NOTES

COVER v. SCHWARTZ*

PROGRESS towards a uniformly liberal treatment of procedural and jurisdictional questions may be retarded by a recent decision [1] of the Circuit Court of Appeals for the Second Circuit. Cover, the owner of a patent, sued Schwartz in a federal district court for infringement. Schwartz denied both the validity of the patent and the infringement, and the court found in his favor declaring the patent invalid and implying that it was not infringed. On appeal, Cover's attorney said in his statement of points that the court erred in finding the patent invalid and in failing to find the patent valid and infringed; but in the brief he said that appellant did not "challenge that part of the judgment which holds the claims not infringed."

On the basis of this concession, the circuit court in an opinion by Judge Frank dismissed the appeal and allowed the decision of the lower court to stand, holding that since the issue of infringement had been eliminated, there was no longer a case or controversy supporting the exercise of jurisdiction.[2] In a vigorous dissent,[3] Judge Clark argued that the concession should have been disregarded and the case heard in its entirety on the merits and that even if the concession were binding, a justiciable controversy remained.

The Federal Rules of Civil Procedure would seem to support Judge Clark's contention that the concession should have been disregarded and the appeal treated as one upon both the issue of infringement and the issue of validity. It is the basic premise of the rules that if neither party is prejudiced, a case should be heard upon its merits despite minor procedural objections.[4] In the *Cover* case there was no possibility of prejudice to the defendant because he was notified, by appellant's statement in his points, that both issues would be litigated.

Moreover, the Federal Rules specifically relieve a party from a judgment or order entered against him through his "mistake, inadvertence, surprise,

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* 133 F. (2d) 541 (C. C. A. 2d, 1942).

1. Cover v. Schwartz, 133 F. (2d) 541 (C. C. A. 2d, 1942).

2. *Contra:* Alexander J. Bocz v. Hudson Motor Co., 19 F. Supp. 385 (E. D. Mich. 1937) (patent found invalid at plaintiff's request, although plaintiff had already conceded non-infringement because of plaintiff's interest in the patent and in other suits then pending).

3. Cover v. Schwartz, 133 F. (2d) 541, 547 (C. C. A. 2d, 1942).

4. FED. RULES CIV. PROC. 73, 75, simplify the method of bringing appeals. Courts have dismissed appeals for non-compliance only in cases of actual prejudice to the defendant. See Adams v. New York, C. & St. L. R. R., 121 F. (2d) 808 (C. C. A. 7th, 1941); Johnson v. Wilson, 118 F. (2d) 557 (C. C. A. 9th, 1941); Federal Land Bank of Springfield v. Hansen, 113 F. (2d) 82 (C. C. A. 2d, 1940); Grand Lodge Improved B. P. O. Elks of the World v. Eureka Lodge, No. 5, Independent Elks, 114 F. (2d) 46 (C. C. A. 4th, 1940); Keeley v. Mutual Life Ins. Co. of N. Y., 113 F. (2d) 633 (C. C. A. 7th, 1940); 3 MOORE, FEDERAL PRACTICE (1938) §§ 73.01, 75.01.

or excusable neglect." [5] This rule has been broadly interpreted [6] and has even been used to provide relief from an order of dismissal based upon a stipulation which an attorney had signed without his client's consent.[7] Although this provision affords relief only after entry of a judgment or order, it indicates that a party should not be penalized for technical procedural errors. And in the interests of administrative convenience a court should correct such errors when they first appear. The Federal Rules confer upon district courts wide discretion in determining whether to dismiss a case after answer is filed,[8] and similar discretionary powers have been assumed by appellate tribunals in dismissing or retaining an appeal. The extent of these powers is suggested by the case of In re *Barnett*.[9] There a bankrupt-assignor appealed from a decision holding his assignment invalid and ordering him to execute an assignment of the same property to the trustee in bankruptcy. Although the trustee consented to the deletion of this order and by this concession deprived the appellant of his technical basis for appeal, the appellate court in order to protect the interest of the assignee, who had failed to appeal, refused to dismiss.

To have ignored the concession and treated the appeal as one upon both issues would not have constituted a radical departure from established practice. Although courts are generally bound by concessions made for the purpose of narrowing the issues and expediting appeals,[10] and there is no judicial duty to ascertain whether a concession is warranted,[11] a concession may be disregarded when administrative benefits are overweighed by substantive detriment.[12] But even if the court was bound by the concession of non-infringement, it would seem that the remaining issue of validity presented a justiciable controversy which warranted a declaration by the court on that issue. The concept of a justiciable controversy has in recent years been greatly

5. FED. RULES CIV. PROC. 60(b).

6. See La Barbera v. Grubard, 112 F. (2d) 738 (C. C. A. 2d, 1940) (failure of attorney to appear at a hearing); Kroell v. N. Y. Ambassador, Inc., 108 F. (2d) 294 (C. C. A. 2d, 1939); Nachod & U. S. Signal Co. v. Automatic Signal Corp., 32 F. Supp. 588 (Conn. 1940) (not applicable to error of court); Robins v. Pitcairn, 3 Fed. Rules Serv. 60b.33 (case 2) (N. D. Ill. 1940); 3 Fed. Rules Serv. 60 b.21 (commentary)

7. See Preveden v. Hahn, 36 F. Supp. 952 (S. D. N. Y. 1941).

8. FED. RULES CIV. PROC. 41(a). See Oblak v. Armour & Co., 1 F. R. D. 648 (W. D. Mo. 1941); Forstner Chain Corp. v. Gemex Co., 1 F. R. D. 115 (D. N. J. 1940); Scruggs v. Casco Corp., 32 F. Supp. 625 (D. Conn. 1940); Cheney Co. v. Cunningham, 29 F. Supp. 847 (W. D. Pa. 1939); Stanley Works v. C. S. Mersick Co., 1 F. R. D. 43 (D. Conn. 1939).

9. 124 F. (2d) 1005 (C. C. A. 2d, 1942), 51 YALE L. J. 1406. See (1938) 51 HARV. L. REV. 1058.

10. See Agawam Co. v. Jordan, 74 U. S. 583, 609 (1868); F. W. Rauskolb Co. v. Anthony Mfg. Co., 253 Fed. 650, 651 (C. C. A. 1st, 1918); Globe Securities Co. v. Gardner Motor Co., 337 Mo. 177, 85 S. W. (2d) 561 (1935).

11. Benson & Marxer v. Regner, 186 Iowa 19, 172 N. W. 166 (1919).

12. See *In re* Barnett, 124 F. (2d) 1005 (C. C. A. 2d, 1942); Rip Van Winkle Wall Bed Co. v. Holmes, 15 F. (2d) 950 (C. C. A. 9th, 1926); Knaust Bros. v. Goldschlag, 28 F. Supp. 188 (S. D. N. Y. 1939); Lewis Invisible Stitch Machine Co. v. Columbia Blindstitch Machine Mfg. Corp., 22 F. Supp. 705 (S. D. N. Y. 1937).

expanded by judicial interpretation.[13] Thus an actual rupture between two parties is no longer necessary; mere uncertainty of the petitioner's legal rights against a potentially adverse party has been deemed sufficient.[14] A patentee seeking a judicial decision on the validity of his patent before putting his invention on the market might, therefore, be entitled to a declaration on validity against the holder of a similar patent. In any event, he would certainly be entitled to such a declaration against a party who demonstrated his adversity by contesting the patent's validity in court.

The decision in the *Cover* case that the concession of non-infringement concluded the defendant's adverse interest might be justified if his interest had been limited to the question of non-infringement. But the primary aim of any litigant who is claimed to have infringed a patent is to have that patent declared invalid because its mere existence jeopardizes his interests.[15] A finding of non-infringement effects only a limited estoppel on a patentee; hence, he may still sue successfully upon his patent. A decree of invalidity, on the other hand, acts as a complete estoppel, forestalling further litigation.[16] Such a decree of invalidity is also important to the litigant from an extra-legal standpoint since it extends the area of activity in which he can use and develop his own device.

Courts recognizing the menace inherent in the existence of an invalid patent monopoly have assured a purported infringer that the question of infringement may be reduced to litigation through his action as well as the patentee's by permitting him to sue for a declaratory judgment of invalidity and non-infringement.[17] And they have also guaranteed an alleged infringer that the

13. See Aetna Life Ins. Co. v. Haworth, 300 U. S. 227 (1937); Maryland Casualty Co. v. Pacific Coal & Oil Co., 312 U. S. 270 (1941); Dewey & Almy Chemical Co. v. American Anode, Inc., 137 F. (2d) 68 (C. C. A. 3d, 1943); Tremond Co. v. Schering Corp., 122 F. (2d) 702 (C. C. A. 3d, 1941), 30 GEO. L. J. 213; Lances v. Letz, 115 F. (2d) 916 (C. C. A. 2d, 1940), (1941) 10 GEO. WASH. L. REV. 241; BORCHARD, DECLARATORY JUDGMENTS (2d ed. 1941).

14. See BORCHARD, DECLARATORY JUDGMENTS (2d ed. 1941); Borchard, *Challenging "Penal" Statutes by Declaratory Actions* (1943) 52 YALE L. J. 445, 446-53; Schroth, *The "Actual Controversy" in Declaratory Actions* (1934) 20 CORN. L. Q. 1, 12-14. In Maryland Casualty Co. v. Pacific Coal & Oil Co., 312 U. S. 270 (1941), an insurance company sought and obtained a declaratory judgment of non-liability against an adverse party whose interest depended upon the successful outcome of another suit then in process and the failure of the insured to pay without recourse to the insurance company.

15. See Gregory v. Royal Typewriter Co., 41 U. S. PAT. Q. 534 (S. D. N. Y. 1939); Kohloff v. Ford Motor Co., 29 F. Supp. 843 (S. D. N. Y. 1939).

16. Even if the decree were limited to the invalidation of certain claims only, the patentee would hesitate to risk complete invalidation by further suit.

17. Some assertion of infringement by the patentee is generally considered essential to these actions. See Tremond Co. v. Schering Corp., 122 F. (2d) 702 (C. C. A. 3d, 1941), 30 GEO. L. J. 213; Lances v. Letz, 115 F. (2d) 916 (C. C. A. 2d, 1940), (1941) 10 GEO. WASH. L. REV. 241. But see Dewey & Almy Chemical Co. v. American Anode, Inc., 137 F. (2d) 68 (C. C. A. 3d, 1943). Here, the court permitted a declaratory judgment action against a patentee although there had been no direct claim that the petitioner's process infringed the patent. The court reasoned that the patentee created a controversy by claiming in a suit against a third party a scope for his patent broad enough to include the petitioner's process as an infringement.

case will come to judgment on the merits by protecting him against a voluntary dismissal by the patentee either through an exercise of their discretion under Federal Rule 41(a),[18] allowing dismissal only by order of court, or by permitting him to inject a counter-claim for invalidity and non-infringement.[19] But they have failed to stipulate that the decree in a patent suit must always contain a finding of validity.[20]

18. Counter-claim on the same issues as in plaintiff's complaint not permitted on the ground that Rule 41(a) offered adequate protection against dismissal: Oblak v. Armour & Co., 1 F. R. D. 648 (W. D. Mo. 1941); Forstner Chain Corp. v. Gemex Co., 1 F. R. D. 115 (D. N. J. 1940); Scruggs v. Casco Corp., 32 F. Supp. 625 (D. Conn. 1940); Cheney Co. v. Cunningham, 29 F. Supp. 847 (W. D. Pa. 1939); Stanley Works v. C. S. Mersick Co., 1 F. R. D. 43 (D. Conn. 1939).

