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The Biblical Fool and the Brander: the Law and Economics of Propertization in American Trademark Law

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ABSTRACT
Isaiah 35:8, which tells of “fools” upon a highway who shall not err, became authority for the position that the Federal Trade Commission should protect fools from deception. This Article examines the Biblical passage in context and concludes that it does not support protection of unthinking, credulous people. Ensuing FTC orders based on witnesses’ speculation of how fools would construe particular claims actually harmed fools. The FTC retreated. Unfortunately, the objective of protecting fools from deception has taken over § 43(a) Lanham Act jurisprudence – but now sellers speculate in competitor lawsuits how fools will construe competitors’ claims and undertake to “protect” them in an expansive cycle of “propertization” of trademarks and trade dress. This propertization is the essence of “branding.” This Article identifies merchandising rights (“product as trademark”) and trade dress protection (“trademark as product”) as occasions when propertization occurs. The Article adapts Justice Holmes’s tort policy norm to articulate a standard against which to judge trademark doctrines, i.e., they should accomplish affirmative good by enlarging the cooperative surplus that transactions between buyers and sellers create. Pricing at marginal cost, a result of competition, maximizes such surplus and consumer capture of it. The Supreme Court’s announcement in \textit{Lexmark International, Inc. v. Static Control Components, Inc.} that § 43(a) standing depends upon allegations of trade diversion or injury to reputation should accomplish affirmative good.

TABLE OF CONTENTS

I. Introduction. ................................................................. 3

II. Some Basic Principles. .................................................. 4

III. The Federal Trade Commission and the Protection of Fools from Deception. ............... 9
      A. Unfair Methods of Competition in the Supreme Court. ................................. 9

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B. Congress, the FTC, and the Lower Courts React. .......................... 13
C. The FTC Retreats. ................................................................. 19

IV. The Words of the Prophet in Context. ............................................. 21
   A. Historical Analysis.............................................................. 22
   B. Textual Analysis............................................................... 23
   C. Isaiah 35:8. ............................................................... 24

V. The Prophet as Brander: Competitive Implications of “Protecting” Fools. ........ 26
   A. The Branders’ First Principles (and Comment). ......................... 26
   B. Trademark’s Value-Increasing Role in Competition and the Brander’s View of It. 27
      1. Information and Identification. ......................................... 27
      2. Trademark Embodies Reputation. ................................... 31
   C. Trademark as Product: Unmooring Infringement from Confusion. ........ 33
   D. Product as Trademark: Stifling Competition in Products. .......... 43

VI. The Economics of Propertization of Trademarks and Product Design Trade Dress. ...... 46
   A. Dilution. ................................................................. 51
   B. Trivial or Immaterial. .................................................. 52
   C. Changing the Law of Confusion by Bullying. ......................... 55
   D. What Is Gained and at What Cost? .................................... 58

VII. The Convergence of Standing and Substance........................................ 59
   A. Lexmark International, Inc. v. Static Control Components, Inc. ......... 60
   B. Comment. ................................................................. 63

VIII. Conclusion. ................................................................. 64
And an highway shall be there, and a way, and it shall be called, The way of holiness; the unclean shall not pass over it; but it shall be for those: the wayfaring men, though fools, shall not err therein. Isaiah 35:8 (King James)

I. INTRODUCTION

A superficial and erroneous reading of this Biblical passage became support for the proposition that federal efforts to control false advertising or deceptive practices could—and so should—extend to protection of marketplace fools. Consumers are still paying the price. The passage contains the word “fool[],” but the meaning of the term in context is quite different than the one courts applied, i.e., gullible, credulous people. The Federal Trade Commission (FTC) extended its regulatory activities to protection of hypothetically foolish consumers. The common law tort of unfair competition protected only competitors’ interests as against each other. Congress altered the common law balance by enacting the Lanham Act in 1946. Through that Act, with amendments, Congress gave competitors rights as against each other and as “vicarious avengers” of their competitors’ customers. The FTC long ago retreated from its efforts to protect fools. However, federal courts’ enforcement of the Lanham Act now encompasses the objective of protecting fools. The history of FTC deception jurisprudence is instructive and should invite a refocus of Lanham Act confusion jurisprudence.

This Article examines current Lanham Act confusion doctrines from the perspective of the fool. The Article first sets down some basic principles with which legal rules should be consistent, notably that court enforcement of legal rules should do affirmative good. The Article then traces the evolution of the FTC’s treatment of deception—first as an unfair method of competition and then as a wrong in itself. This treatment evolved into FTC initiatives to protect fools with judicial invocation of this Biblical passage for support. The FTC’s retreat from this enforcement

\[2\] But see Ely-Norris Safe Co. v. Mosler Safe Co., 7 F.2d 603, 604 (2d Cir. 1925), rev’d 273 U.S. 132 (1927) (Hand, L., Circuit J.; “The law does not allow him to sue as a vicarious avenger of the defendant’s customers.”).

3
objective made its deception jurisprudence more consistent with the basic principle that regulatory or judicial intervention in markets should do affirmative good. The Article then debunks the notion that the prophet Isaiah said or implied anything about protecting foolish (stupid? gullible? credulous?) people, let alone marketplace consumers. Hence, any effort to protect the modern image of a dupable fool lacks this Biblical foundation. The Article examines the ramifications of protecting fools through propertization of trademarks and trade dress. Such protection has harmed fools by denying them the benefits of market competition – i.e., lower prices, greater choice, more income, and a greater share of cooperative surplus. Finally, the Article considers the case of *Lexmark International, Inc. v. Static Control Components, Inc.*[^3] and concludes that the Supreme Court constructively merged substantive and standing rules to assure that enforcement of the Lanham Act should do affirmative good.

II. **Some Basic Principles**

The economic objective of trademark rules should be to reduce the transaction costs of exchanges that maximize the net value that willing buyers (consumers) and sellers (competitors) create, i.e., cooperative surplus. Consumers of goods and services voluntarily enter transactions with competitive sellers when they value what a seller has to sell more than the seller values retaining what it wants to sell. No one will pay more than one values what one is purchasing, and no seller should accept less than it values what it is selling. One obtains buyer (consumer) surplus to the extent one can pay less than one is willing to pay, and the seller obtains seller surplus to the extent it receives more than it is willing to accept. Together, competitors and consumers, by acting in their own self-interest, create value. The sum of buyer surplus and seller surplus is cooperative surplus. Every transaction should create cooperative surplus thereby increasing overall social value. So long as an exchange occurs, different prices within the range of what a buyer is willing to pay and a seller is willing to accept change only the distribution of

cooperative surplus, not its magnitude. But seller prices above marginal cost reduce the number of exchange agreements consumers will enter. Demand is inversely related to price.

Maximization of cooperative surplus occurs\(^4\) when prices equal the marginal cost of production, including a risk-weighted profit – not when sellers can exercise market power, i.e., price above their marginal cost.\(^5\) When one with market power can price above marginal cost and stifle the competition of those willing to sell for a lower price, the cooperative surplus of at least some of the sales those competitors would make is needlessly forgone – a deadweight loss. Market power implies both a transfer of consumer surplus to seller surplus,\(^6\) and deadweight loss.\(^7\) In any market,\(^8\) competition will tend to increase the amount of cooperative surplus and the amount of cooperative surplus that consumers capture. A competitor with market power prefers to capture a greater share of less cooperative surplus, a bigger slice of a smaller pie. If sellers can exercise market power, then they will have relatively more income, and their spending preferences will determine what others produce. The seller with sufficient market power will surely invest

\(^4\) This Article omits discussion of price discrimination – where sellers in some circumstances price above marginal cost to some customers and can capture relatively more of the cooperative surplus on those sales.


\(^6\) See Richard A. Posner, Economic Analysis of Law 358 (8th ed. 2011) (“transfer of wealth from consumers to producers” that monopoly pricing brings about is “conversion of consumer surplus into producer surplus”).

\(^7\) See generally F.M. Scherer, Industrial Market Structure and Economic Performance 459-60 (2d ed. 1980) [hereinafter Scherer] (deadweight loss from monopoly rises as quadratic function of relative price distortion and as linear function of demand elasticity).

\(^8\) . . . disregarding so-called Veblen goods, of course.
resources in the wasteful activity of retaining its economic rents and generating still more—
which tends towards the concentration of wealth. If buyers capture more of the cooperative surplus, then they will have relatively more income, and their spending preferences will determine what others produce. Absent monopsony-like buying power, buyers will not spend resources on preserving market power.Trademark rules should not prevent maximization of cooperative surplus and consumer capture of it. Rules derived from these principles would, as an incidental matter, pursue the objective of eliminating deadweight loss.

Maximization of net value in all matters requires balancing creation of value and minimization of costs. Trademarks are tools by which competitors provide identificatory information to consumers, thereby reducing the consumer’s cost of making purchases. A trademark’s capacity to transmit material messages is the source of its value. A trademark or product design is a non-physical resource that is not scarce. Legal rules should create artificial scarcity of such symbols insofar as exclusive rights to use them facilitate exchanges that create and maximize cooperative surplus more cheaply than would occur under alternative rules.

The trademark that conveys material messages to consumers concerning the user’s goods or services or reputation is the manifestation of value that a competitor created. Consumers may make purchasing decisions on the basis of their prior experience with the mark or on the basis of

9 See HERBERT HOVENKAMP, THE ANTITRUST ENTERPRISE: PRINCIPLE AND EXECUTION 20 (2005) (firm will spend substantial sums to obtain monopoly); cf. FTC v. Actavis, Inc., 570 U.S. ___, 133 S. Ct. 2223 (2013) (pharmaceutical patentee’s agreement to make payment to generic producers in exchange for promise not to bring generic product to market for specified number of years and to refrain from challenging validity of patent not beyond scope of antitrust laws).


11 See generally SCHERER, supra note 7, at 16-20 (stating principles of consumer and producer surplus; tentative claim that competition maximizes value by maximizing consumer surplus).
the reputation of the mark. So long as a second or subsequent user is not put to greater expense than the first user incurred to give a trademark value, law should not permit others to use the same mark with respect to their products to confuse the message that the trademark imparts lest a consumer makes an unintended purchase. In its most damaging form, concurrent use on apparently identical competitive products or services – i.e., the counterfeit – surely impairs a trademark’s information-transmission function and diminishes social wealth. Law does not condone such infringing use and so treats the mark to the extent necessary to prevent such loss as a scarce resource subject to exclusive ownership. On the other hand concurrent use – whether identificatory, functional, or descriptive – on different products or services may enhance competition in different product or service markets and provide greater social value than use by one competitor alone. There are benefits and costs to treating use of trademarks as a scarce resource. The opportunity cost of adopting a particular rule includes the benefit forgone by not adopting an alternative.

The inclination of those who have given identificatory meaning to marks is to regard them as physical property: their right to make exclusive use of a mark for some purposes necessarily precludes any use by another. Expansive notions of confusion and dilution arguably – and only arguably – provide support for their views. Such expansiveness requires that competitors regard their customers as fools who need protection from any possibility of confusion (deception) – no matter how trivial. They have created a foolish “straw man” for whom they ostensibly seek protection from injurious confusion that their competitors might cause. Their enforcement efforts have little to do with protecting consumers and more to do with establishing two different

12 See William P. Kratzke, Normative Economic Analysis of Trademark Law, 21 MEM. ST. L. REV. 199, 226 (1991) (competitor presumptively as capable as another competitor “should be able to create . . . a trademark that conveys the same information about a product as another trademark already conveys about the products it names”).

13 See William M. Landis & Richard A. Posner, The Economic Structure of Intellectual Property Law 172 (2003) (“If A develops a strong trademark for his brand that other firms are free to affix to their own brands which compete with A’s, the information capital embodied in A’s trademark will soon be destroyed.”).
property rights, herein “trademark as product” and “product as trademark.” Successfully gaining an exclusive claim to “trademark as product” or “product as trademark” is, herein, the propertization of trademark. Lack of clarity\(^\text{14}\) with respect to the outer boundaries of confusion and dilution perpetuate expansive claims of “property” in marks. Competitors who might dispute such views often accede to them because the expensive game of contesting them is not worth the candle. Unfortunately, on a societal level, the game is very much worth the candle, but de facto, the uncontested view of those with strong marks becomes the default rule.

Two areas are the subject of this Article. First is “trademark as product.” Trademarks are recognized as products in cases of so-called merchandising rights and status marks. Law should treat such marks as generic products that any competitor may sell. Second is “product as trademark.” Product design trade dress may perform an identificatory function, but presumptively it does not. Trademark law should regard products whose design does not provide identificatory information or which is functional as freely copiable.

Legal rules governing ownership of trademarks effectuate a certain distribution of wealth among competitors and consumers. Some norm should guide creation of rules that would affect that distribution. This Article adopts a modification of Oliver Wendell Holmes’s norm of tort law: “As between [competitors,] . . . [the state’s] cumbrous and expensive machinery ought not to be set in motion unless some clear benefit is to be derived from disturbing the status quo. State interference is an evil, where it cannot be shown to be a good.”\(^\text{15}\) If use of particular trademarks or trade dress is open to all, i.e., not legally recognized as one competitor’s exclusive property, the redistribution resulting from adoption of a particular rule must be better than the one that

\(^{14}\) See Alexander Dworkowitz, Ending Dilution Doublespeak: Reviving the Concept of Economic Harm in the Dilution Action, 20 TEXAS INTELL. PROP. L.J. 25, 30-31 (2011) (vagueness of dilution norm results from concern about economic harm, which rarely occurs in dilution cases; owners of strong marks prefer dilution remain vague concept).

\(^{15}\) Oliver Wendell Holmes, The Common Law 88 (2009 ed., originally published in 1881). In the original, Justice Holmes wrote “[a]s between individuals . . .”
prevails when there is such open, competitive use. Neutral redistributions that neither accomplish good nor bad do not justify any redistribution. “Good” here is the maximization of cooperative surplus. Such maximization requires conditions – and so rules that create those conditions – that move price to marginal cost. Intervention for some other purpose accomplishes no affirmative good and so occasions harm. The FTC’s experience with consumer deception demonstrated this.

