

# Relationship between Riba and Currency Devaluation Compensation<sup>1</sup>

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## **Abstract:**

One of the challenging subjects in Islamic economics is necessary or unnecessary compensation for currency devaluation in exchanges (especially in loan). In this article, eight reasons have been presented for necessity of currency devaluation compensation. On the basis of finding of this article, to sum up, currency devaluation compensation is far from definition of usury and it should be compensated necessarily. Acceptance of this term in economy will lead to changes in economic exchanges of which the minimum result will be more suitable distribution of income and wealth and non acceptance of currency devaluation compensation in term exchanges will alter justice recommended in Islam.

## **Key words:**

Islamic economics, usury, currency, inflation, power of currency purchase

**JEL Classification:** E31, P49, E58, E43, E42

## **Introduction:**

One of the main subjects in Islamic economy is study on ration of usury to currency devaluation compensation. In some countries, rate of inflation is high, for example In Iran which average inflation rate has been 20% during the last 30 years (that is prices have been averagely multiplied by 240 in the last 30 years) on the one hand and currency devaluation compensation is regarded usury on the basis of traditional definition of usury on the other hand, the fact that devaluation compensation is considered as usury causes the holders of interest free deposit to face continual and evident devaluation and then cause the holders

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of fixed salary and cash asset to have zero purchasing power over time and some will benefit (including government and then owners of estates) and some will lose. The incurred loss will be the same as the benefit of some beneficiaries leading to poverty of the poor and wealth of the rich and violation of rule of dominance in private ownership. On the basis of traditional jurisprudence, compensation for currency devaluation is regarded the same as inflation rate and non compensation will lead to undesirable consequences. In this article, this traditional attitude has been challenged and we can say that compensation for decrease of purchasing power which is the same as inflation rate is not only usury but also necessary with regard to economic changes in the current era and this is closer to justice recommended in religious law.

With regard to the mentioned material, importance of currency devaluation compensation is made evident. In fact, this article seeks to answer this question whether currency devaluation compensation is one of the usury evidences or not and if it is necessary to compensate it in transaction (especially in term transaction)?. Substantive hypothesis of this research is that compensation for purchasing power decrease in transaction (especially in loan) is necessary.

#### **Review of literature:**

Regarding usury or currency devaluation and its related issues, there are abundant economic literatures. Regarding subject matter in the present article which studies relationship between them, the related literature relates to the recent 30 years. Its reason is that this subject has not been raised as main and serious subject in the past. In Sunnite world, the above issue has not been seriously raised. Perhaps, the main reason is that this issue becomes important in the country like Iran which usury free banking has been executed completely due to close relationship between currency devaluation compensation and usury free banking. In fact, by study on history of Islamic banking in world of Islam especially in literature of Sunnites, we notice that history of Islamic banking is divided into two periods: firstly, when it has been raised as an ideal form and secondly, when it has been realized. Principle of attention to usury free banking idea is found in book Anvar Eghbal Goreishi (1946) (Naem Sadighi 1948) and Mohammad Ahamd (1952) and consequently, professional elaboration of Mododi in 1950(1961) and writings of Mohammad Hamidollah in 1944, 1955, 1957 and 1967 are included in this group. In all of these works, bailment means participation on the basis of profit and loss was suggested as main mechanism for usury free banking idea (Abdolghafoor, 1955). In the next two decades, usury free banking attracted many attentions; efforts of researchers about this subject started in this period. The first works related to Mohammad Azir (1955) and afterward, Abdollah Arabi (1967), Nejatollah Sadighi (1961, 1969) and Alnajar (1971) and Sadr (1961, 1974) published works in this field in late 1960s and early 1970s(Sadighi 1997, P222).

These governmental efforts and assistances led to application of theory in reality and the first usury free bank i.e. Islamic Development Bank was born out of this process in 1975. afterward, different researches were published in the field of usury free banking. Works done by Mir Akhor (1989), Farokh Omar(1985), Khan (1986), Asef Ahmad (1997), Motahari(1403 AH), Mosaei(1998, 1999, 2001, 2003, 2004), Adib Soltani (1996, Bakhtiari (1996), Beheshti (1989), Taskhiri (1996), Tootonchian(2000) , Davoodi (1995),

Marzban(1977), Mesbahi (1997), Hedayati (1996), Yousefi (1998), Aref Mohammad ( 1988) and Musai (1997, 2001) belong to this category.

