

# Unfair Competition and Uncommon Sense

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Mark McKenna's *Testing Modern Trademark Law's Theory of Harm*<sup>1</sup> is an important step forward in challenging trademark expansionism, going back to basics and asking us to assess for truth value several propositions that now seem so self-evident to lawyers and judges as to not require any empirical support at all.<sup>2</sup> Like McKenna, I believe that if the law looked for the evidence behind present axioms of harm, it would not find much there. McKenna and I share an interest in empirical evidence on marketing and a desire to bring its insights to trademark law.<sup>3</sup> But how did today's theories of harm resulting from any kind of confusion, even confusion over unrelated goods, become "common sense" to judges, particularly when Mark Lemley asserts that modern Lanham Act jurisprudence represents "the death of common sense"?<sup>4</sup>

McKenna has traced the history of the harm argument in the courts,<sup>5</sup> but figuring out exactly why that argument became persuasive—so persuasive, in fact, that courts now take it as factual beyond debate—is difficult. Common sense, often employed in legal reasoning, tends to hide its empirical and normative judgments in ways that make analysis difficult.<sup>6</sup>

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1. Mark P. McKenna, *Testing Modern Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63 (2009).

2. *Id.* at 67–68.

3. Rebecca Tushnet, *Gone in Sixty Milliseconds: Trademark Law and Cognitive Science*, 86 TEX. L. REV. 507 (2008).

4. Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687 (1999).

5. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1851–73 (2007).

6. Linda Hamilton Krieger & Susan T. Fiske, *Behavioral Realism in Employment Discrimination Law: Implicit Bias and Disparate Treatment*, 94 CAL. L. REV. 997, 1006 (2006). Krieger & Fiske argue:

When subjected to empirical scrutiny, "common sense" theories of how people perceive and judge themselves and others in their social environment often turn out to be wrong. Behavioral realism, understood as a prescriptive theory of judicial decision making, addresses this problem by proposing that, before judges use lay

McKenna, like other trademark restrictionists, tries to push back against today's common sense with facts that will, as a whole, constitute a new (or even an old) common sense. His project limits trademark more tightly to protection against competition, with extensions only where necessary to avoid actual harm.<sup>7</sup> I wish to briefly examine the role of common sense inferences, and how courts might deploy these inferences differently in trademark litigation.

In *Bell Atlantic v. Twombly* and *Ashcroft v. Iqbal*, the Supreme Court highlighted the question of when judges ought to be willing to accept, infer, or presume that conclusion X follows from fact Y.<sup>8</sup> As a recent consumer-protection case stated, under *Twombly* and *Iqbal*, the pleading standard underwent “a somewhat dramatic change.”<sup>9</sup> Now “the non-conclusory factual content, and reasonable inferences from that content, must be plausibly suggestive of a claim entitling the plaintiff to relief.”<sup>10</sup> Thus, the court in *Wright* dismissed the complaint at issue, which had challenged the “100% Natural” label on Nature Valley cereal and cereal bars as false and

or “common sense” psychological theories in their legal analysis, they should take reasonable steps to ensure that those theories are valid.

*Id.*; Terry A. Maroney, *Emotional Common Sense as Constitutional Law*, 62 VAND. L. REV. 851, 852–53. Maroney argues:

Common-sense ideas animate legal decisionmaking. Some have claimed that common sense is the “hidden transcript” of law, the “underlying and unconscious framework” guiding judgments as varied as witness credibility, marital property division, the insanity defense, and jurors’ assessment of eyewitness identifications. Though relatively unexplored in the legal literature, common sense is a crucial element in judicial decisionmaking, including in constitutional jurisprudence. Indeed, a recent citation study claims that common sense, though seldom scrutinized by scholars, was “the single most cited authority for an argument” the researchers could identify.

*Id.* (footnotes omitted).

7. See, e.g., Lemley, *supra* note 4, at 1713. Lemley states:

We do not need new legal rules here; what we need is the principled and vigorous application of the old rules. Courts should ask, as Brown does, exactly what new incentives do we need trademark law to create? How are consumers hurt by the conduct at issue? And what are the interests of society at large?

*Id.*

8. *Ashcroft v. Iqbal*, 129 S. Ct. 1937 (2009); *Atlantic v. Twombly*, 550 U.S. 544 (2007).

9. *Wright v. General Mills, Inc.*, No. 08-cv-1532, 2009 WL 3247148, at \*5 (S.D. Cal. Sep. 30, 2009).

