

AN EXAMINATION OF CONTRACT VALIDITY IN COMMON LAW:  
CASE LAW INSIGHTS ON CAPACITY, CONSENT, AND LEGALITY

MA. Ly Vuong Khanh

University of Law, Vietnam National University, Hanoi

Corresponding Author: lyvuongkhanh@vnu.edu.vn

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**Abstract**

*This article delves into the factors impacting the validity of contracts within the common law framework, focusing on three critical aspects: capacity, genuine consent, and legality. Through an in-depth analysis of case law, the paper elucidates how judicial decisions shape the interpretation and enforcement of these principles, ensuring that contracts are equitable and legally binding. The research emphasizes the protective measures embedded in common law to safeguard vulnerable parties, such as minors, individuals with mental incapacity, or those subjected to duress and undue influence. By examining pivotal cases within the Common Law system, this study demonstrates how courts adjudicate disputes over contract voidability and enforceability, effectively balancing individual rights with societal values. The findings highlight the enduring relevance of Common Law principles in adapting to complex legal challenges while preserving contractual integrity. This analysis aims to provide both academic and practical insights into the mechanisms through which case law reinforces the foundational doctrines of contract validity.*

**Keywords:** Contract, contract validity, legal capacity, genuine consent, legality, contract voidability.

**Hiệu lực của hợp đồng trong hệ thống Thông luật: Góc nhìn từ án lệ về năng lực chủ thể, sự đồng thuận và tính hợp pháp của hợp đồng**

ThS. Lý Vương Khanh

Trường Đại học Luật - Đại học Quốc gia Hà Nội

Tác giả liên hệ: lyvuongkhanh@vnu.edu.vn

**Tóm tắt**

Bài viết này đi sâu vào các yếu tố ảnh hưởng đến hiệu lực của hợp đồng trong khuôn khổ luật thông lệ (Common Law), tập trung vào ba khía cạnh chính: năng lực pháp luật, sự đồng ý tự nguyện và tính hợp pháp. Thông qua phân tích sâu các án lệ, bài viết làm rõ cách các phán quyết tư pháp định hình việc giải thích và thực thi các nguyên tắc này, đảm bảo rằng các hợp đồng công bằng và có giá trị pháp lý. Nghiên cứu nhấn mạnh các biện pháp bảo vệ được tích hợp trong luật thông lệ để bảo vệ các bên dễ bị tổn thương, chẳng hạn như: người chưa thành niên, người mất năng lực hành vi dân sự, hoặc những người bị ép buộc hay chịu ảnh hưởng quá mức. Qua phân tích các vụ án tiêu biểu trong hệ thống thông luật, nghiên cứu này cho thấy cách các tòa án giải quyết tranh chấp liên quan đến khả năng bị vô hiệu và hiệu lực của hợp đồng, đồng thời, cân bằng quyền lợi cá nhân và các giá trị xã hội. Kết quả nghiên cứu làm nổi bật tính phù hợp lâu dài của các nguyên tắc luật thông lệ trong việc thích nghi với các thách thức pháp lý phức tạp, đồng thời, bảo đảm bản chất của hợp đồng. Nghiên cứu này nhằm cung cấp các cơ sở lý luận và thực tiễn về các cơ chế mà án lệ củng cố các nguyên tắc cơ bản về hiệu lực hợp đồng.

**Từ khóa:** Hợp đồng, hiệu lực hợp đồng, năng lực pháp luật, sự đồng ý tự nguyện, tính hợp pháp, tính vô hiệu hợp đồng.

## Introduction

The law of contract, particularly in Common Law jurisdictions, serves as a cornerstone for regulating commercial and personal agreements, ensuring that parties engage in binding, enforceable commitments (Randy, 2012). For a contract to be enforceable, it must satisfy specific criteria, including the parties' capacity, genuine consent, and the legality of its purpose (Ewan, 2018). These elements are pivotal in determining whether a contract is valid or voidable. This paper explores these foundational aspects of contract validity by examining key doctrines and their application through case law analysis. By referencing significant judicial decisions, this study illustrates how common law principles ensure fairness and uphold contractual obligations. The discussion aims to provide a comprehensive understanding of how case law shapes the enforcement of these principles in diverse contexts.

