TRADEMARKS: MORE THAN MEETS THE EYE

Vincent Chiappetta∗

In recent years, the evolution of protection provided under trademark law has expanded in scope. This expansion has been regarded as a usurpation of rights which are outside the intention of the protections afforded under trademark law. This article advances a proposed resolution to this perceived problem by seeking to recast the paradigm by which the purpose of trademark law is interpreted. By bringing the purpose of trademark law in line with modern day economic reality, the appropriate boundaries of trademark protection can be achieved.

This article begins by introducing the concept of an “encouragement based” trademark regime which seeks to maximize social value by creating incentive for investment while ensuring confusion avoidance. The article considers a brief justification for United States intellectual property law focusing on current propertization concerns. Next, the article argues for the inclusion of incentives in trademark law consistent with use in contemporary culture. Finally, the "encouragement" paradigm is used to consider the mounting pressures coming to bear on current trademark dilemmas. The article concludes that the "encouragement" paradigm is an advancement in the trademark analytical framework and will aid in resolving current concerns while preparing to meet future challenges in this area.

I. INTRODUCTION

By all accounts, the “propertization” of trademark law is out of control, with the regime providing rights flagrantly unplugged from the

∗ Professor, Willamette University College of Law. My thanks to Professor Dennis Karjala and an anonymous Journal reviewer for a number of extremely useful comments. The author gratefully acknowledges a Willamette University College of Law research grant made in connection with the preparation of this article.

1. The list of trademark commentators is a veritable “Who’s Who®” of academics, practitioners, and members of the judiciary, with only space constraining the following listing (apologies to the numerous others). See, e.g., Keith Aoki, How the World Dreams Itself to Be American: Reflections on the Relationship Between the Expanding Scope of Trademark Protection and Free Speech Norms, 17 Loy. L.A. Ent. L. Rev. 523 (1997); Stephen L. Carter, The Trouble with
“search cost reduction/confusion avoidance” justifications generally acknowledged as its *raison d’être*.  
3. Lanham Act registration affords national exclusivity based merely on local use and permits “reservations” requiring only promised future implementation.  
4. Famous trademarks, themselves infamously poorly defined, receive protection against dilution explicitly based on factors other than confusion; and use of a registered trademark as an Internet domain name is prohibited solely upon finding “a bad faith intent to profit.”  
5. The juggernaut has

---

become so unstoppable that not even free speech restraints can hold
their ground as fair use and parody defenses morph from vital guardians
of cherished social values into threats to trademark owners’
property interests. This loss of common sense leaves society not only with
“bad” monopolies14 depriving Lions® football fans of low-cost t-shirts
demonstrating their fidelity,15 the Pepsi® generation of its very name,16
and fledgling members of society of a much coveted breakfast with
Batman®,17 but also leaves us locked in contest over our ability to
express and define ourselves in the context of contemporary culture.18
All in all, the troubles with trademark19 seem substantial indeed.

The appropriate response lies not in vigorous retrenchment but in
adjusting our thinking about the purposes of trademark law. Pushed by
technological advance and evolving social norms, the marketplace has
changed considerably: geographically; in forms of distribution; in product
offerings; and in demand. In response, trademark signaling has moved
beyond attaching a “source identifier” to a good, to become a highly
sophisticated activity which conveys to the market a wide range of useful
information concerning both brand “values” and specific purchase
decisions.20 The current trademark propertization pressures can,
therefore, be better understood not merely as rent-seeking run amok,
although some element of personal benefit is involved, but as a
legitimate effort to recapture the significant costs of creating the
powerful marks necessary to support this market information system.
Coupling these increased investments with significant “public goods”
problems gives intellectual property law incentives a central role in
modern trademark law.21 To provide maximum social value, trademark

---
11. Even the premise of “ownership” on which these claims rest is problematic under traditional
document. A confusion-based regime only recognizes trademark ownership to overcome the
transaction costs of direct consumer assertions of their right not to be misled. See infra notes 53–54
and accompanying text.
12. See, e.g., Aoki, supra note 1, at 532–43 (providing an excellent review of a number of cases);
see also Dreyfuss, Pepsi, supra note 1, at 403–08.
14. See Lunney, Trademark, supra note 1, at 373.
15. See Kozinski, supra note 1, at 970 (Judge Kozinski actually uses the Mets baseball team, but
this is one of the few opportunities, aside from the annual, disastrous Thanksgiving game, to give the
Detroit Lions some positive visibility).
16. See Dreyfuss, Pepsi, supra note 1, at 397–99.
17. See Litman, supra note 1, at 1717, 1729–30.
18. See Aoki, supra note 1, at 526; Dreyfuss, Rent, supra note 1, at 123–25.
19. See Carter, supra note 1, at 759.
20. See infra notes 63–78, 136–49 and accompanying text (discussing branding, the related
functions of trademark law, and the associated costs).
21. See infra notes 118-21, 163-66 and accompanying text (discussing the intellectual property
solution to public goods—free rider problems). In his very helpful review of this article, Professor
Karjala observed that my use of the term “incentives” implies a need to encourage producers to supply
information to the marketplace, something they should do of their own volition, and that what is more
properly intended is “discouraging” interference with those socially beneficial, but self-motivated,
efforts. I fully concur, but to avoid confusion with the customary articulation of intellectual property
public goods interventions I have chosen to stick with the traditional “incentive” and
law must both foster the necessary investment (incentives) in, and ensure the efficient operation (confusion avoidance) of, the contemporary market’s information system. This new paradigm will be referred to below as an “encouragement” based regime.

A proper assessment of increasing trademark propertization therefore calls for ensuring that the resulting incentives deliver net social benefits in light of the related costs. Although the critics are correct that “simply property,” Blackstonian-style rights in gross significantly overshoot the mark, as with other incentive regimes such as patent and copyright, a cost-effective calibration of many of the recently added non-confusion-based rights will produce highly desirable results. This change in policy paradigm will be useful beyond resolving the current issues in trademark law. A foundation based upon both incentives and confusion avoidance will provide a logically coherent approach for trademark law, producing doctrine better capable of delivering predictable results and a regime better prepared to address the inevitable future demands for expansion.

The argument for an encouragement based trademark regime proceeds in four steps. The groundwork is laid via a brief overview of the justifications for United States intellectual property law deriving from economic market theory, trademark law’s traditional “search cost/confusion avoidance” objective, and the related reasons for the current propertization concerns. Next, explicit inclusion of incentives in trademark law is supported by an explanation of the free rider supporting rationale. A response to the various counterarguments is then offered. Finally, the encouragement paradigm is used to assess current pressures for increased propertization of the regime, specifically considering expansive registration rights, dilution, anticybersquatting, functionality, trademarks as products, and assignments in gross. This assessment demonstrates how the encouragement paradigm, with its more complete policy basis, can draw the appropriate boundaries by forcing us to ask the right questions.

“encouragement” formulations. See infra notes 105-06 and accompanying text (further elaborating on this point).

22. As a number of commentators have pointed out, “Blackstonian” is only a convenient label for indicating broad rights to exclude similar to those in real or personal property law. Not even these latter property rights actually provide “absolute dominion and control.” See, e.g., Clarisa Long, Patent Signals, 69 U. Chi. L. Rev. 625, 629 (2002); Lunney, Trademark, supra note 1, at 417.

23. The incorporation of incentives into trademark law does not rest on an “all or nothing” choice between absolute control and no control. An incentive system can certainly be more nuanced than that, as demonstrated by copyright law and, as argued in this article, trademark law. See infra notes 105-08 and accompanying text; see also infra Part IV.

24. See infra Part IV (discussing how the proposed encouragement approach applies to a range of over-propertization concerns).
II. THE SOURCE OF CURRENT PROPERTIZATION CONCERNS

A. The U.S. Intellectual Property Analytic Framework

Using “propertization” to describe the trademark law problem can make it appear that the pressing issue is whether to grant property rights. In fact, every United States intellectual property regime operates by creating property rights—the rights to use and exclude—and consequently results in some degree of propertization. The actual question, therefore, is how much to propertize; that is, how many Hofeldian sticks of which types should make an appropriate bundle under the particular circumstances. To be precise, the furor over trademark law propertization actually involves over-propertization—the granting of too many sticks of the wrong types.

Assessing whether over-propertization exists therefore requires determining the proper objectives of the regime. In turn, these objectives should define the extent of the related rights—the appropriate quantities of which types of sticks. For this purpose, objectives should not be identified descriptively (what the regime currently is doing), but rather normatively (what the regime should be about). For this trademark law exercise, the normative inquiry can profitably start from a basic assumption: that a form of Adam Smith’s “invisible hand” market


28. See Kratzke, supra note 1, at 202–04. Cf. Lunney, Trademark, supra note 1, at 373, 420 (using the label “property” fails to resolve the normative issue; although Professor Lunney’s article does generally seem to posit a choice between trademarks as property or not, his actual point goes more to the question of too much property).

29. Vincent Chiappetta, The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things, 21 MICH. J. INT’L L. 333, 370–81 (2000) [hereinafter Chiappetta, WTO]; Vincent Chiappetta, Defining the Proper Scope of Internet Patents: If We Don’t Know Where We Want to Go, We’re Unlikely to Get There, 7 MICH. TELECOMM.
economics, supplemented by Jeremy Bentham’s “utility,” together with “Chicago school” efficiency theories, has handily defeated Lockean labor, Hegelian personal autonomy, and assorted other possible approaches as the primary justification for U.S. intellectual property regimes. Consequently, desirable objectives are conceptualized in terms of the particular regime’s contribution to increasing aggregate social wealth through efficient market operation.

This assumption has three significant effects on any intellectual property rights debate. First, arguments based on the natural rights, special circumstances, or personal desires of particular creators or appropriators are out of order. Intellectual property regimes only recognize effects on specific individuals as a vehicle for improving market performance as a whole, not as goals in themselves. In explicit contrast to a natural rights based system (and, frequently, to the Western creator’s intuitive view), appropriation of an intellectual product by others ceases to be desirable competition and becomes misappropriation.


34. See generally JOHN LOCKE, TWO TREATISES ON GOVERNMENT (Peter Laslett ed., 2d ed. 1967).


36. See, e.g., MARGRETH BARRETT, INTELLECTUAL PROPERTY CASES AND MATERIALS 2 (2d ed. 2001) (“The primary purpose of intellectual property law is to ensure a rich, diverse and competitive marketplace.”); Lunney, Trademark, supra note 1, at 439–40; TECH AGE, supra note 7, at 12–13.


38. See, e.g., TECH AGE, supra note 7, at 351–52.
only when, in aggregate economic terms, society gets more out of preventing the taking than permitting it. 39

Second, given the non-rivalrous nature of intangible intellectual property possession, intellectual property rights create a deliberate and artificial scarcity which conflicts with the normally preferred method of maximizing aggregate social wealth—increasing output and lowering costs through competitive use. 40 Intellectual property law is expressly designed to prevent simultaneous uses, which would otherwise be both desirable and possible, in order to provide an outcome not generated by normal marketplace activities. 41

Third, every regime and related right must consequently be justified by its contribution to the goal of net wealth maximization despite this interference with normal market forces. 42 The proponent of an intellectual property right bears the burden of identifying the relevant “failure” that makes the interference necessary, and must demonstrate that the proposed property rights resolve the particular problem in the most net beneficial way, i.e., by showing that the economic gain from exclusion outweighs the cost of forgone competitive market activity. 43

This market-economics analysis remains subject to an important exception: the “rights trump.” 44 When an intellectual property right implicates a constitutional right, net economic effects assessment must cede to the latter’s techniques for reconciling the competing interests. 45

---

39. See, e.g., Denicola, supra note 1, at 1661–62; Dinwoodie, supra note 1, at 739–40; Lunney, Trademark, supra note 1, at 481.

40. This is not to say the regimes cannot have other purposes as well. See generally Long, supra note 22.

41. In patent and copyright law, the primary objective is overcoming the “public goods” problems through the incentive that comes from legal rights designed to internalize the return on investment. See, e.g., Chiappetta, Internet Patents, supra note 30, at 307–08; TECH AGE, supra note 7, at 15–16. In traditional trademark law, the rights to exclude seek to avoid consumer confusion that, by undermining the integrity of these market information signals, interferes with search cost reductions. See generally infra notes 47–78 and accompanying text (for further discussion of this concept).

42. See, e.g., Chiappetta, Internet Patents, supra note 30, at 308; Denicola, supra note 1, at 1662; Litman, supra note 1, at 1729; Lunney, Trademark, supra note 1, at 420.

43. See Lunney, Trademark, supra note 1, at 420; Robert W. Kastenmeier & Michael J. Remington, The Semiconductor Chip Protection Act of 1984: A Swamp or Firm Ground?, 70 MINN. L. REV. 417, 438–42 (1985) (describing a four-part test guiding adoption of a new intellectual property right). These explicit balancing requirements lie at the core of why intellectual property regimes are more “nuanced” than real property rights.

44. As with any legislative action, intellectual property laws are subject to relevant Constitutional limitations. For example, free speech considerations even limit statutorily sanctioned trade secret temporary restraining orders when they act as prior restraints. See, e.g., DVD Copy Control Ass’n v. Bunn, 113 Cal. Rptr. 2d 338 (2001); Sports Mgmt. News v. Nachtigal, 921 P.2d 1304 (Or. 1996). Similarly, copyright law has developed the idea-expression and fair use doctrines to avoid conflicts with free speech concerns. See, e.g., TECH AGE, supra note 7, at 541 (citing Kalem v. Harper Bros., 222 U.S. 55, 63 (1911)); Eldred v. Ashcroft, 537 U.S. 186, 251–52 (2003) (referencing these exceptions as the basis for broad, but not absolute, exemption of copyright law from First Amendment challenges).

45. See, e.g., Aoki, supra note 1, at 532–43; L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 31–33 (1st Cir. 1987). This balancing process is not without problems of its own as courts must decide which interest should prevail, a particularly problematic exercise when trying to reconcile a right
As the social interests served by Constitutional rights are measured in terms that go beyond their economic merits, non-market considerations will be taken into account. This change does not dictate that the Constitutional right always prevails, or that economic consequences are always ignored. It merely means that when Constitutional rights are involved, it will be insufficient merely to demonstrate that favoring the intellectual property right will generate a net increase in aggregate economic wealth.

B. Traditional Application to Trademark Law

The above economic efficiency and Constitutional rights “ground rules” define the outer boundaries of appropriate trademark law propertization. Each stick in the trademark bundle of rights must be designed to correct an identified market failure, with each right expected to generate—empirically, or at least rationally—greater economic benefits than associated costs. Finally, even economically justified rights remain subject to Constitutional trumps in their application. These requirements are clearly visible in the existing justifications for trademark law and form the basis for the commentators’ current concerns.

Traditional analysis ascribes two market economic objectives to trademark law: the primary goal of avoiding consumer confusion (which undermines the integrity of transactionally efficient market information signals) leads to the secondary goal of fostering desirable investment in quality products. The regime’s core market failure justification for intervention thus focuses on transaction cost reduction. Trademarks permit consumers to efficiently identify experience characteristics of goods and services, thus reducing the costs of locating a suitable or desired product in the marketplace. These cost reductions depend on consumers’ ability to rely on trademark signals delivering consistent and accurate information. Unrestrained competitive adoption of duplicative or similar marks threatens the integrity of the signals. Trademark law

conceived as primarily non-economic (for example, free speech) with one carrying significant economic consequences (property, including intellectual property). See, e.g., L.L. Bean, 811 F.2d 26.

46. See infra notes 265–97 and accompanying text (discussing First Amendment doctrine as applied to the dilution debate); see also Part IV.F (discussing trademarks as products in their own right).

47. This characterization does not mean to imply that favoring a Constitutional right may not, in fact, provide net economic benefits, merely that the economic outcome is not determinative.


49. See Economides, supra note 1, at 526–27; Landes & Posner, supra note 1, at 268–69; Lemley, supra note 1, at 1690; McCarthy, supra note 48, § 2.3 at 2-3, § 2.5 at 2-7; Port, Civil Law, supra note 1, at 887–88.
intervenes to prohibit adoptions that raise this “likelihood of confusion.”  

In addition, prohibiting confusing mark appropriations provides both the supplemental benefit and justification of promoting product quality by eliminating free riding on the signaled “goodwill” generated by the related investments. The regime, however, expressly limits these interventions exclusively to cases that pose risks of consumer confusion. Consequently, the product quality incentives arise only as byproducts of preventing passing off a good as “authentic” through inappropriate trademark use, not by prohibiting appropriation of the product characteristic actually generating the associated goodwill. If consumers are unlikely to be misled, trademark law provides no protection against harm to the seller’s product investments or related competitive advantage.

Given the regime’s focus on consumer search costs, supporting trademark “ownership” requires one more step. If the regime prohibits confusion or passing off primarily for the consumer’s benefit, the harmed consumer should hold the related right, perhaps a special species of tort action for misrepresentation. However, individual consumer actions themselves involve significant transaction costs, making them an unsatisfactory vehicle for policing the integrity of marketplace signals. The minimal interest of any individual and the decentralized nature of the harm, as well as the need to prove some form of intent or reliance, all pose substantial barriers to vigorous enforcement. The solution is found in giving the first seller/user of a mark the right to prevent confusingly similar subsequent adoptions. The resulting “ownership” permits trademark law to harness the seller/user’s self-interest in avoiding competition as the mechanism for ensuring enthusiastic attention to threats to the market information system. However, despite the individual “property” interest thus created, the objective remains transaction cost reduction, measured exclusively by consumer confusion, not harm to the seller/user “owner.”

50. Both 15 U.S.C. § 1114 and § 1125 (2000) expressly predicate the right to exclude on the alleged infringement being “likely to cause confusion, or to cause mistake, or to deceive.” See also Landes & Posner, supra note 1, at 300–01; Lemley, supra note 1, at 1694–95; Lunney, Trademark, supra note 1, at 417; Port, Civil Law, supra note 1, at 896.

51. See Landes & Posner, supra note 1, at 269–70; McCarthy, supra note 48, § 2.4 at 2-4; Qualitex, 514 U.S. at 164.

52. For trademark law to do more risks serious interference with patent and copyright law and is expressly excluded by the functionality doctrine. See infra Part IV.E (discussing the problem).

53. See TECH AGE, supra note 7, at 559–60 (laying out the argument following in the text).

54. See Litman, supra note 1, at 1721. Although trademark law traces its origins to unfair competition law (see infra notes 110–11 and accompanying text), in its modern “search cost” incarnation it treats the seller very differently. Under unfair competition law, a seller sues in her own right for interference with her efforts to compete, not the effect on the consumer. Under trademark law, the only relevant concern is interference with the buyer’s ability to rely on the trademark signal’s integrity. Although the seller benefits from the result, he acts solely as a proxy for those interests with all relief being solely derivative—no confusion, no harm, regardless of the effect on the seller. Current legal articulations of the regimes’ relationship are not particularly helpful in drawing this important
The process leading to the relatively recent acceptance of the “search cost reduction/confusion avoidance” justification provides important insights regarding the effect of market transitions on trademark law and deserves brief elaboration. Originally, trademarks were adopted by tradespeople to identify themselves as the owner and source of their goods. The direct connection between the mark and the particular tradesperson served a variety of interrelated functions: offering effective recourse to purchasers, encouraging quality, and permitting a manufacturer to obtain and retain custom. As the economy expanded geographically and in numbers and types of goods and producers, trademarks’ ability to provide transaction-relevant information became increasingly important. Trademarks provided competitors an effective means to simultaneously communicate their product value proposition and distinguish it from those of competing producers. Those signals, in turn, provided consumers with a reliable mechanism for making rapid, inexpensive, and dependable purchasing decisions in an increasingly complex environment.

As these marketing activities became more important and sophisticated, commentators became increasingly concerned that the very communication/differentiation process facilitated by trademarks also carried serious risks. In lieu of articulating legitimate differences among products, the system could be misused to fabricate wholly artificial distinctions. Using trademarks to bamboozle unwitting and credulous consumers into making misguided purchasing decisions not only led to unjustified price premiums, but also raised the specter of unmerited monopolies. Adopting the “persuasion/monopoly” view, distinction. See, e.g., Weinberg, supra note 37, at 8 n.26 (noting, but not discussing, the RESTATEMENT (THIRD) OF UNFAIR COMPETITION’s treatment of trademark law as a “branch of unfair competition law.”); 15 U.S.C. § 1125(a)(1)(A)-(B) (2000) (listing both actions together, but without distinction as to the different interests being served); infra notes 103–04, Part IV.E (discussing the inappropriateness of protecting product quality investments). The failure to clearly make the distinction causes some significant real-world disconnects for trademark owners. See TECH AGE, supra note 7, at 563 (pointing out the differences in outcomes between a consumer protection and producer incentive theory of trademark protection).

55. See Drescher, supra note 1, at 309–10. Mr. Drescher’s article provides an excellent overview of trademark evolution. See also McClure, supra note 37 (discussing the history of trademarks and trademark law).

56. See Drescher, supra note 1, at 311–20.

57. See id. at 321 (noting the change in the markets); Lemley, supra note 1, at 1691–93; see also Swann, Marketing, supra note 1, at 789 (noting that, even in the 1940s and 1950s, markets and related branding were not as complex as today).

58. See Drescher, supra note 1, at 324, 327; Lemley, supra note 1, at 1692.


60. These artificially fabricated monopolies are distinguishable from those “on the merits” (such as ones based on superior quality of product). See generally Ralph S. Brown, Jr., Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 YALE L.J. 1165 (1948), reprinted in 108 YALE L.J. 1619 (1999); EDWARD CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION (1933); Denicola, supra note 1, at 1663 (describing Professor Brown’s views and citing to articles by Joe S. Bain); Lemley, supra note 1, at 1689, 1691 (describing both Brown’s views and citing to Chamberlin); Lunney, Trademark, supra note 1, at 367 and Swann, Marketing, supra note 1, at 788–89 (both citing to Chamberlin); Lunney, Trademark, supra note 1, at 420 n.212 (describing Brown’s concerns).
many, including the United States Department of Justice, came to believe that trademarks’ substantial potential for harm made them poor candidates for legal protection.\textsuperscript{61} By the 1980s, however, the current “search-cost reduction/confusion avoidance” rationale had gained clear ascendency.\textsuperscript{62} The important insight for present purposes lies not in the outcome but in the reasons for the dramatic change in views. The shift did not occur merely because the Chicago-style economic analysis that supported the argument had become better understood and more generally accepted. Rather, it stemmed from the substantive fact that the economic justifications better matched contemporary marketplace realities, both in addressing the obvious need for informational assistance and in assigning an appropriate role to, and recognizing the actual abilities of, the consuming public.

In the post-war years the economy grew considerably in size and complexity. Consumer choices continued to expand as producers developed the means and ability to target more diverse needs, tastes, and interests.\textsuperscript{63} Product and service offerings became more intricate technically and in terms of numbers of features and distinguishing characteristics, and changed more quickly as technologies evolved and consumer demands sharpened and shifted. Additionally, producers became increasingly remote from consumers and their purchasing decisions—geographically, through expansion of the distribution chain, as well as in their less transparent corporate structures—making direct communications more expensive and difficult.

The response to the growing informational challenge was branding.\textsuperscript{64} Moving beyond “trade name” source identification and related accountability, a “brand” captures and communicates a wide range of information of immediate transactional significance to the marketplace.\textsuperscript{65} At its most basic level, a brand carries the assurance of product-specific “experiential” characteristic consistency—qualities such as freshness, energy efficiency, low maintenance, or enjoyable taste.\textsuperscript{66} This type of brand information obviates the need for pre-purchase testing thus

\textsuperscript{61} See Lunney, Trademark, supra note 1, at 367 (noting the use of Chamberlin’s views in support of the Justice Department’s opposition to broad trademark protection); Swann, Marketing, supra note 1, at 788–89 (describing Chamberlin’s view). See generally McClure, supra note 37 at 329–33.