III. THE FEDERAL TRADE COMMISSION AND THE PROTECTION OF FOOLS FROM DECEPTION

A. Unfair Methods of Competition in the Supreme Court

Congress enacted the Federal Trade Commission Act in 1914,16 at a time of rapid industrialization and the emergence of mass marketing. The Act created the Federal Trade Commission (§ 1) (FTC) and proscribed “unfair methods of competition” (§ 5). Congress’s purpose was to remedy perceived shortcomings of the Sherman Act in controlling combinations and monopolies.17 An administrative agency whose pronouncements were not self-enforcing would stand between businesses and the courts to define prospectively the competitive practices in which businesses could not freely engage.18 This administrative approach would be superior to courts’ ex post and ad hoc application of a “rule of reason.”19 Because § 5 proscribed only “unfair methods of competition,” the basis of its application to any business practice was the harm it caused to competitors – not consumer deception. Nevertheless, the Commission’s first


17 See 6 Earl W. Kintner & William P. Kratzke, Federal Antitrust Law § 43.6 (1986) [hereinafter Kintner & Kratzke].

18 See id.

19 See Standard Oil Co. v. United States, 221 U.S. 1, 60 (1911).
two orders involved advertising that might deceive consumers. This apparent broadening of the Act’s scope did not go unchallenged. The leading case establishing that false claims about one’s products might cause competitive harm was FTC v. Winsted Hosiery Co.

Winsted Hosiery sold underwear under brands or packed in cartons that stated or implied that the underwear was made from wool. Some of the underwear had very little wool, and none was “all wool.” The Supreme Court upheld the FTC’s authority to issue an order requiring Winsted to cease using such terms unless accompanied by word(s) indicating that the underwear was made from materials other than wool. The Court noted that “[t]he Winsted Company’s product . . . is . . . sold in competition with . . . all wool underwear, and [in competition with] cotton and wool underwear.”

The . . . practice constitutes an unfair method of competition as against manufacturers of all wool knit underwear and as against those manufacturers of mixed wool and cotton underwear who brand their product truthfully. For when misbranded goods attract customers by means of the fraud which they perpetrate, trade is diverted from the producer of truthfully marked goods. . . .

. . . [S]ince the business of [Winsted’s] trade rivals who marked their goods truthfully was necessarily affected by that practice, the Commission was justified in its conclusion that the practice constituted an unfair method of competition. . . .


21 258 U.S. 483 (1922).

22 Id. at 492.

23 Id. at 493-94.
False or deceptive claims injure competitors by *diverting trade* from them. Without trade diversion, competitors suffer no injury. Protecting consumers from deception does not justify agency intervention in a market if such deception causes no injury to a competitor. At least, this was once the view of the Supreme Court.

In *FTC v. Raladam Co.*, the FTC issued an order against the manufacturer of a preparation for internal use that it falsely advertised as an “obesity cure” that persons could take safely and “without discomfort, inconvenience, or danger of harmful results to health.” The manufacturer had no competitors for such a product. The Supreme Court affirmed the Sixth Circuit’s refusal to issue an order of enforcement. Without competition, there cannot be an “unfair method of competition.” “Unfair trade methods are not *per se* unfair methods of competition. . . . [T]he trader whose methods are assailed as unfair must have present or potential rivals in trade whose business will be, or is likely to be, lessened or otherwise injured.” Deception of consumers does not prove injury to competition. The presence of a consumer interest is not a sufficient basis for conduct to constitute an unfair method of competition. Rather, there must be specific injury to a competitor.

Three years later, the Court upheld a Commission order against many sellers of lumber made from ponderosa pine who had named their product “California White Pine.” Their product was inferior to genuine white pine in many respects. In *FTC v. Algoma Lumber Co.* the Court observed that such widespread misrepresentation diverted trade both from dealers in genuine

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24 283 U.S. 643 (1931).

25 *Id.* at 645.

26 *Id.* at 649 (emphasis in original).

27 *Id.* at 652-54 (FTC may not assume existence of competition).

28 291 U.S. 67 (1934).
white pine and from honest dealers in ponderosa pine. And even though consumers may have received a good product at a cheaper price,

[t]he consumer is prejudiced if, upon giving an order for one thing, he is supplied with something else. . . . Nor is the prejudice only to the consumer. Dealers and manufacturers are prejudiced when orders that would have come to them if the lumber had been rightly named are diverted to others whose methods are less scrupulous.

The Court elevated the importance of consumer deception over what it was in Raladam. Nevertheless, diversion of trade remained the basis of FTC jurisdiction. However, the Court also identified harm to competitors without focus on actual trade diversion:

[T]here is a kind of fraud, as courts of equity have long perceived, in clinging to a benefit which is the product of misrepresentation . . . [N]o matter what [the] motives of [respondents] may have been when they began [using the phrase “California White Pine,”] [t]hey must extricate themselves from it by purging their business methods of a capacity to deceive.

Mere profit from a misrepresentation presumably constitutes proof of having engaged in an “unfair method of competition.” This hardly follows from Raladam. The Court sub silentio had lowered the threshold of proving harm to competition and increased the level of protection to which consumers were entitled. Implicitly, making a statement with a “capacity to deceive” was sufficient for the FTC to conclude that making the representation was itself an “unfair method of competition.”

29 Id. at 72.

30 Id. at 78 (citations omitted).

The Supreme Court’s early caution in construing “unfair methods of competition” under the FTC Act no doubt reflected its consideration of the common law of unfair competition as it existed at the time. Common law unfair competition focused on *actual diversion* of trade *from the plaintiff* that defendant’s practices, e.g., deception, *caused*, not protection of consumers from deception.\(^{32}\) Retention of profit (i.e., unjust enrichment) derived from misrepresentation itself became an unfair method of competition (“a kind of fraud”). Surely retention of profits that a competitor obtains through an unfair method of competition alters the relationship among competitors – as those who can build a “war chest” have greater staying power than those who cannot.

The movement of the Court in these three cases reflected need for greater protection of consumers when mass marketing and national advertising made possible deception of consumers on a large scale. It is possible to overdo such protection. The absence of trade diversion makes agency over-reach more likely.

**B. Congress, the FTC, and the Lower Courts React**

The “tendency and capacity to deceive” standard of deception emerged in some opinions of federal appellate courts that reviewed FTC cease-and-desist orders concerning unfair methods of competition.\(^{33}\) This standard gave reviewing courts flexibility to establish an appropriate relation


\(^{33}\) See FTC v. Hires Turner Glass Co., 81 F.2d 362, 364 (3d Cir. 1935) (mirrors falsely described as “copper-backed;” no actual deception; descriptive names have “tendency and capacity to deceive;”); cf. Marietta Mfg. Co. v. FTC, 50 F.2d 641, 642 (7th Cir. 1931) (upholding FTC finding that product not made from natural marble described as “Sani-Onyx, a Vitreous Marble” has “tendency and capacity to deceive purchasers” to believe product is onyx or marble).
between competitors, and absent trade diversion, they did not always uphold FTC findings that implying a falsehood was an unfair method of competition. 34 However, in response to the holding in Raladam, Congress enacted the Wheeler-Lea Amendments to the Federal Trade Commission Act in 1938, which extended § 5’s proscriptions to “unfair or deceptive acts or practices.” 35 No longer would it be necessary for the FTC to show that a deceptive statement harmed a competitor; mere deception of consumers was enough. An incipient problem was that “deception” was ill-defined. The fact that enforcement was left to the FTC and reviewing courts rather than to private competitors might have provided the FTC the opportunity to define “deception” in a manner such that enforcement of FTC orders increased cooperative surplus and consumer capture of it.

Instead reviewing courts invited the FTC to make the “capacity to deceive” standard open-ended. A putatively dupable Biblical fool who might suffer loss from deception helped move court review of FTC determinations to broad deferral to FTC discretion to find deception everywhere, a discretionary power that the FTC had not previously sought. This misguided effectuation of the transition from the original FTC Act to the Wheeler-Lea Amendments surfaced in General Motors Corp. v. FTC. 36 General Motors Acceptance Corporation (GMAC) financed the retail sale of GM automobiles and announced a “6%” plan. A purchaser could easily compute the annual financing cost for purchasing an automobile, i.e., multiply the loan amount plus insurance by 6%. The multiplier was not a declining balance, but rather the original amount borrowed. The annual interest rate that a consumer actually paid on a declining balance was approximately

34 See Allen B. Wrisley Co. v. FTC, 113 F.2d 437, 442 (7th Cir. 1940) (pre-Wheeler-Lea complaint; misrepresentation that oil in soap 100% olive oil diverts trade from makers of soap made from 100% olive oil, but not prejudicial to makers of general purpose soap because no trade diverted from them); Sheffield Silver Co. v. FTC, 98 F.2d 676, 678 (2d Cir. 1938) (buyers of antique museum pieces will not mistake for authentic Sheffield petitioner’s low-priced wares bearing symbols indicating they are electroplated, merely because manufacturer calls itself “the Sheffield Silver Company;” no evidence of advantage over competitors; order vacated).

35 Act of March 21, 1938, ch. 49, § 3, 52 Stat. 111.

36 114 F.2d 33 (2d Cir. 1940), cert. denied, 312 U.S. 682 (1941) (Hand, A., Circuit J.).
11½%. The FTC found GM’s “6% plan” to be an unfair method of competition that had injured competitors.\(^37\)

On review, the United States Court of Appeals for the Second Circuit erroneously treated the case as one to which the Wheeler-Lea Amendments applied. The court noted that the FTC determined that the relevant advertisements had “the tendency and capacity to mislead and deceive, and have misled and deceived, a substantial part of the purchasing public into the erroneous and mistaken belief that the . . . “6%” . . . finance plan . . . contemplates a simple interest charge of 6% per annum upon the deferred and unpaid balance. . . .”\(^38\) The “tendency and capacity to deceive” standard governed interpretation of the Amendments, even though the source of that standard was the Supreme Court’s gloss on “unfair methods of competition.” The court found that the ignorant would not find it easy to make those distinctions nor would the careless make them.\(^39\) Competitors adopted similar plans. The court could have upheld the FTC’s order on reasoning similar to the Supreme Court’s reasoning in *Algoma Lumber*: deception diverted trade from honest dealers and enabled respondent to retain profits and compete more effectively in the future.

Instead, the court grounded its deferral on the FTC’s broad discretion to issue an order in a case involving consumer deception. GMAC’s practices deceived even fairly sophisticated consumers. A number of actual car buyers had been deceived. Unfortunately, the court continued:

> It may be that there was no intention to mislead and that only the careless or the incompetent could be misled. But if the Commission, having discretion to deal with

\(^37\) 30 F.T.C. 34, 47 (1939) (complaint filed November 30, 1936, 1½ years prior to passage of Wheeler-Lea Amendments).

\(^38\) 114 F.2d at 35.

\(^39\) Id. at 36. Without characterizing a witness as ignorant, the court noted that the inability of one witness to make the calculation demonstrated that the ignorant would not find the calculations easy.
these matters, thinks it best to insist upon a form of advertising clear enough so that, in
the words of the prophet Isaiah, “wayfaring men, though fools, shall not err therein,” it is
not for the courts to revise their [sic] judgment. 40

This was dictum. Actual deception of actual car buyers – the target of the representation – had
occurred. Actual diversion had occurred. The misrepresentation was therefore material. The
court could have focused on the likelihood that the representation would have deceived car
buyers rather than the ignorant, the careless, or fools. The court relied on its inaccurate reading
of Isaiah 35:8 to justify giving the Commission far more authority than it had actually exercised
or needed 41 to exercise to issue a cease and desist order. 42

The leading case in this area pre-1984 was Charles of the Ritz Distributors Corp. v. FTC. 43 The
FTC issued its order under the Wheeler-Lea Amendments. 44 Petitioner produced “Charles of the
Ritz Rejuvenescence Cream.” Its advertising, in the view of the FTC, implied that the cream
would rejuvenate and restore aging skin. Experts testified that there was “nothing known to

40 Id. at 36.

41 For similar overstatements of FTC’s need for broad discretion, see Aronberg v. FTC, 132 F.2d 165, 167 (7th Cir. 1942) (§ 12 case; medicinal preparations provide “relief,” not “remedy,” for delayed menstruation; statements in advertisements “deceptive and calculated to be deceiving;” authority of prophet Isaiah invoked); see also Stanley Labs. v. FTC, 138 F.2d 388, 393 (9th Cir. 1943) (“M.D. powder” implying endorsement by medical profession; quoting Aronberg).

42 See Heavenly Creations, Inc. v. FTC, 339 F.2d 7, 9 (2d Cir.), cert. denied, 380 U.S. 955 (1965) (fictitious pre-ticketing of prices); Stauffer Labs., Inc. v. FTC, 343 F.2d 75, 83 (9th Cir. 1965) (lying across oscillating middle section of couch would constitute effortless exercise in weight-loss program); cf. Feil v. FTC, 285 F.2d 879, 898 n.6 (9th Cir. 1960) (unqualified representation that device cures bed-wetting; deceptive because no benefit in cases of bed-wetting caused by organic defects).

43 143 F.2d 676 (2d Cir. 1944) (Hand, A., Circuit J.).

medical science which could bring about such results." There was no consumer testimony of actual deception. The court rejected petitioner’s argument that there could be no deception since no “straight-thinking person could believe that its cream would actually rejuvenate[.]”

While the wise and the worldly may well realize the falsity of any representations that the present product can roll back the years, there remains “that vast multitude” of others who, like Ponce de Leon, still seek a perpetual fountain of youth. As the Commission’s expert further testified, the average woman, conditioned by talk in magazines and over the radio of “vitamins, hormones, and God know what,” might take “rejuvenescence” to mean that this “is one of the modern miracles” and is “something which would actually cause her youth to be restored.” It is for this reason that the Commission may “insist upon the most literal truthfulness” in advertisements, and should have the discretion, undisturbed by the courts, to insist if it chooses “upon a form of advertising clear enough so that, in the words of the prophet Isaiah, ‘wayfaring men, though fools, shall not err therein.’”

The FTC based its finding of deception on what one doctor believed an “average woman” “might” construe a claim that a cream rejuvenates and restores aging skin to mean. It seems that the FTC really had undertaken to protect hypothetical fools, irrespective of the possibility that there was a vast multitude of women who would have a fairly accurate idea of what to expect of a rejuvenescence cream and that there was little or no likelihood that they – the target of the claims – would be deceived. Moreover, the petitioner’s product, with all the shortcomings identified by a doctor, was exactly the one they wanted to purchase. However, eloquence is not always wisdom. The Wheeler-Lea Amendments assured that there was no need to find any injury to competitors. Likely, there was little or no injury to anyone.