19. See FED. RULES CIV. PROC. 13; Leach v. Ross Heater & Mfg. Co., 104 F. (2d) 88 (C. C. A. 2d, 1939); Bechik v. Handy Mattress Accessories Corp., 45 F. Supp. 73 (E. D. N. Y. 1942); O'Leary v. Liggett Drug Co., 1 F. R. D. 272 (S. D. Ohio 1940); Lambert v. Dempster Bros., Inc., 34 F. Supp. 610 (E. D. Tenn. 1940); Dewey & Almy Chemical Co. v. Johnson Drake & Piper, Inc., 25 F. Supp. 1021 (E. D. N. Y. 1939); Gregory v. Royal Typewriter Co., 41 U. S. PAT. Q. 534 (S. D. N. Y. 1939); see Gregory v. Royal Typewriter Co., 33 F. Supp. 870 (S. D. N. Y. 1940) (patent found invalid on the merits); Kohloff v. Ford Motor Co., 29 F. Supp. 843 (S. D. N. Y. 1940) (counter-claim for invalidity allowed although plaintiff dismissed the infringement action); Meinecke v. Eagle Druggists Supply Co., 19 F. Supp. 523 (S. D. N. Y. 1937); 1 MOORE, FEDERAL PRACTICE (1938) § 13.01.

20. Some judges have expressed the view that a decree should contain a finding on invalidity where possible. See p. 915 *infra*. But for the general confusion of courts as to the issues on which they will find in patent cases, see the following variety of results:

(a) Appeal court affirms on non-infringement alone. See Exhibit Supply Co. v. Ace Corp., 315 U. S. 126 (1942). But see the dissent, *id.* at 137. See also Hazeltine Corp. v. Emerson Television-Radio, Inc., 129 F. (2d) 580 (C. C. A. 2d, 1942) (dictum as to invalidity); American Seating Co. v. Ideal Seating Co., 124 F. (2d) 70 (C. C. A. 6th, 1941); Aleograph Co. v. Electrical Research Products, 55 F. (2d) 106 (C. C. A. 5th, 1932); Automatic Arc Welding Co. v. A. O. Smith Co., 60 F. (2d) 740 (C. C. A. 7th, 1932).

(b) Appeal court affirms on non-infringement alone, although lower court found invalidity also. See Aero Spark Plug Co. v. B. G. Corp., 130 F. (2d) 290 (C. C. A. 2d, 1942) (Judge Frank concurring); Irwin & Co. v. Westinghouse Air Brake Co., 121 F. (2d) 429 (C. C. A. 2d, 1941); L. McBrine Co. v. Silverman, 121 F. (2d) 181 (C. C. A. 9th, 1941); National Electric Signal Co. v. City of Waco, 94 F. (2d) 942 (C. C. A. 5th, 1938); American Can Co. v. M. J. B. Co., 59 F. (2d) 77 (C. C. A. 3d, 1932).

(c) Appeal court affirms on non-infringement; lower court found valid and infringed. See S. S. Kresge Co. v. Davies, 112 F. (2d) 708 (C. C. A. 8th, 1940).

(d) Appeal court affirms on both issues although one "immaterial." See Wheatley v. Rex Hide, Inc., 102 F. (2d) 940 (C. C. A. 7th, 1939) (invalid, infringed).

(e) Appeal court finds patent valid though not infringed. See Oliver-Sherwood Co. v. Patterson-Ballagh, 95 F. (2d) 70 (C. C. A. 9th, 1938). *Contra:* Electrical Fittings Corp. v. Betts, 307 U. S. 241 (1939). See p. 916 *infra*.

(f) Lower court finds on unessential issue for benefit of appellate court. See B. F. Sturtevant Co. v. Mass. Hair & Felt Co., 122 F. (2d) 900 (C. C. A. 1st, 1941) (invalid, infringed); Herman Body v. St. Louis Body & Equipment Co., 46 F. (2d) 879 (C. C. A. 8th, 1931); Kool Kooshion Mfg. Co. v. Mitchell Mfg. Co., 102 F. (2d) 37

An appreciation of the purported infringer's particular interest in validity [21] is, however, indicated by decisions declaring that a plaintiff cannot by conceding [22] or even consenting to a decree of non-infringement [23] deprive the defendant of the right to litigate the question of validity. Yet in two recent cases the courts have avoided a direct holding that the issue of validity in itself does or does not constitute a justiciable controversy. In the first of these,[24] the appellate court struck out a finding of invalidity made upon a

(C. C. A. 8th, 1939); Barry v. General Tire & Rubber Co., 31 F. Supp. 879 (N. D. Ill. 1940), *aff'd*, 122 F. (2d) 123 (C. C. A. 7th, 1941) (valid, no infringement).

(g) Appeal court affirms on invalidity alone. See United Carbon Co. v. Binney & Smith Co., 317 U. S. 228 (1942) (public interest in invalidity); B. F. Sturtevant Co. v. Mass. Hair & Felt Co., 122 F. (2d) 900 (C. C. A. 1st, 1941) (lower court found valid and not infringed); Bingham Pump Co. v. Edwards, 118 F. (2d) 338 (C. C. A. 9th, 1941) (lower court found valid and infringed); Western Auto Supply Co. v. American National Co., 114 F. (2d) 711 (C. C. A. 6th, 1940); Grosjean v. Panther-Panco Rubber Co., 113 F. (2d) 252 (C. C. A. 1st, 1940); Armstrong Cork Co. v. United Cork Co., 107 F. (2d) 36 (C. C. A. 3d, 1939); Noblitt Sparks Industries, Inc. v. Excel Auto Radiator, 96 F. (2d) 920 (C. C. A. 7th, 1938); Herman Body v. St. Louis Body & Equipment Co., 46 F. (2d) 879 (C. C. A. 8th, 1931) (lower court found only non-infringement).

(h) Lower court finds invalidity alone. See Ware v. Pratt & Whitney Aircraft Co., 20 F. Supp. 168 (D. Del. 1937), *aff'd*, 103 F. (2d) 364 (C. C. A. 3d, 1939).

(i) Appeal court strikes out finding of validity from decree of valid and not infringed. See Electrical Fittings Corp. v. Betts, 307 U. S. 241 (1939).

(j) Appeal court finds valid and not infringed. See Aluminum Co. of America v. Thompson Products, 122 F. (2d) 796 (C. C. A. 6th, 1941). See also (1940) 9 GEO. WASH. L. REV. 236.

21. See Aluminum Co. of America v. Thompson Products, 122 F. (2d) 796 (C. C. A. 6th, 1941) (defendant indicated his interest by filing cross-appeal); National Electric Signal Co. v. City of Waco, 94 F. (2d) 942 (C. C. A. 5th, 1938) (defendant indicated his interest by filing a motion to have the appellate court recall the mandate and pass specifically on the issue of validity); Aleograph Co. v. Electrical Research Products, Inc., 55 F. (2d) 106 (C. C. A. 5th, 1932) (defendant indicated his interest in the issue of invalidity by filing cross-appeal).

22. See Knaust Bros. v. Goldschlag, 28 F. Supp. 188 (S. D. N. Y. 1939) (plaintiff created a controversy by bringing the suit and could not dismiss his claim of infringement to deprive the defendant of a declaratory judgment of invalidity).

23. Lewis Invisible Stitch Machine Co. v. Columbia Blindstitch Machine Mfg. Corp., 22 F. Supp. 705 (S. D. N. Y. 1937) (because a patent was involved, court would not permit the patent to hang as a threat over the art by permitting a withdrawal). For recognition of the defendant's interest by other techniques, see Gregory v. Royal Typewriter Co., 41 U. S. PAT. Q. 534 (S. D. N. Y. 1939) (defendant entitled to counterclaim for invalidity and non-infringement because Rule 41(a) while protecting against dismissal might not protect against dismissal on non-infringement leaving issue of validity unsettled).

24. Larson & Johnstone v. General Motors Corp., 134 F. (2d) 450 (C. C. A. 2d, 1942), *rev'g* 40 F. Supp. 570 (1941); *accord*, Bechik v. Handy Mattress Accessories Corp., 45 F. Supp. 73 (E. D. N. Y. 1942). But *cf.* Gregory v. Royal Typewriter Co., 41 U. S. PAT. Q. 534 (S. D. N. Y. 1939); Kohloff v. Ford Motor Co., 29 F. Supp. 843 (S. D. N. Y. 1939) (defendant entitled to a declaratory judgment of invalidity and non-infringement although plaintiff permitted to dismiss infringement action).

defendant's counterclaim after entrance of a consent decree of non-infringement. Ignoring the question of justiciability, the decision held that the district court in its discretion should have dismissed the counter-claim because under the facts of the case plaintiff would otherwise have been deprived of a jury trial in a second cause of action. In the second case [25] the United States Supreme Court reversed a circuit court decision holding that a finding of non-infringement rendered the question of the validity of plaintiff's patent moot. But the precise ground for the Court's decision that the issue of validity constituted a justiciable controversy was the existence of specific facts, apart from the particular claims involved in the plaintiff's infringement action, which rendered the patent a threat to the defendant. The caution of the Court in failing to decide that a patent is per se [26] a threat to a defendant who has once been forced into litigation would appear to be unfortunate.[27]

25. Freeman v. Altvater, 55 U. S. PAT. Q. 125, *rev'd*, 130 F. (2d) 763 (C. C. A. 8th, 1942), *rev'd*, 63 Sup. Ct. 1115 (U. S. 1943).

26. See Kohloff v. Ford Motor Co., 29 F. Supp. 843 (S. D. N. Y. 1939) (defendant entitled to a declaratory judgment of invalidity and non-infringement although plaintiff permitted to dismiss infringement action); Gregory v. Royal Typewriter Co., 41 U. S. PAT. Q. 534 (S. D. N. Y. 1939).

27. It may also be argued that the appellate court in the *Cover* case was presented with a controversy sufficient to satisfy the jurisdictional requirements, although entirely different from the controversy in the court below. This controversy was between the plaintiff and defendant as to the propriety of the lower court's decision. A substantial legal right of pecuniary value had been taken from the plaintiff by the judgment of invalidity, namely, the right to sue on his patent and had been given to the defendant in the form of an estoppel. Since only the appellee was the beneficiary of the transfer and only the appellant the victim of the deprivation both were certainly interested parties.

The view is interesting, moreover, as indicating a possible approach to the analysis of appellate jurisdiction. While doctrinally an appellate court has no "original jurisdiction," the actual operative facts of the "controversy" upon which the appellate court bases its action may be substantially different than those which were the prerequisites of a controversy in the lower court. In an injunction suit by a patentee, for example, a defendant abiding by an injunction already issued, is certainly no longer invading the plaintiff's legal rights by his action. Here, the defendant, the party entitled to appeal, is in a sense initiating an action to determine the propriety of the lower court's determination that he no longer has the privilege of marketing his product. By a showing that the action of the lower court either through the relief granted or through its alteration of the legal rights of the appealing party has deprived him of a right of substantial monetary value, the prerequisites of a "justiciable controversy" are satisfied. This analysis might also be offered as an explanation of the exercise of jurisdiction by the Supreme Court in the *Betts* case at the instance of a defendant in whose favour the decree had been entered.

