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Factors Etc., Inc. v. Pro Arts, Inc.: Deference to Circuit Court Rulings on State Law, 15 J. Marshall L. Rev. 499 (1982)

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CASENOTES

*FACTORS ETC., INC. v. PRO ARTS, INC.**: DEFERENCE TO CIRCUIT COURT RULINGS ON STATE LAW

In *Erie v. Tompkins*,[1] the Supreme Court concluded that a federal court in a diversity[2] case was required to look to the substantive law of the states in which it sits, whether it "be declared by its legislature in a statute or by the state's highest court in a decision."[3] The *Erie* decision, in effect, eliminated the inequi-

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* 652 F.2d 278 (2d Cir. 1981).

1. 304 U.S. 64 (1938).

2. 28 U.S.C. § 1332(a) (1948) defines diversity as a:

[C]ivil action where the matter in controversy exceeds the sum or value of $10,000, exclusive of interest and costs, and is between—

(1) citizens of different States;

(2) citizens of a State and citizens or subjects of a foreign state;

(3) citizens of different States and in which citizens or subjects of a foreign state are additional parties; and

(4) a foreign state, . . . as plaintiff and citizens of a State or of different States.

3. The importance of the *Erie* decision can be best explained by a review of its procedural history.

The Rules of Decisions Act, enacted in 1759, provided that in civil actions, the federal court must apply the "laws of the several states, except where the Constitution or treaties of the United States or Acts of Congress otherwise require or provide. . . ." 28 U.S.C. § 1652 (1958). In Swift v. Tyson, the Supreme Court interpreted "the laws of the several states" in the Rules of Decision Act, as referring only to the state's constitution and statutes, not the state's common law. Swift v. Tyson, 41 U.S. 1 (1842). The Court held that federal courts, in exercising jurisdiction based on diversity of citizenship, were not required to apply the unwritten law of the state as declared by the state's highest court. *Id.* at 12-13. If there were no state statutes involved, the federal courts were free to exercise their independent judgment as to what the common law of the state was, or should have been. *Id.* at 13.

The *Swift* doctrine fell into disfavor and was criticized in several cases. *See, e.g.*, Justice Field's dissent in Baltimore & Ohio R. R. v. Baugh, 149 U.S. 368, 391 (1893) and Justice Holmes' dissent in Kuhn v. Fairmont Coal Co., 215 U.S. 349, 370 (1909). The disadvantages of permitting federal courts to determine their own common law became apparent in Black & White Taxicab Co. v. Brown & Yellow Taxicab Co., 276 U.S. 518 (1928).

In Black & White Taxicab, a Kentucky cab company formed an exclusive service contract with a Kentucky railroad. The contract was unenforceable under Kentucky law, so the cab company reincorporated in Tennessee in order to create diversity of citizenship with a Kentucky cab company which violated the contract. Under this fabricated diversity, the cab company was able to sue its Kentucky competitor in a federal court and avoid

ties of the previous federal court practice of applying federal

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Kentucky law. A federal circuit court, citing *Swift*, approved the contract by applying federal common law, which it described as part of "a transcendental body of law outside of any particular state but obligatory within it unless and until changed by statute." *Id.* at 533. The Supreme Court decision in Black & White Taxicab shocked commentators who observed that a corporation by simply reincorporating in another state, for the sole purpose of creating diversity of citizenship, could thwart a state common law policy against monopoly. The decision was criticized as circumventing the federal court requirement of respecting state law under the Rules of Decision Act. *See, e.g.*, Campbell, *Is Swift v. Tyson an Argument For or Against Abolishing Diversity of Citizenship Jurisdiction?*, 18 A.B.A.J. 809 (1932); Dobie, *Seven Implications of Swift v. Tyson*, 16 VA. L. REV. 225 (1930); Forham, *Swift v. Tyson and The Construction of State Statutes*, 41 W. VA. L.Q. 131 (1935); Frankfurter, *Distribution of Judicial Power Between United States and State Courts*, 13 CORNELL L. Q. 499, 524-30 (1928).

In a 1938 case, Erie R.R. Co. v. Tompkins, 304 U.S. 64 (1938), the Supreme Court found the perfect opportunity to overturn the maligned *Swift* doctrine. Tompkins, a Pennsylvania citizen, was injured by a passing freight train as he walked alongside its tracks. He brought a negligence action against the railroad in a federal court in New York, since Erie was a corporation in that state. Erie contended that under Pennsylvania law (as declared by the highest court of the state), Tompkins was not a licensee, but was a trespasser, since he walked on the path alongside the tracks, not across them. If Tompkins was a trespasser, Erie would not have been guilty of a breach of duty since the standard of care owed a trespasser is considerably less. Tompkins' contention was that under the *Swift* doctrine, Pennsylvania law did not apply since there was not a Pennsylvania state statute involved. Applying the principles of general common law, under *Swift*, the federal court affirmed a $30,000 district court verdict for Tompkins. Tompkins v. Erie R. R. Co., 90 F.2d 603 (2d Cir. 1937), *rev'd*, 304 U.S. 64 (1938).

The Supreme Court granted certiorari in order to overturn the *Swift* doctrine: "The question for decision is whether the oft-challenged doctrine of *Swift v. Tyson* shall now be disapproved." Erie R. R. Co. v. Tompkins, 304 U.S. 64, 69 (1938). The Court did overturn *Swift*, by holding that a federal court in diversity actions must apply the substantive law of the state. The importance of this decision was recognized by Justice Frankfurter, who said: "In overruling *Swift v. Tyson*, *Erie R. R. Co. v. Tompkins* did not merely overrule a venerable case. It overruled a particular way of looking at law which had dominated the judicial process after its inadequacies had been laid bare." Guaranty Trust Co. v. York, 326 U.S. 99, 101 (1945) (citation omitted). According to Frankfurter, *Swift* had looked at the law as "a 'brooding omnipresence' of Reason, of which decisions were merely evidence and not themselves the controlling formulations." *Id.* at 102. State court decisions were not law but someone's opinion of what the law was. Therefore, federal courts in diversity cases were free themselves to determine the body of law, since it existed outside the domain of any particular state. *Id.* at 103.

