Modern developments in the law of unfair competition offer many examples of . . . circular reasoning. There was once a theory that the law of trade marks and trade names was an attempt to protect the consumer against the “passing off” of inferior goods under misleading labels. Increasingly the courts have departed from any such theory and have come to view this branch of law as a protection of property rights in diverse economically valuable sale devices. In practice, injunctive relief is being extended today to realms where no actual danger of confusion to the consumer is present, and this extension has been vigorously supported and encouraged by leading writers in the field. . . . The current legal argument runs: One who by the ingenuity of his advertising or the quality of his product has induced consumer responsiveness to a particular name, symbol, form of packaging, etc., has thereby created a thing of value; a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property. This argument may be embellished, in particular cases, with animadversions upon the selfish motives of the infringing defendant, a summary of the plaintiff’s evidence (naturally uncontradicted) as to the amount of money he has spent in advertising, and insinuations (seldom factually supported) as to the inferiority of the infringing defendant’s product. The vicious circle inherent in this reasoning is plain. It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected. If commercial exploitation of the word “Palmolive” is not restricted to a single firm, the word will be of no more economic value to any particular firm than a convenient size, shape, mode of packing, or manner of advertising, common in the trade. Not being of economic value to any particular firm, the word would be regarded by courts as “not property,” and no injunction would be issued. In other words, the fact that courts did not protect the word would make the word valueless, and the fact that it was valueless would then be regarded as a reason for not protecting it.


Felix Cohen’s article comes from the time before the Lanham Act, which provided a Federal legislative source of authority in place of the common law reasoning he disdains here. It also antedates many developments and extensions in trademark law, including some with which he would probably have disagreed, to say nothing of the social and technological transformations that make the world of brand, logo and advertising very different from the one in which he lived. But his article still asks a valid question.

Why do we have trademark rights? Why do we have this “homestead law for the language,” to use Cohen’s words? To return to Chapter One, is this a Lockean story in which one mixes one’s labor with a word or a logo, and therefore is entitled to a property
right? Is it a Justice Pitney-style assumption that others should not benefit freely from positive externalities created by my actions, including my actions in creating a trademark? Both of those ideas clearly influenced the common law of trademarks and unfair competition, a body of law which partly shaped the contours of Federal protection. Both continue to operate in cases today. Think back to the Supreme Court’s discussion in *SFAA v. USOC* of the labor and ingenuity that the USOC had expended creating the valuable brand “Olympic.” The right at issue there was not technically a trademark. In fact, it was stronger. Yet, the Court tried to analogize the USOC’s rights to those provided by trademark law, to show how Congress routinely handed out property rights in valuable words without offending the First Amendment. To make that analogy, it turned immediately to a discussion of labor invested and uncompensated benefit conferred. So those themes continue to resonate and have considerable force. We will encounter them in the cases in this book.

Yet today both scholars and courts largely offer a different set of justifications for trademark law, one that escapes—or at least tries to escape—from the circular reasoning Cohen mocked. That set of justifications is a utilitarian one and it focuses on informational efficiency—efficient communication between consumers and producers. In fact, there are two utilitarian justifications, one focused on preventing consumer confusion and one on encouraging producer investment in stable brands.

Let us start with the consumer. As you rush through the aisles of the grocery store, throwing things in your cart, how much time do you spend assessing the qualities of each good purchased? Certainly, you look at the date on the milk and the meat, perhaps double check whether there is MSG in an unfamiliar brand of Hoisin sauce, but most of the time your purchases are probably almost automatic. Detergent? The orange one in the square box with concentric red and yellow circles on the logo. Soap? Ivory. Toilet paper? The one with the puppies on it (because nothing says anal cleanliness like a dog. Or a bear.). If you are like most consumers, most of these purchases are reflexive, sometimes even pre-verbal. You have tried a number of soaps and whether or not you were convinced by Ivory’s slogan “so pure it floats”—a *non sequitur* if there ever was one—you now just buy Ivory. But how do you know that the “Ivory soap” you buy will be the same as the “Ivory soap” you settled on? Absent the legal creation of this right over a name or logo, the product name is a “public good”—non-excludable and non rival. If anyone could call their soap “Ivory” or their detergent “Palmolive” would you have to scrutinize the label each time to make sure the ingredients were the same? From an economic point of view, that is very inefficient. In other words, the economic rationale for the Ivory trademark is not that Ivory has labored hard to build it up and advertise it. Nor is it that, without trademark protection, other soap companies could use the same name and “reap where they had not sown.” Instead, we focus on the benefits to the consumer of stable nomenclature and thus the social gains produced by efficient information flow in the market.