### 1. Capacity in Contract Law

Capacity in contract law refers to the ability of parties to enter into legally binding agreements, ensuring that all individuals involved fully understand and willingly accept the contractual obligations. If one or more parties lack capacity, the contract may be considered voidable (Ewan, 2018). This section explores three key areas affecting capacity: age, mental condition, and intoxication. These factors are crucial because they can significantly impair an individual's ability to consent and understand the implications of a contract.

#### 1.1. Age and Capacity

In most jurisdictions, there is a minimum age for the capacity to contract, usually set at 18 years (Wee, 2010). Below which individuals are generally considered minors and therefore they only have passive legal capacity, not capacity for acts of an individual. The law treats contracts with minors differently due to their presumed lack of experience and understanding of legal obligations. However, there are exceptions, as some contracts with minors may be binding, particularly if they are for

essential goods or services, or if the minor ratifies the contract upon reaching the age of majority.

Contracts for essential items, or "necessaries" - such as food, shelter, clothing, and education - are binding on minors if deemed essential to their welfare (Ewan, 2018). This exception exists to protect minors while also ensuring they can access essential services. For example, in *Nash v. Inman (1908)*, a minor ordered expensive clothing from a tailor. The court found that these items were not "necessaries" because the minor already had an adequate supply of clothing. Consequently, the minor was not liable for the payment.

As for ratification upon reaching majority, if a minor enters into a contract that is not for necessities, the contract is generally voidable at the minor's option (Ewan, 2018). However, upon reaching the age of majority, the individual can choose to ratify the contract, making it fully binding. For instance, in *Steinberg v. Chicago Medical School (1977)*, a minor applied to a medical school and paid an application fee. The school's obligations under the contract were deemed binding, although this case is often cited to illustrate contracts where minors seek benefits and subsequently ratify the agreement as adults.

Besides, minors generally have the right to disaffirm most contracts before reaching the age of majority or within a reasonable time after reaching adulthood. In *Dodson v. Shrader (1992)*, a 16-year-old bought a truck that later had mechanical issues. When Dodson attempted to disaffirm the contract, the court ruled that he was entitled to do so but was only refunded the depreciated value of the truck, illustrating how courts may account for fairness to the seller when minors disaffirm contracts.

#### 1.2. Mental Condition

Mental incapacity occurs when an individual's cognitive or psychological condition prevents them from fully understanding the terms and consequences of a contract (Ewan, 2018). Courts typically require evidence that a person

was unable to comprehend the nature and purpose of the agreement at the time of entering into it. If proven, the contract can be declared voidable at the discretion of the incapacitated party or their representative.

Courts have developed different tests to determine mental capacity. The cognitive test assesses whether the person was capable of understanding the contract's nature, while the volitional test examines whether they were able to control their actions, despite understanding the contract's terms (British Columbia Law Institute, 2013). In *Ortelere v. Teachers' Retirement Board* (1969), the court found that Mrs. Ortelere, who had a history of mental illness, lacked the mental capacity to make a substantial withdrawal from her pension. The court declared her decision voidable, establishing the precedent that mental incapacity can render a contract unenforceable.

In cases where a person has been legally declared mentally incompetent, contracts are generally void from the outset. However, if no legal declaration has been made but the person is later proven to have lacked capacity at the time of the contract, the contract may be voidable. For example, in *Hauer v. Union State Bank of Wautoma* (1995), the court ruled that Hauer, who suffered from cognitive impairments following a car accident, did not have the mental capacity to enter into a loan agreement. Consequently, the contract was voidable.

In cases where mental illness fluctuates, a person may be able to enter contracts during "lucid intervals" when they can understand and engage in transaction (Jason Neufeld, 2024). Courts may uphold contracts signed during these periods, provided there is sufficient evidence that the person was indeed capable of understanding the agreement at that specific time.