After *Erie*, state decisions were as much an evidence of state law under the Rules of Decisions Act, as were state statutes. *Erie*, 304 U.S. at 67. Also, *Erie* held there was "no federal general common law. Congress has no power to declare substantive rules of common law applicable in a state. . . ." *Id.* at 78.

The evolution of the *Erie* doctrine since it overturned *Swift* has involved the distinction between substantive matters and procedural matters. State common law is controlling as to substantive matters, under *Erie*, but procedure is regulated by the federal rules according to the Enabling Act. The Supreme Court shall have the power:

common law in diversity cases.[4] It also placed the federal courts in the position of having to predict the substantive law of the state when there is no state law to apply.[5] The United States

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[T]o prescribe by general rules, the forms of process, writs, pleadings, and motions, and the practice and procedure of the district courts and courts of appeals of the United States in civil actions. . . .

Such rules shall not abridge, enlarge, or modify any substantive right. . . .

28 U.S.C. § 2072 (1980).

Post-*Erie* cases have offered different tests for determining whether state substantive law or federal procedural law applies. *See, e.g.*, Guaranty Trust Co. v. York, 326 U.S. 99 (1945) (employed the outcome determinative test; if the outcome in a diversity case would be substantially different by applying federal procedural law, then state substantive law must be applied); Byrd v. Blue Ridge Rural Elec. Coop., Inc., 356 U.S. 525 (1958) (devised a test which involved a balancing of federal and state interests in the matter before the court; if the issues concerned a strong federal policy such as permitting a jury trial in workmen's compensation cases, federal law would be applied); Hanna v. Plumer, 380 U.S. 460 (1965) (removed all cases involving the Federal Rules of Civil Procedure from the scope of the *Erie* doctrine; if there was a valid federal rule of civil procedure on point, it was to be applied regardless of contrary state law.)

Those cases offered different tests for delineating the issues on which state law controls and the issues on which federal courts were to apply federal laws. However, all the cases since *Erie* have agreed that decisions by state courts form part of the laws of the state and that rights created by state law should be adjudicated according to the state law. *See* 1A J. MOORE, MOORE'S FEDERAL PRACTICE ¶¶ 0.301--310 (2d ed. 1976); Corbin, *The Laws of the Several States*, 50 YALE L.J. 762 (1941); Kurland, *Mr. Justice Frankfurter, The Supreme Court and the Erie Doctrine in Diversity Cases*, 67 YALE L.J. 187 (1957); Wright, *Federal Courts: The Brooding Omnipresence of Erie v. Tompkins*, 55 YALE L.J. 267 (1946).

4. The inequities of *Swift*, as pointed out in *Erie*, were the creation of forum shopping and inequitable administration of the law. Erie R.R. Co. v. Tompkins, 304 U.S. 64 (1938). Evidence of both are found in Black and White Taxicab v. Brown & Yellow Taxicab, 276 U.S. 518 (1928). For case discussion, *see supra* note 3. There, the taxicab company, by re-incorporating in another state, was permitted to choose which forum it wanted to bring suit in. In order to avoid Kentucky law which would be applied in the state court, the taxicab company chose the federal forum and the federal general common law. The privilege of selecting the court belongs to the non-citizen plaintiff, and under *Swift*, the non-citizen also had the choice-of-law. Permitting a non-citizen a choice-of-law not available to the defendant resident made equal protection of the law impossible. *Erie*, 304 U.S. at 75.

Erie cured the inequities created by *Swift* by requiring the federal courts to apply the substantive law which would be applied by the state court. Therefore, there was no longer a choice-of-law and, thus, no forum shopping.

5. In rare instances, a federal judge may stay the proceedings until a state law determination is made by a state court. *See, e.g.*, Colorado River Water Conservation Dist. v. United States, 424 U.S. 800 (1976). *See also* HART & WECHSLER, THE FEDERAL COURTS AND THE FEDERAL SYSTEM, 869-73 (2d ed. 1953).

In general, a federal court cannot decline jurisdiction of a case because it is difficult to ascertain what the state court determination of the law is. "In the absence of a state court ruling, our duty is tolerably clear. It is to decide, not avoid, the question." Daily v. Parker, 152 F.2d 174, 177 (7th Cir. 1945).

Court of Appeals for the Second Circuit was confronted with this situation in *Factors Etc., Inc. v. Pro Arts, Inc.*[6] The court was required to apply Tennessee law. There was, however, no Tennessee law on point, only a Sixth Circuit decision.[7] The Second Circuit, in following its fellow circuit court's decision, held that it was required to give conclusive deference to the Sixth Circuit's interpretation of Tennessee law since Tennessee was a state in that circuit.

Two days after the death of Elvis Presley,[8] Boxcar Enterprises[9] conveyed its exclusive license to commercially exploit Presley's name and likeness to Factors Etc., Inc.[10] Subsequently, Pro Arts, Inc. published and marketed a poster of Presley.[11] Factors, alleging infringement of its exclusive right to use Presley's name or likeness, brought a diversity suit[12] in the Southern District of New York to enjoin the sale and manufacture of the Presley poster.[13] The district court applied New York law, which recognized that publicity rights survive an entertainer's death,[14] and eventually granted a permanent

6. 652 F.2d 278 (2d Cir. 1981).

7. Memphis Dev. Found. v. Factors Etc., Inc., 616 F.2d 956 (6th Cir. 1980). *See infra* note 19.

8. Elvis Presley (a.k.a. "The King") was a well-known popular singer. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 279 (2d Cir. 1981).