Of course, trademarks do not in fact guarantee stable brand identity. They just guarantee that product-meddling will be solely in the hands of the trademark owner. If Coke wants to change its formula, or the Pears soap trademark has been bought by a company that wants to lower the quality of ingredients, my consumer expectations will be upset, nonetheless. But at least the trademark owner might be presumed to make rational calculations about when to do so.

So the first rationale for trademark is preventing consumer confusion and encouraging efficient consumer information flow. The second one is producer-focused. Trademarks provide an incentive to producers to invest in building up a stable brand meaning, which in turn will be useful to consumers. Notice: *stable* brand meaning, not
The trademark protects White Castle burgers no less than it protects Ruth’s Chris Steak House, Econolodge no less than the Four Seasons, the Refectory no less than Guglhpuf. Whatever slice of the market a producer chooses to go for, from haute cuisine or high fashion to cheap and nasty but dependable, trademark is there to help incentivize the investment in semantic stability. Again, without the mark, the name is a public good. Why should Apple or the Four Seasons seek to build a reputation for that kind of style or quality? Why should McDonald’s try to convince me that the burgers will be exactly the same level of grey mediocrity from Maine to Monterey, never reaching Escoffier heights or E. coli lows? Anyone could slap Apple, Four Seasons or McDonald’s on their product. By telling the producer that it will be able to exclude others from the name, goes the theory, we encourage investment in a stable brand that then becomes a useful and efficient communication to the consumer. The two arguments meet, a semantic handshake enabled by a legal right. Or so says the theory.

Of course, if we really wanted to promote semantic stability, we might force producers to internalize the costs of sub-par performance as well as the benefits of consistency. We do not. Do you have a positive image of Blackwater Security, the firm whose employees killed 17 Iraqi civilians in a single 2007 incident? Whatever your impressions, you are unlikely to find the company. It was renamed Academi in 2009. It is now called Xe Services in 2009. Want to avoid them and fly AirTran instead? They are the same company—at least until AirTran becomes part of Southwest Airlines. Because producers can always change their brand names or even their corporate names, they always have the option to declare semantic bankruptcy and start afresh. But we digress.

In each area of intellectual property law, we first try to understand the problem the right is supposed to solve, as a way of understanding the contours, the extent, the duration and the limitations and exceptions of the right. So the trademark is a legal right to exclude others from a name or logo or other distinguishing characteristic that would otherwise be a non-excludable and non-rival public good. The rationale we have discussed is that this minimizes consumer confusion, thus maximizing informational efficiency in the market, and provides an incentive for the creation of information-packed stable brands. If you were trying to further that purpose, what shape would you give the right? Look at the chart on the next page comparing the three main forms of Federal intellectual property.

This chart omits a lot. It must in order to fit on one page. But it does give a sense of the varied designs of the three intellectual property rights we are discussing, each over a differed type of subject matter, each covering or applying to a different “thing”—a legally protected res—each procured through a different process, lasting for a different period of time, shaped by different limitations and exceptions and regulating or prohibiting different types of behavior in others.

Returning to the shape or design of the right suggested by trademark’s rationale, one can see that the right is designed (or should be designed) to fulfill the functions of efficient consumer communication. First, note that trademarks do not convey ownership of a word—a mistake that non-lawyers (and some trademark owners) sometimes make. They convey the right to forbid a particular kind of use. Teachers of intellectual property love to use Bass Ale as an example, because the label itself says that it was the first registered trademark in the United Kingdom. In the US, Bass got a registered mark in 1912 for pale ale, with a first date of use of 1856. In 1990 it broadened that to cover beer, ale, stout, lager and porter.

