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## ARTICLES

### HUNTING GOODWILL: A HISTORY OF THE CONCEPT OF GOODWILL IN TRADEMARK LAW

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INTRODUCTION .....	548
I. THE PUZZLE OF GOODWILL IN TRADEMARK LAW .....	554
A. <i>Goodwill and Modern Trademark Policy</i> .....	554
B. <i>Goodwill and Core Trademark Doctrine</i> .....	556
1. Exclusive Rights.....	556
2. Infringement.....	558
C. <i>Some Examples of Controversial Expansions</i> .....	558
II. THE ENTRENCHMENT OF THE GOODWILL CONCEPT IN TRADEMARK LAW: INTELLECTUAL AND DOCTRINAL FACTORS .....	560
A. <i>The Problem of Equity Jurisdiction: The Mark as Property</i> .....	561
B. <i>Entrenching the Goodwill Concept: Shifting from the Mark as     Property to Goodwill as Property</i> .....	567
C. <i>Tightening Goodwill's Grip: Unifying Trademark     Infringement and Unfair Competition Through the Goodwill-     As-Property Theory</i> .....	572
III. THE ENTRENCHMENT OF THE GOODWILL CONCEPT IN TRADEMARK LAW: SOCIAL AND ECONOMIC FACTORS .....	575
A. <i>Before 1860</i> .....	575
B. <i>From 1860 to 1920</i> .....	576
C. <i>From 1920 to 1940</i> .....	579
IV. PROBLEMS WITH THE GOODWILL-AS-PROPERTY THEORY.....	583
A. <i>Difficulties Defining Goodwill</i> .....	583
B. <i>The Legal Realist Attack</i> .....	585
C. <i>Goodwill, Exploitation, and Monopoly</i> .....	589
V. THE CONTINUING INFLUENCE OF THE GOODWILL IDEA ON TRADEMARK LAW .....	592

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A.	<i>A Period of Expansion – 1920 to 1945: Protecting Marks in Different Product Markets</i> .....	593
B.	<i>A Period of Retrenchment – 1940 to 1970: Limiting Protection in Different Product Markets</i> .....	599
C.	<i>A New Period of Expansion – 1980 to the Present</i> .....	602
1.	<i>Re-Invigorating Anti-Dilution Law</i> .....	604
2.	<i>Recognizing New Types of Confusion</i> .....	606
a.	<i>Post-Sale Confusion</i> .....	607
b.	<i>Initial Interest Confusion</i> .....	612
3.	<i>Creating Merchandising Rights</i> .....	614
VI.	<b>THE NORMATIVE CASE FOR ELIMINATING GOODWILL APPROPRIATION FROM TRADEMARK LAW</b> .....	616
A.	<i>Flaws in the Moral Argument</i> .....	616
B.	<i>Flaws in the Economic Argument</i> .....	618
	CONCLUSION.....	621

*A deep tension lies at the heart of trademark law. On the one hand, the law's core mission, as it is understood today, is to facilitate the transmission of accurate information to the market, and the touchstone of liability has always been the likelihood of consumer confusion. On the other hand, it is also customary to refer to trademark law as protecting goodwill in a mark. The problems arise because these two ways of looking at trademark law push in different normative directions and create a policy tension that frustrates attempts to formulate a coherent body of doctrine.*

*This Article examines how the goodwill concept originally entered trademark law and traces its intellectual and social history and its impact on trademark doctrine. Ever since the 1920s, and with greater frequency during the past two decades, courts have relied on the idea that trademark law protects against appropriation of goodwill to justify some rather broad, and ultimately ill-advised, doctrinal expansions. These expansions seem sensible extensions of trademark principles from the point of view of goodwill appropriation because of the elasticity of the goodwill concept, which can extend to include brand, firm, and in its broadest form, inherent goodwill. In the end, understanding this history gives a useful perspective from which to evaluate the role of goodwill in trademark law today and to propose reforms that would eliminate its pernicious effects.*

#### INTRODUCTION

*It is difficult to conceive of the good will of a business . . . as a thing of form and substance. It is more like a spirit that hovers over the physical, a sort of atmosphere that surrounds the whole; the aroma that springs from the conduct of the business; the favorable hue or reflection which the trade has become accustomed to associate with a particular location or under a certain name. As fragrance may add loveliness to*

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*the flower from which it emanates, so good will may add value to the physical from which it springs.<sup>1</sup>*

*This is the present state of the law, that every trader has a property in the good will of his business, that he has the right to the exclusive benefit of this good will, that therefore he has the exclusive right to sell his goods as his own.<sup>2</sup>*

*[G]ood will is somewhat vaguely considered as the favorable regard of the purchasing public . . . . But good will so construed certainly is not property in any technical sense; for no man can have . . . such a proprietary right to the favorable regard of the public that he may exclude others therefrom.<sup>3</sup>*

It is customary to refer to trademark law as protecting a seller's goodwill in its mark. This familiar and well-accepted proposition has been part of the law since the latter half of the nineteenth century. There is, however, a serious problem with this proposition. Characterizing trademark law in terms of goodwill protection ultimately conflicts with the well-recognized consumer-oriented goals of trademark law. The resulting conflict frustrates efforts to achieve doctrinal coherence, misleads judges, and pushes trademark law in troubling directions. To address these problems, it is necessary to trace the history of the goodwill concept and examine how it works. That is the aim of this Article.

The core of trademark law, as it is understood today, is based on a model which I shall call the "information transmission model." This model views trademarks as devices for communicating information to the market and sees the goal of trademark law as preventing others from using similar marks to deceive or confuse consumers.

The idea of protecting goodwill fits this model rather poorly. Goodwill protection has nothing directly to do with facilitating consumer choice or safeguarding the quality of market information. It has to do instead with protecting sellers from misappropriation. Goodwill on this view denotes the special value that attaches to a mark when the seller's advertising and investments in quality generate consumer loyalty – a capacity to attract consumers over time. Trademarks are repositories or symbols of this goodwill, and trademark law prevents others from appropriating it by using a similar mark.

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<sup>1</sup> *Smith v. Davidson*, 31 S.E.2d 477, 479-80 (Ga. 1944) (Grice, J.).

<sup>2</sup> Edward S. Rogers, *Comments on the Modern Law of Unfair Trade*, 3 ILL. L. REV. 551, 556 (1909).

<sup>3</sup> *Premier-Pabst Corp. v. Elm City Brewing Co.*, 9 F. Supp. 754, 757 (D. Conn. 1935) (Hincks, J.).

Put simply, the information transmission model aims to prevent misleading representations, while the misappropriation model aims to prevent unauthorized appropriations. In fact, the information transmission model has no need for the idea of goodwill at all. It is concerned solely with the quality of market information, whether or not that information has crystallized into something called goodwill.

Given this, it seems strange that judges implementing an information transmission model would even mention goodwill protection as a goal, let alone invoke misappropriation arguments to justify liability expansions. Yet that is exactly what they have done. And the result is an internally inconsistent body of law that resists efforts to achieve doctrinal coherence.

The consequences are serious. The proposition that trademark law protects a firm's goodwill has sometimes been used to justify costly liability expansions that offer little in the way of trademark benefits. These expansions have even prompted some commentators to claim that judges are moving the law in a new and seriously wrongheaded direction, toward "propertizing" trademark rights.<sup>4</sup> As I have argued elsewhere, one must be careful about these claims.<sup>5</sup> Not all of these broad expansions are ill-conceived and not all reflect a trend toward "propertization" of trademarks. Many fit core information transmission policies when those policies are supplemented by a concern about limiting high enforcement costs.

However, the critics are correct that some developments cannot be reconciled with core trademark principles, even when enforcement costs are factored in.<sup>6</sup> Examples include the very broadest applications of anti-dilution law, initial-interest and post-sale confusion and the recognition of merchandising rights. These developments lie too far from the central notion that trademark is about protecting the quality of information conveyed to the market. But they fit the competing idea that trademark law protects a seller's goodwill from misappropriation.

The logic of the misappropriation argument is deceptively simple: a defendant who attracts consumers by using the plaintiff's mark improperly benefits from the plaintiff's goodwill. It does not matter whether consumers are confused or even whether the defendant's use diverts business from the plaintiff. Nor does it matter whether plaintiff's goodwill is impaired or

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<sup>4</sup> See, e.g., Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1688 (1999) (asserting that courts are protecting marks "as things valuable in and of themselves, rather than for the product goodwill they embody"); Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L.J. 1717, 1721-28 (1999) (discussing how advertising has helped to inflate the value of trade symbols); Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 371 (1999) (observing that since the 1950s, trademark law has focused on a trademark "as a valuable product in itself ('property-based trademark')").

<sup>5</sup> Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2121-22 (2004).

<sup>6</sup> See, e.g., Lunney, *supra* note 4, at 371-72.

diminished in any way. It is enough that, in the famous metaphor of *International News Service v. Associated Press*, the defendant “reap[s] where it has not sown.”<sup>7</sup> In other words, the wrong, both moral and legal, consists in free riding, that is, benefiting from something of value that another has invested in creating.

For example, suppose that an automobile manufacturer chooses the name TIFFANY for its new line of high-end automobiles and does so in order to evoke the sense of luxury and prestige that the TIFFANY mark already symbolizes in the jewelry market. Cars and jewelry are such different products that it is unlikely consumers would believe there was any connection between the defendant’s car and the Tiffany jewelry company.<sup>8</sup> Still, a court might enjoin defendant’s use by stretching to find a likelihood of confusion or applying a very broad notion of dilution, all the while influenced by a desire to prevent the automobile manufacturer from free riding on the goodwill embodied in the TIFFANY mark.<sup>9</sup>

It is important to note that the misappropriation argument in this example assumes a very broad definition of goodwill. In general, the broader the conception of goodwill, the broader the scope of liability that misappropriation supports. Throughout this Article, I shall distinguish between three kinds of goodwill – brand goodwill, firm goodwill, and inherent goodwill. Brand goodwill is the most limited of the three. It refers to the positive information consumers have about a specific brand, such as its reliability, high quality, and the like. The only way brand goodwill can be appropriated is if consumers are confused into believing that the defendant is selling the same brand of the same product. Thus, confusing consumers as to source and appropriating brand goodwill are flip sides of the same coin, simply different ways to describe the same wrongful conduct.

But they are not flip sides when goodwill is understood more broadly. First, consider firm goodwill. This type of goodwill extends beyond associations with a brand to include positive impressions of the firm that sells the brand. When consumers like a particular brand, they sometimes generalize their good feelings to the firm that sells the brand and then to all other products that the firm markets. Firm goodwill, therefore, is a broader concept than brand

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<sup>7</sup> 248 U.S. 215, 239 (1918).

<sup>8</sup> And even if consumers did believe such a thing, it is unlikely they would be harmed in any significant way by the mistaken association.

<sup>9</sup> Historically Tiffany & Company has had considerable success securing broad protection for its TIFFANY mark. *See, e.g., Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836, 844-45 (D. Mass. 1964) (holding that naming a restaurant “Tiffany” amounted to “latter-day piracy” because the defendant selected the name solely “to cash in on plaintiff’s good will”); *Tiffany & Co. v. Tiffany Prods., Inc.*, 264 N.Y.S. 459, 463 (Sup. Ct. 1932) (finding that a motion picture company’s use of the name “Tiffany” and use of a diamond or diamond ring in its logo were acts “deliberately intended to obtain, and in fact did obtain, an unfair advantage for defendant from the good will created by plaintiff in the name”).

goodwill, and it supports a misappropriation argument with broader reach. It is possible, for example, to appropriate firm goodwill in a completely different product market. All that is needed is for consumers (mistakenly) to believe that there is an association or connection between the plaintiff and the defendant – that the plaintiff, while not actually selling the defendant’s product, nevertheless authorizes or sponsors it and thus lends its reputation to it.<sup>10</sup>

However, neither brand nor firm goodwill supports liability in our TIFFANY example. The defendant sells cars, not jewelry, and we assumed that consumers were not confused about any connection between the parties. The problem, if there is any, lies in the fact that the car company benefits from the positive connotations that attach to the mark itself. Through Tiffany & Company’s advertising and promotional efforts, the word “Tiffany” has come to mean luxury, prestige, and high quality in general, so that it imparts those meanings to any product or firm with which it is associated. It would not be unusual for a judge to assume that these meanings are part of the plaintiff’s goodwill, just like brand and firm goodwill.

I call this third type of goodwill “inherent goodwill” because it inheres in the mark itself. Inherent goodwill is significantly different from brand and firm goodwill and protecting it involves different considerations.<sup>11</sup> In fact, liability in our example has nothing to do with safeguarding the quality of consumer information. It has to do with protecting the seller, and appropriation of goodwill does all the justificatory work. Moreover – and this is the important point – goodwill appropriation is capable of doing this work only because it assumes an extremely broad conception of goodwill.

This Article traces the history of the concept of goodwill in trademark law and its effect on trademark doctrine. In the late nineteenth century, courts treated goodwill as a form of property and deduced trademark rules from the property idea. In the early twentieth century, this property theory collapsed with the rise of sociological jurisprudence and legal realism. Still, the

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<sup>10</sup> In trademark law, this is known as sponsorship confusion. See 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 24:6 (4th ed. 2005) (discussing how modern trademark law provides a trademark owner “protection against use of its mark on any product or service which would reasonably be thought by the buying public . . . [to be] sponsored by . . . the trademark owner”).

<sup>11</sup> There is a fourth type of goodwill – “product goodwill” – that also differs from brand and firm goodwill in much the same way as inherent goodwill. Product goodwill can take different forms. For example, when a pioneering firm sells a new product, its advertising creates goodwill not only in its brand but also in the new product itself. If a competitor enters the market with its own brand of the same product, it necessarily benefits from the product goodwill that the pioneer created. Another example is a product feature, such as a gold leaf design for jewelry, which is both source-identifying trade dress and also an attractive feature of the product itself. As an attractive feature, it generates a favorable consumer response, which when treated as goodwill is properly classified as product goodwill.

goodwill concept survived and its vagueness supported broad interpretations that influenced liability-expansive holdings.

Critics who complain that these expansions “propertize” trademark law often blame judges for applying their own moral intuitions against free riding without respecting traditional trademark principles or seriously considering the social costs. There is some truth to this criticism, but the history of the goodwill idea reveals a more complicated picture. The notion that trademark law protects goodwill from appropriation is not a modern invention; it has been around in one form or another for more than one hundred years. Thus, blaming judges for applying their own morality instead of following the law oversimplifies the problem. In fact, broad liability can result from a sincere, if misguided, attempt to apply general principles in a consistent way when those principles are framed in terms of goodwill. The goodwill concept has an elastic quality capable of stretching from brand to firm to inherent goodwill, incorporating more and more elements of value along the way, and this elasticity tends to drive trademark law in expansive directions. It takes an understanding of the history of trademark law to see why the misappropriation strand persists despite its deep flaws.

The remainder of this Article is divided into six parts. Part I summarizes modern trademark policy and doctrine and traces its connection to the information transmission model. This discussion frames the central question that occupies the rest of the Article: if trademark law has no need for the idea of goodwill, then why and how did that concept become part of the law?

Part II provides half of the answer. It focuses on intellectual and doctrinal factors. Specifically, Part II explains how the idea of goodwill took firm hold as a response to perceived problems with the late nineteenth century property rights theory of trademark law, and how the concept tightened its grip by supplying the intellectual material needed to unify the trademark field.

Part III provides the other half of the answer. It focuses on social and economic factors. The rise of national markets and the growing intensity of competition during the late nineteenth and early twentieth centuries focused attention on goodwill as a valuable firm asset and on trademarks as symbols of goodwill. Furthermore, the rise to prominence of psychological and persuasive advertising during the 1920s reinforced the goodwill-trademark link.

Part IV continues the story in the twentieth century and recounts mounting criticism of the goodwill idea and dissatisfaction with the goodwill-as-property theory. Critics complained about the definitional vagueness of goodwill and about how firms could exploit their goodwill to enhance their monopoly power. In addition, the legal realists attacked the nineteenth century property theory and called for a more explicit policy analysis of trademark doctrine. These attacks weakened the grip of the goodwill idea, but its influence remained.

Part V shows how the continuing influence of goodwill has shaped some aspects of modern doctrine. It is not that judges invoke goodwill arguments to support doctrinal expansions that they know are illegitimate. The process is

more subtle. Judges take comfort in the idea that trademark law protects goodwill and as a result they are more willing to accept rather tenuous consumer-oriented justifications for their broadest liability holdings.

Part VI briefly addresses the normative issues. It shows why the goodwill appropriation argument is problematic on moral and economic grounds and why courts should focus exclusively on trademark's information transmission goals.

The Article concludes with a simple proposal for how to deal with goodwill in trademark law: judges and lawyers should be careful to identify the specific type of goodwill involved in a case – whether it is brand goodwill, firm goodwill, or the inherent goodwill associated with a mark's popularity – and explain how protecting that type of goodwill promotes information transmission policies. Most important, judges should avoid goodwill misappropriation as a distinct policy rationale. That approach only misdirects trademark law away from what should be its core mission: to ensure the efficient and honest communication of product quality information to consumers.

## I. THE PUZZLE OF GOODWILL IN TRADEMARK LAW

### A. *Goodwill and Modern Trademark Policy*

A mark is a symbol that consumers use to denote a single source of goods or services (which together I shall refer to as “products”).<sup>12</sup> For example, the mark CREST on a tube of toothpaste signifies that the particular tube comes from the same source as all the other toothpaste tubes labeled CREST. This source-identifying property is valuable because it means consumers can rely on the CREST mark to access information about CREST toothpaste.

Theoretically, any symbol can serve as a source-identifier depending on the meaning given it by consumers.<sup>13</sup> Thus, phrases and sounds have been protected as marks.<sup>14</sup> So too have elements of a product's trade dress, including packaging and even readily discernible features of the product itself such as the color of wire fencing,<sup>15</sup> the décor of a restaurant,<sup>16</sup> the design of furniture,<sup>17</sup> and even an artist's unusual style.<sup>18</sup> If consumers believe that all

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<sup>12</sup> See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995).

<sup>13</sup> See *id.* at 162.

<sup>14</sup> See, e.g., *id.* (giving examples of the NBC chime sounds and the smell of scented sewing thread); *Chemical Corp. of Am. v. Anheuser-Busch, Inc.*, 306 F.2d 433, 438 (5th Cir. 1962) (protecting the slogan “Where there's life . . . there's Bud”).

<sup>15</sup> See, e.g., *Keystone Consol. Indus. Inc. v. Mid-States Distrib. Co.*, 235 F. Supp. 2d 901, 909 (C.D. Ill. 2002).

<sup>16</sup> See, e.g., *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 776 (1992).

<sup>17</sup> See, e.g., *Krueger Int'l, Inc. v. Nightingale, Inc.*, 915 F. Supp. 595, 607 (S.D.N.Y. 1996).



items bearing the symbol come from the same source, the symbol has acquired the source-identifying property of a trademark.<sup>19</sup>

The major focus of trademark law is protecting the source identification and information transmission function of marks.<sup>20</sup> Doing this serves three important policy goals.<sup>21</sup> First, and most important, it helps to reduce consumer search costs.<sup>22</sup> By enforcing exclusivity, trademark law assures that consumers can rely on marks to retrieve information about a product that they have acquired through experience, advertising, or word of mouth.<sup>23</sup> The information might be factual – such as information that CREST toothpaste reduces cavities – or it might be emotional or affective in content. Advertising often relies on communicating positive images and emotional associations with the product being advertised.<sup>24</sup> Indeed, the consumer’s emotional response sometimes becomes an important component of the product itself. For example, perfume advertising relies heavily on images and music to evoke feelings that the consumer is supposed to experience while wearing the perfume, and those feelings end up being a large part of what the consumer seeks when she buys a particular brand of perfume.<sup>25</sup> All of this factual and emotional information about a brand is what the mark communicates.

Second, protecting the exclusivity of a mark supports seller incentives to maintain and improve product quality.<sup>26</sup> To see this point, suppose Firm A sells a high quality product and that there is no trademark law to prevent a competitor (Firm B) from using A’s mark on a lower quality product. If

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<sup>18</sup> See, e.g., *Romm Art Creations Ltd. v. Simcha Int’l, Inc.*, 786 F. Supp. 1126, 1136 (E.D.N.Y. 1992) (observing that the artwork had a “distinctive visual impression,” which was protectable).

<sup>19</sup> See *Qualitex*, 514 U.S. at 162.

<sup>20</sup> See *id.* at 163-64 (explaining how a mark reduces the cost to consumers of making informed shopping decisions); *Park ’N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 197-98 (1985) (concluding that one purpose of protecting trademarks is to “protect the ability of consumers to distinguish among competing producers”); 1 MCCARTHY, *supra* note 10, § 2:33 (stating that trademark law “insures that the brand information received by consumers is accurate”).

<sup>21</sup> See Bone, *supra* note 5, at 2105-16 (surveying the moral and economic policies underlying trademark law); Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 786-88 (2004) (explaining how trademark law increases economic efficiency).

<sup>22</sup> See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 167-68 (2003).

<sup>23</sup> See Bone, *supra* note 5, at 2105.

<sup>24</sup> See STUART EWEN, *CAPTAINS OF CONSCIOUSNESS: ADVERTISING AND THE SOCIAL ROOTS OF THE CONSUMER CULTURE* 46-48 (1976) (describing the shift to this psychological mode of advertising).

<sup>25</sup> *Id.*

<sup>26</sup> See *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164 (1995); LANDES & POSNER, *supra* note 22, at 168.

consumers cannot detect the lower quality before purchase, they might be misled by A's mark into believing that B's product is the same as A's. If B's lower quality product is cheaper to produce, B can charge less than A and take away customers through its deception. Anticipating this in advance, A will have little incentive to invest in a higher quality product. Put simply, when trademarks are exclusive, a firm can use its mark to inform consumers that its products are higher quality than its competitor's and thereby reap the benefits of its investments in quality improvement.<sup>27</sup>

Third, protecting a mark reduces the risk that consumers will be misled into buying products they do not want. Misleading consumers undermines efficiency, and when it is intentional, can offend moral norms against lying.<sup>28</sup>

A trademark law designed to facilitate the reliable transmission of information to the market benefits sellers as well as consumers, but it does not depend in any essential way on the idea of seller "goodwill."<sup>29</sup> It is certainly possible to restate information transmission policies in terms of "goodwill" by equating goodwill with all the information consumers have about a specific brand or firm, but nothing is gained by doing this. The essence of the wrong lies in making consumers believe that a product comes from, is affiliated with, or is sponsored by the trademark owner when it is not.<sup>30</sup>

#### B. *Goodwill and Core Trademark Doctrine*

Trademark law's core doctrines also have no need for the idea of goodwill. The two requirements for liability – that the plaintiff own exclusive rights in the mark and that the defendant infringe those rights – reflect the influence of the information transmission model.<sup>31</sup>

##### 1. Exclusive Rights

In order to have exclusive rights, a plaintiff must show that its mark is at least capable of serving as a source identifier.<sup>32</sup> The law distinguishes in this

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<sup>27</sup> The point is not that trademark law provides affirmative incentives to improve quality. That is the business of patent and copyright law. Trademark simply assures that when a firm creates a higher quality product – perhaps in response to patent or copyright incentives – it is able to communicate that fact to consumers.

<sup>28</sup> See Bone, *supra* note 5, at 2108.

<sup>29</sup> Even the second policy is not about protecting goodwill as such, but rather about influencing product quality incentives. Thus, the focus is on preventing lost sales *due to confused consumers*, not on preventing lost sales in general. Whether consumers like the product so much that they make repeat purchases or otherwise exhibit brand loyalty to support a finding of goodwill is irrelevant to this policy.

<sup>30</sup> See Bone, *supra* note 5, at 2105.

<sup>31</sup> See 3 MCCARTHY, *supra* note 10, § 23:1.

<sup>32</sup> See 2 *id.* § 11:2 (stating that generic terms can never be trademarks).

regard between “descriptive marks” and “inherently distinctive marks.”<sup>33</sup> Descriptive marks are words or other symbols that describe aspects of the product, such as FISH-FRI for a batter mix used to fry fish<sup>34</sup> or VISION CENTER for a business selling eyeglasses.<sup>35</sup> To establish exclusive rights in a descriptive mark, the plaintiff must prove that the mark has acquired secondary meaning.<sup>36</sup> Secondary meaning exists when a significant number of consumers use the mark to identify a single source of the product.<sup>37</sup> In short, a descriptive mark is protectable only if it actually serves an information transmission function.

Unlike descriptive marks, inherently distinctive marks do not require secondary meaning.<sup>38</sup> Exclusive rights attach as soon as the seller uses the mark in trade.<sup>39</sup> This category includes marks that are fanciful, arbitrary, or suggestive.<sup>40</sup> A fanciful mark is a completely new word or symbol created just to serve as a mark, such as KODAK for photographic supplies.<sup>41</sup> An arbitrary mark is an existing word or symbol that has no relationship to the product with which it is associated, such as IVORY for soap.<sup>42</sup> And a suggestive mark is an existing word or symbol that says something about the product but only in a suggestive rather than a clearly descriptive way.<sup>43</sup> An example is COPPERTONE for tanning lotion.<sup>44</sup>

Although a plaintiff need not prove secondary meaning to obtain exclusive rights in an inherently distinctive mark, protection is still based on a capacity

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<sup>33</sup> *Id.* §§ 11:1, 11:4 (defining “inherently distinctive” as “fanciful, arbitrary and suggestive”).

<sup>34</sup> *Zatarain’s, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 793 (5th Cir. 1983) (characterizing a descriptive mark as one that “relates so closely and directly to a product or service that other merchants marketing similar goods would find the term useful in identifying their own goods”).

<sup>35</sup> *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 119 (5th Cir. 1979).

<sup>36</sup> *See* 2 MCCARTHY, *supra* note 10, § 16:34.

<sup>37</sup> *Id.* (“[R]ights by secondary meaning are gained solely by public recognition and association.”).

<sup>38</sup> *Id.* § 11:4 (“[A]n inherently distinctive mark is presumed immediately to serve as an identifier of source from the very first moment it is used.”).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* § 16:34.

<sup>41</sup> *See Eastman Kodak Co. v. Weil*, 243 N.Y.S. 319, 321 (Sup. Ct. 1930).

<sup>42</sup> *See Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 n.6 (2d Cir. 1976) (noting that the term “ivory” would be generic for a product made from elephant tusks, but is arbitrary as applied to soap).

<sup>43</sup> The most popular test for distinguishing suggestive from descriptive marks is the so-called “imagination test.” According to this test, a mark is suggestive if it takes a leap of imagination to connect the mark’s ordinary meaning to the product. *See* 2 MCCARTHY, *supra* note 10, § 11:67.