45 143 F.2d at 678.
46 Id. at 679.
47 Id. at 680.
Only three years later, what might have been discretion, overstatement, and eloquence had become law. In *Gulf Oil Corporation v. FTC*, Gulf Oil advertised through testimonials that its insecticide was cheaper to use on cows, that one application would last all day, and that use of its product correlated with increased milk production. The FTC found such ads to be misleading insofar as they promised that the product would provide all-day protection, would bring about an increase in milk production, or would make cows healthy. Any increase in milk production resulted from the fact that pest-free cows are more contented than ones that are not and that contented cows produce more milk than those that are not. The insecticide would not itself increase milk production. The Commission drew its witnesses from the general public, although some of the witnesses were dairy farmers. This was sufficient. The court’s concern was the entire public – not merely farmers. The court held that “[t]he testimony of witnesses drawn from the general public of impressions made upon their minds upon reading the advertisements was admissible.” The court stated: “Advertisements having a capacity to deceive may be prohibited. ‘The law is not made for the protection of experts, but for the public – that vast multitude which includes the ignorant, the unthinking and the credulous, who, in making purchases do not stop to analyze, but are governed by appearances and general impression.’” The court invoked the authority of the prophet Isaiah by quoting from *Charles of the Ritz*.

The advertisements here may or may not have been likely to deceive dairy farmers – presumably the target of such claims – with respect to the capabilities of Gulf’s products. Such targets were

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48 150 F.2d 106 (5th Cir. 1945).

49 Id. at 109 n.6.

50 Id. at 109.

51 Id. at 108.

52 Id.

53 Id. at 109 (footnote and citations omitted).
themselves engaged in commercial activity and so probably more attuned to the nuances of meaning of such claims; they certainly would not have been “ignorant,” “unthinking,” and “credulous.” The court’s holding “protects” far more than such targets. It “protects” those who do not care about respondent’s claims or products because they will never have occasion to purchase them or the products of a competitor.

The phrase “tendency and capacity to deceive” had become “capacity to deceive.” Any statement has the capacity to deceive someone. Moreover, the Commission could speculate on how someone might be deceived, and this constituted proof. The identity and characteristics of the one deceived were irrelevant – to the point that the person had no interest whatsoever in the product. The deceptive capacity turned on an inquiry into the minds of hypothetical fools. Under this standard, the FTC could, if it wished, determine all advertising to be unlawfully deceptive. This should cause the conscientious advertiser to refrain from making any claims. Far from doing affirmative good through its intervention, the FTC stifled the flow of useful information. By protecting reviewing courts’ conception of Biblical fools from deception, the FTC can harm the only persons for whom claims might actually be material. By stifling the flow of material information, the FTC reduced the amount of cooperative surplus that could have flowed from transactions between competitors and consumers. Application of the “capacity to deceive” standard of deception – also known as the “fools test” – caused courts to forgo affirmative good, and that is hardly costless.

C. The FTC Retreats

The FTC’s protection of the most gullible and credulous of consumers through application of the “capacity to deceive” standard eventually provoked political dissatisfaction with the agency. The speculation of witnesses who were not the targets of advertisements could be the foundation of cease and desist orders – violation of which can carry stiff civil penalties. The “capacity to deceive” standard choked off useful information from consumers. This was not good for
competition, competitors, or consumers. By the early 1980s, congressional concern with “over regulation” led the Commission to reformulate its standard of deception.

The FTC enunciated a new deception standard in a letter to Congressman Dingell and then adopted that standard in *Cliffdale Associates*. The Commission announced that there “are” three elements of deception: “(1) a misrepresentation, omission, or practice likely to mislead consumers; (2) a reasonable interpretation by consumers under the circumstances; and (3) materiality of the misrepresentation, practice, or omission, i.e., likely to affect consumer conduct or choice concerning the product.” The new standard created a new threshold of deception, and as an incidental matter, raised the burden of proof in a deception case.

The new standard provides a much better balance among all of the relevant interests in a deception case. No longer could a witness’s speculation on how a fool might construe informative advertising be controlling. A claim is false or deceptive only if a reasonable consumer is likely to construe it to mean something that is false. The misrepresentation or

54 See 7 KINTNER & KRATZKE, supra note 17, at § 49.11 (FTC empowered to protect fools, but does most good when it protects target audience of claim).

55 See id., § 49.12 (recounting correspondence between House Committee of Energy and Commerce and FTC in early 1980s).


57 The FTC did not acknowledge that it was adopting a new standard. Rather it claimed that this standard of deception was the standard all along. It was merely called the “tendency and capacity to deceive” standard. 103 F.T.C. at 165.

58 7 KINTNER & KRATZKE, supra note 17, at § 49.12 (recounting history of FTC movement to new standard).

59 See id. (FTC description of “tendency or capacity to deceive” standard as “one which provides no guidance for analysis of a case based on deception”).

60 Id. at § 49.14 (FTC may not hold advertiser to outlandish interpretation of ad, e.g., “Danish pastry” made in Denmark, permanent hair coloring colors hair not yet grown).
omission must be material, i.e., “likely to distort the ultimate exercise of consumer choice.”61 A claim cannot be material to a person with no interest in the product. A representation likely to affect consumer choice will affect competitors – for alteration of consumer choice is the sine qua non of trade diversion. The competitive injury of trade diversion (or consumer withholding of trade) that results from deception is the mirror image of consumer harm. It is, therefore, the injury that legal intervention should ameliorate – not the hypothetical injury of hypothetical fools.

The FTC no longer undertakes to speculate on what a fool might believe and then to protect such a hypothetical person. The result, presumably, is a marketplace where more actual purchasers receive more information about purchasing choices available to them. Protection of consumers from deception no longer takes the form of choking off information useful to them. Transactions based on more and better information increase cooperative surplus and consumers’ capture of it. FTC orders more assuredly do affirmative good than they did when the FTC undertook to protect fools.

IV. THE WORDS OF THE PROPHET IN CONTEXT62

The courts who used the words of the prophet Isaiah to justify a threshold of deception so low that the FTC could find any representation to be deceptive badly misread the passage. We63 employ the historical and textual methods of Biblical interpretation to elucidate Isaiah’s reference to the “highway.” This renders the meaning of “fool” in context clear. The point of this passage is that even a fool – as specifically defined – cannot avoid Divine redemption. That definition

61 Id. at § 49.15 (footnote omitted).
62 I wish to thank my research assistant, Jay C. Clifton III (B.A., Fisk University, 2006; M. Div., Vanderbilt University, 2009; J.D., University of Memphis, 2013) for providing me an initial draft of this section.
63 Id.
does not encompass a credulous marketplace fool.

A. Historical Analysis

Historical analysis requires the reader to unearth Biblical/theological meaning by grounding scripture in its historical context. Israelite history supplies the reader theological lenses through which to view the Book of Isaiah. Since their exodus from Egypt, the Israelite nations\textsuperscript{64} enjoyed cohabiting in one place.\textsuperscript{65} Two historic tragedies influenced Hebrew thought. First, the Assyrian empire captured the Northern Kingdom of Israel in 721 B.C.E. under the leadership of Kings Shalmaneser and Sargon II. The Assyrian conquest began a purging process that exiled Israelites from their homeland and from one another. Second, the Babylonians under the leadership of King Nebuchadnezzar captured the Jews in the Southern Kingdom in 586 B.C.E. These two cataclysmic, world-altering events birthed what scholars call the Exilic and Post-Exilic eras. The Exilic period is the time when the Israelites were in captivity; the post-Exilic period is the time after 586 B.C.E. The Israelites remained in exile until the second century B.C.E.

Israel lost the Temple in the Babylonian defeat. The Temple\textsuperscript{66} was Israel’s central place of worship. Hebrews from both the Northern and Southern Kingdoms frequently made pilgrimages to the Temple for worship and there received Divine communications. In essence, to visit the Temple was tantamount to experiencing God. Ergo, losing the Temple was equivalent to losing communication with God.

The Hebrews, God’s chosen people, sought to rationalize their capture and exile from a land to which God had led them. To the Biblical writer, an explanation existed somewhere. Consequently, some books of the Bible are Exilic writings, e.g., Genesis, Exodus, and others are

\textsuperscript{64} We use the terms Jews and Israelites interchangeably.

\textsuperscript{65} There were ten tribes in the North and two in the South.

\textsuperscript{66} A description of the Temple is at Exodus 25 and 26.
Post-Exilic writings, e.g., Nehemiah, Malachi, and of course all of the New Testament books. Some books suggest the displacement was Divine retribution for Jewish apostasy. Others blame the neighboring communities of Assyrians and Babylonians. Regardless of the diverse Biblical discourse, one consistent theme remained: the Israelites will one day return to their homeland. God will reconcile God-self to His chosen people. This context sets the stage for the prophet Isaiah, a Post-Exilic sage, writing around 539 B.C.E. 67 This is important because it reveals Isaiah’s audience and the controversy Jews sought so desperately to resolve.

B. Textual Analysis

The textual method requires the reader to extract a Biblical/theological meaning through a literal reading of text. This method isolates and dissects the words of Biblical text and gives them contemporary meaning. Isaiah 35:1-10 is the second half of a two-part poem that begins in Isaiah 34. Isaiah 34 begins the poem series depicting Divine anger and retribution. The beginning of the chapter (34:1) commands everyone to “[c]ome near . . . to hear” – and announces a nation’s destruction. God carries out the destruction: “[t]he indignation of the Lord is upon all nations, and his fury upon all their armies; he hath utterly destroyed them, he hath delivered them to the slaughter.” (34:2) The passage does not identify which nations suffer this fate or why, but Isaiah 34 later records “The sword of the Lord is filled with blood; it is made fat with fatness, and with the blood of lambs and goats, with the fat of the kidneys of rams: for the Lord hath a sacrifice in Bozrah, and a great slaughter in the land of Idumea.” 68 (34:6). The text specifically names Edom (Idumea) as the recipient of God’s wrath. One dominant view postulates that Edom is singled out because it was a neighbor to Israel (Judah) during the Post-Exilic period, and the Edomites took advantage of Judah during the Babylonian exile.

67 Actually, most commentators believe that two people wrote the Book of Isaiah at two different times. However, common consensus is that both of these writers were post-exilic writers.

68 Idumea = Edom.
There is a stark contrast between the first poem (Isaiah 34) and the second (Isaiah 35). In chapter 34, Edom reverts to a wasteland through which no one passes.\textsuperscript{69} Conversely, Isaiah 35 declares that waters shall “break out, and streams in the desert. And the parched ground shall become a pool, and the thirsty land springs of water: in the habitation of dragons where each lay, shall be grass, with reeds and rushes.” (35:6-7).

\textit{C. Isaiah 35:8}

In contrast to chapter 34, Isaiah 35 speaks of a new day, a new Zion. The poem itself closely resembles a salvific prophetic announcement. Chapter 35 begins by stating that the wilderness, the dry land, and the desert shall rejoice. (35:1). The writer is certain that God will fully restore the nation of Israel to its prominent and privileged position. God will “[s]trengthen ye the weak hands, and confirm feeble knees.” (35:3). Isaiah 35:8’s “highway” opens the door for all exiled Jews to return and be counted among God’s chosen people. \textit{When Isaiah 35:8 speaks of “fools,” the prophet means every Jew displaced in the Assyrian and Babylonian onslaught, not the ignorant, unthinking, or credulous.} Specifically, the “highway” paves the way for the ritually unclean, the illiterate, and the religious outcast – all people of Jewish descent exiled in either 721 or 586 B.C.E.

The first group of “fools” for whom the “highway” makes a straight path is the ritually and morally unclean. One plausible meaning of the term “fool” in Isaiah 35 is a perverse or unclean people. In ancient Israelite culture, there were two types of purity: ritual and moral. Ritual purity concerned a person’s compliance with certain ceremonial rules that continuously purified a person and kept him in a relationship with God. For example, if a priest did not use lamb’s blood to sacrifice for the sins of the people, he would be marked as ceremonially/ritually unclean. He

\textsuperscript{69} “And the streams thereof shall be turned into pitch, and the dust thereof into brimstone, and the land thereof shall become burning pitch. It shall not be quenched night nor day; the smoke thereof shall go up for ever: from generation to generation it shall lie waste; none shall pass through it for ever and ever.” (34:9-10).
had done nothing “morally wrong” because his only sin was the failure to follow certain prescribed rules. However, his behavior was outside God’s will and therefore unholy/unclean. The second type of purity was moral purity. This type of purity better aligns with current society’s concept of morality. In ancient Israel, moral purity’s litmus test involved whether another person was physically harmed, such as by murder or rape (e.g., The Ten Commandments). Both spiritual and moral uncleanliness displeased God. Thus, textually speaking, neither the ritually nor morally unclean were allowed on the Holy Way. This is where the two significant post-exilic events became very relevant because the Jews could not worship God without the Temple. The Temple’s destruction made it impossible for Jews to worship, inevitably making them ritually unclean. Without a Temple, or even a homeland in which to rebuild one, the Jews could not communicate with God who would instruct them how to live. The “highway” will not be for the unclean, but “redemption” can transform the exiled into ritual and moral purity. Thus, Isaiah 35:9 speaks, “but the redeemed shall walk there.” Even the most unclean in the nation of Israel cannot go astray on the highway God will pave.

Secondly, roughly 80% of the Israelite population could not read or write. This highway’s expansive and inclusive power will reach these illiterate “fools.” They too will pass over the highway that God will provide.

Lastly, Jewish idolaters will travel over the highway. While in exile, many of the Jews assimilated into the local populations, like many prisoners in foreign lands. Assimilation meant that the Israelites worshiped the gods of the peoples who captured them. Those captured in the Northern Kingdom began to worship Assyrian gods, and those whom Nebuchadnezzar captured praised the Babylonian gods. Even such “fools” who have lost their “way” will travel this highway and be safe, for “[n]o lion . . . nor any ravenous beast shall go up thereon. . . .” (35:9).

The redeemed and ransomed of the Lord (35:10) through the Lord’s intervention will be free, irrespective of their purity, education, or idolatry. Regardless of the type of “fool” they were (note that the word is in plural form which suggests that there was more than one type), this
highway allows those once held captive to “obtain joy and gladness.”  (35:10). The words of Isaiah 35:8 assure that it will be impossible for those who are called to be led astray.  

The “fool” of which Isaiah wrote is not a gullible person more easily duped and parted from his money than most others, but rather one in need of redemption. The highway assures that they will receive it. Nevertheless, a superficial reading of Isaiah 35:8 – including undue attention to the word “fools” – made the passage authority for undertaking to protect a very different type of fool, i.e., the unthinking and credulous. Courts may have dropped the Biblical reference from their opinions, but they still endeavor to protect the hypothetical fool. In so doing, they perversely injure the fools themselves.

