343.

153. *Id.* at 344.

154. See *Keene Corp. v. Paraflex Indus., Inc.*, 653 F.2d 822, 825 (3d Cir. 1981).

only competition in creating new designs mattered.¹⁵⁵ The court simply ignored the need for competition in the manufacture and distribution of goods.¹⁵⁶

Similarly absurd arguments have proven persuasive in inefficiently broadening the infringement standard. For example, to justify the recognition of post-sale or “onlooker” confusion, courts have pointed to, first, the statutory language protecting against confusion “in commerce,” and second, to Congress’s 1962 amendment of the infringement standard.¹⁵⁷ Both arguments are flawed.

The “in commerce” language has been part of the infringement standard since the Trademark Act of 1881.¹⁵⁸ By including this language, Congress did not intend to provide a basis for a court a century later to recognize post-sale confusion as actionable. Rather, Congress included this language in the 1881 Act, and in every subsequent Act, to tie federal trademark protection to Congress’s authority under the Commerce Clause.¹⁵⁹ Congress did so because the Court, in its 1879 decision in *The Trade-mark Cases*, held that the Patent and Copyright Clause did not provide a basis for federal trademark legislation.¹⁶⁰ Congress needed to clarify that it was acting under its Commerce Clause authority and therefore repeatedly included “in commerce” language at a number of points in subsequent Acts.¹⁶¹ The language is thus jurisdictional and should not serve as a basis for expanding the infringement standard to encompass post-sale confusion.

The citation to the 1962 Housekeeping Amendment as a basis for recognizing post-sale confusion is equally problematic.¹⁶² In the 1962 Amendment, Congress amended the infringement standard for registered trademarks by deleting the italicized phrase in the following excerpt:

- (1) Any person who shall, without the consent of the registrant—
 - (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the

155. *Id.*

156. *See id.* (criticizing *Pagliari* on the grounds that it “provides a disincentive for development of imaginative and attractive design. The more appealing the design, the less protection it would receive.”).

157. *See, e.g.,* *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235 (6th Cir. 1991) (mistakenly referring to the Amendments at issue as the 1967 Amendments, rather than the 1962 Amendments); *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492 (S.D. Fla. 1986).

158. Act of Mar. 3, 1881, ch. 138, 21 Stat. 502, 502.

159. *See, e.g.,* *United We Stand Am., Inc. v. United We Stand, Am. N.Y., Inc.*, 128 F.3d 86, 92–93 (2d Cir. 1997) (noting that the “in commerce” language was added to track Congress’s Commerce Clause authority).

160. 100 U.S. 82 (1879) (holding Congress did not have authority to enact a trademark act under the Patent and Copyright Clause, article I, section 8, clause 8).

161. For example, in the current trademark statute, in addition to appearing in section 1114(a), “in commerce” appears in more than twenty other provisions. *See, e.g.,* 15 U.S.C. §§ 1051(a)(1), (a)(2), (a)(3)(C), (b)(1), (b)(3)(C), (c), (d), (d)(1), (d)(2), 1052(d), (f), 1057, 1058(b), 1062, 1065, 1091(a), 1125(a)(1), 1126(d)(2), 1115(a), (b), 1127, 1141, 1141(h) (2016).

162. *See* Lunney, *Trademark Monopolies*, *supra* note 2, at 469–75.

sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive *purchasers as to the source or origin of such products or services*.¹⁶³

Although, when read in isolation, the plain language of the Amendment might suggest that Congress intended to expand the infringement standard quite sharply to encompass confusion of any sort, even a superficial review in context suggests a far more limited change. As the “Housekeeping” title immediately suggests, Congress intended the Amendment to be largely non-substantive.¹⁶⁴ As Congress explained in the legislative history, and as is revealed by the other changes the Amendment made, Congress’s principal purpose was to ensure consistency in the language used to express the likelihood of confusion standard in the four provisions where it appeared in the Act.¹⁶⁵ Before the Amendment, these four provisions had used the same likelihood of confusion standard, but had expressed it in three different ways.¹⁶⁶ While Congress did intend the deletion of the word “purchasers” to expand the infringement standard to include a focus on prospective purchasers as well, Congress also intended to retain trademark’s traditional focus on confusion among purchasers, whether actual or prospective, as to source.¹⁶⁷

Nevertheless, beginning some ten years after the Housekeeping Amendment was enacted, courts decided that Congress had intended to effect a

163. 15 U.S.C. § 1114(a)(1) (2016) (emphasis added).

164. The Senate Report accompanying the Amendments stated:

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

S. REP. NO. 87-2107 (1962), as reprinted in 1962 U.S.C.C.A.N. 2844, 2844.

165. In addition to appearing in section 32 of the Act, a likelihood of confusion standard also appears in sections 1, 2, and 16. 15 U.S.C. §§ 1051, 1052, 1066, 1114 (2016).

166. Before the Amendment, the infringement standard in section 1114 defined likelihood of confusion in terms of whether a mark “is likely to cause confusion or mistake or to deceive purchasers as to the source or origin of such goods or services.” See S. REP. NO. 87-2107 (1962), as reprinted in 1962 U.S.C.C.A.N. at 2850. Section 1 of the Act required an applicant to certify that the mark did not create a likelihood of confusion with a preexisting mark. *Id.* at 2847. Before the Amendment, the relevant provision, section 1051(a)(1)(A), defined likelihood of confusion in terms of whether a mark was “in such near resemblance thereto as might be calculated to deceive.” *Id.* Section 2 barred the registration of a mark that created a likelihood of confusion with a previously registered mark, and section 16 authorized an interference where a mark created a likelihood of confusion with a previously registered mark. Before the Amendment, these sections defined the standard in terms of whether a mark so resembled another’s prior mark “as to be likely . . . to cause confusion or mistake or to deceive purchasers.” See *id.* at 2845, 2847, 2850; see also Lunney, *Trademark Monopolies*, *supra* note 2, at 470–75 (explaining the circumstances behind the 1962 Housekeeping Amendment).

167. S. REP. NO. 87-2107 (1962), reprinted in 1962 U.S.C.C.A.N. at 2845, 2847, 2850; see also Lunney, *The Trade Dress Emperor*, *supra* note 1, at 469–76.

far more radical expansion in the infringement standard.¹⁶⁸ Noting how the Amendment changed the plain language of the infringement standard, but ignoring the context, the “Housekeeping” title, and the legislative history, courts simply asserted that Congress intended the Housekeeping Amendment to recognize confusion “of any kind” as actionable.¹⁶⁹

The role of trademark defense counsel, and their failure to make the appropriate arguments in lower courts, contributes a great deal to this kind of inefficient rulemaking at the judicial level. Courts initially interpreted the 1962 Housekeeping Amendment to encompass confusion of any sort without citing the legislative history or explaining the context in which the Amendment was adopted, presumably because defense counsel did not raise the issue.¹⁷⁰ Similarly, when the Eighth Circuit first recognized federal trade dress protection under section 43(a), defense counsel missed a crucial opportunity to argue that Congress amended the provision before its enactment in 1943 to include the “symbol or device” language precisely to bar trade dress protection. Instead, defense counsel made the somewhat fatuous argument that the Court’s decisions in two state law unfair competition law cases preempted the availability of federal trade dress protection.¹⁷¹ Apparently, defense counsel mistakenly believed that one federal law, the Patent Act, could preempt another federal law.

Alternatively, consider *Two Pesos, Inc. v. Taco Cabana, Inc.*¹⁷² In determining whether federal trade dress protection should require proof of secondary meaning, defense counsel again failed to argue that Congress

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

169. For example, the *Syntex Laboratories* court simply asserted, without offering any support or analysis, that:

In its original form, the federal infringement section required a showing that the alleged infringer’s use ‘is likely to cause confusion, or to cause mistake, or to deceive purchasers as to the source of origin of such goods or services.’ 15 U.S.C. § 1114(1). (Emphasis supplied.) In amending that section in 1962, Congress eliminated the italicized, qualifying language, thereby evincing a clear purpose to outlaw the use of trademarks which are likely to cause confusion, mistake, or deception of any kind, not merely of purchasers nor simply as to source of origin.

437 F.2d at 568.

170. Various defense counsel repeatedly had the opportunity to make these arguments, but did not do so. See, e.g., *James Burrough Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976); *Bos. Prof'l Hockey Ass'n, Inc., et al. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1010 (5th Cir. 1975), cert. denied, 423 U.S. 868 (1975); *Syntex Labs., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971); *Rolex Watch U.S.A. v. Canner*, 645 F. Supp. 484, 492–93, 492 n.2 (S.D. Fla. 1986); *Rolls-Royce Motors Ltd. v. A&A Fiberglass, Inc.*, 428 F. Supp. 689, 694, 694 n.10 (N.D. Ga. 1976).

171. *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1214–16 (8th Cir. 1976).

172. 505 U.S. 763 (1992).

expressly excluded protection for trade dress under the Lanham Act.¹⁷³ As a result, when the Court asked why there was no express secondary meaning requirement for trade dress in the registration provision of the Act,¹⁷⁴ defense counsel responded with its own pet theory. Specifically, counsel for Two Pesos argued that while trade dress could receive protection initially without a showing of secondary meaning, it would lose protection if it did not develop secondary meaning in a reasonable time.¹⁷⁵ The Court rejected the argument, as it should have, given that the argument lacks any textual basis, policy justification, or common law antecedent. The Court did not discuss, and defense counsel apparently did not present, the correct argument: There was and still is no secondary meaning requirement for the registration of trade dress, just as there was no functionality limitation on the registration of trade dress at the time,¹⁷⁶ because Congress, in enacting the Lanham Act in 1946, had expressly prohibited the registration of trade dress on the principal register. Because Congress had expressly barred substantive trade dress protection, there was no need for a secondary meaning requirement or a functionality limitation in the statute.

Having failed to make these arguments when the issue was initially presented, *stare decisis* made it very difficult to correct them afterwards. Moreover, judges and justices have been reluctant to admit their mistakes. So when counsel for Walmart in *Wal-Mart Stores v. Samara Brothers* pointed out that the premises on which *Two Pesos* was decided were fundamentally flawed,¹⁷⁷ the Court did not take the opportunity to correct its earlier mistake in *Two Pesos*. Instead, the Court merely restricted the reach of *Two Pesos*' flawed holding that trade dress could be inherently distinctive to only those cases where the asserted trade dress consisted of product packaging rather than

173. *Id.* at 771 (noting that defense counsel “recognize[d] that a general requirement of secondary meaning impose[d] ‘an unfair prospect of theft [or] financial loss’ . . . [and] Petitioner argue[d] that such protection [without proof of secondary meaning] should be only temporary and subject to defeasance when over time the dress has failed to acquire secondary meaning”).

174. *Id.* at 774 (stating that “[w]here secondary meaning does appear in the statute, 15 U.S.C. § 1052 (1982 ed.), it is a requirement that applies only to merely descriptive marks . . .”). The Court’s assertion is incorrect, or at least, incomplete. For registration on the principal register, sections 2(e) and 2(f), read in conjunction, currently require proof of secondary meaning for trademarks which are: (i) merely descriptive; (ii) deceptively misdescriptive; (iii) primarily merely a surname; and (iv) primarily geographically descriptive. 15 U.S.C. § 1052(e), (f) (2016).

175. *Id.* at 771 (noting that “[p]etitioner argues that such protection [without proof of secondary meaning] should be only temporary and subject to defeasance when over time the dress has failed to acquire secondary meaning.”).

176. Congress added a functionality limitation to section 2 six years later, in 1998. *See* Trademark Law Treaty Implementation Act, Pub. L. No. 150-330, § 201(a)(2)(A)(ii), 112 Stat. 3064, 3069 (1998), (codified as amended at 15 U.S.C. § 1052(e)(5) (2016)).

177. *See* Brief for Petitioner at 15, *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000) (No. 99-150), 1999 WL 1045142 (citing Lunney, *Trademark Monopolies*).

product design.¹⁷⁸ Where a party sought to protect product design as trade dress, the *Wal-Mart* Court required proof of secondary meaning, or as the Court called it, “acquired distinctiveness.”¹⁷⁹

D. Exceptions for Exceptional Cases

Before proceeding to a more careful examination of why judicial decision making in trademark law has gone awry, I should acknowledge that the evolution of trademark law has not been entirely one-sided. Courts have occasionally decided cases in ways that limit or otherwise cut back on the otherwise expanding scope of trademark protection. Examples include, *inter alia*: (i) the Supreme Court’s decision in *Wal-Mart Stores v. Samara Brothers* requiring proof of secondary meaning for product design trade dress;¹⁸⁰ (ii) the Second Circuit’s decision in *Rogers v. Grimaldi*¹⁸¹ sharply narrowing the trademark infringement standard as against movie titles, specifically, and the titles of creative works, more generally; and (iii) the Ninth Circuit’s decision in *New Kids on the Block v. News America Publishing* creating the nominative fair use defense.¹⁸² Each of these doctrinal developments rejected attempts to broaden the scope of trademark protection.

Yet, rather than provide grounds for comfort, these decisions suggest a second problem with trademark’s judicial evolution: undue complexity. Because of *stare decisis* and a judicial reluctance to admit mistakes, later courts are unlikely to use these cases to cut back on the general expansion in trademark protection. Instead, they create exceptions to trademark’s general rules that apply only to particular defendants in particular cases. For example, as discussed, in *Wal-Mart Stores v. Samara Bros.*, the Court was presented with an opportunity to correct its mistake in *Two Pesos*. Yet, the Court refused to do so. Instead, the *Wal-Mart* Court divided trade dress into product design and product packaging. It then required proof of secondary meaning only for product design trade dress.¹⁸³ By doing so, the Court introduced unnecessary complexity into the law. The Court also failed to provide guidance to distinguish between packaging and design, which only made the new complexity even more intractable.¹⁸⁴

178. *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000) (requiring proof of secondary meaning for product design trade dress, but leaving intact *Two Pesos* rule for product packaging trade dress).

179. *Id.* at 211–16.

180. 529 U.S. 205 (2000).

181. 875 F.2d 994 (2d Cir. 1989).

182. 971 F.2d 302 (9th Cir. 1992).

183. *See Wal-Mart Stores, Inc.*, 529 U.S. at 215.

184. *See id.* at 212, 215 (offering two examples, the Tide detergent bottle and the Coke bottle, to illustrate the line between product design and product packaging, and a tie-breaking presumption that if trade dress could be considered either design or packaging, it should be considered design).

Similarly, in *Rogers* and *New Kids*, the Second and Ninth Circuits created exceptions when they faced cases where the expanding scope of trademark's infringement standard created absurd or otherwise unacceptable results. Unlike the Supreme Court in *Wal-Mart Stores*, which was not bound by *stare decisis*, the panels of the Second and Ninth Circuit were bound in these two cases. By the late 1980s and early 1990s, when *Rogers* and *New Kids* arose, courts had accepted implied endorsement theories of infringement. Endorsement theory allowed courts to find actionable trademark infringement even where only small numbers of consumers believed that a trademark owner gave permission to or endorsed the use of its trademark by another.¹⁸⁵ Given that broad scope, neither panel could easily or simply rule that there was no likelihood of confusion on the facts before them.¹⁸⁶ Moreover, given *stare decisis*, the panels could not cut back on the implied endorsement theory generally, at least not without *en banc* rehearing. As a result, although Judge Kozinski cited earlier Ninth Circuit cases as a basis for his opinion in *New Kids*, including *Volkswagenwerk Aktiengesellschaft v. Church* from 1969¹⁸⁷ and *Smith v. Chanel, Inc.* from 1968,¹⁸⁸ neither of those cases recognized a nominative fair use defense. Rather, both found no actionable likelihood of confusion.¹⁸⁹ Unfortunately, given the judicial broadening of the implied endorsement theory through the 1970s and 1980s, by 1992, that path was no longer available to Judge Kozinski. Instead, to rule for the defendants at the summary judgment stage, Judge Kozinski in *New Kids* and the Second Circuit panel in *Rogers* had to create specific defenses and exceptions tied to the facts of their cases. And so they did, with the *Rogers* court creating a special trademark infringement rule for movie titles, and Judge Kozinski creating the nominative fair use defense.

