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Federal Practice: Diversity of Citizenship: Federal Court's Power to Disregard Old Decisions of Highest State Court

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CONCLUSION

The Constitutional provision for the promotion of science and the useful arts through the encouragement of authors and inventors is the basis for our present copyright and patent systems. The Supreme Court in *Mazer v. Stein* broadly construed the scope of copyright protection by holding that a copyright will not be denied because of its intended use or use in industry as an article of manufacture. In so holding the court came to the conclusion that the two statutory schemes may overlap and the mere fact that an article is patentable is not determinative of whether or not it is copyrightable.

Two questions, however, remain open. The first is whether or not an author or designer may obtain protection for his work under both statutory schemes, or whether an election of one precludes the other. This issue has been the subject of much controversy.[80] The second and more basic question was brought up by Mr. Justice Douglas in his dissenting opinion in the principal case: whether the term "writing" as used in the Constitution can be so broadly interpreted as to cover items such as statuettes, bookends, clocks, lamps, and other objects not popularly associated with that term.[81] This latter question bears serious implications and could conceivably lead to a restricted concept of regulation and protection under both statutory systems.

Federal Practice: Diversity of Citizenship: Federal Court's Power to Disregard Old Decisions of Highest State Court: *Amtorg Trading Co. v. Miehle Printing Press & Mfg. Co., 206 F.2d 103 (2d Cir. 1953).*—For the first time since the decision in *Erie v. Tompkins*[1] a United States Court of Appeals, sitting in a diversity action has asserted its power to refuse to follow a decision of the highest court of the state whose law was applicable. The Amtorg Trading Company had contracted to purchase a number of printing presses from the defendant, advancing twenty-five per cent of the purchase price. Amtorg, unable to secure a license to export the presses to Russia, repudiated the contract. The defendant manufacturer subsequently sold the presses to the United States government for a higher price than Amtorg had contracted to pay. Amtorg, the defaulting purchaser, brought suit in federal district court for restitution of its down payments.

Under a series of decisions extending back to 1881,[2] New York has not permitted a defaulting plaintiff to obtain restitution of pre-payments. The harshness of this rule has been severely criticized.[3] Pursuant to a recommendation

consideration of public policy which will prevent the issuance of both a copyright and a patent to cover the same work, in its different aspects . . ."; Pogue, "Borderland—Where Copyright and Design Patent Meet," 52 Mich. L. Rev. 33 (1953); Notes 66 Harv. L. Rev. 877 (1953); 21 Geo. Wash. L. Rev. 353 (1953); 27 Ind. L. J. 130 (1951).

80 See cases cited note 79 supra.

81 Mazer v. Stein, 74 Sup. Ct. 460, 472 (1954).

1 304 U.S. 64 (1937).

2 Lawrence v. Miller, 86 N.Y. 131 (1881); Pirman v. Kurtz, 267 App. Div. 258, 45 N.Y.S.2d 508 (3d Dep't 1943); Waldman v. Greenburg, 265 App. Div. 827 (2d Dep't 1942); Bisner v. Mantell, 197 Misc. 807, 95 N.Y.S.2d 793 (Rensselaer County Court 1950); Restatement, Contracts, N.Y. Annot. § 357 (1933).

3 5 Corbin, Contracts § 1122 (1951); Restatement, Contracts § 357 (1932); Corbin, "The Right of a Defaulting Vendee to The Restitution of Instalments Paid," 40 Yale L.J. 1013 (1931).

of the Law Revision Commission,[4] the New York Legislature in 1952 enacted section 145-a of the Personal Property Law to permit defaulting buyers to secure restitution of pre-payments which are in excess of seller's damages. However, this statute was not applicable to the instant case since the contract had been executed prior to the effective date of the statute. Nevertheless, the United States Court of Appeals felt that the statute, together with other decisions and statutes of New York,[5] constituted a change in the state's public policy.[6] The court felt that the decision required an application of the new public policy rather than the old cases.[7] Accordingly, plaintiff was allowed to recover its pre-payments insofar as they were in excess of damages suffered by the seller. After this rather thorough discussion of New York law, the court proceeded to base its actual holding on what was perhaps a somewhat strained interpretation of the Foreign Aid Appropriations Act which was intended to provide relief for American exporters and producers who were injured by denials of export licenses.[8] Nevertheless, the court's carefully considered dictum concerning its powers in interpreting state law undoubtedly constituted a conscious attempt to free itself from some of the narrow restrictions which have developed since *Erie v. Tompkins.*

