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The Role of Judicial Precedents in Achieving Economic Balance Between Contracting Parties: From Theory to Practical Function in Contract Law

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ABSTRACT

The present article examines the role of judicial precedents in achieving economic balance between contracting parties within the framework of contract law. The main issue addressed in this study is that, despite the existence of civil and commercial laws as well as consumer protection regulations, the realization of economic justice and protection of the weaker party in contracts faces considerable challenges in practice in Iran. The primary objective of the research is to identify the legal instruments and judicial practices that effectively promote economic balance and to conduct a comparative analysis with the legal systems of France, Germany, and the United States. The research method is descriptive-analytical, employing domestic and international legal sources, judicial decisions, international instruments such as the CISG and UNIDROIT Principles, and comparative evaluation of domestic and foreign precedents. The findings indicate that, although Iranian legislation provides the initial tools for protecting the weaker contractual party, legislative gaps, enforcement limitations, and the absence of unified judicial practice have hindered the full realization of economic balance in practice. Comparative analysis with France, Germany, and the United States reveals that coherent, dynamic, and principle-based judicial precedents can play a significant role in protecting weaker parties and establishing economic justice. Moreover, the incorporation of international instruments enhances alignment with global standards and increases the legal security of contracting parties. The study demonstrates that, to improve the practical performance of Iran's judiciary, it is necessary to provide judicial training, develop guidelines, and promote judicial consistency to ensure that economic justice is achieved in a systematic and continuous manner. The findings further suggest that international experience can serve as an effective guide for reforming domestic judicial practices and adapting laws and procedures to evolving economic and social conditions. This research, through its practical and comparative analysis, underscores the importance of integrating domestic and international law to achieve economic justice and shows that judicial precedents can become an effective mechanism for protecting the weaker party in contractual relationships.

Keywords: *judicial precedents, economic balance, contracting parties, contract law.*

Introduction

In contractual relations between parties, achieving economic balance has always been one of the main concerns of legal systems. Contracts, as the primary instruments for regulating economic and commercial relations, may lead to exploitation or economic injustice in the absence of equilibrium between the parties' rights and obligations. In the Iranian legal system, as in many other countries, civil and commercial laws have sought to establish frameworks for defining the obligations and rights of contracting parties to prevent such inequalities (1). However, the mere



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existence of legislation does not guarantee economic justice, and the role of judicial precedents in realizing this objective is of great significance.

Judicial precedent, as one of the key sources shaping contract law, enables the realization of economic justice by interpreting legislation and establishing enforceable standards. In legal scholarship, the notion of economic balance is often associated with concepts such as equity, good faith, and distributive justice (2). These concepts become particularly important in contracts where the bargaining power of the parties is unequal, since the weaker party may be compelled under economic pressure to accept terms favorable to the stronger party.

Comparative studies indicate that advanced legal systems, such as those of France and Germany, have adopted specific mechanisms to address economic imbalance in contracts. For example, the theory of *lésion manifeste* in French law and the *Wegfall der Geschäftsgrundlage* (change of circumstances) rule in German law allow courts to modify or even terminate contracts when they result in economic injustice (3-5). These experiences highlight the importance of an active and dynamic judiciary in protecting the weaker party to a contract.

In Iran, the Supreme Court and other courts, through the interpretation and application of civil and commercial statutes, have occasionally sought to uphold economic balance. Article 230 of the Civil Code, which refers to the balance between the parties' rights and obligations, and Article 10 of the Consumer Protection Act are examples of existing legal frameworks through which judicial practice can secure economic justice. However, the absence of consistent and unified precedents in some cases has led to legal uncertainty and limited the full realization of economic balance.

The aim of this study is to examine the role of judicial precedents in achieving economic balance between contracting parties. To this end, the theoretical foundations of economic balance in contracts are first explored, followed by an analysis of domestic judicial precedents and comparative examples from other legal systems. The influence of international instruments and judicial practices on the development of domestic case law and the practical challenges of achieving economic balance in Iran are also discussed. Building on these analyses, the study seeks to clarify both the theoretical dimensions and the practical functions of judicial precedent in supporting contractual fairness and to propose solutions for improving its effectiveness.

Theoretical Foundations of the Study

Economic balance in contracts refers to a state of equilibrium between the rights and obligations of the parties such that neither party suffers an unfair detriment. This concept has long been recognized in Iranian and international legal literature and has served as the foundation for numerous theories and judicial practices. From the perspective of contract law, economic balance ensures not only justice and fairness but also the stability and efficiency of contracts. Contracts concluded under economic imbalance often lead to legal and economic disputes and threaten legal security and mutual confidence between the parties (1).