9. Boxcar Enterprises, a Tennessee corporation, was formed by popular singer Elvis Presley, who assigned it exclusive ownership of all rights to use his name and likeness for commercial purposes. The corporation was the vehicle through which Presley's commercial rights were marketed. Boxcar subcontracted with other companies to manufacture and distribute the merchandise, while the corporation received royalties from the sales. Factors Etc., Inc. v. Pro Arts, Inc., 579 F.2d 215 (2d Cir. 1978).

10. The plaintiff, Factors Etc., Inc., is a Delaware corporation. For the exclusive rights to use Presley's name in connection with the manufacture and sale of any kind of merchandise, Factors paid Boxcar Enterprises $100,000 and a 5% royalty of all sales, with a first year guarantee of $150,000. The license was for 18 months with a four year option. *Id.* at 217.

11. Pro Arts, Inc., an Ohio corporation, decided to share in the Elvis Presley memorobilia market. It purchased the copyright in a Presley photograph from a news photographer for the Atlanta Journal. The poster, released three days after Presley's death, was entitled "In Memory" and featured Presley's photograph and the dates "1935-1977." *Id.*

12. *See supra* note 1. Diversity jurisdiction was based on 28 U.S.C. § 1332(a)(1). Plaintiff Factors was from Delaware and co-plaintiff Boxcar Enterprises was from Tennessee. Defendant Pro Arts was incorporated in Ohio, while co-defendant Stop and Shop sold the poster through its stores in the Southern District of New York.

13. The plaintiffs sought a preliminary injunction pursuant to FED. R. CIV. P. 65. Under Rule 65, a temporary restraining order may be granted if it appears from the complaint or affidavit that immediate or irreparable injury, loss or damage will be sustained by the applicant if the actions of the adverse party are not stayed until a decision on the merits can be reached.

14. "Having isolated the defendant's activity as the tort of unfair competition, the court is free to apply the rule that in unfair competition 'the wrong takes place . . . where the passing off occurs,' *i.e.*, at the point of con-

injunction.[15]

In a 2-1 decision,[16] the United States Court of Appeals for the Second Circuit[17] reversed the federal district court's decision and determined that Tennessee law was controlling.[18] The court noted that there was no state statutory or decisional law on the descendability of publicity rights, only a recent Sixth Circuit decision which denied that publicity rights were inheritable

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sumer purchase." Factors Etc., Inc. v. Pro Arts, Inc., 444 F.Supp. 288, 291 (S.D.N.Y. 1977), *aff'd*, 579 F.2d 215 (2d Cir. 1978). This portion of the case dealt only with the preliminary injunction, not the choice-of-law issue.

In applying the law of New York, the court cited Factors Etc., Inc. v. Creative Card Co., 444 F.Supp. 279 (S.D.N.Y. 1977) which formally recognized the right of publicity as a property right in New York. As a property right, the right of publicity was assignable and inheritable. Therefore, by applying the law of New York, the court held that Boxcar Enterprises had a recognizable property interest which could be assigned to Factors. This was the property right that was infringed by Pro Arts. Factors Etc., Inc. v. Pro Arts, Inc., 444 F. Supp. 288, 291 (S.D.N.Y. 1977), *aff'd*, 579 F.2d 215 (2d Cir. 1978).

15. The defendants were restrained from manufacturing, selling or distributing the Presley poster and from making any commercial use of Presley's name or likeness. *Id.* at 292.

16. Writing for the court was Judge Newman who was joined by Robert L. Carter of the United States District Court for the Southern District of New York, sitting by designation. Judge Mansfield wrote the dissenting opinion.

17. Factors Etc., Inc. v. Pro Arts, Inc., 496 F. Supp. 1090 (S.D.N.Y. 1980), *rev'd*, 652 F.2d 278 (2d Cir. 1981).

18. Throughout the litigation, the parties assumed that New York state law applied. *See supra* note 14.

It was not until this appeal that the parties fully briefed the choice of law issue. Upon examining this issue on appeal, the Second Circuit was required to apply the substantive law of the state that the forum state, New York, would have turned to, had the suit been filed in state court. Klaxon Co. v. Stentor Elec. Mfg. Co., 313 U.S. 487 (1941). In determining which state's law the New York state courts would apply, the Second Circuit noted that Tennessee was the state where Presley lived, Boxcar Enterprises was incorporated, and the agreement between Boxcar Enterprises and Factors was made. In addition, the latter agreement specifically provides that it be construed in accordance with Tennessee state law. Therefore, the court held that a New York state court after considering these facts would decide to look to Tennessee law. The New York state court would likely have applied New York state law when deciding whether an infringement physically occurred, since under New York conflict of laws, the law of the situs of the tort is applied. *See supra* note 14. In deciding the issue relevant to this case, however, whether Boxcar Enterprises retained a property right after Presley's death which could then be conveyed to Factors, the New York state court would look to Tennessee law. The previously mentioned facts give Tennessee a more significant relationship to the occurrence, the rights and the parties involved. *Cf.* RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 147 Comment i (1971). *See also* 1A J. MOORE, MOORE'S FEDERAL PRACTICE ¶ 0.310 (2d ed. 1976); Baxter, *Choice of Law and The Federal System*, 16 STAN. L. REV. 1 (1963); Horowitz, *Toward a Federal Common Law of Choice of Law*, 14 U.C.L.A. L. REV. 1191 (1967); Weintraub, *The Erie Doctrine and State Conflict of Laws Rules*, 39 IND. L.J. 228 (1964).

under Tennessee state law.[19] The Court of Appeals held that it was required to defer to the Sixth Circuit's prediction of Tennessee state law.[20]

In support of its decision, the court did not rely on case law; it noted that "no case appears to have turned on whether one court of appeals should defer to another . . . ."[21] Rather, the court relied on policy considerations and stated that diversity jurisdiction inherently leads to sporadic decisions by federal courts which can interrupt the orderly development and exposition of state law.[22] The court maintained that its ruling would