The first private usury free bank was Dubai Islamic bank which was established in 1975 by a group of Muslim merchants from many countries. Afterward, two other private banks called Feisal Islamic Bank were established in Egypt and Sudan. In the same year, Kuwait government established Kuwait Finance House.

But before this date, usury free banking has been available in small and limit scale such as banking in Malaysia in the middle 1940s and another one in Pakistan in the late 1950s.

With regard to these experiences, Naser Social Bank was established in 1972 which is available now and its goals are social rather than commercial. During the next 10 years, more than 50 usury free banks were formed out of establishment of the first private commercial bank in Dubai. Most of these banks are in Muslim countries. But many are available in West Europe in Denmark, Luxemburg, Switzerland and England. In 1983 and 1984, many banks were established but afterward, the number of these banks has decreased.

In many countries, establishment of Islamic banks was under control of private section but in Iran and Pakistan, this was delegated to the government. Governments of both countries took action regarding establishment of usury free banks in 1981. In 1 Jan. 1981, all commercial banks inside Pakistan were permitted to accept deposits on the basis of participation in loss and profit.

In 1 Jan. 1985, new actions were taken in Iran to convert bank system to Islamic banking or usury free banking within 6 months. Since 1 Jan. 1985, no bank accepted interest deposit and all available deposits were liable to participation in loss and profit, however, some operations could have been based on the old system. In Iran, administrative actions were taken in February 1981 to omit interest from banking operations. Interest of all assets was liable to maximum rate of 4 % for services expense and profit equivalent to 4 to 8% was paid to it.

Deposit interest was converted to the minimum guaranteed deposit interest. A fourteen – month transitional period started from January 1984.

In March 1985(1363 AH), all banking system was converted to interest free system (Abdolghafoor , 1995, P 2&3).

Subject of the writings and conferences in 1980s was assessment of performance of interest free banking operations and their effects on economy of the countries and on economy of the world. Titles of conferences and meetings which were held indicated interest of the entire world in this subject. Conference on Islamic Banking and its Effects on World Financial and Commercial Procedures was held in London in September 1984. In June 1986, International Conference on Islamic Banking was held in Tehran. In September 1984, International and Islamic Financial Conference on Current Subjects and Future Perspectives was held in Washington. In October 1986, an Islamic Banking Conference was held in Geneva. In 1988, a conference titled "toward 1990s with Islamic Banking " was held in London. In early 1992, Training Workshop of Usury Exclusion from Economy was held in Islam Abad and usury free banking performance was studied (the same, P4).

As observed, in Sunnite world, they didn't try to implement usury free banking. For this reason, they have not faced some special problems of usury free banking which may occur

at time of inflation. For this reason, issue of currency devaluation and the fact that it is regarded as usury or not have not been seriously considered. But in Iran, issue of currency devaluation and its relationship with usury have been considered.

Writer tried to consider currency devaluation out of usury in 1996 by mentioning four reasons (Musai, 1998, P97-126). Some jurisprudents regarded currency purchasing power as replaceable qualities of currency and made conclusion about its compensation. (Hashemi Shahroodi, 1996, P52-99).

The issue has been so important that some jurisprudents have pronounced judgment about this case or made comments in this regard. The previous jurisprudents have not referred to currency devaluation compensation in debts and term transactions. This is natural because issue of continual and evident devaluation over time is one of the issues at present era. Among the contemporary jurisprudents before Islamic Revolution, only the late Sadr has paid attention to this issue and regarded compensation for currency devaluation in banks as necessary (Sadr, 1399 AH, P 27 and 26).

After Islamic Revolution through which Islamic regime was established in Iran and jurisprudents were involved more directly in changes and economic conditions, usury free issue was seriously raised. More attention was paid to necessary or unnecessary compensation of currency devaluation in term transaction. If we want to classify judgments of the jurisprudents in this regard, we find that they are divided into three groups:

First group doesn't allow devaluation compensation at all and includes Fazel Lankarani, Haj Sheikh Javad Tabrizi and Sistani.