Finding State Law

The holding in *Erie v. Tompkins* was a simple one: "Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state."[9] However, numerous problems have arisen in the application of this simple rule. Not the least of them has been the question of the sources to which federal judges may resort to determine the law of the state. Justice Brandeis, in the *Erie* case, referred to enactments of the legislature or decisions of the highest court of the state as the applicable state law.[10] In 1940 four cases came before the Supreme Court which involved the issue of how the federal court was to proceed when the highest court of the state had not yet passed on the question of state law. In three of these cases,

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[4] 1952 Leg. Doc. 65(c). Previously recommended, 1942 Leg. Doc. 65(f), 1942 Report, Recommendations and Studies, N.Y. Law Revision Comm'n 179.

[5] The court cited the following "mitigating doctrines" which are available in New York to protect a defaulting plaintiff: (1) Spence v. Ham, 163 N.Y. 220, 57 N.E. 412 (1900) (substantial performance doctrine); (2) N.Y. Labor Law § 196 (severability of employment contracts); (3) N.Y. Pers. Prop. Law § 125 (1) (permitting vendor to recover for part performance); (4) N.Y. Pers. Prop. Law §§ 79, 80, 80-a (purchaser under conditional sale may recover any surplus after resale by seller).

[6] In recent years the courts have increasingly used statutes as guides for decisions in cases not covered by statute. Keifer & Keifer v. RFC, 306 U.S. 381 (1939). See Page, "Statutes as Common Law Principles," [1944] Wis. L. Rev. 175, 213: "Practicing lawyers could help the courts, and incidentally themselves, by making greater use of principles taken by analogy from legislation."

[7] 206 F.2d at 107. "A statement by us of New York law in terms of the old cases might turn out to be more hazardous a course than boldly to try to look into the womb of time, however much that course may be decried."

[8] 62 Stat. 1059 (1948). The application of this statute is noted critically in 67 Harv. L. Rev. 347 (1953).

[9] 304 U.S. at 78 (1937).

[10] Ibid.

the question had been determined by intermediate courts of those states.[11] In the fourth case, *Fidelity Union Trust Co. v. Field*,[12] the point had been passed on only in unappealed decisions of New Jersey trial courts. In each of the four cases the Supreme Court held that the federal courts must follow the decisions of the lower state courts, even though the federal judge believed them to be erroneous. These decisions and particularly the decision in the *Field* case evoked a storm of criticism from commentators[13] and federal judges.[14] It was argued that the litigant is deprived of the opportunity of contesting the rule of law laid down by a state trial or intermediate court in an action between different parties. If the action had been brought in the state courts the principles of stare decisis would not be so rigid as to prevent the litigant from seeking to have the decision overruled. This is especially unfortunate if the litigants in federal court have a great deal more at stake and are represented by more able counsel. The result seemed to reinstitutionalize the practice of "forum shopping," so roundly denounced in *Erie v. Tompkins*.[15] The astute attorney will bring his action in federal court, if diversity of citizenship exists or can be manufactured by assignment or reincorporation, confident that if there is any state decision in point favoring his client the case will not be lost. He thus avoids the possibility of having the decision overruled. An even more vicious possibility has been opened up. If John Doe contracts with A and B and if Doe recovers against A in an uncontested or "friendly" suit in state court, the rule of law laid down by the state court would be binding on B as effectively as if the judgment of the state court had been res judicata as to him. This situation is more than imaginary; it has already been attempted with some success.[16]

Many of the decisions implementing the *Field* case, as well as the criticisms of its holding, result from too rigid an interpretation of what was actually de-

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11 Six Companies of California v. Joint Highway District, 311 U.S. 180 (1940); West v. American Telephone & Telegraph Co., 311 U.S. 223 (1940); Stoner v. New York Life Ins. Co., 311 U.S. 464 (1940)).

