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Beyond Search Costs: The Linguistic and Trust Functions of Trademarks

*Ariel Katz**

ABSTRACT

Modern trademark scholarship and jurisprudence view trademark law as an institution aimed at improving the amount and quality of information available in the marketplace by reducing search costs. By providing a concise and unequivocal identifier of the particular source of particular goods, trademarks facilitate the exchange between buyers and sellers, and provide producers with an incentive to maintain their goods and services at defined and persistent qualities.

Working within this paradigm, this Article highlights that reducing search costs and providing incentives to maintain quality are related yet distinct functions and shows that recognizing their distinct nature enriches our understanding of trademark law. The Article first develops a distinction between two functions of trademarks: a linguistic and a trust functions. Then, the Article demonstrates how the distinction provides a matrix for evaluating the normative strength of various trademark rules and doctrines. Under this matrix, rules that promote both functions would be considered normatively strong; rules that promote neither function would be normatively weak; and rules that promote one function but not the other would be normatively ambiguous, their strength depending on the results of a closer cost-benefit analysis.

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I. INTRODUCTION

Modern trademark scholarship and jurisprudence view trademark law as an institution that improves the amount and quality of information available in the marketplace.¹ Under this paradigm

1. See, e.g., Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1844 (2007) (noting that “[i]t would be difficult to overstate the level of consensus among commentators that the goal of trademark law is—and always has been—to improve the quality of information in the marketplace and thereby reduce consumer search costs” but rejecting the view that this has always been the case); see also Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621, 624 (2004) (claiming that

trademarks are socially beneficial because they reduce consumer search costs. “[B]y providing a concise and unequivocal identifier of the particular source of particular goods,”² trademarks facilitate exchange between buyers and sellers, as well as provide producers an incentive to maintain their goods and services at defined and persistent qualities.³

Working within this paradigm, this Article highlights that reducing search costs and providing incentives to maintain quality are related yet distinct functions that hitherto have been lumped together by most commentators. The Article shows, however, that recognizing their distinct nature enriches our understanding of trademark law and provides a better framework for evaluating the normative strength of various trademark rules and doctrines, especially when trademark law expands into new domains. The Article first develops the distinction between the two functions, which will be referred to as the linguistic and the trust functions of trademarks, and then demonstrates how this distinction assists in evaluating various trademark rules and doctrines. Thus, the Article offers a matrix for evaluating the normative strength of various trademark rules and doctrines. Under this matrix, rules that promote both functions would be considered normatively strong; rules that promote neither function would be normatively weak; and rules that promote one function but not the other would be normatively ambiguous, and their strength would depend on the results of a closer cost-benefit analysis.

Part II presents the distinction between the two functions by providing an information-based account of trademarks and their legal protection. Part III further explores the ways in which the two functions are related but distinct. The Article then evaluates several trademark rules in light of this distinction. Part IV demonstrates a

the influence of this paradigm “is now nearly total No alternative account of trademark doctrine currently exists”).

2. *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002), *cert. denied*, 538 U.S. 971 (2003).

3. *See, e.g.*, *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163 (1995); *Bretford Mfg., Inc. v. Smith Sys. Mfg. Co.*, 419 F.3d 576, 579 (7th Cir. 2005); *Ty Inc.*, 306 F.3d at 510; 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:5 (4th ed. 2010); WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW (2003); Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777 (2004).

case of normative strength. It shows how passing-off, the classic form of trademark infringement, interferes with both the linguistic and trust functions and how its prohibition promotes them. Part V demonstrates a case of normative weakness: it shows why invoking trademark law to limit comparative advertising promotes neither function, and may actually work against the market facilitating purposes of trademark law. Parts VI and VII each deal with normative ambiguity: rules that promote one function but not the other. This category will include examples such as dilution, initial interest confusion, and misrepresentation of one's own products. It will be shown that while the normative strength of such rules depends on the results of a closer cost-benefit analysis, only rarely will such analysis support a finding of infringement.

II. AN INFORMATION-BASED THEORY OF TRADEMARKS

In 1987, William Landes and Richard Posner presented an influential "search costs" theory of trademark laws.⁴ They explained that trademarks are socially valuable because they reduce consumers' search costs by allowing both sellers and buyers to economize on a trademark's ability to encapsulate complex information and communicative value in condensed terms. So, for example, when ordering coffee in a restaurant or a grocery store, instead of asking for "the decaffeinated coffee made by General Foods," a consumer with a specific preference for this type of coffee can simply ask for

4. William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987). Although Landes and Posner made what is perhaps the most influential presentation of search cost theory, they were not the first to recognize that trademark laws reduce the costs incurred by consumers in searching for information about brands; see, e.g., *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429 (7th Cir. 1985) ("Trademarks help consumers to select goods. By identifying the source of the goods, they convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire"); ARMEN ALCHIAN & WILLIAM R. ALLEN, EXCHANGE AND PRODUCTION: COMPETITION, COORDINATION, AND CONTROL 294 (2d ed. 1977) ("A powerful reducer of the costs of information about the qualities of products is the brand name."); Peter E. Mims, *Promotional Goods and the Functionality Doctrine: An Economic Model of Trademarks*, 63 TEX. L. REV. 639, 658 n.102 (1984) ("Trademarks can lower the costs of search in several ways. Most obviously, they assist consumers in distinguishing between different sellers and their prices."); see also *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985) ("The purpose [of trademarks] is to reduce the cost of information to consumers by making it easy for them to identify the products or producers with which they have had either good experiences . . . or bad experiences . . .").

“Sanka.”⁵ Obviously, in order for trademarks or brand names to perform this economizing function, they must not be duplicated by others,⁶ at least not in the same market.⁷ Therefore, trademarks benefit consumers by simplifying their decision-making.⁸

The search costs theory identifies another benefit arising from this search economizing function of trademarks: exclusive rights in trademarks create incentives for firms to produce goods and services with consistent and desirable qualities.⁹ Even if these qualities are not observable before buying, a consumer who has a positive experience with a product might be interested in purchasing it again and might recommend the product to others.¹⁰ Therefore, a producer interested in generating repeat sales would be interested in maintaining persistent quality, and an exclusive right in the mark allows him to distinguish himself and his products from those of other sellers, thus reassuring the consumer that she will get the features she desires every time she buys the product.¹¹

In sum, the search costs theory identifies two primary benefits of trademark protection. First, trademarks “reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods,”¹² thus facilitating the exchange between buyers and sellers. Second, trademarks also provide producers an incentive to maintain their goods and services at defined and persistent qualities, which in turn further reduces search costs by allowing consumers to rely on the trademarks as mental shortcuts when making purchasing decisions.

5. Landes & Posner, *supra* note 4, at 268–69.

6. *Id.* at 269.

7. Trademark doctrine has been quite willing to expand this rationale to enjoin junior uses of a mark in other markets when the junior use might result in confusion as to sponsorship or affiliation. This expansion, however, has been seriously questioned recently by Lemley & McKenna. See Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413 (2010).

8. Nicholas Economides, *Trademarks*, in 3 THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW 602 (Peter Newman ed., 1998).

9. *Id.*

10. Generally, the analysis of this Article will apply equally to goods and services, and I will often use the term “product” to denote both.

11. Economides, *supra* note 8, at 602.

12. *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002), *cert. denied*, 538 U.S. 971 (2003).

While the benefits from reducing search costs are quite straightforward, in the sense that *ceteris paribus*, simplicity is preferable over complexity, and lower costs are preferable to higher, the arguments developed later in this Article will benefit from greater elaboration of the second benefit of trademark protection, the incentive to provide quality. The incentive to provide quality, while sometimes implied in the conventional economic analysis of trademarks, deserves greater prominence because it serves a broader purpose than merely reducing search costs. As will be explained below, trademarks not only make a product market more efficient, in some cases they may be essential for the market's very existence. Recognizing this broader benefit provides a richer information-based theory of trademarks as devices that improve the signals available to market participants and maintain such signals' integrity. Recognizing that the incentive to produce quality is distinct from the mere reduction of search costs carries important implications for trademark doctrine. Some of these implications will be explored below.

To appreciate the importance of these signals, consider a simple commodity like table salt. For most consumers, all salt is equally salty, and as long as the consumer can reliably identify the white crystals as salt, the identity of the manufacturer or the exact brand chosen makes very little difference. The product itself, once identified, conveys most of the information that the buyer needs when deciding whether to buy it or not. This commodified salt represents an example of what economists call a "search good"—a product whose characteristics are observable to consumers before buying.¹³ The characteristics of most goods and services, however, or at least some attributes of them, are not observable to consumers prior to purchasing them.¹⁴ In the case of some goods and services, while not observable before purchase, quality can be determined

13. Michael R. Darby & Edi Karni, *Free Competition and the Optimal Amount of Fraud*, 16 J.L. & ECON. 67, 68 (1973).

14. Indeed, even simple salt is not truly a search good because it may bear some important attributes unknown to consumers. For example, even if the consumer identifies the crystals as table salt, she can only appreciate what saltiness is after experiencing it. Second, it would be next to impossible for a consumer to know how pure the salt is, what additives it may include, and how safe they are. This may explain why we do observe branded salt after all. Moreover, the growing availability of "gourmet salts" suggests that not all salts look and taste the same and that at least some consumers appreciate these differences.

after consumption. Economists call these “experience goods.”¹⁵ In the case of others, quality cannot be determined even after consumption, because such determination is prohibitively costly for most consumers. Economists call this class of goods “credence goods.”¹⁶ A newspaper may be an example of an experience good, whereas a pharmaceutical may be an example of a credence good.¹⁷

Although economists use the terms search, experience, and credence *goods*, it is more correct to refer to *attributes*, as most goods or services may have different attributes that correspond to this classification.¹⁸ For example, the fact that a can of tuna looks like a can of tuna is a search attribute. The fact that the content tastes like tuna is an experience attribute. Whether the content is indeed tuna and not a good imitation, or whether it is safe for consumption, are credence attributes. Additional credence attributes may include whether the product contains genetically modified organisms, whether it was derived from organic farming, the age and working conditions of the work force, the environmental impact of the production process, compliance with animal welfare standards, nutritional properties, the geographical origin of the product, etc.—all of which may be important to some consumers.¹⁹

When various attributes of goods that consumers care about are known to the sellers but cannot be observed or verified by consumers, sellers have an incentive to mischaracterize their goods as carrying such attributes. Consumers, aware of this incentive and of their inability to distinguish between honest and dishonest sellers, respond by discounting the quality claims made by *all* sellers. They adjust downward the price that they are willing to pay to reflect the expected lower average quality. Honest sellers of higher quality goods who cannot credibly distinguish themselves as such cannot command a price that is commensurate with the presumed higher cost of supplying and maintaining higher quality and as a result might exit the market (or be prevented from entering in the first place). Upon their exit, the average quality decreases and so does the

15. Darby & Karni, *supra* note 13, at 68.

16. *Id.* at 68–69.

17. See Ariel Katz, *Pharmaceutical Lemons: Innovation and Regulation in the Drug Industry*, 14 MICH. TELECOMM. TECH. L. REV. 1, 13 (2007).

18. *Id.*

19. *Id.*

price consumers are willing to pay. As a result, it becomes unprofitable for the providers of the next quality tier to stay in the market. Eventually, the market may disappear altogether, or at least settle on a low-quality equilibrium. This result, first identified by George Akerlof, has since been known as “the market for lemons.”²⁰

Trademark law plays an important role in addressing this potential market failure. In the case of experience goods, sellers interested in generating repeat sales will have an incentive to supply and maintain the quality that they promise. Trademark law assists them in reducing search costs and preventing other competitors from passing themselves off as the honest ones, as described above. Repeat sales alone may not solve the problem with respect to credence goods or credence attributes, since these, by definition, cannot be verified by every individual consumer. However, trademarks also play some role in mitigating this concern.²¹ Over time, and if the consumer base of the product is large enough, a firm’s claim about its product’s credence qualities may eventually be verified (or at least not disproved). Thus, the firm’s sunk investment in building and maintaining its brand—investment which trademark law helps to assure—means that the firm will lose if it fails to deliver on its promises about quality.

Moreover, trademark law plays an additional role in these circumstances. For example, certification marks allow consumers to rely on quality assurances supplied by third parties (e.g., Fair Trade labels). Geographical indications perform a similar function. Other trademark rules, such as the prohibition in section 43(a) of the Lanham Act²² of dealing with false designations of origin and false description or representation, further provide some assurances that the signals conveyed by sellers are reliable. All of this suggests that trademark law is important in a more fundamental way than merely reducing search costs. In the not infrequent cases where the information available to sellers and consumers about various attributes of goods and services is asymmetric, trademark law may be

20. George A. Akerlof, *The Market for “Lemons”: Quality Uncertainty and Market Mechanism*, 84 Q.J. ECON. 488 (1970).

21. Trademarks’ anti-lemonization role should not be overstated. They play an important role, but this role is certainly neither perfect nor exclusive. For a discussion of various anti-lemonization mechanisms and their shortcomings, see Katz, *supra* note 17, at 19–33.

22. 15 U.S.C. § 1125(a) (2006).

essential for markets to exist. In other words, trademarks may contribute to market efficiency not only by reducing transaction costs, but by assuring the very existence of these markets.