19. Memphis Dev. Found. v. Factors Etc., Inc., 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953. Memphis Development was an organization founded in Tennessee to construct a bronze statute of Presley in downtown Memphis. In order to raise funds for the project, Memphis Development sold eight-inch pewter replicas of the proposed Presley statute for $25 each. *Id.* at 957. Memphis Development brought suit in a district court in Tennessee to enjoin Factors from interfering with their attempts to advertise and sell the statute of Presley. Factors counterclaimed for an injunction to restrain Memphis Development from distributing the Presley statue. Factors alleged infringement of its exclusive right to commercially exploit Presley's name and likeness which was purchased from Boxcar Enterprises. *See* note 10 *supra*. Since there was no previous Tennessee state law on the right of publicity, the district court, in projecting what the state law would be, held that there was an inheritable right of publicity in Tennessee. Therefore, Boxcar Enterprises retained Presley's exclusive right of publicity which it transferred to Factors by contract. Memphis Development, in its distribution of Presley statues, infringed on Factor's exclusive right to use Presley's name or likeness. Memphis Dev. Found. v. Factors Etc., Inc., 441 F. Supp. 1323 (W.D. Tenn. 1977), *rev'd*, 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953 (1980).

On appeal of the permanent injunction, the Sixth Circuit court reversed holding that, under their ascertainment of Tennessee law, the exclusive right to publicity does not survive a celebrity's death. After death, the opportunity for gain shifts to public domain, where it is generally open to all. Memphis Dev. Found. v. Factors Etc., Inc., 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953 (1980).

20. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278 (2d Cir. 1981).

21. *Id.* at 281. The Second Circuit recognized that there was an Eighth Circuit decision in which the court postulated that federal court decisions in diversity cases only determine the issues between the litigants and have no precedential value. Peterson v. U-Haul Co., 409 F.2d 1174 (8th Cir. 1969). This view has been labeled erroneous. *See* 1A J. MOORE, MOORE'S FEDERAL PRACTICE ¶ 0.309(2) n. 19 (2d ed. 1976). In addition, *Peterson v. U-Haul* has been interpreted to mean that federal court decisions would have no precedential value when state courts attempt to declare state law. "This Court does not interpret that to mean that the decision would not be followed in the federal courts if there had been no subsequent Nebraska state decisions on the subject. . . ." Blum v. Kawaguchi, Ltd., 331 F. Supp. 216, 219 (D. Neb. 1971).

22. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 282 (2d Cir. 1981). The majority maintains that because of its only occasional opportunities to consider state law under diversity jurisdiction, the federal courts, when they do interpret state law, often stray from the state's consistent development of the law. The majority regrets that state courts cannot correct the decisions of federal courts for the benefit of the litigants. *See supra* note 5. But, "[a]s long as diversity jurisdiction exists, this price must be paid." 652 F.2d at 282.

minimize the opportunities for federal courts to stray from the paths of normal state law development. The court concluded that by treating the pertinent circuit's ruling as the controlling authority, orderly development of state law and fairness to those subject to that law would result.[23]

Superficially, the court's ruling seems logical. It appears that the court took a realistic approach in dealing with a difficult issue under diversity jurisdiction. Such a precedent, however, may adversely affect the ability of federal courts to ascertain state law, and also may cause substantial deviation from the federal courts' role of interpreting state law as first developed in *Erie v. Tompkins*.

In *Erie*, the Supreme Court held that in a diversity case, a federal court must recognize and apply the state substantive law as expressed by the state's highest court.[24] *Erie* rejected the earlier practice of applying federal common law where there was no controlling state statute.[25] Federal courts, however, continued to apply general law in the absence of a decision by the state's highest court.[26] This approach ceased when the Supreme Court, in a series of cases, held that intermediate state court decisions were binding on federal courts.[27] The Court stated that the decisions of intermediate courts, acting as organs

23. The court stated that the orderly development of state law would benefit by their decision because the state legislature could then point to their one binding federal circuit court decision and identify what the state law is within the federal system. The legislature could then more easily determine the need for statutory change. The court also claimed that fairness to the public was a result of their decision. The public would have a single authoritative answer to a particular state law question, rather than having to choose from among several different circuit court decisions. 652 F.2d at 282.

24. Erie R.R. Co. v. Tompkins, 304 U.S. 64, 78 (1938).

25. Swift v. Tyson, 41 U.S. 1 (1842). *See supra* note 3.

26. *See, e.g.*, Wichita Royalty Co. v. City Nat'l Bank of Wichita Falls, 95 F.2d 671 (5th Cir. 1938). *See infra* note 27.

27. In each case the federal circuit courts had declined to adopt the state law rulings of intermediate state courts. The Supreme Court at the 1940 term reviewed the four circuit court decisions and reversed all four. *See* Six Companies v. Joint Highway Dist. No. 13, 110 F.2d 620 (9th Cir. 1940), *rev'd*, 311 U.S. 180 (1940) (circuit court enforced a liquidated damage provision of a repudiated contract, despite previous state appellate court decisions which did not); New York Life Ins. Co. v. Stoner, 109 F.2d 874 (8th Cir. 1940), *rev'd*, 311 U.S. 464 (1940) (in a declaratory judgment to determine if injuries sustained by the insured constituted total disability, circuit court found against total disability contrary to earlier state court decision.); Field v. Fidelity Union Trust Co., 108 F.2d 521 (3d Cir. 1939), *rev'd*, 311 U.S. 169 (1940) (circuit court rejected decisions of two chancery courts which invalidated totten trusts by awarding deposit to a beneficiary); West v. American Tel. & Tel. Co., 108 F.2d 347 (6th Cir. 1939), *rev'd*, 311 U.S. 223 (1940) (circuit court barred an unlawful stock transfer action under statute of limitations, even though state appellate court had held cause of action had not accrued).