V. THE PROPHET AS BRANDER: COMPETITIVE IMPLICATIONS OF “PROTECTING” FOOLS

A. The Branders’ First Principles (and Comment)

The brander, as this Article uses the term, is one who seeks ever greater propertization of a trademark. Branders equate their capture of as much cooperative surplus as possible with maximization of social value. When instituting and threatening to institute legal actions against anyone who might confuse the message they wish to convey concerning the scope of their “property,” the myriad forms of confusion that they identify serves as pretext to justify their desired allocation (i.e., capture) of cooperative surplus.

The branders are mistaken. Maximization of net social value results from maximizing the amount of cooperative surplus that sales of a product generate, which as an incidental matter, leads to maximization of consumer surplus. Adoption of any legal rule should create more value than costs, and costs include forgone value.\footnote{Cf. Michael Grynberg, Trademark Litigation as Consumer Conflict, 83 N.Y.U. L. Rev. 60 (2008) [hereinafter Grynberg] (trademark litigation ignores interests of non-confused consumers; their interests inadequately represented in trademark litigation).} The branders want to appropriate at least some
consumer surplus for themselves. Rather than seek rules that minimize consumers’ costs of error incurred through trade diversion, they seek rules that deny choices by which consumers could increase their share of cooperative surplus. The propertization rules that the branders seek fail to accomplish affirmative good.

B. Trademark’s Value-Increasing Role in Competition and the Brander’s View of It

1. Information and Identification

Legal protection of trademarks that provide identificatory information to consumers should decrease the net cost of transactions. Concurrent use of a trademark by a second user might cause confusion about material matters that increases the cost of transactions. However, not all concurrent use increases the cost of transactions, and some concurrent use creates additional value. Moreover, not all confusion increases the cost of transactions, i.e., confusion about immaterial or trivial matters. Protecting consumers against confusion of immaterial or trivial matters can (unacceptably) elevate the importance of seller capture of cooperative surplus over maximization and consumer capture of cooperative surplus.

Branders with strong trademarks seek legal rules that enable them to maximize the amount of cooperative surplus they capture – at the cost of consumers’ capture of such cooperative surplus. For them, a trademark is not a communicative tool, but property that they own. They invoke the word “property” and argue that any use or reference to their mark that they do not control should be actionable. Propertization of marks creates market power and reduces cooperative surplus.

In order to expand their protectable interests beyond identifying their products and distinguishing

71 Professor Desai provides an interesting critique of the academic view of trademarks that focuses on trademarks as identifiers only of specific products. Deven R. Desai, From Trademarks to Brands, 64 FLA. L. REV. 981, 994, 998 (2012) (company rather than product is the brand; company builds its brand around its reputation, not around products).
them from others, trademark owners assert rights that our legal system should not recognize.\textsuperscript{72} There should be no legitimate ownership interest in affiliations or affinities consumers may wish to exhibit and express, e.g., by wearing a shirt with the name of a football team on it. There should be no legitimate ownership interest in consumers’ exhibitions of class or status. There is (or should be) no ownership interest in the non-confusing use of a mark to describe another’s product or to elicit interest in another’s product. There is no property in being first to create a fad or a fashion,\textsuperscript{73} e.g., high-heeled shoes with bright red soles.\textsuperscript{74} There is no property right founded upon inventing a product for which there is no patent or copyright, i.e., competitors have the right slavishly to copy another’s product\textsuperscript{75} – particularly product features that are functional.\textsuperscript{76} Because there is no “property,” the branders must identify some deception – the basis of unfair competition law\textsuperscript{77} – from which they protect consumers by suing (or threatening to sue) others.


\textsuperscript{73} See Cheney Bros. v. Doris Silk Co., 35 F.2d 279, 279-80 (2d Cir. 1929), \textit{cert. denied}, 281 U.S. 728 (1930) (Hand, L., Circuit J.) (denying relief to plaintiff whose unpatented, uncopyrighted silk patterns defendant copied).


\textsuperscript{75} See Kehoe Component Sales Inc. v. Best Lighting Prods., Inc., 796 F.3d 576, 589 (6th Cir. 2015) (sale of “cloned” exit and emergency lighting products for commercial buildings; “federal law encourages wholesale copying”).

\textsuperscript{76} See Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 237 (1964) (state law may not forbid others from copying article unprotected by patent or copyright); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231 (1964) (unpatentable article (pole lamp) in public domain; anyone may copy and sell product).

They turn to § 43(a)(1)\(^{78}\) (confusion) and § 43(c)\(^{79}\) (dilution) of the Lanham Act. As for “confusion,” there is unfortunately (for them) very little (meaningful) deception arising from the conduct of those who make non-informational, non-identificatory uses of a trademark. As for “dilution,” its prevalence is less significant than owners of famous marks claim. Dilution’s statutory basis is blurring or tarnishing a famous mark, not mere mental association. Owners of famous marks may believe that mental association and dilution are equivalent, but they are not.\(^{80}\)

Trademark owners are not at a loss. If their interests are not worthy of legal protection in a

\(\text{\footnotesize\textsuperscript{78} Section } 43(a)(1) \text{ provides:}\)

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which –

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

\(\text{\footnotesize\textsuperscript{79} Section } 43(c) \text{ provides in part:}\)

(c) Dilution by blurring; dilution by tarnishment

(1) Injunctive relief. Subject to the principles of equity, the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner’s mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

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\(\text{\footnotesize\textsuperscript{80} Cf. Starbuck’s Corp. v. Wolfe’s Borough Coffee, Inc., 736 F.3d 198, 213 (2d Cir. 2013) (variations of MR. CHARBUCKS not likely to dilute STARBUCKS by blurring).}\)
normal marketplace where legal rules promote allocative efficiency, then they must argue\(^{81}\) that the marketplace is not normal. If the law is against you, argue the facts. Change the facts.

Markets are not inhabited by consumers who know better than anyone what product they want or need and what is worth paying (more) for – but by credulous fools. The branders claim (merely) to prevent these straw men from erring. The branders protect fools (us) from deception that is trivial. They protect fools (us) from deception that is self-correcting. They bully others for their (our) benefit, endeavoring to privatize language and symbols, i.e., to redefine them so that any use that they do not control causes “confusion.”

The consumer in need of protection that branders have created is thoroughly dupable.\(^{82}\) Branders ignore the fact that there are differing incentives in various settings not to be such a fool.\(^{83}\) When information is immaterial, the class of persons who are “fools” with respect to it not surprisingly grows. The branders increase their vigilance to protect this class of consumer from the possibility that they might be wrong about something trivial. Congress and the courts – at the urging of trademark users – have expanded confusion doctrines to encompass such progressively more amorphous concepts as sponsorship, connection, affiliation, authorization, approval, or permission. There has proved to be no logical or obvious stopping point to matters over which “harmful” confusion can occur. The vague boundaries of these concepts has done much to “propertize” trademarks, as trademark owners dare anyone to challenge the appropriateness of “protecting” consumers from ever more immaterial deception. As confusion concerning what consumers regard as trivial or immaterial becomes actionable, confusion itself becomes

\(^{81}\) Recall the old litigation adage: When the facts are against you, argue the law; when the law is against you, argue the facts.

\(^{82}\) See Thomas R. Lee, Glenn L. Christensen, & Eric D. DeRosia, *Trademarks, Consumer Psychology, and the Sophisticated Consumer*, 57 EMORY L.J. 575, 575 (2008) (some classic judicial descriptions cast “ordinary consumer as ‘ignorant . . . unthinking and . . . credulous’ or ‘hasty, heedless and easily deceived.’”’ (footnotes omitted)).

\(^{83}\) See id. (arguing for “consumer behavior model” that takes account of consumers’ motivation and ability to engage in “cognitive effort” to avoid confusion in assessing consumer sophistication).
meaningless in delimiting competitors’ protectable interests. Courts have made confusion – and with it trade diversion – an empty concept by accepting a surrogate for its existence, i.e., mere non-identificatory copying of the mark.\textsuperscript{84} Instead of protecting the fool from confusion, the brander now takes advantage of the fool. If the brander can place the source of a tenuous concept of confusion in the Bible, it may implicitly make a stronger claim to legitimacy.

2. Trademark Embodies Reputation

When diversion of trade from plaintiff to defendant was an element of a cause of action for unfair competition, the law of unfair competition narrowly regulated the relationship among direct competitors, irrespective of the interests of consumers. A seller could not divert sales from another without the means to make those sales. However, use of a mark by a non-competitor may affect the reputation of the mark as reflective of goods or services of a particular quality and thereby affect consumers’ willingness to purchase the goods or services of the first user. That in turn affects the capacity and willingness of the trademark user and consumers to create and share cooperative surplus. Legal prevention of non-competing concurrent use can do affirmative good if sufficient probability exists that the second users’ use will affect the reputation of the first user’s mark. That occurs only when consumers assume that the same user is responsible for use on non-competing goods or services.

Consumers may recognize strong trademarks across markets, and this recognition is especially likely for fanciful marks.\textsuperscript{85} A consumer familiar with the fanciful mark AUNT JEMIMA for


\textsuperscript{85} See France Milling Co. v. Washburn-Crosby Co., 7 F.2d 304, 306 (2d Cir.), cert. denied, 268 U.S. 706 (1925) (“[i]f the name or mark be truly arbitrary, strange, and fanciful, it is more specially and peculiarly significant and suggestive of one man’s goods, than when it is frequently used by many and in many differing kinds of business”).
pancake flour will recognize the mark when it appears on a bottle of pancake syrup. A consumer might believe the same firm markets syrup, but if the maker of pancake flour does not market syrup, the basis of any claim that it has cannot be diversion of trade. Two interests come to mind. First, the senior user may wish to post the market where its mark has created an association for future entry. Second, the senior user may wish to protect the reputation of the mark and of any product on which the mark is used. The interests are related in that the usefulness of a mark in a market where the trademark owner does not compete depends upon its reputation in the market where it does compete. The existence of a reputation in a market where a competitor does not compete depends upon assumptions consumers make upon encountering a mark.

When consumers would make no assumptions concerning a mark’s reputation across markets, courts should not accord a user protection against another’s use in another market. To do so needlessly inhibits competition in that other market. Terms such as DELTA, UNITED, AMERICAN, or FRONTIER carry little identificatory meaning unless one is thinking of an airline – or a bank, a plumbing-supply company, etc. Such terms should be available for sellers in other markets to make identificatory or informational use of them. Without impairing any reputation or diverting any trade, this multiplies the cooperative surplus use of such terms can generate. On the other hand, consumers will make assumptions concerning a mark’s reputation upon encountering a fanciful term such as KODAK. They are less likely – but not implausibly – to make such assumptions concerning a mark’s reputation upon encountering an arbitrary term, e.g., APPLE. Still less likely are they to make such assumptions upon encountering a common

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86 See Aunt Jemima Mills Co. v. Rigney & Co., 247 F. 407, 410 (2d Cir. 1917), cert. denied, 245 U.S. 672 (1918) (“Obviously the public, or a large part of it, seeing this trade-mark on a syrup, would conclude that it was made by the complainant.”).

87 See Triangle Publ’ns, Inc. v. Rohrlich, 167 F.2d 969, 981 (2d Cir. 1948) (Frank, Circuit J., dissenting; court has recognized only these two interests when defendant used mark in “appurtenant field”).
surname, a descriptive term, or a generic term. When consumers do not assume that use of the same mark across markets implies the same origin, competitors should have no claim for trademark infringement. In the absence of such an assumption, consumers simply suffer no loss.

Protection of reputation by injunction protects against the possibility of injury. Judicial willingness to protect against a possibility of injury increases the likelihood that a trademark user will employ a lawsuit as a weapon of propertization, irrespective of the chances of actual victory. The brander can increase competitors’ costs by grounding claims in reputation. Even when plaintiff does not prevail, defendant loses the cost it incurs to refute the claim. Whether courts should protect the reputation of a trademark prospectively should depend both upon the inherent or actual strength of the mark and the probability that consumers would make any assumptions about its use in a second market. These factors are relevant to whether the ex ante weighted measure of injury (i.e., magnitude of harm multiplied by the probability of its occurrence) is sufficient to justify court intervention in a market. Only when that weighted measure of injury exceeds the value forgone through the second user’s use of the mark on non-competitive goods or services – perhaps not even in an informational or identificatory manner – should a court intervene to protect the mark’s reputation. Only then does protection of reputation do affirmative good. Protection of fools from myriad forms of irrelevant confusion hardly manifests such restraint. Overbroad protection of reputation becomes propertization.

C. Trademark as Product: Unmooring Infringement from Confusion

Those with strong trademarks have, with the help of sympathetic courts, been able to extract

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88 See S.C. Johnson & Son v. Johnson, 116 F.2d 427, 429-30 (2d Cir. 1940), appeal after remand, 175 F.2d 176 (2d Cir.), cert. denied, 338 U.S. 860 (1949) (Hand L., Circuit J.; first user’s use of JOHNSON on floor-wax and other preparations; second user’s use of JOHNSON on fabric cleaner and cleaner of glazed surfaces; “if a man allows the good will of his business to become identified with a surname so common as Johnson, it is fair to impose upon him some of the risk that another Johnson may wish to sell goods not very far afield;” injunction modified to allow second user to use name “Johnson”).
profits in markets where they do not compete. A consumer who wishes to show affinity toward a mark wants the mark as a product, not as an identifier of a particular species of a product. The trademark itself is a salable product. Those who claim exclusive “merchandising rights” believe that their success in one market, e.g., the sale of sporting competitions as entertainment, entitles them to a monopoly on the functional use of the mark on all manner of unrelated products whereby consumers can show their affinity, e.g., clothing. 89 This form of propertization of the mark is not grounded in confusion or reputation. Legal recognition of an entitlement to “trademark as product” leads to creation of trademark doctrines (i.e., rights) that harm fools.