Second group allows devaluation compensation in all transactions or some transactions conditionally. Makarem Shirazi, Fatemi Abhari and Behjar are among this group.

Third group necessitates devaluation compensation in all transactions. Sanei, Montazeri and Bojnordi are among this group.

Argument of those who regard devaluation compensation as usury is based on the fact that they know currency as replaceable things and believe that its equivalent is sufficient for settlement of debt and the second argument is based on observance of equity in exchanges and precaution and the third argument is based on money as non replaceable and reliance on the original has no harm.

It seems that one can mention sufficient reasons which can justify the third attitude. In this article, eight reasons have been given for proving the third attitude which is in fact indirect criticism of other attitudes.

#### **Reasons for devaluation compensation:**

##### **First reason:**

**Custom considers money purchasing power in flagrant changes as replaceable qualities. In this case, custom and tradition of the wise don't rely on repayment of the equivalent with lower value.**

Basis of this argument is on inclusion of modern purchasing power as changeable and what proves this case is that the jurisprudents regard the indebted person as responsible for the price in case that price of the borrowed goods or the seized goods and the like falls.

**Second reason:**

**Any loan which leads to interest and profit is usury. Paying compensation for money devaluation in loan is not regarded as interest. Therefore, it is not usury because it is not regarded as interest by assuming possessory equality and value.**

Although this argument is in loan, it is not so difficult to transmit it to other debts by proving it in loan and requires acceptance of this assumption that any nominal additional value of capital and loan isn't regarded as interest. It seems that general and particular custom don't regard any additional value as interest but non compensation of devaluation in many debts such as in loan or sale is considered by custom and doesn't regard nominal payment sufficient for payment of debt.

**Third reason:**

**Usury is any additional actual receipt and payment of interest in transaction and loan with the previous condition. For devaluation in transactions and loan, additional value is not interest and it is not considered as usury.**

This argument is based on this definition that usury is considered as actual additional receipt of interest in exchanges due to oppressive nature of usury and emphasis of Quran on its oppressiveness. In actual property, additional amount means actual additional amount. The said definition is possible for the usury with regard to criterion of banning usury on loan which is oppression and there is no doubt left in authenticity of the argument by assuming acceptance of the said criterion.

**Fourth reason:**

**In a systemic attitude, non compensation for currency devaluation is not consistent with usury banning philosophies.**

Importance of this argument will be evident when we notice that we need for systematic attitude to all religious factors in economic field for establishment of Islamic system in the society, because one can not establish a system in which tools are incompatible with methods and goals. Such problem results in system incompatibility and causes to destroy system gradually. In such attitude, we can not seek to ban usury and not pay attention to its philosophy.

In any way, basis of the mentioned argument requires acceptance of this principle that we should have systemic attitude for establishment of Islamic economic system and this systemic attitude requires for paying attention to philosophy and goal of banning and general goals of Islamic system. Main claim of this argument is that usury banning philosophies are not compatible with non compensation for devaluation in a systemic attitude. Philosophy and reasons for banning usury can be studied in three levels:

The lowest level is to pay attention to ethical aspects of usury banning which include growth of human emotions and interest free promotion.

The second level includes economic –ethic aspects of which we can mention prevention from profitability promotion and business and useful activity promotion and keeping balance of society.

The most excellent level which controls nugatory affairs relate to legal-economic aspects of usury banning on which basis philosophy of justice and lack of oppression and prevention from multiplication of wealth are of the most important cases.

It seems that all three levels of reasons and philosophies of usury banning are more compatible with compensation for devaluation rather than non compensation for devaluation. Even one can claim that non compensation for devaluation is in conflict with three levels of reasons and philosophies of usury banning, because when devaluation is compensated, it is more likely to increase interest free and realize other reasons and philosophies mentioned for usury banning.

