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## Article

### Veblen Brands

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*Then they yelled at the ones who had stars at the start,  
“We’re exactly like you! You can’t tell us apart.  
We’re all just the same, now, you snooty old smarties!  
And now we can go to your frankfurter parties!”*

*“Good grief!” groaned the ones who had stars at the first.  
“We’re still the best Sneetches and they are the worst.  
But, now, how in the world will we know,” they all frowned,  
“If which kind is what, or the other way round?”*

*Then up came McBean with a very sly wink  
And he said, “Things are not quite as bad as you think.  
So you don’t know who’s who. That is perfectly true.  
But come with me, friends. Do you know what I’ll do?  
I’ll make you, again, the best Sneetches on beaches  
And all it will cost you is ten dollars eaches.”<sup>1</sup>*

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1. DR. SEUSS, *THE SNEETCHES AND OTHER STORIES* 12–15 (1961).

## INTRODUCTION

Soon after Sonia Sotomayor was nominated to the Supreme Court, the *New York Times* ran a lengthy profile of the prospective Justice on its front page.<sup>2</sup> Describing her stint in private practice at a “boutique commercial law firm in Manhattan,”<sup>3</sup> the *Times* reported:

A large part of Ms. Sotomayor’s work was fighting the counterfeiters who copied products of Fendi, the luxury goods company, and its well-known ‘double F’ logo. Sometimes, that meant suing counterfeiters to stop them from importing fake Fendi goods.

At other times, it involved more derring-do: if the firm had a tip from the United States Customs Office about a suspicious shipment, Ms. Sotomayor would often be involved in the risky maneuver of going to the warehouse to have the merchandise seized. One incident that figures largely in firm lore was a seizure in Chinatown, where the counterfeiters ran away, and Ms. Sotomayor got on a motorcycle and gave chase.<sup>4</sup>

This image stood out in the field of Justice Sotomayor’s substantial accomplishments. The *New Yorker* declared that the motorcycle anecdote “may be the best passage in the *Times* profile,”<sup>5</sup> and other mainstream media outlets agreed.<sup>6</sup> Of course, the story had been somewhat romanticized,<sup>7</sup> but it hardly mattered. Americans now had a mental image of one of our nation’s highest judicial officers in her righteous youth,

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2. Sheryl Gay Stolberg, *A Trailblazer and a Dreamer*, N.Y. TIMES, May 27, 2009, at A1.

3. *Id.* at A19.

4. *Id.*

5. Amy Davidson, *A Motorcycle, a Playground, and a Justice*, NEW YORKER: NEWS DESK, (May 27, 2009), <http://www.newyorker.com/online/blogs/newsdesk/2009/05/close-read-a-motorcycle-a-playground-and-a-justice.html>.

6. See, e.g., Karen Sloan, *As IP Boutique Litigator, Former Partners Say Sotomayor Was a Quick Study, Hard Worker*, N.Y. L.J., May 29, 2009, at 2 (citing the *Times*’s description of the motorcycle chase as evidence of Sotomayor’s “fearless” nature); Holly Bailey, *Sotomayor, Action Star?*, NEWSWEEK: DAILY BEAST (May 27, 2009, 2:11 PM), <http://www.thedailybeast.com/newsweek/blogs/the-gaggle/2009/05/27/sotomayor-action-star.html> (expressing surprise at Sotomayor’s participation in a motorcycle chase).

7. See Andrew Cohen, *Is Sotomayor Supremely Stylish?* VF DAILY (June 5, 2009, 2:27 PM), <http://www.vanityfair.com/online/daily/2009/06/is-sotomayor-supremely-stylish> (“Turns out that Judge Sotomayor, when she was in private practice, represented both [Fendi and Ferrari] in litigation against those who sought to sell knockoffs of the brand. She disclosed that she once spent an afternoon in a bulletproof vest tooling around Shea Stadium on a motorcycle chasing counterfeiters. No, she was not driving the motorcycle. And, no, she did not evidently enjoy it. But she did enjoy the ‘Fendi Crush,’ a law-enforcement promotion wherein counterfeited products were crushed in garbage trucks.”).

boldly tearing through the narrow streets of a rough neighborhood in pursuit of a gang of cowardly lawbreakers.

Beneath the surface of this law-and-order morality play, however, is a deeper narrative playing on a host of social, economic, and racial undercurrents. This narrative pits Justice Sotomayor—a case study of play-by-the-rules social mobility<sup>8</sup> between the working-class Puerto Rican communities of the East Bronx and the largely white, male legal institutions of upper-middle-class Manhattan<sup>9</sup>—against faceless, grasping, and unscrupulous Asian immigrants from the outer boroughs.<sup>10</sup> And of course, standing behind the future Justice and directing her actions are the modern-day equivalents of old-world aristocracy: Fendi, a venerable Italian fashion house,<sup>11</sup> owned by a Paris-based multinational luxury brand holding company,<sup>12</sup> and run by a platinum-haired celebrity German artistic director.<sup>13</sup> In short, this one vignette is a microcosm of global competition over wealth and status<sup>14</sup>—a competition that manifests itself in

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8. Remarks to the Democratic Leadership Council, 1 PUB. PAPERS 40 (Jan. 12, 2002) (“The main idea here is still the old idea of the American dream, that if you work hard and play by the rules, you ought to have a decent life and a chance for your children to have a better one.”).

9. See Stolberg, *supra* note 2, at A18–A19.

10. As the *Vanity Fair* follow-up to the *New York Times* profile makes clear, the motorcycle episode actually took place in the area around Shea Stadium, the former home of the New York Mets in Queens County. Cohen, *supra* note 6. This area claims the most ethnically diverse population and the largest immigrant population in the country, including two major concentrations of Chinese-born immigrants. Noel Pangilinan, *Who Are the People in Your Neighborhood: NYC Immigrants by the Numbers*, QUEENS7.COM (Feb. 21, 2011) <http://queens7.com/who-are-the-people-in-your-neighborhoods-nyc's-immigrants-by-the-number/>.

11. See *History*, FENDI, <http://mobile.fendi.com/en/forever-fendi/history> (last visited Oct. 3, 2011) (placing the fashion house's origins in Rome in 1925).

12. MOËT HENNESSY LOUIS VUITTON, LVMH: PASSIONATE ABOUT CREATIVITY, 2010 ANNUAL REPORT 25 (2010), [http://www.lvmh.com/uploads/assets/Com-fi/Documents/en/LVMH\\_RA\\_2010\\_GB.pdf](http://www.lvmh.com/uploads/assets/Com-fi/Documents/en/LVMH_RA_2010_GB.pdf) [hereinafter LVMH] (listing Fendi as one of twelve brands in its parent company's “fashion and leather goods business group”).

13. See Cathy Horyn & Eric Wilson, *When the Label Says Lagerfeld*, N.Y. TIMES, Feb. 2, 2006, at G1 (“There is no bigger star in fashion today than Karl Lagerfeld.”); LVMH, *supra* note 12, at 28 (identifying Karl Lagerfeld as Fendi's artistic director).

14. *Cf.* GEORGE ORWELL, NINETEEN EIGHTY-FOUR 202–03 (1949) (“Throughout recorded time . . . there have been three kinds of people in the world, the High, the Middle, and the Low. . . . The aims of these three groups are entirely irreconcilable. The aim of the High is to remain where they are. The aim of the Middle is to change places with the High. The aim of the Low, when they have an aim—for it is an abiding characteristic of the Low that

the struggle for control of a luxury brand across the various cross-cutting cleavages in American society.

The subject of this Article is the legal regime that regulates this struggle. Justice Sotomayor's clients retained her to enforce their rights under federal trademark law. These rights—whether asserted under statutory provisions relating to simple trademark infringement or the more specialized provisions relating to trademark counterfeiting<sup>15</sup>—are grounded in the doctrine of post-sale confusion.<sup>16</sup> Trademark owners (and the courts that find in their favor) invoke this doctrine to satisfy the Lanham Act's "likelihood of confusion" standard, which limits infringement liability to conduct that is "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of [the defendant] with another person, or as to the origin, sponsorship, or approval of [the defendant's] goods, services, or commercial activities by another person . . . ."<sup>17</sup>

Post-sale confusion is an invention of the lower federal courts.<sup>18</sup> The Supreme Court has never endorsed the theory, nor

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they are too much crushed by drudgery to be more than intermittently conscious of anything outside their daily lives—is to abolish all distinctions and create a society in which all men shall be equal.”)

15. 15 U.S.C. §§ 1114, 1125(a) (2006) (establishing civil liability for confusing trademark uses); 15 U.S.C. § 1116(a) (2006) (authorizing injunctive relief against trademark infringers and counterfeiters); 15 U.S.C. § 1117(a)–(b) (2006 & Supp. 2010) (providing monetary remedies against trademark infringers and heightened remedies against counterfeiters); 18 U.S.C. § 2320(a) (2006 & Supp. 2010) (establishing criminal liability for trafficking in counterfeit goods).

16. *United States v. Hon*, 904 F.2d 803, 808 (2d Cir. 1990) (noting that “likelihood of confusion” is an element of the federal counterfeiting offense, and holding that a likelihood of post-sale confusion can satisfy this element); *United States v. Torkington*, 812 F.2d 1347 (11th Cir. 1987); *infra* Part I (discussing the case law developing the concept of post-sale confusion as a basis for trademark infringement liability).

17. 15 U.S.C. § 1125(a); *accord* 15 U.S.C. § 1114.

18. Each of the Circuit Courts of Appeal has recognized the doctrine of post-sale confusion in one form or another. *See* *IP Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 44 (1st Cir. 1998); *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 872–73 (2d Cir. 1986); *Am. Home Prods. v. Barr Labs.*, 834 F.2d 368, 371 (3d Cir. 1987); *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145, 148 (4th Cir. 1987); *United States v. Yamin*, 868 F.2d 130, 132–33 (5th Cir. 1989); *Ferrari S.P.A. Esercizio v. Roberts*, 944 F.2d 1235, 1245 (6th Cir. 1991); *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 383 (7th Cir. 1996); *Insty\*Bit v. Poly-Tech Indus.*, 95 F.3d 663, 669–72 (8th Cir. 1996); *Levi Strauss & Co. v. Blue Bell, Inc.*, 632 F.2d 817, 822 (9th Cir. 1980); *Gen. Motors Corp. v. Urban Gorilla*, 500 F.3d 1222, 1227–28 (10th Cir. 2007); *Torkington*,

even discussed it.<sup>19</sup> But for over half a century it has been the key weapon in the arsenal of luxury brand owners.<sup>20</sup> Given this history, post-sale confusion as a doctrine unto itself has received surprisingly little critical attention. What literature does exist either characterizes post-sale confusion as merely one example of broader trends in intellectual property,<sup>21</sup> or else discusses the economic or philosophical implications of luxury consumption without critically examining the underlying legal doctrine that facilitates that consumption.<sup>22</sup> This Article makes a new contribution, first by critiquing the actual doctrine of post-sale confusion, and second by examining the relationship between that doctrine and what I claim is its unique (and heretofore overlooked) purpose: the regulation of socially expressive consumption.

The first step in this project is to try to provide a coherent doctrinal account of the post-sale confusion cases. As it turns out, this is an impossible task. There is no single coherent theory of injury in post-sale confusion cases; rather, there are three. This Article represents the first effort to distinguish among the various theories of injury that arise under the label of “post-sale confusion” and to analyze each on its own merits. As each of these theories suffers from serious infirmity, such an effort is long overdue.

The first theory, which I label “bystander confusion,” refers to the following factual scenario: a defendant sells its product

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812 F.2d at 1352–53; *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 989–90 (Fed. Cir. 1993).

19. The most recent opportunity for the Court to address the theories of post-sale and initial-interest confusion in trademark law ended in a denial of certiorari. *Gibson Guitar Corp. v. Paul Reed Smith Guitars*, 423 F.3d 539 (6th Cir. 2005), *cert. denied*, 547 U.S. 1179 (2006).

20. See *infra* notes 38–39 and accompanying text.

21. See Barton Beebe, *Intellectual Property Law and the Sumptuary Code*, 123 HARV. L. REV. 809, 851–59 (2010) [hereinafter Beebe, *Sumptuary Code*] (considering post-sale confusion among other theories of liability as evidence that trademark law promotes anti-dilution and sumptuary policies); Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 404–08 (1999) (analyzing the economics of “prestige[-]good cases” and classifying them as an “example of extending property-based trademark protection under the likelihood-of-confusion standard”).

22. See generally Jonathan M. Barnett, *Shopping for Gucci on Canal Street: Reflections on Status Consumption, Intellectual Property, and the Incentive Thesis*, 91 VA. L. REV. 1381 (2005) (considering the economic effects on producers of counterfeiting); Jeffrey L. Harrison, *Trademark Law and Status Signaling: Tattoos for the Privileged*, 59 FLA. L. REV. 195 (2007) (examining utilitarian, Rawlsian and Lockean rationales for public subsidization of the luxury economy).

to a non-confused purchaser; observers who see the non-confused purchaser using the defendant's product mistake it for the *plaintiff's* product; and those observers draw conclusions from their observations that influence their future purchasing decisions. This theory shares similarities with more conventional theories of trademark infringement, with the distinction that, in practice, it improperly reduces the burden on plaintiffs from proving a "*likelihood* of confusion" to proving a mere *possibility* of confusion.<sup>23</sup>

The next theory of injury—which I label “downstream confusion”—is implicated where there is a risk that a non-confused purchaser of a knockoff or altered trademarked good might give or resell the good to a confused recipient. This variety of post-sale confusion flies in the face of long-standing Supreme Court precedent regarding contributory infringement and trademark law's first-sale doctrine.<sup>24</sup> That inconsistency, in turn, allows a trademark infringement plaintiff to turn a losing case into a winning case merely by changing the name of his claim.

The problems inherent in bystander and downstream confusion can be remedied by minor doctrinal refinements, although those refinements might well result in discarding the theories as such. The more difficult issue is that both these theories are often invoked in tandem with (and potentially as a distraction from) the third theory of injury, which I label “status confusion.” Status confusion is the legal theory that most often serves to justify liability against the manufacturers of knockoff luxury branded goods, even though the purchasers of those goods know full well what they are buying.<sup>25</sup>

Status-confusion cases often invoke an argument owing its origins to economist and social critic Thorstein Veblen: that individuals conspicuously consume some expensive products (a Fendi handbag, say) to stake a claim to social status.<sup>26</sup> As the courts in these cases implicitly recognize, if the symbols used to stake such claims are freely available to anyone, a classic problem of information economics arises: the claim loses its credibility—indeed its very meaning—due to indiscriminate use.<sup>27</sup> In the United States, trademark law has solved this problem by propertizing the symbols that express the claim, driving them

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23. See *infra* Part I.A.

24. See *infra* notes 71–78 and accompanying text.

25. See *infra* Part I.C.

26. See *infra* Part II.A.

27. See *infra* Part II.B.

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into a market system. By incentivizing private parties to ration access to such symbols, status-confusion doctrine creates the scarcity that is required for the symbols to have social meaning.<sup>28</sup>

This is an odd role for trademark law to play. Putting to one side relatively novel and unsettled doctrines like dilution,<sup>29</sup> the conventional theoretical account of trademarks is that they facilitate the transfer of information between buyers and sellers regarding the source or quality of goods in the marketplace. In the status-confusion cases, however, information about the goods themselves is essentially irrelevant to all parties concerned. Rather, the courts in those cases view the trademarks at issue as a means of transferring information about *people*: buyers consume luxury goods in view of a social audience for the purpose of making a statement about what kind of people they are (or aspire to be). For reasons that will become clear, I refer to the luxury trademarks that serve this socially expressive function (by virtue of the artificial scarcity that trademark law permits their owners to maintain) as “Veblen brands.”<sup>30</sup>

This Article ultimately asks whether the trademark system has any legitimate interest in creating, maintaining, and regulating the market for Veblen brands,<sup>31</sup> and if so, whether the First Amendment permits the law of trademarks to be used in that way.<sup>32</sup> Status-confusion doctrine has the direct effect of “restrict[ing] the speech of some elements of our society in order to enhance the relative voice of others,” an exercise of government power which the Supreme Court has stated in other contexts “is wholly foreign to the First Amendment.”<sup>33</sup> By establishing a system of licenses for social expression and enforcing those licenses with both monetary and injunctive remedies, the State is entering into an expressive alliance with one (powerful) segment of society, in opposition to the expressive interests of a different (weak) segment of society. Even if this alliance of interests did not offend the First Amendment (and I argue it does), it ought to offend our democratic sensibilities. I claim that whatever government interest is at stake in the status

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28. See *infra* Part II.C.

29. See 15 U.S.C. § 1125(c) (2006).

30. See *infra* Part II.C.

31. See *infra* Part III.C.

32. See *infra* Parts III.A–B.

33. *Buckley v. Valeo*, 424 U.S. 1, 48–49 (1976).

confusion cases is insufficient to justify their coercive and selective restriction of social expression.<sup>34</sup> Therefore, I propose that status-confusion doctrine—and post-sale confusion doctrine as a whole—be discarded.

The remainder of this Article proceeds as follows. Part I analyzes the case law in the area of post-sale confusion, sets out the three categories into which such cases fall, and critiques each category. Part II compares status-confusion theories to the dominant information economics account of trademark law. This comparison reveals the fundamental theoretical disconnect between status confusion and the rest of trademark infringement law: whereas the economic theory of trademarks is directed at the flow of information about products, status-confusion doctrine is directed at the flow of information about people. Part III turns to the policy implications of this theoretical gap. Specifically, it argues that status-confusion doctrine places an unjustified burden on First Amendment rights of social expression. Accordingly, the Article concludes by arguing that post-sale confusion doctrine should be discarded entirely, and replaced with a more limited doctrine focused on preventing confusion of actual or potential consumers.

#### I. CONFUSION ABOUT POST-SALE CONFUSION

The test for trademark infringement asks whether the defendant has “use[d] in commerce any word, term, name, symbol, or device, or any combination thereof” that “is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of [the defendant] with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person.”<sup>35</sup> The classic case of infringement is diversion of trade through passing-off. This is the injury that arises when the defendant has affixed the plaintiff’s mark to the defendant’s goods and offered them for sale, causing some purchasers who wanted to buy the plaintiff’s goods to buy the defendant’s goods instead, under the mistaken belief that they were actually made by the plaintiff.<sup>36</sup>

With the evolution of trademark doctrine through common-law development and amendments to the Lanham Act, this lim-

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34. See *infra* Part III.C.

35. 15 U.S.C. § 1125(a)(1) (2006).

36. Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1853–63 (2007).

ited focus on the behavior of actual purchasers at the point of sale (and the resulting effects on competing producers) has exploded.<sup>37</sup> Perhaps the most seismic change was the addition of a dilution cause of action to the statute in 1995,<sup>38</sup> a development that remains unsettled as a matter of both doctrine and theory, and is beyond the scope of the present discussion. But more subtle shifts have been occurring within the law of infringement for decades. Emblematic of this process was the 1962 amendment that removed language limiting liability to conduct that confused “purchasers.”<sup>39</sup> While the legislative history of the amendment makes clear that this change was meant to bring confusion of *potential* rather than merely *actual* purchasers into the ambit of the statute,<sup>40</sup> many courts over the past half-century have interpreted the change far more broadly, finding infringement based on nearly any kind of confusion of nearly any person at any time.<sup>41</sup>

Among these expansive modern theories of infringement is post-sale confusion. The roots of this theory of liability are almost as old as the Lanham Act itself, and yet even today the cases are not in any kind of agreement on what post-sale confusion is.<sup>42</sup> Perhaps surprisingly, commentators have not yet rig-

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37. See *id.* at 1896–1915. See generally Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759 (1990) (arguing that the modern expansion of trademark law has imposed significant costs on society).

38. Federal Trademark Dilution Act of 1995, Pub. L. No. 104-98, 109 Stat. 985 (1996) (codified as amended in scattered sections of 15 U.S.C.) (creating a cause of action to enjoin conduct that impairs the distinctiveness or harms the reputation of a famous trademark “regardless of the presence or absence of . . . likelihood of confusion, mistake, or deception”).