12 311 U.S. 169 (1940).

13 The litigant "must submit her fortunes to the decision of a court that can read, but must not reason." Corbin, "The Laws of the Several States," 50 Yale L.J. 762 (1941); Broh-Kahn, "Uniformity Run Riot—Extensions of the Erie Case," 31 Ky. L.J. 99 (1943); Keefe, Gilhooley, Bailey, Day, "Weary Erie," 34 Cornell L.Q. 494 (1949).

14 "Why should we abdicate our judicial functions and even prostitute our intellectual capacities to discover not state law, but the particular views a state judge may have uttered many years ago." Judge Clark, "State Law in Federal Courts: The Brooding Omnipresence of Erie v. Tompkins," 55 Yale L.J. 267, 291 (1946). "Thus the total tendency of the Erie Railroad doctrine has a strong reactionary direction which it is hard to believe its proponents and expansionists appreciated." Judge Wyzanski, "A Trial Judge's Freedom and Responsibility," 7 Record 280, 299 (1952).

15 See Erie v. Tompkins, 304 U.S. at 73 (1937), discussing the much attacked decision in Black & White Taxicab & Transfer Co. v. Brown & Yellow Taxicab & Transfer Co., 276 U.S. 518 (1928).

16 In Meredith v. Winterhaven, 141 F.2d 348 (5th Cir. 1944) the court was faced with what it called a "made" state decision which it felt it was bound to follow, but then distinguished it on narrow grounds. See Michael H. Cardozo, "Federal Taxes and the Radiating Potencies of State Court Decisions," 51 Yale L.J. 783 (1942) for a discussion of the use of "made" state decisions in federal tax litigation and analogous situations coming under Erie v. Tompkins. See also, Oliver, "The Nature of the Compulsive Effect of State Law in Federal Tax Proceedings," 41 Calif. L. Rev. 638 (1953).

cided. The rule of federal practice it laid down was essential to preserve what had been gained in *Erie v. Tompkins*. It was necessary to make clear to the federal courts that in diversity suits they must in fact follow the law of the states and not their own notion of what the law should be. However, the case has been unfortunately interpreted by judges and commentators to mean that the federal court is powerless to decide that the decision of a lower or intermediate court of a state is erroneous or that the vitality of the decision of the highest court of a state is sapped.[17] Judge Clark's opinion in *Amtorg v. Miehle* attempts to rectify that misconstruction of the *Field* case and his attempt is justified by ample authority. In the *Field* case itself, Chief Justice Hughes spoke of the authority of the New Jersey lower court as "evidence" of state law.[18] That analysis was repeated in the companion cases. In *Six Companies of California v. Joint Highway District,* Chief Justice Hughes again said that the intermediate court of California should be followed since "there is no convincing evidence that the law of the state is otherwise."[19] Justice Stone in *West v. American Telegraph & Telephone Co.* spoke of the decision of an intermediate court as "datum for ascertaining state law which is not to be disregarded by a federal court unless it is convinced by other persuasive data that the highest court of the state would hold otherwise."[20] This view was reiterated by Justice Murphy in the same year.[21]

It is difficult to reconcile the court's statements that decisions of intermediate state courts are "evidence" of state law, with the actual holdings of the cases. In each of the four cases the court held that the federal courts *must* follow the state decisions, seemingly holding that those decisions are conclusive evidence of state law. The key to the apparent conflict between the rigid holdings and less stringent dicta is to be found in the circuit court opinions in these four cases. In each case the circuit court rendered its decision as though *Swift v. Tyson*[22] had not been overruled. The eighth circuit in the *Stoner* case discussed the issue in one sentence: "We are not bound to follow the decisions and reasonings of the intermediate courts of Missouri."[23] The sixth and ninth circuits gave the subject almost as brief a treatment.[24] The third circuit in the *Field* case discussed the applicability of the *Erie* case at some length, but, relying on numerous pre-Erie decisions, concluded that the decisions of the New Jersey vice-chancellors would be entitled only to some consideration.[25]