\textsuperscript{62} See Landes & Posner, supra note 1, at 274-75; Denicola, supra note 1, at 1663–64; Lemley, supra note 1, at 1691. But see Litman, supra note 1, at 1722 (noting the “return” of the gullible consumer, somewhat ironically, in support of expanded trademark rights).

\textsuperscript{63} See Swann, Marketing, supra note 1, at 793–94.

\textsuperscript{64} See id. at 789–91; Who’s Wearing the Trousers?, THE ECONOMIST, Sept. 8–14, 2001, at 26.

\textsuperscript{65} See Economides, supra note 1, at 527; Philip Kotler, Marketing Management 404–05 (2000); Swann, Marketing, supra note 1, at 792–93; Drescher, supra note 1, at 322. In fact, many brands today intentionally provide very little, if any, actual source information. See Swann, Marketing, supra note 1, at 793; Drescher, supra note 1, at 324.

\textsuperscript{66} See Swann, Marketing, supra note 1, at 798.
minimizing experimental purchasing, permits rapid repeat identification of products possessing the desired characteristics, and helps sort competing products along their characteristics, permitting cost comparisons of like-with-like and relative value across varieties.

Beyond physical characteristics, a brand can also communicate information about desirable secondary outcomes from product ownership or use. Some outcomes relate primarily to personal benefits, making the individual’s life healthier, more comfortable, or more interesting. Other outcomes include broader social considerations, such as preservation of the environment or promoting unions. In addition to satisfying direct personal desires, these additional attributes can provide the supplemental gratification of permitting the product purchaser to feel they belong to a larger affinity group, such as a cause (Lions® fans) or a “life-style” (the “Pepsi® generation”), as well as providing the means for communicating that membership to others.

Furthermore, a branding strategy provides an efficient and effective means for making the related information readily transferable. For example, a brand might indicate that the producer’s entire range of products reflects consistent attention to quality, good value for the money, sensitivity to a particular customer group (such as the luxury buyer), or dependable adherence to a particular social value. Thus, brand information not only assists in making repeat purchases, but also facilitates first-time decisions involving new choices in a familiar product category or regarding associated and even unrelated goods and services. This use of brands can facilitate new entrants and further expand consumer choice.

67. See id. at 799; Drescher, supra note 1, at 322–23; Landes & Posner, supra note 1, at 275 (all noting that a brand can differentiate goods belonging to the same category, but still provide assurance that the branded good will consistently meet the specifications expected of the particular class).
68. See Kotler, supra note 65, at 416; Swann, Marketing, supra note 1, at 793–94.
69. See Drescher, supra note 1, at 325; Economides, supra note 1, at 532–33 (noting this expands the ability to compete into new dimensions).
70. See Drescher, supra note 1, at 325–26, 334; John E. Calfee, Fear of Persuasion, A New Perspective on Advertising Regulation 19–37 (1997); Litman, supra note 1, at 1727; Swann, Marketing, supra note 1, at 800–41.
71. The brand can also be used to communicate to others that the purchaser is the kind of person who should be associated with the related values or group. As the brand’s function moves from communication to the product purchaser to use by the purchaser to communicate to others, the split from trademark law’s market information objectives makes application of trademark law inappropriate. See Part IV.F.
72. See Kotler, supra note 65, at 414–16.
73. A simple example demonstrates this assertion: An automobile company (Honda Motors) makes a variety of passenger cars. By using the Honda brand (which happens in this case to correspond with its trade name, but need not), it communicates general information about all of its products. By using separate brands, Civic and Accord, it also provides distinguishing information within its product line. Repeat purchasers can rely on these brands to signal reliable duplication of past experiences. New purchasers can use them to order the multiple offerings. If Honda elects to enter a related market (SUVs), the Honda Passport sub-brand can carry both the general and product-specific information about the new product to its existing customers and new buyers in those markets. Similarly, if it decides to enter the watch market, a Honda brand can communicate reliable producer messages to the potential buyers. See Kotler, supra note 65, at 412–17.
As branding was demonstrating and expanding the transactional value of trademarks as the vehicles for carrying necessary information to the marketplace, evolving perceptions of the buyer were simultaneously overcoming the “persuasionist” concerns that trademarks were being used to bamboozle consumers. Not only did the search cost approach better align with the theoretical premise that individual economic actors in a market economy should make their own decisions, but research also empirically demonstrated that the vast majority of consumers are much less susceptible to deception than the persuasionist position assumed. A buying public which can readily distinguish useful from problematic communications stands prepared to benefit from the information which brands provide, and can identify and dismiss attempts at duplicity. Therefore, the risks of economically unjustified price premiums and monopolies are substantially diminished, leaving a far greater likelihood of net benefits from trademark protection.

Consequently, at least for today’s skeptical consumers, the search cost reduction rationale provides the necessary justification for a confusion avoidance-based trademark law intervention. Trademarks provide the vehicle for transmission of the brand information that the modern marketplace requires for efficient operation, so the law should ensure that those transmissions remain free of interference from overlapping adoptions raising a “likelihood of confusion.”

C. Over-Propertization Concerns: The Growing Disconnection

Identifying the “search cost reduction/confusion avoidance” justification only begins the intellectual property analysis. It still remains to ensure against over-propertization by limiting the regime’s rights as

74. The United States market model is premised on this position, a sine qua non of the operation of the invisible hand. If the market model is normatively desirable, as has been assumed, then so must be the related assumption. See supra notes 30–37 and accompanying text. In all events the assumption clearly strikes a responsive chord anecdotally. See Lemley, supra note 1, at 1692–93; Litman, supra note 1, at 1727.

75. See CALFEE, supra note 70, at 1–11, 37–40 (1997); Landes & Posner, supra note 1, at 275 (citing sources supporting the rejection of the persuasionist view); Swann, Marketing, supra note 1, at 791.

76. The continued empirical existence of brand premiums and preferences can be explained as reflecting the value a consumer ascribes to a combination of the actual utility of the product and search-cost saving rather than artificial differentiation. See Landes & Posner, supra note 1, at 270. However, to the extent consumers are paying a brand premium to obtain the means for making a values or affinity statement to themselves or to others, these payments do pose difficulties for trademark law. See infra Part IV.F (discussing trademarks as products).

77. Mr. Drescher at least strongly implies that “distinctions without a difference” may not have been a merely occasional misuse, but the very reason for the original development of brands. See Drescher, supra note 1, at 322. Regardless of those origins or its historical effectiveness (of which there is reason to be skeptical), by the 1950s, informational needs were driving branding. See supra notes 64–76 and accompanying text (discussing contemporary business justifications for branding).

78. See Swann, Marketing, supra note 1, at 794–96.
necessary to produce net increases in wealth and consistency with applicable Constitutional trumps.\textsuperscript{79}

The related trademark doctrinal limitations take three general forms. First, every trademark right must be predicated on a showing of the “likelihood of confusion” threatening interference with consumer search cost savings.\textsuperscript{80} Although the regime relies on the seller/user’s self-interest in limiting competition, that motivation must be carefully controlled. This is done by focusing on the core objective and scrupulously turning away all claims based solely on harm to the seller’s “ownership” interest in the mark.\textsuperscript{81} Second, the regime’s confusion-based protections must be tailored to ensure that informational benefits outweigh related costs.\textsuperscript{82} Warehousing, which prohibits beneficial use by others and which provides no information to consumers, is avoided through the “use” requirement.\textsuperscript{83} Additionally, the extremely broad range of potential marks that could carry information\textsuperscript{84} is reduced to exclude marks that pose serious risks of harm to competition on the merits.\textsuperscript{85} The “distinctiveness” requirement denies all trademark protection for the generic term for the good or service, and demands that any mark descriptive of product characteristics sport demonstrable secondary meaning and, even then, the mark is subject to “fair use.”\textsuperscript{86} The functionality doctrine prevents claiming trademark rights in any product characteristic which would “put competitors at a significant non-reputation-related disadvantage.”\textsuperscript{87} Third, compatibility with the “free speech” Constitutional trump is maximized through the parody exception, which, read broadly, is designed to permit desired public commentary and debate that employs the mark.\textsuperscript{88}

Current over-properization concerns can be traced directly to the growing disconnect between actual trademark rights and these limitations. As early as passage of the Trademark Law Revision Act of

\begin{itemize}
\item [79.] See, e.g., Lunney, \textit{Trademark}, supra note 1, at 421–22.
\item [80.] See, e.g., Landes & Posner, \textit{supra} note 1, at 300-01; Lemley, \textit{supra} note 1, at 1695, 1713; Litman, \textit{supra} note 1, at 1718, 1721; Lunney, \textit{Trademark}, \textit{supra} note 1, at 436-38. The limitation further reinforces the merely incidental nature of the investment in product quality justification. See \textit{supra} notes 51–52 and accompanying text.
\item [81.] See, e.g., Lemley, \textit{supra} note 1, at 1713–14; Litman, \textit{supra} note 1, at 1721; Lunney, \textit{Trademark, supra} note 1, at 439–68; see also \textit{supra} notes 53–54 and accompanying text.
\item [82.] See Lunney, \textit{Trademark, supra} note 1, at 421–31.
\item [83.] See Landes & Posner, \textit{supra} note 1, at 281–82; see also infra notes 194, 208–14, and accompanying text (discussing the use requirement).
\item [85.] See Dinwoodie, \textit{supra} note 1, at 617.
\item [86.] See Landes & Posner, \textit{supra} note 1, at 287–96; \textit{TECH AGE, supra} note 7, at 581–92 (distinctiveness) & 725–37 (generic marks); see generally infra notes 215–21 and accompanying text (discussing the rationale for excluding generic and descriptive marks).
\item [87.] \textit{Qualitex}, 514 U.S. at 165; \textit{TrafFix}, 532 U.S. at 32–33; Dinwoodie, \textit{supra} note 1, at 728–59 (providing a purpose driven mechanism for making this determination); Landes & Posner, \textit{supra} note 1, at 297–99; see also infra Part IV.E (discussing the functionality doctrine and related channeling).
\item [88.] See \textit{TECH AGE, supra} note 7, at 772–80; see generally infra notes 265–95 and accompanying text (discussing First Amendment concerns).
\end{itemize}
1988, Professor Carter raised the alarm that national priority based solely on local use and intent-to-use registrations went well beyond the regime’s “search-cost reduction/confusion-avoidance” justifications. Subsequent statutory amendments and judicial decisions have continued the trend. Anti-dilution and anticybersquatting legislation expressly has little to do with confusion. Under anti-dilution, consumer confusion is irrelevant and anticybersquatting requires only a bad faith intent to profit. Recent aggressive expansion into the realm of trade dress, particularly implicating product characteristics, threatens serious interference with competition on the merits. The growing pressure to explicitly acknowledge “owner” goodwill has not only led courts to place these “property” interests on a par with, if not superior to, First Amendment public debate, but has led courts to treat trademarks as separate goods in and of themselves, thus untethering trademark law entirely from its market information objectives.

III. A SHIFT: CONFUSION TO ENCOURAGEMENT

A. Adding Incentives

Some immediate action is clearly required; the question is what precisely should be done. If the critics are correct, the current expansion unduly relaxes competitive discipline permitting monopoly profits—precisely the kind of economic over-reaching we need to most carefully guard against in intellectual property law—and undermines important free speech values. Therefore, the only appropriate response must be to immediately halt trademark “propertization,” insist on a full re-examination of each recent right, and jettison all which cannot demonstrate fidelity to the trademark regime’s consumer-confusion touchstone.

However, the relatively recent transition from the anti-trademark undue-persuasion-monopoly position to the search-cost/confusion-avoidance justification warns against drawing precipitous conclusions.
Just as previous changes in the marketplace required reassessment of the argument that basic demands for trademark protection risked unmerited monopoly profits, continued market evolution indicates the utility of a fresh review of trademark law’s role and justifications in the face of these pressures for expanded rights. The proper initial question, therefore, is not whether the new rights are consistent with a confusion-based regime. The crucial issue is whether a trademark law based exclusively on confusion avoidance can adequately deliver the regime’s objective of reducing transaction costs in today’s environment.

Such a “first principles” exercise reveals a striking anomaly between the confusion-based justification for trademark law and the more common outcome of deploying the general market efficiency analytic framework in support of United States intellectual property laws. Specifically, the confusion-based approach expressly ignores the incentive objectives serving as the foundation for both patent and copyright law. Trademark law, therefore, rests on an important assumption: that optimal investment in creation of marks does not require intellectual property law intervention. That, however, is hardly a forgone conclusion. Merely assuming that because competition will force producers to better communicate their value propositions, and that market forces will in turn deliver adequate investment in trademarks, is logically no different than arguing that because superior products will prevail, patent and copyright law incentives are unnecessary. Clearly, some crucial difference between the two situations must be identified if the existing distinction is to stand.

As is elaborated in detail below, I do not believe that case can be made. The substantial investments required to create and establish superior marks in the contemporary brand-driven market environment, coupled with increasingly easy, cheap, and rapid appropriability, create significant public goods disincentives. Consequently, trademark law should include rights specifically targeting appropriate levels of investment in the creation of trademarks.

98. Although not even Pollyanna would believe those influences are not (and continue to be) present, the marketplace changes make it clear other broader interests are in play. See generally supra notes 62–78 and accompanying text.

99. Cf. Chiappetta, Internet Patents, supra note 30, at 324–31 (making a similar argument regarding competitive arts patents in light of technological changes in marketing wrought by computing technology and the Internet).

100. See Rose, supra note 1, at 68–98 (noting the broader applicability of utility theory than that applied under traditional doctrine).

101. See supra note 40–41 and accompanying text (discussing the incentive basis for these regimes) and infra notes 110–15 and accompanying text (noting the express rejection of any incentive role for trademark law). The mere absence of incentives does not, of course, indicate an error has been made, merely that further investigation is merited as to the reasons. Cf. Chiappetta, Trade Secrets, supra note 27, at 85–92 (arguing that trade secret law should not rest on an incentive justification).

102. See Landes & Posner, supra note 1, at 270 (making the free riding point); F. Scott Kieff, Property Rights and Property Rules for Commercializing Inventions, 85 MINN. L. REV. 697, 751–53 (2001) (noting the possible investment connection to creation of marks); Rose, supra note 1, at 693–94
displace the existing confusion avoidance objectives; it complements them. The objective of avoiding damage to the integrity of existing marks remains critical, but insufficient. In short, the full justification for trademark law in the current context includes both encouraging the creation (investment) and proper operation (integrity and clarity of communication) of a market information system.

The proposed investment incentives differ dramatically from trademark law’s traditional product quality justification. The latter focuses on internalizing the returns on the seller’s “goodwill” generated by investment in product quality and customer relations by preventing diversion of trade through confusing mark free riding. The proposed encouragement incentives instead expressly target investment in the trademark itself as an information-carrying device. As discussed below, this change more clearly defines the appropriate reach of trademark law and has the salutary effect of uncoupling trademark law from product development incentives and the attendant functionality problems.

Taking an approach that encourages the healthy development and operation of a market information system substantially expands the benefits inquiry and the scope of appropriate rights. Transaction cost savings benefits from preventing confusing competitive adoptions, and will continue to provide support for related existing rights. These benefits, however, no longer serve as the exclusive source of trademark law. Ensuring the creation of an optimal number and quality of commercial signals supports exclusionary rights expressly designed to provide incentives—or, more properly understood, counters to free riding disincentives—to invest, even in the absence of actual or potential confusion. Enlarging the regime’s objectives, however, is not a call for “full” propertization. Because intellectual property incentives seek only to generate net beneficial investment, the expansion of

---

103. See supra notes 51–52 and accompanying text. Oddly, although both Congress and the courts have recognized the incentive connection, the rationale of investment directly in the mark is never properly articulated. See Inwood Labs., Inc. v. Ives Labs., Inc., 456 U.S. 844, 844 n.10 (1982) (citing the Senate Report which notes such free riding “deprives the owner of the goodwill which he spent energy, time, and money to obtain”); infra note 241 (noting explicit references to investment in the mark in dilution cases, but based on improper citations to Supreme Court cases). So close, but so far.

104. Although frequently stated as a justification for trademark law, until recently, there has been virtually no discussion of whether trademark’s offering incentives to invest in product quality produces a net positive social wealth benefit. The recent debate over the need to ensure proper channeling by trademark’s functionality doctrine demonstrates the serious problems of expressly incorporating such an objective. See generally infra Part IV.E. The same difficulties arise when trademark law intrudes on copyright law and should be avoided for similar reasons. See generally infra notes 347–52 and accompanying text.

105. Labeling intellectual property rights as incentives improperly implies a subsidy seeking to produce more of the output than would result from a properly functioning marketplace. Intellectual property “incentives” actually seek to remedy under-production, merely correcting for the public goods disincentives.

106. See Chiappetta, Internet Patents, supra note 30, at 307; Landes & Posner, supra note 1, at 267; Kieff, supra note 102, at 751–53.
trademark law must not move too far toward “simply property.” Any incentive-based right actually granted must be appropriately targeted to produce only its desired output—in the case of trademarks, market information signals properly calibrated to deliver economic benefits exceeding the associated costs.

An encouragement driven regime also eliminates the problems associated with proxy “ownership” generated by inconsistently motivating the trademark holder to act on one basis (self-interest) while measuring the outcome on another (consumer confusion).

This rationale supports direct ownership for the express purpose of internalizing return on investments in the trademark system. The resulting rights can stand or fall like any other intellectual property incentive: based on a determination that the benefits of protecting the trademark owner’s investment justify the associated costs to competition.

B. Addressing the Contrary Views

Boldly stated, the encouragement proposal begs a crucial question: why doesn’t trademark law include incentive objectives? One explanation can be found in the regime’s origins. Trademark’s emergence from passing-off and deception distinguishes it dramatically from patent and copyright laws, which are explicitly connected to incentive concerns.

Building on these unique roots, judicial development of the regime had no need or impetus to look for incentive justifications.

Moreover, the Supreme Court’s Constitutional interpretations strongly supported and fostered continued analytical separation.

Patent and copyright laws are expressly contemplated by the incentive objectives that drive the Intellectual Property Clause. Trademark law, seen as expressly excluded from that Clause, found its support in the Commerce Clause.

---

107. See Lunney, Trademark, supra note 1, at 369.
108. Trademark policy analysis not infrequently appears to posit a choice between confusion-based rights and granting complete control over the mark. This analysis over-simplifies the application of incentives. Although risk of “over-propertization” exists, it arises from the over-application of incentives, not merely granting incentives. Just as patent and copyright law require more than mere investment (testing, respectively, for novelty—nonobviousness and originality) and copyright law divides between idea and expression, channels for useful articles, and makes exceptions for fair use, it is possible (and essential) to ensure trademark incentives apply so as to produce not merely the specifically targeted output but in a way which generates net benefits. See discussion infra Part IV (discussing the adjustments required to accomplish this result).
109. See supra notes 53–54 and accompanying text.
110. See TECH AGE, supra note 7, at 559 (noting the difference), 557–61 (United States trademark’s misappropriation and deception origins), 123-30 (patent law’s incentive origins), and 345-48 (United States copyright law’s incentive based rationales); Vincent Chiappetta, Patentability of Computer Software Instruction As an “Article of Manufacture:” Software As Such As the Right Stuff, 17 J. MARSHALL J. COMPUTER & INFO. L. 89, 97–98 (1998) [hereinafter Chiappetta, Software Patents].
111. See TECH AGE, supra note 7, at 559–60 (reviewing the origins).
112. See The Trademark Cases, 100 U.S. 82 (1879).
113. U.S. CONST. art I, § 8, cl. 8; Chiappetta, Internet Patents, supra note 30, at 302–05.
114. U.S. CONST. art I, § 8, cl. 3. See The Trademark Cases, 100 U.S. at 82; TECH AGE, supra note
point clearly permeates much of trademark law analysis, with judicial application and legislative adjustments consistently measured by their ability to ensure that the “public [can] identify easily a particular product from a particular source.” The simplest explanation may be that, as layers of analysis accreted on the initial justification, confusion, rather than incentives, has become an unquestioned operating assumption.

This confusion-avoidance operating assumption can lead to the most direct, but least appropriate, objection to trademark incentives—the purely ontological assertion that confusion avoidance has always been the only proper focus of trademark law. Whether or not this is an accurate description, as many articulately point out, the normative question cannot be answered by making an a priori assumption about the purposes of trademark law. To do so offers no explanation as to why the current regime should ignore the possible benefits of encouraging investment in trademarks, now readily acknowledged as a valuable part of the modern market information system.

The better counter-arguments are found in explicitly considering the justifications for trademark incentives. That discussion starts from the fundamental premise supporting any incentive-based United States intellectual property regime. Although competition is generally

---

7. In The Trademark Cases, the Court noted trademarks law’s omission of a novelty or originality requirement. The Court has subsequently been even more pointed in the lack of “kinship” between trademark law and patent/copyright law. See Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 439 n.19 (1984) (expressly noting the similarity between copyright and patent law and the fundamental differences between copyright and trademark law). Although the position has merit given trademark law’s informational objectives, the lack of patentable novelty or copyrightable originality does not make incentives irrelevant or undesirable. See infra notes 124–27 and accompanying text (discussing the usefulness of incentives in trademark law, despite lack of “goodstype” novelty or originality). The better view, therefore, is that although some differences in application should exist, a number of useful analogies can be drawn. See infra notes 208–14 and accompanying text (discussing the information system focus’s support for a use requirement versus patent and copyright laws’ broader rights to exclude); see also infra notes 287–97 and accompanying text (discussing the usefulness of the copyright guidance in dealing with free speech values in trademark law). The Court’s holding does not technically preclude any incentive role for trademark law, provided it facilitates interstate or foreign commerce; even if it did, in a normative inquiry, we are free to suspend the existing limitations (doctrinal, Constitutional or otherwise) and insist they be changed if the appropriate answer requires it. See Chiappetta, Internet Patents, supra note 30, at 305–06.

115. See Lemley, supra note 1, at 1695; TECH AGE, supra note 7, at 559.

116. To my knowledge no commentator has actually made this argument. It is included only for completeness.

117. See supra notes 29–30 and accompanying text; Gordon, supra note 1, at 1616; Lunney, Trademark, supra note 1, at 420. As discussed earlier, however, some normative assumptions must be made. The following discussion assumes, and therefore depends on, the appropriateness of an efficient market assumption as the framework for assessment of the objectives of trademark law. See supra note 30 and accompanying text.

118. A number of commentators have expressly addressed the incentive question with varying degrees of depth of exploration. See, e.g., Carter, supra note 1, at 768; Dreyfuss, Pepsi, supra note 1, at 399; Landes & Posner, supra note 1, at 279, 273 (distinguishing between investment in the message and in marks as words); Lemley, supra note 1, at 1694–96; Litman, supra note 1, at 1730; Lunney, Trademark, supra note 1, at 440–61; TECH AGE, supra note 7, at 634–35.

119. See generally supra notes 30–46 and accompanying text (discussing the general approach to market economic driven United States intellectual property rights).
preferred, intervention is justified to the extent that it is necessary to
correct for market failures likely to result in under-production relative to
demand. The failure typically is articulated as a “public goods” problem,
with ready appropriability at very low marginal costs resulting in under-
investment.120 Intellectual property laws, such as the patent and
copyright regimes, provide the solution by internalizing returns through
legal rights to prevent use by others.121

In this analytical framework, three general classes of argument
capture the range of positions against including such an independent,
explicit incentive objective in trademark law.122 First, it might be argued
that trademarks are inherently unnecessary; or worse, affirmatively
undesirable. In this case, as by definition no legitimate market demand
can be left unsatisfied, trademark incentives must result in over-
production. Second, it might be asserted that even if trademarks are
useful, no public goods market failure exists. As a result, trademark
production must already be generally in line with market demand.
Finally, even assuming that trademarks are useful and a market failure
exists, the current confusion-based regime may already provide sufficient
incentives. Additional encouragement through more expansive, non-
“confusion-avoidance” trademark rights will, therefore, generate excess
production. Each category of objection is treated separately below.