To summarize, trademarks perform two main functions that are related yet distinct: they reduce search costs by condensing complex meanings into concise and unequivocal terms, and they allow buyers to trust and rely upon the signals conveyed by sellers as guarantees for quality, thus helping to prevent the lemonization of markets for goods with experience and credence attributes.²³ Let us call the first function the *linguistic function* of trademarks and the second the *trust function* of trademarks.²⁴ I choose the term “linguistic function” to highlight the point that trademarks’ capacity to denote complex meanings is similar to the capacity of any word, term or name to denote complex meanings and to highlight the point that trademarks, once used in association with products, enter our communicative vocabulary.²⁵ I choose the term “trust function” to highlight trademarks’ capacity to denote unobservable experience and credence attributes, thus allowing consumers to trust specific sellers or products. The latter depends on the former: being able to trust that the seller provides or the product has the desired but unobservable attributes, the consumer must be able to reliably distinguish between different sellers or products.

23. Trademarks’ capacity to address the problems arising from information asymmetry and the existence of credence attributes should not be mistaken to suggest that trademarks alone can always solve such problems. As I have argued elsewhere, there are instances in which relying exclusively on market mechanisms to solve such problems may not be enough and quality regulation may be desirable. See Katz, *supra* note 17, at 7. Even when specific quality regulation is not necessary, trademarks work in tandem with other legal and other mechanisms, such as contract and tort law and consumer protection laws, to address such issues.

24. Shahar Dillbary emphasized a similar distinction between two types of information that trademarks convey. As he notes, “[a] trademark conveys primarily two types of information about the product to which it is attached, which serve two different functions. First, a trademark conveys information about the source of sale or manufacture. Such information enables the consumer to *choose* the product she wants from a set of products by reducing her inter-brand search cost. . . . Second, a trademark may convey information about the product itself. A descriptive mark, for example, informs the consumer about a certain quality or characteristic of the product.” J. Shahar Dillbary, *Getting the Word Out: The Informational Function of Trademark*, 41 ARIZ. ST. L.J. 991, 1023–24 (2009) [hereinafter *Getting the Word Out*] (emphasis added). He refers to the first function as inter-brand function and to the second as intra-brand. *Id.* at 993–94.

25. Like other vocabulary elements, trademarks’ meanings are not static, and over time they may evolve to denote different meanings. See *infra* Part III.

The hallmark of trademark law, therefore, is its twofold capacity to improve the quality of information available to market participants. It allows sellers to deliver simplified signals, thus improving the efficiency of signal communication, and it maintains the integrity of the signals, thus allowing buyers to trust these signals when they convey information regarding experience or credence attributes of goods.

Before I proceed, I would like to clarify a certain ambiguity. The theory of trademarks just described implies that trademarks signal products' physical attributes, or at least attributes that can be objectively determined. It also assumed that consumers' preferences are fixed and that trademarks help satisfy these preferences by informing consumers about product attributes, thus simplifying the matching between the consumer preferences and the set of objective attributes she desires. But, as anyone who has lived in a consumer society will know, assuming that these are the extent of a trademark's function is naïve.²⁶

Trademarks and their legal protection allow manufacturers not only to satisfy existing preferences but also create and shape them. Persuasive branding, through advertising and other promotional measures, attempts to create an image for the product, a new cultural or psychological meaning, which extends beyond the product's physical attributes.²⁷ A person buying a Cartier watch buys it not just to satisfy his preference for a time-showing instrument or to satisfy a particular aesthetic preference. Buying a Cartier watch might also (or even primarily) satisfy a desire to signal to others one's wealth or style, or it might provide the buyer some psychological pleasure associated with the trademark's fame, which has been largely created through persuasive branding.²⁸ Whether this phenomenon is efficient or socially desirable is beyond the scope of this Article. For the purposes of this Article, it is enough to note that such advertising-induced preferences exist, and that once the consumer believes that

26. Shahar J. Dillbary, *Famous Trademarks and the Rational Basis for Protecting "Irrational Beliefs,"* 14 GEO. MASON. L. REV. 605, 620 (2007) [hereinafter *Famous Trademarks*].

27. *Id.*

28. *Id.* at 622–25. See also Deven R. Desai & Spencer Waller, *Brands, Competition, and the Law*, 2010 BYU L. REV. 1425, 1427 (“Brands allow businesses to reach consumers directly with messages regarding emotion, identity, and self-worth such that consumers are no longer buying a product but buying a brand.”).

the product possesses the advertised qualities, the trademark's linguistic and trust function work as if those were physical or otherwise objectively determinable attributes.

The trademark Cartier helps the consumer efficiently to distinguish a Cartier watch from a Rolex or a Casio watch—the linguistic functions—and it allows the consumer to rely on the trademark as an indicator of whatever unobservable attributes she believes the watch possesses—the trust function. The consumer might be interested in a Cartier because it has gained reputation for a certain level of mechanical workmanship or because it has gained reputation for style—or both. These preferences can only be satisfied if the consumer can be assured that the particular watch he contemplates buying is indeed a genuine Cartier.

But just as trademark law can contribute to the efficiency of competitive markets by improving the quality of information signals, trademark law can go awry. Misguided trademark law can interfere with and distort the information available to consumers and prevent them from making informed decisions. When this happens, trademark law may unfortunately make the market less, rather than more, efficient. Recognizing the twofold capacity of trademarks to enhance market efficiency can provide a more nuanced gauge to evaluate the normative strength of various rules and doctrines of trademark law. The rest of this Article will provide such a normative account. This Article will explore various rules and examine the extent to which they advance, are neutral toward, or hinder the two functions. I will argue that rules that enhance both functions are normatively-strong, whereas rules that stand in the way of one or both functions would be normatively-weak. Rules that promote one function but are neutral with respect to the other would be normatively-ambiguous and would often require trading-off the benefits of trademark protection against other legitimate interests such as free competition, free speech, and other interests that liberal societies cherish. But before doing that, let me elaborate a little further on the linguistic and trust functions of trademarks and the ways in which these functions are related but distinct.

III. RELATED BUT DISTINCT FUNCTIONS

The linguistic and trust functions of trademarks are inherently related yet distinct. The linguistic function enables the product to be

distinguished from other products, and in this regard the trademark functions like an individual's name. We may ask, "who is this person?" and we may get the person's name in response. If we are interested in an easy way to refer to this person, then the person's name is a satisfactory answer. The person's name allows us to easily address or refer to this person while distinguishing him from all other people who have different names. The name's utility lies in its ability to distinguish between people. It is true that we can distinguish even without names, but names allow us to distinguish more efficiently. To paraphrase an example by Landes and Posner,²⁹ even in the absence of names, one may still be able to distinguish between a certain colleague of mine and myself despite the fact that both of us are young intellectual property scholars from the University of Toronto, that both of us are Jewish, wear glasses, and that both of us have foreign accents. Even without names, one may distinguish between us by pointing to the fact that my colleague speaks English with a Latin-American accent whereas mine is Israeli, or by referring to my colleague as a "Nietzsche-loving-well-groomed-Latino," as one student once wrote, and for which I will certainly not be mistaken. But evidently, referring to my colleague as Abraham Drassinower and to me as Ariel Katz is much more efficient.³⁰

However, the question "who is this person" may pertain to something else beyond the name. It may mean "who *really is* this person? Who is the person *behind* the name, what does she stand for?" In this case, the name's function is not limited to an inter-personal distinction, but is rather intra-personal. The name helps to connect the person to a set of attributes that she possesses.³¹ These attributes may be complex, they often are not easily identifiable, and the name helps in conjuring them up and communicating them to others once they have been learned. For some purposes, the first function of the name may be sufficient, but for most other social interactions, the second function is more important. Effective means

29. Landes & Posner, *supra* note 4, at 269.

30. *Id.* ("The benefit of the brand name is analogous to that of designating individuals by last as well as first names, so that, instead of having to say 'the Geoffrey who teaches constitutional law at the University of Chicago Law School—not the one who teaches corporations,' you can say 'Geoffrey Stone—not Geoffrey Miller.'").

31. *Cf.* Beebe, *supra* note 1, at 623–24.

for distinguishing between individuals are valuable mainly because individuals are different from each other. In a society of clones, distinguishing between individuals is unnecessary because the interaction with each of them will be identical. Any attempt to distinguish between clones will involve some cost without any corresponding benefit. Exceptions to this rule may exist. Recall Dr. Seuss's story about the unfortunate Mrs. McCave who "had twenty-three sons and she named them all Dave." Indeed, "that wasn't a smart thing to do" because "when she wants one, and calls out 'Yoo-Hoo! Come into the house, Dave!' she doesn't get *one*. All twenty-three Daves of hers come on the run!"³² If Mrs. McCave was interested in calling only *a* son (but no one in particular) and gave her sons different names, then the first inter-personal distinguishing function of the names would be sufficient. She could randomly call out one name, and only son would come on the run instead of twenty-three. However, if Mrs. McCave had some reason to interact with a particular son and not the others, as will often be the case, then the intra-personal function of the name comes into action.

The same is true with products. Trademark discourse often speaks of trademarks as indicators of source or origin, so that if, for example, someone is interested in distinguishing between a black carbonated soft drink manufactured by a company from Atlanta, GA, and a black carbonated soft drink manufactured by a company from Purchase, NY, she can more efficiently do so by referring to the one as Coca-Cola and to the other as Pepsi. In such cases the trademark facilitates inter-brand distinction. But often, distinguishing between the two brands is not important merely for the sake of knowing who manufactures the product, but is important because the trademark serves an intra-brand function. The trademark indicates a set of complex attributes, not easily observable, that the consumer may care about and believe to exist in one product but not in the other. In most cases, distinguishing between brands is important only because, and only when, consumers perceive differences between them.

Like names, trademarks' linguistic function provides efficient means to distinguish between brands. And like names, this really matters because of trademarks' trust function: their ability to stand

32. THEODORE SEUSS GEISEL, *THE SNEETCHES AND OTHER STORIES* (Random House 1961). I thank Chris Yoo for reminding me of Mrs. McCave.

for complex sets of unobservable attributes. The two functions are related. The ability to condense complex meanings into short, memorizable terms facilitates the communication of such otherwise unobservable meanings and thus makes it easier for people to rely on them. If the cost of distinguishing between two brands increases beyond a certain level, the brands may become effectively indistinguishable, and indistinguishable brands cannot be relied upon for fulfilling their respective trust functions. However, this is true only beyond a certain level of search costs. Below that level, concurrent use of the same identifier, while increasing the cost of distinguishing between the brands, will not frustrate the trust function. For example, Coca-Cola and Pepsi-Cola can both name their beverage a Cola, and this presents a very small problem because the producers and the products can easily be distinguished by adding another descriptor to the term: Coca and Pepsi, respectively. Assume a vendor asked a consumer who prefers Coca-Cola over Pepsi-Cola the following question: “would you like to drink cola?” The consumer may respond asking: “which cola do you have?” and the vendor may reply “I have Coca-Cola.” Because Coca-Cola does not have an exclusive right over the term “cola,” this interaction entails a slightly higher search cost than that incurred if the term cola was exclusive to Coca-Cola. However, despite the higher search cost, the trust function has not been impaired at all. Once this higher search cost has been incurred, the consumer can easily attribute the desired qualities to her preferred brand.³³ In theory, the same thing can happen even if both producers were allowed to name their products Coca-Cola. The vendor may ask “would you like to drink Coca-Cola?” and the consumer may respond asking “which Coca-Cola?” The vendor then would say: “the Coca-Cola made by the company from Atlanta, GA.” As in the previous example, we have an increase in search costs, but not necessarily an impairment of the trust function. This situation may create a trust problem only if the additional information is not sufficient to render the two products distinguishable, or, in trademark lingo, to prevent source confusion.

33. In this example, using the same identifier increases the cost of distinguishing between the two brands, but at the same time it can *decrease* the cost of distinguishing between the type of products. Using the term “cola” makes it easier to differentiate colas from other beverages, such as juices. This is one of the reasons why no one seller can have an exclusive right to use the term “cola” to describe cola.

But theoretically this can be remedied by adding more information (“the Coca-Cola made by the company from Atlanta, GA, whose cans are red, which has nothing to do with the Coca-Cola made by the company from Purchase, NY, whose cans are blue”).

We would probably reject this theoretical solution because we can assume that beyond a certain point additional information has a decreasing marginal capacity to clarify the confusion (“I don’t really know where the Coca-Cola with the taste that I like is made and I don’t recall if it comes in red or blue can, so the information doesn’t help me distinguishing between the two products, so I don’t know if the one that you have has the taste that I like”). Or it may be that additional information would clarify the confusion, but the cost of processing the information necessary to distinguish between the two brands will outweigh the benefit in buying the particular good. In such cases, the consumer might choose to forego the transaction altogether and opt for a second-best choice (“You know what? Forget about the Coca-Cola, I’ll take orange juice”). This would constitute not only a problem of higher search costs, but a trust problem. In this microcosm, the inability to distinguish between the two colas prevented the consumer from getting his first-best choice and made the cola market practically disappear.

To sum up this point, trademarks’ two functions, the linguistic and the trust functions, are related yet distinct. The linguistic function, and its capacity to reduce search costs, is valuable because it improves the technology of communication, and, other things being equal, low-cost communication is preferable to higher-cost communication. But improving the technology of communication also facilitates the trust function because it helps communicating differences between products that otherwise are not easily observable to consumers. However, while the two functions are related, changes in the one do not necessarily lead to the same change in the other. Not every increase or decrease in search cost will lead to the same degree of increase or decrease in trust. While beyond a critical threshold, an impairment of the linguistic function through an increase in search costs will also impair the trust function, below this threshold, trademark could fulfill its trust function despite an increase in search costs.

Let me turn now to demonstrate how recognizing trademarks’ distinct functions can be useful for evaluating various trademark rules. The next parts examine several rules and doctrines in

trademark law and evaluate their normative strength according to the degree to which they are compatible with the two functions, neither of them, or only one of them.

