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Case Comment: Hadley & Anr. vs Baxendale & Ors.

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INTRODUCTION

The Indian Contract Act was formulated in 1872, which is fairly old. In more than a hundred years that have followed since various cases have emerged from the Act and enshrined themselves as milestones in the prestigious contract law. But some cases are older than the Act itself, cases that did not emerge from the Act but rather led to the emergence of the Act. The present case discussed in this project is one such case that dates back to 1854.

The case of *Hadley & Anor v Baxendale & Ors*[1] is considered as one of the leading cases in English contract law. It establishes the leading rule for deciding the damages that resulted from the breach of a contract which states that the breaching party will only be liable for all such loss that the parties to the contract should have anticipated, but not for any loss that the breaching party could not have anticipated based on the information available to him.[2]

FACTS OF THE CASE

[1] *Hadley & Anor v Baxendale & Ors* [1854] EWHC J 70
[2] Melvin Aron Eisenberg, 'The Principle of Hadley V. Baxendale' (1992) 80 California Law Review 563

Mr. Hadley and Anor (claimants in the present case) were the partners in the ownership of the City Steam-Mills in Gloucester. Due to damage in the shaft of the steam machine in their factory, the claimants had to shut down their mill. To make the factory work again, the claimants were supposed to send the broken shaft to its manufacturer, Joyce & Co. in Greenwich so that they can manufacture the same as per the given pattern. The claimants contacted the transporting company Pickford & Co. (defendants in the present case) for the immediate shipment of the broken shaft to its manufacturer. The defendants agreed to the transport and claimed that if the broken shaft was sent to their shipping office any day before noon, then it will be delivered to Greenwich based manufacturer the next day. As agreed, the claimants sent their broken shaft to the defendants before noon the very next day and made the payment for the transport to the defendants. However, the defendants failed to comply with their agreement and the shipment was delivered to the manufacturer several days later despite the next day which further delayed the manufacturing process and therefore the claimants had to suffer a loss as because they were unable to fulfill their supply for what they agreed to their customers. The claimants asked the defendants for compensation of £300 against the damages suffered by them. But the defendants denied such compensation claiming that the damages were too remote to consider. Therefore, the claimants sued the defendants.

PROCEDURAL HISTORY

The claimants Mr. Hadley and another filed a lawsuit in Trial Court against the defendant Baxendale, demanding damages for the losses they suffered because of the latter's late delivery of the shaft. The trial court found that the defendant had committed a breach of contract and awarded the claimants twenty-five pounds in damages. The Claimants appealed on the Court of Exchequer. [3] The final judgement, in this case, was laid down by the bench led by Baron Sir Edward Hall Alderson on February 23, 1854, where the court decided that the trial judge should direct the jury not to consider the loss in the profits while awarding damages.

ISSUES

[3] Jeffery Berryman, *The Law of Equitable Remedies* (Irwin Law Inc. 2013)

The issues before the court, in this case, can be summarized in two points:[4]

1. Whether the Defendants were liable for the damages suffered by Claimants due to loss in profits?
2. Whether the loss of profits by the claimants was too remote for the claimants to claim damages?

JUDGEMENT

Following the appeal by the claimants, the Court of Exchequer denied the compensation to the claimants on the grounds that the defendants can only be liable for the losses that were reasonably foreseeable or in the case where the claimants had expressed such in advance. In the present case the fact of sending something to repair does not mean that if it is not delivered on time, the party will lose money.[5]

Furthermore, the court suggested that the claimants in the present case could have entered this contract under various circumstances that would not have resulted in such dire consequences, and in the case where special circumstances exist, such provisions to impose additional damages in the event of a breach can be included in the contract.

In regard to that Lord Alderson B further stated that:[6]

"For cases like this the proper rule must be: When the parties form the contract in which one of the party has breached, the party at loss should receive against such breach of contract the damages that must be fair and reasonable and also must be arising the ordinary course of things, and from such breach of the contract itself."