Since almost every appeal could be viewed under this analysis as a controversy as to the validity of the lower court's judgment which alters the legal relations of the parties to the financial detriment of either, it fails to satisfactorily explain why the appellate court will exercise jurisdiction to hear the issue on which the alteration of legal rights has been predicated, on the merits in one instance, while in the other it acts only to strike out the finding of the lower court.

In addition to the interest of the defendant, the interest of the public would seem to have required the court to have heard the appeal in the *Cover* case.[28] Private litigation is the only method of testing a patent's validity except in cases of fraud in the issuance.[29] Moreover, the Supreme Court's high standard of "invention" [30] has indicated the existence of a large number of invalid patents which should be eliminated. Thus in patent suits many courts adhere to the policy of basing a decree adverse to the party claiming infringement on invalidity whenever possible and of including a finding of invalidity in the decree when non-infringement is found first.[31] Although such a decree is not in rem [32] and binds only the parties to the suit, the findings of fact may be given weight in a subsequent suit on the same patent.[33] The view has been expressed that the property interest of a patentee should entitle him to a presumption of his patent's validity unless a finding on that issue is essential to the disposition of a case.[34] An attitude of judicial restraint toward the

28. For cases recognizing the public's interest in patent suits, see United Carbon Co. v. Binney & Smith Co., 317 U. S. 228 (1942); Hill v. Wooster, 132 U. S. 693, 698 (1890); Densmore v. Scofield, 102 U. S. 375, 378 (1880). See also Exhibit Supply Co. v. Ace Corp., 315 U. S. 126, 137 (1942) (Mr. Justice Black and Mr. Justice Douglas dissenting); Aero Spark Plug Co. v. B. G. Corp., 130 F. (2d) 290, 292 (C. C. A. 2d, 1942) (Judge Frank concurring); Picard v. United Aircraft Corp., 128 F. (2d) 632, 638 (C. C. A. 2d, 1942) (Judge Frank concurring). For a comprehensive analysis of the present patent system, see Woodward, *A Reconsideration of the Patent System as a Problem of Administrative Law* (1942) 55 HARV. L. REV. 950. Cases hold that an appeal otherwise moot will not be dismissed because of public interest in the question. See Piper v. Hawley, 179 Cal. 10, 175 Pac. 417 (1918); Pitt v. Belote, 108 Fla. 292, 146 So. 380 (1933); State *ex rel.* Jones v. Wurdeman, 309 Mo. 408, 274 S. W. 407 (1925); Dove v. Oglesby, 114 Okla. 144, 244 Pac. 798 (1926); Cox v. City Council of Bristol, 144 Va. 286, 132 S. E. 187 (1926).

29. See Picard v. United Aircraft Corp., 128 F. (2d) 632, 638 (C. C. A. 2d, 1942) (Judge Frank concurring); Aero Spark Plug Co., Inc. v. B. G. Corp., 130 F. (2d) 290, 292 (C. C. A. 2d, 1942) (Judge Frank concurring); Woodward, *supra* note 28, at 953-55.

30. See Picard v. United Aircraft Corp., 128 F. (2d) 632 (C. C. A. 2d, 1942); Armstrong Cork Co. v. United Cork Co., 24 F. Supp. 913 (D. N. J. 1938), *aff'd*, 107 F. (2d) 36 (C. C. A. 3d, 1939); Woodward, *loc. cit. supra* note 28; Evans, *Disposition of Patent Cases by the Court* (1942) 24 J. PAT. OFF. SOC. 19.

31. See Densmore v. Scofield, 102 U. S. 375 (1880). For an excellent statement of this policy, see Aero Spark Plug Co. v. B. G. Corp., 130 F. (2d) 290, 292 (C. C. A. 2d, 1942) (Judge Frank concurring).

32. See Hart Steel Co. v. Railroad Supply Co., 244 U. S. 294 (1917); Kessler v. Eldred, 206 U. S. 285 (1907); Rousso v. First Nat. Bank in Detroit, 37 F. (2d) 281 (C. C. A. 6th, 1930) (not res adjudicata as between patents in different hands); Vapor Car Heating Co. v. Gold Car Heating & Lighting Co., 7 F. (2d) 284 (C. C. A. 2d, 1925); (1941) 9 GEO. WASH. L. REV. 977.

33. See Murray v. Detroit Wire Spring Co., 206 Fed. 465 (C. C. A. 9th, 1913).

34. Clapp v. Stewart Warner Corp., 116 F. (2d) 68 (C. C. A. 7th, 1940) (plaintiff given the benefit of the presumption of validity); Armstrong Cork Co. v. United Cork Co., 107 F. (2d) 36 (C. C. A. 3d, 1939) (presumption characterized as "esprit de patentability"); Automatic Arc Welding Co. v. A. O. Smith Corp., 60 F. (2d) 740 (C. C. A. 7th, 1932) [no finding on validity because time reveals prior art and tests utility of patent; (1940) 9 GEO. WASH. L. REV. 236].

rights of a private individual would seem, however, to be unwarranted even in ordinary circumstances. And in patent cases, in which the property interest is a monopoly vested in the individual by virtue of a public grant, precisely the opposite attitude would appear to be required.[35]

Furthermore, even if the issue of validity was moot, it would seem that the court in the *Cover* case should not have permitted the lower court's decree of invalidity to stand. Judge Frank argues that the court's inaction achieves the happy result of satisfying the interests of both the public and the defendant in a finding of invalidity; but he ignores entirely the equally important interest of the plaintiff, who is denied by the decision an opportunity to appeal and yet is burdened by a decree which may later operate as an estoppel against him.

Under similar circumstances the lower court's decree has generally been dismissed, so that a party unable to appeal may litigate the issues in a subsequent case.[36] The Supreme Court has expressly sanctioned this policy of protecting a party from estoppel as to an issue from which he has not been able to take an appeal on the merits. In *Electrical Fittings Corporation v. Betts* [37] a defendant was permitted to appeal from a favorable decree of valid but not infringed in order to have the appellate court strike the finding of validity. The finding though "immaterial" was included in the decree and stood as an "adjudication of one of the issues litigated." [38] Although Judge Frank attempts to distinguish the *Betts* decision by arguing that the action of the appellate court in the *Cover* case will not prejudice the defendant, the policy of the *Betts* case is hardly restricted to protection of defendants.

A complete dismissal in the *Cover* case would, however, have been contrary to the trend in patent litigation which guarantees a defendant some decision on the merits.[39] Yet a mandate equitable to both the plaintiff and the defendant could have been issued. The court, exercising its discretion, might have treated the concession as a consent to a decree of non-infringement and directed the lower court to enter such a decree, leaving the issue of validity undecided.

35. See Knaust Bros. v. Goldschlag, 28 F. Supp. 188 (S. D. N. Y. 1939); Lewis Invisible Stitch Machine Co. v. Columbia Blindstitch Machine Mfg. Corp., 22 F. Supp. 705 (S. D. N. Y. 1937). For the same policy applied to copyrights, see Basevi v. Edward O'Toole Co., 26 F. Supp. 41, 44 (S. D. N. Y. 1939).

36. See Leader v. Apex Hosiery Co., 108 F. (2d) 71 (C. C. A. 3d, 1939); 1 MOORE, FEDERAL PRACTICE (Supp. 1942) §§ 2.044, 2.048; Scott, *Collateral Estoppel by Judgment* (1942) 56 HARV. L. REV. 1, 15-18.

37. Electrical Fittings Corp. v. Betts, 307 U. S. 241 (1939).

38. *Ibid.*

39. See p. 912 *supra*.

RIGHTS OF REGISTERED CO-OWNERS AND BENEFICIARIES OF UNITED STATES WAR SAVINGS BONDS

RECENT judicial decisions applying state rules of testamentary transfer to defeat the rights of registered beneficiaries of United States War Savings Bonds [1] have provoked severe criticism from courts, legislators, and commentators.[2] The federal regulations governing the issuance of these bonds permit a purchaser to register his bond in the name of a co-owner [3] or beneficiary [4] and provide that ownership of the bond shall vest in the registree if the purchaser dies prior to maturity. Consistent judicial nullification of this easy method of transfer might impair the attractiveness of the bonds to purchasers in low income brackets, to whom the bond sale is primarily directed.[5]

1. These decisions have been rendered in controversies between administrators of the estates of war bond purchasers and the beneficiaries or co-owners. See Sinift v. Sinift, 229 Iowa 57, 293 N. W. 841 (1940); Deyo v. Adams, 178 Misc. 859, 36 N. Y. S. (2d) 734 (Sup. Ct. 1942); Decker v. Fowler, 199 Wash. 540, 92 P. (2d) 254 (1939). For the unfortunate results of such a holding, see *In re* Karlinski's Estate, 38 N. Y. S. (2d) 297 (Surr. Ct. 1942). Here the bonds were invalidated by rule of thumb treatment, although a partnership contract providing that assets of the partnership should vest in the surviving partner was upheld as not testamentary.

2. See *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (Surr. Ct. 1943) [Surrogate Foley's opinion emphatically contradicting the decision in Deyo v. Adams, 178 Misc. 859, 36 N. Y. S. 734 (2d) (Sup. Ct. 1942)]; REPORT OF N. Y. LAW REV. COMM. (1943); Butler, *Recommended Legislation Respecting United States 'Beneficiary' War Bonds*, N. Y. L. J., Dec. 28-30, 1942, p. 2052, col. 1, p. 2064, col. 1, p. 2080, col. 1; (1943) 43 COL. L. REV. 260; (1943) 56 HARV. L. REV. 1007; (1943) 27 MINN. L. REV. 401.

3. See 7 FED. REG. 5158, § 315.4(b) (1942) (providing for registration in co-ownership form). "During the lives of both coowners the bond will be paid to either coowner upon his separate request without requiring the signature of the other coowner; and upon payment to either coowner the other person shall cease to have any interest in the bond." *Id.* at 5163, § 315.32(a).

"If either coowner dies without having presented and surrendered the bond for payment to a Federal Reserve Bank or the Treasury Department, the surviving coowner will be recognized as the sole and absolute owner of the bond and payment will be made only to him." *Id.* at 5163, § 315.32(b).

4. See 7 FED. REG. 5158, § 315.4(c) (1942) (providing for registration in beneficiary form). *"Payment or reissue to beneficiary.* If the registered owner dies without having presented and surrendered the bond for payment or authorized reissue to a Federal Reserve Bank or the Treasury Department, and is survived by the beneficiary, upon proof of such death and survivorship, the beneficiary will be recognized as the sole and absolute owner of the bond, and it will be paid only to him, or may be reissued in his name alone, or otherwise reissued in accordance with Subpart J as though it were registered in his name alone." *Id.* at 5163, § 315.36. The regulations also provide that the "form of registration must express the actual ownership" and will be treated as "conclusive of such ownership." *Id.* at 5158, § 315.2 (1943).