IV. NORMATIVELY-ROBUST: RULES PROMOTING BOTH FUNCTIONS

As an example of a normatively-robust rule, I will use the tort of passing off, the oldest and most classic form of trademark infringement, whereby one confusingly uses another's mark to designate his own goods.³⁴ Passing off frustrates both the linguistic and the trust function. For example, if I can start manufacturing a black carbonated soft drink and call it Coca-Cola, the mark Coca-Cola will no longer be a simple unequivocal signifier of the product made by the Coca-Cola Company from Atlanta, GA. The Coca-Cola Company would have to provide more information in order to distinguish itself from me, and consumers interested in its products rather than mine would have to incur higher search costs. Therefore, my competing use of the mark frustrates its linguistic function by increasing consumers search costs, and the legal prohibition on this use of the mark promotes this function.

But my competing use also frustrates the trust function. If both I and the company from Atlanta can sell the drink and call it Coca-Cola, and consumers cannot tell us apart, and if some experience or credence qualities are important, and if providing them is costly, then, being unable to distinguish itself from me, the company from Atlanta, which provides these qualities, might find it no longer profitable to provide them. Hence, a lemons problem. Therefore, in addition to increasing search costs, allowing me to use the mark frustrates its trust function, and prohibiting me from using the mark promotes it.

Note, though, that frustrating the trust function could be more harmful than frustrating the linguistic function. If I am allowed to call my product Coca-Cola, the consumer who is interested in the drink from Atlanta can still look for other clues, such as the manufacturing place, and the company from Atlanta could print on its cans: "The Original Coca-Cola made by the Coca-Cola Company of Atlanta." Although adding this information might involve higher costs, if the information is meaningful and important to the

34. MCCARTHY, *supra* note 3, § 5:2.

consumer, providing it will allow the consumer to get what she wants (unless these costs are prohibitive). The market is surely less efficient. More resources are now necessary for selling the same quantity, and if some consumers are not willing to incur such additional costs, lower quantity will be sold. However, as long as enough consumers are willing to incur these costs and thereby can distinguish between the products, the market still exists.

In contrast, if I am allowed to pass myself off as the company from Atlanta, or to pass off any other distinguishing clue to the extent that consumers cannot tell us apart, then the market for the particular credence attributes may disappear altogether. Therefore, reducing search cost is no doubt beneficial, but preserving the trust function can be crucial. The prohibition on passing off serves both functions. The two work in tandem to promote market efficiency, with little effect, if any, on legitimate countervailing interests. As a result, the prohibition on passing off is a normatively robust rule. Because the prohibition on this oldest and most classic form of trademark infringement serves both functions simultaneously, it is no wonder that doctrine and theory have evolved without paying much attention to the fact that two distinct functions are being served.³⁵

V. NORMATIVELY-WEAK: RULES INCOMPATIBLE WITH ONE OR BOTH FUNCTIONS

The previous Part discussed the prohibition on passing off, a rule that promotes trademarks' two functions and therefore is normatively strong. This Part deals with rules that are incompatible with those functions and therefore would be normatively weak. Interestingly, I could not identify examples of any rules that hinder both functions, that is, rules that mandate an increase in search costs as well as hinder the trust function. This may not be that surprising after all, as such rules would not be very sustainable. However, I could identify a rule that does not have any effect on the trust

35. In fact, as McKenna observes, in its early days, trademark law was predominantly focused on producers' interests whereas consumers' interests or those of the public at large were regarded as secondary. See McKenna, *supra* note 1, at 1863–66. According to McKenna, it is not until the early to middle part of the twentieth century that courts began to focus on consumers' interests. *Id.* at 1865–66. However, because trademark infringement and unfair competition cases traditionally involved instances of passing off by competitors, courts were likely to reach the same results in most of these cases regardless of whose interests they prioritized. *Id.* at 1866.

function while still *mandating* higher search costs. This happens when trademark law can be used to prevent truthful comparative advertising. Because comparative advertising often reduces search costs, invoking trademark law to prevent it is antithetical to one of the law's purposes.

In the United States, trademark law permits using a competitor's trademark in comparative advertising, as long as the information provided is truthful and nonconfusing.³⁶ This is not the case everywhere. In some jurisdictions, such as Canada³⁷ and the European Union,³⁸ using a competitor's trademark in truthful and nonconfusing comparisons may nonetheless infringe the trademarks. I will show below that banning such comparative advertising serves neither the linguistic nor the trust function of trademarks. In fact, such ban increases consumer search costs, and may decrease market efficiency by increasing competitors' costs to entry. Therefore, under the framework proposed in this Article, the normative basis for such a rule is quite weak.

A. Clairol

The partial ban on comparative advertising in Canada owes its origin to a 1965 case, *Clairol Int'l Corp. v. Thomas Supply & Equipment Co.*³⁹ The legislative context in *Clairol* was Section 22(1) of the Trade-marks Act, which provides that “[n]o person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto.”⁴⁰ This was the first time the provision had been considered at length, and Justice Thurlow, who struggled to provide meaning to the novel provision ultimately rendered a much criticized decision—but a resilient one nonetheless.

The plaintiffs, Clairol International and its Canadian subsidiary (collectively, “Clairol”) were respectively the owner and the

36. 4 MCCARTHY, *supra* note 3, § 25:52. An exception to this rule is *Deere & Co. v. MTD Prods., Inc.*, 41 F.3d 39 (2d Cir. 1994), discussed in Part VII.

37. *See infra* Part V.A.

38. *See* Case C-487/07, *L'Oréal SA v. Bellure NV* ECJ CELEX LEXIS No. 62007J0487 (June 18, 2009), <http://curia.europa.eu>; *see also* Dev Gangjee & Robert Burrell, *Because You're Worth It: L'Oréal and the Prohibition on Free Riding*, 73 MOD. L. REV. 282 (2010).

39. [1968] 2 Ex. C.R. 552 (Can.).

40. Trade-marks Act, R.S.C. 1985, c. T-13, s. 22.

registered user of the trademark “Miss Clairol,” registered for use in association with hair tinting and coloring compositions.⁴¹ The defendants (collectively, “Revlon”) were the suppliers in Canada of “Colorsilk,” a competing brand of hair color, manufactured by Revlon.⁴² During the period that preceded the litigation Clairol was the dominant player in this area, enjoying a 50% share of the market for hair coloring preparations in beauty salons and 70% of the market in drugstores, department and other retail stores.⁴³ In June 1965 Revlon began using color comparative charts printed in brochures that it circulated and on the packages of its Colorsilk products.⁴⁴ One column of the chart bore the heading *Revlon ‘Colorsilk’ Hair Color* and listed names of color shades with numbers.⁴⁵ The second column bore the heading *Miss Clairol Hair Color Bath* and presented the numbers used by Clairol to identify its own color shades.⁴⁶ Other columns referred to other competing brands’ color shades.⁴⁷

Among its various complaints, Clairol maintained that Revlon’s use of its trademark, as printed in the charts, depreciated the value of its goodwill, contrary to Section 22(1).⁴⁸ Justice Thurlow concluded that Revlon’s use of Clairol’s trademark was likely to depreciate the value of Clairol’s goodwill, but as a matter of statutory interpretation, only the use of the trademark on the packaging actually violated Section 22.⁴⁹ The difference resulted from Justice Thurlow’s interpretation of the term “use,” which appears in Section 22 and which Section 4 of the Act defines.⁵⁰ According to Justice

41. *See* Clairol Int’l. Corp. v. Thomas Supply & Equip. Co., [1968] 2 Ex. C.R. 552, paras. 2–3 (Can.).

42. *Id.* at para. 3.

43. *Id.* at para. 8 (Text Book References).

44. *Id.* at paras. 5, 7.

45. *Id.* at para. 5.

46. *Id.*

47. *See id.*

48. *Id.* at para. 11.

49. *See id.* at paras. 38, 46–47.

50. Section 4 of the Trade-mark Act reads as follows:

(1) A trade-mark is deemed to be used in association with wares if, at the time of the transfer of the property in or possession of the wares, in the normal course of trade, it is marked on the wares themselves or on the packages in which they are distributed or it is in any other manner so associated with the wares that notice of the association is then given to the person to whom the property or possession is transferred.

(2) A trade-mark is deemed to be used in association with services if it is used

Thurlow, the correct statutory interpretation meant that, with respect to wares, a trademark is only deemed to be used if it appears on the wares or their packaging.⁵¹ This excluded the brochures from the ambit of Section 22 with respect to wares (although it would not exclude them had the brochures been used with respect to services, where Section 4 deems a trademark to be used in association with services if it is used or displayed in their performance or advertising).⁵² While many commentators have taken issue with this strange, highly formal and unprincipled distinction between packages, brochures, wares, and services, my main issue is with the proposition that truthful and non-confusing comparative advertising in general, and the kind in which Revlon had engaged in particular, could ever constitute actionable use of a trademark. As I shall set forth below, interpreting Section 22 to include such activities contradicts trademark law's purpose to advance the information available to market participants, and therefore, rather than serving the operation of a competitive marketplace, such interpretation undermines it.

To understand how such an interpretation of Section 22 undermines the operation of a competitive marketplace, consider the nature of Clairol's product, the functions Clairol's trademark fulfilled with respect to it, and the purpose Revlon sought to achieve by including it in the comparison charts. By definition, people who care to take the effort of dyeing their hair are rather sensitive to its appearance, and we may assume that they would be concerned about sudden unexpected changes in its tone.⁵³ Moreover, in its early days, Clairol, who pioneered the hair coloring business, faced a major marketing hurdle: although many women colored their hair, very few would admit it because it was considered vulgar.⁵⁴ "You had to convince women that if you colored your hair, you weren't a woman

or displayed in the performance or advertising of those services.

Trade-marks Act, R.S.C. 1985, c. T-13, s. 4.

51. *Clairol*, 2 Ex. C.R. at paras. 35, 45 (Textbook References).

52. Trade-marks Act, R.S.C. 1985, c. T-13, 4.

53. See *Clairol, Inc. v. Sarann Co.*, 37 Pa. D. & C.2d 433, 440 (1965) ("Permanent hair coloring is a high anxiety product, for women are apprehensive that using it will affect their status, reputation and appearance.").

54. Terry Pristin, *Joan Bove, Who Helped Found Clairol, Is Dead at 99*, N.Y. TIMES, July 23, 2001, at B6.

of the night.”⁵⁵ Although much has changed in the way coloring one’s hair is presently perceived, I believe it is fair to assume that some people still retain this attitude today, and that many of them held it in 1965. Therefore, an unexpected change in one’s hair color could be a source of major embarrassment, or at least create some level of anxiety—a major concern for consumers.

Economically speaking, many hair color users are risk-averse to unexpected changes in their hair color. Clearly, Clairol’s success stemmed not only from being the first to sell an easy to use and more natural looking product,⁵⁶ but also from its ability to reassure its customers that they would look the same each time they dye their hair; they could keep coloring their hair without fearing that unexpected changes in color would reveal their secret. Using the previous terminology, hair color is a good with salient experience attributes, and trademarks play a crucial part in communicating these ex ante unobservable attributes to consumers. This suggests that Clairol would benefit from strong brand loyalty. It can also explain why Clairol had maintained a much higher market share in the retail segment compared to the hair beauty segment.⁵⁷ Whereas in the retail segment consumers relied solely on the trademark for quality assurance, in the beauty salons they could partly rely on the assurances supplied by the hair dresser, a professional who might risk her own reputation by recommending another brand. Indeed, endorsement by hairdressers was perceived crucial for success in the retail segment.⁵⁸

The above analysis also suggests why it was important for Revlon to use the comparative charts if it wanted to compete effectively in this market. Clairol was the pioneer in this market and at the time of

55. *Id.* (quoting Joan Bove’s son, Richard L. Gelb).

56. *Id.* See also Malcolm Gladwell, *Annals of Advertising: True Colors*, THE NEW YORKER, Mar. 22, 1999, at 72 (“Miss Clairol gave American women the ability, for the first time, to color their hair quickly and easily at home.”).

57. *Clairol*, 2 Ex. C.R. at para. 8 (Textbook References).

58. In *Clairol v. Sarann*, 37 Pa. D. & C.2d 433 (1965), the court explained that Clairol, as well as its competitors, charged a “competitive” low price of \$0.39 per bottle to hairdressers, and considerably higher prices \$0.67–\$0.71 to retailers. The court explained that “[t]his price differential exists because \$.39 is a competitive price in the beauty professional trade, and plaintiff desires to meet its competition. It is necessary for plaintiff to do so, because it is important to success in the retail trade that plaintiff receive the endorsement of the professional hairdresser. Plaintiff’s competitors who sell in both channels of trade have similar price structures.”

the litigation had a 70% market share of the retail level and 50% market share of the beauty salon segment.⁵⁹ Revlon was a newer player in this field. Like Clairol, Revlon had to overcome consumers' reluctance to use hair color and to assure those who did that their hair would maintain a consistent look whenever they used its products. We may assume that Revlon, a well-known brand in itself in this field,⁶⁰ could meet this challenge. But Revlon faced another challenge. Offering an equally good product at an equally attractive price might not suffice to contest Clairol's dominance. Even offering a better quality/price combination might not suffice. Revlon could assure its customers a consistent look if they used *its* product, but in order to persuade them to switch from Clairol, it needed to provide an additional assurance: a consistent look when switching from Clairol to Revlon. Without the ability to make such a promise convincingly, risk-averse consumers would stay with Clairol, even if they were otherwise willing to switch.