<sup>44</sup> *See Douglas Labs. Corp. v. Copper Tan, Inc.*, 210 F.2d 453, 455 (2d Cir. 1954).

for source identification.<sup>45</sup> The idea is that fanciful, arbitrary, and suggestive marks are inherently capable of serving as source identifiers because they have no other obvious meaning for consumers.<sup>46</sup> As I have argued elsewhere, protecting these marks without proof of secondary meaning makes sense as a conclusive presumption of source-identification justified by the administrative and error costs it saves.<sup>47</sup>

## 2. Infringement

The second liability requirement – infringement – also fits an information transmission model. The traditional touchstone for infringement is consumer confusion, and to obtain injunctive relief, a plaintiff must show that defendant’s use is likely to cause confusion.<sup>48</sup>

In the late nineteenth century, liability was limited to passing off or source confusion: the plaintiff had to show that a consumer was likely to believe that defendant’s product actually originated with the plaintiff.<sup>49</sup> Starting in the early twentieth century, courts expanded liability to include uses of a mark on non-competing products, and they did so by recognizing a broader form of confusion, so-called “sponsorship confusion.”<sup>50</sup> It was enough for the plaintiff to show that the defendant’s use was likely to confuse consumers into believing that the plaintiff sponsored or was somehow connected to or associated with the defendant’s activities, even if consumers understood clearly that the plaintiff did not actually sell the defendant’s product.<sup>51</sup> Basing liability on consumer confusion, whether of the source or sponsorship type, fits information transmission policies: it protects the mark as a device to communicate accurate information to consumers.

### C. *Some Examples of Controversial Expansions*

Over the years, courts have expanded trademark law in some ways that are difficult to reconcile with information transmission policies. I discuss these expansions and the influence of the goodwill idea in Part V below, but it is worth mentioning a few examples here to give a sense of what is at stake and why it is important.

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<sup>45</sup> 2 MCCARTHY, *supra* note 10, § 11:4.

<sup>46</sup> *See id.*

<sup>47</sup> *See Bone, supra* note 5, at 2130-34.

<sup>48</sup> 3 MCCARTHY, *supra* note 10, §§ 23:1-23:4. To obtain damages, the plaintiff must prove actual confusion. *See id.* § 23:3.

<sup>49</sup> *See 4 id.* § 24:2.

<sup>50</sup> *See infra* Part V.A for an analysis of the expansion of trademark protection from 1920 to 1945.

<sup>51</sup> *See, e.g., Alfred Dunhill of London, Inc. v. Dunhill Shirt Shop, Inc.*, 3 F. Supp. 487 (S.D.N.Y. 1929).

One area of expansion involves the broad application of anti-dilution statutes.<sup>52</sup> These statutes protect strong marks against uses that dilute their distinctiveness even when there is no risk of consumer confusion.<sup>53</sup> Some dilution holdings can be justified in terms of core information transmission policies, especially those holdings involving dilution by tarnishment. For example, when the defendant uses a mark in a way that clashes with the plaintiff's product – such as using CADILLAC as the name of a greasy spoon restaurant – the clash of images can impair the quality of information that the mark conveys even if, as in the restaurant example, consumer confusion is very unlikely.

However, this is not true for all cases, especially those involving the blurring prong of dilution. The key idea behind blurring is that a highly distinctive mark can lose its uniqueness and its selling power when more and more firms use the same mark on different products.<sup>54</sup> Blurring might force a consumer to reflect a bit longer before buying in order to sort out the different uses, but it is difficult to see how it impairs a mark's ability to communicate information when the defendant's product is compatible with the plaintiff's and consumers are not confused.<sup>55</sup>

Another example involves the recognition of new types of confusion.<sup>56</sup> Source and sponsorship confusion arise at the point of purchase, but courts have gone further to recognize confusion after (post-sale) and before (initial interest) purchase. For example, the Ferrari car company used a post-sale confusion theory to enjoin the seller of a fiberglass kit designed to make ordinary cars look like Ferraris, arguing that members of the public would believe that the Ferrari look-alikes were real Ferraris.<sup>57</sup> As I explain in Part V below, some applications of post-sale and initial interest confusion can be justified on information transmission grounds, especially if enforcement costs are added to the policy mix. But the broadest applications, such as the Ferrari example, are more difficult to justify in these terms.

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<sup>52</sup> See *infra* notes 273-278, 320-328 and accompanying text (describing the historical development of anti-dilution law). Frank Schechter is usually credited with inventing the dilution theory, although he never actually used the label. See Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 825 (1926) (describing such use as “the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods”). Today anti-dilution protection is mostly provided by statute, including a federal anti-dilution provision added to the Lanham Act in 1995. See 15 U.S.C. § 1125(c) (2000).

<sup>53</sup> See *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 429-31 (2003) (indicating that dilution theory does not come from the common law or from a desire to protect consumers).

<sup>54</sup> Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 823-28 (1997).

<sup>55</sup> See, e.g., *id.* at 832-33.

<sup>56</sup> See *infra* notes 335-380 and accompanying text.

<sup>57</sup> *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1245-46 (6th Cir. 1991) (asserting that the exterior design of a Ferrari is protectable trade dress).

Given the poor fit between these expansions and the information transmission policies considered to lie at the core of trademark law today, one has to wonder why courts have been willing to expand trademark law in such broad directions. One important part of the answer has to do with the role of goodwill appropriation as a justificatory principle. To understand how this principle became relevant we must delve into the history of the goodwill concept in trademark law.

## II. THE ENTRENCHMENT OF THE GOODWILL CONCEPT IN TRADEMARK LAW: INTELLECTUAL AND DOCTRINAL FACTORS

Early in its history, trademark law posed a jurisdictional challenge to courts of equity entertaining bills for injunctive relief. Judges responded to this challenge by treating the mark as property and creating a set of doctrines that protected the seller's property right in its mark. The locus of the property eventually shifted from the mark itself to the value underlying the mark, which was called "goodwill." This shift firmly entrenched the idea that trademark law protects goodwill as property, and over time, this idea became a central organizing principle.

A key aspect of the following account involves the rise to dominance of a natural property rights theory of trademark law during the late nineteenth century. This theory weakened the traditional link between trademark law and fraud, and its core idea of protecting property in goodwill opened the door to potentially broad expansions of trademark law on a goodwill appropriation theory. While a property theory naturally suggests a concern with protecting sellers as property owners, in fact judges and commentators throughout the period expressed concern about sellers *and* consumers – about protecting sellers from loss due to deceptive practices as well as protecting the public from being deceived. Nineteenth century jurists frequently referred to both goals in the same passage without sharply distinguishing between them.<sup>58</sup> In fact, there was no need to draw a sharp distinction. In nineteenth century trademark law, as we shall see, the two goals were mutually consistent and

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<sup>58</sup> And when judges did distinguish between the two goals, it was not always clear what they had in mind. For example, the Seventh Circuit in a 1912 case, *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, stated that the "fundamental question" in unfair competition cases is not "whether the public is likely to be deceived," but whether the seller is deprived of sales as a result of that deception: "This, rather than the protection of the public against imposition, is the sound and true basis for the private remedy." 201 F. 510, 513 (7th Cir. 1912). However, immediately after this statement, the court went on to focus on public deception as "morally wrong" and then referred to seller harm in terms that suggested it might be merely a standing requirement: "[Public deception] does not give rise to a private right of action, unless the property rights of [the plaintiff] are interfered with," the court explained, because a court of equity "cannot enforce as such the police power of the state." *Id.* at 514.

reinforcing – trademark law gave remedies to sellers and in so doing helped both sellers and consumers.<sup>59</sup>

A. *The Problem of Equity Jurisdiction: The Mark as Property*

Today, after the merger of law and equity, courts no longer worry about finding a special jurisdictional basis for ordering injunctive relief. However, in the nineteenth century, a defendant could object to a bill in equity by arguing that the suit should have been filed in a court of law.<sup>60</sup> This created a problem. Because trademark protection was originally based on fraud and the fraud in question was perpetrated on the public at large (not directly on the trademark owner), it was not clear what basis the trademark owner had to invoke the jurisdiction of a court of equity to grant injunctive relief.<sup>61</sup> One early English chancellor put the point succinctly: “The fraud upon the public is no ground for the Plaintiff’s coming into this Court.”<sup>62</sup>

Courts of equity did exercise jurisdiction to grant injunctive relief, and by the middle of the nineteenth century, they had devised a justification for the practice.<sup>63</sup> That justification treated the mark (or, in a rather circular fashion, the exclusive right to use the mark) as “property” and based jurisdiction on equity’s power to enjoin invasions of property rights.<sup>64</sup> American courts

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<sup>59</sup> This makes it very difficult for the historian who wishes to determine whether nineteenth century courts cared mostly about protecting sellers or mostly about protecting consumers. Professor Mark McKenna, in a recent and interesting draft article still under revision, makes a heroic, though in my opinion ultimately unpersuasive, effort to answer this question in favor of seller protection as the dominant goal. Mark P. McKenna, *The Normative Foundations of Trademark Law* (Mar. 8, 2006) (unpublished manuscript), available at <http://ssrn.com/abstract=889162>. The problem with a project like Professor McKenna’s is similar to interpreting an Escher print. Everything depends on what one sees as the foreground (protecting consumers or protecting sellers) and what one sees as the background – and both perspectives are necessary to fully appreciate the whole.

<sup>60</sup> See *Webster v. Webster*, 36 Eng. Rep. 949, 949 (1791).

<sup>61</sup> *Id.* (finding no justification for injunctive relief in a trademark suit).

<sup>62</sup> *Id.*

<sup>63</sup> See FRANCIS H. UPTON, *A TREATISE ON THE LAW OF TRADE MARKS* 12-13 (1860) (explaining that “[p]rior to the time of Lord Hardwicke, a party claiming to be the owner of a trade mark[] was left to establish his right, and obtain his remedy at law,” but this eventually changed so that “now the well established doctrine” is that courts of equity will protect “the exclusive property of the manufacturer, or merchant, in his trade marks”). No doubt the growing importance of trademarks in the wake of the Industrial Revolution had something to do with the change of heart.

<sup>64</sup> *Leather Cloth Co. v. Am. Leather Cloth Co.*, 46 Eng. Rep. 868, 870 (1863) (declaring “if the Plaintiff has an exclusive right so to use any particular mark or symbol, it becomes his property for the purposes of such application”); *Hall v. Barrows*, 46 Eng. Rep. 873, 876 (1863) (finding that the jurisdiction of the court to protect trademarks rests upon property).

followed the English lead and based jurisdiction on the protection of the mark as property.<sup>65</sup>

Late nineteenth century American jurists interpreted this jurisdictional doctrine within the framework of the then-prevailing theory of common law property rights, and in so doing, developed a distinctive property rights theory of trademark law.<sup>66</sup> During the late nineteenth century, the prevailing property theory was formalistic: it assumed that the concept of “property” had an inherent meaning from which legal rights could be derived.<sup>67</sup> Property in a thing, according to this view, was based on control over the thing: control conferred possession, and possession could mature into ownership.<sup>68</sup> If a person had property in a thing, it followed necessarily that the person had an absolute right to exclude others from the thing.<sup>69</sup> Moreover, this was a natural, common law right that existed independently of any statutory or positive law.<sup>70</sup>

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<sup>65</sup> *Avery & Sons v. Meikle & Co.*, 81 Ky. 73, 90 (1883) (explaining that “[c]ourts of equity proceed ‘on the principle of protecting property alone’”); *see Schneider v. Williams*, 14 A. 812, 813-814 (N.J. Ch. 1888) (declaring that while the defendant’s conduct deceives and cheats and is therefore morally wrongful, “[t]he complainants can have no relief at the hands of this court . . . [u]nless their bill shows that they have property in the label or mark, which they say is the exclusive property of their association”); JAMES L. HOPKINS, *THE LAW OF UNFAIR TRADE, INCLUDING TRADE-MARKS, TRADE SECRETS, AND GOOD-WILL* § 113 (1900) (exploring the historical development of equity jurisdiction over trademark infringement in the United States); UPTON, *supra* note 63, at 15 (commenting that the property is in marks as “means of designating things”); *see generally* Rogers, *supra* note 2, at 552 (contending that courts developed the idea of property in trademarks to justify equity jurisdiction).

<sup>66</sup> I am aware of two published intellectual histories of late nineteenth century trademark and unfair competition law that link the doctrine to the prevailing property theory: Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 TRADEMARK REP. 305, 314-16 (1979) (discussing the development of trademark law in America and finding that American courts “gradually became more concerned with the nature of the plaintiff’s [property] right than with the defendant’s offending conduct”); and Kenneth J. Vandeveld, *The New Property of the Nineteenth Century: The Development of the Modern Concept of Property*, 29 BUFF. L. REV. 325, 335-38, 341-48 (1980) (arguing that late nineteenth century courts began to develop nonphysical forms of property in order to provide protection to nontangible forms of property, such as trademark and trade secrets). I rely on this work to some extent, although my account differs in important respects and covers more ground. There is also Professor McKenna’s unpublished work in draft, which presents an intellectual history based on a somewhat different view of the nineteenth century property right. McKenna, *supra* note 59.

<sup>67</sup> There is an extensive literature on late nineteenth century conceptualism and its formalistic theory of property rights. *See, e.g.*, Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 254-60 (1998).

<sup>68</sup> *See, e.g.*, Robert G. Bone, *Normative Theory and Legal Doctrine in American Nuisance Law*, 59 S. CAL. L. REV. 1101, 1120, 1122 (1986).

<sup>69</sup> *See id.* at 1116-23. In his draft article on nineteenth century trademark law, Professor McKenna argues that the natural rights theory of property in the late nineteenth century



There was a problem with applying this general theory to words and symbols, however. Words and symbols in regular use were considered “common property” or “publici juris,” free for everyone to use and thus incapable of private appropriation.<sup>71</sup> How then was it possible for a seller to acquire exclusive property rights in a word or symbol as a mark? The answer was to create a completely new word or symbol or use an existing word or symbol in a way that did not evoke its ordinary meaning. These marks were not common property because they did not exist prior to the seller’s creating them – or at least prior to the seller’s using them in a novel way – and therefore they were capable of appropriation.<sup>72</sup>

Marks that qualified as property in this way were known as “technical trademarks.”<sup>73</sup> This category included marks that today would be called

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recognized natural limits to the property right. He maintains that when jurists referred to property rights as “absolute,” they did not mean that the rights were unlimited, but rather that they were “personal” and “pre-political.” McKenna, *supra* note 59, at 53. Professor McKenna is correct that “absolute” property rights were “pre-political,” and obviously *legal* rights in property had to be limited. But “absolute” meant something more; it meant that the *natural* right preserved a zone of absolute dominion, i.e., a zone of liberty protected against the world at large and not directly conditioned or qualified by considerations of social policy. See Bone, *supra* note 68, at 1116-31. In ideal property theory (never fully realized in practice), property rights had to be limited to prevent conflicts with other absolute rights (a point Professor McKenna recognizes), but those limits were supposed to preserve an unlimited, though smaller, zone of liberty against the world. *Id.* at 1135-36 (describing the “competing rights model”). The story of the collapse of late nineteenth century formalism is partly a story about the conceptual and practical failings of this rights theory.

<sup>70</sup> See, e.g., WILLIAM HENRY BROWNE, A TREATISE ON THE LAW OF TRADE-MARKS AND ANALOGOUS SUBJECTS § 86 (2d ed. 1885) (claiming that the property right in a trademark “has its foundation in immutable law”).

<sup>71</sup> As one court put it in a famous and important nineteenth century opinion:

The alphabet, English vocabulary, and Arabic numerals, are to man, in conveying his thoughts, feelings, and the truth, what air, light, and water are to him in the enjoyment of his physical being. Neither can be taken from him. They are the common property of mankind, in which all have an equal share and character of interest. From these fountains whosoever will may drink, but an exclusive right to do so cannot be acquired by any.

Avery & Sons v. Meikle & Co., 81 Ky. 73, 86, 90 (1883) (concluding that descriptive terms “are common property which all may use, but which none may exclusively appropriate”); accord *Dennison Mfg. Co. v. Thomas Mfg. Co.* 94 F. 651, 657 (D. Del. 1899) (arguing that “no one can acquire an exclusive right to the use, as a trade-mark, of a generic name, or word”); HOPKINS, *supra* note 65, § 15, at 27-28.

<sup>72</sup> See AMASA C. PAUL, THE LAW OF TRADE-MARKS, INCLUDING TRADE-NAMES AND UNFAIR COMPETITION § 22, at 35 (1903) (stating that a trademark “must be of such nature that it can be rightfully appropriated by one person, to the exclusion of all others”).

<sup>73</sup> See JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES, AND UNFAIR COMPETITION § 3, at 11 (2d ed. 1905) (contrasting a “technical trademark” with tradenames

fanciful (completely made up) and arbitrary (existing words without any meaning relating to the product).<sup>74</sup> The category did not include descriptive marks or elements of a product's packaging, which as part of the general vocabulary or the universe of readily available product features were free for everyone to use and therefore incapable of the exclusive ownership necessary for property rights.<sup>75</sup>

Technical trademarks were protected by the tort of trademark infringement.<sup>76</sup> Trademark infringement focused on the unauthorized appropriation of the mark as property in itself.<sup>77</sup> The plaintiff first had to prove control over and thus ownership of the mark, which he did by proving that he was the first to use the mark in trade.<sup>78</sup> Then the plaintiff could obtain injunctive relief simply by showing that the defendant used the same or very similar mark on the same type of goods.<sup>79</sup> Since the gist of the wrong was the

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and names not capable of private ownership); PAUL, *supra* note 72, §§ 22, 24 (defining the attributes of a technical trademark).

<sup>74</sup> See PAUL, *supra* note 72, §§ 36, 37 (providing examples where the application of a word to an article is arbitrary). There was also some authority for treating suggestive marks as technical trademarks. See *id.* § 37 (indicating that courts have often found trademarks even when the application of a word to the article is suggestive of some attribute of the article); *supra* notes 40-44 and accompanying text (defining fanciful, arbitrary, and suggestive marks).

<sup>75</sup> See, e.g., *Avery & Sons*, 81 Ky. at 85-86 (illustrating terms incapable of acquisition by a single person); *Dennison Mfg. Co.*, 94 F. at 657 (holding that a trademark may not consist of a generic name or word that is merely descriptive); PAUL, *supra* note 72, § 22 (implying that a trademark must be capable of being appropriated by one person). This somewhat formalistic property rationale was frequently coupled with what seems to be a more functional concern about preventing monopolies in the product market. See, e.g., *Canal Co. v. Clark*, 80 U.S. 311, 323 (1871) (declaring that "[n]o 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"); *Browne*, *supra* note 70, § 29, at 33 (finding it a firm principle of trademark law that "[n]o one can claim protection for the exclusive use of a trademark which would practically give him a monopoly in the sale of any goods").

<sup>76</sup> See, e.g., HOPKINS, *supra* note 73, § 94 (defining trademark infringement); Milton Handler & Charles Pickett, *Trade-Marks and Trade Names – An Analysis and Synthesis* (pt. 1), 30 COLUM. L. REV. 168, 168 (1930) ("Trade-marks are protected in a suit for trade-mark infringement; trade names in an action to restrain passing-off or unfair competition.").

<sup>77</sup> HOPKINS, *supra* note 73, § 94 (defining infringement in terms of a trespass against another's property right).

<sup>78</sup> See NORMAN F. HESSELTINE, *THE LAW OF TRADEMARKS AND UNFAIR TRADE* 89 (1906) (stating that "[a]ctual use of a mark upon goods put on the market and sold by the adopter is necessary to create ownership" and that the mark so adopted must be one "not used by another to designate goods of the same kind on market"); PAUL, *supra* note 72, §§ 90, 91 (pointing out that adoption and use are necessary and indicating that a qualifying use must indicate "an intention to adopt" the symbol as a mark).

<sup>79</sup> HOPKINS, *supra* note 73, §§ 99, 109.

unauthorized taking of the property (i.e., the mark) by itself, there was no need for the plaintiff to show any risk of confusion, and injunctive relief would issue even if the defendant adopted the mark innocently without an actual intent to deceive or defraud.<sup>80</sup> Indeed, an absolute injunction could still be granted even if the mark was accompanied by other symbols that virtually eliminated any confusion risk.<sup>81</sup>

Marks that did not qualify as technical trademarks, such as descriptive marks and product packaging, still received some legal protection, but not on a property theory. Descriptive marks were called “tradenames,”<sup>82</sup> a category that also included geographic and personal name marks.<sup>83</sup> Tradenames and product packaging were protected by a body of law known as “unfair competition” (or “unfair trade”).<sup>84</sup> The essence of the wrong in these cases was not infringement of a property right, but rather fraud by deceiving or confusing consumers as to who actually sold the product – so-called “palming off” or “passing off.”<sup>85</sup>

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<sup>80</sup> See, e.g., *Lawrence Mfg. Co. v. Tenn. Mfg. Co.*, 138 U.S. 537, 548-49 (1891) (stating that fraudulent intent would be inferred because liability is based on property in the mark); PAUL, *supra* note 72, § 19 (claiming that it is not necessary to prove fraud or that defendant’s product is of inferior quality because “a trade-mark, when in use, is property itself”). However, the absence of fraudulent intent was relevant for other purposes, such as an award of damages or costs. See *Lawrence Mfg. Co.*, 138 U.S. at 549.

<sup>81</sup> *Handler & Pickett* (pt. 1), *supra* note 76, at 169 (“If a trade-mark is substantially copied, its use will be enjoined notwithstanding that it is accompanied by such distinguishing features as render it unlikely that the public will mistake the goods bearing the simulated mark for those stamped with the original.”). However, if the defendant’s mark was not identical to the plaintiff’s, the court would look at the likelihood of consumer deception in order to determine whether the mark was similar enough to be a “colorable imitation” justifying an injunction. See *HOPKINS*, *supra* note 73, §§ 104-107 (indicating that if there is no resemblance in essential aspects of the trademark, there is no justification for an injunction).

<sup>82</sup> See, e.g., BROWNE, *supra* note 70, § 91 (distinguishing between trademark and tradename); *HOPKINS*, *supra* note 73, § 3, at 9-12 (defining tradename as a word or phrase by which a product is known to the public and which is either descriptive or generic). The term “tradenname” has a different legal meaning today. For example, the Lanham Trademark Act defines a tradename as a word or symbol used to denote the name of a firm or business, as opposed to a trademark (used to denote goods) and a service mark (used to denote services). 15 U.S.C. § 1127 (2000).

<sup>83</sup> Geographic terms and proper names, like descriptive words, were considered common property available for everyone to use. See *HOPKINS*, *supra* note 73, at 10-11.

<sup>84</sup> See, e.g., *HOPKINS*, *supra* note 65, § 15, at 28-29 (describing the protection provided to proper names and product packaging by the law of unfair competition).

<sup>85</sup> *Id.* § 15, at 29-30.

The legal rules for the tort of unfair competition reflected the absence of a property theory and the close connection to fraud.<sup>86</sup> A plaintiff did not acquire rights in a tradename or product packaging simply by showing that he was the first to use it in trade, as was the case for technical trademarks.<sup>87</sup> He had to prove that he was the first to establish secondary meaning; that is, the first to convince consumers to use the tradename or product packaging as a source identifier.<sup>88</sup> Furthermore, injunctive relief was not granted simply on a showing that the defendant used the same tradename or packaging in competition with the plaintiff.<sup>89</sup> In keeping with unfair competition's grounding in fraud, the plaintiff had to show that the defendant intended to deceive consumers – although the intent could be inferred from the circumstances.<sup>90</sup>

It was common for early twentieth century commentators to tell an evolutionary story about how the tort of unfair competition developed from the much simpler and more straightforward tort of trademark infringement. According to this account, dishonest competitors began by copying technical trademarks, but after the tort of trademark infringement was created, they turned to more sophisticated passing off strategies. Courts of equity then intervened on a case-by-case basis to block these new strategies, applying intuitive notions of fairness.<sup>91</sup> This inductive, ad hoc approach gradually

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<sup>86</sup> See Handler & Pickett (pt. 1), *supra* note 76, at 168-69 (listing all the doctrinal differences between trademark infringement and unfair trade, including the rule that unfair competition requires fraud while trademark infringement does not).

<sup>87</sup> See, e.g., *G. & C. Merriam Co. v. Saalfield*, 198 F. 369, 373 (6th Cir. 1912) (explaining that secondary meaning exists in a descriptive or geographic term only where it had been used “so long and so exclusively” that the term came to identify the source of the product); E.R. Coffin, *Fraud as an Element of Unfair Competition*, 16 HARV. L. REV. 272, 274-78 (1903) (observing the distinction between technical trademarks “capable of exclusive appropriation” and other marks “to which a trader cannot acquire this exclusive right” but which can be protected once they acquire secondary meaning).

<sup>88</sup> See, e.g., JAMES LOVE HOPKINS, *THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION* § 16 (4th ed. 1924); Coffin, *supra* note 87, at 274-78.

<sup>89</sup> See Handler & Pickett (pt. 1), *supra* note 76, at 169 (contrasting infringement of a tradename with that of a trademark, which imposes liability even for innocent use).

<sup>90</sup> See, e.g., *Lawrence Mfg. Co. v. Tenn. Mfg. Co.*, 138 U.S. 537, 551-52 (1891); HOPKINS, *supra* note 73, § 99, at 257.

<sup>91</sup> See HOPKINS, *supra* note 73, § 1, at 2 (discussing how development of trademark law led to more inventiveness in “stealing another’s trade” without infringing trademark law; courts responded by extending the law to cover these new methods); Rogers, *supra* note 2, at 551-52 (telling the same story of clever competitors developing sneakier ways to steal a rival’s business without taking a technical trademark and courts gradually intervening with remedies).

produced a body of case law that loosely cohered but lacked clear definition and a general theory.<sup>92</sup>

B. *Entrenching the Goodwill Concept: Shifting from the Mark as Property to Goodwill as Property*

There was a serious problem with identifying the mark itself as the property. When courts and commentators referred to property in the mark, they did not mean that trademark law actually protected words or symbols as things of value in themselves or that its purpose was to encourage the creation of original marks.<sup>93</sup> This was an important point of distinction between trademark law on the one hand, and copyright and patent on the other.<sup>94</sup> The goal of trademark law was to protect consumers from deception and confusion and to safeguard a seller's ability to use its hard-earned reputation to sell its products.<sup>95</sup>

The problem arose on the doctrinal level as well. If the mark itself was the property, it made no sense, for example, to limit injunctions to directly competing uses in limited geographic areas.<sup>96</sup> For late nineteenth century formalists, a property right by its inherent nature was an *in rem* right, which meant it was supposed to give protection against the entire world.<sup>97</sup> Geographic and product market limitations were incompatible with this principle, but they did fit a theory based on deception since the plaintiff's customers were unlikely to be affected by uses in distant markets.