of the state's highest court, were to be strictly followed.[28] Subsequent court decisions further curbed the independence of federal courts to the extent that unreported state trial court decisions were given conclusive deference by some federal courts.[29] Rigid adherence to state court decisions was widely criticized by federal court judges,[30] one of whom analogized his role in diversity cases to that of a "ventriloquist's dummy."[31]

A relaxing of the strict adherence to state court decisions was suggested by the Supreme Court in *Bernhardt v. Polygraphic Co.*[32] The Supreme Court, in reviewing a diversity case, followed an earlier Vermont state decision, but only after noting there were "no developing lines of authorities that casts a shadow over the established ones, no dicta, doubts or ambiguities in the opinions of Vermont judges on the question, no legislative development that promises to undermine the judicial rule."[33] By considering these factors before making its decision, the Court implied that an intermediate state court's decision may or may not be binding on a federal court.[34] A similar view was adopted in a subsequent Supreme Court case, *Commissioner of Internal Revenue v. Estate of Bosch*.[35] There, the Supreme Court held that federal courts are not required to follow intermediate state court decisions on state law, absent a decision by the state's highest court.[36] Instead, federal courts must apply what they find to be the state law after giving proper regard to rulings by the state courts.[37] The Court stated that, in effect, the federal court in diversity was "sitting as a state court" and could therefore consider all relevant information in deciding whether to follow a previous state decision by an intermediate

28. Fidelity Union Trust Co. v. Field, 311 U.S. 169, 177 (1940).

29. Gustin v. Sun Life Assur. Co., 154 F.2d 961 (6th Cir. 1946), *cert. denied*, 328 U.S. 866.

30. Several derogatory comments were made by federal judges concerning their roles in diversity suits. *See* Cooper v. American Airlines, 149 F.2d 355, 357 (2d Cir. 1945) ("divining rod"); Zell v. American Seating Co., 138 F.2d 641, 643 (2d Cir. 1943) ("the carefree days before the advent of *Erie R. Co. v. Tompkins*"); Clark, *State Law in the Federal Court — The Brooding Omnipresence of Erie v. Tompkins*, 55 YALE L.J. 267, 290-91 (1946) ("wooden sounding boards" and "prostitution"). *See also* Corbin, *The Law of the Several States*, 50 YALE L.J. 762 (1941).

31. Richardson v. Commissioner, 126 F.2d 562, 567 (2d Cir. 1942).

32. 350 U.S. 198 (1956).

33. *Id.* at 205.

34. *See* 1A J. MOORE, MOORE'S FEDERAL PRACTICE ¶ 0.309(1) (2d ed. 1976).

35. 387 U.S. 456 (1967).

36. *Id.* at 465.

37. *Id.*

state court.[38]

As a result of this decision, federal courts in diversity cases were no longer required to adhere blindly to the decisions of intermediate state courts on state law.[39] Instead they would be free, just as their state counterparts, to consider all the data that would be used by the highest court of the state, in an effort to determine how the highest court of the state would decide.[40]

The Second Circuit has attempted to force federal judges to again don the guise of a ventriloquist's dummy by advocating a practice of looking to other circuit courts' decisions, without testing the validity of those decisions. If the law no longer requires federal courts to defer to an intermediate state court's interpretation of state law, why then should federal courts be required to defer to another federal circuit court's interpretation of the state's law?

The ongoing practice in federal appellate courts is to defer to a district court's interpretation of the law of the state in which it sits.[41] The Second Circuit apparently attempts to extend this

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38. *Id.* This is the view which was urged by the commentators. *See, e.g.*, Corbin, *The Laws of The Several States*, 50 YALE L.J. 762 (1941); Gibbs, *How Does The Federal Judge Determine What is The Law of The State?*, 17 S.C.L. REV. 487 (1965); Hart, *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489 (1954).

In arguing this position, Justice Frankfurther said:

> [T]he very essence of the *Erie* doctrine is that a federal judge can find, if not make, the law almost as well as a state judge. Certainly, if the law is not a brooding omnipresence in the sky over the United States, neither is it a brooding omnipresence in the sky of Vermont, or New York or California. The bases of state law are assumed to be communicable by lawyers to judges, federal judges no less than state judges.

Kurland, *Mr. Justice Frankfurter, The Supreme Court and The Erie Doctrine in Diversity Cases*, 67 YALE L.J. 187, 215-17 (1957).

39. *See* Gates Rubber Co. v. USM Corp., 508 F.2d 603 (7th Cir. 1975) (despite earlier state appellate court rulings to the contrary, circuit court applied discovery rule since it was convinced by other persuasive data that the state's highest court would so decide); Hood v. Dunn & Bradstreet, Inc., 486 F.2d 25, 31 (5th Cir. 1973) (by examining all the "information and data that the highest court of the state could consider in determining whether to strictly adhere to a prior ruling," the circuit court did not apply an outdated Georgia Supreme Court ruling on libel); Dick Proctor Imports, Inc. v. Sumitomo Corp., 486 F. Supp. 815 (E.D. Mo. 1980) (circuit court did not follow an earlier state court decision on franchise agreements because the decision was outdated).