5. See United States v. Sacks, 257 U. S. 37, 41 (1921); *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (Surr. Ct. 1943); Matter of Owens' Estate, 177 Misc. 1006, 32 N. Y. S. (2d) 747 (Surr. Ct. 1941).

These decisions attempt to justify the application of state laws of transfer by a narrow construction of the federal regulations.[6] According to this view, the regulations were designed purely for the convenience of the Government in making payments and do not preclude a judicial determination of the rights of parties to retain the proceeds of the bonds. Support for this position is found in judicial holdings to the effect that the provisions of state banking laws authorizing payment by banks to the survivor in a joint deposit arrangement are intended for the protection of the banks and do not establish a right in the survivor to the monies in the deposit.[7] But, the comparison between the federal regulations and state banking laws would seem to be unwarranted. The regulations were not enacted solely to protect the Government,[8] as these state laws were enacted to protect banks,[9] but constitute a part of a comprehensive scheme of financing and seek to induce purchases through the privileges of registration.[10] The provision in the regulations that ownership as well as a right to the proceeds shall vest in the co-owner or beneficiary indicates that the primary emphasis is on transfer of title rather than on convenience of payment. Moreover, while a failure to interpret the banking laws as creating a presumption of the depositor's intent to vest title in the named co-depositor may be reasonable in view of the common practice of setting up joint deposits for purposes of convenience,[11] no substantial reason exists for failing to presume that a bond purchaser intends to confer a benefit in the nature of a gift by designation of another party as co-owner or beneficiary.

6. This interpretation was first made in Decker v. Fowler, 199 Wash. 549, 92 P. (2d) 254 (1939), in order to distinguish Warren v. United States, 68 Ct. Cl. 634 (1929), *cert. denied,* 281 U. S. 739 (1930), where an action was brought to compel the Secretary of the Treasury to pay the administratrix of an estate instead of the beneficiaries of certain Treasury certificates. It was held that payment could be made only to the beneficiaries. See also Sinift v. Sinift, 229 Iowa 57, 293 N. W. 841 (1940); Deyo v. Adams, 178 Misc. 859, 36 N. Y. S. (2d) 734 (Sup. Ct. 1942). *Contra: In re* Stanley's Estate, 102 Colo. 422, 80 P. (2d) 332 (1938); Franklin Washington Trust Co. v. Beltram, 133 N. J. Eq. 11, 29 A. (2d) 854 (Ch. 1943); *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (Surr. Ct. 1943); Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942).

See, for example, Godwin v. Godwin, 141 Miss. 633, 639, 107 So. 13, 14 (1925); Rice v. Bennington County Savings Bank, 93 Vt. 493, 503, 108 Atl. 708, 712 (1920); Marshall & Ilsley Bank v. Voigt, 214 Wis. 27, 252 N. W. 355 (1934).

7. For analysis of effect of the various state banking laws, see (1929) 15 CORN. L. Q. 96. For a comparison of the federal regulations and the state banking laws, see Sinift v. Sinift, 229 Iowa 57, 88, 293 N. W. 841, 856 (1940). See also Moskowitz v. Marrow, 251 N. Y. 380, 400, 167 N. E. 506, 512 (1929); Marrow v. Moskowitz, 255 N. Y. 219, 174 N. E. 460 (1931) (statute, more than a mere protection to banks, created presumption of joint tenancy, conclusive at the death of the purchaser).

8. See *In re* Stanley's Estate, 102 Colo. 422, 80 P. (2d) 332 (1938); Franklin Washington Trust Co. v. Beltram, 133 N. J. Eq. 11, 29 A. (2d) 854 (Ch. 1943); *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (Surr. Ct. 1943); Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942).

9. See (1929) 15 CORN. L. Q. 96.

10. See *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (1943) (to adopt the double interpretation would be to "mock" the purchaser).

11. See Beaver v. Beaver, 117 N. Y. 421, 22 N. E. 940 (1889), 137 N. Y. 59, 32 N. E. 998 (1893); Gulliver, *Classification of Gratuitous Transfers* (1941) 51 YALE L. J. 1.

A more satisfactory judicial interpretation of the regulations is suggested by decisions which view the regulations broadly, holding that they determine the disposition of the proceeds of the bonds and because they constitute a part of the supreme law of the land, state legislation may not properly interfere with them.[12] The Federal Constitution empowers Congress to borrow money on the credit of the United States,[13] and federal statutes authorizing the issuance of war bonds [14] are a proper exercise of this power.[15] Since administrative regulations made within the realm of delegated authority are equally the supreme law of the land,[16] it would seem that the regulations of the Secretary of the Treasury issued in pursuance of the War Bond Act should control both the payment by the Government and the rights of ownership.

State declaratory legislation enacted subsequent to the decisions invoking local laws of transfer have also stated that the provisions of the federal regulations are decisive of the rights of the beneficiary or co-owner. A California statute substantially reenacts the provisions of the regulations and provides for incorporation of subsequent alterations in the federal law,[17] while a New York statute expressly stipulates that the right of an owner, co-owner or beneficiary of a war bond shall not be impaired by any state statute governing transfers of property.[18]

12. See Warren v. United States, 68 Ct. Cl. 634 (1929), *cert. denied*, 281 U. S. 739 (1930). See also *In re* Stanley's Estate, 102 Colo. 422, 80 P. (2d) 332 (1938); Franklin Washington Trust Co. v. Beltram, 133 N. J. Eq. 11, 28 A. (2d) 854 (Ch. 1943); *In re* Deyo's Estate, 42 N. Y. S. (2d) 379 (Surr. Ct. 1943); Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942).

13. U. S. CONST. ART. I, § 8.

14. For the current federal statute, see 55 STAT. 7 (1941), 31 U. S. C. § 757(c) (Supp. 1942).

15. See Franklin Washington Trust Co. v. Beltram, 133 N. J. Eq. 11, 28 A. (2d) 854 (Ch. 1943); Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942).

16. See United States v. Birdsall, 233 U. S. 223 (1914); United States v. Janowitz, 257 U. S. 42 (1921); Maryland Casualty Co. v. United States, 251 U. S. 342, 349 (1920).

17. Calif. Laws 1943, c. 51:

> "All United States savings bonds or other bonds or obligations of the United States, however designated, now or hereafter issued, which are registered in the names of two persons as co-owners in the alternative, shall, upon the death of either of the registered co-owners, become the sole and absolute property of the surviving co-owner, unless the Federal laws under which such bonds or other obligations were issued or the regulations governing the issuance thereof, made pursuant to such laws, provide otherwise.
>
> "All United States Savings Bonds or other bonds or obligations of the United States, however designated, now or hereafter issued, which are registered in the name of one person payable on death to a named survivor shall upon the death of the registered owner, become the sole and absolute property of the surviving beneficiary named therein, unless Federal laws under which such bonds or other obligations were issued or the regulations governing the issuance thereof, made pursuant to such laws, provide otherwise.
>
> "This section shall not be construed to mean that prior to the enactment hereof the law of this State was otherwise than as herein provided."

18. N. Y. Laws 1943, c. 632, § 24: "Where any United States savings bond is payable to a designated person, whether as owner, co-owner or beneficiary, and such bond is not

But even under a narrow construction of the regulations which makes the ordinary state rules of transfer applicable, the rights of the beneficiary or co-owner may justifiably be sustained. Invalidation of these rights is necessitated only by a judicial assumption that there are only two types of gratuitous transfers, gifts inter vivos and testamentary transfers.[19] An inter vivos gift of the bonds by the registered owner is, in fact, impossible. There can be no actual delivery of non-transferable bonds,[20] and registration is deemed insufficient as constructive delivery in view of the purchaser's control of the proceeds through the privilege of cashing the bonds prior to maturity.[21] As a testamentary transfer, the registration must fail because it does not comply with the formalities required by the Statute of Wills.

If, however, the bond is classified as a contractual transaction between the Federal Government and the purchaser, payment to the co-owner or beneficiary may be sustained as the performance of a conditional promise for the benefit of a third party.[22] In most states a donee beneficiary may unquestionably enforce a contract made for his benefit.[23] The requirement that a present interest must pass to render such a contract immediately effective when payment is not to be made until death is satisfied by the view that the co-owner or beneficiary is the recipient of a present vested conditional interest subject only to be divested by the purchaser's redemption or maturity of the bonds.[24] This position is supported by the uniform approval of similar contracts contingent upon the death of a contracting party.[25]

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transferable, the right of such person to receive payment of such bonds according to its terms, and the ownership of the money so received, shall not be defeated or impaired by any statute or rule of law governing transfer of property by will or gift or an intestacy, provided, however, that nothing herein shall limit article ten of the debtor and creditor law or section one hundred twenty-four of the decedent estate law."

19. See Decker v. Fowler, 199 Wash. 549, 92 P. (2d) 254 (1939); Deyo v. Adams, 178 Misc. 859, 36 N. Y. S. (2d) 734 (Sup. Ct. 1942). For a discussion of the problem of classification, see Gulliver, *Classification of Gratuitous Transfers* (1941) 51 YALE L. J. 1.

20. The regulations prohibit transfer. 7 FED. REG. 5159, § 315.8 (1942). For the holding that there can be no gift of the bonds, see Matter of Owens' Estate, 177 Misc. 1006, 32 N. Y. S. (2d) 747 (Surr. Ct. 1941).

21. See Deyo v. Adams, 178 Misc. 859, 36 N. Y. S. (2d) 734 (Sup. Ct. 1942); Decker v. Fowler, 199 Wash. 549, 92 P. (2d) 254 (1939).

22. For a clear statement of the theory, see *In re* Deyo's Estate, 42 N. Y. S. (2d) 379, 387-88 (Surr. Ct. 1943). See also Warren v. United States, 68 Ct. Cl. 634, 638-39 (1929), *cert. denied*, 28 U. S. 739 (1930); Franklin Washington Trust Co. v. Beltram, 133 N. J. Eq. 11, 28 A. (2d) 854 (Ch. 1943); Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942). See also the dissenting opinion in Decker v. Fowler, 199 Wash. 549, 555, 92 P. (2d) 254, 257 (1939).

23. See Seaver v. Ransom, 224 N. Y. 233, 120 N. E. 639 (1918) (right of third-party beneficiary limited to particular classes); 2 WILLISTON, CONTRACTS (rev. ed. 1936) §§ 356, 357; (1943) 27 MINN. L. REV. 399, 400.

24. See Indiana National Life Ins. Co. v. McGinnis, 180 Ind. 9, 101 N. E. 289 (1913); Farra v. Braman, 171 Ind. 529, 86 N. E. 843 (1909); Sullivan v. Maroney, 77 N. J. Eq. 565, 78 Atl. 150 (1910); VANCE, INSURANCE (2d ed. 1930) § 147.

25. See insurance contracts, inter vivos trusts in which payment to the cestui is contingent upon death, employees' stock purchase plans and Totten Trusts.