The “trademarks unnecessary or are undesirable” argument can be
broken down into three distinct forms: trademarks are harmful;
trademarks qua trademarks have no intrinsic value; and trademarks
cause more harm than good despite some beneficial uses. The first
position posits that trademarks, at best, never provide value and should
at the least be legally unsupported; at worst, they cause harm and should
be prohibited. The now generally accepted search cost reduction
rationale is the response: Clearly a system of trade signals providing
information to the marketplace has value, meaning that some level of
legitimate demand must exist.123

The second argument recognizes these search cost benefits, but
observes that while patent and copyright law incentives generate
products and services sought by individual consumers, there is no similar
demand for trademarks in their own right—that is, qua trademarks.124

120. See, e.g., Chiappetta, Internet Patents, supra note 30, at 306–07.
121. These incentives are affirmative, existing explicitly to, and limited by, the objective of
increasing investment. Similarly, the present trademark inquiry concerns the value of affirmatively
providing incentives, not merely those incidentally provided by confusion-based rights. See Brown,
supra note 60, at 1658 (noting that confusion-based rights carry some incentive along with them, but
that is not the objective, merely an unavoidable side-effect); supra notes 51–52 and accompanying text;
intra notes 324–26 and accompanying text.
122. Merely determining the benefits of trademark incentives does not, of course, resolve the
issue. The debate then shifts to whether the benefits of particular incentive-based rights exceed the
costs. That issue is addressed separately below. See discussion infra Part IV.
123. See supra notes 62–78 and accompanying text.
124. Cf. Lemley, supra note 1, at 1695; Lunney, Trademark, supra note 1, at 435–36 (no gain from
more marks conveying the same information).
The argument focuses on an important dichotomy between the substance of commerce—goods and services—and its conduct—the means of competition. Observing that the trademark regime’s information system justification focuses on the means of competition does not, however, mean that incentives play no useful role. Optimum market performance relies not only on efficiency regarding the substance of transactions but in their formation and consummation as well. Consequently, the fact that consumers have no desire to acquire a trademark serving in its transactional function does not eliminate the possibility that incentives may be required to produce the optimum numbers and kinds of marks necessary to convey useful information to consumers. Rather, it indicates that trademark incentives should operate differently than those targeting goods and services innovation. In particular, the related rights must remain focused on encouraging “communication means” and not be permitted to drift into protecting “substance of trade” investments.

The final “more harm than good” position recognizes the benefits of trademarks, but argues that undesirable outcomes overwhelm those gains to generate net costs. The persuasionist concern that, in practice, artificial trademark differentiation outweighs any informational benefits provides one example. More relevant to the current inquiry, convincing arguments have been made that trademark rights which extend beyond confusion foster socially problematic outcomes. Professor Lunney’s analysis of trademark law’s role in protecting prestige goods, defined as goods desired for their scarcity rather than in their own right, is such a case. He argues that because such goods are

---

125. See, e.g., Chiappetta, Internet Patents, supra note 30, at 291–92, 298, 305, 320–22; infra notes 172–78 and accompanying text (describing the different analysis required).

126. Professor Lunney makes the important point that when consumers value a trademark, qua mark, it is actually serving as a separate product. See Lunney, Trademark, supra note 1, at 439. Permitting trademark law to supply incentives for these investments is indeed problematic, but as noted below in the text, that is a targeting concern.

127. See discussion infra Part IV.F; see also infra Part IV.G (discussing confusion/integrity limitations on assignments in gross).

128. See supra notes 59–61 and accompanying text. This “undesirable output” argument differs from the position that consumers who, without being duped as to their nature, actually desire the values represented by a brand are acting inappropriately. The question is, what is the role of individual consumer utilities in market efficiency based intellectual property law. Within the definitional confines of the theory, the answer must be that the regimes should take consumers as they find them and let the market allocate resources to maximize their utilities. To do more involves a value judgment, which lies outside the role or competence of such an intellectual property system. See Chiappetta, WTO, supra note 30, at 369 n.187 (market economies do not resolve “ultimate value” differences); Lemley, supra note 1, at 1693; Kieff, supra note 102, at 752; supra notes 74–76 and accompanying text (discussing the appropriate role of buyer utilities in a market economy). If we don’t believe consumers know their own utilities or want to intervene and put certain utilities out of bounds, we should do so explicitly and directly, not under the guise of intellectual property law. That does not mean, however, that merely because satisfying these consumer utilities depends on trademarks as products, applying trademark law incentives is justified. The market information versus other uses of trademarks still requires analysis. See discussion infra Part IV.F.

129. See Lunney, Trademark, supra note 1, at 466–68.
acquired not for their own sake, but to send a superiority message to others, they and the facilitating trademark use represent socially undesirable “one-upmanship,”\textsuperscript{130} which is undeserving of protection. Similar difficulties arise regarding efforts to use trademark law to impair individual expression.\textsuperscript{131}

These arguments demonstrate only that some, not all, trademark uses are undesirable. Other intellectual property incentive regimes face the same arguments and obtain a net benefit balance by carving out problematic protections. Patent law provides encouragement to novel and non-obvious useful arts advances while explicitly denying protection to too-costly abstract ideas, laws of nature, and natural phenomena.\textsuperscript{132} Copyright law focuses on original expression but excludes coverage of ideas and useful articles.\textsuperscript{133} This “causes harm” argument, therefore, merely points out that encouragement-based trademark law must be constructed to ensure that related rights do not generate excessive costs by withholding problematic coverage.\textsuperscript{134}

To summarize, in light of the obvious efficiency benefits of trademarks, none of the “trademarks unnecessary or undesirable” positions can mount a convincing case against adding an incentive function to trademark law’s objectives. They merely reinforce the important, but well-understood, need for proper implementation. Consequently, if a general counter to an encouragement paradigm exists, it must be found in either the “no market failure” or “adequate existing incentives” arguments. Although the specific reasons differ, both of these latter approaches posit that, as no threat of under-production exists, applying additional incentives must generate over-investment and over-production. Applying incentives in such circumstances goes beyond mere benign lack of necessity to risk distorted and inefficient allocation of scarce resources.

The most straightforward formulation is that no production market failure can exist because trademark creation requires no—or no significant—investment.\textsuperscript{135} If every potential mark has numerous perfect and readily available substitutes, trademark creation only involves reaching into the bag, pulling something out, and using it. As trademarks are essentially “free” goods in unlimited supply, their creation cannot be

\begin{itemize}
  \item \textsuperscript{130} \textit{Id.} at 468.
  \item \textsuperscript{131} \textit{Cf.}, e.g., Aoki, \textit{supra} note 1; Dreyfuss, \textit{supra} note 1; Litman, \textit{supra} note 1.
  \item \textsuperscript{132} \textit{See}, e.g., Chiappetta, \textit{Internet Patents}, \textit{supra} note 30, at 308–09 & 316–17; Chiappetta, \textit{Software Patents}, \textit{supra} note 110, at 131–33.
  \item \textsuperscript{133} \textit{See}, e.g., Chiappetta, \textit{Internet Patents}, \textit{supra} note 30, at 308–09.
  \item \textsuperscript{134} \textit{See} discussion infra Part IV (noting situations where incentives should be withheld to avoid problematic limitations on use by others).
  \item \textsuperscript{135} The position is far more frequently implied than affirmatively stated. \textit{See}, e.g., Carter, \textit{supra} note 1, at 768–70 (discussing but disputing the related “marks irrelevant” assumption); Landes & Posner, \textit{supra} note 1, at 274 (indicating costs are low); Lemley, \textit{supra} note 1, at 1695 n.39 (citing Ambrosia Chocolate Co. v. Ambrosia Cake Bakery, 165 F.2d 693, 697 (4th Cir. 1947)); \textit{The Trademark Cases}, 100 U.S. at 93–94 (“requires no fancy or imagination, no genius, no laborious thought”).
\end{itemize}
constrained by under-investment and, therefore, an incentive system has no useful role to play.

The response lies in recognizing the contradictory market realities. At the most basic level, for no investment to be required, every trademark must literally be a perfect substitute for every other mark. Clearly, this is not the case. “POISON” is not a particularly effective mark for a soft drink. The actual argument must be that although some investment is required, that investment is so modest as to be unaffected by any concerns over its loss. After all, no significant efforts or resources are required to avoid the “POISONs” in the selection process. This more precise articulation has some logical appeal. If “[a]ll that is needed is a different mark for each producer” and investment is negligible, appropriate levels of trademarks will be generated absent any legal encouragement. It is far better to let the market take care of itself.

Although a definitive empirical study has not been performed, the substantial evidence from the commercial world, to say nothing of considerable anecdotal experience, consistently contradicts this “no substantial investment” description of modern trademark creation. Considerable time, money, and energy go into the selection of a trademark and its subsequent promotion. Business people willing to invest substantial resources must believe this investment to be essential to the trademark development process. Assuming that those responsible for trademark creation are no less sophisticated than other consumers, their actions indicate powerfully that the generation of trademarks, at least in the modern marketplace, must involve considerable “fancy,

136. See Carter, supra note 1, at 770 (making the points in the following text).
137. See id. at 768 (describing, but disagreeing, with the traditional case for no “incentives to be clever in selecting a mark”).
138. See Carter, supra note 1, at 770.
139. The need to focus on selection is part of the basic brand marketing mantra. See, e.g., THOMAS C. KINNEAR & KENNETH L. BERHHARDT, PRINCIPLES OF MARKETING 269–74 (3d ed. 1990); WILLIAM J. STANTON, FUNDAMENTALS OF MARKETING, 196-97 (6th ed. 1981). The result is considerable investment, internal and/or external, in the naming process. See, e.g., Carter, supra note 1, at 770-71 (noting the heavy investment in development and testing of marks); KOHLER, supra note 65, at 413 (noting the average cost of $60,000 at one “naming firm” and the range of $25,000 to $60,000 at another); Jeff Barbian, What’s in a Name, at http://www.computeruser.com/articles/1908,1,3,1,0801,00.html (Aug. 2000) (noting the importance of selection and the large number of advertising firms offering naming services for “around $75,000” as well as the possibility of “doing it oneself,” which still takes time and resources). See also http://www.landor.com; http://www.namelab.com; http://www.sightlinemarketing.com (examples of the many firms specializing in brand naming services).
140. The even greater importance of investing in giving appropriate content and developing awareness for the brand are equally fundamental business propositions. See, e.g., DAVID A. AAKER & ALEXANDER L. BIET, BRAND EQUITY & ADVERTISING: ADVERTISING’S ROLE IN BUILDING STRONG BRANDS (1993); DAVID A. AAKER ET AL., ADVERTISING MANAGEMENT, 91–95, 253–74 (4th ed. 1992); KOHLER, supra note 65, at 410–411; SIDNEY J. LEVY ON MARKETING, BRANDS, CONSUMERS, SYMBOLS & RESEARCH 138–40 (compiled by Dennis W. Rook, 1999); Swann, Marketing, supra note 1, at 898. For the empirically minded, there is a direct connection between the leading advertisers and “megabrands.” See http://www.adage.com/datacenter.cms?datacenter=1 (last visited Sept. 17, 2003).
141. If any group should be able to protect themselves from being duped in the market, it should be those that make the market.
imagination or at least laborious thought" that requires a tangible commitment of resources—resources significant enough to merit serious concern over possible loss.

A reasoned analysis supports the rationality of these actions. Beyond the common sense distinctions reflecting the nature of the underlying product, some marks are inherently “better” than others based on aesthetic, psychological, and sociological considerations. For example, many consumers consider a graceful “swoosh” more appealing than a splatter mark; KODAK sounds better and is easier to pronounce and remember than JBXKNVZ; and “Quaker” is better than “Zealot” at evoking a virtuous lifestyle. Some marks will possess especially desirable combinations of these types of characteristics. Looking for the “best” choice among the myriad of clearly unequal marks requires not only time and money, but also professional expertise in the relevant fields.

Beyond this identification of marks that could become superior communicators, a far more significant additional investment is required to turn that potential into reality. For even the “best” mark to inform, it must become associated with the particular product and producer attributes, and be imbued with the brand values sought to be communicated. Undoubtedly, as traditional trademark doctrine suggests, resources must be expended to ensure that the underlying good or service delivers on the related promises. While necessary, these investments are not sufficient. Substantial resources must still be applied to capturing the public’s attention and effectively communicating what needs to be heard. This is the essential step in trademarks’ ability to reduce search costs. Greater investments enhance the likelihood and accelerate the process of the market’s connecting the full range of brand information to the trademark vehicle. Therefore, the argument that the inconsequential levels of investment involved should make incentives irrelevant fails.

142. A contrary paraphrase of the Supreme Court’s words in The Trademark Cases. See The Trademark Cases, 100 U.S. at 94.

143. These distinctions work both ways, with descriptive and suggestive marks being affirmatively better than neutral marks. See Carter, supra note 1, at 771 (noting a preference for these marks by new entrants).

144. See, e.g., id. at 770–75; Economides, supra note 1, at 537; KOTLER, supra note 65, at 413, supra note 139.

145. Professor Carter makes an important observation concerning the undesirability of protecting mere selection. That process provides no informational assistance to the marketplace. Granting trademark protection at that juncture therefore risks incurring substantial costs for only modest benefits. See Carter, supra note 1, at 768.

146. See supra notes 51–52 and accompanying text (discussing the indirect incentives to product quality).

147. See KOTLER, supra note 65, at 410–11; see also supra note 140.

148. For example, it seems highly unlikely that the power of trademarks such as Coke and McDonald’s comes from product quality investments alone. Cf. supra note 140.

149. Clearly, there is a “dark side” to the above analysis. As Professor Carter cogently argues, granting control over better marks risks harming competition. See Carter, supra note 1, at 770–75. But as he also notes, the observation merely emphasizes the need to assess the net outcome of offering
One particularly interesting variation on the “no investment, so no incentives required” argument acknowledges that creating a “good” mark requires substantial investment, but argues that investment comes from both the creator and consumers. This position is quite convincing. The total process must involve some combination of creator investment in selection, content, and promotion, with consumer investment in attention and assessment. Although this more complete understanding does argue in favor of recognizing consumer interests, it does not eliminate the need to ensure that creators remain motivated to invest. Thus, the argument supports reaching an accommodation between the two interests, not the elimination of a creator incentive structure. As with “more harm than good” arguments, the issue is not whether incentives should be provided, but how to ensure that incentives properly account for competitive costs and other social interests.

Even accepting that optimal performance of the trademark information system requires investment in signal creation, it can still be forcefully argued that adequate incentives already exist, provided by either the market itself or existing trademark law. This position represents an important shift in the debate from “no role” for incentives to an argument that existing incentives are sufficient. The analysis, therefore, changes from whether incentives to invest are desirable to whether additional legal incentives can play a useful role. The answer requires the same pesky empirical assessment that continually bedevils economics-based intellectual property inquiries. Because definitive data are lacking, policy decision-makers must frequently make do with interim hypotheses, supported by rational argumentation plus whatever other information is available, while we engage in further research.

Professor Lunney has taken such an approach in his assessment of trademark law. One section of his insightful article specifically rejects the argument that “without protection, imitation and free riding by protection. Id. at 775. At present, the focus is exclusively on potential benefits, that is, encouraging sellers to invest in finding marks best able to transmit information to buyers. The cost side is considered below in connection with specific applications. See discussion infra Part IV.

150. See Litman, supra note 1, at 1733–34; see generally Steven Wilf, Who Authors Trademarks?, 17 CARDOZO ARTS & ENT. L.J. 1 (1999).

151. Although Professor Litman argues that lack of plenary control will not result in an undersupply of advertisements, I do not read that as arguing for no rights in the originator, merely that we need to be cautious about how far those rights carry. See Litman, supra note 1, at 1730–31, 1735. It is nonetheless important, as Professor Kieff notes, to recognize that the trademark incentive question is not whether there will be enough advertisements, but whether we will get sufficient highly communicative marks. See Kieff, supra note 102, at 753. The encouragement view of trademark law argues that the appropriate reconciliation can be found in separating the market information function from the “product” function. See discussion infra Part IV.F.

152. Given the empirical problems, substantial latitude is given regarding proof of the net benefits, resulting in frequent reliance on the internal logic of the arguments. As a consequence, uncertainty remains over whether a particular regime “has it right.” This same limitation must, of necessity, plague the current discussion. See Chiappetta, Internet Patents, supra note 30, at 308 n.970 & 310–11.

153. See generally Lunney, Trademark, supra note 1.
others will undermine the incentive necessary to ensure sufficient investment in desirable trademarks."  

Professor Lunney convincingly makes the case that even when “public goods” concerns exist, an incentive regime is nonetheless only appropriate “where the degree of free riding present in a given market substantially exceeds that in the marketplace generally.” Applying that rule to property-based trademark—rights unconnected to confusion-deception—he concludes that “although free riding may occur in two situations that property-based trademarks could address, the degree of free riding is not excessive. . . .” The resulting conclusion that “[e]xtending property-based trademark because of potential free rider issues thus appears undesirable,” parallels the argument that without a public goods market failure, an incentive component in trademark law is unnecessary.

Professor Lunney’s conclusion rests on a thorough analysis and rejection of two specific free riding situations: fostering product innovation and rewarding development of trademarks as products. Although well crafted and effective on their merits, these arguments do not address the general appropriateness of encouraging direct identification and promotional investments made in trademarks as information vehicles. Rather, both examples again emphasize the important but ancillary points that when providing legal incentives, the related rights must avoid upsetting other carefully drawn balances, such as patent and copyright law, and avoid reaching beyond their specific objective: trademarks as information providers as opposed to separate goods. As discussed above, an encouragement-based trademark system does not stand or fall based on the demonstrated inappropriateness of absolute property rights, or even those akin to real property. Nor does a demonstration that incentives are inappropriate in some circumstances make incentives undesirable in all circumstances. That finding only requires that the incentives only be used in situations where the resulting benefits exceed the related costs.

154. Id. at 440.
155. Id. at 453. Professor Lunney goes on to note two other conditions controlling use of incentive regimes. However, because he finds the trademark situation fails to satisfy the one quoted in the text, the remaining two are apparently mooted. Id. at 455–56.
156. Id. at 445. The distinction can be analogized to granting incentives for their own sake.
157. Id. at 456. He additionally concludes that permitting the free riding “will likely prove affirmatively desirable to counterbalance market power otherwise present.” Id. The second conclusion goes to questions of net benefit, not sufficiency, so it is deferred for the present. See discussion infra Part IV (addressing the limitations on incentives in a number of contexts, including the harm to competition addressed by Professor Lunney).
158. Id. at 462.
159. Id. at 455–61. Products are distinct “goods” independent of their product information signaling function.
160. Professor Lunney’s first example eloquently makes the point. Id. at 456–58.
161. The concern addressed in Professor Lunney’s second example. Id. at 460–61.
162. See supra notes 123–34 and accompanying text (discussing the “harmful outputs” arguments).
Regarding this latter inquiry, Professor Lunney’s expanded free rider analysis actually demonstrates that a significant market failure likely does exist and, provided they are properly structured, legal incentives offer an appropriate solution. Intellectual property law incentive regimes are generally justified when low-cost competitive adoption will deter or redirect an important portion of desirable investment. As Professor Lunney quite properly points out, this simple “market failure” articulation elides the complexity of the marketplace. First, for resource misallocation to occur, the amount of free riding must be excessive relative to that affecting the alternatives. Second, in many situations lead-time and related “first mover” advantages sufficiently mitigate even excessive free rider disincentives to investment, thus eliminating any significant under-investment concerns. In addition to Professor Lunney’s quite proper admonitions, the inquiry must also consider the different effects of free riding on investment in the substance of competition (goods and services) and the means of competition (methods and signals).

In short, justifying incentives requires more than noting the existence of free riding. In the case of trademarks, these more refined inquiries support a hypothesis favoring incentives. Regarding relative amounts of free riding, trademarks carry an exceptionally high exposure to free riding, being extraordinarily susceptible to quick, easy, cheap, and effective appropriation. As they are intentionally broadcast to the general market, the marks and their relative power are readily identifiable. Appropriation requires only the insignificant cost of copying the mark.

163. Id. at 441-45. 164. Id. at 442. 165. Id. at 451-52. First-mover market incentives have been a common theme in assessing the need for intellectual property incentives. Justice (then Professor) Breyer was one of the early scholars to discuss the issue. See Stephen Breyer, The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies and Computer Programs, 84 HARV. L. REV. 281 (1970). See also Chiappetta, Internet Patents, supra note 30, at 322 (noting a number of scholars, including Professors Dreyfuss, Lunney, and Reichman, making the point in connection with the undesirability of business method patents). Professor Lunney also states that government intervention may be undesirable even with substantial free riding if the resulting competition counterbalances market power otherwise present. Lunney, Trademark, supra note 1, at 447–51. The apparent implication is that trademarks (as well as patents and copyrights) should be withheld if the creator either has, or may obtain, substantial market power as a result. The general position seems to problematically entangle the existence of intellectual property incentives to create desired outputs with concerns better allocated to antitrust law's management of any resulting power. In all events, unnecessary application of incentives cannot justify any protection, much less that which generates monopoly power.

166. See supra notes 124–27 and accompanying text (discussing the difference as it relates to trademarks).

167. See Lunney, supra note 1, at 452 (describing these characteristics as indicative of excessive free riding). See also, Chiappetta, Internet Patents, supra note 30, at 325 (discussing the same problems in the software industry, particularly Professor Dennis Karjala's insights regarding the strong disincentives from cheap and easy copying).

168. See Landes & Posner, supra note 1, at 270. As Landes and Posner indicate, in some cases an appropriation strategy will only work in the short-run, that is until the deception is discovered. Id. For the one-off appropriator, the problem is of no moment. Similarly, serial misappropriators, move on to the next mark to identify their goods and services, expanding the trail of confusion, but leaving
Finally, the inherent communication function of a trademark means that no additional effort is required to divert the consumer’s attention to the appropriator’s alternative offering. These characteristics will not only generally favor the take option in “take versus make” decisions, but when increased creator investment positively correlates with resulting communicative ability, will affirmatively induce appropriation of those marks whose creation most depends upon incentives.169

For these same reasons, lead-time, first-mover advantages are drastically minimized, if not entirely eliminated. Competition by appropriation of advantageous product or service characteristics requires creating production capability and capacity and developing customer awareness of the substitute good. As a result, the competition’s “ramp up” period permits the originator’s capture of substantial rents as well as the opportunity to build lock-in advantages, both of which can produce substantial market incentives to investment.170 Appropriating a trademark involves a taking at the developer’s point of “peak return,” with virtually no production ramp-up and all of the marketing work done automatically, with the mark signaling the appropriate customer base that this is the desired product or service.171 Consequently, lead-time advantage in trademark law is largely limited to the period of time of investment in creating the mark’s signaling ability, hardly a recipe for relying on market-based incentives.

On close analysis, the fact that market incentives operate differently regarding investments in substance as opposed to means also supports a hypothesis favoring legal incentives. Even with relatively high levels of free riding and limited lead-time advantage, appropriation will actually produce under-investment only when feasible alternatives exist. Regarding goods and services competition, the wide range of options means redirection is likely, with resources migrating to products less susceptible to free riding interference with return on investment.172

themselves unidentified and in possession of net gains. However, for those in an established separately identified business, the potential for developing a reputation as untrustworthy might counterbalance the short-term benefits, thus making appropriation less likely. The argument applies, however, only if the trademark appropriation is a “con.” In many cases, the substitute good will be sufficiently close to the original (or offer an alternative, but equally, or more attractive mix of characteristics) to satisfy the consumer. Additionally, the surrounding circumstances will frequently make it readily apparent that the good or service is a competitive offering made for separate evaluation. As the trademark appropriation is the equivalent of “give this a look,” buyers (particularly those that ultimately select the competitor’s product) may view the use as beneficially signaling available options. Consequently, there is good reason to believe that the potential long-term costs will only infrequently outweigh the benefits of appropriation strategies for most appropriators. And, although these outcomes may arguably produce competitive benefits, they nonetheless make appropriation highly beneficial, thus likely, which is what justifies properly implemented incentives.

