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Damages—Collateral Source Doctrine—Deductibility of Social Security Benefits in Mitigation of Damages for Breach of Employment Contract, United Protective Workers v. Ford Motor Co., 223 F.2d 49 (7th Cir. 1955)

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While employed by defendant Ford Motor Company, plaintiff elected to participate in a company annuity plan. Unknown to plaintiff, the plan provided for compulsory retirement at age sixty-five. When, pursuant to the terms of the plan, the company retired plaintiff solely because of age, plaintiff brought an action for breach of contract, contending that defendant’s action had violated a company-union collective bargaining agreement which provided that employees could not be discharged without cause. The Court of Appeals for the Seventh Circuit affirmed the judgment entered below for plaintiff, but modified the lower court’s computation of damages, holding that defendant should be permitted to deduct from the total award amounts received by plaintiff as social security benefits during the remainder of the term of the employment contract.1

The traditional common-law basis for computing damages for breach of contract has been to compensate for losses flowing from the breach, i.e., to place a plaintiff in as good a position as he would have been in had he been allowed to complete the contract.2 Thus, in keeping with the compensatory theory, the common-law rule for the measure of damages for breach of an employment contract has required a deduction of the employee’s net earnings from other sources during the remainder of the term of the contract from the amount he would have received had there been no breach.3 In those instances where the employee has had no earnings during the remainder of the contract term, the judgment will be reduced by the amount he would have been able to earn through the exercise of reasonable diligence in seeking other employment.4 Similarly, the measure of damages in tort actions has also been stated to be based upon compensatory principles,5 but under a well established exception—the collateral source doctrine—a tortfeasor will not be allowed to deduct in mitigation of damages

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1 United Protective Workers v. Ford Motor Co., 223 F.2d 49 (7th Cir. 1955).
2 Schottman v. Pressey, 195 F.2d 343 (10th Cir. 1952); Blair v. United States, 159 F.2d 676 (8th Cir. 1945).
3 Baer Bros. Land & Cattle Co. v. Palmer, 158 F.2d 278, 280 (10th Cir. 1946).
5 Phelps Dodge Corp. v. NLRB, 313 U.S. 177, 198 (1941); Republic Steel Corp. v. NLRB, 311 U.S. 7 (1940); 5 Williston, Contracts § 1358 (rev. ed. 1937).
6 McCormick, Damages § 187 (1935); Prosser, Torts § 2 (2d ed. 1955).
benefits received by a plaintiff from a collateral source. Thus, the question presented by the principal case is whether the collateral source doctrine should be extended to an action for breach of contract so as to preclude defendant from mitigating damages by deducting from the total award payments received by plaintiff as a result of social welfare legislation.

The basis for application of the collateral source doctrine in tort actions is that a tortfeasor should not be allowed to escape the consequences of his wrongful acts merely because his victim has received a benefit from a collateral source. A tort action usually involves fault of some kind, and, because of this, it is not surprising that the collateral source doctrine, with its punitive overtones, should have come into existence as an exception to the compensatory theory. On the other hand, the measure of damages for breach of the ordinary commercial contract has been developed so as to avoid the often futile determination of the degree of moral obliquity of the party who has breached. For this reason the collateral source doctrine has not generally been extended to actions for breach of contract.

In the principal case, the court was presented with the argument that the collateral source doctrine should be extended to a contract action because of the asserted authority of a line of cases involving the power of the NLRB to issue orders disallowing deduction of collateral benefits from back-pay awards to wrongfully discharged employees. It is to be noted, however, that under the NLRA, the

8. See note 7 supra.
10. 5 Corbin, Contracts § 1077 (1951).
11. 223 F.2d at 54.
12. The courts have upheld orders by the Board where deductions of collateral compensation benefits were disallowed from back-pay awards to wrongfully discharged employees. NLRB v. Marshall Field & Co., 129 F.2d 169 (7th Cir. 1942); see also NLRB v. Gullette Gin Co., 340 U.S. 361 (1951); Bang v. International Sisal Co., 212 Minn. 135, 4 N.W.2d (1942).
13. This reasoning simply refuses to trace the source of the benefits any further than the fund maintained by the state through taxes. Ibid. "How the State raise[s] the funds is a matter between the State and its taxpayers." NLRB v. Marshall Field & Co., supra at 173.
14. If a jurisdiction should adopt the position taken by the principal case and refuse to extend the collateral source doctrine, the foregoing reasoning could be applied to reject an argument by the employee that at least the amounts received from the social welfare fund which are attributable to taxes paid by him should not be deducted, since there is no logical basis of distinction between tracing the employee's taxes and tracing the taxes of the employer. Ibid. It is conceded, however, that a court might conclude that since the purpose of the welfare statute is to alleviate hardships of the employee, his taxes should be traced so as to preclude deduction by the employer.
15. The courts have upheld orders by the Board where deductions of collat-
Board has power to issue such orders as will effectuate the policies of the act. So broadly has this power been interpreted that it is apparently within the discretion of the Board to change the common-law measure of damages if such a change could fairly be said to effectuate the policies of the act. If this is true, it would appear that the court in the principal case properly determined that cases involving proceedings to enforce an order of the NLRB were not controlling in a common-law action for damages for breach of an employment contract.