40. WRIGHT, FEDERAL COURTS § 58 at 269 (3d ed. 1976).

41. *See, e.g.*, MacGregor v. State Mut. Life Assurance Co., 315 U.S. 280, 281 (1942) (with no state law on point, Supreme Court left undisturbed a federal district determination of Michigan law since it was by a Michigan federal judge of long experience); Nev v. Grant, 548 F.2d 281 (10th Cir. 1977) (deferring to district court opinions on state law, circuit court held district court decisions have persuasive force on appeal); Julander v. Ford Motor Co., 488 F.2d 839, 844 (10th Cir. 1973) (in following district court findings of

practice by giving conclusive deference to another circuit's ruling on the law of a state within the latter's circuit. The reason for deferring to district courts on issues of state law is their familiarity with the law of the state in which the court sits.[42] In a recent decision, a circuit court followed a district court decision stating: "[T]he district court judge, who deals regularly with questions of state law, is the best person within the federal judicial system to make determinations of how a local court would determine an issue."[43] A federal appellate court, however, lacks this familiarity.[44] Due to both the number of states within a federal circuit and the limited number of diversity appeals from only one of these states, any presumption of a circuit's expertise in state law is unwarranted.[45] Any exposure to the law of a single state that a circuit court experiences in the absence of rulings from that state's highest court is insufficient to require giving their decisions conclusive deference.

If the Second Circuit required deference only to circuit court decisions which followed the respective district court's interpretation of state law, the Second Circuit's decision would be more reasonable. In such a situation, deference to a circuit court's interpretation of state law within its circuit would actually be following the district court, which has the essential familiarity with the state's law. The court's ruling, however, did not limit its deference to these circuit court rulings. In *Factors*, the

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Utah strict liability law, circuit court noted that a Court of Appeals is entitled on review "to lean on judgment of the federal trial judge who is knowledgeable and persuasive in the determination of the law of his resident state and his resolution of the matter should not be disturbed unless clearly erroneous."). *Contra* Peterson v. U-Haul Co., 409 F.2d 1174 (8th Cir. 1969). *See supra* note 21.

42. One reason to assume a federal district court judge is familiar with the state law within its district is that he lives in that state. *The United States Code for Judiciary and Judicial Procedure*, 28 U.S.C. § 134(b) (1976) requires that a district judge reside in the state in which he sits.

43. Avery v. Maremont Corp., 628 F.2d 441, 446 (5th Cir. 1980).

44. The Second Circuit court would deny that a circuit's familiarity with state law is a basis for giving it deference. Otherwise, how could the court defer to the Sixth Circuit's decision which disclaims any basis for assessing the predispositions of the Tennessee state courts. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 283 n.7 (2d Cir. 1981). However, in its decision, the Second Circuit states that state law rulings by other circuit courts, before a decision by the circuit that includes that state, do not require deference. *Id.* at 282 n.6. A decision by the circuit which includes that state will wipe out the significance of preceding decisions by other circuit courts. Therefore, to some degree the majority must rely on familiarity; otherwise why not give deference to the first circuit that determines the state law?

45. This argument was made by Judge Mansfield in his dissent. Mansfield uses several statistics to support his position. Only 212 or 11.6% of the 1,823 appeals filed in the Sixth Circuit in 1980 were diversity suits (12.5% for all other circuits). The 212 diversity cases were from all seven states included in the Sixth Circuit and not solely from Tennessee. *Id.* at 285.

Second Circuit deferred to the Sixth Circuit's determination of Tennessee law, which had overturned the Western District Court of Tennessee's interpretation.[46]

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46. The Sixth Circuit's reversal of the district court decision, *see* note 19 *supra*, clearly demonstrates a problem with the Second Circuit's ruling.

The district court granted Factors a preliminary injunction after determining that Tennessee's highest state court would recognize an entertainer's right to commercially exploit his name and likeness, and that this right could be transferred at death. Memphis Dev. Found. v. Factors Etc., Inc., 441 F. Supp. 1323 (W. D. Tenn. 1977), *rev'd*, 616 F.2d 956 (6th Cir. 1980). In deciding if this general rule would be adopted by the highest state court of Tennessee, the district court looked at all the available information which the Tennessee state court would consider if the issue were brought before it. *See, e.g.*, Carr v. American Universal Ins. Co., 341 F.2d 220 (6th Cir. 1965). Because no reported Tennessee cases had considered this question, the district court consulted case law from other areas. The district court found that recent cases have recognized the descendability of the right of publicity. *See, e.g.*, Cepeda v. Swift & Co., 415 F.2d 1205 (8th Cir. 1969) (although recognizing Orlando Cepeda's valuable property right in his name and likeness, court ruled it was not infringed upon); Groucho Marx, Productions v. Day & Night Co., No. 80-2310 (S.D.N.Y. Oct. 16, 1981) (federal judge ruled that the heirs of the Marx Bros. retained property right in their name and likeness which was infringed upon by a Broadway musical); Hicks v. Casablanca Records, 464 F. Supp. 426 (S.D.N.Y. 1978) (heirs of mystery writer retained right of publicity in Agatha Christie's name); Factors, Etc. Inc. v. Creative Card Co., 444 F. Supp. 279 (S.D.N.Y. 1977) (companion case of *Factors Etc., Inc. v. Pro Arts, Inc.* in which the right of publicity was formally recognized in New York). Two recent cases did not recognize the descendability of the right of publicity, but they have been distinguished. Lugosi v. Universal Pictures, 25 Cal. 3d 813, 603 P.2d 425, 160 Cal. Rptr. 323 (1979) (Lugosi's heir did not retain Lugosi's right of publicity); Guglielmi v. Spelling-Goldberg Prods., 25 Cal. 3d 860, 603 P.2d 454, 160 Cal. Rptr. 352 (1979) (nephew of Rudolph Valentino did not retain publicity right in his name and likeness). In these cases the entertainers did not commercially exploit their name or likeness during their lifetime. It is the commercial exploitation of one's name or likeness that gives an entertainer's heirs an exclusive right of publicity after his death. *See* Felcher & Rubin, *The Descendibility of The Right of Publicity: Is There Commercial Life After Death?*, 89 YALE L.J. 1125, 1126 (1980).