Despite exonerating the specific defendants for the specific conduct at issue in the two cases, these new doctrines added both unpredictability and

185. This theory initially arose in the *Vogue* hat case and expanded radically in *Boston Professional Hockey*. Some courts found actionable infringement based on consumers' belief that the defendant needed permission for the use of the mark. Compare *Anheuser-Busch, Inc. v. Balducci Pubs.*, 28 F.3d 769, 772 (8th Cir. 1994) (finding actionable trademark infringement based on a survey that asked whether respondents believed that the defendant "did have to get" Anheuser-Busch's permission), with *Nat'l Football League Props., Inc. v. ProStyle, Inc.*, 16 F. Supp. 2d 1012, 1018 (E.D. Wis. 1998) (rejecting a survey that asked a similar "did need to get permission" question on the grounds that it improperly asked respondents for a legal conclusion). Other courts also found actionable infringement when the plaintiff "went along with" the defendant's use. See *Mutual of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 400 (8th Cir. 1987) (finding actionable trademark infringement for defendant's use of slogan "Mutant of Omaha" on t-shirts where 10 percent of survey respondents believed that Mutual of Omaha "'goes along' with" the defendant's use).

186. In *Rogers*, in particular, the plaintiff presented both survey evidence that confusion was likely and evidence of actual confusion among the film's publicists. See *Rogers*, 875 F.2d at 1001, 1001 n.8.

187. 411 F.2d 350 (9th Cir. 1969).

188. 402 F.2d 562 (9th Cir. 1968).

189. *Volkswagenwerk*, 411 F.2d at 352; *Smith v. Chanel*, 402 F.2d at 569.

complexity to trademark law. In terms of unpredictability, when a circuit court creates a new defense or exception, an attorney can do little better than guess whether another circuit court will adopt it, and if so, in what form. For example, the Second and Third Circuits have adopted the nominative fair use defense, but both have modified it. While the Third Circuit modified the doctrine only slightly,¹⁹⁰ the Second modified it far more substantially.¹⁹¹ The Sixth Circuit has so far rejected nominative fair use entirely.¹⁹²

In terms of complexity, while complexity in trademark rules can improve our ability to match actual to optimal outcomes, complexity also increases the cost of trademark litigation. These increased costs have led, and will continue to lead, to a two-tiered trademark system: one system for those who can afford it, and a second for those who cannot. For those who can afford it, a complex legal system can produce reasonably sensible, albeit expensive, outcomes. For the far larger number of market participants who can no longer afford trademark litigation, theoretically perfect but complex trademark rules offer only theoretical justice. In reality, for those who cannot afford to marshal them, such rules offer no justice at all. Unable to afford the high costs of trademark litigation, these market participants can neither vindicate their own trademark interests when infringed by others, nor defend themselves against excessive and overbroad assertion of trademark rights by well-funded bullies.¹⁹³

II.

THE REASONS WHY: HOW PROCESS CONTROLS SUBSTANCE

The judicial evolution of trademark law has made it both inefficient and unduly complex. Although judicial decisions have driven this evolution, Congress has played a role as well. In enacting the Trademark Act of 1946, Congress stated that it intended trademark law to serve two masters: consumers and trademark owners.¹⁹⁴ Unfortunately, Congress gave only one of these masters a voice in the judicial evolution of trademark law. While consumers

190. See *Century 21 Real Estate Corp. v. Lending Tree, Inc.*, 425 F.3d 211 (3d Cir. 2005).

191. See *Int'l Info. Sys. Sec. Certification Consortium, Inc. v. Sec. Univ., LLC*, 823 F.3d 153 (2d Cir. 2016) (recognizing the concerns behind the nominative fair use doctrine, but rather than recognize it as a standalone defense as the Third and Ninth Circuits did, the court incorporated the three nominative fair use considerations as additional factors in the likelihood of confusion analysis).

192. See *PACCAR Inc. v. Telescan Techs., L.L.C.*, 319 F.3d 243, 256 (6th Cir. 2003).

193. For discussions of the rise of trademark bullies, see Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625; Kenneth L. Port, *Open Letter to Director David Kappos of the United States Patent and Trademark Office*, 2 CYBARIS INTELL. PROP. L. REV. 13 (2011).

194. See S. Rep. No. 1333, at 3 (1946), noting that

[t]he purpose underlying [the Lanham Act] is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner.

play many important roles in trademark litigation,¹⁹⁵ “litigant” is not one of them. Only trademark owners, not consumers, have standing to participate in trademark litigation.¹⁹⁶ Consumers’ interests are represented, to the extent they are represented at all, only by proxy.

Given this imbalance, it is entirely unsurprising that trademark law has come to cater to trademark owners—the master who has a voice in the system—and to ignore the best interests of consumers—the master who has none. By setting up litigation as a dispute between trademark plaintiffs and trademark defendants, and omitting consumers entirely, Congress has facilitated a common law evolutionary path for trademark law driven by selection, activity, and framing biases. Given these biases, the de-evolution of trademark law was inevitable. We now turn to a discussion of these biases.

A. *How Self-Interest Can Lead to Inefficient Legal Rules*

For years, law and economics scholars argued that the common law development of legal doctrine was more likely to lead to efficient rules than the politics of the legislature, whose outcomes are largely driven by interest groups.¹⁹⁷ In theory, public choice considerations would drive legislation.

195. For example, consumer understanding determines whether a word or phrase is distinctive and thus entitled to protection as a trademark. *See* 15 U.S.C. § 1064(3) (2016) (stating that “[t]he primary significance of the registered mark to the relevant public rather than purchaser motivation shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used.”). Similarly, trademark’s infringement standard focuses on whether a defendant’s use is likely to confuse consumers. *See also* *Multi Time Mach., Inc. v. Amazon.com, Inc.*, 804 F.3d 930, 933 (9th Cir. 2015) (identifying that “[t]he core element of trademark infringement’ is whether the defendant’s conduct ‘is likely to confuse customers about the source of the products.’” (quoting *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290 (9th Cir.1992))); *Tana v. Dantanna’s*, 611 F.3d 767, 776 (11th Cir. 2010) (stating that “[t]herefore, the relevant inquiry is whether Plaintiff’s mark is strong enough outside of Los Angeles to give rise to a likelihood of confusion among consumers of Dantanna’s restaurant services in Atlanta.”)

196. *See* *Colligan v. Activities Club of N.Y., Ltd.*, 442 F.2d 686, 689–92 (2d Cir. 1971) (ruling that consumers do not have standing under section 43(a)). *See also* *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1383 (5th Cir. 1996) (finding in light of the “pro-competitive purpose language found in § 45,” most courts agree that “consumers fall outside the range of ‘reasonable interests’ contemplated as protected by the false advertising prong of Section 43(a) of the Lanham Act”); *Serbin v. Ziebart Int’l Corp.*, 11 F.3d 1163, 1177 (3d Cir.1993) (same).

197. *See, e.g.*, 1 F. A. HAYEK, *LAW, LEGISLATION AND LIBERTY: RULES AND ORDER* (1973); ANTHONY T. KRONMAN & RICHARD A. POSNER, *THE ECONOMICS OF CONTRACT LAW* 6 (1979) (indicating that inefficient rules “will be progressively ignored and eventually forgotten” over time while the efficient rules remain); BRUNO LEONI, *FREEDOM AND THE LAW* (1961); RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 329 (1972) (noting that “[t]here is abundant evidence that legislative regulation of the economy frequently, perhaps typically, brings about less efficient results than the market-common law system of resource allocation.”); John C. Goodman, *An Economic Theory of the Evolution of Common Law*, 7 J. LEG. STUD. 393 (1978); George L. Priest, *The Common Law Process and the Selection of Efficient Rules*, 6 J. LEG. STUD. 65 (1977); Rubin, *supra* note 6. Although an early proponent of the theory of the efficiency of common law evolution, Judge Posner is reportedly now “distinctly skeptical” of the claim that the common law favors rules that ensure

Concentrated interest groups would hold collective action and transaction cost advantages over opposing dispersed interest groups. Thus, the disproportionate voice of concentrated interest groups would persuade the legislature to pass laws that generated rents for those groups, but reduced social welfare as a whole. In contrast, the judicial process—the theory goes—would not fall prey to the collective action advantages that plague the legislative process. If a party sued or was sued, it would have the same legal right to appearance and representation as any other party. The collective action advantage of concentrated interest groups would therefore be nullified because they could not have outsized influence in the courts. As a result, courts could more readily identify and adopt efficient legal rules, and if they occasionally made a mistake, they would recognize it. This would lead inefficient legal rules to be “progressively ignored and eventually forgotten” over time.¹⁹⁸

Yet, in trademark law, the exact opposite has occurred. Congress enacted a reasonably efficient statute in the Trademark Act of 1946, but courts reinterpreted it into an inefficient and sometimes-incoherent morass. To understand why requires a more careful examination of the law and economics arguments supporting efficient common law evolution.

In the 1970s, two schools of thought developed to explain why the common law process would lead to efficient legal rules. One group of scholars, including Paul Rubin and George Priest, argued that the nature of the common law process itself, like the invisible hand of the market, inevitably leads to efficient legal rules, whether judges seek efficiency or not (the “non-motivational” approach).¹⁹⁹ A second group, including Richard Posner, posited that judges, consciously or unconsciously, seek efficient rules (the “motivational” approach).²⁰⁰ Yet, each of these approaches faces difficulties.²⁰¹

economic efficiency. Jurgen G. Backhaus, *Efficient Statute Law*, in 2 THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW 24 (Peter Newman ed., 1998).

198. KRONMAN & POSNER, *supra* note 197, at 6.

199. See Rubin, *supra* note 6; Priest, *supra* note 197. See also Goodman, *supra* note 197.

200. See POSNER, *supra* note 197; See also Cooter & Kornhauser, *supra* note 6; Goodman, *supra* note 197 (proposing that litigation should lead to efficient common law rules so long as the private interests of the parties correlate with the corresponding social interests because the party with more at stake will spend more on litigation, and thus have a better chance of prevailing).

201. The literature on these issues is extensive. Works that explore the proposition include: FRANCESCO PARISI & VINCY FON, THE ECONOMICS OF LAWMAKING 85–88 (2009); PAUL H. RUBIN, BUSINESS FIRMS AND THE COMMON LAW: THE EVOLUTION OF EFFICIENT RULES 14 (1983); MAXWELL L. STEARNS & TODD J. ZYWICKI, PUBLIC CHOICE CONCEPTS AND APPLICATIONS IN LAW 464–67 (2009); Vincy Fon & Francesco Parisi, *Judicial Precedents in Civil Law Systems: A Dynamic Analysis*, 26 INT’L REV. L. & ECON. 519 (2006); Vincy Fon & Francesco Parisi, *Litigation and the Evolution of Legal Remedies: A Dynamic Model*, 116 PUB. CHOICE 419 (2003); Vincy Fon, Francesco Parisi & Ben Depoorter, *Litigation, Judicial Path-Dependence, and Legal Change*, 20 EUR. J.L. & ECON. 43 (2005); Goodman, *supra* note 197; R. Peter Terrebonne, *A Strictly Evolutionary Model of Common Law*, 10 J. LEGAL STUD. 397 (1981); Georg von Wangenheim, *The Evolution of Judge-Made Law*, 13 INT’L REV. L. & ECON. 381 (1993). On the role of precedent in promoting the development of efficient legal rules, see Nicola Gennaioli & Andrei Shleifer, *The Evolution of Common Law*, 115 J. POL. ECON. 43 (2007); Nicola Gennaioli & Andrei Shleifer, *Overruling and the*

Under the non-motivational approach, the essential insight is that private parties will choose to litigate when it is in their self-interest to do so.²⁰² So long as the parties' self-interests correspond to the broader public interest at stake, we should expect to see more litigation challenging inefficient legal rules, and less, or ideally, no litigation challenging efficient legal rules. As a result, even if judges do little more than flip a coin, judicial decisions together with the parties' decisions of whether to litigate or settle, should improve the efficiency of legal rules.²⁰³

Economics professor Paul Rubin, for example, has argued that parties would have stronger incentives to challenge inefficient legal rules than to challenge efficient ones.²⁰⁴ To support his argument, he presented a basic model of the choice between settlement and litigation in the context of an accident involving hypothetical parties *A* and *B*. In his model, each party will incur cost *C* if they litigate. Both parties have the same expectation as to the likely outcome in the case, where *R* is the probability that *B* will win. If *B* wins, *A* will pay *B* a sum of money, *X*. In addition, both parties are interested in how the decision in this case will affect similar disputes between them that may arise in the future. For example, if *A* wins the present case, *A* will win similar future cases with *B* as well. As a result, *A* will no longer incur a future stream of payments, with a present value T_A , consisting of the cost of precautions to avoid future liability and payments to *B* for those accidents that nevertheless occur. Instead, *B* will incur a stream of future costs, with a present value T_B , consisting of the cost of precautions to avoid accidents in the future and the cost of those accidents that nevertheless occur.

Given these assumptions, the value V_A of litigation to *A* is:

$$V_A = R(-X) + (1-R)T_A - C \quad (1)$$

and the value of litigation to *B* is:

$$V_B = R(X) + (1-R)(-T_B) - C. \quad (2)$$

The parties will settle, rather than litigate, if:

$$V_A > V_B. \quad (3)$$

Substituting for V_A and V_B , and simplifying the result, Rubin's model suggests that the parties will litigate if and only if:

Instability of Law, 35 J. COMP. ECON. 309 (2007); Thomas J. Miceli, *Legal Change: Selective Litigation, Judicial Bias, and Precedent*, 38 J. LEGAL STUD. 157 (2009).

202. See, e.g., William M. Landes & Richard A. Posner, *Adjudication as a Private Good*, 8 J. LEGAL STUD. 235 (1979).

203. See Priest, *supra* note 197; Rubin, *supra* note 6; see also Cooter & Kornhauser, *supra* note 6, at 145 (showing that if every rule but the best rule is challenged, then eventually the legal system tends toward a stable state in which the best rule always prevails).

204. Rubin, *supra* note 6, at 55 (stating that "[w]e have thus shown that if rules are inefficient, parties will use the courts until the rules are changed; conversely, if rules are efficient, the courts will not be used and the efficient rule will remain in force.").

$$(1-R)(T_A - T_B) > 2C. \quad (4)^{205}$$

In his analysis, Rubin assumed that the legal rule presently favors *B*, and thus $R > 0.5$.²⁰⁶ From an efficiency perspective, the legal rule should seek to minimize the stream of future costs—that is, it should impose liability on the lower cost avoider.²⁰⁷ Thus, if $T_A > T_B$, the legal rule should impose liability on *B*. If $T_B > T_A$, the legal rule should impose liability on *A*. Given this set-up, if the rule imposes liability on *A* and is also efficient, then $T_B > T_A$, and equation (4) will never be satisfied.²⁰⁸ As a result, parties will always settle, rather than litigate, when the legal rule is efficient, and the efficient legal rule will remain in place. On the other hand, if the rule imposes liability on *A* and is inefficient ($T_A > T_B$), then litigation becomes more likely. That is, the more inefficient the legal rule is, the more likely litigation becomes.²⁰⁹ As Rubin explains:

If the parties go to court, *B* will probably win, since both parties agree that $R > .5$. However, whenever this situation arises in the future *A* will again go to court. At some point, *some court will find in favor of A*; at this point, the law has been changed and is now efficient. From that time on, precedents will favor *A* in comparable cases.²¹⁰

205. There is a math error in Rubin's equations. The second expression, $(1-R)*T_A$, does not represent the value *A* captures from litigating. If R remains unchanged, then *A* will continue to incur $(1-R)*T_A$ —regardless if *A* litigates or settles. The value from litigating, rather than settling, comes from the possibility that litigation may change R in future cases. Thus, Rubin should have used the change in R from litigating in setting the value of litigating to *A*, $V_A = R(-X) + (-\Delta R)*T_A - C$, and similarly for *B*. Thus, equation (4) should be: $(\Delta R)(T_B - T_A) > 2C$. Indeed, in a more realistic model, we should define T_A and T_B as functions of R , rather than as constants. Getting the model correct would confirm Rubin's intuition in ways that Rubin's own equation does not. The parties would still choose to litigate if they could expect litigation to lead towards a more efficient rule, *i.e.* decrease *B*'s chance of winning if *B* is the lower cost avoider, or increase *B*'s chance of winning if *B* is the higher cost avoider. By using ΔR , instead of $(1-R)$, in equation (4), the correct solution can be satisfied whether *B* is the lower or higher cost avoider. If *B* is the higher cost avoider, then we want to shift liability to *A* and want litigation when litigation will shift liability towards *A*. This occurs when ΔR is positive. The correct equation (4) shows that such litigation can occur where both $(T_B - T_A)$ and ΔR are positive. If *B* is the lower cost avoider, then we may still want litigation if it will shift liability towards *B*. This occurs when ΔR is negative. Again, correcting Rubin's equation allows room for such litigation when both $(T_B - T_A)$ and ΔR are negative. In contrast, in Rubin's equation (4), $(1-R)$ is always positive. Thus, equation (4) can only be satisfied if *A* is the lower cost avoider. As a result, while Rubin's intuitions are correct, his model does not mathematically support them.