**Fifth reason:**

**Goods being appraisable over time requires for compensation for its purchasing power decrease in debts.**

This argument is based on the following principles and cases:

- A- goods being replaceable and appraisable and its definition are customary issues:
- B- Interest of objects, time and place are effective on being replaceable and non replaceable.
- C- Philosophy of goods division into replaceable and appraisable goods is observance of justice in exchanges.
- D- Money is one of the appraisable properties not replaceable properties over time.
- E- Guarantee of replaceable properties is equivalent of the property and guarantee of appraisable properties is price of the property.

Now, we explain the following cases:

**A- Goods being replaceable and appraisable and its definition are customary issues:**

Jurisprudents have classified the properties into two groups: replaceable and appraisable. This classification is based on the understanding that they have about custom, because as we will see, being replaceable and appraisable is customary issue. For clarifying the issue, at first some definitions of replaceable and appraisable properties are given:

There is conflict in definition of replaceable and appraisable properties. Sheikh Toosi and Ebn Zohreh and Ebn Edris and Mohaghegh and his disciple and Allamreh et al defined replaceable properties: replaceable properties are the properties of which parts are equal in price (Ansari, 1996, P105).

Ayatollah Khoei writes about definition of replaceable properties: one group of them interfere in possessory value of object.

If the first group is among those which have equivalent with regard to type and guild of persons , it will regarded replaceable and if this group of qualities is not as mentioned , it will be considered appraisable(Khoei, 1992, Vol. 3 and 4, P153).

Ayatollah Seyed Kazem Tabatabaei Yazdi believes that:

Replaceable properties are the properties of which owners have characteristics and specifications for which there is no difference between demand of the people and price. Anything like this is replaceable and this is different in terms of times, places and qualities .

Ayatollah Seyed Mohsen Hakim has written about definition of replaceable properties;

Replaceable property is defined by the jurisprudents as the property that tendency of the people to its owners makes no difference in terms of qualities of its owners (Hakim, Vol. 1, P139).

Ayatollah Tarizi defines replaceable properties in book " Ershadoltaleb":



Replaceable lost property means the property which is close to the lost goods in terms of qualities. (Tabrizi, Vol. 2, P168).

Purpose of the above definitions is that the jurists have no single and similar definition and interpretation of replaceable and appraisable properties. The second note which is inferred from the above definitions is that definition of replaceable and appraisable properties and what goods are replaceable or appraisable are customary issues. Great character such as the late Sheikh Ansari has expressly referred to this fact in one of his well known scientific works i.e. Makaseb and writes that:

This is evident that term of replaceable is neither canonical term nor religious term and its literal meaning is not the purpose because Mathal literally means Mamathel and if it Mamathel in all aspects, this definition will not be comprehensive and it means some aspects, this definition will not prevent other aspects and we have no philosophy like this in legal narrations and texts. (Sheikh Ansari, 1996, P105).

The late Ayatollah Yazdi has expressly written in Makaseb book that those cases which jurists and scientists have regarded as replaceable and appraisable have been commensurate with their own time and place and are not useful for other places and times.

The late Mohaghegh Esfahani has also referred to this issue in Makaseb. Therefore, there is no doubt that terms of replaceable and appraisable are customary titles and there is no doubt left in this case that jurists' definition of "replaceable and appraisable" is not useful because jurists have defined them. In this regard, it has been written in book "Fegholemam Alsadegh" that what is seen is spoken about and jurists agree that an object is replaceable or appraisable. This agreement is not valid, because what is valid is custom and customary perceptions. In addition, nothing has been written about determination of special goods as replaceable and appraisable in verses and news and if it is found, it can not be criterion because it is indicative of custom at time of the legislator and customs are changing (Moosaei, 1996, P105). In civil law, replaceable property means the property with equivalents in which there is mistake such as animals and appraisable property has the opposite meaning and custom recognizes its meaning (Emami, 1961, Vol. 1, P21). Therefore, there is no doubt that being replaceable or appraisable is customary issue.

#### **B- Interests of objects, time and place are effective on being replaceable or appraisable.**

Ayatollah Khoei has written in this regard: being replaceable and appraisable is different in terms of time and place. For example, cloths and dresses were of the appraisable objects in the former centuries while they are regarded as replaceable objects in present era (Khoei, the same, P152).