The precise question presented by the principal case appears to have arisen in only two other cases, neither of which was argued before the instant court or cited in the briefs. In Bang v. International Sisal Co. and in Billetter v. Posell, which were common-law actions for breach of employment contracts, it was held that unemployment benefits from back-pay awards were disallowed in cases where the benefits consisted of groceries received from a labor union while the employee was unemployed, see NLRB v. Brashear Freight Lines, Inc., 127 F.2d 198 (8th Cir. 1942), and unemployment compensation payments, NLRB v. Gullett Gin Co., 340 U.S. 361 (1951); NLRB v. Marshall Field & Co., 129 F.2d 169 (7th Cir. 1942), aff'd, 318 U.S. 256 (1945).

Under the NLRA, see note 13 infra, however, the NLRB has issued orders pursuant to § 10(c), see note 14 infra, both allowing Mannato v. Dutch Sales Co., 14 CCH Lab. Cas. ¶ 64,418 (D.N.J. 1948) (unemployment compensation); Hopper v. Republic Steel Corp., 11 CCH Lab. Cas. ¶ 63,404 (N.D. Ala. 1946) (unemployment compensation), and denying, In the Matter of Walter Stover, 15 N.L.R.B. 633, 634 n.28 (1939) (unemployment compensation); In the Matter of Oil Well Mfg. Corp., 14 N.L.R.B. 1114, 1129 n.9 (1939) (work relief project payments), deductions of benefits received from government social welfare agencies. Since Congress has reenacted the pertinent parts of § 10(c) without change, it has indicated its approval of the Board's interpretation of its discretion under the section, NLRB v. Gullett Gin Co., supra.

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compensation benefits are not deductible in mitigation of damages. The reasoning of these cases recognizes that the purpose of unemployment compensation benefits is to alleviate distresses of unemployment, 18 and not to relieve employers of amounts to be paid as damages. Therefore it would seem that although a plaintiff should not be made more than whole, 19 his employer should not be allowed to place the burden of his breach of contract upon the unemployment compensation fund. 20 This reasoning could as well be applied to social security benefits. 21 The purpose of these benefits is to alleviate financial difficulties resulting from the inability of many aged persons to earn a living. 22 This purpose would appear to be complemented by a policy encouraging continued employment of elderly workmen for as long as it is practicable for them to work. Such a policy would be defeated if the employer is allowed to place the burden of his breaches of contract upon the social security fund.

The solution to the problem whether mitigation should be allowed depends upon a reconciliation of the compensatory theory of damages 23 with the policies of the social welfare program. 24 It has been proposed that, in order to preserve the compensation theory and at the same time give effect to the policies of the welfare statutes, a theory of subrogation or reimbursement of the government agency be adopted. 25 Thus, the amount received by the employee as social security benefits would be deducted from his measure of damages and paid by the employer to the government agency administering the program. This proposed solver of the problem appears to coincide with the purposes of the law and should be adopted. Society can have its cake and eat it too. Whether this may be accomplished by court decision is perhaps another problem, 26 but if the courts cannot presently effect such a scheme, then legislative authorization is indicated.

18. Many of the unemployment compensation acts have similar statements of public policy. See, e.g., ILL. REV. STAT. c. 48, § 300 (1955).
19. 223 F.2d at 53; 5 WILLISTON, CONTRACTS § 1335 (rev. ed. 1937).
20. See notes 16 & 17 supra; Republic Steel Corp. v. NLRB, 311 U.S. 7, 14 (1940) (dissenting opinion); see also 4 NLRB ANN. REP. 100 (1939).
21. While it is realized that certain administrative differences as to eligibility for benefits exist between the social security system and the unemployment compensation programs, it is nevertheless submitted that the same policy considerations are applicable to each.
23. See text supported by notes 2-6 supra.
24. See notes 18 & 22 supra and text supported thereby.
26. In Republic Steel Corp. v. NLRB, 311 U.S. 7 (1940), the Supreme Court refused to enforce a back-pay order of the Board which not only directed deduction of work relief project payments but also directed the amount deducted to be paid to the relief project agency. The Court said that the Board is without power to impose a penalty upon the employer. But the vitality of this case seems to have been greatly diminished by NLRB v. Gullet Gin Co., 340 U.S. 381 (1951) where it was held that the Board had power to prohibit entirely the deduction of unemployment compensation benefits.