206. See Rubin, *supra* note 6, at 54.

207. *Id.*

208. This illustrates one of the flaws in Rubin's specification of the model: if $T_B > T_A$ equation (4) will never be satisfied because $(1-R)$ is always positive. Rubin's model improperly suggests that the parties will always settle rather than litigate if *A* is the lower cost avoider. At the same time, if *B* is the lower cost avoider by a large margin, $T_A > T_B$, then the parties are likely to litigate even if the legal rule is efficient, *i.e.* $0 < R < 0.5$.

209. See Rubin, *supra* note 6, at 54.

210. *Id.* (emphasis added).

Moreover, because the new rule is efficient, and hence, $T_A > T_B$, B will “not find it worthwhile to go to court” to challenge the new rule once it has arrived.²¹¹

In short, the parties' self-interest will lead them to a rule that imposes liability on the lower cost avoider. If liability is initially imposed on the higher cost avoider, the higher cost avoider will pursue litigation to change the rule, and the lower cost avoider will not be able to offer a sufficient sum to settle the litigation in order to keep the inefficient rule in place. If liability is imposed on the lower cost avoider, the lower cost avoider might still want, from its own self-interested perspective, to pursue litigation to shift liability to the higher cost avoider. However, the higher cost avoider will be able to offer the lower cost avoider a payment that the lower cost avoider will accept to settle the case and leave the existing rule in place. Thus, liability will remain on the lower cost avoider.

Given this framework, Rubin argued that the common law process produces efficient legal rules. This efficiency comes not from judges, however, but from the parties' decisions as to whether to settle or litigate any given case. As Rubin explained: “An outside observer coming upon this legal rule would observe that the rule is efficient; but this efficiency occurs because of an evolutionary process, not because of any particular wisdom on the part of judges.”²¹²

There are weaknesses, however, to Rubin's approach. First, even if we were to accept Rubin's framework, Rubin's model does not predict that the common law process will lead to an efficient legal rule in every case. Rather, as Rubin himself recognized, it predicts that the common law process will lead to an efficient rule if and only if both parties are interested in how a decision in the present case will affect similar disputes in the future.²¹³ If only one party is interested in the case as precedent, Rubin's model predicts that “there will be pressure for precedents to evolve in favor of that party which does have a stake in future cases, whether or not this is the efficient solution.”²¹⁴

His model thus offers one possible explanation for the inefficiency of trademark law: as repeat players seeking the rents that inefficient interpretations of trademark law offer, trademark plaintiffs have an interest in the common law development of trademark law that typical trademark defendants lack. As a result, trademark plaintiffs continue to litigate each time

211. *Id.* In essence, in such a case, A and B switch places, and just as A would settle and avoid litigation if the legal rule favored B and was efficient, B would also settle rather than litigate if the rule favored A and was efficient.

212. *Id.* at 55.

213. *Id.*; see also Goodman, *supra* note 197 (suggesting that the common law will develop in favor of the party who spends more resources on winning the case, and arguing that this will lead to the development of efficient legal rules if and only if higher expenditures correspond to the efficient rule).

214. Rubin, *supra* note 6, at 55.

an issue arises until finally they manage to persuade a court to give them the legal rule that they want. Potential defendants then largely accede to the new rule because the rents any given defendant could capture through a successful legal challenge are insufficient to pay for the challenge itself.

A second weakness of Rubin's approach is that his welfare conclusions do not extend beyond the tort law example on which he based his model. In the tort law context, the parties' self-interests are a function of the future stream of payments either party will incur to limit accidents, and their self-interested resolution of the dispute turns ultimately on which party can avoid accidents at a lower cost. As it happens, in this particular context, this same consideration—which party can avoid the accident at a lower cost—also defines the efficient legal rule. In order to perfectly align the self-interest of the parties with the public interest in an efficient legal rule, all we need to assume is that the cost of avoidance for our particular plaintiff and defendant are typical or representative of other similarly situated plaintiffs and defendants.

Even if we accept the welfare implications of Rubin's model for tort litigation, his analysis and conclusions do not apply directly to parties' decisions of whether to litigate or settle trademark cases. This is because in trademark litigation, parties decide whether to settle or litigate based upon their expected chance of success and the producer surplus they will capture by winning. If we follow Rubin's model and reasoning, we come to the conclusion that trademark law will evolve towards the rule of higher producer surplus, rather than higher efficiency.

Consider a simple example. Assume that there is a market that is competitive under existing trademark law.²¹⁵ The goods being sold in the market generate total surplus of one hundred units. This total surplus is divided between consumers and eleven competitors in the market. Because the market is competitive, prices are low and each consumer can choose the version of the good that he or she finds most satisfying. As a result, most of the surplus in the market—we will assume eighty units—flows to consumers. The remaining twenty units flow to the eleven competitors as producer surplus. Although the market is competitive, there is a dominant firm that captures ten units of the surplus; the remaining ten competitors capture one unit of surplus each. The dominant firm is considering trademark litigation against one of its smaller competitors. Maybe it seeks an expansive interpretation of trade dress protection; or maybe it seeks an expansive interpretation of infringement. In either event, the dominant firm seeks to persuade a court to change trademark law: specifically, to broaden it. If the dominant firm prevails in the litigation, all ten competitors would have to leave the market, not just the particular defendant in the litigation. Therefore, if the dominant firm prevails in the

215. Moreover, I will assume that the remainder of the economy satisfies the assumptions of the perfect competition model so that partial equilibrium analysis is appropriate.

litigation, the market would no longer be competitive. Prices would rise. Consumer choice would be reduced. As competitors leave the market, the dominant firm would capture more of the available surplus—let's assume fifty units. The firm's ten former competitors would leave the market and capture none. Additionally, higher prices would impose a deadweight loss of twenty-five units. Thus, because of both higher prices and reduced choice, consumer surplus would fall from eighty units to twenty-five units. Total surplus would also fall, from one hundred units with narrow trademark protection and competition, to seventy-five units with broad trademark protection and monopoly. Ultimately, because of the fall in total surplus, assuming all else remains constant, the broad interpretation of trademark law is inefficient and undesirable. Nevertheless, if litigation costs one unit, the dominant firm, acting as a rational profit-maximizing entity, would file the lawsuit and refuse to settle if it had more than a 5 percent chance of persuading a court to adopt the broad interpretation.²¹⁶ Moreover, despite the efficiency of existing trademark law, none of the competing firms could afford litigation to defend it. If sued, they would settle and leave the market. Indeed, as soon as the threat of litigation became real, they would leave the market on their own. Consumers, on the other hand, would like to defend the existing rule, but do not have standing. Even if they did, collective action problems would likely limit their effectiveness. As a result, the dominant firm would keep suing until a court adopted its desired interpretation, and trademark law would become inefficient.²¹⁷ Once it did, no competitor would have sufficient incentive to challenge the inefficient rule. It would therefore remain in place.

As the example suggests, when Rubin's analysis is applied to trademark, parties' decisions of whether to litigate or settle will lead trademark law to evolve towards the rule of the highest producer surplus. If the existing legal rule generates lower producer surplus for a defendant than the alternative rule would generate for the plaintiff, then the plaintiff will pursue litigation to change the rule, and the defendant will not be able to offer a settlement payment sufficient to persuade the plaintiff to forego the litigation. Just as predicted in Rubin's model, sooner or later the plaintiff will win and the rule will change. In trademark law, once that happens, the new legal rule will generate higher producer surplus for the plaintiff than the old rule generated for the defendant. Therefore, a defendant may still want to litigate to capture the producer surplus offered by the old rule, but the plaintiff will be able to offer

216. Using Rubin's framework, one of the eleven competitors would offer up one unit to settle and be allowed to remain in the market. Assuming litigation also costs one unit, the dominant competitor must expect to win at least two units in remedies for the litigation to be worthwhile. If the litigation succeeds, then the dominant competitor will capture an additional forty units in rents. Thus, it needs at least a 5 percent chance of winning those forty units for the expected return to equal at least two units.

217. Or more likely, the dominant firm would use the threat of trademark litigation to drive its competitors from the market.

the defendant worthwhile settlement to leave the new rule in place. Rubin's reasoning thus applies directly in this sense.

Rubin's normative conclusion that this self-interested process leads to efficient legal rules, however, does not follow in the trademark context. The efficient legal rule in trademark is not the one that generates only higher producer surplus, but the one that generates both higher producer *and* consumer surplus, combined. Once we go beyond merely redistributing surplus from one producer to another and offer a trademark plaintiff a higher producer surplus than the trademark defendants were earning, that increased producer surplus must come from consumers. To transfer surplus from consumers to a producer requires higher prices. Higher prices mean deadweight loss and reduced total surplus. Thus, the rule of higher producer surplus, predicted by the self-interest of the parties and Rubin's model as applied to trademark law, is necessarily inefficient.

The non-motivational approach to deciding trademark cases therefore would not lead trademark law to evolve efficiently, as some scholars have posited. To the contrary, further analysis suggests that trademark law will evolve towards inefficient rules that tend to maximize the profits, or producer surplus, of trademark owners.

Under the motivational approach, on the other hand, Posner has argued that the common law process leads to efficient legal rules because judges seek efficiency.²¹⁸ The problems with this approach are twofold. First, it is far from clear that judges seek efficiency. Relatively few legal decisions are phrased in terms of the efficiency considerations at stake. Rather, they are usually written using the language of law or morality or fairness or justice. Certainly, there is some overlap in these concepts, but they are not the same. Second, and more

218. Posner makes the point:

[M]any areas of the law . . . bear the stamp of economic reasoning. Although few judicial opinions contain explicit references to economic concepts, often the true grounds of legal decision are concealed rather than illuminated by the characteristic rhetoric of opinions. Indeed, legal education consists primarily of learning to dig beneath the rhetorical surface to find those grounds, many of which may turn out to have an economic character. . . . It would not be surprising to find that legal doctrines rest on inarticulate gropings toward efficiency, especially when we bear in mind that many of those doctrines date back to the late eighteenth and the nineteenth century, when a *laissez faire* ideology based on classical economics was the dominant ideology of the educated classes in society. . . . Once the frame of reference is thus expanded beyond the immediate parties to the case, justice and fairness assume broader meanings than what is just or fair as between this plaintiff and this defendant. The issue becomes what is a just and fair result for a class of activities, and it cannot be sensibly resolved without consideration of the impact of alternative rulings on the frequency of accidents and the cost of accident precautions. The legal and economic approaches are not so divergent after all.

POSNER, *supra* note 197, at 21–22.

importantly, even if judges actively sought to devise and adopt efficient legal rules, they may be structurally incapable of doing so.²¹⁹

As a general matter, courts are structurally ill-suited to identify and adopt efficient legal rules because they have: (1) a very small number of decision-makers; (2) limited and biased information gathering capacity; (3) a lack of independent expertise; (4) inability to rule without a case or controversy; (5) inability to rule when parties choose to settle; and (6) the limitation that a ruling can resolve only the precise dispute before the court.²²⁰ The supposed advantage of courts relative to legislatures is that courts are insulated from interest group politics, but as Professor Gillian Hadfield has pointed out, this advantage “comes at the cost of limited information and consequent bias in the development of legal rules.”²²¹ Courts can rule only on the cases that come before them. And while courts have some limited ability to gather information independently,²²² they rely for the most part on the information that the parties choose to provide them.²²³

In addition to the selection bias that arises from the parties' settlement decisions, activity bias from prior judicial rulings also leads to inefficiency in trademark law.²²⁴ Whenever courts announce a given rule, individuals will respond to the rule differently depending on their circumstances and characteristics. Some parties will adjust their conduct to comply with the rule; others will abandon the conduct at issue altogether; while a third group will choose to violate the rule.²²⁵ These choices will not be random, but the result of differences between the individuals making the decisions.²²⁶ By the nature of judicial decision making,²²⁷ the next time a court revisits an issue, it will

219. See, e.g., Gillian K. Hadfield, *Bias in the Evolution of Legal Rules*, 80 GEO. L.J. 583 (1992); see also Adrian Vermeule, *The Cycles of Statutory Interpretation*, 68 U. CHI. L. REV. 149 (2001) (presenting a self-perpetuating model of judicial statutory interpretation where a given interpretation leads litigants to change their behavior and demonstrate the weaknesses of the interpretation, which leads a court to articulate a new interpretation, again leading potential litigants to demonstrate the new interpretation's weaknesses, and so on).

220. Hadfield, *supra* note 219, at 604–08.

221. *Id.* at 615.

222. See FED. R. EVID. 706; see also Hadfield, *supra* note 219, at 612–14 (noting that judges can use judicial notice, hypotheticals, and scholarship to broaden the information available to them).

223. See, e.g., William F. Baxter, *Separation of Powers, Prosecutorial Discretion, and the “Common Law” Nature of Antitrust Law*, 60 TEX. L. REV. 661, 684 (1982) (noting that “[s]ince private litigants have no duty—or strong, personal incentive—to pick and choose the cases they bring and the arguments they espouse on the basis of their social consequences, we cannot expect them to apprise the courts fully of the consequences of prospective decisions.”).

224. This analysis draws from Professor Gillian Hadfield's work. See Hadfield, *supra* note 219, at 591–92.

225. *Id.* at 589–90.

226. *Id.* at 590–91.

227. Under Article III, a court must await a case or controversy. By necessity, such a case or controversy can arise only when one party threatens to sue or sues another. A trademark plaintiff can sue only a violator of trademark law. If a party complies with trademark law or abandons the disputed conduct, then no trademark litigation will ensue.

confront one of the violators. Yet, because violators differ systematically from those who (1) comply with the rule or (2) abandon the conduct at issue, even if the court could design an ideally efficient rule for the violators, it will not devise a rule that is efficient for the full range of individuals that the rule affects.²²⁸ Indeed, the court has no real way of gathering information about those who comply with the rule or abandon the conduct.²²⁹ By its own earlier ruling, the court has eliminated those two groups from its information set, and restricted the information available to information concerning the violators. Because the characteristics of violators differ in material ways from the other two groups, this information set is biased.²³⁰ As a result, the court will rule based upon a biased information set that its earlier ruling created,²³¹ and any rule the court adopts, even if it actively seeks efficiency, will prove to be similarly biased.²³²

On top of the selection and activity bias discussed, making law through litigation also frames the issue to be decided in a misleading manner: as a conflict between the parties before the court. These are the parties before the court; these are the parties that can make arguments and present evidence; these are the parties the judge will attempt to satisfy.²³³ In trademark law, the standing rules implicitly frame the dispute as one between the plaintiff and the defendant. They further implicitly suggest that the court's job is to do justice as between the parties before the court.

While the way in which standing rules frame the dispute may be perfectly appropriate in torts or contract law, this frame becomes a likely source of error in trademark litigation for two reasons. First, in trademark disputes, in terms of efficiency or welfare for society as a whole, the interests of the parties are only a part of the picture. Usually, consumer welfare should be the overriding

228. *Id.* at 590–92. One could imagine a more complex set of possibilities where a party tries to comply with a rule, but violates the rule, because of uncertainty over the application of the rule. Adding such a category would complicate the analysis, but not in any way alter the conclusion.

229. *Id.* at 591–92.

230. *Id.* at 592.

231. If the cases that come before the court remain representative of all possible cases—an implausible assumption—then one can develop a model in which an efficiency-seeking court produces efficient legal rules. See Robert Cooter, Lewis Kornhauser & David Lane, *Liability Rules, Limited Information, and the Role of Precedent*, 10 BELL J. ECON. 366 (1979).