### 1.3. Intoxication

Intoxication can impair judgment and inhibit a person's ability to make sound decisions. Contracts entered into while one party is intoxicated may be voidable if the intoxicated party was unable to

understand the nature and consequences of the agreement and the other party was aware of the intoxication (Ewan, 2018). However, intoxicated individuals cannot use intoxication as a blanket excuse to avoid obligations, particularly if the contract was reasonable and the other party was unaware of the impairment.

In terms of voidability due to intoxication, courts generally allow intoxicated individuals to void contracts if they can prove they were so impaired that they could not understand the contract's nature. For instance, in *Lucy v. Zehmer* (1954), Zehmer claimed intoxication when he agreed to sell his farm to Lucy. Despite Zehmer's claim, the court upheld the contract, finding that he demonstrated a sufficient understanding of the transaction's seriousness. This case is often cited as an example of the difficulty of proving incapacity due to intoxication, as Zehmer's actions indicated he was aware of the contract's implications. Similar to contracts with minors, contracts entered into under intoxication can be ratified once the individual becomes sober (Ewan, 2018). If an intoxicated person takes any action to confirm the agreement after regaining full capacity, courts may interpret this as ratification. In such cases, the contract becomes fully binding, and the intoxicated party cannot later disaffirm it. If an intoxicated person enters into a contract for necessities (essential goods or services), the contract may still be enforceable to ensure they receive necessary items, though they may only be held liable for the reasonable value of those items. This rule ensures protection for vendors who provide essentials to intoxicated individuals without encouraging exploitation.

The element of capacity is essential in contract law, as it protects vulnerable individuals from being bound by obligations they may not fully understand or willingly accept. Age, mental condition, and intoxication serve as significant factors that can impair an individual's capacity to enter a binding contract. These protections help maintain the fairness and integrity of

contractual relationships by ensuring that all parties have the capacity to consent.

## 2. Genuine Consent and Contractual Validity

Genuine consent is essential to ensure that all parties agree voluntarily and with full understanding (Jeffrey et al., 2016). Lack of genuine consent, due to factors like misrepresentation, mistake, duress, and undue influence, can make a contract voidable.

### 2.1. Misrepresentation

Misrepresentation occurs when one party provides false information, knowingly or unknowingly, that induces the other party to enter into the contract under misleading pretenses. Misrepresentation is categorized into three types: innocent, negligent, and fraudulent (Ewan, 2018). Each type has different legal implications, particularly regarding the remedies available to the misled party.

**Innocent misrepresentation** occurs when a false statement is made without knowledge of its inaccuracy. In cases of innocent misrepresentation, the misled party may be entitled to rescind the contract but may not claim damages. An example is *Leaf v. International Galleries (1950)*, where the plaintiff purchased a painting from the defendant, believing it to be by the artist Constable, based on the defendant's assurances. When it was later discovered that the painting was not an original, the court held that while rescission was possible, damages could not be claimed, as the misrepresentation was not fraudulent.

Negligent misrepresentation involves a false statement made without reasonable grounds for belief in its truth. In *Hedley Byrne & Co Ltd v. Heller & Partners Ltd (1964)*, the plaintiffs relied on a financial reference provided by the defendants. The defendants had not verified the accuracy of their statement, which led to significant losses for the plaintiffs. This case established the principle that negligent misrepresentation could lead to liability if the representor owed a duty of care to the representee.

Fraudulent misrepresentation is an intentional false statement made with the knowledge that it is untrue, with the intent to deceive the other party. Fraudulent misrepresentation allows the misled party to rescind the contract and seek damages. In *Derry v. Peek (1889)*, the directors of a company falsely stated that they had legal permission to use steam-powered trams, leading investors to buy shares based on this false representation. The House of Lords held that a statement is fraudulent if it is made knowingly, without belief in its truth, or recklessly. This case set a high standard for proving fraudulent misrepresentation.

### 2.2. Mistake

Mistake in contract law refers to a fundamental misunderstanding by one or both parties regarding essential facts at the time of agreement. Courts recognize different types of mistakes, including unilateral, mutual, and common mistakes, each of which can affect the enforceability of a contract (Ewan, 2018).