Therefore, Clairol's advantage in the market stemmed not only from its own merits: its innovativeness, the quality of its product, and its business acumen, but also from lack of information available to its customers regarding its competitors' equivalent products. Clairol could exploit its customers' lack of information about the look of their hair should they decide to switch and rely on the resulting tendency of risk-averse consumers to stay with Clairol. As a result, Clairol could preserve its market share by taking advantage of incomplete information available to its customers. Revlon attempted to compete by completing this missing information. It printed a comparison chart, which told potential customers contemplating a switch from Clairol to Revlon which of Revlon's tones they should choose in order to avoid any embarrassing change in the color of their hair.

When the court determined that Revlon's use of Clairol's trademark on its packages depreciated Clairol's goodwill and therefore entitled Clairol to relief,⁶¹ it interfered with Revlon's ability to improve the amount of relevant and truthful information available to consumers and allowed Clairol to benefit from a barrier to competition based on missing information. Surely, there is nothing

59. *Clairol*, 2 Ex. C.R. at para. 8.

60. *Id.* at para. 9.

61. *Id.* at para. 46.

wrong when Clairol benefits from the ability of its brand to convey information that consumers deem important. But it does not follow that Clairol should be entitled to enjoin its competitors from conveying such information as well. The court's interpretation of what constitutes unlawful depreciation of goodwill went beyond assuring Clairol's ability to provide useful information to consumers. The court went further and handicapped the ability of its competitor to provide useful information as well.

This stands in contrast to trademark law's purpose of advancing and improving the information available to market participants. Neither the linguistic nor the trust function of Clairol's trademarks was impaired by Revlon's comparative charts, which, as far as we know, contained truthful information. Revlon's charts did not impair consumers' ability to trust the message conveyed by Clairol. Likewise, Revlon's charts did not add the slightest search cost to Clairol's most loyal customers. The charts' effect was to *reduce* the search costs faced by Clairol's customers who were willing to contemplate a switch. Therefore, Revlon's acts were fully consistent with trademark law's purposes, and prohibiting them caused trademark law to go awry.

VI. NORMATIVE AMBIGUITY I: RULES PROMOTING THE LINGUISTIC FUNCTION BUT NOT THE TRUST FUNCTION

The previous examples, passing off and comparative advertising were easy to resolve. The first example concerned a harmful practice that clearly impairs both functions of trademark law and a legal rule that justifiably prohibits it. The second example concerned a benign practice, which promotes one function (and irrelevant to the other), and a rule that unjustifiably prohibits it. In the sections below I describe some more difficult cases in which the practices complained about might slightly impair one function but not the other. This Part will analyze practices that may impair the linguistic function by increasing search costs, but have no effect on the trust function. I consider these cases normatively ambiguous because although mere increase in search costs may seem sufficient to warrant legal intervention, often other interests such as free competition or free speech will be at stake. Frequently, there will be some legitimate reasons why the junior user may seek to use the mark. In such cases determining whether this use should be allowed or enjoined will

require some tradeoffs which do not exist in the case of classic passing off, for example. In such cases the mere fact that the practice may increase search costs should not suffice for rendering the behavior unlawful. As the analysis below will demonstrate, such uses of a mark should only be enjoined if the increase in search costs is not compensated for by other greater social benefits. My analysis will focus on dilution by blurring and initial interest confusion.

A. Dilution by Blurring

Frank Schechter believed that trademarks should be protected not only against uses which create consumer confusion, but also against uses which cause “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.”⁶² However, the theoretical underpinning for the anti-dilution remedy in the United States has been highly contested. Commentators have criticized the degree to which such a remedy is consistent with consumers’ interests and its general fit within trademark law’s market-oriented general scheme.⁶³ Nevertheless, search costs theory has been applied in justifying dilution law in a way that is supposedly consistent with trademark law’s overarching pro-consumer approach.⁶⁴ For example, as Brian Jacobs argues, anti-dilution law might be used to prevent the inefficiency that could occur when a junior user adopts a famous trademark without providing sufficient distinguishing characteristics,

62. Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 825 (1927).

63. See, e.g., Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 795 (1997) (“[T]he trademark rights in gross to which dilution protection gives rise pose an anticompetitive threat to market efficiency and consumer welfare.”); David S. Welkowitz, *Reexamining Trademark Dilution*, 44 VAND. L. REV. 531, 584 (1991) (“[S]ociety’s return for granting this proprietary interest is uncertain at best . . . [trademarks] can create artificial barriers to entry . . . by fostering brand loyalty at the expense of thoughtful decision making.”).

64. See, e.g., Stacey L. Dogan & Mark A. Lemley, *A Search-Costs Theory of Limiting Doctrines in Trademark Law*, 97 TRADEMARK REP. 1223, 1229 (2007) (“[T]he [anti-dilution] statute focuses on uses that increase consumer search costs . . . and [] permit[s] uses such as commentary and comparative advertising that actually facilitate consumer search.”); Brian A. Jacobs, Note, *Trademark Dilution on the Constitutional Edge*, 104 COLUM. L. REV. 161, 187–88 (2004) (articulating efficiency gains which might flow from the FTDA, namely through the reduction of consumer search costs). See also Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEX. L. REV. 507, 526 & nn.88–94 (2008).

such that consumers must provide sellers additional information to specify which brand they are referring to (even if they are not confused).⁶⁵ Most notably, in *Ty v. Perryman*,⁶⁶ Judge Posner provided a search-cost justification for dilution law. According to Posner, the concern with dilution is “that consumer search costs will rise if a trademark becomes associated with a variety of unrelated products,”⁶⁷ thereby blurring the concise and unequivocal meaning of the trademark. Echoing a similar concern, the Ninth Circuit recently explained that “the introduction of the [diluting] mark to the marketplace means that there are now two products, and not just one, competing for association with that word. This is the quintessential harm addressed by anti-dilution law.”⁶⁸

Posner illustrated this concern by using a hypothetical example of an upscale restaurant calling itself “Tiffany.”⁶⁹ Even if consumers will not be confused and believe that the restaurant is a branch of the famous jeweler, he explained, “when consumers next see the name ‘Tiffany’ they may think about both the restaurant and the jewelry store, and if so the efficacy of the name as an identifier of the store will be diminished. Consumers will have to think harder—incur as it were a *higher imagination cost*—to recognize the name as the name of the store.”⁷⁰ Tarnishment, the second form of dilution, is, according to Posner, analytically a subset of blurring.⁷¹ Borrowing again from Posner’s hypothetical, suppose that it is not an upscale restaurant that calls itself “Tiffany,” but rather a striptease joint, and assume, again, no consumer confusion about a common source.⁷² Nevertheless, “because of the inveterate tendency of the human mind to proceed by association,” writes Posner, “every time they think of the word ‘Tiffany’ their image of the fancy jewelry store will

65. Jacobs, *supra* note 64, at 189.

66. *Ty Inc. v. Perryman*, 306 F.3d 509 (7th Cir. 2002). Posner also presented a search-cost-like rationalization for anti-dilution law in an earlier paper. See Richard A. Posner, *When is Parody Fair Use?*, 21 J. LEGAL STUD. 67 (1992).

67. *Ty Inc.*, 306 F.3d at 511.

68. *Visa Int’l. Service Ass’n v. JSL Corp.*, 610 F.3d 1088, 1091 (9th Cir. 2010).

69. *Ty Inc.*, 306 F.3d at 511. Posner was probably inspired by *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp 836 (Mass. Dist. Ct. 1964).

70. *Ty Inc.*, 306 F.3d at 511 (italics added).

71. *Id.*

72. *Id.*

be tarnished by the association of the word with the strip joint.”⁷³ For reasons later developed in the next Part, it seems to me that tarnishment is not really a subset of blurring (in the sense of increasing search costs) but rather an instance of interfering with the trust functions of the trademarks. Therefore, my current discussion will focus only on blurring. I will discuss tarnishment later in the next Part.

B. The Problem with Blurring

While rooting an anti-dilution or anti-depreciation remedy in search costs theory provides a seemingly neat and elegant fit with trademark law’s overall consumer-oriented scheme, applying search cost rationales in this context suffers from some flaws. Although Posner does not provide any scientific reference for his higher imagination costs hypothesis, some support can be found in the psycholinguistic literature. Careful reading of this literature, however, also provides support for the proposition that the problem Posner describes, if it is a problem at all,⁷⁴ hardly manifests itself as one that requires a legal remedy.

In psycholinguistic terms, the phenomenon of blurring can be stated as a lexical ambiguity resolution question.⁷⁵ Clearly, additional use of the same trademark to denote another product creates ambiguity: rather than one meaning, the same term now has two, and the processing time of ambiguous words tends to be longer than

73. *Id.*; see also Dogan & Lemley *supra* note 3, at 790; Landes & Posner, *supra* note 4, at 306–07; Maureen A. O’Rourke, *Defining the Limits of Free-Riding in Cyberspace: Trademark Liability for Metatagging*, 33 GONZ. L. REV. 277, 300 (1997) (“Blurring occurs when others’ use of the mark ‘dilutes’ the ability of the mark to identify the mark owner’s product. In other words, other uses of the mark, while they may not cause confusion, create ‘noise’ around the mark so as to diminish the ability of the mark to trigger an immediate association between the mark and its owner.”).

74. In fact, although the psycholinguistic literature supports the proposition that the processing time (imagination costs) of ambiguous (blurred) terms can be higher, some studies actually discovered an “ambiguity effect,” situations in which the processing time of ambiguous terms is shorter than that of non-ambiguous ones. See Stephen J. Lupker, *Representation and Processing of Lexically Ambiguous Words*, in THE OXFORD HANDBOOK OF PSYCHOLINGUISTICS 159 (M. Gareth Gaskell ed., Gerry Altmann, Paul Bloom, Alfonso Caramazza, & Pim Levelt, consulting eds., Oxford Univ. Press, Inc., 2007).

75. In addition to lexical ambiguity, psycholinguists have studied similar types of ambiguities, such as structural ambiguity (a sentence such as “enraged cow injures farmer with axe”). See TREVOR A. HARLEY, THE PSYCHOLOGY OF LANGUAGE 247–50, 254–67 (3d ed. 2008).

that of unambiguous words.⁷⁶ Ambiguity, however, occurs frequently in language. Our language is replete with *homophones* (words which sound the same, such as *bank* for money and *bank* of a river); *homographs* (words having different meaning, like *lead* as in leader and *lead* the metal, which are spelled the same but may not necessarily sound the same); and *heterographic homophones* (words like *soul* and *sole*, which are spelled differently but sound the same).⁷⁷ Encountering such words necessitates some process to ascertain their meaning. At least for words with no prior disambiguating context, this process comprises two stages. At the *lexical access stage*, all possible meanings of the ambiguous word are initially accessed. Next, at the *selection stage*, one particular meaning is selected and integrated with the meaning of the sentence.⁷⁸ Additionally, if disambiguating information that contradicts the selected meaning is found, the ambiguous word must be reanalyzed.⁷⁹ At least two key factors affect the processing time: (a) the relative frequency of the two meanings of the ambiguous word (whether it is *biased* or *equibaised*), and (b) the existence of disambiguating information which precedes the ambiguous word.⁸⁰

One study has found that when an ambiguous word has a dominant meaning (i.e., it is *biased*), readers spend approximately the same time processing it as they spend on an (unambiguous) control word which is matched in word frequency, and synonymous with the less common meaning of the word.⁸¹ Contrarily, processing

76. See generally Susan A. Duffy, Robin K. Morris, & Keith Rayner, *Lexical Ambiguity and Fixation Times in Reading*, 27 J. MEMORY & LANGUAGE 429, 430 (1988) (describing two reasons for which increased processing time may be required for (equibaised) ambiguous words).

77. HARLEY, *supra* note 75.

78. Duffy et al., *supra* note 76, at 429 (noting that recent research has converged on this two-stage model).

79. See *id.* at 430; see also Keith Rayner & Lyn Frazier, *Selection Mechanisms in Reading Lexically Ambiguous Words*, 15 J. EXPERIMENTAL PSYCHOL.: LEARNING, MEMORY, & COGNITION 779, 779 (1989) (summarizing the results of research employing a cross-modal priming technique).

80. HARLEY, *supra* note 75, at 203 (outlining issues of interest to contemporary research on lexical ambiguity).

81. Keith Rayner & Susan A. Duffy, *Lexical Complexity and Fixation Times in Reading: Effects of Word Frequency, Verb Complexity, and Lexical Ambiguity*, 14 MEMORY & COGNITION 191, 198 (1986) (noting also that this finding is consistent with previous studies at the authors' laboratory); see also Duffy et al., *supra* note 76 (noting that gaze durations are not longer for non-equibaised ambiguous nouns because the dominant meaning becomes

ambiguous words whose meanings are approximately balanced (*equibaised ambiguous words*), takes longer than processing a matched control word.⁸² Applied to trademarks, these findings could suggest that junior uses of famous marks may not actually result in higher imagination costs, because (assuming that frequency and fame are correlated) the processing time of the famous mark would be roughly as if the term was not ambiguous at all. We might still be concerned, however, that over time, if the junior use is permitted, the two marks might become equibaised, eventually resulting in longer processing time, a result that seems consistent with Posner's concern.

