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The Trouble with Trademark

Stephen L. Carter†

The trouble with the Federal law of trademarks is that it rests on un-stated assumptions about how marks are selected and marketed, and, because of its assumptions, it might be granting too much in return for too little. In theory, legal protection of trademarks provides incentives for firms to make investments aimed at gaining consumer confidence in their marks. Successful marks are like packets of information. They lower consumer search costs, thus promoting the efficient functioning of the market. Too few ask the question, however, whether Federal trademark law is consistent with this theory.

The common law of unfair competition, which predates Federal trademark protection and continues to exist side-by-side with it, enhances the function of marks by protecting a mark from imitation only to the extent that its use in the market actually identifies the goods or services of a particular firm. This is the reason that it is frequently said that rights to a mark flow from its use. But since the Lanham Act of 1946 created the first system of nationwide protection of marks,¹ Federal trademark law

† Professor of Law, Yale University. I have had the benefit of thoughtful advice and criticism from Enola Aird, Ralph Brown, Frank Easterbrook, Robert Ellickson, Jane Ginsburg, Wendy Gordon, Henry Hansmann, Robert Merges, Richard Posner, and Roberta Romano. Rebecca Arbogast and Sushma Soni provided research assistance. Errors, of course, are entirely mine. Some of the general themes in this Comment were expressed earlier, in a shorter and different form, as part of a paper presented at a Federalist Society conference in Ann Arbor, Michigan, in March, 1989. That paper will be published separately under the title Owning What Doesn't Exist, 13 Harv. J.L. & Pub. Pol'y (forthcoming 1990).

has been moving stubbornly in another direction, toward granting protection for marks that have no significance at all. Matters are likely to worsen under the Trademark Law Revision Act of 1988 (TMRA), which took effect in November of 1989.¹

Under the Lanham Act, a firm that obtains registration of a mark suddenly becomes the mark's proprietor in markets that the firm has never entered and might indeed have no interest in entering. In other words, common law ownership of a mark in one part of the country can, through registration, become effective ownership of the mark in every part of the country. The effect of this approach is to give the mark's owner the benefit of more than has been invested, by treating the mark as carrying significance in markets where it has none. Under the TMRA, the deviation from the common law is greater still. Now, an applicant can receive nationwide priority—effectively, common law ownership—in a mark that it has never used anywhere.

In this Comment, I argue that the protection of marks that convey no information to consumers carries significant but rarely mentioned costs. The traditional economic justification for trademark law rests on the premise that the set of available marks is virtually infinite and, in consequence, that the actual mark chosen by a firm to represent its goods is irrelevant. If that assumption turns out to be false—if even before the public comes to associate a mark with any particular goods or services, some marks are more desirable than others—then allowing protection of marks devoid of market significance may raise substantial barriers to entry by competitors. For this reason, I will argue, the theoretical case is clearer for the common law model than for the Federal scheme.

Part I sets out the theoretical justification for trademark protection and elaborates upon its underlying assumptions. Part II explains the concerns animating Federal trademark protection, and argues that although the Lanham Act was a flawed but essentially sound statute, the central features of the TMRA serve only to exacerbate the Lanham Act's principal flaws. Part III analyzes a special case of the general critique: the question of whether Federal trademark protection should always be nationwide in scope. Part IV offers a handful of fairly modest proposals to ameliorate the most costly aspects of the TMRA's intent-to-use system.

¹. Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 [hereinafter TMRA or Revision Act]. The TMRA amendments are reflected in 15 U.S.C. §§ 1051-1127 (1988). Because this Comment discusses both the original Lanham Act and the recent Revision Act, citations to the Lanham Act are by section number to the Act and the Code, and citations to the Revision Act are by section number to the Revision Act alone. The entire May-June, 1989, issue of The Trademark Reporter is devoted to articles analyzing the various provisions of the TMRA.
I. THE THEORETICAL BASIS FOR TRADEMARK PROTECTION

A. Trademarks and Information

"[T]rademarks," according to the Supreme Court, "foster competition and the maintenance of quality by securing to the producer the benefits of a good reputation." Successful trademarks are valuable because of the information that they convey. The consumer sees the mark and knows what the mark represents: a consistent quality, a reputation for service, and any of the other things that when wrapped together are thought of as a business's goodwill. Goodwill is intangible and often its precise source is difficult to trace, but it is one of a firm's most valued assets because it is, by definition, a major reason for the consumer's choice among competing brands.

A firm's trademark is, in the words of one Federal court, "one of the visible mediums by which the good will is identified, bought, and sold, and known to the public." Traditionally, trademarks have been protected because of what they represent. The legal system has protected not the mark itself, but the mark as symbol. That is the significance of the follow-

4. "Good will," as one of the leading treatises notes, "is not to be simply equated with reputation. It includes, but connotes more than, good credit, honesty, fair name and reliability. It may include technical efficiency." 1 R. Callmann, Unfair Competition, Trademarks and Monopolies § 1.11, at 36 (1981).
5. With one important exception, nothing in this paper's analysis turns on whether the goods in connection with which the mark is used are "search goods" or "experience goods." According to Phillip Nelson's dichotomy, search goods are those that the consumer will ordinarily examine prior to purchase, whereas experience goods are those with qualities that the consumer ordinarily is not able to ascertain until after purchase. The classic example of a search good is an automobile. Most packaged consumer goods are experience goods. See Nelson, Information and Consumer Behavior, 78 J. Pol. Econ. 311, 311-12 (1970); see also Nelson, The Economic Value of Advertising, in Advertising & Soc'y 43 (Y. Brozen ed. 1974); Nelson, The Economic Consequences of Advertising, 48 J. Bus. 213 (1975). Nelson argues that advertising for search goods should be informational, because what the consumer wants to know about the goods can be communicated in ordinary language. Advertising for experience goods, on the other hand, might be aimed principally at keeping the brand name before the consumer, because the consumer will not know the product's quality before purchasing it, and a rational consumer might attach importance to the sheer volume of advertising: Even without conscious articulation of the idea, Nelson argues, the consumer may sense that "[t]hose brands that get a lot of repeat purchases find it more profitable to advertise than brands that will not get repeat purchases," or, more simply, "it pays to advertise winners rather than losers." Nelson, The Economic Value of Advertising, supra, at 50. As the consumer gains experience with experience goods, the trademark will become more important to the consumer than the volume of advertising, because no matter how much the brand name is kept before the consumer, unless the goods that the name represents are goods that the consumer desires and trusts, the consumer will avoid rather than buy them. See F. Scherer, Industrial Market Structure and Economic Performance 378-79 (2d ed. 1980). At the same time, if the consumer comes to trust a brand name on a search good, the search costs also will be lower, as the consumer will rely more on the informational content of the advertising. Although reliance on goodwill in the purchase decision is obviously greater in the case of experience goods, in both cases, the value of the trademark is proportional to the goodwill that it represents, just as the economic theory of trademarks suggests. In both cases, moreover, the reason the mark matters is that it conveys information.

The one case discussed in this paper in which the distinction between search goods and experience goods might be significant is the case of mobile consumers. See infra text accompanying notes 110-23.
ing well-known passage from the Supreme Court's decision some seventy years ago in *United Drug Co. v. Theodore Rectanus Co.*: "In truth, a trade-mark confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's good-will in trade by placing a distinguishing mark or symbol—a commercial signature—upon the merchandise or the package in which it is sold." A trademark, then, is a "distinguishing" mark, a way of identifying the good. The mark serves no other function and enjoys no legal existence independent of the goodwill that it symbolizes. Without goodwill, marks have no meaning, and the law has traditionally treated meaningless marks as unworthy of protection.

The economic argument for protecting marks is straightforward and quite forceful. The principal benefit of trademark protection is that it lowers consumer search costs. If goods were not marked, potential purchasers, unable to rely on any brand name (at common law, the trade name) or distinctive appearance of the packaging (also known as trade dress) to identify the producer, would need a means of testing the products directly. Moreover, the more valuable the mark, the greater the incentive for the producer to maintain the level of quality that creates the value and lowers the cost of search. Without legal protection, it would be difficult for the user of a mark to appropriate the full value that the mark represents. A trademark is not a public good, but it nevertheless exhibits non-excludability, for in the absence of legal protection, if a firm of good reputation tried to mark its goods with a symbol to let consumers know

7. 248 U.S. 90 (1918).
8. *Id.* at 98. The Court used similar language in an earlier opinion, *Canal Co. v. Clark*:
   No one can claim protection for the exclusive use of a trade-mark or trade-name which would practically give him a monopoly in the sale of any goods other than those produced or made by himself. If he could, the public would be injured rather than protected, for competition would be destroyed.

9. Although this paper discusses the economic argument for trademark protection, other justifications have also been suggested. At common law, trademark protection was sometimes explained as part of the law of occupancy, as a natural right appurtenant to creation. Thomas Cooley, in his edition of Blackstone’s *Commentaries*, appends the following note to Blackstone’s discussion of literary property as a branch of the law of occupancy, under which an occupant was entitled to appropriate his or her personal labor:
   Mr. Sweet, in a note to this passage, calls attention to the fact that the right to the exclusive use of distinctive trade marks . . . for the purpose of enabling the public to know if it is dealing with or buying the manufactures of a particular person, is somewhat analogous to literary copyright, and though partially founded on the notion of protecting the public from fraud, is an example of a right much more evidently arising out of occupancy.

1 W. Blackstone, *Commentaries* 754 n.1 (T. Cooley ed. 1899). Of course, like so many arguments that style themselves as arguments about “natural right,” the occupancy argument does have some of the same flavor as the economic argument.


them—that is, to lower the costs of search for consumers desiring to purchase the firm's goods—other firms could imitate the symbol and trade on the first firm's reputation. This possibility would reduce the incentive for a successful firm to mark its goods and would thereby raise consumer search costs.\textsuperscript{12}

In considering the implications of this argument, it is useful to define "market language" as something different from ordinary language. Market language is the language in which firms speak to consumers, and it consequently includes all the words and phrases that might be used to provide information about products and services.\textsuperscript{18} A trademark, then, is a part of the market language. When the law allows a firm to appropriate a mark, the size of the set of words available to the next firm is reduced.\textsuperscript{11}

But if the consuming public is now able to use the mark as an information-economizing device, the benefits of the removal almost certainly will outweigh the costs.

Because the full cost of a good to a consumer equals the price plus the consumer's cost of search,\textsuperscript{15} the benefits to the firm are salutary: the more goodwill behind the mark, and the larger the number of consumers who attach a positive association to it, the better off the firm, which will make more sales at a higher price,\textsuperscript{16} and the better off the consuming public, which will realize a larger net economy on information costs. And no matter how influential the mark might become, no matter how strong its reputation, there are no additional market language costs. The size of the set of appropriate marks is still reduced by the same amount—one mark.\textsuperscript{17}

Thus, as a mark becomes stronger, the case for permitting its removal from the market language becomes easier to make. As long as the legal system allows only marks that actually represent goodwill to be removed from the available market language, the gains are clear.

\textsuperscript{12} If goods are not marked, moreover, the firm's incentive to maintain a high quality will be less. Economic planners in the Soviet Union learned this lesson several decades ago to their horror. See Goldman, \textit{Product Differentiation and Advertising: Some Lessons from Soviet Experience}, 68 J. Pol. Econ. 346, 348-51 (1960).

\textsuperscript{13} This idea is not even remotely new. For similar formulations, see Landes & Posner, \textit{supra} note 10; Nelson, \textit{Information and Consumer Behavior}, \textit{supra} note 5; Stigler, \textit{The Economics of Information}, 69 J. Pol. Econ. 213 (1961).

\textsuperscript{14} For the sake of simplicity, I am limiting my discussion to a market language of words and trademarks consisting of words. Obviously, the market language also includes symbols, patterns of colors, even music. A similar analysis can be applied to the broader market language as well.

\textsuperscript{15} See Landes & Posner, \textit{supra} note 10, at 275.

\textsuperscript{16} The firm with a strong mark can charge a higher price than competitors because the consumers of the competitors' goods face higher search costs and will therefore not be willing to pay prices as high as when the search costs are lower. See id. at 277-79.

\textsuperscript{17} Actually, the reduction is larger than one mark, because both common law unfair competition and Federal trademark law prohibit competitors from adopting not only a mark that is identical to the protected mark, but any mark that is confusingly similar to the protected mark. Thus, if the set of potential marks in the market language is envisioned as bounded by a circle, then each time a mark is removed, the large circle loses not merely a point, but a tiny circle around that point as well.
B. Information and the Common Law

The common law of unfair competition developed in response to this understanding. At common law, rights in a mark vested in its owner, and the owner (although the details of the doctrine were sometimes unclear) was the first user to appropriate the mark in a manner that clearly associated it with the user's goods. Over the years, the common law has developed a number of doctrines, generally grouped under the heading "unfair competition," to protect the investment that the first user makes in convincing the public to associate quality goods with the mark. Despite decades of evolution, the workhorse of unfair competition remains the original common law action for "passing off" or "palming off."

