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# Limitations on Federal Equity Jurisdiction

# FEDERAL JURISDICTION

## LIMITATIONS ON FEDERAL EQUITY JURISDICTION

Appellants sought to enjoin enforcement of the 1944 "anti-closed shop" amendment[1] to the Florida Constitution, alleging that it violated the First Amendment, Fourteenth Amendment, and the contract clause[2] of the United States Constitution and that it conflicted with the National Labor Relations Act[3] and the Norris-LaGuardia Act.[4] The district court granted a temporary restraining order and caused a three-judge court to be convened. This court, deciding the case on the merits, vacated the restraining order and dismissed the complaint.[5] On appeal to the Supreme Court, reversed and remanded with directions to retain the bill pending determination of proceedings in the state courts which would supply the lacking construction and interpretation of the amendment. *American Federation of Labor v. Watson*, 66 Sup. Ct. 761 (1946).

After holding that the district court had jurisdiction to hear and decide the case on the merits, that it was a proper case for a three-judge district court, that the complaint stated a good cause of action in equity on the grounds of threatened irreparable injury, the Court concluded, Justice Douglas writing for the majority,[6] that it was improper for the lower court to have ruled on the merits at this stage of the litigation. The Court's action followed very closely its

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15. E.g., the overruling of the Gobitis decision in West Virginia State Board of Education v. Barnette, 319 U.S. 624 (1943); Taylor v. Mississippi, 319 U.S. 583 (1943).
16. E.g., Thornhill v. Alabama, 310 U.S. 88 (1940); Carlson v. California, 310 U.S. 106 (1940).
17. E.g., Thomas v. Collins, 323 U.S. 516 (1945).
18. E.g., Hawk v. Olson, 326 U.S. 271 (1945); Ashcraft v. Tennessee, 322 U.S. 143 (1944); Chambers v. Florida, 309 U.S. 227 (1940); Powell v. Alabama, 287 U.S. 45 (1932).

1. Fla. Const., Declaration of Rights § 12; Fla. Laws, 1943, p. 1134, ratified at the general election Nov. 7, 1944.
2. U. S. Const. Art. I, § 10.
3. 49 Stat. 449 (1935), 29 U.S.C.A. §§ 151 et seq. (1942).
4. 47 Stat. 70 (1932), 29 U.S.C.A. §§ 101 et seq. (1942).
5. American Federation of Labor v. Watson, 60 F. Supp. 1010 (S.D. Fla. 1945).
6. Stone, C. J., dissented on the grounds that the bill should have been dismissed for want of equity. Murphy, J., dissented on the grounds that the Court should hear the appeal on the merits. Jackson, J., took no part in the consideration of the case.

decision in *Specter Motor Co., Inc. v. McLaughlin.*[7] But the unpredictable question of when a federal court sitting in equity should exercise its discretion to refuse to decide a case although it has jurisdiction still remains in considerable doubt.

It is a fundamental maxim that bills in equity are addressed to the sound discretion of the court.[8] A court of equity in the exercise of this discretion may refuse to hear a case although it has jurisdiction. In recent years this phase of equitable discretion has been prominent in attempting a solution to the problem of interference by federal courts in matters involving the application, interpretation, and enforcement of state laws, especially uncertain or unsettled state laws.

The issue is made more difficult by the holdings that both the refusal to decide a case and the interference by federal courts in the application, interpretation, and enforcement of state laws can be warranted only by "extraordinary circumstances". The usual "extraordinary circumstances" which justify federal interference have been irreparable injury and a violation of a constitutionally protected right.[9] The usual "extraordinary circumstances" which warrant refusal to decide have involved a desire to uphold "the rightful independence of state governments" or to further a recognized public policy.[10]

There are several presently recognized situations affording examples of these extraordinary circumstances wherein the Supreme Court has held that federal courts should not use their power to interfere:

1. with state criminal prosecutions except where moved by urgent considerations;[11]
2. with collection of state taxes or with the fiscal affairs of a state;[12]
3. with the state administrative function of prescribing local utility rates;[13]
4. with liquidation of state banks by a state officer where there is no contention that shareholders and creditors will not be protected;[14]
5. in shaping the domestic policy of a state governing its administrative agencies.[15]
6. In addition, a federal court may stay proceedings before it, to enable parties first to litigate in state courts questions of