10. *Id.* In particular, *Iqbal* and *Twombly* required facially plausible allegations of liability. If the facts alleged are more likely to be consistent with lack of liability than with liability, then the allegations of the complaint do not plausibly establish liability. *Iqbal*, 129 S. Ct. at 1949 (“Where a complaint pleads facts that are ‘merely consistent with’ a defendant’s liability, it ‘stops short of the line between possibility and plausibility of ‘entitlement to relief.’” (quoting *Twombly*, 550 U.S. at 557)); *id.* at 1950–51 (stating that when a court considers the range of possible interpretations of the defendant’s alleged conduct, if the “more likely explanations” involve lawful, non-actionable behavior, the court should find that the plaintiff’s claim is not plausible).

misleading because the products actually were made with high fructose corn syrup, a substance that was allegedly not “natural.”<sup>11</sup> To the court, this complaint contained little more than conclusory and speculative allegations.<sup>12</sup> For example, it was insufficient simply to allege that members of the public were likely to have been deceived and to have made purchases because they believed that a “100% Natural” product would not have high fructose corn syrup.<sup>13</sup>

If these allegations are insufficient, how will general allegations that consumer confusion harms trademark owners fare? How *should* they fare, if we took *Twombly* and *Iqbal* seriously? Judges with different backgrounds may reach different conclusions about plausible inferences from the same set of facts<sup>14</sup>: whereas Potter Stewart knew obscenity when he saw it, in order for us to agree on many issues, you would need to “[know] what I know when I see what I see.”<sup>15</sup>

Business-friendly judges of the kind now heavily populating the federal bench may not see plausible claims coming from consumers. But what happens when businesses sue other businesses, a more common trademark scenario? *Iqbal* insisted that “[d]etermining whether a complaint states a plausible claim for relief will . . . be a context-specific task that requires the reviewing court to draw on its judicial experience and common sense.”<sup>16</sup> The extent to which a harm story comports with judicial intuitions therefore may be even more important than in the past. Accepting McKenna’s evidence, trademark owners who challenge noncompeting uses should have to go beyond conclusory allegations of likely harm in order to proceed past the pleading stage. They should have to offer specific reasons why a particular use would do them harm, perhaps by precluding them from entering markets that they are otherwise likely to enter under the same

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11. *Wright*, 2009 WL 3247148, at \*5.

12. *Id.*

13. *See id.* at \*5–6 (discussing the standard of proof to establish liability).

14. Maroney, *supra* note 6, at 858 (discussing how judges’ invocations of different versions of common sense comport with their prior commitments).

15. Catharine A. MacKinnon, *Pornography, Civil Rights, and Speech*, 20 HARV. C.R.-C.L. L. REV. 1, 3 (1985); *see also* Dan M. Kahan, *Culture, Cognition, and Consent: Who Perceives What, and Why*, in “*Acquaintance Rape*” Cases, 158 U. PA. L. REV. (forthcoming 2010), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1437742](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1437742) (investigating the interaction between individuals’ varying cultural values and their perceptions of legally relevant facts with respect to rape law); Dan M. Kahan, David A. Hoffman & Donald Braman, *Whose Eyes Are You Going To Believe? Scott v. Harris and the Perils of Cognitive Illiberalism*, 122 HARV. L. REV. 838, 864–79 (2009) (reporting on a study showing that demographic variables profoundly affected the interpretation of videotape evidence, even though a majority of Supreme Court Justices specifically determined that the tape could only bear one reasonable interpretation); Maroney, *supra* note 6, at 864, 888 (cautioning against assumptions that others’ emotional lives are like our own and that others therefore perceive the world as we do; when judges do this, they may privilege cultural insiders’ reactions over outsiders’).

16. *Iqbal*, 129 S. Ct. at 1950.

mark. Requiring such allegations is not an unimaginable change. After *Iqbal*, there have been some fairly aggressive dismissals in trademark cases,<sup>17</sup> as well as some courts willing to treat rather far-fetched inferences as plausible.

*Hensley Manufacturing v. ProPride, Inc.*<sup>18</sup> is an example of aggressively testing the theory of harm at the pleading stage. In this case, Hensley sued ProPride for using the name and reputation of Jim Hensley, whose business Hensley Manufacturing had allegedly bought, in advertising its trailer hitches. ProPride ads featured Jim Hensley's name and evoked his reputation as a designer, providing only a small disclaimer of past affiliation with Hensley Manufacturing. The district court dismissed the complaint as fair use as a matter of law. The court of appeals affirmed on the ground that the complaint failed to sufficiently allege use of a mark in a way that was likely to cause confusion as to its source.<sup>19</sup> The court examined the ads at issue, as allowed on a motion to dismiss, and concluded that ProPride used a separate, dissimilar mark for its products. Although Hensley alleged confusion as to origin and sponsorship, the court found this a merely "conclusory and 'formulaic recitation'" of the elements of an infringement claim.<sup>20</sup> The court also agreed that ProPride had conclusively established that it had made a descriptive fair use of Jim Hensley's name as a matter of law, rejecting ProPride's argument that judgment on the pleadings was inappropriate in a trademark case.<sup>21</sup> The court noted that while "facts *may exist*" that showed consumer confusion, "mere speculation" was insufficient: Hensley needed to allege those facts because without them he failed to state a claim that was plausible on its face.<sup>22</sup> In the past, however, other courts have been much more willing to find confusion when named principals associated themselves with new businesses.<sup>23</sup>