39. Act of Oct. 9, 1962, Pub. L. No. 87-772, 76 Stat. 769, 771, 775.

40. H.R. REP. NO. 87-1108, at 4, 8 (1961) (“The purpose of the proposed change is . . . to omit the word ‘purchasers,’ since the provision actually relates to potential purchasers as well as to actual purchasers.”); S. REP. NO. 86-1685, at 4–5, 8 (1960) (same).

41. See, e.g., David M. Tichane, *The Maturing Doctrine of Post-Sales Confusion*, 85 TRADEMARK REP. 399, 403–05 (1995). Numerous commentators have noted the seemingly unbounded expansion of the concept of “confusion” in trademark law, and critiqued the invocation of the 1962 amendment to the Lanham Act as a justification for that expansion. See, e.g., McKenna, *supra* note 36, at 1904–05, 1905 n.282; Jennifer E. Rothman, *Initial Interest Confusion: Standing at the Crossroads of Trademark Law*, 27 CARDOZO L. REV. 105, 160–61 (2005).

42. Some purported post-sale confusion cases do not involve post-sale confusion at all. These cases invoke post-sale confusion either in passing, or else as a label for conduct that is better analyzed under other theories of liability. For example, in *Patsy’s Brand, Inc. v. I.O.B. Realty, Inc.*, the court used the language of post-sale liability to describe a fairly conventional point-of-sale confusion theory, apparently because the parties sold their products through

ously documented this disagreement. Rather, post-sale confusion is often described as a single coherent theory of trademark injury (albeit one that may be carelessly applied), or at worst as a coherent theory that serves as a pretext for pursuing unstated and divergent interests.<sup>43</sup> As this Part will demonstrate, courts actually use the term “post-sale confusion” to refer to three conceptually distinct—though in some cases overlapping<sup>44</sup>—theories of injury. I label these theories “bystander confusion,” “downstream confusion,” and “status confusion.”

#### A. BYSTANDER CONFUSION

One line of post-sale confusion cases appears consistent with the Lanham Act’s stated purpose of extending infringement liability to confusion of potential purchasers. In its strongest form, the theory of these cases describes an injury—which I will refer to as “bystander confusion”—that follows from a standard chain of events:

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separate distribution channels. 58 U.S.P.Q.2d (BNA) 1048, 1056–57 (S.D.N.Y. 2001), *aff’d*, 317 F.3d 209 (2d Cir. 2003).

43. See, e.g., 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23.7 (4th ed. 2007) (characterizing post-sale confusion as a form of liability that arises when “Observers See Infringing Imitations”); Katya Assaf, *Brand Fetishism*, 43 CONN. L. REV. 83, 120–23 (2010) (characterizing post-sale confusion as a doctrine designed to protect the information value of brands as signals of social status); Beebe, *Sumptuary Code*, *supra* note 21, at 852 (“The courts’ reasoning in [post-sale confusion] cases is quite revealing. Courts justify their prohibition against copying on the grounds that rarity and distinction should be promoted and preserved in light of the social functions that they play.”); see also Lunney, *supra* note 21, at 404–08 (characterizing post-sale confusion as pretextually focused on speculation about observers’ future purchasing behavior but actually concerned over protecting the prestige value of plaintiffs’ trademarks); McKenna, *supra* note 36, at 1907–09 (same).

44. For example, in *General Motors Corp. v. Keystone Automotive Industries, Inc.*, the court identified six potential injuries flowing from what it referred to as “downstream confusion,” some of which correspond to this Article’s definition of downstream confusion and others of which correspond to what this Article refers to as “bystander confusion” or “status confusion.” 453 F.3d 351, 358 (6th Cir. 2006). In that case, the court ultimately relied on a theory of injury corresponding to what this Article refers to as “bystander confusion,” not “downstream confusion.” *Compare id.* at 359 (“Such confusion could damage GM’s reputation for quality if the public associates any inferior attributes (e.g., improper fit or cracking) of Tong Yang’s grilles with GM. Other types of possible downstream harm, such as that resulting from a product’s reduced scarcity, however, are largely inapplicable to this case.”), *with* Part I.A, *infra*. Several post-sale confusion cases are cited in this Part as examples of more than one theory, precisely because the courts frequently fail to distinguish among them in concluding that post-sale confusion is likely.

- The defendant sells its product—which incorporates some feature or combination of features that resembles a protectable mark of the plaintiff—to an admittedly non-confused consumer;
- The consumer uses the product in view of a *potential* purchaser of the plaintiff’s product;
- The *potential* purchaser is confused as to the source of the observed product, misidentifying it as having originated with the plaintiff;
- The *potential* purchaser, observing the defendant’s product in use, makes some negative evaluation about the qualities of the observed product, mistakenly ascribing that evaluation to the *plaintiff’s* products;
- Under this mistaken understanding of the qualities of the *plaintiff’s* products, the *potential* purchaser refrains from future purchases of the *plaintiff’s* products, and potentially recommends that others do likewise.<sup>45</sup>

It should be noted at the outset that the bystander confusion theory is entirely consistent with broadly accepted policy justifications for trademark enforcement. These include the information-forcing policies espoused by the “Chicago School” of law and economics that dominate modern trademark theory,<sup>46</sup> as well as more traditional and limited policies against unfair

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45. See, e.g., CAE, Inc. v. Clean Air Eng’g, 267 F.3d 660, 683 (7th Cir. 2001); Payless Shoesource, Inc. v. Reebok Int’l Ltd., 998 F.2d 985, 989–90 (Fed. Cir. 1993); Polo Fashions, Inc. v. Craftex, Inc., 816 F.2d 145, 148 (4th Cir. 1987).

46. See, e.g., Barton Beebe, *The Semiotic Analysis of Trademark Law*, 51 UCLA L. REV. 621, 623–24 (2004) [hereinafter Beebe, *Semiotic Analysis*] (noting that the influence and acceptance of the Chicago School’s approach is “nearly total” in American trademark law); William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 269–70 (1987) (arguing that trademark enforcement ensures the integrity of information in the marketplace, thereby giving producers the means to reap the reputational rewards of high quality and giving consumers the ability to make better-informed purchasing decisions). Of course, notwithstanding the general dominance of Chicago School theory, other theories of trademark law are extant—including Professor Beebe’s semiotic account and more overt property-based accounts grounded in deontologically inspired theories of misappropriation. See generally Beebe, *Semiotic Analysis*, *supra* (arguing that economic analyses of trademark law are necessarily incomplete without an accompanying semiotic analysis); Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547 (2006) (describing the historical development of misappropriation-based theories of trademark rights).

diversion of trade.<sup>47</sup> Should the chain of events described above occur, consumers might rely on inaccurate information in making purchasing decisions, and honest producers of quality goods may lose sales as a result—both injuries trademark law rightly seeks to prevent. It is thus little surprise that the commentators who speak favorably of post-sale confusion typically describe it in terms of bystander confusion.<sup>48</sup> However, as these same commentators often note, courts can be sloppy in their analysis of a bystander-confusion claim, extending liability to conduct that does not threaten to injure either consumers or producers.<sup>49</sup>

The typical path to such expansion of liability is the presumption that the entire parade of events described above will follow whenever the first of them occurs. The fact that some potential future purchaser of the plaintiff's product *could* observe a purchaser of the defendant's product, *could* misidentify the plaintiff as the source of that product, and *could* form inferences about the plaintiff's goods is supposed by some courts to establish that actionable confusion is *likely*.<sup>50</sup> As Professor Rob-

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47. See generally McKenna, *supra* note 36 (describing the relationship between traditional trade-diversion and modern trademark doctrines).

48. See, e.g., Bone, *supra* note 46, at 607–08 (“Protecting against post-sale confusion can serve information transmission policies. If defendant's product is inferior to plaintiff's, for example, potential customers might be dissuaded from even trying to buy plaintiff's product after seeing defendant's inferior product with the plaintiff's mark and wrongly believing it to be the plaintiff's.”); Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461, 491 (2005) (“[E]ven though the buyer is not confused, others might be. . . . This in turn can cause harm—if people see Rolexes that don't tell time well, or break, they may mistakenly attribute the shoddy quality of the counterfeit goods to the trademark owner.”); Anne M. McCarthy, Note, *The Post-Sale Confusion Doctrine: Why the General Public Should Be Included in the Likelihood of Confusion Inquiry*, 67 FORDHAM L. REV. 3337, 3356–58 (1999).

49. Bone, *supra* note 46, at 608 (“In some of the broadest post-sale confusion decisions, however, there is no genuine risk that defendant's product will be perceived as inferior. In these cases, liability is difficult to square with the information transmission function of the mark, and goodwill appropriation often plays a prominent justificatory role.”); *cf.* Dogan & Lemley, *supra* note 48 (“It is important not to assume that any use of a logo will inevitably confuse viewers after the sale, however.”).

50. See, e.g., *Payless*, 998 F.2d at 989 (“Reebok contended that such confusion occurs, for example, when a consumer observes someone wearing a pair of Payless accused shoes and believes that the shoes are Reebok's. As a consequence, the consumer may attribute any perceived inferior quality of Payless shoes to Reebok, thus damaging Reebok's reputation and image. . . . We agree with Reebok that the district court abused its discretion in failing to adequately consider the extent of such post-sale confusion.”); *Lois Sportswear U.S.A.*,

ert Denicola notes, “the essentially *predictive* nature of the likelihood of confusion standard permits the accommodation of interests attributable to a host of divergent social and economic prejudices.”<sup>51</sup> Insofar as this is true even of traditional point-of-sale confusion analysis, the chain of inferences required to find bystander confusion only compounds the problem.

The danger of piling on layers of unsupported inference in bystander-confusion cases is particularly acute given that courts have made little effort to distinguish the factual predicates of a likelihood of post-sale confusion from those of a likelihood of point-of-sale confusion.<sup>52</sup> Thus, bystander-confusion theories are frequently found shoehorned into the analysis of a single factor in the multifactor likelihood-of-confusion balanc-

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Inc. v. Levi Strauss & Co., 799 F.2d 867, 872–73 (2d Cir. 1986) (“[P]ost-sale confusion would involve consumers seeing appellant’s jeans outside of the retail store, perhaps being worn by a passer-by. The confusion the Act seeks to prevent in this context is that a consumer seeing the familiar stitching pattern will associate the jeans with appellee and that association will influence his buying decisions.”); Levi Strauss & Co. v. Blue Bell, Inc., 632 F.2d 817, 822 (9th Cir. 1980) (“Wrangler’s use of its projecting label is likely to cause confusion among *prospective* purchasers who carry even an imperfect recollection of Strauss’s mark and who observe Wrangler’s projecting label after the point of sale.”); Cartier v. Aaron Faber Inc., 396 F. Supp. 2d 356, 361 (S.D.N.Y. 2005) (“Individuals viewing the watches on a purchaser’s wrist would be misled as to the true nature of the watch’s craftsmanship, and any effect such identification might have on Cartier’s goodwill with the public is actionable.”); Car-Freshener Corp. v. Big Lots Stores, Inc., 314 F. Supp. 2d 145, 153 (N.D.N.Y. 2004); *see also* Lunney, *supra* note 21, at 407 (“This type of confusion comes very near the focus of deception-based trademark because it concerns incorrect information that may influence consumer-buying decisions. But courts have typically offered only the barest possibility of such confusion, and it is difficult to believe that such confusion would actually prove very widespread, particularly as consumers became aware of the need to separate more precisely imitators from the original. The proffering of this rationale seems, therefore, little more than a rote recital, intended to raise the specter of possible confusion and to create some tenuous link to trademark’s deception-based foundations.”).

51. Robert C. Denicola, *Trademarks as Speech: Constitutional Implications of the Emerging Rationales for the Protection of Trade Symbols*, 1982 WIS. L. REV. 158, 162 n.18 (emphasis added).

52. *See, e.g.*, Gen. Motors Corp. v. Keystone Auto. Indus., Inc., 453 F.3d 351, 356–58 (6th Cir. 2006) (“To assess the likelihood of downstream confusion, we first apply the eight-factor test [used to determine point-of-sale confusion] and then discuss the potential harm from the influx of Tong Yang’s grilles into the stream of commerce. . . although the eight-factor test is arguably less important in assessing downstream confusion than point-of-sale confusion.”); *Lois Sportswear*, 799 F.2d at 873 (“The *Polaroid* factors therefore must be applied with an eye toward post-sale confusion . . .” (citing *Polaroid Corp. v. Polorad Elecs. Corp.*, 287 F.2d 492, 493 (2d Cir. 1961))).

ing analysis applicable to point-of-sale confusion claims,<sup>53</sup> or tacked on to the end of such analysis.<sup>54</sup> In neither case, however, do the courts in question discuss any facts beyond those already reviewed in the point-of-sale confusion analysis that might be probative of the likelihood of the latter links in the causal chain of the bystander confusion injury.<sup>55</sup> In short, current doctrine encourages courts to speculate about the ripples that might spread through the stream of commerce and, ultimately, through society, from an admittedly non-confused purchase.

Some courts, to their credit, appear to be attuned to this danger. The Seventh Circuit has found such causal speculation by a district court to be reversible error, albeit on particularly compelling facts.<sup>56</sup> Similarly, the Third Circuit has affirmed the denial of injunctive relief on the basis of an uncontested district court finding that the accused goods were not of observably lower quality than the plaintiff's authentic products.<sup>57</sup> But counterexamples abound. To take one colorful example, in *Rolex Watch U.S.A., Inc. v. Canner*, the court admitted that it "can only speculate as to the forms such cheapening or dilution

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53. Often the factor in question is related to consumer sophistication, and the analysis amounts to little more than an excuse for refusing to hold this factor in the defendant's favor despite the admitted sophistication of the actual and potential purchasers of the plaintiff's products. *See, e.g., Acxiom Corp. v. Axiom, Inc.*, 27 F. Supp. 2d 478, 497 (D. Del. 1998) ("The 'sophisticated purchaser' rationale generally weighs against the likelihood of confusion. Courts, however, may consider pre-sale and post-sale confusion when evaluating [consumer sophistication]"); *Omega, S.A. v. S & N Jewelry Inc.*, No. 92 Civ. 3656 (PKL), 1992 WL 142746, at \*5 (S.D.N.Y. June 8, 1992).

54. *E.g., Gen. Motors Corp.*, 453 F.3d at 356.

55. *See, e.g., supra* notes 50–54.

56. *Dorr-Oliver, Inc. v. Fluid-Quip, Inc.*, 94 F.3d 376, 382 (7th Cir. 1996) ("The proper examination is not whether some people viewing clamshells in industry plants might be confused, but rather whether *consumers* in the market for clamshells are likely to be confused. . . . Although the district court found that plant tours were given to 'potential customers' from foreign countries, there is no evidence in the record that anyone other than the twelve domestic companies has ever purchased, or even expressed an intention to purchase, a clamshell. A determination that the market for clamshells includes these foreign visitors would be complete speculation."); *see also Perini Corp. v. Perini Constr., Inc.*, 915 F.2d 121, 128 (4th Cir. 1990) (reversing grant of summary judgment to the plaintiff and stating that "[i]n order for a likelihood of confusion among the public, but not typical purchasers [of the parties' construction services], to provide the basis for a trade name infringement action, it must be shown that public confusion will adversely affect the plaintiff's ability to control his reputation among its laborers, lenders, investors, or other group with whom the plaintiff interacts").

57. *Gucci Am., Inc. v. Daffy's, Inc.*, 354 F.3d 228, 234–35 (3d Cir. 2003).

[of the Rolex brand] might take and the injuries that might ensue,” but imposed liability based precisely on such speculation, including the possibility that security guards at an airport might be “confused” should a counterfeit gold watch set off a metal detector.<sup>58</sup> Similarly, in *In re Artic Electronics Co.*, the Trademark Trials and Appeal Board denied a trademark registration on the theory that the registration opponent’s coin and bill change machines could hypothetically malfunction at an arcade, causing children to doubt the “workmanship” of the applicant’s video games bearing the same mark and therefore refuse to play them.<sup>59</sup> In other cases, a chain of events culminating in a trademark injury appears to be assumed *sub silentio*.<sup>60</sup>

In short, the current state of bystander-confusion doctrine is exactly backward. The conclusion that a trademark owner is injured by non-confused purchases of a similarly marked, configured, or packaged product is often assumed by courts speculating about the causal chain of bystander confusion, rather than proven by trademark infringement plaintiffs. Only where a defendant can point to particularly compelling facts, such as the idiosyncratic composition and sophistication of the plaintiff’s consumer base, or the comparatively close quality of the parties’ goods, will courts entertain the possibility that the causal chain might fail to materialize.<sup>61</sup> The cumulative effect of judges’ filling a doctrinal vacuum with their own speculation and departing from that speculation only upon a persuasive showing from the defendant, is tantamount to shifting the burden of proof on likelihood of confusion—the most important element in a trademark infringement plaintiff’s case-in-chief—to

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58. 645 F. Supp. 484, 493 n.3, 495 (S.D. Fla. 1986).

59. 220 U.S.P.Q. (BNA) 836, 837–38 (T.T.A.B. 1983). That the applicant still desired the registration despite the fact that it, rather than the registration opponent, would be the party injured by this hypothesized confusion did not seem to enter into the board’s analysis.

60. Typically the analysis begins and ends with an observation that an observer might be unable to distinguish between the parties’ marks in the post-sale context; what the results of this might be, and how those results might injure the plaintiff is typically left unstated—as is the factual basis for believing those results are likely to occur. *See, e.g., supra* note 50. Cases using such underdeveloped post-sale confusion theories in service of a merchandising right are also typical, though the literature on the merchandising right has addressed this issue thoroughly. *See, e.g., Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*, 457 F.3d 1062, 1077–78 (9th Cir. 2006) (granting summary judgment to automobile manufacturers in a suit against a retailer who sold car accessories adorned with manufacturers’ logos). *See generally* Dogan & Lemley, *supra* note 48.

61. *See supra* notes 56–57 and accompanying text.

the defendant. No lesser authority than the Supreme Court has recently, specifically, and unanimously warned against precisely this form of burden-shifting in trademark infringement cases.<sup>62</sup>

These infirmities of bystander-confusion doctrine are certainly remediable. The most obvious solution is to take those facts that courts have cited in rejecting a bystander-confusion claim and put the burden of establishing *contradictory* facts on the plaintiff. Thus, rather than using the hypothetical possibility of post-sale confusion as a reason to ignore the sophistication of the plaintiff's customers,<sup>63</sup> a court might put the burden on the bystander confusion plaintiff to *prove* that its actual or potential customers are likely to be in a position to observe the defendant's goods in use by others, and moreover that they are the type of consumers whose purchasing behaviors are likely to be influenced by such observations (as opposed to, for example, advertising, point-of-sale inspection, or third-party reviews).<sup>64</sup> Similarly, a bystander-confusion plaintiff might be subjected to the burden of establishing that any quality difference between the parties' products would be detectable to a potential customer of the plaintiff who observes the defendant's product in use by others, and that the types of consumers who would be capable of detecting such a difference under those circumstances would also be the type who would be likely to attribute such differences to the plaintiff.<sup>65</sup> Importantly, these doctrinal innova-

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62. KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 117–21 (2004).

63. See *supra* note 53 and accompanying text.

64. See *supra* note 56 and accompanying text; cf. Hermès Int'l v. Lederer de Paris Fifth Ave., Inc., 50 F. Supp. 2d 212, 226 (S.D.N.Y. 1999) ("While Hermès's potential high-end customers may be confused in the post-sale context, these highly sophisticated purchasers will not be confused at the point of sale."), *aff'd in part on other grounds, rev'd in part*, 219 F.3d 104 (2d Cir. 2000).