7. 323 U.S. 101 (1944).
8. Meredith v. City of Winter Haven, 320 U.S. 228, 235 (1943); Beal v. Missouri Pac. R.R., 312 U.S. 45, 50 (1941).
9. Watson v. Buck, 313 U.S. 387 (1941); Spielman Motor Co. v. Dodge, 295 U.S. 89 (1935).
10. Meredith v. City of Winter Haven, 320 U.S. 228, 235 (1943).
11. Beal v. Missouri Pac. R., 312 U.S. 45 (1941).
12. Matthews v. Rodgers, 284 U.S. 521 (1932). But cf. Hillsborough Township v. Cromwell, 66 Sup. Ct. 445 (1946).
13. Central Kentucky Natural Gas Co. v. Railroad Comm. of Ky., 290 U.S. 264 (1933).
14. Pennsylvania v. Williams, 294 U.S. 176 (1935).
15. Burford v. Sun Oil Co., 319 U.S. 315 (1943); Railroad Comm. v. Rowan & N. Oil Co., 311 U.S. 570 (1941).

state law which are preliminary to and may rended unnecessary a decision of constitutional questions.[16]

The basic principle underlying the above named situations appears to be very similar to the underlying doctrine of *Erie R.R. v. Tompkins*[17] —that the interpretation and application of purely local laws should be left to the state courts and federal courts should exercise their powers by interference only when exceptional circumstances arise.[18]

In 1943, the Court added some confusion to the problem by its decision in *Burford v. Sun Oil Co.*[19] In this case, the only reason given for refusing to enjoin enforcement of an order of the Texas Railroad Commission was that a comprehensive system for review of the orders of that body had been provided by statute in the state courts. Considering the intricacy of the orders of the commission and the economic importance of the oil industry in Texas, it was deemed more wise for the federal court not to interfere in the system of regulation. The decision seems to rest as much on a basis of convenience in a situation involving substantial economic import in the particular state as on the simple basis of non-interference in shaping the domestic policy of a state.

The question is even less clear when the state law is merely uncertain or in confusion as it is in the instant case where a new piece of state legislation has received no construction by the state courts. In 1940, the Supreme Court in *Thompson v. Magnolia Petroleum Co.*[20] reversed a federal bankruptcy court because it *had* decided an unsettled question of state property law.[21] However, in 1943, in *Meredith v. City of Winter Haven*,[22] the Supreme Court reversed a circuit court of appeals because it *had not* decided a question of applicability and effect of a state statute for the reason that the state decisions were so in conflict that it was doubtful just what the state law was. In the *Meredith* case, the Court indulged in the presumption that the last decision of the state supreme court represents the state law unless it can be said with some certainty that the state court would not follow it.[23] Nevertheless, it appears that the Court swung back to the classical view that it is the duty of the federal courts to decide a case when it has jurisdiction unless there is some recognized public policy or defined principle guiding the exercise of jurisdiction conferred which would in exceptional cases warrant it non-exercise.[24]

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16. Chicago v. Fieldcrest Dairies, Inc., 316 U.S. 168 (1942); Railroad Comm. of Texas v. Pullman Co., 312 U.S. 496 (1941); Gilchrist v. Interborough Rapid Transit Co., 279 U.S. 159 (1929); Fenner v. Boykin, 271 U.S. 240 (1926).
17. 304 U.S. 64 (1938).
18. Di Giovani v. Camden Fire Ins. Ass'n, 296 U.S. 64 (1935); cases cited n. 16 supra.
19. 319 U.S. 315 (1943); Note (1944) 53 Yale L. J. 788, 791.
20. 309 U.S. 478 (1940).
21. Ibid. The Court directed that the trustee in bankruptcy proceed in state courts to determine the unsettled state law. Note (1940) U. of Chi. L. Rev. 727.
22. 320 U.S. 228 (1943).
23. Id. at 234.
24. Ibid.