The concept of economic balance in contracts is intertwined with several legal and philosophical theories. The theory of distributive justice, in particular, emphasizes that resources and benefits derived from contracts should be distributed in a way that prevents unfair inequalities (2). This perspective manifests in contract law, as contracts are the primary means for realizing economic benefits; where inequality between the parties exists, the contract fundamentally lacks justice. Beyond distributive justice, the concept of equity has also been regarded as an essential criterion for assessing economic balance in Iranian and comparative legal literature. Equity, especially in

situations where statutory rules provide insufficient guidance, serves as a judicial tool for correcting contractual terms and restoring equilibrium between the parties (2).

The principle of good faith constitutes another major theoretical foundation for achieving economic balance. In the Iranian Civil Code, Article 233 emphasizes the observance of good faith in the performance of contracts, empowering courts to intervene when the stronger party abuses its superior position. Good faith is also recognized in private international law and international contracts as an indicator of fairness and economic justice; for instance, the United Nations Convention on Contracts for the International Sale of Goods (CISG) explicitly requires fair dealing and good faith in the performance of contractual obligations (3, 6).

The role of judicial precedent in realizing economic balance is equally critical. Legislation merely provides the initial legal framework and often requires interpretation and adaptation by the courts in specific circumstances. Judicial practice, by analyzing the real economic conditions of the parties and implementing case-specific justice, can correct contractual inequalities. In Iran, the Supreme Court and lower courts, relying on statutory provisions and general legal principles, have established precedents supporting the weaker contracting party. For instance, in a case concerning the sale of property under inequitable terms, the Supreme Court invoked Article 230 of the Civil Code to adjust the contractual provisions in favor of the aggrieved party.

Comparative research also demonstrates that other jurisdictions maintain similar approaches to promoting economic balance through case law. In France, the doctrine of *lésion manifeste* allows courts to modify or annul contracts whose terms create excessive pressure or unjust inequality on the weaker party (5). In Germany, the *Wegfall der Geschäftsgrundlage* rule fulfills a similar function, enabling courts to adjust contractual terms when significant economic or social changes occur (4). In the United States, the principle of *unconscionability* empowers courts to void or revise contracts that manifestly produce economic injustice (7).

In Iranian law, the application of these doctrines and judicial approaches remains limited and largely case-specific. Although statutory instruments such as Article 230 and the principle of good faith provide a legal foundation for protecting weaker parties, the absence of uniform and dynamic jurisprudence continues to hinder the full realization of economic balance. Both academic and practical critiques suggest that the lack of a clear framework for adjudicating cases involving economic imbalance undermines legal certainty and may adversely affect market confidence (1).

Beyond domestic theory and practice, international instruments and case law also play a vital role in shaping national judicial reasoning. The CISG and the UNIDROIT Principles, by offering clear legal standards, assist judges and arbitrators in applying economic justice and protecting weaker parties in international commercial contracts (3, 4). These frameworks are particularly significant in transnational commerce, as ensuring economic balance fosters trust and reduces financial risk.

Overall, the theoretical foundations of this study indicate that economic balance in contracts is a multidimensional concept grounded in distributive justice, equity, and good faith. Its realization is incomplete without the support of active and coherent judicial precedent. Comparative analysis of various legal systems further underscores that a dynamic and reliable jurisprudence plays a pivotal role in safeguarding weaker contracting parties and enhancing legal security. The following sections of this research analyze domestic and international judicial precedents to elucidate how economic balance can be practically achieved and what challenges persist in the Iranian context.

Domestic Judicial Precedents

In the Iranian legal system, judicial precedents play a crucial role in achieving economic balance between contracting parties, since civil and commercial laws alone cannot guarantee economic justice in all cases. From this perspective, courts—and particularly the Supreme Court—provide essential instruments for protecting the weaker contractual party through the interpretation and application of legal provisions. The Civil Code of the Islamic Republic of Iran, as the cornerstone of contract law, establishes frameworks for maintaining balance and fairness in contracts through various provisions, such as Articles 230 and 333. Article 230, which addresses the issue of “unreasonable hardship imposed on the counterparty under abnormal contractual conditions,” authorizes judges to modify the contract when clear inequity exists. Likewise, the principle of good faith in the performance of contracts, enshrined in Article 233 of the Civil Code, directly influences the fair execution of economic obligations and facilitates judicial protection for the weaker party (1).

The Commercial Code also contains provisions that support economic balance. For instance, Article 104, which regulates commercial contracts and their conditions, authorizes courts to revise or annul contracts that are structured unfairly. These provisions, alongside general legal principles such as justice and equity, form the foundation of judicial practice in Iran (2).