232. *Infra* notes 255–260 and accompanying text (discussing the sports merchandising cases and providing an example of such activity bias arising in trademark law).

233. Although Martin Shapiro and Owen Fiss disagree quite sharply about the nature of judicial motivation, both agree that the legitimacy and authority of courts come from resolving the dispute before the court through interaction with the parties. Compare MARTIN SHAPIRO, *COURTS: A COMPARATIVE AND POLITICAL ANALYSIS* 12–13 (1981) (noting that “most of the conventional attachment to adversary proceedings is based not on the desire to heighten the level of conflict in judicial proceedings, but quite the opposite, on the need to have both parties present before the judge if he is to have any chance of creating a resolution to which both parties will consent”), with Owen M. Fiss, *The Supreme Court, 1978 Term, Foreword: The Forms of Justice*, 93 HARV. L. REV. 1, 13 (1979) (stating that “[t]he judge is entitled to exercise power only after he has participated in a dialogue about the meaning of the public values”).

consideration. But because consumers are not parties, the litigation frame encourages courts to overlook or discount the consumer welfare considerations at stake. Second, even where a court's ruling matches the efficient outcome for that case, the same decision and resulting legal principle may prove inefficient in future cases. A given case may be unrepresentative, and the efficient rule for resolving that particular case may prove inefficient for the usual run of cases to which the rule will likely apply.

Consider the expansion of the trademark infringement standard in the *Aunt Jemima* and *Vogue* hat cases. From an efficiency perspective, both outcomes can be justified. Neither decision prohibited the defendant from selling its respective product. Both merely forced the defendant to use a non-confusing mark in doing so. Moreover, the confusion at issue in both cases seems reasonably likely to have confused consumers in a material fashion. Yet, the test of a legal ruling is not whether it achieves justice or efficiency in a particular case, but whether it achieves justice or efficiency over the long run. Even if they were right on the facts before them, both decisions took important first steps on the path towards the radically overbroad infringement standard we have today. From an efficiency perspective, it would have been better for both plaintiffs to lose. Even if that would have been the inefficient outcome in those cases, it would have retained the 1905 Act's far simpler double identity standard. Of course, the double identity infringement standard would and did get the answer wrong in some cases. Every legal rule does. But retaining the double identity standard would have avoided both the parade of false positives that define trademark litigation today and the undue expense that has made trademark law a two-tiered system.

Moreover, the trend toward viewing trademarks as property,²³⁴ rather than viewing trademarks as a system for regulating competition, reinforces the framing bias created by the standing rules of trademark litigation. The view of trademarks as property encourages courts to ask whether the defendant has trespassed on the trademark owner's property. Such an approach necessarily frames the relevant issue quite differently than would an approach that treats trademarks as part of a trade regulation system. In the older regime of unfair competition, fair competition and the imitation necessary to achieve it, served a properly central role in the legal rules that governed the marketplace.²³⁵ Viewing trademarks as property does not.

For these reasons, there is little reason to expect trademark litigation to lead to efficient legal rules. To the contrary, there is every reason to expect the

234. I have explored the "trademark as property" view and its influence on the development of trademark law elsewhere. See Lunney, *Trademark Monopolies*, *supra* note 2.

235. See, e.g., *Am. Safety Table Co. v. Schreiber*, 269 F.2d 255, 272 (2d Cir. 1959) (stating that "imitation is the life blood of competition. . . . Unless such duplication is permitted, competition may be unduly curtailed with the possible resultant development of undesirable monopolistic conditions").

common law process to continue to lead, as it has, to trademark rules that are both inefficient and unduly complex.

B. The Biases in Action: A Case Study of the Merchandising Right

The law and economics approach thus suggests several reasons why the common law development of trademark doctrine leads to inefficient legal rules. Its key insight is that parties will litigate only when it is in their self-interest to do so. Therefore, to the extent that the parties' self-interests fail to fully capture the social interests at stake, a selection bias can arise that will bring the wrong cases to court for judicial resolution.

In trademark law, self-interest will push trademark owners to litigate cases that will lead to inefficient trademark rules that expand the exclusivity associated with their marks. While exclusivity does not always mean market power, it offers the trademark owner at least the possibility of market power and corresponding rents. And we should expect trademark owners to more zealously pursue those cases where success offers the chance of market power and higher rents.

In contrast, it will seldom be in a defendant's self-interest to litigate cases that will lead to efficient trademark rules. As discussed previously, if a defendant prevails, any other would-be competitor can make a similar use given the legal path the defendant has established.²³⁶ A successful defendant will thus face more direct competition than a successful plaintiff, and will earn little in the way of rents from prevailing in litigation. Indeed, if success moves a market from monopoly to competition, we should expect that the combined profits available to all similarly situated defendants from prevailing in litigation will be less than those available to the plaintiff from prevailing.²³⁷

When a successful trademark defense brings increased competition, the principal beneficiaries of that increased competition are not the trademark

236. As has been well recognized, this same concern arises in challenging questionable patents. See *In re K-Dur Antitrust Litigation*, 686 F.3d 197, 203, 208 (3d Cir. 2012) (noting that when a generic defendant prevails in pharmaceutical patent litigation, "consumers, rather than generic producers, are typically the biggest beneficiaries"); see also Thomas, *Patent Bounties*, *supra* note 11. To solve the problem for pharmaceutical patents, Congress created a specific duopoly incentive scheme in the Hatch-Waxman Act. Drug Price Competition and Patent Term Restoration Act, Pub. L. No. 98-417, 98 Stat. 1585 (1984); see also Alfred B. Engelberg, *Special Patent Provisions for Pharmaceuticals: Have They Outlived Their Usefulness?*, 39 *IDEA* 389, 403-04, 423 (1999) (noting that "[t]he entire purpose of the 180-day exclusivity provision, at the time it was drafted, was to insure that one generic competitor would not get a free ride on the litigation effort of another generic competitor until the party who had borne the cost and risk of litigation had a fair opportunity to recover its litigation costs"); Lunney, *FTC v. Actavis*, *supra* note 11, at 385-88.

237. For that reason, I am skeptical of a system that relies on coerced joinder of all potential defendants as a means of counterbalancing the asymmetric stakes otherwise generally present in trademark litigation. See Stein & Parchomovsky, *supra* note 11, at 1520-30 (proposing such a scheme).

defendants, but consumers.²³⁸ If a trademark defendant prevails, and the associated market becomes more competitive, prices will fall. The benefits of lower prices, however, flow not to the trademark defendant, or other similarly situated competitors, but to consumers, in the form of enhanced consumer surplus. This represents a real welfare gain for society. However, because trademark defendants will not capture this enhanced consumer surplus, they have no reason to fight for it. To the contrary, we should expect them to settle even if the consumer welfare gains at stake far exceed the gains available to the trademark owner and the trademark defendants. Trademark litigation thus presents asymmetric stakes.

Moreover, those stakes, by omitting the interest of consumers, fail to reflect the interests of society as a whole. This combination brings the wrong cases to court for judicial resolution. The same asymmetric stakes also create an activity bias in how potential trademark plaintiffs and defendants respond to the legal rules courts create. And by creating those legal rules through litigation that bars consumers' direct participation, trademark law incorrectly frames the issue to be decided.

To illustrate these biases in action, consider, for example, the rise of the merchandising right in the *Boston Professional Hockey* decision.²³⁹ The first question is: Why did the trademark owners bring the case? At the time they filed the lawsuit, they must have believed that they were going to lose. In the 1960s and early 1970s, sales of unauthorized team merchandise were commonplace; they were indeed the norm. As a result, and as the district court expressly found, "the usual purchaser, a sports fan in his local sporting goods store, would not be likely to think that defendant's emblems were manufactured by or had some connection with plaintiffs."²⁴⁰ That fact would seem to have made the plaintiffs' chance of success on their trademark claims vanishingly slim. Yet, the plaintiffs knew that if they could persuade the court to rule in their favor, they would establish a potentially perpetual licensing right worth billions.²⁴¹ For the plaintiffs, even a small chance at those billions would justify the expense of litigation.²⁴²

238. Again, this is well recognized in the analogous situation of challenging questionable patents. See *In re K-Dur*, 686 F.3d at 208 (noting a FTC study that found "that about one year after market entry an average generic pharmaceutical product takes over ninety percent of the patent holder's unit sales and sells for fifteen percent of the price of the name brand product" and concluding that "[t]his price differential means that consumers, rather than generic producers, are typically the biggest beneficiaries of generic entry.") (citation omitted); Lunnery, *FTC v. Actavis*, *supra* note 11, at 406–08 (estimating that the loss of thirty-four months of patent protection on Prozac cost Eli Lilly \$3.29 billion in discounted net present value; of this, the first generic in the market, Barr Laboratories, captured just under \$300 billion; the remainder went to consumers as surplus).

239. *Bos. Prof'l Hockey Ass'n, Inc. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975).

240. *Id.* at 1012.

241. While a precise estimate of the merchandising right for hockey teams is not available, the *Boston Prof'l Hockey* decision became the basis for the licensing of trademarks generally on

The second question is: Why did the court adopt the inefficient legal rule? The district court got it exactly right, finding as a factual matter that consumer confusion, whether as to source or sponsorship, was unlikely.²⁴³ Yet the Fifth Circuit panel disagreed. It appears that the litigation frame, together with asymmetric stakes, led the court astray. In justifying its decision, the Fifth Circuit returned repeatedly to a single point: “the major commercial value of the emblems is derived from the efforts of plaintiffs.”²⁴⁴ If the question is simply who, as between plaintiff and defendant, better deserves to capture a given surplus, the framing “if value then right” may provide a workable answer. But in trademark litigation, that is not usually the real question. The surplus available for division is not a given, but depends upon the court’s resolution of the dispute. The real question then is how a court should rule in order to ensure the larger total surplus that is associated with a more competitive market, rather than the smaller total surplus associated with a less competitive market. To answer that question, “if value then right” is hopelessly inadequate.²⁴⁵

The framing effect litigation imposes also appeared in the Fifth Circuit’s alternative justification for its ruling. As a second basis for its decision, the Fifth Circuit insisted that if it did not expand the plaintiffs’ rights to encompass the use at issue, then the defendant would obtain the right.²⁴⁶ The panel’s insistence on this issue is a bit curious. There is no reference in the court’s opinion to a counterclaim by the defendant, and the district court, after largely denying the plaintiffs’ claim for relief, did not grant the defendant an injunction against the plaintiffs’ further sale of team merchandise.²⁴⁷ But the court’s

merchandise. Royalties from that market exceeded \$13 billion in 2014. See *LIMA Study: Global Retail Sales of Licensed Goods Hit \$241.5B in 2014*, INT’L LICENSING INDUS. MERCHANDISERS’ ASS’N (June 8, 2015), <https://www.licensing.org/news/lima-study-global-retail-sales-of-licensed-goods-hit-241-5b-in-2014/> [<https://perma.cc/YX3X-TCVG>].

242. The more interesting question is why the defendant litigated, rather than settled. Indeed, the defendant even went so far as to file a *certiorari* petition. See *Dall. Cap & Emblem Mfg., Inc. v. Bos. Prof’l Hockey Ass’n*, 423 U.S. 868 (1975) (denying *certiorari* petition). Presumably, the answer lies in some combination of a very high chance of success and the value of the defendant’s task-specific human capital, reflecting the rents that the defendant would earn because of its specialization in the activity at issue.

243. *Bos. Prof’l Hockey Ass’n, Inc., et al. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975).

244. *Id.* at 1011; see also *id.* at 1012 (noting that “[t]he argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is the triggering mechanism for the sale of the emblem”).

245. See Cohen, *supra* note 124 (setting forth and then criticizing the “if value, then right” justification for legal rights).

246. *Bos. Prof’l Hockey Ass’n*, 510 F.2d at 1011 (noting that “defendant sought and ostensibly would have asserted, if obtained, an exclusive right to make and sell the emblems”).

247. *Id.* at 1008 (“The district court denied Lanham Act relief and granted only limited relief for unfair competition, requiring solely that defendant place on the emblems or the package a notice that the emblems are not authorized by or have not emanated from the plaintiffs. The claim for damages was denied.”); see also *Univ. Book Store v. Bd. of Regents of the Univ. of Wis.*, 33 U.S.P.Q.2d (BNA) 1385 (T.T.A.B. 1994) (allowing the University of Wisconsin to register a Bucky

insistence makes somewhat more sense when we consider that the court must have viewed the dispute as a battle between the plaintiffs and the defendant—if the plaintiffs did not hold the right, the defendant must. From that view, if the plaintiffs lose, the defendant must win. Viewing the trademarks at issue as property reinforces this mistaken perspective; property must belong to someone.

Asymmetric stakes played a role as well. True, the plaintiffs got lucky and happened to draw a sympathetic panel in the first case, rather than having to litigate case after case for ten years as would-be trade dress registrants did. Nonetheless, given the law of large numbers, such lucky (or from society's perspective, unlucky) draws are going to happen. Of course, had the plaintiffs lost this first case, the monopoly rents potentially available would have drawn these plaintiffs, or others similarly situated, back. While the unlucky draw made such repeated litigation unnecessary, the asymmetric stakes nevertheless influenced this litigation.

Trademark litigation's generally asymmetric stakes create an ecosystem around trademarks biased towards the trademark owner's perspective. Trademark owners not only have more at stake in particular cases, but generally. As a result, trademark owners have more incentive to spend resources protecting their trademarks than trademark defendants. For that reason, a trademark lawyer is almost necessarily a trademark owner's lawyer; there is no organized trademark defense bar. Additionally, for trademark owners, the International Trademark Association (or INTA) files amicus briefs seeking to expand trademark protection.²⁴⁸ For trademark defendants, there is no similar advocacy or trade organization. Even the treatise writers have demonstrated a bias in favor of trademark owners.²⁴⁹

Badger trademark even though others had developed and initially used the nickname in connection with the University on apparel and merchandise because the others did not claim Bucky as their own trademark).

248. See, e.g., *Christian Louboutin S.A. v. Yves Saint Laurent Am. Holdings, Inc.*, 696 F.3d 206, 211 (2d Cir. 2012) (noting that INTA filed an amicus brief supporting plaintiff); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 149 (4th Cir. 2012) (same); *Levi Strauss & Co. v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158, 1162 n.1 (9th Cir. 2011) (same); *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 253 (4th Cir. 2007) (same); *WarnerVision Entm't, Inc. v. Empire of Carolina, Inc.*, 101 F.3d 259, 262 (2d Cir. 1996) (noting the brief filed by INTA that sought to expand the legal effect of filing an intent-to-use application); see also Ruben J. Garcia, *A Democratic Theory of Amicus Advocacy*, 35 FLA. ST. U. L. REV. 315, 339–40 (2008) (noting the importance of amicus briefs to judicial decision-making).

249. Note, for example, how the Callman treatise changes its description of the 1962 Housekeeping Amendments. Compare 3 RUDOLF CALLMANN, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS*, § 80.1, at 120 (2d ed. Supp. 1965) (noting that the Amendment expanded confusion inquiry to encompass “potential as well as actual purchasers,” but arguing that the Amendment did not “go far enough”), with 3A LOUIS ALTMAN, *CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES*, § 20.01, at 4 (boldly proclaiming that the Housekeeping Amendment means that the Lanham Act is no longer limited to confusion of source and instead covers all kinds of trade identity confusion).

As a result, when the Fifth Circuit panel looked for a legal basis for its decision, the plaintiffs could point to—and the court could seize on—the 1962 Housekeeping Amendment as expanding the infringement standard.²⁵⁰ While the court's expansive interpretation of the Amendment overstated Congress's intent,²⁵¹ other plaintiffs had already argued for such a broad interpretation; multiple courts had already adopted it; and treatise writers had rejoiced.²⁵² Even though Congress intended something far narrower with the Amendment, Dallas Cap & Emblem had no similarly convenient and available authority to rebut the broad interpretation. No defense counsel had argued for the narrower and proper interpretation of the 1962 Housekeeping Amendment based on the Amendment's plain language, context, and legislative history until 1990.²⁵³ Thus, asymmetric stakes not only bias the selection of cases for judicial resolution, they also support an entire ecosystem that facilitates the presentation of arguments favoring the expansion of trademark protection.

