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Contracts-Arbitration-Sherman Act

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appellees cited the case of Gentile v. State. In that case it was held that since all members of the legislature were required to take oath to support the constitution of the state, it could not be presumed that the members would disregard their obligations in this respect in deciding whether or not the constitutional restriction on special laws was or was not applicable. The court in the principal case properly repudiated the doctrine of Gentile v. State, pointing out that the same reasoning would apply to all provisions of the constitution limiting the power of the legislature, and that whenever the legislature over-stepped one of these bounds, the fact that the members had been bound by oath would not prevent such legislation being held unconstitutional.

Contracts—Arbitration—Sherman Act—Plaintiff Distributing Corporation sued the Defendant Theater Company for damages for breach of contract in which contract the defendant agreed to pay a fixed sum for the privilege of exhibiting certain pictures in defendant theater. The alleged breach of contract consisted of defendant's refusal to accept, play, or pay for the motion picture productions for which it had contracted. Defendant contended that the clause of the contract which required that the plaintiff should have pursued a course of arbitration before resorting to court action had not been complied with and also that the contract sued on was in restraint of trade and a violation of the Sherman Anti-Trust Law. Plaintiff obtained judgment in the trial court. Held: on appeal, affirmed, the court declaring that the clause requiring arbitration was void as in violation of the Sherman Act. but that the contract was divisible and thus the remainder could be sued upon.1

The first attack on the validity of the Standard Exhibition Contract in the motion picture industry was made by the federal government in 1929. As a result of such attack, the United States Supreme Court in the case of Paramount Famous Lasky Corporation v. United States2 found that the activities of the defendant producers and distributors, including the agreement to adopt and to use the Standard Form Contract, with its compulsory arbitration clause, constituted a conspiracy in restraint of trade and thus in violation of the Sherman Act.3 As a result of this decree, the question arose as to what effect the decision must have on the thousands of contracts made in the standard form by distributors and exhibitors throughout the country.

Before proceeding with the discussion, let it be said that the court's finding that the arbitration clause is invalid, yet the contract is divisible and the remaining portions are enforceable is not without respectable authority.4 But there is, also, equally as strong authority to the contrary.5

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14 (1868) 29 Ind. 409.
1 Walker Theater Co. v. R. K. O. Distributing Corporation (Ind. 1934), 189 N. E. 162.
2 (1930), 282 U. S. 30, 51 S. Ct. 45.
5 United Artist Corporation v. Odeon Bldg. (Wis. 1933), 248 N. W. 784; Fox Film Corporation v. C. & M. Amusement Co. (1932), 58 Fed. (2d) 337; United Artists Corporation v. Piller (N. Dak. 1932), 244 N. W. 20; Universal Film Exchanges v. West (Miss. 1932), 141 So. 293; Fox Film Corporation v. Tri-State Theaters (Idaho 1931), 6 Pac. (2d) 153; Vitagraph Inc. v. Theatre Realty Co. (1931), 50 Fed. (2d) 907; see Majestic Theater Co. v. United Artist Corporation (1930), 43 Fed. (2d) 991.
Insomuch as all the cases are based on the Paramount decision, it is best to make a careful analysis of it. Here, the action was brought by the United States government against the distributors to prevent further violation of the Sherman Act through a combination and conspiracy to restrain interstate commerce in motion picture films. The court enjoined them from operating under the contract in restraint of trade, but did not say nor undertake to say, that certain parts of the contract were invalid and certain parts valid.6 In the opinion appears the following passage, "It may be that arbitration is well adapted to the needs of the motion picture industry; but when under the guise of arbitration, parties enter into unusual arrangements which unreasonably suppress normal competition, their action becomes illegal."7 This language does not mean that the parties could in no case arbitrate, but that they might arbitrate as long as it was voluntary and without coercion. The case merely enjoined the combination of the distributors in restraint of trade which was to be carried out through the Standard Exhibition Contract. The enforceability of the contract against the exhibitor was not involved, he was not a party to the contract and his rights under it could not be determined.