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<sup>92</sup> See WILLIAM H.S. STEVENS, *UNFAIR COMPETITION* 1 (1917) ("The term 'unfair competition' is very difficult to define, and it is scarcely less difficult to explain."); Oliver R. Mitchell, *Unfair Competition*, 10 HARV. L. REV. 275, 275 (1896) (claiming that "[t]o most lawyers, it is safe to say, the title [unfair competition] carries no very definite meaning" partly because it is based on individual, fact-specific decisions).

<sup>93</sup> See *Trade-Mark Cases*, 100 U.S. 82, 94 (1879) (stating that trademark symbols lacked "novelty, invention, discovery, or any work of the brain," and required "no fancy or imagination, no genius, no laborious thought").

<sup>94</sup> See *id.* (differentiating trademark symbols from inventions or discoveries); UPTON, *supra* note 63, at 14 ("The right of property in trade marks does not partake in any degree of the nature and character of a patent or copyright . . .").

<sup>95</sup> This was clear in the very earliest American trademark law treatise. See UPTON, *supra* note 63, at 15-16, 97-98.

<sup>96</sup> See, e.g., *Kidd v. Johnson*, 100 U.S. 617, 619 (1879) (reasoning that the exclusive right of a trademark would be diminished if the mark could be used by someone else in another city).

<sup>97</sup> See Grafton Dulany Cushing, *On Certain Cases Analogous to Trade-Marks*, 4 HARV. L. REV. 321, 322 (1890). In fact, early on, some courts claimed that trademarks were protected nationwide precisely because property rights were necessarily exclusive rights and absolute. See *Kidd*, 100 U.S. at 619. However, the Supreme Court eventually made clear that trademark rights extended only to limited geographic areas. See *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 416 (1916).

Courts and commentators tried to bridge the gap between the property theory and the law's historic concern with fraud by arguing that trademark infringement was in fact based on deception, but the deception was conclusively presumed.<sup>98</sup> This conclusive presumption, however, was stated simply as fiat without any explanation of how a property theory could be limited to deception-based liability.<sup>99</sup>

Another popular approach involved shifting the locus of the property right from the mark itself to the "goodwill" represented by the mark.<sup>100</sup> According to this view, goodwill was the property and the mark merely a device to reap its benefits.<sup>101</sup> This idea surfaced in some of the early cases and commentary alongside the view that the mark itself was the property.<sup>102</sup> Gradually the idea moved centerstage, so that by the opening decades of the twentieth century treatise writers could state as black letter law that the property was the seller's goodwill and not the mark itself.<sup>103</sup>

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<sup>98</sup> See, e.g., BROWNE, *supra* note 70, § 386, at 385 (combining the concepts of property and consumer protection by stating that because trademark is a property right, the defendant's fraudulent intention was to mislead the public); HOPKINS, *supra* note 73, § 99, at 256-57 (explaining that when a trademark is used by another, "fraud will be presumed from its wrongful use" (quoting *Church & Dwight Co. v. Russ*, 99 F. 276, 279 (1900))).

<sup>99</sup> The typical argument was purely circular: it reasoned that deception was conclusively presumed because a trademark was an absolute property right and therefore supported liability without proof of deception. See, e.g., HOPKINS, *supra* note 73, § 99, at 255-57.

<sup>100</sup> *Hanover Star Milling Co.*, 240 U.S. at 412-13; *Rosenberg Bros. & Co. v. Elliott*, 7 F.2d 962, 965 (3d Cir. 1925) (holding that "the trade-mark is treated as merely a protection for the good will, and not the subject of property except in connection with an existing business" (quoting *Hanover Star Milling Co.*, 240 U.S. at 414)); *Hilson Co. v. Foster*, 80 F. 896, 897 (S.D.N.Y. 1897) (explaining that where a manufacturer's goods have become popular due to clever and persistent advertising, "the good will thus created is entitled to protection"); HOPKINS, *supra* note 88, § 21, at 45-46 (observing that some courts and commentators found property in the mark but the prevailing view found property in the goodwill symbolized by the mark); HARRY D. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* § 15, at 35 (2d ed. 1917) (observing that "[r]ecently . . . it has been seen that the actual property to be protected, is *not* the mark, but the good-will behind the mark, of which the mark is a symbol"); Rogers, *supra* note 2, at 555.

<sup>101</sup> See, e.g., *Hanover Star Milling Co.*, 240 U.S. at 413 (describing trademark as the "instrumentality" of protecting goodwill).

<sup>102</sup> See, e.g., *Avery & Sons v. Meikle & Co.*, 81 Ky. 73, 86-87 (1883):

When a workman or manufacturer . . . adopts and uses [a mark to indicate origin], and his reputation is thereby built up, it is to him the most valuable of property rights. Sound policy, which dictates the protection of the public from imposition, the security of the fruits of labor to the laborer, the encouragement of skillful industry, and, above everything, the inculcation of truth and honor in the conduct of trade and commerce . . . demands that *such a reputation* so gained should be free from the grasp of piracy . . .

(emphasis added); see also UPTON, *supra* note 63, at 54-55, 59.

<sup>103</sup> See HOPKINS, *supra* note 88, § 14, at 26 (citing *Hanover Star Milling Co.*, 240 U.S. at 412-414, for the proposition that the function of trademark is "to designate the goods as the

Once it became widely recognized that the property right subsisted in the goodwill value that the mark symbolized, it was natural to include in the mark's value all possible sources of customer patronage.<sup>104</sup> The reason a mark was valuable was that it identified the brand and therefore attracted consumers for all the reasons that consumers were inclined to stick with a single brand, including the seller's reputation for quality, friendly attitudes toward the seller (apart from any reputation that the seller might be responsible for developing), good feelings about the general type of product, and even simple habit.<sup>105</sup>

This is how the concept of "goodwill" became firmly entrenched in trademark law – it was a handy term to refer to all the various factors that contributed to customer patronage. The concept was familiar to jurists from its use in business and from its prominent role in the law of partnership dating from at least the early nineteenth century, as well as from its occasional use in trademark law.<sup>106</sup> Late nineteenth century courts and commentators moved the concept to the forefront of trademark law as a way to denote whatever it was about a firm or its products that caused consumers to stick with its brand and make repeat purchases.

Despite its central role as an organizing concept, the idea of goodwill was poorly understood.<sup>107</sup> Jurists and economists defined the term in many

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product of a particular trader and to protect his good will . . . and it is not the subject of property except in connection with an existing business"); NIMS, *supra* note 100, § 15, at 35 (explaining that "[i]t is the good-will . . . and not trademarks or names that the court seeks to protect in unfair competition cases"). Indeed, the appropriation of or injury to goodwill was treated on par with appropriation of or injury to real property. See HESSELTINE, *supra* note 78, at 86-87.

<sup>104</sup> See NIMS, *supra* note 100, § 14 (describing elements of goodwill as including "[m]oney invested in sales campaigns . . . in advertising, in clean attractive store fittings and apparatus, in the wages of high class employees, in contributions to public enterprises and charities").

<sup>105</sup> See, e.g., *id.* § 13, at 34.

<sup>106</sup> See A.S. Biddle, *Good-Will*, 23 AM. L. REG. 1, 1 (1875). In his early nineteenth century treatise on partnership law, Judge Joseph Story offered the following definition of goodwill that was frequently quoted in later trademark treatises and commentaries:

[T]he advantage or benefit, which is acquired by an establishment, beyond the mere value of the capital, stock, funds, or property employed therein, in consequence of the general public patronage and encouragement, which it receives from constant or habitual customers, on account of its local position, or common celebrity, or reputation for skill or affluence, or punctuality, or from other accidental circumstances, or necessities, or even from ancient partialities, or prejudices.

JOSEPH STORY, COMMENTARIES ON THE LAW OF PARTNERSHIP, AS A BRANCH OF COMMERCIAL AND MARITIME JURISPRUDENCE, WITH OCCASIONAL ILLUSTRATION FROM THE CIVIL AND FOREIGN LAW § 99, at 139 (1841).

<sup>107</sup> Biddle, *supra* note 106, at 1 (stating that there are few areas of the law as poorly understood as the concept of goodwill).

different ways,<sup>108</sup> and as discussed in more detail later, none of these definitions proved adequate.<sup>109</sup> Some noted the problems explicitly and puzzled over why the concept of goodwill was so difficult to grasp.<sup>110</sup>

That there was so much trouble defining goodwill is not surprising. For one thing, any single concept meant to capture all the factors that affect consumer choice was bound to be vague and open-ended, especially given the seemingly irrational nature of consumer buying habits and the limited understanding of behavioral psychology in the late nineteenth century.<sup>111</sup> Furthermore, the idea of property, especially the formalistic conception, naturally pushed in the direction of identifying goodwill with some thing internal to a business, capable of ownership, and able to induce repeat purchases.<sup>112</sup> But it was not at all clear what that thing could possibly be. Whatever it was that attracted consumers to stick with a particular product or firm, it was not any collection of specifically identifiable things, but rather an indivisible aggregate or composite of numerous factors, not all of which could even be identified.<sup>113</sup>

Thus, one judge observed that “[i]t is difficult to conceive of the good will of a business . . . as a thing of form and substance,” and turned to metaphor to capture the essence of the concept:

It is more like a spirit that hovers over the physical, a sort of atmosphere that surrounds the whole; the aroma that springs from the conduct of the business; the favorable hue or reflection which the trade has become

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<sup>108</sup> See, e.g., HESSELTINE, *supra* note 78, at 90-92; HOPKINS, *supra* note 65, § 61, at 132, 134 n.3; J. Robertson Christie, *Goodwill in Business*, 8 JURID. REV. 71, 71-73 (1896).

<sup>109</sup> See *infra* notes 191-197 and accompanying text.

<sup>110</sup> See, e.g., *Metro. Bank v. St. Louis Dispatch Co.*, 149 U.S. 436, 446 (1893) (observing that “there is difficulty in deciding accurately what is included under the term [goodwill]”); HOPKINS, *supra* note 73, § 79, at 185 (“Goodwill, because of the various forms in which it exists, is difficult of definition.”); Biddle, *supra* note 106, at 1 (observing the confused and conflicting state of the case law on goodwill); C.J. Foreman, *Conflicting Theories of Goodwill*, 22 COLUM. L. REV. 638, 638 (1922) (asserting that “[a]n endless chain of good will concepts is daily affecting the distribution of profits”).

<sup>111</sup> Modern psychological theory began to take shape in the late nineteenth century. See W.M. O’NEIL, *THE BEGINNINGS OF MODERN PSYCHOLOGY* 11-13 (1968). However, it was not until the early twentieth century that psychologists, influenced by the new school of behaviorism, focused on consumer psychology and explored the effects of advertising on human emotions. See Deborah J. Coon, “*Not a Creature of Reason*”: *The Alleged Impact of Watsonian Behaviorism on Advertising in the 1920s*, in *MODERN PERSPECTIVES ON JOHN B. WATSON AND CLASSICAL BEHAVIORISM* 37, 44 (James T. Todd & Edward K. Morris eds., 1994).

<sup>112</sup> See Foreman, *supra* note 110, at 638 (explaining that jurists define goodwill as something intrinsic to the firm: “an intangible element originating in or adhering to the productive process”).

<sup>113</sup> See *Smith v. Davidson*, 31 S.E.2d 477, 479 (Ga. 1944).



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accustomed to associate with a particular location or under a certain name.<sup>114</sup>

And the noted institutional economist and early twentieth century reformer, John R. Commons, made the same point with equal metaphorical skill:

Goodwill . . . is that unknown factor pervading the business as a whole, which cannot be broken up and measured off in motions and parts of motions, for it is not science but personality. It is the unity of a living being which dies when dissected. And it is not even the personality of a single individual, it is that still more evasive personality to which the responsive French give the name, *l'esprit de corps*, the spirit of brotherhood, the solidarity of free personalities.

It is this corporate character of goodwill that makes its value uncertain and problematical. A corporation is said to have no soul. But goodwill is its soul.<sup>115</sup>

In spite of the definitional difficulties, the concept of goodwill was still highly useful for lawyers committed to a property idea because it reified the economic value associated with patterns of repeat purchasing and thereby named an entity to which property rights could attach. No one might know exactly what goodwill was, but everyone could reason as if some thing actually existed, which the term goodwill named. And this made it possible to embrace the shift from mark to goodwill as the locus of property rights.

The idea of goodwill as property helped to bridge property-based and fraud-based (or confusion-based) theories of trademark law. Since goodwill attached to the product sold by a particular business, a defendant took goodwill not simply by taking a mark, but by misleading consumers into believing that its products came from the plaintiff.<sup>116</sup> Thus, passing off or source confusion and appropriation of goodwill were flip sides of the same legal coin.<sup>117</sup> The tension between property and fraud theories never disappeared entirely, as we shall see, but it was reduced significantly.

This goodwill-as-property idea also helped reduce doctrinal tensions. For example, equating property with goodwill explained the rule limiting liability by geographic area.<sup>118</sup> Because a defendant could appropriate plaintiff's goodwill only by selling in an area where that goodwill was effective, no one could be liable for using the same mark in a distant market.<sup>119</sup>

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<sup>114</sup> *Id.*

<sup>115</sup> JOHN R. COMMONS, *INDUSTRIAL GOODWILL* 19-20 (1919).

<sup>116</sup> *Riverbank Labs. v. Hardwood Prods. Corp.*, 165 F. Supp. 747, 756 (N.D. Ill. 1958).

<sup>117</sup> *Id.*; FRANK S. MOORE, *LEGAL PROTECTION OF GOODWILL* 40, 173-74 (1936) (explaining that protecting goodwill and preventing fraud were interrelated purposes, as goodwill was impaired whenever the public was deceived and the seller's goodwill was protected whenever public deception was prevented).

<sup>118</sup> *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 415-16 (1916).

<sup>119</sup> *See id.*

In sum, one important reason nineteenth century judges came to focus on the concept of goodwill had to do with how the goodwill-as-property theory handled the theoretical and doctrinal tensions created by viewing trademark infringement in terms of property rights. And once the concept became widely employed, its grip tightened in the formalistic world of the late nineteenth century as the cornerstone of a conceptual and theoretical framework for developing trademark principles and rules.

C. *Tightening Goodwill's Grip: Unifying Trademark Infringement and Unfair Competition Through the Goodwill-As-Property Theory*

The goodwill-as-property theory had another advantage that also helped tighten its grip on trademark law: it could be used to unify, at the level of general principle, the distinct but closely related torts of trademark infringement and unfair competition. Even though these two torts were based on different theories – a property theory for trademark infringement and a fraud theory for unfair competition – jurists sensed that they must be closely related.<sup>120</sup> Indeed, tradename cases were frequently referred to as “cases analogous to” trademarks, and unfair competition was often described as an extension of traditional trademark principles to cover cleverer forms of passing off.<sup>121</sup> The problem was how to combine the two fields under a common set of principles. One easy way would have been to base both torts on the principle of preventing deception or confusion as to source,<sup>122</sup> but that would have ignored trademark infringement's roots in a property theory.

With the locus of property situated in goodwill, however, the task became easier. For it was then possible to envision both torts as protecting property rights in a firm's goodwill. On this view, the differences had mainly to do with the mode of appropriation – appropriation by using a technical trademark in one case, and appropriation by tricking consumers in more devious ways in the other. Indeed, some jurists even suggested that unfair competition was the more general tort and subsumed trademark infringement within its domain.<sup>123</sup>

In a 1909 article, Edward Rogers, one of the leading early twentieth century trademark practitioners and commentators,<sup>124</sup> made the point in the clearest possible terms. He first dismissed the notion that trademark infringement and

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<sup>120</sup> Zechariah Chafee, Jr., *Unfair Competition*, 53 HARV. L. REV. 1289, 1296 (1940) (remarking that “[t]o us the similarity between [trademark infringement and unfair competition] seems obvious”).

<sup>121</sup> BROWNE, *supra* note 70, § 521, at 524; HOPKINS, *supra* note 73, § 19, at 42; Cushing, *supra* note 97, at 321.

<sup>122</sup> See HOPKINS, *supra* note 65, § 15, at 29 (asserting that the underlying doctrine of trademark infringement and unfair competition is the same: “the control of fraud”).

<sup>123</sup> *Hanover Star Milling Co.*, 240 U.S. at 413; Handler & Pickett (pt. 1), *supra* note 76, at 168.

<sup>124</sup> Chafee, *supra* note 120, at 1289.

unfair competition were radically separate torts.<sup>125</sup> For Rogers, both were based on the same principle: “[e]ach is a trespass upon business good will.”<sup>126</sup> He then described at some length exactly how a focus on goodwill as property unifies the field:

Recently . . . judges have begun to appreciate . . . that this business good will is the property to be protected against invasion [as opposed to the mark itself]. From the acceptance of this principle there followed an important step. It was realized that business good will could be and was represented in many other ways than by technical trade marks; by names not trade marks, by labels, by the get-up or dress, by the form of the goods themselves or the style of the enclosing package, in short by the numberless ways in which a purchaser is enabled to recognize the particular article he wants. And it was realized that it was the good will itself by whatever means evidenced that the court should protect. This is the present state of the law, that every trader has a property in the good will of his business, that he has the right to the exclusive benefit of this good will, that therefore he has the exclusive right to sell his goods as his own and that no one has any right by any means to sell as his other goods than his. In short that no one has any right to sell his goods as the goods of another. This principle is perfectly general and without exception.<sup>127</sup>

It is worth noting that Rogers in this passage seems quite comfortable with the fit between his goodwill-as-property theory and his principle that the legal wrong has to do with passing off or source confusion. He fails to recognize that a defendant might free ride on the plaintiff’s goodwill and thus invade his property right without confusing consumers as to source. Like his contemporaries, Rogers assumed that goodwill was limited to brand goodwill and its appropriation required taking actual customers; that is, diverting the trademark owner’s existing business. With this assumption, there was no obvious conflict between property and source confusion. Confusion was just how goodwill was appropriated.

However, this unified theory still had to deal in some way with the doctrinal differences between trademark infringement and unfair competition. The strategy of choice was to distinguish between general principles and

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<sup>125</sup> Rogers, *supra* note 2, at 553.

<sup>126</sup> *Id.* (“The essence of the wrong is the same in both cases – the sale of one man’s goods as those of another.”).

<sup>127</sup> *Id.* at 555-56 (footnotes omitted). And he concludes:

The means by which the end is accomplished do not matter, whether in the particular case it be by the use of a personal, descriptive or geographical name, imitated labels[,] color of label, appearance of package, shape of package, form or peculiarities of the goods themselves, misleading advertising, oral false statements, or silent passing off.

Whether any particular contrivance is calculated to result in the sale of one man’s goods as those of another is a question of fact in each case.

*Id.* at 556-58 (footnotes omitted).

evidentiary rules.<sup>128</sup> The general principle was the same for the two torts, but the rules differed because of different evidentiary requirements.<sup>129</sup>

Rogers, for example, used this strategy to explain why the law protected technical trademarks immediately upon use but protected trade names, product packaging, and the like only after they had acquired secondary meaning.<sup>130</sup> Since technical trademarks were arbitrary in nature, they had no meaning except as source-identifiers. Consequently, it was appropriate for the law to presume secondary meaning because it was likely that technical trademarks would be understood by consumers in that way.<sup>131</sup> However, a similar presumption was not appropriate for non-arbitrary symbols, such as trade names and product packaging, because those symbols had other meanings for consumers.<sup>132</sup> Accordingly, the plaintiff was required to prove that the symbol actually had source identifying significance, in other words, secondary meaning – and the more descriptive the symbol, the more difficult the proof.<sup>133</sup> Thus, “the result is the same, only the method of arriving at it differs, in one it is a presumption, in the other evidence.”<sup>134</sup>

Despite its value as a unifying concept, however, the idea of goodwill as property had the potential to unhook trademark law from its traditional anchor in fraud and send it in the direction of protecting seller goodwill without regard to consumer deception. This potential was not obvious as long as liability was limited to direct competition – for then protecting goodwill and preventing consumer confusion produced the same results – but it became more apparent as liability expanded to include noncompetitive uses as well. The resulting tension gave rise to new problems, problems that have plagued trademark law ever since. Before discussing this aspect of the subject, however, we must examine another set of factors contributing to the emergence of the goodwill

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<sup>128</sup> MOORE, *supra* note 117, at 103; Handler & Pickett (pt. 1), *supra* note 76, at 201; Rogers, *supra* note 2, at 562-64.

<sup>129</sup> Rogers, *supra* note 2, at 562-64.

<sup>130</sup> *Id.*; see Milton Handler & Charles Pickett, *Trade-Marks and Trade Names – An Analysis and Synthesis* (pt. 2), 30 COLUM. L. REV. 759, 766-67 (1930) (differentiating trademarks and trade names by their respective elements of proof in an infringement action).

<sup>131</sup> Rogers, *supra* note 2, at 562 (stating that arbitrary marks “can have no function except to identify a particular trader’s goods”).

<sup>132</sup> See Handler & Pickett (pt. 2), *supra* note 130, at 766 (explaining that descriptive words are considered to be of public right and at first connote the product or its qualities, but not its source).

<sup>133</sup> Rogers, *supra* note 2, at 563.

<sup>134</sup> *Id.* at 564. A similar approach was used to reconcile the difference between trademark infringement and unfair trade with regard to proving intent to deceive. Courts and commentators were quick to point out that the requisite intent could be inferred from the circumstances. See, e.g., Handler & Pickett (pt. 2), *supra* note 130, at 770 (“Fraud is inferred from the fact of infringement, and the greater the similarity between the brands, the more readily is the inference drawn.”); see also Rogers, *supra* note 2, at 554 (arguing that courts ought to eliminate the wrongful intent requirement altogether).

idea: major changes in social and economic life during the late nineteenth and early twentieth centuries.

### III. THE ENTRENCHMENT OF THE GOODWILL CONCEPT IN TRADEMARK LAW: SOCIAL AND ECONOMIC FACTORS

Two developments during the late nineteenth and early twentieth centuries had a particularly strong influence on prevailing views about the connection between goodwill and trademark law: the growth of national markets and the rise of national advertising.

#### A. *Before 1860*

Prior to 1860, much of the nation lived in rural communities.<sup>135</sup> Most people bought their products locally and many of those products were produced locally.<sup>136</sup> Trademarks as we know them today were not terribly important. Most consumers knew who made and sold products without the need for an identifying symbol.<sup>137</sup> And trademarks had little value for products imported from elsewhere, such as coffee, sugar, and flour, because local store owners usually bought them in bulk and sold them without identifying symbols or any other attribution of source.<sup>138</sup>

Advertising during this early period reflected the primarily local nature of markets.<sup>139</sup> The distribution and transportation network was too primitive to support a vigorous national market and thus to make national advertising worthwhile. As a result, sellers seldom advertised, and when they did, they tended to use spare informational ads in small font and without any illustrations or catchy slogans.<sup>140</sup>

In this world of local rural communities, goodwill tended to attach to individual persons or small shops. A town blacksmith or the owner of a local general store could develop goodwill if town residents respected the quality of the craftsmanship or appreciated the service they received. This is the clearest and least problematic kind of goodwill – goodwill as personal reputation. It conjures up a familiar and widely accepted image: an individual as sole proprietor building a reputation by working hard, exercising great skill, and

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<sup>135</sup> DANIEL POPE, *THE MAKING OF MODERN ADVERTISING* 34-35 (1983).

<sup>136</sup> See PAMELA WALKER LAIRD, *ADVERTISING PROGRESS: AMERICAN BUSINESS AND THE RISE OF CONSUMER MARKETING* 15 (1998) (citing E.P. Harris, *Random Thoughts on Trade and Advertising*, 8 *INLAND PRINTER*, Dec. 1890, at 202-03).

<sup>137</sup> *Id.*

<sup>138</sup> *Id.* at 185. Apparently, the relatively small profit margin after deduction for manufacturing and transportation costs did not justify the additional expense of individual packaging. See *id.*

<sup>139</sup> See POPE, *supra* note 135, at 5.

<sup>140</sup> JAMES D. NORRIS, *ADVERTISING AND THE TRANSFORMATION OF AMERICAN SOCIETY, 1865-1920*, at 13 (1990); JOSEPH J. SELDIN, *THE GOLDEN FLEECE: SELLING THE GOOD LIFE TO AMERICANS* 18-19 (1963).

treating customers well.<sup>141</sup> But it is a far cry from the goodwill that trademarks symbolize when large corporations sell in a national market.<sup>142</sup>

It is not surprising, then, that the law of trademarks remained in a primitive state prior to the Civil War.<sup>143</sup> Because trademarks were not terribly important to commerce, disputes over trademarks arose infrequently and courts had few occasions to address the doctrine.<sup>144</sup> Moreover, the legal concept of goodwill was limited. Some courts even held that goodwill could attach only to a specific place, such as a particular building or parcel of land.<sup>145</sup> This rule made sense in a rural community, where buying and selling were dominated by personal contacts and sellers were often identified by the physical location of their establishments.

B. *From 1860 to 1920*

These conditions began to change rapidly after the Civil War. Between 1860 and 1920, the population of the United States almost tripled and its concentration shifted from rural to urban areas.<sup>146</sup> This created a larger and more diversified consumer base receptive to new products. Furthermore, per capita income rose sharply and with it consumer purchasing power.<sup>147</sup> Robust technological innovation increased the quantity and variety of products available to satisfy the new demand.<sup>148</sup>

The increase in consumer demand attracted new market entrants and intensified competition. Moreover, companies began to compete on a national scale as transportation and communication facilities improved. The first transcontinental railroad opened in 1869 and launched a period of rapidly expanding railroad networks that enabled the distribution of products nationwide.<sup>149</sup> Also, with improved railroad transportation and growing literacy rates, magazines like *Peterson's Magazine*, *Harper's Weekly*, and the *Saturday Evening Post* became available to readers throughout the country,

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<sup>141</sup> See Note, *An Inquiry into the Nature of Goodwill*, 53 COLUM. L. REV. 660, 666-67 (1953) [hereinafter *Inquiry*].

<sup>142</sup> See *id.* at 667.

<sup>143</sup> See Edward S. Rogers, *Some Historical Matter Concerning Trade-Marks*, 9 MICH. L. REV. 29, 41-42 (1910).

<sup>144</sup> See *id.* at 42 (observing that the first reported American trademark decision was issued in 1837 and that a total of eight decisions had been reported by 1850 and only thirty-one by 1860).