65. See *supra* note 57 and accompanying text. Importantly, combining these two criteria recognizes that there are differing classes of consumers that might draw different conclusions from seeing the same product in use, particularly in the markets for luxury goods that are so often the subject of post-sale confusion claims. See Jonah Berger & Morgan Ward, *Subtle Signals of Inconspicuous Consumption*, 37 J. CONSUMER RES. 555, 562–63 (2010) (demonstrating that luxury goods often use "subtle signals" to indicate quality to a narrow band of consumers); Young Jee Han et al., *First Impressions: Status Signaling Using Brand Prominence* 28–32 (USC Marshall Sch. of Bus., Working Paper MKT 15-09, Apr. 2009), available at <http://ssrn.com/abstract=1262479> (proposing a classification system for different levels of consumer brand signaling sophistication). It is also consistent with some cases that declined to impose post-sale confusion liability. See, e.g., Gibson Guitar Corp. v. Paul Reed Smith Guitars, 423 F.3d 539, 552–53 (6th Cir. 2005) ("Gibson argues that . . . [o]n a

tions do not necessarily require any dramatic change in courts' analysis of trademark infringement claims; they merely require courts to be faithful to their own commands to apply the likelihood-of-confusion factors (such as consumer sophistication or product quality) with sensitivity to the particular type of confusion-based injury asserted by the plaintiff.<sup>66</sup>

#### B. DOWNSTREAM CONFUSION

A second species of post-sale confusion is grounded on the theory that a defendant's (admittedly non-confused) customers might gift or resell the defendant's goods in a secondary market in a way that will confuse purchasers or recipients of the goods in that secondary market. In some such cases, the defendant is selling admitted replicas of the plaintiff's goods;<sup>67</sup> in others, the defendant has acquired the genuine article and modified it in some way.<sup>68</sup> In either case, the injury on which liability is grounded is not directly inflicted by the defendant (who sells to a non-confused purchaser), but is rather presumed to be inflicted further down the stream of commerce by one of the defendant's customers. I will refer to this theory of injury as "downstream confusion." What is surprising about the downstream-confusion cases is not that they consider confusing sales or gratuitous transfers in a secondary market harmful to the trademark owner and to the public—that much is uncontroversial.

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distant stage, a smoky bar, wannabe musicians [might think a Paul Reed Smith guitar in the hands of a famous musician is actually a Gibson]. . . . As Gibson concedes that PRS produces high-quality guitars, we do not believe such an occurrence could result in confusion harmful to Gibson. If a budding musician sees an individual he or she admires playing a PRS guitar, but believes it to be a Gibson guitar, the logical result would be that the budding musician would go out and purchase a Gibson guitar. Gibson is helped, rather than harmed, by any such confusion." (citations omitted). Indeed, this point has been conceded even by some courts that *do* impose post-sale confusion liability. *See, e.g., Hermès Int'l*, 219 F.3d at 109 ("In fact, high-end consumers may be less confused than the general public in the post-sale context because many of them will be aware of the existence of copies.").

66. *See, e.g., supra* note 52 and accompanying text.

67. *A.T. Cross Co. v. Jonathan Bradley Pens, Inc.*, 470 F.2d 689, 692 (2d Cir. 1972) ("The last straw was the recent mailing, as bold an attempt at persuading purchasers that their donees would think they were receiving Cross pens as could be imagined.").

68. *Cartier v. Aaron Faber Inc.*, 396 F. Supp. 2d 356, 361 (S.D.N.Y. 2005); *Montblanc-Simplo GMBH v. Staples, Inc.*, 172 F. Supp. 2d 231, 233, *vacated*, 175 F. Supp. 2d 95, 95 (D. Mass. 2001); *cf. Saks & Co. v. Hill*, 843 F. Supp. 620, 623–24 (S.D. Cal. 1993) (speculating that defendant, operator of a thrift store called "Sacks Thrift Avenue," might one day resell a garment bearing plaintiff's label, thereby causing post-sale confusion).

Rather, what is surprising is that these cases give almost no attention to the well-established doctrines that are addressed to such an injury: contributory infringement liability and the first-sale doctrine.

In *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, the Supreme Court limited contributory trademark infringement liability to those cases where the defendant “intentionally induces another to infringe a trademark, or . . . continues to supply its product to one whom it knows or has reason to know is engaging in trademark infringement . . . .”<sup>69</sup> Recent applications of this standard reaffirm that generalized knowledge of a possibility of confusing secondary market sales is insufficient to ground a secondary infringement claim.<sup>70</sup> Whether the defendant’s goods are genuine but modified goods or admitted replicas, treating downstream confusion (that is, confusion of the customers of the defendant’s customers) as primary rather than secondary infringement eliminates this intent element of the plaintiff’s case, lowering its burden merely by rephrasing the nature of its claim. Given that the Supreme Court itself announced the intent element of contributory infringement claims<sup>71</sup> but has never passed on the legitimacy of post-sale confusion,<sup>72</sup> this expansion of secondary liability seems particularly inappropriate.

Moreover, with respect to goods that originated with the plaintiff but are later modified and resold by the defendant (though not with respect to replicas), the first-sale doctrine would seem to be directly applicable. Trademark law’s first-sale doctrine—developed by the Supreme Court in *Prestonettes, Inc. v. Coty*<sup>73</sup> and *Champion Spark Plug Co. v. Sanders*<sup>74</sup>—holds that the resale of a genuine trademarked product by its purchaser is not trademark infringement so long as the reseller’s customers are made aware that any differences in quality be-

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69. 456 U.S. 844, 854 (1982).

70. See, e.g., *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 107 (2d Cir. 2010) (“For contributory trademark infringement liability to lie, a service provider must have more than a general knowledge or reason to know that its service is being used to sell counterfeit goods. Some contemporary knowledge of which particular listings are infringing or will infringe in the future is necessary.”), *remanded*, No. 04 Civ. 4607 (RJS), 2010 WL 3733894 (S.D.N.Y. Sept. 13, 2010), *cert. denied*, 131 S. Ct. 647 (2010).

71. *Inwood Labs.*, 456 U.S. at 854.

72. *Supra* notes 18–19 and accompanying text.

73. 264 U.S. 359 (1924).

74. 331 U.S. 125 (1947).

tween the original and the resold product are attributable to the reseller<sup>75</sup> and the goods are not so changed from their original state “that it would be a misnomer to call the article by its original name . . . .”<sup>76</sup> This principle has been extensively developed in the Circuit Courts of Appeal in cases involving both new and used resale goods, whether modified, refurbished, or repackaged.<sup>77</sup> Yet only recently has any of those courts directly considered the first-sale doctrine’s applicability to a claim of post-sale confusion arising from a defendant’s sale of modified goods that were legitimately purchased from the plaintiff.

The Ninth Circuit addressed this issue in its most recent opinion in the long-running *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.* litigation.<sup>78</sup> Though the case sounds in bystander confusion rather than in downstream confusion, it is the best evidence we have on how courts might manage the interaction of any post-sale confusion claim with a first-sale defense. Au-Tomotive Gold purchased genuine “badges” consisting of the Volkswagen trademark from Volkswagen dealers and incorporated the badges into its “marquee license plates”—in some instances after gold-plating them.<sup>79</sup> Au-Tomotive Gold’s packaging included labels explaining “that the plates were not produced or sponsored by Volkswagen.”<sup>80</sup> The Ninth Circuit rejected Au-Tomotive Gold’s first-sale defense to

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75. *Champion Spark Plug*, 331 U.S. at 130 (“The result is, of course, that the second-hand dealer gets some advantage from the trade mark. But under the rule of *Prestonettes* . . . that is wholly permissible so long as the manufacturer is not identified with the inferior qualities of the product resulting from wear and tear or the reconditioning by the dealer. Full disclosure gives the manufacturer all the protection to which he is entitled.”); *Prestonettes*, 264 U.S. at 368–69 (“The defendant of course by virtue of its ownership had a right to compound or change what it bought, to divide either the original or the modified product, and to sell it so divided. The plaintiff could not prevent or complain of its stating the nature of the component parts and the source from which they were derived if it did not use the trade mark in doing so. . . . If the defendant’s rebottling the plaintiff’s perfume deteriorates it and the public is adequately informed who does the rebottling, the public, with or without the plaintiff’s assistance, is likely to find it out.”).

76. *Champion Spark Plug*, 331 U.S. at 129.

77. See, e.g., *Zino Davidoff S.A. v. CVS Corp.*, 571 F.3d 238, 243 (2d Cir. 2009); *Nitro Leisure Prods. v. Acushnet Co.*, 341 F.3d 1356, 1361–65 (Fed. Cir. 2003); *Davidoff & Cie, S.A. v. P.L.D. Int’l Corp.*, 263 F.3d 1297, 1301–02 (11th Cir. 2001); *Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1085–86 (9th Cir. 1998); *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996).

78. 603 F.3d 1133 (9th Cir. 2010).

79. *Au-Tomotive Gold*, 603 F.3d at 1135.

80. *Id.*

Volkswagen's post-sale confusion claim based largely on the court's assertion that no other court had yet entertained the defense in such a case.<sup>81</sup> In fact, this was not entirely accurate: the *Au-Tomotive Gold* court itself relied heavily on a prior Ninth Circuit case, *Rolex Watch*,<sup>82</sup> that included a thorough analysis under *Champion Spark Plug*, and had grounded liability on its conclusion that the defendant's refurbishment of Rolex watches had so changed the watches from their original state as to "result in [] new product[s]," such that allowing them to be resold under the Rolex name would "be likely to cause confusion to subsequent or downstream purchasers, as well as to persons observing the product."<sup>83</sup>

The *Au-Tomotive Gold* panel went on to disparage its own first-sale-doctrine precedent in order to find in Volkswagen's favor.<sup>84</sup> Just a few paragraphs after citing *Enesco Corp. v. Price/Costco, Inc.*, which had held that "[t]he critical issue [in determining whether secondary market resale of a product that originated with the trademark owner is actionable] is whether the public is likely to be confused *as a result of the lack of quality control*,"<sup>85</sup> the panel asserted that the quality of a modified resold genuine product is irrelevant in post-sale confusion cases because "likelihood of confusion, *not quality control*, is the keystone of trademark law."<sup>86</sup> In short, where post-sale confusion

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81. *Id.* at 1138 ("Auto Gold cannot point to any case in which a court has held that the 'first-sale' doctrine applies when there is a likelihood of post-purchase confusion.")

82. *Id.* at 1137–39.

83. *Rolex Watch U.S.A., Inc. v. Michel Co.*, 179 F.3d 704, 707–10 (9th Cir. 1999). Two recent district court opinions arrived at similar conclusions. *Cartier, Inc. v. Aaron Faber Inc.*, 396 F. Supp. 2d 356, 359–61 (S.D.N.Y. 2005) (holding that where genuine steel Cartier watches that had been polished and bejeweled to resemble more expensive gold Cartier watches, retention of the Cartier mark deceived rather than informed consumers as to the source of the product); *Cartier, Inc. v. Symbolix, Inc.*, 386 F. Supp. 2d 354, 360–61 (S.D.N.Y. 2005) (same). Two earlier Court of Appeals cases deployed similar reasoning to arrive at similar results, again in cases involving luxury watches. *Rolex Watch U.S.A., Inc. v. Meece*, 158 F.3d 816, 825–26 (5th Cir. 1998); *Bulova Watch Co. v. Allerton Co.*, 328 F.2d 20, 23–24 (7th Cir. 1964). Each of these cases presents a complex mix of the three varieties of post-sale confusion identified in this Part. *See supra* note 43 and accompanying text.

84. 603 F.3d at 1139–40.

85. *Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1087 (9th Cir. 1998) (emphasis added), *cited in Au-Tomotive Gold*, 603 F.3d at 1136–37.

86. *Au-Tomotive Gold*, 603 F.3d at 1139 (citing *Westinghouse Elec. Corp. v. Gen. Circuit Breakers & Elec. Supply Inc.*, 106 F.3d 894, 900 (9th Cir. 1997) (emphasis added) (quotation marks omitted)). To be fair, there is some precedent that could be extended to support this argument, but it does not come

doctrine and the first-sale doctrine collide, the Ninth Circuit has held that it will enforce the former and ignore the latter.

If the modification and resale of a legitimately purchased, authentically branded good can give rise to liability under a post-sale confusion theory without regard to the quality controls maintained by the reseller or the disclosures to the reseller's retail customers, it is difficult to see what remains of the first-sale doctrine. Given the long and authoritative pedigree of that doctrine, it once again seems inappropriate to wave it away simply by reframing apposite factual scenarios as post-sale confusion cases. In sum, by circumventing both the first-sale doctrine and the intent element of contributory liability doctrine, downstream-confusion claims generate the same ill effects as bystander-confusion claims, to wit: they relieve trademark plaintiffs of a substantial part of their burden of proof.

These infirmities of downstream-confusion doctrine, like those of bystander-confusion, can be remedied doctrinally. Moreover, courts already possess the tools to accomplish this task. Specifically, by simply applying their own precedents (and the binding precedent of *Inwood Labs*, *Prestonettes*, and *Champion Spark Plug*) where such precedents are applicable, courts could ensure that liability is only imposed against defendants who are actually likely to create relevant confusion in secondary markets. Significantly, this shift might not change the results of many downstream-confusion cases. For example, the defendant in *A.T. Cross Co. v. Jonathan Bradley Pens, Inc.* marketed its pens as suitable for duping donees of the defendant's customers into thinking they had received genuine Cross pens.<sup>87</sup> Such marketing activities would certainly satisfy the *Inwood Labs* standard of "intentionally induc[ing] another to infringe a trademark . . ."<sup>88</sup> Similarly, in *Rolex Watch U.S.A., Inc. v. Meece*, a wholesaler used unauthorized and inferior parts to "convert" steel Rolex watches into gold watches which he then marketed—with full disclosure—to retailers (presumably to be resold to retail customers under the Rolex mark with-

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from the Ninth Circuit. In *Nitro Leisure Prods. v. Acushnet Co.*, the Federal Circuit held that the "quality control" or "material differences" tests for determining whether resale of a product originating with plaintiff is likely to cause confusion apply only to new, repackaged goods, not to used, refurbished goods. 341 F.3d 1356, 1362–63 (Fed. Cir. 2003).

87. 470 F.2d 689, 692 (2d Cir. 1972).

88. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 854 (1982).

out disclosure).<sup>89</sup> In such a case, faithful application of *Champion Spark Plug* and its progeny to a well-developed record should lead the defendant to be held liable. For other cases, however, a doctrinal shift might well change the outcome. It is therefore important to consider one final alternative theory of liability that courts (including the *Au-Tomotive Gold* court) raise in post-sale confusion cases.

### C. STATUS CONFUSION

Assuming that the Ninth Circuit did not intend to do away with the first-sale doctrine, its characterization of the motivations of buyers and sellers of branded goods suggests a concern distinct from both the bystander-confusion and downstream-confusion theories of injury—a concern over free-riding. The *Au-Tomotive Gold* court declared that a reseller who purchases a branded product from authorized channels “is not purchasing the trademark. Rather, the [reseller] is purchasing a product that has been trademarked.”<sup>90</sup> The reseller’s customer, on the other hand, wants the brand itself: “the Rolex name. . . a true Rolex watch.”<sup>91</sup> Given these motivations, the court surmised, “[i]f a producer profits from a trademark because of post-purchase confusion about the product’s origin, the producer is, to that degree, a free-rider.”<sup>92</sup> But in setting up this distinction without ever asking what it is about a branded good that makes it “true,” or about a profit that makes it “free-rid[ing],” the Ninth Circuit ultimately begged the question.<sup>93</sup>

89. 158 F.3d at 818–20.

90. 603 F.3d at 1138.

91. *See id.* at 1139.

92. *Id.* at 1138.

93. Other courts considering similar fact patterns have similarly ducked the issue. *See cases cited supra* note 85. At least one such court appeared to be foreshadowing the *Au-Tomotive Gold* court in treating the “true” mark itself as the product at issue. In *Cartier, Inc. v. Symbolix, Inc.*, the court asked whether the defendant’s modifications to the plaintiff’s product rendered the continued application of the plaintiff’s mark to the product misleading under *Champion Spark Plug*. *Cartier, Inc. v. Symbolix, Inc.*, 386 F. Supp. 2d 354, 359–60 (S.D.N.Y. 2005) (“Plaintiffs have produced evidence indicating that Saleh intentionally reconditioned the watches in such a manner as to make the watches appear ‘exactly the same’ as the gold Cartier Tank Française model. In this sense, the changes defendants made to the watches are not the sort of simple reconditioning or repairs performed in *Champion Spark Plug*, but are unauthorized, substantial modifications resulting in ‘new construction[s].’ . . . The alterations are made with the precise intent to deceive the public (though not the buyer) that the altered product is actually plaintiffs’ higher-end, white gold, diamond-encrusted Cartier Tank Française watch.” (citations omitted)).

Other post-sale confusion cases shed more light on the issue. It is no accident that the *Au-Tomotive Gold* court invoked Rolex watches in disposing of the matter before it; the source of post-sale confusion doctrine lies in such extravagant luxuries, and in fears of free-riding on the social cachet they represent. Before post-sale confusion even had a name, it was invoked to prevent the sale of knockoff luxury goods. The rationale behind these cases is markedly different from that of other forms of post-sale confusion. In the first such case, *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, the Second Circuit explained the theory of injury in blunt terms:

[S]ome customers would buy [the junior user's] cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers' homes would regard as a prestigious article. [The junior user's] wrong thus consisted of the fact that such a visitor would be likely to assume that the clock was [genuine].<sup>94</sup>

Because it is undisputed that the purchaser of the imitation good does not think he is purchasing the genuine good, once again the basis for infringement liability must be confusion other than point-of-sale purchaser confusion. In *Mastercrafters*, such confusion was found not in the marketplace, but in the home, specifically when the purchaser consumes the good in view of a social audience.<sup>95</sup> This theory of injury, which I will refer to as “status confusion,” is thus the historic source of what we know today as post-sale confusion.

Status confusion is the underlying theory in what Professor Barton Beebe has called “a surprisingly persistent line of cases, all involving high-status goods.”<sup>96</sup> These goods range from cigars<sup>97</sup> and watches<sup>98</sup> to handbags<sup>99</sup> and award statues.<sup>100</sup>

94. *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955).

95. *See id.*

96. Beebe, *Sumptuary Code*, *supra* note 21, at 855.

97. *Empresa Cubana del Tabaco v. Culbro Corp.*, 70 U.S.P.Q.2d 1650, 1689 (S.D.N.Y. 2004) (“The use of an almost-identical typeface on the band only adds to the possibility that the consumer may acquire the prestige of smoking a Cuban [cigar] without actually purchasing one.”), *rev'd in part on other grounds*, 399 F.3d 462 (2d Cir. 2005).

98. *Cartier, Inc. v. Symbolix, Inc.*, 454 F. Supp. 2d 175, 182–83 (S.D.N.Y. 2006); *see also* *Rolex Watch U.S.A., Inc. v. Michel Co.*, 179 F.3d 704, 713 (9th Cir. 1999) (finding the defendant's alterations to genuine Rolex watches “so basic that they result[ed] in different product[s]”).

99. *See Hermès Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 109 (2d Cir. 2000).

100. *See Acad. of Motion Picture Arts & Sci. v. Creative House Promotions*,

The argument of these cases makes clear what the Ninth Circuit was referring to in *Au-Tomotive Gold* when it discussed a purchaser's motivations for wanting a "true" luxury good. Put simply, these cases presume that purchasers of such goods are not purchasing a level of product quality associated with the brand, but are rather purchasing the social status that is accorded to those who possess products bearing the brand.