Arbitration agreements in contracts are almost as old as Anglo-American law itself. At first, in England, such agreements met the disapproval of the courts since the courts at that time were jealous of anything which would deprive them of any control over the action.1 But in England today, the parties apparently may make all rights under a contract conditional an arbitration by using language appropriate for the purpose.9 In many of the United States a doctrine similar to that adopted by the English courts seem to prevail.10 However, in many states, a distinction is made between an agreement to arbitrate the whole question of liability which is held ineffectual even though expressed in the form of a condition precedent, and an agreement which merely provides for the determination of a particular fact as for the valuation of loss or injury.11 Of course, it has always been against the theory of the common law to uphold agreements ousting the courts of their jurisdiction,12 but where the courts have control over the case as by a condition precedent or statutory arbitration the courts are not ousted of their jurisdiction and agreements which go no further than this are now held to be legal.13

6 United Artist Corporation v. Piller (N. Dak. 1932), 244 N. W. 20.
8 Scott v. Avery, 5 H. L. Cas. 811; see also U. S. Asphalt Refining Co. v. Trinidad Lake Petroleum Co. (1915), 222 Fed. 1006.
12 Kistler v. Indianapolis & St. L. R. R. Co. (1882), 88 Ind. 460, 464; The Supreme Council of the Order of Chosen Friends v. Forsinger (1890), 125 Ind. 52, 55; Meyers v. Jenkins (1900), 63 Ohio State 224, 57 N. E. 1089.
13 H. E. Willis, Indiana Annotations to the Restatement of the Law of Contracts (1933), sec. 550; Restatement to the Law of Contracts, sec. 550; E. M. S. Steers, Arbitration at Common Law in Indiana (1929), 5 Ind. L. J. 175; Hardware Dealers Mutual
As arbitration clauses generally have been upheld as legal, it is extremely difficult to comprehend how they are illegal in this instance, unless such agreement is one of the provisions of a contract which is illegal because in restraint of trade. In other words, how can the arbitration stipulation be invalid while the contract is deemed valid? To defeat a contract as illegal because of it being in restraint of trade, it must appear that the contract is directly connected with the unlawful purpose and not merely collateral thereto. And contracts lawful on their face are illegal if in furtherance of a combination in itself illegal. In the instant case, it is obvious that the whole contract was in furtherance of the illegal combination of distributors and producers, it was the means to carry out the conspiracy. As far as the defendant is concerned, the vice is the contract and not merely the stipulation for arbitration since he was deprived of the freedom of contract which the law contemplates. The distributor is suing on the identical contract which was the evidence of the conspiracy and the object of the restraining decree in the Paramount case. The enforcement of the very instrumentality of the conspiracy itself, as done in this case, falls within the interdictum of the Supreme Court that an action cannot be maintained on a contract which is part of an unlawful conspiracy.

S. E. M.

Declaratory Judgment Act—What Constitutes a Controversy Within the Scope of the Act—In 1912, the defendant entered into a contract with Stoughton A. Fletcher and Albert E. Metzger under the terms of which she leased to them certain real estate in the city of Indianapolis for a term of ninety-nine years. The lessees assigned their interest to the plaintiff, the Fletcher Savings and Trust Building Company who, in turn, sublet the real estate and building, which it had erected thereon, to its coplaintiff, the Fletcher Savings and Trust Company, for a period of fifteen years, or until January 1, 1934. Under the covenants of this lease the lessees agreed to pay any taxes, assessments, benefits or rates levied by virtue of a local, state or national authority upon the real estate or buildings, or which might be assessed upon the right of the lessor to receive the rentals thereunder during the lease. After the 1913 income tax law was enacted by Congress, a controversy developed between the plaintiffs and defendant as to whether or not the duty rested on the plaintiffs, as lessees, to pay the income taxes charged against the rents received by the defendant from the plaintiffs. For the purpose of obtaining a declaratory judgment or decree respecting the duties and obligations of the respective parties, the plaintiffs filed a complaint, alleging these facts, to which the defendant demurred for want of a jurisdiction and insufficiency of facts to state a cause of action. This demurrer was overruled, whereupon the defendant filed an answer, to the second, third, and fourth paragraphs of which the plaintiffs demurred for insufficiency of facts. These demurrers were sustained. Upon the issues thus formed the cause was tried, resulting in a judgment for the plaintiffs. Defendant then filed a motion to modify the judgment, which was overruled, and a motion for a new trial, which was also overruled. The defendant then appealed, contending, among other things, that no actual controversy within the purview of the Declaratory Judgment Act was shown by the pleadings or proof. Held, where landlord and tenants

16 Continental Wall Paper Co. v. Voight & Sons Co. (1907), 212 U. S. 227.