

INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 6 | Issue 1

2023

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General and Special Damages for the Breach of Contract

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ABSTRACT

This research paper will explain how special and general damages play a role when there is a breach of contract. A contract is a two-party agreement that generates mutual legal responsibilities. It can be either be written or oral. When one of the parties fails to perform the contract as agreed, there is a breach of contract. Thus, a breach of contract happens when parties fail to follow their legal agreements. For example, failing to deliver a product on time, failing to pay on time, or failing to meet contractual obligations. When a contract has been breached, compensation can be claimed. Damages are defined in contract law as an amount of money given to the innocent party as compensation for a violation of the contract.

Keywords: *Breach of contract, Special damages, General Damages, Compensation, Contract.*

I. INTRODUCTION

Damage is typically defined as any injury or loss caused to an individual or his property as a result of a person's wrongful act or omission. In legal terms, damages are monetary compensation for a loss or injury that occurred in either person or property. When there is a breach of contract, these damages come into play. Now these damages can be of different types, including special, general, nominal, substantial, aggravated, and exemplary damages etc. The main focus of this research paper will be on special and general damages and how these play a role when there is a breach of contract. General damages are defined as those that arise spontaneously as a result of the regular course of events. Special damages are those that occur exclusively as a result of unusual circumstances. This research study goes into great depth about these two damages.

II. DAMAGES

Damages are defined as the amount of money paid to the party that has suffered loss as a result of the violation of contract. In simple words, it is a legal remedy which is given to the non-

¹ Author is a student in India.

breaching party of a contract in terms of money or compensation for the loss it suffered due to the breach of contract. Damages can be of two types- general and special damages.

III. GENERAL DAMAGES

²General damages are regarded as those that occur naturally as a consequence of the ordinary course of events. In such a case of damages, the injured person may be compensated in monetary terms for the injuries sustained, such as the inability or impairment to execute particular acts. Physical pain and suffering (compensation for pain); physical injury or impairment (disfigurement or disability); mental pain and anguish (trauma, stress, and anxiety); diminished quality of life (depending on others, lack of mobility, etc.); loss of companionship and support are examples of ³general damages. General damages are also known as non- economic damages.

EXAMPLE: Lily was involved in an automobile accident that left her with chronic back pain. Lily's ability to sleep through the night was hampered by this ache, leaving her weary every day. It also made her impossible to bend down and pick up her small children, as well as do regular duties like cleaning and shopping. Her injuries have also had a huge influence on any physical closeness she may have with her husband. Lily became resentful, worried, and unhappy as a result. Unlike the medical expenditures Lily had to pay out of herself, there is no obvious method to quantify Lily's mental pain and loss of consortium as a result of her injury. To assess an adequate judgement of pain and suffering damages, the courts would consider Lily's symptoms related with both her physical discomfort and emotional distress.

IV. SPECIAL DAMAGES

⁴Special damages are referred to as economic damages. Special damages are those that occur exclusively as a result of unusual circumstances. Special damages do not arise as a result of the defendant's breach of terms and conditions, but rather as a result of certain unusual circumstances; the defendant was unable to meet the contract's terms and conditions; if the circumstances were reasonable, the contract might have been met. Special damages are losses whose monetary worth may be easily quantified, as opposed to general damages, which are sometimes more difficult to assess. General damages are assessed for items that do not have a monetary value, such as reputation loss or emotional pain and suffering. However, the following are examples of losses classed as exceptional damages: Wages lost, Irreplaceable item loss,

² GENERAL DAMAGES, <https://legalknowledgebase.com/what-are-general-damages-in-contract-law> LAST VISITED ON 20.11.2022.

³ GENERAL DAMAGES, <https://elawtalk.com/types-of-damages-in-contract-law/> LAST VISITED ON 20.11.2022.

⁴ SPECIAL DAMAGES, <https://legaldictionary.net/special-damages/> LAST VISITED ON 20.11.2022

Medical expenses, In the case of a major accident, the costs of home care or domestic services and the costs of repairing or replacing destroyed property.

Special damages can be well understood with these two cases:

1. In *Cedrick Makara vs. Newmark Realty*, Makara seeks compensation after injuring his thumb while exiting the toilet at his employer; as a result of the injury, he was unable to return to work for six months. The injuries was so severe that he required surgery, and the jury gave him \$ 2 in compensatory damages for pain and suffering, as well as \$2,00,000 in special damages for any future medical needs.
2. *Bret Michaels vs. CBS* involved a celebrity suing a corporation after an accident. At the Tony Awards in 2009, he was not properly directed on how to evacuate the stage, and as a result, he was struck in the head by a set piece, breaking his nose and suffering from a brain haemorrhage. The court ruled in Michael's favour, but the sum of compensatory and general damages was not made public.

V. SECTION 73 AND 74 OF THE INDIAN CONTRACT ACT,1872

⁵According to Section 73 of the Indian Contract Act 1872 "when a contract is violated, the party who suffers damages is entitled to recompense from the person who broke the contract caused to him, which naturally arose in the normal course of things from the breach."

According to Section 74 of the Indian Contract Act of 1874, when a contract is broken, if a sum is named in the contract as the amount to be paid in case of such breach, or if the contract contains any other penalty stipulation, the party complaining of the breach is entitled to receive reasonable compensation not exceeding the amount so named or, as the case may be, the penalty stipulated for whether or not amount of damages have occurred.

