

The Global Economic Crisis In The Covid-19 Pandemy In Islamic Economic Perspective

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Abstract. The economic crisis has happened repeatedly. But with the existence of the Covid-19 Pandemic, causes and effects of the crisis were increasingly felt in real terms both by micro and macro. The purpose of this paper is to analyze qualitatively using various methods of enriching literature, the causes of crises and their solutions. The methodology of analysis of Islamic economics used in this paper is to link references from sources of Islamic law in the form of the Koran and As-Sunnah with the facts that are the object of the law. The analysis shows that the main causes of the economic crisis are: bad behavior of economic agents, external factors and events, poor governance, fiscal and monetary system instability. While alternative solutions in the perspective of Islamic Economics include: changing the bad behavior of economic agents, implementing economic management according to Sharia, creating social and political stability, stabilizing the fiscal and monetary system.

Keywords: economic crisis, pandemic, Islamic economy, Shariah, Islamic governance

1. Introduction

One of the things that are avoided and is a very undesirable by world community is an economic crisis. However, this expectation is not like the reality, the world economy has experienced a periodic global recession in the last 5 decades, namely in 1975, 1982, 1991, 1998, 2008-2009, 2012, 2015-2016 and 2019-2020. During each of these periods, the annual global gdp per capita experienced a contraction accompanied by the weakening of other key global economic indicators. A global recession is felt with severe economic and financial disruption in many countries in the world[1].

Among the main effects of the economic crisis is that all goods imported from abroad will be increasingly expensive. Whereas currently there are more imported goods than exported goods. The next effect is that almost all basic needs will increase in price, while the value of community income will decrease. The purchasing power of the community is declining. Market conditions are weak, the micro, small, and medium businesses are also sluggish. This can result in more unemployment[1].

Some world leaders believe that coronavirus has a devastating effect on the economy beyond the 2008 crisis [2]. For example, Chinese president xi said on television on February 23, 2020, "It is inevitable that the new coronavirus epidemic will have a huge impact on the economy and society". Likewise, Japanese finance minister Taro also said during the G20 meeting in Riyadh, Saudi Arabia, February 24, 2020, "the spread of the new coronavirus is a

public health crisis that could pose a serious risk to the macro economy through stopping production activities, disruption of community mobility and breaking of the chain supply."

Although many literatures discuss the economic crisis, there are very few studies that analyze it with a spiritual-religious approach. They seemed to ignore the concept that the damage was caused by their deeds. Proven, repeated crisis, none of those countries are becoming stronger and more stable in their economics, therefore, the repeated financial crisis and unresolved financial instability problems have triggered a paradigm shift and are giving new challenges in stopping the crisis and designing a stable financial system in the future, especially in Indonesia that implements the double financial system. This paper will discuss the main causes of the recurring economic crisis and alternative solutions from the perspective of Islamic economics.

2. Method

2.1 Types of Research

The research on The Global Economic Crisis In The Covid-19 Pandemy In Islamic Economic Perspective includes library research. The selection of this type of research is based on the object examined by the global economic crisis. The next step is digging the text of Qur'anic verses and Hadith related to the topic. Therefore, the main data are obtained from the library.

This research is descriptive-analytical, because the study materials have already existed in various references, but have not been structured systematically and thematically to examine the verses and Hadith on this topic in particular. The descriptive nature suggests that this research includes the kind of research that aims to describe what is more appropriate for verses and Hadith with the topic. While the analytical nature means that the verse will be analyzed critically using the semantic theory of two aspects, text and context (Tafseer). This research can be categorized as basic research which is basic research to develop science.

2.2 Data Source

To obtain the validity of data and information, this research uses two sources, namely primary and secondary sources. The primary source used is Qur'an and hadith. The secondary sources used are both off-line and online literatures relating to the themes being studied. The Data is derived from the books of commentaries, various dictionaries, Islamic and general studies, encyclopedias, and other sources of digital information.

2.3 Data Collection Methods

The method of data collection used in this research is the documentation method. This method is used to collect data according to the theme associated with various verses and Hadith and its interpretation. The process of collecting data is done in several ways, among others, by reading, taking notes, and then describing and compiling them systematically.

2.4 Data Analysis Techniques

The data analysis techniques in this study uses interpretation methods. According to Kaelan, interpretation is the process of interpreting or demonstrating the meaning of revealing,

recounting, and saying something that is the essence of reality. Researcher gives meaning to the analysis, explains the patterns or categories, seeks the relationship between the various concepts and illustrates the research perspective[3].