A consumer purchases a patch with the logo of the Boston Bruins or a shirt in the style of a football jersey worn by NFL players to show loyalty to a team – or whatever image of oneself such displays might convey. Such exhibitions of loyalty identify the consumer as one who shares that loyalty with others, or distinguishes the consumer from those who purchase exhibitions of other loyalties. Whether the trademark owner has an exclusive entitlement to control such use is a matter about which most consumers should care little. 90 What they want is an article that functions to permit them to show their allegiance to a particular trademark. 91 The sale of indicia that function in this manner is a market in itself. Competition in that market enables consumers to obtain the greatest possible value at the lowest possible consumption of productive resources. An exclusive merchandising right inhibits such exercises of expression. In the event consumers do care, the solution is more marketplace information, not less competition and more


90 See Bd. of Governors of the Univ. of N.C. v. Helpingstine, 714 F. Supp. 167, 173 (M.D.N.C. 1989) (court skeptical purchasers of tee-shirts bearing university’s marks care whether university sponsored or endorsed products or whether products officially licensed; equally likely they purchase unlicensed tee-shirts to show support of university).

91 See Bi-Rite Enters. v. Button Master, 555 F. Supp. 1188, 1194-95 (S.D.N.Y. 1983) (“Functionality in this context means that consumers desire the mark for its intrinsic value and not as a designation of origin.”).

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The “official” purveyor of such products may identify itself as such.\textsuperscript{92}

The origin of “trademark as product” is Boston Professional Hockey Association, Inc. v. Dallas Cap & Emblem Mfg.\textsuperscript{93} Defendant produced for sale patches embroidered with the logos of professional hockey teams that a purchaser could affix to nearly any item. In an almost pure sense, defendant marketed only the mark. Such use did not remotely imply that the hockey teams or the National Hockey League had anything to do with making the product consumers purchased, i.e., patches with team logos. Defendant’s use of plaintiffs’ marks was functional. The United States Court of Appeals for the Fifth Circuit held this use to be infringing, even though defendant caused no confusion and did not use the marks to compete in the market for professional hockey competitions. The court spoke of the case’s “difficulties,” which stemmed from the fact that in the absence of a patent, copyright, or confusion, plaintiffs should simply have lost the case.\textsuperscript{94} The court solved its difficulty by equating duplication of a mark used in a functional manner with confusion. Duplication of a trademark is not the equivalent of confusion; the court created this out of whole cloth. There was consumer demand for the patches in Boston Professional Hockey irrespective of their source. The court essentially extended the rule of International News Service.\textsuperscript{95} In INS, the Supreme Court treated something with value (news) irrespective of its source. The court essentially extended the rule of International News Service.\textsuperscript{95} In INS, the Supreme Court treated something with value (news) irrespective of its source.

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\textsuperscript{92} See Robert G. Bone, Taking the Confusion out of “Likelihood of Confusion”: Toward a More Sensible Approach to Trademark Infringement, 106 NW. U. L. REV. 1307, 1364 (2012) [hereinafter Bone, Sensible Approach] (selling merchandise without license unlikely to generate trademark-related harm; most consumers probably do not care whether merchandise officially authorized; those who care can order directly from owner’s website or official store; no significant risk of reduced quality because defendant derives profits from mark’s popularity and has much to lose from shoddy merchandise).
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\textsuperscript{93} 510 F.2d 1004 (5\textsuperscript{th} Cir.), \textit{cert. denied}, 423 U.S. 868 (1975).
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\textsuperscript{94} Plaintiffs did lose in the federal district court. 360 F. Supp. 459, 464 (N.D. Tex. 1973) (through trademark registration, plaintiff seeks protection tantamount to copyright monopoly).
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\textsuperscript{95} Int’l News Serv. v. Associated Press, 248 U.S. 215 (1918). The subject of news is not copyrightable. Plaintiff AP expended substantial money, skill, and effort to create an elaborate organization to produce news. Defendant INS, a competitor, could be enjoined from copying news that AP had already published for circulation elsewhere.
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not subject to copyright or patent that plaintiff had created as “quasi-property” with respect to competitors. In *Boston Professional Hockey*, the court treated something with value not subject to patent or copyright that plaintiffs had created as property with respect to *everyone*, even non-competitors. The holding in *Boston Professional Hockey* presumes that there should not be a competitive market in affinity paraphernalia and that mark owners are entitled to capture cooperative surplus in such markets at the expense of consumers. There is no basis for such a presumption and for dispensing with the requirement of confusion.

Without affecting the value of the mark in the market where it performs its identificatory and informational function, permitting the likes of Dallas Cap & Emblem to copy the mark in non-confusing ways increases the amount of cooperative surplus because competitors of the mark owner will reduce their prices to the marginal cost of producing the item. Consumers who value “trademark as product” more than the price that reflects the market power of the mark owner would obtain a greater share of existing cooperative surplus. Consumers who value the “trademark as product” less than the price that reflects market power of the mark owner but more than the marginal cost of its production will have access to the item. Deadweight loss decreases. Cooperative surplus increases. Mark owners will lose their property in “trademark as product” – but the winners (consumers) will win more than the losers will lose, thereby creating a net social gain. Competition among merchandisers of marks maximizes cooperative surplus and maximizes the consumer’s share of it. It also allows more consumers to express themselves.

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96 See Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel, 550 F.3d 465, 486-87 (5th Cir. 2008), *cert. denied*, 556 U.S. 1268 (2009) (applying *Boston Professional Hockey*; summary rejection of contention that “shirts allow groups of people to bond and show support for a philosophy or goal; facilitate the expression of loyalty to the school and a determination of the loyalties of others; and identify the wearer as a fan and indicate the team the fan is supporting”).

Courts that follow *Boston Professional Hockey* essentially accept as *fait accompli* that trademark law’s basis is not deceit – as the Supreme court (mistakenly?) announced in *Bonito Boats* – but property in branding. In *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*, plaintiff in a declaratory judgment action sold key chains and license plate frames with VW and AUDI marks. Plaintiff argued that the logos themselves are the benefit that consumers wish to purchase. The Ninth Circuit stated that “[a]ccepting Auto Gold’s position would be the death knell for trademark protection.” The court characterized plaintiff’s conduct as “poaching” and “nothing more than naked appropriation of the marks.” As for functionality, the court said that “Auto Gold’s products would still frame license plates and hold keys just as well without the famed marks.” The court equated the merchandising interest that it presumes a trademark owner to have with protection of consumers from relevant confusion.

Protecting the functional use of trademarks as if it were trademark use itself not only deprives some consumers of a means of expressing their affinities and affiliations, but also permits some consumers to claim status relative to others, i.e., as a consumer of a certain brand. Trademark law should neither restrict the manner by which (groups of) consumers express themselves through exhibitions of marks nor protect the manner by which they set themselves apart from

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99 *Id.* at 1064; *see* Nat’l Football League Props., Inc. *v. Wichita Falls Sportswear, Inc.*, 532 F. Supp. 651, 663 (W.D. Wash. 1982) (defendant’s “definition of ‘product’ would subsume all trademark law”).

100 457 F.3d at 1064.

101 *Id.* at 1072-73.


103 *See* Sheff, *supra* note 72, at 790-94 (describing post-sale status confusion).
others through the exhibition of marks. Legal rules that regulate consumers’ access to goods bearing the logos of firms, the use of which is functional rather than informational or identificatory, de facto establish a sumptuary code. For centuries, laws in different countries regulated consumption choices – often in recognition of persons’ social classes. “A society’s sumptuary code is its system of consumption practices . . . by which individuals in the society signal through their consumption their differences from and similarities to others.” Such laws restrict some consumers’ access to the accoutrements of wealth or class. Competition to sell these signals is antithetical to the substance of such codes. Trademark users now invoke a merchandising right to perpetuate the essence of such codes. They want to enable consumers to claim class and status through purchase and display of signifiers of consumption that trademark law makes artificially scarce.

The courts that apply and expand the rules of cases such as Boston Professional Hockey and Automotive Gold presume that sumptuary codes accomplish affirmative good. They do not. The genius of the competitive market lies in its capacity to democratize wealth, i.e., to make the accoutrements of wealth and class available to all – not to make such accoutrements exclusive. As importantly, democratization of wealth brings forth an enormous increase in social wealth and

104 See id. at 793-94 (status confusion does not implicate economic policies of reducing search costs or providing incentives to produce quality products efficiently).

105 See Saintly or Sinful, ECONOMIST: SPECIAL REPORT ON LUXURY, Dec.13, 2014, at 5 (“Sumptuary laws were devised over the centuries to discourage dissipation, curb imports of expensive fripperies and (often hypocritically) preserve distinctions of rank.”).


107 See Beebe, Sumptuary Code, supra note 106, at 889 (“bizarre and ultimately untenable condition in which the primary means by which we distinguish ourselves and others is through the consumption of a profusion of intangible scarcities of our own creation”).
does so by increasing consumers' capture of cooperative surplus – contrary to the norms of sumptuary codes.

Verification is easy. . . . Electric lighting is no great boon to anyone who has money enough to buy a sufficient number of candles and to pay servants to attend to them. It is the cheap cloth, the cheap cotton and rayon fabric, boots, motorcars and so on that are the typical achievements of capitalist production . . . . Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.\(^{108}\)

The phenomenon of “trademark as product” resists this process – to no good purpose. Democratizing wealth harms no reputation. It increases social wealth and consumer capture of cooperative surplus. “Trademark as product,” which restricts supply, sacrifices such creation of value in favor of a distribution of cooperative surplus that assures a diminished amount of such surplus.

As sellers increasingly assert claims of appropriation that have nothing to do with diversion of trade or injury to reputation, trademark infringement inevitably comes unmoored from confusion. The statutory phrase “affiliation, connection, or association” with respect to which confusion is actionable under § 43(a) permits claims so broad as to be without limit – thereby propertizing whatever the trademark user claims as its own. FTC findings of deception turned on speculation of witnesses on how a fool would construe a claim. Now findings of confusion turn on the self-interested speculation of competitors themselves who claim to protect easily-confused consumers (fools). Most assuredly, they effectively expand their “property” interests at the expense of those

fools. The phenomenon of “trademark as product” has served as the lynchpin of the doctrines
of initial interest confusion and post-sale confusion. These doctrines are hardly bounded by
concerns about “trade diversion” or reputation. Competitors who would propertize their trade
dress or trademarks invoke such doctrines to preclude competition that would redound to the
benefit of fools.

Initial interest confusion occurs when a consumer searches for one branded product, is led to
another, learns of this fact, and then makes a purchase. The time that the consumer endures
“deception” may be trivially small. The very phrase “initial interest confusion” implies harm
short of that resulting from an unintended purchase, i.e., trade diversion. It also implies that
consumers do not act on whatever confusion a trademark user claims they endured. Consumers
who endured initial interest confusion are not confused at the time of purchase, but are better
informed of alternatives available to them. Denying consumers information of purchasing
alternatives is anti-competitive. Some courts have, nevertheless, found initial interest
confusion to be actionable.


111 See Eric Goldman, Deregulating Relevance in Internet Trademark Law, 54 EMORY L.J. 507, 559 (2005) (initial interest confusion “the tool of choice for plaintiffs to shut down junior users who have not actually engaged in misappropriative uses”).

112 See Brookfield Commc’ns v. W. Coast Entm’t Corp., 174 F.3d 1036, 1062 (9th Cir. 1999) (no source confusion, but defendant nevertheless “improperly benefits” from goodwill competitor developed in its mark). See also Australian Gold, Inc. v. Hatfield, 436 F.3d 1228, 1238-39 (10th Cir. 2006) (defendant’s resale of plaintiff’s tanning lotions at its website); Playboy Enters., Inc. v. Netscape Commc’ns Corp., 354 F.3d 1020, 1025-26 (9th Cir. 2004) (internet user may be happy to remain on competitor’s site; “internet user will have reached the site because of defendants’ use of” plaintiff’s mark; such use actionable”); PACCAR Inc. v. Telescan Techs., Inc., 319 F.3d 243, 250, 253 (6th Cir. 2003) (use of marks in declaratory judgment plaintiff’s web address; initial interest confusion); Promatek Indus., Ltd. v. Equitrac Corp., 300 F.3d 808, 812-13 (7th Cir. 2002) (initial interest confusion; preliminary injunction merely requiring statement
By invoking legal rules that deprive consumers of information about the availability of alternatives, the trademark owner succeeds in eliminating competition at the precise point consumers can most benefit from it.\footnote{See Jennifer E. Rothman, \textit{Initial Interest Confusion: Standing at the Crossroads of Trademark Law}, 27 CARDOZO L. REV. 105, 129 (2005) (danger of doctrine lies in capacity to deny consumers information about competing products and sellers); cf. Michael Grynberg, \textit{The Road Not Taken: Initial Interest Confusion, Consumer Search Costs, and the Challenge of the Internet}, 28 SEATTLE U.L. REV. 97, 97-98 (2004) (noting transitory nature of initial interest confusion and nonexistence at point-of-sale).} Including the word “confusion” in the doctrine’s name has provided the hook to give the doctrine legs. The hook is all the more flimsy when it is only the fools the trademark owner invents who suffer harm.

The internet has been a fertile field of alleged initial interest confusion, as competitors vie for the fleeting attention of shoppers.\footnote{Deborah F. Buckman, Annotation, \textit{Initial Interest Confusion Doctrine Under Lanham Trademark Act}, 183 A.L.R. FED. 553 (2003) (§ 2; most recent initial interest cases involve internet).} In physical stores, consumers see the choices they have with respect to, say, coffee. Even consumers in a grocery store who know of only one or a few brands of coffee quickly become aware of other brands available to them. The internet shopper may be aware of a brand but not of alternatives. There are various means by which the internet merchant can bring itself to the attention of a consumer who enters a brand name into a search engine. Such merchants wish to trade on the goodwill associated with a product, e.g., coffee, and not to appropriate the goodwill of a competitor, e.g., FOLGER’S. Any deception in the context of an invitation to comparison-shop self-corrects when the consumer simply understands that that is what is happening.\footnote{See Daniel Malachowski, Note, \textit{Search Engine Trade-Marketing: Why Trademark Owners Cannot Monopolize Use of Their Marks in Paid Search}, 22 DEPAUL J. ART, TECH. & INTELL. PROP. L. 369, 398 (2012) (consumers now understand that search engine results page replicates experience in physical store).}
Search engine firms now sort search results into “organic results” and “sponsored links.” The results page of a search identifies competitors who merely and clearly invite the searcher to engage in some comparison shopping. Courts no longer routinely apply the doctrine of initial interest confusion because there is, in fact, no confusion. Users in turn now use search engines in more nuanced ways than simply to find the trademark owner’s website. In fact the traffic trademark owners lose to purchasers of sponsored sites may be negligible and offset by gains from those not directly searching for the trademark owner’s site. Focus only on initial interest confusion fails to “capture the multifaceted ways in which search engine users are using trademarks today.”