169. Id.
170. See Lunney, supra note 1, at 451–52; Chiappetta, Internet Patents, supra note 30, at 322 & 325.
171. See supra note 168 and accompanying text (discussing the various appropriation strategies).
172. See, e.g., Chiappetta, Internet Patents, supra note 30, at 320; Chiappetta, Trade Secrets, supra note 27, at 86–87.
However, the marketplace dynamic leaves considerably less choice concerning investing in the means of competing.\textsuperscript{173} Regarding trademark signals, sellers must communicate their value propositions to their customers.\textsuperscript{174} Consequently, market forces will compel investment in providing information to the marketplace, despite free rider problems. Additionally, it is reasonable to believe that investments in superior means of communication are compensated by the resulting increased returns from sale of the underlying product.\textsuperscript{175} Arguably, the realities of the market should therefore prevent any substantial under-investment in search cost reducing activities.

Nonetheless, although free riding will not eliminate communication investments, it will certainly redirect some substantial portion of these investments to less efficient,\textsuperscript{176} and consequently less socially desirable, means. For example, a rational response to excessive free riding would be to shift investment from trademark-carried brand information strategies to less efficient, but less appropriable, direct producer-consumer contacts coupled with indifferently selected and frequently changing identifiers. Those changing identifiers would merely confirm the specific manufacturer of the particular exemplar of the good. There is good reason to believe that reverting to the medieval function of trademarks is not particularly well suited to the modern marketplace’s information needs.

As trademark competition exhibits little of these expected reallocations—branding investment is growing, not shrinking,\textsuperscript{177} and significant numbers of well-known trademarks exist—we might assume that there are only modest adverse effects of free riding on actual investment. This conclusion ignores the significant fact that trademarks currently receive protection against appropriation under the existing confusion-based regime. Consequently, a better hypothesis seems to be that the above logic holds true, and that market incentives would prove insufficient if all legal incentives were withheld, and that the predicted shifts and associated inefficiencies would then appear.\textsuperscript{178}

The final argument against incentives adopts this last position, but asserts that the market failure has been fully and properly corrected under existing confusion-based trademark law. Even if only an incidental by-product of the regime, the right to prevent confusingly

\textsuperscript{173} See, e.g., Chiappetta, \textit{Internet Patents}, supra note 30, at 320–21.
\textsuperscript{174} See Dreyfuss, \textit{Pepsi}, supra note 1, at 399 & 408–09.
\textsuperscript{175} Cf. \textit{id.}, at 408 (making the point that the trademark holder has something else to sell); Lunney, \textit{supra} note 1, at 460.
\textsuperscript{176} I mean less efficient in the sense that the communication would be more expensive for both parties. The producer would have to provide duplicate individual communications to all potential buyers, as there would be no leverage from, or pre-screening by, publicly available trademark information. Similarly, a customer would have to seek out and inquire of each source.
\textsuperscript{177} See supra notes 63–78 and accompanying text (discussing the efficiency reasons for the development of branding in response to changes in the market).
\textsuperscript{178} See Landes & Posner, \textit{supra} note 1, at 270.
similar adoptions unarguably provides substantial internalizing incentives. If these rights sufficiently reduce redirection or under-investment, further expansion to include incentives for their own sake is not only unnecessary, but also affirmatively distortive and undesirable. Ready empirical support for the argument can be found in the fact that we hardly lack for trademarks, with abundance predating non-confusion-based expansions such as dilution protection, and recent proliferation continuing to clutter up the information channels, not to mention our lives.

Arguing sufficiency by noting the existence of large numbers of trademarks misses the crucial point in two important ways. First, even assuming that existing confusion-based incentives are sufficient; far from arguing that incentives play no role in trademark law, this argument affirmatively acknowledges their desirability. Consequently, at a minimum, we should overtly incorporate incentives into the justification for trademark law and let those considerations explicitly inform both policy debate and doctrinal analysis.

Second, the naked assertion of sufficiency is insufficient. Existence does not demonstrate adequacy. Some explanation of why confusion-based rights generate optimum investment in mark creation is required. As a logical matter, it would be mere fortuity if the incidental incentive from rights designed explicitly and exclusively to prevent confusion while ignoring all other possible sources of harm to investment happened to generate the appropriate outcome. More importantly, if additional non-confusion-based incentives can generate increased numbers of better quality marks without incurring greater off-setting costs, the current regime under-protects rather than over-protects, current numbers of trademarks and personal intuitions notwithstanding.

The adequacy inquiry can therefore only be resolved by a detailed examination of the benefits and costs of providing supplemental non-confusion-based rights. The existing body of over-propertization

---

179. Professor Brown recognized the incidental effects of offering protection: “the degree of exclusive use permitted as a safeguard against confusion of source, reputation, or goods, necessarily carries the rest along with it.” See Brown, supra note 60, at 1658.

180. Cf. Lunney, supra note 1, at 465 (noting the existence of numerous strong marks before extended “incentive” based rights such as dilution are available).

181. See, e.g., Lemley, supra note 1, at 1696; Ty, Inc. v. Perryman, 306 F.3d. 509, 512 (7th Cir. 2002) (the number of prestigious names is so vast and, as important, would be vast even if there were no anti-dilution laws).

182. See generally CALFEE, supra note 70 (arguing that consumers are very adept at dealing with the increasing flow of information); see also supra notes 74–76 and accompanying text (arguing that even with vast quantities, consumers still make good use of the information available).

183. Professor Brown’s argument implies that even if the existing confusion-based incentives are excessive, it might be safely assumed that the benefits of confusion avoidance justify the related costs. See supra note 179. Technically, however, such a situation at least calls for some analysis to ensure that the resulting “monopolies” do not overwhelm the search cost reduction benefits. See supra notes 163–65 and accompanying text (for Professor Lunney’s discussion of this point). As the inquiry below indicates, as there is room for additional affirmative grants of incentives the problem of over-incentives from confusion-based rights becomes moot.
literature provides an excellent framework for this effort. The commentators have done more than bemoan the expansion of trademark law. They have catalogued and assessed the range of non-confusion-based rights being pressed by those making the investments that might be targeted by an encouragement driven regime. Addressing this list, therefore, not only provides appropriate scope for an incentive-based inquiry, but also provides a means for testing the encouragement rationale’s effectiveness in helping to draw the proper conclusions.

IV. APPLICATION TO SPECIFIC CASES

The list of non-confusion-based rights coalesces around the following core propertization issues: (1) registration (particularly intent-to-use registrations); (2) dilution; (3) anticybersquatting protection and the initial interest confusion doctrine; (4) expanded subject matter (particularly trade dress functionality); (5) trademarks as products; and (6) assignments in gross. Examining this wealth of case studies demonstrates that the shift from a “confusion” to an “encouragement” justification adds significant value. Most importantly, the exercise reveals that the expanded analytical framework ensures we ask the right questions. The substantive result therefore goes well beyond providing the rationales necessary for resolution of the current debates over these non-confusion based rights. The change generates a more coherent trademark law that can be applied to generate net social benefits, produce clear and predictable doctrine and can readily respond to the next demands for change.

A. Registration

The original pressure to move trademark law beyond its confusion-based origins was identified in 1990 by Professor Carter, who warned that registration rights under federal trademark law “might be granting too much in return for too little.”

H. Carter, supra note 1, at 769. The specific concern was triggered by the addition, under the Trademark Law Revision Act of 1988, of intent-to-use registrations (“ITU”).

The argument starts with a convincing challenge to the irrelevant mark (“IM”) assumption—that “one mark is as good as another”—which demonstrates that certain marks in fact do provide a competitive advantage over others. Because trademark law grants control over such “better” marks, it cannot avoid

184. Carter, supra note 1, at 759. See also Port, Civil Law, supra note 1, at 835–74 (discussing the registration system and particularly the effects of intent-to-use rights).
187. Carter, supra note 1, at 769.
188. See id. at 760 & 768–75. As noted above, these arguments regarding the failure of the IM assumption support the basic predicate for an incentive system.
also providing a competitive advantage in selling the underlying goods and services. Professor Carter argues correctly that the trademark regime’s “use” requirement is specifically designed to mitigate these unavoidable anti-competitive effects, ensuring that information benefits exist to offset the competitive costs. The requirement prevents locking up rights to marks not actually communicating information to consumers (“warehousing”). He argues that the federal registration system, which grants nation-wide geographic rights based on local use and intent-to-use reservations based merely on "bona fide" intent to use in the future, undermines the important counter-balancing effects of the actual use requirement, consequently producing net economic costs.

As with many analyses, the starting point influences the end. Professor Carter’s net cost conclusion derives from the traditional consumer confusion justification as the exclusive basis for trademark rights. On this basis, the argument that in the real world of worse and better marks, permitting “negative uses” cannot provide net benefits is unassailable. An encouragement approach to trademark law changes the initial assumption. The social value of the registration system does not turn solely on whether a national priority and ITU system can directly reduce search costs. Rather, the outcome depends on whether the overall beneficial effects on the creation and operation of the trademark information system justify the related costs to competitors.

In this broader inquiry, Professor Carter’s refutation of the IM assumption takes on additional importance. Beyond its identified anti-competitive concerns, it also supports the incentive arguments. Specifically, registration rights can beneficially encourage the investment necessary to generate the higher-quality, more informative marks useful in a modern economy. ITU registrations limit the very real risks posed by pre-launch competitive adoptions, and national priority reduces the uncertainties of future regional contests. Moreover, such a system arguably does so more efficiently than the judicial inquiry into sufficiency

189. *Id.* at 772–74 & 787–88.
190. *Id.* at 777–78.
191. *Id.* at 789–95.
192. *Id.* at 759–60, 784–85.
193. *Id.* at 767–68.
194. *Id.* at 786 & 795 ("Negative uses" is Professor Carter’s term for rights which restrain others’ use without use by the holder). *See also* Port, *Civil Law*, *supra* note 1, at 873–74 (noting that without use, the only justification for protection is having thought up the mark).
196. *Id.* at 779. A more useful approach, argued below, is to recognize them but limit the related rights to those furthering those specific objectives. *See infra* notes 201–03 and accompanying text.
197. Professor Carter notes and properly questions the “mobile population” argument, but does not discuss the effects of potential conflicts on investment decisions when actual expansion is contemplated from the outset (a key reason for making substantial investments required to generate recognition). *See Carter, supra* note 1, at 789–92. His proposal of limiting enforcement of the rights to areas of actual use accomplishes the necessary cost mitigation, while preserving the incentives. *Id.* at 796.
of use and good faith and related on-the-ground races to capture open territory it replaced.\textsuperscript{198} Finally, it minimizes wasteful duplicative parallel investment by giving advance notice to competitors through registration records.\textsuperscript{199}

Indisputably, national priority and ITU warehousing can generate significant costs, so the existence of incentive benefits cannot carry the day alone. The costs have been explicitly recognized and limited in a number of ways in the specific implementation. For example, the ability to warehouse through ITU registrations is constrained by requiring both \textit{bona fides} at the time of registration and actual use within a fixed time period.\textsuperscript{200} Although abuse may undermine these efforts,\textsuperscript{201} these concerns do not justify ignoring the related benefits if abuses can be mitigated by appropriate awareness of the problem and related action.\textsuperscript{202} Also, the encouragement rationale provides useful guidance on how to distinguish between desirable (limited incentives) and undesirable (anti-competitive) warehousing. Specifically, the \textit{bona fide} requirement should be tied to more than subjective statements, and should require actual objective evidence of a plan showing that the targeted investment is likely to be made. The time restrictions, including requests for extensions regarding actual use, can similarly be policed by requiring the applicant to show a reasonable connection to the implementation plan.\textsuperscript{203}

The anti-competitive effects of national priority based on local use can be similarly reduced. For example, enforcement might require either actual competing use or evidence of near-term investment in related expansion. Prior to that time, as Professor Carter suggests,\textsuperscript{204} a better

\begin{itemize}
\item \textsuperscript{198} Cf. TECH AGE, supra note 7, at 616–19 (discussing the terms “token use” and good faith) & 628–29 (discussing the common law rules of first use equating to right); Port, Civil Law, supra note 1, at 873.
\item \textsuperscript{199} Professor Port notes these justifications, but argues that the ITU system was in fact “enacted principally because it was seen as necessary to allow American companies to compete for trademarks in the United States on a level playing field with foreigners.” See Port, Civil Law, supra note 1, at 841–43 & 861.
\item \textsuperscript{200} 15 U.S.C. §§ 1051(b)–(d) (2000).
\item \textsuperscript{201} See Carter, supra note 1, at 779 (describing the motives of proponents of ITU registration as “really trying to gain for its members a low-cost way of warehousing marks for up to two years”), 780 (“firms do try to warehouse marks”) & 781 (“[T]he new statute ‘solves’ the warehousing problem by effectively dissolving the prohibition.”)
\item \textsuperscript{202} All intellectual property rights are subject to capture by those seeking to obtain competitive advantage. Key arguments against software patenting and the relatively recent debate over the advisability of business method patenting rest on similar concerns that the Patent and Trademark Office will be unable to control over-reaching due to its inability to locate disqualifying prior art. See, e.g., Chiappetta, Software Patents, supra note 110, at 101; Chiappetta, Internet Patents, supra note 30, at 333–35. Nonetheless, significant and intractable problems should be manifest before abandoning the desirable social outcomes of a regime because of concerns that some may abuse the system.
\item \textsuperscript{203} Even modest requirements along these lines would eliminate many abuses, such as the registration of substantial numbers of potential marks by a single registrant. See Carter, supra note 1, at 780–81 (discussing the situation, but also noting related problems under the former “token use” approach).
\item \textsuperscript{204} See id. at 790–92 & 796.
\end{itemize}
balance may lie in a *Dawn Donut*-style compromise permitting parallel use until this demonstration can be made. This result appropriately balances reasonable assurance of the ultimate ability to realize on mark investments while avoiding unnecessary interim costs from negative use. Potential subsequent consumer confusion at the time of change-over could be mitigated by requiring affirmative disclosure by the new entrant for a transitional period. 26

The above example demonstrates how the encouragement justification changes and clarifies the analysis. First, it shifts the basic inquiry toward viewing the effects on the market information system as a whole, instead of asking the overly-focused question of whether the rights currently reduce search costs by avoiding confusion. Second, the broader framework simultaneously provides both a rational basis to assume that an appropriately designed and applied national priority and ITU registration system will generate net efficiency benefits, and an analytic framework for appropriately limiting related rights to mitigate the costs of “negative uses.”

**B. Two Brief Asides: Of “Use” and “Descriptive Marks”**

Beyond the registration argument, Professor Carter’s discussion of the “irrelevant mark” assumption indicates the general need to focus on the anti-competitive effects of allocating long-term rights to the first adopter of “best” marks. In particular, the need to ensure that the benefit of encouraging competitors to create superior marks outweighs the costs to competition argues strongly against abandoning a “use”-driven trademark law in favor of a more fully patent or copyright-like incentive model.

The patent and copyright regimes grant rights predicated merely on the act of creation. 208 Such an approach in trademark law would indisputably maximize incentives by encouraging anyone willing to invest, whether or not they have or plan any direct application. However, a crucial difference exists between the innovation/originality focus of patent and copyright law incentives and the information system justifications for trademark law. Patent and copyright law incentives

---

205. *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959). *See also TECH AGE, supra note 7, at 629 n.11 (discussing the case and questioning of its rationale).*

206. Trademark law encouragement requires that the incentive objectives be limited by equally important signal integrity concerns. *See infra* notes 219–21, 366–68, and accompanying text (discussing the same issue upon expiration of a patent); *see discussion infra Part IV.F.*

207. Admittedly, the necessary empirical evidence is unavailable. The objective in its absence becomes identifying the most appropriate operating hypothesis. *See supra* note 152 and accompanying text.

208. Patents are granted based primarily on novelty and non-obviousness while copyright law requires originality. *See Chiappetta, Software Patents, supra* note 110, at 99–106 (describing the basic patentability inquiry); *see also TECH AGE, supra* note 7, at 354–55 (discussing originality in copyright law). Neither regime requires any use and, in fact, permits express suppression of use by the holder. *See, e.g., id.* at 313–14.
address the substance of the economy—goods and services—which means that social wealth maximization dictates that outputs ultimately be dedicated to the public so that the market can work its magic. Consequently, the creator’s right to control use by others is expressly limited in time: set at a period of exclusivity judged sufficient to generate appropriate but not excessive incentives, then permitting competition to generate levels of outputs at prices reflecting true demand.

In contrast, trademark law deals with the competitive process itself. It does not seek to increase the number and range of marks available for purchase at competitive prices. It seeks to maximize the information marks provide to the marketplace at the lowest cost. The trademark regime cannot focus exclusively on the relationship between incentive benefits and the costs of preventing competitive use. It must also take into account the confusion inherent in multiple or sequential adoptions. A patent/copyright fixed-term approach cannot accomplish this more complex balancing. As Professor Carter indicates, the use requirement provides the desired outcome. Provided that the creator is using the mark, the costs of potential confusion generally outweigh any benefits of permitting appropriation, even if the resulting incentives exceed those required for optimum investment. If the creator is not using the mark, confusion is of far less concern, and the balance can generally focus on comparing the incentive benefits to forgone “best” mark use by others; arguing strongly in favor of withholding protection for mere creation of even a powerful novel mark.

Ensuring that encouragement benefits exceed anti-competitive effects similarly requires limitations on granting individual control over certain classes of marks. Quite clearly the generic term is the “best” mark for a particular class of goods. However, there is little social gain from encouraging holders to capture and imbue these readily identified vital information labels with producer unique associations. Protecting adoption generates virtually no investment in enhancing information

209. See supra notes 30–46 and accompanying text (discussing the basic approach of U.S. intellectual property law).
211. See supra notes 124–27 and accompanying text (discussing the difference between the subject matter of competition and the means of competition).
212. See supra notes 190–92 and accompanying text.
213. See Landes & Posner, supra note 1, at 287 (making the point, but also focusing on the fungibility of marks to claim that the lack of a fixed term imposes little or no costs, which, as Professor Carter ably demonstrates, is not the case).
214. If the creator ceases to use the mark, adoption by others can still raise transitional confusion problems. See, e.g., TECH AGE, supra note 7, at 760 (discussing abandonment and citing Stanley A. Bowker, Jr., Note, The Song is Over but the Melody Lingers On: Persistence of Goodwill and the Intent Factor in Trademark Abandonment, 56 FORDHAM L. REV. 1003 (1988)); infra notes 366–68 and accompanying text (discussing the problem in the context of functionality and similar problems on patent expiration).
communication, while imposing significant costs both on competitors and consumers. Consequently, these marks are highly undesirable beneficiaries of trademark incentives and protection should be withheld even under an encouragement driven trademark law.\textsuperscript{215}

The same considerations call for restrictions on descriptive marks. Here, the traditional confusion and a broader encouragement-approaches part ways. While a confusion based regime focuses on the search cost benefits associated with developed secondary meaning,\textsuperscript{216} an encouragement regime starts the analysis at the point of initial selection. A descriptive mark’s inherent superior ability to inform stems from its ability to describe a particular product characteristic, not its unique connection to an individual producer or value messages.\textsuperscript{217} The “creator’s” investment in such marks therefore primarily acts to remove a useful term from the market information system vocabulary to produce an undesirable competitive advantage. As with generic terms, withholding trademark protection does not reduce the inherent informational value of the mark when used in connection with the product, it merely eliminates incentives to use the mark as a vehicle for additional brand information. The encouragement vantage point strongly suggests that the trademark system’s incentives should affirmatively redirect this problematic investment toward other, less competitively damaging marks—i.e., suggestive,\textsuperscript{218} arbitrary, and fanciful—by withholding all trademark protection for descriptive terms.

Situations will occasionally arise in which the use of a descriptive term comes to be uniquely attached to a specific supplier’s goods in the public mind without any special efforts to capture it as a mark. For example, the producer may be the first to offer the good with the particular characteristic and remain the sole source for an extended period of time.\textsuperscript{219} In such situations, consumer confusion aspects of the

\textsuperscript{215} See, e.g., Landes & Posner, supra note 1, at 291–93; 15 U.S.C. § 1064(3) (2000) (permitting cancellation of registrations covering generic marks); Zatarain’s, Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 790 (5th Cir. 1983). Landes & Posner offer an excellent discussion of the incentive concerns related to genericide, which destroys the creator’s investment when the public appropriates a fanciful trademark as the generic term for the good or service. See Landes & Posner, supra note 1, at 293-96. Their analysis supporting withholding protection focuses initially (and somewhat insouciantly) on an assumed lack of need for incentives for these creations. Id. at 293. The second, better, argument lies in the need to balance the benefits of incentives against the costs of resulting public confusion in pursuit of the broader encouragement objective. Id. at 293–94.

\textsuperscript{216} See, e.g., 15 U.S.C. § 1052(e) (2000) (prohibiting registration of merely descriptive marks); Carter, supra note 1, at 772 (“when the reduction in consumer search costs is greater than the costs to other firms of describing their goods without using the mark, the consumer is better off . . . .” thus justifying protection of descriptive marks with secondary meaning)(citing Landes & Posner, supra note 1, at 290)).

\textsuperscript{217} See id. at 290; Carter, supra note 1, at 772.

\textsuperscript{218} Although less problematic than descriptive marks, suggestive marks can raise the same difficulties. See Carter, supra note 1, at 771–72.

\textsuperscript{219} An excellent example is Kellogg Co. v. Nat’l Biscuit Co., 305 U.S. 111 (1938), in which patent protection precluded competitive production of “Shredded Wheat.” After expiration of the patents, Nabisco unsuccessfully sought to prevent use of the term, which had become associated with its product despite Nabisco’s failure to use it as a trademark. Id. at 116–18.
encouragement objectives require loosening the blanket rule against
descriptive marks. Protection should, however, only be granted in cases of
unavoidable confusion and then only to the minimal extent necessary
to avoid the problem. Consequently, courts should view evidence of
affirmative efforts by the holder to build a trademark association,
including failure to adopt and promote a distinct non-descriptive mark,
as highly negative. Additionally, likelihood-of-confusion
determinations should be made conservatively, seeking to identify only
the truly problematic situations, and “fair use” and disclaimer solutions
should be liberally applied—including requiring those who engage in
overt attempts to capture descriptive marks to bear the related costs.

C. Dilution

The 1995 Federal Trademark Dilution Act crystallized long-
standing concerns over the role of the dilution doctrine in trademark law. Since Frank Schechter’s seminal article, debate has raged over the
appropriateness of granting trademark owners the right to prevent uses

220. This argument clarifies why claims to secondary meaning “in the making” should be rejected. See Tech Age, supra note 7, at 636–38. The encouragement goals affirmatively should discourage even successful efforts, so best to stop them in their incipiency.