The district court also considered the trend in the law as portrayed in numerous law review articles which support the recognition of publicity rights and their descendability. *See, e.g.*, Felcher & Rubin, *Privacy, Publicity, and The Portrayal of Real People by The Media*, 88 YALE L.J. 1577 (1979); Nimmer, *The Right of Publicity*, 19 LAW & CONT. PROB. 203 (1954); Pilpel, *The Right of Publicity*, 27 COPYRIGHT SOC'Y. BULL. 249 (1980); Note, *Lugosi v. Universal Pictures: Descent of The Right of Publicity*, 29 HASTINGS L.J. 751 (1978).

Additionally, the district court examined analogous principles of Tennessee state law, before making its decision. Memphis Dev. Found. v. Factors Etc., Inc., 441 F. Supp. 1323, 1330 (W.D. Tenn. 1977), *rev'd*, 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953.

The Sixth Circuit, on review of the district court finding, did not attempt to ascertain what Tennessee's highest court would decide, since it had "no way to assess their predisposition." Memphis Dev. Found. v. Factors Etc., Inc., 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953 (1980). The court failed to look at the trend in the law by noting neither law review articles nor case law of other states. The court did not even consider analo-

A circuit court's lack of familiarity with state law is not the only problem with the Second Circuit's holding. In addition, the policy considerations relied on by the court are insufficient to compel conclusive deference to the state law decisions of a federal appellate court. The majority asserts that federal court intrusions into state law disrupt the orderly development and exposition of state law.[47] The court then contends that the consistency resulting from its decision will benefit both these "values."[48] On review, these benefits appear inconsequential.

The court contends that the orderly development of state law would be enhanced, since the legislature could more easily identify the need for statutory change. This contention is unsubstantiated since one could easily maintain that conflicting decisions, rather than consistent ones, will sooner prompt legislative action.[49] Furthermore, the additional benefit of giving the public a single authoritative answer on an issue of state law is an insignificant result of the court's decision. Conflicting federal

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gous principles of Tennessee state law. Instead it determined what good law was in its opinion:

> Since the case is one of first impression, we are left to review the question in the light of practical and policy considerations, the treatment of other similar rights in our legal system, the relative weight of the conflicting interests of the parties, and certain moral presuppositions concerning death, privacy, inheritability and economic opportunity. These considerations lead us to conclude that the right of publicity should not be given the status of a devisable right, even where as here a person exploits the right by contract during life.

Id. at 958.

The Sixth Circuit by fashioning its own law was acting contrary to accepted federal diversity practices. A federal court, when there is no state law on point, must choose the rule it believes the state court will adopt after reviewing all relevant data. A federal court cannot apply the rule it would adopt for itself. *See* Keystone Aeronautics Corp. v. R. J. Enstrom Corp., 499 F.2d 146, 147 (3d Cir. 1974) (In determining Pennsylvania state law, the circuit court noted "our assigned role is to predict and not to form state law and so will utilize those guide posts which are available."); Kline v. Wheels by Kinney, Inc., 464 F.2d 184, 187 (4th Cir. 1972) (Reversing a district court decision which interpreted North Carolina state law, the circuit admonished the district judge stating that its "judicial chore was to determine the rule that North Carolina Supreme Court would probably follow, not fashion a rule which we, as an independent federal court, might consider best.").

By its decision, the Second Circuit requires all federal circuit courts to defer to the Sixth Circuit's arbitrary interpretation of Tennessee state law. This is despite the Sixth Circuit's reversal of a district court's ruling which was based on an exhaustive analysis of the trends in national and Tennessee law.

47. *See supra* note 22.

48. *See supra* note 23.

49. Judge Mansfield raised this argument in his dissent. "If Tennessee constituents were laboring under conflicting federal court declarations of rights and duties, the legislature would be more likely to act sooner than if all the decisions were consistent." Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 286 (2d Cir. 1981).

decisions on state law, which the majority fears will "create needless diversity in the exposition of state substantive law,"[50] are the types of differences of opinion on which the development of the common law depends.[51]

Ironically, the act of forcing a federal circuit court to apply mechanically the state law rulings by another circuit is contrary to the twin aims of *Erie v. Tompkins*.[52] Those aims are: (1) the discouragement of forum shopping; and (2) the avoidance of inequitable administration of the law.[53] Forum shopping under the majority's decision will be encouraged since a party may select a federal forum rather than a state forum, knowing that a federal court must strictly apply the interpretation of the state law by the previous circuit court.[54] Yet, if the controversy were brought in a state forum, the state court could make a completely different determination of state law since the federal court decision would not be binding on the state court.[55] Addi-

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50. *Id.* at 283.

51. *Cf.* Corbin, *The Law of the Several States*, 50 YALE L.J. 762 (1947).

> Is conflict such a new and unusual phenomenon? The Supreme Court, and every other court, bears witness that there may be conflict between judges on a single bench in the same case, or between a court and its predecessors on the same court. We may not like such conflict; but it is an inevitable part of our judicial process, or of any other. It is by such variation as this that the evolutionary growth of law is possible. Each litigant, whether in the federal or the state courts, has a right that his case shall be a part of this revolution — a live cell in the tree of justice.

Id. at 764.

52. 304 U.S. 64 (1938).

53. The phrase "twin aims of *Erie*" was coined by Chief Justice Warren in Hanna v. Plumer, 380 U.S. 460, 468 (1965).

54. The forum shopping argument after *Erie*, was used by commentators to reject the rule of requiring federal courts to blindly follow intermediate state court decisions. *See* Gibbs, *How Does The Federal Judge Determine What is The Law of The State?*, 17 S.C. L. REV. 487, 491 (1965); Hart, *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 512 (1954). This same reasoning can be used to refute the Second Circuit's decision.