Application of a post-sale confusion doctrine suffers from the same assumption that the existence of trademark value entitles its creator to capture cooperative surplus not associated with identificatory use. Professor Sheff identifies three types of post-sale confusion which should not carry the same legal consequences. A bystander may see purchasers of defendant’s product exhibit plaintiff’s trademark, mistakenly ascribe negative qualities to plaintiff, and act on those

116 See Multi Time Mach., Inc. v. Amazon.Com, Inc., ___ F.3d ____, *5 (9th Cir. 2015) (initial interest doctrine inapplicable; Amazon, which claims to offer the “Earth’s biggest selection of products,” made no claim to carry plaintiff’s brand but rather displayed competitors’ brands that it does carry; confusion highly unlikely); 1-800 Contacts, Inc. v. Lens.Com, Inc., 722 F.3d 1229 (10th Cir. 2013); Network Automation, Inc. v. Advanced Sys. Concepts, Inc., 638 F.3d 1137 (9th Cir. 2011).

117 See Stefan Bechtold & Catherine Tucker, Trademarks, Triggers, and Online Search, 11 J. EMP. LEG. STUD. 718, 724 (2014) (comparing internet searchers’ behavior before and after Google’s change of policy to allow advertisers “to bid for keywords corresponding to third party trade marks”).

118 Id. at 740.

119 Interestingly, though little commented upon, Compco Corporation v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964), was a case involving post-sale confusion. There was no confusion at the time of purchase. The two firms involved in the case both manufactured fluorescent lighting fixtures often used in offices and stores. Compco manufactured a product identical to Day-Brite’s. The United States Supreme Court found post-sale confusion resulting from copying a product could not constitutionally support a state-law tort claim. Id. at 237-39.
 impressions. A non-confused buyer may gift or sell a counterfeit to another, thereby causing injury to one “downstream” from the original defendant-seller. Or one may wish to show others one’s status as a person who purchases plaintiff’s goods; by selling replicas of plaintiff’s marks, defendant causes bystanders to confuse the status of its purchasers. The rules of contributory infringement handle the second scenario. Protecting indications of status should not be within the purview of the trademark laws; trademark laws should not function as a sumptuary code. That leaves only the first scenario, and it actually rarely occurs.

Propertization of “trademark as product” deprives the fool of the benefits of competition by foreclosing competition in the good the fool wishes to purchase, i.e., the mark itself. Such propertization deprives consumers of cooperative surplus by allowing those with market power to capture more of less. It also deprives the fool of a means of expression. It deprives the fool of information concerning competitive alternatives. This Article next examines the phenomenon of “product as trademark.” As with merchandising and pre- and post-sale confusion, propertization of “product as trademark” can directly limit the fool’s capture of cooperative surplus by foreclosing competition in the product market itself – a result of confusing product goodwill with trademark-user goodwill.

D. Product as Trademark: Stifling Competition in Products

A product’s trade dress may function as a trademark, i.e., as a source identifier. Claiming an exclusive right to a product’s trade dress that does not function as a trademark is propertization

120 See Sheff, supra note 72, at 778-85 (theory consistent with policy justifications of trademark enforcement, but multiple unsupported inferences tantamount to shifting burden of proof to defendant).

121 See id. at 785-90 (surprising that such cases not analyzed as contributory infringement cases).

122 See id. at 793-94 (no confusion of purchasers; injury is to plaintiff’s purchasers who “purchased” status and to public that views such persons; confusion does not injure potential purchasers but concerns status of past purchasers).
of “product as trademark.” Lawful preclusion of competition in marketing a product occurs only through copyright or patent. Nevertheless, firms whose product has a particular appearance can argue at considerable cost to their competitors that their product is a source identifier. The lack of predictability in application of the functionality doctrine increases the probability that competitors will make such claims, especially when there is little cost to doing so. It is possible for a non-functional product feature to be its source identifier, but that is not what consumers expect.

In *Wal-Mart Stores, Inc. v. Samara Brothers, Inc.*,125 the United States Supreme Court held that when consumers are not predisposed to equate a product feature with the product’s source, plaintiff must show that the feature has acquired secondary meaning.126 Such a predisposition exists with arbitrary or fanciful terms, but not with product designs.

The fact that product design almost invariably serves purposes other than source identification not only renders inherent distinctiveness problematic; it also renders application of an inherent-distinctiveness principle more harmful to other consumer interests. Consumers should not be deprived of the benefits of competition with regard to the utilitarian and esthetic purposes that product design ordinarily serves by a rule that

123 See TrafFix Devices, Inc. v. Mktg. Displays, Inc., 532 U.S. 23, 34 (2001) (purpose of Lanham Act not to reward manufacturers for innovation in creating particular device; that is purpose of “patent law and its period of exclusivity”); Kehoe Component Sales Inc. v. Best Lighting Prods., Inc., 796 F.3d 576, 588 (6th Cir. 2015) (sale of “cloned” exit and emergency lighting products for commercial buildings; “[i]n general, unless an intellectual property right such as a patent or copyright protects an item, it will be subject to copying”).


126 Id. at 213 (citing Qualitex Co. v. Jacobson Prods. Co., 514 U.S. 159, 162-63 (1995); product color had acquired secondary meaning).
facilitates plausible threats of suit against new entrants based upon alleged inherent distinctiveness.\textsuperscript{127}

A product’s trade dress cannot be inherently distinctive. Pejoratives such as “knockoff” do not change this. In matters of product design, the right of competitors to copy such designs creates a clear benefit for consumers, i.e., more choice and lower prices.\textsuperscript{128} They will capture more of the cooperative surplus that consumer demand for a product creates.

A lingering problem is that, Justice Scalia’s admonition notwithstanding, a seller’s mere claim of exclusive rights to a particular trade dress raises competitors’ costs and reduces the amount of cooperative surplus available for capture by consumers. Little ingenuity is necessary to allege in a complaint that secondary meaning in a non-source-identifying product design exists. An incontestable registration of a product design trade dress increases the capacity of competitors to use litigation and threats of litigation as a weapon of propertization.\textsuperscript{129} The risks and rewards of lawsuits are hardly evenly balanced. It costs little to threaten to sue a competitor. Pejoratives – e.g., knockoff, pirate, naked appropriation, copyist, poaching, free-rider – obscure issues concerning the distinction between the product as product or the “product as trademark,” i.e., source identifier. Worse, such terms create a false implication of trade diversion. It costs a lot to fight such threats, and the risks are real. Wal-Mart, the nation’s largest retailer, took on a much smaller firm with a $1.6 million judgment hanging over its head when its case came to the Supreme Court. Other large retailers had folded. It is rare that a defendant has both sufficient

\textsuperscript{127} 529 U.S. at 213.

\textsuperscript{128} See Kehoe Component Sales Inc. v. Best Lighting Prods., Inc., 796 F.3d 576, 589 (6th Cir. 2015) (sale of “cloned” exit and emergency lighting products for commercial buildings; “‘federal law encourages wholesale copying, the better to drive down prices’”).

\textsuperscript{129} See Gibson Guitar Corp. v. Paul Reed Smith Guitars, LP, 423 F.3d 539, 553 (6th Cir. 2005), \textit{cert. denied}, 547 U.S. 1179 (2006) (incontestable registration of single cutaway trade dress of guitar that enables musician more easily to play notes with higher frets; striking similarity of instruments, but no point-of-sale confusion; reversing federal district court grant of injunction).
interest in the principle and the resources necessary to run the risks that Wal-Mart did. More often, the recipient of a cease-and-desist letter is in no position to take on a Goliath, and so, de facto, the law becomes what Goliath wants it to be. Goliath’s mere threats can serve not only to stifle competition in the aesthetic appearance of a product, but competition in the product class itself.

In matters of trade dress, protection of fools takes the form of denying consumers choice.\textsuperscript{130} Even worse, it may take the form of denying consumers access to a competitive product or service altogether. Fools do not need such “protection.”

VI. THE ECONOMICS OF PROPertIZATION OF TRADEMARKS AND PRODUCT DESIGN TRADE DRESS

Propertization of trademarks or product design trade dress requires legal recognition of exclusive rights to a resource that is not scarce. One’s use of a trademark or trade dress in any manner does not reduce the supply of these resources for use by others. Trademarks and trade dress are not rivalrous in consumption. Sellers of goods and services give value to marks or trade dress by using them in a manner that identifies and informs consumers of their products and services. The law’s enforcement of an exclusive right to make such uses of a trademark or trade dress is necessary to give the source identifier value.

The inclination of some is that the existence of value in a trademark emanates from a scarce

\textsuperscript{130} Cf. Christian Louboutin S.A. v. Yves Saint Laurent Am. Holding Co., 696 F.3d 206, 227 (2d Cir. 2012) (aside from sharp contrast between red out sole and upper part of shoe, no secondary meaning in color red); Dippin’ Dots, Inc. v. Frosty Bites Distrib., LLC, 369 F.3d 1197, 1203 n.7 (11\textsuperscript{th} Cir. 2004), cert. denied, 543 U.S. 1054 (2005) (colors of ice cream that denote flavor aesthetically functional; protection of colors as trademarks would eliminate competition in flash-frozen ice cream market).
resource that is rivalrous in consumption and so subject to ownership. Such propertization of trademark confuses trademark with patent and copyright. Creation of an informational and identificatory word, name, symbol, device, or combination thereof may create – as an incidental matter – another “product” to be marketed, i.e., the mark itself. It is possible to distribute the cooperative surplus that marketing the mark generates through competitive markets. Any competitor should be permitted to capture as much surplus as it can from non-identificatory uses of a trademark if the net value such open use generates is more than it would be if the trademark owner could control the trademark as property. Branders’ enforcement activities do not create value but merely (re)distribute cooperative surplus to themselves. Branders endeavor to distort two markets: the one in which the mark does have informational and identificatory meaning (by “war-chesting”) and the one where the user derives value from collateral non-informational, non-identificatory use (by exercising market power).

Branders also argue that the unpatented product they make entitles them to a monopoly on product features that do not function as a (non-functional) mark. They argue that the fool expects indicia of identification (and permission and endorsement and affiliation and sponsorship, etc.) with every contact with a particular product design. The United States Supreme Court has held that protection of “product as trademark” requires secondary meaning. This implies that the cooperative surplus associated with a non-identificatory trade dress, e.g., a cocktail shaker in the shape of a penguin, should be broadly shared by consumers rather than captured by a single seller.

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131 But see Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1708-09 (1999) [hereinafter Lemley, *Common Sense*] (“It does not follow that because something is valuable it must be owned.”).

132 See *In re Trade-Mark Cases*, 100 U.S. 82, 94 (1879) (no relation between trademark and invention or discovery; original writings subject of copyright, founded in creative powers of mind).

133 See Kehoe Component Sales Inc. v. Best Lighting Prods., Inc., 796 F.3d 576, 589 (6th Cir. 2015) (sale of “cloned” exit and emergency lighting products for commercial buildings; businesses may think wholesale copying to be unfair, but “[c]onsumers rather than producers are
Courts that treat branding as trademark law do not acknowledge these points. Contrary to the wishes of branders, maximizing profits at the expense of competitors and consumers is not the purpose of trademark law. Ownership rights should be exclusive only if exclusivity itself creates more value than non-exclusive rights of use. In both the context of “trademark as product” and “product as trademark,” branders attack unwanted competition as “free-riding” and consumer capture of surplus value as “confusion.” Neither of these pejoratives withstands analysis.

_Free-riding:_ Free-riding is an essential element of market competition. The United States Supreme Court recognized long ago in _Kellogg Co. v. National Biscuit Co._ that copying a product for which the public accords goodwill is a right enjoyed by all. Nabisco invented “shredded wheat,” which was not (any longer) protected by patent. Kellogg marketed its own “shredded wheat,” and Nabisco sued. The Supreme Court held against Nabisco. “Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all – and in the free exercise of which the consuming public is deeply interested.” Kellogg was entitled to divert trade to itself by making the unpatented product for which Nabisco had labored to build public acceptance. Kellogg’s burden was only “to use every reasonable means to prevent confusion.” Some confusion – even as to the identity of the very product itself – is tolerable in the promotion of competition through free-riding.

134 305 U.S. 111 (1938).

135 _Id._ at 121 (“in the goodwill [of “shredded wheat” in the shape of a pillow] Kellogg Company is as free to share as the plaintiff” Nabisco).

136 _Id._ at 122.

137 _Id._ at 121.

138 “Some hotels, restaurants, and lunchrooms serve biscuits not in cartons, and guests so served may conceivably suppose that a Kellogg biscuit served is one of the plaintiff’s make.” _Id._ at 121.
Kellogg was a “free rider.” However, Kellogg offered consumers a product that some would prefer to Nabisco’s product and reduced the price at which shredded wheat was available to consumers. Most assuredly, Kellogg’s conduct redistributed more of more cooperative surplus associated with the product “shredded wheat” and its pillow shape to consumers than occurred when Nabisco alone manufactured the product. As an incidental matter, consumers of shredded wheat enjoyed an income effect; they had a little more money to spend on other goods and services that they desired.

In *Wal-Mart*, the United States Supreme Court essentially endorsed free-riding on a product’s design trade dress in the absence of secondary meaning.\(^\text{139}\) The Supreme Court also came down on the side of free-riding in matters of functional trade dress in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*\(^\text{140}\) Specific free-riding concerns can be addressed to Congress.\(^\text{141}\) The phrase “free-riding” is merely a neutral description of much of competition – not a description of per se wrongful conduct.

**Confusion:** In an effort to capture the cooperative surplus created by non-identificatory, non-informational use that would redound to the benefit of consumers, trademark owners have learned that “confusion” of consumers is often a winning argument. At least they can make would-be competitors believe that courts will agree with their claims regarding confusion. Confusion, so the argument goes, is an evil in itself – irrespective of materiality – that should not occur.


\(^{140}\) 532 U.S. 23, 33 (2001) (dual spring temporary traffic signs that will not blow over in wind; secondary meaning irrelevant if functionality established; no need to speculate about availability of alternate designs).

This is wrong. If information is not material, confusion about it simply does not matter. Often “confusion” is not confusion at all, but ignorance of matters about which consumers choose to be ignorant because they matter so little. Trademark owners invite courts to be confused about such ignorance. Or they cow those who would otherwise redistribute cooperative surplus in a way not so favorable to them. Often enough, they get their way. Absent some actual loss – either trade diversion or injury to reputation – the trademark owner’s efforts to protect consumers (fools) from confusion quite simply reduce value. Courts that support such trademark owners do harm and violate Holmes’s commonsense maxim.