<sup>145</sup> See, e.g., *Rawson v. Pratt*, 91 Ind. 9, 16 (1883) (finding that “[a]s a rule . . . ‘goodwill’ is never an incident of a stock of merchandise; but . . . an incident of locality or place, of the store-room or place of business”); Biddle, *supra* note 106, at 3-4.

<sup>146</sup> NORRIS, *supra* note 140, at 4-10. Factors responsible for the population jump include increasing birth rates, longer life expectancies, and expanded immigration. *Id.* at 9.

<sup>147</sup> LAIRD, *supra* note 136, at 32; NORRIS, *supra* note 140, at 10-11.

<sup>148</sup> LAIRD, *supra* note 136, at 31.

<sup>149</sup> NORRIS, *supra* note 140, at 1-3. In 1900 the nation was covered by nearly 200,000 miles of railroad; by 1920 this had increased to almost 250,000 miles. *Id.* at 2.

and sellers took advantage of the popularity of these publications to circulate advertisements for their products nationwide.<sup>150</sup>

The mail order goods industry was a pioneer in the use of national advertising.<sup>151</sup> Montgomery Ward and George A. Thorne, who opened the first mail order business in 1872, used advertising extensively to market their products, and with great success.<sup>152</sup> Successes like this inspired others to advertise, and with national advertising on the rise, trademarks grew in importance as source identifiers.<sup>153</sup>

Changes in marketing strategy also made trademarks more valuable.<sup>154</sup> Before factory production reduced manufacturing costs and made individual packaging economically feasible, most goods were sold in bulk, and manufacturers used salesmen, so-called “drummers,”<sup>155</sup> to promote their bulk products to local retailers.<sup>156</sup> This was a risky strategy, especially for homogeneous goods such as soap or baking powder, because local retailers sometimes replaced the manufacturer’s brand with a less expensive alternative and pocketed the additional profit.<sup>157</sup> Once individual packaging became feasible, however, the manufacturer could bypass the drummers and generate demand directly by advertising its brand and prominently displaying it on all packaging.<sup>158</sup> With consumers clamoring for IVORY soap or ROYAL baking powder<sup>159</sup> – to name two of the more successfully advertised brands – retailers felt pressure to stock the specific brand without substitution – at least so long as the law prevented competitors from using the same trademark.<sup>160</sup>

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<sup>150</sup> See NORRIS, *supra* note 140, at 34, 39 (observing that “[b]y the turn of the [twentieth] century, advertising in popular magazines often exceeded a hundred pages an issue, and they were helping to make such products as . . . Ivory Soap, Welch’s Grape Juice . . . Kodak, and a host of other products and brand names household words”); POPE, *supra* note 135, at 30.

<sup>151</sup> See LAIRD, *supra* note 136, at 28.

<sup>152</sup> See *id.*; NORRIS, *supra* note 140, at 15.

<sup>153</sup> See NORRIS, *supra* note 140, at 19-25. Other advertising success stories during the nineteenth century include the use of advertising to sell patent medicines and the heavy reliance on advertising to promote department stores. LAIRD, *supra* note 136, at 27 (quoting an advertising agent who noted that John Wanamaker, a pioneer in the department store business, “caused the universal ‘Wanamaker & Brown’ to be chiseled on the street crossings, painted on rocks, and mounted on house-tops” throughout Philadelphia).

<sup>154</sup> See LAIRD, *supra* note 136, at 82 (discussing how advertisers “built innovative marketing systems” to sell highly technical and specialized equipment).

<sup>155</sup> See *id.* at 83.

<sup>156</sup> See NORRIS, *supra* note 140, at 96-97, 107; POPE, *supra* note 135, at 55.

<sup>157</sup> See POPE, *supra* note 135, at 87.

<sup>158</sup> See NORRIS, *supra* note 140, at 96-97; POPE, *supra* note 135, at 5, 56.

<sup>159</sup> See ROLAND MARCHAND, *ADVERTISING THE AMERICAN DREAM: MAKING WAY FOR MODERNITY, 1920-1940*, at 179, 218, 294 (1985).

<sup>160</sup> See LAIRD, *supra* note 136, at 185-86 (describing this marketing change as substituting the “pull” of consumer demand through advertising for the “push” of a sales

In light of these developments, it should not be surprising that trademark law became a much more important feature of the legal and commercial landscape. The number of reported trademark decisions increased from a total of sixty-two for the entire period before 1870 to approximately one hundred annually between 1907 and 1909.<sup>161</sup> Moreover, the number of registered trademarks rose markedly, with a sevenfold increase between 1875 and 1879 (following Congress's adoption of the first Trademark Act in 1870) and an average of 1,500 new registrations annually after 1881 (when Congress adopted a new Trademark Act).<sup>162</sup> And the rate of filing accelerated even further after the enactment of the 1905 Trademark Act, with 10,568 new registrations in 1906 and 50,000 in 1920.<sup>163</sup>

The concept of goodwill had to be reconceived to fit this changing economy.<sup>164</sup> Goodwill generated by large corporations, removed at great distance from the ultimate consumer, was a very different thing than the paradigmatic form of goodwill as personal reputation. This new form of goodwill was much more anonymous, rooted in mass consumer psychology

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force); NORRIS, *supra* note 140, at 14; POPE, *supra* note 135, at 87 (describing how advertisers controlled channels of distribution because "they wanted to ensure that their distributors would sell *their* products and not substitute" other brands or private label goods). Another famous example is the National Biscuit Company's development of the *Uneeda* biscuit in the 1890s. The company advertised nationally, focusing on the brand name, and told grocers they "could not shun a product with *Uneeda's* consumer appeal, despite its low profit margin." *Id.* at 48-49.

<sup>161</sup> See Rogers, *supra* note 143, at 42. This change in reported decisions almost certainly indicates a sharp rise in the frequency of trademark litigation more generally. See *id.* at 43.

<sup>162</sup> See LAIRD, *supra* note 136, at 189 (observing that there were 1,138 registered marks in 1875 compared to 7,789 in 1879). In 1879, the Supreme Court struck down the 1870 statute as unconstitutional on the ground that Congress could not use its power under the Copyright and Patent clause, Article I, Section 8, Clause 8, to regulate trademarks. Trade-Mark Cases, 100 U.S. 82, 94 (1879). Congress responded in 1881 by adopting a new statute under its commerce clause power. See LAIRD, *supra* note 136, at 189. It is worth noting that the number of registrations probably understates the frequency of trademark use. Federal registration has never been mandatory, and until the 1905 Act was adopted, federal trademark legislation was limited in ways that must have made registration less attractive.

<sup>163</sup> See Rogers, *supra* note 143, at 43; NORRIS, *supra* note 140, at 19; see also POPE, *supra* note 135, at 61 ("This is a golden age in trademarks . . . . In ten years at the farthest, perhaps in five or less, every commodity of large consumption will have its trademarked leader, firmly entrenched through advertising." (quoting PRINTERS' INK, Nov. 18, 1906, at 57)).

<sup>164</sup> See *Rowell v. Rowell*, 99 N.W. 473, 478 (1904).



and capable of reaching nationwide.<sup>165</sup> The key to building this goodwill was to advertise, and the key to successful advertising was to use trademarks.<sup>166</sup>

C. *From 1920 to 1940*

Another development played a very important role in forging the connection between goodwill, advertising, and trademark law: the shift to psychological advertising in the early twentieth century. With a few notable exceptions, most firms during the nineteenth century used very simple forms of advertising designed primarily to provide product information. But in the early twentieth century, firms began to use more complex psychological ads designed to persuade consumers with emotional appeals.<sup>167</sup> One commentator has described this as a fundamental shift from using advertising to capture more of the existing demand to using it to create new demand by shaping consumer preferences.<sup>168</sup>

A number of factors contributed to this change. The successful use of psychological advertising to raise revenue and recruit soldiers during World War I inspired experimentation with similar techniques following the war.<sup>169</sup> Moreover, new advertising professionals, who took over the field between 1900 and 1920, had an obvious stake in promoting more creative and vigorous forms of advertising.<sup>170</sup> In addition, major developments in the field of human psychology, especially the rise of psychological behaviorism in the early twentieth century, generated interest in how advertising influenced consumer

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<sup>165</sup> Early twentieth century commentators were fond of distinguishing between local and general goodwill, where local goodwill was specific to a locality or person. See HOPKINS, *supra* note 73, at 185-86, 194-95; NIMS, *supra* note 100, at 45, 74, 118-19.

<sup>166</sup> See, e.g., HOPKINS, *supra* note 65, at 26-27 n.2; NIMS, *supra* note 100, at 35; see also MOORE, *supra* note 117, at 49 (advising business people to display a trademark prominently in advertising); *id.* at 52 (stating that the cost of advertising is an investment in goodwill). Goodwill built through advertising was treated as a valuable asset of the business producing it. See Rogers, *supra* note 143, at 43 (claiming that “[a] well-known brand, trade mark or label is now-a-days the most valuable asset that a trader can possess” and “[t]he good will of a business is often of greater value than all the tangible property, and a trade mark is nothing but good will symbolized”).

<sup>167</sup> See EWEN, *supra* note 24, at 46-48 (discussing how advertisements targeted individuals by focusing on products as means to “instinctual ends,” such as emotional satisfaction, self-esteem, and the like).

<sup>168</sup> NORRIS, *supra* note 140, at 47-48 (acknowledging a shift toward “advertising designed to create acceptance and demand for new products”); see POPE, *supra* note 135, at 234 (“The modern advertisement is not intended for the man who wants the things already. It’s for the one who don’t [sic] in order to make him.” (quoting PRINTERS’ INK, Aug. 24, 1904, at 48)).

<sup>169</sup> See MARCHAND, *supra* note 159, at 4-6. Moreover, a wartime excess profits tax that exempted advertising expenditures apparently added to incentives to invest in and experiment with advertising. *Id.* at 6.

<sup>170</sup> See LAIRD, *supra* note 136, at 116-117.

behavior.<sup>171</sup> Well-known academic psychologists, such as Walter Dill Scott of Northwestern University and Harry Hollingworth and E.K. Strong of Columbia University, worked as consultants to advertisers, and some even left their academic jobs to join advertising firms.<sup>172</sup> Indeed, as companies came to believe that building goodwill through psychological advertising was essential to profitability, advertising specialists became influential figures in the business community.<sup>173</sup>

By the 1920s, the new psychological approach to advertising was in full swing.<sup>174</sup> One contemporary text defined advertising as “purchased publicity directed according to a definite plan to influence people to act or to think as the advertiser desires.”<sup>175</sup> In fact, many people believed that psychological advertising served important social purposes: it was instrumental in transforming consumer attitudes and tastes from those typical of rural self-sufficiency to those better suited to a modern consumption-oriented lifestyle.<sup>176</sup>

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<sup>171</sup> See EWEN, *supra* note 24, at 33-34; POPE, *supra* note 135, at 14. For a source from the period that shows the profound influence of psychological theories on advertising, see ALBERT T. POFFENBERGER, *PSYCHOLOGY IN ADVERTISING*, at v (1925). *But see* Coon, *supra* note 111, at 41-42, 61 (questioning the influence of psychological behaviorism).

<sup>172</sup> Walter Dill Scott was “one of the first to apply experimental techniques to advertising . . .” POPE, *supra* note 135, at 237. Scott was considered an authoritative source for decades. See SELDIN, *supra* note 140, at 228; Coon, *supra* note 111, at 44-46. Hollingworth and Strong were also highly influential. See POPE, *supra* note 135, at 241. As early as 1913, Hollingworth used stimulus-response terminology to describe advertising, emphasizing that advertising messages had to attract the attention of consumers and then trigger a specific response. *Id.*

<sup>173</sup> See MARCHAND, *supra* note 159, at 29. Doubtless other factors besides those discussed in the text also had an important influence on the rise of psychological advertising. Deborah Coon mentions one particularly interesting possibility. Many states adopted false advertising laws in the early twentieth century. Coon argues that the greater risk of liability for factually misleading advertisements caused firms to shift from factually descriptive ads to psychological ads that appealed to emotion rather than fact. See Coon, *supra* note 111, at 61.

<sup>174</sup> The 1920s marked a watershed decade for modern national advertising. See EWEN, *supra* note 24, at 192-93; POPE, *supra* note 135, at 7.

<sup>175</sup> ARTHUR JUDSON BREWSTER & HERBERT HALL PALMER, *INTRODUCTION TO ADVERTISING* 8 (2d ed. 1931). Indeed, advertising professionals during the early twentieth century promoted their services by claiming that they had special knowledge and ability to shape consumer preferences to the “progressive” business environment. MARCHAND, *supra* note 159, at 29-32. Roland Marchand, in his book on advertising history, recounts the reactions of one important advertising writer of the period: “In 1928 Kenneth Goode, a prolific writer on advertising topics, predicted that by 1950 the advertising expert, acting as a ‘psychological engineer,’ would have the power to see that ‘popularity and publicity and proper prices’ were ‘manufactured into’ the product.” *Id.* at 29.

<sup>176</sup> See, e.g., LAIRD, *supra* note 136, at 54 (describing soap manufacturer’s challenge in convincing buyers “to cast off long-standing traditions of either making their own soap or buying it in blocks from their storekeepers’ generic cakes”).

which in turn was essential to maintaining a vigorous economy.<sup>177</sup> Thus, the advertising profession was held in considerable esteem throughout the early twentieth century.<sup>178</sup>

As a result, the amount invested in advertising, the number of advertisements, and the variety of advertising media grew dramatically.<sup>179</sup> Also, the quality of advertisements changed to emphasize artistic style and creativity and to appeal directly to human emotions, needs, and desires.<sup>180</sup> Consider an advertisement for cigarettes that appeared in a 1915 issue of *Harper's Weekly*.<sup>181</sup> It featured an attractive and elegant woman in a stylish convertible on a moonlit drive accompanied by a well-dressed man smoking a Mogul Egyptian cigarette, with the line "Just like being in Cairo."<sup>182</sup> The same ad in the late nineteenth century might have emphasized the taste, smell, and price of a Mogul cigarette.<sup>183</sup> In contrast, the twentieth century version appealed to the smoker's desire for romance, adventure, and sophistication.

This new psychological approach differed from earlier approaches in another significant respect: it elevated the importance of memorable

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<sup>177</sup> SELDIN, *supra* note 140, at 21-23. Consumer purchasing power increased dramatically during the 1920s. Even those with moderate income could participate in the consumer culture by using novel purchasing methods, such as installment buying. *Id.* at 22.

<sup>178</sup> See POPE, *supra* note 135, at 3 (describing advertising as "an institution emblematic of American society and culture"). Perhaps the greatest sign of respect for the advertising industry during this period – and certainly the most quoted – was Calvin Coolidge's address to the American Association of Advertising Agencies in 1926, in which he praised advertisers for teaching Americans cultural conventions, for "minister[ing] to the spiritual side of trade," and for "inspiring and ennobling the social world." MARCHAND, *supra* note 159, at 8-9; see EWEN, *supra* note 24, at 33 (quoting Coolidge). Also, Franklin Roosevelt, as governor of New York in 1931, told the Advertising Federation of America that he would choose to enter the advertising business if he were to start his career over again. SELDIN, *supra* note 140, at 10-11. And Winston Churchill made similarly laudatory comments at the International Advertising Conference in London in 1924. *Id.* at 10.

<sup>179</sup> Advertising expenditures rose by almost 50 percent during the 1920s, from about \$2.3 billion in 1921 to about \$3.4 billion in 1929. See SELDIN, *supra* note 140, at 21. Marchand gives the example of Maxwell House Coffee, which increased magazine advertising spending from \$20,000 in 1921 to about \$509,000 in 1927. MARCHAND, *supra* note 159, at 6. Five industries dominated large-scale national advertising from 1900 to 1920: food processing, chemicals (mostly soap and cosmetics), automobiles, tires, and tobacco. NORRIS, *supra* note 140, at 99.

<sup>180</sup> See MARCHAND, *supra* note 159, at xxi, 120-21; see also SELDIN, *supra* note 140, at 22-23 (claiming that advertising shifted from the "special qualities and advantages" of a product, toward "what the mass of unregenerative mankind wanted").

<sup>181</sup> See NORRIS, *supra* note 140, at 140-41. In fact, cigarette companies made the most sophisticated use of psychological advertising during the first half of the twentieth century, with the major automobile manufacturers following close behind. *Id.* at 143-44.

<sup>182</sup> *Id.* at 140-41.

<sup>183</sup> See *id.* at 130-31.

trademarks.<sup>184</sup> The new print ads tended to feature striking illustrations and little text.<sup>185</sup> Without text to repeat the brand name, advertisers had to find some other way to fix the brand in consumer memory and to counteract the potentially distracting effects of images designed to trigger emotions. The solution was to use prominent and memorable trademarks and weave them into the subject matter of the ad. The Mogul cigarette ad described above is a good example. The MOGUL mark is unusual and evokes an Egyptian theme, and the ad's reference to Cairo is an obvious attempt to reinforce this association.<sup>186</sup>

This shift in the perceived function of advertising toward a more psychological approach tightened the connection between advertising, goodwill, and trademarks. If advertising through trademarks could be used to manipulate consumer response and shape demand, it was possible for a firm to control its goodwill directly and predictably, simply by adjusting its advertising expenditures. Indeed, on this view, a firm could build goodwill in much the same way it built a building, by investing in the materials and tools needed for the task.<sup>187</sup>

To early twentieth century courts and commentators, this meant that there was a more or less direct causal connection between advertising and goodwill: the more a firm invested in advertising, the more goodwill it generated.<sup>188</sup> Some seized on this one-to-one correspondence to reinforce the goodwill-as-property conception of trademark law along Lockean labor-desert lines.<sup>189</sup> On this view, a firm that invested in advertising had a moral right to reap all the benefits of the resulting goodwill, and the greater its investment, the more goodwill it created and the stronger the case for protecting its trademark.<sup>190</sup>

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<sup>184</sup> Trademarks became so famous during the early twentieth century that parlor games were built around them. In one such game, players had to identify the companies and products from trademark symbols on a game board. See MARCHAND, *supra* note 159, at 335.

<sup>185</sup> See, e.g., *id.* at 322-323 (depicting a large, striking pastoral scene).

<sup>186</sup> See NORRIS, *supra* note 140, at 140-41.

<sup>187</sup> See, e.g., MARCHAND, *supra* note 159, at 31 (quoting Kenneth Goode, a major advertising writer of the period, as declaring that advertising "manufactured customers" and remarking that the advertising profession sold itself as "promot[ing] prosperity and civilization by 'molding the human mind'").

<sup>188</sup> See, e.g., LAIRD, *supra* note 136, at 193.

<sup>189</sup> See MOORE, *supra* note 117, at 52 (commenting that a businessman was entitled to the public demand brought about by advertising efforts).

<sup>190</sup> See HOPKINS, *supra* note 65, at 102, 104-05 (explaining that the right to relief in a trademark suit was clearer when parties spent large sums of money or worked for many years to build up a mark); MOORE, *supra* note 117, at 15, 52; NIMS, *supra* note 100, at 35 (commenting that money invested in advertising was as important as money invested in buildings or materials).

## IV. PROBLEMS WITH THE GOODWILL-AS-PROPERTY THEORY

The goodwill-as-property theory had problems, and these problems became increasingly troubling to jurists over the first half of the twentieth century. One problem had to do with the poor fit between an amorphous goodwill concept and the demands of a property theory that presupposed a relatively clear definition of the thing qualifying as property. Another had to do with the rise of legal realism and its attack on late nineteenth century formalism, especially its formalistic property rules. And a third problem had to do with growing concerns about the risk of monopoly.

A. *Difficulties Defining Goodwill*

As we have already seen, no one was able to find a satisfactory definition of goodwill because no one had a clear idea of what goodwill actually was.<sup>191</sup> Some judges and commentators defined goodwill probabilistically, as the tendency or likelihood that a consumer would return to the same product or firm and make repeat purchases.<sup>192</sup> But most jurists had trouble with this definition.<sup>193</sup> It described the effects of goodwill, but not goodwill itself. At a deeper level, it lacked normative content. That consumers returned to the same product was profitable for the firm selling the product, but it provided no reason in itself to give the firm a right to the profit flow or to impose duties on competitors not to interfere.

Another approach, which was more popular with economists than lawyers, defined goodwill in terms of favorable mental states.<sup>194</sup> On this view, goodwill was the public esteem or favorable reputation that a firm enjoyed, or simply those habits or customs that created buying inertia.<sup>195</sup> These psychological definitions at least had the virtue of focusing on causes rather than effects. But they suffered from the same problems as the probabilistic definition. They located goodwill outside the firm without identifying any thing that could be the object of property rights, and they failed to explain why the law should provide protection.

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<sup>191</sup> See *supra* notes 107-115 and accompanying text.

<sup>192</sup> See, e.g., *Cruttwell v. Lye*, 34 Eng. Rep. 129, 134 (1810) (stating Lord Eldon's famous definition of goodwill as "nothing more than the probability, that the old customers will resort to the old place"); *Dodge Stationery Co. v. Dodge*, 78 P. 879, 882 (Cal. 1904); *Moreau v. Edwards*, 2 Tenn. Ch. Rep. 347, 349 (1875); see also HESSELTINE, *supra* note 78, at 90.

<sup>193</sup> See, e.g., *Hilton v. Hilton*, 104 A. 375, 376 (N.J. 1918) (claiming that "no one at this day would adopt the narrow definition [of goodwill] of Lord Eldon"); MOORE, *supra* note 117, at 6-10.

<sup>194</sup> See C.J. Foreman, *Economies and Profits of Good-Will*, 13 AM. ECON. REV. 209, 209 (1923).

<sup>195</sup> *Id.*

Yet another definition simply equated goodwill with the value of a business above and beyond its tangible assets.<sup>196</sup> This definition was useful for those interested in estimating the value of a firm's goodwill – and perhaps for this reason it seems to have been most popular with accountants<sup>197</sup> – but it was not terribly helpful to lawyers interested in justifying property rights.

This definitional vagueness was a serious obstacle to treating goodwill as property.<sup>198</sup> On the one hand, goodwill had exchange value and, at least in part, was the product of labor and effort, both hallmarks of property within the formalist view.<sup>199</sup> On the other hand, goodwill was amorphous, abstract, and notoriously difficult to define. It was quite common for early twentieth century commentators to describe goodwill as an “unusual” and “peculiar” form of property.<sup>200</sup> And one writer cautioned that goodwill had a “much less sure and certain foundation” than title to real estate.<sup>201</sup>

These reservations are not surprising. Clear definitions and easily ascertainable boundaries were important features of property within the formalist view, which imagined an owner possessing a thing by exercising physical control over it.<sup>202</sup> Physical control works for tangible things and for intangibles embodied in a concrete form, but it works poorly for abstract intangibles such as goodwill.<sup>203</sup> Furthermore, clear definitions made it easier

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<sup>196</sup> See *Inquiry*, *supra* note 141, at 677-85. Another definition was even more comprehensive, so comprehensive in fact that it was not helpful. Goodwill, according to this definition, is “every positive advantage that has been acquired by the . . . firm in the progress of its business, whether connected with the premises . . . or with the name . . . or with any other matter carrying with it the benefit of the business.” *Menendez v. Holt*, 128 U.S. 514, 522 (1888) (citing with approval the definition used by Vice Chancellor Wood in *Churton v. Douglas*).

<sup>197</sup> *Inquiry*, *supra* note 141, at 677.

<sup>198</sup> See, e.g., Floyd A. Wright, *The Nature and Basis of Legal Goodwill*, 24 ILL. L. REV. 20, 22 (1929); see also *Premier-Pabst Corp. v. Elm City Brewing Co.*, 9 F. Supp. 754, 757 (D. Conn. 1935):

[S]ome have vaguely suggested that a right to a name may be part of one's “good will” which is a subject-matter of property from which all others may be excluded. But such an assertion gets us nowhere. For “good will” itself is too loose and uncertain a quantity for aid in definition. As commonly conceived, it is a compound of many factors . . . . [G]ood will is somewhat vaguely considered as the favorable regard of the purchasing public . . . . But good will so construed certainly is not property in any technical sense; for no man can have, either by prescription or contract, such a proprietary right to the favorable regard of the public that he may exclude others therefrom.

<sup>199</sup> See, e.g., *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 238 (1918).

<sup>200</sup> HESSELTINE, *supra* note 78, at 91; see also *Metro. Nat'l Bank v. St. Louis Dispatch Co.*, 36 F. 722, 724 (E.D. Mo. 1888); John E. Hale, *Good Will as Property*, 10 ST. LOUIS L. REV. 62, 62 (1925).

<sup>201</sup> Moore, *supra* note 117, at 190-91.

<sup>202</sup> See Vandeveld, *supra* note 66, at 331-35.

<sup>203</sup> Intangibles were often linked to something tangibly concrete that helped to delimit the bounds of the property at stake. For example, copyrights subsisted in “books” as physical

to value and convey property, and definite physical boundaries helped to limit the reach of property rights and gave others clear notice of where the owner's claim ended and their rights began.

Goodwill had other awkward features as well. The common law treated goodwill in ways that fit the formalist paradigm of property rules rather poorly. For example, goodwill could not exist on its own as property capable of supporting all the usual things formalists thought property should support, such as free transferability.<sup>204</sup> According to established precedent, goodwill existed only as attached to a particular business and could be transferred only in connection with the sale of that business.<sup>205</sup> This fact alone would not be particularly troubling to a modern functionalist concerned with policy rather than formal consistency. However, it was troubling for a late nineteenth and early twentieth century formalist, who believed that property was a natural law concept from which legal rules could be derived and that free transferability was an essential ingredient of property.<sup>206</sup> Not surprisingly, courts and commentators puzzled over the rules governing transferability and struggled to define exactly what it was that was transferred when goodwill was sold.<sup>207</sup>

Some jurists even questioned whether the idea of property in goodwill made sense for trademark law at all, given that liability for appropriation, at least in unfair competition cases, was limited to fraud or likely confusion.<sup>208</sup> This concern set the stage for the legal realist attack, which struck at the intellectual core of the goodwill-as-property idea.

#### B. *The Legal Realist Attack*

The attack on nineteenth century formalism gained momentum during the opening decades of the twentieth century, first with sociological jurisprudence in the 1910s and 1920s and then with legal realism in the 1930s.<sup>209</sup> Critics

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objects that concretized intangible expression, and inventions had to be reduced to practice and captured in formal claim language to obtain a patent. Ideas too had to be concrete and often connected with something physical before they received protection. *See, e.g.*, *Bristol v. Equitable Life Assurance Soc'y*, 5 N.Y.S. 131, 132 (N.Y. Gen. Term 1889).