Even when the contracting party retains powers sufficient to prevent payment, such contracts are sustained by the courts as *sui generis* and not subject to the requirements for testamentary transfers. In insurance contracts the purchaser often reserves the privilege of altering the beneficiary,[26] and the settlor of a trust payable on death may retain a power of revocation.[27] The creator of a Totten trust can, by withdrawal of the proceeds, defeat the survivor's interest.[28] And an employee investing in a stock purchase plan may by cashing the certificates render the beneficiary's rights ineffective.[29] The fact that the purchaser of a war bond may cash the bonds prior to maturity should not, therefore, preclude enforcement of the contract.[30]

The rights of the co-owner or beneficiary may also be sustained by comparing the bond to a joint bank account, payable to either party or survivor. Theories used by the courts to uphold the right of the survivor to the monies in such an account [31] are equally applicable to war bonds.[32] The regulations might be deemed to create a conclusive presumption of joint tenancy as does the New York Banking Law.[33] Or a beneficiary's rights to a war bond might be upheld, as they have been in Ohio, by the third-party beneficiary rationale through which payment to the survivor of a joint bank account has been justified.[34]

Although it would appear that the rights of the beneficiary or co-owner should be sustained under state rules in almost every case, a few situations

26. See *In re* Deyo's Estate, 42 N. Y. S. (2d) 379, 388 (Surr. Ct. 1943) (application of New York third-party beneficiary rule).

27. For cases holding that a privilege of revocation does not make a trust testamentary, see Van Cott v. Prentice, 104 N. Y. 45, 10 N. E. 257 (1887); Robb v. Washington Jefferson College, 185 N. Y. 485, 78 N. E. 359 (1906).

28. See Matter of Totten, 179 N. Y. 112, 125, 71 N. E. 748, 752 (1904).

29. See *In re* Koss' Estate, 106 N. J. Eq. 323, 150 Atl. 360 (1930); Gulliver, *Classification of Gratuitous Transfers* (1941) 51 YALE L. J. 1.

30. The owner of the bond may not, moreover, secure its reissuance to eliminate the beneficiary. See 7 FED. REG. 5158, § 315.35 (1942). See also *id.* at 5163, § 315.32(a) (a bond issued in co-ownership form may not be reissued except upon the signed application of both co-owners).

31. A few courts view such bank accounts as attempted gifts inter vivos, holding that the form of the account fails as a constructive delivery because the creator retains control through access to the deposits. See, *e.g.*, Morristown Trust Co. v. Capstick, 90 N. J. Eq. 22, 106 Atl. 391 (1919); (1941) 16 WASH. L. REV. 105.

32. Some state statutes create a presumption of joint-tenancy. See (1943) 52 YALE L. J. 656, 658, n. 21; (1941) 16 WASH. L. REV. 105, 106; (1938) 13 WASH. L. REV. 230; (1926) 54 WASH. L. REP. 745. And some courts apply the theory independently. See Quigley v. Quigley, 85 F. (2d) 300 (App. D. C. 1936); Att'y Gen. v. Clark, 222 Mass. 291, 110 N. E. 299 (1915). Although some courts applying a contractual theory to the account require joint contributions, others apply the theory even when the supposed co-owner is ignorant of the existence of the account. Rhorbacker v. Citizens Bldg. Ass'n Co., 138 Ohio St. 273, 34 N. E. (2d) 757 (1941). See (1941) 16 WASH. L. REV. 105, 107-08.

33. See Moskowitz v. Marrow, 251 N. Y. 380, 400, 167 N. E. 506, 512 (1929); Marrow v. Moskowitz, 255 N. Y. 219, 174 N. E. 460 (1931).

34. In this case the bond was registered in beneficiary form. See Laufersweiler v. Richmond, 22 Ohio O. 265 (Prob. Ct. 1942).

may exist where other considerations may properly override his interest. For example, this interest might perhaps be subordinated to the rights of creditors of the purchaser's estate. In *Decker v. Fowler*,[35] which invalidated the interest of a beneficiary, it was said that a contrary holding would permit possible misuse of the bonds to defeat the rights of creditors. And the New York declaratory statute expressly provides protection for creditors[36] although the federal regulations state that the rights of creditors may not impair the rights of survivorship conferred upon co-owners or beneficiaries.[37] Possibly invalidation of the rights of a beneficiary is also justified in some instances which involve the statutory rights of a surviving spouse under laws which guarantee him a specified share of the decedent's estate.[38] Transfers otherwise valid have been set aside because of these statutes if they were "illusory";[39] and the control which the purchaser of a war bond retains over the proceeds by virtue of his right to cash the bond might permit classification of a co-ownership or beneficiary registration as an illusory transfer.[40] Such inroads upon the rights of the registered transferees should, however, be made with judicial circumspection.

JURISDICTION IN FEDERAL COURTS OVER NON-FEDERAL CLAIMS WHEN JOINED WITH A FEDERAL QUESTION*

COMPLAINTS joining claims of trade-mark, copyright or patent infringement, based on federal statutes, with common law allegations of unfair competition often present close questions of federal jurisdiction.[1] The essential

35. 199 Wash. 549, 92 P. (2d) 254 (1939).

36. See N. Y. Laws 1943, c. 632: ". . . provided, however, that nothing herein shall limit article ten of the debtor and creditor law or section one hundred twenty-four of the decedent estate law."

37. 7 FED. REG. 5165, § 315.51 (1942): *"Creditors' Rights.* A creditor of the owner of a savings bond may secure payment thereof to the extent of the owner's interest, or to the extent of the creditor's claim, whichever is smaller, through valid judicial proceedings: *Provided, however,* That no such proceedings will be recognized if they would give effect to an attempted voluntary transfer inter vivos of the bond or would defeat or impair the rights of survivorship conferred by these regulations upon coowners and beneficiaries."

38. For a catalogue of state statutory provisions, see 3 VERNIER, AMERICAN FAMILY LAWS (1931) §§ 188, 189.

39. See Newman v. Dore, 275 N. Y. 371, 381, 9 N. E. (2d) 966, 969 (1937); Krause v. Krause, 285 N. Y. 27, 32 N. E. (2d) 779 (1941); Note (1943) 52 YALE L. J. 656.

40. But see Inda v. Inda, 288 N. Y. 315, 43 N. E. (2d) 59 (1942), *aff'g* 263 App. Div. 925, 32 N. Y. S. (2d) 1008 (4th Dep't 1942), *aff'g without opinion* 32 N. Y. S. (2d) 1001 (Sup. Ct. 1941).

* Treasure Imports v. Henry Amdur & Sons, 127 F. (2d) 3 (C. C. A. 2d, 1942); Musher Foundation v. Alba Trading Co., 127 F. (2d) 9 (C. C. A. 2d, 1942); Pure Oil Co. v. Puritan Oil Co., 127 F. (2d) 6 (C. C. A. 2d, 1942).

1. For discussions of the general problem, see 1 MOORE, FEDERAL PRACTICE (1938) 155-65; Shulman and Jaegerman, *Some Jurisdictional Limitations on Federal Procedure*

issue in these cases is whether the federal courts may have jurisdiction over the non-federal matter. Traditionally, most courts refused to retain the non-federal claim when there was no diversity of citizenship,[2] and some failed to take such jurisdiction even when diversity could be shown.[3] A minority, however, citing *Siler v. Louisville & Nashville Railroad*,[4] retained control even though the federal issue had been decided adversely to the plaintiff.[5]

In *Hurn v. Oursler*,[6] the United States Supreme Court resolved this conflict in favor of the doctrine announced in the *Siler* case but in turn introduced problems which have left the law on the subject as uncertain as ever.[7] In the *Hurn* case the petitioner sought relief on three claims: (1) copyright infringement; (2) unfair competition in an unauthorized use of petitioner's play; and (3) unfair competition as to an uncopyrighted version thereof. Because the Supreme Court retained jurisdiction over the first and second of these claims, the case is usually cited for the general proposition that infringement and unfair competition claims may be tried together in the ab-

(1936) 45 YALE L. J. 393; (1926) 40 HARV. L. REV. 298; (1934) 1 U. OF CHI. L. REV. 480.

2. See Stark Bros. Co. v. Stark, 255 U. S. 50, 52 (1921); Geneva Furniture Mfg. Co. v. Karpen & Bros., 238 U. S. 254 (1915); Standard Paint Co. v. Trinidad Asphalt Co., 220 U. S. 446, 456 (1911); Leschen & Sons Rope Co. v. Broderick, 201 U. S. 166 (1906); Elgin National Watch Case Co. v. Illinois Watch Case Co., 179 U. S. 665, 667 (1901); Hunyadi Janos Corp. v. Stoeger, 10 F. (2d) 26 (C. C. A. 2d, 1925); Planten v. Gedney, 224 Fed. 382 (C. C. A. 2d, 1915) (trade-mark valid and infringed); Schiebel v. Clark, 217 Fed. 760 (C. C. A. 6th, 1914) (patent invalid); Faehndrich v. Wheeler Riddle Cheese Co., 34 F. (2d) 43 (E. D. N. Y. 1929) (trade-mark valid not infringed).

3. See Levering & Garrigues Co. v. Morrin, 61 F. (2d) 115, 120 (C. C. A. 2d 1932); *accord*, Tullar & Tullar v. Illinois Central R. R., 213 Fed. 280, 283 (N. D. Iowa 1914). But *cf.* Bedell v. Baltimore & Ohio R. R., 245 Fed. 788 (N. D. Ohio 1917); Strother v. Union Pacific R. R., 220 Fed. 731 (W. D. Mo. 1915).

4. 213 U. S. 175, 191 (1909). The Court asserted the principle in this case that where the federal questions raised by the bill are not merely colorable but are raised in good faith, the circuit court has jurisdiction, and, having properly obtained it, has "the right to decide all the questions in the case, even though it decided the Federal questions adversely to the party raising them, or even if it omitted to decide them at all, but decided the case on local or state questions only." See Comment (1933) 33 COL. L. REV. 296.

5. In Lincoln Co. v. Lincoln, 250 U. S. 256, 264 (1919), the Court observed in handling a contention that the ordinance could be attacked only for a reason founded in federal law that "even without diversity of citizenship . . . the jurisdiction extended to the determination of all questions, including questions of state law, irrespective of the disposition made of the federal questions." [citing Greene v. Louisville, 244 U. S. 499, 508 (1917)]. Again in Atlantic Co. v. Daughton, 262 U. S. 413, 416 (1923), and in Southern Ry. v. Watts, 260 U. S. 519, 522 (1923), the principle is clearly recognized. But *cf.* Illinois National Watch Co. v. Elgin Watch-Case Co., 94 Fed. 667 (C. C. A. 7th, 1899), *aff'd*, 179 U. S. 665 (1901), where the circuit court stated that it was, of course, clear that the bill could not be sustained unless the federal right was sustained. See also Vogue Co. v. Vogue Hat Co., 12 F. (2d) 991, 993 (C. C. A. 6th, 1926); General Inv. Co. v. Lake Shore & M. S. R. R., 269 Fed. 235, 241 (C. C. A. 6th, 1920).

6. 289 U. S. 238 (1933).