The Supreme Court felt that the federal judges were attempting to emanci-

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[17] See Keehn v. Excess Ins. Co., 129 F.2d 503, 505 (7th Cir. 1942); and Fox v. Mutual Benefit Life Ins. Co., 107 F.2d 715, 719 (8th Cir. 1939). Both courts refused even to discuss the possibility of refusing to follow a high court decision even though lower court opinions were cited to show that the decision might no longer be followed.

[18] 311 U.S. 169, 177 (1940).

[19] 311 U.S. 180, 188 (1940).

[20] 311 U.S. 223, 237 (1940).

[21] In Stoner v. New York Life Ins. Co., 311 U.S. 464, 468 (1940), Justice Murphy stressed that the Missouri Supreme Court would probably hold as the intermediate courts had. He held that the intermediate court should be followed absent "convincing evidence that the Missouri Supreme Court would decide differently."

[22] 16 Pet. 1 (U.S. 1842).

[23] New York Life Ins. Co. v. Stoner, 109 F.2d 874, 878 (8th Cir. 1940).

[24] West v. American Telephone & Telegraph Co., 108 F.2d 347, 350 (6th Cir. 1939); Six Companies of California v. Joint Highway District, 110 F.2d 620, 626 (9th Cir. 1940).

[25] Field v. Fidelity Union Trust Co., 108 F.2d 521 (3d Cir. 1939).

pate themselves from the restrictions laid down in *Erie v. Tompkins*. They read the circuit court opinions as attempts by the circuit judges to apply what they considered the "better rule" rather than the state court's views.[26] It is significant that in all four cases the court left open the possibility of admission of "persuasive data that the highest court would hold otherwise."[27] Several years later the Supreme Court held that the decisions of unreported nisi prius courts did not constitute binding authority.[28] Justice Stone went further and indicated that in some situations even the decisions of the highest court of the state would not be considered sacred. He wrote:

> . . . The rulings of the Supreme Court of Florida . . . must be taken as controlling unless it can be said with some assurance that the Florida Supreme Court will not follow them in the future. . . .[29]

The realization that the doctrine of the *Field* case is not as stringent as it appears at first blush has come slowly to the federal courts. Judge Wyzanski recognized its flexibility in 1947 and asserted his power to disregard state decisions of doubtful vitality,[30] as did the second circuit in 1941[31] and again in *Amtorg v. Miehle*. It is submitted that the Supreme Court has indicated that it would approve of the approach taken by Judge Clark in *Amtorg v. Miehle*.[32] Unlike the courts in the *Field, West, Stoner* and *Six Companies* cases, Judge Clark did not seek to apply what he considered the better rule, but based his discussion on data consisting of New York statutes and cases which convinced the second circuit that the New York Court of Appeals would depart from its old decisions.

It has been said that the notion that judicial decisions are only evidence of law is inconsistent with the more modern notion that judges do not merely find law, but actually make law.[33] Such a statement is an over-simplification. Even though judges legislate, their decisions are usually retroactive in effect.[34] In the interim between a decision which holds that $x = y$ and a subsequent overruling decisions of retroactive effect which holds that $x \neq y$ the only law which exists on the proposition is a lawyer's prediction of what the court might do in the subsequent case.[35] The first decision serves the lawyer only as strong evidence of the outcome of the subsequent case.

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[26] See West v. American Telephone & Telegraph Co., 311 U.S. at 235. Justice Stone interprets the lower court's decision as holding that the lower court "was free to adopt and apply what it considered the better rule."

[27] See notes 18, 19, 20, 21 supra.

[28] King v. Order of United Commercial Traveler's of America, 333 U.S. 153 (1948).