Firstly, a unilateral mistake occurs when only one party is mistaken about a fundamental aspect of the contract. Generally, a unilateral mistake does not void a contract unless the other party was aware of the mistake and took advantage of it. In *Smith v. Hughes (1871)*, a farmer mistakenly believed he was purchasing old oats suitable for horse feed, while the seller was actually offering new oats. The court held that there was no obligation on the seller to inform the buyer of his mistake, and the contract was upheld.

Secondly, a mutual mistake occurs when both parties are mistaken about a fundamental fact, but each party holds a different erroneous belief about that fact. In *Raffles v. Wichelhaus (1864)*, a contract was made for the delivery of cotton from India on a ship named "Peerless." However, there were two ships with the same name departing at different times, and each party believed they were contracting for a different ship. The court ruled that there was no consensus ad idem (meeting of the minds), and therefore, the contract was void.

Furthermore, a common mistake occurs when both parties share the same erroneous belief about a fundamental fact at the time of the contract. In *Bell v. Lever Brothers Ltd (1932)*, both parties mistakenly believed a contract was lawful when, in fact, it was void. The court held that, for a common mistake to render a contract void, the mistake must relate to a fundamental aspect of the contract. In this case, the mistake was not deemed fundamental enough to void the contract.

### 2.3. Duress

Duress occurs when one party uses threats, coercion, or unlawful pressure to force another into a contract, thereby undermining genuine consent. Duress can take various forms, including physical duress, economic duress, and duress against property, and courts have developed specific tests to determine its impact on contract validity (Ewan, 2018).

Physical duress involves actual or threatened harm to an individual or their loved ones to compel agreement. A contract entered under physical duress is voidable. In *Barton v. Armstrong (1976)*, a business executive signed a contract under the threat of death from his business associate. The court ruled that the contract was voidable due to the coercive threats, as Barton's consent was not freely given.

Economic duress occurs when one party exerts economic pressure to force another into a contract. This form of duress was recognized in *The Sibeon and The Sibotre (1976)*, where the court acknowledged economic duress as a valid defense if the pressure applied left the victim with no reasonable alternative but to agree. In *Pao On v. Lau Yiu Long (1980)*, the Privy Council outlined that, for economic duress to be proven, the pressure must be illegitimate, and the coerced party must lack a reasonable alternative.

Threats against property, such as threatening to destroy or withhold essential goods, can also constitute duress. While less common, duress against property was considered in *Skeate v. Beale (1840)*, where it was held that threats to seize property could constitute duress if they

effectively compel the affected party to contract unwillingly.

### 2.4. Undue Influence

Undue influence arises when one party uses their position of power or trust to unfairly influence another, leading to coerced consent (Ewan, 2018). It typically occurs in relationships where one party has significant influence over the other, such as fiduciary relationships or situations involving dependency. Courts have established different types of undue influence, including actual and presumed undue influence, to protect vulnerable individuals from exploitation.

**Actual Undue Influence** arises when there is evidence of overt coercion or manipulation by one party over another. In *Williams v. Bayley (1866)*, a son committed forgery, and his father was pressured to take on the son's debts to avoid legal action. The court held that the father's consent was not freely given due to the undue influence exerted on him.

In certain relationships (e.g., doctor-patient, solicitor-client, trustee-beneficiary), undue influence is presumed due to the inherent power imbalance. In *Allcard v. Skinner (1887)*, a novice nun gave away her inheritance to her religious superior. The court found that the nun's consent was compromised due to the influence exerted by her superior, and the contract was voidable. The ruling established that in relationships of trust, the party in the dominant position must demonstrate that the influenced party gave consent freely.

Courts may require evidence that the influenced party sought independent advice before entering a potentially exploitative contract. In *Lloyds Bank Ltd v. Bundy (1975)*, Bundy, an elderly farmer, mortgaged his farm to support his son's failing business under the bank's influence. The court held that Bundy did not receive independent advice and was unduly influenced by his trust in the bank. The contract was deemed voidable due to the undue influence.