In the event of such a violation, or if the contract contains any other punishment, the party complaining of the breach is entitled to fair compensation not to exceed the sum thus mentioned or, as the case may be, the penalty provided for, whether or not actual loss is establish.

VI. TWO LANDMARK CASES

1. *Hadley vs Baxendale*
2. *Victoria Laundry vs Newman Industries Ltd*

⁵ SECTION 73, 74 OF THE INDIAN CONTRACT ACT, <https://www.lawcolumn.in/section-74-indian-contract-act-1872/> LAST VISITED ON 20.11.2022.

1. Hadley vs Baxendale

The case provides the prevailing rule for calculating consequential damages as a result of a breach of contract. It established the idea that a breaching party is accountable for any damages that the contractual parties should have expected, but not for any losses that the breaching party could not have anticipated based on the facts at his disposal.

Facts of the case

1. ⁶Hadley, the plaintiff, was the owner of a mill with a damaged crankshaft. So, he hired the defendant, Baxendale, to carry the crankshaft to the repair facility and subsequently back to the plaintiff.
2. The defendant then made an error, causing the crankshaft to be returned to the plaintiff a week later than expected because of which his mill remained out of operation during that time. The plaintiff claimed the defendant had acted negligently and attempted to recover the loss of profit because of the unplanned, week-long closure.
3. Hadley sued for the lost earnings as a result of Baxendale's late delivery, and a jury awarded him £25. ⁷Baxendale filed an appeal, saying that he had no idea Hadley would be harmed because of the late delivery.

Issues that were raised

1. If the defendant was responsible for breach of contract and whether the plaintiff was entitled to lost profits damages?
2. Is the plaintiff's loss of earnings as a result of the mill's shutdown sufficiently distant to warrant a claim?

Decision of the court

The Court ruled in favour of the defendant, holding that a party could only successfully sue for losses caused by a breach of contract if the loss is reasonably viewed to have resulted naturally from the breach, or if the parties should have reasonably expected such losses to occur when the contract was formed. Baxendale was not accountable for the mill's lost earnings since he could not have reasonably anticipated the repercussions of the delay and Hadley had not told him of them.

⁶ HADLEY VS BAXENDALE, <https://lawplanet.in/hadley-vs-baxendale-case-summary-1854-all-er/> LAST VISITED ON 20.11.2022.

⁷ BAXENDALE, <https://www.lawteacher.net/cases/hadley-v-baxendale.php> LAST VISITED ON 20.11.2022.

Conclusion of this case

Hadley v. Baxendale is therefore a landmark English decision in contract law, establishing the rule that damages are restricted to those that come naturally as a result of the breach and those that the parties reasonably expected at the time the contract was formed. It is a landmark case because it defined the criteria by which the jury should be directed in calculating the degree of damages caused by a breach of contract.

2. Victoria Laundry v. Newman Industries Ltd

In anticipation of potentially lucrative dyeing contracts,⁸ Victoria Laundry Ltd (VLL) bought a huge boiler from Newman Industries Ltd (NIL). NIL was aware of the nature of VLL's company and that the boiler would be put to use as quickly as practicable. VLL sued for breach of contract because the boiler was delayed for five months.

VLL sought compensation for lost earnings as a result of the delay. They contended that damages reasonably foreseen to result from the breach would be recovered, and that because NIL knew the boiler was needed as quickly as possible for commercial objectives, they must have considered the use for which the boiler was to be used. VLL argued that real knowledge of the specific loss was not required. NIL claimed that because they had no unique experience of running a laundry business or that the boiler was required for rapid profit making, they were not accountable for lost revenues. NIL contended that lost earnings constituted unique circumstances that had to be clearly brought to their knowledge prior to the breach if they were to be considered.

Decision of the court

VLL was able to recoup the lost income. NIL was aware that the boiler was essential for VLL's operation and had pledged delivery by a certain date. They couldn't possibly argue that they couldn't have predicted that the delay would result in lost earnings. It was unnecessary to demonstrate that NIL had explicit knowledge of the contracts that had been lost. Damages would be paid for⁹ damages that may have been reasonably expected to occur.

Review of both the cases

The plaintiff in the HADLEY VS BAXENDALE CASE was unable to obtain compensation because he failed to illustrate the urgency of the situation. The defendant could not have

⁸ VICTORIA LAUNDRY VS NEWMAN INDUSTRIES LTD, <https://www.lawteacher.net/cases/victoria-laundry-v-newman-industries.php> LAST VISITED ON 20.11.2022.

⁹ DAMAGES, <http-vs://blog.ipleaders.in/generas-special-damages-in-breach-of-contract/> LAST VISITED ON 20.11.2022.

predicted that the plaintiff would incur such a large loss. However, in *VICTORIA LAUNDRY VS NEWMAN INDUSTIRES LTD*, the defendant was aware of the plaintiff's desire for the boiler to be fixed as soon as possible. These two instances demonstrate how and when compensation can be obtained.

VII. CONCLUSION

In the event of special and general damages, sections 73 and 74 of the Indian Contract Act of 1872 are crucial. The goal of such clauses, particularly in corporate contracts, is to give clarity. Contracting parties would agree to such a figure in advance because it makes it easier to quantify risks, reduces the complexity and cost of showing genuine injury or loss, and makes it easier to recover damages. It also reduces the complication of calculating damages, even when the consequences of the breach are recognised, as well as the risk of undercompensation; alternatively, the rule of remoteness may preclude the party from claiming indirect, consequential damages. It ensures that the promise will be fulfilled safely. In case of breach of contract, these clauses play a very important role.