The action for passing off illustrates the way in which at common law the owner's rights to the mark are coextensive with the goodwill that the mark represents. Passing off has three elements: (1) misappropriation of goodwill, (2) by a competitor, (3) resulting in consumer confusion as to source. The passing off doctrine avoids the principal costs that would attach to a system offering marks no protection. Thus, if a second firm (or junior user) imitates the trade name or the distinctive trade dress that identifies the products of the first firm (or senior user), and if consumers purchase the junior user's goods, thinking them the goods of the senior user, an action for passing off will lie, because the junior user has in effect taken the senior user's goodwill.

But if no goodwill has been taken, no action will lie, a rule that the common law enforced with a vigor that might amaze modern trademark lawyers. For example, in the 1742 case of Blanchard v. Hill, Lord Hardwicke, expressing a fear of monopoly, refused an injunction to prevent one maker of playing cards from stamping upon its cards the same symbol used by another maker to identify its own cards in the market. No action would lie, Lord Hardwicke explained, unless the manufacturer that copied the other's mark did so "with a fraudulent design" or "to draw

18. For a useful discussion of common law ownership of marks, see Handler & Pickett, Trademarks and Trade Names—An Analysis and Synthesis: II, 30 Colum. L. Rev. 759, 764-68 (1930). The requirements for appropriation differed depending on whether the mark was "fanciful" or "descriptive." (These terms are defined in detail infra at text accompanying notes 34-47). A fanciful mark could be appropriated by its use. At common law it was known as a "technical trade mark" and its proprietor protected it in an action for common law trade mark infringement. A descriptive mark could only be appropriated once it acquired secondary meaning—that is, once the public came to associate it with the goods of a particular firm—and was protected in an action for unfair competition. The action for common law infringement was gradually subsumed in the action for unfair competition. For useful historical overviews, see F. Schecter, The Historical Foundations of the Law Relating to Trade-Marks (1925); McClure, Trademarks and Unfair Competition: A Critical History of Legal Thought, 69 Trademark Rep. 305 (1979).

19. See American Washboard Co. v. Saginaw Mfg. Co., 103 F. 281, 284 (6th Cir. 1900). All that is needed to show passing off is "a likelihood that a significant number of prospective purchasers will be deceived or misled with respect to the identity or commercial affiliation of the actor or the source or sponsorship of its goods or services." Thus, "[p]roof of actual deception is not required." Restatement of Unfair Competition § 4, comment c (Tent. Draft No. 1, 1988).

20. 2 Atkyn's 484 (Ch. 1742).
away customers from the other.\textsuperscript{21} Similarly, in the well-known case of American Washboard Co. v. Saginaw Manufacturing, Co.,\textsuperscript{22} a Federal court refused to grant an injunction sought by American Washboard, which manufactured aluminum washboards and stamped across them the word "ALUMINUM," against Saginaw, which manufactured washboards that were likewise emblazoned with the word "ALUMINUM" though in fact they were made of zinc. The plaintiff's theory of the case, the court argued, would remake the law of unfair competition:

It loses sight of the thoroughly established principle that the private right of action in such cases is not based upon fraud or imposition upon the public, but is maintained solely for the protection of the property rights of complainant. It is true that in these cases it is an important factor that the public are deceived, but it is only where this deception induces the public to buy the goods as those of complainant that a private right of action arises.\textsuperscript{23}

The common law rule, then, limits the action for unfair competition to cases of passing off, that is, to cases in which the junior user is competing with the senior user and has imitated the mark in order to trade on the senior user's goodwill. The doctrine has many offshoots. There is, for example, the common law action for misappropriation, in which the defendant is accused not of trading on the plaintiff's reputation by borrowing the mark itself, but instead of converting to its own use the fruits of the senior user's investment in establishing its reputation.\textsuperscript{24} Another offshoot is the statutory doctrine of dilution, in which the defendant is a junior user who need not be a competitor and has not necessarily diverted custom.\textsuperscript{25} The

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\item \textsuperscript{21} Id. at 485.
\item \textsuperscript{22} 103 F. 281 (6th Cir. 1900).
\item \textsuperscript{23} Id. at 285. For a discussion of the historical derivation of "the deceit of the people" as an indispensable element of the common law of unfair competition, see F. Schecter, supra note 18, at 163-64. Although the new Restatement preserves the passing off action, see note 19 supra, it also states a general principle of unfair competition that returns to deceit as its fundamental principle. Restatement of Unfair Competition § 2 (Tent. Draft No. 1, 1988). The new fundamental principle, however, abandons the necessity that consumers be confused about source or sponsorship, and replaces it with a requirement that the deceit cause harm to another firm's commercial interest. The distinction is an important one, because a general requirement of harm, unlike a requirement of confusion as to source, has little to do with the information-economizing function of marks. I am grateful to Wendy Gordon for calling this point to my attention.
\item \textsuperscript{24} See, e.g., International News Serv. v. Associated Press, 248 U.S. 215 (1918) (liability when second firm sells first firm's news reports as its own); Pittsburgh Athletic Co. v. KQV Broadcasting Co., 24 F. Supp. 490 (W.D. Pa. 1938) (liability when second firm, situated outside of first firm's ballpark, broadcasts first firm's sporting events); Metropolitan Opera Ass'n, Inc. v. Wagner-Nichols Recorder Corp., 199 Misc. 786, 101 N.Y.S.2d 483 (N.Y. Sup. Ct. 1950) (liability when second firm records first firm's radio broadcasts and sells recordings). Not all courts, however, have been receptive to misappropriation as a rationale for an unfair competition action. See, e.g., Cheney Bros. v. Doris Silk Corp., 35 F.2d 279 (1929); Germanow v. Standard Unbreakable Watch Crystals, Inc., 283 N.Y. 1, 27 N.E.2d 212 (1940). It should be noted that International News Service, the first major case on the misappropriation doctrine, was decided under the old Federal common law, and consequently has not been a binding precedent since Erie R.R. v. Tompkins, 304 U.S. 64 (1938).
\item \textsuperscript{25} As of 1987, approximately 20 states had enacted anti-dilution statutes. See Shire, Dilution
theory underlying the dilution action is that the senior user's mark is so strong that even a junior user in a distinct product market may be trading on the goodwill that the mark represents.

Even these doctrines, however distant they may seem from passing off, have their roots in the idea that investments in those features of a brand that make it appealing to consumers should not be undermined by others who seek a free ride, whether on the work that produced the goodwill underlying the mark or on the mark itself.

There is an important theoretical nexus between the passing off doctrine and the economic argument for the protection of trademarks. The common law action for passing off creates an incentive for a successful firm to find ways of marking its goods to distinguish them from the goods of other makers. Once a firm owns a mark, the common law will refuse to allow the mark to be imitated by competitors seeking to divert custom. The common law will extend that protection, however, only in geographic or product markets in which the firm actually is doing business or into which it would naturally expand. In those markets, consumers who want to find the firm's goods (or, for that matter, who want to avoid them) can do so at relatively low cost. In markets where the mark has no meaning, the search costs of consumers might be raised, not lowered, were the mark taken out of the available market language. Thus at common

Versus Deception—Are State Antidilution Laws an Appropriate Alternative to the Law of Infringement?, 77 TRADEMARK REP. 273, 273 n.2 (1987). The nation's General Agreement on Tariffs and Trade (GATT) partners have been pressing hard for several years for a Federal anti-dilution statute. The sponsors of the TMRA argued that adding a federal cause of action for dilution would strengthen the position of America's GATT negotiators who are pressing for stronger protection abroad of American intellectual property rights. See S. REP. NO. 515, 100th Cong., 2d Sess. 7-8, reprinted in 1988 U.S. CODE CONG. & ADMIN. NEWS 5577, 5583-84 [hereinafter TMRA SENSE REPORT]. Many industrialized nations have anti-dilution statutes, which means that domestic marks receive more protection abroad than foreign marks receive here. Id. The United States Trademark Association, after working for years to convince the states to adopt anti-dilution laws, has concluded that a Federal anti-dilution provision is needed. See The United States Trademark Association Trademark Review Commission Report and Recommendations to USTA President and Board of Directors, 77 TRADEMARK REP. 375, 454-62 (1987) [hereinafter Trademark Review Report]. These efforts nearly succeeded in 1988, but while the Senate version of the TMRA included a Federal dilution provision for "famous" marks, the House deleted it. See 36 Pat. Trademark & Copyright J. (BNA) 742 (1988) (remarks of Sen. DeConcini). For a sense of what counts as a "famous" mark, see, e.g., Allied Maintenance Corp. v. Allied Mechanical Trades, 42 N.Y.2d 538, 369 N.E.2d 1162 (1977) (denying protection for word "Allied"). For a further discussion, see Trademark Review Report, supra, at 460-62. There are, of course, dissenters from the view that marks should be "famous" before anti-dilution protection is made available. For discussions of the debate, see, e.g., Pattishall, The Dilution Rationale for Trademark—Trade Identity Protection, Its Progress and Prospects, 71 NW. U.L. REV. 618 (1976); Shire, supra, at 276-77.

26. The idea of a "zone of natural expansion" is an old one in the common law. The theory underlying the doctrine is that every firm has the possibility of growth, some more than others, and that a mark should be protected, at least for a period of time, in the region into which the firm may grow. See 2 J. McCARTHY, supra note 1, at §§ 26.8-26.9. In recent decades, courts have generally required some evidence of an intention or expectation of expansion into a particular geographic market, rather than simply assuming a "natural" expansion. See Dawn Donut Co. v. Hart's Food Stores, 267 F.2d 358 (2d Cir. 1959), discussed infra text accompanying notes 116-29.
law, when the mark has no meaning, it remains in the market language, free for any firm to appropriate.

This background understanding, that only marks with meaning are protected, is the pillar of the common law of unfair competition. The same understanding is also the principal justification offered for Federal protection of trademarks. It contains a critical element that needs to be stressed: the reason that the mark is protected is that it is being used by a particular firm to identify its goods. The mark can identify the firm's goods only if the firm is actually operating (or at least, if the firm's mark is known) in the market in which it is seeking to protect the mark. For this reason, it is often said that rights in a mark flow from its use.

C. The Use Requirement and Good Ideas

The logical consequence of the use requirement is that no trademark protection is available for an idea for a mark. \(^{27}\) In fact, no Federal intellectual property protection of any kind is available for what amounts to a scheme for marketing goods. This is no arbitrary judgment. Intellectual property law is designed to protect ideas, not methods of doing things. \(^{28}\) So it is natural that a scheme for marketing goods should find its value, if any, in its use, not in the receipt of legal protection. \(^{29}\) Consequently, no matter how clever the idea for a mark, no matter what special charm it might possess, the mark itself, lacking any underlying goodwill, has not heretofore been the subject of Federal protection.

The law's refusal to protect the mark itself distinguishes trademarks from intellectual property of other kinds. In patent law, once a new, useful, and non-obvious invention has been reduced to practice, it may be the subject of legal protection whether the inventor exploits it or not. \(^{30}\) It is the invention itself, not anything lying behind it, that is protected. Similarly, in copyright law, the author's form of expression of an idea is protected, without regard to the use—if any—to which the author puts the finished work. In both cases, the law provides an incentive to create things that might not otherwise be created.

\(^{27}\) See J. McCarthy, *supra* note 1, § 16.1, at 721.

\(^{28}\) For example, copyright protection is available only for the form in which an idea is expressed, not for the underlying idea itself. See Baker v. Selden, 101 U.S. 99 (1879). Nor is a patent available for a method of doing something, as against a process, which is "a mode of treatment of certain materials to produce a given result." Halliburton Oil Well Cementing Co. v. Walker, 146 F.2d 817, 821 (9th Cir. 1944) (quoting Cochrane v. Deener, 94 U.S. 780, 788 (1877)). For a dissenting view on the copyrighting of at least some ideas, see Hopkins, *Ideas, Their Time Has Come: An Argument and a Proposal for Copyrighting Ideas*, 46 ALB. L. REV. 443 (1982). For an argument in favor of patenting at least some new methods of doing things, see Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265 (1977).


Trademark law, however, provides no incentive to create new marks. A firm might well develop an idea for a mark that has some special charm and seems to be appealing, but its appeal has nothing to do with the reason that marks receive protection. Indeed, trademark law may be described as indifferent to the creation of marks, in the sense that the number of marks makes no difference. One might conceive of an optimal supply of copyrighted works or patented inventions, but it makes no sense to refer to an optimal supply of marks as such. All that is needed is a different mark for each producer. This is the reason that trademark law has never provided incentives to be clever in selecting a mark. Instead, the law encourages the development of goodwill and the association of that goodwill with a mark.

D. Language Exclusivity, the Varieties of Trademarks, and the Irrelevant Mark Assumption

The fear that legal protection might be extended to clever ideas for marks—symbols that themselves carry some persuasive force, even before they are linked to products—has led to charges that the trademark system promotes monopoly. I want to make quite clear that this is not my view. In particular, I do not mean to imply that the word “monopoly” is appropriate simply because a trademark right is an exclusive one, for that would suggest that all exclusive property rights are monopolies. Further, the monopoly that ought to be of concern is not the monopoly of the “product differentiation” critique of trademark, which holds that firms will make socially wasteful investments in advertising to encourage consumers to make choices on grounds other than price among undifferentiated goods. The debate over that claim, with its implicit and rather sweeping assumptions about the formation, rationality, intensity, and durability of consumer preferences, was of considerable moment in the first two decades of the Lanham Act, and continues to arise from time to time.