Genuine consent ensures that all parties enter agreements voluntarily and



with full understanding. Factors such as misrepresentation, mistake, duress, and undue influence can compromise this consent, rendering contracts voidable. Landmark cases, including *Derry v. Peek*, *Raffles v. Wichelhaus*, *Barton v. Armstrong*, and *Lloyds Bank Ltd v. Bundy*, highlight the ways courts have developed doctrines to protect individuals from contracts formed without genuine consent. These protections maintain the integrity of contractual relationships by ensuring fairness and voluntariness in every agreement.

### 3. Legality of Purpose

For a contract to be enforceable, its purpose must be legal and not in violation of public policy. Legality of purpose is fundamental to contract law, as it ensures that the agreements upheld by courts align with societal values and legal standards. If a contract involves illegal actions or contravenes public policy, it is deemed void or unenforceable. This principle applies not only to contracts directly involving illegal conduct but also to those with terms that could indirectly promote unlawful actions or harm the public interest.

#### 3.1. Contracts involving illegal acts

Contracts that involve illegal acts, such as criminal activity, fraud, or statutory violations, are automatically void (Ewan, 2018). Courts refuse to enforce these agreements because doing so would condone illegal conduct. When one or both parties engage in a contract with an illegal purpose, they typically cannot seek legal remedies if the contract fails.

**Regarding criminal acts**, any contract for criminal purposes is void ab initio (void from the outset). For instance, in *Everet v. Williams (1725)*, also known as the Highwayman's Case, two highway robbers entered a partnership to share the spoils of their criminal activity. When one party failed to deliver his share, the other attempted to sue. The court dismissed the case, refusing to uphold a contract based on criminal conduct. This ruling established the principle that contracts involving criminal activity are unenforceable.

Some contracts, while not necessarily criminal, violate specific statutes and are thus unenforceable. For example, a contract that contravenes employment or regulatory laws cannot be legally upheld. In *Re Mahmoud and Ispahani (1921)*, a seller agreed to sell linseed oil without obtaining a license required by wartime regulations. The buyer attempted to enforce the contract, but the court ruled it void due to statutory violation. This case illustrates that statutory breaches, even if not criminal, render a contract unenforceable.

Fraudulent contracts are also void, as they involve deceit and intentional misrepresentation to harm others. In *Holman v. Johnson (1775)*, the plaintiff sold tea to the defendant, knowing it would be smuggled into England without paying customs duties. The court refused to enforce the contract, ruling that no party can claim legal protection for an agreement involving fraudulent intent.

#### 3.2. Contracts Contrary to Public Policy

Even if a contract does not directly violate the law, it may still be deemed void if it is against public policy. Courts generally avoid enforcing contracts that could harm society, encourage immoral behavior, or interfere with public welfare. The public policy doctrine allows judges to void contracts that, while legal on the surface, go against societal values or ethical standards.

Contracts that unduly restrict an individual's right to engage in business or employment are often considered contrary to public policy (Jeffrey et al., 2016). Courts generally uphold restrictive covenants, such as non-compete clauses, only if they are reasonable in scope and duration and protect a legitimate business interest. In addition, contracts that encourage immoral behavior or exploit vulnerable individuals may be void on public policy grounds (Ewan, 2018). For instance, contracts involving payment for sexual services are unenforceable in many jurisdictions, as they are considered against moral standards. Moreover, contracts that disrupt judicial or public processes are also void.

Agreements to obstruct justice, such as witness tampering or paying to influence a public official, are unenforceable.

### Conclusion

The elements of capacity, genuine consent, and legality are integral to the validity of contracts in common law. This paper has illustrated, through case law analysis, how these doctrines uphold

fairness and protect parties in contractual relationships. By analyzing landmark judicial decisions, it becomes evident that common law strikes a balance between individual autonomy and public interest. This study underscores the vital role of case law in interpreting and enforcing these principles, ensuring contracts remain equitable and legally enforceable./.

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