The third question, then, is: Given that the *Boston Professional Hockey* decision was widely criticized at the time as a matter of fact, law, and policy, why did no defendant challenge it directly for thirty years? The answer is that for parties with standing, it was not in their interest to do so. The licensing requirement imposed substantial losses on consumers because every dollar in licensing revenue that trademark owners captured through the right had to come out of consumers' pockets. In addition, every dollar in licensing revenue

250. See, e.g., *Bos. Prof'l Hockey Ass'n*, 510 F.2d at 1010 ("A broadening of the protection afforded by the statute occurred by amendment in 1962 which deleted the previously existing requirement that the confusion or deception must relate to the 'source of origin of such goods or services.'" Pub.L. 87-772, § 17, 76 Stat. 773 (1962). *Continental Motors Corp. v. Continental Aviation Corp.*, 375 F.2d 857, 860 at n. 8 (5th Cir. 1967).").

251. See *supra* notes 162-67 and accompanying text.

252. See *Cont'l Motors Corp. v. Cont'l Aviation Corp.*, 375 F.2d 857, 860 n. 8 (5th Cir. 1967) ("The statute was amended in 1962 to delete the previously existing requirement that the confusion or deception must relate to the 'source of origin of such goods or services.' Pub.L. 87-772, § 17, 76 Stat. 773 (1962). Doubtless this could only serve to broaden, not restrict protection."); *Syntex Labs., Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971); 3A LOUIS ALTMAN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES, § 20.01, at 4. Professor McCarthy is a little more careful. 4 THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:7 (4th ed.) ("Congress struck out language in the Lanham Act which required confusion, mistake or deception of 'purchasers as to the source of origin of such goods and services.' Several courts have noted this expansion of the test of infringement and held that it supports a finding of infringement when even non-purchasers are deceived.").

253. In *United States v. Hon*, counsel for the defendant pointed to the legislative history accompanying the 1962 Housekeeping Amendment and argued that Congress intended to expand the likelihood of confusion standard in a narrow fashion, to encompass potential purchasers. 904 F.2d 803, 807 n.2 (2d Cir. 1990). The court rejected the argument and reiterated the longstanding (by that time) and erroneous view that Congress intended through the Housekeeping Amendment to make actionable any type of confusion at all. *Id.* As Hon pointed out:

[T]he Senate Report suggests that the amendment's purpose was to make clear that the confusion requirement includes potential purchasers as well as actual purchasers. See S. Rep. No. 87-2107 (1962), as reprinted in 1962 U.S.C.C.A.N. 2844, 2847, 2850-51. Still, nothing in the legislative history or the statute as amended excludes from its reach public, nonpurchaser confusion in the case of counterfeits.

also imposed on consumers some additional loss, perhaps thirty to seventy cents, in deadweight and cost conversion.²⁵⁴ But consumers did not and do not have standing under trademark law, so they could not challenge the ruling directly. Instead, they had to rely on a proxy, some manufacturer or retailer, to represent their interest. But for the manufacturers and retailers who had standing, challenging the ruling was a no-win proposition: On the one hand, if they funded the necessary litigation and won, they would be able to sell team merchandise without paying a license fee to the team. On the other hand, winning the litigation would also open the door for their competitors. Taking advantage of the doctrine of non-mutual collateral estoppel to insulate their actions from litigation, competitors could enter the same market without bearing the actual costs of litigation.²⁵⁵ Moreover, the litigating company would have had to price its goods to recoup the litigation costs. The other competitors would not. As a result, the non-litigating retailers and manufacturers could undercut the litigating competitor's price and potentially drive the litigating competitor from the market. Alternatively, if a retailer or manufacturer chose to litigate and lost, they would be out the money spent on the litigation.

Either way, a company choosing to litigate the issue would lose economically. In contrast, if a retailer acceded to the ruling, it could continue to sell team merchandise with a license from the team. Although the license royalty would necessitate a higher price for the merchandise, that higher price would apply to all manufacturers and retailers equally. Any given retailer's competitive position would not change vis-à-vis its competitors. Because that relative competitive position determines the retailer's revenue, profit, and market share, being forced to sell authorized team merchandise would not significantly affect a retailer's bottom line. Altogether, mainstream manufacturers and retailers thus had no interest in challenging the ruling in *Boston Professional Hockey* and instead complied with it.

Eventually, however, the *Boston Professional Hockey* decision was challenged directly in litigation. This brings us to the fourth question: Why didn't the later court correct its earlier mistake when it was given the opportunity? Here, along with the same framing bias that led to the initial mistake, an activity bias arose that hampered the court's ability to recognize its

254. There is no general rule as to the likely size of the deadweight losses that will occur. It will depend upon the precise shape and elasticity of the marginal cost and demand curves. If, for example, the demand curve is linear and marginal cost is constant, then the deadweight loss will be fifty cents for every dollar in surplus transferred from consumers to producer. See Glynn S. Lunney, Jr., *Reexamining Copyright's Incentives-Access Paradigm*, 49 VAND. L. REV. 483, 557 n.283 (1996). While the number is easy to calculate, it is not clear that it is the most common ratio that would be observed in real-world markets.

255. See *supra* note 11 and accompanying text; See also *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 350 (1971) (recognizing non-mutual collateral estoppel in patent litigation and holding that a patentee is estopped from asserting a patent against a defendant after a court has found the patent invalid in litigation involving another defendant).

own earlier mistake. By ruling that a license was required to sell team merchandise, the *Boston Professional Hockey* court changed the associated markets. As explained previously, mainstream manufacturers and retailers followed their self-interest and acceded to the new rule. As a result, licensing and authorized apparel became the norm, and consumer expectation changed accordingly. The next time the issue arose, some thirty years later, the nature of the defendant had also changed. All of the mainstream manufacturers and retailers who might have challenged the rule chose instead to comply. They chose to comply with the rule not because the rule was just or right or efficient, but because complying with the rule was in their self-interest. Only those manufacturers and retailers operating outside the mainstream continued to sell unauthorized team merchandise, and they did so knowing that they were breaking the law. Given the court's initial ruling, their products were now unlawful and subject to seizure. As a result of the risk of seizure, the optimal level of investment in product quality fell. Thus, their now-counterfeit products became cheaper and lower quality. For the same reason, these unauthorized merchandisers moved to less reputable locations, such as flea markets. Consequently, the next time the issue came before a court, consumers' newly developed expectations as well as the new "fly-by-night" characteristics of the defendant and its products reinforced the seeming desirability of the court's initial ruling against the defendant. Thus, when the Fifth Circuit had the opportunity to correct its mistake in *Boston Professional Hockey*, some thirty years later in *Board of Supervisors for Louisiana State University Agricultural and Mechanical College v. Smack Apparel Co.*, it did not. Instead, the Fifth Circuit reiterated and strengthened its earlier decision.²⁵⁶

Thirty years later, not only was the defendant's seeming opportunism even more apparent to the court, given that mainstream manufacturers and retailers had complied with the initial ruling, but the defendant itself, Smack Apparel, had an economic incentive to lose. As a business concern, Smack Apparel operated in the shadows of the *Boston Professional Hockey* decision. Instead of selling t-shirts bearing team emblems, Smack Apparel sold t-shirts replicating the color schemes of various universities, not the issue precisely presented and resolved in *Boston Professional Hockey*. At issue in the litigation were six specific t-shirts bearing the scarlet-and-grey, purple-and-gold, crimson-and-crème, and cardinal-and-gold color schemes of Ohio State, LSU, the University of Oklahoma, and the University of Southern California, along with words either touting their participation in the 2004 Sugar Bowl (for LSU and Oklahoma) or the number of national football titles each had captured (for Ohio State and USC).²⁵⁷

256. 550 F.3d 465 (5th Cir. 2008), *cert. denied*, 556 U.S. 1268 (2009). Confirmation bias, the human tendency to interpret new facts to confirm old beliefs, likely played some role as well.

257. *Id.* at 472–73.

In approaching the litigation, Smack Apparel faced two possible outcomes. Either it could have prevailed in the litigation or it could have lost.²⁵⁸ If it had prevailed, then it could have continued to sell the six t-shirts at issue. But having prevailed, it would have established the legality of such conduct and thereby opened the door to competitive entry by other competitors. If these new entrants were more efficient or enjoyed economies of scale, they might have not only taken some of Smack Apparel's market share, but also might have competed Smack Apparel out of the market entirely. At the very least, these new entrants would not have had to price their goods to recoup their litigation costs, as Smack Apparel would have. Moreover, depending on how broadly or narrowly the court ruled, Smack Apparel might have faced competition from new entrants not only with respect to the six t-shirts at issue, but across its product line. For Smack Apparel, winning the litigation battle might have meant losing the business war.

On the other hand, losing might have meant being ordered to stop selling the six t-shirts and any others confusingly similar, which is exactly what happened.²⁵⁹ While Smack Apparel would lose the revenue associated with those six t-shirts, it could continue to capture the revenue for the rest of its t-shirt line. And, by losing, Smack Apparel would have reinforced and perhaps expanded the legal rules prohibiting its conduct. Because the conduct remained infringing, mainstream manufacturers and retailers would remain out of the market, as they have. A loss in the litigation would thereby safeguard Smack Apparel's margins and its market share on the rest of its t-shirt line. While losing left Smack Apparel open to the possibility that other universities would follow suit and sue regarding their own color schemes, litigation is expensive. As yet, no other universities have found it worthwhile to engage in the necessary litigation. In short, by losing the litigation battle, Smack Apparel won the business war. Like a bootlegger, Smack Apparel could exist only so long as there was a demand that the law prohibited mainstream manufacturers and retailers from satisfying. By losing, Smack Apparel kept the prohibition in place, preserving both its margins and its market in the shadows of the law.

In enacting the Trademark Act of 1946, Congress barred direct consumer standing and left the representation of consumer interests in trademark

258. It could also have settled. In many areas of the law, we assume that an individual intends the natural and foreseeable outcome of a given course of conduct. Applying that approach here, we can assume that Smack Apparel litigated and lost, with an appellate court rejecting every conceivable argument that might have supported the legality of Smack Apparel's conduct, precisely because Smack Apparel wanted such a ruling. Why would Smack Apparel want to lose? There are, at least, two possibilities. First, perhaps Smack Apparel wanted to lose in order to discourage other potential non-mainstream—but not quite as far out as Smack Apparel—competitors from entering its market. Second, perhaps Smack Apparel wanted to establish its reputation so that other universities would note that if they too sued, Smack Apparel would not go down easily.

259. *Id.* at 474 (“The district court also enjoined Smack from manufacturing, distributing, selling, or offering for sale any of the six t-shirt designs found to be infringing or any other similar designs.”).

litigation to a proxy: either the trademark plaintiff or the trademark defendant, depending on the facts of the particular case. But the *Smack Apparel* litigation illustrates the reality of trademark litigation. Trademark plaintiffs and defendants represent their own interests. The consumer interest is not represented at all.

The rise of the merchandising right thus effectively illustrates the dangers to the common law evolution of trademark law that selection, activity, and framing biases present. These considerations do not mean that trademark defendants will never have an interest in challenging inefficient interpretations of trademark law. In some cases, a single defendant may have a sufficient economic stake to undertake the cost of establishing an efficient trademark rule. Some defendants may also have a business model built on imitation and copying, so that they have an interest both in the resolution of a particular case and the precedent it establishes for the future. Our exceptional cases, such as *Wal-Mart Stores*, *Rogers v. Grimaldi*, and *New Kids on the Block*,²⁶⁰ illustrate these propositions. Walmart pursued an efficient interpretation of the secondary meaning requirement for trade dress to preserve its leeway not just to copy Samara Brothers' clothing designs, but also to imitate popular products more generally. That Walmart chose to pursue the litigation, despite its costs, demonstrates the value of the resulting legal rule, from Walmart's self-interested perspective. Motion picture distributors and newspapers presumably pursued the *Rogers* and *New Kids* litigation for similar reasons. In other instances, particular defendants will pursue litigation even when the average defendant would not, because of a grudge against the trademark owner or to vindicate their principles or for other idiosyncratic reasons.

As discussed, however, the fact that the self-interest of particular defendants in particular cases has led some defendants to challenge overbroad trademark protection has not been sufficient to slow trademark's de-evolution generally. Rather, given *stare decisis*, it has forced trademark law to become unnecessarily complex as trademark's generally expansive tide encounters unmovable seawalls.

III.

CHANGING THE PROCESS TO CHANGE THE SUBSTANCE OF TRADEMARK LAW

We can now see why trademark law has become such a bloated and incoherent morass. Courts repeatedly make mistakes in trademark law because, first, asymmetric and unrepresentative stakes lead to selection and activity bias, and second, making law through litigation inaccurately frames the question to be decided. As a result, parties bring the wrong cases to court for judicial resolution, and courts resolve them incorrectly.

260. *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000); *Rogers v. Grimaldi*, 875 F.2d 994 (2d Cir. 1989); *New Kids on the Block v. News Am. Publ'g*, 971 F.2d 302 (9th Cir. 1992).

Substantive trademark reform will not solve this problem. No matter how clear congressional amendments to correct trademark's overbreadth might seem today, in ten or twenty or fifty years, courts will simply reinterpret Congress's actions to support broader trademark protection.²⁶¹ If that seems implausible, remember Congress added the phrase "word, name, symbol, or device" in 1943 to the bill that would become the Trademark Act of 1946 specifically to bar protection of trade dress.²⁶² Fifty years later, the Court touted this exact language as proof that Congress had intended to provide protection for trade dress all along.²⁶³

This suggests a need for more fundamental reform that will: (1) bring more of the right cases to court; (2) provide courts with better information to resolve the disputes before them; and (3) reframe the dispute to more accurately reflect the overriding consumer interests at stake. The simplest solution would be to give consumers direct standing in trademark litigation. Unfortunately, while simple, this will probably not solve the problem because of collective action issues. Nevertheless, a range of potential solutions may move the system in the right direction. At one end, awareness of the problem, together with the broader availability of low-cost or pro bono representation for trademark defendants, may help. At the other, we could abolish private enforcement of trademarks altogether and leave enforcement entirely to the Federal Trade Commission.²⁶⁴

Rather than advocate either doing nothing or burning the system down, I propose a middle course and initially advocate three reforms to improve the selection and judicial resolution of trademark cases. I believe that these reforms

261. Moreover, the legislative process has flaws, too. Congress got it right in the Trademark Act of 1946 because the Department of Justice intervened in the process and secured key amendments in 1943. *See Trade-Marks: Hearings Before a Subcomm. of the Senate Comm. on Patents*, 78th Cong. 58-71 (1944) (Department of Justice, Report on H.R. 82, The Trade-mark Bill). *See also* Lunney, *Trademark Monopolies*, *supra* note 2, at 421-22, 421-22 nn. 214-15. If recent history is any indication, Congress is less likely to get a balanced process for more narrowly tailored and specific amendments.

262. *See supra* notes 83-94 and accompanying text; *see also* Lunney, *The Trade Dress Emperor*, *supra* note 1 (explaining Congress's intent in more detail).

263. *Qualitex Co. v. Jacobson Prods. Co., Inc.*, 514 U.S. 159, 162 (1995) ("Since human beings might use as a 'symbol' or 'device' almost anything at all that is capable of carrying meaning, this language, read literally, is not restrictive.").

264. Professor William Baxter has proposed a similar solution for antitrust enforcement. *See* Baxter, *supra* note 223 (arguing that the selection bias that arises from private antitrust enforcement can be mitigated by substituting public for private enforcement). But as Professor Gillian Hadfield has argued, public enforcement may not overcome activity bias. Professor Hadfield explains:

[Professor Baxter] argues that 'the' bias can be mitigated by introducing public enforcers who can select cases in a more representative fashion. It is clear, however, that if potential defendants are sufficiently heterogeneous so that some falling within the ambit of a rule choose to comply or drop out rather than create a dispute by violating the existing legal rule, then public enforcement cannot ameliorate the more fundamental bias—the activity bias—created by heterogeneity. Laws cannot be enforced against those who have chosen not to violate them.