There are a few things worth noticing about this. First, look at the field that says “For:” This mark is for use selling beer, ale, stout, lager and porter. It does not interfere
### Comparison of the Three Main Forms of Federal Intellectual Property

<table>
<thead>
<tr>
<th></th>
<th>TRADEMARK</th>
<th>COPYRIGHT</th>
<th>PATENT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constitutional and Statutory Basis</strong></td>
<td>Commerce clause, Lanham Act. (There are also state trademarks.)</td>
<td>IP Clause, Copyright Act</td>
<td>IP clause, Patent Act</td>
</tr>
<tr>
<td><strong>Subject Matter</strong></td>
<td>Word, phrase, symbol, logo, design etc. used in commerce to identify the source of goods and services</td>
<td>Creative works – for example, books, songs, music, photos, movies, computer programs</td>
<td>Inventions – new and useful processes, machines, manufactured articles, compositions of matter. Not abstract ideas or products/laws of nature</td>
</tr>
<tr>
<td><strong>Requirements for Eligibility</strong></td>
<td>Not generic (or merely descriptive without secondary meaning), identifies source of product or service, used in commerce</td>
<td>Original expression, fixed in material form</td>
<td>Useful, novel and non-obvious to a person having ordinary skill in the art (PHOSITA)</td>
</tr>
<tr>
<td><strong>Rights</strong></td>
<td>Basic trademark right only <em>vis a vis</em> a particular good or service. Bass for beer, not ownership of word “Bass.” Prevent others from using confusingly similar trademarks; for famous marks, prevent others from “diluting” the mark. Also prohibitions against false or misleading advertising.</td>
<td>Exclusive rights to copy, distribute, make “derivative works”, publicly perform and publicly display. Possibly new right to stop circumvention of digital ‘fence’ protected © works.</td>
<td>Exclude others from making, using, selling or importing invention</td>
</tr>
<tr>
<td><strong>Duration</strong></td>
<td>If renewed and continually used in commerce, can be perpetual.</td>
<td>Life plus 70 years; 95 years after publication for corporate works</td>
<td>20 years for utility patents</td>
</tr>
<tr>
<td><strong>How Rights are Procured</strong></td>
<td>USPTO trademark registration process for ® status, though common law rights are recognized absent registration</td>
<td>Creation and fixation in a tangible medium; registration is not required to get copyright (but is required for suit to enforce)</td>
<td>USPTO patent application process</td>
</tr>
<tr>
<td><strong>Examples of Limitations and Exceptions</strong></td>
<td>Genericity, nominative fair use, parodic use</td>
<td>Idea and fact/expression distinction, scenes a faire, fair use, first sale</td>
<td>Abstract knowledge in patent application disclosed freely. Subsequent inventors can “build on” patented invention and patent result without permission. Both inventors must consent to market resulting compound invention.</td>
</tr>
</tbody>
</table>
with Bass “for medical apparatus, namely, a system consisting of collectors and suctioning equipment to collect fluids from medical procedures.” That is a registered mark. It does not interfere with Bass for electric lights and LED circuit boards. (That trademark application is pending.) It does not interfere with all those businesses whose name contains a reference to bass the fish, or bass the instrument, or bass the sound range. G.H. Bass, the maker of Weejuns shoes, is not infringing Bass Ale’s trademark. The mark does not stop you saying that you drank a lot of Bass last night, or posting a picture on your Facebook page with you holding a Bass, or praising or criticizing Bass Ale. What it does stop you from doing, is selling beer under the name Bass, or using any mark on your beer that is likely to cause confusion with the Bass ale trademark. It also stops you registering a trademark that would be likely to cause confusion. So when a Mr. Michael Massa applied for a trademark over “Bass Hole Ale: The Brew That Makes Your Stories True”¹

¹ The applicant stressed the fact that the “bass” referred to was the fish. “The mark consists of a representation of a fisherman in green waders with brown suspenders and a golden colored hat holding a bent fishing rod. In the background a largemouth bass with a lure in his mouth is beginning to jump. The bass is surrounded by a field of bluish-green water. In the foreground the fisherman is standing against a
the holders of the Bass Ale trademark opposed the registration of that mark. Mr. Massa eventually abandoned the application.

Of course, companies can leverage their popular trademarks into other fields. Bass holds a trademark for the use of its logos on mirrors, glassware and shopping bags, among other things. But the claim is always mark X for use Y, not for the ownership of a word outright.