The confusion, and thus the injury, that arises in status-confusion cases are different in kind from the injury in other post-sale confusion cases, or for that matter any other type of trademark infringement case. In the clearest statement of the theory, the Second Circuit in *Hermès International v. Lederer de Paris Fifth Avenue, Inc.* identified two injuries flowing from status confusion.<sup>101</sup> The first injury is visited not on the owner of the mark, but on its customers: "[T]he purchaser of an original is harmed by the widespread existence of knockoffs because the high value of originals, which derives in part from their scarcity, is lessened."<sup>102</sup> The second injury falls not on the mark owner, nor even on its customers, but on the public at large: "A loss [to the public] occurs when a sophisticated buyer purchases a knockoff and passes it off to the public as the genuine article, thereby confusing the viewing public and achieving the status of owning the genuine article at a knockoff price."<sup>103</sup>

A comparison of these injuries with the injuries in other post-sale confusion cases reveals an important distinction: observers in bystander-confusion cases may form mistaken impressions about the quality of the senior user's products, and observers in downstream-confusion cases may form mistaken impressions about the source of products they might acquire in secondary markets. In either case, consumers might make purchasing decisions that would make both them and the mark owner worse-off than either would have been absent the confusion. But the relevant observers in status-confusion cases are not even argued to be *potential* purchasers, and do not appear to be confused about product quality at all. Rather, they are confused about the *consumers* of the products, and specifically about who is entitled to the high social status that the brand is supposed to impart.<sup>104</sup>

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Inc., 944 F.2d 1446, 1455–56 (9th Cir. 1991).

101. 219 F.3d 104.

102. *Id.* at 108.

103. *Id.* at 109.

104. While the *Hermès* court tossed in a point-of-sale confusion theory and

If the injury in the status-confusion cases is that past purchasers of genuine luxury goods who must now abide a lower degree of exclusivity, or that unspecified observers who are unable to reliably determine the social status of the purchasers of certain branded goods, the next obvious question is: who cares? Or more specifically, why should trademark law care? Either supposed injury would seem to be irrelevant to the widely accepted economic policies underlying trademark law—to lower consumer search costs and provide an incentive to the efficient production of quality products.<sup>105</sup> Neither would seem to present any possibility that a consumer would be duped into buying something he didn't want, or that a producer would lose a sale.<sup>106</sup> Some alternative theoretical justification for status-

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a downstream confusion theory for good measure, the former was flatly inconsistent with the lower court's finding that consumers were not likely to be confused at the point of sale, and the latter suffered not only from the inherent doctrinal weakness of downstream confusion arguments generally but also from a complete absence of evidentiary support given the sophistication of consumers of luxury goods. *Compare id.* at 108 ("The creation of confusion in the post-sale context can be harmful in that if there are too many knockoffs in the market, sales of the originals may decline because the public is fearful that what they are purchasing may not be an original. Furthermore, the public may be deceived in the resale market if it requires expertise to distinguish between an original and a knockoff."), *with* *Hermès Int'l v. Lederer de Paris Fifth Ave., Inc.*, 50 F. Supp. 2d 212, 225–26 (S.D.N.Y. 1999) ("Hermès has offered no proof that defendants deceptively attempted to 'pass off' or 'palm off' their products as genuine Hermès. In all instances in which Hermès' investigators asked defendants' salespersons the source of the products, the salespersons never responded 'Hermès', but rather openly acknowledged that the products were Hermès 'knock-offs' or copies. . . . While Hermès's potential high-end customers may be confused in the post-sale context, these highly sophisticated purchasers will not be confused at the point of sale."), *aff'd in part, rev'd in part*, 219 F.3d 104, 107 (2d Cir. 2000).

105. William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 269–70 (1987). I take up the question whether status confusion might cause injury to some other interest that trademark law might serve in Part III.D, *infra*.

106. See McKenna, *supra* note 36, at 1858–60 (arguing that trademark protection has traditionally been deployed to guard against diversion or loss of sales); Renée Ann Richardson Gosline, *The Real Value of Fakes: Dynamic Symbolic Boundaries in Socially Embedded Consumption* 18 (May 2009) (unpublished D.B.A. dissertation, Harvard Business Sch.), available at <http://gradworks.umi.com/3371273.pdf> (finding, based on empirical research, that "counterfeits are primarily not seen as substitutes for the authentic product."). See generally Mark A. Lemley & Mark D. McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413 (2010) (arguing that trademark law should return to a focus on purchasing behavior).

Congress has found that counterfeiting costs the United States \$200 billion annually, robbing "millions of dollars in tax revenue and tens of thousands of jobs" from the American economy. Stop Counterfeiting in Manufac-

confusion liability is called for. The remainder of this Article will attempt to determine what that justification is, and whether it is satisfactory.

## II. VEBLEN BRANDS AND INVISIBLE HANDS

In terms of the economic policies that underlie so much of our thinking about trademark law, there is a logic to the status confusion cases, but it is a perverse one. To understand this logic, we must ask what it means for a status good to be of high quality, as a prelude to understanding how a trademark can convey information about that quality to consumers. The economic literature on status goods is perhaps not as well-developed as it is on other topics of interest to trademark scholars (such as the literature on advertising),<sup>107</sup> but it has a long pedigree, dating at least to Thorstein Veblen's classic work, *The Theory of the Leisure Class*, published in 1899.<sup>108</sup> This literature suggests that the "quality" of status goods is fundamentally different from the "quality" of goods with which trademark law has traditionally concerned itself.

### A. CONSPICUOUS CONSUMPTION

As discussed above, the status-confusion cases all rest on the premise that purchasers of knockoff luxury goods act with a particular purpose: they purchase the knockoffs to display

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tured Goods Act, Pub. L. No. 109-181, 120 Stat. 285, 285 (2006). This is, to put it mildly, a dubious claim. U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-10-423 INTELLECTUAL PROPERTY: OBSERVATIONS ON EFFORTS TO QUANTIFY THE ECONOMIC EFFECTS OF COUNTERFEIT AND PIRATED GOODS 13-14 (2010) [hereinafter ECONOMIC EFFECTS OF COUNTERFEIT] ("Most experts we spoke with and the literature we reviewed observed that despite significant efforts, it is difficult, if not impossible, to quantify the net effect of counterfeiting and piracy on the economy as a whole."); see also David S. Wall & Joanna Large, *Jailhouse Frocks: Locating the Public Interest in Policing Counterfeit Luxury Fashion Goods*, 50 BRIT. J. CRIMINOLOGY 1094, 1094-98 (2010); Felix Salmon, *All Counterfeiting Statistics Are Bullshit*, FELIX SALMON (June 9, 2005), <http://www.felixsalmon.com/2005/06/all-counterfeiting-statistics-are-bullshit/> (questioning the accuracy of statistics of counterfeit goods).

107. For a recent survey of the voluminous literature on the economics of advertising, see Kyle Bagwell, *The Economic Analysis of Advertising*, in 3 HANDBOOK OF INDUSTRIAL ORGANIZATION 1701 (Mark Armstrong & Robert H. Porter eds., 2007).

108. THORSTEIN VEBLEN, *THE THEORY OF THE LEISURE CLASS* (Houghton Mifflin Co. 1973) (1899). For a summary and synthesis of Veblen's predecessors and successors in the economic theory of conspicuous consumption, see generally ROGER MASON, *THE ECONOMICS OF CONSPICUOUS CONSUMPTION: THEORY AND THOUGHT SINCE 1700* (1998).

them to others in the hopes that observers will accord them the status or prestige that attaches to the genuine luxury good. Veblen explored this impulse over a century ago, coining the term “conspicuous consumption” to describe it.<sup>109</sup> Veblen argued that the possession of accumulated material wealth—the trophies of success in various stages of social organization—confers superior social standing.<sup>110</sup> Because relatively high social standing is something we all want,<sup>111</sup> and because relative social standing exists only in comparison with others,<sup>112</sup> socie-

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109. VEBLEN, *supra* note 108, at 68–101.

110. *Id.* at 29–30 (“[M]an is an agent. He is, in his own apprehension, a center of unfolding impulsive activity—‘teleological’ activity. He is an agent seeking in every act the accomplishment of some concrete, objective, impersonal end. By force of his being such an agent he is possessed of a taste for effective work, and a distaste for futile effort. He has a sense of the merit of serviceability or efficiency and of the demerit of futility, waste, or incapacity. This aptitude or propensity may be called the instinct of workmanship. Wherever the circumstances or traditions of life lead to an habitual comparison of one person with another in point of efficiency, the instinct of workmanship works out in an emulative or invidious comparison of persons. . . . In any community where such an invidious comparison of persons is habitually made, visible success becomes an end sought for its own utility as a basis of esteem. Esteem is gained and dispraise is avoided by putting one’s efficiency in evidence.”); *id.* at 35 (“[I]t is only when taken in a sense far removed from its naïve meaning that consumption of goods can be said to afford the incentive from which accumulation invariably proceeds. The motive that lies at the root of ownership is emulation. . . . The possession of wealth confers honor; it is an invidious distinction.”); *id.* at 36–37 (“[P]ossessions then come to be valued not so much as evidence of successful foray, but rather as evidence of the prepotence of the possessor of these goods over other individuals within the community. The invidious comparison now becomes primarily a comparison of the owner with the other members of the group. . . . [P]roperty now becomes the most easily recognized evidence of a reputable degree of success. . . . It therefore becomes the conventional basis of esteem. Its possession in some amount becomes necessary in order to have any reputable standing in the community. . . . The possession of wealth, which was at the outset valued simply as an evidence of efficiency, becomes, in popular apprehension, itself a meritorious act. Wealth is now itself intrinsically honorable and confers honor on its possessor.”).

111. *See id.* at 38 (“Those members of the community who fall short of this, somewhat indefinite, normal degree of prowess or of property suffer in the esteem of their fellowmen; and consequently they suffer also in their own esteem, since the usual basis of self-respect is the respect accorded by one’s neighbors. Only individuals with an aberrant temperament can in the long run retain their self-esteem in the face of the disesteem of their fellows. . . . In any community where goods are held in severalty it is necessary, in order to ensure his own peace of mind, that an individual should possess as large a portion of goods as others with whom he is accustomed to class himself; and it is extremely gratifying to possess something more than others.”).

112. *Id.* at 39 (“[T]he end sought by accumulation is to rank high in comparison with the rest of the community in point of pecuniary strength. So long as the comparison is distinctly unfavorable to himself, the normal, average in-

ties lock themselves into a perpetual and ultimately futile struggle in which individuals compete to exceed one another in wealth: “no general increase of the community’s wealth can make any approach to satiating this need, the ground of which is the desire of everyone to excel everyone else in the accumulation of goods.”<sup>113</sup>

Much of *The Theory of the Leisure Class* is occupied with documenting the various modes of this social competition that prevailed in Veblen’s day. While many if not all of these examples can still be found in American society a century later,<sup>114</sup> perhaps the most generalizable and lasting example has been the impulse to engage in the conspicuous consumption of goods. Modern economists have developed Veblen’s insight into formal models under which the price or scarcity of a good is, in and of itself, an element of its utility.<sup>115</sup> Under these models, demand for a particular good can *increase* as the price or scarcity of the

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dividual will live in chronic dissatisfaction with his present lot; and when he has reached what may be called the normal pecuniary standard of the community, or of his class in the community, this chronic dissatisfaction will give place to a restless straining to place a wider and ever-widening pecuniary interval between himself and this average standard. The invidious comparison can never become so favorable to the individual making it that he would not gladly rate himself still higher relatively to his competitors in the struggle for pecuniary reputability.”)

113. *Id.* at 39.

114. *Compare, e.g., id.* at 86–87 (“The low birthrate of the classes upon whom the requirements of reputable expenditure fall with great urgency is likewise traceable to the exigencies of a standard of living based on conspicuous waste. The conspicuous consumption, and the consequent increased expense, required in the reputable maintenance of a child is very considerable and acts as a powerful deterrent.”), with Tina Fey, *Confessions of a Juggler*, *NEW YORKER*, Feb. 14 & 21, 2011, at 64, 64 (“All over Manhattan, large families have become a status symbol. Four beautiful children named after kings and pieces of fruit are a way of saying, ‘I can afford a four-bedroom apartment and a hundred and fifty thousand dollars in elementary-school tuition fees each year. How *you* livin’?”).

115. *See, e.g.,* H. Leibenstein, *Bandwagon, Snob, and Veblen Effects in the Theory of Consumers’ Demand*, 64 *Q.J. ECON.* 183, 199–205 (1950) (“The essential economic characteristic with which we are concerned is the fact that the utility derived from a unit of a commodity employed for purposes of conspicuous consumption depends not only on the inherent qualities of that unit, but also on the price paid for it.”); *see also* Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 *J.L. & ECON.* 211, 211–26 (1986) (applying Leibenstein’s model to the counterfeiting phenomenon); Laurie Simon Bagwell & B. Douglas Bernheim, *Veblen Effects in a Theory of Conspicuous Consumption*, 86 *AM. ECON. REV.* 349 (1996) (examining factors that cause luxury brands to sell at higher prices than budget brands, even when the brands are functionally equivalent). For an overview of economists’ efforts to understand conspicuous consumption, *see generally* MASON, *supra* note 108.

good increases, precisely because conspicuously costly or rare goods serve as “signals” of social status. In honor of Veblen’s insights, economists refer to such goods as “Veblen goods.”<sup>116</sup> Markets for Veblen goods are peculiar insofar as the social signal of expense or scarcity itself, rather than the physical good in which that signal is manifested, becomes the object of exchange.<sup>117</sup>

Professor Jeffrey Harrison clearly summarizes these models in his recent exploration of the relationship of trademark law to status goods,<sup>118</sup> while Professor Barton Beebe extends the analysis to non-hierarchical consumption-based social differentiation in his recent discussion of what he describes as the “sumptuary turn” in intellectual property law.<sup>119</sup> This Article will not duplicate their work, but rather seeks to build on it by focusing in on narrower questions specifically presented by the status-confusion cases. Thus, where Professor Harrison frames the ultimate policy question posed by the status-confusion cases as determining whether status signals have the characteristics of a “public good,”<sup>120</sup> this Article will explore the definitional questions that precede such a determination and the policy questions that follow from it. Insofar as they bear directly on the relationship between the legal regulation of status-signaling marks and the legal regulation of expression, these questions have significance that Professor Harrison’s economic analysis elides completely and Professor Beebe’s sweeping social critique touches only in passing.<sup>121</sup>

Such questions may seem so obvious that they often go unasked, but they are essential to understanding the role being played by trademark law in the status-confusion cases. The first question that must be asked is: what does it mean to “signal” status? And the second is: why do we resort to consumption to send such a signal?

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116. See generally, e.g., B. Curtis Eaton & Mukesh Eswaran, *Well-Being and Affluence in the Presence of a Veblen Good*, 119 *ECON. J.* 1088 (2009).

117. See generally Shahar Dillbary, *Famous Trademarks and the Rational Basis for Protecting “Irrational Beliefs,”* 14 *GEO. MASON L. REV.* 605 (2007).

118. See Harrison, *supra* note 22, at 204–09. For a related summary offered as background to analysis of status-good manufacturers’ incentives to police counterfeiting, see Barnett, *supra* note 22, at 1386–92.

119. See Beebe, *Sumptuary Code*, *supra* note 21, at 816–30.

120. See Harrison, *supra* note 22, at 210–19. Professor Harrison then moves on to examine whether there might be a moral rights argument for using trademark law to prevent unauthorized copying of status signals, see *id.* at 220–26, an argument I take up below. See *infra* Part III.C.1.

121. See Beebe, *Sumptuary Code*, *supra* note 21, at 821, 883–84.

## B. SIGNALS AND THE LEMONS PROBLEM

Veblen posited that the key to relative social status is not just acquiring wealth; it is being known by others as having relatively high wealth.<sup>122</sup> Wealth is of little social use unless it can be *signaled* to others: the fact that one has a large amount of wealth must in some way be communicated to and understood by one's social audience.<sup>123</sup> It is logical to ask, then, why those who desire high status don't use more direct and convenient modes of information transfer and simply *tell* their social relations that they're wealthy. They might make a habit of introducing themselves by name, annual income, and net worth; or by printing the same information on business cards; or silk-screening it onto articles of clothing; or by publishing it in a newspaper; or distributing it on flyers. In other words, they could engage in explicit *speech* to acquire the social status that attaches to wealth, and at a far lower cost than through conspicuous consumption of expensive or rare goods. This raises the question: why is overt speech not the universal tool for signaling, and thereby acquiring, social status?

Part of the reason may be that social norms suppress such expression.<sup>124</sup> Normative social commitments (*e.g.*, democratic solidarity, egalitarianism, populism) may discourage expressions of wealth-based difference.<sup>125</sup> The undesirable consequences of rivalry and envy may deter calling attention to inequality in any direct way.<sup>126</sup> Perhaps for these reasons, it has long been considered bad manners, or worse, bad citizenship to talk about or otherwise overtly draw attention to one's wealth,<sup>127</sup> though these mores may be changing.<sup>128</sup> Still, there is

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122. VEBLLEN, *supra* note 108, at 42.

123. *Id.*

124. *See, e.g.*, Bagwell & Bernheim, *supra* note 115, at 367 ("Obviously there are other important considerations that influence the choice of a signal; completely transparent exhibitions of wealth seem socially unacceptable.").

125. *See id.*

126. *See, e.g.*, David Card et al., *Inequality at Work: The Effect of Peer Salaries on Job Satisfaction*, 102 AM. ECON. REV. (forthcoming 2012), available at <http://emlab.berkeley.edu/~moretti/ucpay.pdf> (reporting an study finding that knowledge that one's income is less than average inflicts psychological harm, while knowledge that one's income is above average does not provide a psychological benefit).

127. EMILY POST, *ETIQUETTE: IN SOCIETY, IN BUSINESS, IN POLITICS AND AT HOME* 506 (9th ed. 1923) ("A very well-bred man intensely dislikes the mention of money, and never speaks of it (out of business hours) if he can avoid it."); Daniel Gross, *Skip the Yacht Race*, SLATE (June 22, 2010), <http://www.slate.com/id/2257823/> (proposing the first of three rules governing

a more compelling argument for the prevalence of consumption over speech as a means of signaling wealth-based status. Moreover, this argument shares strong affinities with the economic model that justifies trademark law.

The primary barrier to using speech as a signal of wealth-based status is likely the fact that *anyone* can *say* he is wealthy. Speech is essentially costless. And if Veblen is correct that the desire for wealth-based status is universal and unquenchable, we should expect people to make overt claims of wealth constantly, even if they lack significant wealth. However, it is likely to be very difficult (that is, costly) for the hearers of explicit claims of wealth to determine whether such claims are true, even if they were motivated enough to try. Because explicitly claiming to have superior wealth is easy and costless despite high demand, but verifying such claims is costly, a claim of wealth cannot be credibly made through ordinary verbal expression. Inevitably, using speech to signal social status causes a kind of market failure.<sup>129</sup>

This type of market failure should be familiar to trademark scholars: it is known in the economics literature as a “lemons problem.” In his classic paper,<sup>130</sup> Professor George Akerlof explained that in markets where information about products is asymmetrical—that is, where sellers know more about product quality than buyers can reasonably be expected to find out—the fear of being cheated causes buyers to demand risk discounts, potentially below prices that sellers of quality goods are willing to accept.<sup>131</sup> Akerlof illustrated the point with a discussion of the used-car market. He reasoned that the risk discounts demanded by buyers would ultimately drive sellers of quality cars out of the market, which would become flooded with “lemons,” the only cars sellers are willing to sell at the price buyers are willing to pay.<sup>132</sup> The spiraling decline in product quality in

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CEOs’ conspicuous consumption: “Avoid any activity generally linked with European aristocracy”).

128. See Alex Williams, *Not-So-Personal Finance*, N.Y. TIMES (SUNDAY STYLES) Apr. 27, 2008, at 1.

129. Cf. Barnett, *supra* note 22, at 1388–90 (noting the “negative consumption externalit[ies]” due to “additional perceived users outside the elite consumer class”); Beebe, *Sumptuary Code*, *supra* note 21, at 826–28 (noting the “congestion externalities” that frustrate the cultivation of consumption-based social distinction).

130. See George A. Akerlof, *The Market for “Lemons:” Quality Uncertainty and the Market Mechanism*, 84 Q.J. ECON. 488, 489–92 (1970).