This concern, however, impliedly assumes that the ambiguous words are presented in a neutral context (i.e., no potentially disambiguating information precedes the ambiguous word). Outside the laboratory, words (and trademarks) are rarely encountered without disambiguating context. As Rebecca Tushnet argues, although the existence of Tiffany-the-restaurant increases the range of possible meanings ascribed to the term, this only means that one needs context to figure out which Tiffany is being referred to. Fortunately, consumers often have that context.⁸³ "Product categories, images in ads, and even distinctive fonts can provide immediate context for a [trade]mark. Preexisting associations reinforce each other so that computer-related meanings of *apple* are more strongly and effectively activated in an Apple Computer ad, and fruit-related meanings are activated at the grocery store."⁸⁴ In other words, while subsequent uses of a trademark may deprive it of its ability to function as an unequivocal source identifier when considered in abstract, when encountered in context the trademark can retain its unequivocal meaning without much difficulty. This conclusion is consistent with the psycholinguistic literature which found that context plays an important role in reducing the time

available so much earlier than the other meanings that only the dominant meaning is considered); Rayner & Frazier, *supra* note 79, at 786 (finding that, for biased ambiguous words, if the sentence processing mechanism only processes one successful integration, selection occurs "on the spot").

82. Rayner & Duffy, *supra* note 81.

83. See Tushnet, *supra* note 64, at 529.

84. *Id.*

required to resolve word ambiguity and choose the “correct” meaning.⁸⁵

Even if lexical ambiguity, while ultimately resolved, increases processing time, this phenomenon, while undoubtedly interesting for psycholinguists, hardly manifests itself as a social problem requiring a legal solution.⁸⁶ First of all, even when the psycholinguistic studies identify an increase in processing time, the effect of the ambiguity will only result in up to 200 milliseconds in processing time.⁸⁷ It is difficult to identify a phenomenon to which the application of the principle of *de minimis non curat lex* might be more appropriate. Second, ambiguity that leads to increased processing time is not limited to the province of trademarks. In fact, “[s]emantic ambiguity is a fact of life for readers/speakers of most languages.”⁸⁸ If a judicial crusade against ambiguity is warranted, there is no reason to limit it to trademark ambiguity. Let us eradicate all ambiguous words. After all, ambiguous words likely outnumber ambiguous trademarks both in quantity and in frequency,⁸⁹ and the savings in imagination costs would be much more substantial. In reality, however, rather than a cause for concern, the findings of psycholinguistics provide a reason to celebrate. As Lupker concludes, “[t]he fact that our processing systems seem to allow resolution of these ambiguities so rapidly that we hardly notice them is testimony to a very sophisticated set of language skills.”⁹⁰

85. In linguistic terms, when a listener hears a particular word, she activates a particular lexical representation. Experimentation conducted by Dahan and Tanenhaus “strongly support[s] the hypothesis that the activation of lexical representations during the recognition of a spoken word is affected by immediate semantic integration with context.” Delphine Dahan & Michael. K. Tanenhaus, *Continuous Mapping from Sound to Meaning in Spoken-Language Comprehension: Immediate Effects of Verb-Based Thematic Constraints*, 30 J. EXPERIMENTAL PSYCHOL.: LEARNING MEMORY AND COGNITION 498, 505 (2004).

86. Cf. Tushnet, *supra* note 64, at 528 (distinguishing between statistical and practical significance).

87. See, e.g., Mark S. Seidenberg et al., *Automatic Access of the Meanings of Ambiguous Words in Context: Some Limitations of Knowledge-Based Processing*, 14 COGNITIVE PSYCHOL. 489, 525 (1982) (noting that, for words with similar “activation levels,” the decision at the “integration stage” occurs “within a 200-msec window, although it may take less time”); see also Rayner & Frazier, *supra* note 79, at 779.

88. Lupker, *supra* note 74, at 171.

89. With the exception of fanciful trademarks, which are trademarks that have no meaning other than the trademark itself, all trademarks are at least comprised of words having a non-trademark meaning.

90. Lupker, *supra* note 74, at 171.

Interestingly, in *Visa International Service Ass'n v. JSL Corp.*,⁹¹ Chief Judge Kozinski recently seemed to be somewhat sensitive to the role that context plays in resolving lexical ambiguities, but unfortunately failed to follow the logical consequences of his sensitivity. In this case the defendant Orr, who ran an online “multilingual education and information business” named eVisa was sued by Visa International, the financial services company, who claimed that its trademark was diluted.⁹² Orr argued that the plaintiff cannot enjoin him from using the word visa, which is a common word in English. Chief Judge Kozinski rejected the argument. Although he conceded that the plaintiff would not be entitled to enjoin the defendant from using the word visa as his trademark if he used it in its common dictionary meaning, e.g., “Orr’s Visa Services,” such use would be permissible because it “would not create a new association for the word with a product; it would merely evoke the word’s existing dictionary meaning, as to which no one may claim exclusivity.”⁹³ However, he went on to explain that

This multiplication of meanings is the essence of dilution by blurring. Use of the word “visa” to refer to travel visas is permissible because it doesn’t have this effect; the word elicits only the standard dictionary definition. Use of the word visa in a trademark to refer to a good or service other than a travel visa, as in this case, undoubtedly does have this effect; the word becomes associated with two products, rather than one. This is true even when use of the word also gestures at the word’s dictionary definition.⁹⁴

According to Kozinski, although Visa International used a common English word, it was entitled to trademark protection because it took the word away from its standard dictionary meaning and used it in a unique way in a commercial context. Orr’s culpability lies in doing the same thing. Orr took the same word and used it in a unique way for another (and non-confusing) commercial purpose. The reason why the plaintiff’s act warrants trademark

91. *Visa Int’l Service Ass’n v. JSL Corp.*, 610 F.3d 1088 (9th Cir. 2010).

92. *Id.* at 1089.

93. *Id.* at 1092.

94. *Id.*

protection while the defendant's act warrants an injunction is that the defendant's act resulted in multiplication of meaning.⁹⁵ This reasoning is faulty. If multiplication of meaning is harmful, then it is not clear why the law tolerates one act of multiplication (taking a common word and giving it a new meaning by using it as a trademark) but condemns any subsequent multiplication of meaning. It seems that Judge Kozinski's answer would be that meaning multiplication is harmful only when it occurs within the commercial context, because only there the two words denote two products competing for association with the word. Apparently, a commercial meaning does not compete for association with the word when used in its dictionary meaning, but two commercial meanings would compete with each other.

Our analysis supports the first part of Kozinski's reasoning but not the second. There should be no reason for concern when a seller adopts a common English word as a trademark in an arbitrary or even suggestive way because despite the creation of new meaning the different context dispels the ambiguity. But context can dispel lexical ambiguity just as effectively even when the two words are used for commercial purposes. There is no reason to assume that the context in which the word is used allows people to distinguish without difficulty between visa as a travel document and visa as a credit card, but that people are incapable of using context to distinguish between visa as a credit card and eVisa as a multilingual information and education business. If context matters then context matters.

Be that as it may, I am willing to proceed on the assumption that there might be some cases in which additional uses of a trademark could blur its meaning in a way that context cannot always prevent, and that in such cases, blurring—in the sense of higher search costs—might occur.

For example, suppose that before celebrating the first anniversary of their relationship John phones his girlfriend, Jane, and tells her: "It's our anniversary. Let's celebrate at Tiffany tonight. I'll meet you there at 7." It is plausible that the context in which this invitation is extended will not clarify whether Jane should go to the jeweler or to the restaurant. Consequently, Jane will have to incur an additional cost in the form of asking "which Tiffany?" While asking this question and hearing the answer can last several full seconds rather

95. *Id.*

than milliseconds, this cost may still seem too trivial to be concerned about.

But we could imagine less trivial verification costs, or cases in which context may actually be misleading. Suppose that Jane, wishfully thinking that John will propose to her, believes he is suggesting that they meet at the jeweler's in order to choose a ring, whereas John, who has no intentions to marry yet, suggested Tiffany simply because he just read a good online review about the restaurant. Hurrying to the jeweler, Jane waits desperately while anxious John is biting his fingernails at the restaurant. Eventually the two realize the misunderstanding and get together, but the ensuing fight and mutual accusations end in a tragic break up. Obviously, the costs of this clichéd scenario are higher than previously discussed. Even here, however, it does not necessarily follow that the law should prohibit the subsequent use of the term Tiffany simply because in some cases some additional search cost will be imposed as a result of simultaneous uses of the term. When all things are equal, reducing search costs is a laudable goal. But in real life not all things are equal. Frequently in life, achieving one goal may come at the expense of frustrating others, meaning that occasionally, depending on what else is at stake, additional search or imagination costs may be worth incurring, and may be willingly incurred by consumers.

For example, in every vibrant and competitive market consumers must incur some search costs when looking for the best deal, comparing various product attributes and various prices. Only in the two extreme and rare occasions of perfect monopoly or perfect competition are search costs truly minimal. In the case of monopoly, there are minimal search costs because there is only one seller for every type of product, and in the case of perfect competition, search costs are small because all products are homogenous and all sellers charge the same price, rendering search for the best deal unnecessary. But in less than perfectly competitive markets comprised of differentiated products, consumers do have to incur some search costs (and these are precisely the markets in which trademarks are socially valuable and worth protecting). Therefore, some level of search cost can be simply regarded as unavoidable friction, and noting that an activity imposes a higher search cost does not in itself provide sufficient grounds for prohibiting it. Claiming that the mere increase in search cost justifies prohibiting any junior non-confusing use of a trademark is not unlike claiming that,

because less-than-perfect competition entails some increased search cost, we are all better off with monopoly, or that we should prohibit product differentiation because differentiation increases search costs. Rather than accepting that some search costs can be regarded as unavoidable friction in the market, the focus on minimizing search costs as the sole purpose of trademark law inevitably leads to the conclusion that the first adopter of any trademark should be given an exclusive right to it regardless of context, because any additional use might increase someone's search cost.

Of course, search costs can impede trade beyond mere unavoidable friction by making the choice among various options so perplexing that the consumer may defer making a choice, or avoid buying altogether.⁹⁶ This is why, for example, both manufacturers and retailers undertake strategies to optimize the number and type of competing brands they offer.⁹⁷ But manufacturers' and retailers' decisions to produce or stock more than one brand indicate that there is benefit in so doing despite some higher search cost inflicted on consumers. Therefore, higher search costs can justify anti-dilution law only if the subsequent use of the trademark results in increased net cost, or, in other words, when no social benefits compensate for the increase in search costs. In principle, this may happen in two types of cases. The first, when the subsequent use raises search costs without providing *any* social benefit; the second, when the subsequent use has some redeeming value, but nonetheless creates such mental clutter that a large enough number of consumers respond by avoiding the transaction altogether.

96. See, e.g., Alexander Chernev, *When More is Less and Less is More: The Role of Ideal Point Availability and Assortment in Consumer Choice*, 30 J. CONSUMER RES. 170, 171 (2003) (“[O]ne can argue that large assortments might . . . lead to weaker preferences because of increased demand on an individual's cognitive resources associated with the extra effort required to evaluate the attractiveness of alternatives in the large assortment.”); Cynthia Huffman & Barbara E. Kahn, *Variety for Sale: Mass Customization or Mass Confusion?*, 74 J. RETAILING 491, 491 (1998) (citation omitted) (“Large assortment strategies . . . can backfire, however, if the complexity causes information overload such that a customer feels overwhelmed and dissatisfied, or chooses not to make a choice at all.”); Amos Tversky & Eldar Shafir, *Choice Under Conflict: The Dynamics of Deferred Decision*, 3 PSYCHOL. SCI. 358, 358 (1992) (hypothesizing that an increase in “conflict”—analogous to search costs—compels consumers to defer choice).

97. See, e.g., Proctor and Gamble's decision to cut back the number of brand varieties it offers in Zachary Schiller, Greg Burns & Karen Lowry Miller, *Make it Simple*, BUS. WK., Sept. 9, 1996, at 96.

Panavision v. Toeppen,⁹⁸ a cybersquatting case decided on dilution grounds, provides an example of the first type of case, but it is also a case which the court unnecessarily, and mistakenly, considered to be of the second type. In this case Panavision wanted to create a website using the domain name panavision.com. It could not do that, however, because the domain name had been previously registered by the defendant Toeppen, which used it for a website displaying photographs of the City of Pana, Illinois.⁹⁹ Assuming, as seems reasonable, that Toeppen's only purpose in registering the domain name and setting up the website was reselling it to Panavision, his use of the trademark would result in net social cost.¹⁰⁰ One cost would be incurred by people typing the string panavision.com in their Internet browsers assuming it would point to Panavision's website, finding the images of Pana, Illinois instead. Other costs would be incurred by both Panavision and Toeppen while trying to negotiate purchasing the domain name from Toeppen in order to put it to more efficient use, supposedly by Panavision. Because this is a situation of bilateral monopoly (Panavision can buy the asset only from Toeppen, and Toeppen can sell it only to Panavision¹⁰¹) in which the parties have asymmetric information as to how valuable the domain name may be, high transaction costs make bargaining socially wasteful. Both Panavision and Toeppen face a range of acceptable potential prices; ascertaining and bargaining within this range can be extremely costly. Indeed, the parties may never reach a deal, in which case consumers would

98. *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316 (9th Cir. 1998).

99. *Id.* at 1319.

100. Apparently, Toeppen was a serial cybersquatter. *See id.*

101. This is also assuming that there is no other company who can have a legitimate claim to the trademark "Panavision." As of Sept. 23, 2010, the USPTO database contains 23 records for the word mark "Panavision." With the exception of three records (all of which are records for abandoned applications), all 23 records seem to be related to Panavision the plaintiff. *See* UNITED STATES PATENT AND TRADEMARK OFFICE: TRADEMARK ELECTRONIC SEARCH SYSTEM (TESS), <http://tess2.uspto.gov> (last visited Jan. 7, 2011). A Google search on Sept. 23, 2010 for the term "panavision" yielded one company in South Africa that did not seem to be related to Panavision the plaintiff. *See* PANAVISION, <http://www.panavision.co.za> (last visited Jan. 7, 2011). Its website states that the company specializes "in the design and installation of custom home entertainment and automation systems" and that the company has 14 years of experience in the field. *Id.* Even if the company could have a potentially valid U.S. claim to the trademark (a questionable proposition given the related field it operates in and the resulting likelihood of confusion with the American Panavision), the company did not exist in 1995, when Toeppen registered the domain name "panavision.com."

continually be forced to incur additional search costs to reach Panavision's website.¹⁰² Because Toeppen's use created mere costs, but no social benefit, even the slight increase in consumer search cost justifies the court's finding of dilution.