Analysis of sample court rulings indicates that judges have in practice relied on these statutory provisions to adjust contractual terms. In a case concerning the sale of real estate under unbalanced conditions, the Supreme Court, invoking Article 230 of the Civil Code, modified the contract to protect the weaker party's rights. In another case involving a lease contract with an inequitable rental rate, the Court of Appeals, applying the principle of good faith and Article 333 of the Civil Code, revised the contractual terms to restore economic equilibrium (1).

The Supreme Court's role in establishing consistent precedent is particularly significant. Through its *unification rulings* (ahkam-e vahdat-e rooyeh), the Court seeks to standardize judicial responses to unbalanced contracts and minimize interpretive discrepancies. For example, Unification Ruling No. 785 of the General Board of the Supreme Court (2011) addressed economic injustice in sales contracts and emphasized that, where a contract imposes economic hardship on the weaker party, courts must adjust the terms in accordance with Articles 230 and 233 of the Civil Code (2). This precedent established a unified judicial approach in similar cases, thereby enhancing legal certainty.

A key feature of domestic judicial practice is the courts' attention to the actual economic circumstances of the parties. Beyond statutory interpretation, judges also analyze the parties' financial situations, access to contractual information, and behavior during negotiations. This contextual and pragmatic approach enables the application of substantive economic justice. In a case involving a construction contract, the court evaluated the sharp rise in material prices and its impact on the weaker contractor, adjusting the terms accordingly to mitigate the adverse effects of economic imbalance (1).

In addition to civil and commercial statutes, the Consumer Protection Act also plays an important role in maintaining economic balance. Article 10 of this Act explicitly states that contractual terms must not impose unjust harm on consumers and authorizes judicial bodies to modify or terminate contracts under such circumstances. This provision serves as a significant tool for protecting weaker parties, particularly in contracts for goods and services, and has shaped consistent judicial practice (7).

Analysis of domestic precedents further reveals that courts sometimes fill legislative gaps by relying on general legal principles and purposive interpretation. This approach is especially relevant in emerging or international contracts. For instance, in a case involving an import agreement, the Commercial Court of Tehran invoked general legal principles and economic justice to revise contractual terms in favor of the weaker party (2). These examples illustrate that judicial precedent, even in the absence of explicit statutory guidance, can serve as an effective instrument for achieving economic balance.

Another important aspect of domestic judicial precedent is its alignment with international standards. In international contracts, Iranian courts and arbitral tribunals frequently draw on the UNIDROIT Principles and the CISG to uphold economic equilibrium between the parties. This practice not only enhances consistency with the international legal order but also strengthens legal security in cross-border transactions (3, 4, 6).

Despite these advances, challenges persist in domestic judicial practice. The absence of consistent precedent in certain areas, limited access of weaker parties to judicial protection, and variations in judicial interpretation have all impeded the full realization of economic balance. Scholarly critiques emphasize that developing clear judicial guidelines and standardized procedures for contract adjustment would enhance protection for weaker parties (1).

Overall, analysis of domestic judicial precedents demonstrates that Iranian courts and the Supreme Court, through the application of civil, commercial, and consumer protection laws—along with the interpretation of general legal principles—have sought to preserve economic balance between contracting parties. Examination of selected rulings and unification decisions shows that the role of judicial precedent in achieving economic justice is both theoretically fundamental and practically indispensable.

Comparative Study

In the French legal system, the concept of *manifest imbalance* (*déséquilibre significatif*) in contracts is recognized as one of the key instruments for maintaining economic equilibrium between contracting parties. This doctrine empowers courts to revise or annul contracts that unjustly grant one party an excessive advantage over the other. In such cases, courts particularly intervene when contractual conditions impose unfair economic pressure on the weaker party, modifying the terms to restore fairness (5). Numerous cases demonstrate that in lease and sales contracts, French courts have assessed the real economic circumstances of the parties and revised unbalanced clauses accordingly. This practice provides both a strong theoretical foundation and practical mechanism for protecting weaker parties, thereby enhancing economic trust and market stability (4).

In Germany, the doctrine of *change of circumstances* (*Wegfall der Geschäftsgrundlage*) plays a similar role in ensuring economic balance. According to this rule, when economic or social conditions change to the extent that performance of the contract becomes inequitable for one of the parties, courts are authorized to modify or terminate the contract (4). This principle introduces legal flexibility while simultaneously promoting economic justice in contractual relations. For instance, in construction and sales contracts, drastic fluctuations in the prices of raw materials or market instability have prompted German courts to adjust contractual terms to protect the weaker party. This adaptive and pragmatic approach allows the law to respond to real-world economic transformations and prevents the emergence of economic injustice (3).