131. *Id.*

132. *Id.*

turn would ultimately drive buyers out of the market, with the result that no goods can trade.<sup>133</sup> The lemons problem is a particular form of market failure that can be avoided by mitigating the information asymmetry that causes it. One of the ways of doing so is by using a trademark in iterated commercial encounters to serve as indicia of a reputation for quality.<sup>134</sup> By reliably exposing producers to future losses if they attempt to deceive buyers regarding product quality, trademarks can prevent the lemons problem and encourage the production of high-quality goods.

Returning to the “conspicuous consumption” phenomenon, we can see how the logic of Akerlof’s argument applies to the market failure that would result from using speech to signal status. In the “market” for social status, the information asymmetry at issue is not between sellers and buyers of goods, but between claimants of social status and the social audience that decides whether to confer such status. Where such status is hierarchically determined by relative wealth, for example, the claimant plays the role of seller, as he generally has superior information to his audience as to whether he has the qualities—in this case, wealth—he claims. Because speech is costless but status is valuable, a false assertion of wealth leaves a speaker no worse off—even if he is not believed—and, potentially, much better off—if he is.<sup>135</sup> However, because the audience (playing the role of buyer) is aware of the speaker’s incentives and cannot easily verify his claims of superior wealth, the proliferation of false claims of wealth would cause all claims of wealth to be disbelieved, even if they were true.<sup>136</sup> Just as the

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133. *Id.*

134. *See id.* at 499–500 (explaining that brand names can “counteract[] the effects of quality uncertainty”).

135. This assertion assumes that there is no social sanction—e.g., excommunication from one’s social group—for such false declarations. Of course, this assumption may not be sound in all cases, particularly in small communities or social groups, but on the social scale at which trademark-related conspicuous consumption generally operates, it is likely to be a good approximation. *E.g.*, Beebe, *Sumptuary Code*, *supra* note 21, at 884 (“This is most apparent in the global trademark system, populated as it is by globally famous ‘hypermarks’ that are not so much designations of source as commodified simulations of such designations, simulations that are themselves the focus of consumption rather than the underlying product, if any, to which they are affixed.”).

136. The question whether this argument applies with equal force to non-hierarchical forms of social distinction, such as those explored in Beebe, *Sumptuary Code*, *supra* note 21, is beyond the scope of this Article. This limitation is of little relevance precisely because the status-confusion cases are

owner of a high-quality used car cannot get a fair price due to the proliferation of lemons in the used car market,<sup>137</sup> the truly wealthy individual cannot acquire high social status merely by verbally asserting his wealth. In sum, verbal signaling of wealth-based social status is suppressed—in the absence of legal intervention—by social and economic forces.

### C. LEMONS IN THE MARKET FOR SOCIAL STATUS

In order to prevent this market failure and circumvent the suppression of status signals by social and economic forces, attempts to claim wealth-based status must somehow be made costly to the claimant, just as putting one's reputation and future business on the line is supposed to make the sale of poor-quality goods costly to a trademark owner. Veblen argued that society's solution to this problem was conspicuous material waste. "In order to gain and to hold the esteem of men," he posited, "it is not sufficient merely to possess wealth or power. The wealth or power must be put in evidence, for esteem is awarded only on evidence."<sup>138</sup> To this end, Veblen observed what he termed the "leisure class" engaging in conspicuous consumption of naturally scarce and therefore costly goods: hand-made silver spoons instead of machine-made aluminum ones;<sup>139</sup> precious metals and gems;<sup>140</sup> expensive "food, drink, [and] narcotics;"<sup>141</sup> fashionable dress.<sup>142</sup> "Since the consumption of these more excellent goods is an evidence of wealth," Veblen wrote, "it becomes honorific; and conversely, the failure to consume in due quantity and quality becomes a mark of inferiority and demerit."<sup>143</sup>

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almost by definition concerned with high-priced, luxury products. Nevertheless, to the extent that social distinction along dimensions other than wealth—even non-hierarchical dimensions—is too scarce to satisfy the demand for it, the same dynamic might be expected wherever a seeker of status might attempt to stake a claim through non-scarce speech, and may be reflected in trademark law. The merchandising cases are one area where such a dynamic may be in evidence, though there are certainly alternative explanations for their outcomes. *See, e.g.*, Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603 (1984) (analyzing policy justifications for merchandising protections); Dogan & Lemley, *supra* note 48 (same).

137. *See* Akerlof, *supra* note 130, at 489–92.

138. VEBLEN, *supra* note 108, at 42.

139. *Id.* at 94–95.

140. *Id.* at 96.

141. *Id.* at 61–64.

142. *Id.* at 118–31.

143. *Id.* at 64; *see also* Bagwell & Bernheim, *supra* note 115, at 366–67 (noting the "money-burning" or "dissipative" nature of signaling through con-

American judges interpreting the Lanham Act in the late twentieth and early twenty-first centuries have taken Veblen's insight a step further. As discussed above, courts in status-confusion cases claim that the same status-seeking behavior Veblen documented with respect to naturally rare and therefore costly goods can extend to goods that are artificially scarce due to the marketing strategies of a trademark owner. In short, the common-law evolution of trademark infringement has replaced Veblen goods with "Veblen brands." Economists have noted this shift:

Traditionally, the purpose of brand names has been to assure quality. The buyer of a branded good could rely on the reputation of the manufacturer to guarantee the quality of the good. . . . More recently, trademarks seem to have taken on an additional function. *Many persons purchase branded goods for the purpose of demonstrating to others that they are consumers of the particular good.*<sup>144</sup>

In the legal academic literature, Professor Shahar Dillbary has brought this economic observation full circle, arguing that one of the "products" being sold with a branded good is precisely the social signal the brand conveys, separate and apart from the good's physical qualities.<sup>145</sup> And again, Professor Beebe extends the argument to non-hierarchical forms of social distinction, arguing that the logical end result of conspicuous consumption in the modern age of easy copying and rapid innovation is an entropic slide into indistinction.<sup>146</sup>

This substitution of brands for goods explains courts' concern in the status-confusion cases over the defendants' customers who "achiev[e] the status of owning the genuine article at a knockoff price"<sup>147</sup>—and indeed, their concern with price in general. Breaking the link between a Veblen brand and the price paid for it threatens its credibility as a signal of wealth. While

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spicuous consumption); Jeremy N. Sheff, *Biasing Brands*, 32 CARDOZO L. REV. 1245, 1282 (2011). On the notion of money-burning signaling in general, see Benjamin Klein & Keith B. Leffler, *The Role of Market Forces in Assuring Contractual Performance*, 89 J. POL. ECON. 615, 629–33 (1981); Phillip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729, 731–34 (1974). See generally Richard E. Kihlstrom & Michael H. Riordan, *Advertising as a Signal*, 92 J. POL. ECON. 427 (1984) (developing a mathematical model to describe the quality-signaling function of advertising); Paul Milgrom & John Roberts, *Price and Advertising Signals of Product Quality*, 94 J. POL. ECON. 796 (1986) (same, for both prices and advertising levels).

144. Higgins & Rubin, *supra* note 115, at 211 (emphasis added).

145. See Dillbary, *supra* note 117, at 620–28.

146. See Beebe, *Sumptuary Code*, *supra* note 21, at 882–84.

147. *Hermès Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 109 (2d Cir. 2000).

the judges in these cases sometimes refer to product “quality,”<sup>148</sup> it is clear that the products’ physical qualities or workmanship are not at issue, or there would be no need to resort to status-confusion theories rather than bystander-confusion or downstream-confusion theories (or even traditional point-of-sale confusion theories). Rather, the “quality” sought by consumers in the market for status goods is the quality of the *message* the brand conveys: its ability to communicate social status to others.

Thus, the information asymmetry that trademarks are called on to mitigate in the status-confusion cases is not between buyers and sellers of goods bearing Veblen brands—genuine or counterfeit. Rather, the asymmetry is between purchasers of goods bearing Veblen brands—genuine or counterfeit—and their social audience. The information as to which the asymmetry exists is not ultimately about the product at all, but about the social status of the person consuming it. And consequently, the failure that this line of cases guards against is not in the market for any particular class of goods, but in the market for social status. Put simply, the “lemons” in the status-confusion cases are not used cars, and they are not really even clocks or handbags or watches; they are people.

While the metaphor of the lemons problem provides a useful tool for understanding the policy underlying the status-confusion cases, it raises problems of its own. Specifically, it reveals the underlying nature of conspicuous consumption—of status signaling in general—as not only *social*, but *expressive* as well. It is precisely the desire to communicate information about oneself to others that generates the impulse for conspicuous consumption, and it is the asymmetry of information between speaker and audience that prevents this communication from taking a form we would more easily recognize as speech.

The primary effect of legal enforcement of Veblen brands is thus to divert the impulse for social expression out of the arena of costless speech and into a market system. Because the market would fail without a mechanism for rationing status signals, such signals must be rendered scarce somehow. Absent natural scarcity, legal intervention would appear to be the only alternative. The courts in status-confusion cases have seized on this alternative, creating legally enforceable rights to exclude others from status signals—propertizing them. Trademark

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148. See, e.g., *id.* at 108 (quoting *United States v. Torkington*, 812 F.2d 1347, 1353 n.6 (11th Cir. 1987)).

law—which has propertized symbols for centuries in the service of commerce—may appear to be a convenient legal instrument for this purpose. However, because the social signaling function of Veblen brands pertains not to the commercial relationships among buyers and sellers that we traditionally look to trademark law to regulate, but rather to social relationships among members of a community, the status-confusion cases raise issues of policy and even of constitutionality that are not implicated by any other area of trademark law.

### III. THE MARKET FOR SOCIAL EXPRESSION

Signaling status is an expressive act, which means that courts' extension of trademark infringement liability under the Lanham Act to status-confusion may implicate the First Amendment. But the mere fact that conspicuous consumption is expressive in nature does not necessarily imply a specific conclusion with regard to the constitutionality of this area of trademark law. Rather, it poses a set of questions about the appropriate role of government in regulating Veblen brands. A consumer is "saying" something by wearing a Rolex watch or an Hermès handbag on her arm, just as a high-school student in Des Moines is saying something by wearing a black band on his arm during the Vietnam War<sup>149</sup> (and, for that matter, just as a pharmacist is saying something by posting a price list in his shop window).<sup>150</sup> Obviously this does not imply that all these forms of expression are, or should be, treated equally under the First Amendment. Nevertheless, First Amendment analysis is a useful lens for examining the policy implications of status-confusion doctrine, largely because it demands that justifications for the doctrine be identified and balanced against competing concerns.<sup>151</sup> This Part argues that status-confusion doc-

149. See *Tinker v. Des Moines Indep. Cnty. Sch. Dist.*, 393 U.S. 503, 503 (1969).

150. See *Va. State Bd. of Pharm. v. Va. Citizens Consumer Council, Inc.*, 425 U.S. 748, 748 (1976).

151. A complete doctrinal analysis of the appropriate categorization of these cases for purposes of determining the appropriate level of First Amendment scrutiny is beyond the scope of this Article. Readers in search of such a thorough analysis of trademark law generally may wish to refer to Lisa P. Ramsey, *Increasing First Amendment Scrutiny of Trademark Law*, 61 SMU L. REV. 381 (2008), and Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 185–86, 216–24 (1998). To these analyses, which generally conclude that the effect of trademark law on expression is not content-neutral, I would merely add that, to the extent that status-confusion doctrine as a whole purports to limit claims of social sta-

trine runs afoul of the First Amendment, but I recognize that this constitutional analysis is likely to be controversial. Even if the reader disagrees with my ultimate conclusion, this Part's analysis should suffice to demonstrate that the policy interests underlying the First Amendment—interests in democratic egalitarianism, in the truth-forcing power of uninhibited debate, in the dignitary value of uninhibited self-expression and self-definition, and in protecting disfavored or controversial political and social points of view from government suppression—are at stake in status-confusion cases; and that these interests are not being sufficiently considered by the courts deciding such cases.

#### A. THRESHOLD FIRST AMENDMENT QUESTIONS

Before proceeding to the ultimate question whether status-confusion doctrine withstands First Amendment scrutiny, there are a number of formal hurdles the matter must clear. Failure to clear these doctrinal hurdles might lead to the conclusion that the First Amendment does not even apply to the conduct at issue in status-confusion cases. This Section considers those threshold issues, and argues that the First Amendment is indeed applicable.

##### 1. State Action

As a preliminary matter, we must ask whether the conspicuous consumption of Veblen brands is the type of conduct that even comes under the First Amendment's protections. The first barrier to such protection is the state-action requirement—the rule that the First Amendment restrains the actions of the government only, not those of private parties.<sup>152</sup> This is, in essence, the objection that the Court raised and rejected in

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tus to those who make such claims by virtue of relatively superior wealth, the doctrine is likely not viewpoint-neutral either. *Cf.* *R.A.V. v. City of St. Paul*, 505 U.S. 377, 392 (1992) (“[The government] has no such authority to license one side of a debate to fight freestyle, while requiring the other to follow Marquis of Queensberry rules.”); *infra* Part III.B.

152. *Hudgens v. NLRB*, 424 U.S. 507, 513 (1976) (“It is, of course, a commonplace that the constitutional guarantee of free speech is a guarantee only against abridgment by government, federal or state. Thus, while statutory or common law may in some situations extend protection or provide redress against a private corporation or person who seeks to abridge the free expression of others, no such protection or redress is provided by the Constitution itself.” (internal citation omitted)).

*New York Times Co. v. Sullivan*.<sup>153</sup> Although some lower courts have found to the contrary,<sup>154</sup> commentators largely conclude—in accord with *Sullivan*—that the enforcement of a judgment in a trademark action in such a way as to burden expression would satisfy the state-action requirement.<sup>155</sup> This Article will not dwell on the issue, which has been thoroughly discussed by those commentators. Assuming the status-confusion cases involve state action, the question remains: does the imposition of liability in these cases burden expression?

## 2. Symbolic Expression/Expressive Conduct

Starting with the expressive content of the consumption of Veblen brands, the Court's opinion in *Texas v. Johnson* provides the relevant test:

In deciding whether particular conduct possesses sufficient communicative elements to bring the First Amendment into play, we have asked whether '[a]n intent to convey a particularized message was present, and [whether] the likelihood was great that the message would be understood by those who viewed it.'<sup>156</sup>

Based on the nuanced views of social scientists, it is unclear that conspicuous consumption of Veblen brands passes this test. From the social critic's perspective, "the primary objection to the view that consumption choices are a form of language is that it improperly assumes 'the existence of a shared system of symbols.'"<sup>157</sup> Similarly, economists appear to have concluded

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153. 376 U.S. 254, 265 (1964) ("Although this is a civil lawsuit between private parties, the Alabama courts have applied a state rule of law which petitioners claim to impose invalid restrictions on their constitutional freedoms of speech and press. It matters not that that law has been applied in a civil action. . . . The test is not the form in which state power has been applied but, whatever the form, whether such power has in fact been exercised.").

154. *Reddy Commc'ns, Inc. v. Envtl. Action Found.*, 199 U.S.P.Q. 630, 633–34 (D.D.C. 1977); *Interbank Card Ass'n v. Simms*, 431 F. Supp. 131, 133–34 (M.D.N.C. 1977); *Empire Home Servs., L.L.C. v. Empire Iron Works, Inc.*, No. 05-CV-72584, 2007 WL 1218717, at \*8 (E.D. Mich. 2007 April 23, 2007).

155. See *Denicola*, *supra* note 51, at 190 & n.146; *Lemley & Volokh*, *supra* note 151, at 185–86, 216–24; *Ramsey*, *supra* note 151, at 407–09.

156. 491 U.S. 397, 404 (1989) (quoting *Spence v. Washington*, 418 U.S. 405, 410–11 (1974)).

157. Beebe, *Sumptuary Code*, *supra* note 21, at 883 (quoting Colin Campbell, *When the Meaning Is Not a Message: A Critique of the Consumption as Communication Thesis*, in *BUY THIS BOOK: STUDIES IN ADVERTISING AND CONSUMPTION* 340, 341 (Mica Nava et al. eds., 1997)). *But see* Beebe, *Semiotic Analysis*, *supra* note 46, at 703 ("It has long been a cliché, of social theory as much as of advertising practice, that consumers communicate with each other by the objects they consume. Of late, however, commodity culture has begun to unburden itself of the object language of material commodities. The trademark

that different brands send different social signals depending on the sender and recipient, the consumer and his or her social observer.<sup>158</sup>

Such ambiguity and nuance are not recognized, however, by the courts that decide the status-confusion cases, who universally assert that the consumption of both genuine and counterfeit branded goods is intended to and in fact does convey a particular message of social status.<sup>159</sup> Indeed, this proposition is a necessary step in establishing infringement in the status-confusion cases. Absent the receipt of a supposedly false social message by post-sale observers, the injury on which liability depends simply evaporates—there is no other “confusion” presented by the facts.<sup>160</sup> As such, the status-confusion cases themselves conclude—or at least assume—that the conspicuous consumption of Veblen brands has “sufficient communicative elements” to bring the First Amendment into play.

Granted, the status-confusion courts’ reasoning on this score is almost embarrassingly unsophisticated. The social science literature described above suggests that rather than being strictly a means to efficiently and effectively assert wealth-based hierarchical social status, conspicuous consumption of branded goods is part of a subtle and complex process of social definition, affiliation, and differentiation along countless dimensions.<sup>161</sup> Were the status-confusion courts to take such

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system has developed as an alternative language of consumption, and its development has been rapid indeed. No other language in history, and certainly no other language of distinction, has experienced such explosive growth, both extensively and intensively, in so short a time. The trademark system’s classificatory scheme now orders culture as much as the market. To be sure, it is not the only such system to do so, but none exercises its classifying function so exoterically, in terms so easily and widely understood.”)

158. See Berger & Ward, *supra* note 65, at 565–66; Han et al., *supra* note 65, at 28–32.

159. See, e.g., *Mastercrafters Clock & Radio Co. v. Vacheron & Constantin-Le Coultre Watches, Inc.*, 221 F.2d 464, 466 (2d Cir. 1955) (“[S]ome customers would buy plaintiff’s cheaper clock for the purpose of acquiring the prestige gained by displaying what many visitors at the customers’ homes would regard as a prestigious article.”); see also *supra* Part I.C.

160. See, e.g., *supra* note 104.

161. See Berger & Ward, *supra* note 66, at 565–66; Jennifer Edson Escalas & James R. Bettman, *You Are What They Eat: The Influence of Reference Groups on Consumers’ Connections to Brands*, 13 J. CONSUMER PSYCH. 339, 339 (2003), available at [http://dx.doi.org/10.1207/S15327663JCP1303\\_14](http://dx.doi.org/10.1207/S15327663JCP1303_14) (“When brand associations are used to construct the self or to communicate the self-concept to others, a connection is formed with the brand. . . . [A]ssociations about reference groups become associated with brands those groups are perceived to use, and vice versa. The set of associa-

complex social phenomena into account, it is possible that countervailing interests in expressive association<sup>162</sup> might be as strongly implicated as the interests in expression discussed in this paper, and that Veblen's model would lose much of its appeal.<sup>163</sup> Professor Beebe has provided a thorough exploration of the role of intellectual property law in the construction, perpetuation, and dissolution of these non-hierarchical forms of social distinction,<sup>164</sup> and his analysis is likely more accurate than that of the courts deciding status-confusion cases in its description of conspicuous consumption. Nevertheless, status-confusion doctrine rests on a set of assumed facts about the nature of consumption, and so long as courts continue to rely on those assumptions in applying trademark liability, it is only proper that the same facts be subjected to First Amendment analysis.

### 3. Standing

The fact that consumption of Veblen brands is expressive does not necessarily mean that regulation of *commerce* in Veblen brands similarly warrants First Amendment scrutiny. This

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tions can then be linked to consumers' mental representations of self as they select brands with meanings congruent with an aspect of their current self-concept or possible self, thus forging a connection between the consumer and the brand."); Han, *supra* note 65, at 28–32.