<sup>204</sup> *See, e.g.*, Wallace R. Lane, *The Transfer of Trademarks and Trade Names*, 6 ILL. L. REV. 46, 46 (1911) (contrasting this limitation with the free transferability of copyrights and patents).

<sup>205</sup> *Id.*

<sup>206</sup> *See, e.g.*, *Metro. Nat'l Bank v. St. Louis Dispatch Co.*, 36 F. 722, 724 (E.D. Mo. 1888).

<sup>207</sup> *See, e.g.*, Hale, *supra* note 200, at 65-67. Indeed, an inspection of the Current Index of Legal Periodicals shows that most of the law review articles about goodwill published before 1930 focused on issues of transferability and sale. Current Index of Legal Periodicals (CLIP), available for subscription at <http://lib.law.washington.edu/cilp/cilp.html> (last visited Apr. 5, 2006).

<sup>208</sup> *See E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917).

<sup>209</sup> The literature on sociological jurisprudence and legal realism is vast. *See generally* GRANT GILMORE, *THE AGES OF AMERICAN LAW* 68-111 (1977); LAURA KALMAN, *LEGAL*

challenged the prevailing natural law theory of property rights and the conceptualistic mode of legal reasoning that supported it, and their challenge had specific implications for trademark law. Simply put, the critics attacked the formalist premise that labeling something as “property” in and of itself entailed certain legal rights as a purely logical matter.<sup>210</sup> According to these critics, the only sensible approach was positivist and functional.<sup>211</sup> Rather than deduce legal rights from abstract natural law concepts like property, judges should (and in fact did surreptitiously) make legal rights by choosing rules that best serve the relevant policy goals.<sup>212</sup> Applied to trademark law, this meant that a trademark owner’s rights had nothing whatsoever to do with whether the firm’s goodwill was or was not property; those rights had to do instead with what best served trademark policies.

Justice Holmes made this point as early as 1917, in language frequently quoted in subsequent opinions and commentaries: “The word property as applied to trade-marks,” he wrote, “is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith.”<sup>213</sup> In Holmes’s view, the proper starting point for analysis was not the idea of property as such, but rather the good faith requirements that the law enforced.<sup>214</sup> In the case of trademarks, those requirements were (mostly) limited to avoiding confusion or deception as to source.<sup>215</sup>

This line of argument reached full maturity in the hands of the legal realists during the 1930s. In his famous article attacking late nineteenth century conceptualism, *Transcendental Nonsense and the Functional Approach*,<sup>216</sup> Felix Cohen stated the realist challenge to the goodwill-as-property theory in particularly clear terms:

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REALISM AT YALE: 1927-1960 (1986); ROBERT SAMUEL SUMMERS, INSTRUMENTALISM AND AMERICAN LEGAL THEORY (1982); G. Edward White, *From Sociological Jurisprudence to Realism: Jurisprudence and Social Change in Early Twentieth-Century America*, 58 VA. L. REV. 999 (1972).

<sup>210</sup> See White, *supra* note 209, at 1007.

<sup>211</sup> See *id.*

<sup>212</sup> See *id.*

<sup>213</sup> *E.I. du Pont de Nemours Powder Co.*, 244 U.S. at 102; see also *Beech-Nut Packing Co. v. P. Lorillard Co.*, 273 U.S. 629, 632 (1927) (“[I]n a qualified sense the mark is property, protected and alienable, although as with other property its outline is shown only by the law of torts, of which the right is a prophetic summary”).

<sup>214</sup> *E.I. du Pont de Nemours Powder Co.*, 244 U.S. at 102.

<sup>215</sup> See, e.g., *Int’l News Serv. v. Associated Press*, 248 U.S. 215, 246-47 (1918) (Holmes, J., dissenting) (arguing that the “ordinary case” of unfair competition “is a representation by device, appearance, or other indirection that the defendant’s goods come from the plaintiff” and advocating only a very limited extension based on the same fraud principle to encompass reverse passing off).

<sup>216</sup> 35 COLUM. L. REV. 809 (1935).



The current legal argument runs: One who by the ingenuity of his advertising or the quality of his product has induced consumer responsiveness to a particular name, symbol, form of packaging, etc., has thereby created a thing of value; a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property. . . .

The vicious circle inherent in this reasoning is plain. It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected.<sup>217</sup>

According to Cohen, goodwill-as-property suffered from a deep logical flaw. It supposed that the law protected goodwill because goodwill had value, but in fact the reverse was true: goodwill had value only because the law protected it.<sup>218</sup> This meant that legal protection had to be justified on policy grounds and it also meant that courts should be more open about their policy choices. “What courts are actually doing . . . in unfair competition cases,” Cohen wrote, “is to create and distribute a new source of economic wealth or power.”<sup>219</sup> Whether doing so “benefit[s] society” depends “upon a series of questions which courts and scholars dealing with this field of law have not seriously considered.”<sup>220</sup> He concluded with strong language: “Without a frank facing of these and similar questions, legal reasoning on the subject of trade names is simply economic prejudice masquerading in the cloak of legal logic.”<sup>221</sup>

Zechariah Chafee made the same point in different terms.<sup>222</sup> Though he never addressed the goodwill-as-property theory explicitly, he did present an argument with obvious implications for any theory based on a right to reap the benefits of customer patronage.<sup>223</sup> Any such theory, Chafee argued, would make all competition at least *prima facie* illegal because all competition takes away customers – an obvious *reductio ad absurdum*.<sup>224</sup> As a result,

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<sup>217</sup> *Id.* at 815.

<sup>218</sup> *See Int’l News Serv.*, 248 U.S. at 248-51, 257-58, 262-64 (Brandeis, J., dissenting) (rejecting the idea that property rights necessarily attach to things of value just because they require an investment of effort, citing examples of situations in which free riding is fully accepted, and concluding that property rights must be justified on policy grounds).

<sup>219</sup> Cohen, *supra* note 216, at 816.

<sup>220</sup> *Id.* at 817.

<sup>221</sup> *Id.* (footnote omitted).

<sup>222</sup> Chafee, *supra* note 120, at 1289.

<sup>223</sup> *See id.* at 1302-04.

<sup>224</sup> *Id.* at 1302-04 (criticizing the Holmes-Wigmore tort theory); *id.* at 1309-15 (showing that the broad “reap-sow” principle of *International News Service v. Associated Press* has many limits, because, among other things, taking customer patronage is not unlawful).

determining which competitive practices are unfair should depend on the competing social policies at stake.<sup>225</sup>

Other critics sounded similar themes.<sup>226</sup> In an influential series of articles published in 1930, Professors Milton Handler and Charles Pickett of Columbia Law School argued, in typical realist fashion, that the doctrinal distinctions between the law of technical trademarks and the law of trade names, so clear in theory, were much less significant in practice, a point that became plain when one examined what courts actually did rather than what they said.<sup>227</sup> Courts protected both types of symbols in very similar ways.<sup>228</sup> And any differences in treatment were better explained by the policies at stake – the social costs and benefits of recognizing legal rights – than by technical classifications.<sup>229</sup>

Having debunked the property theory, the critics then rejected it as a basis for expanding trademark law and advocated limiting protection almost exclusively to passing off or source confusion.<sup>230</sup> Felix Cohen, for example, criticized some expansions of trademark law beyond source confusion that in his view were driven by blind adherence to a goodwill-as-property theory.<sup>231</sup> Moreover, Handler's and Pickett's policy focus led them to endorse limited trademark rights that extended mostly to preventing source confusion.<sup>232</sup>

The one exception – and it was controversial at the time – was Frank Schechter's proposal for the recognition of anti-dilution rights that provided

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<sup>225</sup> *Id.* at 1315-21. Chafee accepted the traditional "passing off" branch of unfair competition, but he had concerns about some of the broader expansions, many of which relied on the idea that goodwill should not be appropriated. *See, e.g., id.* at 1318.

<sup>226</sup> *See, e.g.,* Premier-Pabst Corp. v. Elm City Brewing Co., 9 F. Supp. 754, 758 (D. Conn. 1935) (pointing out that "to say that a right to a name has value; and therefore it is a property right within the protection of the law . . . is to argue a priori"); Edward S. Rogers, *New Directions in the Law of Unfair Competition*, 74 N.Y. L. REV. 317, 319-20 (1940) (arguing that "the way to find out if a right exists is to determine if a wrong has been done" and, therefore, the unfairness of the defendant's actions is what matters, not the existence of a property right); Wright, *supra* note 198, at 24 (maintaining that goodwill is property only "in so far as we may correctly predict that the courts will afford it protection").

<sup>227</sup> *See generally* Handler & Pickett (pt. 1), *supra* note 76; Handler & Pickett (pt. 2), *supra* note 130.

<sup>228</sup> *See* Handler & Pickett (pt. 1), *supra* note 76, at 200.

<sup>229</sup> *See id.*

<sup>230</sup> *See* Cohen, *supra* note 216, at 814-15 (pointing out that "injunctive relief is being extended today to realms where no actual danger to the consumer is present").

<sup>231</sup> *See id.*

<sup>232</sup> *See* Handler & Pickett (pt. 2), *supra* note 130, at 783; *see also* Indus. Rayon Corp. v. Dutchess Underwear Corp., 92 F.2d 33, 35 (2d Cir. 1937) (holding that a trademark "is not property in the ordinary sense" and that the only legal protection a trademark owner receives is against confusing uses that divert his trade); Rogers, *supra* note 226, at 319-21 (arguing that the property idea is not helpful, that the better theory is confusion-based, and that "what we are considering . . . is not property but a tort by which a man is injured by a misrepresentation, however made, that deprives him of business which otherwise he would get").

protection against uses on non-competing products even in the absence of consumer confusion.<sup>233</sup> Schechter's proposal, however, had nothing to do with the formalistic goodwill-as-property theory. In fact, Schechter rejected that theory in favor of the realist critique.<sup>234</sup>

As a realist, Schechter justified his proposal on functional grounds.<sup>235</sup> He derived the "true functions" of a trademark from the history of trademark law, and then considered what type of legal protection would best promote those functions.<sup>236</sup> The most important function in his view was to perpetuate and create goodwill.<sup>237</sup> Retailers could build goodwill by their direct dealings with customers, but importers, manufacturers, and other agents more remote in the distribution chain had to rely almost exclusively on marks.<sup>238</sup> Moreover, the marks they used had to be distinctive enough to compete with the retailer for attention: in Schechter's metaphor, to "'reach over the shoulder of the retailer' and across the latter's counter straight to the consumer."<sup>239</sup> It followed for Schechter that the law should protect a mark's distinctiveness even in the absence of confusion or lost sales in order to preserve its goodwill-generating capacity.<sup>240</sup>

### C. *Goodwill, Exploitation, and Monopoly*

The goodwill-as-property theory came under attack from a third direction. In the first half of the twentieth century, economists and legal scholars became

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<sup>233</sup> See generally Schechter, *supra* note 52. Handler and Pickett endorsed Schechter's proposal for anti-dilution rights. See Handler & Pickett (pt. 2), *supra* note 130, at 783.

<sup>234</sup> See, e.g., FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF TRADE-MARK LAW* 156, 160-161 (1925) (agreeing with Holmes that "[t]o say that a trade-mark is property and therefore should be protected clarifies the situation no more than to say that a trade-mark is protected and is therefore property"); Frank I. Schechter, *Fog and Fiction in Trade-Mark Protection*, 36 COLUM. L. REV. 60, 64-65 (1936) [hereinafter Schechter, *Fog and Fiction*] (emphasizing the importance of focusing on the "functional concept" of a trade-mark and asserting that "[n]othing is to be gained . . . by describing the trade-mark as 'property'").

<sup>235</sup> See Schechter, *supra* note 52, at 813-19.

<sup>236</sup> See *id.*

<sup>237</sup> *Id.* at 818-19 ("To describe a trademark merely as a symbol of good will, without recognizing in it an agency for the actual creation and perpetuation of good will, ignores the most potent aspect of the nature of a trademark and that phase most in need of protection.").

<sup>238</sup> See *id.* at 818.

<sup>239</sup> *Id.* at 818. Schechter attributes the metaphor to H.G. Wells. *Id.*

<sup>240</sup> *Id.* at 818-19. Schechter did not make a completely rigorous argument. He did not, for example, carefully discuss the costs of anti-dilution protection or explain why a consumer was not able adequately to distinguish different products with the same mark. Schechter makes a great deal of the "needs of modern business" and seems to believe that the law should fit those needs as they are evidenced in actual business practice, which, as we have seen, involved great enthusiasm for advertising and trademarks in the 1920s. See *id.* at 813.

interested in how goodwill actually operated in different market settings.<sup>241</sup> This led some critics to distinguish between different forms of goodwill and to identify some forms with abusive monopoly.

The core of the criticism had to do with the anti-competitive effects of brand loyalty.<sup>242</sup> If consumers stuck with a particular brand because they rationally preferred it, the resulting goodwill reflected superior qualities of the brand and competitors could compete effectively simply by selling a better quality product. However, if consumers stuck with a brand because of external factors unrelated to product quality such as unreflective habit,<sup>243</sup> rational consumer choice was impeded and the resulting goodwill was inefficient.<sup>244</sup> Critics worried about sellers exploiting this “bad” type of goodwill and about the market power it conferred to raise prices and discourage new entry.<sup>245</sup>

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<sup>241</sup> This interest was prompted in part by a desire to solve the intellectual and legal puzzles that goodwill presented and in part by a growing concern among lawyers and economists about market power and monopolies. Also, new legal issues presented by new forms of government regulation necessitated a more refined understanding of goodwill and how it produced value for a firm. For example, courts and commentators argued about the proper tax treatment of goodwill, which became necessary only after Congress instituted an income tax. *See generally Inquiry, supra* note 141 (discussing goodwill classification and valuation problems in the tax setting and collecting the authorities); Robert J. McDonald, *Goodwill and the Federal Income Tax*, 45 VA. L. REV. 645 (1959).

<sup>242</sup> As one commentator put it, “[g]oodwill is the antithesis of freedom of competition.” Wright, *supra* note 198, at 40.

<sup>243</sup> Some economists argued to the contrary that habit was a rational response to limited information and costly decision making. *See, e.g.,* RICHARD T. ELY ET AL., *OUTLINES OF ECONOMICS* 524 (4th rev. ed. 1929).

<sup>244</sup> The distinction was sometimes expressed in terms of “earned” versus “unearned” goodwill. *See* Wright, *supra* note 198 at 25-42; Foreman, *supra* note 110, at 638. Goodwill was “earned” when it resulted from seller investments in improved efficiency, such as investments in product quality, productive assets, and some types of advertising. *See, e.g.,* Wright, *supra* note 198, at 25-33. Goodwill was “unearned” when it resulted from external factors unrelated to seller efforts, such as consumer fads, habit, or custom. *See id.* at 38-39. Earned goodwill was generally efficient, whereas unearned goodwill generally was not. *See id.* at 25-30, 40. Another dichotomy distinguished between “internal” and “external” goodwill. *See, e.g.,* Foreman, *supra* note 194, at 209. “Internal” goodwill was a product of assets or other factors internal to the firm, whereas “external” goodwill was the product of factors outside the firm. While the correspondence was not perfect, earned goodwill was usually internal and unearned goodwill was usually external. *See id.*

<sup>245</sup> *See* Foreman, *supra* note 194, at 218 (“[T]he idea that habit and custom usually make possible the exploitation of good-will and the accumulation of unearned profits thoroughly permeates modern textbooks.”).

Psychological advertising played a central role in this critique.<sup>246</sup> According to the critics, sellers of homogeneous products used this type of advertising to induce emotional, and therefore irrational, attachment to their particular brand, even though all brands of the homogeneous product were identical.<sup>247</sup> The resulting brand loyalty was part of a seller's goodwill, but it was a perverse form of goodwill because it conferred market power and allowed the seller to artificially raise price above the competitive level.<sup>248</sup> One influential critic in the 1940s described the effects of psychological advertising in especially stark terms: "[advertising is] a black art whose practitioners are part of the larger army which employs threats, cajolery, emotions, personality, persistence and facts in what is termed aggressive selling."<sup>249</sup>

The critics' message was clear: some types of goodwill had anti-competitive effects, and trademark law that protected this goodwill promoted monopoly.<sup>250</sup> As a result, judges should be careful about expanding trademark rights: the broader the scope of trademark protection, the greater the seller's ability to secure market power.<sup>251</sup> For the critics, the goodwill-as-property theory was a

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<sup>246</sup> See, e.g., RAYMOND T. BYE, *PRINCIPLES OF ECONOMICS* 449 (rev. ed. 1932) (observing that advertising can establish goodwill and create "so insistent a demand" that the seller can sell "in large volume at high prices in spite of competitors"); ALBERT L. MEYERS, *ELEMENTS OF MODERN ECONOMICS* 156-57 (1938); Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 *YALE L.J.* 1165, 1168-73 (1948) (distinguishing between informative and persuasive advertising and criticizing the latter for creating monopoly power).

<sup>247</sup> See, e.g., EDWARD CHAMBERLIN, *THE THEORY OF MONOPOLISTIC COMPETITION*, 56-70, 205 (2d ed. 1936) (explaining how in economic terms "[trademark protection] is preserving, not competition, but monopoly"); Brown, *supra* note 246, at 1170-73; Sigmund Timberg, *Trade-Marks, Monopoly, and the Restraint of Competition*, 14 *LAW & CONTEMP. PROBS.* 323, 325-28, 333 (1949). According to this account, brand loyalty conferred power on a seller to raise prices above marginal cost because consumers believed (wrongly) that the seller's brand of an otherwise homogeneous good was a distinct product of its own. See *id.* Even firms that might otherwise have entered the market were discouraged from doing so by the prospect of spending large amounts to advertise their own mark and dislodge consumers from the incumbent firm. See Brown, *supra* note 246, at 1172-73 (using the example of cigarette advertising).

<sup>248</sup> See Brown, *supra* note 246, at 1172-73.

<sup>249</sup> *Id.* at 1165-66 (footnote omitted).

<sup>250</sup> Critics also complained about more specific uses of trademark law to support anti-competitive strategies, such as division of territories, price discrimination, and price fixing. See Kurt Borchardt, *Are Trademarks an Antitrust Problem?*, 31 *GEO. L.J.* 245, 247-61 (1943); Timberg, *supra* note 247, at 334-45.

<sup>251</sup> See, e.g., *Sunbeam Lighting Co. v. Sunbeam Corp.*, 183 F.2d 969, 973 (9th Cir. 1950) (holding that defendant's use of the word "Sunbeam" in the manufacture and distribution of fluorescent lamps did not infringe plaintiff's registered trademark in "Sunbeam" for electronic appliances because it would be "quite unreasonable" to confer a "legally enforceable monopoly to [such a] superlative term throughout the whole electrical world"); *E. Wine Corp. v. Winslow-Warren Ltd.*, 137 F.2d 955, 959 (2d Cir. 1943) (finding no

major obstacle to recognizing these problems and therefore needed to be eliminated.<sup>252</sup>

#### V. THE CONTINUING INFLUENCE OF THE GOODWILL IDEA ON TRADEMARK LAW

The combination of vexing definitional problems, serious analytic and normative flaws, and troubling practical consequences doomed the formalist goodwill-as-property theory. But stripped of its formalist baggage, the idea that trademark law protects seller goodwill as well as consumer welfare remained a factor in trademark decisions. Cast as a trademark policy, goodwill protection has influenced expansions of trademark law, the most troubling of which are linked to a broad conception of goodwill that includes elements unrelated to source identification.

In this connection, it is important to distinguish between injury to goodwill and appropriation of goodwill. Preventing injury to goodwill can promote information transmission policies. When a firm's reputation is harmed by use of a mark on lower quality products, for example, the firm's mark can no longer communicate reliable product information to consumers. However, preventing appropriation of goodwill is much more difficult to reconcile with information transmission policies insofar as the information content of the mark remains unimpaired.

The following discussion briefly recounts the history of several doctrinal expansions that have been influenced in one way or another by goodwill-based arguments. It is divided into three stages. In the first two stages (spanning roughly 1920 to 1970), courts and commentators were preoccupied with the issue of how far to extend trademark protection into non-competing product markets. They indulged rather broad expansions in the first stage (1920 to 1945), and then exercised greater restraint in the second (1940 to 1970). The third stage (roughly 1980 to the present) is characterized by a renewed willingness to expand trademark law in new directions. Judges re-invigorated

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trademark infringement of plaintiff's use of "Chateaux" in advertising wine because such a common word as "'Chateaux' is no more capable of being monopolized than is 'hotel'"); *Nat'l Fruit Prod. Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499, 506-07 (D. Mass. 1942) (acknowledging economists' concerns with monopoly abuse and concluding that "[i]t is quite possible that today we stand on the threshold of a change of viewpoint" toward one more hostile to trademark protection); Beverly W. Pattishall, *Trade-Marks and the Monopoly Phobia*, 50 MICH. L. REV. 967, 968-69 (1952) (pointing out a strong judicial trend toward greater restraint in trademark protection and attributing it to "the current antipathy for anything thought to smack of monopoly").

<sup>252</sup> See, e.g., Timberg, *supra* note 247, at 328 (asserting that the notion of a property right in goodwill shifts judicial perspective from the consumer to the producer and embraces an "anti-competitive principle"); Wright, *supra* note 198, at 22 ("The property concept of goodwill has been more or less a snare, serving little purpose other than to entangle the minds of the jurists.").

a dormant anti-dilution law, extended novel confusion theories (post-sale and initial interest), and used trademark law to protect merchandising markets.

Three features run through this history. First, when misappropriation is invoked, it rarely serves as the sole justification for the result. It does not appear as though judges were committed to stopping all goodwill appropriation or were entirely comfortable with a misappropriation rationale. Instead, when they relied on misappropriation, they often supplemented it with some other kind of harm that better fit traditional trademark principles, such as consumer confusion, harm to the seller's reputation, or foreclosure of a potential future market that the trademark owner might wish to enter.

Second, the misappropriation argument operates in different ways in different opinions. Often it serves essentially as make-weight, adding nothing significant to a decision adequately supported by information transmission policies. Sometimes it does a bit more work by seeming to make judges feel more comfortable accepting tenuous confusion-based or consumer-oriented arguments. And sometimes, in those cases involving the very broadest expansions, misappropriation plays a more central role in driving judges to fashion novel confusion theories and to apply them in questionable ways.

Third, when judges rely heavily on misappropriation, they do not seem to be terribly concerned about the type of goodwill being appropriated. They tend to treat all goodwill the same, whether it is brand, firm, or inherent goodwill associated with the popularity of the mark itself.

A. *A Period of Expansion – 1920 to 1945: Protecting Marks in Different Product Markets*

Most late nineteenth and very early twentieth century trademark decisions involved directly competing products and passing off or source confusion.<sup>253</sup> Starting about 1920, however, judges began to extend trademark protection into distant product markets.<sup>254</sup> They did this mainly by applying intuitive notions of “fairness” on a case-by-case basis, relying on a mix of sponsorship confusion, reputation injury, and foreclosure of a future market, and in the broadest cases, dilution and misappropriation as well.<sup>255</sup>

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<sup>253</sup> See Harold F. Baker, *The Monopoly Concept of Trade-Marks and Trade-Names and “Free Ride” Theory of Unfair Competition*, 17 GEO. WASH. L. REV. 112, 112-13 (1948). There were a few cases that imposed liability for non-competing uses before 1910, but most of these involved closely related products that consumers might believe the plaintiff actually sold. See Edward C. Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 U. PA. L. REV. 197, 199-200 (1927).

<sup>254</sup> See Lukens, *supra* note 253, at 204-05.

<sup>255</sup> Most of the cases were handled under the rubric of “unfair competition,” which by the 1920s had become an umbrella tort encompassing all types of marketplace conduct deemed to be “unfair.” See, e.g., *Vogue Co. v. Thompson-Hudson Co.*, 300 F. 509, 512 (6th Cir. 1924) (“[T]here is no fetish in the word ‘competition.’ The invocation of equity rests more vitally upon the unfairness.”).

The story begins with the Second Circuit's 1917 decision in *Aunt Jemima Mills Co. v. Rigney & Co.*<sup>256</sup> The plaintiff, who sold pancake flour, succeeded in enjoining the defendant from selling syrup under a mark identical to the plaintiff's.<sup>257</sup> The Second Circuit reasoned that because flour and syrup were often used together, consumers of plaintiff's flour "seeing [plaintiff's] trademark on a syrup, would conclude that it was made by the [plaintiff]."<sup>258</sup>

The *Aunt Jemima* court applied a standard source confusion theory adjusted to fit the new world of horizontal integration where a single company might manufacture a line of related products.<sup>259</sup> Confusion of this sort can harm the consumer if his experience with plaintiff's flour leads him to expect high quality, and defendant's syrup does not measure up. It can also harm the seller by impairing its ability to communicate quality information to consumers and build a favorable reputation.

Other courts reached similar results during the decade immediately following the *Aunt Jemima* decision.<sup>260</sup> Then, in 1927, proponents of expansion received a major boost from another important Second Circuit decision, *Yale Electric Corp. v. Robertson*.<sup>261</sup> The well-known and highly

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<sup>256</sup> 247 F. 407 (2d Cir. 1917). See Julius R. Lunsford, Jr., *Trademark Infringement and Confusion of Source: Need for Supreme Court Action*, 35 VA. L. REV. 214, 216 (1949) (observing that "[t]he *Aunt Jemima* case was the first American case to adopt what the commentators call the modern concept," namely, the risk of source confusion even as to non-competing products).

<sup>257</sup> *Aunt Jemima*, 247 F. at 408.

<sup>258</sup> *Id.* at 410. But the court also cast the result in property rights language: "In this way the [plaintiff's] reputation is put in the hands of the defendants. It will enable them to get the benefit of the [plaintiff's] reputation and advertisement. These we think are property rights which should be protected in equity." *Id.*

<sup>259</sup> See Lukens, *supra* note 253, at 204-05.

<sup>260</sup> See *id.* at 200 ("It is now established beyond controversy that the products need not be the same, in order that relief may be granted."). Judges tended to use a mix of arguments, often finding some kind of consumer confusion alongside injury to and sometimes appropriation of goodwill. See *id.* at 205 (arguing that all decisions are based on the general principle "that one may not palm off his goods as the goods of another" and that injunctive relief prevented "theft of an intangible form of property, the good-will that has come from the use of the name"). In one of the broadest decisions of the period, *Wall v. Rolls-Royce of America, Inc.*, 4 F.2d 333 (3d Cir. 1925), the Third Circuit enjoined a mail order radio tube business from using the "Rolls-Royce" mark that the plaintiff had made popular for automobiles and airplanes. The court emphasized the wrongfulness of defendant's intent to free ride on plaintiff's "earned good will," but also found that consumers might be confused that the plaintiff was connected with the defendant, in some way risking harm to the plaintiff's reputation. *Id.* at 333-34; see also *Rosenberg Bros. & Co. v. Elliott*, 7 F.2d 962, 965-66 (3d Cir. 1925) (observing that the *Aunt Jemima* decision "revived a controversy of long standing" about whether equity acts on the basis of "a property right in the trademark," a "tort to property," a "deceit" against the owner or public, or "the right of a vendor to have his mark or his trade protected from irreparable damage").