31. For more on these distinctions, see Carter, supra note †.
32. Cf. Artype, Inc. v. Zappulla, 228 F.2d 695, 696–97 (2d Cir. 1956) (L. Hand, J.) (“A trademark is indeed often spoken of as a monopoly; but in fact it is only part of the protection of the owner’s business from diversion to others by means of deceit.”). For a statement of the general case against treating intellectual property as granting monopoly rights, see Easterbrook, Intellectual Property is Still Property, 13 HARV. J.L. & PUB. POL’Y (forthcoming 1990).
33. For examples of the argument that strong trademarks will lead to monopoly profits from misled consumers, see Brown, Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 YALE L.J. 1165 (1948); Mueller, Sources of Monopoly Power: A Phenomenon Called Product Differentiation, 18 AM. U.L. REV. 1 (1968); Papandreou, The Economic Effects of Trademarks, 44 CALIF. L. REV. 503 (1956). The background theory for the product differentiation critique may be found in E. CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION (1933), and J. BAIN, BARRIERS TO NEW COMPETITION (1956). For strong counter-arguments to the monopoly claim, see,
My concern is with market language, the ability of firms to inform consumers, at the lowest possible cost, of what it is they are selling. Trademark protection matters because it allows a firm to remove a word from the market language, in the sense that it allows the firm to prevent others from using the word or anything confusingly similar to it. This creates what might be called language exclusivity.54

Language exclusivities are monopolies over symbols, not over products, and monopolies over symbols are of no significance if marks do not matter, if one mark is as good as another for marketing any particular product or service. This view in turn assumes that the mark bears no relation to the ability to build goodwill, except insofar as the mark serves as a low cost vehicle for the transmission of other information about the source of the product. The mark, in this view, is purely representational, and, to the consumer, has no independent significance. Thus, given similar advertising campaigns, marks are essentially fungible. Put otherwise, the set of marks appropriate to a given product category is practically infinite. This assumption I will refer to as the irrelevant mark assumption, or IM.

IM might be relatively non-controversial if all marks fell into the category that the law calls "fanciful"—words bearing no particular connection to the products or services that they are chosen to represent. EXXON and KODAK are examples of fanciful marks. And, as William Landes and Richard Posner have noted in a recent article on the economics of trademark law, a relatively large universe of possible words from which marks might be selected "is a precondition to a system of trademarks that is effective in lowering consumer search costs."55 They go on to make quite explicit the reliance of trademark law on the IM assumption:

Prior to establishing a trademark, the distinctive yet pronounceable combinations of letters to form words that will serve as a suitable trademark are as a practical matter infinite, implying a high degree of substitutability and hence a slight value in exchange. . . . A proper trademark is not a public good; it has social value only when used to designate a single brand.56

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The counter-arguments, like this paper, rely on the view that advertising is essentially informational in character, a contention that is formalized in Stigler, supra note 13, and Nelson, Information and Consumer Behavior, supra note 5, although, as will be seen, I also recognize that the model has weaknesses.

34. Landes and Posner call this a "language monopoly." Landes & Posner, supra note 10, at 292. 35. Id. at 273. The Landes and Posner article is an unusually ambitious effort at enunciating a single theory to explain all of trademark law. A shorter and less technical version of the same article is Landes & Posner, The Economics of Trademark Law, 78 TRADEMARK REP. 267 (1988). All of my references are to the longer version.

The point, in short, is that marks are fungible and their number infinite. One mark is as good as another if not joined to goodwill, and there are plenty of marks available.37

The immediate difficulty with any theory premised on the IM assumption, however, is that virtually no one involved in the selection and testing of marks seems to think that IM presents a useful picture of the world.38 On the contrary, firms invest heavily in development and testing of marks.39 So it is useful to suppose, at least for the sake of the argument, that some words and symbols are inherently cheaper information economizers than others. We can define mark A as a better information economizer than mark B whenever the same firm selling the same product can build goodwill more cheaply with mark A than with mark B. I will refer to such a cheaper information economizer as a better mark.

The idea that some marks are better than others plainly accords with intuition. (Why EXXON? Well, try selling gasoline under the name OX-XEN. Or, for that matter, GRODROK.) It accords with the empirical literature, which suggests that consumer preferences are somewhat more complex than the simple information model (for all its obvious elegance) tends to assume.40 Moreover, unless some marks are better than others, consumer product firms are acting irrationally when they test to see which names or symbols will be most attractive to consumers before choosing marks for new products.41 Assuming instead that these firms are acting rationally, it must be the case that even before proceeding to advertise—that is, before beginning to build goodwill—a firm that adopts one of the better marks will face lower entry costs, and probably lower long-run costs, than a firm that adopts one that is not as good.42 Both firms

37. Thus, under IM, even if the plaintiff’s mark is reserved, “[a]ll the rest of infinity is open...” Coca-Cola Co. v. Old Dominion Beverage Corp., 271 F. 600, 604 (4th Cir. 1921).
39. Empirical work has questioned the accuracy of some market research. See, e.g., Goldsmith, Spurious Response Error in a New Product Survey, 17 J. BUS. RES. 271 (1988) (noting that respondents in market surveys often claim familiarity with non-existent brands or brands they are unlikely to know); Bernardo, A Heuristic Model to Predict Brand Switching in Consumer Choice, J. BEHAV. ECON., Winter 1984, at 25 (noting that consumers often purchase different brands than ones they claim to prefer).
40. See, e.g., Bernardo, supra note 39; Booth, supra note 38; Tellis, Advertising Exposure, Loyalty, and Brand Purchase: A Two-Stage Model of Choice, J. MARKETING RES., May 1988, at 134.
41. For a dated but still evocative account of the link between consumer testing and trademark selection, see Pedersen, The Advertising Agency Role in Selection and Use of Trademarks, 47 TRADEMARK REP. 791 (1957).
42. Depending on the behavior of the existing firms, the situation may be more complex, because even if later entrants face higher long-run costs, the existing firms, if their marks are equally good, should compete with one another on price. This will not necessarily help the later entrants, especially in the short run. Cf. Economides, The Economics of Trademarks, 78 TRADEMARK REP. 523, 537–38 (1988) (discussing, but minimizing, advantage of firms that appropriate best marks).
must advertise to build their markets, but the first firm, without regard to product quality, has an advantage if its mark is better.

This understanding offers a ready explanation for the preference of many firms entering new product markets to select marks that either describe some element of the product or call to mind an attribute that the public will, the firm hopes, associate with the product. Marks that describe an aspect of a product are known as "descriptive." Marks that do not describe the product but call to mind some attribute of it are called "suggestive." Examples of descriptive marks are CUSTOM-BLENDED for gasoline or GASBADGE for a badge to monitor gaseous pollutants. A good example of a suggestive mark is GLEEM for toothpaste. The line between descriptive and suggestive marks is quite a difficult one to draw, and new entrants to product markets often stray quite close to it.

Landes and Posner recognize that there are categories of marks for which the IM assumption does not hold. For example, they point out that in the case of suggestive marks, "the elasticity of supply . . . is less." And in the case of descriptive marks, the problem is plain:

A given product has only so many attributes that interest buyers. So if one producer is allowed to appropriate the word that describes that attribute, he will obtain rents measured by the higher price he receives for his brand because it is so costly for his rivals to inform their customers of the attributes of their brands without using the descriptive word that has been appropriated.

Still, according to Landes and Posner, these difficulties can be resolved without abandoning their basic model. Should early entrants to a market adopt the best suggestive marks, Landes and Posner suggest, nonsuggestive marks ought to supply adequate substitutes. They point out, for example, that one firm's appropriation of the suggestive mark Business Week hardly stifles competition, for Barron's, Forbes, and The Wall Street Journal all manage to get along. But if suggestive marks are in fact better than other marks before any goodwill attaches, then the availability of substitutes that might do well over the long run does nothing to change the cost problems of the later entrants. Besides, the fact that some markets function well even after suggestive marks are appropriated hardly refutes the proposition that the appropriation of suggestive marks will

43. See In re Sun Oil Co., 426 F.2d 401 (C.C.P.A. 1970).
45. See Barry, Lefkowith & Clark, supra note 38; Pedersen, supra note 41.
47. Id. at 290.
48. Id. at 289.
49. Id.
sometimes drive up the costs of later entrants who do not have available those low-cost ways of implying, without actually stating, something about the goods.\textsuperscript{50}

In any case, suggestive marks may not be as important a problem as descriptive marks are, because, next to generic words, descriptive words are the ones that firms most need in order to inform the public about what they are selling. As for descriptive marks, Landes and Posner accept the solution that trademark law already prescribes—that a firm is allowed to remove a descriptive word from the common market language only when the word develops secondary meaning, that is, when the public comes to associate the word with a particular brand. Thus the word is by definition no longer merely descriptive. Were a second firm allowed to use the same mark, consumer search costs would be higher, because while some consumers would understand the word in its descriptive sense, many more would take the word as referring to the goods of a particular maker. When the reduction in consumer search costs is greater than the costs to other firms of describing their goods without using the mark, the consumer is better off.\textsuperscript{51}

The implicit concession in both cases is that the IM assumption does not always hold—that as firms adopt the more easily marketed suggestive and descriptive marks, the number of better marks in the available market language will decrease. Gradually, the point may be reached when competitors who wish to enter the market will be forced to choose a less effective mark, that is, one that will raise the costs of market entry because of the greater cost associated with the use of the mark.

It is true that there is a sense in which legal protection of trademarks itself places costs on later market entrants because, as Harold Demsetz has pointed out, a later entrant cannot simply sell its products under an earlier entrant’s mark.\textsuperscript{52} Instead, in the words of another commentator, later entrants must sell their products “on their own merits and under their own trade symbols.”\textsuperscript{53} But as long as one believes that trademarks are welfare-enhancing when they economize on information, those higher costs of later entrants, like the costs that arise naturally due to economies of scale or other efficiencies of existing firms, are not barriers to entry in any analytically interesting sense.\textsuperscript{54} On the other hand, if a firm is al-

\textsuperscript{50} For example, a suggestive mark that creates in the consumer a pleasant mood will likely affect the consumer’s preference for the brand. See Burke & Edell, \textit{The Impact of Feelings on Ad-Based Affect and Cognition}, J. MARKETING RES., Feb. 1989, at 69.

\textsuperscript{51} See Landes & Posner, supra note 10, at 290.

\textsuperscript{52} See Demsetz, \textit{Barriers to Entry}, 72 AM. ECON. REV. 47, 49 (1982).


\textsuperscript{54} Cf. R. Bork, \textit{The Antitrust Paradox} 341 (1978) (arguing that barriers to entry that enhance welfare should be permitted); O. Williamson, \textit{Antitrust Economics: Mergers, Contracting and Strategic Behavior} 307–308 (1987) (similar point). Besides, if IM is true and marks are fungible, the barrier will be high only in proportion to the goodwill that the senior user has already generated; that is, it is the goodwill of the senior user, the consumer preference for its goods,
allowed to remove from the market language the word or words that most appropriately refer to its product or services, later entrants did face barriers to entry that earlier entrants will not. Such barriers, moreover, would be due less to the greater efficiency of the existing firms than to an artifact of existing law.55

The obvious and well-understood case in which this might occur is a market in which a single firm has appropriated as its mark the generic word that most appropriately refers to the product that it sells. A generic word is the common name by which the category of product is known in the market.56 This phenomenon readily explains the trademark law’s refusal to allow the appropriation of generic words as marks. Aspirin (not ASPIRIN) is a good example of a formerly fanciful trademark that has become generic. Yo-yo (not YO-YO) is another. Were a firm permitted to adopt a generic word as its trademark (or, although the matter is more complicated, to retain a trademark once it has become generic), the available market language would be impoverished, and later entrants would then have to develop other ways of informing the consuming public of the identity (to say nothing of the quality or features) of their products. The

and not the mark itself, that creates the barrier. See R. POSNER, ANTITRUST LAW: AN ECONOMIC PERSPECTIVE 92-93 (1976). A second firm with a product that consumers will value can compete with the existing firms on price and eventually generate goodwill of its own, unless there is an inertia factor in consumer preference. Such inertia might occur, for example, where brand preference represents a habit that is particularly difficult to break—a proposition that the empirical literature tends to support. See Pierce & Belke, Stimulus Control of Consumer Opinion by Brand Names: A Social Conditioning Analysis, 38 PSYCHOLOGICAL REC. 227 (1988); Tellis, supra note 40, at 134; cf. Sunstein, Legal Interference with Private Preferences, 53 U. CHI. L. REV. 1129, 1161-64 (1986) (supporting legal intervention to break “bad habits”).

According to Robert Bork, the term “barrier to entry” has “no precise definition” and is often used in reference to “anything that makes the entry of new firms into an industry more difficult.” R. BORK, THE ANTITRUST PARADOX 310 (1978). The approach to barriers to entry in my text is taken from G. STIGLER, Barriers to Entry, Economies of Scale, and Firm Size, in THE ORGANIZATION OF INDUSTRY 67 (2d ed. 1983).