7. See (1933) 46 HARV. L. REV. 1339; (1934) 32 MICH. L. REV. 412.

sence of diversity of citizenship.[8] There were attached to this liberal rule, however, two qualifications which practically nullified its force. First, in retaining jurisdiction over the second claim the Court observed, "The claims of infringement and unfair competition *so precisely rest upon identical facts* as to be little more than different epithets to characterize the same group of circumstances." [9] Many courts have found justification in the italicized words for restricting the *Hurn* rule to situations where facts necessary to support trade-mark, patent and copyright infringement and unfair competition are identical.[10] Second, the Court dismissed the third claim for want of jurisdiction, citing *Stark Brothers Company v. Stark*,[11] which refused to allow the plaintiff to recover for the defendant's conduct prior to registration.[12] By the application of this rationale the *Hurn* opinion invited lower courts unfriendly to the general proposition for which the decision stands to distinguish the chief holding on slightly dissimilar facts, and, what is more, cited the *Hurn* case as authority.[13] On the other hand, some courts have applied the rule liberally, allowing any substantially interwoven federal and non-federal claims to be tried together.[14]

8. See Warner Publications v. Popular Publications, 87 F. (2d) 913 (C. C. A. 2d, 1937); L. E. Waterman Co. v. Gordon, 72 F. (2d) 272 (C. C. A. 2d, 1934). See also Judge Clark's dissent in Lewis v. Vendome Bags, 108 F. (2d) 16, 18 (C. C. A. 2d, 1940). However, in Atkins v. Gordon, 86 F. (2d) 595 (C. C. A. 7th, 1936), the *Hurn* case was neither followed nor cited. Plaintiff sued for patent infringement and for unfair competition. The court held that (a) the patent was not infringed; (b) it was valid; (c) "it [was] unnecessary to discuss to the unfair trade method charges, for in view of the residence of the parties in the same state, the Federal court's jurisdiction [was] dependent upon appellee's sustaining the patent infringement charge of the complaint." *Id.* at 597.

9. 289 U. S. 238, 246 (1933).

10. See Foster D. Snell v. Potters, 88 F. (2d) 611, 612 (C. C. A. 2d, 1937); *In re* Amtorg Trading Corporation, 75 F. (2d) 826, 834 (C. C. P. A. 1935).

11. 255 U. S. 50 (1921) (italics added).

12. See Foster D. Snell v. Potters, 88 F. (2d) 611 (C. C. A. 2d, 1937).

13. See Hydraulic Press Mfg. Co. v. Columbus Malleable Iron Co., 35 F. Supp. 603 (S. D. Ohio 1940); Engler v. General Electric Co., 29 F. Supp. 421 (S. D. N. Y. 1939); White v. Reach, 26 F. Supp. 77 (S. D. N. Y. 1939) (jurisdiction of copyright infringement did not give jurisdiction of a cause of action for conspiring to prevent plaintiff from securing auditions, or of a cause of action for wrongfully inducing breach of contract). See also Foreign & Domestic Music Corp. v. Twentieth Century-Fox Film Corp., 19 F. Supp. 769 (S. D. N. Y. 1937), where the complaint alleging copyright infringement stated no cause of action and a "second cause of action" alleging unfair competition was dismissed for lack of jurisdiction.

14. See Armstrong Paint & Varnish Works v. Nu-Enamel Corp., 305 U. S. 315 (1938); Winthrop Chemical Co. v. American Pharmaceutical Co., 94 F. (2d) 587 (C. C. A. 2d, 1938); Edelmann & Co. v. Triple-A Specialty Co., 88 F. (2d) 852 (C. C. A. 7th, 1937) (suit under Declaratory Judgment Act); Warner Publications v. Popular Publications, 87 F. (2d) 913 (C. C. A. 2d, 1937); Industrial Rayon Corp. v. Dutchess Underwear Corp., 17 F. Supp. 783 (S. D. N. Y. 1937), *rev'd on merits*, 92 F. (2d) 33 (C. C. A. 2d, 1937), *cert. denied*, 303 U. S. 640 (1938). Judge Woolsey wrote in Corning Glass Works v. Pasmantier, 30 F. Supp. 477, 480 (S. D. N. Y. 1939), "I understand that where, as here, the use of the trade-mark is the basis of the federal claim for infringement, and

Not only is there disharmony among the rulings of the several circuits on this issue,[15] but rulings by different judges in the same circuit are sometimes not in strict *rapport*.[16] Particularly difficult to reconcile are the decisions of the Second Circuit. In *Treasure Imports v. Henry Amdur and Sons*,[17] *Musher Foundation v. Alba Trading Company*,[18] and *Pure Oil Company v. Puritan Oil Company*,[19] that court had an opportunity to define its position more clearly, but the three opinions leave the law on the subject more unsettled than ever. These decisions employed three separate criteria for the resolution of the jurisdictional problems involved: whether the plaintiff had any federal right at the time the unfair competition occurred; whether the federal and non-federal claims were "inextricably interwoven"; and whether the federal claim presented was "plainly unsubstantial." The test of diversity of citizenship, traditionally important if not determinative per se of the issue of improper joinder,[20] was not discussed in any of the three opinions.

In *Treasure Imports v. Henry Amdur and Sons*,[21] the Second Circuit refused to assume jurisdiction over that part of the allegation of unfair competition which was based upon acts occurring prior to registration of the trade-mark on the ground that no federal right then existed. While it is true that by the Trade-Mark Act of 1905,[22] no damages are allowed for infringement except for the period after the mark has been registered and proper notice given,[23] there is no like statutory prohibition against unfair competition.[24] Since a claim of unfair competition for acts occurring after registration, in no wise a federal claim,[25] may be combined with a claim for in-

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the *method of using* the trade-mark is the real basis for the claim of unfair competition, the derivative jurisdiction prescribed by the Supreme Court may be invoked. This, of course, is in accordance with the wise principal of judicial husbandry, that—if jurisdictionally permissible—two causes should never be allowed to grow where at first there was but one." See also Keystone Macaroni Mfg. Co. v. Arena & Sons, 27 F. Supp. 290 (E. D. Pa. 1939) (even though it is found during the course of trial that the assignment of the trade-mark was not registered as required by Trade-Mark Act); Time, Inc. v. Barshay, 27 F. Supp. 870 (S. D. N. Y. 1939) (even though the trade-mark is not infringed); Individual Drinking Cup Co. v. Lily-Tulip Cup Corp., 15 F. Supp. 393, 395 (E. D. N. Y. 1936).

15. For a discussion of the conflicting decisions on this question, see 1 MOORE, FEDERAL PRACTICE (Supp. 1942) 81-85.

16. Compare L. E. Waterman Co. v. Gordon, 72 F. (2d) 272, 274 (C. C. A. 2d, 1934) with Foster D. Snell v. Potters, 88 F. (2d) 611 (C. C. A. 2d, 1937).

17. 127 F. (2d) 3 (C. C. A. 2d, 1942).

18. 127 F. (2d) 9 (C. C. A. 2d, 1942).

19. 127 F. (2d) 6 (C. C. A. 2d, 1942).

20. See note 2 *supra*.

21. 127 F. (2d) 3 (C. C. A. 2d, 1942).

22. 33 STAT. 730 (1905), 15 U. S. C. § 107 (1940).

23. See Stark Bros. Co. v. Stark, 255 U. S. 50 (1921); Rossman v. Garnier, 211 Fed. 401 (C. C. A. 8th, 1914).

24. See Laurence Mfg. Co. v. Tennessee Mfg. Co., 138 U. S. 537 (1891); Putnam Nail Co. v. Bennett, 43 Fed. 800 (C. C. E. D. Pa. 1890); Pinaud v. Huebschman, 27 F. (2d) 531 (E. D. N. Y. 1928).

25. See Hurn v. Oursler, 289 U. S. 238 (1933); West Pub. Co. v. Edward Thompson Co., 169 Fed. 833, 834 (C. C. E. D. N. Y. 1909).

fringement,[26] there seems no compelling reason why unfair acts which took place before registration, constituting merely another non-federal claim, should not also be joined. If the rationale behind retention of unfair competition claims properly joined with federal issues is valid, the same argument would seem to be valid for all unfair competition arising out of the same fact pattern. Further, *Stark Brothers Company v. Stark*,[27] relied on by the majority, was considered overruled by the *Hurn* case in one Second Circuit opinion by Judge Learned Hand.[28] Possibly the absolute doctrine of the *Treasure Imports* case, that the federal courts may not have jurisdiction over *any* unfair acts occurring before registration, should be supplanted by a more pragmatic test. Since the federal courts retain jurisdiction over claims of unfair competition largely in order to prevent multiplicity of suits,[29] the same practical consideration would be served by an extension of the present rule and the abolition of the distinction made in the *Treasure Imports* case. The best practice would seem to be to inquire whether the proof necessary to establish the various unfair acts is substantially identical and not to solve the jurisdictional question solely on the issue of whether the acts occurred before or after registration.

This test, whether the plaintiff is alleging a single cause of action with two grounds or two distinct causes, was made determinative of the jurisdictional issue in *Musher Foundation v. Alba Trading Company*.[30] The plaintiff alleged that defendant had infringed three of his patents and been unfair in advertising his products with words in which plaintiff had a common law right. The district court dismissed the second cause of action for lack of jurisdiction. Asserting that in the absence of diversity of citizenship no federal jurisdiction might be had over common law claims not inextricably

26. See Armstrong Paint & Varnish Works v. Nu-Enamel Corp., 305 U. S. 315 (1938).

27. 255 U. S. 50 (1921).

28. L. E. Waterman Co. v. Gordon, 72 F. (2d) 272, 274 (C. C. A. 2d, 1934).

29. This objective of avoiding duplication of litigation goes back to the original decision of Chief Justice Marshall in Osborn v. Bank of the United States, 9 Wheat. 738, 823 (U. S. 1824), holding that "when a question to which the judicial power of the Union is extended by the constitution, forms an ingredient of the original cause, it is in the power of Congress to give the circuit courts jurisdiction of that cause, although other questions of fact or of law may be involved in it."

Although conceding that problems of allotment of jurisdiction between state and national governments are fundamentally problems of government calling for wise and shrewd statesmanship, Judge Clark, dissenting in Lewis v. Vendome Bags, 108 F. (2d) 16, 18, 20 (C. C. A. 2d, 1939), stated that "there will be no loss to statecraft if in the daily activities of courts the needs of practical judicial administration may have some sway to persuade against compelling two lawsuits where one will more completely serve the interests of the litigants." Judge Clark expressed this idea again in his dissent in Musher Foundation v. Alba Trading Co., 127 F. (2d) 9, 11 (C. C. A. 2d, 1942), when he stated, "If the roast must be reserved exclusively for the federal bench, it is anomalous to send the gravy across the street to the state court house." See also Derman v. Gersten, 22 F. Supp. 877 (E. D. N. Y. 1938); Mitchell & Weber v. Williamsbridge Mills, 14 F. Supp. 954 (S. D. N. Y. 1936).

30. 127 F. (2d) 9 (C. C. A. 2d, 1942).

interwoven with the federal issue, a majority of the circuit court voted to affirm. In a vigorous dissent,[31] Judge Clark advocated that the test of jurisdiction be whether there is substantial overlapping testimony in the proof of the federal and non-federal claims, not whether the proofs necessary to establish the claims are identical.