[29] Meredith v. Winterhaven, 320 U.S. 228, 234 (1943). Contrast this with a less flexible statement by the same justice in West v. American Telephone & Telegraph Co., 311 U.S. 222, 236-38 (1940).

[30] Ashley v. Keith Oil Co., 73 F. Supp. 37 (D. Mass. 1947).

[31] Wickes Boiler Co. v. Godfrey-Keeler Co., Inc., 121 F.2d 415 (2d Cir. 1941).

[32] To be contrasted are cases in which the federal court will refuse to guess at a possible change in state law, as where a United States Supreme Court decision makes possible such a change. See identical results reached in Pulson v. American Rolling Mill Co., 170 F.2d 193 (1st Cir. 1948); and Bomze v. Nardis Sportswear, 165 F.2d 33 (2d Cir. 1948).

[33] E.g., Carpenter, "Decisions and the Common Law," 17 Col. L. Rev. 593 (1917).

[34] But courts possess the seldom used power to restrict a decision to prospective operation only. Great Northern Ry. v. Sunburst Oil & Refining Co., 287 U. S. 358 (1932).

[35] However, a few courts have held that a decision is "law" and relationships entered

Justice Frankfurter asserted that the Erie decision "overrules a particular way of looking at the law. . . . Law was considered as a brooding omnipresence of reason." What the court substituted was the Holmes theory that "the common law is not a brooding omnipresence in the sky, but the articulate voice of some sovereign or quasi-sovereign that can be identified."[36] The sovereign in common law jurisdictions often speaks through the judiciary, and "law," Holmes asserted in the same context, constitutes "prophecies of what the courts will do in fact."[37] Judge Cardozo independently arrived at a definition of law as prediction.[38] Thus, when the United States Court of Appeals for the second circuit applied New York law in *Amtorg v. Miehle,* it was its function to predict what the New York Court of Appeals would do if faced with the same facts. Finding ample authority in the trends of New York law, it concluded that New York would now allow quasi-contractual relief for a defaulting plaintiff. That the function of the federal court is to predict state law is also implicit in Supreme Court holdings that the federal court must reach a decision even if no state statutes or cases are in point or if they are in conflict.[39] That federal judges have adequately borne this task is shown by the cases.[40] Perhaps most important, the decision is congenial to the New York theory of stare decisis as enunciated by the New York Court of Appeals:

> A decision of a court of competent jurisdiction determines conclusively the questions of law and of fact necessarily involved in the dispute between the parties to the litigation. It does not conclusively determine anything else. Though the determination of the questions of law involved in that litigation may dictate a similar conclusion in litigation between other parties where similar questions are involved, yet such parties may still challenge the correctness of the original decision and the court may refuse to follow it.[41]

This excerpt bluntly states the theory of stare decisis that has constantly been implemented by the New York Court of Appeals and by the United States Supreme Court, perhaps most notably in *Erie v. Tompkins* itself.[42]

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into in reliance on a decision become vested rights and will not be taken away by an overruling decision. See Warring v. Colpoys, 74 App. D.C. 303, 122 F.2d 642 (D.C. Cir. 1941).

[36] Guaranty Trust Co. v. York, 326 U. S. 99, 101 (1945), quoting Holmes dissenting in Southern Pacific R.R. v. Jensen, 224 U.S. 205 (1917). Also in Holmes, "The Path of Law," 10 Harv. L. Rev. 457, 460 (1897).

[37] Holmes, "The Path of Law," 10 Harv. L. Rev. 457, 460 (1897).

[38] "We shall unite in viewing as law that body of principle and dogma which with a reasonable measure of probability may be predicted as the basis for judgment in pending or future controversies." Cardozo, The Growth of Law 44 (1924). See also Wu, "The Juristic Philosophy of Justice Holmes," 21 Mich. L. Rev. 523, 530 (1923). Wu writes:

> "One constantly refers, it is true, to past cases as so many depositaries of law, but in the last analysis that is done almost always with the intention of showing that there is sufficient ground for believing that the courts will act in such and such a way in the future."

[39] Meredith v. Winterhaven, 320 U.S. 228 (1943).