The court could have reached this result even without making the unnecessary—and probably incorrect—prediction that “[p]rospective users of plaintiff's services who mistakenly access defendant's web site may fail to continue to search for plaintiff's own home page, due to anger, frustration or the belief that the plaintiff's home page does not exist.”¹⁰³ This prediction seems farfetched, because it ignores the ease of correction that the relevant technology, the Internet, enables. People interested in Panavision's website who stumble upon Toeppen's site might be surprised to see images from Pana, Illinois. Some may be slightly amused, others may be slightly angry. But it is unlikely that they will fail to continue searching for Panavision's home page. More likely, they will use a search engine and reach Panavision's website without much difficulty, despite the court's misgivings about search engines' utility.¹⁰⁴ Nonetheless, given the virtually nonexistent social benefits arising from Toeppen's act, even this slight increase in consumer search cost is worth avoiding.

The last point highlights a more general one: whether diluting an unequivocal meaning of a trademark results in such debilitating mental clutter depends on consumers' ability to disambiguate. As

102. See RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 62 (7th ed. 2007) (“[B]ilateral monopoly . . . is a social problem, because the bargaining costs incurred by each party in an effort to engross as much of the profit of the transaction as possible are a social waste.”); see also Gerard N. Magliocca, *One and Inseparable: Dilution and Infringement in Trademark Law*, 85 MINN. L. REV. 949, 1028–29 (2001). I assume that there are no other companies named Panavision who would be interested in buying the domain name, and that although Panavision's competitors might be interested in purchasing the domain name this may lead to actionable confusion. For an economic analysis of bilateral monopoly, see JEAN TIROLE, *THE THEORY OF INDUSTRIAL ORGANIZATION* 22, 25 (1988); KENNETH D. GEORGE, CAROLINE JOLL & E. L. LYNK, *INDUSTRIAL ORGANIZATION: COMPETITION, GROWTH AND STRUCTURAL CHANGE* 70–72 (4th ed. 1992).

103. *Panavision*, 141 F.3d at 1327 (quoting *Jews for Jesus v. Brodsky*, 993 F. Supp. 282, 306–07 (D.N.J. 1998) (Lechner, J.) (quoting *Planned Parenthood Fed'n of Am., Inc. v. Bucci*, 1997 WL 133313, 4 (S.D.N.Y. 1997) (Wood, J.)).

104. *Id.* Arguably, some individuals will not bother looking for Panavision's home page after the first failed attempt because they will find the effort not worth their while. However, most likely those will be individuals who value viewing Panavision's website only so slightly, that the loss suffered by them and by Panavision is minimal.

noted before, sometimes context will prevent any ambiguity from ever occurring. Sometimes the ability to disambiguate will depend on the relevant technology and how it affects the cost of taking an additional inquiring step to eliminate ambiguity. In some online contexts, search engines can do that. In other contexts, asking a simple question would suffice.

When consumers have the ability to disambiguate, concurrent uses of the same mark can be socially beneficial despite additional search costs that might be incurred. Suppose, for example, that Tiffany-the-restaurant had been the first to register tiffany.com as its domain name after having used the word “Tiffany” as its trademark. Assuming again that there is no consumer confusion, it cannot be said that there is no social benefit in allowing it to use the word as a trademark and in the domain name. We can presume that if from all possible trademarks, the restaurant chose Tiffany, it did so because it believed this would be a useful non-confusing trademark. Moreover, it is plausible that by using “Tiffany” as its trademark, the restaurant did not mean to use it merely as a source identifier but perhaps also intended, by alluding to the jeweler, to use the name heuristically, to convey a message that it is an upscale restaurant.¹⁰⁵ If it actually did so, then such use of the mark is quite consistent with the search cost theory of trademarks because it efficiently provides useful information to consumers.

Therefore, this example differs from the Panavision case. An upscale restaurant’s use of the famous trademark Tiffany could provide some social benefit, unlike Toeppen’s activities which did not. But to the extent that the use of the mark by the restaurant creates some ambiguity about what the trademark stands for, it also entails some higher search cost. Whether this results in net social cost or net social benefit depends on the size of the benefit and the cost

105. Apparently, this, or a similar motive was the reason why the defendant in *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836 (D. Mass. 1964), chose the name Tiffany. The defendant’s principal executive officer testified that he chose the name Tiffany because it was a Boston or British well-sounding name with connotations of quality. *Id.* at 841. Moreover, “advertisements placed at the time the defendants assumed the name ‘Tiffany’s’ stressed ‘dining in elegant surroundings of a by-gone era,’ ‘an atmosphere of graciousness and charm of Beacon Hill in its glory,’ ‘dining on the finest of native New England fare and exquisite Continental Dishes.’” *Id.* at 843. This actually helped to substantiate the charge that plaintiff’s trademark was tarnished, because the restaurant’s quality rapidly deteriorated. Although plaintiff prevailed on its state dilution claims, the court also found liability on confusion grounds.

of dispelling the ambiguity. Thus, as mentioned earlier, when an invitation to meet at Tiffany does not provide enough context to reveal which Tiffany the speaker is referring to, a simple question such as “which Tiffany?” may dispel the ambiguity, which may render the cost/benefit balance positive after all. Similarly, in an online context some additional search cost might be incurred if Tiffany-the-restaurant had first registered tiffany.com. A consumer looking for the jeweler but stumbling upon the restaurant’s website might have to incur a minimal search cost by using a search engine to find the desired Tiffany. But given that the use of the mark and the domain name by both sellers is socially beneficial, it is not clear that this minimal higher search cost is not worth incurring. Moreover, unlike in *Panavision*, this is not a situation of bilateral monopoly because the restaurant can benefit from using the domain name for its own website, not only from reselling it. Therefore, we can anticipate an efficient Coasean trade—that is, if using the domain name to point to the jeweler’s website is more valuable than using it to point to the restaurant’s website, we can anticipate the parties entering into a deal for its transfer.

A different calculus might exist if a driver on the highway en route to Tiffany-the-jeweler encounters a sign saying “Tiffany, next exit, 50 miles,” only to discover, upon arrival, that he had reached the restaurant rather than the jeweler. In this case, the correction cost can be quite large. The driver would have to drive back to the highway, but will now have less confidence in any sign, or may simply have run out of time. As a result, he may forego looking for the jeweler altogether. But while this may seem like a proper example of harmful dilution, even here ambiguity may be prevented by simple means (e.g., by adding some context to the sign such as adding “the restaurant,” or logos, etc.), and it can be expected that subsequent users of marks who are not attempting to pass themselves off will have an incentive to provide such clues. If the ambiguity leads one mistaken jewelry customer to the restaurant, it can similarly *divert away* a customer interested in the restaurant but thinking that the sign belongs to the jeweler. It is unlikely that the restaurant will benefit from the former and it is likely that it will lose from the latter.

All of this leads to a crucial distinction between the linguistic and the trust functions of trademarks and the different harms caused by confusion and dilution. As I identified earlier, trademarks reduce

search costs by providing a concise and unequivocal source identifier. In this sense trademarks improve the technology of communication. Like other words, they provide terms that denote what would otherwise be a more complex and more difficult to articulate meaning. I called this result trademarks' linguistic function. But trademarks also, and more importantly, help in fostering trust in the messages conveyed by sellers to prevent markets for goods with search and credence attributes from becoming markets for lemons. I called this trademarks' trust function. As discussed in the previous Parts, confusing uses of a trademark affect both functions, and the prohibition on confusing uses of another mark promotes both functions.

In contrast to cases of confusion, dilution by blurring affects only trademarks' linguistic function. When context is insufficient to dispel ambiguity dilution by blurring may increase some search costs, but it will not result in a lemonization of the market. Even if consumers have to think harder to identify the proper seller, this does not diminish their ability to trust her messages once identified. A consumer familiar with Tiffany-the-jeweler encountering the Tiffany-the-restaurant might have to incur a higher imagination cost, or verification cost, to dispel the ambiguity. He may not initially know which of the two distinct sellers the mark refers to, but once the ambiguity is cleared he may fully trust that no other jeweler passes itself off as Tiffany. He may trust the genuineness of the message conveyed by the mark and rely on it in making his purchasing decision. As long as the disambiguation cost is not prohibitively high, no market failure exists.

In sum, an information-based view of trademark law provides only a limited support for anti-dilution laws based on blurring. Since dilution by blurring only affects the linguistic function but not the trust function of trademarks, the subset of cases in which it can be justifiably applied to is limited to begin with. And while blurring may perhaps increase consumer search cost in some cases, whether it results in a net increase in costs depends on the cost of disambiguation and whether the subsequent non-confusing use of the mark provides some social benefits. Because in many cases disambiguation costs are rather low and the subsequent use is socially beneficial, only rarely will blurring result in a net increase in costs. This makes the case for anti-dilution laws, albeit not totally non-existent, weak nonetheless.

C. Initial Interest Confusion

The doctrine of initial interest confusion provides another example of practices that might interfere with the linguistic function of trademarks and increase search costs without necessarily impeding the trust function. Initial interest confusion “refers to a potential purchaser’s temporary confusion about the actual source of goods or services under consideration, even where that confusion is resolved by the actual moment of sale.”¹⁰⁶ In other words, in initial interest confusion cases “[i]nfringement can be based upon confusion that creates initial customer interest, even though no actual sale is finally completed as a result of the confusion.”¹⁰⁷ The paradigmatic example is the hypothetical one provided by the Ninth Circuit in *Brookfield Communications v. West Coast Entertainment*:

Suppose West Coast’s competitor (let’s call it “Blockbuster”) puts up a billboard on a highway reading— “West Coast Video: 2 miles ahead at Exit 7”—where West Coast is really located at Exit 8 but Blockbuster is located at Exit 7. Customers looking for West Coast’s store will pull off at Exit 7 and drive around looking for it. Unable to locate West Coast, but seeing the Blockbuster store right by the highway entrance, they may simply rent there.¹⁰⁸

While it would be difficult to defend and easy to condemn an advertising scheme such as that in the billboard example, courts in recent years have expanded the scope of initial interest confusion from brick-and-mortar, bait-and-switch cases to online cases involving domain names, website metatags, and keyword advertising.¹⁰⁹ This development has garnered much criticism. In particular, some decisions¹¹⁰ were criticized for confusing consumer confusion-based diversion with consumer information-based

106. *Hearts on Fire Co. v. Blue Nile, Inc.*, 603 F. Supp. 2d 274, 283 (D. Mass. 2009).

107. 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:6 (4th ed. 2010).

108. *Brookfield Commc’ns, Inc. v. W. Coast Entm’t Corp.*, 174 F.3d 1036, 1062 (9th Cir. 1999).

109. *Hearts on Fire*, 603 F. Supp. 2d at 284–85; Dogan & Lemley, *supra* note 3, at 781.

110. *E.g., Brookfield*, 174 F.3d 274; *Playboy Enters., Inc. v. Netscape Commc’ns Corp.*, 354 F.3d 1020 (9th Cir. 2004); *Promatek Indus., Ltd. v. Equitrac Corp.*, 300 F.3d 808 (7th Cir. 2002); *People for the Ethical Treatment of Animals v. Doughney*, 263 F.3d 359 (4th Cir. 2001); *1-800 Contacts, Inc. v. WhenU.com*, 309 F. Supp. 2d 467 (S.D.N.Y. 2003).

diversion. Dogan & Lemley, for example, applying a search-cost framework, explain:

[t]o the extent that advertisers use deception to misdirect consumers to their products . . . they are hindering information flow and should be enjoined. But the fact that an advertiser uses a keyword to reach a consumer with accurate information that is of interest to that consumer cannot itself be “confusion,” whether of initial interest or any other variety. It may be a diversion of consumer attention, but if the consumer is not confused, that diversion is simply not illegal. The presentation of viable alternatives or the truthful description of a competitor’s capabilities do not distort the market; to the contrary, this information contributes to a robust and fully informed market.¹¹¹

Dogan & Lemley warn against the emergence of initial interest confusion as a stand-alone doctrine, divorced from traditional confusion, and they fault courts for substituting initial interest confusion for proof of actual confusion or likelihood thereof.¹¹² Indeed, in Dogan & Lemley’s view, cases involving initial interest confusion and traditional confusion are analytically identical, and both types of confusion should, in appropriate cases, be enjoined, provided that the confusion involves an increase in consumer search costs.¹¹³ Their main criticism of the recent cases was that those cases enjoined benign practices that involved highly speculative or no confusion.¹¹⁴

Dogan & Lemley are rightly concerned that an expansive version of the doctrine might run counter to the information-enhancing goals of trademark law by reducing the ability of competitors and other players to provide information that consumers deem useful. However, they base their analysis exclusively on search costs, thus ignoring an important difference between initial interest confusion and traditional confusion, namely, the different ways in which initial interest confusion and traditional confusion affect the trust function. This exclusive focus on the linguistic function may limit the utility of Dogan & Lemley’s approach to constraining the expansion of initial interest confusion.

111. Dogan & Lemley, *supra* note 3, at 819–20 (citation omitted).

112. *Id.* at 781, 825.

113. *Id.* at 825.

114. *Id.* at 814–16.

