Michigan Law Review

Volume 57 | Issue 3

1959

Federal Procedure - Jurisdiction - Statutory Change in Jurisdictional Amount and Corporate Citizenship

Philip Belleville
University of Michigan Law School

RECENT LEGISLATION

FEDERAL PROCEDURE—JURISDICTION—STATUTORY CHANGE IN JURISDICTIONAL AMOUNT AND CORPORATE CITIZENSHIP—A recent congressional amendment of federal district court jurisdictional requirements for both diversity of citizenship and federal question litigation[1] has raised the required amount in controversy from $3,000 to $10,000. The trial court has also been given discretion either to deny costs or assess them against the plaintiff if he is finally adjudged entitled to recover less than $10,000, determined without

[1] H.R. 11102, 85th Cong., 2d sess. (1958); 72 Stat. 415. Approved July 25, 1958.

regard to any set-off or counterclaim and exclusive of interest and costs.[2] Further, for purposes of diversity jurisdiction and removal, a corporation is now deemed a citizen "of any State by which it has been incorporated and of the State where it has its principal place of business." 28 U.S.C. (Supp. V, 1958) §§1331, 1332.[3]

The reasoning behind enlargement of the corporate "citizenship" concept is not entirely clear. Congress may have been primarily interested either in reducing the district court caseload[4] or in eliminating a portion of diversity jurisdiction as an end in itself.[5] Alternatively, the purpose may have been to confine this jurisdiction to its original rationale. The raison d'etre of diversity jurisdiction is a fear of possible state court prejudice against out-of-state litigants.[6] By settled law prior to this amendment, for diversity purposes, a corporation was a "citizen" only of its state of incorporation.[7] Thus a business incorporated in state *A* whose operations were in state *B* was qualified to litigate a claim against a citizen of state *B* in a federal court in that state. Yet where a corporation is engaged in a substantial amount of activity in the state of the opposing litigant, it is hardly possible that any prejudice against the corporation would exist because of its incorporation in another state.[8] Clearly, then, the present

[2] This latter stipulation, designed to discourage inflated claims, will be of particular significance in tort litigation. It is inapplicable when an express provision is otherwise made in another federal statute. In general, the change in jurisdictional amount is expected to lessen by over 7% the number of district court civil suits. This reduction will appear primarily in diversity cases since the only significant federal question controversies affected, those arising under the Jones Act and those contesting the constitutionality of state statutes, usually involve an amount in excess of $10,000. See, generally, H. Hearings before Subcommittee No. 3 of the Committee on the Judiciary on H.R. 2516 and H.R. 4497, 85th Cong., 1st sess., p. 24 (1957); H. Rep. 1706, 85th Cong., 2d sess., p. 5 (1958).

[3] The amending provisions apply only to actions commenced after the date of enactment. In federal courts an action is commenced by filing the complaint. Rule 3, Fed. Rules Civ. Proc. 28 U.S.C. (1952). However, when a suit begun in a state court prior to enactment is removed to federal court after that date, it is unclear when such suit was "commenced" within the meaning of the amendment. Compare Lorraine Motors, Inc. v. Aetna Cas. and Sur. Co., (E.D. N.Y. 1958) 166 F. Supp. 319, with Kieffer v. Travelers Fire Ins. Co., (D.C. Md. 1958) 27 U.S. LAW WEEK 2223.

[4] Since World War II, civil cases filed in the district courts have increased 75%. Most of this increase has been in diversity cases, and 60% of these involve corporations. H. Rep. 1706, 85th Cong., 2d sess., p. 2. What statistics are available indicate that the present amendment will eliminate from 3.6% to 23.4% of corporate diversity litigation. H. Hearings before Subcommittee No. 3 of the Committee on the Judiciary on H.R. 2516 and H.R. 4497, 85th Cong., 1st sess., p. 43 (1957).

[5] Many authorities believe that the original reasons for diversity jurisdiction have now almost disappeared, and that this jurisdiction should be radically cut down. See Warren, "New Light on the History of the Federal Judiciary Act of 1789," 37 HARV. L. REV. 49 at 132 (1923). See, generally, Reed, "Compulsory Joinder of Parties in Civil Actions," 55 MICH. L. REV. 327, 483 at 519-522 (1957).

[6] Martin v. Hunter's Lessee, 1 Wheat. (14 U.S.) 304 at 347 (1816).

[7] Macon Grocery Co. v. Atlantic Coast Line, 215 U.S. 501 (1910).

[8] See, generally, Wechsler, "Federal Jurisdiction and the Revision of the Judicial Code," 13 LAW & CONTEM. PROB. 216 (1948); Doub, "Time for Re-Evaluation: Shall We Curtail Diversity Jurisdiction?" 44 A.B.A.J. 243 (1958).

extension of corporate "citizenship" will properly eliminate from federal courts some of the litigation where the fear of state prejudice is unfounded. This statutory extension of "citizenship" only to the state of the corporation's principal place of business would, however, seem to be inadequate to eliminate all such cases. It is at least arguable that the concept should have been further broadened to make the corporation a "citizen" of *any* state in which it carries on a substantial amount of activity. The amendment may be criticized also for leaving largely undefined the meaning of "principal place of business." Congress felt that "there is provided sufficient criteria to guide courts in future litigation under this bill"[9] since the test has ample precedent in decisions construing other federal statutes, notably the Bankruptcy Act.[10] Cases under that act treat the question of locating a corporation's "principal place of business" as one of fact, to be determined by studying and balancing the circumstances of the particular case.[11] Important factors that enter into consideration include the situs of the chief manufacturing plant,[12] the place where the business is generally conducted,[13] and the dominant purpose of the corporation.[14] On the other hand, location of board and stockholder meetings, the place where meeting records and stock transfer books are kept, and recitals that the home office is the principal place of business are relatively unimportant.[15] But it was early recognized that it is impossible to lay down any general rule for determining which of several places at which a corporation does business is its "principal" location.[16] For this reason preliminary litigation over the question of "principal place of business" may offset much of the economy of time which should otherwise result from the likely reduction in the federal courts' caseload.[17] Since the amendment fails to restrict diversity litigation to situations which would support its rationale and because it leaves unsettled the meaning of the applicable test, limitation of federal diversity jurisdiction as to corporations doing business in foreign states may be only the weak ancestor of legislation to come.

Philip Belleville

9 H. Rep. 1706, 85th Cong., 2d sess., p. 4 (1958).

10 Bankruptcy courts are given jurisdiction over persons who, among other things, "have had their principal place of business" within the jurisdiction for the preceding 6 months. 66 Stat. 420, 11 U.S.C. (1952) §11.

11 See, e.g., In re Pusey & Jones Co., (2d Cir. 1922) 286 F. 88, cert. den. 261 U.S. 623 (1923).

12 In re American & British Mfg. Co., (D.C. Conn. 1924) 300 F. 839; In re E. & G. Theatre Co., (D.C. Mass. 1915) 223 F. 657.

13 Ibid.

14 In re Pusey & Jones Co., note 11 supra; In re Devonian Mineral Spring Co., (D.C. Ohio 1920) 272 F. 527.

15 See Dryden v. Ranger Refining & Pipe Line Co., (2d Cir. 1922) 280 F. 257, cert. den. 260 U.S. 726 (1922); In re American & British Mfg. Co., note 12 supra.

16 In re Worcester Footwear Co., (D.C. Mass. 1948) 251 F. 760 at 761.

17 See note 4 supra.