Hadfield, *supra* note 219, at 598.

will improve the process through two mechanisms. First, they will provide potential trademark defendants with a bounty²⁶⁵ for challenging inefficient interpretations of trademark law and for defending efficient interpretations. Second, they will re-frame the issue presented for the court, so that the overriding interests of consumers are more directly relevant and readily apparent. These three reforms are: (1) enhanced availability of attorneys' fees for prevailing trademark defendants; (2) reinvigoration of attempted monopolization counterclaims; and (3) broader use of Federal Rule of Evidence 706 to appoint a neutral expert witness to identify and explain the consumer interests at stake in trademark litigation. Courts can implement all three under existing law without legislative action.

Though these three reforms will partially ameliorate trademark law's de-
evolution, for a complete correction, I propose that Congress amend the Trademark Act to recognize a new defense: the Strategic Lawsuit Against Competition (or SLAC) defense. Modeled after existing Strategic Lawsuit Against Public Participation (or SLAPP) statutes,²⁶⁶ the proposed amendment would allow a trademark defendant to show that a trademark lawsuit is an effort to reduce competition by increasing the defendant's costs, by increasing the degree of product differentiation otherwise present in a market, or by excluding the defendant from a relevant market altogether. If the trademark defendant successfully established the lawsuit's potential for reducing competition, then the burden would shift to the plaintiff to show that it is likely to prevail. The litigation would proceed only if the trademark plaintiff could make that showing. The following Sections discuss these proposed reforms in turn.

A. Reform Within Existing Law

To the extent possible under existing law, courts should take the following three steps in trademark litigation to reduce the selection and activity bias and reframe the issue presented. First, courts should expand the availability of attorneys' fees awards and increase the amount of such awards to prevailing trademark defendants. Second, courts should allow trademark defendants to assert viable antitrust counterclaims. Third, courts should make more liberal use of Federal Rule of Evidence 706 to appoint neutral expert witnesses who can identify and explain the consumer interests at stake in trademark litigation.

265. Professor Thomas has proposed a similar approach to encourage validity challenges against questionable patents. See Thomas, *Patent Bounties*, *supra* note 11.

266. For an introduction to SLAPP statutes, see John C. Barker, *Common-Law and Statutory Solutions to the Problems of SLAPPs*, 26 LOY. L.A. L. REV. 395 (1993); Marc J. Randazza, *The Need for a Unified and Cohesive National Anti-SLAPP Law*, 91 OR. L. REV. 627 (2012).

1. *Enhanced Attorneys' Fees*

Prevailing trademark defendants should receive enhanced attorneys' fee awards. The awards should be enhanced, relative to existing law, in two senses: first, they should be awarded more often; and second, they should be larger. Such awards would provide a cost-based²⁶⁷ bounty to trademark defendants for challenging inefficient interpretations of trademark law and for defending efficient interpretations. To some extent, having to pay such a bounty would also discourage trademark owners from pushing ever more inefficient interpretations of trademark law.

The proposal would not require congressional action. Section 35(a) of the Trademark Act already provides for the award of reasonable attorney fees to the prevailing party in "exceptional" cases.²⁶⁸ The proposed awards are consistent with the statutory language, but would require two changes to existing practice. First, courts would need to redefine and expand the category of "exceptional" cases. Second, courts would need to expand their willingness to award "reasonable" attorneys' fees that exceed the actual attorneys' fees incurred.

First, courts should replace the "relative" standard for determining whether a case is exceptional with an "absolute" or "constant" standard that defines "exceptional" with respect to the zone of protection that lies at trademark's core. In *Octane Fitness*, the Court defined an exceptional case for purposes of the parallel attorneys' fee provision in the Patent Act as:

one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.²⁶⁹

Given Congress's identical use of "exceptional" case language in the Trademark Act, courts will likely apply—and indeed already have applied—the *Octane Fitness* standard to trademark cases as well.²⁷⁰ The problem with this standard as applied to trademark cases is that it uses a relative standard. The standard asks whether one litigated case "stands out" from other litigated cases.

267. The bounty would be cost-based in the sense that the award would be based upon the cost to the trademark defendant of undertaking the desired action, rather than based upon the social value generated by that action. Cf. Joseph Scott Miller, *Building a Better Bounty: Litigation-Stage Rewards for Defeating Patents*, 19 BERKELEY TECH. L.J. 667, 695–731 (2004) (surveying different approaches to bounties in the patent context).

268. 15 U.S.C. § 1117(a) (2012).

269. *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014).

270. See, e.g., *Georgia-Pacific Consumer Prods. LP v. Von Drehle Corp.*, 781 F.3d 710, 720–21 (4th Cir. 2015); *Donut Joe's, Inc. v. Interveston Food Servs.*, 116 F. Supp. 3d 1290, 1292–94 (N.D. Ala. 2015); *RCI TM Corp. v. R & R Venture Grp., LLC*, No. 6:13-cv-945-Orl-22, 2015 WL 668715, at *9–11 (M.D. Fla. Feb. 17, 2015); *High Tech Pet Prods., Inc. v. Shenzhen Jianfeng Elec. Pet Prods. Co.*, No. 6:14-cv-759-Orl-22TBS, 2015 WL 926023, at *1–2 (M.D. Fla. Mar. 4, 2015).

Such a relative standard for identifying which cases are “exceptional” in trademark litigation is problematic because asymmetric stakes mean that only exceptional trademark cases are litigated to judicial resolution. As discussed, trademark defendants usually have very little to gain by litigating, even if they prevail. As a result, they will seldom litigate cases to judicial resolution unless they feel that they have a very high likelihood of prevailing and are therefore correspondingly certain to capture the very little they have to gain. When faced with a case squarely in the center of trademark law’s prohibition on unfair competition, trademark defendants will avoid the conduct at issue so that a litigated case never arises. Or if they should accidentally stray into trademark’s core prohibition, the defendant will settle when litigation does arise and thereby preclude judicial resolution. For that reason, judging whether one trademark case litigated to judicial resolution is an outlier relative to other such cases is inherently misleading. The very fact that a trademark case is litigated to judicial resolution establishes that it is an outlier.

Instead of judging whether a case is relatively exceptional, courts should use a constant standard. This constant standard would ask whether the plaintiff’s claims fall within trademark’s core zone of protection. On infringement claims, for example, courts could define trademark’s core zone of protection using either the 1905 Act’s double identity standard or the 1946 Act’s standard that assesses the likelihood of confusion of purchasers as to the good’s source. Both of these standards define cases where consumers are likely to purchase a product by mistake and be dissatisfied. They thereby define the sorts of cases where a finding of trademark infringement is likely to enhance consumer welfare. If a trademark plaintiff advocates a theory of such core confusion, and loses, then the case would not be considered exceptional and no award of attorneys’ fees would be made. On the other hand, if a trademark plaintiff advocates a recognized but more esoteric theory of confusion, such as post-sale or initial interest, and loses, then the case should be considered exceptional because the theory of infringement falls outside trademark’s core zone of protection.

The key point, however, is that the core remains unchanged, even as trademark law’s outer limits expand. Even if courts define that unchanging core zone of protection using today’s expansive infringement standard, such an approach would still be better than *Octane Fitness*’s relative standard because it would limit future expansion. As the pressures of selection bias, activity bias, and framing effects continue to influence courts, trademark protection will continue to expand. Cases that are close calls, and therefore worth litigating today, will become slam dunks and therefore quickly settle if they arise in the future. Claims for trademark protection that seem absurd today will become the new norm, just as claims for trademark protection that seemed absurd fifty years ago are the norm today. A relative “exceptional” case standard will follow the evolving norms and shift similarly. At any given time, only the

outlier of the litigated outliers will seem exceptional. On the other hand, a constant or absolute standard that defines exceptional cases based on an unchanging core can permanently tie trademark law to its welfare-enhancing, consumer-protection goals. A constant standard would thereby provide an incentive for potential trademark defendants to fight against inefficient, and for efficient, interpretations of trademark law.

Merely reimbursing trademark defendants for their attorneys' fees will likely prove insufficient, however. Defending a trademark case entails costs beyond attorneys' fees. It also entails risk. Even where, from a social welfare perspective, the defendant should win, there is no guarantee that the defendant will win in trademark litigation. In trademark cases where the defendants prevail, the defendants need to receive a bounty that compensates them for the risk that they would have lost. If all that a defendant stands to gain by litigating is reimbursement of their attorneys' fees, but not their risk and other costs, potential trademark defendants may still lack the necessary incentive to bring cases.

For example, after the New Orleans Saints won the Super Bowl for the very first time in 2010, a dispute broke out over the phrase "Who Dat."²⁷¹ Numerous parties were selling merchandise bearing the phrase, or a clever variation thereof, such as "Who Dat," in connection with the Saints' championship season and Super Bowl victory.²⁷² A pair of brothers, through their corporation, Who Dat, Inc., claimed ownership of the phrase as a trademark.²⁷³ Their claims were particularly weak. They had not coined the slogan or even been the first to use it in connection with sporting events generally or the Saints specifically.²⁷⁴ They had merely been one of many parties to exploit the phrase, in their case by releasing a version of the song "When the Saints Come Marching In" with the phrase "Who Dat Say Dey Gonna Beat Dem Saints" chanted over a portion of the song.²⁷⁵ After releasing the song, the brothers sporadically licensed the claimed mark, but their use of it was intermittent at best.²⁷⁶ Nonetheless, they threatened to sue a number of local merchants who were selling merchandise bearing the slogan. In response, the merchants filed for declaratory judgment, asserting that Who Dat, Inc. did not own a valid trademark in the phrase "Who Dat."²⁷⁷ Despite *pro bono* representation, when the district court denied their summary judgment motions, the merchants settled and allowed Who Dat, Inc. to retain ownership of the

271. Who Dat Yat Chat, LLC v. Who Dat, Inc., 2012 WL 1118602, at *1 (E.D. La. Apr. 3, 2012).

272. *Id.* at *1.

273. *Id.* at *2.

274. *Id.*

275. *Id.* at *2; Associated Press, *NFL Claims Trademark Infringement* (Jan. 30, 2010), <http://www.espn.com/nfl/playoffs/2009/news/story?id=4871697> [<https://perma.cc/YU7Z-T7M5>].

276. *Id.* at *2, 5.

277. *Id.* at *2-4.

mark.²⁷⁸ Even though they were receiving free legal representation, the litigation took their time and effort away from running their businesses. That distraction and litigation's other costs made further litigation unattractive, relative to a settlement.

From a welfare standpoint, New Orleans consumers would have been far better off with competition than with a monopoly in the market for Who Dat merchandise. With competition, prices would not have been artificially inflated by a license royalty. Consumers would have had more and better choices as merchants competed to come up with the cleverest Who Dat merchandise. But consumers do not have standing in trademark disputes. And for the merchants who did have standing, a chance of winning the case—even a substantial chance—was not worth fighting for, even with free legal representation.

For that reason, my second proposal with respect to attorneys' fees awards is that courts award prevailing trademark defendants "reasonable" attorneys' fees that routinely exceed the defendant's actual fees by two to three times. Like treble damages in antitrust cases, the purpose of treble attorney fee awards to prevailing trademark defendants would be to encourage trademark defendants to serve as a private attorney general of sorts, and to vindicate the public interest in efficient interpretations of trademark law.

Granting attorneys' fees in excess of actual fees would not require a change to existing law, but would require a change in judicial practice. In calculating reasonable attorneys' fees generally, courts begin with the lodestar: multiplying the number of reasonable hours worked on the case by a reasonable hourly rate.²⁷⁹ However, after calculating the lodestar, courts retain discretion to award enhanced fees based upon the "results obtained."²⁸⁰ As the Court has explained, "Where a plaintiff has obtained excellent results, his attorney should recover a fully compensatory fee. Normally this will encompass all hours reasonably expended on the litigation, and indeed in some cases of exceptional success an enhanced award may be justified."²⁸¹ Applying these rules, courts have already approved awards of attorneys' fees as reasonable where they exceed actual fees incurred.²⁸² Most commonly, this occurs where an attorney represents the prevailing party on a *pro bono* basis, or at a subsidized or nonprofit rate, and the plaintiff incurs no or minimal attorneys' fees.²⁸³ But

278. Today, Who Dat?, Inc. holds four principal register registrations for Who Dat or Who Dat?. See U.S. Registration Nos. 5,186,320; 4,948,826; 4,402,283; and 4,310,960.

279. See *Hensley v. Eckerhart*, 461 U.S. 424, 433 (1983).

280. *Id.* at 434.

281. *Id.* at 435.

282. See, e.g., *Blum v. Stenson*, 465 U.S. 886, 894–95 (1984) (requiring attorneys' fees awards in Fair Housing Act litigation to be calculated using private market rates even if prevailing party was actually represented by lower price non-profit); *DiFilippo v. Morizio*, 759 F.2d 231, 235 (2d Cir. 1985) (awarding attorneys' fees based upon higher private market rates despite representation by a non-profit legal services organization).

283. See, e.g., *Blum v. Stenson*, 465 U.S. 886, 894–95 (1984) (requiring attorneys' fees awards in Fair Housing Act litigation to be calculated using private market rates even if prevailing party was

nothing in the law limits an award of reasonable fees in excess of actual fees to that situation. It would, however, require some change to existing practice. Courts today rarely award attorneys' fees to prevailing trademark defendants, and when they do, those awards rarely award trademark defendants their full actual fees. That needs to change.

2. *Antitrust Counterclaims*

Trademark defendants need to be able to present viable antitrust counterclaims that can survive summary judgment in order to make the stakes of trademark litigation more symmetric. At present, the stakes in trademark litigation are not merely asymmetric, but fundamentally one-sided in favor of plaintiffs. A plaintiff seeking to expand trademark protection in a manner that reduces total surplus has everything to gain and very little to lose. Consider again the merchandising rights for sports teams. If the National Hockey League can persuade a court to change the law and establish the merchandising right, it stands to gain billions. If it loses, it is merely out the costs of the litigation. Enabling trademark defendants to present viable antitrust counterclaims could shift this incentive structure. Allowing these counterclaims could sharply reduce the selection and activity bias that plagues the common law evolution of trademark law and re-frame the issue presented.

In terms of selection and activity bias, a counterclaim for antitrust damages offers a value-based bounty for potential trademark defendants. Antitrust counterclaims and their associated damages offer a trademark defendant not only a chance to recover the costs incurred in defending efficient legal rules, but an opportunity to generate value for the public by keeping the market at issue competitive.

The damages potentially available through an antitrust counterclaim would not only encourage the potential trademark defendant, they would also independently discourage the potential trademark plaintiff. Because these damages are, at least in part, value-based, a bounty measured in antitrust damages can more readily rise to the high levels necessary to deter trademark plaintiffs from seeking inefficient interpretations of trademark law in markets where billions are at stake. For example, in the sports merchandising context, threatening to award Dallas Cap & Emblem enhanced attorneys' fees is unlikely to deter the National Hockey League from pursuing litigation given the billions of dollars in rents it could capture through a monopoly over the merchandising markets. But a potential antitrust damages claim might deter

actually represented by lower price non-profit); *DiFilippo v. Morizio*, 759 F.2d 231, 235 (2d Cir. 1985) (awarding attorneys' fees based upon higher private market rates despite representation by a non-profit legal services organization).

them, both because such a claim can consider the monopoly rents at stake²⁸⁴ and because it is trebled.²⁸⁵

In addition, including antitrust counterclaims in routine trademark litigation re-frames the dispute to more accurately reflect the true and full interests at stake. When the trademark dispute between the National Hockey League and Dallas Cap & Emblem arose, the real issue was not whether one or the other should capture a given surplus from the merchandising market at issue. Rather, the real issue was whether that market should be competitive or monopolistic. Despite the focus on consumers in trademark law, trademark litigation considers the overall welfare of consumers only incidentally. In contrast, an antitrust counterclaim for attempted monopolization would force the parties, and allow the court, to confront that real issue directly. It would also re-frame the dispute from a property dispute into a regulatory dispute. Instead of asking whether one party has gone too far and thereby trespassed on another's property, an antitrust counterclaim would ask whether allowing or prohibiting the defendant's conduct would promote or disserve competition in the associated markets.

At the very least, reinvigorating the antitrust counterclaim would remind courts and juries that many assertions of trademark rights are little more than strategic lawsuits against competition. Trademark owners use litigation as a tool to increase would-be competitors' costs, increase product differentiation, and otherwise deter or bar competition. Allowing a trademark defendant to more readily assert an antitrust counterclaim would make a broader swath of evidence on the competitive structure of the market and the associated consumer interests relevant and therefore admissible.²⁸⁶ It would thereby give the court or the jury more complete information on which to resolve the case.