REASONING BEHIND THE JUDGEMENT

The party suffering loss from the breach can only be compensated for the reasonable and foreseeable damage at the time of the contract formation. However, the party at loss can also

[4] Barry E Adler, 'The Questionable Ascent of Hadley v. Baxendale' (1999) 51 Stanford Law Review 1547 <www.jstor.org/stable/1229528> accessed 27 June 2021
[5] Arthur John Keffe, 'Hadley v. Baxendale Rides Again' (1980) 66 American Bar Association Journal 1018 < www.jstor.org/stable/20746693> accessed June 27, 2021
[6] Dr R K Bangia, *Indian Contract Act*, (7th edn, Allahabad Law Agency 2019)

recover damages through the contract which that voluntarily contains the additional circumstances for the breach.

The reasoning behind the decision in the present case is that if the claimants had expressed the special circumstances in advance within the contract made with the defendants, and making both the parties aware of such circumstances, then the damages due to the breach of such contract, will be the amount of suffered injury that would reasonably occur from a breach of such contract. However, in the case where the breaching party is unaware of the special circumstances that can cause damages, he/she can only contemplate the reasonable amount of damage as the party could not have foreseen such damages.[7] But in case of special circumstances being present for damages by the breach under the contract, then it would be unjust to deprive the party at loss from this compensation.[8] As a result, the loss of profits, in this case, cannot be regarded as a reasonable consequence of the breach of contract as both parties could not have reasonably anticipated this breach when they entered into this contract.[9]

CRITICAL ANALYSIS OF THE JUDGEMENT

The case of *Hadley v Baxendale* could be seen as providing an overly simplistic response to the question of how far we should go in charging the defaulting promisor for the repercussions of the breach, where the case justifies the solution to this question appears to be a single test, that is foreseeability.[10]

It is often regarded as an inappropriate test in specific cases because it favors the breaching party in the contract more than it does normally. As a result, there are exceptions to the test of foreseeability, not to mention authorities that reject it outright because it is too burdensome for the defaulter. Second, it is evident that the test of foreseeability is more of a cover for a growing set of criteria rather than a definitive test.

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[7] Richard Danzig, 'Hadley V. Baxendale: A Study in The Industrialization Of The Law' (1975) 4 The Journal of Legal Studies

[8] Jeffrey M. Perloff, 'Breach Of Contract And The Foreseeability Doctrine Of "Hadley V. Baxendale"' (1981) 10 The Journal of Legal Studies <www.jstor.org/stable/724225> accessed 27 June 2021

[9] Ian Ayres and Robert Gertner, 'Filling Gaps in Incomplete Contracts: An Economic Theory Of Default Rules' (1989) 99 The Yale Law Journal <www.jstor.org/stable/796722> accessed 27 June 2021

[10] Perloff (n 8)

The test of foreseeability consists of an element of circularity for the case of "reasonable man" standards. The foreseeability test arises questions as to what extent of damage can the court make accountable to the breaching party? The extent of damages can be assured by which a reasonable and prudent person could have foreseen. But again the test questions as to what extent the breaching parties would have foreseen to avoid such accountability? The court will determine the damages for the item he is ought to pay. As a result, the simple procedure of describing the hypothetical circumstances that an individual sees while foreseeing can be used to manipulate the test of foreseeability.[11] This "man" develops a complicated personality as a result of a gradual process of judicial inclusion and exclusion; we understand what "he" may "foresee" in various circumstances, and we end up with a complete series of tests and not just one. This has obviously happened in other laws before and it still happens to the reasonable man proposed in the case of *Hadley v. Baxendale*, though less explicitly.

CONCLUSION

The effect of *Hadley v Baxendale* in American laws was recognized by the United States Supreme Court as early as 1894. However, the principle laid down in the *Hadley v Baxendale* remains the foundation of modern law, which was further analyzed and improvised in the twentieth century as well as widening its application. It is acknowledged that the application of this concept may be influenced by the defendant's relevant knowledge at the time of the contract. This approach can be seen in the practice, as the court instead of using the situation to pigeonhole into the rule laid down in *Hadley v Baxendale*, uses the relevant knowledge of the defendant for the decision of each case.

The importance of being a landmark case can be seen where Professor Grant Gilmore[12] beautifully quoted that the case of *Hadley v Baxendale* is still and will always be the star of the jurisprudence firmament.

[11] Robert Clarke, 'Damages For Loss of Enjoyment and Inconvenience Resulting From Breach of Contract' (1966) 13 Irish Jurist 186

[12] Grant Gilmore and Grant Gilmore, *The Death Of Contract* (Legal Classics Library 1997)