221. See, e.g., Nat’l Biscuit Co., 305 U.S. at 120–21 (stating that fairness requires use “in a manner which reasonably distinguishes its product from that of plaintiff.”). Professors Parchomovsky and Siegelman argue that the Court’s position in National Biscuit creates an inappropriate separation between trademark and patent law, in effect eliminating the opportunity for economically beneficial leveraging of patents through trademark extension of the term. Gideon Parchomovsky & Peter Siegelman, Towards an Integrated Theory of Intellectual Property, 88 VA. L. REV. 1455 & 1502–04 (2002) [hereinafter Parchomovsky & Siegelman]. Notwithstanding the general economic merits of leveraging across intellectual property regimes (the authors do make a good case; industries and their legal advisors have long pursued multiple forms of protection to enhance value of their intellectual creations), properly read, National Biscuit does not stand for the proposition that no overlap between the intellectual property regimes should exist, only that, as a number of scholars have recognized, the possibility of net harmful regime interactions must be minimized. See infra notes 324–56 and accompanying text (discussing channeling considerations). The authors expressly acknowledge the problem in the trademark-functionality context (in which the “inappropriate incentives” issue arises concerning attempts to use functional product characteristics as market information signals). Id. at 1502. Thus understood, the National Biscuit decision only prohibits use of what the public perceives (whether through the holder’s efforts or not) as descriptive/generic terms (“shredded wheat”) to extend the patent monopoly. The result is to beneficially direct a patent holder’s inter-regime leveraging efforts toward less problematic forms of marks for post-patent term use. Using the “Prozac” example, under National Biscuit, Eli Lilly would not be able to prevent a post-patent term competitor from using “Prozac” if the term was publicly perceived as the generic term for the drug and the non-Lilly source was made apparent to purchasers. See id. at 1471 n.54. To avoid this limitation on trademark leveraging, Lilly would need to invest during the patent term in generating public acceptance of an alternative generic term for the drug (probably something more accessible than the term fluoxetine), leaving Prozac as a distinct trademark for their post-patent term use. Cf. Dreyfuss, Pepsi, supra note 1, at 416–17 & 422 (discussing the allocation of costs in generating synonyms for marks); supra note 215 and accompanying text (discussing genericide). Requiring such efforts forces a desirable distinction between a new product name (commercially and for public dialog) and the mark conveying purchase information about the specific exemplars from the original source.


of their trademarks that do not involve traditional likelihood of confusion.224 Such rights offer at best problematic search cost reduction benefits, while risking serious interference with other socially desirable uses of trademarks, most notably in public discourse.225 Commentators quite correctly argue that dilution rights represent an “obvious example of doctrinal creep in trademark law,” raising serious concerns of over-proportziation.226 These concerns are hardly assuaged by an apparent increasing willingness by the judiciary to expansively apply the rights both in finding dilution and by treating an increasingly wider range of marks as protectable.227

Proponents respond that, properly understood, anti-dilution rights actually have an important connection to trademark confusion and the related search cost justifications. Jerre Swann228 has offered a particularly clear and convincing articulation of Schechter’s “whittling away” position.229 The basic argument runs as follows: The clearer and more informative a signal, the lower the consumer search costs.230 Uniqueness permits a mark to rise above the clutter and thus offers both a powerful means to communicate and an attractive vehicle for gaining attention.231 Individual customers generally are not actually confused in the traditional sense by non-competitive adoptions. They understand that a gutter cleaning, bread, or pornography company named “Cadillac” is not connected with the original automotive user of the mark. However, as the number of unrelated uses of the mark grows, they

224. See, e.g., Denicola, supra note 1, at 1664–67; Port, Civil Law, supra note 1, 874–79; Swann, Dilution Redefined, supra note 1, at 823–42 (all discussing the history and nature of the dilution debate). The irrelevance of confusion was formally codified in 15 U.S.C. § 1127 (defining “dilution” occurring regardless of the “presence or absence of . . . likelihood of confusion, mistake, or deception”).

225. Dilution has an uneasy relationship to the parody exception that can lead to over-protection of the mark in face of First Amendment challenges. See, e.g., Mattel, 296 F.3d at 905 (noting dilution’s lack of a “built-in First Amendment compass”); Aoki, supra note 1, at 532–38.

226. Lemley, supra note 1, at 1698. Some commentators have argued that dilution adds little given the expansion of the likelihood of confusion standard. See Lunney, Trademark, supra note 1, at 408–10; Kathleen B. McCabe, Note, Dilution-By-Blurring: A Theory Caught in the Shadow of Trademark Infringement, 68 FORDHAM L. REV. 1827 (2000) (discussing that relationship). Although as discussed below in the text, with a special form of confusion (gradual diminution in signal integrity) playing a central role in current dilution analysis there clearly is overlap; properly applied, dilution rights do grant additional distinct protection, closer to a pure incentive.

227. See Port, Civil Law, supra note 1, at 882.


229. See generally Swann, Dilution Redefined, supra note 1; see also Swann, Marketing, supra note 1.

230. See Swann, Dilution Redefined, supra note 1, at 825; Denicola, supra note 1, at 1664–66 (discussing Schechter’s argument, its early rejection, and its subsequent adoption in the 1995 Federal Trademark Dilution Act).

231. See Swann, Marketing, supra note 1, at 825–30; Swann, Dilution Redefined, supra note 1, at 823.

232. See Swann, Marketing, supra note 1, at 826–27.
diminish the mark’s uniqueness and related power. Consumers must begin to ask questions when encountering the previously unique mark: is this use about cars, gutters, bread, or pornography? What does the signal really tell me about the specifically referenced product or producer? What particular values does it stand for in this context? In effect, if everything becomes “Cadilla c,” eventually nothing is. Anti-dilution rights are essential to prevent this “blurring” static and its adverse effect on a mark’s ability to reduce search costs.

Although I believe Swann has the stronger position, anti-dilution protection remains a close case when assessed within the confusion paradigm. It is reasonable to assume that as a net cost-benefit matter the short-term communicative benefits of permitting non-confusing use outweigh the possible long-term dilutive diminution of a unique mark’s informational power. Additionally, predicating protection on “harm-to-uniqueness” presents a serious risk of over-protection. Without better guidance, dilution can easily become a doctrine without limitations. For example, doesn’t every unique mark merit protection from the static effect of multiple adoptions? Moreover, doesn’t every adoption start that process, triggering concern regarding any third party use?

---

233. *Id.* at 828–30.

234. Serious problems arise when the mark owner cannot control where and how its mark is used. For example, it is one thing for Disney to affirmatively elect to partner with McDonald’s, it is another to have McDonald's decide on its own to attach its messages to the Disney family of marks, even if the public is not confused as to source. *See id.* at 829. *Cf. Eric Schlosser, Fast Food Nation* 35–36 (2002) (discussing the original rejection of a McDonald's presence in Disneyland).

235. Traditional dilution doctrine references both a blurring and tarnishment form of dilution. *See, e.g.,* Ty, Inc. v. Perryman, 306 F.3d 509, 511 (7th Cir. 2002) (noting the latter is analytically a subset of the former). The *Ty* court also notes that there may be a third form of dilution relating to misappropriative free riding, but found that it lacks a clearly articulated rationale. *Id.* at 512 (citing to Panavision Int'l, L.P. v. Toeppen, 141 F.3d 1316, 1326 (9th Cir. 1998)). Incorporation of incentives as a legitimate trademark objective clarifies the appropriate role for these otherwise somewhat mysterious and troublesome distinctions in the dilution analysis. The first two describe effects on different kinds of investment, those related to product/producer characteristics as opposed to those focused on values messages. The third represents a sense that the “incentive” role is missing in traditional confusion doctrine. Having explicitly identified their embedded, common incentive focus, the three labels should be eliminated. This result avoids a number of significant analytical difficulties, not the least of which is the implication that there is something inherently or especially wrong with uses tarnishing a value message, the very essence of many free speech uses of trademarks. *See infra* notes 274–77 and accompanying text.

236. *See Swann, Marketing,* supra note 1, at 830.

237. The evidence that consumers are generally intelligent users of information further supports this result. *See supra* notes 74–76 and accompanying text (discussing the point).

238. This question leads to the argument that the statute should be broadly construed, if not amended, to eliminate the fame requirement entirely. *See 15 U.S.C. Section 1125(c)(1) (2000)* (defining famous and distinctive marks); *see infra* notes 248–56 and accompanying text.

239. The question was recently addressed by the Supreme Court in *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418 (2003) (deciding that actual dilution was required). *See infra* notes 257–64 (arguing the Court was probably correct based on the language of the statute, but the statute is incorrectly drafted based on a proper understanding of trademark law's objectives).
doesn’t every such use, whether on goods or in public dialogue, undermine uniqueness in the buyer’s mind?240

The pivotal question for this article is not the relative merits of the confusion-based arguments, but whether an expanded encouragement analysis contributes anything of value. The positive response is two-fold. First, as a matter of process, encouragement analysis ensures we ask the right questions. Although influenced by confusion concerns, dilution rights should not stand or fall on that outcome alone, but should explicitly add incentive rationales to the mix. Properly understood, anti-dilution protection seeks not merely to prevent dissipation of existing communicative power, but to foster its creation by improving the likelihood of return on related investment. Encouragement, therefore, affirmatively requires we ask whether, rather than assume that, avoiding eventual consumer confusion provides sufficient incentive under the circumstances.241

Second, on the substantive merits, the encouragement inquiry readily adopts and supports the whittling away arguments. It also resolves the related basic cost-benefit question raised in the counter-arguments242 by adding an independent incentive analysis243 that tips the balance definitively in favor of a pro-dilution operating hypothesis. The benefits side of the incentive inquiry is straightforward. It is reasonable to assume a positive correlation between investment and the

240. Compare Swann, Intuitive Approach, supra note 1, at 907 with Swann, Dilution Redefined, supra note 1, at 861–62 (both arguing for treating famous brands as carrying strong property right protections against dilution) with Denicola, supra note 1, at 1666 (calling for perhaps more deference to First Amendment considerations).

241. Just because confusion based rights incidentally provide incentive benefits, does not suggest that, without further analysis, one should assume that those rights provide sufficient incentives under the circumstances. In particular, even when confusion considerations do not support protection, the question remains as to whether incentive-related (and -limited) rights can provide additional net benefits in light of the related costs. That can only be determined by specific inquiry. See supra notes 182–83 and accompanying text. Some courts have struggled unsuccessfully in this direction, given the confusion approach’s inherent limitations on trademark law justifications. For example, Judge Kozinski appears to refer explicitly to mark-related incentives in his excellent opinion in Mattel, 296 F.3d at 903 (“dilution protects owners ‘from an appropriation of or free riding on’ the substantial investment that they have made in their marks,” citing I.P. Land Trading ApS v. Kohler Co., 163 F.3d 27, 50 (1st Cir. 1998)). Although I believe Judge Kozinski has his eye on the right issue, unfortunately, as a matter of doctrine, the court in Kohler actually refers to the traditional incentives to improve product quality, not to make investments in the mark itself. See Kohler, 163 F.3d at 27, 50. The same disconnect appears in Avery Dennison Corp. v. Sumpton, 189 F.3d 868, 873 (9th Cir. 1999). “Trademark law seeks to protect the investment in a mark made by the owner.” Id. at 873 (citing Qualitex, 514 U.S. at 163–64). However, again, the referenced decision, deals only with product quality investments: assuring “a producer that it (and not an imitating competitor) will reap the financial, ‘reputation-related’ rewards associated with a desirable product.” Qualitex, 514 U.S. at 164.

242. See supra note 237 and accompanying text (discussing the problematic tradeoff between the value generated by facilitating location of the creator’s goods versus permitting competitive use).

243. Although confusion and incentives remain interrelated, the key change involves the recognition that under dilution, incentives carry the burden, with confusion providing the incidental justification.

244. Certainly counterarguments exist, such as the existence of powerful marks prior to the availability of dilution protection. However, as noted earlier, existence is not equivalent to optimization in the current environment. See supra notes 180–83 and accompanying text.
increased power of a mark. The ability to capture the benefits of this increased power, through assurances that dilutive static can be prevented, will be an important consideration in making the related investments. Regarding the informational costs of preventing non-confusing use by other market participants, the incentive approach reveals that, in large part, the concern involves circular reasoning. The correlation between investment and power means that fewer marks will have the desired power without the related incentives. Permitting uses that undermine the power lessens the incentives. As a result, the costs of preventing use of what would not otherwise exist cannot stand as an objection to offering protection.

Equally important, encouragement-justified anti-dilution rights also resolve the difficult doctrinal questions plaguing the confusion-focused debate. By focusing the discussion on appropriate incentives designed solely to generate market information system investments, the encouragement approach provides the missing guidance for determining (i) the role and relevance of fame and distinctiveness of the mark; (ii) whether actual or only the likelihood of dilution is necessary for infringement; and (iii) the proper relationship between anti-dilution rights and free speech.

Regarding fame, the statute and many commentators take the position that anti-dilution protection properly extends only to widely recognized marks. The argument, reasonable in the confusion paradigm, states that unless a sufficiently large number of consumers recognize the mark, multiple non-competing uses are unlikely to actually interfere with its unique and powerful ability to communicate. Nonetheless, under the

245. Although some serendipitous situations will arise, most successful branding involves significant investment. See Rose, supra note 1, at 721–25; supra notes 139–40 and accompanying text (discussing the nature of these investments).

246. Professor Port makes a good argument based on the proposition that dilution protection provides a competitive advantage to the holder in new markets by providing a free trademark. See Port, Civil Law, supra note 1, at 891. However, the “free” right in the second market articulation ignores the incremental expense incurred in creating a particularly effective mark that can carry across markets, which may be substantial. Additionally, the right to prevent use of the powerful mark does not grant a monopoly, it merely requires equivalent investment in generating an equally strong mark in the new market which may be less than required to obtain the same value across markets. For example, Buick aspirin might draw initial notice, but may lack the essential informational content to carry significant weight in non-automotive markets. Without actual data, the result of these arguments is indeterminate. In all events, the critical point is not the specific outcome; rather, it is that the proper debate concerns investment and incentives, not confusion.

247. See supra note 225 and accompanying text (noting the related risks of over-protection).


249. See Lemley, supra note 1, at 1698–99 (noting the “clear intention seems to have been to restrict dilution doctrine to a relatively small class of nationally known trademarks”). Cf. Swann, Dilution Redefined, supra note 1, at 854 (“Dilution is an ‘extraordinary remedy’ that should be limited to [strong and unique] marks” operating in “an appreciable market,” but “strength and uniqueness need not be universal.”).
pressures of litigation, courts have more than occasionally extended protection to what are, at best, undeniably “niche” marks.\textsuperscript{250}

The incentive justification explains and resolves the conflict between the theory and the emerging judicial reality. Viewing antidilution rights as encouraging investment in uniquely powerful marks reveals that although wide public recognition is sufficient, it is not a necessary condition for protection. Although recognition by a large absolute number of undifferentiated consumers—general fame—properly permits an inference of power, the incentive objective reaches further, applying equally to marks possessing an unusual ability to communicate effectively to a specific target audience in a well-defined sub-market.\textsuperscript{251} Although the limited nature of the related user base means that many such marks can never aspire to a place in popular culture,\textsuperscript{252} they are undoubtedly extremely helpful to that segment of buyers. Legitimate dilution concerns arise whenever non-confusing adoptions may undermine the special signaling power of the mark and, consequently, the value of making related investments.\textsuperscript{253}

The argument for eliminating the requirement that fame involve wide general public recognition\textsuperscript{254} does not, however, mandate protection for every mark. All marks require some investment and have some communicative ability. If applied too broadly, the costs of anti-dilution protection will quickly overwhelm the benefits, offering protection to every mark as a potential powerhouse in the making. Consequently, the dilution incentive must take the form of a prize for success,\textsuperscript{255} applying only when there exists sufficient actual recognition by consumers within a clearly identifiable and recognized market and the effects of the challenged use will be felt in that same market.\textsuperscript{256}

\textsuperscript{250} See Lemley, supra note 1, at 1698–99 (assembling an impressive list of “niche” marks given protection).

\textsuperscript{251} See Swann, Dilution Redefined, supra note 1, at 854 (noting the relevance of the sub-market inquiry).

\textsuperscript{252} For example, no matter how well known it is in the industrial fastener market, it is unlikely that “Dennison” will ever become a publicly recognized name. That does not mean that there is no benefit in encouraging the creation of powerful signals in the fastener market.

\textsuperscript{253} Again, the interaction between the confusion arguments and the related diminution of incentives is apparent. See supra note 229–36 and accompanying text. Nonetheless, the primary focus remains on the whittling away effect on incentives to invest rather than on eventual consumer confusion.

\textsuperscript{254} Although not mandated by the actual language of the statute, some adjustment may be necessary to eliminate existing confusion over the meaning of “famous.” See, e.g., Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 215 (2d Cir. 1999) (defining famous relies upon “use of terms in their ordinary English language sense”).

\textsuperscript{255} To avoid costs without supporting benefits, other incentive regimes focus on the result, not the hunt. See Brenner v. Manson, 383 U.S. 519, 536 (1966) (In patent law “[a] patent is not a hunting license. It is not the reward for the search, but compensation for its successful conclusion.”). For similar reasons, it should not be sufficient to demonstrate substantial actual investment to obtain anti-dilution protection (although evidence to that effect, or more likely, the lack of investment, may be probative of recognition).

\textsuperscript{256} Cf. Swann, Dilution Redefined, supra note 1, at 854.
Regarding whether rights should be triggered by actual dilution or likelihood of dilution, the Supreme Court appropriately predicated its recent finding on the premise that the mere likelihood of dilution did not suffice under the existing statutory language. The value of an encouragement approach, however, lies in assessing what the statute should say. Under the confusion view of trademark law, the inquiry focuses on consumer search costs. By that measure, there are reasonable arguments for the actual dilution requirement. As the Court suggests, non-competitive use can only interfere with search cost savings when it actually causes consumers to “second guess” the signal. To offer more protection would take trademark law in the direction of property rights in gross. Although an actual dilution standard means that by the time the law intervenes the harm has been done, to act speculatively interferes with desirable uses on the mere assumption that they may cause damage. Additionally, unlike the likelihood of confusion standard, which acts preemptively to prevent actual customer purchasing mistakes, under-protecting against the possibility of dilution requires the consumer, at worst, to engage in additional pre-transaction inquiry.

The encouragement approach’s incentive justifications demonstrate that a likelihood of dilution nonetheless produces more socially desirable results. The approach makes explicit society’s interest in directly promoting investment in strong marks, thus shifting the focus from the customer to the mark creator. The related incentives operate by increasing potential trademark creators’ confidence that their control will generate appropriate returns. This requires more than assurances that they will be able to prevent further appropriation or destruction of value once it is proven to exist. It requires the clear ability to prevent harm. The anti-dilution right should appropriately reflect this need, requiring no more than a reasonable demonstration that the challenged use has a significant probability of adversely affecting the mark’s power if allowed to persist.

Ironically, but significantly, this approach is possible under a generous reading of the Court’s “actual dilution” holding. While indicating that adequate proof includes survey results demonstrating that blurring is taking place, the Court states that circumstantial evidence may suffice as well, such as in the obvious case "where the junior and senior

257. See Moseley, 537 U.S. at 432–33. Interestingly, the Court, while finding that the statute required actual dilution, went on to hold that “the consequences of dilution, such as an actual loss of sales or profits” need not be demonstrated. Instead, the focus appears to be on precisely the same “confusion” type factors that would indicate a likelihood of dilution. See id. at 433–34; infra notes 262-64 and accompanying text.
258. Id. at 433.
260. See supra notes 241–46 and accompanying text.
261. See Chiappetta, Trade Secrets, supra note 27, at 155–59 (discussing a similar point in connection with trade secret law).
marks are identical. But circumstantial evidence, by definition, means that an outcome is only inferentially probable, not an actual fact. Consequently, in practice, evidence that demonstrates the likelihood of dilution might carry the day. For example, it may be sufficient to show that the second use is likely to trigger the trademark’s informational messages and thus adversely affect its power in light of the nature of the use and overlapping customer bases for the products.

In all events, Congress should not hesitate to make the necessary clarifying changes to remedy the federal statutory shortcomings. In doing so, Congress should recall the Court’s admonition that not every appearance in another market will undermine the power of a mark, particularly regarding those marks carrying merely “niche market” renown. Drawing appropriate “likelihood” conclusions, therefore, should require two inquiries. The first involves defining the mark’s base market and determining that sufficient recognition among those consumers exists. The likelihood of harm can then be determined by assessing whether (a) significant overlapping consumer exposures are likely in the second market and (b) given the nature of the mark’s informational signals, the nature of the use raises a significant risk of dilutive message association static.

Finally, encouragement-based trademark law clarifies the appropriate relationship between anti-dilution rights and free speech interests. Judge Kozinski ably explained the special problems in Mattel v. MCA. His opinion points out that when a mark appears on a competing product, “a trademark owner’s property rights play well with the First Amendment” by prohibiting speech which confuses or defrauds the consumer. The same is not true of the right to prevent dilutive uses that, by eschewing confusion, eliminate this “built-in First Amendment compass.” Understanding dilution as predicated on intellectual property incentives provides that missing instrument.

---

262. See Moseley, 537 U.S. at 434.
263. Id.
264. These inquiries are already used in dilution cases. See, e.g., Nabisco, 191 F.3d at 220–22. The encouragement approach demonstrates that these efforts are not merely trademark law gone amok, but poorly articulated efforts in the proper direction. These formerly somewhat incoherent “confusion” analyses can now proceed unimpeded by the constraints of traditional likelihood of confusion and focus instead on likelihood of associational static harmful to investment in uniqueness.
265. 296 F.3d 894 (9th Cir. 2002). See also Taubman Co. v. Webfeats, 319 F.3d 770, 774 (6th Cir. 2003).
266. Mattel, 296 F.3d at 900.
267. Id. at 904–05.
268. Id. at 905.
269. The incentive approach resolves the concerns appropriately raised by Professor Dreyfuss—if value equals right, no reference point exists for drawing the appropriate line. Encouragement analysis reveals that although the analogy to real property is faulty, analogy to other incentive regimes focuses on the issue of optimal motivation (incentives). This inquiry, in turn, defines the restricted reach of the associated property rights, their actual limited conflict with the First Amendment, and the appropriate application of time, place, and manner analysis. See Dreyfuss, Pepsi, supra note 1, at 409–12.
related analytical framework avoids the common but unhelpful “property rights versus free speech” articulation of the conflict.\textsuperscript{270} Rather, by clearly establishing the maximum reach of trademark “property” rights, it provides the means both for determining when those rights are not implicated and for dealing with those First Amendment interactions that remain.\textsuperscript{271}

The analysis starts from the core proposition that trademark property rights are not as extensive as those defining real or personal property interests.\textsuperscript{272} Specifically, like other intellectual property incentives,\textsuperscript{273} dilution rights only exist to the extent necessary to accomplish the regime’s objectives. Beyond that, the strong preference for competition prevails. Consequently, the baseline First Amendment question is always whether the challenged use adversely affects trademark objectives, not whether the challenged use involves the use of the holder’s trademark (property). In the case of trademark dilution, for a conflict to exist, the use must implicate either the creation or proper functioning of the market information system. Only an affirmative answer requires any choice between trademark “property rights” and First Amendment values.

This encouragement driven limited rights approach easily eliminates a large number of asserted dilution/First Amendment conflicts as non-issues. Anti-dilution rights only protect against the ambiguity resulting from multiple adoptions as market information signals. They do not guarantee that the mark’s actual message will go unchallenged in the marketplace. Uses that attack factual accuracy\textsuperscript{274} or question a mark’s “values” proposition—which acknowledge the message is accurate on its own terms but criticize its normative “worth”—cannot conflict with a trademark owner’s limited property rights. These uses may blur or tarnish\textsuperscript{275} the message the creator wishes to communicate. However,

\textsuperscript{270} See, e.g., Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 206 (2d Cir. 1979) (“Plaintiff’s trademark is in the nature of a property right. . .and as such it need not yield to the exercise of First Amendment rights under circumstances where adequate alternative avenues of communication exist.”) (citing Lloyd Corp. v. Tanner, 407 U.S. 551 (1972)); Aoki, supra note 1, 532–36, 538–39 (criticizing a variety of noted cases for this approach).