Unfortunately, antitrust counterclaims have become rare in intellectual property litigation, and when asserted, rarely survive summary judgment. Two judicial interpretations of antitrust law in particular have made such claims difficult to establish. First, courts have abolished the presumption that an

284. For attempted monopolization, a prevailing plaintiff may recover based upon its "estimate of sales it could have made absent the antitrust violation." *Conwood Co. v. U.S. Tobacco Co.*, 290 F.3d 768, 794 (6th Cir. 2002). Antitrust damages are therefore not a true value-based bounty. A true value-based bounty would force a losing trademark plaintiff to pay the defendant the expected monopoly rents the plaintiff would have captured had the plaintiff prevailed. Thus, if Boston Professional Hockey had lost the suit, they would have had to pay Dallas Cap the billions in monopoly profits they captured. The threat of such a payment could deter Boston Professional Hockey from bringing such a suit in the first place.

285. 15 U.S.C. § 15 (2017) (stating that "any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws . . . shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee").

286. As the Court has recognized, "Congress designed the Sherman Act as a 'consumer welfare prescription.'" *Reiter v. Sonotone Corp.*, 442 U.S. 330, 343 (1979). In antitrust, "whether the ultimate finding is the product of a presumption or actual market analysis, the essential inquiry remains the same—whether or not the challenged restraint enhances competition." *Nat'l Collegiate Athletic Ass'n v. Bd. of Regents of the Univ. of Okla.*, 468 U.S. 85, 104 (1984).

intellectual property right, such as a patent or copyright, confers market power.²⁸⁷ Courts therefore require proof of market power. At the same time, courts are often reluctant to define a market narrowly for antitrust purposes.²⁸⁸ Most courts, for example, would be reluctant to define Coca-Cola as its own product market for antitrust purposes.²⁸⁹ Most courts would almost certainly include Pepsi and other colas in the relevant market. From an economic perspective, however, Coca-Cola is almost certainly its own market.²⁹⁰ In economics, two products compete, or are in the same market, if and only if a “small but significant and nontransitory” price increase on the first product would prove unprofitable because it would lead too many consumers to switch to some other product.²⁹¹ The cross-elasticity of demand between Coke and Pepsi is probably insufficient to limit Coke’s ability to profitably raise its prices.²⁹² Of course, consumers could switch if Coke prices increased, but my own sense is that they would not.²⁹³

287. The Court initially created the presumption that a patent confers market power in a patent misuse case, *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502 (1917), and then subsequently extended the presumption to antitrust cases. *Int’l Salt Co. v. United States*, 332 U.S. 392 (1947). In *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984), the Court retained and reiterated the presumption: “[I]f the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power.” *Id.* at 16. However, in 1988, Congress amended the Patent Act to abolish the presumption of market power in the context of patent misuse. 35 U.S.C. § 271(d)(5) (2016). In 2006, the Court, based in part on Congress’s abolition of the presumption in the misuse context, abolished the presumption for antitrust claims as well. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006). While the *Illinois Tool Works* Court formally abolished the presumption, it remanded the case to allow the respondent, Independent Ink, to try and establish such market power through evidence. *Id.* at 46.

288. The Court requires market definition to establish attempted monopolization:

To establish monopolization or attempt to monopolize a part of trade or commerce under § 2 of the Sherman Act, it would then be necessary to appraise the exclusionary power of the illegal patent claim in terms of the relevant market for the product involved. Without a definition of that market there is no way to measure [the defendant’s] ability to lessen or destroy competition.

Walker Process Equip., Inc. v. Food Mach. & Chem. Corp., 382 U.S. 172, 177 (1965).

289. See Lemley & McKenna, *Market Definition*, *supra* note 121, at 2056–59; Lunney, *Trademark Monopolies*, *supra* note 2, at 424–25.

290. For an explanation, see Lunney, *Trademark Monopolies*, *supra* note 2, at 424–25; see also Lemley & McKenna, *Market Definition*, *supra* note 121, at 2056–59 (offering the same example).

291. See U.S. DEP’T OF JUSTICE, FED. TRADE COMM’N, HORIZONTAL MERGER GUIDELINES § 1.11 (1992); see also *Satellite Television & Associated Res., Inc. v. Cont’l Cablevision of Va., Inc.*, 714 F.2d 351, 355 (4th Cir. 1983) (applying Guidelines approach to define relevant product market), *cert. denied*, 465 U.S. 1027 (1984); *Bon-Ton Stores, Inc. v. May Dep’t Stores Co.*, 881 F. Supp. 860, 872 (W.D.N.Y. 1994) (using Guidelines approach to define relevant product market).

292. For an explanation, see Lunney, *Trademark Monopolies*, *supra* note 2, at 424–25; see also Lemley & McKenna, *Market Definition*, *supra* note 121, at 2056–59 (offering the same example).

293. See Lemley & McKenna, *Market Definition*, *supra* note 121, at 2056–59; Lunney, *Trademark Monopolies*, *supra* note 2, at 424–25. As the Court has explained:

For every product, substitutes exist. But a relevant market cannot meaningfully encompass that infinite range. The circle must be drawn narrowly to exclude any other product to which, within reasonable variations in price, only a limited number of buyers will turn; in technical terms, products whose “cross-elasticities of demand” are small.

Market definitions must be more realistic for attempted monopolization counterclaims to be viable in trademark litigation. Merchandise bearing hockey team emblems do not compete with merchandise bearing football team emblems. Further, merchandise bearing the emblems and name of the Dallas Stars probably do not compete with merchandise bearing the emblems and name of the Boston Bruins. Courts should recognize the reality that in many circumstances, popular brands define their own product market. True, not every trademark confers market power. But as self-interested economic actors, trademark owners are more likely to engage in litigation to protect trademarks that do confer market power.²⁹⁴ All that is necessary to solve this particular problem is a more realistic application of the existing cross-elasticity of demand standard. Two products compete only when consumers will or do in fact switch in response to a “small but significant and nontransitory” price increase.²⁹⁵

Second, to show attempted monopolization, a party must demonstrate predatory or anticompetitive conduct.²⁹⁶ Courts usually treat mere assertion of a losing claim—whether patent, copyright, or trademark—as insufficient to establish predatory or anticompetitive conduct. In the United States, citizens have a First Amendment right to petition the government, including the courts, for redress.²⁹⁷ Finding predatory conduct in every instance where a patent or trademark plaintiff files a lawsuit and loses would encroach on that First Amendment right too greatly.²⁹⁸ In addition, it is not clear that Congress intended the general language of the Sherman Act, aimed at more traditional

Times-Picayune Publ'g Co. v. United States, 345 U.S. 594, 612 n. 31 (1953).

294. In *Illinois Tool*, the respondent made an analogous argument. Specifically, respondent argued for a rebuttable presumption of market power for patents used to create tying arrangements. *Ill. Tool Works Inc. v. Indep. Ink, Inc.*, 547 U.S. 28, 42 (2006). The Court rejected the argument. *Id.* at 43–44.

295. Department of Justice & Federal Trade Commission, Horizontal Merger Guidelines § 1.11 (1992); see also *Satellite Television & Associated Res., Inc. v. Cont'l Cablevision, Inc.*, 714 F.2d 351, 355 n.5 (4th Cir. 1983) (applying Guidelines approach to define relevant product market), *cert. denied*, 465 U.S. 1027 (1984); *Bon-Ton Stores, Inc. v. May Dep't Stores Co.*, 881 F. Supp. 860, 872 (W.D.N.Y. 1994) (using Guidelines approach to define relevant product market).

296. As the Court has stated, “it is generally required that to demonstrate attempted monopolization a plaintiff must prove (1) that the defendant has engaged in predatory or anticompetitive conduct with (2) a specific intent to monopolize and (3) a dangerous probability of achieving monopoly power.” *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 456 (1993).

297. U.S. CONST., amend I (stating that “Congress shall make no law . . . abridging . . . the right of the people . . . to petition the Government for a redress of grievances”); see *Cal. Motor Transp. Co. v. Trucking Unlimited*, 404 U.S. 508, 510–11 (1972); *United Mine Workers of Am. v. Pennington*, 381 U.S. 657, 669 (1965); *E. R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 136–38 (1961) (exempting from antitrust liability lobbying efforts directed at obtaining legislation that would restrict competition).

298. See, e.g., *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1757 (2014) (stating that “[w]e crafted the *Noerr–Pennington* doctrine—and carved out only a narrow exception for ‘sham’ litigation—to avoid chilling the exercise of the First Amendment right to petition the government for the redress of grievances.”).

restraints of trade, to reach such petitioning activity.²⁹⁹ As a result, courts have limited the availability of antitrust counterclaims for losing intellectual property claims to exceptional circumstances.

The Court's *Noerr-Pennington* doctrine limits antitrust liability to "sham" litigation where a plaintiff asserts claims that are: (1) "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits"; and (2) improperly motivated by a subjective intent "to interfere *directly* with the business relationships of a competitor," through the "use [of] the governmental process—as opposed to the outcome of that process"³⁰⁰ For example, under this "sham" exception, attempting to enforce a patent that a party has obtained through fraud or inequitable conduct on the Patent Office would constitute predatory conduct.³⁰¹ Because a trademark defendant will rarely be able to prove that a trademark plaintiff's assertions are both objectively baseless and improperly motivated, the Court's interpretation of the First Amendment sharply limits the availability and viability of antitrust counterclaims in response to overzealous assertion of trademark rights. To be sure, there remains some room when a trademark plaintiff's claims are "objectively baseless," but that is not likely to prove a sufficient deterrent.³⁰²

For antitrust counterclaims to become a viable deterrent, courts would need to expand the "sham" exception, or otherwise limit the *Noerr-Pennington* doctrine. This would not be unprecedented. In *California Motor Transport Co. v. Trucking Unlimited*, for example, one trucking company sued its competitors, alleging a violation of the antitrust laws when the competitors joined together to "institute state and federal proceedings to resist and defeat

299. As the Court explained:

Although such associations [to lobby Congress jointly for legislation that would restrain trade] could perhaps, through a process of expansive construction, be brought within the general proscription of 'combination(s) . . . in restraint of trade,' they bear very little if any resemblance to the combinations normally held violative of the Sherman Act, combinations ordinarily characterized by an express or implied agreement or understanding that the participants will jointly give up their trade freedom, or help one another to take away the trade freedom of others through the use of such devices as price-fixing agreements, boycotts, market-division agreements, and other similar arrangements. This essential dissimilarity between an agreement jointly to seek legislation or law enforcement and the agreements traditionally condemned by § 1 of the Act, even if not itself conclusive on the question of the applicability of the Act, does constitute a warning against treating the defendants' conduct as though it amounted to a common-law trade restraint.

E. R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. at 136–37.

300. *Prof'l Real Estate Inv'rs, Inc. v. Columbia Pictures Indus.*, 508 U.S. 49, 60–61 (1993).

301. See *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 174 (1965) (holding that "the enforcement of a patent procured by fraud on the Patent Office may be violative of § 2 of the Sherman Act provided the other elements necessary to a § 2 case are present"); *Transweb, LLC v. 3M Innovative Props. Co.*, 812 F.3d 1295, 1306–09 (Fed. Cir. 2016) (affirming antitrust liability for attempted enforcement of a patent procured through inequitable conduct).

302. Adopting the abuse of right prohibition commonly found in civil law states might also address the issues. For a discussion of the abuse of right prohibition, see, for example, Annekatrien Lenaerts, *The General Principle of the Prohibition of Abuse of Rights: A Critical Position on Its Role in a Codified European Contract Law*, 6 EUR. REV. PRIV. L. 1121 (2010).

[the plaintiff's] applications" to transport goods in trade.³⁰³ The defendants insisted that the *Noerr-Pennington* doctrine immunized their conduct from antitrust scrutiny.³⁰⁴ But the Court rejected the argument.³⁰⁵ The plaintiff alleged that the defendants had conspired to institute multiple administrative and judicial proceedings to effectively deny the plaintiff "free and unlimited" access to those same agencies and courts.³⁰⁶ The Court held that these allegations stated a viable antitrust claim and fell within the scope of the "sham" exception.³⁰⁷ In reaching that conclusion, the Court explained: "First Amendment rights may not be used as the means or the pretext for achieving 'substantive evils' which the legislature has the power to control."³⁰⁸

As this decision suggests, First Amendment rights are not absolute. Of course, the *California Motor Transport* decision on its own is not enough to ensure the effective viability of antitrust counterclaims as a deterrent to overzealous trademark enforcement in every case. However, it recognizes the need to balance the scope of the First Amendment against the substantive evil of monopoly that the antitrust laws aim to prevent. The decision also suggests that courts have some discretion in setting that balance. For the threat of an antitrust counterclaim to become an effective deterrent to rent-seeking trademark litigation, we may simply need to tilt that balance slightly more towards preventing the evils of monopoly.

3. Court-Appointed Expert Witnesses

Courts should take advantage of their authority under Federal Rule of Evidence 706 to appoint neutral expert witnesses to identify and explain the consumer welfare interests at stake in trademark litigation.³⁰⁹ As a general rule, courts have proven reluctant to use their authority under Rule 706 and have preferred instead to let the parties shape the course and content of the litigation.³¹⁰ While this is the general American approach to litigation, the

303. 404 U.S. 508, 509 (1972).

304. *Id.* at 509–10, 511.

305. *Id.* at 514–16.

306. *Id.* at 511.

307. *Id.* at 514–16.

308. *Id.* at 515 (citation omitted).

309. FED. R. EVID. 706(a) authorizes a court to appoint a neutral expert of its own choosing. The Rule provides:

(a) Appointment Process. On a party's motion or *on its own*, the court may order the parties to show cause why expert witnesses should not be appointed and may ask the parties to submit nominations. The court may appoint any expert that the parties agree on and *any of its own choosing*. But the court may only appoint someone who consents to act.

Id. (emphasis added). In the trademark litigation context, the cost of a court-appointed expert becomes a part of the costs of the case generally. Like other court costs, they are paid by the parties as the court directs. FED. R. EVID. 706(c).

310. See Amanda Frost, *The Limits of Advocacy*, 59 DUKE L.J. 447, 449 (2009) (noting that "[p]arty control over case presentation is a central tenet of the American adversarial legal system."). If we look at the appellate decisions regarding Rule 706 over the last two years, all of them involve either

adversary system works well only when all of the real parties in interest are present and have an opportunity to be heard.

This adversary system generally has not worked well in trademark litigation because one of the real parties in interest, the consumer, has neither the right nor the opportunity to be heard. Moreover, neither trademark plaintiffs nor trademark defendants have proven to be effective representatives for the missing consumers.

Given that consumer welfare lies near the heart of trademark law, consumers should have a more direct and vital role in trademark litigation. Standing rules limit their direct participation as a party. Moreover, even if they had standing, collective action issues would likely limit consumer participation. Rule 706 gives courts an opportunity to give consumers a direct voice in trademark litigation—one that is not subject to the whims and litigation strategies of the parties.

Under Rule 706, courts have the authority to appoint a neutral expert witness to identify and explain the consumer interests at stake in trademark litigation. A court may do so on its own initiative.³¹¹ And it may appoint a witness of its own choosing.³¹² Given the undeniable and overriding importance of the consumer interest in trademark litigation and the parties' unwillingness to represent that interest at the expense of their own, courts should routinely employ their authority under Rule 706 to appoint a neutral expert witness and to thereby give consumers a direct voice in trademark litigation.

Using Rule 706 in this manner would not only give consumers a more direct voice in the litigation but would also re-frame the issue presented for the court. A neutral expert can help remind the court that resolving trademark litigation represents a choice between not two, but three possible outcomes. The court can rule in favor of the trademark plaintiff; it can rule in favor of the trademark defendant; or it can rule in favor of consumers.