The late Ayatollah Yazdi Tabatabaei has written in this regard: it is clear that we need to determine replaceable and appraisable objects at any time, being replaceable and appraisable becomes different in terms of times and places (the same, P96).

Properties of objects as well as time and place interfere in the fact that two goods are replaceable or appraisable. If qualities of two goods are equal, goods will be regarded replaceable. This quality will be one of the physical qualities and this is the least quality which we should have for two replaceable goods. But jurists interfere time and place in replaceable objects. For example, in hot summer, if we lose a drink on the hill and if we want to pay the debts, we can not pay the debts by delivering a drink in city centre, because economic

value of these two is different in two different places. Time is one of the qualities which have the same effect. In any way, there is no doubt that properties of objects, time and place interfere in goods being replaceable or not.

**C- Philosophy of goods classification into replaceable and appraisable is observance of justice in exchanges.**

It is written in jural books that if a person loses property or another person or the borrowed property is lost, if goods is replaceable, the person who has lost it should pay its equivalent and if it is appraisable, he should pay its price. In sale and borrowing, the same law is applicable. Now, we want to know what the philosophy of this rule is.

It seems that philosophy of this rule is that debtor is responsible for paying what is he should pay, because if he pays its equivalent in replaceable objects, he will be released from his obligation and if he pays its price, there will not be such certainty.

If there is equivalent for the debt that is the borrowed thing is measurable and weighable goods, payment of this debt is the same as payment of the equivalent not price. The reason for this rule is agreed, because if he pays its equivalent, he will be release from his obligation but if he pays its price , he will not have such certainty and if the borrowed object is goods which has no equivalent, such as animal and cloths , in this case, its price should be paid(Aljavameholfeghhieh, P529).

Sheikh Ansari says in Book "Makaseb" that in this issue, there is no difference that if the lost goods is replaceable, it will be necessary to pay its equivalent (Ansari, Bitā, P 105), because equivalent of that goods is the closest to the lost goods in terms of possessory value and qualities and in the next stage, price of the lost goods which is paid in Dinar and Dirham and other moneys is the closest thing which can replace the lost goods. (Ansari , Bitā , P105).

As understood from jural books, philosophy of goods classification into replaceable and appraisable groups is that if goods are lost due to borrowing or usurpation and other exchanges, all debts should be paid up and this payment should be equivalent to payment of the original goods.

**D- Money is appraisable property not replaceable property overtime**

It seems that today's moneys are of the properties which are replaceable on the one hand and are not replaceable on the other hand. Money is credit at present and its economic value is continually and permanently decreasing overtime. For this reason, money can not be regarded replaceable overtime.

By interfering element of time, it is reasonable to say that money can not be a replaceable property in case of inflation. The present custom has the same judgment with the said assumptions and this issue has been studied and confirmed by the writer in field research (the same, 2003). If replaceable or appraisable qualities of money are incompatible with definition of some jurisprudents, there will be no problem because the above definitions are not absolute at all. More accurately, determination of evidence is the responsibility. This issue is determined by the ordinary custom or custom of artists. (Musai, 1998, PP:107-110).



**E- Guarantee of replaceable properties is equivalent of the property and guarantee of appraisable properties is price of the property.**

This expression is an issue which is agreed by all jurisprudents and lawyers. Document of this rule is custom and trend of the wise. Sheikh Toosi agrees on this issue in book "Khalaf". But some of the above jurisprudents have documented the said rule to this known narration of Prophet (PBUH): If we restore to it due to its reputation in spite of weak document of the narration, this narration indicates that unjust possession is responsible for the thing which has been possessed but is not responsible for paying its price or equivalent if the goods itself has been lost.

Custom and trend of the wise are such that if a person takes a thing from a person as guarantee (guarantee of loss or borrowing), he should return its equivalent and in case that the equivalent is not available, he should pay its price to its owner. There should not be flagrant difference between equal persons and if there is flagrant price difference between equal persons, one can not restore to this custom and trend because the basis of equivalent guarantee in trend of the wise is on the fact that equivalents have equal price. (the same, P30).