55. I am not resting on the claim (although I am certainly not disputing it) that consumer information costs are sufficiently high and brand preferences are sufficiently strong that “pioneering brands” have a continuing advantage over later entrants. See Schmalensee, Product Differentiation Advantages of Pioneering Brands, 72 AM. ECON. REV. 349 (1982). For an economic analysis of the data on the advantages of the first entrant, see Glazer, The Advantages of Being First, 75 AM. ECON. REV. 473 (1985). For empirical confirmation, see, e.g., Pierce & Belke, supra note 54.

56. Justice Brandeis, in his opinion for the Supreme Court in Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938), offered one of the clearer expositions of the sense in which trademark law understands the word generic. In explaining why Kellogg had the right to market its own brand of “Shredded Wheat,” a term which Nabisco claimed as its mark, Justice Brandeis explained:

The plaintiff has no exclusive right to the use of the term “Shredded Wheat” as a trade name. For that is the generic term of the article, which describes it with fair degree of accuracy; and is the term by which the biscuit in pillow-shaped form is generally known by the public. Since the term is generic, the original maker of the product acquired no exclusive right to use it. As Kellogg Company had the right to make the article, it had, also, the right to use the term by which the public knows it.

Id. at 116-17.

Unfortunately, Justice Brandeis’s opinion is better remembered in the trademark field for his imprecisely worded suggestion of what the plaintiff would have had to show in order to prevail: “It must show that the primary significance of the term in the minds of the consuming public is not the product but the producer.” Id. at 118. This phrase is still causing havoc half a century later.
costs that later entrants would incur in doing so would create the opportunity for extra profits—what economists call rents—by the first entrant, and the higher the costs, the higher the rents.\textsuperscript{57}

The economic theory of trademark requires the immediate cancellation of the registration of a truly generic mark,\textsuperscript{58} which makes sense since IM cannot possibly hold true for generic words. And yet to say that IM requires that generic words fall back into the public domain skips over the difficult problem of deciding what counts as generic. For example, as Ralph Folsom and Larry Teply have pointed out in a highly regarded article on the topic, many and perhaps most generic marks are hybrids, in the sense that substantial segments of the consuming public use the marks generically and substantial segments of the consuming public use them in the trademark sense, and sometimes those segments are the same.\textsuperscript{59}

The fact that registration of generic marks may be cancelled (and, at common law, rights may be lost) means that the law on generic marks is at least consistent with the IM assumption underlying the rest of the trademark law.\textsuperscript{60} But the possibility of rent-seeking through a costly language exclusivity is not limited to the case of a firm’s adoption of a generic word, and the other cases in which rent-seeking might occur are somewhat more difficult to deal with. The unhappy truth is that firms try consistently (often against their attorneys’ advice) to find marks that, while perhaps not generic, are a long way from being fanciful.

The most obvious explanation for this tendency is that people who market products for a living believe that even in the absence of goodwill, some marks are better than others, in the sense that the start-up costs of gaining consumer confidence and the long-run costs of maintaining it are both lower.\textsuperscript{61} In other words, marketing professionals believe that IM is false, or at least incomplete. They implicitly accept what might be called the

\textsuperscript{57} See Landes & Posner, \textit{supra} note 10, at 291–92.


\textsuperscript{60} Critics insist the trademark law deals poorly with the particular challenge of generic words as marks. See \textit{id.} at 1326, 1333–35; Landes & Posner, \textit{supra} note 10, at 296; Comment, \textit{Trademarks and Generic Words: An Effect-on-Competition Test}, 51 U. Chi. L. Rev. 868 (1984). Landes and Posner rest their criticism of judicial determinations of genericness on a comparison of a standard dictionary and the list of words that the courts have held generic. As Folsom and Teply pointed out some years ago, the dictionary is a questionable source, because the United States Trademark Association pressures the publishers of dictionaries not to include generic definitions of words that its members prefer to consider valid marks. See Folsom & Teply, \textit{supra} note 59, at 1346–47 n.110. See \textit{generally} Trademarks in Dictionaries, 59 \textit{Trademark Rep.} 735 (1969) (panel discussion).

\textsuperscript{61} “Suggestive and descriptive marks tend to be preferred by advertising people because these marks are thought to enhance initial product salability.” D. Burge, \textit{Patent and Trademark Tactics and Practice} 126 (2d ed. 1984).
Modified Irrelevant Mark Assumption, or MIM, which holds that the elasticity of supply of low-cost substitute marks varies as a function of the distance of the mark from the generic. Thus, the further the mark moves on the scale away from genericness and toward fancifulness, the larger the set of available marks. But as the mark moves from fancifulness through suggestiveness and toward descriptiveness, the set of available marks grows smaller.\footnote{This proposition may be illustrated by borrowing from Landes and Posner the symbol $W$ to refer to "[t]he availability of alternative words, symbols, and so on to those appropriated for use as particular trademarks," Landes & Posner, supra note 10, at 273, and the symbol $Z$ to refer to "words and so on used in common with other producers." \textit{Id.} at 288. Thus $W$ is the set of all marks, $Z$ the set of descriptive and generic marks. For clarity, we can think of $W_f$ as the set of fanciful marks, $W_s$ as the set of suggestive marks, $Z_d$ as the set of descriptive marks, and $Z_g$ as the set of generic marks. My claim, which ought to be a noncontroversial one, can be expressed as}

\[ W_f > W_s > Z_d > Z_g \]

As long as the public benefits from the reduction of the set of available marks, there may be a net societal gain. The problem with the Landes and Posner formulation, as with the economic argument generally, is that it never successfully justifies the reduction except when the public gain is of a particular sort: the ability to economize on search costs. If IM presents an accurate vision of the marketing world, then search cost economies will nearly always outweigh losses to the market language. But if MIM is the more accurate vision, costs and benefits must be measured with more care. The question, then, is whether the Lanham Act of 1946 and the Trademark Law Revision Act of 1988 reflect the IM assumption or the MIM assumption.

II. THE TROUBLE WITH TRADEMARK

A. The Lanham Act: Trademarks in a Nationwide Market

Although there have been several Federal trademark laws over the years, the Lanham Act, passed in 1946, was the first to combine a system of registration with nationwide protection of a set of federally enforceable substantive rights. The Justice Department originally opposed the Act, largely on the ground that nationwide Federal protection of trademarks would amount to lifting some words or visual images out of the commonly available language, thus creating monopolies on particular symbols.\footnote{See 1 J. McCarthy, \textit{supra} note 1, § 5.4, at 140.} In rejecting this criticism, the Senate Report soft-pedaled the effect of the Lanham Act by specifying what it was that the new statute proposed to protect: "[T]he protection of trade-marks is merely protection [of] good-will," and would "prevent diversion of trade through misrepresenta-
tion.\textsuperscript{64} In other words, the Lanham Act was purportedly designed to do on a national level no more than the common law already did on the local level. So if the Senate Report is to be believed, the original idea was to do little more than create for registrants a Federal action for passing off.

The language of the statute is in some ways consistent with this narrow vision of the scope of Federal protection. Under the Act, a firm first must select a mark that is capable of distinguishing its goods.\textsuperscript{65} Relatively fanciful or arbitrary marks are assumed to have the capacity to distinguish the firm's goods. Of course, the firm might not want to use a fanciful mark, but might prefer one that tells the public something about the product. Such marks are known under the Lanham Act as "merely descriptive."\textsuperscript{66}

Under the Act, a firm cannot register a descriptive mark until it is able to show that consumers actually recognize the mark as distinguishing the firm's goods,\textsuperscript{67} a phenomenon known in the law as the mark's development of a secondary meaning.\textsuperscript{68}

Once a mark has been selected, the firm must make a bona fide trade use of the mark before it can be registered.\textsuperscript{69} The bona fide trade use confers common law ownership rights. Although some courts have used language suggesting that they misunderstand this point, the Lanham Act itself was carefully drafted to avoid creating ownership.\textsuperscript{70} It simply states

\begin{itemize}
  \item \textsuperscript{66} Lanham Act § 2(e), 15 U.S.C. § 1052(e) (1982).
  \item \textsuperscript{67} See Lanham Act § 2(f), 15 U.S.C. § 1052(f) (1982). Other marks that cannot be registered unless the applicant demonstrates secondary meaning are marks that are "primarily merely a surname," marks that are "deceptively misdescriptive," marks that are "primarily geographically descriptive," or marks that suffer the tongue-twisting disadvantage of being "primarily geographically deceptively misdescriptive." Id. § 2(e), 15 U.S.C. § 1052(e) (1982). Without laboring one of the most subtle (and, some say, irrational) aspects of trademark law, "deceptively misdescriptive" marks are not the same as "deceptive" marks, which cannot be registered under any circumstances. Lanham Act § 2(a), 15 U.S.C. § 1052(a) (1982). For a judicial effort to explain the distinction, see Gold Seal Co. v. Weeks, 129 F. Supp. 928, 934–35 (D.D.C. 1955), aff'd sub nom. Johnson & Son v. Gold Seal Co., 230 F.2d 832 (D.C. Cir. 1956).
  \item \textsuperscript{68} The common law rule is essentially the same.
  \item \textsuperscript{69} Section 1 of the Lanham Act, 15 U.S.C. § 1051 (1982), requires the applicant for registration to state "the date of applicant's first use of the mark" and "the date of applicant's first use of the mark in commerce." The requirement that the mark be used in interstate commerce (a use which may be separate from the bona fide trade use) is a result of the Trade-Mark Cases, 100 U.S. 82 (1879), in which the Supreme Court struck down the trademark statutes of 1870 and 1876 on the ground that they regulated some commerce that was wholly intrastate. The interstate-intrastate distinction that undergirded the decision in the Trade-Mark Cases has not survived the modern commerce clause analysis of such decisions as Heart of Atlanta Motel v. United States, 379 U.S. 241 (1964), and Katzenbach v. McClung, 379 U.S. 294 (1964). Through judicial construction of the statute, Federal trademark law has gradually caught up, moving from the old "sale across a state line" rule to the modern "effect on commerce" rule for determining what constitutes a use in commerce. See 1 J. McCarthy, supra note 1, § 19.38.
  \item \textsuperscript{70} The first sentence of the Lanham Act states that "[t]he owner of a trade-mark used in commerce" may apply for registration. Lanham Act § 1, 15 U.S.C. § 1051 (1982) (emphasis added). The Lanham Act includes a constructive notice provision, effectively eliminating good faith as a defense, but even that provision, which is central to the scheme of Federal protection, states only that registration grants "constructive notice of the registrant's claim of ownership" of the mark. Id. § 22, 15
\end{itemize}
the consequences that follow upon Federal registration of the pre-existing fact of ownership. The principal consequence is that other firms are prohibited, under pain of civil damages and injunctive relief, from using confusingly similar marks on their own goods. This approach arguably keeps Federal trademark law on the passing-off model: rights flow from the investment, the use in trade, that creates common law ownership.

Still, the Lanham Act ultimately marked a rather dramatic departure from the common law. The breadth of common law protection varied roughly with investment, so that rights extended to all of the geographic areas, but only those areas, in which the owner had actually used the mark to identify its goods or into which the firm would naturally expand. Elsewhere, anyone was free to use the mark. The legislative history may suggest that the Lanham Act is to operate under similar restrictions, prohibiting only "diversion of trade through misrepresentation," but that is not how the statute reads. Under the literal terms of the Act, the protection of a registered mark goes beyond mere misrepresentation, because it is not limited to the particular geographic regions in which the registrant does business. On the contrary, registration serves as constructive notice everywhere in the country of the registrant's claim of ownership, and unless that claim can be overcome, the substantive rights conferred by registration are nationwide in scope.

The breadth of Federal protection is generally defended on the ground that it fosters the development of a national market, which is particularly important when, as in the United States, brand loyalty tends to be intense and the population is highly mobile. Firms can efficiently use mass advertising media to reach a market that is nationwide in scope; moreover, to the extent that a firm's market is not nationwide, its loyal customers might nevertheless travel and, upon seeing the mark in another geographic market, assume that it is the mark with which they are familiar. Thus the Lanham Act might be viewed as applying common law principles of unfair competition in a market that is co-extensive with the nation, for the same reasons that the common law itself protects trademarks: even on a national level, a mark remains a non-excludable good, and a junior user in a faraway state might try to trade on the senior user's goodwill.

But none of this matters if a mark is not used. If the proprietor does not use the mark, the mark identifies nothing and there are no benefits to goodwill. That is why, under the original Lanham Act, marks that were not used could not be the subject of applications for registration. That is also why, under the Lanham Act as well as at common law, marks that are no longer used are deemed abandoned and fall back into the public


domain: "The Act does not allow the preservation of a mark solely to prevent its use by others." 73

The United States is practically alone in the world in requiring a trade use of the mark prior to formal registration. 74 Nearly everywhere, rights are initially assigned through a system of paper titles, and the first registrant, who must usually allege an intent to use, is the owner of the mark. 75 (In many places, the mark will be lost if not subsequently used.) Yet the American rule, unique or not, is entirely consistent with an economic theory holding that marks are protected because of the goodwill that they represent. A mark that has never been used represents no goodwill and, in consequence, traditionally has received no legal protection—a principle that is fully consistent with MIM.