B. Anti-SLAC Legislation

Congress should amend the Trademark Act to provide trademark defendants with a strategic lawsuit against competition defense.³¹³ While courts

section 1983 claims or other claims by prisoners who could not afford to hire their own experts. *See Kennedy v. Huibregtse*, 831 F.3d 441 (7th Cir. 2016) (noting court's authority to appoint neutral expert under Rule 706 in the context of a prisoner's *in forma pauperis* motion); *Foster v. Enenmoh*, 649 Fed. Appx. 609 (9th Cir. 2016) (discussing application of Rule 706 in connection with section 1983 claim).

311. FED. R. EVID. 706(a) (stating “[o]n a party’s motion or *on its own*. . . .”) (emphasis added).

312. *Id.* (stating “[t]he court may appoint any expert that the parties agree on and *any of its own choosing*.”) (emphasis added).

313. The proposed SLAC defense is similar to the antitrust counterclaim approach. Like the antitrust counterclaim, the SLAC defense would focus on the harm to consumers, in the form of higher prices and reduced consumer choice, that might result from the litigation. Some elements, such as

can use existing law to help correct the selection, activity, and framing biases that have led to trademark law's de-evolution, I do not believe that they go far enough. In particular, I worry that the First Amendment limits on antitrust counterclaims so tightly constrain the availability and viability of such counterclaims that the incentives for trademark plaintiffs to push for inefficient and anticompetitive interpretations of trademark law will remain fundamentally one-sided in favor of trademark overreach. For that reason, I propose a strategic lawsuit against competition (or "SLAC") defense modeled on state-strategic-lawsuit-against-public-participation (or "SLAPP") statutes.

Enacted in twenty-seven states,³¹⁴ SLAPP laws are designed to encourage the public's exercise of their free speech rights and to discourage the use of lawsuits to coerce silence.³¹⁵ Although the statutes differ somewhat in their details, their basic structure is similar. SLAPP statutes give defendants a special defense or motion to strike where a plaintiff seeks to deter public participation through litigation. A defendant has the initial burden to demonstrate that the litigation arises out of acts that constitute public participation. For example, the California statute provides a special motion to strike for a cause of action "arising from any act of that person in furtherance of the person's right of petition or free speech under the United States Constitution or the California Constitution in connection with a public issue."³¹⁶ Once a defendant has shown that the cause of action arises out of the

damages and the need to show antitrust injury, would differ. While similar, I propose the SLAC defense as an express alternative because I believe that courts will continue to limit antitrust counterclaims under the *Noerr-Pennington* doctrine.

314. See Tex. Civ. Prac. and Rem. Code Ann. §§ 27.001–27.011 (2011); Wash. Rev. Code § 4.24.525 (2010); N.Y. C.P.L.R. 70-a, 76-a (2008); N.Y. C.P.L.R. 3211; 735 Ill. Comp. Stat. 110/1–110/99 (2007); Ariz. Rev. Stat. §§ 12-751–12-752 (2006); Ark. Code Ann. §§ 16-63-501–16-63-508 (2005); 12 V.S.A. § 1041 (2005); Md. Code Ann., Cts. and Jud. Proc. § 5-807 (2004); Mo. Rev. Stat. § 537.528 (2004); Haw. Rev. Stat. § 634F-1–634F-4 (2002); N.M. Stat. §§ 38-2-9.1–38-2-9.2 (2001); Or. Rev. Stat. § 31.150 et seq. (2001); Utah Code Ann. §§ 78B-6-1401–1405 (2001); Fla. Stat. §§ 768.295, 720.304 (2000); 27 Pa. Cons. Stat. § 7707, §§ 8301–8303 (2000); La. Code Civ. Proc. Ann. art. 971 (1999); Ind. Code § 34-7-7-1 et seq. (1998); Tenn. Code Ann. §§ 4-21-1001–21-1004 (1997); Ga. Code Ann. § 9-11-11.1 (1996); Me. Rev. Stat. Ann. tit. 14 § 556 (1995); R.I. Gen. Laws §§ 9-33-1–9-33-4 (1995); Mass. Gen. Laws Ann. ch. 231 § 59H (1994); Minn. Stat. §§ 554.01–554.05 (1994); Neb. Rev. Stat. §§ 25-21,241–25-21,246 (1994); Nev. Rev. Stat. §§ 41.635–41.670 (1993); Cal. Civ. Proc. Code § 425.16 (1992); Del. Code Ann. tit. 10, §§ 8136–8138 (1992).

315. The purpose of the Texas SLAPP statute, for example, is "to encourage and safeguard the constitutional rights of persons to petition, speak freely, associate freely, and otherwise participate in government to the maximum extent permitted by law and, at the same time, protect the rights of a person to file meritorious lawsuits for demonstrable injury." Tex. Civ. Prac. and Rem. Code Ann. § 27.002.

316. Cal. Civ. Proc. Code § 425.16(b)(1). The statute then goes on to define specifically what constitutes public participation. After generally defining acts in "furtherance of a person's right of petition or free speech," the statute identifies four specific categories:

- (1) any written or oral statement or writing made before a legislative, executive, or judicial proceeding, or any other official proceeding authorized by law, (2) any written or oral statement or writing made in connection with an issue under consideration or review by a legislative, executive, or judicial body, or any other official proceeding authorized by law, (3) any written or oral statement or writing made in a place open to the public or a public

defendant's public participation, the burden switches to the plaintiff to demonstrate that the plaintiff is more likely than not to prevail on its cause of action.³¹⁷

In addition to requiring a plaintiff to make an early showing that it is more likely than not to succeed on the merits, SLAPP statutes include three other elements designed to reduce the cost and facilitate the early resolution of lawsuits that target public participation. First, once a defendant has filed a motion to strike under a SLAPP statute, discovery is stayed pending resolution of the motion.³¹⁸ This reduces the ability of a plaintiff to coerce settlement from a defendant through expensive and invasive or otherwise harassing discovery requests. Second, like a preliminary injunction, an order granting or denying a motion to strike under a SLAPP statute is immediately appealable.³¹⁹ Third, prevailing defendants under SLAPP motions are entitled to a mandatory award of their attorneys' fees.³²⁰ Indeed, some states go further and authorize courts to award heightened sanctions and bounties to deter would-be plaintiffs from filing such lawsuits and to encourage defendants to vindicate their rights.³²¹

The reason for SLAPP statutes is that the private interests of the parties to this type of litigation are often asymmetric and unrepresentative of the public interest. Public participation is valuable to society as a whole, but any given defendant's self-interest in defending that public value is usually small. A consumer who posts a critical review of a business, for example, is offering a valuable service to all other consumers in the same market. While the poster may derive some satisfaction from the act itself, most of the welfare gain from such speech goes to other consumers. In contrast, the costs of such criticism are fully concentrated on the target business. As a result, a potential plaintiff will usually have far more to gain by stifling public criticism than any potential defendant has to gain through espousing such criticism. When the inevitable lawsuit comes, a self-interested defendant will seldom have enough at stake to

forum in connection with an issue of public interest, or (4) any other conduct in furtherance of the exercise of the constitutional right of petition or the constitutional right of free speech in connection with a public issue or an issue of public interest.

Cal. Civ. Proc. Code § 425.16(e). California expressly exempts commercial speech from the protection of its SLAPP statute. *See* Cal. Civ. Proc. Code § 425.17(c).

317. *See, e.g.*, Cal. Civ. Proc. Code § 425.16(b)(1). Some states require a heightened showing by the plaintiff. Washington state, for example, requires a plaintiff to prove that it is likely to prevail by clear and convincing evidence. Wash. Rev. Code § 4.24.525(4)(b). Resolution of the SLAPP motion is not admissible in any subsequent trial of the matter nor does it affect the burden of proof at trial. *See, e.g.*, Cal. Civ. Proc. Code § 425.16(b)(3); Wash. Rev. Code § 4.24.525(4)(d)(i), (ii).

318. *See, e.g.*, Cal. Civ. Proc. Code § 425.16(g).

319. *See, e.g.*, Cal. Civ. Proc. Code § 425.16(i).

320. *See, e.g.*, Cal. Civ. Proc. Code § 425.16(c)(1).

321. *See, e.g.*, Wash. Rev. Code § 4.24.525(6)(a)(2) (requiring court to award prevailing defendants on SLAPP motions ten thousand dollars in addition to the costs of litigation and attorneys' fees); Wash. Rev. Code § 4.24.525(6)(a)(3) (requiring the court to award "[s]uch additional relief, including sanctions upon the responding party and its attorneys or law firms, as the court determines to be necessary to deter repetition of the conduct and comparable conduct by others similarly situated").

merit defending the lawsuit in the absence of a SLAPP statute. Instead of defending the public interest in free speech, the defendant will protect her own interests and settle. Thus, in the absence of a SLAPP statute, we lose not only the individual opinions enjoined and otherwise chilled, but the integrity of the public participation process itself.

These interests and concerns closely parallel those we have identified in trademark litigation. In trademark litigation, the threat is to competition, rather than to public participation. But in both cases, the self-interest of the particular defendant does not encompass the full public interest at stake. As a result, defendants will usually settle when, from a broader public interest or consumer welfare perspective, we would prefer that they fight.

Congress should therefore amend the Trademark Act to include an analogous SLAC defense and motion. While the key elements would largely track the existing state SLAPP statutes, two issues warrant particular attention. First, in defining a defendant's initial burden, Congress must take care to set that initial burden neither too low nor too high. As discussed, essentially every trademark lawsuit is an attempt to restrict competition; at the very least, a trademark lawsuit seeks to stop the specific form of competition in which the defendant is engaging. If Congress sets the standard too low, a SLAC defense would apply in every trademark case and require a mini-trial under the SLAC provisions before any trademark case could move forward. Not every trademark case warrants such scrutiny.³²² For example, when a market has robust competition between substitutes with high cross-elasticities of demand, a trademark defendant that chooses a fanciful mark identical to that of an existing competitor should not be able to satisfy its initial SLAC burden.

At the same time, however, Congress should not set the standard unrealistically high. Market definition should be realistic by defining markets in terms of products between which consumers readily switch. If the initial showing is too high, requiring proof of market power in an unrealistically broad market, for example, then the SLAC provisions would never apply. The standard should require a realistic showing by the defendant that at least some consumers would be worse off if the defendant were forced to stop the behavior at issue. If a defendant could do so, then the burden would switch to the plaintiff to show a probability of success.

Second, under the proposed defense, a successful defendant should be entitled to a bounty on top of a mandatory award of attorneys' fees. As to the amount of the bounty, I propose that a trademark plaintiff who loses on a SLAC (or anti-SLAC) motion shall pay the prevailing defendant a bounty of 25 percent of the advertising budget the plaintiff spent on the trademark at issue in

322. I am not convinced a formal classification system and associated nomenclature will help us separate the cases where spillover effects are likely from those where such effects are unlikely. See Stein & Parchomovsky, *supra* note 11, at 1484–86 (dividing defenses in intellectual property disputes into general, individualized, and class defenses depending upon their spillover effects).

the relevant geographic and product market for the preceding two years. Courts have already approved the 25 percent of advertising expenditures standard for damages in cases involving reverse confusion.³²³ While these courts have pretended that the standard is compensatory, I believe the standard is better seen as a method for enabling small trademark owners to finance trademark litigation.³²⁴

As a bounty, the plaintiff's advertising expenditures provide some measure of, and can thus serve as a rough but effective proxy for, the consumer surplus potentially at risk in the litigation. Awarding prevailing defendants such a bounty offers them a reward proportional to the public interest that we are asking them to vindicate. At the same time, the threat of such awards will deter overzealous trademark plaintiffs in a manner proportional, at least to some extent, to the monopoly profits they could capture through trademark litigation. It thereby remedies the otherwise asymmetrical stakes trademark parties face in cases where a plaintiff brings litigation advancing overbroad and anticompetitive interpretations of trademark law.

The proposed SLAC amendment would thus shift the incentives facing both parties in deciding whether to bring, defend, or settle trademark litigation. It would also influence potential parties' decisions whether to engage in conduct that might lead to trademark litigation. A SLAC defense would thereby reduce the selection and activity bias that have contributed to trademark law's de-evolution. Moreover, even if a trademark defendant's SLAC motion fails, forcing a court to resolve an anti-SLAC motion at the outset of the litigation would remind the court of consumers' central interest in the litigation. It would thereby re-frame the dispute. Instead of seeing trademark litigation as a property dispute between the parties, the court would recognize the case as a regulatory adjudication over the nature and extent of competition permissible in the marketplace.

IV.

CHARTING A PATH FORWARD

Trademark plaintiffs repeatedly challenge efficient interpretations of trademark law because it is in their self-interest to do so. Persuading a court to

323. See *Big O Tire Dealers, Inc. v. Goodyear Tire & Rubber Co.*, 561 F.2d 1365, 1375–76 (10th Cir. 1977).

324. In my view, no reasonable person can see the measure as compensatory. As Judge Easterbrook has explained:

Any compensatory award depends on loss, and in treating the need for advertising as a “loss” the court overlooked the principle that a trademark cannot be worth less than zero. “Corrective advertising” is a method of repair. Defendant diminishes the value of plaintiff's trademark, and advertising restores that mark to its original value. . . . Expenses for repair cannot be justified when they exceed the value of the asset. If a car worth \$4,000 is crushed in a collision and repair would cost \$10,000, the court awards damages of \$4,000, not \$10,000

Zazú Designs v. L'Oréal, S.A., 979 F.2d 499, 506 (7th Cir. 1992).

adopt a less efficient, less competitive interpretation of trademark law offers trademark owners the possibility of capturing economic rents, and in some cases, very substantial rents. The prospect of capturing such rents can in turn justify spending money on litigation, even repeated litigation, to challenge efficient interpretations of trademark law. In contrast, potential trademark defendants do not have a similarly strong interest in either defending efficient or challenging inefficient interpretations of trademark law. Even if a successful defense or challenge sharply increased social welfare, almost all of the benefits of increased competition would flow to consumers generally in the form of lower prices and greater consumer choice. Very little of the resulting welfare gains will flow to any one competitor in the form of economic rents. As a result, potential trademark defendants will seldom have much interest in defending efficient, or challenging inefficient, interpretations of trademark law. The stakes in trademark litigation are thus both asymmetric as between the parties and unrepresentative of the true social interest at stake. As a result, since the enactment of the Trademark Act of 1946, and even before, we have seen a steady de-evolution of trademark law from efficient market regulator to inefficient rent protector.

Correcting this will require more than mere substantive change in trademark doctrine, and even substantial substantive reform will not suffice. Correcting trademark doctrine requires something more fundamental: a change in the incentives to bring and defend trademark lawsuits and a change in the way we see these disputes. Trademark litigation is not simply a conflict between a given plaintiff and a given defendant, though the standing rules of trademark law unfortunately frame the dispute in that misleading way. Rather, in almost all trademark cases, the real dispute is over the nature, kind, and extent of competition that will be permissible in the marketplace. While trademark law gives standing only to trademark owners and their competitors, consumers are the real party in interest.

While giving consumers standing directly would probably not solve these problems because of collective action issues, this Article proposes two types of change to the process of trademark litigation intended to help mitigate and hopefully solve the selection, activity, and framing biases that have driven trademark law's de-evolution. Courts can accomplish the first type of change under existing law, without the need for legislative intervention. This type of change includes: (1) more routine and enhanced award of attorneys' fees to prevailing trademark defendants; (2) broader availability and viability of antitrust counterclaims; and (3) broader use of Rule 706 to appoint neutral experts to identify and explain the consumer interests at stake. The second type of change cannot be accomplished through existing law, but requires congressional action. Specifically, Congress should amend the Trademark Act to recognize a strategic lawsuit against competition (SLAC) defense—and a corresponding motion to strike—for all trademark defendants.

Both types of change seek to shift the incentives otherwise facing trademark plaintiffs and defendants in litigation and to align them more closely with the relevant public interest. These changes are necessary to encourage trademark defendants to vindicate the public interest in efficient trademark laws and to discourage trademark plaintiffs from seeking interpretations of trademark law that reduce competition in the marketplace.

At the same time, these two types of change also strive to re-frame the question presented in trademark litigation. In trademark litigation, the core question should not usually be whether the plaintiff or the defendant should win. In most trademark cases, the central question, and the only question that matters is: How should the court rule so that consumers win? Unfortunately, the existing practice of trademark litigation conceals that central issue. The proposed changes help reveal it.

By adopting and implementing the proposed changes, we can bring a halt to trademark law's otherwise ongoing de-evolution.