\textsuperscript{271} See, e.g., L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 29 (1st Cir. 1987) (noting the different nature of intellectual property rights); Aoki, supra note 1, at 537 (discussing the court’s approach in L.L. Bean).

\textsuperscript{272} See Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989); L.L. Bean, 811 F.2d at 29; Aoki, supra note 1, at 538; supra notes 22–24, 100–08, and accompanying text (discussing the public goods foundations and related limitations of intellectual property incentive interventions).

\textsuperscript{273} By definition, dilution cases do not involve purchaser confusion, thus eliminating the alternative encouragement basis for trademark property rights.

\textsuperscript{274} There is a significant difference between adopting a mark’s message to get attention for a product offering based on what it communicates and challenging the accuracy of the mark’s message itself.

\textsuperscript{275} The notion of a “tarnishment” class of dilution unduly muddies the inquiry and should be abandoned. See supra note 235. In the First Amendment context, having a special category of dilution for inconsistent (with overtones of less socially desirable) uses makes it appear that those activities are in some way inherently more troublesome. However, in many commentary situations precisely the opposite is true, with the attack on the values being the very point of the use. For example, in Dallas
provided these uses are offered as informational commentary, instead of adversely affecting trademark law objectives, they will affirmatively advance its objective of maximizing delivery of useful information to the marketplace. Consequently, these “self-correcting” free speech mechanisms should not only be permitted, but expressly fostered by the regime.

These limitations on dilution “property” rights make the invocation of these rights regarding non-market communication even more inappropriate. In this context, a mark ceases to function as a vehicle for market transaction information and appears exclusively as language for other communicative purposes. Although non-market uses may be “dilutive” in the sense that they intrude on a mark’s uniqueness, the necessary connection to legitimate trademark incentives is virtually nonexistent. Those engaged in and observing the public debate understand that the mark is being used to communicate a non-market transaction idea or opinion. Labeling a missile defense initiative “Star Wars” or a litigator “Rambo,” therefore does not generate the kind of marketplace ambiguity that undermines targeted investment in the mark. To the extent that any pejorative associations are generated, the proper analogy is to the more overtly harmful, yet affirmatively desirable normative attacks by competitors on the mark’s messages. To argue in terms of countervailing trademark property rights in the public debate context invokes a conflict that does not properly exist.

Cowboys Cheerleaders, 604 F.2d at 206, the free speech issue is not whether the use casts the mark in unfavorable light, but whether it involves commentary on the image the mark sought to convey. It is therefore far better to treat the nature of the use as a secondary evidentiary indicator of the likelihood of blurring (inconsistent use may create more static than consistent use in some contexts), relevant only after it has been determined that the use raises a legitimate dilution concern.

277. Cf. Taubman Co. v. Webfeats, 319 F.3d 770, 777–78 (6th Cir. 2003) (Lanham Act not invoked by criticism of a business). The distinction between prohibited ambiguous parallel adoption and permitted commentaries on facts or values must, of course, be drawn. For example, does a pornography store using the Cadillac brand involve problematic application of those brand values of superior quality to the store’s products or a valid (as well as apparent) commentary on their superficiality? As discussed below, the issue, however, is hardly novel. Copyright law has had to deal with the distinction for years and offers the solution. See generally infra notes 287–97 and accompanying text.

278. See, e.g., id. at 900; Aoki, supra note 1, at 539–42; see generally Dreyfuss, Pepsi, supra note 1. The same disconnect arises in the use of brands as products, with similar outcomes regarding the inapplicability of trademark incentives. See discussion infra Part IV.F.

279. See Mosley, 537 U.S. at 433.

280. Avoiding “confusion” requires that participants and observers can distinguish third party from holder use, thus raising particular concerns over uses implying sponsorship by the holder. For unexplained reasons, consumers in the dilution context are viewed as being particularly unable to distinguish between various uses, a position inconsistent with the rationale consumer model. See Litman, supra note 1, at 1722; supra notes 74–76 and accompanying text. In all events, to the extent ambiguities exist, the public debate context readily permits a disclaimer of the mark holder’s involvement, solving the problem even for the most naïve observer. See discussion infra Part IV.F.

281. As Judge Kozinski points out, the statute itself recognizes the inapplicability to non-commercial speech. See Mattel, 296 F.3d at 905–06.
Consequently, viewing the tension through the encouragement lens clarifies that the only legitimate trademark dilution conflict with free speech interests involves uses to convey information to consumers about non-competing product or service offerings. This market speech directly implicates trademark law’s objectives and consequently forces a choice between the related incentives and free speech. In this context the only speech consideration is the third party seller’s desire to use a particular method to “propose a commercial transaction:” a “purely commercial” use. Given the relatively weaker free speech interests thus implicated, the likely availability of alternative means of expression and the social benefits of protection, the trademark interests should generally prevail and trademark’s rules control the outcome as a “legitimate regulation of commercial speech.”

Drawing this commercial (market information signals) versus non-commercial use boundary between the respective provinces of trademark property rights and free speech rights makes it vital to distinguish between them. The same interests that generate the division also provide the answer, and direct us to another intellectual property incentive regime that faces a comparable task: copyright law. Copyright’s “fair use” approach to separating socially desirable free

---

282. Thus distinguishing dilution from ordinary “likelihood of confusion.” See Port, supra note 1, at 882.
283. Mattel, 296 F.3d at 906. The use may involve trademark signaling (Cadillac bread) or it may be directly incorporated into the product. Although the former is non-problematic, the second requires determining whether the particular use involves desirable and permitted market commentary or non-market expression. The means for drawing this critical distinction will be discussed immediately below in the text (addressing incorporation of a copyright-like “fair use” determination) as well as in the discussion infra at Part IV.F.
284. Mattel, 296 F.3d at 905 n.6 (noting the “qualified, but nonetheless substantial protection” offered to commercial speech); L.L. Bean, 811 F.2d at 32–33 (distinguishing cases based on commercial versus non-commercial use); Denicola, supra note 1, at 1666 (distinguishing between First Amendment application to commercial versus non-commercial speech). The Supreme Court recently refused to consider the commercial versus non-commercial speech distinction in Nike, Inc. v. Lasky, 45 P.3d 243 (Cal. 2002), cert. granted, 537 U.S. 1099 (2003), cert. dismissed, 123 S. Ct. 2554 (2003). However that broader question may be resolved, trademark dilution relies only on the narrowest definition of commercial speech: the description of the goods or services involved in specific proposed commercial transactions.
285. In the commercial context, the traditional inquiry regarding time, place, and manner can be usefully applied to balance the competing trademark “property” and free speech interests. Cf. Aoki, supra note 1, at 538. An exception may be required in situations when no viable alternative exists, but those instances should be extremely rare. Many of these cases will involve a trademark that has become “generic” in the sense that the mark has become the general linguistic reference for the concept. Consequently, there is a good argument that no trademark exists to be protected, by dilution or otherwise.
286. See L.L. Bean, 811 F.2d at 32. However, regulation requires the restriction be necessary. Thus, in many instances, some modified form of use should be permissible. For example, the First Amendment may require that a pornography shop be permitted to refer to itself as “the Cadillac of porn” with appropriate disclaimers as to affiliation.
287. The question is different than the jurisdictional inquiry as to whether a use “affects commerce” as required to permit federal legislative action at all under the Commerce Clause. See, e.g., Fightin’ the Tiger: LSU 2L Gets an Educational Bonus; His URL Gets Him Sued by His Own Law School, COMPUTER & INTERNET LAWCAST (April 29, 2002) (citing the pending case of Louisiana State Univ. v. Dorhauer, No. l 02-393-B-M2 (M.D. La. filed Apr. 27, 2002)).
speech from inappropriate incursions upon economic incentives to invest\textsuperscript{288} can perform similar labor in the trademark regime.

Application of the fair use principles to the well-known “L.L. Beam’s Back-To-School-Sex-Catalog”\textsuperscript{289} and “Greatest Snow on Earth”\textsuperscript{290} trademark dilution fact patterns demonstrates the general utility of the approach. Each case supports both an argument that the challenged use undermines investment incentives by reducing the signaling power of the mark, and that the use should nonetheless be protected First Amendment speech. A modified copyright fair use style analysis\textsuperscript{291} helps considerably in determining whether the respective uses are sufficiently commercial to support trademark regulation of speech. Both uses are commercial, proposing a market transaction, as the related product is for sale. This factor cuts strongly in favor of trademark law. However, the L.L. Bean case primarily involves “transformative” commentary on the values expressed by the trademark,\textsuperscript{292} while the “Greatest Snow on Earth” case merely associates the mark’s messages with another commercial transaction.\textsuperscript{293} Consequently, L.L. Bean does not involve the kind of speech that implicates legitimate trademark dilution incentive interests. In contrast, Greatest Snow should bow to trademark law regulation.\textsuperscript{294} More intricate fact patterns will, of course, pose harder questions, but they are no more complex than those already faced and resolved in the copyright context.\textsuperscript{295}

\textsuperscript{288} See 17 U.S.C. § 107 (2000); TECH AGE, supra note 7, at 490–541 (discussing the doctrine’s origins, collecting cases describing its operation, and noting the relationship to First Amendment claims).

\textsuperscript{289} L.L. Bean, 811 F.2d at 26.

\textsuperscript{290} Ringling Bros., 170 F.3d at 449.

\textsuperscript{291} The four primary factors are listed in 17 U.S.C. § 107: (1) purpose and character of the use; (2) nature of the copied work; (3) amount and substantiality taken; and (4) effect on potential market for the original work. The statute expressly states that the factors are not exclusive, leaving room for other relevant considerations on the facts of the case. Clearly, adjustments will be required to fit the trademark context; although the first and fourth factors can be directly applied, the second and third will be of limited assistance (although the strength of the mark and its distinctiveness are relevant) and others may be required.

\textsuperscript{292} See L.L. Bean, 811 F.2d at 34. The factual question of whether the commentary is real also finds analogs in the copyright fair use inquiry. See, e.g., Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 582–83 (1994) (parody determined based on reasonable perceptions). Moreover, in trademark law, this inquiry has the further salutary effect of helping ensure the “confusion” aspects of trademark encouragement are also respected. The more apparent the commentary, the lower the likelihood of confusion. Cf. Mattel, 296 F.2d at 901–02.

\textsuperscript{293} The defendant did not raise the First Amendment issue and the nature of the use makes it apparent that no commentary was intended. Ringling Bros., 170 F.3d at 449.

\textsuperscript{294} The above analysis only eliminates the First Amendment defense, still requiring analysis under the appropriate dilution standard. The Court uses the case as an example in Moseley to demonstrate that “‘blurring’ is not a necessary consequence of mental association.” Moseley, 537 U.S. at 433. On the merits, having conceded the mark was famous, the obvious free riding on the trademark owner’s investment would make this a good candidate for finding dilution from an incentive perspective; it is better to require the second comer to find its own signal.

\textsuperscript{295} Deciding whether a product designed to carry commentary, such as the “Mutant of Omaha” t-shirts in Mutual of Omaha Ins. Co. v. Novak, 775 F.2d 247 (8th Cir. 1985), is sufficiently commercial use to invoke trademark dilution, is not notably distinguishable from the effort required to appropriately categorize “The Wind Done Gone” novel as “fair use” under copyright law. Suntrust
The full range of adjustments needed to appropriately adapt the copyright fair use type of inquiry to the trademark context must be left for another day. In that process, it must be remembered that as the proposed transplant directly implicates the product versus means difference—that is, copyright versus trademark—central to the trademark encouragement doctrine, to avoid inappropriate expansion of trademark law, application of copyright doctrines which are related exclusively to product interests must be avoided. For example, the copyright distinction between parody and satire specifically focuses on the difference between commentary on a protected work’s message and the harmful effects on incentives of using the expressive power of a work to comment on an unrelated topic. Whatever the appropriate resolution in copyright, that distinction has no relevance to trademark incentives. Recognizable satire, like parody, does not involve a mark’s targeted market information activity. As a result, the limited legitimate property interests of the trademark holder are not significantly implicated, leaving the field open, in the case of either satire or parody, to free speech values.

Although developing the actual doctrinal results will entail far more complexity and nuance than addressed above, the discussion accomplishes the more limited objective of demonstrating that applying the proposed encouragement approach beneficially alters the dilution analysis. By forcing articulation and consideration of the actual interests driving trademark law, it clarifies the appropriate reach and limitations of anti-dilution rights that are essential to avoiding either over or under-protection and to providing consistent and predictable outcomes.

D. Anticybersquatting and Initial Interest Confusion

The Anticybersquatting Consumer Protection Act (the “Act”) was designed to address the problem of preemptive third party registrations of trademarks as domain names for the purpose of resale to the holder. The Act expressly requires only proof that the challenged domain name be identical or confusingly similar to the mark and that it

Bank v. Houghton Mifflin Co., 268 F.3d 1257 (11th Cir. 2001). In fact, in this particular comparison, the trademark case is probably easier; the t-shirt use of the trademark involves no market transaction signaling, so First Amendment rights (unlike the outcome in the actual case) should prevail.

296. See Dr. Seuss Ents., L.P. v. Penguin Books USA, Inc., 109 F.3d 1394 (9th Cir. 1997)

297. This realization is of significant substantive importance. For example, both the Mutant of Omaha and Michelob Oily (Anheuser-Busch, Inc. v. Balducci, 28 F.3d 769 (8th Cir. 1994)) cases arguably involve satire rather than parody. However, because the only relevant trademark question is whether the use implicates market information system dilution or commentary, in contrast to the actual outcomes, the defendants should have prevailed.


299. See, e.g., Interstellar Starship Servs., Ltd. v. Epix, Inc., 304 F.3d 936, 946 (9th Cir. 2002); Port, Civil Law, supra note 1, at 883; Port, Blue Nowhere, supra note 1, at 1093–96

was registered in bad faith with the intent to profit.\textsuperscript{301} As the test is expressly unconcerned with transactional information confusion, the related “trademark” rights are disconnected from the regime’s traditional justification. This grant of free-floating protection “in gross” triggers over-propertization concerns.\textsuperscript{302}

Two responses based on confusion avoidance and search cost rationales are possible. An analogy could be drawn to initial interest confusion, a related doctrine applied in connection with Internet domain name/trademark concerns.\textsuperscript{303} Under initial interest confusion, although customers visiting a cybersquatter’s Internet site are unlikely to suffer actual confusion at the time of purchase, their misplaced initial interest might suffice to merit intervention. The primary difficulty with this approach is that the initial interest confusion doctrine rests on harm to the seller through diversion of trade,\textsuperscript{304} which is unlikely to occur with a true cybersquatter, who generally sells no goods. Even if trade is diverted, the general logic of initial interest confusion rests uncomfortably with the confusion avoidance justification. If the alternative offering is of interest to the consumer, who by definition is not confused at the time of purchase, it is hard to argue that any actual informational harm occurred. It can even be reasonably posited that the cybersquatter’s use affirmatively assisted the search, offering a wider range of choice.\textsuperscript{305} Consequently, the initial interest confusion analogy


\textsuperscript{302} See Lemley, supra note 1, at 1701–03 (noting the risks in thus extending trademark protection); Port, Civil Law, supra note 1, at 885–86. As Professor Port notes, even the term “cybersquatter” carries substantial property overtones. See Port, Blue Nowhere, supra note 1, at 1095–96.

\textsuperscript{303} Cf. Epix, 304 F.3d at 941; Brookfield Communications, Inc. v. West Coast Entm’t Corp., 174 F.3d 1036, 1062 (9th Cir. 1999). The cases distinguish initial interest confusion analysis from cybersquatting claims under the Act. No confusion-based policy explanation is offered for the latter. See Epix, 304 F.3d at 946. The proposal in the text attempts to fill the void. See also Bruce J. Maynard, Note, The Initial Interest Confusion Doctrine and Trademark Infringement on the Internet, 57 WASH. & LEE L. REV. 1303 (2000) (providing a general and helpful overview of the doctrine and related cases as well as concerns with its application to the Internet). Trademarks used as meta-tags, which also primarily concern initial interest confusion, can be analyzed in much the same fashion as set out in the following text.

\textsuperscript{304} See, e.g., Epix, 304 F.3d at 941–42 (citing Brookfield, 174 F.3d 1036, which concludes that initial interest confusion leads to misappropriation of the trademark holder’s “acquired goodwill”); see also id. at 945 (“[i]f a rogue company adopts as its domain name a protected trademark and proceeds to sell goods similar to those offered by the trademark owner, it necessarily free rides on the trademark owner’s goodwill”). Although the court defines the harm in terms of seller’s goodwill, the analytical focus is on confusion generating lost trade in the seller’s goods rather than the effects on incentives to create the trademark. See id. at 942–45 (ultimately concluding that “actionable initial interest confusion on the Internet is determined, in large part, by the relatedness of the goods offered and the level of care exercised by the consumer”); see supra notes 103–04 and accompanying text (explaining the difference between incentives to create seller goodwill and to invest in the trademark vehicle) and infra notes 324–25 (explaining the problem with ignoring that distinction in the context of functionality).

\textsuperscript{305} Maynard makes the additional interesting argument that because “web-users have no legitimate expectations” in these search outcomes, applying initial interest confusion to the Internet does not further legitimate confusion interests and affirmatively harms development of more efficient search techniques. See Maynard, supra note 303, at 1334–40.
not only fails to support anticybersquatting protection, but the doctrine lacks coherence as a consumer confusion based cause of action in its own right.

The second argument focuses on customer search costs effects, including rearticulating the “initial interest” harms along the same “static” lines used to justify confusion-based dilution rights. At a minimum, false domain search outcomes require additional effort to find the desired good or service. Additionally, the possibility of such outcomes significantly reduces the reliability of the trademark signal, not only in the Internet search, but also more generally. For example, the URL “Delta.com” appears to indicate to an airline ticket purchaser that information about Delta Airlines will be found at the site.306 If it does not, the consumer must continue the search. Moreover, the resulting ambiguity raises legitimate doubts in the consumer about the next “Delta” signal encountered, URL or otherwise.

Although powerful, this argument also ultimately falls short. Regarding initial interest/static confusion, although it identifies potential search cost harms, the question remains unresolved of how those harms should be weighed against the forgone benefits of other uses, especially by non-competitors. More importantly, as support for anticybersquatting rights under the Act, initial interest/static confusion faces the insurmountable difficulty that the statutory standard for protection—registration in bad faith with the intent to profit—lacks any relevant nexus to the search-cost explanation.

Applying the encouragement paradigm provides the missing connections and justification. Its incentive objective reveals cybersquatting initial interest confusion is a particularly strong form of dilution307 and for similar incentive based reasons justifies a limited trademark holder right independent of actual confusion. The key lies in recognizing that the anticybersquatting right does not depend on actual increases in customer search costs, but on the interference with original investment decisions.308 Cybersquatting exacerbates the dilution incentive problems by generating both actual “false positive” static ambiguity and by requiring the creator to “pay twice” to obtain the full return on their investment in the mark. The latter supplemental disincentive demonstrates the benefit of granting the “more than antidi- lution” rights contemplated by the Act.309

306. See id. at 1334.
307. Actual diversion of customer attention to competing or related products through use of the mark, although perhaps benefiting consumers in the short-run, will have a particularly powerful adverse effect on investment in marks themselves.
308. As with dilution, incentive considerations carry along the confusion concerns rather than vice-versa. See supra notes 242–46 and accompanying text.
309. As the justification discussion in the text indicates, dilutive effects on investment incentives can reach many forms of domain name registrations, including those seeking to resell to the trademark holder. See Panavision Int’l, L.L.P. v. Toeppen, 141 F.3d 1316, 1326–27 (9th Cir. 1998). Trademark taxonomy might, therefore, formally treat anticybersquatting as a species of dilution. However, as the
Identifying the benefit does not alone justify supplemental rights. The question of countervailing costs must also be considered. Beyond resale to the trademark holder, a variety of other reasons may drive third party registrations of a domain name that includes a trademark used by another. The possibilities include traditional infringers using the mark on competing products (Delta Airline, Jr.), those using the mark in connection with non-competing products (Delta faucets), those wishing to comment on the mark (a disgruntled customer group) and those with non-commercial and non-public debate connections to the mark (the family name Delta or a home in the Mississippi delta). Preventing these registrations under the anticybersquatting rubric would detach the doctrine from its incentive concern, leading to over-propertization. Regarding the above examples, proper application requires leaving the Delta Airlines, Jr. and Delta faucets to traditional confusion and the dilution doctrine, respectively, and recognizing that the others do not raise legitimate trademark interests at all.

Ensuring a net beneficial outcome therefore requires that anticybersquatting rights effectively distinguish the targeted case from the myriad other reasons for registration. The need to draw this line explains, supports, and defines the Act’s requirement that the registrant have a bad faith intent to profit. The requirement explicitly recognizes that the supporting trademark encouragement justification only arises when the registration was made specifically for resale to the trademark owner. This understanding directs and limits the inquiry, including the proper application of the “bad faith” factors in the statute. The factors

“intent to profit” aspects of the cybersquatting specifically augment the harms, it makes sense to keep the two issues separate doctrinally to avoid confusion in their application. Consequently, in a perfect world, the Act would be amended to delete the reference to dilution of famous marks. See 15 U.S.C. § 1125(d)(1)(A)(ii)(II) (2000).

310. Cf. Epix, 304 F.3d at 943 (noting the same concerns with initial interest confusion; mere use is not enough to grant ownership of the domain name to the trademark holder because a variety of valid uses exist).

311. This approach avoids inappropriate jumbling together of distinct trademark doctrines founded on different encouragement policy balances. It also argues for deleting the dilution of famous marks protection from the Act. See supra note 300. For similar reasons, the intent to divert customers and likelihood of confusion inquiries suggested by factor VI in the Act should also be deleted. See 15 U.S.C. § 1125(d)(1)(B)(i)(VI); Port, Civil Law, supra note 1, at 883 (properly noting that this factor is merely a compendium of other forms of infringement). If applying those alternative doctrines requires co-existence, then public interest (for trademark purposes at least) is best served by breaking the tie on an alternative non-trademark policy basis. Cf. Epix, 304 F.3d at 942 (noting that “while many brick and mortar companies can peacefully coexist. . . there can be only one owner and user of [the domain name]”). That might be a first-come, first-serve, "race to register"—or perhaps it could mean favoring a trademark registrant with pre-existing national rights over a competing non-registrant according to a notice theory, or a duplicative investment avoidance rationale. But in all events, cybersquatting harms to inventive objectives is not implicated.

312. See supra notes 274–81 and accompanying text (discussing the reasons in connection with dilution rights).

313. It might also be argued that anticybersquatting rights deter desirable investment by the cybersquatter in the domain name. Given the very low investment involved and that most of the actual work is done by the registrar, this “cost” position is unavailing.

provide the necessary guidance when lack of conclusive direct evidence of the requisite resale intent requires circumstantial verification that alternative explanations are not involved.  

E. Functionality, Trade Dress, and Channeling

Trademark law, the commentators, and the courts are in accord that trademark law should not extend to product functionality. The concern centers on ensuring that trademark protection of trade dress—the design or packaging of a product,317—avoids inappropriate interference with competition on the merits.318 Despite general consensus regarding the desirability of this outcome,319 articulating the exact basis and reach of the functionality exclusion under trademark law’s two traditional objectives—avoiding confusion and encouraging product quality—has proved problematic. The result is a considerable gray area between where impermissible functionality leaves off and protectable trade dress begins.320

The logical difficulties with traditional justification analysis can quickly be demonstrated. Regarding likelihood of confusion, in some instances the denial of trademark protection of explicitly functional characteristics actually leads to confusing parallel use. The situation commonly occurs when expiration of a patent releases a feature to general use after a long period of exclusive association with the patent holder’s product. The “Shredded Wheat” case321 is perhaps the most famous example, but the issue made a recent appearance in TrafFix, decided during the Supreme Court’s 2000-2001 term.322 Confusion justifications standing alone offer no solution; they merely pit

315. Cf. Epix, 304 F.3d at 946–47 (finding good faith based on a legitimate alternative use). In this light, the inclusive “and,” as well as the catch-all, “but not limited to,” in the statute take on added meaning. The point is not the presence of one of the factors, but the absence of a legitimate alternative explanation for the registration.