B. The TMRA: Rights in Marks Never Used

All of this has been changed by the TMRA, which took effect in November of 1989. The TMRA does away with the requirement that an applicant must wait to seek Federal protection until common law ownership has been established through use. Under the new statutory regime, an applicant need only state a bona fide intention to use, and then has a period of six months to two years (at the Commissioner's discretion) to make an actual use of the mark. 76

1. The Warehousing Problem and the Rationale for the TMRA

The prime mover behind the change from a use-first to an intent-to-use system was the United States Trademark Association. The USTA, an organization that represents the interests of American trademark owners, has been trying for decades to convince the Congress to institute an intent-to-use system. Bills with this objective have been introduced regularly. 77 The TMRA itself was the outcome of a detailed USTA study which concluded by suggesting several reasons to move away from a system requir-

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74. Prior to the passage of the TMRA, the United States was apparently "the only developed country that requires use of a mark before an application for registration may be filed." TMRA Senate Report, supra note 25, at 5.
75. Prior to the enactment of the TMRA, the paper titles used by other countries were the subject of bitter criticism from members of the American trademark bar. See, e.g., E. Kintner & J. Laehr, An Intellectual Property Law Primer 263 (2d ed. 1982) ("These so-called defensive registrations are, in effect, a license to steal a well-known mark in the sense that they operate to exclude, in the country where such registrations are obtained, the use of marks that have become established and well known through use elsewhere.").
76. See TMRA § 103 (amending Lanham Act §§ 1(b) & 1(d), 15 U.S.C. 1051(b) (1982)).
77. For a discussion of some past efforts at amendment, see Whittredge, The Practical Trademark Application: Founded on Intended Use of the Mark; Dirksen Bill S. 2786, 54 TRADEMARK REP. 883 (1964).
ing use prior to application to a system permitting application upon a showing of bona fide intent-to-use.\textsuperscript{78}

The principal arguments for changing the system involved what were said to be the high start-up costs and attendant risks associated with obtaining rights to a mark under the use-first system, and the advantages that the registration-first system sometimes yielded to foreign competitors to whom the United States owes reciprocal registration rights.\textsuperscript{79} Further, the USTA contended that allowing application on a showing of bona fide intent-to-use would eliminate the problem of "warehousing" marks, storing them up until they are needed.\textsuperscript{80}

Nevertheless, there was substantial opposition to the TMRA, even in the very brief hearings that were held prior to the Act's rather hurried passage. Aside from attacking some provisions that ultimately were dropped from the bill,\textsuperscript{81} the critics focused their attack on the intent-to-use system itself, suggesting that the USTA, contrary to its own representations, was really trying to gain for its members a low-cost way of warehousing marks for up to two years.\textsuperscript{82}

\textsuperscript{78} See Trademark Review Report, supra note 25.

\textsuperscript{79} See id. at 392-93. The principal competitive advantage of foreign firms seeking American registration according to treaty rights—their ability to register without first using their marks—is only a few years old. See Crocker Nat'l Bank v. Canadian Imperial Bank of Commerce, 223 U.S.P.Q. (BNA) 909 (T.T.A.B. 1984) (overruling In re Certain Incomplete Trademark Applications, 137 U.S.P.Q. (BNA) 69 (Comm'r 1963)). Prior to Crocker Bank, although the American rule had undergone several incarnations, the general understanding was that a foreign firm seeking reciprocal registration under \textsection{44(c) of the Lanham Act, 15 U.S.C. \textsection{1126(c) (1982), was required to show that it had used the mark somewhere in the world. Upon this showing, the foreign registrant, for the purposes of establishing American priority, would receive the benefit not of the date of the use, but of the date of its earlier application. For an example of how this worked out in practice, see SCM Corp. v. Langis Foods Ltd., 539 F.2d 196 (D.C. Cir. 1976) (the "LEMON TREE" case). For general background on the old rule, see J. McCarthy, supra note 1, \textsection{19.23.

Another competitive disadvantage suffered by American firms has been the fact that, because their domestic law has granted priority to the first user rather than the first registrant, American firms have been unable to take advantage of the automatic international registration provisions of the Madrid Agreement Concerning the International Registration of Marks, administered by the World Intellectual Property Organization (WIPO). Under the Madrid Agreement, rather than trying to achieve registration in every nation, a firm submits a single application to WIPO, which then forwards it to the relevant member states. See U.S. General Accounting Office, International Trade: Strengthening Worldwide Protection of Intellectual Property 33 (1987).

\textsuperscript{81} Asked at the Senate hearing on the TMRA about the problem of "hoarding" marks, Robert J. Eck, the president of the USTA, said that the Act included adequate safeguards. He mentioned explicitly the affidavit of bona fide intent to use and "the prohibitive cost of multiple filings." See 35 Pat. Trademark & Copyright J. (BNA) 403 (1988).

\textsuperscript{82} See, e.g., Prepared Statement of Roberta Jacobs-Meadway (unpublished manuscript, on file with author); see also 36 Pat. Trademark & Copyright J. (BNA) 490 (1988) (summarizing her testimony). The USTA originally proposed a four-year period, see Trademark Review Report, supra note 25, at 391, and the Senate bill provided for four years, see TMRA Senate Report, supra note 25, at 25-26. The period between application and registration was reduced to two years in the House, and the Senate concurred in conference committee. See 36 Pat. Trademark & Copyright J. (BNA) 573 (1988).

The TMRA's other principal change in trademark law, an amendment to \textsection{43(a) of the Lanham Act, 15 U.S.C. \textsection{1125(a) (1982), also came in for criticism from opponents. See Prepared Statement
The controversy over warehousing illustrates a particular tension between the economic justification for trademark law and the way firms actually do business. In order to warehouse a mark, a firm makes what is sometimes called a "sham" use of it, usually in a limited geographic area, in order to gain priority for the purpose of registration and thus keep others from using or registering the mark.

A firm might warehouse marks for any number of reasons: to preserve a mark that it used in the past, to reserve a mark that it might use in the future, or simply to keep a mark away from its competitors. If the IM assumption is true, warehousing might provide an efficient solution to the problem of trademark duplication: one who wants to use a warehoused mark would have to deal with the owner (who would presumably license the mark if it were efficient to do so) or select another mark. In an IM world, forcing the junior user to find another mark is virtually costless.

Absent some idiosyncratic attachment to a mark, however, a firm is unlikely to warehouse a fanciful mark—the mark for which IM is most probably true—unless the mark has acquired some value, for example, through prior use, or unless marketing surveys have indicated that the mark has a fair potential for acquiring value. The firm is far more likely to warehouse a suggestive or descriptive mark, because the marketing industry believes that they carry a marketing advantage. It is probably a similar belief that has led to the judicial interpretation of the Lanham Act as prohibiting warehousing through sham uses. The prohibition is a sensible one, given the principle that marks are protected because of their market significance.83 An effort by a firm to make sufficient use of a suggestive or descriptive mark to preserve its rights while not truly using the mark to identify its goods is inconsistent with this principle, because it impoverishes the market language without a concomitant benefit to consumers. In a fully IM world, this impoverishment might not matter. But suggestive and descriptive marks reflect MIM instead, which means that the supply is smaller and the costs of language exclusivity greater.

Despite the theoretical difficulties with warehousing, the record in practice has been somewhat uneven. Firms do try to warehouse marks—even fanciful marks—through token uses, and they try hard. The efforts of large, diversified consumer product firms to warehouse marks are well-documented. In one highly publicized instance, the makers of a popular soft drink sought to register over one hundred potential marks for soft drinks that might compete with theirs.84 The courts and the Patent

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84. The soft drink involved was Seven-Up, and among the 138 names it sought to register were Cum Laude, Sunberry, Frucosa, and Pardon. Wall St. J., Oct. 16, 1980, at 31, col. 1. I am grateful to
Trademark Trouble

and Trademark Office have in recent years seemed increasingly hospitable to efforts by firms to protect marks through sham uses. Some courts have even held that a use for the sole purpose of gaining registration is adequate as long as there is an intention on the part of the user to continue using the mark. Nevertheless, courts have warned against “trademark maintenance” programs, in which firms make token uses of many more marks than they could possibly intend to use in order to keep the marks away from competitors.

The sponsors of the TMRA argued that its provisions would bar warehousing. However, nothing in the TMRA will make warehousing more difficult, at least for a two-year period; the new statute “solves” the warehousing problem by effectively dissolving the prohibition.

2. Intent to Use and the Power to Exclude

Under the intent-to-use system, the application itself becomes a weapon—and is meant to. The fact that an application has been filed will very likely deter others from using the mark applied for. To be sure, the new regime permits only an application—not a registration—upon a showing of bona fide intent to use. The mark will not be entered on the Principal Register until a bona fide use in trade has been made, and under the final version of the bill, Federal trademark law remedies are not available until after registration.

Nevertheless, the filing of an application will now serve as a constructive use of the mark anywhere in the country. Although the constructive use has no legal significance until the mark is actually registered, once the applicant uses the mark and registration takes place, the original filing date takes on considerable importance. In determining common law own-

Ralph Brown for bringing this example to my attention. For other examples of sham uses, see Davis, Death of a Salesman’s Doctrine: A Critical Look at Trademark Use, 19 Ga. L. Rev. 233 (1985).
85. For a sharply worded attack on this trend, see Davis, supra note 84, at 233.
87. See, e.g., La Société Anonyme des Parfums le Galion v. Jean Patou, Inc., 495 F.2d 1265 (2d Cir. 1974).
89. The TMRA and its legislative history are silent on whether a firm’s decision to consider a large number of marks represents a sufficient intent to use to justify intent-to-use applications for each. See Leeds, Intent to Use—Its Time Has Come, 79 Trademark Rep. 269, 272 (1989). But nothing in the Act suggests otherwise, and the Patent and Trademark Office has made clear its intention to be generous to applicants in deciding what activity provides evidence of a continuing bona fide intention to use. In its rules implementing the TMRA, the PTO has explained that “efforts to make use of the mark” subsequent to application “may include, without limitation, product or service research or development, market research, manufacturing activities, promotional activities, steps to acquire distributors, steps to obtain required governmental approval, or other similar activities.” Final PTO Rules Implementing the Trademark Law Revision Act, 54 Fed. Reg. 37562, 37596 (Sept. 11, 1989) (adding 37 C.F.R. § 2.89(d)(2)).
90. See TMRA § 103(9) (amending Lanham Act § 1, 15 U.S.C. § 1051 (1982)).
ership, the registrant is deemed to hold priority over every actual user of the mark who made a use between the date of application and the date of registration, even though each of those constructive junior users is, in the market, a senior user.

To see the significance of this change, imagine three firms, A, B, and C, all wishing to use the same mark. As Figure I shows, at common law, if A used the mark at time \( t_1 \), B at time \( t_2 \), and C at time \( t_3 \), A would be the senior user and the owner of the mark in the geographic markets it had actually entered.

**FIGURE I**  
(Common Law Model)

<table>
<thead>
<tr>
<th></th>
<th>( t_1 )</th>
<th>( t_2 )</th>
<th>( t_3 )</th>
<th>( t_4 )</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>has</td>
<td>uses</td>
<td></td>
<td></td>
<td>Excludes B &amp; C</td>
</tr>
<tr>
<td></td>
<td>idea</td>
<td>mark</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td>has</td>
<td>uses</td>
<td>Excludes C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>idea</td>
<td>mark</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
<td></td>
<td>has</td>
<td>Loses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>idea</td>
<td>Loses</td>
</tr>
</tbody>
</table>

As owner, A would be able to exclude B and C from using the mark in A’s markets.

Under the Lanham Act (Figure II), if A used and registered before B or C used the mark, A would also be the senior user and owner of the mark, and would have the right to exclude B and C from using the mark in A’s market.

**FIGURE II**  
(Lanham Act Model)

<table>
<thead>
<tr>
<th></th>
<th>( t_1 )</th>
<th>( t_2 )</th>
<th>( t_3 )</th>
<th>( t_4 )</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>uses</td>
<td>registers</td>
<td></td>
<td></td>
<td>Excludes B &amp; C</td>
</tr>
<tr>
<td></td>
<td>mark</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td>uses</td>
<td></td>
<td>Loses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>mark</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
<td></td>
<td>uses</td>
<td>Loses</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>mark</td>
<td></td>
</tr>
</tbody>
</table>

But B, for example, would not be able to prevent A’s use by registering the mark, even if A had not previously registered. If, as in Figure III, A used the mark at \( t_1 \) but did not register and B used the mark at \( t_2 \) and did
Trademark Trouble

register, A would retain its rights in the markets it had already entered and the rest of the country would belong to B.92

FIGURE III
(Lanham Act Model)

<table>
<thead>
<tr>
<th></th>
<th>t1</th>
<th>t2</th>
<th>t3</th>
<th>t4</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>uses mark</td>
<td></td>
<td></td>
<td>Limited Rights</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td>uses mark</td>
<td>registers</td>
<td>Excludes C</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
<td></td>
<td>uses mark</td>
<td>Loses</td>
</tr>
</tbody>
</table>

If C made its first use after B’s registration, B would have the right to enjoin C’s use anywhere in the country that B wished to use the mark.93

Under the Revision Act, however, matters are different. A may use the mark before B and B may use it before C—but C might file an application prior to anyone’s use, and thereby gain priority over both A and B. Thus, as Figure IV illustrates, C might file its application at t1, alleging a bona fide intention to use the mark. A could then use the mark at t2, thereby becoming its common law owner in the relevant geographic market. B could use the mark at t3 in yet another geographic market and become its common law owner there.