<sup>261</sup> 26 F.2d 972 (2d Cir. 1928).



regarded manufacturer of YALE locks objected to another firm registering YALE for flashlights.<sup>262</sup> Under the 1905 Trademark Act,<sup>263</sup> which applied to the case, a junior user of a mark could register the mark for its goods as long as those goods were not too closely related to the goods of a senior user.<sup>264</sup> The *Yale Electric* court held that the relatedness issue should be resolved by the likelihood of consumer confusion, found a risk of confusion on the facts of the case, and denied registration for YALE flashlights.<sup>265</sup>

Judge Learned Hand stated his rationale in a famous passage that was quoted in later opinions to support broad protection in non-competing markets:

[A merchant's] mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it, or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask. And so it has come to be recognized that, unless the borrower's use is so foreign to the owner's as to insure against any identification of the two, it is unlawful.<sup>266</sup>

The quoted passage focuses on injury to rather than appropriation of goodwill. The *Yale Electric* court seems concerned with the risk to the trademark owner's reputation when others can pretend to be the owner.<sup>267</sup> A concern about reputation certainly fits information transmission policies, but the court also seems willing to conclusively presume injury whenever the defendant "borrows the owner's reputation."<sup>268</sup> This presumption tends to collapse injury into misappropriation. In effect, appropriation (borrowing reputation) puts the owner's goodwill at risk, which then qualifies as an injury sufficient for liability whether or not the risk materializes.

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<sup>262</sup> *Id.* at 973.

<sup>263</sup> 33 Stat. 724 (1905) (current version at 15 U.S.C. § 1127 (2000)).

<sup>264</sup> The Trademark Act of 1905 prohibited registration of a mark used on merchandise with "the same descriptive properties" as the merchandise of a senior user. *Id.* § 5.

<sup>265</sup> *Yale Elec. Corp.*, 26 F.2d at 973-74.

<sup>266</sup> *Id.* at 974.

<sup>267</sup> *Id.*

<sup>268</sup> *Id.* In fact, the *Yale Electric* court's reasoning has elements of what modern intellectual property scholars would call a personhood theory. See generally Margaret Jane Radin, *Property and Personhood*, 34 STAN. L. REV. 957 (1982). Judge Hand in *Yale Electric* seems to assume that taking another firm's reputation is tantamount to taking its identity and that a firm, like a natural person, has a right to control its own identity. See *Yale Elec. Corp.*, 26 F.2d at 974; see also *Premier-Pabst Corp. v. Elm City Brewing Co.*, 9 F. Supp. 754, 757-58 (D. Conn. 1935) (rejecting the principle that a firm can protect its goodwill as property, but resting protection on a fundamental right recognized by the common law to control the public identity that a name carries).

It should not be surprising then that the *Yale Electric* decision quickly became one of the hallmarks of broad trademark liability.<sup>269</sup> Judges relied on it to extend protection to non-competing products, especially when the evidence suggested that the defendant intended to free ride on the plaintiff's goodwill.<sup>270</sup> In some of these cases, liability turned primarily on a realistic risk of sponsorship confusion and reputation injury, and misappropriation rhetoric served mainly to reinforce the result.<sup>271</sup> Still, even these references are significant insofar as they made other judges feel more comfortable using misappropriation in stronger ways. And for the broadest holdings, the misappropriation rationale played a more significant role.<sup>272</sup>

A second event that took place the same year as the *Yale Electric* decision also fueled this expansionary trend. In 1927, Frank Schechter published his now famous Harvard Law Review article, *The Rational Basis of Trademark Protection*,<sup>273</sup> advocating protection of marks on a broad dilution theory

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<sup>269</sup> See, e.g., *Bulova Watch Co., v. Stolzberg*, 69 F. Supp. 543, 546-47 (D. Mass. 1947) (stating that the *Yale Electric* opinion "express[es] the philosophy of broad trade-mark protection").

<sup>270</sup> See, e.g., *Hanson v. Triangle Pubs., Inc.*, 163 F.2d 74, 77-78 (8th Cir. 1947) (magazine versus dresses); *Bulova Watch Co.*, 69 F. Supp. at 546-47 (watches versus shoes); *Alfred Dunhill of London, Inc. v. Dunhill Shirt Shop, Inc.*, 3 F. Supp. 487, 487 (S.D.N.Y. 1929) (smoking paraphernalia versus men's shirts); *John Forsythe Co., v. Forsythe Shoe Corp.*, 254 N.Y.S. 584, 587-88 (App. Div. 1932) (men's clothing versus ladies' shoes); *Tiffany & Co. v. Tiffany Prods., Inc.*, 264 N.Y.S. 459, 462 (Sup. Ct. 1932) (jewelry versus motion pictures); see also *Lunsford*, *supra* note 256, at 217-18 (discussing some of the relevant cases).

<sup>271</sup> See, e.g., *Hanson*, 163 F.2d at 78-79 (finding a "likelihood of public confusion" and possible risk to plaintiff's reputation but also stating that the defendant made a "deliberate attempt to get a free ride" and implying that he was "reaping where he has not sown"); *John Forsythe Co.*, 254 N.Y.S., at 586-88. Recall that in the late nineteenth and early twentieth centuries, it was common to equate misappropriation of (brand) goodwill with passing off or source confusion. See *supra* note 253 and accompanying text. In these later cases, something similar might have been going on. Rather than embrace a misappropriation theory broadly, these judges might have assumed that wrongful appropriation was limited to appropriation by confusing consumers.

<sup>272</sup> See, e.g., *Bulova Watch Co.*, 69 F. Supp. at 546-47 (acknowledging the importance of consumer confusion and risk of reputation injury but focusing mainly on defendant's intent to "rid[e] the coattails of the plaintiff's good will"); *Tiffany & Co.*, 264 N.Y.S. at 462 (mentioning risk of confusion but emphasizing that the only reason defendant would have used the mark was a "desire to obtain the benefit of the reputation built up by the plaintiff at a great expense over a long period of years"); see also *Baker*, *supra* note 253, at 118-20 (observing that in many of the broadest holdings, "the courts find confusion where it is extremely doubtful or *de minimis*" and that these holdings really rest on an anti-free-riding rationale). But see *Premier-Pabst Corp.*, 9 F. Supp. at 757 (criticizing those who argue that goodwill is property to be protected, in part because "no man can have . . . a proprietary right to the favorable regard of the public").

<sup>273</sup> Schechter, *supra* note 52, at 813.

independent of consumer confusion.<sup>274</sup> It was not until 1947 that states began to adopt anti-dilution statutes,<sup>275</sup> but before that, judges sometimes relied on dilution as a type of trademark harm – in addition to sponsorship confusion, reputation injury, and market foreclosure – to supplement a misappropriation rationale.<sup>276</sup> Indeed, for a court bent on extending trademark rights, dilution had many of the same advantages as *Yale Electric*'s conclusive presumption of reputation injury. Since dilution is the loss of a mark's distinctiveness resulting from multiple uses,<sup>277</sup> a court could find dilution based on virtually any use of a strong mark no matter how different the products were.<sup>278</sup>

When misappropriation was invoked in these cases, its expansive potential depended on a very broad and flexible conception of goodwill. The goodwill protected in the late nineteenth century was limited mainly to brand goodwill, but brand goodwill cannot support extending protection to non-competing markets since it is confined to a particular product and brand.<sup>279</sup> Courts had to enlarge the goodwill category to include firm goodwill, which could reap benefits for different products sold by the same firm.<sup>280</sup> It is firm goodwill that is put at risk by sponsorship confusion.<sup>281</sup>

This move from brand to firm goodwill made sense in the early twentieth century and is consistent with information transmission policies. During this period, companies grew in size and expanded their product lines.<sup>282</sup> In a world where a single seller might sell different products, a consumer might easily

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<sup>274</sup> *Id.* at 825-26; see also *supra* notes 233-240 and accompanying text.

<sup>275</sup> See *infra* Part V.C.1.

<sup>276</sup> See, e.g., *Tiffany & Co.*, 264 N.Y.S. at 462-63 (“The real injury in such cases of non-competitive products ‘is the gradual whittling away or dispersion of the identity and hold upon the public mind of the mark or name by its use upon non-competing goods.’” (quoting Schechter, *supra* note 52, at 825)); *Phila. Storage Battery Co. v. Mindlin*, 296 N.Y.S. 176, 179 (Sup. Ct. 1937).

<sup>277</sup> Schechter, *Fog and Fiction*, *supra* note 234, at 65.

<sup>278</sup> There were limits. For example, Schechter confined his dilution theory to fanciful and arbitrary marks, Schechter, *supra* note 52, at 828-31, and judges relied on dilution as a harm normally only if the mark was particularly strong, as measured in terms of popularity and advertising expenditures. See, e.g., *Tiffany & Co.*, 264 N.Y.S. at 460-61 (emphasizing the plaintiff's large investment in advertising).

<sup>279</sup> See *supra* notes 9-11 and accompanying text for definitions of the different types of goodwill.

<sup>280</sup> See, e.g., *John Forsythe Co. v. Forsythe Shoe Corp.*, 254 N.Y.S. 584, 586 (App. Div. 1932) (enjoining defendant from using plaintiff's tradename even though plaintiff sold men's clothing while defendant sold ladies' shoes because the plaintiff was entitled to the “entire field of selling wearing apparel under that name in retail stores in this city (whether men's or women's)”).

<sup>281</sup> For an explanation of firm goodwill and sponsorship confusion, see *supra* notes 9-10 and accompanying text.

<sup>282</sup> Lukens, *supra* note 253, at 204-05.

believe that non-competing products came from the same source.<sup>283</sup> Moreover, when firms are likely to expand into new product lines, firm goodwill is especially valuable, for it is the firm's goodwill that transfers to the new market.<sup>284</sup>

Still, in some cases misappropriation had little to do with firm or brand goodwill. Judges were willing to protect an even more general type of goodwill – what I call inherent goodwill. Inherent goodwill includes the public meanings associated with the mark itself, independent of the product to which it is connected and independent of any particular brand or firm.<sup>285</sup> In *Alfred Dunhill of London, Inc. v. Dunhill Shirt Shop, Inc.*, for example, an English company selling smoking paraphernalia enjoined a shop selling men's shirts from using the "Dunhill" trademark on the sole ground that the shirt seller intended to "trade on the reputation and good will of the plaintiff."<sup>286</sup> The judge inferred this intent from evidence that the defendant wanted "a name . . . associated with 'the English' because of that people's great reputation in turning out well dressed men."<sup>287</sup> There is no mention at all in the two-paragraph opinion of any consumer confusion or any evidence that might support such a risk.<sup>288</sup> Given this, the best interpretation is that the judge was protecting the inherent goodwill in the Dunhill mark – in this case, Dunhill's popular connotation of English gentility.<sup>289</sup>

Few decisions from this early period are as clear as the *Alfred Dunhill* case. Judges tended to use the goodwill label loosely to denote any positive consumer associations with a mark, and they treated all goodwill as worthy of protection without clearly distinguishing the different types.<sup>290</sup> This approach made sense during the heyday of advertising in the 1920s and 1930s. Because the new psychological advertising tied goodwill closely to advertising expenditures, it must have seemed sensible to treat all goodwill the same: all of it was created by advertising and so was the property of the firm that made the advertising investment.<sup>291</sup> Thus, it did not matter what the mark actually

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<sup>283</sup> *See id.*

<sup>284</sup> *See id.* at 205.

<sup>285</sup> *See supra* notes 9-11 and accompanying text.

<sup>286</sup> 3 F. Supp. 487, 487 (S.D.N.Y. 1929)

<sup>287</sup> *Id.*

<sup>288</sup> *Id.*

<sup>289</sup> *See supra* text accompanying notes 10-11 (describing how inherent goodwill relates to a misappropriation theory).

<sup>290</sup> *See, e.g.,* John Forsythe Co. v. Forsythe Shoe Corp., 254 N.Y.S. 584, 587 (App. Div. 1932) (describing goodwill very broadly as "the benefit of the labor of him who may have made that name an emblem of quality, or of taste, or a symbol of fair dealing"); *Tiffany & Co. v. Tiffany Prods., Inc.*, 264 N.Y.S. 459, 461 (Sup. Ct. 1932).

<sup>291</sup> *See supra* notes 184-190 and accompanying text for a discussion of the link between psychological advertising and the legal protection of trademarks and associated goodwill. Courts frequently recited evidence of large advertising budgets and expenditures in these cases. *See, e.g., Tiffany & Co.*, 264 N.Y.S. at 460-61.

meant to consumers as long as its meaning could be traced in some way to advertising.<sup>292</sup>

B. *A Period of Retrenchment – 1940 to 1970: Limiting Protection in Different Product Markets*

These attitudes began to change in the 1930s and these changes accelerated in the 1940s and 1950s. Enthusiasm for advertising waned, and economists and legal commentators became increasingly wary of trademark monopolies and the anti-competitive effects of brand loyalty. As a result, courts and commentators began to view the misappropriation rationale with greater skepticism and some exercised more restraint in extending trademark rights.<sup>293</sup>

The more cautious approach is particularly apparent in an important line of cases from the Second Circuit that limited trademark protection for non-competing goods.<sup>294</sup> Judges Learned Hand and Jerome Frank were the chief architects of this restrictive approach.<sup>295</sup> This was the same Judge Hand who had authored the broad *Yale Electric* decision, but by 1940 he was much more restrained.<sup>296</sup>

The general idea was to limit protection to cases in which the trademark owner actually faced a genuine risk of concrete economic harm.<sup>297</sup> Only two types of harm mattered: loss of current customers due to a reputation injury created by defendant's lower quality product, or loss of future customers due to the plaintiff's inability to enter a new market with its mark.<sup>298</sup> A trademark owner had to make a strong case of actual reputation injury or show clear plans

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<sup>292</sup> See *Tiffany & Co.*, 264 N.Y.S. at 460-61.

<sup>293</sup> An early and particularly clear expression of this concern can be found in Judge Wyzanski's 1942 opinion in *National Fruit Product Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499 (D. Mass. 1942). Judge Wyzanski first discussed the legal realist attack on the goodwill-as-property theory, then focused on the growing fear of monopoly abuse, and concluded that in light of these considerations "[i]t is quite possible that today we stand on the threshold of a change of viewpoint" toward one more hostile to trademark protection. *Id.* at 506-07.

<sup>294</sup> 4 MCCARTHY, *supra* note 10, § 24:55.

<sup>295</sup> *Id.*

<sup>296</sup> In fact, soon after his *Yale Electric* decision, Judge Hand tried to contain its reach. See *L.E. Waterman Co. v. Gordon*, 72 F.2d 272, 273-74 (2d Cir. 1934) (Hand, J.) (emphasizing limits imposed by the consumer confusion requirement).

<sup>297</sup> Judge Clark favored a more generous approach. He was willing to grant an injunction on proof of a risk of sponsorship confusion alone without a showing of economic harm. See, e.g., *Hyde Park Clothes, Inc. v. Hyde Park Fashions, Inc.*, 204 F.2d 223, 226, 228-29 (2d Cir. 1953) (Clark, J., dissenting).

<sup>298</sup> See, e.g., *Dwinell-Wright Co. v. White House Milk Co.*, 132 F.2d 822, 825 (2d Cir. 1943) (Hand, J.); *S.C. Johnson & Son, Inc. v. Johnson*, 116 F.2d 427, 429 (2d Cir. 1940) (Hand, J.) (explaining that where "the injured party has not lost any sales, the courts have based his right upon two other interests: first, his reputation with his customers; second, his possible wish to expand his business into the disputed market").

to enter the defendant's market, especially if the mark was not fanciful or arbitrary.<sup>299</sup>

The reason for these limitations had to do with a firm conviction that trademark law should not be expanded simply to protect advertising investments or prevent free riding, and this conviction in turn was based on concerns about trademark monopolies.<sup>300</sup> Judge Jerome Frank made this point forcefully in his dissenting opinion in *Triangle Publications, Inc. v. Rohrlisch*.<sup>301</sup> In that case, the publisher of "Seventeen," a well known and heavily promoted magazine for teenage girls, obtained an injunction against the defendant using the mark SEVENTEEN to sell girdles. The Second Circuit affirmed based on the district judge's finding that there was a risk of sponsorship confusion and reputation harm.<sup>302</sup>

Judge Frank took issue with these findings in a sharp dissent. He insisted that there was no evidence of sponsorship confusion or reputation harm and no chance that the plaintiff would ever enter the girdle market.<sup>303</sup> Frank read the majority decision as actually resting on a misappropriation rationale – a moral intuition that it was unfair for the defendant to free ride on the plaintiff's goodwill.<sup>304</sup> In Frank's view, this "theory of the free ride" had been thoroughly "discredited"<sup>305</sup> and should never be used to expand trademark protection. Free riding, he argued, was not necessarily bad: "a 'free ride,' without more, is in line with the theory of competition."<sup>306</sup> And protecting

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<sup>299</sup> Hand was willing to give broader protection to fanciful and arbitrary marks than to descriptive marks. Also, he was more willing to tolerate non-competing uses when the defendant had already developed goodwill in its own market and adopted the mark innocently with no knowledge of the senior use. *See, e.g., Avon Shoe Co. v. David Crystal, Inc.*, 279 F.2d 607, 613-14 (2d Cir. 1960); *Fed. Tel. & Radio Corp. v. Fed. Television Corp.*, 180 F.2d 250, 251-52 (2d Cir. 1950) ("[W]e should have no warrant for depriving the defendant of whatever good-will it has already acquired by its sales under its own name.").

<sup>300</sup> *S.C. Johnson & Son, Inc.*, 116 F.2d at 429:

There is always the danger that we may be merely granting a monopoly, based upon the notion that by advertising one can obtain some 'property' in a name. We are nearly sure to go astray in any phase of the whole subject, as soon as we lose sight of the underlying principle that the wrong involved is diverting trade from the first user by misleading customers who mean to deal with him.

<sup>301</sup> 167 F.2d 969, 974 (2d Cir. 1948) (Frank, J., dissenting).

<sup>302</sup> *Id.* at 972-73 (majority opinion).

<sup>303</sup> *Id.* at 974, 979 (Frank, J., dissenting).

<sup>304</sup> *Id.* at 978. Frank reads the majority as presuming confusion based on a showing that the defendant intended to free ride. There is another possible explanation for the majority's decision, however. It is possible that the majority was not sure whether a risk of sponsorship confusion existed and chose to resolve its uncertainty in favor of liability, because it was less concerned than Judge Frank with the monopoly costs of being over-inclusive. If this is correct, then the majority would have been using an enforcement cost rationale. *See generally* Bone, *supra* note 5.

<sup>305</sup> *Triangle Publ'ns, Inc.*, 167 F.2d at 978 (Frank, J., dissenting).

<sup>306</sup> *Id.*

goodwill broadly on a free ride theory ran the risk of creating monopoly power through the medium of psychological advertising:

[Broad trademark protection] enables one to acquire a vested interest in a demand “spuriously” stimulated through “the art of advertising” by “the power of reiterated suggestion” which creates stubborn habits. This poses an important policy question: Should the courts actively lend their aid to the making of profits derived from the building of such habits, if and whenever those stubborn habits so dominate buyers that they pay more for a product than for an equally good competing product?<sup>307</sup>

These same themes also played out in the several years of congressional debate that preceded passage of the Lanham Trademark Act in 1946.<sup>308</sup> The Department of Justice vigorously opposed the bill, arguing that broad trademark protection created monopolies and benefited big business.<sup>309</sup> On the other side, the bill’s supporters insisted that trademark law actually promoted competition, and some even urged Congress to move beyond confusion to create a federal dilution remedy.<sup>310</sup> In the end, Congress limited liability to confusion and included an antitrust provision in response to the monopoly concerns.<sup>311</sup>

While the debate over the merits of broad trademark protection raged in the courts and Congress, the “free ride theory” continued to play a role in some of the broadest trademark decisions, notwithstanding Judge Frank’s claim of its demise.<sup>312</sup> What did change during the 1940s and 1950s, however, was the

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<sup>307</sup> *Id.* at 980 n.13 (citation omitted) (quoting *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960 (2d Cir. 1918)).

<sup>308</sup> For background on the legislative history of the Lanham Act, see 1 MCCARTHY, *supra* note 10, § 5:4, at 5-11 to 5-12.1 and Edward S. Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 LAW & CONTEMP. PROBS. 173, 177-84 (1949).

<sup>309</sup> Rogers, *supra* note 308, at 183-84.

<sup>310</sup> *Id.* at 176-77, 183.

<sup>311</sup> The final statute broadened trademark rights in some respects, such as by conferring incontestability on a registered mark after a period of use, but also recognized an exception if the mark was used to violate the antitrust laws. 1 MCCARTHY, *supra* note 10, § 5:4, at 5-12. As for the issue of protection in non-competing markets, the statute replaced the “same descriptive properties” standard of the 1905 Act with a likelihood of confusion standard, but this change merely tracked the existing case law. See Sara Stadler Nelson, *The Wages of Ubiquity in Trademark Law*, 88 IOWA L. REV. 731, 758-59 (2003). Congress identified two goals – ensuring that consumers get accurate product information, and protecting seller goodwill – but Congress did not explicitly approve misappropriation applied to broadly-defined goodwill like inherent goodwill. In fact, references to goodwill protection in the legislative history usually assume confusion and deception as the methods of appropriation. See 1 MCCARTHY, *supra* note 10, § 5:4, at 5-12 to 5-12.1; Rogers, *supra* note 308, at 181-83.

<sup>312</sup> See, e.g., *Stork Rest., Inc. v. Sahati*, 166 F.2d 348, 356 (9th Cir. 1948) (relying on a mixture of confusion and misappropriation but focusing mainly on the wrongfulness of defendant’s “seeking to capitalize on the publicity” that the plaintiff built up in the famous

level of enthusiasm for expanding trademark protection. Judges became more sensitive to the potential costs of expansion and used greater caution in extending protection to distant product markets.

C. *A New Period of Expansion – 1980 to the Present*

The concerns about advertising and trademark monopolies continued into the 1960s,<sup>313</sup> but they began to subside by the end of the 1970s. One of the reasons for the change has to do with a more tolerant attitude toward advertising. For example, in a series of articles published between 1970 and 1975, the economist Phillip Nelson developed a powerful response to the prevailing monopoly critique of advertising.<sup>314</sup> He argued that advertising might actually enhance competition by improving the quality of information available to consumers and lowering barriers to entry.<sup>315</sup> Most important, he squarely rejected the core premise of the critique, which was that psychological advertising had the power to change consumer tastes in ways that conflicted with true consumer preferences:

The idea that advertising changes tastes seems to have a peculiar appeal to advertising's critics. But this idea is consistent with advertising operating in perfectly competitive markets and with advertising improving welfare. I find the hypothesis that advertising changes tastes intellectually unsatisfactory. We economists have no theory of taste changes, so this approach leads to no behavioral predictions.<sup>316</sup>

Nelson's point in this passage had broad implications beyond economic theory. What he argued was that the critics needed some normative basis for justifying their distinction between "good" preferences (those that consumers adopted properly) and "bad" preferences (those that advertising induced), and that it was not at all clear that such a theory could be formulated in a

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"Stork Club" mark for its New York restaurant); *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836, 844 (D. Mass. 1964) (finding confusion and reputation risk but emphasizing that the defendant intended to "ride the coat-tails of plaintiff's good name"); *see also Chem. Corp. of Am. v. Anheuser-Busch, Inc.*, 306 F.2d 433, 438 (5th Cir. 1962) (finding risk of confusion and tarnishment and expressly asserting that an intent to free ride, while carrying great weight, is not enough alone to warrant relief).

<sup>313</sup> *See, e.g., Smith v. Chanel, Inc.* 402 F.2d 562, 567 (9th Cir. 1968) (explaining that "the economically irrelevant appeal of highly publicized trademarks is thought to constitute a barrier to the entry of new competition into the market"); William S. Comanor & Thomas A. Wilson, *Advertising Market Structure and Performance*, 49 REV. ECON. & STAT. 423, 423 (1967); Joseph M. Livermore, *On Uses of a Competitor's Trademark*, 59 TRADEMARK REP. 30, 32-33 (1969).

<sup>314</sup> *See generally* Phillip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729 (1974); Phillip Nelson, *The Economic Consequences of Advertising*, 48 J. BUS. 213 (1975) [hereinafter Nelson, *Economic Consequences*]; Phillip Nelson, *Information and Consumer Behavior*, 78 J. POL. ECON. 311 (1970).

<sup>315</sup> Nelson, *Economic Consequences*, *supra* note 314, at 218-232.

<sup>316</sup> *Id.* at 213 (footnotes omitted).



normatively acceptable or even a coherent way. People do not adopt preferences on a strictly rational basis; indeed, much of what people want is the result of emotion. Thus, it cannot be enough to condemn a preference because it was formulated on emotional grounds or even because emotion was used to induce it. Moreover, just because advertising creates new preferences in addition to supplying information to help satisfy preferences already formed does not make those new preferences “bad.” If a consumer ends up preferring an advertised product, the consumer gets satisfaction from using it, and it is not apparent how one can justify condemning that preference except on highly paternalistic grounds.

This new economic analysis seeped into trademark law as the law-and-economics movement gained momentum during the 1970s and 1980s.<sup>317</sup> No doubt other factors contributed as well.<sup>318</sup> The overall result was that concerns about trademark monopolies subsided considerably by the 1980s – except in the special field of trade dress protection.<sup>319</sup>

With advertising viewed as beneficial (or at least not harmful) and trademark monopolies no longer a serious concern, judges became more receptive to expansions, and the misappropriation rationale played an important role in these developments. The following discussion focuses on

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<sup>317</sup> See, e.g., William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268-75 (1987) (observing that the monopoly arguments “have gained no foothold at all in trademark law” and that “the hostile view of brand advertising has been largely and we think correctly rejected by economists”). For other examples of law-and-economics permeating trademark analysis in the early 1980s, see generally Ralph H. Folsom & Larry L. Teply, *Trademarked Generic Words*, 89 YALE L.J. 1323 (1980); Peter E. Mims, Note, *Promotional Goods and the Functionality Doctrine: An Economic Model of Trademarks*, 63 TEX. L. REV. 639 (1984).