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17. See, e.g., *Rizzo v. South Bend Sporting Goods*, No. 09-cv-189-bbc, 2009 WL 2495461, at \*2 (W.D. Wis. Aug. 12, 2009) (applying *Iqbal* to dismiss trade-infringement claims for failure to specify the facts "with enough detail to allow a plausible inference" that plaintiff's design was distinctive and nonfunctional and that defendant copied those distinctive, nonfunctional elements).

18. *Hensley Mfg. v. ProPride, Inc.*, 579 F.3d 603 (6th Cir. 2009).

19. *Id.* at 610.

20. *Id.* at 611.

21. See *id.* at 612–13 (the portion of the opinion discussing the Fair-Use Defense).

22. *Id.* at 613.

23. See, e.g., *Levitt Corp. v. Levitt*, 593 F.2d 463 (2d Cir. 1979) (discussing the purchase of a housing construction company that led to an action against the seller for trademark infringement); *In re Leslie Fay Cos.*, 216 B.R. 117 (Bankr. S.D.N.Y. 1997) (describing a proceeding filed by a clothing designer against the debtor clothing manufacturer, which had previously purchased his trademarks). The facts of those cases differ, but the point is that from the facts alleged—a trademark transferred from an individual to a company, plus subsequent use of the individual's name to promote competing products—some courts would be willing to infer likely confusion at the pleading stage, or at least would have been before *Iqbal*. Of course, questioning such findings and asking whether confusion is the most plausible inference from those facts is important, as our common sense intuitions may differ.

*SkyVenture Orlando, LLC v. SkyVenture Management, LLC*<sup>24</sup> is a contrasting example of a court's willingness to credit some factual allegations that might seem strained. The court applied *Iqbal*'s plausibility standard to find that the mark IFLY could be a substitute or derivative of the mark SKYVENTURE such that anyone with the right to use SKYVENTURE would have the right to use IFLY. Without "an understanding of the factual context," the court could not conclude that the dissimilarity was sufficient to dismiss the claim as a matter of law.<sup>25</sup> McKenna's account of the real function of modern trademark harm doctrine may go a long way towards explaining why the court cited copyright law on derivative works to justify its conclusion, which otherwise is a puzzling move.<sup>26</sup>

More generally, McKenna points to derivative works as the proper source of the logic, if any, of finding harm to trademark owners from confusion in unrelated markets. I am struck by the lack of empirical justification for giving copyright owners rights over derivative markets as well. The question of whether copyright owners would increase their output if given rights over certain uses is often resolved by normative decisions about appropriate markets that they *ought* to control, rather than by any evidence that derivative markets affect incentives.<sup>27</sup> Indeed, the role of empirics in copyright policy generally should not make us sanguine. Very little evidence supported the proposition that term extension would support or increase creative production, while basic economic theory and calculations of the present discounted value of a twenty-year term extension at the end of a term that was already life plus fifty indicated that incentives would not noticeably increase. Nonetheless, Congress and the Supreme Court accepted the irrational incentive claims.<sup>28</sup> More generally, there is very limited evidence that copyright does much of anything to incentivize

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24. *SkyVenture Orlando, LLC v. SkyVenture Mgmt., LLC*, No. 6:09-cv-396-orl-19KRS, 2009 WL 2496553 (M.D. Fla. Aug. 12, 2009).

25. *Id.* at \*6.

26. *See id.* (citing *Superchips Inc. v. Street & Performance Elecs. Inc.*, No. 6:00-CV-896-ORL31KRS, 2001 WL 697948, at \*5–6 (M.D. Fla. Apr. 24, 2001)).

27. *See, e.g.*, Michael Abramowicz, *A Theory of Copyright's Derivative Right and Related Doctrines*, 90 MINN. L. REV. 317, 329–30 (2005) (recognizing a weak empirical basis for the derivative-works right and offering a theoretical competition-based justification); Derek E. Bambauer, *Faulty Math: The Economics of Legalizing the Grey Album*, 59 ALA. L. REV. 345, 347–48 (2008) (arguing that there is no defensible justification for the derivative-works right); Thomas F. Cotter, *Fair Use and Copyright Overenforcement*, 93 IOWA L. REV. 1271, 1296 n.68 (2008) (concluding that the empirical evidence supporting the congestion-externality justification for derivative-works right is mixed at best); Stewart Sterk, *Rhetoric and Reality in Copyright Law*, 94 MICH. L. REV. 1197, 1215–17 (1996) (criticizing standard economic justifications for the derivative-works right).