It has been declared that inasmuch as the Constitution gives federal courts jurisdiction in diversity cases, and that this has been supplemented by legislation, it is the duty of the federal courts to decide every diversity case coming before them, with the exception of very unusual cases; that if a change of policy in accepting and deciding diversity cases is to be made, Congress should make the change.[25] Although this argument has great weight, neither can it be denied that throughout our history, the Court has played an important part in shaping the legal, social, and political policy of our country. It does not seem that the Court should fail to effectuate a desirable policy solely on the grounds that it would be better for the legislature to make the change.

The limitations heretofore placed by Congress on the jurisdiction of federal courts have not been too broad nor in most cases proved very effective. The question did not draw too much attention until 1908 when in *Ex parte Young*,[26] it was decided that a federal court could enjoin a state official in the enforcement or threatened enforcement of an alleged unconstitutional state statute notwithstanding the Eleventh Amendment. In 1910, Congress enacted section 266 of the Judicial Code[27] which provided that interlocutory injunctions of this type could only be issued by a three-judge court with a right of direct appeal to the Supreme Court. In subsequent years this section was broadened slightly.[28]

In more recent years Congress has passed the Johnson Act[29] which withdrew jurisdiction to enjoin most state utility orders on grounds of unconstitutionality but which has been largely ineffective.[30] In 1937 a similar statute was passed regarding state taxes.[31] In addition, there are the well-known limitations on injunctions in the labor field.[32]

It is impossible to say at this time whether the conflicting views shown in the *Magnolia* and *Meredith* cases rendered within four years of each other evidence a genuine change of attitude of the Court, or

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25. See dissent by Frankfurter, J., in Burford v. Sun Oil Co., 319 U.S. 336, 348 (1943). But cf. Di Giovani v. Camden Fire Ins. Ass'n, 296 U.S. 64, 73 (1935) "Its discretion may be properly influenced by considerations of public policy."; Matthews v. Rodgers, 284 U.S. 521, 525 (1932) "The scrupulous regard for the rightful independence of state governments which should at all times actuate the federal courts, and a proper reluctance to interfere by injunction with their fiscal operation require that such relief should be denied in every case where the asserted federal rigght may be preserved without it." See also Note (1941) 54 Harv. L. Rev. 1379, 1390.
26. 209 U.S. 123 (1908).
27. 36 Stat. 557 (1910), 28 U.S.C.A. § 380 (1928).
28. 37 Stat. 1013 (1913), 28 U.S.C.A. § 380 (1928).
29. 48 Stat. 775 (1934), 28 U.S.C.A. § 41 (1) (Supp. 1945).
30. E.g., Mountain States Power Co. v. Public Service Comm., 299 U.S. 167 (1936); Corporation Comm. of Okla. v. Cary, 296 U.S. 452 (1935).
31. 50 Stat. 738 (1937), 28 U.S.C.A. § 41 (1) (Supp. 1945).
32. 47 Stat. 738 (1937), 29 U.S.C.A. §§ 101 et seq. (1942).

whether we are still in the formative state in a matter of serious policy wherein no definite trend has begun to appear. We can say that the manner in which the Court will treat the next case presenting the same problem is quite unpredictable. Like many questions of law wherein an active social or political policy is the final arbiter, the presence or absence of a few facts on either side may be the deciding factor with little or no real attention given to preceding cases.

It is not contended that federal judges are less qualified than state judges to decide questions of interpretation and application of state law. However, it cannot be denied that most of these cases, especially those where a constitutional question is involved, can travel to the Supreme Court through the state courts as well as through the federal courts and in doing so will pick up the applicable interpretation of state law which cannot be doubted to be the state law at least for that case. This alone appears to be sufficient reason for litigants to resort to state courts when an uncertain or unsettled question of state law is inherent in the case, even though federal courts are equally open to them so far as jurisdiction is concerned.

Although at present it is presumptuous to say that it is the policy of the Court that state matters would be better litigated in state courts, the instant case presents an almost too clear example of when a federal court should refuse to rule on the merits of a case because the matter would not only be better litigated in the state courts, but because it is essential to have it litigated there. The *Meredith* case would seem to indicate that the Court had withdrawn from its post-*Erie* attitude of emphasizing federal noninterference with state laws.

The most effective way at present of avoiding this unnecessary litigation and burden to both federal and state courts seems to be with the clients and their lawyers, who, having a choice of either federal or state courts, should choose the state courts when their litigation involves a doubtful or uncertain application of state law.