<sup>318</sup> The shift from behavioristic to cognitive psychology in the 1960s may have had an impact as well. See generally HOWARD H. KENDLER, *HISTORICAL FOUNDATIONS OF MODERN PSYCHOLOGY* 373-75 (1987). Behaviorism was the main school of psychological thought during the 1940s and 1950s. It focused on environmental stimuli and stressed “reinforcement learning,” which involved learning by repetitious exposure to an idea. During the 1960s, psychology shifted toward a more cognitive approach, which emphasized the role of the mind and cognition as causative factors. As we have seen, behaviorism helped elevate the importance of psychological advertising during the 1920s. See *supra* notes 171-173 and accompanying text. Behaviorism undoubtedly fed fears of advertising’s power to brainwash consumers during the 1940s and 1950s. By the same token, the shift to a cognitive approach in the 1960s may have had something to do with counteracting brainwashing fears and elevating respect for the consumer’s ability to make autonomous choices.

<sup>319</sup> When trademark law protects features of the product as source-identifying trade dress, there is an obvious risk of creating a product monopoly if the feature turns out to be essential to the functionality of the product itself. Trademark law tries to deal with this risk through the functionality doctrine. See *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001) (“[T]rade dress protection may not be claimed for product features that are functional.”); Bone, *supra* note 5, at 2155-81.

three examples: the re-invigoration of anti-dilution law, the recognition of new forms of confusion such as post-sale and initial interest, and the use of trademark law to create merchandising rights. In each of these areas, judges seem to draw comfort and gain confidence from the notion that they are imposing liability under circumstances where the defendant appropriated the plaintiff's goodwill. They never go so far as to explicitly adopt a pure misappropriation theory as formal trademark doctrine, but they do rely, or so it seems, on goodwill appropriation coupled with some form of confusion (or dilution) to reassure themselves that their novel doctrines are analogous to and thus appropriate extensions of core trademark rules.

In fact, however, the analogies are superficial and the connection to core trademark law flimsy at best. In the cases involving the very broadest liability holdings, confusion causes no significant consumer harm and the goodwill at stake is very different from the goodwill that core trademark law is supposed to protect.

#### 1. Re-invigorating Anti-Dilution Law

States began to enact anti-dilution statutes in the 1940s and 1950s, starting with Massachusetts in 1947.<sup>320</sup> Progress was slow at first,<sup>321</sup> but accelerated after 1965, when the United States Trademark Association added an anti-dilution provision to its Model State Trademark Bill.<sup>322</sup> As of 1995, half the states had anti-dilution statutes.<sup>323</sup>

Between 1950 and 1980, courts interpreted these statutes very narrowly, often including a confusion requirement at odds with the statutory language.<sup>324</sup> There were several reasons for this restrictive approach: some judges worried about trademark monopolies; others worried about the vagueness of the dilution concept and its lack of obvious limits.<sup>325</sup> Then, in the late 1970s, a

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<sup>320</sup> For a discussion of anti-dilution theory, see *supra* notes 52-55, 233-240 and accompanying text.

<sup>321</sup> Only four states – Massachusetts, Illinois, New York, and Georgia – adopted statutes in the 1940s and 1950s. See Beverly W. Pattishall, *The Dilution Rationale for Trademark-Trade Identity Protection, Its Progress and Prospects*, 71 NW. U. L. REV. 618, 621 (1976).

<sup>322</sup> *Id.*

<sup>323</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 25 (1995).

<sup>324</sup> See, e.g., Pattishall, *supra* note 321, at 621, 624-25 (“As packaged and presented to date, the [dilution] concept seemingly has remained so misunderstood or unpalatable to the judicial taste that it largely has been ignored by the courts . . .”); Note, *Dilution: Trademark Infringement or Will-O’-The-Wisp?*, 77 HARV. L. REV. 520, 526-27 (1964) [hereinafter *Will-O’-The-Wisp*].

<sup>325</sup> See, e.g., *Esquire, Inc. v. Esquire Slipper Mfg. Co.*, 243 F.2d 540, 543-44 (1st Cir. 1957); *Coffee Dan’s, Inc. v. Coffee Don’s Charcoal Broiler*, 305 F. Supp. 1210, 1217 n.13 (N.D. Cal. 1969) (limiting application of anti-dilution statute “lest it swallow up all competition”); *Will-O’-The-Wisp*, *supra* note 324, at 528-29 (offering three explanations for judicial resistance – skepticism about the social desirability of dilution-based protection, difficulty defining dilution, and fear of federal preemption).

more liberal attitude began to take hold. The watershed event was the 1977 decision of the New York Court of Appeals in *Allied Maintenance Corp. v. Allied Mechanical Trades, Inc.*, which held in clear terms that the New York statute did not require confusion.<sup>326</sup> Still, relatively few cases after *Allied Maintenance* were decided exclusively on dilution grounds; courts usually relied on sponsorship confusion as well, sometimes stretching to find a likelihood of confusion on a slim factual record.<sup>327</sup> Then, in 1995, anti-dilution law got a boost when Congress adopted a federal anti-dilution statute.<sup>328</sup>

It is difficult to know for sure how much misappropriation figures in dilution decisions. The dilution concept, in theory at least, is different from goodwill appropriation. Dilution is a kind of injury to the mark and its goodwill. It occurs when the defendant's use impairs the mark's selling power, either by tarnishing it with unsavory associations or by blurring its distinctiveness with multiple uses on different products.<sup>329</sup> Thus, a finding of dilution does not necessarily mean that the court is concerned about misappropriation or that it is unconcerned with information transmission policies. For example, when the defendant uses the mark in an unsavory way, such as when a greasy spoon restaurant calls itself CADILLAC, the clashing images interfere with the mark's ability to communicate information effectively, and the resulting tarnishment harm implicates information transmission policies. Moreover, adding an overlay of enforcement cost analysis to information transmission policies might sometimes justify imposing liability without proof of likely confusion in a way that resembles blurring.<sup>330</sup>

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<sup>326</sup> 369 N.E.2d 1162, 1168-69 (N.Y. 1977); *id.* at 1165 ("The evil which the Legislature sought to remedy was not public confusion . . . but a cancer-like growth of dissimilar products or services which feeds upon the business reputation of an established distinctive trade-mark or name."). The *Allied Maintenance* decision is usually credited with inspiring broader applications of anti-dilution statutes. See Beverly W. Pattishall, *Dawning Acceptance of the Dilution Rationale for Trademark-Trade Identity Protection*, 74 TRADEMARK REP. 289, 291, 297-98 (1984) (indicating a sharp increase in dilution decisions in the period 1979 to 1984 and crediting *Allied Maintenance* for the "dawning of judicial comprehension").

<sup>327</sup> See Klieger, *supra* note 54, at 820-21 (observing that "courts had, by the end of 1996, granted relief solely on state antidilution grounds in only sixteen cases"); Lunney, *supra* note 4, at 409-10 (suggesting that dilution statutes have "proven more redundant than capstone" as most of the cases are decided on confusion grounds with dilution as merely "an afterthought").

<sup>328</sup> 15 U.S.C. § 1125(c) (2000). The federal statute was construed broadly and created considerable controversy as a result. See Klieger, *supra* note 54, at 833-51; Lemley, *supra* note 4, at 1698-99. However, the Supreme Court limited the reach of the federal anti-dilution statute in a 2003 decision holding that the statute required proof of actual, not just likely, dilution. *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 433 (2003).

<sup>329</sup> See *Moseley*, 537 U.S. at 429-30.

<sup>330</sup> When there is at least a possibility of confusion and the mark is very strong, for example, the expected harm from defendant's use might be large enough and the litigation

Still, misappropriation almost certainly figures in the broadest dilution decisions. Soon after *Allied Maintenance*, for example, many courts required proof that the defendant intended to free ride on the plaintiff's goodwill.<sup>331</sup> Over time, this intent element disappeared as a separate requirement, but it remains as one factor in the multi-factor balancing test that some courts use to decide dilution cases.<sup>332</sup> Of course, it is difficult to know for sure how much weight the intent factor actually receives in any particular balance. Nevertheless, it is safe to assume that the broadest anti-dilution decisions are influenced by the perceived wrongfulness of goodwill appropriation.<sup>333</sup> Indeed, in at least a few of these cases, judges have been quite clear about equating dilution with misappropriation.<sup>334</sup>

## 2. Recognizing New Types of Confusion

In a famous 1961 decision, the Second Circuit Court of Appeals adopted a multi-factor balancing test for determining likelihood of confusion.<sup>335</sup> The test required that judges balance eight factors<sup>336</sup> and make case-specific,

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cost savings substantial enough to justify imposing liability in some cases without any evidence of likely confusion. *See generally* Bone, *supra* note 5 (applying enforcement cost analysis to trademark law).

<sup>331</sup> Pattishall, *supra* note 326, at 297-99.

<sup>332</sup> *See, e.g.,* Mead Data Cent., Inc. v. Toyota Motor Sales, U.S.A., Inc., 875 F.2d 1026, 1035 (2d Cir. 1989) (Sweet, J., concurring) (including predatory intent as one of six dilution factors); Sally Gee, Inc. v. Myra Hogan, Inc., 699 F.2d 621, 626 (2d Cir. 1983). *But see* Deere & Co. v. MTD Prods., Inc., 41 F.3d 39, 46 (2d Cir. 1994) (observing that whether predatory intent is a requirement or merely a factor is still unresolved under New York law).

<sup>333</sup> David J. Franklyn, *Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law*, 56 HASTINGS L.J. 117, 118 (2004) (arguing that judges and juries in dilution cases often find for the plaintiff because they are moved implicitly by a desire to punish free riding); David S. Welkowitz, *Reexamining Trademark Dilution*, 44 VAND. L. REV. 531, 545-46, 560-65 (1991) (discussing how misappropriation concerns seep into dilution decisions).

<sup>334</sup> *See, e.g.,* Thane Int'l, Inc. v. Trek Bicycle Corp., 305 F.3d 894, 909 (9th Cir. 2002) ("The focus of the [federal] antidilution statute is on preventing junior users from appropriating or distorting the goodwill and positive associations that a famous mark has developed over the years."); L.L. Bean, Inc. v. Drake Publishers, Inc., 811 F.2d 26, 30 (1st Cir. 1987) ("The overriding purpose of anti-dilution statutes is to prohibit a merchant of noncompetitive goods from selling its products by trading on the goodwill and reputation of another's mark.").

<sup>335</sup> *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961).

<sup>336</sup> The eight factors were

the strength of [the owner's] mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, [ ] the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers.

*Id.*

discretionary decisions as to whether sponsorship confusion was likely on the facts of the particular case.<sup>337</sup>

The Second Circuit's test was almost certainly a response to the seemingly intractable conflict over trademark protection for non-competing products that raged during the 1940s and 1950s.<sup>338</sup> The balancing test helped to reduce this conflict, at least on a superficial level, by focusing judicial attention on the relatively mechanical application of factors and diverting attention away from the policy stakes.<sup>339</sup> Indeed, the test purported to be concerned exclusively with measuring the probability of confusion and thus downplayed the significance of harm, which had been the flash point of earlier disputes.<sup>340</sup>

Still, misappropriation has figured prominently in some other expansions of the confusion concept since 1980. These expansions involve recognizing actionable confusion at moments other than the time of purchase. The following briefly discusses two such expansions: post-sale confusion and initial interest confusion.<sup>341</sup>

a. *Post-Sale Confusion*

Post-sale confusion is confusion that members of the public experience viewing the product after purchase due to the fact that the product bears a mark confusingly similar to the plaintiff's.<sup>342</sup> Protecting against post-sale confusion

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<sup>337</sup> Other courts quickly followed the Second Circuit's lead by adopting balancing tests of their own, although with somewhat different factors. *See* 4 MCCARTHY, *supra* note 10, §§ 24:29-24:43.

<sup>338</sup> *Polaroid*, 287 F.2d at 495 ("The problem of determining how far a valid trademark shall be protected with respect to goods other than those to which its owner has applied it, has long been vexing and does not become easier of solution with the years.").

<sup>339</sup> Misappropriation still played a role concealed within the balance. Sometimes judges slipped it into the factor that referred to defendant's intent or bad faith by interpreting intent broadly to include intent to free ride, not just intent to deceive. *See, e.g.,* Tommy Hilfiger Licensing, Inc. v. Nature Labs, L.L.C., 221 F. Supp. 2d 410, 419 (S.D.N.Y. 2002); *see also* Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc., 659 F.2d 695, 704 (5th Cir. 1981) (presuming a likelihood of confusion from proof of intent to free ride alone).

<sup>340</sup> I have argued in other writing that this approach can be explained on enforcement cost grounds in view of the fact that an in-depth investigation of harm is likely to create high administrative and error costs. *See* Bone, *supra* note 5, at 2147-49.

<sup>341</sup> The 1962 amendments to the Lanham Act might have had something to do with judicial willingness to expand trademark law in these new directions. Originally Section 32 of the Lanham Act, 15 U.S.C. § 1114, imposed liability only when the defendant's use was "likely to cause confusion or mistake or to deceive purchasers as to the source of origin of such goods or services." In 1962, Congress deleted the word "purchasers" so the section read "likely to cause confusion or mistake or to deceive as to the source of origin of such goods or services." Some courts interpreted this amendment to endorse confusion theories other than at the point of purchase. *See* Checkpoint Sys., Inc. v. Check Point Software Techs., Inc., 269 F.3d 270, 295 (3d Cir. 2001).

<sup>342</sup> *See supra* note 57 and accompanying text.

can serve information transmission policies. If defendant's product is inferior to plaintiff's, for example, potential customers might be dissuaded from even trying to buy plaintiff's product after seeing defendant's inferior product with the plaintiff's mark and wrongly believing it to be the plaintiff's. Even if the defendant's distinctive packaging eliminates any confusion at the point of purchase, post-sale confusion in this context distorts the information transmission function of the mark.<sup>343</sup>

In some of the broadest post-sale confusion decisions, however, there is no genuine risk that defendant's product will be perceived as inferior. In these cases, liability is difficult to square with the information transmission function of the mark, and goodwill appropriation often plays a prominent justificatory role. Moreover, the goodwill being protected is neither brand nor firm goodwill but the most general type of goodwill – inherent goodwill consisting of the meanings and connotations that consumers associate with the mark itself as a popular symbol.

This is clear in one of the earliest post-sale confusion cases, *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*<sup>344</sup> Mastercrafters copied the external appearance of Vacheron's prestigious "Atmos" clock and sold its counterfeit clock at a lower price.<sup>345</sup> Vacheron sought to enjoin Mastercrafters, arguing in effect that its design was a source identifier for its clocks and thus protectable trade dress.<sup>346</sup> The Second Circuit agreed with the district judge that there was no risk of confusion at the point of purchase.<sup>347</sup> But it reversed on the ground that there was a risk of confusion after purchase: people viewing Mastercrafters' clock from a distance, say on someone's mantle, might believe it was a genuine Atmos clock.<sup>348</sup> The court of appeals mentioned Vacheron's loss of potential customers – apparently people were willing to substitute Mastercrafters' clock for the genuine Atmos<sup>349</sup> – but it also placed great weight on misappropriation.<sup>350</sup>

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<sup>343</sup> Moreover, when it is not clear whether the defendant's product is inferior, it can sometimes make sense for a court to resolve its uncertainty about consumer perceptions in favor of liability on enforcement cost grounds. See Bone, *supra* note 5, at 2153.

<sup>344</sup> 221 F.2d 464 (2d Cir. 1955).

<sup>345</sup> *Id.* at 465.

<sup>346</sup> *Id.*

<sup>347</sup> *Id.* at 466 (concurring with the district judge that consumers at the point of purchase would recognize the source of Mastercrafters' clock from its markings rather than its design). See *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 119 F. Supp. 209, 213-16 (S.D.N.Y. 1954) (asserting that there was no potential for consumer confusion at the point of purchase).

<sup>348</sup> *Mastercrafters Clock & Radio Co.*, 221 F.2d at 466 (explaining that non-purchasers viewing Mastercrafters' clock from a distance would likely confuse it with a "prestigious" Atmos clock because its markings would not be visible).

<sup>349</sup> *Id.* at 465-66 (acknowledging that some customers would purchase Mastercrafters' cheaper clock to take advantage of the prestige gained by displaying what appeared to be a

The goodwill protected in *Mastercrafters* has nothing to do with the reputation of a brand or firm. Consumers obviously wanted the Atmos clock design because of the prestigious status it conveyed.<sup>351</sup> This is the broadest possible form of goodwill: inherent goodwill that subsists in the mark itself (in this case, the clock design) independent of any seller or brand.

Post-sale confusion faded into the background for about twenty-five years after the *Mastercrafters* decision, until it emerged again in a reinvigorated form in the 1980s.<sup>352</sup> In the past two decades, courts have been willing to extend post-sale confusion broadly. One of the seminal cases launching this modern trend is *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, a 1986 opinion from the Second Circuit.<sup>353</sup> The court of appeals affirmed an injunction preventing Lois Sportswear from selling high-end designer jeans displaying the familiar Levi's stitching pattern and, in the course of its opinion, firmly endorsed a post-sale confusion theory and linked it to a misappropriation rationale.<sup>354</sup>

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genuine Atmos clock). Vacheron's Atmos clock sold for more than \$175 while Mastercrafters' clock sold for \$30 or \$40. *Id.*

<sup>350</sup> *Id.* at 466-67 ("Plaintiff's intention thus to reap financial benefits from poaching on the reputation of the Atmos clock is of major importance."). Interestingly, the Judge Frank who wrote the *Mastercrafters* opinion was the same Judge Frank who so vigorously rejected the "free ride theory" in his *Triangle Publications* dissent, *see supra* notes 301-307 and accompanying text, and supported a restrictive approach in non-competing products cases. *See supra* text accompanying notes 294-295. Judge Frank went to great pains to distinguish *Mastercrafters* on the ground that there was actually a likelihood of confusion in that case. *Mastercrafters*, 221 F.2d at 466-67 (explaining that unlike cases where there is no confusion, the likelihood of confusion in this case shifted the burden to the alleged infringer to show that there was no such likelihood).

<sup>351</sup> *Mastercrafters Clock & Radio Co.*, 221 F.2d at 466.

<sup>352</sup> For examples of references to post-sale confusion in pre-1980 opinions in addition to *Mastercrafters*, see *A.T. Cross Co. v. Jonathan Bradley Pens, Inc.*, 470 F.2d 689, 692 (2d Cir. 1972) (expressing concern that the alleged infringer mailed letters to purchasers of its "La Crosse" pen suggesting that "their donees would think they were receiving [more expensive] Cross pens"); *Rolls-Royce Motors, Ltd. v. A & A Fiberglass, Inc.*, 428 F. Supp. 689, 694 (N.D. Ga. 1977) ("[C]onfusion need not always be that of a potential purchaser . . .").

<sup>353</sup> 799 F.2d 867 (2d Cir. 1986); *see also* *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1980) (emphasizing the risk of public confusion after purchase and placing great weight on the characterization of the defendant as a "latecomer who adopts a mark with intent to capitalize upon a market previously developed by competitors in the field").

<sup>354</sup> The court actually applies the Second Circuit's multi-factor balancing test to determine the likelihood of post-sale confusion. The concern about misappropriation is evident in the court's analysis of two factors: product quality and consumer sophistication. Contrary to the usual approach to these factors, the court counted the high quality of Lois jeans in favor of rather than against confusion, reasoning that it "suggests that the possibility of [Lois's] profiting from [Levi's] goodwill is still likely." *Lois Sportswear*, 799 F.2d at

The facts of the *Lois Sportswear* case offered some support for a conventional trademark theory, but not much. Apparently, there was some evidence to support a possible risk of confusion at the point of purchase as well as post-sale (which might have bolstered the court's confidence in the result), and also some evidence that Levi intended to enter the designer jean market at some point in the future (which might have triggered concerns about possible confusion after entry).<sup>355</sup> On the other hand, the evidence of possible entry was not emphasized by the court, and Lois's distinctive labeling would probably have minimized the risk of confusion in any event.<sup>356</sup> Moreover, in the circumstances as they existed at the time the case arose, it was highly unlikely that Levi would suffer any significant loss of sales from Lois's use of its logo because Lois's designer jeans catered to a different market than Levi's.<sup>357</sup> And the high quality of Lois's jeans eliminated any serious risk of harm to Levi's reputation.<sup>358</sup> Indeed, it is likely that Levi's main purpose in bringing suit – and the primary effect of the court's holding – was to monopolize the value inherent in the stitching pattern itself: consumers thought

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875. The court also turned the customer sophistication factor on its head, again using it to support confusion: “[I]n the post-sale context, the sophisticated buyer is more likely to be affected by the sight of [Levi's] stitching pattern . . . and, consequently, to transfer goodwill.” *Id.* (presuming that “sophisticated jeans buyers” are the most likely to form an association based on “back pocket stitching patterns”).

<sup>355</sup> *Id.* at 870; *id.* at 872. Furthermore, enforcement cost concerns might justify liability in the face of uncertainty about the confusion evidence, especially uncertainty about confusion after entry. See Bone, *supra* note 5, at 2134-37.

<sup>356</sup> *Lois Sportswear*, 799 F.2d at 869. There is reason to doubt the seriousness of point-of-purchase confusion in the case, and the court must have had some doubts of its own, for otherwise it would have had no reason to reach a post-sale confusion theory. Assuming no significant risk of point-of-purchase confusion, Levi was perfectly free to enter the designer jean market with its stitching pattern, and the added competition would be likely to benefit consumers in the form of lower prices. This is what makes *Lois Sportswear* different than the typical market foreclosure case. In the typical case, the trademark owner cannot enter the new market with its mark because doing so risks confusing consumers at the point of purchase, but in a pure post-sale confusion case, there is no risk of point-of-purchase confusion.

<sup>357</sup> Lois's jeans catered to the designer jean market, a specialized market segment largely distinct from the casual jean market that Levi occupied, and Lois sold its jeans for three to four times the price of Levi's. *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 631 F. Supp. 735, 739 (S.D.N.Y. 1985).

<sup>358</sup> *Lois Sportswear*, 799 F.2d at 875. In fact, it is possible to view Lois's actions as socially beneficial in a way that is not possible under *Mastercrafters*. Lois, after all, made an innovative use of the Levi stitching pattern by being the first to apply it to a designer jean, thereby creating a new product for consumers.



it was “cool” to wear that pattern and were willing to pay more for jeans that displayed it.<sup>359</sup>

Other courts have followed the lead of *Lois Sportswear* and used a post-sale confusion theory to find liability where misappropriation does most of the work.<sup>360</sup> All of these cases have in common that the goodwill being protected is the same general type of goodwill that was protected in the *Mastercrafters* and *Lois Sportswear* cases – inherent goodwill that attaches to the mark itself.

Some post-sale confusion cases, however, involve a particular type of injury to goodwill that raises special concerns. In *Ferrari S.P.A. Esercizio v. Roberts*, for example, the court relied on a post-sale confusion theory to enjoin the defendant from selling kits with fiberglass panels that could be bolted to ordinary automobiles to make them look like high priced, luxury Ferrari sports cars.<sup>361</sup> Clearly there was no risk of confusion at the point of purchase; no one buying defendant’s kit would think Ferrari was somehow involved.<sup>362</sup> Furthermore, defendant’s kits did not compete with real Ferraris, and there was no serious risk of harm to Ferrari’s reputation.<sup>363</sup>

This might lead one to conclude that the only basis for liability was misappropriation. While misappropriation was clearly a concern of the court, it was not its only concern.<sup>364</sup> Ferrari sports cars, like Atmos clocks and Rolex watches, are status or prestige goods, and their value depends on their exclusivity and scarcity.<sup>365</sup> If just about anyone is able to drive a car that looks

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<sup>359</sup> Even if the reason was that people wanted others to think they were wearing Levi’s, liability still would not serve information transmission policies. For in that case, Levi’s marks would have become valuable in themselves as popular symbols of “cool.”

<sup>360</sup> See, e.g., *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 218, 222 (2d Cir. 1999) (finding liability on the basis of a post-sale dilution theory and citing post-sale confusion cases as a means of extending dilution theory beyond the point-of-sale context); *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1244-45 (6th Cir. 1991) (using a post-sale confusion theory). *But see* *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 380, 382-83 (7th Cir. 1996) (stressing the information transmission policies of trademark law, limiting post-sale confusion to actual customers, and rejecting a misappropriation rationale for product configuration trade dress cases).

<sup>361</sup> 944 F.2d 1235, 1238, 1244-45 (6th Cir. 1991).

<sup>362</sup> *Id.* at 1244 (commenting that the defendant even “informed [customers] that his significantly cheaper cars and kits were not genuine Ferraris”).

<sup>363</sup> The modified cars looked very much like real Ferraris, but if any of the fiberglass panels fell off, it would be evident to bystanders that the car was not a Ferrari. Although the court stated that Ferrari’s “reputation for rarity and quality” could, in fact, be damaged, *id.* at 1245, it is evident from the context that the court was concerned not so much about the reputation of the firm Ferrari as about the injury to the Ferrari design itself as a status symbol.

<sup>364</sup> *Id.*

<sup>365</sup> See *id.* (describing Ferrari’s reputation for exclusivity and scarcity). However, it is difficult to imagine that this is true for the Levi stitching pattern in *Lois Sportswear*, and it is certainly not true for the Goldfish cracker shape protected under a post-sale theory in *Nabisco*. See *Nabisco, Inc. v. PF Brands, Inc.*, 191 F.3d 208, 218, 222 (2d Cir. 1999).

like a Ferrari, the Ferrari design will lose its value as a symbol of status and prestige.<sup>366</sup> Using the goodwill concept loosely, one can characterize this as an injury to goodwill, with goodwill defined yet again as inherent goodwill in the mark itself (the Ferrari design). However, whether trademark law should protect prestige value from degradation is a policy question that should be addressed squarely without cloaking it in the language of post-sale confusion or goodwill.<sup>367</sup>

b. *Initial Interest Confusion*

Initial interest confusion, as its name implies, is confusion that attracts consumers to a product initially.<sup>368</sup> Courts today recognize this type of confusion as actionable even when it dissipates completely by the time of purchase so that no consumer actually buys defendant's product in a confused state.<sup>369</sup> This confusion can produce core information-related harms if the inferior quality of defendant's product deters an initially interested consumer from completing the transaction before his confusion dissipates. This is likely to be a serious problem, however, only when it takes some time for consumers to correct their initial misconception.<sup>370</sup>

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<sup>366</sup> *Ferrari*, 944 F.2d at 1244-45; accord *Rolex Watch U.S.A., Inc. v. Canner*, 645 F. Supp. 484, 492, 495 (S.D. Fla. 1986) (mentioning this concern in a case involving counterfeit Rolex watches but also emphasizing that the defendant "intended to derive benefit from the [p]laintiff's reputation").