162. 6 MCCARTHY, *supra* note 43, § 31:145 ("A trademark is itself a powerful symbol identifying a single person, corporation or commercial source. When it is used without permission as a vehicle for someone else's controversial message, it will be a matter of fact whether the ordinary viewer is likely to believe that the owner of the trademark sponsors or approves of the content of the message. Alternatively, the message itself may be so 'morally repugnant' that the person or company would be forced to speak in rebuttal. When the property right resides in the symbol of a trademark itself, the link between defendant's message and the trademark owner should be much more likely to occur than when the property right merely resides in a semi-public shopping center, as in *Pruneyard*." (citing *Pruneyard Shopping Ctr. v. Robins*, 447 U.S. 74 (1980)). *Cf., e.g.*, *Boy Scouts of Am. v. Dale*, 530 U.S. 640, 644 (2000) (holding that requiring the Boy Scouts to admit a gay scoutmaster under a state anti-discrimination law violated the organization's First Amendment right of expressive association); *Hurley v. Irish-Am. Gay, Lesbian & Bisexual Grp. of Boston, Inc.*, 515 U.S. 557, 572–73 (1995) (holding St. Patrick's Day Parade organizers have a First Amendment right to exclude a gay, lesbian, and bisexual Irish-American organization from their event).

163. Possible, but in my view, unlikely. See generally Jeremy N. Sheff, *Brand Renegades*, 1 N.Y.U. J. INTEL. PROP. & ENT. L. (forthcoming 2012), available at <http://www.ssrn.com/abstract=1919328> (arguing that extant trademark doctrine supports the proposition that the consumption of socially charged brands is protected expression more than it supports an association-based right of brand owners to suppress such consumption).

164. See generally Beebe, *Semiotic Analysis*, *supra* note 46.

distinction can be understood as a standing argument regarding First Amendment scrutiny of status-confusion claims. The defendant in status-confusion cases is selling others the means to express a message of social status but is not expressing such a message himself. Allowing such a defendant to raise a First Amendment defense based on injuries to the defendant's customers might therefore seem to run afoul of the general rule against third-party standing.<sup>165</sup> But of course, this rule has exceptions which are likely applicable to the trademark context generally and the status-confusion context in particular. Trademark infringement and unfair competition law allow producers to assert the interests of their customers in court,<sup>166</sup> an example of the principle that a sufficient relationship between the party asserting the right and the party whose right is being asserted can create an exception to the "rule of self-restraint"<sup>167</sup> against third-party standing.<sup>168</sup>

Moreover, granting standing to a status-confusion plaintiff but not to a defendant in the same case would create a double-standard. In traditional point-of-sale confusion cases, of course, such discrimination might be legitimate. The point-of-sale con-

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165. See, e.g., *Warth v. Seldin*, 422 U.S. 490, 499 (1975) ("[T]he plaintiff generally must assert his own legal rights and interests, and cannot rest his claim to relief on the legal rights or interests of third parties."). It is notable that at least one important jurisdiction is considering legislation to criminalize the purchase of counterfeit trademarked goods, rather than their sale. New York City Council File No. Int. 0544-2011 (Apr. 28, 2011), available at <http://legistar.council.nyc.gov> (click "Legislation;" then search "2011" for "Int 0544-2011;" then follow "Int 0544-2011" hyperlink). Presumably the standing analysis regarding such a statute would be more straightforward.

166. Thus, section 43(a) of the Lanham Act gives producers the right to sue their competitors in order to vindicate their customers' interests, although this exception to the rule against vicarious standing has been criticized in the false advertising context. See 15 U.S.C. § 1125(a)(1) (2006) (giving a private right of action to "any person who believes that he or she is or is likely to be damaged" by acts that are likely to cause confusion of consumers or that misrepresent the qualities of goods). See generally Lillian R. BeVier, *Competitor Suits for False Advertising Under Section 43(a) of the Lanham Act: A Puzzle in the Law of Deception*, 78 VA. L. REV. 1 (1992) (criticizing the recognition of competitor standing in false advertising cases).

167. See *Barrows v. Jackson*, 346 U.S. 249, 255–58 (1953) ("There is such a close relationship between the restrictive covenant here and the sanction of a state court which would punish respondent for not going forward with her covenant . . . that relaxation of the rule is called for here.").

168. Henry P. Monaghan, *Third Party Standing*, 84 COLUM. L. REV. 277, 289 n.71 (1984) ("The Court appears quite willing to permit such [third-party constitutional] challenges simply upon a showing of the existence of certain relationships between the litigant and the third party right holder, such as those between vendor and customer, or physician and patient.").

fusion plaintiff can assert his own injury in the form of diversion of trade, whereas the defendant who is alleged to have deceived his own customers would seem to be a poor representative of his victims' interests. In contrast, trademark owners in status-confusion cases are unlikely to be able to establish any lost sales, and the customers of defendants in those cases have gotten exactly what they wanted.<sup>169</sup> In short, it seems appropriate to permit status-confusion defendants to raise the First Amendment interests of their customers in litigation.<sup>170</sup>

#### 4. False Statements of Fact

One last possible objection to applying the First Amendment to status-confusion cases is that whatever expression is burdened by the threat of infringement liability constitutes a socially valueless false statement of fact. This objection raises three questions: first, what is the "fact" that conspicuous consumption purports to communicate; second, even if such a "fact" were false, would the First Amendment not extend it protection; and third, does the answer to the second question depend at all on the possibility that even a false statement of fact might have social value?

On the first point, even given the status-confusion courts' less-than-nuanced understanding of conspicuous consumption,<sup>171</sup> we might infer a range of expressive content from the act of consuming a counterfeit luxury good. Depending on the level of generality at which the message is thought to be pitched, the conspicuous consumer of such a product might be saying, "I purchased this genuine luxury product from the owner of the trademark affixed to it (or an authorized reseller)," or "I spent so many dollars on this product," or "I am the kind of person who has so many dollars to spend on this kind of product," or "I am the kind of person who consumes this kind of product," or "I am as good a person as (or a better person than) you." Importantly, in the status-confusion cases, only the first two—the most specific—of these statements can be categorically deemed false,<sup>172</sup> while the language of those cases implies

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169. See *supra* note 106.

170. See Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60, 89–90 (2008).

171. See *supra* notes 159–60 and accompanying text.

172. Indeed, recent research suggests that purchasers of counterfeit luxury goods can afford genuine articles but prefer, for various reasons, to purchase counterfeits (at least initially). DAVENPORT LYONS, COUNTERFEITING LUXURY: EXPOSING THE MYTHS (June 2007) (finding that purchasers of counterfeit lux-

that the last statement—which seems more like a statement of opinion than of fact<sup>173</sup>—is most in line with what purchasers of counterfeit goods are actually trying to express.<sup>174</sup>

On the second point, even these narrowly construed and therefore literally false statements may not fall outside the protection of the First Amendment. While a mountain of Supreme Court dicta asserts that false statements of fact have no social or constitutional value,<sup>175</sup> First Amendment scholars consider

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ury goods are of a similar demographic profile as purchasers of genuine luxury goods, and in fact are more likely to purchase a genuine luxury good than is their demographic group as a whole).

173. Cf. *Pizza Hut, Inc. v. Papa John's Int'l, Inc.* 227 F.3d 489, 497 (5th Cir. 2000) (“[N]on-actionable ‘puffery’ comes in at least two possible forms: (1) an exaggerated, blustering, and boasting statement upon which no reasonable buyer would be justified in relying; or (2) a general claim of superiority over comparable products that is so vague that it can be understood as nothing more than a mere expression of opinion.”). This point also provides an answer to the argument that misrepresentation of social status could cause a tangible injury, for example, if a confidence man wore counterfeit luxury goods to engender trust in his victims. I would argue that such a use of a counterfeit product, while it might be considered expressive, would not be properly considered a false statement of fact. To the contrary, the confidence man hypothetical seems more analogous to the *Pizza Hut* court’s first definition of puffery, insofar as reliance on luxury consumption as an indicator of trustworthiness in business transactions could be said to be an unreasonable basis to enter into such transactions. I am grateful to Professor Rebecca Tushnet for this point. See Rebecca Tushnet, *WIPIP at BU Session 3*, REBECCA TUSHNET’S 43(B)LOG (Feb. 12, 2011, 10:07 AM), <http://tushnet.blogspot.com/2011/02/wipip-at-bu-session-3.html>.

Of course, the doctrine of puffery in itself reflects a judgment that an audience ought to be held to a standard of reasonableness, and that they rightly bear the risk of any loss they suffer by acting in unreasonable reliance on a statement that is properly characterized as puffery. Whether such an objective standard of the consumer ought to be incorporated into trademark law, let alone into post-sale confusion law, is an open question. See Rebecca Tushnet, *Running the Gamut from A to B: Federal Trademark and False Advertising Law*, 159 U. PA. L. REV. 1305, 1352–73 (2011). See generally Barton Beebe, *Search and Persuasion in Trademark Law*, 103 MICH. L. REV. 2020 (2005) (analyzing “trademark law[’s] lack [of] a well-developed theory of the consumer”); Mark P. McKenna, *A Consumer Decision-Making Model of Trademark Law*, 98 VA. L. REV. (forthcoming 2012).

174. See *supra* Part I.C. In fact, current research suggests that many knockoff purchasers are expressing a kind of aspirational social claim: they freely admit to owning a counterfeit product, and perceive it as a way to plan and test their future social status and consumption behaviors. DAVENPORT LYONS, *supra* note 172, at 15 (“We found that fake owners were proud of their purchases, especially as the quality of fakes is now perceived as on a par with that of the genuine products.”); see also Gosline, *supra* note 106.

175. See *United States v. Alvarez*, 617 F.3d 1198, 1218–19 (9th Cir. 2010) (Bybee, J., dissenting) (collecting cases), *cert. granted*, 80 U.S.L.W. 3098 (Oct. 17, 2011).

the constitutional status of false statements of fact a vexed question.<sup>176</sup> Of course, regulation of false statements of fact that cause monetary or reputational harms—defamation and fraud being the most obvious examples—has long been considered constitutional.<sup>177</sup> It is for this very reason that traditional applications of trademark law—which proscribe certain misleading forms of commercial expression in order to prevent injury to mark owners’ goodwill and fraud against confused purchasers—raise no First Amendment issues.<sup>178</sup> But absent such direct injury flowing from the false statement, other concerns—about chilling effects on protected expression,<sup>179</sup> fear of a slippery slope to overbearing government regulation of expression,<sup>180</sup> or distrust of government in the regulation of “ideologically inflected” statements<sup>181</sup>—might well lead one to conclude that the First Amendment has a role to play in keeping the government out of the role of speech referee.<sup>182</sup> Indeed, these concerns have generated heated judicial and scholarly debate over the applicability of the First Amendment in another area

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176. See, e.g., Steven G. Gey, *The First Amendment and the Dissemination of Socially Worthless Untruths*, 36 FLA. ST. U. L. REV. 1, 2–6 (2008); Frederick Schauer, *Facts and the First Amendment*, 57 UCLA L. REV. 897, 912–19 (2010); Jonathan D. Varat, *Deception and the First Amendment: A Central, Complex, and Somewhat Curious Relationship*, 53 UCLA L. REV. 1107, 1107–10 (2006); Mark Tushnet, “Telling Me Lies:” *The Constitutionality of Regulating False Statements of Fact* 7–16, 24–25 (Pub. Law & Legal Theory Working Paper Series, Paper No. 11-02, 2011), available at <http://ssrn.com/abstract=1737930> [hereinafter Tushnet, *False Statements of Fact*].

177. See *Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm’n*, 447 U.S. 557, 563–64 (1980) (“[T]here can be no constitutional objection to the suppression of commercial messages that do not accurately inform the public about lawful activity. The government may ban forms of communication more likely to deceive the public than to inform it, or commercial speech related to illegal activity.”); *N.Y. Times Co. v. Sullivan*, 376 U.S. 254, 301–02 (1964) (Goldberg, J., concurring) (“The imposition of liability for private defamation does not abridge the freedom of public speech or any other freedom protected by the First Amendment.”); see also Tushnet, *False Statements of Fact*, *supra* note 176, at 2 n.5, 14.

178. See Ramsey, *supra* note 151, at 414–21.

179. See Tushnet, *False Statements of Fact*, *supra* note 176, at 7–10 (citing *Sullivan*, 376 U.S. at 279).

180. See *id.* at 16–17.

181. See *id.* at 17–22.

182. Cf. *Thomas v. Collins*, 323 U.S. 516, 545 (1945) (Jackson, J., concurring) (“The very purpose of the First Amendment is to foreclose public authority from assuming a guardianship of the public mind through regulating the press, speech, and religion. In this field every person must be his own watchman for truth, because the forefathers did not trust any government to separate the true from the false for us.”).

where the government purports to regulate claims of status: prosecutions under the Stolen Valor Act.<sup>183</sup> Given the far narrower focus of that statute, these concerns would seem to apply with far greater force to the “ideologically inflected”<sup>184</sup> use of Veblen brands to claim social status in a diverse and socially mobile society.

This brings us to the third question (two related questions, really): what is the social value of whatever expressive content inheres in conspicuous consumption of counterfeit Veblen brands, and does application of the First Amendment depend on our assessment of that value? Why might we allow a consumer to attempt to deceive her social audience as to her consumption practices? The status-confusion cases suggest that the harm resulting from such deception is that an observer might accord wealth-based social status to the purchaser of a counterfeit luxury product, or withhold it from the purchaser of a genuine one.<sup>185</sup> It is unclear whether this mistaken grant of status can be understood as a legally cognizable injury on a par with the injuries worked by fraud and defamation.<sup>186</sup> More importantly, even if we were to consider it an injury, we could do so only from the perspective of one segment of society; to another segment of society, it is a *benefit*. The deception worked by status-confusion allows for the possibility that hierarchical social status—and all that flows from it—might be allocated based on something other than wealth. This may be bad for the wealthy, but potentially quite good for *everyone* else—a very

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183. Compare *id.* with Eugene Volokh, *Amicus Curiae Brief: Boundaries of the First Amendment’s “False Statements of Fact” Exception*, 6 STAN. J. C.R. & C.L. 343 (2010) (finding that, although the exception to First Amendment protection of false statements can be ambiguous, it can still be constitutionally permissible). The Stolen Valor Act of 2005, Pub. L. No. 109-437, 120 Stat. 3266 (codified at 18 U.S.C. § 704(b) (2006)), makes it a federal crime to falsely claim to have been awarded certain military decorations. As of this writing, the statute has been ruled unconstitutional by the Ninth Circuit (over strenuous dissents) and by the District of Colorado, but upheld by the Western District of Virginia; the Supreme Court will hear a challenge to the statute’s constitutionality this term. See *United States v. Alvarez*, 617 F.3d 1198 (9th Cir. 2010), *reh’g and reh’g en banc denied*, 638 F.3d 666, *cert. granted*, 80 U.S.L.W. 3098 (Oct. 17, 2011); *United States v. Robbins*, 759 F. Supp. 2d 815 (W.D. Va. 2011); *United States v. Strandlof*, 746 F. Supp. 2d 1183 (D. Colo. 2010).

184. See Tushnet, *False Statements of Fact*, *supra* note 176, at 17–22.

185. See *supra* notes 101–04.

186. Recent Supreme Court precedent suggests that we should be extremely hesitant to analogize from the fraud and defamation exclusions from First Amendment protection. *United States v. Stevens*, 130 S. Ct. 1577, 1584–86 (2010).

different scenario from the negative-sum world of economic fraud.<sup>187</sup> The question whether consumption of counterfeit Veblen brands has social value deserving of First Amendment protection thus collapses into a much more fraught question: whose perspective should be used to judge the social value of socially expressive conduct? As Judge Kozinski argued in his recent concurrence in *United States v. Alvarez*, this is precisely the type of question—the question of individual and community self-definition—that the First Amendment takes (or ought to take) out of the government's hands:

It doesn't matter whether we think that such lies are despicable or cause more harm than good. An important aspect of personal autonomy is the right to shape one's public and private persona by choosing when to tell the truth about oneself, when to conceal and when to deceive. Of course, lies are often disbelieved or discovered, and that too is part of the pull and tug of social intercourse. But it's critical to leave such interactions in private hands, so that we can make choices about who we are.<sup>188</sup>

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In sum, while some might question whether the First Amendment is implicated by the imposition of trademark infringement liability under status-confusion doctrine, I submit that the better arguments lead to the conclusion that the Amendment should apply. But what are the implications of this conclusion? To answer this question, we must look to the nature of the expressive burdens imposed by post-sale confusion doctrine, and the potential government interests that might justify the doctrine notwithstanding those burdens.<sup>189</sup> This weighing of policy interests is relevant even if one does not agree with the foregoing conclusion that the First Amendment applies to the conduct at issue in status-confusion cases. At the very least, the social interests in allowing such conduct to con-

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187. See Akerlof, *supra* note 130 (using the lemons problem to explain how poor quality products and dishonest business dealings hurt honest business). See generally Gordon Tullock, *The Welfare Costs of Tariffs, Monopolies, and Theft*, 5 W. ECON. J. 224 (1967) (modeling the negative social welfare effects of theft).

188. 638 F.3d 666, 675 (9th Cir. 2011) (Kozinski, J., concurring).

189. See *United States v. O'Brien*, 391 U.S. 367, 377 (1968) (“[A] government regulation [that incidentally restricts expressive conduct] is sufficiently justified if it is within the constitutional power of the Government; if it furthers an important or substantial government interest; if the governmental interest is unrelated to the suppression of free expression; and if the incidental restriction on alleged First Amendment freedoms is no greater than is essential to the furtherance of that interest.”).

tinue ought to be weighed against the interests in stamping it out.

#### B. THE BURDEN OF STATUS CONFUSION ON SOCIAL EXPRESSION

The First Amendment concerns raised by the enforcement of Veblen brands are different in kind from the concerns that have been raised by trademark scholars in other contexts. One strain of commentary focuses on the trademark as the subject matter of speech: the expansion of infringement and dilution liability, it is argued, gives trademark owners too much control over what others may say, directly or indirectly, about their marks.<sup>190</sup> A second strain of commentary focuses on trademarks as lexemes: when symbols take on a set of non-source-identifying meanings in popular culture, it is argued that the public has an interest in accessing and even modifying those meanings in cultural discourse, irrespective of the interests of the mark owner.<sup>191</sup> In both strains of commentary, the battle lines over trademark-related speech are drawn between the expressive (and, impliedly, commercial) interests of the mark owner and the expressive interests of everyone else.

Status confusion, in contrast, enlists mark owners as defenders of the expressive interests of their *customers*, in opposition to those customers' social competitors (who in turn are championed by the mark owners' business competitors).<sup>192</sup> The chief burden on speech imposed by the protection of Veblen brands thus arises from this social competition, and particularly the problem of social scarcity. "For all of our technology, we cannot create a greater overall sum of social distinction. We can only allocate among ourselves the sum that we have."<sup>193</sup> Accordingly, in order for some people to convey information about their social status credibly (for example, by consuming Veblen brands), others must be prevented from doing so.

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190. See Denicola, *supra* note 51, at 158–60; Ramsey, *supra* note 155, at 386 n.22 (citing sources); see also Laura A. Heymann, *The Public's Domain in Trademark Law: A First Amendment Theory of the Consumer*, 43 GA. L. REV. 651, 688–715 (2009) (analyzing the First Amendment autonomy interests of consumers as listeners entitled to diverse sources of meaning with respect to brands).

191. See Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 397–99 (1990); Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 960–63, 972–77 (1993); cf. Sonia K. Katyal, *Trademark Intersectionality*, 57 UCLA L. REV. 1601 (2010).

192. See Grynberg, *supra* note 170, at 107–09.

193. Beebe, *Sumptuary Code*, *supra* note 21, at 824.

This is the fundamental dilemma of social signaling, and thus of status confusion. Inevitably, someone's social expression will be suppressed; the only questions are whose and how. If we do not enforce Veblen brands, and there is no other way of rationing access to social status, then *social forces*—norms, and, more importantly, economic and social incentives—restrain everyone, rich and poor alike, from expressing their desired messages. This is the lemons problem discussed in the previous Part.<sup>194</sup> If, however, some naturally scarce resource can be used as the basis for allocating social status, then *market forces*—the high prices that result when demand for social status outstrips supply of the medium of its allocation—will restrain some (especially poorer) consumers from expressing their desired message. This is the world of conspicuous consumption of naturally scarce goods documented by Veblen.