55. For example, a non-citizen involved in an action in Tennessee has the choice of forum. 28 U.S.C. § 1441(b) (1976). After the Second Circuit's decision, a noncitizen who benefits by the law of not recognizing the descendability of publicity rights would transfer his action to the federal court, where the Sixth Circuit decision is binding. If the litigant would benefit by the recognition of publicity rights as descendible, he would bring the action in a Tennessee state court. There, the Tennessee state court could decide to recognize the publicity rights, since the Sixth Circuit decision would not be of any precedential value. This type of forum shopping would be especially prevalent when the pertinent circuit court's decision is contrary to the trend of the law. *See supra* note 46.

Not giving deference to circuit court decisions of the state law within its circuit can also lead to forum shopping. Instead of choosing between a federal and state forum, a litigant could choose between two different federal forums. If the Second and Sixth Circuits have conflicting interpretations of

tionally, under the majority approach, a party would be unable to argue the unfairness or inaccuracy of a prior federal circuit court ruling on state law even in the absence of a state high court ruling.[56] The federal appellate court would be conclusively bound by that decision, unless this earlier circuit's ruling was superceded by a later state court or legislative decision.[57] One commentator noted the inequities that arise from this type of diversity approach:

> Where, because of diversity of citizenship, a party is forced into a federal court, it is reasonable to hold that his rights should be determined in accordance with the same system of law as would have applied had the case been in a state court. . . . Therefore, when the forum is a federal court, that court must determine the applicable law by recourse to all the juristic data that are available to the state court. If the federal judge is required to disregard some of those available data, the litigant is not getting the same justice that he would get if the forum were a court of the state whose system of law is applicable; his rights by reason of this limitation will vary with the forum and will again depend on the accident of diversity of citizenship.[58]

The inequity of the Second Circuit's ruling, which denied the plaintiff Factors an opportunity to contest the Sixth Circuit's interpretation of Tennessee state law, was also pointed out in a subsequent Tennessee state court decision. In *Commerce Union*

Tennessee state law, a litigant could shop for whichever circuit would benefit him. However, forum shopping between state and federal courts has always been the major concern, beginning with *Erie*. *See supra* note 4. Also, venue requirements reduce the problems of federal forum shopping. The Second Circuit's decision also does not eliminate forum shopping among the circuits. Prior to a decision by the circuit court which includes the state, rulings by other circuits on the state law do not require deference. Thus, there could be conflicting interpretations of Tennessee law by the Second and Fifth Circuits, before a decision by the Sixth Circuit.

56. This argument was also made by commentators against the strict adherence of federal judges to intermediate state court decisions. This argument conforms to a rejection of the Second Circuit's decision. *Cf.* Clark, *State Law in The Federal Courts: The Brooding Omnipresence of Erie v. Tompkins*, 55 YALE L.J. 267, 291 (1946) ("anything short of full judicial action on the part of the federal judges is a deprivation of the rights of the litigants to due process and a fair trial"); Corbin, *The Laws of the Several States*, 50 YALE L.J. 762, 772 (1941) ("[T]he poor litigating parties should not be forgotten. In each case alike they are entitled to a day in a court of justice, operating according to our judicial system, making use of all those sources of wisdom by which justice is determined."); Hart, *The Relations Between State and Federal Law*, 54 COLUM. L. REV. 489, 510 (1954) ("the healthy development of law is paralyzed without the creative participation of courts").

57. The Second Circuit's decisions does permit another circuit to disregard the Sixth Circuit's interpretation of Tennessee law on publicity rights if it has been superceded by a Tennessee state Supreme Court or legislative decision. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 283 (2d Cir. 1981).

58. Corbin, *The Laws of the Several States*, 50 YALE L.J. 762, 774 (1941).

Bank v. Coors of the Cumberland,[59] a Tennessee chancery court formally recognized the descendibility of the right of publicity. The court, while noting the Sixth Circuit's decision in *Memphis Development Foundation v. Factors Etc., Inc.*,[60] found the opinion to be irreconcilable with their interpretation of the law.[61] Instead, the *Commerce* court found the reasoning of the Western District Court of Tennessee more persuasive[62] and criticized the Second Circuit for following the Sixth Circuit's decision "not because it agreed with the holding on the merits, but because it felt that it was bound to do so because Tennessee is within the Sixth Circuit."[63]

The Second Circuit's decision is a giant step backwards in the struggle by federal courts to ascertain accurately the state law in a diversity suit. The conclusive deference given to federal circuit court decisions ascertaining the law of the states in their circuits offers consistency[64] and judicial economy. What is lost is of greater importance. As stated in the dissent: "Soundness must not be sacrificed on the altar of consistency."[65]

James Balog

59. 561 PAT. TRADEMARK & COPYRIGHT J. (BNA) A-3 (Chancery Ct., Davidson Cty., Tenn. Oct. 2, 1981).

60. 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953.

61. Commerce Union Bank v. Coors of the Cumberland, Inc., 561 PAT. TRADEMARK & COPYRIGHT J. (BNA), at A-4.

62. Memphis Dev. Found. v. Factors Etc., Inc., 441 F. Supp. 1323 (W.D. Tenn. 1977), *rev'd*, 616 F.2d 956 (6th Cir. 1980), *cert. denied*, 449 U.S. 953.

63. Commerce Union Bank v. Coors of the Cumberland, Inc., 561 PAT. TRADEMARK & COPYRIGHT J. (BNA), at A-14.

64. The consistency offered by the Second Circuit's decision is not pervasive. Only interpretations of state law by the circuit which includes that state are given deference. Any interpretations by other circuit courts of that state law before the decision of the pertinent circuit would not be given deference. Therefore, the decisions on state law could be inconsistent.

65. Factors Etc., Inc. v. Pro Arts, Inc., 652 F.2d 278, 286 (2d Cir. 1981).

Judge Mansfield in the dissent added that since the majority admitted they would "probably uphold a descendible right of publicity, were [they] serving on the Tennessee Supreme Court," *Id.* at 282, they should not "retreat behind unsupportable deferential niceties." *Id.* at 286.