<sup>367</sup> The policy issue is not easy to resolve. Prestige value is not completely separate from information transmission. Prestige is part of the product but it is also the result of communicating product information through a mark. Bone, *supra* note 5, at 2173-74. One must at least consider the effect that not protecting prestige value might have on incentives to invest in marks as source identifiers, especially when, as in a case like *Mastercrafters*, the defendant takes actual sales from the trademark owner. *See id.*

<sup>368</sup> *Eli Lilly & Co. v. Natural Answers, Inc.*, 233 F.3d 456, 464 (7th Cir. 2000) (describing initial interest confusion as occurring "when a consumer is lured to a product by its similarity to a known mark, even though the consumer realizes the true identity and origin of the product before consummating a purchase"). The doctrine has come into its own in the past two decades, although it was recognized in some earlier decisions. *See, e.g.*, *Grotrian, Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway & Sons*, 365 F. Supp. 707, 717 (S.D.N.Y. 1973) (discussing initial interest confusion with respect to Steinway pianos).

<sup>369</sup> *See, e.g.*, *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1018-19 (9th Cir. 2004); *Playboy Enters. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1024-30 (9th Cir. 2004); *Promatek Indus., Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812-13 (7th Cir. 2002); *Checkpoint Sys., Inc. v. Check Point Software Techs., Inc.*, 269 F.3d 270, 292-98 (3d Cir. 2001); *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 259 (2d Cir. 1987); 3 MCCARTHY, *supra* note 10, § 23:6.

<sup>370</sup> *See Ferrari*, 944 F.2d at 1249-50 (Kennedy, J., dissenting) (arguing that initial interest confusion is limited to cases where the consumer perceives defendant's product as low quality and never eliminates his confusion because he never consummates the purchase).

Many of the modern cases involve internet usage.<sup>371</sup> For example, defendants have been enjoined from using a trademark as a metatag or part of a domain name to attract internet users to the defendant's website when they search for the plaintiff's site.<sup>372</sup> So too companies have been enjoined from using pop-up ads keyed to search terms that include protected marks.<sup>373</sup> In all these cases, the legal wrong lies in using the plaintiff's mark to attract customers who might not bother to switch to the plaintiff's site after they recognize their error.<sup>374</sup>

It is extremely difficult to square initial interest confusion on the internet with the information transmission policies of trademark law. If the confusion quickly dissipates, the trademark owner faces little risk of harm to its reputation. To be sure, consumers are inconvenienced if they have to search yet again for the product or website they were originally seeking.<sup>375</sup> This can be burdensome in the bricks-and-mortar world, and when it is, preventing initial interest confusion reduces consumer search costs and thus can further the information transmission policies of trademark law.<sup>376</sup> But in the internet world, switching to the correct site is very easy, usually requiring only a few clicks of the mouse.<sup>377</sup> And when a user lingers at the defendant's site, it is often because he finds the site attractive, in which case he ends up benefiting from the diversion.<sup>378</sup>

Perhaps for these reasons, courts in most of the internet cases rely almost exclusively on misappropriation. In *Checkpoint Systems, Inc. v. Check Point*

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<sup>371</sup> 3 MCCARTHY, *supra* note 10, § 23:6 (describing application of initial interest confusion theory to cases involving the internet).

<sup>372</sup> *See, e.g., Nissan*, 378 F.3d at 1019; *Promatek*, 300 F.3d at 812-13 (“[P]lacing a competitor’s trademark in a metatag [may] create[] a likelihood of [initial interest] confusion.”); *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359, 366-67 (4th Cir. 2001); *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1063-65 (9th Cir. 1999) (barring inclusion in defendant’s metatags “any term confusingly similar with [plaintiff’s] mark”).

<sup>373</sup> *See, e.g., 1-800 Contacts, Inc. v. WhenU.com*, 309 F. Supp. 2d 467, 489, 493-94 (S.D.N.Y. 2003) (applying initial interest confusion theory to defendant’s use of plaintiff’s mark in its pop-up advertising); *see also Playboy*, 354 F.3d at 1024-30 (finding initial interest confusion where defendant used plaintiff’s mark in banner ads, which appeared on “search result pages”).

<sup>374</sup> *See Playboy*, 354 F.3d at 1025-26; *Brookfield*, 174 F.3d 1036, 1062.

<sup>375</sup> *See, e.g., Dogan & Lemley, supra* note 21, at 814-15 (describing the increased costs associated with initial interest confusion in “pre-Internet cases”).

<sup>376</sup> *See id.*

<sup>377</sup> 3 MCCARTHY, *supra* note 10, § 23:6 (“But some courts will not recognize initial interest confusion on the Internet because it may be so fleeting and a web surfer can easily go back to renew the search with a click of the mouse.”); *see Dogan & Lemley, supra* note 21, at 814-15 (differentiating between internet and non-internet cases in terms of the effect of initial interest confusion on search costs).

<sup>378</sup> *See Dogan & Lemley, supra* note 21, at 815.

*Software Technologies, Inc.*, for example, the Third Circuit Court of Appeals justified liability for initial interest confusion in the following way:

Without initial interest protection, an infringer could use an established mark to create confusion as to a product's source thereby receiving a "free ride on the goodwill" of the established mark. . . . Confining actionable confusion under the Lanham Act to confusion present at the time of purchase would undervalue the importance of a company's goodwill with its customers.<sup>379</sup>

An initial interest confusion theory, however, can generate high social costs by impeding innovative ways of navigating the internet and discovering new products and sites.<sup>380</sup> Whether there are sufficient social benefits to justify these costs, or whether the force of misappropriation as a moral norm is sufficiently strong to warrant protection despite the costs, are policy questions that should be faced directly. References to goodwill only distract judges from the difficult normative work.

### 3. Creating Merchandising Rights

The merchandising rights cases represent the broadest expansion of trademark law on a misappropriation theory.<sup>381</sup> For example, the Boston Red Sox team can use trademark law to monopolize the merchandising market for baseball caps, t-shirts, coffee mugs, and the like bearing the team's emblems. Anyone else who tries to sell similar merchandise is liable for infringing the trademark rights in the Red Sox name and logo.

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<sup>379</sup> 269 F.3d 270, 294-95 (3d Cir. 2001) (quoting *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir. 1987)). Other courts rely on the same type of misappropriation justification. See, e.g., *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1018-19 (9th Cir. 2004) (stressing that the defendant "traded on the goodwill" of the plaintiff's mark); *Playboy Enters. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1025 (9th Cir. 2004) ("Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the goodwill associated with a mark and is therefore actionable trademark infringement."); *Promatek Indus., Ltd. v. Equitrac Corp.*, 300 F.3d 808, 812-13 (7th Cir. 2002) ("What is important is not the duration of the confusion, it is the misappropriation of Promatek's goodwill."); *Brookfield Commc'ns, Inc. v. W. Coast Entm't Corp.*, 174 F.3d 1036, 1057 (9th Cir. 1999) (asserting that even if the confusion dissipates and the consumer is content with the defendant's site, "he reached [the defendant's] site because of its use of [the plaintiff's] mark as its second-level domain name, which is a misappropriation of [the plaintiff's] goodwill by [the defendant]").

<sup>380</sup> See, e.g., Dogan & Lemley, *supra* note 21, at 819-28.

<sup>381</sup> See Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461, 466-78, 506 (2005) (tracing the evolution of the merchandising right and concluding that "it is ultimately a rather fragile theory"); see also Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C.L. REV. 603, 627-31 (1984).

We have seen other cases in which the mark adds consumption value to the product,<sup>382</sup> but the merchandising rights cases go much further by protecting marks that constitute (virtually) the entire product. This line of cases began to develop in the 1970s and accelerated after 1980.<sup>383</sup> The seminal case is the 1975 Fifth Circuit decision in *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Manufacturing*. The *Boston Hockey* court enjoined the defendant from selling emblems bearing the names and logos of National Hockey League teams (in the form of patches that could be affixed to clothing).<sup>384</sup> The court applied a very broad and ill-conceived (even nonsensical) conception of consumer confusion, but ultimately rested its holding on a misappropriation rationale.<sup>385</sup>

Other courts followed *Boston Hockey*'s lead, influenced, like the *Boston Hockey* court, by a belief that it was wrongful for the defendant to free ride on the plaintiff's goodwill.<sup>386</sup> The merchandising rights cases, where the mark is the product, are perhaps the clearest examples of protecting inherent goodwill. This type of goodwill is a far cry from brand or firm goodwill, and invoking the language of goodwill appropriation does nothing to help decide whether the costs and benefits justify protecting it.<sup>387</sup>

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<sup>382</sup> See *supra* notes 365-367 and accompanying text.

<sup>383</sup> Before 1970, most trademark owners (sports teams, rock bands, universities, and the like) did not care much about others selling unauthorized merchandise, but during the 1970s, they began to realize the economic potential of the licensing market and turned to trademark law to monopolize it. Dogan & Lemley, *supra* note 381, at 472.

<sup>384</sup> 510 F.2d 1004, 1008, 1012 (5th Cir. 1975). The district judge had found no likelihood of source or sponsorship confusion and thus denied relief. *Id.* at 1012.

<sup>385</sup> See *id.* at 1011-12 (identifying as one of three "persuasive points" that "the major commercial value of the emblems is derived from the efforts of plaintiffs"); *id.* at 1014 (stating that "[t]hrough extensive use, plaintiffs have acquired a property right in their marks"); Dogan & Lemley, *supra* note 381, at 475 (arguing that *Boston Hockey* relied on unjust enrichment and acknowledging that "[s]ubsequent decisions and commentaries have condemned the *Boston Hockey* court's approach to likelihood of confusion").

<sup>386</sup> See, e.g., *Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 33 (1st Cir. 1989) (contending that "[d]efendants' shirts are clearly designed . . . to benefit from the good will associated with" the plaintiff's advertising and promotion of the Boston Marathon and amount to a "free ride"); *Warner Bros. v. Gay Toys, Inc.*, 658 F.2d 76, 80 (2d Cir. 1981) ("To deny Warner Bros. injunctive relief would be to enable Gay Toys 'to reap where [i]t has not sown.'" (quoting *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 239 (1918))) (alteration in original).

<sup>387</sup> See Bone, *supra* note 5, at 2182-83 (proposing that relief in merchandising rights cases be limited to disclaimers); Dogan & Lemley, *supra* note 381, at 478-93 (analyzing the policy case for a merchandising right and recommending a narrow remedy for a limited class of cases).

VI. THE NORMATIVE CASE FOR ELIMINATING GOODWILL APPROPRIATION  
FROM TRADEMARK LAW

There is, of course, no necessary connection between the way things have been done in the past and the way they should be done in the future. In the law, however, past practice does have normative weight; precedent is supposed to influence what a judge does for future cases. As we have seen, judges deciding trademark cases rely on the fact that the goodwill appropriation principle has been around for more than a century to support using it to expand trademark law today.

This is why the historical account of Parts II through V is so important. That account corrects historical mistakes and weakens the normative grip of the goodwill principle by challenging its pedigree. It shows that precedent for the goodwill principle is based on a different conception of goodwill, and that the misappropriation argument has never fit comfortably into trademark law. And it explains why.

Thus, the precedent that judges today find so comforting in fact deceives them, for it does not support using goodwill appropriation as a normative justification for broad trademark expansions. Still, it remains to be determined whether goodwill appropriation is defensible on pure policy grounds entirely apart from precedent. The following discussion briefly addresses this question. It explores moral and economic arguments, and it finds them both wanting.

A. *Flaws in the Moral Argument*

The moral argument for misappropriation-based liability assumes that it is morally wrong to free ride on goodwill. The question is why.<sup>388</sup> One might answer that free riding involves taking goodwill that belongs to the trademark owner, but that answer only invites another question: why does goodwill “belong to” the trademark owner as opposed to, say, everyone in common? One possible answer to this second question is that the trademark owner is the one who invested in creating the goodwill. This invokes the familiar Lockean labor-desert theory of natural property rights that recognizes a natural right to control the fruits of one’s own labor.<sup>389</sup>

However, as the legal realists recognized in the 1930s and too many judges have forgotten today, the labor-desert argument proves too much.<sup>390</sup> It would

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<sup>388</sup> Characterizing a free ride as “unjust enrichment,” *see, e.g.*, 1 MCCARTHY, *supra* note 10, § 2:31, adds nothing without an explanation of why enrichment by free riding is “unjust.”

<sup>389</sup> JOHN LOCKE, TWO TREATISES OF GOVERNMENT 304-05 (Peter Laslett ed., 2d ed., Cambridge Univ. Press 1970) (1690); *see generally* Wendy J. Gordon, *A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property*, 102 YALE L.J. 1533, 1540 (1993) (observing the widespread use of Locke’s labor desert theory to justify intellectual property rights).

<sup>390</sup> *See supra* notes 222-225 and accompanying text (summarizing Zechariah Chafee’s critique); *see also* Kellogg Co. v. Nat’l Biscuit Co., 305 U.S. 111, 122 (1938) (“Sharing in

condemn all competition as morally wrong because all competition involves taking customers from a competitor and thus taking value that the competitor has created through its investment in product quality and marketing.<sup>391</sup> Suppose that A invents the food processor and starts selling its own brand.<sup>392</sup> A's early advertising and promotion efforts build brand goodwill in A's food processor and also product goodwill in the food processor as a new kitchen device. When a second firm, B, enters the food processor market with its own brand, it necessarily benefits from the product goodwill that A has created. Yet B's free ride is encouraged and certainly not condemned as unfair.<sup>393</sup>

One might try to defend the moral argument on the ground that the unfairness inheres in the defendant's motive or reason for acting.<sup>394</sup> In my

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the goodwill of an article . . . is the exercise of a right possessed by all"); *Triangle Publ'ns, Inc. v. Rohrlich*, 167 F.2d 969, 974, 978 (2d Cir. 1948) (Frank, J., dissenting) (positing that free riding is consistent with healthy competition); *Nat'l Fruit Prod. Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499, 506 (D. Mass. 1942) (presenting the realist critique); Brown, *supra* note 246, at 1205 (criticizing the misappropriation of goodwill rationale); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEMPHIS ST. U. L. REV. 199, 223 (1991) (asserting that free riding is not unjust).

<sup>391</sup> See *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 248, 259 (1918) (Brandeis, J., dissenting) (commenting that the law encourages competitors to follow on the heels of market pioneers).

<sup>392</sup> Of course, there are lots of other examples, such as a restaurant that locates near a baseball park to gain a customer base from the team's fans, or a gas station that opens across the street from a competitor to attract customers drawn by the competitor's goodwill. See Dogan & Lemley, *supra* note 381, at 480-81.

<sup>393</sup> To make misappropriation work as a moral argument in this example, it is necessary to find a morally relevant distinction between taking product goodwill and taking brand goodwill. See Baker, *supra* note 253, at 124. Lockean labor-desert theory offers no basis for such a distinction because it turns on investment alone, and investment is involved in creating both types of goodwill.

<sup>394</sup> In an interesting recent article, Professor David Franklyn makes an argument like this to defend what he calls the "anti-free-riding" principle. See Franklyn, *supra* note 333, at 139-45. Professor Franklyn's argument is highly pragmatic and relies a great deal on intuition, which makes it a bit difficult to parse rigorously. See *id.* at 139 ("The intuition here is based on a vague and often unarticulated but still defensible sense of the equities of the situation"). He argues in effect that the anti-free-riding principle applies when several factors converge: a large investment in creating substantial goodwill gives the trademark owner an especially strong Lockean labor-desert claim and also a strong economic-incentive-based reason for internalizing the benefits, and the defendant has no reason to use the mark other than to profit at the plaintiff's expense. *Id.* at 139-42. None of these factors works by itself: the Lockean labor-desert argument fails for the reasons discussed in the text, and the economic incentive rationale fails for the reasons discussed *infra* Part VI.B. Furthermore, the defendant's intent/reasons/justification cannot make the moral difference because one needs an independent moral basis for evaluating that intent/reason/justification. In addition, I fail to see how combining these different factors can possibly overcome the deficiencies with each alone (especially, I might add, as the moral and economic factors are normatively incompatible). The shortcomings of Professor Franklyn's argument are evident

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food processor example, B had a legitimate reason to take product goodwill; it was essential for B to compete in the food processor market. Perhaps the cases where free riding is condemned are those in which the defendant has no legitimate reason.

This argument, however, fares no better than the previous one. First, it is circular because an intent to free ride can make free riding morally wrongful only if free riding is already deemed to be morally wrong. Second, it is incorrect to suppose that defendants in trademark cases want only to profit from the plaintiff's goodwill. They also want to communicate the information that the mark conveys. As long as consumers are not confused or misled – so the information that the defendant communicates is accurate – using the plaintiff's mark saves social resources that would otherwise have to be invested in building the same meanings into a different mark. For example, a firm that uses TIFFANY as a mark for luxury cars communicates the message of luxury and high quality without spending the resources necessary to build the same message into a different mark.

Perhaps the crux of the moral problem instead lies in the fact that the defendant benefits without contributing. The focus here is not on who owns goodwill or why the defendant takes it, but instead on the asymmetry of benefit and burden. However, this variation on the argument makes no more sense than the others. Free riding is about benefiting without being burdened and free riding can be morally acceptable, as in the food processor example. Moreover, there is often benefit-burden reciprocity in trademark cases. When the defendant sells quality products and promotes those products with the same mark, it adds to the goodwill value of the mark, which confers a reciprocal benefit on the plaintiff.

#### B. *Flaws in the Economic Argument*

The economic argument for condemning goodwill appropriation is based on incentives: the assumption is that a firm will invest optimally in producing

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when we consider his Google example, in which the Google search engine company objects to a candy manufacturer calling its candy bars “Google.” *Id.* at 143-45. Professor Franklyn would apply the anti-free-riding principle to find liability in the absence of confusion or dilution harm. Google has invested a great deal in creating a famous mark, he argues, and the candy manufacturer has no good reason for using the mark other than to capitalize on Google's fame. *Id.* There is, however, another way to characterize what the candy manufacturer is doing. By using the Google mark, the candy manufacturer is trying to attract attention and also associate the meanings that Google has for consumers with his candy bar – as in one is “cool” or “hip” if one eats Google candy bars. Unless Google, Inc. has the right to control the inherent goodwill in the GOOGLE mark, which takes us back to the labor-desert argument and the food processor counterexample, it is difficult to understand why borrowing Google's fame (i.e., the meanings constituting its inherent goodwill) is morally wrongful – assuming, as Professor Franklyn does, that the candy company does not mislead consumers or otherwise injure Google's goodwill.



goodwill when it expects to be able to capture all the benefits.<sup>395</sup> However, this argument fares no better than the moral argument in justifying a blanket prohibition on free riding.

First, an economic incentive analysis does not, in fact, support giving a firm the right to capture all the benefits of a socially desirable activity; it only supports a right to capture enough of the benefits to cover the costs of engaging in the activity.<sup>396</sup> Second, it is difficult to see how the incentive argument can justify broad expansions of trademark law. For example, it seems implausible that letting Tiffany & Company capture the goodwill value of its TIFFANY mark in the automobile market will cause it to invest significantly more than it otherwise would in the jewelry market with greater benefits in terms of reduced search costs for jewelry customers.<sup>397</sup>

Third, and perhaps most important, there are social costs to allowing a firm to monopolize a mark on a broad misappropriation principle.<sup>398</sup> In the merchandising rights cases, for example, the trademark owner can charge a higher than competitive price with resulting deadweight loss.<sup>399</sup> In other cases, trademark protection can burden First Amendment values and generate enforcement and rent-seeking costs, as well as interfere with the proper operation of the patent and copyright statutes.<sup>400</sup> All of these social costs must be balanced against the social benefits.

There is, however, a special case that deserves particular mention. The information transmission model works best when it assumes that a trademark conveys information about a separate and distinct product. But this is not always the case. The information (or meaning) conveyed by a mark sometimes is – and is intended by the seller to be – an important part of the product itself, in the sense of being something of value that consumers want when they make a purchase. A good example is perfume. Much of a perfume's value lies in its

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<sup>395</sup> See Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1037-46 (2005).

<sup>396</sup> *Id.* at 1046-50, 1057-58.

<sup>397</sup> Professor Lemley goes even further and claims that “incentives cannot justify intellectual property rights in trademarks” because trademark law is concerned with reducing consumer search costs and preventing confusion. *See id.* at 1058. I do not agree. Incentives to invest in providing information through a mark are relevant to trademark law. It is just that these incentives do not support a broad anti-free-riding principle.

<sup>398</sup> *See id.* at 1058-65.

<sup>399</sup> Dogan & Lemley, *supra* note 381, at 481-82 (asserting that a general merchandising right has harmful effects on competition because it increases costs and lowers quality).

<sup>400</sup> Some uses of a mark are socially valuable as parodies or critical commentary, so prohibiting those uses as free riding impairs First Amendment values. *See, e.g.,* *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002). So too broad trademark rights create administrative, enforcement, and rent-seeking costs. *See Bone, supra* note 5, at 2101-02; Lemley, *supra* note 395, at 1063-64. And using trademark law to protect the trade dress features of a product can grant a monopoly not authorized by the Patent or Copyright Acts. *See Bone, supra* note 5, at 2174-81.

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emotional and affective appeal, and much of that appeal is generated through advertising imagery. Consumers rely on the perfume's trademark to conjure up that imagery and to trigger the feelings they want to experience when they wear the perfume. If these feelings are part of the seller's "goodwill," protecting that goodwill by protecting the mark gives the seller exclusive rights not just in information about its perfume but in a valuable feature of the perfume itself. In this situation, there are two possible reasons for a competing perfume seller to use the plaintiff's mark: it might wish to deceive consumers about source or sponsorship, or it might wish to copy the plaintiff's perfume by duplicating its emotional content. The former fits neatly into the classic justifications for trademark law. The latter does not.

If trademarks sometimes convey emotional content of value to consumers, one must deal with the possibility that the law should protect trademarks in order to generate incentives to create products with heavy emotional and affective content. Other intellectual property theories, such as copyright and patent, are not designed to encourage this type of creativity. Trademark, however, does seem to fit the situation, at least superficially. The emotional content of the product is information conveyed by the mark, and the core function of trademark law is to protect the information transmission function of marks. The only difference – and it is a huge difference – is that the information being protected is an important component of the product itself.

I doubt whether it is necessary or even wise to incorporate this incentive-based policy explicitly into trademark law. Although this is not the place to explore the issues with care, a few points are worth mentioning briefly. First, it is not at all obvious that there is enough social value in encouraging creation of emotionally laden products to justify the enforcement and other costs associated with legal exclusivity.<sup>401</sup> Second, as long as consumers value at least some objective features of a product in addition to its emotional content, use of the same mark by a direct competitor risks ordinary confusion-related harms, and a competing use can be enjoined without relying on the incentive argument at all. Third, when consumers value objective features of a product, the seller has an incentive to advertise those features anyway, and it can design those ads to communicate emotional information as well. The additional cost, if any, of ads conveying emotional content can be spread over all the units of the product sold, and for a mass-marketed product like perfume, the marginal impact on price should be quite small, giving competitors little advantage from a free ride. Fourth, if it is desirable to use trademark law to serve this incentive goal, the decision is better made by the legislature, which can balance the costs and benefits, rather than by judges adapting trademark law ad hoc to serve a purpose quite different from its historical function.

In any event, this incentive rationale is relevant for only a small handful of cases – those, like our perfume example, in which advertising-generated emotions constitute a large part of the consumption value of the product being

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<sup>401</sup> I thank Mark Lemley for this point.

sold. Only in these cases is there likely to be enough of a free ride advantage from copying to chill *ex ante* incentives to invest in creating products with emotional content.<sup>402</sup>

In sum, my general point is quite simple: there is no economic justification for a general rule, principle, or presumption prohibiting free riding on goodwill. Except possibly for a few cases like our perfume example, it is not the taking of a firm's goodwill that is problematic from an economic point of view. What is problematic is the adverse effect on the mark's capacity to communicate information to the market. One must balance this cost against the benefit of allowing the use, and the legal rights that result will necessarily be more limited than those misappropriation alone would justify.

#### CONCLUSION

The goodwill concept has a long and checkered history in the law of trademark. It assumed special importance originally as a way to handle certain analytic and conceptual problems resulting from treating marks in themselves as property. It tightened its grip in the late nineteenth and early twentieth centuries when courts and commentators used it as the cornerstone of a general theory of trademark law and unfair competition – the goodwill-as-property theory based on the idea of protecting formalistic property rights in goodwill. And the grip became even tighter in the early twentieth century with the rise of national advertising and the close connection that the new psychological approach seemed to create between advertising, trademarks, and goodwill.

The formalistic goodwill-as-property theory came under attack in the 1930s, but the idea that trademark law should protect a seller's goodwill from appropriation survived as a policy factor. Influenced to varying degrees by this policy, courts expanded trademark protection into non-competing product markets, but the expansion slowed in the 1940s and 1950s when growing concerns about trademark monopolies and the pernicious effects of psychological advertising prompted a more restrained approach. When these concerns subsided in the 1970s, judges became receptive once again to expansions, including anti-dilution protection, recognition of post-sale and initial interest confusion, and creation of merchandising rights, and the broadest decisions were influenced strongly by a misappropriation rationale.

Throughout this history, the elasticity of the goodwill concept has played a central role. Judges tend to assume that protecting goodwill is the same thing no matter what type of goodwill is involved: brand, firm, or inherent goodwill. This conveys the impression of doctrinal continuity: protecting brand goodwill in passing off cases, for example, is analogous to protecting inherent goodwill

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<sup>402</sup> Many products have an emotional component generated by advertising, but for most products, the emotional content is only a small part of what consumers want. For example, most of the consumption value of CREST toothpaste is objective, such as fewer cavities and less risk of gum disease, although some of that value is probably emotional, such as the feelings associated with believing that one will have a more attractive smile with CREST.

in merchandising rights cases. But the impression is false. When a court uses trademark law to protect inherent goodwill, it cuts the law loose from the policies that define its core.

My prescriptive proposal is straightforward. Judges and lawyers should be careful to identify the type of goodwill at stake in a trademark case and explain why protecting it serves information transmission goals. Sometimes broad liability may be justified because of the high enforcement costs of tailoring protection to fit information transmission policies more closely. But broad liability should never be justified simply on the ground that trademark law prevents goodwill appropriation. Until this form of justification is eliminated, we cannot hope to achieve a sensible and coherent body of trademark law.