The second thing to notice is the limitations and exceptions that further cabin the reach of the right. To pick one example: Generic terms can never have or keep trademark status, even if they were novel terms invented, and successfully registered as marks, by the owner. If people start to use “Shredded Wheat” to describe all cereals of that type, not just the ones from the National Biscuit Company (now Nabisco), or “Murphy beds” to describe all beds that fold down from the wall, not just the ones from the original manufacturer, then the trademark is canceled. We cannot take away from the public the ability to use the standard term for the goods. The owners of Kleenex, Xerox and Rollerblades spend a great deal of time policing usages of their mark to try and stop this from happening. Instead they promote an alternative term for the general category (“facial tissue,” “photocopying” and “in-line skates”) and admonish those who use the trademark to describe the type of good. No matter how hard they try, however, if the public starts to use that as the generic term, the trademark is canceled. The term has moved into the public domain.

To pick another example: nominative use—using the name of a competing product in order to identify it, in comparative advertising, say—is not a violation of the trademark. Notice how both of these exceptions allow us to test various theories of why we have the right. If trademarks were an incentive to come up with novel goods with novel names—in the same way that a patent does—then we would want to incentivize, not penalize, the person who came up with the good and the term used to describe it. Yet if the term suffers genericide—comes to describe the product category rather than the original product source—then the mark is subject to cancellation. Similarly, it may seem unfair that makers of competing hybrid cars can favorably compare theirs to the Prius. Surely they are “reaping where they have not sown,” capturing a positive externality by using the familiar brand to help the consumer understand the new one? Yet if that facilitates communication to the consumer about what kind of a product this is, then trademark would be undermining its own rationale to forbid it. The rationales will help you understand the rules and predict how they might apply to new facts or new technologies. In the next section we will lead you through the basics of trademark law. In each case, think about the feature of the law being described and try and relate it back to trademark’s central goal. Does it fit well or badly?

Trademark Basics

A trademark is a word, phrase, logo, or any other indicator that identifies the source of a particular product. (Technically, a “trademark” distinguishes goods while a “service mark” distinguishes services; in this section, “trademark” will be used to refer to both trademarks and service marks.) The key here is “source indicative.” Think of a triangle composed of the producer, the good and the consumer. The mark is the sign that tells the stand of cattails with a lone dragonfly perched on a blade of cattail. The words BASS HOLE BEER appear in an arc across the top of the label in green with black edging. The words “The Brew That Makes Your Stories True” are in the foreground in black on a stretched blue oval banner.” Application 77165782.
Trademark protection can extend to product features beyond conventional words or logos, such as color, shape, or sound. (Some of these are referred to as “trade dress,” a category we will discuss later.) Examples include the lacquered red soles on Louboutin shoes, the undulating tapered shape of the Coca-Cola bottle, or the roar of a Harley Davidson engine. Under no circumstances, however, can a functional feature of the product be trademarked. I might be the first person to make bright yellow life vests or stainless steel vacuum flasks, but I can never trademark those features—high visibility and stainless durability are obviously functional in those products. To give a trademark over them would convey a patent-like monopoly (and potentially, a perpetual one) rather than truly protecting a source indicator.

What are the sources of trademark law?

Trademark law has its roots in state unfair competition laws that prohibited competitors from “passing off” other producers’ goods as their own. (In the quotation that began this chapter, Cohen argues that such reasoning could balloon too far.) The first federal trademark statutes date from 1870 and 1876 but, as you read in Chapter Two, they were struck down as being beyond Congress’s power under both the Intellectual Property Clause and the Commerce Clause. In 1881 Congress passed another, much narrower statute, justified under its Commerce Clause power and limited only to marks used in interstate and international commerce, or in trade with the Indian tribes. These limitations were included specifically to make that Act comply with the ruling in the Trade-Mark Cases.