While it would seem that federal courts should not allow themselves to be victimized by plaintiffs who are actually alleging two separate and distinct claims, it is difficult to ascertain the benefits to be had by such a narrow construction of the *Hurn* rule as is found in the *Musher* case. Such a decision, forcing plaintiffs to seek redress for infringed manufacturing methods in one forum, and advertising methods in another, where only one product is concerned, seems to violate the simplest dictates of judicial economy.[32]

The third test, whether the federal claim presented is a substantial one, does not lead to such duplication of effort. In *Pure Oil Company v. Puritan Oil Company*,[33] the district and circuit courts differed as to whether retail sale of gasoline at a local service station could support a claim of trade-mark infringement in interstate commerce. Nevertheless, although reaching opposite results on the facts, both opinions employed the criterion of "substantiality" in resolving the jurisdictional issue. Both reiterated the rule that when a federal claim with which it is joined is found "plainly unsubstantial," the complaint of unfair competition may not be heard. This test has much to recommend it. Wherever the federal claim can be dismissed prior to trial because of its lack of substance, the necessity for two trials is eliminated. And the criterion is a flexible device for barring from the federal courts causes in which full relief may be obtained elsewhere.

Moreover, it would seem that the test, if coupled with the liberal interpretation of the *Hurn* rule urged by Judge Clark in the *Musher* case, would meet the highest standards of judicial economy and common sense. The "substantiality" test would operate as a convenient legal device for dismissing at the outset complaints which try to smuggle non-federal claims into the federal courts by joinder with unsubstantial federal rights. And Judge Clark's test of overlapping testimony would act as a practical method of keeping common law claims unrelated to federal causes out of the federal courts.

Neither of the two considerations usually argued against the extension of federal power over non-federal matters is applicable in infringement cases.[34] Federal judges who advocate a narrow construction of the *Hurn* doctrine are often prompted by a fear lest the federal courts be made the battleground for purely personal litigation,[35] such as small tort claims.[36] Also

31. Musher Foundation v. Alba Trading Co., 127 F. (2d) 9, 11 (C. C. A. 2d, 1942).

32. In commenting on the *Hurn* case, Shulman and Jaegerman stated that "to the extent that it adjudicated the claim of unfair competition, the decision is obviously calculated to economize on the expense and time of litigants and on the expense and time of courts." Shulman and Jaegerman, *supra* note 1, at 400.

33. 127 F. (2d) 6 (C. C. A. 2d, 1942).

34. See Comment (1933) 33 COL. L. REV. 296, 298.

35. International Harvest Hat Co. v. Caradine Hat Co., 17 F. Supp. 79 (E. D. Mo. 1935).

36. Engler v. General Electric Co., 29 F. Supp. 421 (S. D. N. Y. 1939).

they are not anxious to construe state statutes unnecessarily [37] or to mix in local political problems.[38] Suits for infringement and unfair competition, however, almost never involve such local issues. Nor can it be said that the principal cases might better be resolved in the state courts, for through practice federal judges have acquired a certain skill and dexterity in the disposition of this type of litigation. Further, since the plaintiff must resort to the federal courts for half his redress, he cannot gain full relief in a single suit in any other forum.

But there is a still stronger reason why such a narrow construction of the *Hurn* rule as is found in the *Musher* and *Treasure Imports* cases is undesirable. This is the effect such an interpretation will have in the application of the doctrine of *Erie Railroad v. Tompkins*.[39] It can be argued that such cases should be made an exception to the *Tompkins* rule, federal courts to apply federal "common law" rather than applicable state law.[40] But the confusion which would result from deciding part of the case on federal law and part on state law is readily imaginable. Also there would be the difficulty of ascertaining which state law to apply when there was unfair competition in forty-eight states.[41] To quote a recent treatment of the effect of the *Tompkins* case on trade-mark law, "The application of different sources of governing law to various issues in the same lawsuit will create endless complications and result in fine-spun distinctions that will make *Swift v. Tyson* look like child's play." [42]

DISTRAINT ON A DELINQUENT TAXPAYER'S LIFE INSURANCE POLICY FROM THE INSURERS*

To meet the imperative need for expeditious collection of taxes, section 3690 of the Internal Revenue Code authorizes summary distraint on and sale of a delinquent taxpayer's "goods, chattels, or effects, including stocks, securities, bank accounts, and evidences of debt." [1] Although distraint is

37. Georgia Ry. & Power Co. v. Decatur, 262 U. S. 432 (1923).

38. Green v. Frazier, 253 U. S. 233 (1920).

39. 304 U. S. 64 (1938).

40. In Time, Inc. v. Viobin Corp., 128 F. (2d) 860, 862 (C. C. A. 7th, 1942), the court, although holding that common law claims of unfair competition were to be resolved in accordance with "local law," stated, "We are of the opinion that trade-mark infringement, in view of the Federal Statute providing for registration presents an exception to the doctrine of *Erie v. Tompkins*, and is to be determined by general federal law." See also Rytex v. Ryan, 126 F. (2d) 952 (C. C. A. 7th, 1942).

41. See Chafee, *Unfair Competition* (1940) 53 HARV. L. REV. 1289, 1299-1301.

42. See Zlinkoff, *Erie v. Tompkins and Trade Marks* (1942) 42 COL. L. REV. 954, 988.

* United States v. Massachusetts Mutual Ins. Co., 127 F. (2d) 880 (C. C. A. 1st, 1942); United States v. Penn Mutual Life Ins. Co., 130 F. (2d) 495 (C. C. A. 2d, 1942); United States v. Metropolitan Life Ins. Co., 130 F. (2d) 149 (C. C. A. 2d, 1942).

1. INT. REV. CODE (1939) § 3690 reads: "If any person liable to pay any taxes neglects or refuses to pay the same within ten days after notice and demand, it shall be

provided as an alternative to the more cumbersome civil action under section 3678, the two remedies are not wholly in *pari materia* [2] since the former mentions specifically only certain personal property while the latter includes all "property and rights to property, whether real or personal." [3] Courts have, however, minimized the differences between the two remedies by construing section 3690 to include practically all forms of personal property. In allowing distraint on choses in action not expressly mentioned in section 3690, such as a debt owed to a taxpayer,[4] they have deemed the specific enumeration of intangibles in that section explanatory rather than restrictive in character.[5] Thus an insured taxpayer's interest in a life insurance policy has been held distrainable under section 3690 when he has reserved the power to take its cash surrender value and to change the beneficiary and when by local law the beneficiary's interest is "contingent" rather than "vested." [6]

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lawful for the collector or his deputy to collect the said taxes, with such interest and other additional amounts as are required by law, by distraint and sale, in the manner provided in this subchapter, of the goods, chattels, or effects, including stocks, securities, bank accounts, and evidences of debt, of the person delinquent as aforesaid." Collection of taxes by summary distraint has been held procedural due process. Springer v. United States, 102 U. S. 586 (1880). For the constitutionality of distraint, see BREWSTER, DISTRAINT UNDER THE FEDERAL REVENUE LAWS (1937) 9-12.

2. See Blacklock v. United States, 208 U. S. 75, 86 (1908); see Matter of Rosenberg, 269 N. Y. 247, 252, 199 N. E. 206, 208 (1935).

3. INT. REV. CODE (1939) §3678(a) reads: "(a) Filing. In any case where there has been a refusal or neglect to pay any tax, and it has become necessary to seize and sell property and rights to property, whether real or personal, to satisfy the same, whether distraint proceedings have been commenced or not, the Attorney General at the request of the Commissioner may direct a civil action to be filed, in a district court of the United States, to enforce the lien of the United States for tax upon any property and rights to property, whether real or personal, or to subject any such property and rights to property owned by the delinquent, or in which he has any right, title, or interest, to the payment of such tax."

4. See United States v. Long Island Drug Co., 115 F. (2d) 983 (C. C. A. 2d, 1940); Karno-Smith Co. v. Maloney, 28 F. Supp. 907 (D. N. J. 1939), *rev'd on other grounds*, 112 F. (2d) 690 (C. C. A. 3d, 1940). But see United States v. Western Union, 50 F. (2d) 102, 103 (C. C. A. 2d, 1931).

5. "We do not believe, in the light of the sweeping language used throughout these statutes, that Congress intended to limit distraint to tangible property and to the specified classes of intangibles." Canon v. Nicholas, 80 F. (2d) 934, 936 (C. C. A. 10th, 1935).

6. Kyle v. McGuirk, 82 F. (2d) 212 (C. C. A. 3d, 1936); Canon v. Nicholas, 80 F. (2d) 934 (C. C. A. 10th, 1935). See Note (1936) 45 YALE L. J. 945; (1936) 49 HARV. L. REV. 660.

State statutes exempting insurance proceeds as against creditors are not applicable. *Ibid.*

In the interest of national uniformity, distraint should be allowed even when local law characterizes the beneficiary's interest as "vested" rather than "contingent." It is unjust to permit taxpayers in the same economic position to be burdened differently because of local property law "labels." *Cf.* Burnet v. Harmel, 287 U. S. 103 (1932); PAUL, STUDIES IN FEDERAL TAXATION, SECOND SERIES (1938) 49-50. But *cf.* Poe v. Seaborn, 282 U. S. 101 (1930). See Note (1936) 45 YALE L. J. 945, 947. A majority of jurisdic-

Nevertheless a difficult problem arises when the collector is unable to seize the policy from the insured and seeks to reach its surrender value directly from the insurance company under section 3710, which requires a third person "in possession" of "property, or rights to property," of a taxpayer subject to distraint to surrender it to the collector under penalty of being held liable for its value.[7] In this situation, insurance companies in order to save the policy have refused to surrender its cash value, contending that an insurer is not "in possession" of "property" within the meaning of the statute.

Three circuit courts of appeals in cases involving essentially the same factual pattern [8] have recently held that section 3710 gives the Government no right to distrain the surrender value on a life insurance policy from the insurer. Delinquent taxpayers had reserved the power to change the beneficiaries of their life insurance policies and an option to take the cash value at any time upon surrender of the policies. When served with warrants of distraint, the insurers refused to surrender the cash value of the policies and the Government brought actions against them under section 3710 for the value of the property not surrendered. Although local law characterized the beneficiaries' interests as "contingent," the three courts agreed that the insurance companies were not liable, holding that an insurer is not "in possession" of "property" belonging to the insured. The First and Third Circuits declared that the insurer's obligation does not accrue until the insured personally elects to take the cash value and surrenders the policy. The Second Circuit, on the other hand, employing a strict interpretation of section 3710, stated that satisfaction of intangible obligations, such as payment of a debt, does not amount to "surrender" of "property" in the obligor's possession. This court emphasized the original purpose and setting of section 3710 and, by impliedly narrowing its scope to the physical surrender of tangible personalty, distinguished a sale on distress from a garnishment proceeding.

The Second Circuit's interpretation would seem to be in accord with the original function of section 3710. Since this section was designed to imple-

tions, however, deem the beneficiary's interest "contingent." See Vance, *The Beneficiary's Interest in a Life Insurance Policy* (1922) 31 YALE L. J. 343, 359.

7. INT. REV. CODE (1939) § 3710 reads: "Surrender of property subject to distraint—

"(a) Requirement. Any person in possession of property, or rights to property, subject to distraint, upon which a levy has been made, shall, upon demand by the collector or deputy collector making such levy, surrender such property or rights to such collector or deputy, unless such property or right is, at the time of such demand, subject to an attachment or execution under any judicial process.