The method of interpretation used is the method of *maudhû'i* (thematic), which gathers verses of the Qur'an and hadith that have the same meaning or discuss the topic of the same problem. After that, the verses are then arranged according to the chronology and the decline of verses. Then the interpreter provides information and explanations and takes conclusions[4].

The main reason for the selection of thematic methods (*Maudhu'i*) in this study is that the method is developed by many today's experts because it is more in line with the development and demands of the times that many require problem-solving from certain cases comprehensively and intactly. Another reason why researcher uses this thematic method (*Maudhu'i*) is because it is based on the privileges including maximizing the information of Al-Quran and Hadith, the strength of the method stage, after the reason of modern society.

2.5 Stages of research

In detail, the thematic research method version of Mustafa Muslim which became the foundation of this dissertation study follows the following steps: (1) choosing a title, (2) collecting Qur'anic verses relating to the theme of the discussion; (3) drafting the verses in accordance with the chronological time-downs; (4) deepening the interpretation of Qur'anic verses in detail using reference from the interpretation, and knowing the cause of the decline if there is, the purpose of the meaning of pronunciation and its use, the relationship between the pronunciation of the sentence with another sentence, or in paragraph one with other verses related to the theme of the discussion; (5) formulating key elements in the theme through the view of the Qur'an; (6) referring back to the way of interpretation that is global in the concept of conception and not only limiting the meaning of pronunciation by language, but also understanding according to the instructions of the Qur'an through the evidence, such as the evidence of the hadith of the Apostle and comprehension of companions; (7) being consistent with the methodology when writing the discussion of research, then divide it into chapters, in each chapter there are chapters, and each chapter of the discussion each using the title; (8) Analyzing the intent and the target of the verses relating to the theme discussed, then formulating a new theory on each sub-sub discussion that is packaged from the results of analysis on the opinions of the warn and the Islamic and Western education experts. Furthermore, formulating the conclusion by making the concept of Islam as a solution to the problems that arise in the formulation of research problems.

3. Result And Discussion

In the perspective of Islamic economics, the main causes of the economic and financial crisis can be summarized in five groups[5], those are:

3.1 Bad behavior of economic actors.

Among the bad behavior of the economic actors are greed, individualism, hedonism, speculation, , and *gharar* cheating [6], [7][8]. From this point of view, speculation (gambling and *gharar*) and Hedonism have become the main root causes of the financial crisis. Speculation, gambling, or *maisir* is prohibited in Islam (Surah Al-Baqarah [2]: 219; Surah Al-

Maidah [5]: 90-91). Gambling in this modern era can be speculation in stock trading, speculation in foreign exchange trading, speculation in commodity trading, speculation in real estate, and other speculations in any market. While Gharar can be: complexity in transactions, complexity in the structure of financial products, securitization, hedging systems, and insurance.

The hedonist lifestyle is an effort to avoid suffering by seeking the pleasures of life through maximizing the use of available resources[9]. Among the characteristics of a hedonist lifestyle is the accumulation of wealth. The Hedonist lifestyle is warned by the Qur'an in Surat At-Takaatsur [102]: 1-8.

Other bad behaviors are monopoly, hoarding, price control, manipulation, asymmetric information (unbalanced), no distributive justice, greed, etc. All of that can also trigger a financial crisis.

3.2 External factors and events

Among the external factors and events are the business cycle, natural disasters, epidemics of infectious diseases, international monetary system, political instability, and instability. Social instability and political instability are exogenous variables that are the main root causes of financial crises where the government and regulators have no control over them. People who create instability in the community are warned in the Qur'an Al-Maidah [5]: 33 as follows:

إنما جزاء الذين يحاربون الله ورسوله ويسعون في الأرض فسادا أن يقتلوا أو يصلبوا أو تقطع أيديهم وأرجلهم من خلاف أو ينفوا من الأرض ذلك لهم خزي في الدنيا ولهم في الآخرة عذاب عظيم

"The truth is that in retaliation against those who fight Allah and His Messenger and make mischief on the earth, only they are killed or crucified, or their hands are cut off with reciprocity, or thrown out of the land (where they live). Such is (as) an insult to them in the world, and in the hereafter, they will suffer great torment,"

3.3 Bad governance

Bad governance can happen in public and private institutions, including poor administration, corruption, price controls, lack of regulations, lack of disclosures, and wrong people in the wrong places including being the main cause of the economic crisis[10].