The current federal statute is the Lanham Act, originally enacted in 1946 and amended many times since. As we will see, the Lanham Act’s reach is much broader than the narrow 1881 statute. This expansion reflects the Supreme Court’s broadening vision of the meaning of “commerce” after the New Deal. Though the Lanham Act reaches broadly, it does not supplant state systems. Unlike the Federal copyright and patent systems, which “preempt” state regulation of their subject matter, the Federal trademark system coexists with a thriving set of state trademark regimes, which share many of its features, and which provide protection to businesses with no desire to spread nationally. However, for obvious reasons—geographic reach and economic significance among them—the Federal system is the central focus of large-scale legal attention.

We will examine 5 types of protection in the Federal trademark system. The statutory sections cited below are from the Lanham Act.

1.) Registered Marks. At the center is the system of registered Federal marks (and registered Federal trade dress, such as the Coke bottle design). These are the rights centered in § 1114 (or § 32) of the Lanham Act. Only the trademark holder can sue to enforce the mark.

2.) Unregistered marks, unregistered trade dress and false designation of origin. Beyond registered marks, the Federal system also provides a similar but weaker set of prohibitions against false or misleading designation of origin. Those rights, developing
out of § 1125(a) (§ 43(a)) give protection—among other things—to unregistered marks and unregistered trade dress. While only the trademark owner can sue to enforce a registered mark, § 1125(a) says that suit can be brought “by any person who believes that he or she is or is likely to be damaged by such act.” The Supreme Court held that the “damage” referred to here must be to a valid commercial interest of a competitor, partly because there are obvious constitutional problems in premising standing on a “belief” one has been harmed.

3.) **Dilution.** Marks that are “famous” to the national consuming public are also protected from “dilution” that blurs or tarnishes their strength. These rights find their home in § 1125(c) (§ 43(c)).

4.) **Cybersquatting.** The Lanham Act has been amended to deal with the intersection of domain names and trademark law. § 1125(d) explicitly covers “cybersquatting”—the “bad faith” registration of domain names in the hope of extracting rent from a trademark owner. It should be noted, however, that the other protections of the Act are also of relevance. For example, a domain name can also be a registered mark in its own right.

5.) **False or Misleading Statements of Fact.** The Lanham Act also prohibits false or misleading statements of fact (“My new diet will lose you 30 pounds in 3 weeks”) even when there appears to be no “mark” of any kind involved. These provisions, too, are rooted in section § 1125(a). Judicial interpretation of the Lanham Act has effectively broadened it to become a Federal law of false advertising and unfair competition, a considerable expansion. Again, the more relaxed definition of standing applies, though the interest vindicated must be that of a competitor, not a consumer.

**Registered Marks**

The Lanham Act creates a national system for registering trademarks, and determining which marks enjoy priority over others. It also spells out causes of action for trademark infringement and dilution, as well as available remedies. The key here is **registering.** Many people believe that the little symbol ™ indicates a valid Federal trademark. It does not. At best, ™ and its equivalent for service marks, SM, mean that the company wants to use the term as a common law mark, or that it hopes one day to register the mark but has not attempted to do so, and is attempting to build brand identity in the meantime. The sign of a Federal Mark is the “R” inside a circle: ®. The “R” stands for “registered.” It shows that the mark has been examined by the PTO and registered on the Principal or Supplemental Register. (The Supplemental Register lists a variety of marks that have not yet received full Federal protection, such as descriptive terms that have not yet developed sufficient distinctiveness.)

To be sure, Federal registration is not a prerequisite for acquiring trademark rights. Absent registration, a trademark owner may gain common law rights by being the first to use the mark in commerce. However, these rights are limited to the geographical area where the mark is used. For example, the Refectory Café would enjoy rights in Durham but could not prevent Refectory Cafés in other cities from using the same mark. With federal registration, the default is flipped: trademark rights extend nationwide, with the exception of areas where an earlier (or as trademark lawyers say, “senior”) user has already been using the mark. So Federal registration would give the Refectory Café rights from Durham to San Francisco, minus areas where a preexisting Refectory has been using the mark. Indeed, The Refectory Café® familiar to Duke’s law students has a federal mark for “Restaurant services featuring healthy, homemade items.” Those rights
have been enforced: The Refectory Café sued Duke’s Divinity Refectory for trademark infringement—when the original owners stopped providing food services there, but the name was retained. The latter establishment has changed its name to the Divinity Cafe.