FIGURE IV
(TMRA Model)

<table>
<thead>
<tr>
<th></th>
<th>t1</th>
<th>t2</th>
<th>t3</th>
<th>t4</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td></td>
<td>uses mark</td>
<td></td>
<td></td>
<td>Loses</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td>uses mark</td>
<td></td>
<td>Loses</td>
</tr>
<tr>
<td>C</td>
<td>applies</td>
<td></td>
<td></td>
<td>uses &amp; registers</td>
<td>Excludes A &amp; B</td>
</tr>
</tbody>
</table>

Now suppose C uses the mark and registers at t4. Under the previous Lanham Act example, C would have exclusive rights everywhere in the country except where A and B were senior users. But under the constructive use rule of the TMRA, C, upon registration, is deemed to have used the mark from the time that the application was filed—at t1. In the geo-

92. See, e.g., Burger King of Fla., Inc. v. Hoots, 403 F.2d 904 (7th Cir. 1968).
93. For a discussion of the theoretical difficulties associated with automatic nationwide protection, see infra Part III.
graphic markets served by A and B, C is the actual junior user; as a matter of Federal trademark law, however, C is to be treated as the senior user.

Consequently, while it is true that under the Trademark Revision Act no legal rights flow from application alone, that is not the end of the story. The Act does allow some substantive rights to ensue on application (de facto if not de jure), thereby breaching the settled rule against protecting meaningless marks. Once a firm applies for registration of a mark that it has not yet used, other firms will borrow the mark at their peril, for the applicant might use the mark, perfect its filing, and register the mark at any time. Once registration is accomplished, the applicant has nationwide priority as the constructive first user and can enforce all the substantive rights that the Lanham Act provides. Statutory disclaimers notwithstanding, then, for the first time in American law, use will not be a prerequisite to rights.94

The practical effect of this change is that a firm that has no more than the idea for a mark now has the opportunity to reserve the mark—to lift it from the public domain—while taking up to two years to decide whether to use it or not. The incentives that the change creates mark a sharp turn in American practice.

Whatever the benefits that might flow from the break with the past that the TMRA represents, there are significant costs to a system in which marks can enjoy a legally cognizable existence independent of whatever goodwill they represent. Perhaps the most troubling cost of the use-first system is that now, suddenly, it is at least theoretically possible to turn the common law model on its head—to make what the United Drug court called “a negative and merely prohibitive use of [the mark] as a monopoly.”95—not, perhaps, through an injunction, but by filing an application that informs the world that at some time during the next two years, the firm plans to be in the market with the mark in question, and other potential users of the same mark had best beware. This is true not just for fanciful marks, but for the more valuable suggestive marks as well, and possibly even for descriptive marks, which are important parts of the market language.96

94. This point applies only to American firms seeking registration on the Principal Register. Under § 23 of the Lanham Act, 15 U.S.C. § 1091 (1982), American firms have been able to register their marks on the Supplemental Register, which carries no substantive domestic rights but has international advantages, without first using them. Under § 44 of the Lanham Act, 15 U.S.C. § 1126 (1982), foreign firms seeking reciprocal registration under international agreements have been able to register without using their marks in the United States and, recently, without using them at all. For a discussion of the advantages enjoyed by foreign firms under the Lanham Act, see supra note 79.
96. One might argue that descriptive marks are not the proper subject of intent-to-use applications, because the applicant cannot assert secondary meaning. Under the structure of the TMRA, however, there is no obvious reason to require a showing of secondary meaning for application, as against registration.
Reserving the mark without using it is not the only negative use that the new statute might be read to permit. The doctrine of abandonment also might be threatened. The abandonment doctrine, which made perfect sense at common law and good sense under the Lanham Act, holds that a firm that decides not to use a mark any longer loses all rights in it. The loss may be with the owner’s consent or against the owner’s will, but if rights flow from use, if the only reason to keep a mark from the public domain is that a firm is using it to identify a product or service, then theoretical consistency requires that rights cease when use in trade ceases. Under the new regime, however, a firm that decides not to use its mark any longer might be able to reserve it through a fresh application, by stating a bona fide intention to resume the mark’s use. The amended statute is supposed to forbid this, but it does so not through a clear rule, but through reliance on the discretion of the Patent and Trademark Office.

3. The TMRA and Assignments in Gross

One also has to wonder what will become of the doctrine prohibiting the assignment of marks in gross, now that bona fide intent to use is sufficient to confer de facto rights. Under the Lanham Act’s requirement of use prior to registration, as at common law, a transfer of the mark without the underlying goodwill represented an abandonment, for the obvious reason that the goodwill that the mark represents is the only reason for its legal protection. When a firm assigns its mark and subsequently leaves the market, the mark no longer signifies what it previously did, and, in consequence, the mark ought to be deemed abandoned; its transfer to a new “owner” should carry no legal effect. The assignee should be required to start from the ground up, using the mark in trade and building sufficient independent goodwill to enable registration and broad protection. Meanwhile, other users ought to be free to use the same mark and to build their own geographic spheres of goodwill—or even to register, should they beat the transferee to the bona fide trade use that Federal registration requires.

To be sure, the prohibition on assignments in gross has been severely criticized as a mere “formalism,” and the courts have chipped away at its edges, by holding, for example, that sufficient goodwill is transferred

97. See, e.g., Manhattan Indus. v. Sweater Bee by Banff, Ltd., 627 F.2d 628 (2d Cir. 1980).
98. See, e.g., Exxon Corp. v. Humble Exploration Co., 695 F.2d 96 (5th Cir. 1983).
100. “If one obtains a trademark through a sale without having concurrently received the attendant goodwill, the continuity of the thing symbolized by the mark is broken and the sale is unquestionably deficient.” D. Burge, supra note 61, at 140. Historically, the prohibition on transfers in gross is linked to the doctrine holding that marks are never held in gross, but only appurtenant to their meaning. For a delightful account of the link between this doctrine and the early British cutlery trade, see F. Schecter, supra note 18, at 101-21.
101. See, e.g., I J. McCarthy, supra note 1, § 18.2, at 800.
when the assignor sells its mark to an assignee who is ready to use it and the assignor then exits the market. In recent years, the prohibition unfortunately has been reserved for the most egregious cases, for example, when the assignee is not in the same business as the assignor, is not in a position to make use of the mark, and has no intention of doing so.

But there is no reason that the propriety of an assignment should turn on the conduct of the assignee. The deterioration of the prohibition on transfers in gross is a reflection of the continuing judicial misunderstanding of the theoretical underpinnings of trademark law. As a matter of theory, the prohibition on transfers in gross should be a firm one. Under the TMRA, however, it scarcely matters whether the transfer is an abandonment by the transferor, because the transferee can make an immediate application, stating with perfect good faith its intention to use the mark. On the strength of the application and bona fide intention, without troubling to build up any goodwill at all, the transferee is *eo instanti* vested with nationwide priority against anyone except a prior user—and any prior user would have been infringing the rights of the transferor! Thus the Revision Act effectively eliminates the traditional restriction on the transfer of a mark in gross, and thereby creates a potential market in trademarks—the very creature the Lanham Act's original sponsors long ago promised that Federal rights would not create. Once more, the TMRA apparently rests entirely on the discretion of the Patent and Trademark Office in trying to prevent transfers in gross, assuming, that is, that the Revision Act's drafters meant to prevent them at all. But perhaps they did not, for there is nothing in the spirit of the Act suggesting why transfers of marks without the underlying goodwill should not be permitted, since the transferee certainly has a bona fide intention of using the mark.

These possibilities for making a purely negative use of the mark, to keep others from using the mark even though the proprietor of the mark is not using it, tilt the trademark system away from a common law model, wherein rights are proportional to investment in goodwill, toward a model of monopoly, wherein the proprietor of a mark might be able to obtain rents as a result of the far broader scope of rights in the mark. The tilt is not as far as it would have been under the USTA's original proposal, but the slippery slope beckons, and if, as is possible, there are more at-

103. See Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261 (C.C.P.A. 1978); see also Pepsico, Inc. v. Grapette, 416 F.2d 285 (8th Cir. 1969) (striking down transfer of mark used on cola soft drink to firm planning to use it on soft drink of another kind).
105. After my students brought this anomaly to my attention, I mentioned it to an individual who was deeply involved in the rather rushed passage of the TMRA. He replied that as far as he could recall, no one had thought about it.
tempts in the future to grant substantive rights upon application, trademark law just might slide down.

C. Federal Trademark Protection and the Irrelevant Mark Assumption

The IM assumption underlies the structure of the Lanham Act, with its scheme of nationwide protection in markets not yet entered. The system of nationwide protection is not intended to create barriers to the entry of new firms in geographic markets that the registrant has not entered.\textsuperscript{107} Barriers in the sense of higher long-run production costs will only be created if the senior user’s registration forces firms in unrelated markets to choose more costly marks. Thus the Lanham Act necessarily assumes that the other marks that firms in unrelated markets must choose are not more costly.

The TMRA, by permitting a firm that has never used a mark to reserve it for future use, effectively prevents any other firm in the country from adopting the reserved—but unused—mark. The applicant’s reservation of one mark will of course create artificial barriers to entry only if it forces other firms to choose more costly alternatives. Consequently, the TMRA’s scheme of de facto exclusivity in marks not yet used also presupposes that one mark is as good as another, that is, that IM holds.

The modern economic theory of trademark law reveals the influence of the IM assumption. If IM does not hold, however, the economic theory relied upon to justify Federal trademark law actually justifies something much closer to the common law of unfair competition with its emphasis on the action for passing off. In fact, the Landes and Posner article, while asserting the efficiency of Federal trademark law,\textsuperscript{108} actually does considerably more to prove the efficiency of a system in which rights flow from, and are limited by, actual use in trade—that is, the common law of unfair competition.

It is easy to see why the truth or falsity of the IM assumption makes a difference. If some marks really are ex ante better than others, then the supply of good marks cannot reasonably be termed infinite. I said earlier that the benefits of removing marks from the market language outweigh the costs when they are removed because of the goodwill that they represent. By contrast, a legal system that permits a firm to gain rights in even a suggestive mark, and possibly in a descriptive one, without first making an investment in goodwill risks reducing the supply of better marks without any corresponding benefit to the public. As more and more

\textsuperscript{107} See supra text accompanying notes 52-55. For a review of work in the advertising area, see Nagle, \textit{Do Advertising-Profitability Studies Really Show that Advertising Creates a Barrier to Entry?}, 24 J.L. \& Econ. 333 (1981).

\textsuperscript{108} See Landes \& Posner, supra note 10.
good marks are removed from the available market language without any concomitant investment in goodwill, later market entrants will begin to face costs of entry that early entrants did not, as well as potentially higher long-run production costs, all because of the greater expense of using the inferior marks.

Of course, even though legal protection of marks impoverishes the available market language, as long as use is a prerequisite to rights, only a limited number of marks will be removed from the market language in any given product market, because there is not space for an infinite number of firms. Under the TMRA, however, the cost of removing a mark becomes relatively small, so more marks will likely be removed—quite conceivably enough to begin to affect the size of the set of good marks.109 This in turn will raise the costs of later entrants. Depending on the structure of the market, earlier entrants may be able to exploit the later entrants' higher costs by seeking rents. In any event, later entrants would face barriers to entry that earlier entrants would not.

III. THE CONUNDRUM OF NATIONALWIDE PROTECTION

Even if IM turns out to be false, the language monopoly and potential barriers to entry are arguably minor problems. After all, putting the TMRA aside for the moment, the right to exclude others from using the mark is derived from the mark's secondary meaning—that is, only if the mark actually lowers consumer search costs will it be protected.110 But that explanation only justifies protection in the geographic market in which a firm actually uses the mark, which is another way of saying that it justifies the common law of unfair competition and, in particular, the common law action for passing off. Unless IM is true, the assertion that secondary meaning is needed before a mark can be removed from the market language provides little justification for the Lanham Act's nationwide protection of marks used in one geographic region. It provides no justification at all for the TMRA's effective nationwide reservation of rights in marks that are used nowhere by anyone.

The Lanham Act by its terms permits remedies everywhere in the country if a junior user adopts a mark that is confusingly similar to the

109. A firm might be reluctant to file applications for many marks that it did not intend to use, because after two years, the fruits of the research that produced those marks would be available to competitors. In many markets, however, a two-year lead time might be enormously valuable—especially when competitors might not be sure until the end of the two years which marks the applicant actually plans to use.