In the United States, the doctrine of *unconscionability* serves as one of the most significant judicial tools to address unequal and unfair contracts. It authorizes courts to invalidate or modify contracts that clearly impose economic pressure or hardship on the weaker party (7). In practice, American courts evaluate the overall fairness

of the contract, the conduct of the parties, and the weaker party's access to information and resources before applying economic justice. This doctrine is particularly relevant in consumer contracts and international transactions, helping to establish genuine economic balance between parties (6).

A comparative analysis of these systems with Iranian law reveals that, although Iran possesses certain statutory instruments for supporting economic balance—such as Articles 230 and 233 of the Civil Code and Article 10 of the Consumer Protection Act—the absence of consistent and dynamic judicial precedent poses limitations. In France and Germany, judicial practice systematically and regularly adjusts unbalanced contracts, while in Iran, judicial protection of weaker parties remains sporadic and case-specific (1). Nevertheless, international experience provides a valuable model for developing Iranian jurisprudence. For example, in international contracts, Iranian courts can apply the approaches of France and Germany through the adoption of the UNIDROIT Principles and the CISG to enhance economic balance (3, 4). The application of these international frameworks not only ensures economic justice but also strengthens the alignment of domestic law with global standards and reduces contractual risk.

Comparative analysis indicates that the central factor in achieving economic balance lies in the presence of an active, dynamic, and predictable judiciary. In France, the doctrine of *manifest imbalance* clearly defines the criteria for economic justice and obligates courts to enforce it. In Germany, the doctrine of *change of circumstances* provides the flexibility required for contractual adjustment. In the United States, the principle of *unconscionability* offers an adaptable tool applicable across diverse economic and social contexts. By contrast, while Iran's statutory law supports fairness, the lack of unified and consistent judicial practice limits its effectiveness in comparative perspective (2).

An essential aspect of this comparison is the courts' attention to the real economic and social circumstances of the parties. In the jurisdictions examined, the courts' evaluation of the weaker party's actual economic status is an integral component of adjudication. This ensures that economic balance is achieved not only through formal legal provisions but also through consideration of the practical and economic consequences of contractual relations. In Iran, similar interpretations have emerged in cases involving real estate sales and construction contracts where courts, acknowledging the weaker party's financial condition, have modified contractual terms. However, the absence of consistent judicial practice has limited the systematic application of this approach (1).

The experience of foreign jurisdictions demonstrates that judicial guidelines and directives play a significant role in strengthening economic balance. In France, judicial guidelines concerning *manifest imbalance* provide concrete criteria for identifying unfair contractual terms. In Germany, procedural guidance related to *change of circumstances* defines stages and standards for contract modification. In Iran, the development of comparable judicial instructions could enhance legal predictability and facilitate protection of weaker parties (1).

From a comparative standpoint, the most important conclusion is that an active and dynamic judicial system enhances legal certainty and reduces economic disputes. While Iran possesses supportive statutory frameworks, institutionalizing consistent case law and unified jurisprudence remains a crucial step. Adopting the experiences of France, Germany, and the United States can strengthen Iran's domestic judicial practice and improve the realization of economic balance. This issue is particularly vital in international commercial and economically asymmetric contracts, where economic balance safeguards both economic stability and social justice.

In conclusion, the comparative study reveals that to improve Iran's judicial practice in achieving economic balance, it is essential to incorporate international experiences, develop judicial guidelines, and establish unified

precedent. These measures would not only enhance protection for weaker parties but also increase legal certainty, reduce economic risk in contractual relations, and promote alignment with international legal standards.

Challenges and Practical Function in Iran

The realization of economic balance between contracting parties in Iran faces a set of legal, procedural, and cultural challenges that complicate the practical enforcement of economic justice. One of the most significant barriers is the existence of legislative gaps and limitations. Although Articles 230 and 233 of the Civil Code and Article 10 of the Consumer Protection Act provide initial tools for protecting the weaker party, they lack sufficient detail to establish clear criteria for identifying economic injustice. This legislative shortcoming has compelled judges to rely on broad and individualized interpretations, which in turn has led to inconsistency and a lack of uniform precedent across courts (1).

In addition to legislative shortcomings, procedural obstacles also significantly limit the effectiveness of judicial practice. A major challenge is the scarcity of resources and reliable data regarding the actual economic conditions of the parties. In many cases, the absence of accurate financial and economic documentation forces judges to make determinations based on conjecture or incomplete evidence, thereby reducing the potential for achieving economic balance (1). Furthermore, the absence of standardized judicial guidelines for identifying unequal contractual conditions has resulted in inconsistent criteria being applied by different courts or judges, leading to unpredictability and diminished economic confidence (2).