But the status-confusion cases reveal a third option. If we enforce trademark rights in Veblen brands through status-confusion doctrine, then *the power of the State* restrains some (again, poorer) consumers from expressing their desired message.<sup>195</sup> The status-confusion cases use the authority of federal law to suppress the social expression of the have-nots so as to enable the social expression of the haves.<sup>196</sup> By channeling expression relating to social status into a market regime that rests on government-enforced monopolies (such as the trademark regime), rather than on natural scarcity, the state is taking sides in the competition to define and claim social status by, in essence, subsidizing one side of that competition.<sup>197</sup>

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194. See *supra* Part III.A.

195. See Lunney, *supra* note 21, at 421–33.

196. This competition engages social allegiances based not only on economic status, but on generational, ethnic, and gender identities as well. Notably, in the *Hermès* litigation, a female district judge who had found no public harm in the sale of copycat handbags to non-confused consumers was overruled by an appellate panel composed of three men, all older than she. See *Hermès Int'l v. Lederer de Paris Fifth Ave., Inc.*, 50 F. Supp. 2d 212 (S.D.N.Y. 1999) (Scheidlin, J.), *rev'd*, 219 F.3d 104 (2d Cir. 2000) (Telesca, J., joined by Meskill & Cabranes, JJ.). And of course, the counterfeiting debate reveals the uneasy interconnectedness of the developed and the developing world, with all the racial and ethnic baggage inherent in that dynamic. See ECONOMIC EFFECTS OF COUNTERFEIT, *supra* note 106, at 8 (“According to CBP data, seized counterfeit goods are dominated by products from China. During fiscal years 2004–2009, China accounted for about 77 percent of the aggregate value of goods seized in the United States. Hong Kong, India, and Taiwan followed China, accounting for 7, 2, and 1 percent of the seized value, respectively.”).

197. Notably, the side receiving the subsidy appears to be the side less in need of it.

The central claim of this Article is that using the power of the State in this way runs afoul of the Supreme Court's declaration in *Buckley v. Valeo*: "[T]he concept that government may restrict the speech of some elements of our society in order to enhance the relative voice of others is wholly foreign to the First Amendment."<sup>198</sup> By regulating who may stake a claim to social status and who may not—or, more specifically, by deputizing private parties to invoke the coercive power of the law to do so—status confusion entangles the government in the zero-sum, perpetual competition for social status. Moreover, it does so in a particularly burdensome way,<sup>199</sup> by imposing the equivalent of prior restraints against speakers who have not obtained permission to speak,<sup>200</sup> ordering the forfeiture and destruction of property that constitutes the means of expression,<sup>201</sup> and imposing harsh civil and criminal penalties as a deterrent to those who would provide the means of expression to those seeking unauthorized access to the restricted message.<sup>202</sup> Finally, unlike other areas where the government may license private parties to control *naturally* scarce means of expression and then regulate their exercise of that control to serve the public interest (such as broadcasting spectrum),<sup>203</sup> in the status confusion cases *the government regulation itself is creating the scarcity* that results in unequal rights of expression.<sup>204</sup> Particularly where

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198. 424 U.S. 1, 48–49 (1976).

199. Cf. Rebecca Tushnet, *Copyright as a Model for Free Speech Law: What Copyright Has in Common with Anti-Pornography Laws, Campaign Finance Reform, and Telecommunications Regulation*, 42 B.C. L. REV. 1, 5 (2000) [hereinafter Tushnet, *Copyright as a Model*] (“If the justification were anything other than copyright, these sweeping powers would be seen as a gaping hole at the heart of free speech rights.”).

200. See 15 U.S.C. § 1116(d) (2006 & Supp. 2010) (authorizing ex parte awards of injunctive relief against trademark counterfeiters); see also Lemley & Volokh, *supra* note 155, at 216–24 (discussing the prior restraint doctrine as it applies to trademark injunctions).

201. See 15 U.S.C. § 1116(d) (authorizing ex parte seizure orders against counterfeit goods); 15 U.S.C. § 1118 (2006) (providing for destruction of infringing articles).

202. See 15 U.S.C. § 1117(b)–(c) (2006 & Supp. 2010) (providing for treble damages and statutory damages for counterfeiting); 18 U.S.C. § 2320 (2006 & Supp. 2010) (establishing criminal liability for trafficking in counterfeit goods).

203. See *Red Lion Broad. Co. v. FCC*, 395 U.S. 367, 375–79 (1969).

204. This unique feature of Veblen brands also distinguishes status-confusion cases from *Miami Herald Publishing Co. v. Tornillo*, 418 U.S. 241 (1974), insofar as it is the government grant of a property right in the medium of expression, rather than the capital cost of finding alternative access to that medium, that causes the restriction on expression. One might argue that dis-

the expression at issue is part of a debate over the relationship between wealth and social status, a government licensing regime that has the effect of reinforcing such a relationship also has the effect of deciding the debate in favor of one side.<sup>205</sup> In sum, the enforcement of Veblen brands uses government power to maintain a heavy burden on the social expression of already disadvantaged segments of American society.

### C. THE GOVERNMENT INTEREST IN THE MARKET FOR SOCIAL SPEECH

What policy or interest might justify this selective and unequal<sup>206</sup> restraint on expression? Insofar as technology in the long run can be expected to continue to reduce the cost of copying Veblen brands until it approaches the minimal cost of speech,<sup>207</sup> the primary effect of status-confusion doctrine is to subject Veblen brands to an artificial condition of scarcity. By enforcing private rights to exclude others from certain symbolic expressions of social status, the status-confusion cases propertize and create a market for such signals. This right to exclude provides trademark owners with an incentive (in the form of monopoly pricing power)<sup>208</sup> to restrict the supply of Veblen brands, which in turn allows Veblen brands to serve their signaling function. This Part will consider some possible inter-

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appointed consumers (or entrepreneurs seeking to satisfy their demand for status signals) are as free to launch a competing Veblen brand as Tornillo was to start his own newspaper. The key distinction is that the barrier to entry that this expensive alternative represents is imposed not by the market price of ink or printing presses or distribution networks—status-confusion defendants are not demanding access to their adversaries' factories or supply chains—but *only* by the government's enforcement of a monopoly on the intangible Veblen brand itself. *See infra* Part III.C.1.

205. *Cf.* Owen M. Fiss, *Free Speech and Social Structure*, 71 IOWA L. REV. 1405, 1413 (1986) ("Individuals might be 'free' to start a newspaper in a way that they are not 'free' to start a TV station, because in the latter case they need both capital and government approval, while for the newspaper they need only capital. But that fact will not close the gap between autonomy and public debate; it will not guarantee that under autonomy principles the public will hear all that it must. Licensing may distort the market in some special way, but even the market dreamt of by economists will leave its imprint on public debate, not only on issues that directly affect the continued existence of the market, but on a much wider range of issues (though with such issues it is often difficult to predict the shape and direction of the skew).").

206. That is, content-based and viewpoint-discriminatory. *See supra* note 151.

207. *See* Beebe, *Sumptuary Code*, *supra* note 21, at 830–40.

208. *See* Lunney, *supra* note 21, at 467–69.

ests the government might have in creating and maintaining this market.

### 1. The Property Thesis: Free-Riding and Misappropriation

One argument—raised in the *Au-Tomotive Gold* case<sup>209</sup>—is that status confusion liability is necessary to combat free-riding. The status confusion defendant, one might argue, is reaping where he has not sown, extracting value from a Veblen brand that properly belongs to the plaintiff. Professor Harrison explicitly considers (and ultimately rejects) this justification for post-sale confusion, prompted to the issue by the provocative musings of Judge Kozinski.<sup>210</sup> Harrison identifies this argument in favor of post-sale confusion with Lockean or “moral rights” theories of property founded on the moral claims of labor,<sup>211</sup> which is the framework within which I will begin to assess it.

Certainly there is a trend toward property-based theories of trademark rights in recent years—the dilution statute being the clearest example.<sup>212</sup> But there are still numerous problems with taking a moral rights approach to status confusion. The first is that it is unlikely that Lockean theory would support the rights claimed by status confusion plaintiffs. As others have argued, overbroad definitions of intellectual property rights violate the “Lockean proviso” that property rights are morally justified only where they leave “enough, and as good” in common for others.<sup>213</sup> Because status-confusion doctrine moves us from a

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209. See *Au-Tomotive Gold v. Volkswagen of Am.*, 603 F.3d 1133, 1138–39 (9th Cir. 2010).

210. See Harrison, *supra* note 22, at 222 & n.104 (“[Judge Kozinski] suggests, as many do, that one can link the exclusive right to intellectual property to Locke’s more general justification for individual property rights.”).

211. See *id.* at 220–26 (citing Kozinski, *supra* note 191, at 966–67).

212. See 15 U.S.C. § 1125(c)(1) (2006) (“Subject to the principles of equity, the owner of a famous mark . . . shall be entitled to an injunction . . . regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.”). See generally Bone, *supra* note 46, (exploring the historical development of the misappropriation rationale underlying trademark law’s expansion).

213. JOHN LOCKE, *THE SECOND TREATISE OF GOVERNMENT* 15 (J.W. Gough ed., Blackwell 3d ed. 1976) (1690); see Harrison, *supra* note 22, at 220–26; cf. Wendy J. Gordon, *A Property Right in Self Expression: Equality and Individualism in the Natural Law of Intellectual Property*, 102 *YALE L.J.* 1533, 1583–91, 1605 (1993) (arguing that analogous assertions of trademark rights against expressive users in the absence of confusion are inconsistent with a properly reasoned Lockean account of intellectual property); Harrison, *supra*, at 225 (finding the exclusivity of intellectual property inconsistent with Lockean ideals); Seana Valentine Shiffrin, *Lockean Arguments for Private In-*

world in which all are equally able (or equally unable) to express a particular form of social message to one in which some are excluded from expressing such a message so that others might do so more effectively, the proviso would seem to be violated.

More importantly, if we view the status-goods cases as reflecting a misappropriation or free-riding theory, we must ask: what is being misappropriated? On what interest of the plaintiff is the defendant taking a free ride? This is a question that has been well-examined by trademark scholars in other contexts. While some commentators argue that any value that inheres in a trademark should rightly be considered the mark owner's property,<sup>214</sup> this argument is a classic example of what Professor Felix Cohen famously referred to as "the 'thingification' of property."<sup>215</sup> Cohen demonstrated the essential circularity of the argument: "It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected."<sup>216</sup>

Professor Rochelle Cooper Dreyfuss has argued that this circular "if value then right" argument poses a direct threat to expressive uses of trademarks, and must therefore be cabined.<sup>217</sup> Similarly, Professors Mark Lemley and Mark McKenna have argued that the circularity of the property-based free-riding arguments that have provided momentum for the expansion of trademark rights into markets where the mark owner does not compete demands that the expansion be "tied to some

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*Intellectual Property*, in *NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY* 138, 138 (Steven R. Munzer ed., 2001) (finding intellectual property a poor fit with Lockean theory, though not on grounds of the proviso).

214. See, e.g., Denicola, *supra* note 136, at 640–41 (arguing that a trademark's producer has the best claim to the mark's commercial value, even if that value arises in the merchandising context); McCarthy, *supra* note 48, at 3367–68 (using the language of property to defend post-sale confusion doctrine).

215. Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 *COLUM. L. REV.* 809, 815 (1935) ("The current legal argument runs: One who by the ingenuity of his advertising or the quality of his product has induced consumer responsiveness to a particular name, symbol, form of packaging, etc., has thereby created a thing of value; a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property.").

216. *Id.*; see also Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 *VA. L. REV.* 149, 178–80 (1992) (identifying numerous critiques of the "if value then right" argument).

217. Dreyfuss, *supra* note 191, at 400–12.

sort of social welfare calculus,” and resisted if this cannot be persuasively done.<sup>218</sup> I submit that the same holds true for status confusion.

The argument in the status-confusion cases is that the value of Veblen brands lies in their exclusivity. Interfering with the mark owner’s ability to maintain artificial conditions of scarcity in order to cultivate that image of exclusivity lessens the value of such marks and thereby, it is argued, injures the mark owner.<sup>219</sup> But of course, the mark owner is only able to maintain artificial conditions of scarcity because status-confusion doctrine gives him the legal right to prevent others from producing additional copies of his mark. Absent such a right, there would be no way to maintain the artificial condition of scarcity, and thus no way for marks to acquire value based on such artificially maintained scarcity. Thus, the value that the owners of Veblen brands—and the courts that side with them—purport to be defending in the status confusion cases is entirely a product of those cases themselves, rather than any labor of the mark owner.

In sum, the moral-rights-based “property” justification for status-confusion doctrine is inherently circular and ultimately empty. Because the claim of mark owners in the status confusion cases places clear burdens on social expression, such claims ought not to be justified on such ill-conceived Lockean property rights grounds. Rather, the free-riding rationale must be grounded in some “social welfare calculus,”<sup>220</sup> some consequentialist argument that giving luxury brand owners a right to exclude others from accessing their trademarks—even in the absence of confusion of actual or potential purchasers—makes society better off despite the expressive burden that the right imposes on others.

## 2. The Incentive Thesis: A Copyright Analogy

A consequentialist take on the free-riding argument for post-sale confusion might lead us to reframe the lemons prob-

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218. Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137, 181–84 (2010).

219. See, e.g., *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1238 (6th Cir. 1991) (“Production of [Ferrari’s] cars is . . . intentionally limited to preserve exclusivity.”); *id.* at 1245 (“If the country is populated with hundreds, if not thousands, of replicas of rare, distinct, and unique vintage cars, obviously they are no longer unique.” (quoting *Ferrari S.P.A. Esercizio Fabbriche Automobili v. McBurnie*, 11 U.S.P.Q.2d 1843, 1848 (S.D. Cal. 1989))).

220. Lemley & McKenna, *supra* note 218, at 181–84.

lem discussed in Part II above as a different type of market failure. In one view, we could see it as an example of the tragedy of the commons.<sup>221</sup> It is possible that in the absence of legal enforcement of Veblen brands, overconsumption would deplete their signaling value. Returning to the argument from *Automotive Gold*,<sup>222</sup> we might therefore characterize status confusion as a free-riding problem. In the absence of status-confusion liability, excessive free-riding might lead the creators of Veblen brands to stop investing in their production. This is the public goods issue framed by Professor Harrison.<sup>223</sup> A consequentialist free-riding argument in support of status-confusion doctrine would therefore depend on two propositions: that Veblen brands increase social welfare, and that giving their owners a right to exclude others is a necessary inducement to their creation.

There are formal objections to this argument. In particular, it is significant that Professor Harrison's analysis explicitly relies on the Constitution's Progress Clause.<sup>224</sup> With all due respect to Professor Harrison's skilled economic and philosophical analysis, here he has made an error of law. The Progress Clause—which authorizes federal patent and copyright law—has had no purchase on trademark law since the *Trade-Mark Cases*.<sup>225</sup> Rather, the Lanham Act is an exercise of Congress's power under the Commerce Clause.<sup>226</sup> Viewing the government's interest in the status confusion cases as arising under the Progress Clause aligns Veblen brands more with copyright law than with trademark law.<sup>227</sup> While the Progress Clause's

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221. For the classic account of the free-rider problem, see Garrett Hardin, *The Tragedy of the Commons*, 162 *SCIENCE* 1243 (1968).

222. *Supra* notes 90–92 and accompanying text.

223. *Supra* notes 118–25 and accompanying text.

224. Harrison, *supra* note 22, at 220–21 (quoting U.S. CONST. art. I, § 8, cl. 8) (giving Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”)).

225. 100 U.S. 82, 93–94 (1879).

226. See 15 U.S.C. § 1127 (2006) (“The word ‘commerce’ means all commerce which may lawfully be regulated by Congress.”).

227. There are similar formal objections to viewing the government support for Veblen brands as part of copyright policy—the useful articles doctrine chief among them. 17 U.S.C. § 101 (2006); *Brandir Int’l v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1143 (1987). Of course, fashion designers—perhaps the primary producers of Veblen brands—have long but as yet unsuccessfully sought to circumvent these formal barriers with *sui generis* protection. Innovative Design Protection and Piracy Prevention Act, S. 3728, 111th Cong. (2010); Design Piracy Prohibition Act, S. 1957, 110th Cong. (2007).

policy of generating new works of creative expression might significantly inform the relationship between copyright law and the First Amendment,<sup>228</sup> no similar authority suggests that the federal government has an interest in encouraging the production of new, symbolic expressions of hierarchical social status—indeed, the Title of Nobility Clause suggests precisely the opposite.<sup>229</sup>

Even if such a policy could be fairly characterized as regulation of commerce (a dubious proposition)<sup>230</sup> the two premises of the consequentialist free-riding argument in favor of the policy are flawed. First, the very premise that economic incentives are required in order to ensure the production of new intangible goods is under increasing attack.<sup>231</sup> Second, as discussed above, the alternative to enforcement of Veblen brands is not necessarily a lemons-like market failure; absent legal intervention it is highly likely that either a fashion-like cycle of short-lived status signals would arise,<sup>232</sup> or naturally scarce resources would come to meet the demand for status signals, as they did in Veblen's day.<sup>233</sup> Third, there is a strong argument that whatever incentive is properly attributed to trademark rights is no more than the incentive inherent in market competition—all trademarks do is allow the incentives of competition to work

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228. See generally Tushnet, *Copyright as a Model*, *supra* note 199 (considering issues of copyright ownership in the context of the First Amendment).

229. U.S. CONST. art. I, § 9, cl. 8 (“No Title of Nobility shall be granted by the United States.”).

230. See *supra* notes 175–84 and accompanying text; see also *supra* note 201.

231. See Christopher J. Buccafusco, *On the Legal Consequences of Sauces: Should Thomas Keller's Recipes Be Per Se Copyrightable?*, 24 *CARDOZO ARTS & ENT. L.J.* 1121 (2007); Blake Fry, *Why Typefaces Proliferate Without Copyright Protection*, 8 *J. TELECOMM. & HIGH TECH. L.* 425 (2010); Dotan Oliar & Christopher Sprigman, *There's No Free Laugh (Any More): The Emergence of Intellectual Property Norms and the Transformation of Stand-Up Comedy*, 94 *VA. L. REV.* 1787 (2008); Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 *VA. L. REV.* 1687 (2006); see also Rebecca Tushnet, *Economies of Desire: Fair Use and Marketplace Assumptions*, 51 *WM. & MARY L. REV.* 513, 521 (2009) (“Creativity, as lived, is more than a response to incentives, working from fixed and random preferences.”); cf. Jeanne C. Fromer, *Expressive Incentives in Intellectual Property*, 98 *VA. L. REV.* (forthcoming 2012), available at [http://www.law.stanford.edu/display/images/dynamic/events\\_media/Expressive\\_Incentives\\_in\\_Intellectual\\_Property.pdf](http://www.law.stanford.edu/display/images/dynamic/events_media/Expressive_Incentives_in_Intellectual_Property.pdf).

232. See generally Beebe, *Sumptuary Code*, *supra* note 21; Raustiala & Sprigman, *supra* note 231.

233. *Supra* notes 192–201 and accompanying text; *infra* Part III.C.3.

properly.<sup>234</sup> Fourth, current economic and sociological research suggests that the owners of luxury brands have an incentive to permit at least some degree of counterfeiting, because doing so can actually increase the value of their brands.<sup>235</sup>

Finally, and most importantly, it is unclear that Veblen brands generate positive social value at all. This is primarily because the value of Veblen brands, unlike the value of a work of authorship, is positional, not instrumental; relative, not absolute.<sup>236</sup> Certainly a successful claim of social status may provide the claimant with positive utility. But it also requires that social actors other than the successful claimant accept a lower social status—that they experience negative utility. The aggregate positive utility of the segment of society that has access to Veblen brands is highly unlikely to exceed the aggregate disutility of all individuals excluded from access to Veblen brands, given the relative size of the two populations. But even if net social utility were positive, social mobility and the waxing and waning power of individual Veblen brands generate a cycle of iterative (and costly) one-upsmanship that dissipates rather than creates social value.<sup>237</sup> In sum, this “social welfare calculus” does not provide a convincing justification for the expressive burdens of status-confusion doctrine.