110. As explained earlier, both at common law and under the Lanham Act, secondary meaning is unnecessary if the mark in question is arbitrary or fanciful. Consequently, the statement in text is obviously incomplete. To the extent that MIM is a truer model than IM of the better marks in the set of arbitrary or fanciful marks, the same concerns raised in this section should apply to those classes of marks as well. This conclusion would call into question the law's willingness to allow the appropriation of those marks without a showing of secondary meaning.
senior user’s registered mark. The standard explanation for nationwide protection—aside from the spurious (or at least unsupported) claim that it is a fair exchange for the optimal level of registration—is that it promotes the development of national markets in a land with a highly mobile population. As Landes and Posner put the point, purporting to describe the theory that underlies current law:

Even if the firm that is using a trademark in one part of the country never expands to other parts, consumers are not fixed in one place, and in traveling around the country or in moving from one part of the country to another they may be confused if different brands of the same product are sold under the same name. They are apt to assume that every desk lamp sold under a particular brand name is the same brand, that is, produced by the same producer.¹¹¹

This explanation is a bit of a puzzle. On the one hand, it carries a surface plausibility: a multiplicity of HYATT hotels or SAFEWAY stores or PLYMOUTH cars would be enormously confusing, and thus enormously wasteful. On the other hand, the explanation runs together so many conditional statements—“may be confused,” for example, and “are apt to assume”—that one scarcely knows where to begin. Who are these mobile consumers, where are they going, and why do they make these strange assumptions? Are consumers always mobile and confused in sufficient numbers that the costs of not protecting the mark where it isn’t used outweigh the costs of protecting it? Even if this turns out to be true for some marks, is it possible to draw some reasonable distinctions?

Consider: Across the street from the Yale Law School is a pizza parlor named “Yorkside.” The name Yorkside probably was chosen because the pizza parlor is on York Street. If I go out on the streets of, say, San Francisco and find another pizza parlor doing business as “Yorkside,” why should I be confused? It would not occur to me that it was a branch of the pizza parlor of the same name that stands across the street from the Yale Law School, because of my assumption that Yorkside Pizza is not a national firm. Consumers may be more sophisticated than the Landes and Posner model assumes.¹¹² Different marks may work in different ways. There is no apparent reason that a mark that is plainly local in character ought to be treated in law exactly the same as one that is plainly national, simply because both have been registered.¹¹³ And certainly it is sensible to

¹¹¹ Landes & Posner, supra note 10, at 284.
¹¹² Landes and Posner undoubtedly have in mind so-called “national” brands, for which the risk of confusion may be high because of the consumers’ knowledge that the brand is marketed everywhere. But there is no evident reason to treat national and local brands the same way. In Part IV, I suggest a way of treating them differently even in the Patent and Trademark Office.
¹¹³ One might argue that all marks should be presumptively national to lower the costs of determining who has rights in what region. For a critique of this argument, see infra text accompanying notes 125–28.
confirm one’s intuition about consumers and their confusion (through survey evidence, for example114) before rushing to assume that every registered mark will generate enough nationwide goodwill that mobile consumers “are apt to assume” enough to be confused.

More to the point, it is not unusual to come across a case in which two firms have used the same mark in independent geographic regions and have built up independent goodwill and secondary meaning.115 In the junior user’s independent region, the relevant mark is assumed by the consuming public to refer not to the senior user’s products or services, but to the products or services of the junior user. It is certainly possible, as Landes and Posner suggest, that some consumers who are mobile and familiar with the senior user might be confused upon entering the junior user’s market; but the number might be quite small compared to the great majority of consumers in the junior user’s market, who would suffer no confusion at all. In fact, the consumers in the junior user’s market might be confused to learn that someone else also claimed rights to the mark. According to Landes and Posner, “The courts have eliminated this source of confusion for registered marks.”116 True enough—but not in the way that Landes and Posner mean it.

What the courts have done, starting with the celebrated case of Dawn Donut Co. v. Hart’s Food Stores, Inc.,117 is to import into the Lanham Act from the common law of unfair competition the principle that a firm is entitled to injunctive relief only where its mark has significance—that is, only in the geographic market that it actually serves. In Dawn Donut, the junior user, operating in a geographic market different from the senior user (and, arguably, in a different product market as well), made a good faith selection of the senior user’s mark. (By good faith I mean only that the junior user was evidently unaware of the senior user’s registration.)118 The Second Circuit—in a case in which Judge Lumbard wrote both the majority and the dissenting opinions—read the Lanham Act to permit in-

115. The leading case is Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916), which limited trademark protection to the area in which a firm actually does business. Under the Lanham Act, courts have reached similar results. See infra text accompanying notes 117–24.
117. 267 F.2d 358 (2d Cir. 1959).
118. Courts tend to emphasize good faith in these cases, but it is not analytically significant, except insofar as it is opposite—bad faith—might be taken as a desire by the junior user to trade on the senior user’s goodwill, which in turn might be taken as evidence that a significant number of consumers in the relevant geographic market associate the mark with the goods or services of the senior user. Certainly the Lanham Act, which makes registration constructive notice of the registrant’s claim of ownership, see § 22, 15 U.S.C. § 1072 (1982), is not concerned with the good or bad faith of the junior user, except with respect to some aspects of remedies for infringement which are carefully specified in the Act and are irrelevant to Dawn Donut-type fact patterns, see Lanham Act § 32(2), 15 U.S.C. § 1114(2) (1982) (as amended by TMRA § 127).
junctions only against "concurrent use which creates a likelihood of public confusion."\textsuperscript{119} From this beginning, the court reasoned as follows:

Therefore if the use of the marks by the registrant and the unauthorized user are confined to two sufficiently distinct and geographically separate markets, with no likelihood that the registrant will expand his use into the defendant's market, so that no public confusion is possible, then the registrant is not entitled to enjoin the junior user's use of the mark.\textsuperscript{120}

The panel added:

[Because of the effect [of] the constructive notice provision of the Lanham Act, the plaintiff may later, upon a proper showing of an intent to use the mark at the retail level in defendant's market area, be entitled to enjoin defendant's use of the mark.]\textsuperscript{121}

Thus the rule seems to be this: Despite the senior user's prior registration, a junior user who has adopted the mark in good faith, is not competing in the senior user's market, and has generated its own goodwill in the mark, will be permitted to use the mark until the registrant is actually ready to move into the geographic area that the junior user is serving.\textsuperscript{122}

This rule is readily understood from the point of view of the consumer in the junior user's market who has built up what might be called a "goodwill picture" based on the assumption that the mark represents the goods of the junior user. It is the consumer's search costs that are supposed to be lowered by trademark law, but the consumer can hardly be expected to search the Principal Register for assurance every time a new brand is encountered. Assuming that the consumer's goodwill picture is based entirely on interaction with the junior user's products sold under the mark in question, the picture will not be different simply because the junior user first used the mark after the senior user's registration rather than before it.

The difficulty with the \textit{Dawn Donut} approach is that nothing in the Lanham Act carves out such an exception from the nationwide right to use the mark.\textsuperscript{123} But enforcing the Act to its letter would have the result

\textsuperscript{119} 267 F.2d at 364.
\textsuperscript{120} Id. (footnote omitted).
\textsuperscript{121} Id. at 365.
\textsuperscript{122} \textit{Accord In re} Beatrice Foods Co., 429 F.2d 466, 472 (C.C.P.A. 1970): "Rights of trademark ownership, for example, the right to enjoin another from use of the mark, must be based upon actual use and can be enforced only in areas of existing business influence (i.e., current use or probability of expansion)." For applications of the \textit{Dawn Donut} approach, see, e.g., Comidas Exquisitos, Inc. v. O'Malley & McGee's Inc., 775 F.2d 260 (8th Cir. 1985); Continente v. Continente, 378 F.2d 279 (9th Cir. 1967); John R. Thompson Co. v. Holloway, 366 F.2d 108 (5th Cir. 1966); American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619 (5th Cir. 1963).
\textsuperscript{123} Under § 2(d) of the Lanham Act, 15 U.S.C. § 1052(d) (1982), the junior user was able to seek the right to use the mark concurrently with the senior user, subject to geographic restrictions, as
of permitting a senior user-registrant who is a small regional firm to prohibit use of the same mark by another, larger firm thousands of miles away, even if the result is a higher cost of entry for the junior user. Although Landes and Posner do not cite Dawn Donut, their case for nationwide protection might leave the impression that it is wrongly decided. Yet if one ignores their discussion of nationwide protection, the Dawn Donut result is exactly what the Landes and Posner analysis would predict: Protection for a trademark flows from its information-economizing function, and the information-economizing function rests on what consumers in a given market actually know about the mark. The less consumers know, the less information the mark carries, and the less information the mark carries, the less reason, under the Landes and Posner analysis, to protect it. In a market in which the registrant does not operate, the mark may carry no information at all.

If IM is false, then Dawn Donut is easy to justify, for neither the secondary meaning doctrine nor the availability of substitutes adequately explains why, as between two firms that are not competing with each other but whose marks are confusingly similar to one another, one ought to be able to enjoin the other from using its preferred mark. True, as Landes and Posner note, there is the possibility that some mobile consumers will be confused. But in the MIM universe, that slender possibility seems a weak reed on which to rest an insistence that the first firm to adopt a mark in a particular market cannot use the mark it prefers because some other firm, no matter how small, no matter how distant, has previously registered it. Besides, the Dawn Donut rule is flexible enough to take into account the particular concern that Landes and Posner express, when consumer mobility and confusion become factors of substantial likelihood rather than unspecified possibility: If the nature of the business is such that it serves consumers who travel, the geographic separation of the junior and senior users will not, without more, avoid the injunction.124

Of course, if IM is true, then the second firm to pick the mark—the junior user—can simply select a different mark. The reason the junior user will know that it is supposed to pick a new mark is that if it does as the law contemplates, it will conduct a search of the Principal Register before settling on a mark in the first place. The Dawn Donut court, by going out of its way to protect the junior user who adopted the registered mark in good faith, interfered with the incentive that the Lanham Act has created for firms to search before choosing their marks: Had the junior user's first use (appropriation) of the mark came before the senior user's registration of the mark. The possibility of concurrent registration was not available to a junior user who adopted the mark after the senior user's registration. Section 104 of the TMRA restricts concurrent use registrations to situations in which the "junior user's" first use predated the "senior user's" intent-to-use application.

user only searched, it would have found the registrant’s mark and chosen another one.

But even were searching costless—which it is not—it must be emphasized that because nationwide protection of local marks ultimately rests on IM, strict enforcement of the search incentive also rests on IM. Only if the mark finally chosen is irrelevant does it become plausible to insist that the San Francisco pizza parlor contemplating the name Yorkside (if there is one) first ascertain whether any firm anywhere in the country has registered the name. And even in an IM world, allowing the New Haven Yorkside, with no plans to expand to San Francisco, to seek an injunction against the San Francisco Yorkside seems a bit harsh.

The one possible justification for injunctive relief on these facts is the proposition that litigation is a relatively costly means for determining the scope of geographic rights. If the senior user, no matter how local, possesses the nationwide right to exclude, as the terms of the Lanham Act appear to contemplate, then the boundaries of the senior user’s protection are coextensive with the boundaries of the nation itself. The junior user must either select another mark or negotiate a license, which the senior user will presumably grant when licensing is more efficient than exclusivity.

Licensing of this kind would effectively create a market in trademarks. For fanciful marks, the licensing market might just work, but for the many risks and roadblocks that trademark law tosses in the path of a would-be licensor. In the wrong circumstances, the conduct of a licensee can lead to a constructive abandonment by the licensor. Even short of that, a licensing agreement must convey a part of the senior user’s goodwill, a potentially awkward requirement in the TMRA world, where a licensee might be seeking rights in a mark that has never been used.

Besides, fanciful marks are not the principal problem, even though the trademark testing industry stands as testimony to the proposition that IM is false even when the mark is arbitrary. But the real problem occurs when the local mark is suggestive or descriptive, perhaps with secondary

125. The text is slightly overstated. Even under *Dawn Donut*, a firm might want to know whether the mark it is contemplating has a senior user, because *Dawn Donut* allows the senior user to exclude the junior user upon expansion into the junior user’s market. The distinction between *Dawn Donut* and the language of the Lanham Act is therefore only temporal: Eventually, the senior user has the chance to achieve what the Lanham Act seems to promise.

126. In an IM world, the injunction is not only harsh, but ludicrous, unless—contrary to the theory of trademark law—one wants to reward the discovery of a useful but unused trademark. See *supra* text accompanying notes 27–31 (discussing reasons that ideas for marks are not protected).

127. The principal risks are loss of trademark significance through “naked” licensing—licensing of the mark for goods and services without significant limitation—and diminution of trademark value (including potential loss of rights) through a failure to exercise adequate control over the quality of the licensee’s goods and services. See 1 J. McCarthy, *supra* note 1, §§ 18.15, 18.17; D. Burge, *supra* note 61, at 141.

128. The TMRA by its terms prohibits most assignments of intent-to-use applications prior to the use of the mark. See TMRA § 112 (amending Lanham Act § 10, 15 U.S.C. § 1060 (1982)).
meaning in a tiny corner of the nation, because now nationwide protection
for the small, local registrant would deplete the national market language
of useful and important and cost-saving words. It is difficult to conceive of
a benefit that justifies the higher costs that this particular language exclu-
sivity imposes on other firms wishing to enter small, local markets. That
is why it is sensible to wait until consumers begin to be confused before
the law decrees that the San Francisco Yorkside must change its name.
Until then, even IM offers no real justification for nationwide injunctive
relief.