For Dogan & Lemley, there is a clear dichotomy between confusion-based diversion and information-based diversion. The problem is that this distinction may not be self-evident when adjudicating real cases. The court in *Hearts on Fire* was somewhat sensitive to this problem. The court noted that the billboard example lies at one end of a spectrum, whereas the other end involves cases of genuine consumer choice without any confusion, such as in the hypothetical case of a Pepsi sponsored link triggered by an Internet user's search for the "Coca-Cola" trademark.¹¹⁵ According to the court, many cases will fall somewhere between the two end-points and a court's task would be "to distinguish between them."¹¹⁶ I suspect that the challenge is bigger than merely distinguishing between benign information enhancing cases and malignant confusion cases, because at least some benign practices—whether online or offline—might involve at least some initial confusion. For example, initial confusion might be a prerequisite for certain types of parodies, whereby the initial confusion and the subsequent revelation of the parody's true content create the comic effect. In other cases, ruling out some initial confusion might be very difficult.

For example, a manufacturer of cola might use gold coloration on cola cans—just like its competitor—to indicate that the cola is caffeine-free.¹¹⁷ This similarity in appearance may reduce search costs by making it easier for the consumer to compare competing brands,¹¹⁸ and assuming the two products have enough other distinguishing factors, the coloration should be considered benign (i.e., non-infringing). But this practice might simultaneously involve some initial confusion. A consumer familiar with the first brand might be attracted to the competing brand *from afar* because of the similarity—that is, she may be initially confused—even though she will probably recognize the difference between the brands once she picks up the can or even earlier as she approaches the shelf. Therefore, the challenge is not simply to distinguish between acts that confuse and acts that do not, but rather to identify and preserve

115. *Hearts on Fire Co. v. Blue Nile, Inc.*, 603 F. Supp. 2d. 274, 285 n.9 (D. Mass. 2009) ("Coca-Cola would have difficulty suing Pepsi for infringement on an initial interest theory because these two products are widely recognized as competitors and, accordingly, the likelihood of consumer confusion is exceedingly small.").

116. *Id.* at 287.

117. Dogan & Lemley, *supra* note 64, at 1235.

118. *Id.*

acts that, while they might initially confuse, possess enough redeeming virtues so that on balance they should be considered benign. The danger is that an exclusive focus on reducing search costs might create a strong presumption of illegality upon the mere showing of some confusion,¹¹⁹ even when on balance this confusion is harmless.

Acknowledging the importance of the trust function might help avoid such an outcome, because it reveals a categorical difference between traditional confusion (as in passing off cases) and initial interest confusion. As discussed above, traditional confusion jeopardizes both the linguistic and the trust functions of trademarks, thereby justifying strong condemnation.¹²⁰ Cases of initial interest confusion categorically implicate only the linguistic function—they may increase search costs to some degree or another, but they do not implicate the trust function because, by definition, no confusion survives to the point of sale. Therefore, once the initial confusion dissipates and the consumer realizes whom she is dealing with, she can reliably trust the trademark to signify whatever attributes the brand stands for.

Because, unlike traditional confusion, initial interest confusion implicates only the linguistic function and not the trust function, the normative basis for condemning initial interest confusion cases is weaker from the outset. Then, what makes cases that resemble the paradigmatic bait-and-switch billboard example undoubtedly problematic, and what distinguishes those cases from the various Internet cases to which the doctrine has been extended, is not that the former involve confusion akin to that of traditional confusion cases whereas the latter *categorically* involve no confusion whatsoever. The critical difference is that the billboard-like cases merit easy condemnation because they involve net (and presumably substantial) increases in search cost—a conclusion easily arrived at because they hardly involve any benefit. In contrast, many of the cases decided under the extended form of initial interest confusion

119. *Hearts on Fire*, 603 F. Supp. 2d. at 286 (“[O]nline merchants may well be tempted to blur these distinctions [between confusion-based diversion and information-based diversion], hoping to create and capitalize on initial consumer confusion. Such conduct undoubtedly begins to sound in trademark infringement. Thus, where a plaintiff has plausibly alleged some consumer confusion, even at an initial stage of his product search, the question is a far closer one.”).

120. *See supra* Part IV.

concerned practices involving minimal, if any, increase in search costs, which were easily outweighed by other benefits. In other words, in many of those cases liability should not have been found even if they involved some initial confusion. Recognizing this difference will allow courts more easily to dismiss in a summary judgment cases alleging only initial interest confusion, because the factual question of whether confusion exists becomes much less important.

The conclusion regarding initial interest confusion is similar to that arrived at with regard to dilution by blurring. Unlike conditional confusion, which implicates both the linguistic and the trust functions, initial interest confusion at most implicates only the linguistic function. While an information-based conception of trademarks can justify a prohibition on initial interest confusion, this justification is limited to cases that involve net increases in search costs. The number of such cases is probably very small.

VII. NORMATIVE AMBIGUITY II: RULES PROMOTING THE TRUST FUNCTION BUT NOT THE LINGUISTIC FUNCTION

A. Tarnishment

While in *Ty v. Perryman* Judge Posner considered dilution by tarnishment as a subset of blurring, thus implying an impairment of the linguistic function through an increase in search costs, tarnishment can be seen more properly as an impairment of trademarks' trust function. This view may be implied from Landes & Posner treatment of tarnishment in their 2003 book, whereby they explain:

The idea behind the tarnishment concept is that the company's "goodwill"—roughly, the producer surplus that it obtains because its products have a good reputation for quality and consistency—may be impaired by association of its trademarks with activities, such as the traffic in illicit drugs, that offend many consumers.¹²¹

If acts done by others can decrease the reliability of the signals conveyed by a trademark, then the trademark's trust function can be impaired; an impairment of the trust function may get us closer to the lemon-market zone. Note that the reliability now referred to is

121. LANDES & POSNER, *supra* note 3, at 160.

not that of the *signal* itself, being more noisy or blurred, but rather the reliability of the *signified* as a trustworthy seller, or as a product having desirable but unobservable attributes. That is, there is no question who the seller or which product it is, but doubt may arise about how truly reliable he or the product are.¹²² For example, consider a used-cars dealer who has avoided the lemons problem by developing a reputation for honesty, and assume that someone spreads a rumor that the dealer had been engaged in some fraudulent scheme, albeit in an unrelated area. This new information about the car dealer may undoubtedly reduce his reliability because potential customers might rationally believe that if he had been engaged in a fraudulent scheme in one area he might defraud them as well. Of course, if the rumor contains correct information, then consumers may rightly be suspicious and the dealer ought not to be trusted as before. But if the rumor is false, a reliable dealer will not be trusted, an undesirable result for both the dealer and his consumers. No wonder, then, that defamation law has provided remedies in such situations for generations.

Similarly, a product may have desirable credence attributes, but since consumers cannot verify these attributes, competitors can easily undermine consumers' trust in the product or its seller by falsely suggesting that the product lacks those attributes, or by falsely suggesting that their products possess even better qualities. Such activity may be federally actionable as trade libel and product disparagement under § 43(a) of the Lanham Act.¹²³

Dilution by tarnishment targets a different activity, albeit arguably with the same result. Tarnishment seems to be concerned not about spreading disparaging information on the seller or her product, but rather about the danger that using the trademark of a reputable seller for activities with ill repute, even in the absence of any likelihood of confusion or association between the two, will transfer the ill repute of the latter to the former. The theory here seems to be that no matter how much they try, consumers cannot get the negative connotation of the second use of the mark out of

122. See Beebe, *supra* note 1, at 695.

123. J. THOMAS MCCARTHY, 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 27:10 (4th ed. 2010).

their minds and cannot avoid transferring some of that negativity to the reputable seller.¹²⁴

Landes & Posner provide two examples to illustrate this phenomenon. They claim that homosexual groups' attempts to use "Pink Panther" to identify themselves have caused fear of negative effects on the trademark owner's revenues and that this effect might have resulted even if consumers were not confused into believing that the trademark owner had authorized the use of the mark.¹²⁵ They also claim that very few people are named "Adolf" because of the name's negative associations.¹²⁶

While tarnishment—if this phenomenon exists—may be similar to defamation in its effect, its underlying mechanism is not identical. While negative information about a person may obviously harm *that person's* reputation, it is less obvious why negative information about a third party will harm the reputation of another person with the same name—when everyone knows the two people are separate individuals. This critical link between the negative information and the person affected by it seems to be missing from the tarnishment theory. Moreover, as Rebecca Tushnet notes, very little empirical work in this area actually substantiates the mechanism of tarnishment.¹²⁷ She points out the dearth of studies on this phenomenon and suggests that valuable insights may be learned from studies undertaken by marketing researchers who have studied the related question of brand extension, which may negatively affect a brand owner when she introduces a new but bad product or enters into a marketing alliance with a partner who fell into disrepute.¹²⁸ She argues that these studies suggest that "dilution by tarnishment through the use of a similar mark on a shoddy product is unlikely in the absence of source confusion."¹²⁹

Interestingly, the Pink Panther case, to which Landes & Posner probably refer,¹³⁰ was decided in favor of the trademark owner on

124. *See Ty Inc. v. Perryman*, 306 F.3d 509, 511 (7th Cir. 2002).

125. LANDES & POSNER, *supra* note 3, at 161.

126. *Id.* at 207.

127. Tushnet, *supra* note 64, at 542–43.

128. *Id.*

129. *Id.* at 543.

130. Notably, it is not clear whether Landes & Posner mention the case as evidence that tarnishment happens, or merely as evidence that the trademark owners fear that it might. They write: "If the parodist wants to use the original work in a way potentially offensive to the

confusion grounds rather than dilution.¹³¹ In that case, a gay-rights group in New York City created the “Pink Panther Patrol” to protect gays from street violence.¹³² In prohibiting the use of MGM’s trademark, the court assumed that people would believe that MGM sponsored the group.¹³³ Finding in favor of the plaintiff under federal trademark law, the court did not consider the plaintiff’s parallel claim under the New York State anti-dilution statute.¹³⁴

Landes & Posner’s Adolf example, which at a first glance sounds quite plausible, may not really describe the process of known marks or names tarnished by subsequent shoddy or objectionable uses. Unlike dilution claims in which a well-known mark is used by a less-known user, the Adolf example involves an ordinary name “tarnished” after being used by one of the most notorious people in history. Arguably, Hitler turned Adolf, a previously ordinary name, into a well-known “brand.” In fact, peoples’ present reluctance to use the name because of its Nazi connotation may add additional support to the point made earlier, namely that junior uses of famous marks are unlikely to dilute them because (assuming that frequency and fame are correlated) the processing time of the famous mark would be roughly as if the term was not ambiguous at all.¹³⁵

To conclude this point, while in principle tarnishment may impair the trust function of trademarks, and regulation of tarnishment may be justified on that basis, the theoretical and empirical support for this proposition seems to be rather weak at this stage.

But nonetheless, dilution by tarnishment does possess some intuitive appeal. It does not seem totally implausible that people

audience for the original, even if he is not criticizing it, the trademark holder may fear a negative effect on his revenues. This has happened when homosexual groups have tried to use popular trademarks (such as ‘Pink Panther’) to identify themselves.” LANDES & POSNER, *supra* note 3, at 160–61. It is not clear whether “this has happened” refers to use that might be potentially offensive to the audience for the original, to the trademark owner’s fear that his revenues might be harmed, or to actual negative effect on the revenues. Unfortunately, the reference they cite does not appear to clarify this point. Needless to say, fear that tarnishment might happen is not evidence that it actually does or will.

131. MGM-Pathe Commc’ns Co. v. Pink Panther Patrol, 774 F. Supp. 869, 877 (S.D.N.Y. 1991).

132. *Id.* at 871.

133. *Id.* at 875.

134. *Id.* at 877.

135. *See supra* Part VI.

holding negative views about some activity with which a trademark had been associated would transfer these negative views to the original trademark owner and that this process would harm the trademark owner. Therefore, I am willing to proceed on the assumption that this might happen even in the absence of confusion. What is less clear to me is whether this harm to the trademark owner also represents social harm and why trademark law should be concerned about it. We need to know more about the mechanism that is operating.

Consider the following hypothetical noted by Landes & Posner.¹³⁶ Suppose that gay groups adopt the mark “Pink Panther” and that consequently, after using it extensively, the mark is understood by the general public to signal gay identity. Plausibly, as a result fewer straight people would buy MGM Pink Panther merchandise (either because they are homophobic or because they are not interested in signaling an identity which is not their own). This situation may result even if they know that the trademark owner, MGM, does not sponsor or otherwise associate with the gay groups. Also suppose that the losses in sales to straights are not outweighed by increased sales to gays. How can dilution theory explain what has happened? One explanation could be an increased imagination cost. Non-gay consumers interested in buying the “original” merchandise cannot help but think about gays. No matter how hard they try viewing the merchandise in its original meaning, they cannot revert to that meaning. This situation might be analogous to the Tiffany highway billboard discussed earlier.¹³⁷ In that example, returning to the highway looking for Tiffany-the-jeweler was prohibitively costly. In this example, mentally returning to the original meaning of the mark becomes impossible. So perhaps this situation is a variant of the search-cost story underlying the concept of blurring, as Posner initially indicated in *Ty Inc.*,¹³⁸ or it could be a trust-related problem as previously discussed.