If trademark law did not protect branders’ efforts to capture as much cooperative surplus as possible at the expense of the fools they ostensibly protect, branders would have to turn to some other activity to generate the same level of profits. They would have to create more cooperative surplus rather than seek redistribution of existing cooperative surplus. When merchandising activities are themselves the subject of competition, we may find that there is a limit to just how profitable the sale of products bearing strong trademarks can and should be. That would not be a bad thing – not because branders make enough money but because fools just might be better at maximizing the value they derive from purchasing goods/services than the branders want everyone to believe. Moreover, some activities do not create as much social value as the branders want us to believe. The branders invent and rely on rules and doctrines that ignore consumer interests – while ostensibly promoting those interests. Courts and Congress have encouraged them.

142 See William McGeveran & Mark P. McKenna, Confusion Isn’t Everything, 89 NOTRE DAME L. REV. 253, 318 (2013) (focus on consumer confusion sometimes undermines the “competition and communication values that justify trademark rights”).

143 Cf. Bone, Sensible Approach, supra note 92, at 1364-65 (free-riding not likely to impair mark’s information transmission function; trademark owner might invest less in underlying activity because merchandising market less lucrative; reduced investment not trademark-related harm; purpose of copyright and patent law – not trademark law – to generate incentives to create).
A. Dilution

Branders naturally embrace the doctrine of dilution because it does not rest upon confusion. Frank Schechter argued in an influential law review article\(^{144}\) that the law should protect a trademark owner’s interest against “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.”\(^{145}\) Congress was not initially responsive to this call, but about half the states were. They enacted so-called anti-dilution statutes. Finally, in 1995, Congress amended the Lanham Act to include a claim under § 43 for dilution of famous marks, i.e., blurring or tarnishing famous marks. In *Moseley v. V Secret Catalogue Inc.*,\(^ {146}\) the Supreme Court essentially questioned the validity of the dilution doctrine itself. Much, if not most, mental association neither blurs nor tarnishes the famous mark.\(^ {147}\)

*Sears/Compco/Bonito Boats* teach that the basis of unfair competition law is deceit, *not* property – or its surrogate, i.e., intentional copying. Dilution law standing alone does nothing to protect the integrity of marketplace information. Hence, it creates property rights for trademark users without much benefit to consumers.\(^ {148}\) It can have the effect of stifling the flow of information that provides competitors an effective means of drawing the attention of fools to the fact that


\(^{145}\) Id. at 825.


\(^{147}\) 537 U.S. at 433-34 (“[M]ental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, the statutory requirement for dilution under the FTDA. . . . ‘Blurring’ is not a necessary consequence of mental association. (Nor, for that matter, is ‘tarnishing.’)”).

their products compete with those of the owner of a strong trademark. For at least these reasons, commentators have argued that recognition of a claim for dilution is inappropriate, and unconstitutional. Dilution law does not do affirmative good. The doctrine exists only to maximize the trademark owner’s capture of cooperative surplus. If the doctrine simply does not apply, branders may elevate the importance of trivial and immaterial matters.

B. Trivial or Immaterial

In 1962, Congress amended the Lanham Act to provide that any confusion is actionable, not merely confusion with respect to the source of origin of the goods or services. The statutory confusion anchors of association, sponsorship, or affiliation invited plaintiffs to invent trivial or immaterial matters about which they claim consumers are confused. The ultimate goal of

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150 See generally Katya Assaf, Brand Fetishism, 43 CONN. L. REV. 83 (2010) (legal protection of brand’s psychological influence over consumers strips them of their informative content).


153 Mark A. Lemley & Mark McKenna, Irrelevant Confusion, 62 STAN. L. REV. 413, 414, 416-22, 453 (2009-2010) [hereinafter Lemley & McKenna] (reviewing several absurd cases showing tenuous nature of sponsorship or affiliation confusion against which courts have given protection, and others that trademark owners have claimed).
trademark law cannot be complete eradication of any and all confusion. In fact, trademark doctrines contemplate, condone, and encourage some confusion that is more than trivial, e.g., fair use, abandonment, and genericide. The benefit that a court creates by eliminating “confusion” minus the cost – including forgone benefits of competitive use of the trademark or product design – of its elimination should be more than zero, but the Amendments seem to require courts to violate Holmes’s admonition.

As the matter over which there is arguably confusion becomes more trivial, the likelihood that there will be confusion over it increases. The Lanham Act makes consumer mistakes about the trivial and immaterial actionable. When courts protect ordinary consumers (fools) from confusion over matters that consumers (should) regard as trivial, they can deny competitors the

154 See Bone, Sensible Approach, supra note 92, at 1335 (confusion-only infringement analysis vague; open-ended test gives judges wide latitude to impose liability on questionable grounds, e.g., anti-free-riding).


156 See, e.g., Exxon Corp. v. Humble Exploration Co., 695 F.2d 96, 103-04 (5th Cir. 1983) (if strong mark abandoned, no claim available to abandoning user under § 43(a) for false description).


158 See Rebecca Tushnet, Running the Gamut from A to B: Federal Trademark and False Advertising Law, 159 U. PA. L. REV. 1305, 1354 (2011) (standard multifactor test automatically more likely to find confusion over sponsorship or affiliation precisely because consumers less likely to care about it).

right to describe their products as what they are. The purpose of their orders is not to create value but to reallocate more cooperative surplus to sellers than competitive markets would. Their orders not only do not affirmatively do good, they cause harm.

In order to assure that a court determination that plaintiff should prevail in a § 43(a) case does affirmative good, both materiality and buyer reliance should be required elements. Materiality is a matter for consumers. Plaintiff should be required to prove that a “misrepresentation” is one on which a consumer would act, one that changes the purchasing decision the consumer who knows of its truth or falsity would make. Materiality implies that an element of a 43(a) claim should be that court intervention will prevent trade diversion or injury to reputation.

The value of eliminating irrelevant or trivial confusion is zero and so does not justify incurring any cost to eliminate it. Moreover, protecting the fool from the “harm” of irrelevant confusion can cause the fool to suffer injury. If courts undertake to eliminate all confusion, they invite trademark holders to exploit the malleability of confusion to bully competitors and would-be

160 See Pebble Beach Co. v. Tour 18 I Ltd. 155 F.3d 526, 543-45 (5th Cir. 1998) (consumer belief that defendant had to have permission to describe its product as a replication of plaintiff’s product, i.e., holes of some famous golf courses).

161 See Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 32-33 (2003) (“Lanham Act should not be stretched to cover matters that are typically of no consequence to purchasers”).


163 See Lemley & McKenna, supra note 153, at 427 (“Confusion about some relationships simply shouldn’t matter because it doesn’t affect consumers’ decisions to purchase the defendant’s good or services. Yet the ‘sponsorship or affiliation’ formulation allows for no such distinctions, threatening ultimately to swallow up all uses of another’s mark.”).
competitors in an effort to expand their rights.\footnote{See Leah Chan Grinvald, \textit{Shaming Trademark Bullies}, 2011 WIS. L. REV. 625, 630 (2011) [hereinafter Grinvald] (arguing that trademark law and legal system assist and encourage bully).}

\textbf{C. Changing the Law of Confusion by Bullying}

Owners of strong marks have successfully altered the law of confusion by claiming that any non-identificatory use of their mark by another (e.g., use of the mark to parody) requires permission. If consumers believe that a second user must have such permission, they believe a falsehood if the second user does not have such permission; they are “confused.” Mark owners threaten to sue other users in order to protect consumers from such confusion. To the extent that other users accede to such claims, the mark owners succeed in creating a rule of law favorable to themselves that was \footnote{Lemley, \textit{Common Sense}, supra note 131, at 1707 (licensing activity proceeds on \textit{assumption} that trademark owners have such right, effectively giving mark “owners” something they never traditionally had: right to control use of mark in totally unrelated circumstances).} (is) not law at all – but which becomes a \textit{fact} that fools supposedly believe. The circularity to honoring consumer expectations and beliefs whose sources are the rights that trademark users assert they have always tends towards expansion of trademark interests.\footnote{See Boston Athletic Ass’n v. Sullivan, 867 F.2d 22, 33 (1st Cir. 1989) (noting problem of circularity); Barton Beebe, \textit{Search and Persuasion in Trademark Law}, 103 MICH. L. REV. 2020, 2066 (2004-2005) [hereinafter Beebe, \textit{Search}] (“scope of trademark protection” largely based on law’s assessment of consumers’ search sophistication in marketplace, yet degree of “search sophistication consumers bring to the marketplace” largely dependent on expected scope of trademark protection); Lemley, \textit{Common Sense, supra} note 131, at 1708 n.106 (acknowledging circularity of claim, but treating consumer expectations as basis of trademark doctrine may require honoring consumer expectations about law of trademark licensing); Michael S. Mireles, Jr., \textit{Towards Recognizing and Reconciling the Multiplicity of Values and Interests in Trademark Law}, 44 IND. L. REV. 427, 439-46 (2011) (consumer search rationale has led to trademarks users’ efforts to make consumers believe connection exists between defendant and \textit{any} use of a trademark – thereby \textit{expanding} without defined limits trademark users’ rights).}
The Lanham Act gives trademark owners an unfair assist because “[t]he law commands that courts assess whether or not consumers are actually confused, not whether or not they should be confused.”\footnote{168} The successful bully develops a reputation for bullying which can lead to more such success when it cites its past “successes” in its cease-and-desist letters. Future recipients of such letters are more likely to comply with the owner’s demands.\footnote{169}

The circularity can cause courts to elevate confusion over immaterial matters to a status higher than the constitutional right of free expression.\footnote{170} It makes relevant consumer beliefs about law, irrespective of the relevance of that law to consumers in the context of the trademark owner’s claim.\footnote{171} If consumer understanding of trademark law is not accurate – courts must change the law in order to honor their expectations, even expectations grounded in ignorance rather than confusion.\footnote{172} The notion that trademark law should protect consumers by vindicating all of their

\footnote{585, 590 (2008) [hereinafter Port] (“gradually, but assuredly, the actual scope of protection of the trademark broadens”).}


\footnote{169} Grinvald, supra note 164, at 663.

\footnote{170} See Anheuser-Busch, Inc. v. Balducci, 28 F.3d 769, 776 (8th Cir. 1994), cert. denied, 513 U.S. 1112 (1995) (parody in satire magazine creating likelihood of confusion among shoppers in St. Louis malls subject to infringement action).

\footnote{171} See id. at 772-73 (ad parody in magazine; survey of shoppers in malls, not readers of magazine); cf. Grynberg, supra note 70, at 97-100 (discussing Balducci in context of argument that courts should consider interests of defendant’s customers in analysis of trademark disputes).

\footnote{172} If 58% of Americans do not know that Almaty (formerly Alma-Ata) is no longer the capital of Kazakhstan but rather as of 1997 is Astana (formerly Akmola) – we would say that they are ignorant of such information – not that they are confused. The remedy for such ignorance is not that Kazakhstan must move its capital and change its name, but that Americans learn something about Kazakhstan. Cf. BORAT (Twentieth Century Fox Film Corp. 2006). If 58% of persons who shop in malls do not know the legal rule applicable to parodic use of a trademark in a satire magazine, it might (probably) mean that they are ignorant of it, not that they

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expectations concerning use of a trademark has proved to be a powerful means of propertizing marks. Consumers’ expectations are “almost infinitely pliable,” especially when they concern irrelevancies.\textsuperscript{173} Trademark owners frame their claims for broader protection in terms of consumer expectations. The circularity creates property where the Constitution says none exists.\textsuperscript{174}

Rarely does a defendant who makes a non-identificatory use of a mark have either the resources or the will to withstand the first user’s efforts to expand the property interest it claims in its mark. The plaintiff trademark owner, on the other hand, often has both the resources and the will\textsuperscript{175} to make ever more dubious claims of confusion over ever less relevant matters.\textsuperscript{176} Bullying\textsuperscript{177} is

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\textsuperscript{173} Mark P. McKenna, \textit{supra} note 13, at 1916; see Lemley, \textit{Common Sense}, \textit{supra} note 131, at 1707 (some courts “conclude that ‘consumer confusion’ may occur where consumers” not confused about relationship between two products but nonetheless believe defendant “might have needed” license to use mark).

\textsuperscript{174} See Sheff, \textit{supra} note 72, at 820-28 (creating property through such circularity in context of status goods probably unconstitutional).


\textsuperscript{176} Bone, \textit{Sensible Approach}, \textit{supra} note 92, at 1336-37 (uncertainty and high litigation costs conducive to frivolous and weak assertions of trademark rights; trademark owners can shut down expressive and other socially valuable uses “simply by threatening suit”); see Burns, \textit{supra} note 162, at 809 (even unsuccessful Lanham Act lawsuit can forestall new or rising market entrant, increase rival’s costs, and induce firm to avoid hard-edged, “truthful advertising in favor of ‘safe,’ less-informative ads”).

\textsuperscript{177} Port, \textit{supra} note 167, at 589 (trademark holders threaten or bring lawsuits to expand trademark rights; objective of their lawsuits and cease-and-desist letters to raise cost of market entrance or continuation of competitor).
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hardly what should create rights, drive competitive markets, or determine the meaning of words. The vagueness of the legal rules themselves creates the tools of bullying smaller competitors into submission. Such behavior impairs competition. It is hard to see how the fool is better for this.

D. What Is Gained and at What Cost?

The branding movement has created winners and losers. Trademark owners who have “won” the market power necessary to capture increasing shares of cooperative surplus are the biggest winners. They have turned consumers (fools) into the biggest losers, who lose more than the winners win. Once the trademark user has acquired a property interest in a trademark because it created value, Congress and the courts have permitted it to increase its share of cooperative surplus through propertization. They allow the trademark owner to treat its “brand” as property without creating any additional value that would not be created without it.

We recognize the fool as the Everyman consumer. Such a person should be the beneficiary of competition, able to capture greater shares of more cooperative surplus from the purchase of goods and services. Spending less creates an income effect, and our fool could purchase even

178 See id. at 634 (trademark holders can expand trademark rights through extortion rather than use as Lanham Act and Constitution require).

179 Grinvald, supra note 164, at 629, 650 (footnotes omitted) (abusive enforcement of rights harmful to society as a whole; reduction in competition significant harm of abusive enforcement of trademark rights).