Of course, as sensible as the Dawn Donut approach might seem, even a
court that is very sympathetic to the "innocent" junior user can accom-
plish only so much defiance of the statute. Eventually, the court must
concede to the Lanham Act what its drafters evidently intended. Thus,
when the registrant is ready to move into a new geographic area, the jun-
or user in that area, good faith or not, must cease using the mark.129 The
only exception is that a junior user that used the mark prior to the senior
user's registration of the mark may continue its use in the area it is al-
ready serving, along with a small zone of expansion.130 Nevertheless, the
overall effect of this judicially created exception to nationwide protection
is to force the proprietor of a mark to treat it in the way that unfair
competition law and the underlying theory contemplate. The mark is not
owned in gross, and its proprietor cannot prevent others who are not com-
petitors from choosing similar marks. Instead, the owner of the mark re-
ceives only rights coextensive with its use.

The courts have understood what the Congress—and, evidently, many
of the theorists—have not: If, as seems likely, MIM rather than IM cor-
correctly describes the universe of available and appropriate trademarks, then
the economic argument that trademarks ought to be protected because
they are information-economizing devices justifies only the common law
system of rights that flow from, and are coextensive with, use of the mark.
But the economic argument cannot easily justify nationwide exclusive
rights upon registration, and cannot justify at all the shift from a use-first
system to one that permits application upon a showing of intent-to-use. I
do not say that these provisions cannot be justified on any ground; I say
only that if MIM rather than IM is true, they cannot be justified on the
ground that trademarks lower consumer search costs.

Thus, the courts were right to do what they did in curbing the excesses
of the Lanham Act. Not until the would-be proprietor of a mark enters a
market should it ever be permitted to exclude others from using the mark
in that market. Until that time, the mark should remain a part of that
market's language, free for others to use as they wish. The concern about

129. See Dawn Donut, 267 F.2d at 365.
130. See Figure III, supra.
building national markets is hardly frustrated by this rule: As a firm prepares to take its mark national, as through an expanded advertising campaign, it can then gain its nationwide rights. But as long as its use is purely local in character, its protection should be local too. And if the firm has never used the mark at all, then its protection should not exist.

IV. PROPOSALS FOR REFORM

The trouble with trademark is clear. The question for those who are troubled is what can be done about it in the wonderful world of the TMRA. After all, the Revision Act was passed just over a year ago, and the pressures to conform to the practices of the rest of the world are of course quite substantial. So it would be foolish to suggest what seems the obvious solution, that the intent-to-use system be repealed. More practical advice is needed to harmonize the certainty of the TMRA with the plausibility of the notion that MIM rather than IM is true. The practical advice that I offer is of two kinds—advice for the courts, and advice for the Commissioner.

To understand the advice, it is first necessary to go back over some ground. The economic model of trademark law as lowering search costs is consistent only with a regime in which negative uses are not permitted. The Lanham Act by its terms did permit purely negative uses—the registrant could restrain junior users in separate markets—but the courts properly put a stop to that. The principal theoretical variation between the TMRA and the previous law is that the new Act permits what are in effect purely negative uses of a mark upon application for registration. Finding a judicial solution to the problems of the Revision Act will not be easy, partly because the new statute is so slippery (no injunctions, just an admonition, a word to the wise) and partly because it is so clear (a bona fide intent to use is enough). Indeed, the TMRA’s unfortunate combination of clear assurances and vague restrictions creates a dangerous instability.

The instability is reflected in the examples that I have already discussed, the seeming erosion of the doctrine of abandonment and the potential eradication of the prohibition of assignments of marks in gross—two cornerstones of the trademark law under the ancien regime, when rights flowed from use. Also endangered is the rule that injunctive relief is available only in markets that the proprietor of the mark has actually entered. Only the courts—and perhaps the good sense of the Patent and Trademark Office—can prevent trademark law from tumbling further down the slippery slope from economizing on information toward warehousing trademarks. Along that line, I have three somewhat modest proposals, which I here sketch lightly, recognizing that they deserve more detailed consideration than I offer.
A. **Limit Availability of Injunctions**

Under the intent-to-use system created by the TMRA, the application itself serves as a constructive use of the mark.\footnote{See TMRA § 109 (amending Lanham Act § 7, 15 U.S.C. § 1057 (1982)).} This is a problem only if a second firm uses the mark after the first firm’s application, but before the application has been perfected by an actual use in trade and registration has been granted. At common law and under the Lanham Act, the first to use in trade is the senior user. Under the Revision Act, however, the constructive use as of the application date gives the applicant priority over a second firm that is the senior user in trade.\footnote{For a detailed explanation, see Figure IV, supra, and accompanying text.}

It would be unfortunate were courts to read this result as a rejection of the *Dawn Donut* approach, and yet the structure of the TMRA makes such a reading plausible. The argument for rejecting *Dawn Donut* would run as follows: Because the application is a constructive use everywhere in the country, the applicant, once having registered, must be deemed the senior user everywhere in the country. Following this logic, a court might grant an injunction against a constructive junior user (but senior user in trade) in a market that the registrant has never entered. This possibility, should it come to pass, would of course demolish *Dawn Donut*’s sensible distinction between geographic markets where the mark has trade significance and geographic markets where it does not.

To avoid this result, the courts should treat a firm that first reserved its registered work through an intent-to-use application like any other registrant. Just as under the registration-first system, a court should refuse to issue an injunction against a junior user until the registrant is prepared to enter the geographic market in which the junior user is using the mark.\footnote{This refusal might be defended as a logical outgrowth of the rejection by the House of a Senate proposal that might have been read to make some remedies available upon application. See TMRA SENATE REPORT, supra note 25.}

This approach might seem to read out of the statute the provision granting the registrant who filed an intent-to-use application the constructive benefit of the filing date. But there is no other way for courts facing claims for injunctive relief to preserve the asserted benefits of the intent-to-use system without falling into the trap of assuming in the face of the evidence that IM, rather than MIM, accurately characterizes the universe of available marks.

B. **Encourage Regional Registration**

Under section 1 of the Lanham Act, an applicant for registration who is seeking concurrent use “shall state exceptions to his claim of exclusive use, in which he shall specify, to the extent of his knowledge, any concurrent
use by others.\textsuperscript{134} The Commissioner should issue a regulation making explicit what the statute implies—that a concurrent use application need not specify any use by others of the same mark. The application might instead simply limit the geographic area within which the applicant expects to use the mark. The full panoply of substantive Federal rights and remedies would then be available only within the limited geographic region specified in the application. Were the Commissioner to encourage regional applications in this manner, many of the difficulties that the \textit{Dawn Donut} approach is designed to forestall would not occur.\textsuperscript{135}

A system of this kind would have several advantages. First, it would more closely reflect the underlying assumption that trademarks are information-economizing devices. The regional registrant would be protected—that is, would be able to lift the mark from the available market language—only in the geographic market it actually served. Second, regional registrations would impoverish the market language only in limited geographic areas, because where particular words were not associated with the goods of any producer, they would be free for anyone to use.

A system of regional registrations would not be as alien to the Lanham Act structure as one might suppose. As matters now stand, a plaintiff in a trademark infringement case, called upon to prove likelihood of confusion, must show that the product lines are close enough that consumers are likely to be confused.\textsuperscript{136} The Commissioner requires the registrant to specify the categories of products or services in connection with which the mark is to be used, and has established thirty-four categories of goods and eight categories of services for that purpose.\textsuperscript{137} \textit{Dawn Donut} has already created a geographic market analogue to the product line requirement; the regional registration system would be, in effect, a geographic market analogue to the product category requirement.

When a registration is limited to a particular geographic region, a search of the Principal Register will establish that fact. Thus a junior user contemplating use of a mark would know from its search both that the mark was registered by a senior user and that the senior user was using the mark only in a specified region of the country. The obvious risk is that a junior user outside of the senior user-registrant’s geographic market would adopt the registered mark in the hope that the senior user’s good-will would rub off, or at the very least, that the senior user would eventually find it profitable to buy the junior user out. This risk, however, can be managed by existing doctrines, without resort to special Federal regu-

\textsuperscript{135} Of course, the reading of the statute placing this regulation within the Commissioner's power will no doubt be a controversial one. If it is rejected, this part of the paper might better be read as a plea for an admittedly unlikely amendment.
lation. If the junior user adopts the mark in order to trade on the senior user’s goodwill, then without regard to registration, the junior user—at least if its scheme succeeds—will be liable to the senior user in a common law unfair competition action for passing off its goods or services as those of the senior user.138

To make the regional registration system work, a firm would need substantial incentives to register only in those regions in which it is currently using the mark or into which it realistically expects to expand. The incentive need not take the form of an explicit penalty for “over-registration”; on the contrary, the question of nationwide protection should be left as a business judgment subject to constraint. The way to provide an incentive for seeking regional registrations (subject to later modification as the business expands) and at the same time to preserve the business judgment of the registrant is to establish a graduated series of fees, with applications claiming broader geographic scope subject to higher fees.139 The fees need not be exorbitant, but only high enough to discourage purely local or regional firms without immediate national ambitions from seeking nationwide registration for their marks. The fees, in other words, should be set in a way that encourages firms to purchase the amount of trademark protection that they need, but discourages them from purchasing more than they need.140

The present difficulty with this approach is that the Congress has recently adopted legislation prohibiting the Commissioner from increasing fees by an amount greater than the rate of inflation.141 Under this statute, the Commissioner might be able only to reduce the fees for regional registrations, while keeping the fees for nationwide registration where they are now. Because firms now are willing to pay for nationwide registration, there would be little incentive for those firms to purchase the less valuable regional registration instead. Consequently, it would probably take an amendment to the statute before a system of regional registrations could be implemented.

138. Registration is not a barrier to a common law action. Common law counts are more or less routinely appended to federal trademark infringement complaints.

139. The current fee for a simple registration has just been reduced from $200.00 to $175.00. See Final Rule on Fees is Announced by PTO, 37 Pat. Trademark & Copyright J. (BNA) 379, 380 (1988) (discussing amendment to 37 C.F.R. § 6.2 (1988)). The fee is the same for a concurrent use application. However, the newly issued PTO rules implementing the TMRA provide for a fee of $100 for the amendment to allege use and the statement of use. See Final PTO Rules Implementing the Trademark Law Revision Act, 54 Fed. Reg. 37,562, 37,588 (1989) (to be codified at 37 C.F.R. § 2.6).

140. This carefully calculated system would not be necessary were a pure common law model adopted.

C. Establish Substantial Penalties for Warehousing

The Commissioner ought to establish monetary or other penalties that are adequate to deter the filing of applications stating a bona fide intention to use the mark when, in fact, the applicant has only an intention to keep others from using it. The TMRA by its terms declares that when an application is not perfected through use within two years, the mark is deemed abandoned.\textsuperscript{142} By regulation, the Commissioner could permit an investigation whenever it came to the attention of the Patent and Trademark Office that the reason that the application was not perfected might have been that there was never a bona fide intention to perfect it. The filing of massive numbers of intent-to-use applications for marks that would in effect compete with a mark that a firm was using at the time of filing might, in proper circumstances, be prima facie evidence of what might be called an intent-to-warehouse.

If, as the USTA and the sponsors of the Revision Act claim, the intent-to-use system is intended to prevent rather than encourage warehousing, this development would be fully consistent with the spirit of the Act.\textsuperscript{143} At the same time, it would calm the fears of the critics who charge that allowing firms to warehouse marks is the principal point of the TMRA.

CONCLUSION

These remedies are, as I said, quite modest in light of the problem, which is the march away from requiring marks to mean something before they can be withdrawn from the market language. If some marks really are better than others, then the firms that select the better marks will continue to enjoy significant advantages over later entrants forced to select marks that are not as good. Moreover, if, as is possible, the better marks are out of the available market language because they are “owned” by firms that are not operating in the market (either because they are local firms that have registered under the Lanham Act and attained nationwide priority or because they are firms that have filed intent-to-use applications under the Revision Act but have not yet used the marks), no firm in the market will be able to use one of the better marks, and all consumers, whatever brands they may seek, will face higher search costs.

The aspects of trademark law that extend protection of a mark beyond the particular geographic market within which the firm uses the mark (if the firm is using the mark at all) rest on the assumption that the set of better marks is infinite, so that the appropriation by the first entrant of one mark does nothing to increase the second firm’s cost of entry into the

\textsuperscript{142} See TMRA § 103 (amending Lanham Act § 1, 15 U.S.C. § 1051 (1982)).

\textsuperscript{143} Cf. 36 Pat. Trademark & Copyright J. (BNA) 759 (1988) (House report suggests that courts should be able to decide “the validity of the application” based on circumstances at time it was made).
market. Given the preference of many firms for fanciful marks that have been tested by marketing research or for marks that are not fanciful but instead call to mind some quality of the product, that assumption ought to be considered more controversial than it currently is. And if, as I have suggested, the irrelevant mark assumption is false, then the Federal trademark system, because it is built on that assumption, is indeed in serious trouble.