Corruption is forbidden in Islam, which is stated in several suras in the Qur'an, such as sura Al-Maidah [5]: 38, sura An-Nisaa [4]: 29, sura Ali Imraan [3]: 161, and sura Huud [11]: 85. Prohibition of corruption is also noted in several Hadiths. For example, the hadith narrated by Al-Baihaqi (no.18582), Imam Malik (no.866), and Ibn Majah (no.2840) as follows. "Hand over even needles and threads, because stealing from booty is a disgrace, fire, and disgrace on the Day of Resurrection for those who do it".

Meanwhile, Islam teach us to place the right person in the right position so that it will not cause damage. For example, it is mentioned in one hadith narrated by Imam Muslim in Riyad-us-Saliheen chapter 81, about a friend who asked for the position of Rasulullah SAW as a government official, as follows. Abu Dharr (may Allah be pleased with him) reported: Rasulullah (sallallahu 'alaihi wa sallam) said to me, "O Abu Dharr, I see that you are weak and I like for you what I like for myself. Don't rule (even) two people, and don't manage the property of orphans." Abu Dharr is not the right person for the position he asked, so the Prophet Muhammad refused his request.

3.4 Unstable monetary/financial system.

The economic instability in the monetary sector is due to the usury interest system, paper money, fractional reserve banking system, leverage system, product derivation, and credit creation through credit cards [3]. The high and low value of the Rupiah is strongly influenced by the amount of demand and supply of Rupiah on the money market. The more demand for Rupiah, the higher the Rupiah value, and vice versa. Likewise with supply, the higher the amount of Rupiah circulating in the market, while the demand for Rupiah is low, the value of the Rupiah will decrease, and vice versa.

This is what is happening in Indonesia, where foreign entrepreneurs, even domestic entrepreneurs are more likely to buy dollars or other foreign currencies by selling Rupiah on the foreign exchange market. This also means that there is a reduction in foreign funds entering Indonesia, coupled with the flight of domestic funds abroad, which will greatly affect the availability of adequate funds as capital for economic development. This aggravates the decline in the value of the Rupiah and the increasingly limited foreign and local funds available for economic development, which in turn, will cause a prolonged economic crisis.

Indeed, it must be recognized that the lower value of the Rupiah will further strengthen the competitiveness of Indonesian export commodities on the international market because of the relatively cheap prices of these export commodities on the international market when bought in foreign currencies. However, the decline in the value of the Rupiah will not have a significant effect because most of the composition of Indonesian export commodity, the raw materials are raw materials imported from foreign countries. In other words, an increase in the price of raw goods resulting in the high value of the foreign currency (appreciation) will cause the cost to produce these export commodities will be more expensive. So the end product of the commodity must be sold at a high price.

Whereas this modern era of Riba can be in the form of 1) interest system; 2) banknote system; 3) fractional reserve banking system; 4) leverage system; 5) derivative; and 6) the credit card system. The Fractional Reserve, Interest and Fiat Money Banking System, has become the main root cause of the financial crisis. These three elements are the main pillars of the conventional financial system which contain riba (riba) and are prohibited from the perspective of Islamic economics.

Many verses of the Quran forbid usury (both light and heavy), including QS Al-Baqoroh (275-276, 278-279), Ali Imron (130), An-Nisa ': 161), Ar-Rum: 39 and there are still many hadiths about the forbidden usury [9].

The prophet of Muhammad (Peace be upon Him) stated:

إِذَا ظَهَرَ الزِّنَا وَالرِّبَا فِي قَرْيَةٍ ، فَقَدْ أَحَلُّوا بِأَنْفُسِهِمْ عَذَابَ اللَّهِ

When adultery and usury have spread in a community, then they (residents) have allowed Allah's punishment for themselves (Narrated by Imam Ath-Thabrani and Al-Hakim).

In classical literature, there are 2 types of usury, namely nasi'ah and fadl. In the context of debt, usury nasi'ah in the form of additional compensation for the additional tempo provided. For example, a debt with a one-year maturity cannot be paid off so that it incurs an additional debt for example by 10%. Then, the additional is usury nasi'ah. Also in usury qardh where additional existence has been agreed upon from the beginning, such as there are provisions to return the debt of the amount of debt plus 12%. This also includes usury nasi'ah (although some scholars put it in the category of usury fadl in terms of the fact that it is an exchange of similar goods with additions).

Meanwhile, in the context of buying and selling ribawi goods, usury nasi'ah is not in the form of additions, but merely in the form of postponement of the delivery of ribawi goods that

are required to have cash, both of the same type and different types. For examples buying gold using silver on a tempo basis, or buying silver with silver on a tempo. This practice should not be carried out because gold and silver are ribawi items that if they are exchanged with fellow ribawi goods are required to be in cash. That is why the exchange of ribawi goods in cash is classified as usury nasi'ah. Some scholars say the delayed surrendering in exchange for fellow ribawi goods with a special term, called usury [10].