180 “Common law trademarks, and the right to their exclusive use, are . . . to be classed among property rights . . . ; but only in the sense that a man’s right to the continued enjoyment of his trade reputation and the goodwill that flows from it, free from unwarranted interference by others, is a property right for the protection of which a trademark is an instrumentality. . . . [T]he right grows out of use, not mere adoption.” Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 413 (1916).

more with his/her limited resources. The brander wants none of this. The brander wants to capture ever greater shares of less cooperative surplus. The exercise of market power – i.e., pricing above marginal cost – reduces supply (and sales) with the tradeoff being that the mark owner profits more from each sale. The reduction in supply available at prices equal to marginal cost is a social cost, borne mostly by fools and partly by competitors of the mark owner.

Capture of non-competitive levels of cooperative surplus gives the brander a “war-chest” with which to fight and outlast competitors. Those with extraordinary market power may share some of the booty with charity, publicize their generosity, and argue that this is some justification for a broad injunction\footnote{See Nat’l Football League Props., Inc. v. Wichita Falls Sportswear, Inc. 532 F. Supp. 651, 664 (W.D. Wash. 1982) (court “mindful” that funds collected by NFLP from licensing program used for charitable purposes).} to protect property rights they should not have. This argument is absolutely foolish. “War-chesting” does not lead to consumer-driven innovation or entrepreneurship. Rather it leads to expenditures on efforts to protect and expand the property interest. Closing the courts to those who cannot prove real economic or reputational injury would enable consumers to capture more of the cooperative surplus.

VII. THE CONVERGENCE OF STANDING AND SUBSTANCE

Rules that limit standing can limit the substantive scope of any right.\footnote{See Mark Tushnet, The New Law of Standing: A Plea for Abandonment, 62 CORNELL L. REV. 663, 699 (1977) (determination that plaintiff lacks standing serves as surrogate for disposition on merits).} Prior to March 2014, different rules of prudential standing shaped the types of § 43(a) claims that federal district courts adjudicated; direct competitors of defendant had standing to sue under any of them. This was sufficient to permit suits whose basis was “trademark as product” or “product as trademark.” On the other hand, pre-Lanham Act rules of standing required plaintiff to show an actual diversion of

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\footnote{See Nat’l Football League Props., Inc. v. Wichita Falls Sportswear, Inc. 532 F. Supp. 651, 664 (W.D. Wash. 1982) (court “mindful” that funds collected by NFLP from licensing program used for charitable purposes).}
trade from itself to the named defendant. The holdings in such old cases as American Washboard and Eli Norris were too protective of competitors who would deceive consumers because they allowed other trade diversion to occur. Court intervention could have created more cooperative surplus. However, protecting consumers from myriad forms of confusion is no better, and often worse, when such protection accomplishes little more than to redistribute a smaller amount of cooperative surplus in favor of one competitor.

When the FTC exercised jurisdiction only over “unfair methods of competition,” it identified the diversion of trade that occurred. That diversion could be from any competitor to respondent. In the absence of such diversion, there simply was no case. The Supreme Court recognized as long ago as Winsted Hosiery that diversion of consumers’ purchases resulting from falsehoods directed at them is what mattered. Such diversion occurs only when a consumer acts on a material misrepresentation. Consumers suffer no injury when they endure no material misrepresentation. The United States Supreme Court in Lexmark International, Inc. v. Static Control Components, Inc. accomplished affirmative good by defining the class of persons who have standing.


184 Am. Washboard Co. v. Saginaw Mfg. Co., 103 F. 281, 285 (6th Cir. 1904) (injunction denied for defendant’s false claims about its product absent proof of passing off; private right of action only when deception induces public to purchase defendant’s goods as those of plaintiff).

185 Mosler Safe Co. v. Eli Norris Safe Co., 273 U.S. 132, 134 (1927) (no claim absent proof that deceived consumers would specifically have bought from plaintiff had they known the truth).

186 See FTC v. Raladam Co., 283 U.S. 643, 649 (1931) (“trader whose methods are assailed as unfair must have present or potential rivals in trade whose business will be, or is likely to be, lessened or otherwise injured”).

187 258 U.S. at 493-494.

Lexmark manufactures printers and toner cartridges for its printers. It designed its printers to work only with cartridges that it manufactures, but faced competition from so-called “remanufacturers.” Remanufacturers procure used Lexmark cartridges and refurbish them for sale. Lexmark wanted customers to return used cartridges only to it, so it included a microchip in each cartridge that would disable the cartridge when it ran out of toner.

Static Control sold the components necessary for remanufacturers to refurbish a toner cartridge, including a microchip that mimicked Lexmark’s microchips. It did not directly compete with Lexmark in the sale of toner cartridges, but enabled others to do so. Lexmark sued Static Control, and Static Control counterclaimed, alleging violations of § 43(a)(1)(B) of the Lanham Act. Specifically, Static Control alleged that Lexmark misleads end-users to believe that they are legally bound to return spent cartridges only to Lexmark. Static Control also alleged that Lexmark sent letters to cartridge remanufacturers and falsely represented that it was illegal to use Static Control’s products to refurbish Lexmark toner cartridges. Static Control alleged that these misrepresentations had proximately caused and were likely to cause it injury by diverting sales from Static Control to Lexmark and by injuring its business reputation.

The federal district court dismissed Static Control’s Lanham Act claim for lack of prudential standing because there were plaintiffs with more direct competitive interests, i.e., remanufacturers who sold refurbished toner cartridges in competition with Lexmark. The United States Court of Appeals for the Sixth Circuit reversed, holding that Static Control had a cognizable interest in its business reputation that Lexmark harmed through its statements to customers that Static Control was engaging in illegal conduct.

The Supreme Court held that the case did not involve a question of “prudential standing,” a doctrine limiting the standing of plaintiffs more than the “irreducible constitutional minimum of standing” of Article III of the Constitution.189 Rather the question is simply whether Static

189 Id. at 1386 (citation omitted).
Control has a “cause of action” under § 43(a) of the Lanham Act.\footnote{Id. at 1387.} The Court may not limit a cause of action that Congress has created “merely because ‘prudence’ dictates.”\footnote{Id. at 1388.}

The Court looked to § 45 of the Lanham Act, which states the statute’s purposes.\footnote{Id. at 1389.} Those purposes include protection of persons against “unfair competition,” a concept “concerned with injuries to business reputation and to present and future sales.”\footnote{Id. at 1390 (citations omitted).} Hence,

to come within the zone of interests in a suit for false advertising under § 43(a), a plaintiff must allege an injury to a commercial interest in reputation or sales. A consumer who is hoodwinked into purchasing a disappointing product may well have an injury-in-fact cognizable under Article III, but he cannot invoke the protection of the Lanham Act – a conclusion reached by every Circuit to consider the question. Even a business misled by a supplier into purchasing an inferior product is, like consumers generally, not under the Act’s aegis.\footnote{Id. at 1390 n.6 (proximate cause not requirement of Article III standing but element of statutory cause of action).}

Protection against unfair competition under the Lanham Act also requires proof that violations of the Act proximately caused plaintiff’s injury. This goes to the substance of the claim, not the standing of the plaintiff.\footnote{Id. at 1391-93.} The Court rejected the prevailing prudential limits on standing and held “that a plaintiff suing under § 43(a) ordinarily must show economic or reputational injury

\addcontentsline{toc}{section}{Footnotes}

\footnotetext[190]{Id. at 1387.}
\footnotetext[191]{Id. at 1388.}
\footnotetext[192]{Id. at 1389.}
\footnotetext[193]{Id. at 1390 (citations omitted).}
\footnotetext[194]{Id. (citations omitted).}
\footnotetext[195]{Id. at 1390 n.6 (proximate cause not requirement of Article III standing but element of statutory cause of action).}
\footnotetext[196]{Id. at 1391-93.}
flowing directly from the deception wrought by the defendant’s advertising; and that that occurs when deception of consumers causes them to *withhold trade from the plaintiff*.\(^{197}\)

Static Control had standing to sue Lexmark. It had alleged lost sales and damage to its business reputation.\(^{198}\) Lexmark’s advertising had damaged Static Control’s position in the marketplace.\(^{199}\) Although Static Control is not a direct competitor of Lexmark, it sufficiently alleged that Lexmark’s violations of the Lanham Act proximately caused its injuries. “[A]lthough diversion of sales to a direct competitor may be the paradigmatic direct injury from false advertising, it is not the only type of injury cognizable under § 43(a).”\(^{200}\) Static Control alleged damage to its reputation. “[W]hen a party claims reputational injury from disparagement, competition is not required for proximate cause; and that is true even if the defendant’s aim was to harm its immediate competitors, and the plaintiff merely suffered collateral damage.”\(^{201}\) Additionally, Static Control sufficiently alleged proximate cause when it alleged that its microchips had no use other than to enable remanufacturers to refurbish Lexmark toner cartridges.\(^{202}\)

**B. Comment**

The Court made coterminous the elements of a § 43(a) claim and standing. In so doing, the Court limited – without explicitly so stating – the breadth of § 43(a). It did so by shifting the focus of § 43(a) from confusion over whatever trivial matters a plaintiff can identify to confusion

\(^{197}\) *Id.* at 1391 (emphasis added).

\(^{198}\) *Id.* at 1393.

\(^{199}\) *Id.*

\(^{200}\) *Id.*

\(^{201}\) *Id.* at 1394.

\(^{202}\) *Id.*
that proximately causes actual injury. Lower courts should read *Lexmark* to require § 43(a) plaintiffs to prove identifiable loss of trade – either from diversion of trade or from consumers withholding purchases. Damage to reputation *in the context of § 43(a)* must entail commercial reputation of the sort that affects a plaintiff’s reputation with actual or potential customers who might withhold their trade or take it elsewhere. More generalized loss of reputation falls under the torts of defamation or product disparagement.

Expansion of confusion doctrines should stop.²⁰³ Speculation of how a fool might construe a claim no longer supports an action – not even for an injunction – for confusion with respect to affiliation, connection, association, sponsorship, approval, etc. Such speculation proves neither injury nor proximate cause. Confusion theories should no longer be the tool of those who seek to propertize their marks by bullying competitors with smaller “war chests” than they have. Congress and courts should determine what the law is – not consumers who are ignorant of it and have no reason to care. Courts should give confusion over trivial matters the treatment it deserves. The scope of initial interest confusion should be very limited, if the doctrine survives at all. The doctrine of post-sale confusion should be limited to the confusion that harms plaintiff’s commercial reputation, i.e., when a third person sees defendant’s knockoff and thinks less of plaintiff and so does not patronize it – a claim not easy of proof.

Context matters. Only a material misrepresentation can cause the type of injury the Court seems to demand. There should be more cooperative surplus, and consumers should capture more of it.

VIII. CONCLUSION

Reviewing courts drew on Isaiah 35:8 as authority to give the FTC the power to protect credulous

²⁰³ *Cf.* e.g., *Multi Time Mach., Inc. v. Amazon.Com, Inc.*, ___ F.3d ____, hdn8 (9th Cir. 2015) (affirming summary judgment for defendant; Amazon made no claim to carry plaintiff’s brand but rather displayed competitors’ brands that it *does* carry).
fools. This must have resulted from a superficial reading of Isaiah 35:8. The prophet never urged protection of gullible, credulous fools. Once the FTC received such authority, it relied on speculation, not reliable proof, to determine ex ante how credulous people would construe specific claims. The FTC’s efforts to protect fools resulted in less information available to consumers. With less information, there is less competition of the kind that benefits consumers. The FTC long ago abandoned this “fool’s test” for deception in favor of a more balanced approach that takes account of likely injury to those who are not fools. Unfortunately, the ostensible marketplace protection of fools did not end. Nowadays, fools who believe whatever sellers in their own self-interest wish for consumers to believe justify a standardless and expansionist propertization of trademark rights. Neither branders nor courts invoke Biblical authority, but the Biblical fool that courts reviewing FTC orders created still thrives in § 43 Lanham Act jurisprudence. Federal courts would do well to take a page from the FTC’s experience.

The cost of being a fool is not merely that we might buy something we did not mean to buy, i.e., that a seller successfully foisted something off on us because we were foolish. Such harm would manifest itself at the seller level as trade diversion. Rather, it is that we are so protected from the possibility of being fooled that markets are restructured to the benefit of those who have only their own interests in mind. This latter cost is much greater, and current trends in Lanham Act enforcement have made it difficult to undo. Trade diversion has not been necessary for a competitor to prevail; instead it has been surmise of the reaction of a contrived, hypothetical fool to some marketplace stimulus, e.g., “trademark as product” and “product as trademark.” Protection of consumers should not take the form of choking off information that competitors who offer choices to consumers would provide. Such protection does harm, not affirmative good. Interestingly, defendant in Lexmark alleged that plaintiff had misrepresented, as a factual matter, the law applicable to its practices. That apparently is actionable. There is no remedy for fooling consumers into believing expansionist views of sellers’ legal property rights. Trademark doctrines should emerge to displace those doctrines whose principal purpose has been to assure seller capture of greater shares of cooperative surplus.
If law were less solicitous and generous to those who would use the market power that their trademarks create to stifle competition, they would capture less of the cooperative surplus that voluntary transactions create. At the same time, cooperative surplus would increase. Those trademark owners would have to rely on creating the next value-creating product – rather than “war-cheusting” gains in order to protect and enhance the market power that they have acquired. This would create far more value than frightening merchants into believing, for example, that they may not print the words “Super Bowl” when this event – a part of our national culture – is played in their city.  

In establishing rules governing competitive norms in the marketplace, the question should be which of alternative rules provides greater net value by its enforcement. The question has become how can marketplace competitors increase their share of cooperative surplus at the expense of fools – even if the rule such capture implies reduces the amount of that surplus. The question presumes a property entitlement for competitors who can exploit market power to build “war chests” to expand their claims to property. Pejoratives such as free-riding, piracy, poaching, naked appropriation, or knockoff do not assist in identifying the best rule and its limits. Indeed, the pejoratives misdirect the inquiry. The basis of protecting the consumer should be deception with respect to material claims. When courts expand the matters over which confusion is actionable, protection of fools becomes exploitation of fools.

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204 See Corey Kilgannon, Local Businesses See Scant Benefit From the Game That Can’t Be Named, N.Y. TIMES, Jan. 28, 2014, at A18, available at 2014 WLNR 2408575 (intimidated merchants in city hosting Super Bowl refrain from referring to the game).