"(b) Penalty for violation. Any person who fails or refuses to so surrender any of such property or rights shall be liable in his own person and estate to the United States in a sum equal to the value of the property or rights not so surrendered, but not exceeding the amount of the taxes (including penalties and interest) for the collection of which such levy has been made, together with costs and interest from the date of such levy."

8. United States v. Massachusetts Mutual Ins. Co., 127 F. (2d) 880 (C. C. A. 1st, 1942); United States v. Metropolitan Life Ins. Co., 130 F. (2d) 149 (C. C. A. 2d, 1942); United States v. Penn Mutual Life Ins. Co., 130 F. (2d) 495 (C. C. A. 3d, 1942). See (1941) 55 HARV. L. REV. 153.

ment distraint by requiring surrender to the collector of delinquent taxpayer's property in possession of third persons,[9] it was probably intended to refer only to personal property which could be physically seized. The courts have, however, stretched the language of the section to cover intangible obligations. Thus payment by a bank of a taxpayer's deposit has been deemed "surrender" of "property" in the bank's possession.[10] And the distinction between garnishment and distraint proceedings, emphasized by the Second Circuit, has been ignored.[11] Moreover, the inclusion of intangibles under section 3710 would, in view of the increasing accumulation of wealth in this form, seem to be in keeping with the comprehensive scheme of tax collection set up by the statute.

Recognizing the distrainability of intangibles in possession of third persons, the First and Third Circuits relied heavily on state garnishment cases in holding "election" to take a policy's cash value and its surrender conditions precedent to the accrual of the insurer's obligation.[12] Those decisions,

9. For the common law origins and history of distraint, see BREWSTER, DISTRAINT UNDER THE FEDERAL REVENUE LAWS (1937) 4-8.

10. Commonwealth Bank v. United States, 115 F. (2d) 327 (C. C. A. 6th, 1940); McKenzie v. United States, 109 F. (2d) 540 (C. C. A. 9th, 1940); United States v. Bank of Shelby, 68 F. (2d) 538 (C. C. A. 5th, 1934); United States v. Bank of the United States, 5 F. Supp. 942 (S. D. N. Y. 1934); *cf.* United States v. Long Island Drug Co., 115 F. (2d) 983 (C. C. A. 2d, 1940); Karno-Smith Co. v. Maloney, 112 F. (2d) 690 (C. C. A. 3d, 1940). But see United States v. Western Union, 50 F. (2d) 102, 103 (C. C. A. 2d, 1931).

See United States v. Warren R. R., 127 F. (2d) 134, 137 (C. C. A. 2d, 1942), where the Second Circuit Court declared, by way of dicta, that ". . . the indebtedness of a third party to a taxpayer is subject to distraint and upon demand must be surrendered to the collector by virtue of § 3710."

11. The functional similarity between distraint and garnishment has been recognized by some courts. See, *e.g.*, United States v. Long Island Drug Co., 115 F. (2d) 983, 987 (C. C. A. 2d, 1940) ("We find nothing in § 3690 or § 3710 which varies the general rule that a garnishee process is not to be extended to future earnings, but will only reach an indebtedness which has accrued."); United States v. Bank of the United States, 5 F. Supp. 942, 945 (S. D. N. Y. 1934).

12. Farmers' & Merchants' Bank v. National Life Ins. Co., 161 Ga. 793, 131 S. E. 902, 44 A. L. R. 1184, 1188 (1926); Isaac Van Dyke Co. v. Moll, 241 Mich. 255, 217 N. W. 29, 57 A. L. R. 692, 695 (1928); Boisseau v. Bass, 100 Va. 207, 40 S. E. 647 (1902); Columbia Bank v. Equitable Life Assurance Soc. of the United States, 79 App. Div. 601, 80 N. Y. Supp. 428 (1st Dep't 1903); *cf.* Drysh v. Prudential Ins. Co., 287 Ill. App. 68, 4 N. E. (2d) 530 (1936); Bethards v. Metropolitan Life Ins. Co., 287 Ill. App. 7, 4 N. E. (2d) 257 (1936); Chelsea Exchange Bank v. Travelers Ins. Co., 173 App. Div. 829, 160 N. Y. Supp. 225 (1916). For severe criticisms of these state garnishment cases, see Cohen, *The Attachment of Life Insurance Policies* (1941) 26 CORN. L. Q. 213, *Execution Process and Life Insurance* (1939) 39 COL. L. REV. 139, 166 *et seq.* A numerical minority of courts have permitted attachment of life policies by the creditor of the insured. Industrial Loan & Investment Co. v. Missouri State Life Ins. Co., 222 Mo. App. 1228, 3 S. W. (2d) 1046 (1928); Kratzenstein v. Lehman, 18 Misc. 590, 42 N. Y. Supp. 237 (N. Y. City Cts. 1896), *aff'd*, 19 Misc. 600, 44 N. Y. Supp. 369 (1st Dep't 1897) (endowment policy); Scobie v. Connor, 94 Misc. 429, 157 N. Y. Supp. 567 (Sup.

however, involved attempts by ordinary creditors to reach an insured's interest in a policy and turned upon local statutes. Since the courts were not, therefore, bound by them, they might well have considered the functions of election and surrender as related to insurance policies in determining whether the policies' cash values were subject to distraint.

The purpose of surrender [13] is to protect the insurer from being held doubly liable on a policy—once to the Government and once to the insured.[14] If, however, after a judicial decision that under the federal statute surrender is not necessary for distraint an insurer should pay a policy's cash value to the collector pursuant to the statute, it would seem that he would have a good defense of payment in a subsequent action upon the contract by the insured. Unlike surrender, election is little more than a formality. Institutionally, a policy's cash value—the excess of premiums paid over current insurance protection [15]—is like a savings account since these accumulated funds are always at the taxpayer's disposal and must be listed by the insurer in a reserve as a "liability." [16] Such a functional view, coupled with those authorities holding a savings account distrainable from a bank without an "election" to take the deposit and surrender of the passbook,[17] would have led to court approval of distraint of a delinquent taxpayer's savings in a life policy's reserve.

Ct. 1916); *cf.* Cavagnaro v. Thompson, 78 Misc. 687, 138 N. Y. Supp. 819 (Sup. Ct. 1912); Elleson v. Straw, 119 Wis. 502, 97 N. W. 168 (1903).

13. When surrender of the policy is impossible, courts have dispensed with the requirement. *Cf.* Supreme Council of Royal Arcanum v. Behrend, 247 U. S. 394 (1918) (". . . requirements of that character are made for the protection of the society. . . ."); Equitable Life Assurance Soc. of U. S. v. Miller, 185 F. 98 (C. C. A. 8th, 1911); Wilcox v. Equitable Life Assurance Soc., 173 N. Y. 50, 65 N. E. 857 (1903). See VANCE, INSURANCE (1930) § 148. But courts have insisted on surrender of the policy when the insurer would otherwise be in danger of double liability. *Cf.* Martin v. New York Life Ins. Co., 104 F. (2d) 573 (C. C. A. 7th, 1939), 124 A. L. R. 1163, 1167 (1940) ("If in the instant case . . . a showing could be made that the policies had been destroyed or for other sufficient reasons could not be surrendered, and that the insurer's interest would not be jeopardized by the payment of the cash value of the policies . . ., no doubt the plaintiff would be entitled to a judgment for the cash surrender value without surrender of the policies. . . ."); Hatcher v. Equitable Life Assurance Soc., 134 Ga. 652, 68 S. E. 581 (1910); Maurice v. Travelers' Ins. Co., 121 Misc. 427, 201 N. Y. Supp. 369 (Sup. Ct. 1923).

14. When served with the warrant of distraint, the insurer could notify the insured and ask him to choose whether the payment to the collector should be treated as a loan or as a complete surrender of the policy. A court could condition the insurer's defense of payment on its having notified the insured. Legislative or administrative ruling allowing the insured a short period of time to find the money and thus save the policy, as in the Bankruptcy Act, would seem desirable. For the procedure in bankruptcy, see 4 COLLIER, BANKRUPTCY (Moore's ed. 1942) 1121-22.

15. See VANCE, INSURANCE (1930) §§ 20-22.

16. See generally, Vickrey, *Insurance Under the Federal Income Tax* (1943) 52 YALE L. J. 554, 560; Schlesinger, *Taxes and Insurance* (1941) 55 HARV. L. REV. 226, 250.

17. See Commonwealth Bank v. United States, 115 F. (2d) 327 (C. C. A. 6th, 1940); McKenzie v. United States, 109 F. (2d) 540 (C. C. A. 9th, 1940); United States v. Bank of Shelby, 68 F. (2d) 538 (C. C. A. 5th, 1934); United States v. Bank of the United States, 5 F. Supp. 942 (S. D. N. Y. 1934).

These decisions will probably afford neither the insured nor insurers any substantial benefit, for the collector in most cases can reach the cash values under section 3678. Their net effect will, therefore, be to compel the collector to utilize the more expensive and cumbersome action provided by this section.

Because of the traditional judicial policy of protecting life insurance, the courts in these, as in the garnishment cases,[18] may have been hesitant to impose any burden on insurers not specifically sanctioned by statute. If, however, Congress intended such protection, it could have adopted state exemption statutes, as it did in the Bankruptcy Act,[19] or included life insurance policies in the property specifically exempted under section 3691.[20] Moreover, although distraint should perhaps be limited to policies exceeding a certain low maximum, the increasing utilization of insurance for investment rather than pure insurance purposes [21] and the urgent need for prompt collection of taxes would seem to render legislative or judicial exemption of life insurance policies highly undesirable.

18. See, *e.g.*, Isaac Van Dyke Co. v. Moll, 241 Mich. 255, 217 N. W. 29, 57 A. L. R. 692, 695 (1928) ("If garnishment will here lie, it could be enforced by a creditor were the insured at the time of service lying on a sick bed with dissolution near at hand.").

19. 30 STAT. 565-66 (1899), 11 U. S. C. § 110 (1941); see Cohen v. Samuels, 245 U. S. 50 (1917); Burlingham v. Crouse, 228 U. S. 459 (1913).

20. INT. REV. CODE (1939) § 3691.

21. ". . . insurance has long served to an alarming degree as a tax avoidance instrumentality." See 1 PAUL, FEDERAL ESTATE AND GIFT TAXATION (1942) 570. See 1 PAUL, FEDERAL ESTATE AND GIFT TAXATION (1942) c. 10, especially § 10.29; Vickrey, *op. cit. supra* note 16, 560-70, 584-85. ". . . exemptions conceived in a desire to encourage a valuable institution are missing their function." "An alert re-examination of the social functions of life insurance is certainly demanded." See Paul, *Life Insurance and the Federal Estate Tax* (1939) 52 HARV. L. REV. 1037, 1076. This change in policy is evidenced by the recent elimination of the $40,000 exemption for insurance from the federal estate tax. Revenue Act of 1942, § 404. Compare the foregoing authorities with the old view, well exemplified in WOODS, THE SOCIOLOGY OF LIFE INSURANCE (1928), especially at 300-11 (". . . inordinate taxation of life insurance is not only economically unsound, but socially unjust").