It seems that philosophy and reason of this rule is nothing but to observe rights of the parties in exchanges and debts. In any way, this issue is common among the Shiite jurisprudents that replaceable guarantee is equivalent and appraisable guarantee is its price and daily price of borrowing should be paid. In usurpation and the similar cases, some said that the highest price should be paid. In this case, it is likely that money value increase doesn't need compensation and the usurper should pay higher price.

It may be said that goods classification into replaceable and appraisable relates to actual goods and doesn't includes money because money is a credit goods at our time. Secondly, purpose of defining property as replaceable and appraisable property is that debts are paid sufficiency.

Therefore, the following cases were proved:

- 1- Being replaceable and appraisable is a customary issue.
- 2- Properties of the property and time and place are effective on being replaceable or not.
- 3- Philosophy of goods classification into replaceable and appraisable is observance of justice and payment of debt.
- 4- Guarantee of replaceable property is equivalent and guarantee of appraisable property is price.
- 5- In customary view in case of inflation, money is appraisable overtime.

As a result, guarantee of money is price overtime. For this reason, purchasing power should be considered during payment of debts and this means that compensation for devaluation is necessary.

**Seventh reason:**

**Non compensation for devaluation in debts is contradictory with principle of dominance of justice on all exchanges.**

This reason is based on this assumption that we should have systemic attitude in provision of Islamic economic system and since the jurisprudents have paid less attention to this issue, therefore, restoration to this reason will not be regarded as jural.

We believe that justice is the final goal of execution of Islamic economy in the society. All methods and tools should be designed for achieving this goal. God states in Koran that: we

dispatched prophets with clear reasons and sent divine book and Mizan so that people can rise with justice(Hadid 25).

In this regard, one can say that philosophy of prophets' mission was to administer justice in the society. God called the believers to rise for justice (Nesa 135) and asked them to judge with justice and fairness (Maedeh 42) and commissioned the prophet to administer justice (Araf 7) and it has been said that trend of our prophets is such that they should judge with justice and not oppress others. Calling for justice, observance of exchanges balance, prevention from shortchanging and observance of justice even with enemies (Maedeh 8) have been emphasized repetitively in some parts of Koran.

Narrations in this field are so expansive that even we can not mention list of them. On the basis of narrations, basis of the world is on justice. One of the signs of reason is observance of justice (Ghorar /306) and Ali (PBUH) has called people to behave justly in transactions and not to increase the price to the extent that one of the parties is dealt unjustly(Nahjolbalaghe/1018, Abdeh 110/35).

As Amiramomenin stated, non observance of justice causes to destroy societies (Bejar , Vol. 78, P52) and freshness of the divine rules has been due to justice(Ghorar, 30). The justice has been emphasized to such extent that criterion for piety in Islam is observances of justice (Ghorar/180). Here justice doesn't mean what has been mentioned by some persons as rule of justice and justice for proving guaranteed of devaluation. Reference to verses and narrations clarifies that one of the essential elements of justice i.e. observance of justice in exchanges should prevail over other rules and branches

Justice is a reasonable case and the wise accept sovereignty of justice in society and regard it necessary. As all of the wise persons in the world enact the laws in such a manner that they can help create justice and remove oppression (Hakimi, 1988, 1991).

On the basis of this argument, one can say that custom of society regards non compensation for devaluation as unjust in term exchanges under the conditions mentioned before. As banning the usury is guarantee in its real sense which ensures route and movement of society toward justice, regarding nominal additional amount as usury leads to promotion of another kind of injustice in society to the extent that it results in compensation for devaluation in term exchanges. Acceptance of justice sovereignty on exchanges requires that nominal addition not be regarded as usury like compensation for loss of the creditors.

### **Eighth reason**

**Non compensation for devaluation in term exchanges causes loss and damage on the creditor, for this reason, compensation for damage is necessary on the basis of principle of no harm.**

It is necessary to note that acceptance of one of the mentioned reasons leaves no place for restoration to principle of no harm. But if we don't accept any of the above reasons, we can prove compensation for devaluation with use of principle of no harm in case that custom regards it as factor of harm and loss. In fact, no harm is a secondary title and is used in lawful activities. Because illegal activities are prohibited on the basis of primary rules and any lawful activity is prohibited on the basis of secondary title in case that it causes damage to others at special time.