Another critical limitation lies in judges' restricted capacity to invoke general principles of economic justice. In Iran, judges are required to rely primarily on statutory texts and possess limited discretion to interpret or apply overarching principles of equity and fairness. Although Articles 230 and 233 of the Civil Code, particularly the principle of good faith, provide mechanisms for adjusting contracts, the lack of clear judicial directives and unified precedent prevents their effective application in practice (2). Consequently, in some cases, economic inequalities remain uncorrected, and economic justice is not fully realized.

Judicial performance has also been criticized for its excessive emphasis on contractual stability at the expense of fairness. In several real estate sales and construction cases, courts have declined to revise unfair terms, relying solely on the text of the contract and thereby neglecting the weaker party's rights. This approach has resulted in economic injustice and dissatisfaction among contracting parties (1). Scholarly critiques underscore the necessity of establishing standardized judicial guidelines and training programs to strengthen judicial sensitivity to economic fairness (1). Moreover, practical constraints such as limited access to economic data, time pressures, and heavy caseloads hinder judges' ability to conduct thorough analyses of the parties' economic conditions. This issue is particularly critical in complex commercial and international contracts, where financial data are extensive and require specialized evaluation (3).

Another challenge concerns the lack of coherence between different legal regimes and the absence of consistent judicial precedent for similar cases. For example, Article 10 of the Consumer Protection Act explicitly protects consumers, whereas comparable protections are absent in international or commercial contracts. This inconsistency makes it difficult for non-consumer parties to claim equitable treatment, leading to fragmented judgments and reduced predictability in judicial decisions (1).

Drawing on international experience, many advanced jurisdictions have mitigated similar challenges by formulating judicial guidelines and promoting unified case law. France, through the doctrine of *manifest imbalance*,

and Germany, through the *change of circumstances* rule, have successfully developed clear frameworks for protecting weaker parties. In contrast, Iran still requires the formulation of practical judicial instructions and specialized judicial training for the effective interpretation of economic justice principles (4, 5).

A further dimension of these challenges relates to cultural and institutional constraints influencing judicial reasoning. In some cases, traditional judicial attitudes emphasizing contractual stability and reluctance to establish new precedents prevent courts from making necessary adjustments to maintain economic balance. This conservative perspective, particularly evident in small and medium-sized commercial contracts where weaker parties have limited defense capacity, exacerbates economic inequality and reduces confidence in the judiciary (2).

Ultimately, the convergence of legal, procedural, and cultural barriers restricts the practical effectiveness of judicial precedent in Iran. Nonetheless, several successful cases demonstrate that the realization of economic justice is achievable through the development of judicial guidelines, enhanced judicial training, and the establishment of consistent precedent. These examples show that protecting the weaker contractual party requires not only legislative reform but also the cultivation of an active, dynamic, and coherent judicial system capable of ensuring sustained economic balance (1).

Conclusion

The findings of this study indicate that judicial precedents, both in Iran and in foreign legal systems, play a pivotal role in achieving economic balance between contracting parties. In Iran, civil and commercial statutes, together with the Consumer Protection Act, provide a framework for protecting the weaker party; however, legislative gaps, procedural constraints, and the absence of unified judicial practice have rendered the practical implementation of these laws incomplete and unpredictable. Analysis of judicial decisions shows that, although courts have occasionally succeeded in restoring economic justice, such rulings are often isolated and inconsistent, underscoring the need for standardization.

A comparative review of France, Germany, and the United States reveals that consistent, dynamic, and principle-based judicial precedents are highly effective in protecting weaker parties. The doctrines of *manifest imbalance* in France, *change of circumstances* in Germany, and *unconscionability* in the United States represent successful applications of comparative law to promote economic fairness. Furthermore, the incorporation of international instruments such as the CISG and the UNIDROIT Principles has significantly enhanced the alignment between domestic legislation and global standards while improving the legal security of contracting parties.

Ultimately, the analysis of domestic challenges demonstrates that legislative shortcomings, limited judicial discretion, the absence of procedural guidelines, and inconsistent judgments have collectively reduced the effectiveness of judicial practice in ensuring economic balance. Nevertheless, both successful domestic cases and international experiences suggest that, through targeted reforms, judicial training, and the establishment of unified precedent, it is indeed possible to achieve sustainable economic justice between contracting parties.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adhered in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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