In addition to nationwide rights, federal registration confers a number of other benefits. These include: a legal presumption of exclusive rights in the mark, constructive notice to the public of trademark ownership, the ability to prevent the Federal registration of confusingly similar marks, an array of remedies, and a basis for registering in foreign countries.

Why build the center of the Federal system around registration? After all, we do not require that writers, musicians or filmmakers register in order to acquire copyright. (Though they must register in order to sue for infringement.) It is important to remember that the Federal system of registered marks is supposed to complement and act as an adjunct to the state system. It is the functions those other systems cannot perform that the Federal registration system seeks to fulfill. On the Federal level, registration fulfills multiple functions centering around information costs.

- It lowers search costs, both for those with existing marks and those seeking to create new marks. If I am looking for a name for my new nationwide ‘rapid oil change’ franchise, I can learn quickly that “Jiffy Lube” is taken. I will not waste time or money developing a campaign around that name, or laboriously searching, state by state, to find available semantic real estate. In addition, the Supplemental Register will show me that someone else is working to develop a brand identity over a term like “Quik Oil,” even if that mark has not yet developed sufficient distinctiveness to merit registration on the Principal Register.

- It allows businesses to plan to expand nationally, secure in the knowledge their mark will not have to change when they reach new territory. In the example given above, The Refectory Café does not invest in developing a local following, only to find that it cannot use that name elsewhere in the country and must invent a new one.

- We hope that the process of review and approval that is required to get onto the Federal Register sets a high enough bar so that businesses are deterred from claiming to have legal rights over generic, functional or misleading marks, which in turn would suppress competition or confuse consumers. (This hope is not always well-founded.)

- The Register lists both “Live” and “Dead” marks, the latter including those that have been abandoned, fallen out of use, or been successfully challenged. By listing “Dead” marks no less than “Live” ones the Register gives a map of both those semantic areas that are already taken and those that have once again become free. It is a map both of current property and of areas that have fallen back into the public domain. The requirement that registrations be continuously maintained and renewed provides a natural “pruning” function.

We will start with the center of the system—registered marks—and will go through the requirements for registration. It will turn out that many of the requirements for registering marks—such as use in commerce—are also requirements for unregistered marks, just as many of the tests for the infringement of registered marks are also tests for the infringement of unregistered marks. Thus, while the next chapter focuses on registered marks, its implications are much broader.
**Problem 4-1**

Look back at Chapter One and then review the contours of trademark protection as described in this chapter and in the chart on page 110. The goal is to see which features of trademark law mesh with the rationales and world-views described in Chapter One.

1.) Would Cohen, quoted on the first page of this chapter, have agreed with the baseline for intellectual property set out by Brandeis, by Holmes or by Pitney? Why? Is there a tension between the “unfair competition” roots of trademark law and the theory that trademarks are intended to facilitate efficient producer-consumer information flow?

2.) The Chapter argues that one particular rationale for trademark law best explains the loss of rights to a novel, invented term—Escalator, Thermos, Aspirin—through genericide. Do you agree? What other rules of trademark law are explained by the same rationale?

3.) Of the three intellectual property rights we will look at, only trademarks can (so long as continually used and renewed) last for an unlimited period of time. Why? If your answer is that the Constitution requires that copyright and patent be for limited times, why do we also find that rule in other countries not bound by the U.S. Constitution?

4.) Critics of “brand fetishism,” such as Naomi Klein, author of *No Logo*, argue that we define ourselves in terms of brands (both those we accept and those we reject), that we obsess about the messages that come with these symbols and that, as a consequence, the public space for debate, self-definition and meaning is increasingly privatized. The social harms attributed to this process range from thefts or crimes of violence to acquire favored status-symbols such as branded jackets or shoes, to the claim that in turning over our visions of self to private logoed creations, we impoverish our culture and ourselves. One central thesis of this argument is that trademarks have long since left the rationale of efficient consumer information flow behind. The logo does not tell us something about the producer of the good. The logo is the good. The person who purchases a plain white cotton T-shirt with a large Nike swoosh is not buying the shirt. The shirt is merely the transport mechanism for the logo. Do you agree with any or all of this? What criticisms could be made of this idea? What implications does the brand fetishism critique have for trademark law and specifically for the protection of famous marks under anti-dilution law?