In any way, it seems that with reliance on eight reasons mentioned above, one can judge about devaluation compensation in debts and term exchanges.

### **Conclusion:**

The said arguments are based on two cases. Firstly, compensation for devaluation is necessary under the conditions mentioned in this research i.e. flagrant and continual inflation. Secondly, this compensation is not regarded as usury, therefore, substantive hypothesis of this survey which necessitates compensation for devaluation and doesn't regard it usury is confirmed.

Basis of the present article is to study relationship between usury and compensation for devaluation and the fact that it is not usury is proved. Acceptance of this general rule can have legal and economic consequences as follows:

- 1- In borrowing and other contracts, it is necessary that devaluation be compensated to the creditor during payment of debt and compensation for this devaluation is not regarded as usury.
- 2- Due to expansion of this discussion, we accept that wages and other payables to production factors should be adjusted on the basis of devaluation.

Indexation can have positive and useful effects on economy and its study can be regarded as subject of research in this field. But on the basis of subject of the present research, it should be emphasized that we have no alternative but to accept necessity of justice administration because compensation for devaluation at time of inflation can expand injustices and this is the property of inflation that it has destructive effects due to non compensation for devaluation. At time of inflation, those receive fixed salary sustain loss and those save little money see that purchasing power of their savings decreases. Inflation causes to create income gotten by chance for some persons and at time of inflation, speculation and brokerage and useless economic activities are promoted. Inflation disrupts optimal appropriation of resources of a society and the people spend their savings for purchasing durable goods for prevention from devaluation and cause to increase currency flow and finally increase inflation. Inflation makes harm to weak and middle classes and these are the persons who have no power to defend themselves. (Fisher 1922, 1975).

### **Suggestions:**

Main suggestions of the present article are that loss incurred by the persons due to inflation should be compensated by those who benefit from inflation with regard to major goals of economy and by providing suitable opportunities.

The following suggestions are provided for achieving this goal:

- 1- Devaluation of interest free deposits of the persons in banks (in usury free banking systems) and interest free funds should be compensated to the extent of inflation rate. In order for this policy not to result in increase of money volume and finally more inflation, it is suggested that the said devaluation be compensated by the persons who borrow money because these borrowers benefit from devaluation and should compensate for loss of the depositors.
- 2- Compensation for devaluation should be permitted in the interest free loans among the ordinary people on the basis of law.

- 3- Laws should be enacted for requiring compensation for devaluation in all Islamic contracts especially in case that debtor doesn't pay his debt at determined time and creditor can complain before judicial authorities on the basis of this right.
- 4- In case that reason for inflation is due to publication of bank notes , the publisher should compensate for the incurred.
- 5- In contracts of participation between banks and private section which are concluded on the basis of defined contracts such as bailment, basis of interest should be actual profit not nominal profit. This suggestion can lead to creation of a banking system other than the system which is available now.
- 6- Since Central Bank responsible for preserving value of money on the basis of usury free banking operations, it should adopt policies which minimize inflation in the first stage and devaluation decreases so that it can not be regarded flagrant and remarkable in custom of society and money can be stable like other gauges such as kilo , meter etc.
- 7- By acceptance of this theory, the contradictory legal laws and regulations should be amended. Fortunately, this is applied for marriage position on the basis of enactment of Expediency Discretion Council of the Regime. Article 1082 of Civil Law and Article 522 of Procedure in Public and Revolutionary Courts (in civil affairs) relate to compensation for devaluation to which legislator has paid attention. Other contradictory laws and regulations should be amended.

The mentioned suggestions are based on targeting the justice in economy. It is evident that this fact has been accepted in economy that final goal of all economic activities should be settlement of justice. At present, main problem is not lack of mechanism for compensation for devaluation and what is important now is acceptance of principle of the said case. For this purpose, the principle should be accepted in the first stage. We think that it will be possible to revise the available rules by recognizing nature of money and differences between the current money and the past money and presenting them to the jurisprudents.

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