28. *See Eldred v. Ashcroft*, 537 U.S. 186, 213–14 (2003) (giving deference to Congress's routine decisions to adjust copyright terms); *see also* Brief of George A. Akerlof et al. as Amici Curiae in Support of Petitioners at 2, *Elder v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), 2002 WL 1041846 (providing an economic analysis of a twenty-year extension of the copyright term).

creative production, given how hard it is for people to make a living as artists.<sup>29</sup>

The underlying issue is that disputes over facts reflect different value structures. We can't solve our disagreements over whether trademark should be a property right or a right of competition by punting to facts. Precisely because our precommitments will affect what we think the facts of a particular case *are*, we can, as any Lanham Act case featuring dueling surveys will demonstrate, fight just as hard about the facts as about the principles, and for the same reasons.<sup>30</sup> Thus, another piece of the trademark-expansion puzzle is Barton Beebe's empirical finding that "intent" is a key indicator of outcomes in trademark cases.<sup>31</sup> As Stacey Dogan and Mark Lemley, among others, have pointed out, the intent factor is highly manipulable, because the question "intent to do what?" is not settled by the case law.<sup>32</sup> It may be a fact that the defendant knew about the plaintiff's mark before adopting its own, but courts go beyond facts when presuming—or declining to presume—bad faith from knowledge plus adoption.

The first step towards defensible outcomes is to make our normative disagreements clear, although this clarity is no guarantee that normative disputes will somehow become tractable. It is here that McKenna's article is extremely helpful, establishing that the argument for harm from noncompeting uses has to rely on possible market preclusion instead of actual damage that confusion causes to a brand.

I am left with a relatively minor suggestion for applying McKenna's insights: Even if courts remain resistant to the general critiques of broadened trademark liability, it would be possible to move the doctrine

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29. See, e.g., Jessica Litman, *Real Copyright Reform* (U. of Michigan Law & Economics, Olin Working Paper No. 09-018; Univ. of Michigan Public Law, Working Paper No. 168), available at <http://ssrn.com/abstract=1474929> (exploring how the current copyright system is failing its intended beneficiaries).

30. See Kahan, Hoffman, & Braman, *supra* note 15, at 905. The authors state:

What's not nearly so well understood however, is the threat that competing understandings of fact pose to a liberal society. Indeed, forms of advocacy that feature seemingly neutral factual claims about how to promote societal welfare ("optimal deterrence," "cost-benefit analysis," "contingent valuation" and the like) are thought to be among the practices that dissipate illiberal conflict by avoiding reference to more contentious judgments of value. It might seem natural to see judicial idioms that focus on "facts" as conflict avoiding for the same reason. But because we inevitably recur to our cultural values to evaluate empirical claims about what conditions threaten our welfare and what policies promote it, styles of argumentation that feature facts can polarize us every bit as much as one that deals with differences of value in a transparent way.

*Id.* (footnotes omitted).

31. Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CAL. L. REV. 1581, 1608, 1623 (2006).

32. Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 98 TRADEMARK REP. 1345, 1370 (2008).

substantially by changing the treatment of presumptions at the end of a case as well as by tightening pleading standards. In *eBay v. MercExchange, LLC*,<sup>33</sup> the Supreme Court rejected a presumption of irreparable harm, and thus a nearly inevitable injunction, following automatically from a finding of patent infringement. Since then, courts have been struggling with whether *eBay* applies to all kinds of intellectual property. One court of appeals has reversed a preliminary injunction on the ground that Lanham Act plaintiffs are no more exempt than patentees from the case-by-case balancing of the equities required by *eBay*.<sup>34</sup> Trademark protectionists, however, argue that the consumer-protection rationale underlying trademark is so distinct from the property/incentive rationale of copyright and patent that presumptions of irreparable harm remain appropriate in trademark cases, even if not in other intellectual-property cases.<sup>35</sup> But of course, if McKenna is correct and the real harm in noncompeting-goods cases is market foreclosure analogous to the derivative works right in copyright, then *eBay* should apply to infringement claims with respect to most noncompeting goods.

In the end, if common sense is truly dead in trademark law, then courts need to revive it. The kinds of facts McKenna brings to our attention are no substitute for common sense, but perhaps they can begin to inform our inferences about actionable harm. Even in a pervasively branded, conglomerate world, there are still good reasons to think that unfair competition requires *competition*. When that isn't present, in order to avoid oxymoron, we need to reconstruct, and substantially curtail, our understanding of the harm of infringement along the lines McKenna suggests.

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33. *eBay v. MercExchange, LLC*, 547 U.S. 388 (2006).

34. *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008).

35. See David H. Bernstein & Andrew Gilden, *No Trolls Barred: Trademark Injunctions After eBay*, 99 TRADEMARK REP. 1037, 1038 (2009).