316. See, e.g., 15 U.S.C. §§ 1052(c), 1064(3) & 1125(a)(3) (2000) (denying registration to and permitting cancellation of functional marks and requiring the plaintiff in a trade dress suit to prove it is not functional); TrafFix, 532 U.S. at 20; Qualitex, 514 U.S. at 164–65; Dinwoodie, supra note 1, at 684–88; Lunney, supra note 1, at 456–58; Weinberg, supra note 37, at 4–5; TECH AGE, supra note 7, at 737–52.

317. See, e.g., TrafFix, 532 U.S. at 28.

318. There is general agreement it includes at least the characteristics essential to the use and operation of a product and features that affect its cost or quality. See id. at 33. The debate focuses on how much further “significant non-reputational advantage” might properly carry the doctrine. See, e.g., id. at 33–34; Dinwoodie, supra note 1, at 684-501 (arguing for an expansive unitary view based on significant hindering of competition); Lunney, Trade Dress, supra note 1, at 1135 (discussing the inappropriateness of registering trade dress on the principal register); Weinberg, supra note 37, at 9–26 (providing an excellent history of the doctrine’s evolutionary definition, starting with the “essential” test and concluding with the hindering competition test).

319. See, e.g., TrafFix, 532 U.S. at 29.

320. See generally Dinwoodie, supra note 1; Weinberg, supra note 37 (both offering proposals on how to draw the appropriate line).


undesirable confusion against competitive reductions in price. The actual outcomes will turn on whether in each particular instance the court believes consumers will get more value from cheaper post-patent competitive suppliers than they lose in other attributes they may mistakenly assume exist from the presence of the trademark signal. Although the conflict is far from unresolvable, the confusion-based analysis is hardly a framework for predictable line drawing.  

Encouraging increased product quality also creates analytical ambiguities and results in uncertainties. Logically, if trademark law seeks to generate investment in product quality, why not maximize the incentive by protecting the resulting, albeit functional, product characteristics as trademarks? The response lies in the conflict with patent and copyright law. These regimes also seek to encourage such investments, but only under deliberately limited conditions designed to ensure against excessive costs. Affording trademark protection would ignore those carefully drawn balances, resulting in over-protection and substantial harm to market efficiency. Avoiding the conflict requires the denial of protection to the very subject matter which trademark law is supposed to encourage, hardly a sound basis for application of the regime.

By explicitly limiting trademark law’s objectives to the creation and proper operation of the market information system, the encouragement justifications provide the necessary logically coherent rationale. Encouragement-based functionality analysis starts by explicitly rejecting any relevant role for product “goodwill” incentives in trademark law. To the extent that those incentives exist, they are purely incidental and utterly disposable by-products of trademark law’s pursuit of independent objectives. This understanding eliminates any analytical confusion arising from attempts to mediate a conflict between the product innovation incentives of trademark and patent/copyright law. As there is no tension between the regimes on this count to resolve, no

---

323. Cf. Dinwoodie, supra note 1, at 631–32. The courts and commentators generally agree that trademark law objectives can be satisfactorily served by keeping the functionality doctrine in place and supplementing it with appropriate informational labeling. See, e.g., Nat’l Biscuit Co., 305 U.S. at 120–23; Dinwoodie, supra note 1, at 739 & 742–51 (suggesting other remedies). Confusion analysis leaves confirmation of that view to either empirical proof or logical argumentation. In the absence of the former, it would be preferable to have a sounder basis for blanket elimination of case-by-case analysis than an intuition that the numbers will generally be favorable. Encouragement assessment provides that basis.

324. See TrafFix, 532 U.S. at 29–30; Dinwoodie, supra note 1, at 712–14; Lunney, Trademark, supra note 1, at 456–58. The problem of competing similarly directed incentives poses the same problems as the long and ineffective attempt to reconcile trade secret and patent law as co-existing incentives to invent. See Chiappetta, Trade Secrets, supra note 27, at 88–90 & 139–45 (arguing that the two regimes should be understood as having different foci, thus resolving the apparent conflict).

325. See Dinwoodie, supra note 1, at 713 (noting in particular the limited term of patent protection); Lunney, Trademark, supra note 1, at 456–58 (noting the fixed duration and more permissive infringement standards of patent and copyright law).

326. Cf. Chiappetta, Trade Secrets, supra note 27, at 92–93 (making a similar point regarding the incidental nature of the innovation incentives in trade secret law).

Actually accomplishing functionality channeling requires a crisp definition of what constitutes properly targeted subject matter and what does not.\footnote{See id. at 308 & 313–14.} The analogy to other incentive regimes provides the pivotal concept for the necessary distinction in trademark law: proper subject matter includes investment outputs exhibiting characteristics essential to accomplishing the regime’s objective at appropriate costs.\footnote{See id. at 309; *Tech Age*, supra note 7, at 354–56.} Patent law confines its incentive reach to investments producing useful arts invention, which means affording protection only to novel, non-obvious, objectively verifiable innovations.\footnote{See supra notes 64–73 and accompanying text (discussing the rich nature of brand communication).} Similarly, copyright law’s expression-focused incentives only apply to efforts generating works of authorship exhibiting non-trivial originality.\footnote{See 15 U.S.C. § 1127 (2000) (defining “distinctiveness”). Trademark distinctiveness includes the basic ability to communicate as well as the relative power to do so (the descriptive to fanciful/arbitrary continuum). See Dinwoodie, supra note 1, at 653.}

Trademark law targets a superior market information system: means rather than substance. Consequently, its incentives should encourage investment in signals with the ability to communicate a wide range of information to buyers,\footnote{See supra Part IV.B (discussing the appropriateness of the use requirement and the exclusion of generic and descriptive words).} while avoiding overly costly interference with others’ ability to compete on the merits. Its subject matter requirements address various aspects of this objective, including distinctiveness,\footnote{See supra notes 64–73 and accompanying text (discussing the richness of brand communication).} the exclusion of generic and descriptive terms, and the use requirement.\footnote{See id.} The functionality channeling doctrine can be similarly viewed, with the temptingly straightforward explanation being that because trademark law does not encourage product innovation, product characteristics are simply the wrong stuff.

\begin{itemize}
\item \footnote{See id. at 308 & 313–14.}
\item \footnote{See id. at 309; *Tech Age*, supra note 7, at 354–56.}
\item \footnote{See supra notes 64–73 and accompanying text (discussing the rich nature of brand communication).}
\item \footnote{See 15 U.S.C. § 1127 (2000) (defining “distinctiveness”). Trademark distinctiveness includes the basic ability to communicate as well as the relative power to do so (the descriptive to fanciful/arbitrary continuum). See Dinwoodie, supra note 1, at 653.}
\item \footnote{See supra Part IV.B (discussing the appropriateness of the use requirement and the exclusion of generic and descriptive words).}
\end{itemize}
Unfortunately, that straightforward argument ignores the fact that product characteristics can also act as extremely powerful carriers of information—which is precisely the target of the trademark regime. The reason for ignoring this latter capacity of functional product characteristics is found in the full articulation of subject matter channeling. Channeling does not turn exclusively on the presence of the regime’s targeted output, but on the net effects of protection, viewing intellectual property law as an integrated whole.\textsuperscript{335} In particular, the overall system must guard against over-protection when an output integrates characteristics qualifying under more than one regime.\textsuperscript{336}

Professor Karjala’s analysis of this issue, as regards works qualifying for both patent and copyright law, provides an excellent example.\textsuperscript{337} When a work has integrated both expressive and functional\textsuperscript{338} attributes, both regimes’ objectives are implicated. For example, a cam both articulates its incorporated algorithm (expression and copyright subject matter) and operates the machine to accomplish its implementation (functionality and patentable subject matter). Applying both regimes, while fostering their individual objectives, ignores the overarching objective of intellectual property law: maximizing aggregate social wealth through efficient market operation. Copyright law can only deliver an appropriate benefit-cost relationship with regard to protecting expression.\textsuperscript{339} The appropriate functionality incentives are found instead in the very different balances drawn by the patent law requirements.\textsuperscript{340} Faced with these incompatible outcomes, in order to avoid net harm, the less generous regime—patent—must prevail, even if the result underprotects the incorporated expression.\textsuperscript{341} Proper application of the useful article and idea-expression copyright channeling doctrines must prohibit

\begin{itemize}
\item \textsuperscript{335} See Dinwoodie, supra note 1, at 625–27. Recent criticisms of intellectual property scholarship have targeted its tunnel vision; that is, the tendency to assess each doctrine independently of the others. See, e.g., Karjala, Distinguishing Patent and Copyright, supra note 327; Parchomovsky & Siegelman, supra note 221. There is great merit in reminding not only scholars, but also the judicial system (courts and attorneys), of the important interrelationships, including specifically the importance of channeling to ensure the overall system’s proper operation.
\item \textsuperscript{336} In some instances, multiple coverage is generally non-problematic as, for example, regarding patent and trade secret law’s overlapping coverage of useful arts innovation. That conclusion is clear as a matter of doctrine, even if still debated as a matter of policy. See Chiappetta, \textit{Trade Secrets, supra note 27, at 136–45} (finding no policy conflict, largely based on the conclusion that trade secret is not actually an incentive regime at all).
\item \textsuperscript{337} See generally Karjala, Distinguishing Patent and Copyright, supra note 327. Professor Karjala’s excellent article makes the points following in the text. His article also provides a number of helpful additional examples beyond the cam that he used to clarify the issue in our discussions (which were both tremendously helpful to me and very much appreciated).
\item \textsuperscript{338} Id. Professor Karjala indicates that the functionality label’s usefulness in drawing the distinction with copyright law can be enhanced by the notion of incremental improvability.
\item \textsuperscript{339} See id. (describing the operation of copyright law).
\item \textsuperscript{340} Chiappetta, Software Patents, supra note 110, at 99–106.
\item \textsuperscript{341} See Karjala, Distinguishing Patent and Copyright, supra note 327.
\end{itemize}
protection when functionality also expresses, leaving the issue of appropriate rights to patent law’s balances.  

Equally important, the primary objective of channeling is not to provide the lesser protection in the case of alternatives, but to avoid application of an overly protective regime. Channeling, therefore, is not triggered by the actual availability of protection under multiple regimes, but rather turns solely on the presence of subject matter addressed by more than one regime.  Thus, in the cam example, it is irrelevant that the embedded algorithm may lack the necessary novelty to qualify for a patent; the mere existence of patent subject matter means that in no event should copyright protection be available. When more than one regime applies, the more generous regime must remain resolutely unresponsive for the intellectual property incentive system to work properly as a whole.

The trademark functionality doctrine, similarly, should apply whenever a product characteristic qualifies as both patent and trademark subject matter, whether or not a patent can actually be obtained. Because the trademark regime lacks patent law’s limiting mechanisms, which are essential to ensuring the appropriate benefit-cost outcome for functional matter, trademark, as the more generous regime, must yield the field. Whenever a claimed trademark involves patent subject matter, aggregate effects channeling analysis dictates withholding trademark protection, despite its ability to convey information about a product.

A similar analysis defines the appropriate relationship between trademark and copyright law and the related question of aesthetic

---

342. See 17 U.S.C. § 101 (defining “useful article” and excluding its design from protection when inseparable from “functionality”); 17 U.S.C. § 102(b) (2000) (prohibiting protection of ideas and processes); Chiappetta, Internet Patents, supra note 30, at 309. It will occur to the close reader that the argument in the text means copyright should not apply to computer code. Although correct, the special circumstances of cheap and easy digital copying have been used to justify a doctrinal exception. Regardless of the merits of that approach, the quest for the exception proved the channeling rule by generating an agonized debate over the inescapable need to avoid copyright’s more generous protection from interfering with access to the embedded functionality. See Chiappetta, Software Patents, supra note 110, at 156 n.285.

343. In intellectual property law, decisions to exclude are just as deliberate as those to include. The withholding of patent and copyright incentives reflects an express determination to rely exclusively on the generally preferred outcomes of market competition. See, e.g., Bonito Boats, 489 U.S. at 167; Chiappetta, Trade Secrets, supra note 27, at 138; Litman, supra note 1, at 1728. The channeling doctrines, including trademark law functionality, ensure these exclusions work.

344. See TrafFix, 532 U.S. at 34; Lunney, Trademark, supra note 1, at 456–58.


346. See Dinwoodie, supra note 1, at 731 (citing W.T. Rogers Co. v. Keene, 778 F.2d 334, 338 (7th Cir. 1985) (recognizing the situation and still denying protection)). The need for channeling does not depend on the existence of an incentive objective in trademark law. However, explicitly recognizing the existence and specific nature of that incentive does clarify the absence of conflict between the regimes (they are not both aimed at product innovation) and reinforces the importance of ensuring trademark incentives are properly applied so as to generate a net positive social benefit. See supra note 332 and accompanying text; infra note 353.
functionality. A product’s aesthetic merits can trigger both copyright (expression) and trademark (signaling) protection. Focusing on the net intellectual property result demonstrates that because trademark law lacks the limitations of copyright law, trademark protection must be withheld in order to avoid interference with those balances. The result does not prevent sellers from developing attractive trademarks, using aesthetic appeal to capture and retain attention necessary to convey information, and to attach them to products. It does prevent a seller from using an appealing product feature as a trademark.

Understanding the functionality doctrine as a channeling tool substantially clarifies its proper implementation. The goal is to avoid any trademark law interference with the exclusive province of patent and copyright law—competition on the product merits. The doctrinal rules must channel all subject matter relevant to that competition out of trademark law regardless of its form (operational or aesthetic) or its strength or value as an information communication device. The only

347. See TrafFix, 532 U.S. at 33; Dinwoodie, supra note 1, at 690–94 (both explaining the notion of aesthetic functionality).

348. For example, buyers’ aesthetic sense may prefer that all equipment be color-coordinated, and perhaps green to boot; find the shape of an automobile pleasing or believe that the form expresses something about the way the product is “supposed” to look (a particular boxy shape or gray/taupe color signifies the thing is (or is not) a personal computer). See Qualitex, 514 U.S. at 169–70 (discussing examples of aesthetic functionality and its relationship to competition on the merits).

349. The characteristics may also trigger application of design patent protection, which would invoke a similar analysis. See 35 U.S.C. §§ 171–173.

350. See Dinwoodie, supra note 1, at 692 (noting the “dual capacity to please and to identify source”).

351. See supra notes 143–44 and accompanying text (discussing the desirability of trademark incentives to invest in these features).

352. The distinction poses some difficult factual questions. For example, has the seller adopted an appealing product characteristic as its trademark or has he appended an appealing trademark to the product? Keeping the ultimate objective in mind substantially mitigates the problem; if the purchase is motivated by obtaining the attractive feature, regardless of its origin, it is a characteristic of the product and the copyright/trademark interference concern dictates no trademark protection. The more serious related problem, when the trademark is purchased not merely for its aesthetic appeal but as an expressive product in its own right, is discussed separately below. See discussion infra Part IV.F.

353. Competitive advantage from a superior mark is, of course, the point of the trademark incentive. Functionality’s focus, however, is on ensuring that trademark advantage does not arise from the actual reasons for purchasing the underlying good—which are generally the provinces of patent and copyright law.

354. I believe this outcome is consistent with Professor Dinwoodie’s conclusion regarding the appropriate reach of the functionality doctrine, an unsurprising outcome as I enthusiastically concur with his purposeful (teleological) analysis approach. See Dinwoodie, supra note 1, at 701. I believe, however, that using the encouragement-incentive analysis substantially clarifies the supporting argument. For example, although Professor Dinwoodie identifies trademark’s primary purpose as preventing consumer confusion, he articulates the key subject matter conflict, correctly I believe, as between seller goodwill and restraint of competition. See Dinwoodie, supra note 1, at 614 (“prevent[ing] consumer confusion—trademark’s primary purpose”) & 654 (“The operative principles of trademark law seek to identify whether in a particular context goodwill exists and whether competition will be restrained”). Substituting encouragement, with its overt incentive function, avoids any analytic disconnects between the confusion and goodwill bases for trademark law. It explicitly focuses on investment in the mark’s distinctiveness, the “positive parameter” for defining appropriate trademark subject matter. It similarly clarifies the “negative parameter” of functionality by revealing
functionality question should be whether the market views the putative mark as part of the product—that is, as part of what is being acquired. If so, granting trademark protection inappropriately interferes with obtaining net benefits from the intellectual property system as a whole. Protection should be withheld. Beyond clarity and predictability of application, this straightforward statement of the trademark functionality doctrine has two additional beneficial effects. First, a strong rule against protection affirmatively minimizes the possibility of conflicts arising by clearly identifying and directing initial selection and related investments away from improper subject matter. Second, by consistently penalizing those who decide to “take the risk,” it emphasizes the strong likelihood of negative expected returns when selection cost-benefit analyses are performed.

The above channeling analysis argues for aggressive expansion of the direction taken by the Supreme Court’s most recent trade dress case, *TrafFix Devices, Inc. v. Marketing Displays, Inc.* Although not expressly articulated as such, that decision reflects the basic rationale and outcomes of the proposed approach. The opinion first disposes of the inter-regime incentive conflict that arises from product goodwill objectives in trademark law, by expressly stating that “the Lanham Act does not exist to reward manufacturers for their innovation in creating a particular device; that is the purpose of the patent law and its period of exclusivity.” The Court also emphasizes the mandatory nature of channeling patent and copyright subject matter out of trademark law, notwithstanding its information signaling ability. It states that a functional characteristic will not be protected “simply because an investment has been made to encourage the public to associate a particular functional feature with a single manufacturer or seller.” Nor is the existence of alternative design possibilities relevant: trademark law simply does not apply.

Ensuring that this strict functionality analysis is broadly applied is the crucial step. The key is to give an expansive reading to the *Qualitex* the underlying channeling need to prefer patent/copyright coverage regarding those characteristics. Cf. Dinwoodie, supra note 1, at 653 (setting out the positive and negative parameters for protection).

355. See Dinwoodie, supra note 1, at 710–11. I read Professor Dinwoodie’s specific “death of ontology” point as meaning that although the nature of the claimed mark as a word, drawing, color, etc. is irrelevant, its character as part of the product is. See Dinwoodie, supra note 1, at 617–18. As a result, technically an ontological issue does exist in trademark law regarding functionality, however, it is not whether the characteristic by its nature (e.g., color) can be a trademark but whether the particular use of the characteristic makes it part of the product.

356. As with descriptive marks, the system affirmatively discourages attempts to appropriate improper subject matter. See supra notes 217–18 and accompanying text.

357. Because the Court is applying the Lanham Act, the doctrinal focus must be on the confusion requirements of that statute. See *TrafFix*, 532 U.S. at 28–29.

358. Id. at 34.

359. Id. at 35.

360. See id. at 33–34.

361. There is one additional minor, but important, doctrinal matter that also needs adjustment: the role of distinctiveness in functionality analysis. The above channeling discussion certainly supports
definition of a functional characteristic—any mark imposing a “significant non-reputation-related disadvantage”\textsuperscript{362}—as covering any subject matter relevant to competition on the merits.\textsuperscript{363} Although the Court in \textit{TrafFix} acknowledges the applicability to matter relevant to the “use or purpose of the product or its cost or quality,”\textsuperscript{364} it needs to explicitly state that this phrasing includes all product characteristics that are relevant to the purchase decision.

Strictly applied, incentive channeling leaves one important functionality issue unresolved: unavoidable confusion. Market factors may inevitably lead to some association between a product characteristic and a particular seller’s product. Either no competitor may be present for an extended period of time, due to patents or other market barriers to entry, or those competitors that are present may be slow to recognize the demand for a particular characteristic.\textsuperscript{365} Denying all trademark protection in these cases raises serious possibilities of confusion, adversely affecting the second prong of the encouragement objective. The appropriate solution lies in Professor Dinwoodie’s suggestion of the Court’s \textit{Wal-Mart} holding that product-design trade dress cannot be inherently distinctive. \textit{Wal-Mart Stores, Inc. v. Samara Bros., Inc.}, 529 U.S. 205, 212 (2000). However, although the decision positively restricted \textit{Two Pesos, Inc. v. Taco Cabana, Inc.}, 505 U.S. 763 (1992), when properly applied, the functionality inquiry does not involve distinctiveness at all, but competition on the merits. The initial trade dress issue is whether the specific “mark” involves characteristics relevant to product purchase. If it does, distinctiveness, inherent or through secondary meaning, is irrelevant; trademark channeling withholds all protection. Therefore, at the first opportunity, the Court should clarify that \textit{Wal-Mart/Two Pesos} considerations apply only after the functionality determination. This understanding also clarifies the doctrinal line regarding the Court’s “design versus packaging” test, making it unlikely any designed characteristics will qualify as trademarks regardless of secondary meaning—precisely the result desired. It is worth mention that, properly applied, the test means that the décor in \textit{Two Pesos}, described as a “festive eating atmosphere,”\textsuperscript{505} U.S. at 765, is more appropriately understood as part of a restaurant’s purchase-relevant characteristics and should not have qualified as a trademark, regardless of its distinctiveness. \textit{Id.} at 765.

\textsuperscript{362} \textit{Qualitex}, 514 U.S. at 165; \textit{TrafFix}, 532 U.S. at 33 (citing the definition with approval).

\textsuperscript{363} See supra notes 353–56 and accompanying text (arguing for broad exclusion).

\textsuperscript{364} \textit{TrafFix}, 532 U.S. at 33.

\textsuperscript{365} This outcome does not require a dramatic interpretation of \textit{Qualitex}, which provides ample linguistic support. See \textit{Qualitex}, 514 U.S. at 170 (“interfere with legitimate (nontrademark-related) competition through actual or potential exclusive use of an important product ingredient”). For what it’s worth, I believe that in the new paradigm, trademark protection of the Qualitex ironing board pad color should be withheld. In \textit{Qualitex}, the color clearly serves the function of hiding stains (\textit{Qualitex}, 514 U.S. at 166). It is irrelevant, therefore, as the Court found in \textit{TrafFix}, 532 U.S. at 33–34, that the particular color may have developed secondary meaning or that alternatives exist. See \textit{Qualitex}, 514 U.S. at 166; \textit{TrafFix}, 532 U.S. at 33–34. Any other outcome leaves later-comers to find alternatives with no pro-competitive justification for requiring them to do so. In fact, extending protection actually \textit{harms} the market, inappropriately rewarding efforts to take particular stain-covering colorings out of the competitive mix. Far better to direct Qualitex’s trademark investments to other vehicles. An interesting hypothetical eliminates the utility of color and assumes that consumers merely preferred the green-gold color as a matter of aesthetics. As under the channeling model, there is no reason to treat operational and aesthetic functionality differently; trademark law should still offer no protection.

\textsuperscript{366} See \textit{Nat’l Biscuit Co.}, 305 U.S. at 117–22 (no effort to create a trademark, but unavoidable sharing of the goodwill in the term “Shredded Wheat” and the pillow-shape); supra notes 219–21 and accompanying text (discussing the problem as related to descriptive marks).
limited relief. 367 Specifically, on petition by an original user who can demonstrate an association arising through no efforts of its own, subsequent adoption should only be permitted if accompanied by a clear disclaimer of any association with the original source. 368 Limiting relief to disassociation draws an appropriate balance between avoiding confusion while affirmatively encouraging first users to prevent formation of public associations by directing signaling investments toward other, more pro-competitive trademarks.