In macroeconomic logic, there are anomalies and vicious circles of usury in the economic system. Among them is inhibiting investment. The higher the interest rate in society, the smaller the community's tendency to invest. The public will be more inclined to keep their money in banks because greater profits are obtained due to high-interest rates.

Besides, interest is considered as an additional cost of production for business people who use interest-bearing loan capital. High production costs will certainly force companies to sell their products at higher prices. Soaring price levels, in turn, will invite inflation due to weakening consumer purchasing power. Ribawi economic system is also a major cause of instability in the value of money (currency) of a country. Because money will always move from countries with low real interest rates to countries with higher real interest rates due to speculators wanting to earn big profits by saving money where the real interest rate is relatively high. Efforts to make a profit in this way, in economic terms are called arbitraging. The real interest rate here is meant to be the interest rate minus the inflation rate.

For example, if the interest rate in a country is, say, for example, 12% with an inflation rate of 8%, then the real interest rate is 4% (12% - 8%). This means that even though the nominal interest rate (the interest rate before being reduced by the inflation rate) is high. This does not automatically affect investors to buy Rupiah, because basically, the real interest rate in the country is much lower than the real interest rate in other countries.

3.5 An unsustainable fiscal system.

Among the causes of unsustainable fiscal system are unsustainable fiscal deficits, excessive taxes, excessive state debt, excessive spending, poor strategic commodity inventory management, and ineffective fiscal systems [4].

Ineffective Fiscal System has become the main root cause of the financial crisis. The Qur'an has been mentioned in several verses, such as sura Al-Israa '[17]: 29 concerning balanced budget, surah Huud [11]: 85 concerning excessive taxation, surah An-Nisaa [4]: 9 concerning excessive government debt for the next generation, surah Al-Furqaan [25]: 67 concerning excessive government spending, surah Al-An'am [6]: 141 about not being wasted by wasteful and surah Al-Israa '[17]: 26-27 about not spending wealth in vain.

There are also several hadiths about the fiscal system. The hadith narrated by Ahmad (no.16976) mentions excessive tax, as follows. "Someone who wrongly takes additional tax (sahib max) will not enter heaven." The hadith narrated by Al-Baihaqi (no.11027) about excessive debt. The hadith narrated by Imam Bukhari (no.1272) discusses leaving excess wealth to the next generation better than vice versa. The hadith narrated by Al-Baihaqi (no.6161) about a budget that is managed fairly is better than wealth with luxury.

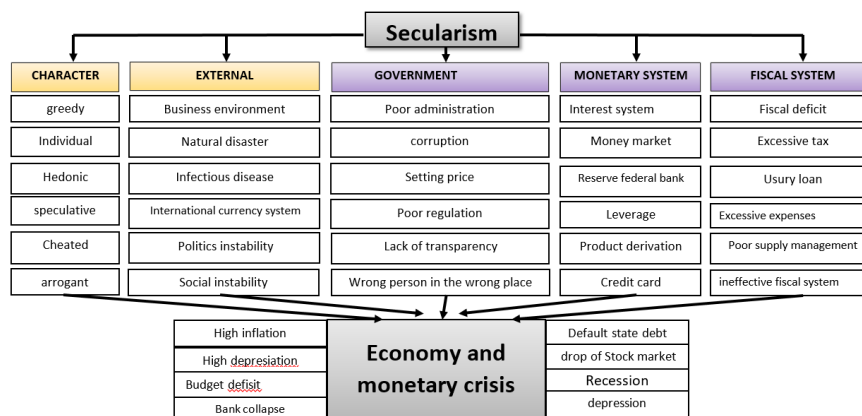


Fig.1. The root of economy and monetary crisis

Adapted from: Ascarya, Iskandar D. The Root Causes of Financial Crisis in Islamic Economic Perspective. 2013;(November).

4. Conclusion

The economic crisis has occurred in greater frequency and intensity and affected wider areas. It happened not only because of the cycle of managerial failures but mostly because of structural failures in various countries under very different regulatory systems as well as at various stages of economic development. Viewed from an Islamic economic perspective, the root cause of the financial crisis is a violation of God's law in economic and financial transactions.

It is important to find out the solution of this economic crisis in Islamic economy perspective for the next research. The solutions to the economic crisis in Islam should change the bad behavior of economic agents, Governance according to Sharia, social and political stability, stabilizing the monetary system, and stabilizing the fiscal system.

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