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234. Dreyfuss, *supra* note 191, at 399 (“[T]he justifications supporting other intellectual property rights, such as patents and copyrights, do not apply to expressive uses of trademarks because free ridership on the commercial aspect of marks is not a problem and besides, there is little need to create economic incentives to encourage businesses to develop a vocabulary with which to conduct commerce.”); Lemley & McKenna, *supra* note 218, at 172–77.

235. Barnett, *supra* note 22, at 1398–1408 (explaining how counterfeit products increase the “snob premium”); *cf.* Gosline, *supra* note 106, at 1–48 (analyzing the impact of counterfeit consumption on consumers of the authentic product).

236. Barnett, *supra* note 22, at 1386; *see also* Richard H. McAdams, *Relative Preferences*, 102 *YALE L.J.* 1–18 (1992) (providing an overview of the current economic analysis of relative preferences).

237. Barnett, *supra* note 22, at 1414–18. It is notable, if unsurprising, that one of the leading economic models exploring conspicuous consumption must assume, rather than derive, the optimal value of a trademark in order to reach any useful conclusions. Higgins & Rubin, *supra* note 115, at 218. *But see* MASON, *supra* note 108, at 1–11 (setting forth the argument that this iterative process of consumption generates economic activity on the supply side of the market that increases a society’s overall wealth) (citing BERNARD MANDEVILLE, *THE FABLE OF THE BEES: OR, PRIVATE VICES, PUBLIC BENEFITS* (1714)).

### 3. The Efficiency Thesis: Diverting Demand

Despite the inadequacy of free-riding arguments, there may yet be a legitimate government interest that can justify status-confusion doctrine pursuant to the Commerce Clause. All of the foregoing analysis is subject to an important objection: Veblen brands are not responsible for the unequal allocation of access to the means of expressing a claim to social status.<sup>238</sup> If Veblen is to be believed, there will always be demand for symbols to express the message of superior social status, both by people with wealth and by people without it. In Veblen's day, this demand was satisfied through material waste—waste of labor, waste of precious materials, waste of time.<sup>239</sup> The great innovation of Veblen brands is that they enable conspicuous consumption without requiring the waste of naturally scarce resources.

Perhaps, then, the most salient government interest in the market for Veblen brands is that it prevents the diversion of resources from socially valuable productive uses to socially wasteful competitive consumption.<sup>240</sup> For example, platinum probably generates more social value in hydrogen fuel cells<sup>241</sup> than in “grillz.”<sup>242</sup> If there must be competitive consumption, it is likely in society's—and the government's—interest that such consumption not divert needed resources from more productive

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238. Lunney, *supra* note 21, at 468 (“[T]o the extent that one good loses value as a signifier of prestige, a new prestige good will arise to take its place. As a result, increasing the supply of one prestige good, even if it entails the complete destruction of the good's value for purposes of prestige, does not represent an economic loss, but a transfer of prestige value from the old standard to the new.”).

239. See *supra* notes 138–43 and accompanying text.

240. Beebe, *Sumptuary Code*, *supra* note 21, at 882 (“[A]s the production and consumption of immaterial status goods in the non-virtual world intensifies under the auspices of intellectual property law, the costs to society of this zero-sum struggle are becoming very real. Resources better spent elsewhere, perhaps in the pursuit of absolute utility or ‘Progress,’ are instead spent in pursuit of intangible and otherwise typically quite meaningless and useless forms of relative utility.”); *id* at 826–27 (citing Ben Cooper et al., *Status Effects and Negative Utility Growth*, 111 *ECON. J.* 642, 643 (2001)); Robert H. Frank, *Positional Externalities Cause Large and Preventable Welfare Losses*, 95 *AM. ECON. REV.* 137 (2005).

241. Brian C.H. Steele & Angelika Heinzl, *Materials for Fuel-Cell Technologies*, 414 *NATURE* 345, 347 (2001) (“The second important problem is associated with the electrocatalyst. For operation with pure hydrogen and air, platinum is the most active material.”).

242. See Nelly et al., *Grillz* (2005), available at <http://www.youtube.com/watch?v=8fjggq5R6w&ob=av2e> (“I got like platinum and white gold, traditional gold/I'm changin' grillz every day, like Jay change clothes.”).

segments of the economy.<sup>243</sup> Such diversion could drive up the costs of inputs into productive economic activity and thus reduce the overall level of that activity. Viewed in this light, establishing and maintaining a market for Veblen brands could be considered a roundabout way of regulating commerce in more socially valuable and naturally scarce resources.<sup>244</sup>

The most difficult question posed by status-confusion doctrine, then, is whether this benefit—which is undeniably a substantial one—justifies the doctrine’s costs. We might approach this problem strictly on the basis of economic analysis. We might ask: what would be the increased cost to productive users of acquiring naturally scarce goods that have become targets of conspicuous consumption where such consumption has no outlet to artificially scarce Veblen brands? And then we might compare that amount to the cost of perpetuating the status confusion regime—in terms of administrative costs to government and litigants, for example. We might even expand the scope of our economic analysis to consider the aggregate utility and disutility experienced by competitors in the market for social status.<sup>245</sup> Any of these approaches reduces the constitutionality of status-confusion doctrine to an empirical question as to which the relevant data are necessarily unavailable.

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243. Rory Sutherland, *Please Can You Refute This Argument*, CAMPAIGN BLOG (Nov. 14, 2007, 9:18 PM), <http://campaignblog.campaignlive.co.uk/2007/11/14/please-can-you-refute-this-argument/> (“Brands are, after all, gloriously intangible. You can build a brand without killing trees and few precious raw materials are needed in their creation. The exploitation of child labour in making brands is rare. And yet brand value creates pleasure and confers status as surely as any more wasteful (i.e., tangible) value. It may seem bizarre to say it, but brands actually succeed in making us happy with less. That is precisely why they make money for the people who own them.”); Rory Sutherland, *Life Lessons from an Ad Man*, [http://www.ted.com/talks/rory\\_sutherland\\_life\\_lessons\\_from\\_an\\_ad\\_man.html](http://www.ted.com/talks/rory_sutherland_life_lessons_from_an_ad_man.html) (“If you think about it, if you want to live in a world in the future where there are fewer material goods, you basically have two choices. You can either live in a world which is poorer, which people in general don’t like. Or you can live in a world where actually intangible value constitutes a greater part of overall value, that actually intangible value, in many ways is a very, very fine substitute for using up labor or limited resources in the creation of things.”).

244. Of course, this argument assumes that the impulse for social competition will not be channeled into pursuits other than consumption—competitive philanthropy, for example, or competitive production. See Beebe, *Sumptuary Code*, *supra* note 21, at 884–87. Personally, I am of the view that Veblen’s observations on the universality and the unquenchability of the impulse to competitive consumption—observations that find ample analogues in contemporary society, see *supra* note 114—are strong support of this assumption.

245. *Supra* notes 236–43 and accompanying text.

But there is an argument that economic analysis is out of place, or at least insufficient, in this context. This argument places the First Amendment in a “preferred position” as against countervailing interests—particularly economic interests.<sup>246</sup> Whether such a preference is grounded in values such as individual autonomy and self-fulfillment or on the interests of the community in fully informed social and political deliberation (two views of the First Amendment that are sometimes in conflict),<sup>247</sup> it requires special solicitude for the expressive interests of individuals in social discourse. According to this view, marginal and unprovable decreases in aggregate utility are simply not a good enough justification for interfering with the expressive rights of a significant portion of the community on issues of social concern.<sup>248</sup> This is particularly so where that portion of the community loses those rights so that another portion of the community can enjoy *greater* expressive freedom than it would otherwise have. Given a choice between a system in which burdens on expression and associated reductions in aggregate welfare are allocated by the state and a system in which those burdens and costs are allocated by background social and eco-

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246. *Jones v. Opelika*, 316 U.S. 584, 608 (1942) (Stone, J., dissenting); Thomas I. Emerson, *Toward a General Theory of the First Amendment*, 72 *YALE L.J.* 877, 906 (1963) (“The Court’s obligation to bow to the will of the legislature and the executive is at a minimum where a serious claim to infringement of freedom of expression on the part of those institutions is presented. In this sense, from the judicial point of view, freedom of expression should be regarded as a ‘preferred freedom.’”). See generally Robert B. McKay, *The Preference for Freedom*, 34 *N.Y.U. L. REV.* 1182 (1959).

247. Compare Emerson, *supra* note 246, at 879–81 (noting the First Amendment value of self-fulfillment), with ALEXANDER MEIKLEJOHN, *FREE SPEECH AND ITS RELATION TO SELF-GOVERNMENT* 26 (1948) (“Just so far as, at any point, the citizens who are to decide an issue are denied acquaintance with information . . . which is relevant to that issue, just so far the result must be ill-considered, ill-balanced planning for the general good. *It is that mutilation of the thinking process of the community against which the First Amendment to the Constitution is directed.*”). But see BeVier, *supra* note 167, at 317–22 (criticizing the “self-fulfillment” principle as a useful basis for First Amendment law). See generally Fiss, *supra* note 205 (comparing a First Amendment theory grounded in autonomy with one grounded in preserving the integrity of public debate).

248. Cf. *United States v. Stevens*, 130 S. Ct. 1577, 1585 (2010) (“The First Amendment’s guarantee of free speech does not extend only to categories of speech that survive an ad hoc balancing of relative social costs and benefits. The First Amendment itself reflects a judgment by the American people that the benefits of its restrictions on the Government outweigh the costs. Our Constitution forecloses any attempt to revise that judgment simply on the basis that some speech is not worth it.”).

conomic forces, the First Amendment counsels us to opt for the latter system.

Ultimately, this last justification for status-confusion doctrine is the only one that is even arguably persuasive, and it brings us to a fundamental conflict of normative and social allegiances. There is something duplicitous and subversive in consumption of counterfeit Veblen brands, but there is also something imperious and undemocratic in legal action to thwart that consumption. The interests behind any policy choice in this space are fundamentally incommensurate: on one side are economic interests, and on the other side are social and expressive interests. I have argued that the latter interests, being of constitutional dimension, ought to outweigh the former interests, which are ill defined and of dubious weight. But even those who disagree ought to recognize that status-confusion doctrine is highly suspicious as a matter of commerce policy. In the next Section, I offer policy solutions to accommodate either reaction to my analysis.

#### D. TWO PROPOSALS FOR REFORM

For those who, like me, believe that status-confusion doctrine fails to justify itself, the appropriate policy response is straightforward: status confusion should be eliminated as a basis for trademark liability. As a mechanism for achieving this end, I propose a narrowly tailored defense that would do away with status-confusion liability without affecting other forms of trademark liability—even other forms of post-sale confusion liability. This new defense would permit a trademark infringement defendant to assert the First Amendment interests of its customers as a complete defense to liability for trademark infringement or counterfeiting if—but only if—an interpretation of the Lanham Act that encompasses status confusion is a necessary condition for the imposition of such liability.

Importantly, this defense would *not* require that defendants be immunized from liability on other grounds—where an interpretation of the Lanham Act that encompasses status confusion is merely a *sufficient* condition for liability.<sup>249</sup> If the doc-

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249. This feature of my proposal is self-consciously designed to invoke the principle of constitutional avoidance, extirpating status-confusion liability as a matter of statutory interpretation of the Lanham Act rather than injecting First Amendment analysis into every trademark case in which socially expressive consumption might be in evidence. *Cf.* *Ashwander v. Tenn. Valley Auth.*, 297 U.S. 288, 347 (1936) (Brandeis, J., concurring) (“The Court will not pass

trinal exposition of Part I establishes nothing else, it establishes that precision in defining the nature of the injury in cases that have heretofore been labeled “post-sale confusion” cases is paramount. There may be—almost certainly will be—cases in which a status-confusion plaintiff could establish likelihood of confusion under some other theory. If so, the First Amendment interests of the defendants’ customers would not be implicated—indeed those customers would likely be either perpetrators or victims of actionable confusion themselves. Forcing courts and litigants to draw the distinction between status-confusion and other theories of trademark infringement<sup>250</sup> should have the salutary effect of assuring that any premium enjoyed by the mark owner reflects value that he himself has created, rather than the value that some consumers place on state-enforced restriction of the social expression of others.

Finally, even those who come away unpersuaded by the constitutional analysis set forth above might, I hope, be persuaded that status-confusion doctrine strikes a poor balance even between the purely economic forces it attempts to regulate. Moreover, because I recognize that a proposal that would essentially legitimize counterfeiting presents problems of political economy (to put it mildly), I would propose an alternative solution to the problem of status confusion, though the alternative may fare no better on this score. I propose that, if we cannot bring ourselves to reject Veblen brands, at the very least we should be able to agree that the “social welfare calculus” described above suggests that we ought not subsidize them, which is what we are doing under current law. To the contrary, they seem like an ideal target for Pigouvian taxation and redistribution.<sup>251</sup> Given Veblen brands’ high social cost, we ought to re-

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upon a constitutional question although properly presented by the record, if there is also present some other ground upon which the case may be disposed of . . . Thus, if a case can be decided on either of two grounds, one involving a constitutional question, the other a question of statutory construction or general law, the Court will decide only the latter.”).

250. This analysis obviously does not address the question whether a dilution claim might provide a trademark owner with similar relief to a status-confusion claim, and, if so, whether the First Amendment should similarly provide a defense to such a dilution claim. *See* 15 U.S.C. § 1125 (c) (2006 & Supp. 2010). While these questions are important, they are beyond the scope of this Article.

251. *See* ARTHUR C. PIGOU, *THE ECONOMICS OF WELFARE* 172–203 (4th ed. 1962) (proposing a system of taxes and bounties to force private parties to internalize externalities). *See generally* William J. Baumol, *On Taxation and the Control of Externalities*, 62 *AM. ECON. REV.* 307 (1972) (defending and formal-

quire that those costs be internalized by the status-confusion doctrine's beneficiaries—the owners of Veblen brands and their customers.

At the level of doctrine, this proposal would, at a minimum, imply cessation of publicly funded enforcement of status-confusion claims, taking the burden off law- and border-enforcement agencies to monitor for counterfeiting.<sup>252</sup> It would probably also imply that damages be made unavailable as a remedy in status-confusion cases, limiting recovery to injunctive relief.<sup>253</sup> Indeed, full internalization of the costs of Veblen brands might suggest that even the *successful* status-confusion plaintiff ought to be compelled to compensate his defendant (or, in the spirit of Pigouvian taxation, the public) for the value of merchandise seized, and perhaps court costs and attorneys' fees, depending on the magnitude of the resulting moral-hazard problem in the counterfeit market. One would expect that these costs, imposed on the owners of Veblen brands, would be passed on to their customers in the form of even higher prices for already high-priced goods. In this way, the market might serve to compel consumers to pay the socially optimal price for what they are really buying when they purchase a Veblen brand: governmental suppression of their neighbors' social expression.

### CONCLUSION

Courts' and commentators' failure to distinguish among the various theories of injury that fall under the heading of "post-sale confusion" has, to date, made the doctrine something of a moving target. This imprecision has made principled application of the doctrine difficult, generating arbitrariness in the post-sale confusion cases. Outcomes can be and often appear to be manipulated by emphasizing one theory of injury or down-

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izing Pigou's insight in models that account for the possibility of Coasean bargaining).

252. 15 U.S.C. § 1124 (2006) (providing for customs interdiction of infringing articles); 18 U.S.C. § 2320 (2006) (establishing criminal liability for trafficking in counterfeit goods). This proposal is contradicted by the economic analysis of Higgins and Rubin, *see supra* note 115, who find that public enforcement is preferable to private enforcement from a welfare-maximization standpoint. However, it is notable that Higgins and Rubin fail to provide a method for valuing a Veblen brand, declining to consider the disutility of consumers who must accept lower social status as a result of the enforcement of Veblen brands. *Id.*

253. 15 U.S.C. § 1117 (2006) (imposing or increasing monetary penalties for trademark infringement and counterfeiting).

playing another.<sup>254</sup> Some commentators have cited this arbitrariness as evidence of ulterior motives—courts, it is argued, use the language of competition to mask concern over misappropriation of the non-reputation-related value of trademarks.<sup>255</sup>

This Article avoided such subjective causal explanations for the confused state of post-sale confusion doctrine, instead taking those opinions at face value and analyzing them critically. This approach resulted in the identification of three distinct theories of post-sale confusion. Still, each of these theories has serious flaws. Bystander confusion, while theoretically sound, needs further doctrinal development: in its current form, it merely invites abuse in the form of causal speculation. Downstream confusion, in contrast, is simply a tangle of doctrinal inconsistency. In particular, it runs afoul of numerous long-standing bodies of trademark law, including Supreme Court precedent.

I have proposed fairly modest doctrinal changes to remedy the deficiencies in these two theories. With respect to bystander confusion, my proposed changes address the mechanics<sup>256</sup> rather than the substance of the extant doctrine—for example, shifting burdens and discarding (perhaps unspoken) presump-

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254. For example, the First Circuit criticized a district court's analysis of a post-sale confusion claim as "based on an erroneous premise. In finding that post-sale confusion was unlikely, the court commented that 'there is little or no chance that [the faucets] will be resold to unwary consumers.' Post-sale confusion refers not to the resale of the original product, however, but to the risk that non-purchasers, who themselves may be future consumers, will be deceived." *IP Lund Trading ApS v. Kohler Co.*, 163 F.3d 27, 44 (1st Cir. 1998) (internal citation omitted). The district court's reasoning was perfectly consistent with the downstream-confusion theory discussed in Part I.B., *supra*. Nevertheless, the First Circuit assigned error to that reasoning, opting instead for a bystander-confusion theory. *Id.* Other courts have engaged in similar blurring of lines between distinct theories of post-sale confusion, typically to avoid a finding against a trademark owner. *See, e.g., supra* notes 42–44 and accompanying text.

255. *See supra* note 43 and accompanying text; *see also* Bone, *supra* note 46, at 593 ("Often, [the misappropriation theory] serves essentially as make-weight, adding nothing significant to a decision adequately supported by information transmission policies. Sometimes it does a bit more work by seeming to make judges feel more comfortable accepting tenuous confusion-based or consumer-oriented arguments. And sometimes, in those cases involving the very broadest expansions, misappropriation plays a more central role in driving judges to fashion novel confusion theories and to apply them in questionable ways.").

256. *See generally* William McGeeveran, *Life in the Fast Lane: Of Presumptions, Defenses, and Burdens*, 1 I.P. THEORY 25 (2011) (arguing that not just the substance but the mechanics of trademark law analysis can have a strong influence on both administrative costs and substantive outcomes).

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tions to ensure that bystander confusion is consistent with other areas of trademark law. With respect to downstream confusion, I have proposed discarding the obfuscatory label of “post-sale confusion,” and suggested that courts apply traditional contributory-infringement and first-sale doctrine analysis. With these relatively minor changes, bystander- and downstream-confusion theories could be repurposed to target the confusion of actual or potential purchasers. Of course, continuing to refer to such reformulated doctrines as “post-sale confusion” would likely be a mis-description.

The status-confusion cases, in contrast, do not lend themselves to such trivial doctrinal adjustment. They present a theory unique in trademark law, one which turns the economic rationale for trademark protection into a rationale for governmental regulation of social expression. I have coined the term “Veblen brands” for trademarks that serve this socially expressive function. In this Article, I have argued that using government authority to maintain the market for Veblen brands is not only inconsistent with the policies underlying trademark law, but is also in tension with the First Amendment. Because the government interest in enforcing Veblen brands is outweighed by the substantial and unequal burden such enforcement imposes on the social expression of already socially disadvantaged speakers, I conclude that status-confusion doctrine should be discarded entirely, or, at the very least, significantly curtailed.