F. The “Branding” Challenge: Trademarks As Products

As trademarks evolved into carriers of brand messages, they moved beyond communicating information about source and substantive product characteristics—durability, ease of use, recycled materials, attention to detail—to value messages as well—sensible, financially “worthy,” environmentally conscious, innovative. 369 As a result, trademarks have come to offer a powerful means of communicating these same value messages outside the economic marketplace. 370 When used in this fashion, the mark moves beyond a means to signal purchase relevant information and becomes a distinct “product” in its own right. 371 Trademark owners have recognized and aggressively sought to capture and control this additional economic value by expanding the reach of trademark rights, raising significant over-propertization concerns. 372

Use of trademarks “as product” takes a variety of forms, each generating a robust debate under confusion-based trademark law. In some cases, the mark’s value statements are communicated through the acquirer’s post-transaction public association with the actual branded good, such as a car or a watch. In these situations, the trademark serves a dual or “mixed” purpose. Purchasers use the mark to obtain information relevant to acquiring the product for use, such as environmental sensitivity or high-quality construction; and also acquire the mark as a discrete product in its own right, to communicate post-transaction about themselves to others: “I buy environmental” or “I can afford the best.” 373 It may be argued that the confusion justifications

367. See generally Dinwoodie, supra note 1, at 738–51. The proposal parallels the relief granted in Nat’l Biscuit Co., 305 U.S. at 120–22. For whatever reason, the problem was not addressed in TrafFix. See TrafFix, 352 U.S. at 34 (no need to hide the springs, but not mentioning a need to disassociate based on possible unavoidable confusion as to source from prior use).

368. If the difficulty was affirmatively caused by the plaintiff’s efforts to generate such a connection, confusion avoidance still dictates assistance to the consumer, so perhaps the court might consider requiring the plaintiff to pay for the related disclaimer activities.

369. See supra notes 63–73 and accompanying text (discussing the evolution of brands).

370. See Dreyfuss, Pepsi, supra note 1, at 397–98.

371. See, e.g., id. at 397; see also Kozinski, supra note 1, at 961–63; Lunney, Trademark, supra note 1, at 371.

372. See Dreyfuss, Pepsi, supra note 1, at 402–03.

373. See id. at 401–02. This understanding helps explain why consumers are willing to pay significant “premiums” for a branded good even when a cheaper equivalent on the merits exists. They
supporting prohibiting competitive adoption to protect the first “signaling” use can “carry along” the second product use.\(^{374}\) It may also be argued, however, that the costs of prohibiting competition regarding the product use exceed the market information benefits, resulting in over-protection, leaving the outcome dependent on a difficult quantitative assessment.

In intermediate cases, although some form of goods carrier is present—a t-shirt, a cap, or a known imitation product—obtaining the trademark for post-transaction, non-market communication is the primary, if not exclusive, reason for the transaction. Proponents of trademark protection argue that, although these purchasers are motivated by obtaining an exemplar of the mark, they may also be assuming that its presence indicates sufficient quality control by the mark owner to assure the carrier possesses the associated characteristics.\(^{375}\) Additionally, post-sale observers may similarly mistakenly assume the carrier accurately reflects the product quality/attribute messages conveyed by mark.\(^{376}\) As a result, not only may consumers individually forego further inquiry into the actual merits as well as related purchases, but word-of-mouth may dissuade other consumers to do so as well. Therefore, permitting competitive use of the trademark product can confuse the mark’s message, directly or through dilutive diminution, thus interfering with desirable search costs reductions.

In rebuttal, opponents argue that most consumers have no trouble making the necessary distinctions.\(^{377}\) Consumers fully understand that the trademark’s presence in these situations does not convey information about the carrier; they are not confused. In fact they obtain precisely the bargain sought—a copy of the mark.\(^{378}\) Consequently, legitimate trademark signaling interests are not implicated and protection is inappropriate. To the extent that incorrect quality control assumptions exist, instead of reinforcing and perpetuating that undesirable state of affairs by offering protection, the incorrect assumptions should be undone by permitting use coupled with express disclaimers of sponsorship or affiliation.\(^{379}\) Such an approach mitigates confusion while allowing maximum competition and choice. Those who want quality control can identify and avoid pure carriers, while those indifferent to the carrier attributes remain free to obtain lower-cost exemplars of the trademark product.

have not been duped into believing a distinction exists: they are actually purchasing two goods, the product and the trademark. See Lemley, \textit{supra} note 1, at 1709.

\(^{374}\) See \textit{supra} note 121 (discussing this argument noted by Professor Brown).

\(^{375}\) See Lemley, \textit{supra} note 1, at 1708–09; Litman, \textit{supra} note 1, at 1722–23 (noting the argument, but not supporting the position).

\(^{376}\) See Kozinski, \textit{supra} note 1, at 964–65 & 971–72 (noting the argument, but not arguing in support).

\(^{377}\) See \textit{supra} notes 74–76 and accompanying text (describing the rational consumer).

\(^{378}\) See Kozinski, \textit{supra} note 1, at 964 & 971.

\(^{379}\) See Lemley, \textit{supra} note 1, at 1708–09.
Finally, in “pure” values communication cases, the good disappears entirely and the trademark is used “free-standing” to communicate a point of view. For example, the mark might be used to express an opinion regarding a proposed action or an individual’s behavior: a “Star Wars” missile defense system or a “Rambo” litigator. Although these uses do not produce direct purchase confusion, protection can be predicated on the resulting dilutive “static” arising from inconsistent associations or apparent endorsement. In response, it is argued that preventing use of trademarks to communicate ideas and values in public discourse raises significant First Amendment concerns.

This inquiry is not concerned with the relative merits of these confusion-based arguments. The point is to demonstrate how shifting to an encouragement approach clarifies the appropriate outcome by broadening the analysis from confusion alone to properly targeted market information system incentives. Looking at the myriad uses of trademarks—providing information to potential purchasers, permitting individual purchaser self-identification to others, defining relationships with others, and facilitating public discourse—from this perspective clarifies that only the first use has any relationship to the legitimate goals of trademark law. All of the other uses utilize marks as vehicles for communicating outside the economic market for goods and services. Consequently, offering trademark protection in such instances inappropriately carries the regime beyond its designated target. If it turns out that the creation of trademarks as products is driven by legitimate market demand, and related investment is distorted by public goods market failures, the appropriate intellectual property solution is not misapplication of trademark law, but use of a regime specifically adapted to accomplishing that particular objective.

Identifying that trademarks as products should not be protected under trademark law does not automatically generate the necessary doctrine. Accomplishing that goal requires a test that ensures that the excluded subject matter is appropriately identified. The dual qualification channeling analysis discussed in connection with functionality provides a helpful starting point. By communicating

---

380. See Dreyfuss, Pepsi, supra note 1, at 400 & 406.
381. See supra note 280 and accompanying text.
382. See generally Aoki, supra note 1; Dreyfuss, Pepsi, supra note 1; Kozinski, supra note 1; Litman, supra note 1.
383. See Landes & Posner, supra note 1, at 308.
384. See Kratzke, supra note 1, at 221–23. Professor Kratzke offers a good explanation of the problems this poses, many of which parallel the improper incentive points made below in the text. Id.
385. If special trademark as products incentives are desirable (for example, beyond those provided under copyright law), calling the resulting regime trademark law risks serious difficulties. Unless the rights share a unified objective (in trademark law’s case, encouraging the creation and operation of the information system), using the same label creates semantic confusion. Cf. Chiappetta, Trade Secrets, supra note 27, at 73–74 & 94 (explaining that, in part, the confusion over the proper justification for trade secret law lies in having aggregated two distinct objectives under a single rubric). When the objectives involve a substantive change, far better to call the new regime by a distinct name.
transactional and value information, a mark not only provides market information qualifying it for trademark protection, it also expresses ideas, thus invoking copyright law. A serious risk of over-protection exists. Unlike the functionality doctrine, which can avoid unintended incentive consequences by ensuring that patent and copyright balances govern competition on the merits, this situation involves conflicting incentives to invest in the same output: the expressive power of the mark.\footnote{386. This statement of the problem differs significantly from the rejected “trademark as incentive to product quality” approach. Within the latter, the problem arises because protection focuses “not on investment in the quality of the underlying product, but in merchandising the brand itself.” See Lemley, supra note 1, at 1708. Cf. Dreyfuss, Pepsi, supra note 1 (noting the possibility that without protection, holders will not invest in product quality). The encouragement model explicitly targets investment in developing a brand, not the underlying product. Cf. Kozinski, supra note 1, at 970 (noting the adverse effects on investment in image advertising). The result is direct conflict with copyright law’s incentives to creation of expressive works.}

Granting exclusive control to trademark law ignores the fundamental competitive cost limitation found in copyright’s “limited” duration\footnote{387. Beyond the fixed term (a matter of some debate), copyright law contains a number of additional important limitations on the incentive provided. In addition to expressly permitting independent creation, the holder’s exclusive rights are subject to a wide range of statutory exceptions. See 17 U.S.C. § 106 (2000) (referencing §§ 107–122).} as well as the internal First Amendment compass\footnote{388. Cf. Kozinski, supra note 1, at 973 (noting that, beyond confusion, trademark law has no inherent mechanism for dealing with this conflict). As argued above, incorporating copyright’s fair use type exceptions is an important part of encouragement-based trademark law, and that approach can mitigate, if not eliminate, many of these concerns. See supra notes 288–97 and accompanying text (discussing similar First Amendment problems in connection with an incentive-based assessment of dilution). It remains, however, very different to require a defendant to argue fair use rather than simply noting the expiration of the term.} found in its idea/expression and fair use doctrines. Conversely, exclusive application of copyright law withholds incentives from desirable information system investments in “non-original” signals, and its independent creation defense raises serious confusion concerns.\footnote{389. Copyright’s originality requirement means that a wide range of material cannot be used as a trademark. The defense of independent creation and competing post-term uses both raise significant signal integrity concerns. See Kozinski, supra note 1, at 965.}

A special variant on the “channeling out” solution is therefore required to take these difficulties into account.

Focusing on the appropriate application of trademark law’s objectives provides the answer. When a mark’s expressive power is used to signal information to the marketplace, trademark interests clearly apply. In such instances, trademark law’s balances generate appropriate incentives while resolving confusion concerns by focusing on first market use.\footnote{390. Existing copyright protection will still trump even a first-user’s copying of the work as a trademark signal. As discussed in the text, trademark law targets investment in powerful signals, not merely in expressive works for non-market use, which ultimately turn out to be excellent signals. Such an interrelationship fosters cooperative investment by authors who have superior ability to create highly communicative marks with those who have the ability or resources to create the related market signaling power.} Although the same investments in the mark may also generate additional value from non-market-signaling uses, the mere creation of
That value does not also justify trademark protection for those supplemental uses. That extension turns on whether the benefits of internalizing these additional returns outweigh the associated costs. Trademark’s lack of copyright’s mechanisms for avoiding competitive harms (fixed term) and First Amendment conflicts (idea/expression and fair use) makes that outcome sufficiently unlikely that application of the trademark regime cannot be justified, thus leaving protection regarding those additional uses exclusively to copyright law or some specially tailored new regime.

The channeling out rules therefore turn on the nature of the specific use. In effect, the same investment simultaneously generates two distinct bundles of rights, each relating to different uses of the mark. The return arising from market signaling benefits is properly controlled by trademark law. The return from all other applications (trademarks as products) should be governed by copyright law. Or, stated doctrinally, trademark law only applies when the mark’s use plays a significant market information role; otherwise the rights, if any, are the exclusive province of copyright.

As always, when applying a “continuum” test—in this case, focusing on the nature of the use—the end-points cause little difficulty. Regarding “pure” trademark as product uses, such as use in public discourse, the trademark is not applied to any offered good or service. The context sufficiently disconnects from the commercial marketplace to eliminate any legitimate trademark interests or concerns, leaving copyright law to govern.

Equally straightforward are cases that involve no post-transaction communication to third parties.

391. See Dreyfuss, Pepsi, supra note 1, at 404–06 & 409 (as Professor Dreyfuss eloquently puts it, doing so merely equates value with right). And, in all events, there is some question as to the source of this “extra” value of a trademark. See supra notes 150–51 and accompanying text (discussing Professor Litman’s convincing argument that the public also has made a significant contribution).

392. Professor Dreyfuss’ excellent article explicitly applies this approach in separating competitive and expressive genericity. See id. at 400–03 & 418–24. Although I concur with both the “use” methodology and the objective (the need to avoid undue interference with expressive use of marks), the encouragement approach produces a complementary rationale. Professor Dreyfuss’ article approaches the problem from a linguistic First Amendment perspective (the need to use the mark to express an idea). Because I believe there are legitimate reasons to “create economic incentives to encourage businesses to develop a vocabulary with which to conduct commerce”, the crucial question is how far that objective should carry protection in face of countervailing interests. Id. at 399. Exploring the limitations on the incentive reveals there is even a wider range for permitting expressive use, beyond situations in which the mark is “rhetorically unique within its context.” Id. at 418. As discussed below in the text, similar to functionality, the ultimate question is not whether there are alternatives, although the lack of alternatives may be sufficient, but whether the use involves expression outside the market transaction environment and poses only insignificant dilution risks because of the context. Id. at 420–21.

393. See Dreyfuss, Pepsi, supra note 1, at 400–01 (noting these easy cases).

394. In some instances a disclaimer may be required to avoid possible affiliation or endorsement “dilution” concerns. See supra note 280 (discussing the concern in the dilution context).

395. When the trademark is not visible to third parties, there can be no communication beyond the market informational role. See Kozinski, supra note 1, at 961 (noting the change from trademarks “discreetly sewn inside the collar” to visible branding).
product concerns play no role in this market information context, permitting full application of trademark incentives.

“Mixed” use cases at the center of this continuum require closer analysis. In true mixed use situations, the purchaser both actually uses the mark to locate a product with the signaled characteristics and acquires the mark to signal information to others by post-acquisition association with the trademarked product. Additionally, in these cases the mark continues to convey accurate information about the product to the after-market, assisting future purchasers in their searches. These substantial trademark interests should prevail, preventing competitive "true mixed use" transactions by others, even though the transaction is also motivated by acquiring the post-sale communication value of the mark as a distinct product.396

In contrast, the carrier cases shift the balance in favor of copyright. As the buyer and post-sale market generally understand that the mark primarily involves only non-market communication,397 most legitimate claims to trademark protection disappear. For example, when making a t-shirt purchase or viewing the item post-sale, most individuals recognize that the presence of a non-clothing trademark ("Lions," "CAT," "Porsche") is unrelated to the characteristics of the associated good. To the extent that affiliation/sponsorship misunderstandings may exist,398 disclaimers can resolve purchaser confusion as well as shape appropriate future post-sale market reactions. Although there may be a transition period, the long-term benefits indicate that the trademark regime should yield to copyright law.399 However, one “carrier” exception to copyright supremacy does exist: imitation goods. Unlike other carriers, the purchaser of an imitation good uses non-market communication to signal

396. Professor Lunney offers as a rationale for withholding protection the undesirability of protecting these “prestige” goods’ exclusivity messages. See Lunney, Trademark, supra note 1, at 466–68. That argument does not work within the efficiency model being applied in this analysis. First, the model starts from the proposition that consumers should pursue their own utilities. If they derive benefit from making these statements to others, the market should provide the goods necessary to doing so absent some identified failure. See Economides, supra note 1, at 535; Kozinski, supra note 1, at 961 & 969–70. Second, although undoubtedly, as Professor Lunney argues, pursuit of some individual utilities may upset others, that does not generate negative externalities in the traditional economic sense. The good is not being produced at less than its economic cost. As the economic model works on true demand (ability to pay, not subjective desires), subjective disutilities are properly excluded from market costs. Rather, as a general proposition (assuming zero transaction costs), those that prefer other outputs need to “buy out” competing preferences. This is not to say that, as a values matter, society should not intervene, merely that the intervention cannot properly be justified based on economic efficiency, the assumption for this undertaking.

397. See supra notes 74–78 and accompanying text (discussing the rational consumer’s ability to sort out information); see also supra notes 278–81 and accompanying text (discussing the resulting substantial mitigation of dilution concerns when based on non-market use).

398. See supra notes 375–79 and accompanying text (discussing the mistaken vetting concerns and the disclaimer solution).

399. To the extent the trademark is a protectable work of authorship, the copyright holder will obtain returns provided by copyright law. These returns are not, however, supplements to the trademark incentive, but separately and specifically designed to encourage investment in original works of authorship.
to others that he owns the original good associated with the mark, such as a Rolex watch, a Mercedes automobile, or Levi’s jeans, when in fact he does not. Whether or not these efforts are successful, these cases intentionally add static to the mark’s market information signal, raising significant dilutive concerns and corresponding risks to trademark’s incentive objectives. As the misleading nature of the expression offers little by way of valid free speech concerns, trademark objectives should control.400

A number of ambiguous situations will, of course, fall in between the true mixed use and carrier cases. For example, “Rolex” might be a sufficiently clothing-related mark to muddy the market information versus carrier question in connection with its use on a t-shirt. Similar line-extension confusion might arise, for example, when a baseball team’s mark is used on athletic gear. Is a ball cap to be used for playing baseball or to show one’s affinity for the particular team? Although difficult these questions of degree present few novel trademark law problems401 and can be appropriately handled on a case-by-case basis,402 with market inquiry providing the necessary facts. The relevant market participants will know whether they generally rely on or are indifferent to the mark’s product information signals in connection with the particular product or transaction.403 However, as the commentators have noted, relying exclusively on subjective consumer reactions may, at least in the short term, perpetuate existing but economically undesirable assumptions of sponsorship and quality assurance.404 Moreover, such evidence may be affected by personal interest. Supplementing consumer evidence with objective market context information—particularly facts supporting or undermining affiliation or endorsement—provides useful calibration, helping ensure the outcome turns on the “reasonable consumer,” not the response of the specific customer. In addition, the approach reduces the chance of any actual transactional confusion by encouraging disclaimer actions by sellers.

A particularly interesting example of the importance of context analysis in determining the nature of the use is Professor Litman’s “Breakfast with Batman” scenario.405 Because most breakfasts are

400. The point is not whether rational consumers can make the necessary distinctions and avoid the dilutive effects, but that since there is no market information value in permitting the use, there is no need to take the associated risks that the originator’s incentives to invest will be harmed. See Kozinski, supra note 1, at 976; see also supra notes 377–79 and accompanying text (offering the argument that prospective purchasers will self-correct).

401. They reflect the same types of considerations dealt with under traditional “likelihood of confusion” analysis, such as whether a reasonable customer would misunderstand the signal in the specific context. See Dreyfuss, Pepsi, supra note 1, at 401-02.

402. See Kozinski, supra note 1, at 969-71.

403. The approach is consistent with the rational consumer model of both economic theory and empirical study. Using consumers at large (in the target market) avoids the problem of limiting inquiry to actual disappointed purchaser litigants who have a vested interest in the signaling outcome.

404. See supra note 375 and accompanying text.

405. See Litman, supra note 1, at 1727.
relatively private affairs, the lack of any significant post-transaction communication makes it appear that trademark interests should prevail.\textsuperscript{386} However, because in this particular context customers likely view Batman as a distinct product, and not a cereal purchase signal, the better categorization is as a carrier case. Consequently, provided that the seller clearly disclaims affiliation with the trademark holder and any associated quality attributes, the use should be governed by copyright law. Importantly, this result is independently generated by the trademark encouragement rationale. It does not depend on reconciling property and free speech considerations, but merely upon the fact that trademark market information system objectives offer no justification for the regime’s interference with competition on the merits.

It is equally essential to guard against over-application of context analysis. If transactional disclaimers could validate every marketplace use of a trademark, trademark’s information system encouragement objectives would be seriously undermined. Buyers would eventually come to realize that every mark required confirmation, thus substantially reducing the efficiency of the signals and the value of the related investments.\textsuperscript{387} Additionally, the lack of notice to the post-sale market would substantially increase the dilutive harms.\textsuperscript{388} Appropriately applied, an encouragement-based trademark law must preserve the signaling value to the market and the mark creator, making disclaimers alone insufficient.

Analogy to collective or certification marks provides one final possible justification for protecting marks used as products under trademark law. Consumers use trademark products not merely to communicate information about themselves or their beliefs, but to indicate affinity with like-minded individuals or groups, in effect attesting to their membership. By purchasing the jersey emblazoned with “Lions®” or a watch marked “Rolex,” they are doing more than making a personal statement. They are joining the “club” established by the mark.\textsuperscript{389} Although appealing, the argument is without merit. Unlike true certification or collective marks, there is no actual group vetting qualifications or providing associational benefits.\textsuperscript{390} Certification as a “brand” group member merely involves self-selection: the purchase of the jersey or watch. Nor does such membership provide any appurtenant privileges, benefits, or obligations. Although there is a football team, membership does not affect the jersey owner’s ability to attend games,
the terms of his or her attendance, or any other relationship with fellow mark owners. Consequently, these analogies offer no support for protecting trademarks as products under trademark law.

G. Assignments in Gross

Finally, encouragement-based analysis of the ability to sell or license a trademark for unconstrained third party use (assignments in gross) demonstrates that the approach does not simply replace confusion with incentives, but requires consideration of both aspects of trademark law’s justification when deciding to grant particular rights. Equally important, even though the continuing and powerful influence of confusion may result in an outcome consistent with traditional assessment, the process for arriving at the specific conclusion differs significantly.

A strong incentive case can be made for free assignability of trademarks. As both patent and copyright law recognize, the related ability to leverage investment through use by others dramatically increases the internalized return. However, trademark law’s focus on encouraging the development and proper operation of a market information system means that the incentives must be tempered by confusion considerations if a net positive outcome is to be obtained. Consequently, to deliver the proper encouragement balance, “assignment in gross” doctrine must prevent even otherwise desirable high returns on investment transactions that are likely to generate substantial countervailing confusion harms.

If the assignee will produce the same product under the mark, either under the supervision of the original owner or through acquisition of its related production assets, incentive considerations justify permitting the assignment. This is because the risk of misleading purchasers can be sufficiently mitigated by making the change of control information available to the market. Similarly, when two independent users of the same mark seek to resolve competitive or dilutive concerns, the primary effect is to reduce market static, thus improving the informational value of the mark while providing a means for the parties to allocate returns on their respective investments. In contrast, granting an assignee unconditional rights to use a mark on any product is highly problematic. Although such assignments maximize the return on investment, there is a significant risk of market misinformation. Although notification can minimize actual transactional confusion, the strong likelihood of initial interest and post-transaction third party observer harms militates strongly against permitting these transactions, despite the supplemental incentives they provide.

411. See, e.g., Lemley, supra note 1, at 1709–10; TECH AGE, supra note 7, at 762–68.
412. See Lemley, supra note 1, at 1709. Cf. supra notes 208–14 and accompanying text (discussing the failure to adopt patent and copyright-like increased incentives based on lack of benefits without use).
V. CONCLUSION

The shift to encouragement (incentive and confusion avoidance) justifications for trademark law reveals that the current over-propertization “crisis” is neither as serious nor as unmanageable as it might appear. Freeing the assessment from exclusive reliance on the overly restrictive “source identification,” “passing-off,” and “search-cost/confusion-avoidance” arguments, permits redefinition of the trademark regime’s objectives in the context of the modern market. That redefinitional process reveals that the increased pressure for “property-like” trademark rights stems from more than self-interested rent seeking. It also arises from a legitimate desire to realize the increased investments required by the expanded role of trademarks in our “brand” economy. These considerations support adding familiar intellectual property investment incentives to the valid information confusion justifications. The resultant, more complete and coherent analytical framework permits the trademark regime to resolve not only today’s concerns, but also to stand prepared to meet the new challenges over the next evolutionary horizon.