[40] For an excellent analysis of how federal courts have reached their decisions when state law was unclear, see Harnett and Thornton, "Precedent in the Erie-Tompkins Manner," 24 N.Y.U.L.Q. Rev. 770 (1949).

[41] Sears, Roebuck & Co. v. 9th Avenue 31st St. Corp., 274 N.Y. 388, 400, 9 N.E.2d 20, 26 (1937).

[42] See discussions of stare decisis in Cardozo, The Nature of the Judicial Process 150 (1921); Woods v. Lancet, 303 N.Y. 349, 102 N.E.2d 691 (1951). For an extreme depar-

Judge Clark's statements in *Amtorg v. Miehle* are supported not only by Supreme Court dicta and New York authority but also by the basic theory underlying *Erie v. Tompkins*. In *Guaranty Trust Co. v. York*, Justice Frankfurter made the statement that the federal court in diversity is "in effect only another court of the state."[43] Certainly it is true that for most practical purposes it does act as a state court in that it applies state law. But, an important practical distinction exists between a suit in federal district court and one in state nisi prius court. The litigant in federal court has no right of appeal to the highest court of the state. It is, therefore, important to keep in mind that the federal judiciary is the creation of a separate sovereignty. State law is applied in diversity suits by command of the federal Judiciary Act of 1789[44] and the Constitution as interpreted by *Erie v. Tompkins*. The federal court sits, then, not as a lower court of a state, but as a court of another sovereignty attempting to reach the same result that would be reached by the highest court of the state, not the lowest court.[45] It may also be noted that even lower courts sometimes anticipate decisions of the highest court of their own jurisdiction and refuse to follow an old decision which is likely to be overruled.[46]

The rule of *Erie v. Tompkins* seeks conformity between state decisions and federal diversity decisions. Conformity cannot be achieved if federal judges are rigidly required to follow old or weak precedents which the state court would be disinclined to follow.[47] Nor, of course, will absolute conformity be achieved if the federal court is permitted to predict the state law on the basis of the latest trends within the state, for the state may reaffirm a seemingly weak precedent.[48] To choose between these two alternatives we must look to the jurisprudence of Holmes and Cardozo, adopted by the Supreme Court in *Erie v. Tompkins*, which stands for the proposition that law is no more nor less than a prophecy of "what courts will do in fact." We must also ask ourselves whether the outcome of litigation should depend upon the merits of a controversy or upon an attorney's astute choice of a federal court where the judge must serve as a "ventriloquist's dummy"[49] for whatever a state court may have expressed as its opinion in the distant past.

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ture from stare decisis see West Virginia State Board of Education v. Barnette, 319 U.S. 624 (1943), overruling Minersville School District v. Gobitis, 310 U.S. 586 (1940).

[43] 326 U.S. 99, 108 (1945).

[44] 1 Stat. 92 (1789) 28 U.S.C. § 725 (1946), as amended, 62 Stat. 944 (1948), 28 U.S.C. 1652 (1949).

[45] Wichita Royalty Co. v. City National Bank of Wichita Falls, 306 U.S. 103 (1939). "The court below correctly stated that by reason of the removal it had been substituted for the Texas Supreme Court as the appropriate court of appeal and it was its duty to apply the Texas law as the Texas court would have declared and applied it on a second appeal if the cause had not been removed."

[46] See Comment, "The Attitude of Lower Courts to Changing Precedents," 40 Yale L.J. 1448 (1941).

[47] To achieve conformity the federal court could remand the case to the state court for decision on matters of state law. But this has been done only where the constitutionality of the state law is called into question and never in a diversity case. See Frankfurter, dissenting in Propper v. Clark, 337 U.S. 472 (1948).

[48] Only in a unitary judicial system could nearly absolute conformity exist. For a discussion of the Australian system, see Dixon, "Address to Bar Association," 17 Aust. L.J. 138 (1943).

[49] See Richardson v. Comm'r of Internal Revenue, 126 F.2d 562, 567 (2d Cir. 1942).