But perhaps a better and simpler explanation is not one of increased search cost but rather that the trademark’s cultural or social meaning has transformed; it no longer stands for what it originally did. Conceptually, this process is similar to genericide, in

136. LANDES & POSNER, *supra* note 3, at 160–61.

137. *Id.*

138. *Ty Inc. v. Perryman*, 306 F.3d 509, 511 (7th Cir. 2002).

which trademarks lose their significance as source identifiers and become the common names of the goods themselves. Understandably, this process can be quite disturbing for trademark owners, but as Posner indicated in *Ty v. Perryman*, although genericide entails a social cost when the trademark owner has to invest in a new trademark to identify his goods (and by implication when consumers can no longer rely on the trademark as an unequivocal source identifier), the process is socially beneficial because it enriches language.¹³⁹ Similar enrichment of language and culture may result when the meaning of marks transform. Posner asserts that interpreting antidilution law in a way that prevents the evolution of language through genericide may not be in the public interest.¹⁴⁰ I agree. But his position applies more broadly. We should worry about interpreting antidilution laws in a way that prevents the evolution of culture and meaning as well.¹⁴¹

Arguably, until this transformative process is completed, co-existing meanings could result in higher consumer search costs. However, I believe that context, as discussed earlier, eliminates most of these costs. Pink Panther merchandise sold in an MGM store¹⁴² would be immediately identified with its original meaning, whereas Pink Panther merchandise sold in a gay specialty store would signal its newly acquired meaning. Even if context does not eliminate the search costs, social benefit clearly arises from cultural transformations, so the situation is not necessarily one of net increase in social cost. Therefore, the normative basis for rules against tarnishment is not as strong as the basis for rules against confusion.

139. *Id.* at 514.

140. *Id.*

141. See also Katya Assaf, *Protection of Trade Marks Against Dilution: A Semiotic Perspective*, 4 J. INTEL. PROP. L. & PRAC. 643, 649–50 (2009) (criticizing the asymmetry that exists where trademark owners are allowed to use cultural signs as trademarks, thus modifying their cultural meaning, but the transformation of meaning in reverse may be illegal). The danger of cultural stagnation resulting from overbroad trademark rules has been noted by others, see, e.g., ROSEMARY J. COOMBE, *THE CULTURAL LIFE OF INTELLECTUAL PROPERTIES: AUTHORSHIP, APPROPRIATION, AND THE LAW* 52–55 (1998); Keith Aoki, *How the World Dreams Itself To Be American: Reflections on the Relationship Between the Expanding Scope of Trademark Protection and Free Speech Norms*, 17 LOY. L.A. ENT. L.J. 523, 544–47 (1997).

142. See MGM STUDIOS, <http://www.webcitation.org/5XB8PyG1N> (last visited Jan. 7, 2011).

*Deere & Co. v. MTD Products Inc.*¹⁴³ is another interesting dilution case, which, at first glance, may be seen as protecting the impugned trademark's trust function. In *Deere*, the Second Circuit ruled that the use of an animated version of John Deere's trademark to promote MTD, Deere's competitor, was likely to violate New York's antidilution statute.¹⁴⁴ In this case MTD produced a TV commercial comparing John Deere's line of lawn tractors to MTD's "Yard-Man" tractor.¹⁴⁵ The commercial's purpose was "to identify Deere as the market leader and convey the message that Yard-Man was of comparable quality but less costly than a Deere lawn tractor."¹⁴⁶ In departure from trademark law's longstanding favorable stance towards comparative advertising, the court found that MTD's use of the mark was likely dilutive and affirmed the issuance of a preliminary injunction against MTD.¹⁴⁷ The court classified the case as a dilution case even though it did not fall into the established categories of blurring and tarnishment.¹⁴⁸ The court did not find the mere use of Deere's trademark to be dilutive, but rather the fact that MTD had altered the trademark and the message it originally conveyed.¹⁴⁹ The court reasoned:

The commercial takes a static image of a graceful, full-size deer—symbolizing Deere's substance and strength—and portrays, in an animated version, a deer that appears smaller than a small dog and scampers away from the dog and a lawn tractor, looking over its shoulder in apparent fear. Alterations of that sort, accomplished for the sole purpose of promoting a competing product, are properly found to be within New York's concept of dilution because they risk the possibility that consumers will come to attribute unfavorable characteristics to a mark and ultimately associate the mark with inferior goods and services.¹⁵⁰

Interestingly, the court did not classify this case as one of tarnishment, reasoning that tarnishment is "usually found where a

143. 41 F.3d 39 (2d Cir. 1994).

144. *Id.* at 42, 45–46.

145. *Id.* at 41.

146. *Id.*

147. *Id.* at 42, 46–47.

148. *Id.* at 46.

149. *Id.* at 43–44.

150. *Id.* at 45.

distinctive mark is depicted in a context of sexual activity, obscenity, or illegal activity,”¹⁵¹ although the logic of tarnishment is the same logic of this case. More interestingly, however, the court did not perceive the case as one of blurring, because the commercial clearly preserved the distinction of Deere’s logo and its ability to unequivocally symbolize the product’s origin.¹⁵² In the court’s mind (but in my language) the problem was not that the alteration of the mark by MTD impaired its linguistic function, but rather it impaired the trust function. MTD’s commercial did not alter *who* the mark represented but *what* the mark stood for.

What was lacking from the court’s analysis, however, was an articulation of the exact mechanism by which consumers will come to attribute unfavorable characteristics to a mark and ultimately associate the mark with inferior goods and services. The court also failed to identify the nature of this consumer change of mind and the wrongdoing in effecting it. The answers to these unasked questions largely depend on the exact message conveyed to consumers in this commercial. One possibility is that the commercial was a subtle animated version of defamatory content: a commercial that disparages Deere’s reputation through false suggestions or insinuation that John Deere’s lawn tractors are weak and fragile. But it is also quite possible that the commercial was an animated equivalent of what would otherwise be an acceptable form of comparative advertising. Clearly, if MTD explicitly claimed, “You may have always thought that John Deere’s lawn tractors are the strongest, sturdiest and most reliable lawn tractors on the market, but actually MTD’s tractors are stronger, sturdier, more reliable and cost less,” making this statement would be a legitimate form of comparative advertising provided that these statements were not false. While these kinds of statements may diminish the John Deere trademark’s favorable image and selling power, they do not—if not false—impair its trust function. The statements only calibrate what the mark stands for with what it actually is. Preserving the trust function of the trademark does not require protecting false beliefs about what it stands for. Therefore, while the court seems to have been concerned about an issue that looks like an impairment of the

151. *Id.* at 44.

152. *Id.* at 43–44.

trust function, I am not convinced that MTD's actions could do that, unless its message was false.¹⁵³

In any event, whether anti-tarnishment rules target the trust function exclusively, or whether tarnishment also involves some linguistic search-cost reducing aspects, the theoretical and empirical underpinning of such rules remains quite weak. While it is not implausible that anti-tarnishment rules prevent the lemonization of markets, the likelihood that they actually function in this way is much less apparent than in the case of the prohibition against confusion.

B. Other Trust-Promoting Rules

Nevertheless, trademark law contains other rules that serve the trust function exclusively. In other words, they target and protect against activity that impairs the trust function, even though the activity has no effect on the linguistic function. In a recent paper, and based on grounds similar to those presented here, Shahar Dillbary explains the law's attitude towards deceptive and deceptively misdescriptive marks.¹⁵⁴ Section 1052(a) of the Lanham Act prohibits the registration of a deceptive mark, whereas § 1052(e) prohibits the registration of a deceptively misdescriptive mark, unless the deceptively misdescriptive mark, by virtue of § 1052(f), has acquired secondary meaning.¹⁵⁵ A mark is deceptively misdescriptive if it misrepresents any fact concerning the goods or services and consumers are likely to believe the misdescription.¹⁵⁶ A mark will be considered deceptive "where the mark will bestow upon the product an appearance of greater quality or salability than it has in fact,"¹⁵⁷ and if the misrepresentation will "materially affect the decision to

153. Interestingly, and for what it is worth, the court noted that "MTD submitted the commercial to ABC, NBC, and CBS for clearance prior to airing, together with substantiation of the various claims made regarding [its] quality and cost relative to the corresponding Deere model. Each network ultimately approved the commercial though ABC reserved the right to re-evaluate it . . . and CBS demanded and received a letter of indemnity from [the advertising company]." *Id.* at 41.

154. Dillbary, *supra* note 24, at 996-97.

155. Lanham (Trademark) Act, 15 U.S.C. § 1052 (2006).

156. J. THOMAS MCCARTHY, 2 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 11:55 (4th ed. 2010).

157. *Id.*

purchase the goods.”¹⁵⁸ The reason deceptive and deceptively misdescriptive marks cannot be registered is not that adopting such marks will increase consumer search costs. A mark can fulfill the linguistic function as an indicator of source while misrepresenting the attributes of the product it is used for. The question “what is the source of this product” is not affected by this kind of misrepresentation. The misrepresentation only applies to the question of “what the mark stands for.”

As Dillbary explains, unlike misrepresentation, which applies to search or experience attributes of the product and therefore can be detected by the consumer, misrepresentation about credence qualities will be difficult to detect.¹⁵⁹ He therefore suggests that the law should provide a remedy in situations where the manufacturer keeps selling a product under a trademark associated with certain material credence attributes of the product, while degrading the product’s quality.¹⁶⁰ Consumers who used to purchase the product relying on the trademark as a signal of such credence attributes are damaged when they continue to purchase it without being notified that the quality had been degraded.¹⁶¹ In the same vein, McCarthy suggests that “a substantial change in the nature or quality of the goods sold under a mark may so change the nature of the thing symbolized that the mark becomes fraudulent and/or that the original rights are abandoned.”¹⁶²

The cases of deceptive or deceptively misdescriptive marks and of undisclosed degradation of products’ quality are examples of conduct that clearly impairs the trust function of trademarks. Therefore, there seems to be a strong normative basis for condemning such conduct. The problem, however, is that the remedies available under trademark law do not always benefit the problem. The non-

158. *Id.* § 11:58 (quoting 15 U.S.C. § 1052).

159. Dillbary, *Getting the Word Out*, *supra* note 24, at 1026.

160. *Id.* at 1026–27.

161. *Id.*

162. J. THOMAS MCCARTHY, 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:24 (4th ed. 2010) (citing *Indep. Baking Powder Co. v. Boorman*, 175 F. 448 (C.C.D.N.J. 1910) (where a manufacturer of Solar alum baking powder assigned rights to another who substituted phosphate for alum. As a result, the trademark rights were forfeited.)); *see also* *Heintzman v. 751056 Ontario Ltd.* [1990] 34 C.P.R. (3d) 1 (F.C.T.D.) (the trademark “Heintzman” was expunged from the registry after the mark ceased to be used for pianos made in Ontario and was affixed to pianos that were outsourced from the United States and South Korea, without notifying the public about the change).

registrability of deceptive or deceptively misdescriptive marks may discourage firms from using them, but trademark law does not prohibit their use. A firm may use the mark even if it cannot be registered.¹⁶³ True, when registered, the risk of losing its rights over a trademark may discourage a firm from severely degrading its quality. However, these incentives are indirect and, in fact, may lead to paradoxical results when the absence of trademark rights allows other firms to engage in the same misleading activity. Moreover, when only one firm uses the mark, the firm will internalize the full impact of consumer backlash if and when the truth about its product is ultimately discovered. But if all the competitors use the same misleading terminology, the risk of consumer backlash spreads across all of them and is less likely to police any of them.

A question that may be asked is why firms would not seek to reveal the misrepresentations made by their competitors and gain the competitor's business as a result. The answer is that sometimes they will, but not always. In the case of credence qualities, a competitor may realize that participating in the misrepresentation might be more profitable than providing a superior product, and if the misrepresentation can go undetected for a long time, the competitor may choose to participate rather than blow the whistle.¹⁶⁴ In any event, while misrepresentation of one's own product impairs trust in the marketplace and thus provides normative grounds for legal action against it, trademark law may not be the most suitable vehicle to address these issues. Contract law, tort law, and consumer protection laws, along with sector specific regulations in appropriate cases, probably provide better tools to address these problems.

VIII. CONCLUSION

This Article distinguished between two related but distinct functions that trademarks fulfill and trademark law protects. Both functions smooth the operation of markets by enhancing and preserving the integrity of information signals available to market participants. Trademarks' linguistic function allows consumers to reduce search costs because the trademarks provide a simple method

163. And in the case of a deceptively misdescriptive mark, a firm may use it and eventually register it if it acquires a secondary meaning.

164. Katz, *supra* note 17, at 24.

to convey complicated meanings about the products' sources and their unobservable attributes. Trademarks' trust function allows consumer to be confident that the claims made by sellers are authentic, thereby preventing the lemonization of markets. This Article suggested that recognizing the dual functions of trademarks provides a matrix for evaluating the normative strength of various trademark rules and doctrines. More specifically, rules that promote both functions are normatively strong; rules that do not promote them are normatively weak; and rules that promote one function but not the other are normatively ambiguous, requiring a closer cost-benefit analysis.

This Article showed that the prohibition against passing off, the classic and most ancient form of trademark infringement, promotes both functions, whereas rules that prohibit certain forms of truthful and non-confusing comparative advertising do not promote these functions and in fact interfere with trademark law's overall goal of increasing the amount and accuracy of information available to consumers. This Article also showed that dilution by blurring and initial interest confusion may, in some limited circumstances, impair the linguistic function but not the trust function; consequently, the normative basis for prohibiting these actions is limited. This Article further showed that tarnishment does not impair the linguistic function and that while tarnishment could be seen as an act impairing the trust function, the theoretical and empirical evidence for this view is rather limited. Lastly, this Article discussed the misrepresentation of one's own products and showed that despite the fact that such behavior does impair the trust function, it does not impair the linguistic function; while there are solid grounds for rules against such behavior, trademark law is often ill-suited to provide appropriate remedies, and the behavior is likely to be better regulated through other means.